



Australian Government
Productivity Commission

Superannuation

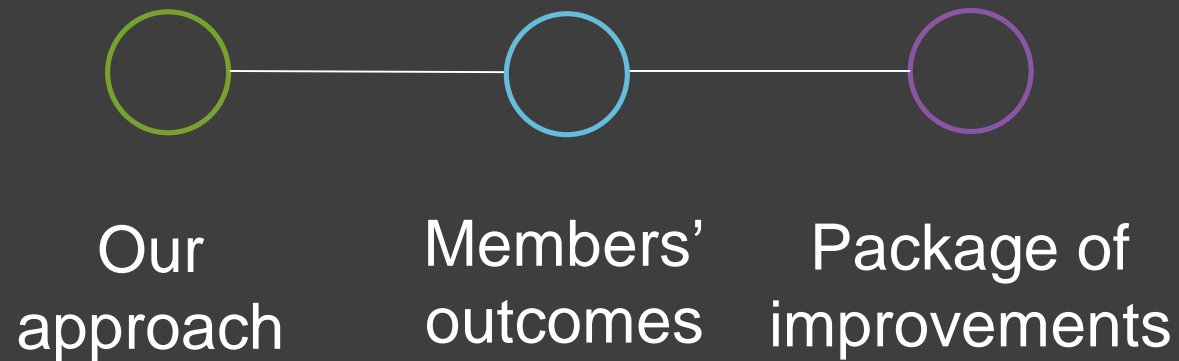
Performing for all members?



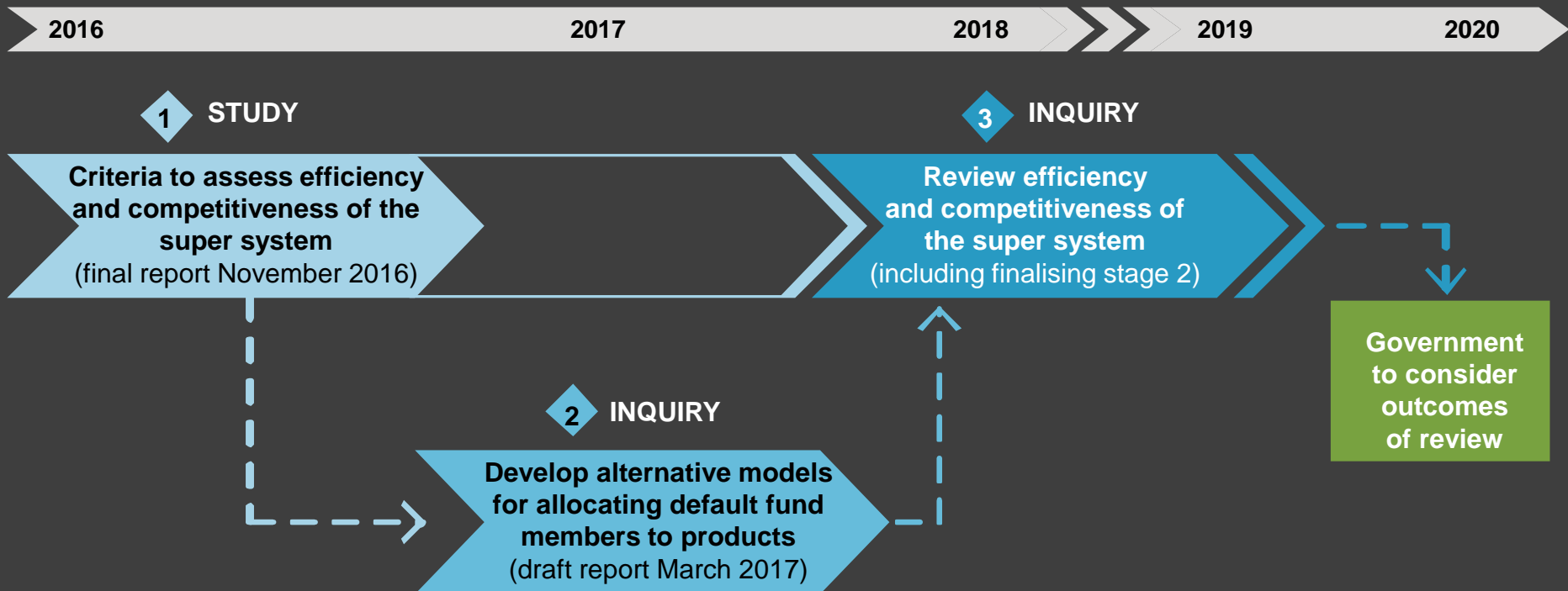
Karen Chester
Deputy Chair

McKell Institute, 6 June 2018

> What will we cover?



