

# A new framework for regulating Choice products

► Prepared for FSC

July 2024



# Executive summary (part 1 of 4)

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- ▶ As millions of Australians approach retirement their financial circumstances become more complex due to changes in wealth, debt, dependents, and other factors. **Over the next ~25 years, the number of Australians with more complex financial circumstances, and therefore increased advice needs, will grow by 70 per cent (from 4.3 million people today to over 7.2 million in 2050).**
- ▶ The superannuation industry has moved to meet the needs of these more complex customers and today **there are now three superannuation markets in Australia rather than one**, each with their own product structures, different customers, and level of competition.
  - ▶ Default: Low cost, default investment and insurance suitable for the masses requiring nil or minimal maintenance.
  - ▶ Simple Choice: Ability to select or modify investment and insurance options from a simple menu with increased engagement and intermediary support.
  - ▶ Broad Choice: Facilitates or allows intermediary involvement, is highly tailorable, forms part of broader ecosystem.
- ▶ **As households have more advice needs, the Default products that typically provide a low-cost option for consumers less engaged with their finances are no longer suited or demanded** (as advisers and households with multiple advice needs require or expect more from their products).
- ▶ As the superannuation markets have grown and changed, **regulatory and legislative processes continue to prioritise default behaviour**, without acknowledging that Choice products currently, and will continue to, make up almost 70 per cent of the market (by FUM). This creates more cost, duplication and complexity for Choice products, and comes at the expense of the selected and highly tailorable features these products offer to meet the needs of more sophisticated consumers in the market.
- ▶ Using five case studies of legislative and regulatory interventions over the past decade, **this research illustrates the impact the current approach is having on the sector, including restricting choice and competition.**
- ▶ Recent regulatory changes are often prescriptive and give trustees minimal scope to develop solutions relevant to their structure, products and membership base leading to operational challenges, inefficiencies, increased costs for industry, confusion for members and friction between the roles of financial advisers and trustees. In particular, assuming all trustees play an active role in investment decision-making for members and their portfolios and are similar across different types funds poses a challenge for Choice platform products where members actively choose an investment approach suited to their need with the support of a financial adviser. Less prescription in the legislation would allow funds to achieve the policy objectives listed above in a way that is meaningful for their membership base and appropriate to the size, structure and risk profile of their business.
- ▶ This report recommends change: **a regulatory approach designed on the principle that Choice products should have wider guardrails given the high level of engagement and decision making from members.** Regulations and regulatory processes should be updated to consider how and why consumers use Choice products and the role of platforms and advisers in this process.

# Executive summary (part 2 of 4): Summary of Recommendations

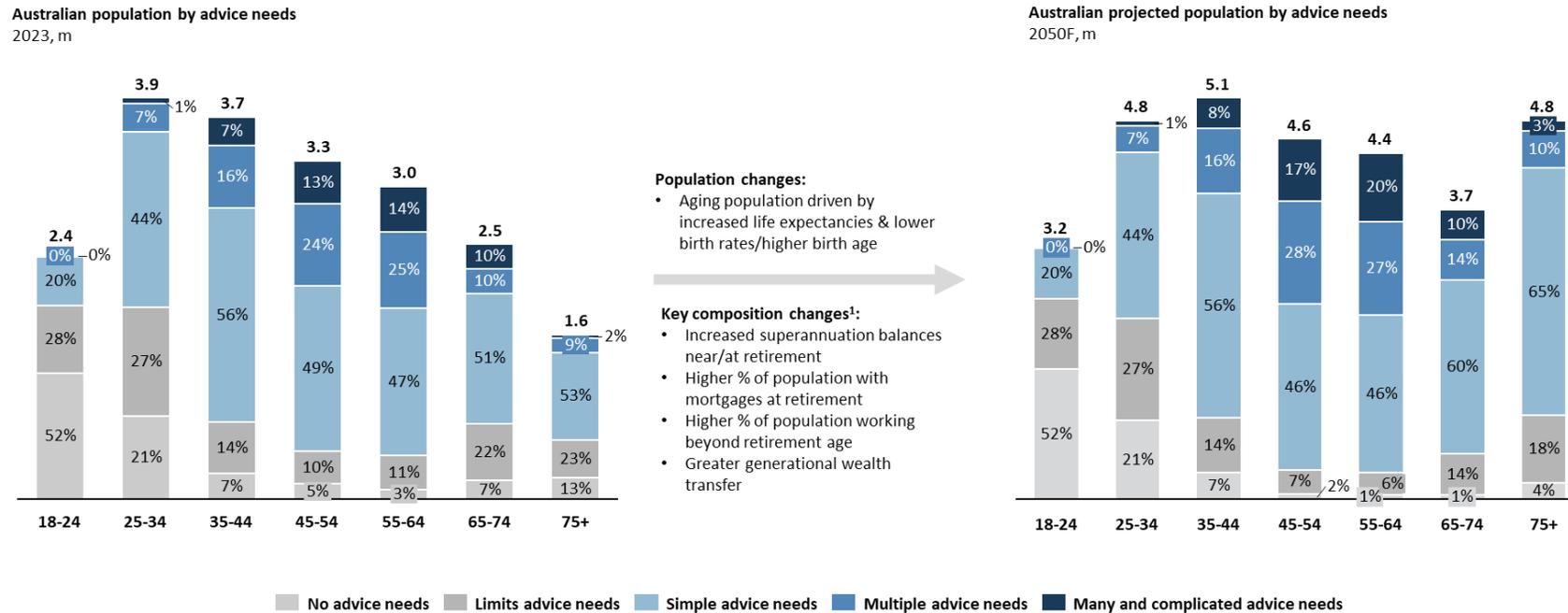
Using five case studies of legislation and regulatory interventions to illustrate the impact of focusing on Default products, a more sustainable and level regulatory playing field will be needed to accommodate Choice products to respond effectively to the advice needs of Australians

Case study	Purpose of regulation/s	Issues	Recommendations
<b>1. Your Future Your Super (YFYS) Performance Test</b>	The YFYS Performance Test is intended to reduce the number of underperforming superannuation funds	<ul style="list-style-type: none"> <li>▶ Failure of a Broad Choice investment option does not necessarily mean the investment option isn't delivering for members (overall member strategy would need to be assessed rather than an option in isolation)</li> <li>▶ Undermining consumer choice (by product closure); and</li> <li>▶ High complexity and costs from assessment of investment option performance.</li> </ul>	<ul style="list-style-type: none"> <li>▶ YFYS performance test should only apply to MySuper and Simple Choice (multi-sector and broad single sector trustee-directed options) and not apply to Broad Choice products to acknowledge the role of financial adviser's investment selection and ease the regulatory burden. A communication framework for communicating performance could be implemented using existing Broad Choice engagement structures.</li> </ul>
<b>2. Retirement Income Covenant (RIC)</b>	The RIC looks to improve trustee's focus on delivering outcomes for retirees	<ul style="list-style-type: none"> <li>▶ The RIC requires Trustees create strategies and retirement solutions for their specific cohort of members. As Choice members have made active decisions about their investment options (typically with the advice of a financial planner), they are less likely to need assistance of a Trustee as they move to retirement.</li> <li>▶ Regulator feedback on RIC implementation has focused on default customers, and given little consideration for funds who acknowledge Choice customers need less guidance from Trustee for their retirement strategy</li> </ul>	<ul style="list-style-type: none"> <li>▶ Regulators should acknowledge financial advisers provide advice to Choice members and recognise the unique circumstances of Choice members. RIC interpretation should encourage Trustees to support member choice and assist members who have made an active choice of product or investment option (either through their financial adviser or direct) within their broader financial circumstances. However, simple choice members are generally likely to require more guidance from trustees.</li> </ul>
<b>3. Member Outcomes</b>	Member Outcome Assessments require Superannuation fund Trustees assess their performance towards promoting the best financial interests of members and share key findings with members	<ul style="list-style-type: none"> <li>▶ To date, no funds acknowledge issues in their Member Outcomes Assessment.</li> <li>▶ Member Outcome Assessments are largely duplicative (with additional reporting requirements) of existing trustee responsibilities, adding to the reporting burden with little additional benefit to members</li> </ul>	<ul style="list-style-type: none"> <li>▶ Consolidate Member Outcome Assessment into other trustee obligations.</li> </ul>
<b>4. Member engagement and communications</b>	Member engagement regulations place a minimum level of communication superannuation funds must have with members, to improve the likelihood that members are aware of and engaged with their superannuation balance	<ul style="list-style-type: none"> <li>▶ The existing framework means Broad Choice providers service proposition will go notably above and beyond minimum standards (as it is a key selection factor). A default means of forced communication (associated with an increase in the minimum standard) would be to the detriment of Broad Choice, where preferred engagement has likely been agreed and implemented with an adviser</li> </ul>	<ul style="list-style-type: none"> <li>▶ The regulatory framework should recognise that Broad Choice product users have already set-up and chosen their preferred engagement and communication preferences to their provider (which goes beyond existing minimum and is tailored to member needs).</li> <li>▶ While improving minimum standards is desirable to improve member knowledge and engagement, any changes should exempt Broad Choice products, acknowledging these members have already made decisions re their communication preferences.</li> </ul>
<b>5. Fee templates and data requirements</b>	Superannuation funds must provide / publish data to different sources and places, including within a PDS, APRA dashboards, etc. However, this information is often different (slightly nuanced) within each requirement	<ul style="list-style-type: none"> <li>▶ Slightly inconsistent interpretations and use of data results and look through of investment option information) can result in confusion as to the source of truth on superannuation fees and performance and also increases the likelihood of errors in reporting or interpretation of output</li> </ul>	<ul style="list-style-type: none"> <li>▶ Fee templates should capture the range of different fee configurations allowing Broad Choice fee structures to be more easily reported and contextually interpreted by superannuation members</li> </ul>

