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Trustee Workshop

on APRA's Superannuation
Proposals – draft prudential
standards and MySuper
authorisation

Thursday, 17 May 2012

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MySuper Authorisation

**Main areas of impact for industry from a service
provider perspective**

Michael Rice
Rice Warner Actuaries



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WHAT IS MYSUPER?

- MySuper was intended to be a simple product for disengaged members.
- The industry fund default option (Balanced Fund) was the model.
- It has evolved to be the product which most members will use.



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NEW PRODUCT TYPES

MySuper

- Heavily regulated
- Differentiated by brand – not on features or industry segment
- Initial emphasis will be on costs as future investment performance will be unknown

Choice

- More flexible
- Cost will exceed MySuper products (but not immediately)
- Funds may reduce the number of choices available
- Some funds will set up facilities close to an SMSF

SMSF

- Advisers will steer more Australians into SMSF products

Pensions

- Pensions are Choice products

MySuper Assets -Today

Market Segment	Pre-retirement			Post-retirement Assets	Total Market	
	Choice	MySuper		Choice	All	MySuper
	(\$M)	(\$M)	(%)	(\$M)	(\$M)	(%)
Total Not for Profit Funds	67,002	379,678	85.0	67,032	513,712	74.0
Total Commercial Funds	179,993	90,750	34.0	133,238	403,981	22.0
Self Managed Super Funds	214,506	0	0.0	206,094	420,600	0.0
Total Superannuation Market	461,501	470,428	50.0	406,364	1,338,293	35.0

MySuper Assets – in 10 years

Market Segment	Pre-retirement			Post-retirement	Total Market	
	Choice	MySuper		Choice	All	MySuper
	(\$M)	(\$M)	(%)	(\$M)	(\$M)	(%)
Total Not for Profit Funds	272,798	506,625	65.0	248,733	1,028,156	49.0
Total Commercial Funds	271,984	221,040	45.0	267,445	760,469	29.0
Self Managed Super Funds	334,113	0	0.0	452,639	786,752	0.0
Total Superannuation Market	878,895	727,666	45.0	968,817	2,575,377	28.0

Industry impact - product

- “ MySuper will be a commodity product
 - Brand will be important
 - Initial comparisons will be based on cost

- “ Fees will rise for many members as:
 - Inactive accounts are consolidated reducing per capita revenue for funds and administrators
 - Scalable advice will be costed properly
 - Funds will spend more on member engagement now the baby-boomers are entering retirement

- “ Retail members will have reduced costs once commissions are removed from products



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Industry impact – investments

- “ Some funds will increase passive investments to reduce costs.
- “ Investment strategies will shift towards reducing volatility rather than increasing long-term benefits
- “ Funds will confuse risks and volatility
- “ Smart funds will focus on investment processes rather than investment performance

Industry impact – behaviour

- “ The banks will target customers to become Choice members

- “ Advisers will need to charge fees to members:
 - Easier to add 50 to 75 bps for advice as fund fees will be lower
 - The strategy for many will be to shift clients into an SMSF so they become reliant on the advice service
 - Financial advisers will withdraw from the corporate superannuation marketplace
 - More accountants and financial advisers will merge practices