> A three-stage investigation



> What's new and novel



Investment benchmark portfolios (BP1 & BP2)



Cameo analysis



Econometric and stochastic analysis of products



Economies of scale analysis

➤ Data — central to the stage 3 assessment

Members choice survey



2348 respondents

Members survey



2294 respondents

Funds survey



208 RSEs invited to participate

114 responses representing about
90% of system covered

Governance survey



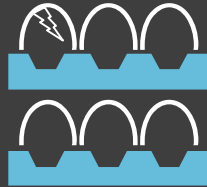
CEOs of **96** RSE licensees
invited to participate

80 responses representing about
95% of system covered

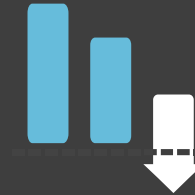
A large crowd of people is gathered outdoors, sitting on the grass under the shade of a massive, ancient-looking tree. The tree's thick trunk and sprawling branches dominate the right side of the frame, with sunlight filtering through the leaves. The crowd, consisting of people of various ages, is spread out across the grassy area, some sitting on blankets, others on the grass itself. In the background, more trees and a clear sky are visible. A blue text box with white text is overlaid on the middle of the image.

Members' outcomes

➤ Two structural flaws



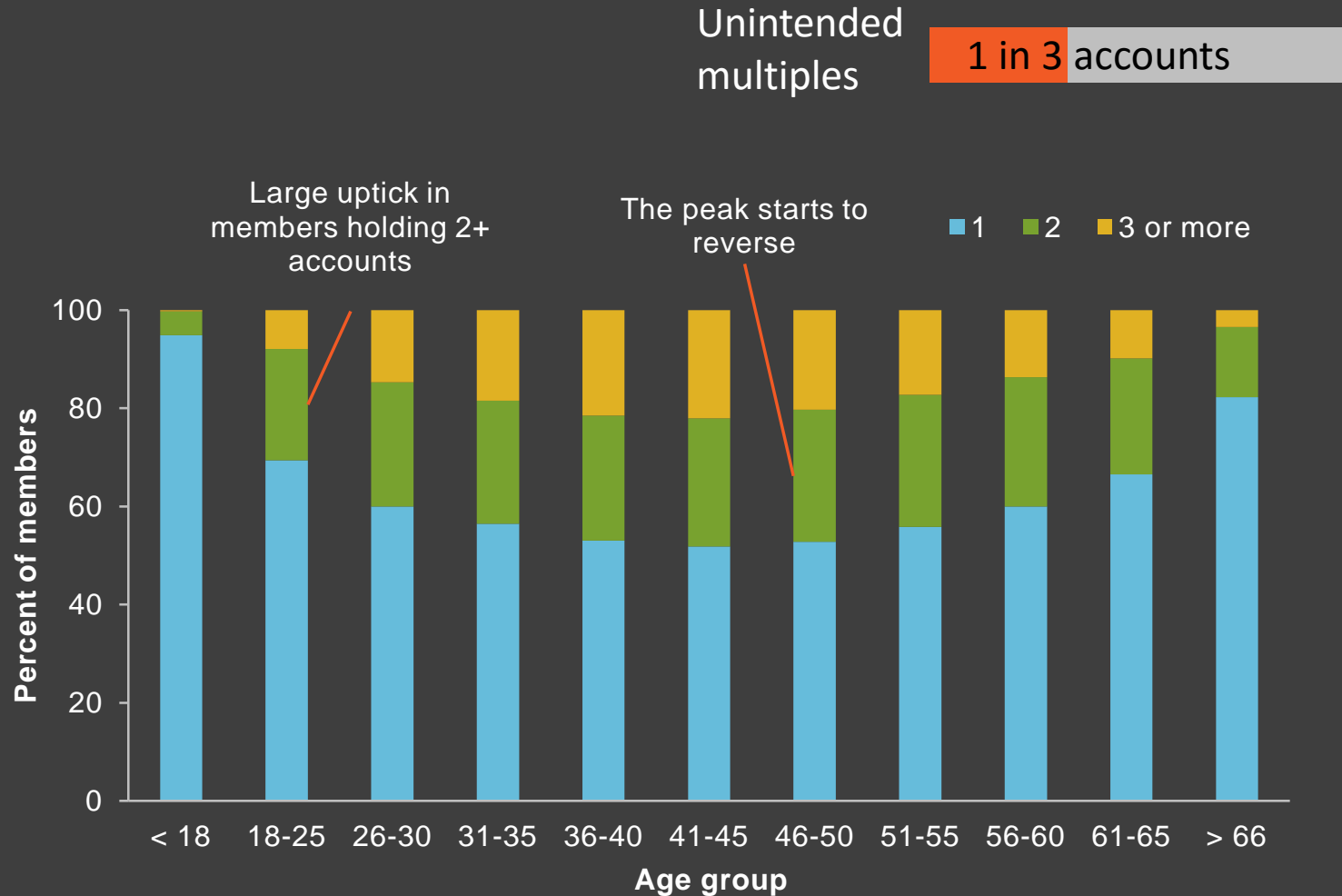
**Multiple
accounts**



**Entrenched
underperformance**

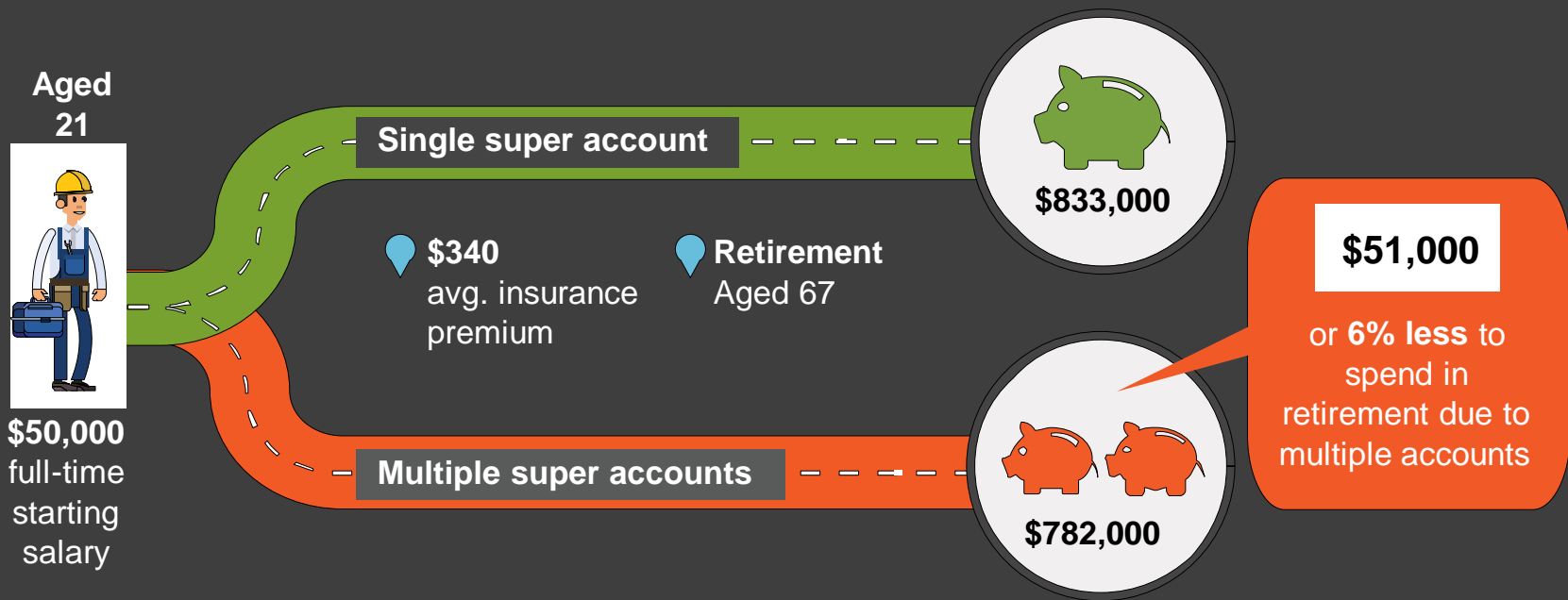
➤ There are too many unintended multiple accounts

