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MEDIA RELEASE: Innovation in superannuation slowed by lack of retirement focus

Millions of Australians in MySuper are missing out on up to a third of their retirement balance because of the inertia created by a lack of genuine competitive forces targeting better retirement outcomes.

A new report by the Financial Services Council (FSC) and Tailored Superannuation Solutions (TSS), [‘Innovation in Superannuation: Smart MySuper Defaults’](#), finds that significantly higher levels of retirement savings can be achieved through reconsidering the traditional design of MySuper products, promoting member engagement with their superannuation and using new technology with member data to create innovative product design.

Analysis by TSS shows that adopting innovative ‘smart default’ products that take into account a member’s individual circumstances, such as their projected retirement balance and time to retirement, could improve MySuper inflation-adjusted returns from an industry average of circa 3.5% real per annum to 4.5% per annum. That amounts to around 35% improvement in retirement balances.

In the national context, this new, smarter default approach could add \$5 billion to super balances per year for 15 million MySuper accounts. This is nationally significant when compared to the 2015/16 Age Pension cost of \$44 billion and could significantly fill the impending retirement funding gap over time.

However, new technologies have so far had minimal impact on the operation of superannuation funds, with default MySuper product providers in particular undertaking no discernible technological change over the past decade.

This is now changing with a bundle of legislation being introduced to Parliament this month, including the Annual MySuper Outcomes Assessment, which will force funds to either prove how they are achieving better retirement outcomes for their members or to merge.

The absence of competitive pressure in the default superannuation market resulting from the industrial awards system has so far allowed super fund trustees to avoid considering which changes may be necessary to adapt to technological shifts that improve retirement outcomes for members.

This has been reinforced by an unwillingness by trustees to invest in new technologies, due to a focus on lowest cost rather than improved retirement balances.

FSC CEO Sally Loane said: “Our 25 year old superannuation system must be made fit for purpose and target the retirement objective that is so important to millions of Australians. New technology has made it possible to deliver superannuation products that are better tailored to members’ individual circumstances, but the current industrial default system means trustees have not had much incentive to innovate, until now.”

“The status quo is not providing solutions to the industry’s issues or contributing optimally to the retirement savings funding gap.”

TSS CEO Douglas Bucknell said: “In this digital age, it’s no longer appropriate for MySuper trustees to just dump two 40 year olds, one projected to retire on the Age Pension, the other with \$1.6 million, in the same investment option for the next 25 years.”

“Trustees tell their choice members to consider their investment horizon and projected retirement balance when selecting an investment option – but don’t follow their own advice when it comes to selecting an investment option on behalf of MySuper members.”

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About the Financial Services Council

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia’s GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.