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Review of Your Future, Your Super Measures

Cbus welcomes the opportunity to contribute to the Your Future, Your Super (YFYS) Review.

Cbus supports the policy intent of the YFYS package but remain concerned that the package has created unintended consequences that are contrary to the stated policy objectives and has left large cohorts of members significantly worse off.

About Cbus

Cbus Super was established in 1984, created by workers for workers. We are a proud industry super fund, representing those that help build Australia.

As one of Australia's largest super funds, we provide superannuation and income stream accounts to more than 850,000 members and manage over $70 billion of our members' money (as at 31 August 2022)[1].

Our members work in sectors that perform physical labour, often in hazardous environments. Building and construction is the third highest sector for fatalities in the workplace. Cbus tailors its products and services to our members' needs.

One example is our default insurance offering. The Cbus Super group insurance policy is one of the largest in Australia and globally. Almost $300 million in claims were paid for the 2021/2022 year. In the last three financial years, 100% of all life insurance claims and 97% of total and permanent disability claims have been accepted.

Additionally, as one of the only funds nationwide to cover, by default, young and low-balance members under the Dangerous Occupation Exception (DOE) to the Putting Members Interests First rules, between 1 April 2020 and 31 August 2022, 292 insurance claims totalling $36.593 million have been lodged, assessed, approved, and paid.

At most funds this figure would have been zero.

[1] Media Super is now a division of Cbus, offering Media Super products. For more than 30 years Media Super has been the industry super fund for Print, Media, Entertainment and Arts, and broader creative industries. As at 30 June 2022 Media Super provided superannuation and retirement accounts to more than 65,000 members.

Stapling: Impact on insurance coverage

We advocated strongly on behalf of the sectors we serve - building, construction and adjacent industries that build Australia - during the YFYS debate in 2021 to raise concern about serious unintended consequences which would arise from stapling, specifically the underinsurance and uninsurance of blue-collar workers.

Building and construction is the third highest sector for fatalities in the workplace[2], sharing a top quintile risk rating with emergency services, including policing, paramedicine and ambulance work.

The value of Australia's default superannuation system with insurance a core component

Australia's default superannuation system has served Australians – and especially those in blue-collar professions – well for over three decades, commencing well before the Superannuation Guarantee (SG) was legislated, with most default members landing in high performing funds, with automatic insurance cover that was tailor made to suit their working circumstances and life trajectory. A simple default super system also empowered unions to bargain for contributions above the SG for many blue-collar workers, contributing significantly to higher balances at retirement.

Changes to the default system should only have been made where they met specific, articulated challenges, were in the interests of fund members and led to demonstrably superior outcomes. Instead, as was foreseeable with its introduction, stapling reforms have led to many members, in particular those working in hazardous occupations, being worse off – with the system stapling them to a fund and situation where they are uninsured or underinsured for the real risks they face at work, and/or in underperforming funds that leave them worse of financially at retirement.

The YFYS stapling measure has done more harm than good for workers in hazardous occupations and must be urgently addressed so that more workers - and their families - are not unintentionally disadvantaged by the system during their working lives and in retirement.

Superannuation sits within a framework of rights and obligations in people's working lives, borne out of the struggle of employees, their union representatives, and sympathetic employers to see a material improvement in Australians' retirement outcomes. The regulatory framework around superannuation situates it both within the industrial landscape of Australia and as an important and ever-growing participant in the Australian economy.

Insurance was woven into the superannuation scheme from the outset, owing largely to the experience of those central to the system design. Union officials had seen people killed on site, families left with nothing in the event of a disability or death from illness or injury. They saw widows and children lose the family home - no amount of passing the hat around a job was going to meet the needs of those left behind. Many Cbus members recall the fate of widows and children of the workers who perished in the West Gate Bridge collapse, for example, who depended on pitiful compensation payouts and donations from thousands of workers and the public to supplement the meagre state pensions paid. The modern-day equivalent will be GoFundMe pages. Depending on the kindness of strangers is not a good enough insurance plan.

