

Wednesday, 10 September 2014

A brave new world of retirement savings

Autumn brings with it a brave new world of retirement savings in the UK. The Chancellor's budget announcements have now progressed through consultation, with further details to follow.

Growth in DC pension provision in the UK market, fuelled by auto-enrolment, has also generated significant growth in master trusts. There are differing views on whether this is sustainable and The Regulator has increased focus on their governance.

This all signifies major change in the UK and brings us closer to the current Australian approach, although this comes just at a time when Australia are considering plans to require members to use pots to provide some form of annuity!

Roger Cooper of Pi Pension Trustees will provide an update and overview for Trustees from the UK perspective.

We are also delighted to be joined by Neil Cochrane. In a career spanning 40 years in both South Africa and Australia, Neil's roles have included Chief Executive Officer of the Retail Employees Superannuation Trust (REST), Deputy Chief Executive Officer and Global Head of Business Development at Colonial First State Global Asset Management (CFSGAM), and he is currently Chairman of First State Super and Chairman of the Commonwealth Bank Group Super and Fund Executives Association Ltd (FEAL).

He is, therefore, well placed to provide us with informed comment from the Southern hemisphere.

Seminar details:

- 1¼ hours of PMI CPD may be recorded for Pi seminars, based on your assessment of the seminar's value to you
- Venue: The UK Chamber of Shipping, 30 Park Street, London, SE1 9EQ
- Timings: 8.45 a.m. arrival and breakfast
9.15 a.m. - 10.20 a.m. seminar
10.30 a.m. finish and refreshments

We look forward to seeing you and would be grateful if you could advise your availability by telephoning **Janet Symes** on **020 8879 6500** or e-mailing us at events@piconsulting.co.uk.

Please do share this invitation with any colleagues you feel would benefit from attending.



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Agenda

0845 Arrival, registration and breakfast

0915 Opening comments Susan Smith, *Pi Consulting*

0925 Chancellor's 2014 Budget and master trust growth in the UK – where are we now Roger Cooper, *Pi Consulting*

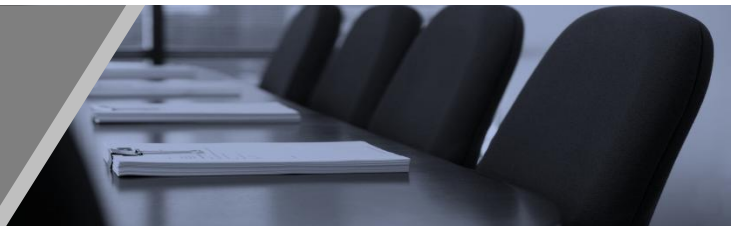
0950 "A view from Australia" Neil Cochrane, *Chairman, Commonwealth Bank Group Super*

1020 Open forum

1030 Finish and refreshments

Venue:

UK Chamber of Shipping
30 Park Street
London
SE1 9EQ



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Agenda

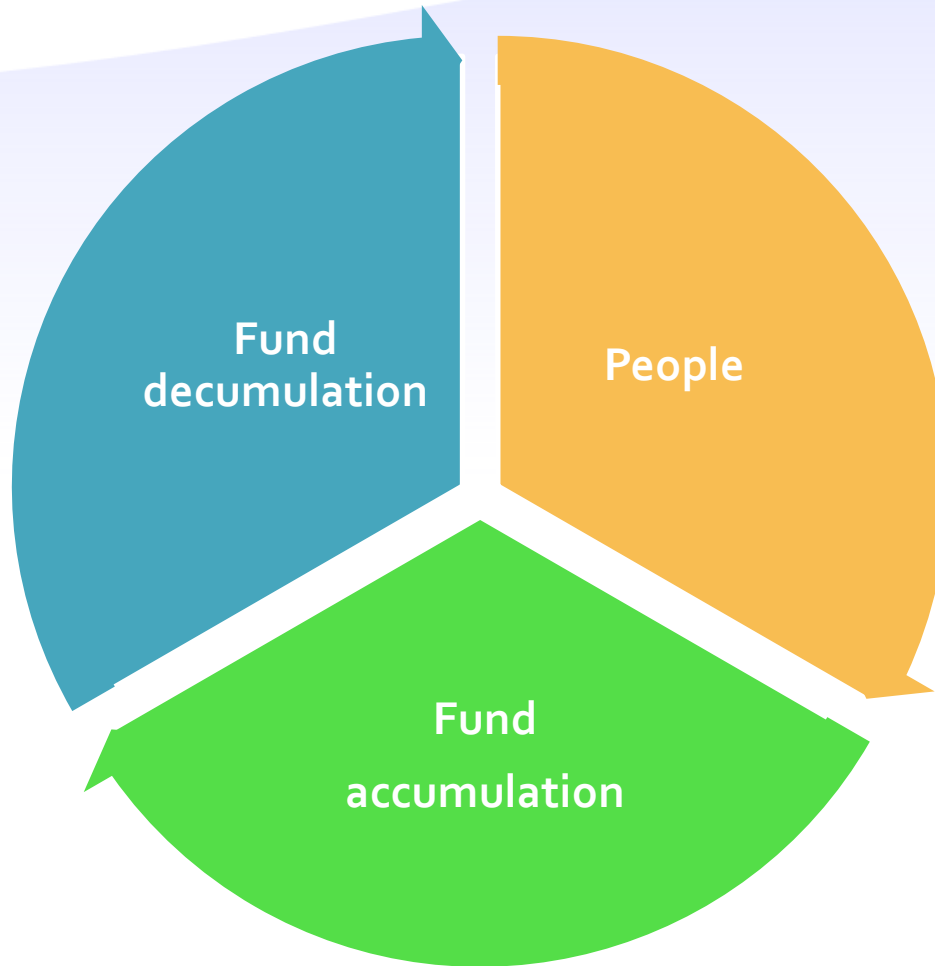
- 0915** **Opening comments – Susan Smith, *Pi Consulting***
- 0925** **Chancellor's 2014 Budget and master trust growth in the UK – where are we now? – *Roger Cooper, Pi Consulting***
- 0950** **"A view from Australia" – *Neil Cochrane, Chairman, Commonwealth Bank Group Super***
- 1020** **Open Forum**
- 1030** **Finish and refreshments**

Where are we now

- ◆ **March – 2014 Budget**
- ◆ **May – Master trust assurance reporting framework published**
- ◆ **July – over 4 million new pension scheme members auto enrolled**
- ◆ **July – Finance Act 2014**
- ◆ **Autumn – Pension Schemes Bill and Taxation of Pensions Bill**

*2014 budget and the
growth of master
trusts*

The bigger picture



Master trust assurance framework

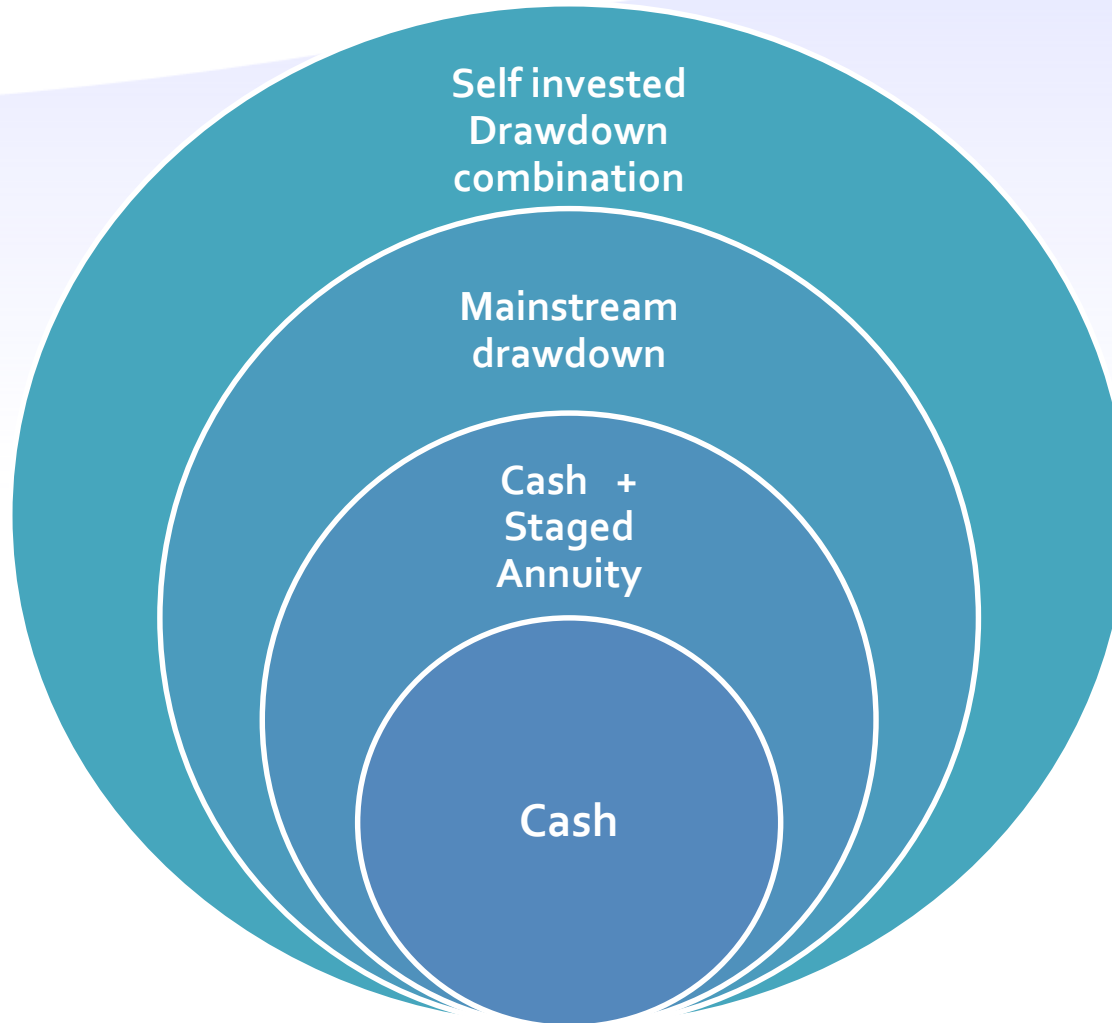
- ◆ Security of assets and records
- ◆ Assessment of value
- ◆ Assessment of investment options
- ◆ People
- ◆ Governance