Account proliferation starts early and persists, 2016



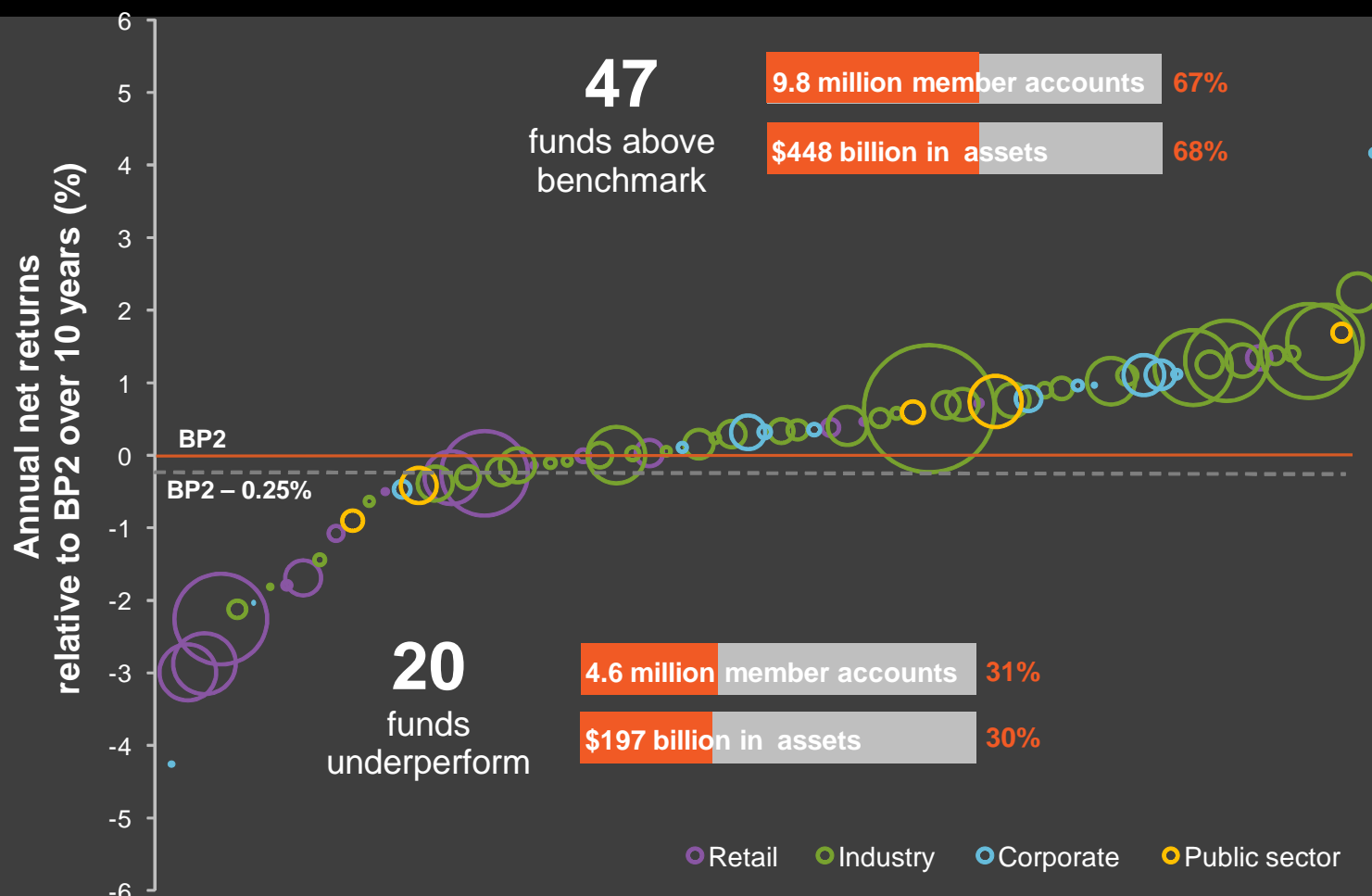
➤ Multiple accounts reduce retirement balances

Super problem: Multiple accounts = 1 years' lost pay



➤ Nearly 5 million accounts in underperforming funds

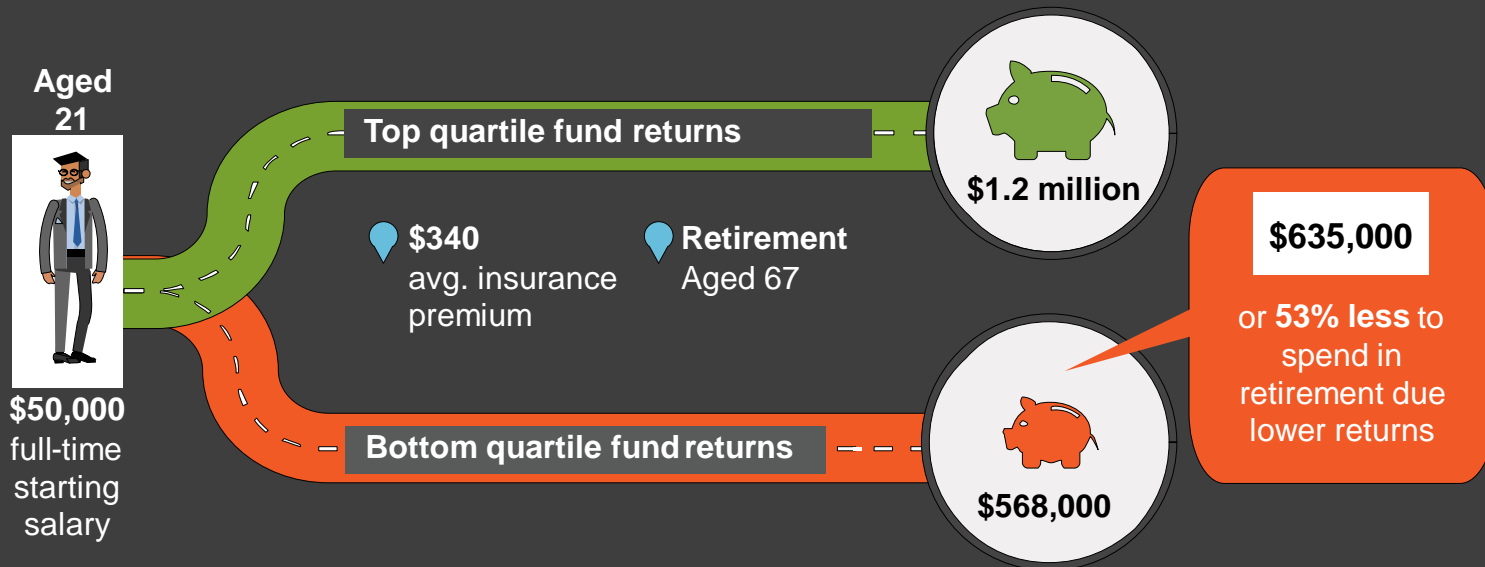
Individual funds (with MySuper products), 2005–16