[2] Safe Work Australia, Work-related traumatic injury fatalities Australia. https://www.safeworkaustralia.gov.au/doc/work-related-traumatic-injury-fatalities-australia-2020

Workers who default into industry funds are better off

Cbus welcomed the finding of the Productivity Commission in 2018[3] that industry superannuation funds and other not-for-profit funds are superior performers and that net returns matter most. This remains the case, with industry funds dominating the high-performer list year in, year out. The default super system saw members default into industry-appropriate, high performing funds with insurance that was designed with the member front of mind. Some members ended up with multiple accounts, paying duplicate administration fees, but where this threatened to materially erode balances, this has largely been resolved through the Protecting Your Super regular sweeps of funds by the ATO. Consolidation prompts in MyGov are also a sensible approach which have led to a reduction in multiple accounts. Putting the problem of multiple accounts into perspective, the Productivity Commission report found that ending up in an underperforming MySuper product could mean $502,000 (45%) less in retirement, paying for an unsuitable insurance policy meant $85,000 (14%) less in retirement compared to $51,000 (6%) less if unintentionally holding multiple accounts.

In stark contrast, the effective dismantling of the default system through stapling has already been detrimental to members' net benefit. There's nothing to prevent members being stapled to underperforming funds, including those that repeatedly fail the performance test and even those that are closed to new members. Those left to languish in underperforming funds are in no way better off as a result of stapling. Those entering hazardous occupations are offered no information about the risk of working without insurance, or warning that their existing fund's cover is unsuitable or non-existent for those under 25. This was surely not the intention of the policy makers.

Cbus' insurance offering

Cbus offers members highly tailored insurance products which use the group buying power of the fund to provide value for money cover to cohorts who would be unable to obtain affordable cover individually, conditionally or at all. The terms of Cbus' insurance are unique in the insurance market in Australia and have been negotiated to respond to the needs of our membership, including age definitions, coverage of hazardous working conditions and occupations, more generous definitions, generous acceptance of pre-existing conditions, and non-conditional coverage of suicide. This results in industry leading claim payout rates and superior member experience at a time in life when members need support.

The Cbus Super group insurance policy is one of the largest in Australia and globally. Over the last three financial years, Cbus has a 97% acceptance rate for total and permanent disability, and 100% acceptance rate for death. That is much higher than many other funds, and significantly higher than where insurance is sourced through other channels including individually purchased through a broker or adviser, or purchased directly as a consumer from an insurer[4].

In October 2019, ASIC singled out the positive aspects of the Cbus TPD policy in an otherwise scathing report into aspects of the TPD insurance market (REP 633, Holes in the Safety Net). ASIC identified generosity in our eligibility criteria and high levels of member engagement throughout the claims process as key features of Cbus insurance product.

In addition, Cbus offers a team of coordinators who are on the ground, throughout the country, and who apart from visiting sites, talking at Toolboxes and Delegates' meetings, visit sick and

[3] Productivity Commission Inquiry Report, Superannuation: Assessing Efficiency and Competitiveness (2018). https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf

[4] Average claims acceptance rate for TPD is 89.4% through a superannuation fund and 82.5% if purchased through a financial adviser (as at 1 October 2022). https://moneysmart.gov.au/how-life-insurance-works/life-insurance-claims-comparison-tool

injured members at hospital and in their homes, helping members understand what is required every step of the way. They have also supported widows to access entitlements, including mothers trying to come to terms with their loss while parenting infants and young children. We are an industry characterised by many workers of migrant backgrounds who struggle in their command of the English language, so this is a service we are proud of – we go above and beyond to support our members in their time of need.

Cbus paid out almost $300 million in insurance claims over the last financial year. For workers in hazardous industries insurance through super can be the difference between a worker keeping or losing their home, between a basic or comprehensive rehabilitation from injury.

Recent legislative changes introduced as part of the Putting Members Interests First package, known as the 'Dangerous Occupation Exception', mean that Cbus is one of the few funds offering automatic, default and high value insurance to young members or those with low account balances in hazardous or high-risk jobs through their super. This default offering is highly beneficial for members who rely and claim upon cover at a significantly higher rate than the broader public.