# Executive summary (part 3 of 4)

## The advice needs of Australians is growing and becoming more complex

- ▶ Over the next ~25 years, the number of Australians with more complex<sup>1</sup> advice needs will grow by 70 per cent (from 4.3 million people today to over 7.2 million in 2050).



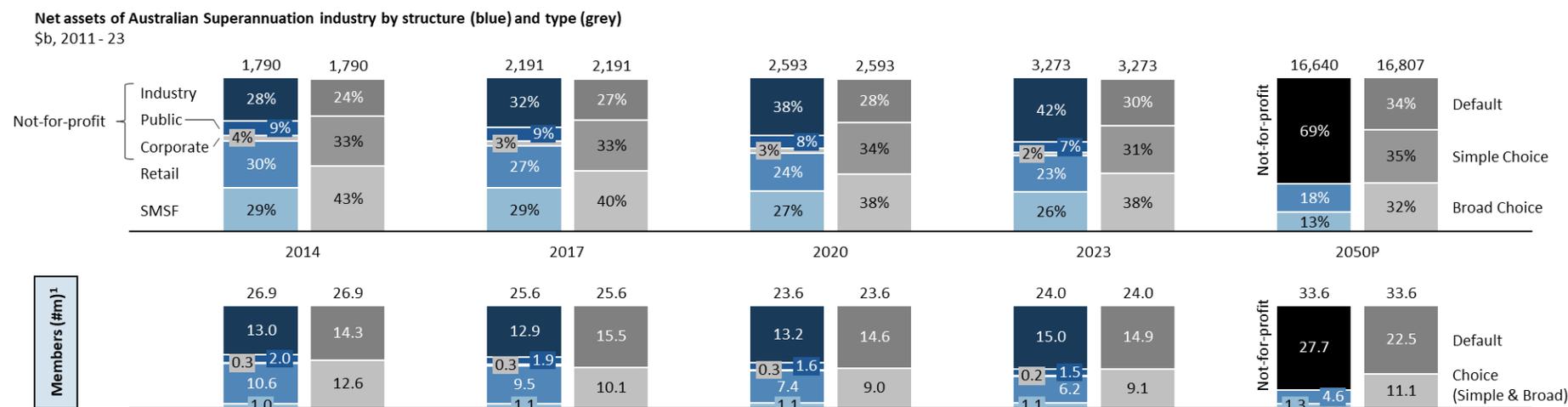
- ▶ The research shows households differ markedly in how they navigate financial decisions across a range of factors primarily driven by their age or life stage. These needs typically increase up to retirement age (and may then slightly decline slightly) and – their complexity is driven by a range of factors (such as source of income and wealth, level of debt, financial dependents and business ownership).
- ▶ Over time, the number of households with multiple advice needs<sup>1</sup> will gradually increase (supported by ageing population, wealth and other key demographic shifts).

**Note:** [1] Advice needs refers to the level of complexity based on NMG’s Financial Complexity Model (see appendix). Financial complexity/level of advice needs has been calculated based on key contributing metrics, including family situation, living arrangements, employment status, household salary, wealth (inc. and exc. superannuation).

# Executive summary (part 4 of 4)

## Choice remains the largest segment of the market

- ▶ No product class is suitable for all consumers. While Default products are suitable for many, consumers with multiple advice needs have higher demands of products to manage their wealth, and have specific objectives tailored to their circumstances (often identified, managed and tracked with intermediaries such as advisers, accountants etc).
- ▶ While default funds have experienced growth, Choice remains (and is expected to remain) the largest segment, especially as growing wealth per capita introduces more advice needs (via wealth source and income streams) over time.



- ▶ However, the regulatory framework has disadvantaged the broader use of Choice products:
  - ▶ Regulatory change intended to increase transparency and test performance have created vast and overlapping data sets that are not easily interpreted, which can undermine active choices made by superannuation fund members who have received holistic financial advice.
  - ▶ Interpretation of the Retirement Income Covenant has favoured superannuation funds' with strategies geared towards default behaviour and do not necessarily acknowledge the role that platforms and advisers play to the strategies of Choice customers.
  - ▶ There has been significant consolidation within the industry as a result of recent policy and regulatory changes.
  - ▶ Within Broad Choice, the contemporary Wrap platforms have gained share through strong technology and service capabilities whilst adapting to the growth of managed accounts and non-superannuation vehicles (to support advisers focusing on upper affluent and High Net Wealth ('HNW') clients).

# About NMG



NMG is a multinational specialist consultancy, focused purely on the investment, pensions, insurance and reinsurance segments



## Consulting

Product and distribution strategy | market entry strategic planning | organisational transformation | thought leadership | client experience | client retention



## Insights

Consumer, intermediary and institutional research | Stock, flow and revenue models | global industry research | product and segment programs



## Analytics

Data aggregation & benchmarking studies | Advanced quantitative analysis | data visualisation | actuarial verification



## ASSET MANAGEMENT

Retail  
Institutional  
Public  
Private



## WEALTH MANAGEMENT

Advisors  
Platforms  
Retirement funds  
Recordkeepers



## PROTECTION

Insurance  
Reinsurance

# Project brief

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**Since the introduction of the MySuper regime, policy makers and regulators have imposed significantly more robust regulations on the superannuation system to ensure improved member protection, enhance superannuation fund performance and support the generation of scale (lower fees). However, these regulations are not always designed in ways that are appropriate for all product types, which can lead to circumstances where product types are assessed in a way that is inconsistent with how they are used by members**

To support future engagement with policy makers and regulators, the FSC is looking for a way to position Choice products (predominantly, but not only Wraps) to support a more fit-for-purpose regulatory assessment for different products.

In particular, the FSC is looking for new positioning to:

- ▶ Articulate why different product types are suitable for different cohorts of Australians
- ▶ Differentiate how product types support those different needs, and how these have evolved over time
- ▶ Understand the role of financial advice within the current system
- ▶ Articulate opportunities for a more fit for purpose regulatory assessment for different product types

NMG leveraged existing intellectual property and existing industry research to:

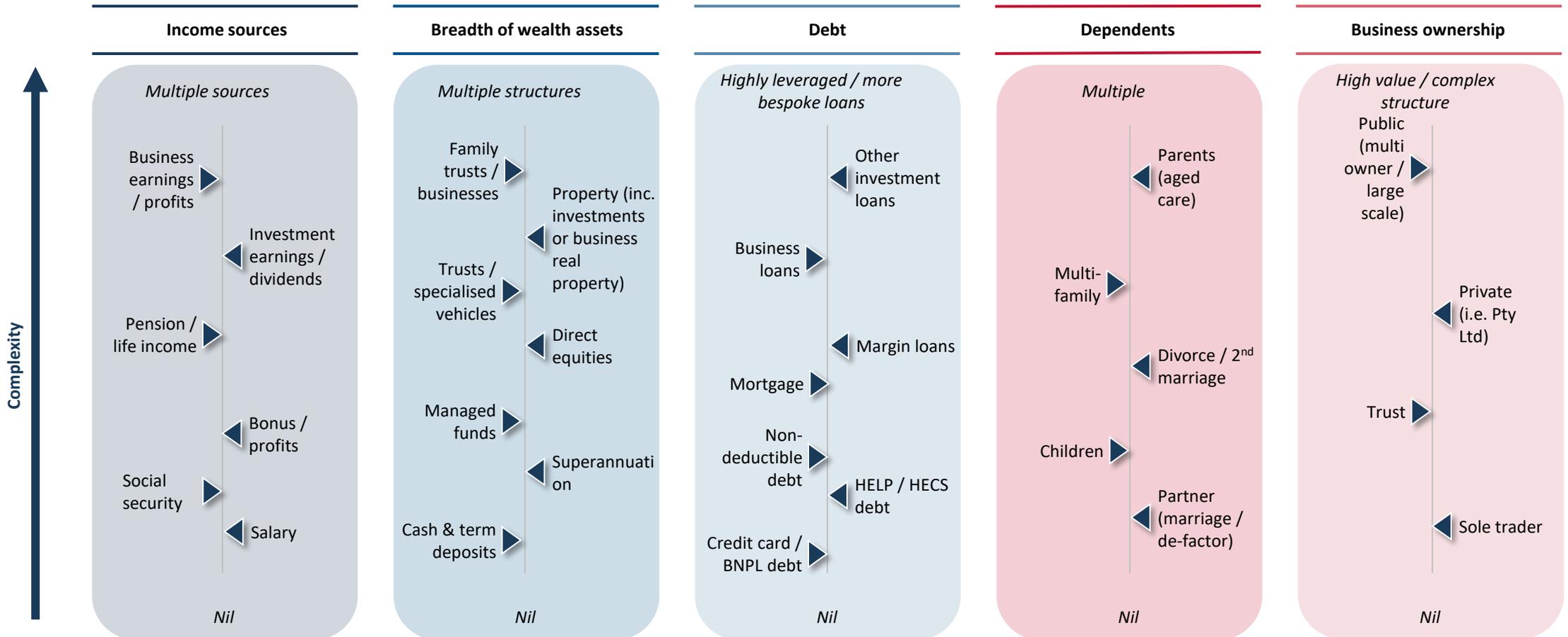
- ▶ Outline the specific characteristics of different types of Australian platform products:
  - ▶ Including specific detail on the characteristics of current Choice products in market
- ▶ Detail which consumer needs are met by different product types
- ▶ Detail several case studies where regulation is not sensible for Choice products, and detail what a better approach could be for Choice products

# Australia's Advice Needs

# Multiple factors are driving the financial complexity of Australians

While wealth is often used as a proxy for complexity, there are actually a range of factors that impact a household's financial complexity, and those factors are often, but not always, correlated with higher wealth

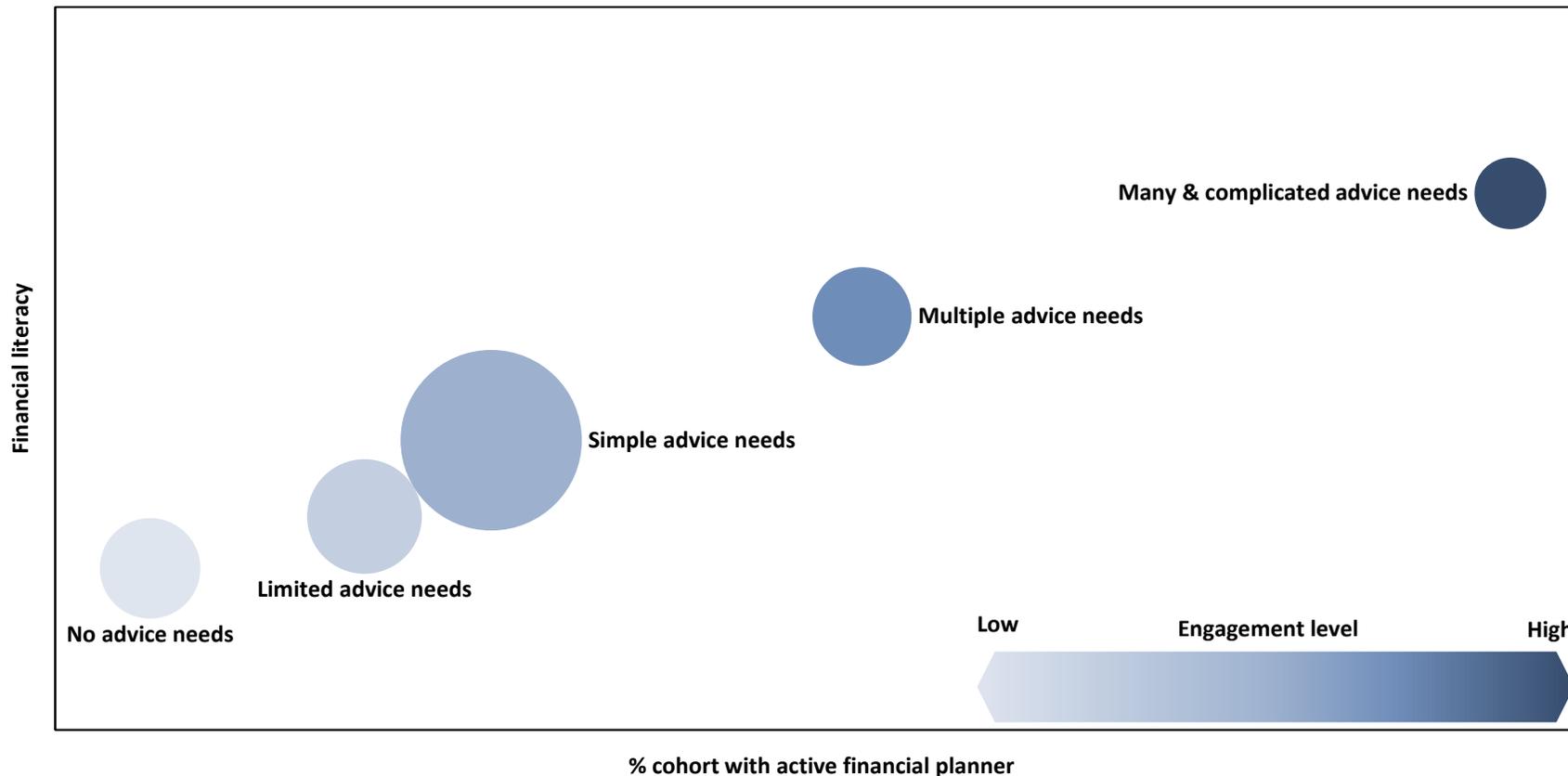
Key factors contributing to financial complexity



# Household financial complexity can be mapped to higher advice needs

As households become more financially complex, they have higher advice needs, and notwithstanding higher financial literacy and higher engagement, they are more likely to seek advice from a financial planner to manage their advice needs

Engagement, financial literacy & active financial planner<sup>1</sup> proportion by advice needs – Aus. population



- ▶ There is a clear correlation between having multiple advice needs and the propensity to seek ongoing support from a financial planner.
- ▶ This is notwithstanding the fact that those who have higher advice needs also have higher financial literacy and engagement with their finances/wealth
- ▶ These cohorts exhibit different characteristics and have different product/strategy demands, resulting in a wide range of products and investment to meet these demands

# Differing life events creates different financial advice journeys

Advice needs are correlated with age – different life paths (both timing of events and events experienced) result in varying financial advice journeys

	Description	Financial advice journeys
<p><b>Scenario A – Common Australian household</b></p>	<ul style="list-style-type: none"> <li>▶ Salaried, median household income</li> <li>▶ Married and children early 30s</li> <li>▶ House purchase mid/late 30s</li> <li>▶ Slow but gradual savings over time, paying off mortgage</li> </ul>	
<p><b>Scenario B – Affluent household</b></p>	<ul style="list-style-type: none"> <li>▶ Salaried, above median household income</li> <li>▶ Married and house purchase late 20s</li> <li>▶ Have children early 30s</li> <li>▶ Significant savings/wealth accumulation outside of superannuation, beyond cash and direct equities</li> </ul>	
<p><b>Scenario C – Small business owner</b></p>	<ul style="list-style-type: none"> <li>▶ Starts own business mid / late 20s, which becomes quite successful</li> <li>▶ Establishes SMSF at 30</li> <li>▶ Married, house purchase and children</li> <li>▶ Significant wealth building (in and out of superannuation) involving investment loans</li> <li>▶ Slightly early retirement</li> </ul>	