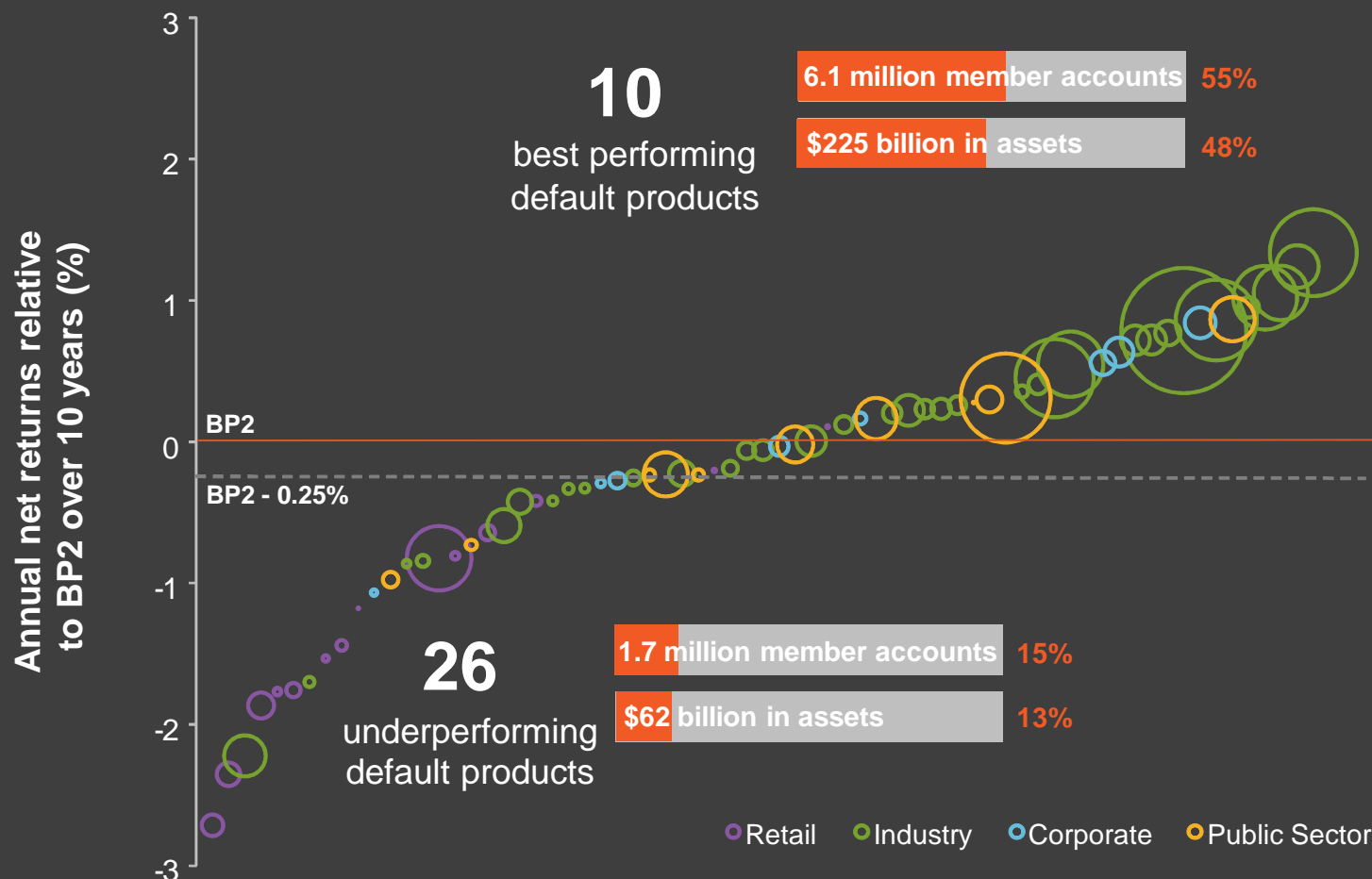
Data source: APRA fund-level data and financial market index data (various providers)
Benchmark: Fund-tailored BP2
Coverage: All APRA-regulated funds with a MySuper product in the dataset over the full period (52% of assets and 61% of member accounts in all APRA-regulated funds with a MySuper product in 2016). Over the entire super system, the figure represents 74 funds, 32% of assets and 50% of member accounts in 2016 (and is subject to survivor and selection bias).

