

# Redefining Superannuation

SMSFs, YFYS and other acronyms that will shape the next fifteen years

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# AGENDA

CURRENT MARKET

PERFORMANCE OUTCOMES

DRIVERS OF CHANGE

USING THE CRYSTAL BALL TO  
PREDICT CHANGE

RESPONDING TO CHANGE



# Current Market

# Current market – sectors

Market Segment	Accumulation		Retirement	Defined Benefits	Total
	MySuper	Choice	Choice		
	(%)				
Not-for-Profit Funds	23.0	12.1	7.7	2.4	45.3
Corporate Funds	0.8	0.8	0.4	0.5	2.5
Commercial Funds	4.3	12.0	7.9	0.4	24.6
Self-Managed Super Funds	-	10.8	16.8	-	27.7
Total Superannuation Market	28.1	35.8	32.8	3.3	100.0



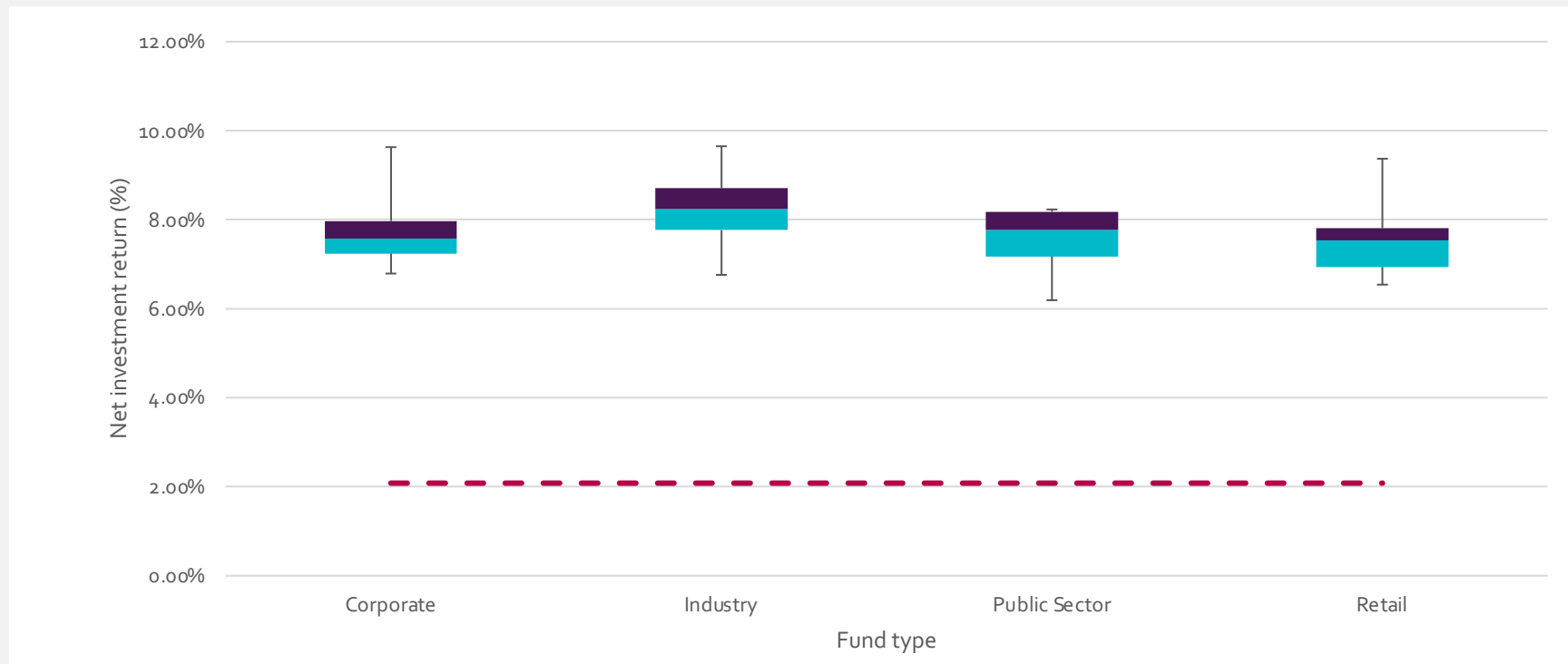


# Performance outcomes

# Outcomes – Performance (Accumulation)

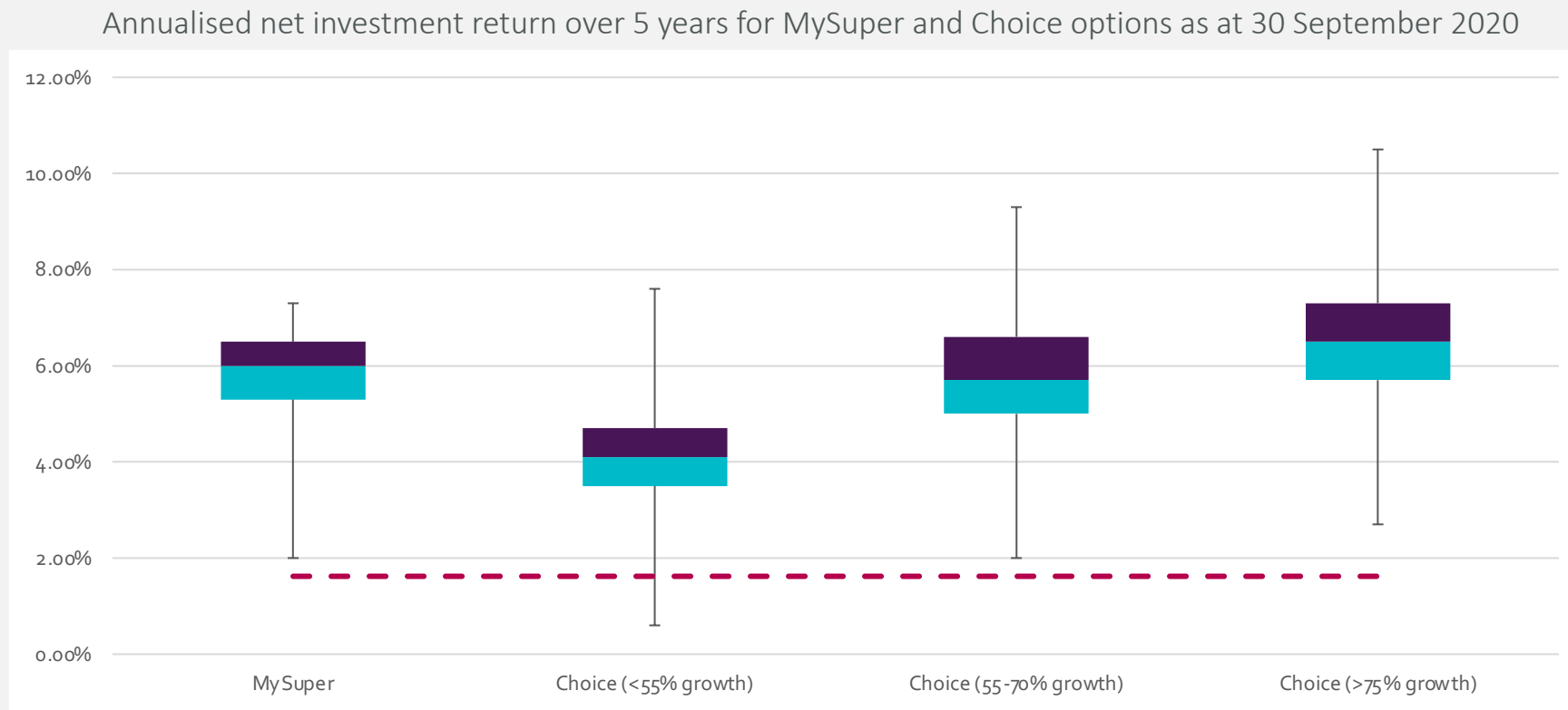
The graph shows the net investment return over five years for a MySuper product for corporate, industry, public sector, and retail fund types. It demonstrates that over the past five years the average MySuper product has provided returns that are materially above cash style investments (or consumer price inflation).