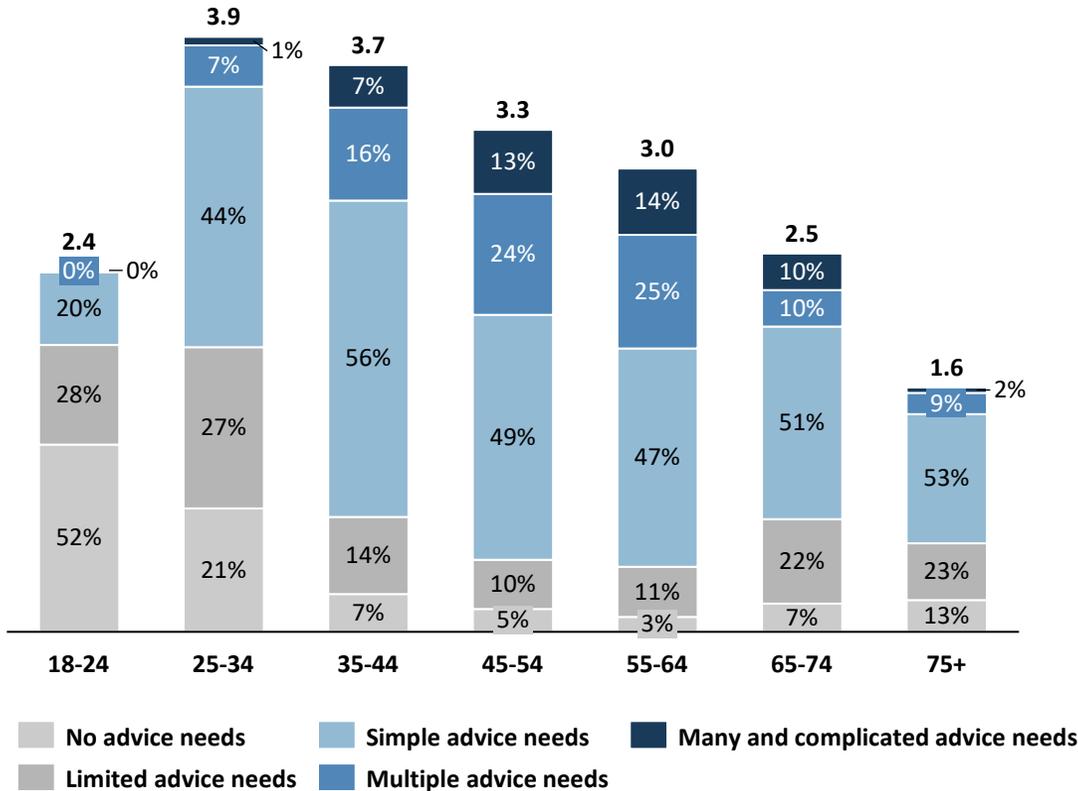
- ▶ In its simplest form, there are growing advice needs as households advance through key life stages, because key complexity factors (eg wealth, debt and dependents) are highly aligned to life-stage events
- ▶ However, not everyone follows the same life path, which results in different timelines to reach their highest level of advice needs – not everyone will end up with multiple advice needs at their peak (generally occurs near/at retirement)
- ▶ It must be noted that the three scenarios shown are select examples, with many other differing advice needs possible

# Advice needs increase with age through to retirement, advice is generally sought more by older ages

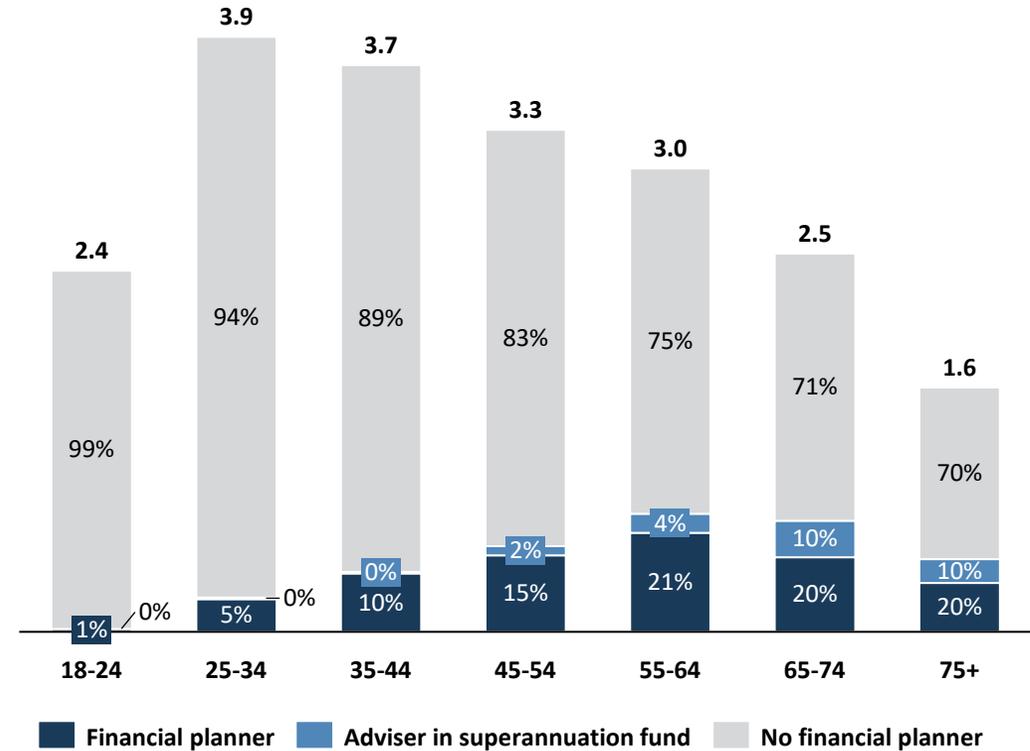


Advice needs change notably with age, higher concentration towards the higher advice needs peaking near retirement

Australian population by financial advice needs  
2023, m



Australian population by financial planner engagement  
2023, m

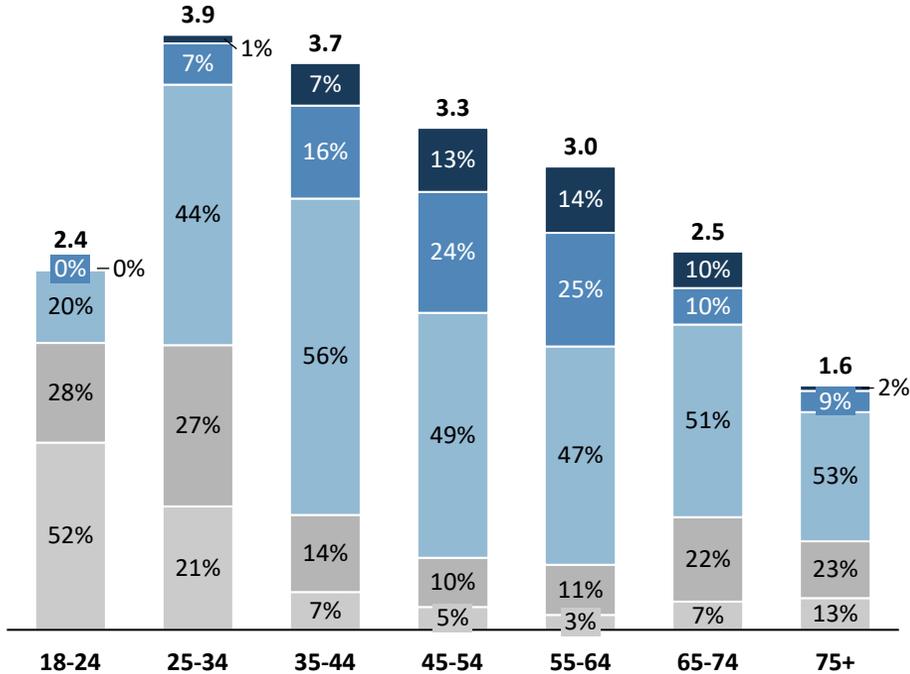


# Demographic changes will increase the number of households with multiple advice needs



Australia's aging population will be the main driver, however, composition changes (superannuation balances, debt levels, working age & wealth transfer) will further increase the number of households with multiple or many advice needs by almost 70% (almost 3m people) over the next 25 years

