Miscellaneous amendments to Treasury portfolio laws 2020 (lifecycle investment fees) - Aware Super Submission

About Aware Super

Aware Super (formerly First State Super) has been the fund for people who value the community since 1992, we're now one of Australia's largest funds and we're continuing to grow. We merged with VicSuper this year and together we manage more than $125 billion in savings for more than one million members located across the country. Our members work in roles that breathe life into their communities and they expect us to do the same.

This submission notes our support for this legislation and we look forward to its speedy passage. We hope that some certainty can be provided for a near term commencement date to legislation; if there is a delay in the formal commencement date, we are looking for APRA to have a flexible and facilitative approach to working with funds on this issue.

Lifecycle investment fees

This paper responds to the Miscellaneous amendments to Treasury portfolio laws 2020. We are very supportive of the proposal to removal the four fee constraint on MySuper lifecycle strategies within Section 29VA(9) of the Superannuation Industry (Supervision) Act 1993. In practice, this has constrained the design of lifecycle investment strategies and/or caused some funds to introduce cross-subsidies within the investment fees they charge their MySuper members (i.e. charging the same fee across multiple lifecycle steps to keep within the four fee limit). As such, we consider the four fee constraint to be detrimental to member outcomes.

Our view is that Lifecycle products help members invest in age appropriate risk exposures. By ensuring members make the most of their high-risk capacity during the initial phase of their accumulation years and managing risk in the lead up to retirement, sophisticated lifecycle strategies are able to deliver better retirement outcomes for members on expectation, as well as under poor market scenarios. For people within the last decade of their working life, these strategies also provide a less volatile investment journey into retirement, assisting with their retirement planning by improving confidence in their retirement income.

Aware Super MySuper Lifecycle

We are in the process of redesigning our MySuper lifecycle investment strategy to further enhance our members' retirement outcomes. The draft legislative changes will enable us to implement a more sophisticated lifecycle strategy for all age groups, while continuing to pass through 'true investment costs' to our members. We would otherwise have been constrained to a 4-step design to avoid imposing inequity/cross-subsidies on our members.

Like many industry funds, our lifecycle strategy leverages our broader investment option architecture, allocating members to an appropriate blend of investment options for their life-stage. This structure is operationally efficient and ensures members receive the full benefit of our scale. As product and investment options are integrated with the administration system, the redesign of our lifecycle strategy requires material administration changes, and implementation will involve switching investment option allocations for most of our members.

To ensure operational risk is appropriately managed through this process, implementation involves long lead times. Given we are launching the product changes mid-2021, we need to finalise all aspects of the new strategy soon – including its design and fee structures. We are keen to implement our preferred/more sophisticated lifecycle design as we expect it will provide a significant uplift to our members' retirement outcomes. We are also conscious that it is important that we make these changes once only in order to avoid duplicate implementation costs and disruption to members. Large scale switching of their investment option allocations twice in quick succession would be confusing to members and prohibitively expensive.

Commencement of legislative amendments

This legislative amendment is due to commence the day after Royal Assent is received. We understand the amendments are non-controversial, due to be tabled shortly, and are likely to face a relatively smooth passage. However, the parliamentary process means considerable uncertainty remains regarding the commencement date. This poses a challenge for implementing our new MySuper lifecycle design given the long lead times discussed above, and our preference to re-allocate members' investment options once only.

We respectfully request the Government consider ways it could provide greater commencement clarity, without risking delay to this important legislative change. It would be beneficial for the Government to provide APRA with guidance on this matter, so that APRA can accommodate funds where a transition to these legislative amendments is required. In our case, we could move forward with confidence, if it were made clear that if there are delays in passing the amendments into law, early compliance would be acceptable to the Government and APRA given the clear benefit to our members.

Next steps

We are available for follow up with Treasury officials and APRA for further discussion on implementation issues. Ann Smith, Head of Policy, and Jacki Ellis, Portfolio Manager of Retirement Strategy are the primary contacts. Ann can be contacted on ann.smith@aware.com.au or 0419 833 914 and Jacki can be contacted on jacki.ellis@aware.com.au or 0407 703 515.

We appreciate Treasury's co-operation and interest at such a busy time.