➤ Underperformance compounds to a substantially lower retirement balance

Super problem Underperforming fund = 13 years' lost pay



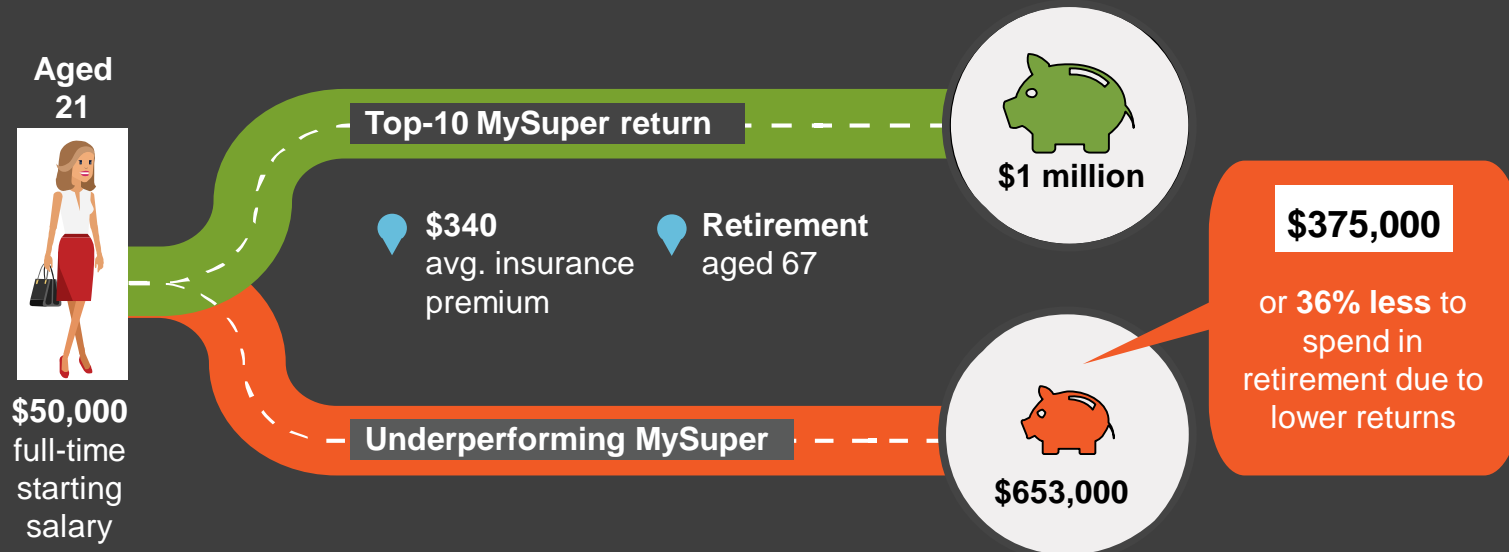
➤ 1.7 million accounts in underperforming default (2008–17)



Data source: SuperRatings and APRA data and financial market index data (various providers)
 Benchmark: Segment tailored BP2
 Coverage: The figure represents 66 of 108 MySuper products covering 75% of member accounts and 73% of assets in all MySuper products as at December 2017 (and is subject to survivor and selection bias.)