Australian population by advice needs  
2023, m



**Population changes:**

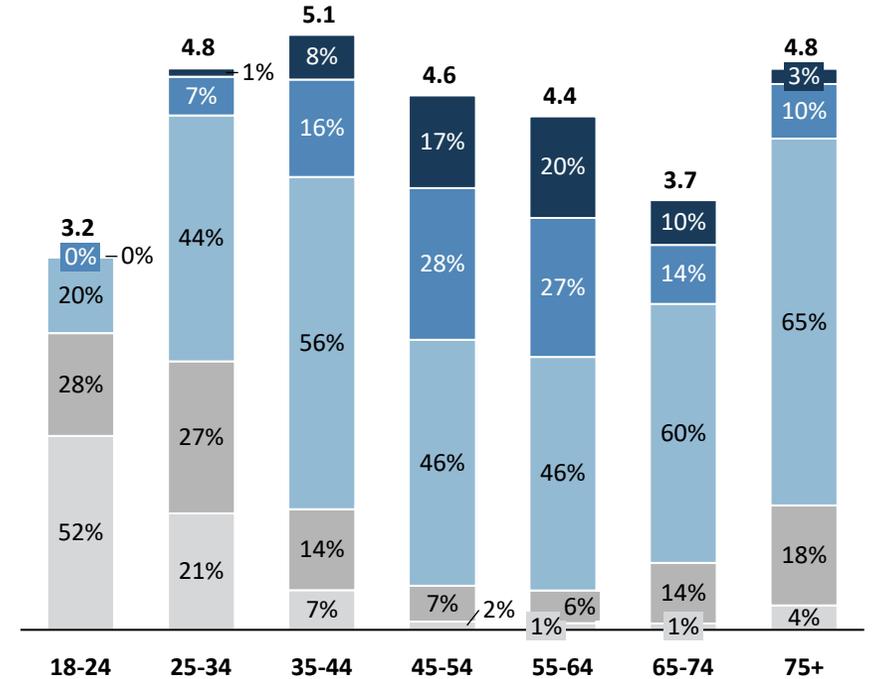
- Aging population driven by increased life expectancies & lower birth rates/higher birth age



**Key composition changes<sup>1</sup>:**

- Increased superannuation balances near/at retirement
- Higher % of population with mortgages at retirement
- Higher % of population working beyond retirement age
- Greater generational wealth transfer

Australian projected population by advice needs  
2050F, m



No advice needs
  Limits advice needs
  Simple advice needs
  Multiple advice needs
  Many and complicated advice needs

Source: NMG Financial Advice Consumer Study (2023), ABS, NMG analysis

Note: [1] Composition changes impacting financial complexity are largely isolated to those aged 45+ in 2050

Products to suit different  
advice needs

# Default products are not suited for all; people with multiple advice needs typically demand more



**While Default products are suitable for many, those with multiple advice needs have higher demands of products to manage their wealth, and have specific objectives tailored to their circumstances (often identified, managed and tracked with intermediaries such as advisers, accountants etc)**

	Default product		Requirements to support people with multiple advice needs
<b>Scope</b>	Superannuation only	← →	Support for multiple tax structures (superannuation, SMSFs, non-super, joint accounts, trusts, companies, etc)
<b>Investment Choice</b>	None (defaulted into a professionally managed, well-diversified, and managed portfolio)	← →	Extensive to support bespoke investment portfolio implementation (incl. managed accounts)
<b>Insurance Offer</b>	No active decision (defaulted into low-cost level of insurance coverage suited to most, with no underwriting required)	← →	Multiple choices to support tailored cover required (multi-product, in or out of superannuation, multi-party, multi-benefit, multi-insurer), typically with full underwriting
<b>Retirement Flexibility<sup>1</sup></b>	None (no default for retirement, members must make decision to commence retirement product)	← →	Broad range of longevity products to suit individual circumstances, with support to understand investment income performance etc
<b>Member Engagement</b>	Almost nil – members are largely disengaged, occasionally checking annual statements (mail) or balances via apps	← →	High – advised members regularly check and transact (or approve transactions) via online portals
<b>Intermediary Support</b>	None	← →	Need multiple intermediaries (financial advisers, accountants, lawyers, etc) to have varying access levels

# The industry has developed three distinct product types



	Default	Simple Choice	Broad Choice
<b>Overview/Proposition</b>	Low cost, default investment and insurance suitable for the masses requiring nil/minimal maintenance	Ability to select/modify investment and insurance options from a simple menu with increased engagement and intermediary support	Facilitates/allow intermediary involvement, highly tailorable, forms part of broader ecosystem
<b>Target client</b>	Nil to simple advice needs	Limited through to multiple advice needs	Multiple / many advice needs
<b>Scope</b>	Superannuation only	Predominantly superannuation	Superannuation & Non-super
<b>Products included</b>	MySuper	Not-for-profit (NFP) Funds & Employer Master Trust (MT) ex-MySuper; plus all Retail MT	Wraps / SMSFs
<b>Investment Choice</b>	Well diversified, professionally managed portfolio (single or target date)	Investment selection based on risk profile (predominantly still multi-asset funds)	Open architecture of direct assets, as well as listed & unlisted investment options (supported by model portfolio & managed account functionality)
<b>Insurance Offer</b>	Low-cost group insurance without underwriting	Basis level of group insurance cover, with ability to increase cover or pay for (underwritten) standard insurances	Highly tailorable with extensive options
<b>Retirement Flexibility</b>	Nil	Limited – generally account based pension only	Broad range of pension & longevity products
<b>Member Engagement</b>	Low and infrequent	Negligible: annual statement and potentially occasional review online	High – proactive, check online regularly, portal access, comms via email/app
<b>Intermediary Support</b>	Limited (no advice fees allowed)	Moderate – may allow some level of intermediary access, however, often intermediary support channels are only via the member channel	High – support multiple intermediaries with varying access levels, data feeds to adviser software

# Each of these product types has different selection factors



**Overview/Proposition**

Low cost, default investment and insurance suitable for the masses requiring nil/minimal maintenance

Ability to select/modify investment and insurance options from a simple menu with increased engagement and intermediary support

Facilitates/allow intermediary involvement, highly tailorable, forms part of broader ecosystem

**Key selection factors**

- ▶ Price
- ▶ Performance
- ▶ Consumer brand
- ▶ Award nominations

- ▶ Price
- ▶ Performance (strong multi-sector range performance)
- ▶ Investment menu (strong range of single sector options to support selections required)
- ▶ Service

- ▶ Price (for target segment)
- ▶ Investment menu (suitable breadth)
- ▶ Desired investment functionality (models, managed accounts etc)
- ▶ Admin and call centre proposition
- ▶ Technology service proposition to suit target client engagement model & preferences
- ▶ Self-service capability (broad & functional)
- ▶ Digital experience (for advisers & clients)

**Note:** SMSFs do not have selection factors, as they are not different products (although they may have different providers to support the trustee's obligations). They are therefore excluded from this analysis

# History and Outlook by product type

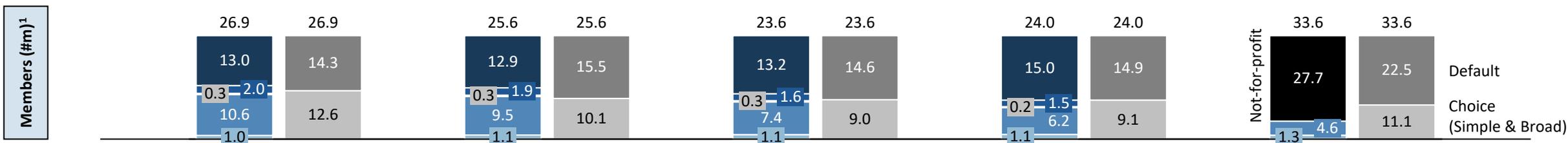
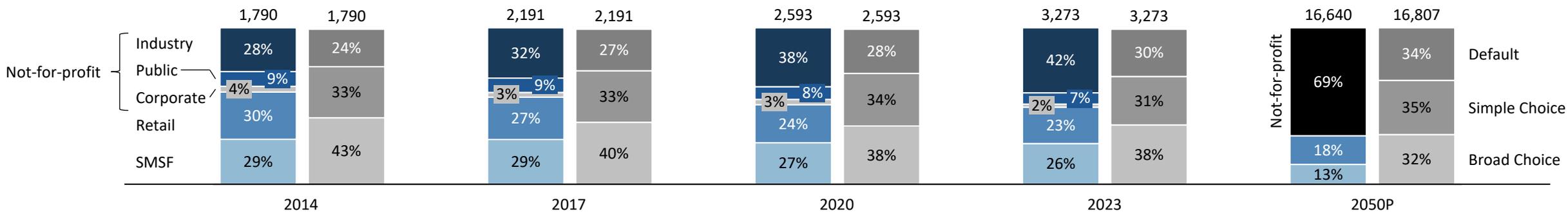
# Choice has declined, but remains the product type most widely used to meet multiple advice needs



