

Actuaries Institute Podcast

Title: SPC helps pull the profession into the next decade

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Interviewer: Tim Jenkins

Speaker: Louise Campbell

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Introduction:

Tim:

Hi 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's Superannuation Practice Committee, or SPC as we like to say for short.

I'm Tim Jenkins, I'm the Convenor of the Super Practice Committee and I'm a Partner at Mercer, and I'm joined today by Louise Campbell, who's the Deputy Convenor of the SPC and she is a Senior Consultant of Willis Towers Watson. So, thanks everyone for taking time to listen to this.

Tim:

Now, the SPC has got quite a few functions which we carry out on behalf of the Institute, including focusing on actively supporting actuarial practice for superannuation matters, and identifying, promoting opportunities for members working in Super. We've set ourselves five strategic goals.

Firstly, to enhance the role and reputation of superannuation actuaries, and that's actually really important in the environment in which we're in, where the prescribed statutory roles for super actuaries are less than they were. With the focus on defined contribution more so than defined benefit.

Secondly, engaging in the setting of public policy regarding superannuation, working in with the broader Institute to make sure that we liaise appropriately with regulators, whether it's APRA, whether it's ASIC, whether it's Treasury, or even the ATO to make sure that the public policy that we help with reflects super, but also the broader aims and strategy of the Institute.

Thirdly, and this is a big part of our role, is to maintain and develop professional standards for superannuation

actuaries. There's a long list. If you go to the Institute website of superannuation professional documents, I think we're up to 35 or something like that.

Fourthly, to support the CPD needs of members, podcasts like this assist, but also several articles and we'll point you to what we've been doing during the year there.

And lastly, fifth, to ensure superannuation and retirement incomes education is up to date and is relevant, and again, the Institute is looking at the faculty of education and how that all changes, and we'd been playing our part to support the Institute.

So, these are big, but they're really important goals. So, I'm really pleased as Convenor that we've actually got an SPC with 12 members across a variety of consulting firms, investment managers, and superannuation funds. We've even got many members, a couple who've been on for more than 10 years, but we've got some new blood too. I think that's important to make sure that we have a great cross-section of the membership and that the volunteers spread the load on that.

And with regards to spreading the load, we're supporting by a number of subcommittees, working groups, task forces, many of which like, and I'll call that one because they're very active, is the Superannuation Projections and Disclosure Subcommittee, are very active indeed. They really help us take some of what's required and take this through so that we can actually action, as well as strategise on this.

So, I won't actually list out the names of who's involved there, but I encouraged you to go and look at the Institute website. All our names are on there. See who you know, and reach out to if there's something you'd like the SPC to do and tackle on your behalf.

Moving on now to what we've been up to in 2019, and some of the key challenges facing the SPC. And increasingly there's lots happening in the superannuation industry. Everyone says it's the busiest year. If you've ever read the annual reports for super trustees, it always starts off, "This has been a busy year." And 2019 really has. And there's such an environment of rapid change, both in the market, and regulation.

And in that environment, we really want to promote the continued relevance of actuaries as leaders in the superannuation industry. So, at this point, what I'm going to do is now pass to Louise, I'm going to ask you, Louise, maybe you can give a snapshot of some of the industry developments in this year, in 2019, and what's that meant for us superannuation actuaries?

Louise:

Thanks Tim. So just thinking, where should we start? And I think the first place is probably the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.

So just thinking back to what Commissioner Hayne outlined, and there were six key principles that he outlined that financial institutions should abide by; obey the law, do not mislead or deceive, act fairly, provide services that are fit for purpose, and deliver those services with reasonable care and skill, and when acting for another act in the best interests of that other.

And so, his report examined some really, really complex issues, and I know the Institute is working through the recommendations there, and considering how the actuarial profession can help the industry, and in doing so, help the industry achieve better outcomes for consumers.

Just recapping the key recommendations relating to superannuation, were in relation to the fees charged to members, insurance cover that members hold through superannuation, as well as holding trustees accountable for their actions.

In particular just looking at fees, one of the things that could help there is a person should only have one default account, and Commissioner Hayne believes that a way should be developed for stapling a person to a single default account over their working life. In doing so that could help minimize fees from members who might've had multiple accounts in the past, and that's a widely recognised problem in the industry.

