Actuaries Institute Podcast
Title: Superannuation Practice Committee Practice Update Podcast

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Speakers: Tim Jenkins, Louise Campbell
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Tim Jenkins: **Hello, and welcome to this Actuaries Institute podcast. This episode is part of the practice update series and brings you the latest news and developments from the Institute Superannuation Practice Committee. I'm Tim Jenkins, and I'm the Convenor of the Super Practice Committee, or SPC for short, and I'm a Partner at Mercer. Now, today for the podcast, I'm joined by Louise Campbell, who is the Deputy Convenor of the SPC, and she's Head of Retirement at Willis Towers Watson. Thanks everyone for taking the time to listen.**

Tim Jenkins: **I just thought I'd start off with going through and letting you know that the SPC has several functions, which we carry out on behalf of the Institute, all of which are focused on actively supporting you, the members, and the actuarial practice for superannuation matters. We identify, promote and look at opportunities for members as they work in super. We've got five strategic goals which we have working through with the Institute.**

Tim Jenkins: **The first one, perhaps to me the most important, is to enhance the role and reputation of superannuation actuaries. That's really important in the environment that we're in, where the prescribed roles for super actuaries are more limited than ever, and with the focus on defined contribution, more so than defined benefit.**

Tim Jenkins: **Secondly, engaging and setting public policy regarding superannuation, working with the broader Institute to make sure that we liaise appropriately with regulators, whether that's ASIC, APRA, Treasury, ATO, to make sure that our public policy enhances superannuation members' outcomes, but at the same time supports the broader aims and strategy of the Institute.**

Tim Jenkins: **Thirdly, and this is a big part of our role, is to maintain and develop the professional documents for superannuation actuaries. There's a long list of standards, guidance, discussion notes, information notes. We'll talk a little bit more about that later.**

Tim Jenkins: **Fourthly, to support the CPD needs of our members. Podcasts like this assist, but also the articles, *Actuaries Digital*, and the Actuaries Summit, all these various streams to give you, the members, information, CPD that you can rely on, and without extra charge.**

Tim Jenkins: **Lastly, fifth, to ensure the superannuation and retirement income education is up to date and is relevant, as we're working with the Institute faculty in this regard.**

Tim Jenkins: **The SPC is actually quite a large committee. We've got 12 members across a variety of consulting firms, investment managers, and superfunds increasingly. I won't list the names of all those involved here but encourage you to have a look at the Institute website, to see who you know, and who you can reach out to if there's something you'd like the SPC to tackle on your behalf.**

Tim Jenkins: **The SPC is supported by many subcommittees, working groups, and task forces to help us deliver to our members. Many of these, like the Insurance in Super Working Group and the Super Projection and Disclosure Subcommittee, are very active indeed. They really help us with what we do.**

Tim Jenkins: **The key challenges facing the SPC in 2021 and beyond are to support members working in superannuation, in an environment of extremely rapid market and regulatory change; and to promote the continued relevance as actuaries, as leaders in the superannuation industry.**

Tim Jenkins: **2021 is looking like it's going to be as busy as 2020, which itself was a very busy year for the SPC, reflecting this reform agenda and the challenges faced by the superannuation industry. With this, I'm going to pass on to Louise, who's joined me today, to provide a snapshot of some of the industry developments that happened last year, and what that has meant for us as superannuation actuaries. Louise.**

Louise Campbell: Thanks Tim. Firstly, with of course COVID-19 being such a major event last year that impacted both investment markets and superannuation funds, the SPC and the COVID-19 Working Group issued a paper in April 2020 with considerations for defined benefit funds.

Louise Campbell: That paper included some helpful notes in the areas such as insurance in super, defined benefit funding, early release, and the impact of changes in employment status for fund members, and the flow-on effects for defined benefit funds there.

Louise Campbell: The aim of that paper was really to assist actuaries in their role as advisors to superannuation trustees. We were also able to supplement that paper by an Insights session around the middle of the year. I think these initiatives were really well received by our membership.

Louise Campbell: In terms of other activities, the SPC was also involved in preparing a submission on the government's 'Your Future, Your Super' reforms, which was announced in the 2020 budget. The detail of those reforms was open for consultation late in 2020.

Louise Campbell: The issues raised in the Actuaries Institute submission there included areas such as stapling of superannuation accounts, and the potential impact on employer-sponsored superfunds, and implications for insurance in super, and the design of the annual investment performance test, and the design of the 'YourSuper' comparison tool. That submission is available on the Actuaries Institute website in the public policy and media tab, for those who are interested to see what we had to say.