From an industry segment perspective, industry funds have seen growth, Choice remains (and is expected to remain) the largest segment by FUM, especially as growing wealth introduces more advice needs via wealth source and income streams over time

Net assets of Australian Superannuation industry by structure (blue) and type (grey)

\$b, 2011 - 23



Key milestones	Pre-2014	2014 – 2017	2019 – 2021	2022 -
	<ul style="list-style-type: none"> <li>2005: 'Choice of Superannuation Fund'</li> <li>2011: RG 97 Disclosing fees and costs</li> <li>2011: Stronger Super (Cooper Review)</li> </ul>	<ul style="list-style-type: none"> <li>2014: Introduction of MySuper</li> <li>2014: Productivity review into Super</li> <li>2017: Introduction of Protecting Your Super (PYS) and Putting Members Interest First (PMIF)</li> </ul>	<ul style="list-style-type: none"> <li>2019: Business Performance Review and Member Outcomes (SPS 515)</li> <li>2019: APRA Choice Heatmaps, Annual member meetings (Part of SPS 515)</li> <li>2021: Your Future Your Super Performance Test; Stapling; Design &amp; Distribution Obligations (DDO)</li> </ul>	<ul style="list-style-type: none"> <li>2022: The Retirement Income Covenant (RIC)</li> <li>2023: Extend Performance Tests to TDPs</li> <li>2025: SG increased to 12%</li> </ul>

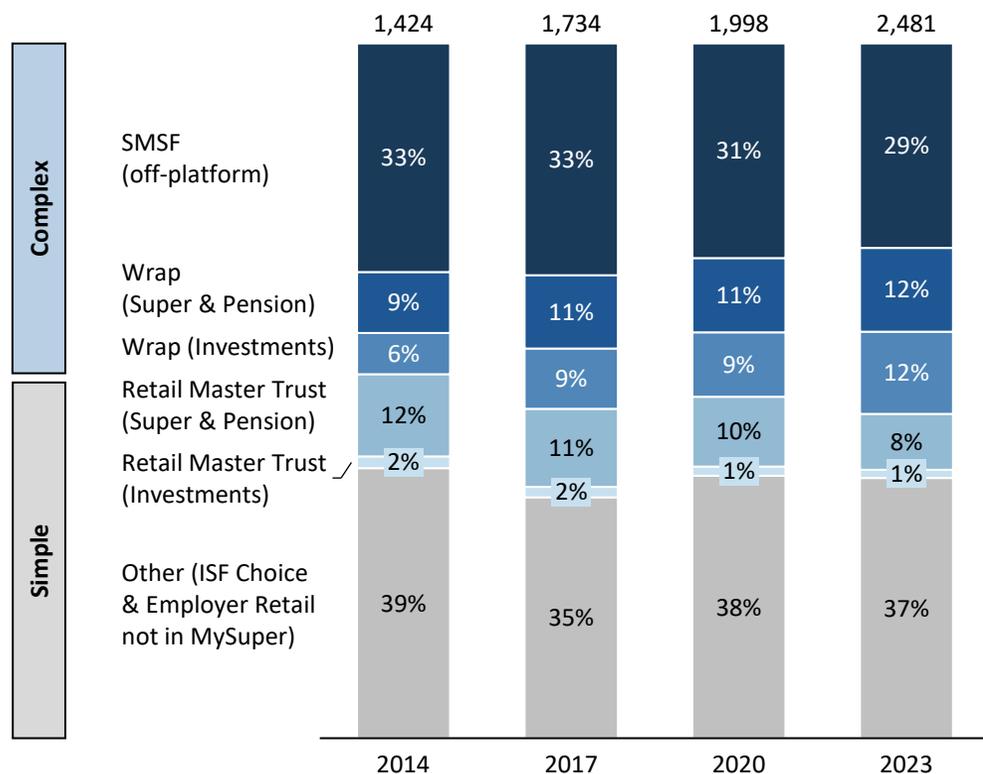
Source: NMG Super Funds Review, APRA, ATO, NMG analysis

Note: [1] # members represents the number of accounts in each segment

# Within Choice there's been subtle product changes responding to client complexity

As advisers have focussed on upper affluent and high-net-wealth (HNW) clients, they have increasingly used Wrap products which have steadily responded with more sophisticated products (broader investment choice, managed accounts, and non-super platforms, with improved member engagement and participation)