Following the YFYS stapling reforms, Cbus coordinators are increasingly seeing apprentices and young people on construction sites without any level of insurance cover. They are the most at-risk cohort likely owing to their inexperience, evidenced by claim statistics, and the group least likely to think about insurance – or super for that matter. Workers in their first year of membership at Cbus consistently have the highest rates of claim of all members[5]. This is why a compulsory super system exists. It is also a compelling reason for the preservation of system defaults for those working in hazardous occupations.

People are often shocked to discover they aren't insured, or are unlikely to be insured in the case of an incident because of the work they do, but the stapling model fails to even inform members of this fact. It is typically employers, or older, more experienced colleagues on site who now carry the responsibility of reminding younger members to check their cover. That's not good enough. In a compulsory super system, where there is both an individual and communal benefit to be realised from workers holding proper levels of cover, this is a role for government.

Need for consistency with existing legislative frameworks

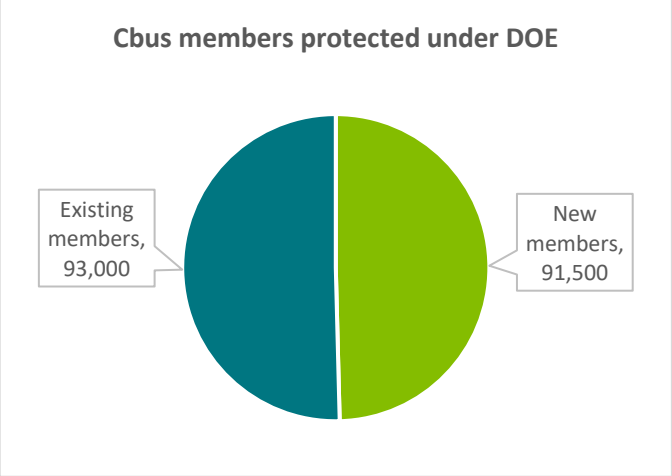
In 2019, Cbus advocated for the Dangerous Occupation Exception (DOE) to the Putting Members' Interests First (PMIF) regime, which switched off automatic cover for under 25s and those with low balances.

Subject to meeting the necessary actuarial requirements, funds can elect to adopt a DOE which allows them to provide default cover to low balance and young members in hazardous occupations who would otherwise be without insurance cover under the new legislation. As far as we are aware, only six funds nation-wide offer cover to under 25s under this rule.

A total of 184,500 Cbus members have either retained insurance cover or received automatic cover under the DOE since it was put in place in April 2020.

[5] Over a five year period (January 2016 to December 2020 being the most recent data), both individually and on average.

This total is made up of 93,000 existing members who retained cover on 1 April 2020, and a further 91,500 new members who joined between 1 April 2020 and 30 June 2022 and received automatic cover because of the exception.



Without our work to advocate for and implement the DOE, these 184,500 members would have either had their insurance cover cancelled (existing members who retained cover) or not been eligible to automatically receive insurance cover (new members) under the PMIF legislation.

The implementation of wholesale stapling is in complete contradiction to the rationale that sat behind Parliament's passage of the DOE rule – which was that the system ought ensure that workers in hazardous occupations, with a special need for insurance, be protected as a class from loss of cover.

Insurance claims paid to members covered under the dangerous occupation exception

Between 1 April 2020 and 31 August 2022, **292** insurance claims totalling **$36.593 million** have been lodged, assessed, approved, and paid to these members or their families.

Without the dangerous occupation exception this would have been zero.

To break down the insurance claims paid under the exception, over **$11.8 million** was paid to members who were teenagers or in their 20s and another **$9.7 million** was paid to members who were in their 30s.

Death claims paid out under the exception include a 22-year-old man who left behind his 3-year-old child.

Another 22-year-old died of head injuries and left behind his partner and 6-month-old baby.

Also paid out under the DOE was a 16-year-old who suffered a shocking accident amounting to total and permanent disability. Despite having only been with Cbus for a matter of months and with a super balance of $486, he received a significant payout.

