

What does the new government mean for superannuation?

May 2022



What does the new government mean for super?

The new Labor Government will be a strong supporter of superannuation. In fact, the Prime Minister in his election night comments mentioned his government's support for "universal superannuation."

However, before discussing possible developments and tweaks in respect of superannuation under the new government, let's confirm the changes that will occur from 1 July 2022.

Changes from 1 July 2022

The following changes will occur from 1 July:

- The Superannuation Guarantee (SG) rate will increase from 10.0% to 10.5%
- The current \$450 per month earnings threshold for the SG will be removed meaning that the SG will have to be paid for nearly all employees
- All APRA-regulated superannuation schemes must publish their retirement income strategy as required under the new Retirement Income Covenant
- The work test will be repealed for those aged 67-74 in respect of funds accepting voluntary employer, non-concessional and salary sacrifice contributions (the work test will still apply at these ages to claim a personal contribution tax deduction)
- The minimum age for making Downsizer contributions will reduce from 65 to 60. Both parties pledged to reduce this to age 55 during the election campaign

Possible developments under the Labor Government

Labor has indicated it recognises the extent of superannuation regulatory reforms since the Hayne Royal Commission, and that the industry has to be able to digest these reforms. As a consequence, it is not looking at a substantive overhaul of any of the recent superannuation reforms. However, as it seeks maintenance of the superannuation system, we can expect the following topics to be considered.



Superannuation Guarantee

As indicated above, the new government is a strong supporter of superannuation. Hence there is now no doubt that the SG will continue to gradually increase (as legislated), reaching 12% from 1 July 2025.

They may consider enhancements such as requiring SG payments to be aligned with the payment of wages, both to assist the monitoring of SG compliance and to reduce the extent of unpaid SG on insolvency.

APRA's Performance Assessments

Last year, the previous government introduced a performance test for MySuper products as part of its *Your Future Your Super* changes. It is expected that the second round of these tests for MySuper products will occur as at 1 July this year.

However, the previous government has legislated to introduce performance tests on Trustee Directed Products (diversified Choice products) from 1 July this year. There is now some doubt that this will proceed for two reasons:

- New Regulations, which include the relevant benchmarks, are required and these have not yet been published. It is doubtful that the production of these will be a high priority for the new government.
- Stephen Jones, the relevant shadow minister, announced that a Labor Government would change the rules to direct APRA to take into account religious faith when assessing funds' performance. This may not be a straightforward exercise.

Hence, we suggest that the performance tests for Choice products are likely to be deferred 12 months. This would be a good outcome as there are many unanswered questions in respect of the expansion of the performance assessments to these products.



Superannuation is nationally important

Labor’s economic and budget strategy noted that much more can be done by working with the \$3.5 trillion superannuation sector to boost economic growth. They plan to establish an all-of-government framework for facilitating partnerships between super funds and projects of national importance. In particular, they have announced they will:

- Support the development of innovative funding mechanisms for large-scale infrastructure projects to encourage greater investment by superannuation funds;
- Develop co-investment opportunities with state and local governments for super funds to back regional infrastructure projects;
- Develop opportunities for super funds to invest in affordable housing;
- Facilitate super funds to back innovative Australian ideas with seed investment and bring promising research to market;
- Facilitate super funds to invest in leading-edge farm and manufacturing technologies to keep our agricultural and value-added manufacturing sectors at the global forefront of efficiency.

Financial Advice

Labor has indicated that they will await the outcomes of the Quality of Advice Review currently led by Michelle Levy and expected to report in December 2022.

However, Stephen Jones (the likely Superannuation Minister) has indicated that he is “intensely uncomfortable” with a relaxation of the current intra-fund advice rules and the possible development of stronger vertically integrated arrangements. He has also stated that he believes the newly legislated Retirement Income Covenant will fail unless the industry can get the advice component right.

Further development of financial advice rules and regulations will have to wait until completion of the Levy Review.

Taxation Reform

The Retirement Income Review, commissioned by the previous Coalition Government, found that:

- The cost of superannuation tax concessions is projected to grow as a proportion of GDP;
- Higher income earners receive more superannuation tax concessions than low and middle income earners;
- Further improvements in targeting superannuation tax concessions would improve the equity of the retirement income system.

Given the current environment of significant government debt, arising from the pandemic, and rising interest rates, it is inevitable that the new government will consider some taxation reform in respect of superannuation.

Earlier this year, Mercer released the paper, *Fixing super tax concessions* that recommended a range of reforms to generate a fairer system for all Australians.

Conclusion

The superannuation industry will continue to grow under the Labor Government and the SG will reach 12% in 2025. Significant reform is not expected, with the possible exceptions of taxation and financial advice. APRA performance tests will continue although there may be a delay with the introduction of the tests on Trustee Directed Products.

Discover how Mercer can assist you

Contact:

contact.australia@mercer.com

Dr David Knox

Senior Partner, Senior Actuary
David.Knox@mercer.com



www.mercer.com.au



Important notices

This document has been prepared by Mercer Consulting (Australia) Pty Ltd (MCAPL) ABN 55 153 168 140, Australian Financial Services Licence #411770.

© 2022 Mercer LLC. All rights reserved.

'MERCER' is a registered trademark of Mercer (Australia) Pty Ltd ABN 32 005 315 917.

References to Mercer shall be construed to include Mercer LLC and/or its associated companies.

This content is intended to inform clients of Mercer's views on particular issues. It is not intended to be provided to any person as a retail client and should not be relied upon or used as a substitute for professional advice specific to a client's individual circumstances. Whilst Mercer believes the prospective information and forward looking statements made by Mercer in this report are based on reasonable grounds, they are predictive in character and may therefore be affected by inaccurate assumptions or by known or unknown risks and uncertainties.

Any advice contained in this content is of a general nature only and does not take into account the personal needs and circumstances of any particular individual. Prior to acting on any information contained in this content you need to take into account your own financial circumstances, consider the Product Disclosure Statement for any product you are considering and seek advice from a licensed, or appropriately authorised financial adviser if you are unsure of what action to take.

This contains confidential and proprietary information of Mercer and is intended for the exclusive use of the parties to whom it was provided by Mercer. Its content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

Important: Please note that any information in this material regarding legal, accounting or tax outcomes does not constitute legal advice or an accounting or tax opinion and prior to relying and acting on this information it is important that you seek independent advice from a qualified lawyer or accountant regarding this information.