Simple and Broad Choice FUM in Super/Pension and Investments  
\$b, 2011 – 23

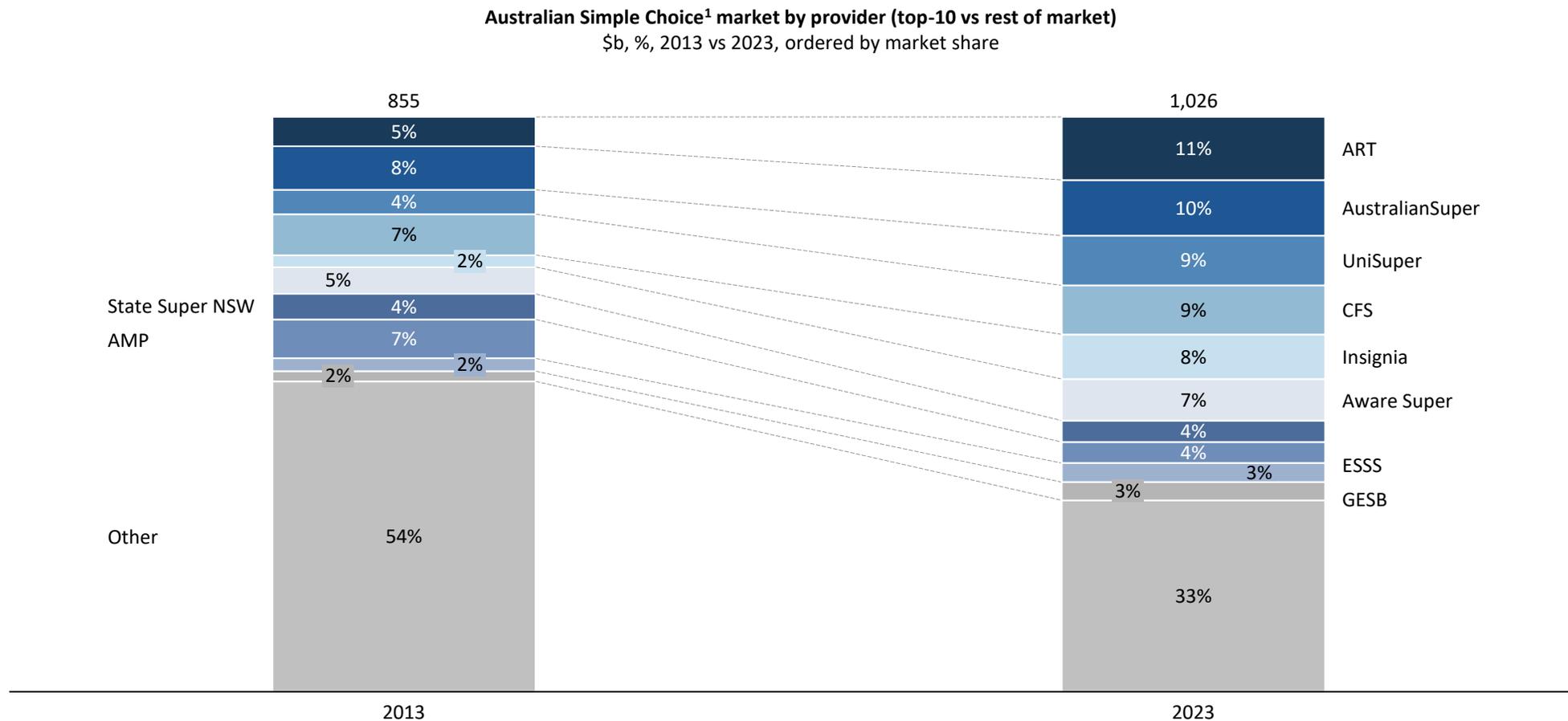


Evolution of Platforms

<b>Master Trust to Wrap</b>	<ul style="list-style-type: none"> <li>Advisers use of Choice products have shifted from Master Trust (Simple Choice) to Wrap (Broad Choice) reactive of the needs of their clients and the demands for greater transparency. Wraps are not seen as products, but more as technology/reporting layers facilitating the client's strategy for the adviser</li> </ul>
<b>Investment choice</b>	<ul style="list-style-type: none"> <li>Along with the rotation from Master Trusts (Simple Choice) to Wraps (Broad Choice), the expectations and demands for investment choice have broadened significantly from a curated limited menu of multi asset and sector options to open architecture menus encompassing vast choice of listed and unlisted products and cash options.</li> </ul>
<b>Managed Accounts</b>	<ul style="list-style-type: none"> <li>Original proposition was around direct equity portfolios</li> <li>Managed Discretionary Accounts (MDAs) were a structure originally used to trade without client consent, and is now predominantly used for HNW investors enabling customised portfolios</li> <li>Separately Managed Accounts (SMAs) are a product structure which have seen significant growth, providing reduced compliance burden and greater efficiency for advisers</li> </ul>
<b>Member behaviour</b>	<ul style="list-style-type: none"> <li>In the Simple Choice environment of Retail and Employer Master Trusts, members tend to be less engaged, so they rarely interact with their fund (and, if so, it is via the fund call center or their adviser). With the move towards Wraps, these members deal predominantly with their adviser, not the Wrap provider. Outside of logging into the portal, they may actually never contact the Wrap directly.</li> </ul>

# Simple Choice: Competitive Dynamics

**Within Simple Choice, Superannuation Funds have won with brand & perceived price competitiveness strengths, at the expense of funds perceived as poor performing and/or expensive while other providers have been the victims of consolidation**

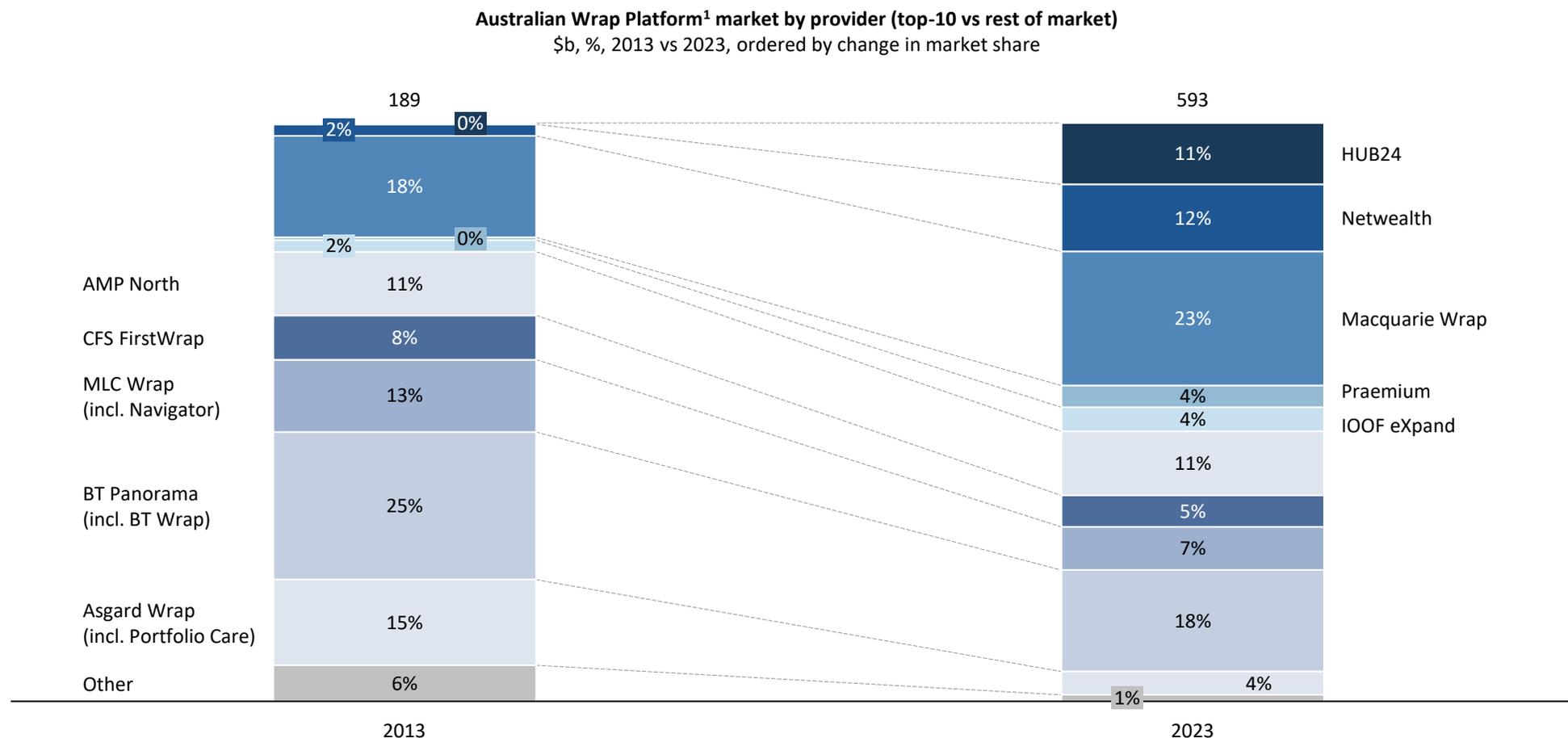


Source: NMG Australian Adviser Insights Programme, DEXX&R, NMG analysis

Note: [1] Includes Super, Pension, Investment products

# Broad Choice: Competitive Dynamics

Within Broad Choice, the contemporary Wrap platforms have gained share through strong technology and service capabilities whilst adapting to the growth of managed accounts



Source: NMG Australian Adviser Insights Programme, DEXX&R, NMG analysis

Note: [1] Includes Super, Pension, Investment products

# Impact of regulatory framework on Choice products and consumers

# Case Study 1: YFYS Performance Test



# YFYS Performance Test Overview

## Purpose/intent of the regulations

**The Your Future Your Super (YFYS) Performance Test is intended to reduce the number of underperforming superannuation funds.**

## Approach taken/current status

The YFYS Performance Test assesses parts of a superannuation fund's investment capabilities, by calculating whether the diversified options are outperforming against their target allocations (after making assumptions for fees and assumed market benchmarks) and requiring funds who fail the test for two consecutive years to close products to new members.

## Issues in relation to Choice

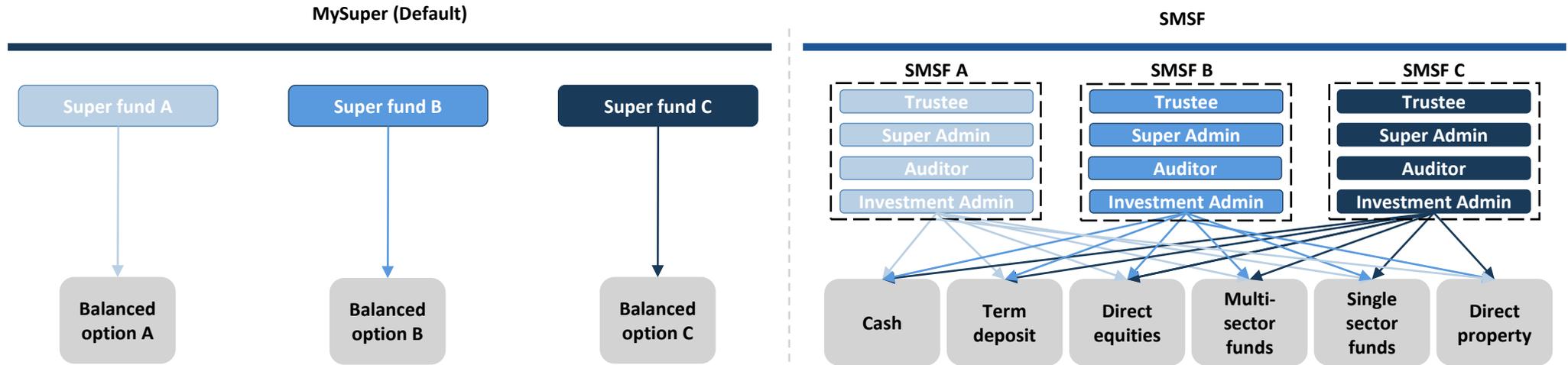
Currently the YFYS Performance Test applies to MySuper options and to Trustee Directed Products (TDPs) in accumulation phase.