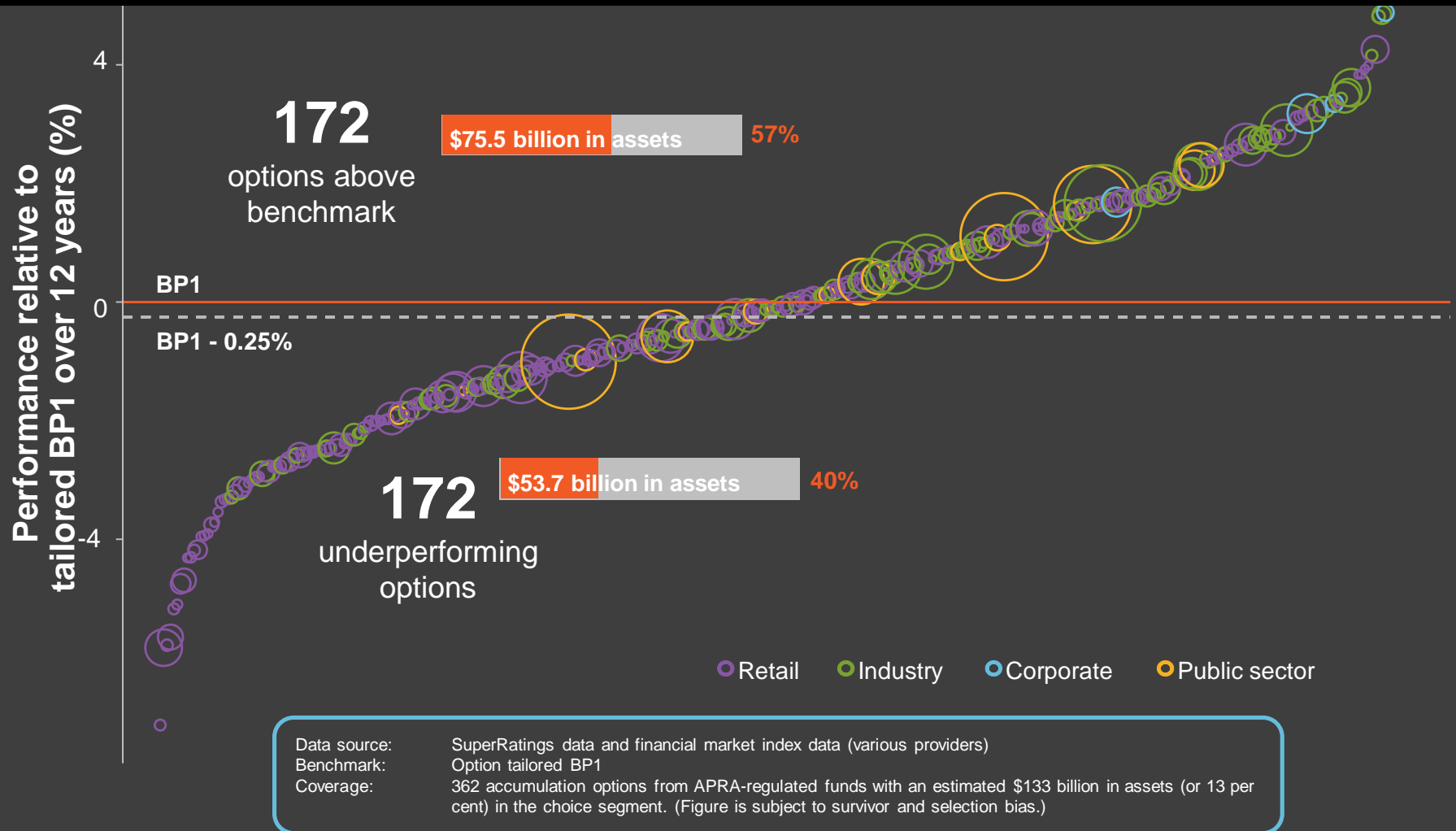
➤ MySuper can be a lottery for default members

Super problem: Underperforming MySuper = 7.5 years' lost pay



➤ Substantial tail of underperforming choice options, 2005–16

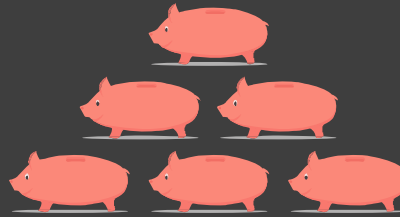
Based on analysis of 362 accumulation options with an estimated \$133 billion in assets