There was another recommendation around key definitions, terms and exclusions that are used in the default My Super insurance arrangements, and related to that is a recommendation to make the insurance code in super, which is currently voluntary, to make that enforceable. On fees, the deduction of an advice fee from a My Super account, other than interfund advice fees, should be prohibited. And fees from other super accounts must be renewed annually by the client, and there should be written records about that.

And on holding trustees accountable, trustees should be prohibited from assuming any obligations other than those arising from, or in the course of performing their duties of a trustee of a super fund. And Commissioner Hayne would also like to see the provisions modelled on the Banking Executive Accountability Regime extended to all RSE licensees, or that's superannuation trustees.

As a result of the hearings, the regulators were perceived as not really being as tough as they should have been on superannuation fund trustees. And we are expecting to see an increase in the regulator activity as a result of that.

And for actuaries, as well as those who are involved in remediation calculations and that for example, where fees have been charged for no service, we are seeing an increased focus on helping funds with business planning, and articulating the outcomes that they want to achieve for their members.

We see this as a key area of work for superannuation actuaries, and Superannuation Prudential Standard 515, strategic planning and member outcomes, has been issued and it commences on 1 January, 2020. It requires trustees to have a business plan with financial projections, and assessment of material risks, as well as an assessment of the key outcomes that the trustee will provide to fund members in both absolute and relative terms.

So, trustees will have to monitor and assess their business plan and the outcomes over time, and they need to decide what changes should be made to keep them on track and deliver those outcomes. So, for us actuaries, we can say that to the actuarial control cycle in practice.

As part of delivering those outcomes, trustees will need to benchmark them, and they also need to be thinking about projections on individual member level, or a whole of fund level, and this is a key area where actuarial skills can be used.

Another area where superannuation actuaries can have a key role is in modelling of adequacy of retirement outcomes, as well as assessing the suitability of the default investment options, or in designing of life cycle options.

We've also seen significant developments impacting the role of insurance in superannuation, and how personal advice on superannuation is delivered to employers. And Tim, I know you've been close to both of these areas, so perhaps you could comment on those?

Tim: Thanks Louise, and thanks for raising both those issues of insurance and advice, which as you say, were key recommendations coming out of the Hayne Royal Commission.

Let me think about, and talk about the insurance in super first, and just reflecting back on this, I'm thinking back, what was it like even back in 2010? So not even 10 years ago, I think we're in a different world when it comes to monitoring insurance in super.

In those days, if you think about it, the insurers generally took a lead in determining what the group policies look like that we used by trustees. And trustees perhaps weren't as focused on the insurance elements as they were on some of the other aspects of running the superannuation fund. I know I'm generalising a bit, but when I look at where we are now in terms of expectations, it's very different indeed.

Tim: In fact, I've been looking back at some of the surveys and they asked members, do you have insurance in super and almost half members didn't know they did. You know that's how much things have changed. When you look at today, when I think insurance is becoming front and centre, not least because perhaps there's a view that insurance and super is perhaps larger than it ought to be, that there's too much provision of insurance for default members. Is it appropriate? And the government really being focusing on removing insurance and they've been doing that for younger members, those with smaller account balances, and they've legislated both the protecting your superannuation PYS, and putting members interest first, PMIF, in 2019. And this has led to, I think it's over 3 million superannuation insurance accounts being switched off.

As we as actuaries look at this, it's altered the risk profile of those group life insurance policies and it's impacted on the level of premiums paid by many super fund members who have retained insurance as a consequence. And I said, there's never always a clear winner on some of this. So how the SPC's been looking at this, we've responded by working with our fellow Institute practice group, that's the Life Insurance and Wealth Management Practice Committee, and we've established a joint insurance and superannuation working group. And what this has done it's enabled those super actuaries working within superannuation to collaborate with those life insurance actuaries working

with the group insurers and provide a balanced perspective when assessing the changes resultant from legislation, whether it's PYS, PMIF, or more broadly, looking at the purpose of superannuation and how does insurance fit into that?

So, if we think in detail, there's actually one area here where in 2019, there's been a new prescribed role for actuaries. And that was in the amendments made to putting members' interests first when it was being passed by parliament. Where an exception, or exemption, was introduced from opt-in insurance cover for those super fund members in dangerous occupations. The exception explicitly requires actuarial certification and we're really proud that the Institute's Superannuation Insurance Working Group was able to release a detailed information note to assist actuaries prepare these dangerous occupation certificates within two months of the legislation being passed. For the kind of approvals you need, that's a really quick process.