Louise Campbell: One of the other important areas where a lot of work has been going on over the last year is an update on the Institute's retirement incomes public policy position, with a position statement that we had being quite out of date, having last been updated quite some years ago. So, a working group was established to do this, and it comprised members of the SPC and the Retirement Incomes Working Group.

Louise Campbell: That group kicked off quite early in 2020. Later on in the year, there were a couple of dialogue papers that were issued in relation to these areas. They looked at developing the retirement income framework, and spending in retirement. These dialogue papers really helped to stimulate the discussion and formulate the thinking that will need to be articulated in the public policy position.

Louise Campbell: The working group also decided that it really needed to await the release of the final report into the government's retirement income review. That was published in November 2020. That report found that there was a need for a clear objective in a retirement system, and to improve the understanding of the system, citing complexity, misconceptions, and financial literacy as key reasons for Australians not really sufficiently planning for retirement.

Louise Campbell: That report also indicated that Australians are not necessarily using assets in retirement appropriately. Just recently, the Actuaries Institute held an Insights session in March 2021, to

discuss the Actuaries Institute position. Work continues there with an aim to finalising the updated public policy position quite soon.

Louise Campbell: There's another area to insurance in superannuation that continues to be quite busy. Tim, I know you've been close to that, so perhaps you could comment on what's happening in this area.

Tim Jenkins: **Thanks, Louise. Yeah, there was plenty of activity in insurance in super last year. I won't go through all of it. I might just pick on a few highlights. We put in place in 2019, in conjunction with the Life Insurance and Wealth Management Practice Committee, the Insurance in Super Working Group. Now, that's a cross-practice group, which looks at all these matters, as we have the juxtaposition between insurance in super and the life insurance world itself.**

Tim Jenkins: **That group prepared an information note for actuaries last year, to pull together the requirements and considerations for actuaries providing advice to super trustees about the cost of insurance, and how that's assessed. Now, the trustee needs to decide what's an appropriate trade-off between the level of insured benefits, the cost of insured benefits, and the impact on a member's retirement income. In fact, it's one of the SIS Act covenants that you cannot inappropriately erode the retirement income of members.**

Tim Jenkins: **Now, when an actuary is providing advice in this area, there are many things we've got to consider, including how to measure that cost, whether we should segment the membership into cohorts as part of the process, and whether the insurance costs are appropriate for each of those cohorts.**

Tim Jenkins: **Hopefully, you find the information note helpful in documenting the types of areas to be considered when we do that work, as well as noting all the different pieces of relevant legislation, regulations, and prudential standards. We did host an Insights session on this during the year, to get the feedback from members and help inform.**

Tim Jenkins: **In 2019, the Government put in new legislation called 'Protecting Your Super', which required superannuation funds to make reforms and address member accounts being eroded by fees and so-called unnecessary insurance. Superfund members were able to opt in to keep their insurance cover. That naturally posed an interesting question for actuaries and insurers about what that meant, or would, mean for claims experience and premiums.**

Tim Jenkins: **Do those who opt in to keep the cover... are they people who are actually more likely to make a claim? If that's the case, does that lead to higher costs? No one quite knew how much those costs should be, and whether the margins insurers were putting forward were reasonable. New areas, no precedents. So, the Insurance in Super Working Group set up a research project to look at this experience, and work with funds who've volunteered their data for analysis and inclusion in the project.**

Tim Jenkins: **Now, we had an Insights session back in November, where the initial results of that analysis were presented with quite interesting early findings there. It wasn't clear to me that the generally higher opt-in claims experience was solely due to anti-selection. This is going to be an ongoing project, but clearly one year's claims experience isn't enough to draw solid conclusions. There can be a lot of reasons for higher claims experience, as we know.**

Tim Jenkins: **As mentioned, the Insurance in Super Working Group expects to continue the high level of activity in 2021. We've already started the year with that group helping the SPC with a submission to APRA on the proposed SPS 250 revisions, and the first update to SPG 250 since 2013. So, more to come.**

Louise Campbell: Thanks very much, Tim. Just another area I was wondering if you could talk about, so over the last year, the SPC continued to consider the impact of the new education requirements for financial advisors. I know you're on the subgroup looking at the implications there for superannuation actuaries. Would you be able to summarize where that is at now?