Another young man, aged 21, suffered trauma to his brain, spinal cord, cranial and neck nerves, and he too received a significant sum after claiming on his TPD cover.

These results illustrate that the DOE is successful, necessary, and delivering meaningful real-life outcomes for Cbus members.

The Your Future Your Super debate

During the YFYS debate, Cbus advocated – with a strong evidence base - for an exception to the stapling rule for the 2.7 million workers in hazardous occupations, including building and construction workers. This would have mitigated the risk of these workers paying premiums for no cover at funds that have exclusionary clauses in their insurance policies which would leave workers and their families out in the cold.

It would also have meant that, in line with the Parliament's clear intention as enunciated during the Putting Members' Interests First debate, workers in hazardous occupations under the age of 25 who have a special need for default cover would have been far more likely to get it through the preservation of the industrial default model for that cohort.

Evidence at the Senate Economics Legislation Committee review of the YFYS Bill heard specific cases where members believed they were insured, only to discover upon making a claim that they weren't due to their hazardous occupations.

It remains the case that many funds' insurance policies have extensive lists of occupational exclusions. This includes those most likely to have young workers stapled to them. One fund for example, includes a blanket exclusion of death cover for Builders, Carpenters, Joiners or Painters working above 15 metres, or any underground worker. That fund isn't necessarily doing the wrong thing – such exclusions keep their members' premiums low and suits the bulk of their membership, but being stapled to that fund isn't in the best financial interests of workers in hazardous occupations. It would leave those workers or their families with nothing were tragedy to strike.

Whilst the FSC Standard No.27 (due to commence in 2023) seeks to prohibit the use of occupational exclusions in default group life policies amongst their members, the Standard does not prevent trustees from choosing not to offer cover to a new member based on their occupation, continues to allow Occupational Exclusions where a Trustee considered them to be in the best interests of Insured Members and does not cover insurance policies which exclude members based on their working environment, for example working with heavy machinery.

This issue cannot be addressed via an inadequate industry standard, and we urge the Government to protect workers in hazardous industries.

For decades, defaults within the superannuation system have recognised the unique experiences, needs and risks of workers - and employers – across different industries and have driven funds (industry funds in particular) to develop products and services responsive to the bespoke needs of their actual or target membership based on the industries in which they work. A once only default arrangement does not serve the needs of workers who move into new industries throughout their working lives, because super products that may have been appropriate for a worker for their first job may not be for their second or subsequent jobs. This can be particularly stark for workers who subsequently find themselves working in hazardous occupations, where insurance cover for instance may be markedly different to that which they required previously, given their changed working conditions. In addition to insurance, there are a number of ways in which industry funds tailor their products and services to their members including investment approaches, workplace service models, unpaid super programs and member communications.

Workers should continue to have the right to collectively bargain for a superannuation fund that is in their own best interests. Stapling effectively inhibits collective choice in the pursuit of reducing the number of multiple superannuation accounts, which on balance, (given this policy priority could be pursued in other ways) fails to deliver an overall better public policy outcome for many members – in particular workers who move industries and find themselves working in hazardous

occupations. It also curtails hard fought for and won workplace rights and conditions without necessarily delivering better long-term outcomes for members.

Research shows that employees under agreements with 'collective choice' or 'group choice' were most likely to be placed in high-performing funds and almost the least-likely to be placed in under-performing funds[6]. Given the historical and current recognition of defaults as necessary and appropriate components of the compulsory system, it seems only logical to retain the link with the existing industrial framework for the allocation of default funds, and to recognise that stapling is antithetical to ensuring workers have the most appropriate super products and services, accounting for the risks they face in their current working circumstances.

Recommendation:

1. The failed policy of arbitrarily stapling members to their first fund, without regard for the performance of that fund or the appropriateness of their insurance offering for the member, should be abandoned. The collective choice of fund made by workers and reflected in EBAs should be respected as a valid form of choice.

2. If recommendation 1 is not accepted, workers in hazardous occupations should be excluded from the stapling regime, defaulting instead into the fund named in their EBA or award.