The Working Group also hosted an Institute Insight session to discuss. I think there's a podcast of that available as well. As well as a summary of what happened, and we've kept APRA informed as the note was drafted and released, so a real big thanks from me as SPC Convenor, to the Insurance in Super Working Group and the collaboration across the Institute as a whole.

We expect that group to remain very active in 2020. We've just seen released by APRA proposed amendments to SPS 250, which is insurance in super. And we understand there's about to be an updated SPG, a prudential guidance note, on how that standard is applied, as well, coming out. And increasingly there's also going to be continued uplift of the expectations for the management of insurance in super. We've seen the insurance and super voluntary code, which still funds it's voluntary and funds are on a pathway to compliance, and as we heard from Hayne, perhaps that may become compulsory and there may be, as we see, greater emphasis placed on, "What's that cost of insurance? Is it appropriate? Is it not inappropriately eroding retirement balances?"

Louise:

Thanks Tim. We also mentioned the changes in the financial advisor regime and how that impacts on actuaries working in superannuation and I know that's been an area where you've spent a lot of time over the year, so would you be able to give

us an update on what's been happening in that very important area this year?

Tim:

Of course, Louise, it's a really interesting development this, and perhaps more so than anything, this may well impact on how actuaries continue to provide advice to employers regarding superannuation. Forever and a day, actuaries have had a really important role to play in advising employers with how their super is managed, how the arrangements stack up. And this kind of areas where actuaries work with employers, not just trustees on this legislated and non-legislated advice area cover things like interpretation of the defined benefit, recommendations on contributions, investment strategy, funding advice to trustees, statutory roles like SG minimum requisite benefits, the impact say, if you've got self-insurance of your defined benefit arrangements, the taxation, how that fits in.

And then if there's a change to those arrangements, if there's money left in return of surplus, or deemed defined benefit funds sometimes as you convert, the actual defined benefit to defined contribution conversions themselves, and then the ultimate windup of the defined benefit. So, there's quite a few areas there where you look at those and say, "Actually if I was a financial advisor who wasn't an actuary, I might struggle to give that advice."

Now the way the legislation's been put through and the monitoring of the education requirements, there's a body called FASEA, who's been put in play to look at the education standards. This is all about raising the quality of financial advice. So big picture, that's a good thing but, perhaps there's some unintended consequences when this comes through and you think about what it means for actuaries. Employers, and this is in the ASIC regulatory guidance, are regarded as retail clients regardless of the size. So you might be the largest company on the stock exchange, but you're still regarded as a retail client when it comes to financial advice, which means statements of advice and making sure that any advice that you provide you're licensed to do so. And to keep on the ASIC advisor register, you need to satisfy the FASEA education requirements.

Now these come in over a period. If you were a new actuary now, you're going to actually have to do those now, but for existing actuaries, where we've been providing this advice perhaps forever and a day, we've

got until 2024, to see and make sure that we satisfy that advice. When the question becomes, given that it might be 5% or 10% of what we do, is it worth it for the time required to go through the education requirements? So, we've hosted an Insight Session with actuaries who are involved with financial advice, whether to employers or directly to individuals, to see the lay of the land, what can we do to help? And one of the conclusions was that we should seek relief from ASIC for the education requirements for advice provided to larger employers.

So, we've applied for that relief. We are reasonably optimistic that will go through. Still hasn't yet, but so we're in dialogue with ASIC and have been over the last six months and fingers crossed, that will come through. If that happens, there's probably only a handful of actuaries who will be wrapped up and drawn into the FASEA education requirements. And then we're looking at, do the actuarial exams assist with required prior learning, which comes through and means less exams you need to do for the FASEA exams. I suspect, and we're not sure yet, that the actuarial exams won't match exactly the way this is done, and for those actuaries who become financial planners, they will do the full FASEA education requirements or equivalent qualifications, that they might have done elsewhere on the way. But we'll see. If, though, the exemption from ASIC doesn't come through for relief, this is an area where we as the SPC, will be looking to support actuaries providing that advice, or there's going to be a gap, and I'm not quite sure what employers are going to do in that world.

