MEDIA RELEASE

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GOVERNMENT CAN IMPROVE RETIREMENT OUTCOMES BY $16 BILLION WITH PRODUCT MODERNISATION FRAMEWORK

New research released today by the Financial Services Council (FSC) shows that removing barriers for superannuation funds and fund managers to transition consumers to modern investment products would result in consumers retiring with cumulatively $16 billion more by 2050, lifting their collective retirement income by $22 billion during their retirement.

A product modernisation framework would also strengthen the Government's medium and long-term fiscal position by almost $1 billion over the next 10 years, and $21 billion by 2050, comprised of:

- Additional Government revenue of $2 billion by 2050 through additional superannuation tax receipts, with $700 million of the revenue realised in the next 10 years; and
- A reduction of $19 billion in Age Pension outlays by 2050, with $240 million of these social security savings delivered within the next 10 years, as retirees benefit from higher superannuation balances.

The FSC is encouraging the Government to act on the Product Modernisation Research Report, prepared by EY. A product modernisation regime would allow superannuation trustees and fund managers to efficiently move customers to modern equivalent investment options when it is in members' best interests, without triggering the early application of tax obligations.

The CEO of the FSC, Blake Briggs, said: "There is $132 billion invested in superannuation and investment options that could benefit from modernisation, impacting over 1.8 million customer accounts.

"Allowing superannuation trustees and fund managers to move consumers to modern products would result in consumers having $16 billion more in their retirement by 2050, delivering $21 billion in additional retirement income for Australians."

The Report found that an individual aged 40 with a current balance of $80,000 could have an additional $198,676, from $484,005 to $683,689 by the time they retire in 2050 if superannuation trustees were permitted to move them to contemporary products without incurring tax penalties or regulatory barriers if they are currently invested in a legacy product.

"A product modernisation regime would support the Government's fiscal position, by lowering Government Age Pension outlays and raising new tax revenue, by almost $1 billion in the next decade, without having to raise new taxes on superannuation consumers," Mr Briggs said.

Product modernisation is also the natural extension of the Government's 'Your Future, Your Super' reforms, which has highlighted that consumers are often stranded in historical products, but cannot be moved out of these products due to tax and regulatory barriers imposed by the Government. This means trustees may appropriately conclude that transferring a consumer (and triggering tax obligations) would not satisfy their best financial interest duties.

"The FSC supports performance testing of superannuation products, however flaws in the current design of the 'Your Future, Your Super' framework is having adverse consequences for consumers.

"The FSC encourages the Government to act to protect consumers from being trapped in underperforming products that APRA has publicly identified, by implementing a product modernisation framework that allows superannuation trustees to transfer consumers to modern products.

"Without a product modernisation regime, consumers will receive performance notifications, but personal tax consequences and the need for comprehensive financial advice remains, preventing consumers from taking action." Mr Briggs added.

The EY report includes key expected outcomes of product modernisation, across four key stakeholders, these include:

- **Benefits to Consumers** including access to equivalent products with higher net investment returns driven by both higher expected investment performance and lower fee structures.
- **Benefits to Government** through greater tax receipts and savings due to reduced aged pension payments
- **Benefits to Trustees** through operational and administrative efficiencies; and
- **Benefits to Regulators** through a more competitive industry driving better outcomes for the consumer thanks to operational efficiencies.

The research report can be downloaded here

EDITOR NOTE: Product modernisation refers to the rationalisation of products and investment structures in a pragmatic and efficient manner by Trustees (Responsible Entity or Responsible Superannuation Entity) in the best financial interests of members/investors.

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