[6] https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/TLABYSYC/Report/section?id=committees%2Freportsen%2F024416%2F72522

Performance test

We support the role of the performance test in addressing underperformance however welcome the review to ensure it doesn't put a handbrake on active investment and investment innovation that have delivered long term strong performance for members.

Methodology

Time period

The current performance test assesses the return of a product over the past 8 years. Whilst data limitations may be an issue for some products, it is noted that the Productivity Commission was able to benchmark performance over a 13 year period in most cases. Superannuation however in contrast, is designed to deliver strong long-term outcomes for members over a lifetime – leading up to and during retirement. A longer timeframe would better align to how superannuation funds actually invest. The test should be longer and ideally at least 10 years. It is noted that this would align with other areas that are disclosed to members such as investment return objectives (delivering a return of inflation + over rolling 10 year periods) and MySuper Dashboard requirements whereby a fund must state the return for each financial year in the past 10 financial years and a return target for a period of 10 years.

> *"To take account of risk, we have benchmarked investment performance over the longest time period permitted by the data (in most cases, 13 years)."* Productivity Commission[7]

Administration fees

Cbus does not support the administration fee component of the performance test being based on the most recent financial year. Any retrospective performance test must be reflective of the fees charged to members at the time and the actual net return that a representative member would have received. In its current form the performance test is misleading, inconsistent and most importantly does not reflect actual member outcomes.

A different approach to investment costs and administration fees also opens the risk of 'gaming', whereby a fund could shift some of their administration fees into investment fees and also unfairly benefits many retail funds which have historically charged significantly higher administration fees.

Strategic Asset Allocation (SAA)

It is widely accepted that strategic asset allocation drives the vast majority of returns over the long-term, it is however currently ignored in the performance test methodology. At Cbus, the asset allocation for each investment option is structured in a way that we believe has the greatest likelihood of achieving the option's return (and risk) objective. The current performance test also has no reference to the stated investment objective of investment options, as disclosed in Product Disclosure Statements.

Given the limitations, one consideration could be the introduction of a naïve reference portfolio using for example a 70%/30% split between growth and defensive assets using index exposures to equites, fixed interest and cash. This would better capture both implementation outcomes as well as strategic asset allocation design.

[7] Productivity Commission Inquiry Report, Superannuation: Assessing Efficiency and Competitiveness (2018). https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf

We acknowledge that the current performance test has likely preferred simplicity over undue complexity. We support this approach in general, noting that adding further benchmarks and greater granularity may be counterproductive and lead to more inconsistent outcomes given that different funds may classify investments in differing ways and have different compositions within broader asset classes, making comparisons more difficult. That said, if it is considered that there is a need to expand the benchmarks, our assessment is that the key component missing would be emerging market equities, which are often a standalone asset allocation given their risk/return profile compared to developed market equities.

In regard to the existing benchmarks, we note that benchmarks serve a key role in financial markets and in assessing performance however for them to be credible and useful they should be appropriate for the return and risk of the asset class and meet the characteristics of high-quality benchmarks[8] - this should also apply to benchmarks set by the Government to assess the performance of superannuation funds. Most specifically, we consider that the infrastructure benchmark selected has a range of flaws, such as being "unfrozen" and arguably of higher risk profile than a traditional core infrastructure portfolio. An assessment should be made of other possible benchmarks with a close eye to ensuring they meet the standard of being of high quality and representative of the intended risk of the asset class.

Another important dimension in our view is to give consideration to the use of other metrics within the overall performance test, in a similar way to how the APRA Heat Map has a breadth of metrics. For this purpose, metrics capturing risk and consistency would likely be beneficial, and provide a more granular lens on member outcomes.

Given the imperfections and limitations of any retrospective performance test, consideration should be given to how a fund is ultimately considered to have failed. One alternative could be to have the quantitative test initially and then any fund that fails on this measure be reviewed by secondary risk-based assessment. This secondary risk-based assessment would be a more sophisticated assessment and could consider a broader set of information including any additional context to the drivers of the outcome and any forward-looking considerations. This approach would better identify persistent underperformance and provide a basis for legislating stronger consequences for funds which fail both stages of the test.