If we can now move on to another area where the SPC has been focusing and that's encouraging and supporting the role of actuaries and superannuation. We did some analysis earlier this year working with the Institute and we noted that the number of actuaries working in superannuation continues to decline as a percentage of the institute's total membership. I think it's only about 7% of the institute's total membership who now regard superannuation as their primary practice area. The number actually working in super is higher because you touch on it with the life insurance, say, the group insurance, or risk management. But the primary area, it's down to 7% of the membership. I think that was 20%, 25% 20 years ago with the different demographics and makeup of what was required.

So Louise, I might pass to you and perhaps you can help us talk through why you think superannuation has

become less prevalent as a career choice for actuaries and what the SPC's doing to respond to that and maybe how we can reverse the trend.

Louise:

Thanks Tim. Well, as you say, the Institute and the SPC have recognised that the role for traditional defined benefit superannuation work for actuaries in Australia is slowly diminishing, and while there continues to be actuaries for roles in many other fields, such as life and general insurance, we do think that there will still be defined benefit funds out there. And from our own experience, we know that some of those funds are really going to keep going for the rest of this century, which is quite a long time. So, we need to make sure that there are actuaries still there in the industry to provide the work that needs to be done for those funds.

And as you say, the SPC recognises that for actuaries working in superannuation, the statutory role that they have as a signing actuary for a fund may not really be a big part of that role. But, superannuation as an industry is extremely important to Australia, and there are many ways that actuaries can really add value there with their experience and their knowledge and their skills. So earlier this year we spent some time considering whether there were particular areas that the committee should devote some time to investigating and developing. And the areas that we came up with were around member outcomes, reserving and superannuation for example, what is the right level of an operational risk reserve that a fund should hold? And of course, there's continued work on retirement income product development. And the other area as you mentioned, was insurance.

We also wanted to do more to involve our less experienced actuaries in many areas where the SPC does work. And one of the ways that we're doing that is to invite some of our younger actuaries along to each monthly meeting. And from there we hope to be able to draw them into a subcommittee or a particular task force. So, we do really have a development path for actuaries and involving them in the superannuation practice committee.

Of course, the SPC's role is not only on innovation in the superannuation area, but we have a role maintaining and developing practice standards, practice guidelines, information notes and discussion notes as you were saying. So, Tim, would you like to summarise what the SPC has done over this year in regard to all those professional standards and outline some of the submissions we've made as well?

Tim:

Okay. Well the Legislation Subcommittee has ever been busy looking after and taking forward our professional documentation in superannuation. We've issued a new Professional Standard PS 409 which covers segregated pension assets, and we're about to release updated versions of Professional Standard 403, which covers SG benefit certificates and Professional Standard 407, covering funding insolvency certificates. I think those existing standards are about 10 years old.

We've released an updated Practice Guidance Note 499.07, the names get better, on conflict of interest at the end of last year, and we're close to releasing an update to PG 499.02, which is on retirement projection terminology. Now, the Institute is issuing a new code of conduct, I think it's early 2020, I think it's the 1st of April, and we've been working with the Institute's Professional Standards Committee to update all the 30 plus practice professional documents to reflect this code conformance. But that's actually quite a big task and we've been focusing firstly on the professional standards. And whilst we've now reviewed all of those to make sure they're up to date with code compliance, there's still a fair bit of work for us to do early in 2020 on the other practice documentation.

Louise, you talked about submissions and with the level of regulatory change, we've provided several submissions in 2019 covering superannuation retirement income, which was often, but not exclusively, driven by the very active Superannuation Projections and Disclosure Subcommittee. We've submitted to APRA on member outcomes. We've submitted to ASIC on CP308 as they reviewed RG97 which has just come through. And to treasury on retirement incomes disclosure on technical taxation reforms and also something Louise touched on before on universal terms for insurance in My Super, which we conducted together with the Life Insurance and Wealth Management Practice Committee before we established the Insurance and Super Working Group.

So ongoing regulator activity. It's going to be really important for both the Institute and as the SPC going forward in 2020. So, it's essential as we look to deliver to the Institute's strategic agenda as we look to build that actuarial brand and future-proof the profession's role in superannuation.