Objective - delivery of member expectations

The future for master trusts in the UK?

- ◆ What happens if founder fails to deliver suitable offering (investment management) to the Trustees?
- ◆ Is consolidation evitable?
- ◆ How do customers establish how durable a given MT is?
- ◆ Will they be fit for purpose?
- ◆ Will new DC flexibility generate opportunities?

Decumulation options



The future for decumulation

- ◆ **New default funds**
- ◆ **Traditional level and increasing annuities have a place**
- ◆ **New admin platforms - response to new products**
 - **flexible drawdown**
 - **annuity with lump sums**
 - **step-down (e.g. at SPA) annuity**
 - **shaped annuity**

Other growth opportunities

- ◆ Tax planning needs
- ◆ Better communications and governance
 - to avoid poor decision-making
 - increase understanding
 - manage fraud risk
- ◆ Grabbing a no longer captive audience

The Australian Superannuation System

Neil Cochrane

September 2014

Introduction

- Australia's retirement income policy
- Evolution of compulsory superannuation
- The superannuation landscape
- Insurance in superannuation
- Fund design
- The competitive environment
- Size of the industry
- Trust structure
- The ever-changing regulatory environment
- Member engagement
- Challenges ahead

Retirement Income Policy

- The government's retirement income framework is based on three key components or pillars

Compulsory
Superannuation



Voluntary
Savings



Age
Pensions



- The framework uses both encouragement and compulsion to ensure adequate retirement savings

Compulsory Super

- To achieve the aim of its retirement income policy, compulsory superannuation was introduced in 1992
- Historically superannuation was predominantly for the public and corporate sectors
- The Superannuation Guarantee Charge (SGC) started on 1 July 1992 at the rate of 3% of salary
- SGC is currently 9.5% and earmarked to increase to 12% by 2025
- Overall coverage in Australia increased from 71% in 1991 to its current level of around 94%

Voluntary Savings

- Recognition that compulsory super is not enough
- Additional contributions can be made by an employer or employee
- Particularly important for those with extended periods of time out of the workforce
- Tax benefits in sacrificing salary into super
- Incentives for employees to contribute after-tax income (government co-contribution)
- Concessional tax rate on earnings
- All designed to increase retirement savings in the face of an ageing population

The Superannuation Landscape

- Fourth largest superannuation system in the world
- Currently \$1.8 trillion in assets
- Forecast to grow to \$8 trillion by 2033
- Self-managed super funds represent approximately 1/3rd of the total assets held in superannuation
- Approximately 200 funds with assets in excess of \$50m
- Bulk of assets currently in the accumulation phase however the industry is starting to turn its mind to a post-retirement world
- Strong industry bodies but collegiate culture is being eroded by competitive pressure