Consequences of failure

The Consultation Paper states that the performance test is among other things *"intended to encourage underperforming products to improve their performance, including potential mergers with higher-performing funds."* There however is no policy solution within the YFYS package that considers, incentivises or compels mergers of underperforming funds with high-performing funds. The package instead relies on individual members to switch funds after receiving a notice from their underperforming fund, which has largely failed to result in significant consumer behaviour change. This treats the operation of the performance test and mergers as two unrelated events when in fact they are inextricably linked.

The consequences of failing the performance test should seek to reduce member harm by encouraging a fund to improve their performance and where a fund cannot or is unlikely achieve this in the near term, to ensure that it to merges with a high-performing fund.

[8] CFA Institute Guidance Statement on Benchmarks states that a valid benchmark is specified in advance, relevant, measurable, unambiguous, representative of current investment options, accountable, investable & complete. https://www.cfainstitute.org/-/media/documents/code/gips/guidance-statement-benchmarks-firms.ashx

Disengaged members deserve protection and good outcomes

The YFYS package expects that members will switch to a higher performing product after receiving a notification that their existing fund has failed the performance test and seeks to protect potential new members by banning new members from joining the fund. This approach does nothing to protect disengaged existing members that do not switch products – that represent a majority of members. The Productivity Commission found that historically, fewer than 10% of members switch funds each year and it is noted that underperforming funds experienced approximately only a 10% decrease in accounts.

Where a fund that has failed the second performance test is in advanced merger discussions with a high- performing fund, the ban on accepting new members means that rather than new members benefitting from the merger, they are forced to choose a different fund – which may not be appropriate for their circumstances. It is further noted that the letter sent to members refers them to the YourSuper Comparison tool which does not provide any information about insurance and could result in members losing vital insurance protection.

The consequences of the performance test, in the first instance should seek to encourage funds to either improve performance or voluntarily merge with a high-performing fund. If a fund does not improve their performance or voluntarily arrange a merger, then stronger action is required including the banning of new members and regulator action to protect existing members. This was acknowledged by the Productivity Commission which made it clear that decisive regulator action is required to clean up the tail of underperforming funds however also noted that funds should first be incentivised to take voluntary action before decisive regulator action.

> *"While implementation of an elevated outcomes testing regime will put long overdue pressure on trustees of underperforming funds and products to improve their performance or exit the superannuation system, it needs to be backed by decisive regulator action to enforce the regime and clean up the tail of underperformers — which would give trustees an added incentive to take voluntary action before this occurs." Productivity Commission*

An unintended consequence of the legislation is that successive failures of the performance test may actually reduce the likelihood of a fund merging as it loses members (given the letter encourages a member to switch out of the product), cannot accept new members and thereby reduces the appeal and best financial interests' analysis of the merging fund – this would further disadvantage existing disengaged members. This was considered by the Productivity Commission which noted that APRA may need to temporarily limit flows of money out of the affected fund to prevent a 'run' on funds – this is opposite to the current approach which limits inflows to the affected fund and thus reduces the merger potential of the fund and risks leaving stranded funds – with fewer opportunities to find a merger partner with a business case that is the best financial interests of all members.

> *"APRA may need to temporarily limit flows of money out of the affected fund to avoid a 'run' of members seeking to roll out balances all at once (which could disadvantage remaining members if assets were required to be sold quickly for liquidity reasons)." Productivity Commission*

Recommendation: The performance test timeframe should be extended as data allows to a rolling 10 year time period

Recommendation: Administration fees should reflect actual administration fees incurred at the time

Recommendation: The performance test should be revamped to capture the SAA construction. Consideration could be given to a simple naïve 70/30 reference portfolio as one way of achieving this aspect

Recommendation: Benchmarks selected should be appropriate for the risk/return of the asset class and should meet the characteristics of high quality benchmarks

Recommendation: Consider the incorporation of other metrics in the performance test, for example those that capture risk and consistency more explicitly