MySuper annualised net investment return over 5 years by fund type at 30 June 2019



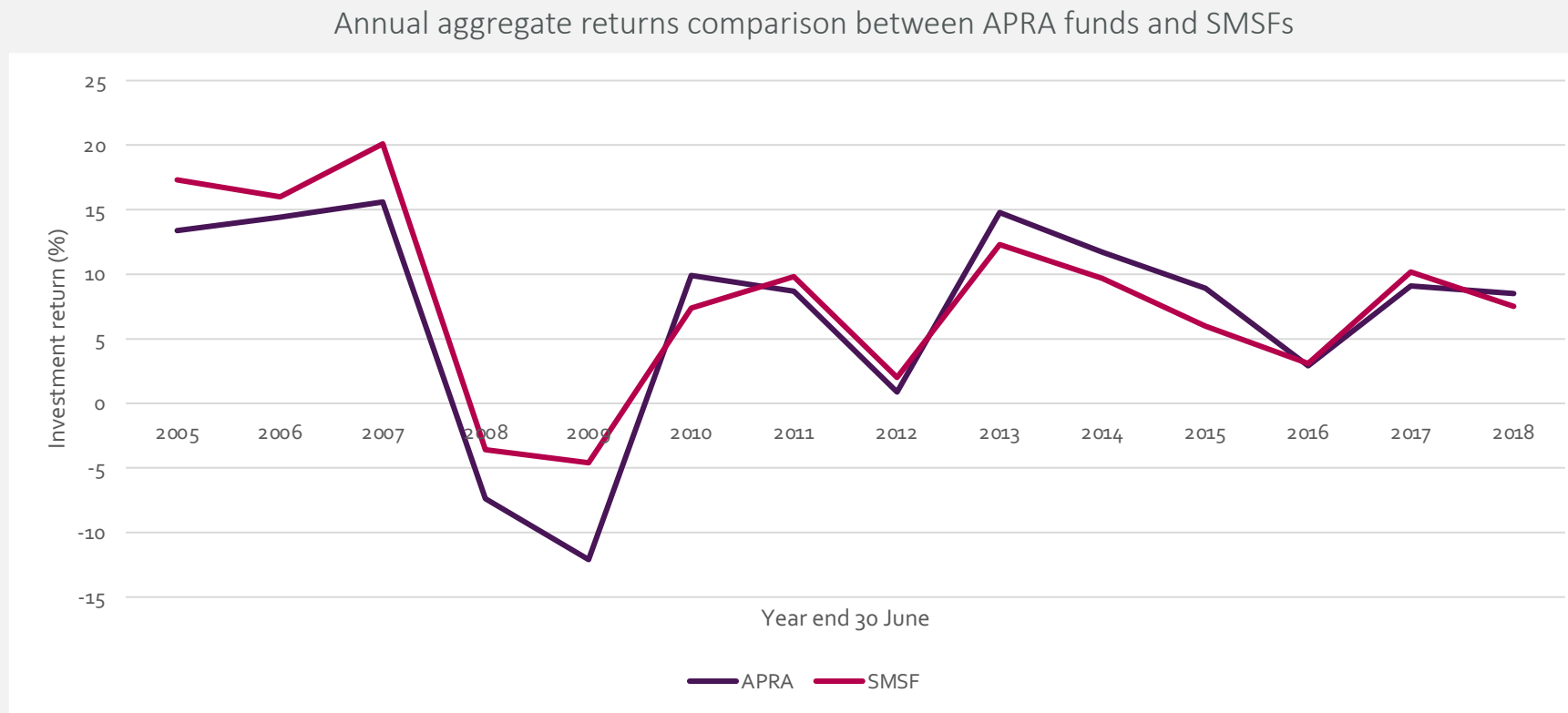
# Outcomes – Performance (Accumulation)

This graph depicts that distribution of net returns for a range of choice investment options. It demonstrates that the returns produced by these options are correlated with their allocation to growth assets and are not dissimilar from the returns produced by comparable MySuper products.



# Outcomes – Performance (Accumulation)

The graph shows the annual investment return for APRA funds and SMSFs. It demonstrates that the average SMSF has produced returns that are largely aligned to those of the APRA sector since 2005.



# Outcomes – Performance (Accumulation)

The table shows the median investment returns produced by SMSFs based on their fund size from 2017 to 2019. It demonstrates that over the past 3 years larger SMSFs have outperformed smaller SMSFs. We expect this reflects the correlation between larger balances and the provision of advice, financial literacy and complexity of portfolio construction.

