Mercer

welcome to brighter

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General Manager
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Australian Prudential Regulation Authority

Via email: superannuation.policy@apra.gov.au

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Subject: **Strategic Planning and Member Outcomes – Draft Prudential Standard SPS 515 and Prudential Practice Guides SPG 515 and SPG 516**

Thank you for the opportunity to provide feedback on the revised draft Prudential Standard SPS 515 and Prudential Practice Guides SPG 515 and SPG 516 ("SPGs").

Who is Mercer?

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 85,000 colleagues and annual revenue of over $20 billion. Through its market-leading businesses including Marsh, Guy Carpenter, Mercer and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

In Australia, Mercer Super operates one of the leading superannuation funds in the market, with around 35 years of history serving our members. The fund has approximately 750,000 members and $64 billion in assets under management. Mercer Super's value proposition for members is supported by the global expertise of 1,300 investment professionals around the world and 75 years of experience in wealth management.

Mercer Australia also provides administration, technology, investment and consulting products and services to a large number of other superannuation funds and their trustees.

Key Feedback

A summary of our key feedback is set out below, with more detail set out in Appendix 1.

- The modernisation of the prudential framework into core obligations, core standards, supporting standards and guidance is very helpful in understanding how all these fit together. Further the change to include the relevant paragraphs of SPS 515 within the integrated SPGs improves the readability and understanding of the SPGs.
- The requirements, justification and detail required in relation to the business plan initiatives and fund expenditure appear to have been significantly increased. Whilst Mercer agrees some uplift in these

areas was required to improve member outcomes, we believe the draft requirements are too strict and are likely to stifle innovation.

- There appear to be requirements with respect to transfer planning and remedial action, even when funds are performing well and producing strong member outcomes. Time spent on transfer planning and remedial action when it is unlikely to be needed in practice has an opportunity cost for funds with a consequential impact on developments for the benefit of members.
- While it is appropriate for SPS 515 to analyse the results of the annual performance test when assessing MySuper and Trustee Directed Products ("TDP"), it is inappropriate to require trustees to use the performance test benchmark for product comparisons.
- Minor clarifications, further detail or examples could be added to the SPGs in a few areas to improve clarity on what is required by funds.

Naturally, we would be happy to discuss this submission at your convenience.

Yours sincerely,

[redacted]

[redacted]
Senior Partner

Appendix 1

Detailed commentary and questions

Overall

The modernisation of the prudential framework into core obligations, core standards, supporting standards and guidance is very helpful in understanding how all these fit together. Further the change to include the relevant paragraphs of SPS 515 within the integrated SPGs improves the readability and understanding of the SPGs.

SPS 515

Paragraph	Commentary
Business Planning 11(a)	Requiring the expected cost of each initiative, how it will be funded and expected results to be laid out in the business plan is an onerous requirement. This may result in funds reducing the number of key initiatives they list in their business plan going forward, which is not a desirable outcome for members. However, we expect the wording in SPG 515 paragraph 13 “APRA expects that the detail provided in the business plan will reflect the complexity, size and budget of each initiative” is intended to indicate some leeway on how much is to be included in the business plan. We recommend some additional clarity be added.
Business Planning 14, Monitoring 24 and Remedial Actions and Transfer Planning 31	If a fund is at scale, financially robust and has very strong performance of its products against the annual performance assessment then how much transfer planning is required? Further, if one TDP in a fund fails the assessment with minimum assets, remedial action can be taken straightforwardly without the need for detailed planning and monitoring at a fund level. Time spent on this when unlikely to be required has an opportunity cost in relation to other improvements and developments. SPG 515 paragraph 55 outlines that “APRA expects an RSE licensee would demonstrate how it will put in place governance arrangements for making decisions about potential remedial actions or transfers. This includes roles and responsibilities of key stakeholders for each part of the governance process, particularly the role of the Board”. We recommend some additional clarity be provided with respect to: • How an RSE licensee is expected to demonstrate this; and • What is APRA’s definition of “governance arrangements” in this scenario.

Paragraph	Commentary
Financial resource management 21 and 22	The word "significant" has been removed. Does this mean all expenditure needs to be justified. It would be particularly onerous for every small expenditure to be justified. It may also be hard to monitor certain types of expenditure to a specific expected outcome. For example, how do you justify and measure whether attendance by senior executives at an industry superannuation conference contributes to the strategic objectives of the fund and how do you monitor these going forward?
Annual outcomes assessment 27	Please clarify what you mean by "how the RSE licensee has determined the products it will use for the purposes of comparing its MySuper or choice products. Where a product, or part of a product is assessed under the legislated annual performance assessment under Part 6A of the SIS Act, an RSE licensee's methodology must demonstrate how it has taken into account the population of products against which it was assessed." The annual performance assessment is a comparison of a MySuper or TDP investment option's own strategic asset allocation and not the "population of products" (i.e. other products).
Annual outcomes assessment 27	Under SPS 515 all choice/TDP could be combined under one product, based on the SIS Act definition of a product. However, the legislated annual performance assessment definition of product could be a single TDP which is part of the SPS 515 product. Does that mean if one TDP out of say 100 TDPs fails the annual performance assessment then the whole SPS 515 product fails?
Annual outcomes assessment 28(b)	Comparing the level of investment risk across MySuper products by itself is not a helpful metric as each MySuper option has been specifically designed to have a certain level of risk. It is the combination of the returns and risk that provide a meaningful comparison. This should be cleared up within the SPG.

SPG 516

Paragraph	Commentary
Chapter 1 - Business performance review (BPR)	
4	Mercer welcomes the changes for the BPR to be less prescriptive, whilst still requiring thorough analysis, particularly by cohort, to be performed.
Chapter 2 – Outcomes assessment	
25	It is not clear what the receiving RSE licensee should do if members are transferred shortly after the annual outcomes assessment ("AOA") date (e.g. 1 August 2023). We agree with the guidance that the transferring RSE licensee does not need to perform an AOA, but the members/product were not part of the receiving RSE licensee at the 30 June 2023 AOA date (assuming a financial year AOA period is used). Thus, a 30 June 2023 AOA by the receiving RSE licensee would appear inappropriate and the product could be "missed" in the year of transfer. Further clarity on this circumstance would be beneficial.
Outcomes assessment methodology 27(e)	This paragraph notes the staff responsible for undertaking the assessment need to be included in an RSE licensee's outcomes assessment methodology. Further clarity should be provided on whether a formal AOA policy is required or whether it can simply be documented in the AOA reporting itself.
Comparing choice products (that are not retirement income products) 41	This could be interpreted to mean APRA expects all RSE licensees to perform annual performance assessment type analysis on every non-TDP choice option within the fund. We recommend this should not be required and further clarity on this would be beneficial.