

2015: Super Forever...



MySuper:

- *the meaning of "financial interests"*
- *lifecycle products*
- *fees: intra-fund advice*
- *operational risk reserves*



Financial interests

- no legislative definition
- no regulatory guidance
- "returns to members" - the most significant component



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The dimensions of "financial interest" in the retirement benefit

- \$ amount - the size of the benefit
 - maximum amount (subject to acceptable risk)
 - adequate amount
- security
 - risk
 - predictability
- time horizon
 - retirement date
 - life expectancy
 - actual life-time
- purpose - what the retirement benefit will be used for
 - lump sum
 - income stream - annuity or allocated pension
- returns - for all MySuper members, member segments or individual?





Lifecycle products

- segmentation - age cohorts or lifecycle categories
- "target date"
- "glide path" - reducing risk as retirement approaches - more predictable outcome
- Lifecycle and the Cooper Review





Lifecycle in MySuper

- MySuper single diversified investment strategy
- Lifecycle exception - stream gains or losses from different classes of assets to different subclasses of members, based on age and other prescribed factors
- different investment fee for up to 4 age cohorts





The Lifecycle factors

- Age and
 - account balance
 - contribution rate
 - current salary
 - gender
- Age and expected time remaining to retirement



MySuper Lifecycle possibilities

- trustee can construct many possible segments or categories
- low balance
 - adequacy and return/risk objectives
 - relevance of Age Pension
- gender - relevance of longevity
- generational recovery



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Issues for trustees of MySuper lifecycle products

- overall risk and return objective
- risk and return objectives for each segment
- asset allocation - variant of overall diversified strategy
- fund assets
- investment horizon
- availability of post-retirement products
- Murray FSI recommendation for default retirement income product



MySuper fee rules: intra-fund advice

- General advice
- Personal advice
 - intra-fund advice
 - more complex advice
- cross-subsidy for intra-fund advice
- industry experience and fairness





Operational risk reserves

- s 52(8) of SIS
- SPS 114 - Operational Risk Financial Requirement
- SPG 114





ORFR target amount

- to reflect the size, business mix and complexity of the RSE licensee's business operation (not just the fund)
- "Operational risk"
- "Operational risk event"



Establishing and funding the ORFR

- establishing an ORFR in the fund and either
 - using part of an existing reserve
 - building up reserve over time
- creating additional trustee capital
 - cost of capital borne by shareholder
 - cost of capital borne by trustee - consider expense recovery
- funding increases in ORFR
 - investment growth
 - contributions





Using the ORFR

- payment to address operational risk event
- compensation
- preventative and remedial costs
- investigation costs
- operational risks outside RSE
- replenishing the ORFR after a payment
- SFT - can reserve be transferred?





Indemnity gap

- SPS 114 and s 56(2A)(b)
- Operational risk vs operational risk events
- Need to exhaust ORFR before recovery from fund

