



Retirement Income Review

MySuper Outcomes
Tool

Tailored Superannuation
Solutions Pty Ltd

**Retirement Income Review Secretariat
The Treasury
Langton Crescent
PARKES ACT 2600**

retirementincomereview@treasury.gov.au

Response to Terms of Reference (TOR) and Consultation Process

Tailored Superannuation Solutions (TSS), are pleased to provide the Panel a:

[MySuper Outcomes Tool app](#)

This dynamic new web based public tool¹, released for this submission assists the Panel to *'establish a fact base of the current retirement income system that will improve understanding of its operation and the outcomes it is delivering for Australians'*, as required by the TOR.

The Tool:

1. Provides Factual Information on Outcomes using APRA's December 2019 Heat Map and annual data on **the whole 96 MySuper fund population**.
2. Displays a user selected Base Fund's average Outcome and what another user selected MySuper fund (the Overlay Fund) could have provided instead, for the Base Funds membership profile, by age cohorts and in total.
3. Enables comparison of Outcomes:
 - a. In retirement balance or retirement income terms (Outcomes),
 - b. Using either APRA 10 year Target Return or Heat Map 5 year NIR adjusted data,
 - c. By age cohort, in total and by industry average,
 - d. Inclusive of average sequencing risk over age 55,
 - e. From single, age based or well-designed default designs.

The purpose of the Tool is to assist MySuper Trustees met their SIS Act obligations to act in member's best financial retirement interests in setting the funds default design; public policy makers in determining the efficiency of converting contributions into retirement outcomes, the press, politicians and voters in considering the national benefits of the Superannuation System.

Its focus is on Outcomes, not a funds own return. It assists in comparing the Outcome from funds with different member age profiles and investment risk, fee and return ratios. It is consistent with the APRA Capability Review request for an Outcomes Tool focussed on an intense retirement promise to members.

The Tool also includes a Well-Designed Life-Cycle Guideline. This guideline follows on from the Productivity Commission FINDING 4.3 that:

"Well-designed life-cycle products can produce benefits greater than or equivalent to single-strategy balanced products, while better addressing sequencing risk for members. There are also good prospects for further personalisation of life-cycle products that will better match them to diverse member needs, which would require funds to collect and use more information on their members. Some current MySuper life-cycle products shift members into lower-risk assets too early in their working lives, which will not be in the interests of most members."

¹ <http://trustetailored.com/super-trends/>

The tool **does not** yet include the **good prospects for further personalisation of life-cycle products**, or the resulting better matching to member needs, as this requires factual data beyond that currently released by APRA. Trustees however do have that information on their annual member statement files.

The Tool is self-intuitive to use, and an explanatory video is included. It will specifically assist the Panel and secretariat in:

1. Providing a better understanding of the nature and consequences of trade-offs, and in developing a fact base to help the community make decisions,
2. Drawing on the findings of the Productivity Commission report, and
3. In undertaking new analysis of the operation of the retirement income system, including modelling how the system performs today and how it will perform in the future.

Tailored Superannuation Solutions, provides MySuper trustees an implementation ready solution called Trustee Tailored Super (TTS) that automatically tailors a funds existing investment options to each members own projected retirement balance.

TTS improves average MySuper member lifetime Outcomes by a third, with lower sequencing risk.

It includes both of the PC 4.3 Finding elements of well-designed and further personalisation.

Select Consultation Question Responses

Qn 3: In what areas of the retirement income system is there a need to improve understanding of its operation?

A: The design of MySuper Default Options.

