trustee tailored super

Tailoring to MySuper members to provide a 35+% improvement in retirement lifestyles

Isn't it time the superannuation industry got real, started concentrating on the retirement objective rather than annual performance?

The new industry association CEO Martin Fahy certainly thinks so – he warned all publicly at the annual conference in his first major address that:

"the superannuation industry is at high risk of being disrupted by the fintech sector. "Our standard of a comfortable retirement is 70% higher than the age pension, and the average retirement income is currently not much higher than the pension."

"On top of that, 20% of people under 29 have indicated they are looking to change superannuation funds **in the next 12 months***. We need to lift what we deliver to fund members, how we engage with them, and how we engage with government. People want to embrace the system, and we need to help them do that."*

He said that if the super industry doesn't address these issues, it could lose relevancy in the face of a growing fintech sector. *"If we're going to be successful, we have to engage on our members' terms. If we don't, we will be disrupted," he argued.*

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He stated "Fintech is currently focusing on banking and payments, but the large pool of superannuation money is not going unnoticed. We are next on the menu."

He is dead right! The government is legislating the retirement objective and last week the Productivity Commission released their study into how to measure (the lack of) efficiency with which trustees currently convert contributions (9.5% of all Australians wages) into retirement outcomes.

But what action are trustees and their Investment Strategy Committees going to take?

It will involve a changed mindset.

Conventional investment strategies generally seek to strike a balance between risk and return (the "risk/return trade-off") i.e. there is a binary choice between risk and return (more risk for more return or less risk for less return). The retirement objective dictates that a third dimension, time to retirement be added, such that the choice is no longer binary. Instead, more risk can be taken earlier in a working life for some members, less so for others and lower risk taken later in a working life as retirement approaches, for some members but not others.

This changed mindset will involve two groups - trustee member services and investment teams - working together in a way that traditionally hasn't occurred - in order to solve in a new way, an old problem.

Traditionally trustees have faced the challenge of where to invest non-directed, disengaged or unresponsive members' monies. Since compulsory superannuation was introduced, trustees have had to allocate these un-directed funds into some investment option. Most choose a conservative, one-size-fits-all diversified option, typically a balanced option with, 70% growth assets (e.g. shares, property) and 30% conservative assets (e.g. cash, bonds), regardless of each member's age or retirement lifestyle prospects.

This one-size-fits-all default approach simply bundles 20-year-old members entering the workforce, with 65-year-olds leaving the workforce without regard to the investment horizons of individual members, their projected retirement balances or the overall objective of superannuation. This is highly inefficient, but still remains the dominant market practice.

MySuper Products are also able to include an investment option that enables trustees to automatically adjust members' investment mix based on their age. This is referred to as a lifecycle investment option. As at March 2016, approximately 25% of MySuper Products offer a lifecycle strategy that moves members to a lower proportion of growth assets and hence a more conservative risk profile as they approach retirement age (to reduce the risk of loss of capital in this phase). Age-only based life-cycling reduces average investment returns indiscriminately of their retirement prospects, as member's age and the size of their balance increases, regardless of retirement prospects. The price paid is lower average retirement lifestyles.

There is little, if any, focus on efficient strategies to take advantage of the long investment horizon available to MySuper members to begin accumulating higher returns from the time they first enter the workforce. Historically, trustees' primary focus has been on providing fund choice options and advice to engaged members (i.e. those members who make an explicit choice of investment option for their contributions or accumulated benefits). The recent focus of trustees has been on building post-retirement products, however, while desirable, the advantages provided by these products may come too late for many members that have not accumulated sufficient benefits to fund desired retirement lifestyles.

Starting earlier, with better tools, will by design achieve better outcomes. We need a new default option - a Smart Default - that recognises the different investment horizons of, for example, a 25-year-old compared with a 65-year-old and also recognises that two 25-year-olds may also have different investment priorities due to differences in current income, current balances and hence projected retirement balance. The Smart Default - **Trustee Tailored Super**- summarised below achieves this outcome using existing trustee teams and investment options.

At Trustee Tailored Super, we have quantified the benefit. TTS has the capacity to lift the majority of Australians retirement prospects by over 35%, whilst at the same time reducing the risk of loss as retirement approaches. It can revolutionise this $452+ billion segment of the industry and in the process provide a new innovative answer that is more efficient.

It will however require trustees to act and a changed mindset. For that to occur, professionals within the industry need to standup - speak out, lead - have an open mind to innovation and become involved. We can't rely just on the Government, Productivity Commission and the FSI.

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28th November 2016