



Fiduciary's Friend Pty Ltd
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19 January 2012

Mr Shon Fletcher
Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Mr Fletcher

Fiduciary's Friend Submission - Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011

Fiduciary's Friend Pty Ltd (FF) is a company dedicated to introducing innovative products to maximise investor returns in this new era for superannuation funds. As Managing Director I have 20 years experience within the Australian finance industry - investment, capital markets, regulation and superannuation.

FF makes three recommendations to this joint parliamentary committee based on extensive analysis of and involvement in the Australian superannuation sector.

Over the past two decades we have seen the industry achieve a first class international reputation. It has increased in scale to a point where technology can now result in significant efficiencies, such as the kind achieved in other areas of the finance market. For example, the introduction of home loan tailoring (fortnightly repayments, additional payments and offset accounts) in the early 1990s led to major benefits for home loan borrowers in terms of lower overall interest paid and shorter loan periods.

It is clearly inappropriate that a young Australian starting work at 18 has the same superannuation investments as a retiree at 65. We can do better by simply tailoring portfolios to members' known circumstances.

Fiduciary's Friend is introducing into the Australian market a product known as Trustee Tailored Super (TTS) which provides for a more efficient use of a member's investment horizon compared to current practices. Publicly released information is available at trusteetailored.com. **The efficiency gains can be up to 1% p.a. across the whole pool of members in the default option (from 4.5% real to 5.5% real) while decreasing the potential for loss as retirement approaches (for those over 55 years from 1 in 5 years to 1 in 6.5 years). This 1% p.a. increase correlates to a 35 - 40% increase in retirement balances across these default investors.** These assertions are based on standard industry earning rates and loss ratios as published on fund websites. The results depend upon the criteria set by trustees, which in turn will be influenced by the specific demographics, wages and hence expected retirement balances of their members.

TTS makes members' retirement balances the focus.

FF strongly supports the Australian Super System Review Panel's 10 Super Policy Principles and in particular Principle 7, which states as follows:

“7. ...Technological improvements, and innovation generally, should be encouraged to help lower costs and benefit members.”

Promoting development of new products is important in any industry to avoid stagnation and achieve best outcomes. FF believes that the proposed legislation provides for appropriate controls over new innovation in two major ways:

1. the enhanced obligation on trustees to act in members' best interests and the proposed *“specific trustee duties in relation to a MySuper product, including to manage the MySuper product at an overall cost aimed at optimising the best financial interests of members, as reflected in the net return over the long term”*. We strongly support trustees having the primary role in determining if new innovation is appropriate for their circumstances.
2. the enhanced regulatory and licensing powers of APRA which provide an overall control on the introduction of new products on the basis of public good concepts and policy.

Section 29 TC (2) (b)

A ***lifecycle exception*** is a rule under the governing rules of the fund that allows gains and losses from different classes of asset of the fund to be streamed to different subclasses of the members of the fund who hold a MySuper product:

- (a) on the basis, and only on the basis, of the age of those members; or
- (b) on the basis of the age of those members and **other prescribed factors**; or
- (c) on the basis of the age of those members and other prescribed factors in prescribed circumstances.

FF understands that the 'other prescribed factors' will be established in regulations that are currently under development. While it is difficult to comment on legislation yet to be released, FF understands that factors such as account balance, contribution rates and projected retirement balance are being positively considered. To this list *recognised retirement standards* – such as the Westpac-ASFA retirement standard could be added. FF considers *projected retirement balance* to be of particular importance as the other factors are elements used to derive (either directly or by inference) projected retirement balance. A focus on retirement outcomes is strongly supported by the MySuper principles and is consistent with the public policy principles outlined in ASIC's Consultation Paper 122 *“Superannuation forecasts: ASIC relief and guidance for super funds”*.

FF believes innovative products such as Trustee Tailored Super are the way of the future, that the Australian public and super industry are ready for more appropriate tailoring of retirement savings and, with respect, FF makes the following recommendations to this committee:

Principal Recommendation

- 1) **That this Committee endorses the inclusion of account balance, contribution rates and projected retirement balance in the prescribed factors.**

Other Recommendations

- 2) **Financial Services Council Submission: Investment Fees – Lifecycle Strategies**

That this Committee supports the recommendation of the Financial Services Council “That different lifecycle stages be permitted to reflect differential costs of investment management” for the reasons outlined in that submission.

3) Sunsuper Submission

That this Committee supports the recommendations made in the Sunsuper submission for the reasons outlined in that submission.

Consumers’ Federation of Australia Submission

FF agrees with the principles outlined in the Consumers’ Federation of Australia submission and confirms that TTS will serve to enhance the outcomes achieved by Australian consumers.

Please contact Fiduciarys Friend should you wish to discuss this submission in further detail.

Yours sincerely

Douglas Bucknell
Managing Director
Fiduciarys Friend Pty Ltd