



Director Superannuation, Efficiency and Performance Unit  
Treasury  
and  
Members YFYS Technical Working Group

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Dear Director and Members,

**A concise policy orientated note to the Review of Your Future, Your Super.**

Currently, Your Future, Your Super misses the *wood for the trees*. It focusses on Fund performance and Fund v Fund comparisons, not Members Outcomes.

Members Outcomes (aka Retirement Balances/Pots/Incomes) are mostly determined by the Investment Option applied, not which Fund is selected.

Failure to include members and their investment option in the YFYS framework - *despite the second stage of the four-year Productivity Commission Efficiency and Competitiveness report, including allocating default fund members to products (investment options) and making significant recommendations including Finding 4.3<sup>i</sup>* - is a fatal flaw.

Without inclusion of member demographics and account characteristics (balance/contribution rates), member engagement is reduced and the terminology used contorted. Renaming it as Your Fund's Future, Your Funds Super; Fund Outcome Testing, and YourSuper Funds Comparison Tool would be more appropriate labelling.

This mixed-up concept of Fund Performance equating to Member Outcomes is evident throughout convoluted wording in the YFYS legislation and Explanatory Memorandum plus APRA speeches and guidance papers. It was evidently thought to be required in order to link the Pensions Heads of Power and the acting in Members Best Retirement Interests purpose, to the desire for APRA to have a Fund based black and white line failure test.

This has naturally led to industry, policy and regulatory group think. To put that to bed, consider the extreme example of placing MySuper members in a cash option, that outperforms the cash benchmark over time. This Fund will pass the Performance Test and survive, yet perversely its members will almost certainly suffer negative real reductions in their retirement pots.

A less extreme example is the extensive use of MySuper balanced investment options. With most MySuper Members being in their 20's, having a 35+ year (preserved) investment horizon, higher growth options are appropriate with less focus on volatility including Fund short term returns. **The opportunity cost of trustees not taking this action exceeds 50% of these members retirement balance** (a halving of the member's outcome). Conversely for the relatively fewer MySuper members in their 60's with a low projected retirement balance, this 70/30 investment option maybe too aggressive. In between those ages, MySuper members projected retirement balances (as included in annual statements) can be used by the trustee<sup>ii</sup> to more efficiently apply investment options in order to target higher member (retirement balance) outcomes.

**Trustees can improve average member retirement balances by 35+% (Member Outcomes) using this cohorting method, but currently don't.** That's because of poor policy settings. They don't have any real incentive, it's not measured, they aren't tested on it and its easy to find compliance/legal/regulatory personnel who are risk adverse and unlikely to consider the member outcome impact of lost opportunities.

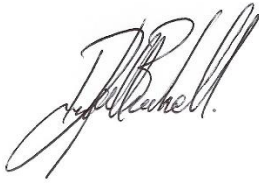
Fortunately, there is a ready policy solution available for this review to recommend. **It simply involves the Performance Test taking the next step, by applying product (investment option) returns to members own projected retirement balances<sup>iii</sup>, collating that into cohorts and reporting on Member Outcomes (projected retirement balances).** Those member outcomes can then be compared to what other funds could have provided instead (using their investment options) to those (cohorts of) members. It can also compare year on year member outcomes, to see if trustees are improving. All this data is currently readily available to funds and the process has been reviewed by APRA. A graphical example is available.

This approach solves for policy intent and removes current flaws on this member outcomes aspect. It links members outcomes to fund performance, both for policy, legal and member engagement purposes. Further

- Cohorting is already a legislated feature of the Annual Members Outcome Test, it simply requires APRA actioning. The Heat Maps and fund Performance Test (as amended by this review), can remain important features, however the black/white line APRA test will have an additional step. Being, have those that failed provided higher average member (retirement balances) outcomes for their members, per cohort, than those Funds that didn't fail the test?
- The Quality of Advice Review will remove some of the compliance/legal/regulatory personnel reluctance to change (despite this cohorting already being APRA SIS Act investment strategy related not an ASIC Financial Advice matter).

- The recent ASIC RG 274 Design and Distribution Obligations, that require issuers and distributors to have an adequate product governance framework to ensure products are targeted at the right people, aligns with this approach.
- It is a distinctly different significant issue to, but accommodating of, other investment related concerns likely to be raised as part of the review.
- The industry physical change required for implementation is small, the mindset change large and member retirement impact profound.

Yours sincerely



Douglas Bucknell  
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<sup>i</sup> FINDING 4.3 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.

<sup>ii</sup> SIS Reg 9.47

<sup>iii</sup> ASIC Corporations (Superannuation Calculators and Retirement Estimates) Instrument 2022/603

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