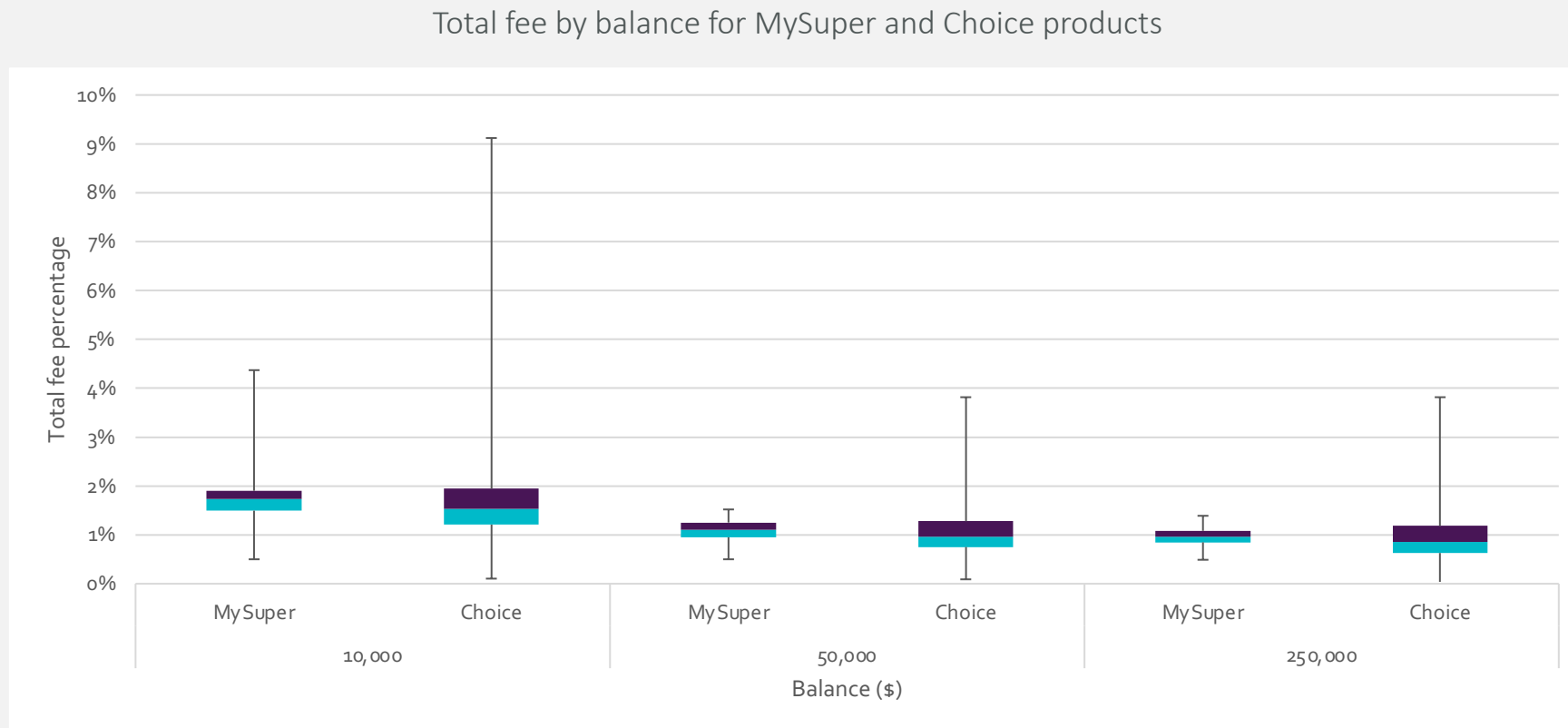
Median investment returns of SMSFs by fund size (2017-2019)\*

Asset ranges	2017 Investment Returns	2018 Investment Returns	2019 Investment Returns
	(%)		
\$0-\$50,000	2.52	2.26	1.95
>\$50,000-\$100,000	2.53	2.29	2.42
>\$100,000-\$200,000	4.56	3.86	4.30
>\$200,000-\$500,000	7.07	6.02	6.43
>\$500,000-\$1m	8.64	7.00	7.76
>\$1m-\$2m	9.16	7.57	8.15
>\$2m-\$5m	10.28	8.11	8.49
>\$5m	11.83	8.35	8.47

\*Based on analysis of anonymised reporting information for a sample of 100,000 SMSFs.

