

# MEDIA Release

## For Immediate Release

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## Rice Warner's response to Phases 1 & 2 of the Cooper Review

Late last year, Rice Warner completed its response to Phases 1 and 2 of the Cooper Review. The full submissions are available on our website ([www.ricewarner.com](http://www.ricewarner.com)). Our **key points** and **recommendations** are as follows:

### Phase One (Governance)

#### *Industry Structure*

- The three different structures within the superannuation industry - Not-for-Profit, commercial (retail) and SMSF sectors - should be formally recognised and legislation and regulatory supervision should be tailored for each segment;
- Default fund products should not include embedded financial advice. Members should opt to pay for advice should they choose to use it;
- The cost of advice should always be separated from the product and agreed between the adviser and member;

#### *Valuation of Unlisted Assets*

- Far greater detail on valuation methods is required, by individual asset type, with actual discount rates, risk margins and cash flow assumptions;
- Funds should not invest in any unlisted asset or use any investment manager where any of their trustee directors has a role;
- The valuer of an asset should be independent of any party involved in its acquisition;
- Valuers should be rotated every three years.

#### *Trustee Structure*

- The trust model works well for Not-for-Profit funds - we suggest minimal changes;
- It can be argued that trustees are not required for Commercial funds offered by prudentially regulated entities;
- We consider it sufficient to have a single trustee for an SMSF rather than expecting all members to hold that position.

### *Conflicts of Interest*

Trustee conflicts should be disclosed but the Chair of the Trustee board should not have conflicts. The Chair should ensure that any conflicts of other Trustees are managed appropriately.

### *Direction of Investments*

We do not accept that Government should use the superannuation system to advance specific policy objectives. Superannuation has clear investment objectives and belong to millions of Australian members.

### *Limiting the range of investment options*

It would be useful to consider a simpler regime including:

- A default strategy which is a diversified multi-manager options with high levels of growth assets.
- Alternative options with lower risk profiles which might be suitable for members needing to withdraw benefits in the near term;
- Riskier options (including direct share investment) which should only be allowed once members have taken formal financial planning advice;
- SMSF funds should continue to have more flexible arrangements, though it is desirable that portfolios not be speculative.

## Phase Two - Operation and Efficiency

### *Design of System*

In Rice Warner's opinion, the underlying design of the Australian superannuation and retirement income system, while not perfect, has met community demand and has general acceptance. It is true that other systems are also reasonable but, having chosen our three pillar structure, our focus should be on making it efficient - and not on redesigning it.

### *Electronic Communication*

We consider it critical that employers remit all contributions electronically in a format that allows funds to allocate them automatically. The Tax File Number for employees should be used as the identifier in this process.

### *Default Funds*

We consider that default funds should meet minimum criteria and this is best set by APRA as part of its licensing regime.

Where the AIRC nominates funds for certain industrial awards, it should only select funds from APRA's list of "Approved Default Funds". Where an employer is not bound by an industrial award, it should choose from the full list of APRA's Approved Default Funds.

We are against the idea of a national default fund!

### *Default investment strategies*

Rice Warner argues that a default investment strategy should have a high level of growth assets which are appropriate for most members. Members close to retirement or drawing pensions may still have long-term investment horizons but they should also have a separate cash fund to meet short term liquidity needs.

We consider lifecycle funds to be inappropriate as a default investment strategy as they tend to reduce long term returns for members.

### *Regulation*

We consider that APRA should cease providing statistics on superannuation and this function should be transferred to the Australian Bureau of Statistics.

It would be useful for the ACCC, ASIC, APRA and ATO to review functions and remove any overlap in regulations.

The ATO should be the sole agency responsible for monitoring all superannuation contributions.

### *Eligible Rollover Funds*

We consider there should be one national Eligible Rollover Fund and all existing accounts should be merged.

The single fund should be tendered to the private sector.

### *Investment Returns and Risks*

Rice Warner is concerned about public information on investment performance. Despite being of little value in assessing future performance, it is used extensively to promote funds. APRA participates in this by publishing material at trustee level, which is highly misleading for many funds with multiple investment strategies.

Rice Warner believe funds should state their risks in a standard format so likely outcomes and their risks can be assessed between funds and strategies.

### *Advice to Members*

Rice Warner does not consider that members should pay for financial advice until they opt in for this service.

Funds should provide limited (simple) advice to members on request or through carefully targeted campaigns. It is acceptable for funds to subsidise these services within reason.