We already know that a key area of involvement is going to be the government's review of the retirement system.

There's a consultation paper out now. And how the retirement system interacts with superannuation. So, we've got a task force established to lead our response there. And that's going to build on the excellent Green Paper which was issued in August 2019, *Options for an improved and integrated system of retirement* by the Institute, and that was thanks to work conducted by Knox, Rice and Asher. The insurance and super working group has just met this week with APRA as we prepare our submission on the proposed changes to SPS 250 and APRA's also encouraged our further involvement as the measurement impacts of member outcomes is further developed and they consider the APRA heat maps which has just been released this week.

We'll be meeting with ASIC given its focus on disclosure and the potential for further development of longer-term risk measures, and also encouraging still the enhanced use of projections to the benefit of members, which I think fits into that actuarial role in member outcomes. And lastly, we're also liaising with treasury on some suggested simplifications to the taxation and treatment of legacy lifetime pensions. And that works being led by the SMSF Subcommittee which reports through to SPC where it looks at the generally very particular issues facing SMSFs.

Another key role for the SPC has been to oversee the changes to the education syllabus and how this impacts on retirement income and superannuation. Louise, over to you to summarise what's happened in the education sphere and what will continue to happen.

Louise:

Thanks Tim. So yes, there's been a lot of work going on over this year by our Education Working Group and they've been developing the new superannuation and retirement application subject which will be offered in semester one 2020. So, this was really an opportunity to stand back and take a fresh look at what is important and relevant to actuaries in the superannuation industry today and in future. And not just in terms of traditional defined benefit work but to superannuation more broadly.

So of course the new subject we'll touch on, many of the concepts we've already mentioned today, such as retirement income, product design, looking at member outcomes and comparisons, projections, but it will also have other areas such as design and risk and investment issues in defined contribution funds. And of course, it will also cover the traditional areas such as aging population, regulation and environmental factors affecting superannuation. So, a really big thank you to all our

volunteers who've been involved in writing and reviewing the course materials over this year.

Another area that we've been involved in is the approach to continuing professional development for qualified actuaries, and the SPC has been liaising with the institutes recently established Cross Practice CPD Committee to review that ongoing approach and make sure that CPD reflects the various needs for ongoing education after actuaries are qualified. And another aspect that the Institute is considering is how to recognise the on the job learning that many actuaries do, especially as they're working for those larger firms, which do offer quite considerable training programs. So, Tim, as a Convenor of the SPC, let me pass back to you with an update on the SPC's governance processes.

Tim:

Thanks Louise. I've been Convenor of the SPC now for about 18 months and I'll be honest, I hadn't quite realised when taking on the role, just how involved it is. But it's also really exciting and a great way to actually engage with the profession as a whole and actually enhance the role of actuaries. So, with my fellow SPC members, at the start of the year, we actually spent some time reviewing our governance to make sure that we focused on the right things. To make sure that we focused on strategic issues for the future, which support actuaries and super and not just maintaining our tactical focus with the never ending round of updates to professional documents, which is really important, but it's only part of our role.

So how we use and how we used the available volunteer army was a key consideration. I actually feel quite privileged that there are so many people who are actuaries working in super, who are willing to give their time, provide access to their expertise and really want to help us as actuaries and super make a difference. I mentioned at the start of the podcast that we've established our five areas of strategic focus and we've set ourselves some specific measurable outcomes in these areas. And I feel that we've made some really good progress this year.

However, having said that, our agenda is ambitious and we're always on the lookout for interested volunteers. So, I encourage you as you listen to this, to think about how you might be able to help the SPC enhance the role of super actuaries if you haven't been involved to date. It's a great learning opportunity, particularly for younger actuaries to work with more experienced mentors, and also for experienced actuaries to give back to the

Institute and help those future generations of actuaries have that key role in the superannuation industry.

So, if you are keen or you have some time and you'd like to help, either contact me directly or reach out to the Institute if you're willing and able to help. Now for more information of the SPC, our membership work and to look at how you might be able to help, I encourage you to head to the superannuation practice section of the Institute's website and look out for continued superannuation articles on the Actuaries Digital. That's all we've got time for today. I hope you've enjoyed this podcast and got something out of it and thanks in particular to Louise Campbell for joining me today. I'm Tim Jenkins, bye for now.