

**26 August 2014**

### **Renovate the house don't pull it down – AIST responds to the Financial System Inquiry**

**The Australian Institute of Superannuation Trustees (AIST)** said today Australia's \$1.85 trillion superannuation system is on track to deliver further cost savings and value to members with the recently launched MySuper having already led to significant fee reductions\*.

In its submission to the **Financial System Inquiry**, AIST cautions the Inquiry against recommending wholesale structural changes to superannuation without any hard evidence that such changes will improve consumer outcomes.

**AIST CEO Tom Garcia** predicted MySuper would have a profound impact on fees and therefore needed more time to play out before something different was considered.

"As a nation, we have invested huge amounts of time and money in developing and implementing reforms that touch on just about every aspect of superannuation," Mr Garcia said.

"While it's legitimate for an Inquiry to raise questions about superannuation – and we acknowledge there is always room for improvement – the Stronger Super reforms, which include MySuper and SuperStream – must be afforded time to deliver on their objectives."

AIST's submission also highlights the urgent need for political and industry consensus on the long-term objectives of superannuation, including the extent to which superannuation is expected to reduce the heavy lifting by the Age Pension in providing retirement income to most Australians.

"After more than 20 years of compulsory super, there is still no consensus on the definition of an 'adequate' retirement income or where superannuation is heading. Until we have agreement on these fundamental issues, the system will always be in danger of ad hoc policy tinkering," Mr Garcia said.

AIST also calls for the superannuation industry to adopt a retirement income framework. This would include recognizing the importance of financial advice in helping members transition to retirement and reframing the language from wealth creation (nest eggs) to retirement incomes.

"It's time to move the reform focus from 'to retirement' to 'through retirement' and really start thinking of the best ways to help members deal with the many challenges of retirement, including the rising costs of aged care and healthcare," Mr Garcia said.

AIST's submission also focuses on the need for high levels of consumer protection for members of both MySuper and Choice superannuation products, together with improved disclosure and regulatory monitoring of related-party transactions in superannuation. It argues that the trust-based system is best placed to protect members and also the most cost-effective model for managing retirement savings.

"We've seen what can happen when financial advisors have scant regard for the best interests of consumers. It's absolutely vital that in a compulsory superannuation system, all members of pooled superannuation funds receive the highest level of consumer protection through the trust structure," Mr Garcia said.

### Key AIST recommendations

- Fees have come down in MySuper but needs more time to deliver on its objectives. (AIST/Rice Warner research also released today predicts MySuper will have a profound impact on fees).
- Focus should be on value and net returns to members rather than fees
- Urgent need for bi-partisan consensus on the objectives for superannuation – including how it works with the Age Pension
- Super funds need to provide members with a framework for their retirement, where advice will be just as important as new products. This includes re-framing the language from nest-eggs to retirement income
- The trust structure is recognised globally as the best structure to protect member interests
- Disclosure must be meaningful – it should be focused and built for the consumer.
- More disclosure and monitoring by the regulators is needed to protect super fund members from paying too much for services as result of vertical integration in the wealth management sector
- Recent amendments to FoFA should be overturned

AIST/Rice Warner research into MySuper fees\* (released today) can be access via the following link:  
[http://www.aist.asn.au/media/13141/2014\\_07\\_31\\_research\\_navigating%20the%20new%20MySuper%20plan.pdf](http://www.aist.asn.au/media/13141/2014_07_31_research_navigating%20the%20new%20MySuper%20plan.pdf)

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***AIST is the peak industry body for the \$600 billion not-for-profit super sector which includes industry, corporate and public sector funds.***