# Outcomes – Accumulation (fees)

The graph visualises the range of fees charged on MySuper and Choice products respectively for a variety of balances. It reflects that members who elect an investment choice are subject to greater fee variability.



# Outcomes – SMSFs (fees)

Balance (\$)	SMSF Compliance Admin			SMSF Full Admin		
	Low	Mid	High	Low	Mid	High
50,000	1,189	1,689	2,453	1,514	2,134	3,074
100,000	1,190	1,690	2,454	1,515	2,135	3,075
150,000	1,191	1,691	2,455	1,516	2,136	3,076
200,000	1,193	1,693	2,457	1,518	2,138	3,078
250,000	1,194	1,694	2,458	1,519	2,139	3,079
300,000	1,196	1,696	2,460	1,521	2,141	3,081
400,000	1,199	1,699	2,463	1,524	2,144	3,084
500,000	1,203	1,703	2,467	1,528	2,148	3,088

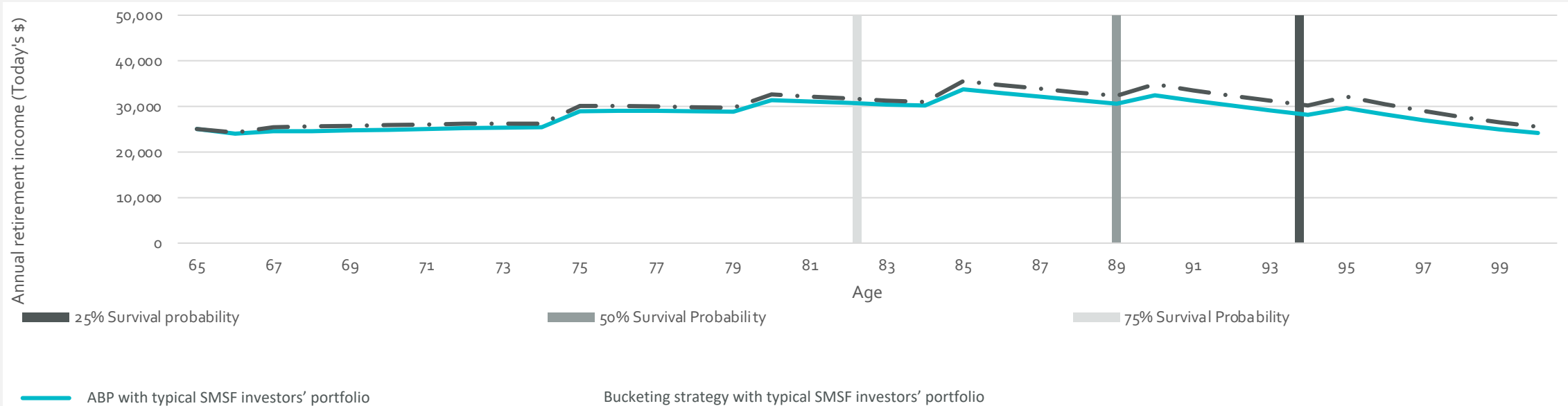
## Key:

	SMSF Fee below range for Retail and Industry funds
	SMSF Fee within range for Retail and Industry funds
	SMSF Fee above range for Retail and Industry funds

# Outcomes – Retirement

For many funds, the retirement phase is a tax-adjusted version of the accumulation product range. This has been a longstanding issue in the sector and several material reviews have found that the system would be improved by greater prevalence of tailored retirement products (*including the Financial Systems Inquiry (FSI) and the Retirement Income Review (RIR)*).

The graph below demonstrates the uplift in retirement outcomes that can be achieved through simple changes in investment strategy.





