



2 October 2012

Committee Secretary  
Parliamentary Joint Committee on  
Corporations and Financial Services  
Post Office Box 6100  
Parliament House  
CANBERRA ACT 2600

Dear Sir / Madam

## IDENTIFICATION OF DEFAULT AND CHOICE MEMBERS UNDER MYSUPER

### The New MySuper Definitions

Based on the Tranche 3 legislation, **Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 No. , 2012**, it appears as though *any* superannuation balance which sits in the same investment option as any part of a lifecycle option or default option, is to be identified as a MySuper interest. Hence, the member's balance in the 'default' will be determined to be an 'accrued default amount' and be moved into the MySuper option.

Members will not be considered a default member if they have chosen, in writing, to be in a Choice product (as opposed to an investment choice).<sup>1</sup>

"MySuper product" is not defined and is used interchangeably with "MySuper investment option" – where a member has elected to invest in what is otherwise a default option or a MySuper option, that portion of the member's account will be treated as MySuper.<sup>2</sup>

For First State Super, this means that up to 70,000 members currently identified as Choice will be treated as MySuper. These members are tracked by way of a system 'flag' (choice or default).

As the legislation currently stands, these members may opt out of MySuper at the time of transition (July 2013), and may elect *not* to move from Diversified to Balanced on turning age 60. However, these members have already provided us with written instructions not to transition at the default age.

### Increased Risk of a Claim Against the Fund

Members who make investment choices (whether into or out of any options which also happen to be default options) are made aware of the impact of investment choice with the following statement in the member booklet *Investments*:

---

<sup>1</sup> Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011, Supplementary Explanatory Memorandum, 1.6 (page 5)

<sup>2</sup> Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 No. , 2012, 29SAA  
Election to transfer accrued default amounts (Page 67 of the Bill);  
387 Election to transfer accrued default amounts (page 71 of the Bill);  
Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 No. , 2012  
Chapter 6, pages 61-66 (Explanatory Memorandum); and  
Prudential Standard SPS 410.

## Commercial-in-confidence

If you do make an investment choice at any time you will need to review your choices from time to time because your account balance will not be automatically switched when you turn 60.

Before completing an investment selection or switch instruction, members must acknowledge the following declaration on both paper and web forms:

I understand that if I was previously invested in the Trustee's default option because I had never made an investment election, or because I am a Health Super division member and as at 1 July 2012 my account was invested in Trustee's default option, then by choosing one of the investment options listed on this form, the next automatic aged-based switch will not apply to me.

Because members have made these elections and confirmed their declarations, the Fund believes there is increased risk of a claim against the Fund in the event of a future change to these members' investment options, counter to their explicit instructions and acknowledgement.

### **Potential for Confusing Members**

Members who have made a choice in writing or electronically expect no further strategy change or age default by the Trustee. Consequently, a notice to them in the month/s preceding their 60<sup>th</sup> birthday will come as a surprise, and will be in contradiction with previous information provided by the Fund.

We believe these members are self-directed and in control of their superannuation, with the evidence being:

- Their average balances are up to 30% higher than the average of members in the Fund
- In certain investment options, members' balances are more than double the average balance in the Diversified option.

Because of the history of offering investment choice, we consider it a high probability that the Choice members within First State Super who have been able to make investment choices since 2006, will not respond favourably to a regime which reintroduced automatic movement of balances on part or all of their account.

### **Preferred Approach**

First State Super considers it more appropriate that the legislation allow for recognition of members who have made a full or partial investment choice, regardless of whether the investment option is also a default / MySuper option, continue to be treated as Choice members.

We ask that you consider these matters which have a direct impact on our more engaged members.

Yours sincerely

**Graeme Arnott**  
**Chief Operating Officer**