➤ Other problems



Fees erode balances



Over 40,000
products to compare

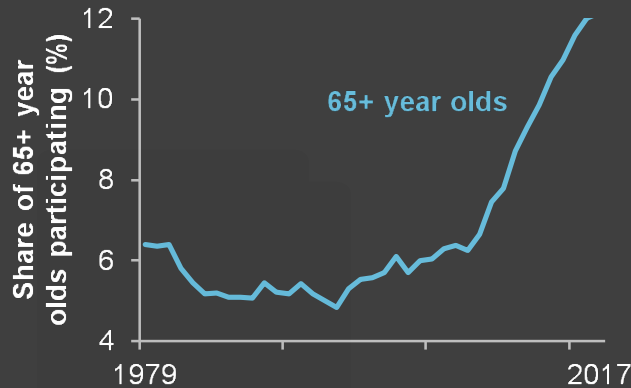


Zombie
insurance you
can't claim on

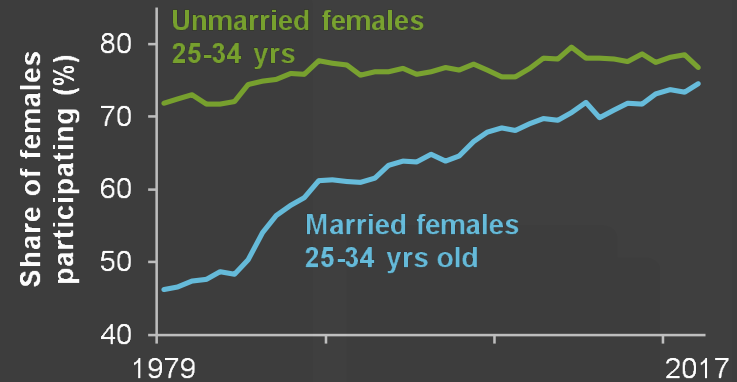


➤ Today's members — evolved needs

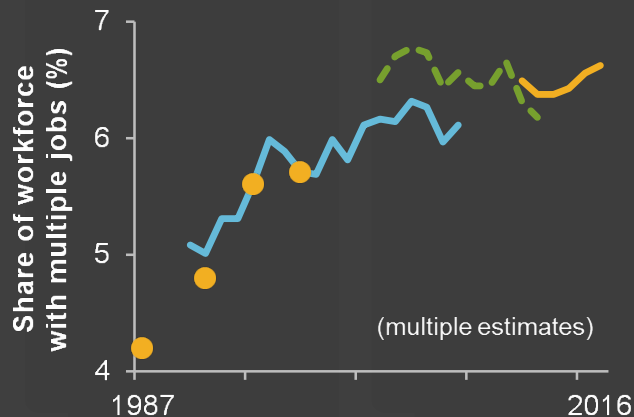
Participation rates by older people are rising steeply



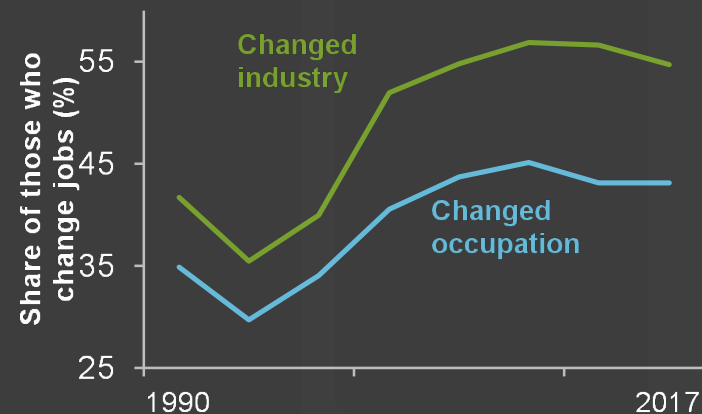
Marriage (and children) place less of a brake on participation



There has been an uptick in multiple job holders



Of those who change jobs, more are moving between industries and occupations



A high-angle, wide shot of a busy city street, likely in London, showing a dense flow of cars and a large number of pedestrians crossing the road. The scene is captured from a slightly elevated position, looking down the length of the street. In the foreground, the heads and shoulders of several pedestrians are visible as they walk across the frame. The middle ground is filled with a long queue of cars, including taxis and private vehicles, moving slowly or stopped. Pedestrians are seen walking in both directions, some crossing the street. The background shows more cars and a large crowd of people gathered on the sidewalks. A purple rectangular box with white text is overlaid in the center of the image.

Package of improvements

➤ New default mechanism: employee choice



Inspired by
behavioural
economics



Members who
default do
so only once



Best in show
shortlist

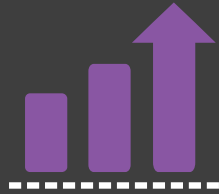


Elevated MySuper
threshold

➤ Where will members go?



➤ How will members benefit?



Most new entrants
➔ best performers



Few new defaults



Benefits of competition
unlocked



Benefits spill over to other
members

➤ The policy upside



\$61,000

more for a
55 year old today



\$407,000

more for a
21 year old today

➤ Other elements of the package



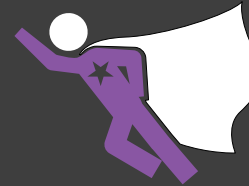
Products and information that meet members' needs



Insurance that works for members



Best practice fund governance



Regulators that are member champions

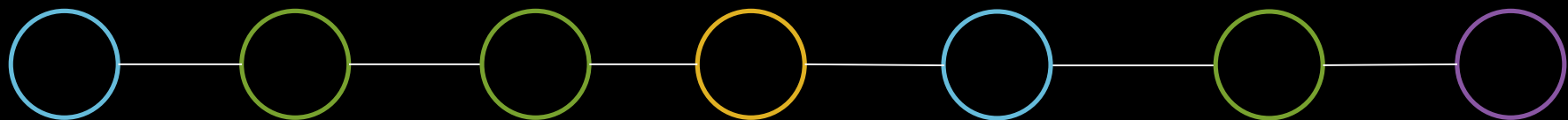




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Next steps

Post-draft timeline



Draft report
release
29 May

Public
hearings
20–22 June

Funds
survey II
27 June

Subs
due
13 July

3 post-draft
supplements
mid August

Workshops
late August

Final report
late 2018



Australian Government

Productivity Commission

Questions?

Attribution (Icons by the Noun project)

Water drop by Nick Bluth

Superhero by Juan Pablo Bravo