Insurance in Superannuation

- Most super funds offer death and total and permanent disability (TPD) insurance cover
- Group life cover is seen as a cost-effective way to address the underinsurance problem in Australia
- Often provided to members automatically without the need for underwriting
- Cost of cover often borne by the member resulting in a depletion of retirement savings
- Levels of default cover can vary between funds but industry has seen a marked increase in automatic acceptance levels resulting in higher premiums for members
- Challenge for funds is to provide adequate levels of cover without eroding retirement savings

Types of Funds

- Historically defined benefit with lifetime pension (often closed to new members and declining in numbers)
- Emergence of defined contribution after 1992 and with it, the creation of a lump sum culture
- Hybrid funds combine both defined benefit and defined contribution
- *Employer-sponsored* are often not-for-profit and open to employees only
- *Industry funds* are generally tailored for specific industries and promote themselves as a low-cost offering, now mostly public offer funds

Types of Funds

- *Retail Master Trusts* are often aimed at the small to medium sized employer
- *Public sector* - government
- *Self-managed* super funds continue to grow in popularity
- *My Super* was introduced in 2013 as a low-cost superannuation vehicle aimed at the disengaged
- Emergence of banks offering superannuation products visible to members online

Trust Structure

- Superannuation Law in Australia requires funds to be established as a trust, and have a trustee
- Equal representation rules apply for trustee boards
- Trustees have a fiduciary obligation to act in the best interest of members and obligations greater than corporate directors
- The two most challenging functions of the trustee have been the administration of the fund and the investment of the fund assets
- Increased push for independent directors on the board
- Recent Stronger Super reforms placing greater responsibilities on super fund trustees

Regulatory Environment

- The superannuation industry in Australia is regarded as one of the more regulated industries in the country
- Government has two main roles to play – regulation and the implementation of policy
- The three main governing bodies are:
 - Australian Prudential Regulation Authority (APRA)
 - Australian Securities and Investment Commission (ASIC)
 - Australian Taxation Office (ATO)
- Key piece of governing legislation in Australia is the Superannuation Industry (Supervision) Act 1993

An Ever-Changing Industry

- Industry has operated in an environment of constant change over a period of more than 20 years
- Constant change undermines confidence in the industry. Members simply can't keep up with the complexity
- The “Cooper’ review was at the centre of the latest reforms and was aimed at examining the governance, efficiency, structure and operation of Australia’s superannuation system
- 2013 saw the bulk of these reforms placing large cost burdens on funds (and ultimately members!)

The Cooper Review

- Three key reforms arising out of the Cooper review were introduced in 2013 as part of the government's 'Stronger Super' initiative:

MySuper - a simple, low cost default superannuation product designed to improve the simplicity, transparency and comparability of default superannuation products

SuperStream - a package of measures designed to enhance the 'back office' of superannuation. Aimed at improving the productivity of the superannuation system and make the system easier to use

Governance - to strengthen the integrity of the superannuation system and to improve trustee and fund decisions, efficiency and effectiveness

Member Engagement

- Funds are fiercely competing to attract and retain members. Recent reforms make it easier for members to switch funds
- The challenge for superannuation funds is to deliver a complex message in a simple manner so that members understand and stay engaged
- Extends to insurance cover in super where members are unaware that they have cover and also pay for it
- Financial Advice plays an integral role and will continue to do so as the needs of superannuants shift from accumulation to draw down phase
- The way in which advice is delivered to members has undergone significant reform (FOFA) to strengthen the advice industry and remove commissions from financial advice

Challenges Ahead

- The number of Australians over the age of 65 will increase by 75% over the next 20 years
- Default death and TPD insurance becoming increasingly expensive and complex
- Super funds are being challenged to focus members' attention on the adequacy of their likely income in retirement versus the current lump sum mentality
- It is widely acknowledged that whilst Australia has an enviable superannuation system – its strengths lie in the accumulation phase and more needs to be done to bring post-retirement products to the market

Open Forum

Thank you

Future seminar dates for your diary:

Thursday, 27 November 2014

Thursday, 26 February 2015

Thursday, 14 May 2015

If you have any suggestions for future seminar topics, please let us know.

Feedback

- ◆ **We would welcome your feedback on:**
 - ◆ Subject
 - ◆ Content
 - ◆ Format of session
 - ◆ Time
 - ◆ Venue
 - ◆ Arrangements
- ◆ **Please email us at feedback@piconsulting.co.uk or via the seminar page on our website www.piconsulting.co.uk**