2020-21 Commonwealth Budget

KEY MEASURES

- Default stapling
- YourSuper tool
- Expenditure transparency
- Benchmarking & underperformance
- Retirement income covenant

Commonwealth Budget

SUPERANNUATION BRIEF

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IN BRIEF

No major surprises, and **no change to the SGC** - but there were important policy announcements for superannuation trustees in the 2020-21 Commonwealth Budget. It seems the new Government slogan for the new policies is ***Your Future, Your Super***.

The most significant announcements relate to prohibiting **underperforming funds** from receiving new members (and notifying existing members), and a closer focus on **expenditure management** and disclosure.

The default stapling arrangements and **YourSuper Tool** on **Single Touch Payroll** were expected, and we confirmed plenty of old news and previously announced measures.

POLICY ANNOUNCEMENTS

Default Stapling

The model for allocating **default superannuation** arrangements is likely to be reformed, with the Government announcing a policy to address the Hayne Royal Commission recommendation that that a person should only have one default account, and that machinery should be developed to 'staple' a person to a single default account.

The announced policy will ensure a superannuation **member is 'stapled' to an existing superannuation account**, (rather than the account following the member to new default arrangements upon commencing employment).

> *This policy announcement has been expected since the Hayne Royal Commission recommendations, and the model chosen will provide certainty for the superannuation industry.*

YourSuper Tool

The Government also announced that it will roll out an **online MySuper product comparison tool**, which will be aimed at making it easier for employees to exercise choice of fund and make an informed decision.

For those entering the workforce for the first time or wanting to review their superannuation, a new online YourSuper comparison tool will be built to empower members to **compare and select** a MySuper product.

The ATO will be developing systems so that new employees will be able to select a superannuation product from a table of MySuper products through the YourSuper portal.

> *There isn't much detail on how this tool might work, but the choice architecture is likely to be significant (even if we don't award "best in show").*

Benchmarking & Underperformance

It was announced that APRA will conduct annual benchmarking tests on the net investment performance of:

- MySuper products from July 2021.
- Non-MySuper accumulation products where the decisions of the trustee determine member outcomes from 1 July 2022.

Products that have underperformed over two consecutive annual tests **will be prohibited from receiving new members** until a further annual test that shows they are no longer underperforming.

Superannuation funds which had products fail the benchmarking test(s) will be required to disclose their underperformance to members and give their members the option to move their money to a better performing fund.

> *This is a significant change which is likely to promote a strong strategic focus on relative investment performance. There is likely to be significant interest in understanding what constitutes underperformance.*

Expenditure Transparency

The Government announced that it intends to legislate a stricter requirement for trustees to ensure that **expenditure is motivated solely by the best financial interests of members** and require superannuation funds to disclose how they are spending members' money.

Key information (which is expected to include expenditure related disclosures) will need to be provided to members ahead of **Annual Members' Meetings**.

The intention of the policy is to ensure superannuation trustee actions are consistent with members' retirement savings being maximised.

> *It will be interesting to see how this change might relate to the existing Sole Purpose Test and APRA's plans to update its related guidance.*

Start Dates for Measures

The Government announced that it will change the start date for the following previously announced measures:

- 2019-20 Budget measure to reduce red tape for superannuation fund (**exempt current pension income changes**) – revised from 1 July 2020 to 1 July 2021.
- 2015-16 Budget measure allowing the ATO to pay **lost and unclaimed superannuation** amounts directly to **New Zealand KiwiSaver** accounts – revised from 1 July 2016 to six months after the date of Royal Assent of the enabling legislation.
- 2018-19 Budget measure to remove **capital gains discount** at the trust level for MITs and AMITs – revised from 1 July 2020 to the income year commencing on or after three months after the date of Royal Assent of the enabling legislation.
- 2018-19 Budget measure to **increase the minimum number of allowable members in a SMSF** – revised from 1 July 2019 to the date of Royal Assent of the enabling legislation.

> *There are no surprises here, with all of these policies already known. This confirms that these measures remain on the agenda for the Government.*

Eligible Rollover Fund Closure

This was previously announced in the Mid-Year Economic and Fiscal Outlook, but again - the Government **confirmed its intention** to amend the *Treasury Laws Amendment (Reuniting More Superannuation) Bill 2020* to:

- Defer by 12 months the start date of the measure that prevents superannuation funds transferring new amounts to ERFs;
- Defer the date by which ERFs are required to transfer accounts below $6,000 to the ATO to 30 June 2021;
- Defer the date by which ERFs are required to transfer remaining accounts to the ATO to 31 January 2022;
- Allow all superannuation funds to voluntarily transfer amounts to the ATO in circumstances where the trustee believes it is in the best interests of that member, such as amounts that would otherwise have been transferred to an ERF.

> *The final point here is potentially quite significant, as it may provide an efficient mechanism for handling compensation from remediation due to exited members, transferring out members who are no longer eligible for corporate plan membership, or upon wind up as an alternative to a Successor Fund Transfer.*

Retirement Income Covenant

The Government announced that it is deferring the commencement of the **Retirement Income Covenant**, originally announced in Budget 2018-19, from 1 July 2020 to 1 July 2022.

In short, the covenant would require that superannuation trustees have a retirement income strategy (similar to the requirements to have investment, insurance, and risk management strategies).

This is to allow continued consultation and legislative drafting to take place during COVID-19, and to allow the measure to be informed by the Retirement Income Review.

> *This announcement confirms that this remains on the policy agenda for government, after a period of uncertainty as to the priority of these reforms.*

ATO to Address Organised Crime

The Government announced that it will provide funding to the ATO to target serious and organised crime in the tax and superannuation system.

This extends the 2017-18 Budget measure 'Additional funding for addressing serious and organised crime in the tax system' by a further two years to 30 June 2023.

> *With the increasing importance of the ATO in providing core information infrastructure between superannuation funds, employers, and members – an increased focus on uplifting controls on addressing fraud and organised crime will be welcomed.*

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