Tim Jenkins: **Sure. Actually, it might be helpful if I recap what the issue is, and how this affects actuaries who provide advice to employers on superannuation. Now, forever and a day, super actuaries have had a vital role to play in advising employers with the management of their superannuation arrangements. There's quite a long list of things that we do in this area. Some of that's legislated, much of it is not legislated advice.**

Tim Jenkins: **The sorts of things there, are to do with defined benefit arrangements, and when you think about the contribution requirements for employers, implications of the investment strategy the trustee follows, the funding advice, working-in with an actuary to stress-test what the trustees proposed.**

Tim Jenkins: **There's the design of super guarantee minimum requisite benefits, self-insurance of defined benefit arrangements... which some still exist... taxation advice for defined benefit, return of**

surplus. When we've got conversions from defined benefit to accumulation, DB wind-ups that follow, implications of benefit design changes, and right down to the choice of the default fund or funds used by the employer.

Tim Jenkins: **So, actuaries are very much involved. However, employers are regarded as retail clients for the purposes of advice. So, unless there are exemptions, actuaries need to comply with the new advisor education standards. These new requirements start to apply now for actuaries who were on the ASIC advice register at 1st of January 2019, and immediately for new people on the register, we actually have to do exams and further education. There's an ethics exam that needs to be completed, professionalism, by the end of this calendar year, 2021.**

Tim Jenkins: **Then to continue to provide advice after 2024, for the longest-serving actuaries, there's actually a whole suite of exams that need to be passed unless you get recognized prior-learning exemptions, which we think will be few and far between for actuaries, given the nature of our education, particularly for longer-serving actuaries who did not do actuarial degrees at university.**

Tim Jenkins: **We've been engaging with FASEA who was the regulator in that area in conjunction with ASIC was, to request relief from the advisor education requirements. Unfortunately, so far, we've been unsuccessful in obtaining that relief, so we're trying different avenues. In September, we wrote to Senator Jane Hume, who's the Minister for Superannuation. We asked her about this issue, and you can read the submission again on the Institute website.**

Tim Jenkins: **Since then, there's been an announcement from the government that FASEA is being disbanded and Treasury and ASIC are taking over the various responsibilities. So, we have been in touch with Treasury and we're starting to liaise with them, to go down this route of seeing if the legislation can be amended to exempt actuarial advice to employers from the advice requirements, when it comes to education at the very least.**

Tim Jenkins: **We'll continue to liaise with both Treasury and the government representatives on this important point, and let you know the outcome. If I can now move on to another area where the SPC has been focusing, which is encouraging and supporting the role of actuaries in superannuation. I might pass to you here, Louise, and ask you just to give a quick update of what the SPC has been up to in 2020 in this area.**

Louise Campbell: **Thanks very much, Tim. The Institute and the SPC recognize that the role for traditional defined benefit superannuation work for actuaries in Australia is not a growth area, but I would like to emphasize that there are still defined benefit funds out there. Some of them will probably be paying defined benefit pensions for the rest of this century. So defined benefit work will continue to be around for quite a long time yet.**

Louise Campbell: There's another aspect I'd like to mention, is that there is a huge amount of activity and thought leadership going on by actuaries in a defined contribution area in superannuation. Just thinking of product design, both in the accumulation phase and in developing retirement income products, there really is a lot going on.

Louise Campbell: I believe that in Australia, because we're so far along in the defined contribution journey, we can lead the world in the way that we think about these things, and in our aspects of product development. So, I'd like to draw our members' attention to the many papers and presentations on the superannuation and on retirement areas, that were presented in the 2020 All Actuaries Virtual Summit. There were at least a dozen papers and presentations made. It really highlights the level of activity and interest in superannuation and retirement incomes.

Louise Campbell: The SPC also wants to do more to explain to those entering the actuarial profession, the diverse range of roles and work being done by actuaries working in superannuation. So, we will be producing a series of podcasts featuring some of our actuaries and their career journey in super, and highlighting the wide range of work that they do.

Louise Campbell: Of course, the SPC's role is not only on innovation, but also maintaining and developing professional standards and practice guidelines, information notes and discussion notes, as you mentioned earlier, Tim. So, I was wondering if I could hand back to you now, and perhaps you could summarize what the SPC has been doing over 2020 in this area.

