News From Aon

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For immediate release

Fundamental flaw in MySuper

SYDNEY, January 16 – The imposition of a single price for all members of a MySuper fund would result in inequity for members of funds using a lifecycle investment strategy claims Aon.

Aon pointed out this fundamental flaw in the proposed MySuper regulations in its response to APRA's Discussion Paper on Prudential Standards for Superannuation. "Lifecycle strategies that shift a higher weight to fixed income as a member nears retirement would result in lower costs associated with these members", said Janice Sengupta, Aon Hewitt's Chief Investment Officer. "If the fund has to charge all members the same investment management fee then older members would be subsidising younger members in the more growth-oriented strategies" said Sengupta.

Aon is calling on the government to allow differential pricing for lifecycle based MySuper products to reflect the different investment costs across asset classes.

While Aon supported the need to introduce prudential standards for the superannuation industry, it identified some areas of APRA's Discussion Paper that require further work. These included:

- Operational risk financial requirements – Aon recommends that Trustees' insurance policies should be taken into account when determining capital requirements. In some jurisdictions, providers are granted a discount on capital requirements if they have higher levels of insurance cover. Aon proposes a similar approach be adopted in Australia.
- Insurance in superannuation – Aon recommends that careful consideration be given to requirements that may adversely affect members. Aon Hewitt's Health and Benefits Principal, Andrea McDonnell said particular areas of concern included:
  - "removing the ability to self-insure, which may result in higher premiums and slower claims processing
  - restricting members' ability to opt out of life and disability insurance to just 90 days as proposed in the Stronger Super framework. Opt out should be unrestricted as members' needs may change
  - removing the option for funds to provide total and permanent disablement (TPD) benefits based on "own occupation". This will reduce benefits for members of some funds without a corresponding premium reduction."
- Governance – Aon supports APRA's proposals on Board Remuneration Committees but recommends APRA goes further. "These committees should have a broader scope then just remuneration" said Aon Hewitt's Executive Remuneration expert, Alan Jackson. "They should also address other HR matters such as succession planning, attraction, retention, diversity and training. These are critical factors for the superannuation industry as it is struggling to get the talent it needs" said Jackson. Aon also called for super funds to be required to comply with the corporate disclosure rules that the funds use to judge the companies in which they invest.
- Fitness and propriety – Aon said the definitions of responsible person and significant role need to be further developed as there is a lack of clarity in what APRA is proposing. Aon also raised the issue of how a responsible person at an external service provider should be covered. When a fund has already done due diligence on the provider Aon questioned the need to also check on individuals within the provider who might undertake work for the fund.

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