# Outcomes – **implications**

FROM THIS ANALYSIS WE CONCLUDE THAT FROM A:



## PRODUCT PERSPECTIVE

- **MySuper products** will largely deliver outcomes for the disengaged masses that are materially above the outcomes that would have been achieved if consumers were left to their own devices.
- **Choice products** are necessary to provide consumers with the **optionality** to effect control over their savings pool within the **tax-advantaged** superannuation system. It is critical that these **products are tested and fit for purpose**.
- Retirement products are an **outstanding issue** within the industry and no market segment has conclusively addressed the **retirement dilemma**



## PRODUCT PROVIDER (FUND) PERSPECTIVE

- After accounting for the impact of scale, there is **limited heterogeneity** in the offerings of Industry, Retail, Corporate and Public sector funds.
- SMSFs provide a **niche** offering for members who both which to elect an **investment choice** and who have a **material balance** (i.e. more than \$250,000).

A conceptual image showing a small green seedling with three leaves growing out of the top of a glass jar. The jar is filled with numerous coins, symbolizing the growth of capital or the investment of resources into change.

# Drivers of Change

# Drivers of **change** (YFYS, RIR, DDO and SPS515)

## YOUR FUTURE, YOUR SUPER

- Package was released as part of the 2020 Federal Budget. Implements several recommendations made by the Productivity Commission including underperformance review and account stapling

## RETIREMENT INCOME REVIEW

- The Retirement Income Review was released in November 2020 and identified that the Australian retirement income system is effective; sound and its costs are broadly sustainable. However, the review identified several areas for enhancements (e.g. through improved tools and equity across cohorts)

## DESIGN AND DISTRIBUTION OBLIGATIONS

- From 5 October 2021, Australian Securities Investment Commission's (ASIC) Design and Distribution Obligations will apply to all Choice and Retirement products. Trustees will need to ensure their products are targeted at consumers for whom the product is appropriate

## SPS515: MEMBER OUTCOMES

- Funds are conduct a series of reviews on an annual basis to track performance against their strategic goals and the outcomes delivered to members (both in absolute terms and relative to competitors)



# Using the Crystal Ball to Predict Change

# Upcoming changes – Product and Provider

In the coming years we expect that Industry ‘sector’ demarcation will shift to APRA regulated MySuper, APRA regulated Choice and SMSF. Product providers (e.g. Industry funds and Retail funds) will provide products which are increasingly homogeneous as legislation increasingly defines expectations on product outcomes.



MySuper will service the **Disengaged Majority** who do not wish to elect an investment choice. We expect that this will comprise approximately **63%** of accounts by 2030, down from 72% in 2020.



APRA regulated Choice will service members wishing to **control investment decisions** but who do not have a sufficiently high balance nor the desire to justify an SMSF. We expect that this will comprise approximately **23%** of accounts by 2030, up from 19% in 2020.



**SMSFs** will continue to service members with **high balances** wishing to control investment decisions. We expect that this will comprise approximately **4%** of accounts by 2030, up from 3% in 2020 (representing a 33% increase in the number of accounts).

# Upcoming changes - MySuper

IN THE **COMING YEARS** WE EXPECT THAT MYSUPER WILL INCREASINGLY FOCUS ON **PASSIVE INVESTMENT** STYLES WITH LOW FEES AND **LOW LEVELS OF TRACKING ERROR** RELATIVE TO THE BENCHMARK PERFORMANCE. WE EXPECT **TWO KEY SUB-GROUPINGS** OF MYSUPER PRODUCT:

## Low cost

- Delivered through leveraging passive investments with limited expenditure on member services.
- We expect these products will be targeted toward younger members with low balances who are comparatively disadvantaged by high administration fees.

## Full service

- Akin to the current MySuper product structures which aim to deliver an integrated 'default' investment solution with additional services to enhance member outcomes (e.g. cost-effective advice).
- We expect that this segment would target members who have a need for ancillary services (typically older members) or those with high balances.

# Upcoming changes - Choice



IN THE COMING YEARS, WE EXPECT THAT FUNDS WILL CONTINUE TO **RATIONALISE CHOICE OPTIONS** AND FOCUS ON NICHE PRODUCTS WITH **DIFFERENTIATED VALUE** PROPOSITIONS. IMPLEMENTATION OF THE EXISTING **LEGISLATION** WILL REQUIRE PRODUCT PROVIDERS TO REMOVE INAPPROPRIATE PRODUCTS.