Recommendation: Consider the use of a secondary risk-based assessment if a product fails the initial quantitative test

Underperformance letter

Currently a fund that is in the process of merging with a larger, high performing fund, cannot modify the prescribed wording in the underperformance notification to include information about the merger and explain what it means for the member. In their FAQ, APRA has stated that "there is no ability under the legislation to exempt an RSE licensee from giving notice to its beneficiaries". When sending an 'underperformance letter' the fund should be able to include information about a proposed merger if:

1. the fund has a signed a MOU/heads of agreement document with high level agreement on the merger, and
2. there is a reasonable expectation that the merger will take place in the next 12 months.

Employers

Employers are required to select a default fund that they will pay an employee's superannuation into if the employee has not chosen a fund (or does not have a stapled fund). Given their important role in selecting a default fund for their employees, employers should also be notified if their chosen default fund has failed the performance test. This is particularly pertinent for employers that use a default fund that has failed the performance test the second time and will no longer be able to accept new members.

Recommendation: When sending an 'underperformance letter' the fund should be able to include information about a proposed merger. Alternatively, funds that have agreed to a merger should potentially be able to receive an exemption from sending the letter, accordingly APRA should be given the powers to consider an exemption request on a case by case basis.

Recommendation: The consequences of failing to meet the proposed performance benchmark must be strengthened to protect disengaged existing members and avoid a new generation of members being left to languish in underperforming legacy products

Product coverage

Given the compulsory nature of the superannuation system, the Government has a responsibility to provide equal protection to all members. We are concerned that the Choice segment (which includes much of the retirement segment) is not included in the performance test, despite the Productivity Commission findings that this is where many of the worst member outcomes occur. It is noted that the Productivity Commission recommended that the performance test apply to both MySuper and Choice investment options and that exemptions from the requirement should only be made on an 'if not, why not' basis where a compelling case can be made to APRA that benchmarking is not feasible.

Gaps in consumer protection risks organisations structuring the type of products they offer, and the products ultimately recommended to clients to avoid performance benchmarking – leading to more members into underperforming Choice products. Gaps in consumer protections also lead to member confusion about which standards are applicable to certain products they are invested in. Given the increasing number of Australians reaching retirement continue to increase over time – it is also important that the same level of protections also apply to retirement phase products.

For example, in the 1990s Australia's 65-and-over population increased by an average of around 40,000 per year. This number has risen sharply to 126,000 in 2021, and is estimated to peak at 137,000 in 2026.[9]

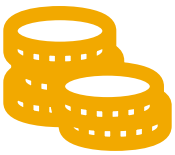
PC Findings – Choice Funds



The choice segment accounts for **41%** of total assets and **39%** of member accounts



Approximately **36%** of choice investment options underperformed & there is a wider variation in performance in the Choice sector than the default sector



Choice products offered by retail funds account for almost all the 'tail' of higher-fee products

In addition, given the size of member balances in retirement, small differences in fees and returns can have a substantive impact – possibly more significant than during accumulation. According to research from Rainmaker Information, most retirees will pay more fees during retirement than they would during all the years they were in accumulation[10].

The Retirement Income Covenant requires a fund to balance three broader objectives (maximising income, managing risk and flexibility) in determining an appropriate strategy for members. Whilst the Covenant isn't product specific, the requirements may justify a modified version of the test for certain retirement products (such as longevity products).

Recommendation: The amended performance test should apply to all superannuation products (including retirement products), as recommended by the Productivity Commission. Further consultation is required on how the performance test should apply to certain retirement products (such as longevity products)

[9] ASFA, The Demographics Group & Challenger, Rethinking retirement: The impact of demographic change and the pandemic on retirement planning in the 2020s (2021). Available from https://www.superannuation.asn.au/ArticleDocuments/359/2102-Rethinking-retirement.pdf.aspx?Embed=Y

[10] Rainmaker Information, Retirement is when we pay most of our superannuation fees (2022). https://www.rainmaker.com.au/media-release/retirement-pay-most-superannuation-fees