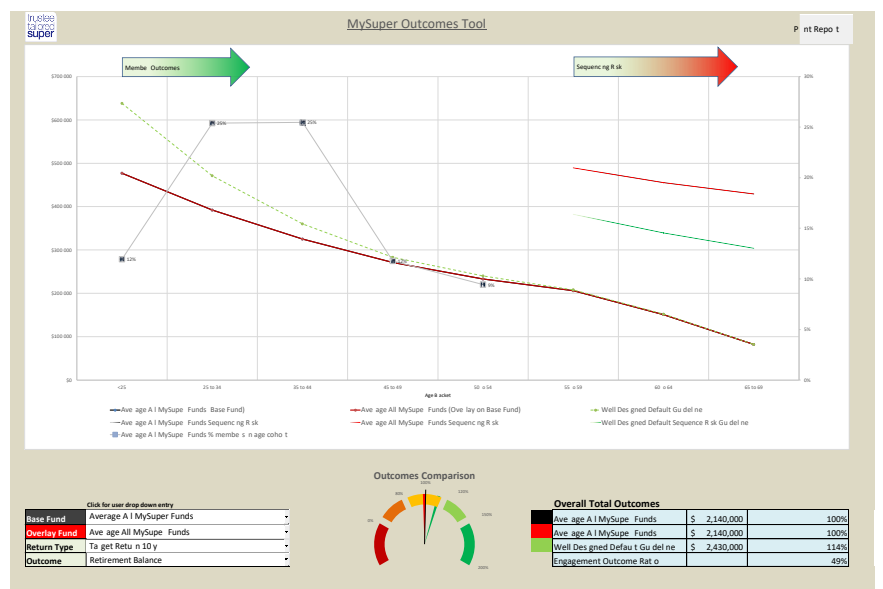
Currently there is little to no connection made between the membership profile, investment options and retirement outcomes. In particular:

1. The higher proportion of younger members in MySuper and the default investment option the trustee has used for these members.

For example, single strategy (one-size-fits-all) defaults apply the same 'balanced' investment option (and risk) for a 20 year old and a 65 year old. If a financial planner took that approach, we would all know and call it out as being highly inefficient. Yet because rating agencies and common reporting methods simply quote the balanced option return, the impact of a high proportion younger members is currently overlooked. It has also been overlooked in the 'cameo' (sample member) approach used by the Productivity Commission and others. However the Outcomes Tool overcomes this issue.

2. The different projected retirement outcomes (now listed in member statements) and the ability of members at the same age to bear risk and be placed by their trustee in higher or lower (tailored) growth investment options.

The Tool shows Outcomes can be improved, on account of point 1, by 14% on average through using a well-designed MySuper default. **Figure 1.**



The Tool can be re-run for every fund by the secretariat, to establish how much a well-designed default can improve each of the 96 funds efficiency in converting contributions into retirement outcomes. For some funds, the benefit for their own members exceeds 45%.

Unfortunately, at this time there is insufficient (source) data collected by APRA, to provide Factual Information to cover point 2 across the whole 96 MySuper funds, however the benefit for the average exceeds 20% (refer to TSS Productivity Commission submissions and Finding 4.3).

What is required to improve understanding and incentivise enhancements, is for MySuper trustees to be judged on Outcomes, not just the funds (fee or investment return) performance.

Qn 5: The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?

A: For the *compulsory savings through the superannuation guarantee (SG) pillar*, the role for MySuper trustees is to act in member's best retirement interests, including by using well-designed defaults, which is currently not the case (refer to the quantified 14% average decrement in Figure 1). MySuper trustees should strive to increase all retirement Outcomes, be that a current projected retirement balance of \$100,000 or \$1 million within tailored risk settings. **That can increase overall outcomes in the SG Pillar by a third.**

MySuper trustees in tailoring investment options, by utilising projected retirement balances, should take into account known factors like Age Pension criteria to deliver better Outcomes. This is consistent with the current MySuper Prudent Trustee legislative requirements.

Delivery is for MySuper members via their trustees, accountable via APRA to Parliament and then ultimately to current and future taxpayers/voters who will wear the burden of non-action in having to fill the national retirement funding gap.

Qn 6: What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

A: Using well-designed MySuper defaults will improve outcomes by a third, for the 15 million MySuper accounts holders (circa 50% of the population) who proportionally are more likely to be those who end up on the Age Pension.

The impact of forcing MySuper trustees to do 'better', to improve the efficiency of converting contributions into retirement balances, by using well-designed MySuper defaults will substantially reduce Age Pension Pillar reliance and not impact the Voluntary Saving Pillar (ceteris paribus). This innovation efficiency measure is required to bring balance to the System.