WE EXPECT THAT THIS WILL LEAD TO A MARKET IN WHICH THE **CHOICE INVESTMENT OPTIONS** OFFERED BY FUNDS ARE:

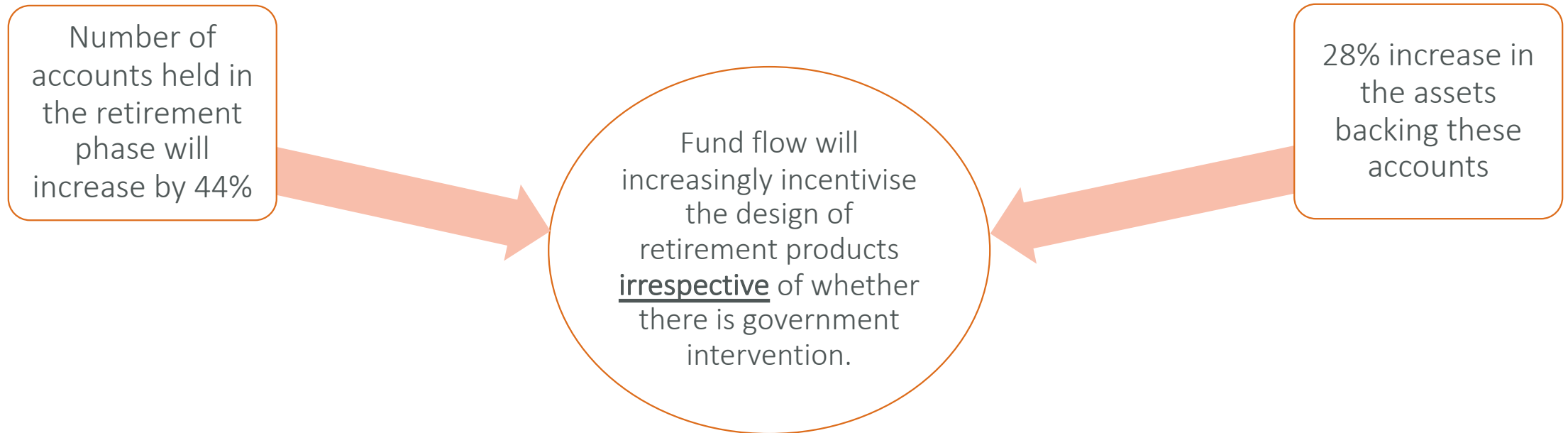
Cognisant of scale, to ensure that fee outcomes are appropriate.

Sufficiently distinct, to ensure that members can select between products.

Targeted, to ensure that the options provided allow members to construct a range of portfolios which meet the spectrum of client needs that the fund intends to service.



# Upcoming changes - Retirement



WE NOTE THAT IN THE **CURRENT MARKET STRUCTURE** THIS INNOVATION DOES NOT NEED TO BE PROVIDED BY SUPERANNUATION FUNDS.

UNDER THE EXISTING LEGISLATIVE PARAMETERS SMSFs ARE SUBJECT TO A **SIMPLIFIED COMPLIANCE REGIME** AND ARE **COST COMPETITIVE** FOR THOSE WITH **HIGHER BALANCES** (FOR EXAMPLE, THOSE IN THE RETIREMENT PHASE). THIS WILL ALLOW ADVISERS AND PRODUCT PROVIDERS (FOR INSTANCE, FUND MANAGERS) TO SERVICE THIS MARKET EFFECTIVELY.



A glass jar filled with coins, with a small plant growing out of the top. The background is a soft-focus landscape with mountains and a blue sky. The text "Responding to Change" is overlaid in a large, dark, sans-serif font.

# Responding to Change

# Member consolidation

BASED ON THESE EMERGING TRENDS, WE ARE OF THE VIEW THAT



Superannuation funds will need to **identify the member segments** they wish to target, and:

- **Optimise** the MySuper strategy to be consistent with delivering outcomes to this segment.
- **Review** (and if appropriate, reconstruct) the choice menu to align with the needs of this segment.
- **Design and implement** a retirement product (if there are a desire to operate in this segment) that is **tailored to the varied and changing needs of retired members**. Importantly, this means there will not be a 'one size fits all' solution between funds, or within funds.



**Advisers and potential product providers** will increasingly focus on the retirement segment, and seek to **capture this market** where it is available.

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# Outcomes – Accumulation (fees)

The graph shows the range of total fees charged on a \$50,000 balance within industry, retail, public sector and corporate MySuper products.