Tim Jenkins: **Thanks, Louise. It's actually interesting, factual, that perhaps up to 50% of the work that we did last year was enhancing the professional documentation that we have for superannuation, for our members. We've got a legislation sub-committee to help us with this.**

Tim Jenkins: **They've been very busy, not least because the Institute asked us to update most of our 30-plus practice professional documents last year to reflect code conformance. Because the Actuaries Institute adopted a new Code of Conduct that applied from 1st of**

April 2020, which required most professional documents to be updated to reflect those new requirements.

Tim Jenkins: **We've also made considerable progress working through all our professional practice documents, withdrawing those that are no longer required, and preparing updated versions of these professional documents, which are still needed but have become outdated for some reason, whether it's changes to legislation, the Income Tax Act, references, SG regulations being updated, et cetera.**

Tim Jenkins: **We did this, and we did send a comprehensive newsletter to all members by email, certainly those who have superannuation as their primary practice area. That was sent in November, to summarize what we've been doing over the year, and really highlighting what's been happening in these professional documentation-type areas. That's the professional documentation.**

Tim Jenkins: **When I started, I went through as well and said that another key role is how we support the Institute with education on superannuation. Louise, I might pass to you, to just go through what's been happening for education in the superannuation area in 2020.**

Louise Campbell: Thanks, Tim. If you've been following what's happening in the education area, you may recall that there's been considerable work by the Education Working Group to develop a new superannuation and retirement application subject. As a result of the changes in the courses, the last round of the 6A, 6B Part III superannuation subjects took place in 2020.

Louise Campbell: Congratulations to all those students who completed those courses, particularly in the challenging conditions with COVID-19, and there were some delays, and there was a move to online exams. We are pleased that all the students who sat in that session in 2020 were able to pass and continue their progression to Fellowship.

Louise Campbell: It's a good point to just thank all those long-standing volunteers who've been involved in those courses of 6A, 6B over the years, particularly those in the leadership position for examining the courses, Stephen and Jim. The superannuation course component of the Commercial Actuarial Practice will continue for those students who would still like to use that pathway.

Louise Campbell: There's a new Fellowship subject, the Superannuation and Retirement Applications subject. That began in semester one last

year, but unfortunately the exam was delayed until semester two due to the move to online exams. We do have quite small numbers of students sitting these subjects, but all of the students who attempted that subject were able to pass, which is a really terrific effort under the circumstances.

Louise Campbell: Jim Repanis has taken on the independent examiner role there. We have a team of volunteers for scrutineering and marking, and that new subject will be run again in semester one this year, and is planned again for semester one in 2022, covering superannuation topics, including defined benefit, design risk and investment issues in defined contribution funds, and retirement income product design.

Louise Campbell: We're really hoping to see an increased take-up in future years, as the focus on innovative retirement income products creates new career opportunities for actuaries. Again, just a big thank you to all our volunteers who've been involved in writing and reviewing the course materials over the last couple of years, because it's really been a period of big change in our courses. Tim, as Convener of the SPC, I'll pass back to you now to conclude our discussion today.

Tim Jenkins: **Thanks, Louise. Thank you so much for joining me on this podcast. Let me finish by thanking all our volunteers who support the SPC. We're really lucky to have access to such a wide pool of experts, and all of you really help us in our role of trying to make a difference for our members. Our agenda remains ambitious, and we're always on the lookout for interested volunteers.**

Tim Jenkins: **So, whilst we've got great numbers of volunteers at present, please think if you also can now step up and help us on the SPC, or our various subcommittees, working groups, and discussions, enhance the role of actuaries in superannuation.**

Tim Jenkins: **Just try and give a bit of a plug here. It's a really good opportunity for our younger actuaries to work with more experienced mentors. It's also a good chance for experienced actuaries to give back to the Institute and help future generations of actuaries have a key role in the superannuation industry in Australia.**

Tim Jenkins: **If you are interested, please contact me directly, or reach out to the Institute or other members of the SPC that you might know, if you're willing to help and able. For more information regarding the SPC, our membership and our work, please head to the superannuation practice section of the Institute's website and look out for continued superannuation articles on Actuaries Digital.**

Tim Jenkins: That's all we've got time for today, and we hope you've enjoyed this podcast, giving you an oversight of what the SPC has been up to in 2020, and is up to in 2021. Thanks, in particular to Louise Campbell for joining me today. I'm Tim Jenkins. Bye for now.