QN 7: Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future. What are the main impacts of these trends? To what extent is the system responsive to these trends? Are there additional trends, which the Review should consider when assessing how the system is performing and will perform in the future?

A: In respect of MySuper, the current default designs being one-size-fits-all single strategy or age-only life cycling do not respond to these changing trends, at all. Well-designed life-cycling products will respond to changing trends at the member cohort level with a year lag timeframe.

Qn 8: Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included?

A: Accountability, for the SG pillar being quantitative measurement of acting in members best retirement interests (Outcomes), needs to be included as a fundamental principle. Secondary metrics of Outcomes, such as a fund own performance (fees, returns), are not in themselves sufficient for this accountability and can/have provide(d) distorting signals and actions.

Qn 22: Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?

A: Not yet in respect of the 15 million MySuper accounts and circa 50% of the population who have outsourced this via their 96 MySuper trustees. The Tool includes an Engagement Outcome Ratio, which for the average of the 96 MySuper funds is 49% (ref. Figure 1).

SG is not a savings decision by individuals or households. However, MySuper trustees by using well-designed defaults, with investment options tailored to members own projected Outcomes can effectively incentivise and nudge saving decisions once engagement occurs – currently at around age 50 for circa 65% of MySuper members (see Tool Percentage of Members by Age Cohort). Conversely, dumping all members in one investment bucket for life has proven to have had the opposite de-incentivising and delaying impact.

Qn 23: What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?

A: In respect of MySuper, with its trustee's poor single and age only life-cycle default design, there is no interaction, which is to the detriment of the System and the Public .

Qn 24: What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?

A: They are clearly **not well understood**, by regulators, trustees, and public policy makers. The MySuper Outcomes Tool and Panel's 'Fact Base' will assist; the PC Finding 4.3, the Outcome Test and the APRA Capability Review recommendations on outcome measurement plus a new intense member retirement focus via APRA, are correct, evidence based and required.

Regulators - So far, APRA does not collect source data. It only collects trustee adjusted data in broad buckets. It does not allow for the “*ever-present issue of how members differ along many dimensions*”. For example, APRA currently only obtains whole of fund contributions, not the level of contributions by age, further its age cohorts are both in 10 year and 5 year brackets. As a result, it cannot effectively work out different retirement Outcomes within age cohorts. Instead, APRA, at present, has resorted to a Fund Performance (fees, net returns, member flow) Heat Map.

This is set to change with APRA’s new data collection². We encourage that collection to be based on (member statement) source data, **excluding** member names and addresses³. That data set uses a consistent methodology and includes members projected retirement balances and contributions. It is appropriate in this big data digital age. It will save trustees time and duplication effort as the data files have already been created for annual statement purposes.

Trustees - Current industry practice is for trustees performance, in acting in member’s best interests to improve retirement outcomes, to be judged by rating agencies based a fund’s own (return/fee) metrics. First funds are split between single and age only default design, then multiple awards made for lowest fee, highest net return over multiple time periods and for different investment options etc. This is then followed by expenditure on ‘uninformative’ marketing campaigns to largely retain MySuper employers or maintain overall brand image. Similarly for the Heat Map, there are multiple criteria focussed on the Fund’s numbers with colour coding to the average, plus an overall statement that trustees should strive to do better.

There is **no measurement of retirement outcomes here**, just secondary indicators and limited accountability, with many opportunities for ongoing marketing/promotion that arguably reduces rather than improves understanding levels.

Public policy makers – there is not even an industrywide or system list of projected retirement balances (Outcomes). Treasury’s new MARIA might be capable of generating it but would need to be supplemented with fund data, none which is public and it again is not real source data.

If there is no forward understanding or ‘fact base’ on retirement Outcomes in the SG Pillar, then it is very difficult to improve it, incentivise MySuper trustees to change and do ‘better’ or to know if the system is delivering efficiently, including in respect of other pillars and areas.

The [MySuper Outcomes Tool app](#) assists with this evidence, fund-by-fund, age bracket by age bracket, applying and overcoming differences in member profiles.

² The [Superannuation Data Transformation program](#)

³ In Phase 2 (due to commence later in 2020) APRA has publicly confirmed it will consider the collection of data on a member level basis.