While there are several issues in the construction of the test, there are four specific issues in the application of the test to Choice products:

1. A broad range of investment options are made available to suit particular member circumstances (where members make investment decisions in conjunction with an adviser suited to those circumstances) with the exact same options available across many Broad Choice providers (meaning fund level comparisons are unreliable). Failure against APRA's broad benchmarks does not mean the investment option is not delivering for a particular member. Platforms offer broad choice products, but members make investment decisions themselves with an adviser. They choose an investment approach suited to their needs, objectives and risk profile, making fund level comparisons unreliable.
2. Closure of some investment options would undermine consumer choice
3. Assessment of investment option performance is significantly more complex and costly (and do not represent all / most of a client portfolio – would be akin to forcing a MySuper product to terminate every manager or security underperforming APRA's broad benchmarks, despite continuing to contribute to the overall member's outcomes as intended).
4. The current definition of TDPs often does not accurately reflect the trustee's control over the investment option's management. This can lead to situations where an option is TDP for one trustee but not another. The regulator expects trustees to review the appropriateness of continuing to offer non-TDP options.

# MySuper and SMSF 'performance' considerations are completely different

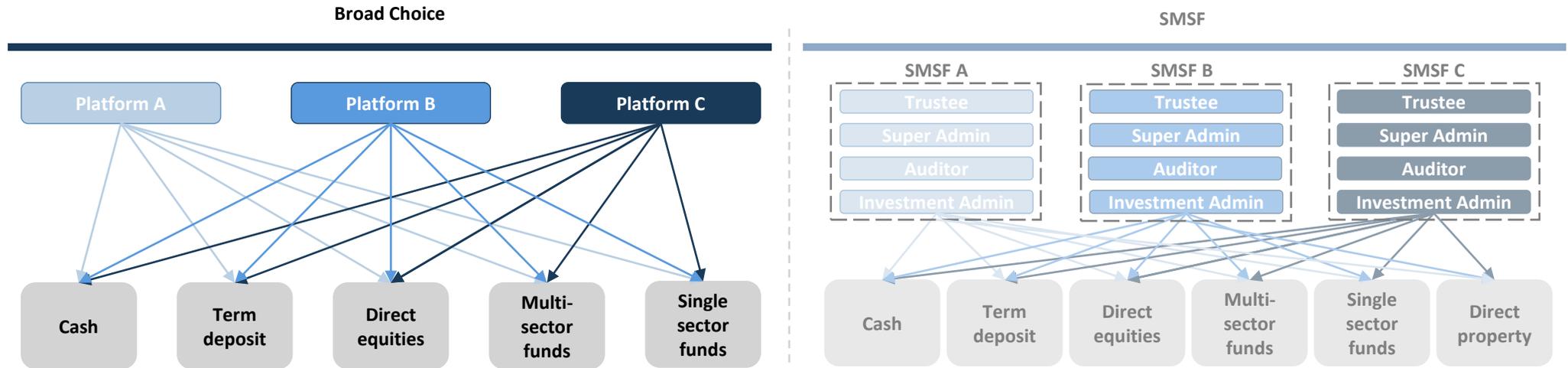
There is a fundamental difference between a trustee creating and being responsible for a unique portfolio for many members with a consistent objective compared to members who are trustees of their own SMFS selecting from a market of available investment options to build a portfolio tailored to their specific goals and circumstances (which is why the performance test applies to MySuper, but not to SMSFs)



<b>Overview</b>	Each super fund has its own MySuper option, and is responsible for the performance of that MySuper option	Trustees create an investment portfolio from market available investment options to suit their specific circumstances (and will use the same options irrespective of other components (i.e. accountant, auditor, super & investment admin providers) used.
<b>Objective</b>	Broadly consistent objective to grow their superannuation balance as fast as possible	Every SMSF trustee has specific goals & objectives for its members
<b>Member engagement</b>	Members do not regularly assess performance (have largely been defaulted into by employer / prior employment, or chosen MySuper option for its performance)	Members regularly review & adjust investment options to suit target objective
<b>How members address poor performance</b>	Change superannuation funds	Adjust investment options used within SMSF
<b>Application of YFYS Performance Test</b>	Assess performance of trustee's investment strategy for disengaged members	Assess asset managers performance against a benchmark potentially different to PDS disclosure and a product's Target Market Determination (with no assessment of trustee)

# Broad Choice products ('Wrap platforms') are very similar to SMSFs

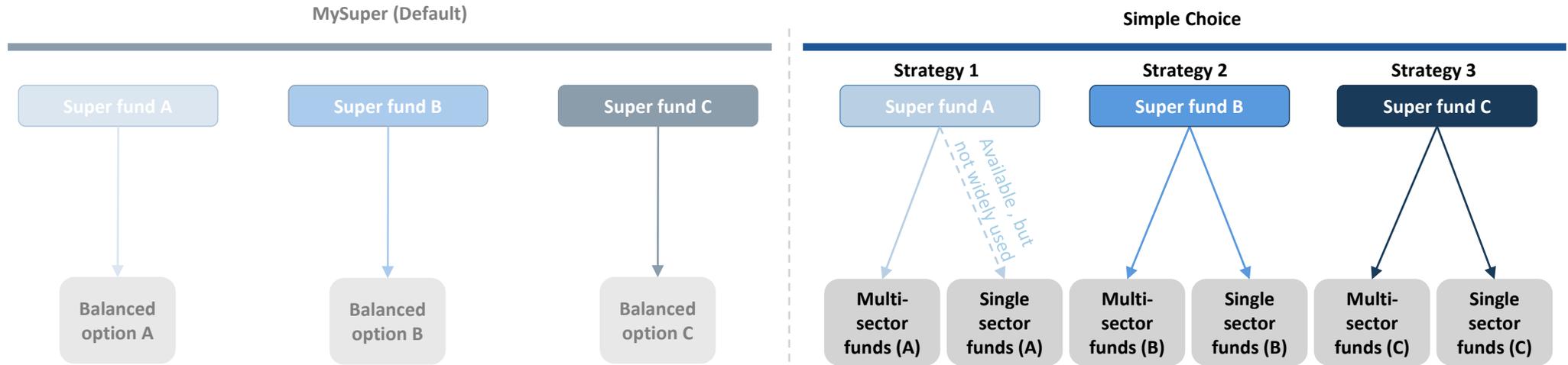
With the ability to create the same portfolio of market available investment product across Broad Choice platforms, Wraps are very similar to SMSFs so the application of a performance test would assess asset managers and products against non-relevant benchmarks (and potentially contrary to their TMD)



<b>Overview</b>	Investor (with support of adviser) creates an investment portfolio from market available investment options to suit their specific circumstances (and will use the same options irrespective of which Wrap platform they use)	Trustees create an investment portfolio from market available investment options to suit their specific circumstances (and will use the same options irrespective of other components (i.e. accountant, auditor, super & investment admin providers) used.
<b>Objective</b>	Every member has specific goals & objectives (typically set with adviser)	Every SMSF trustee has specific goals & objectives for its members
<b>Member engagement</b>	Members regularly review & adjust investment options (with their adviser) to suit target objective	Members regularly review & adjust investment options to suit target objective
<b>How members address poor performance</b>	Change investment options within Wrap platform	Adjust investment options used within SMSF
<b>Application of YFYS Performance Test</b>	Assess asset managers (of investment option) performance against a benchmark potentially different to PDS disclosure and a product's Target Market Determination (with no assessment of trustee)	Assess asset managers performance against a benchmark potentially different to PDS disclosure and a product's Target Market Determination (with no assessment of trustee)

# Simple Choice products have a lot of similarities with MySuper

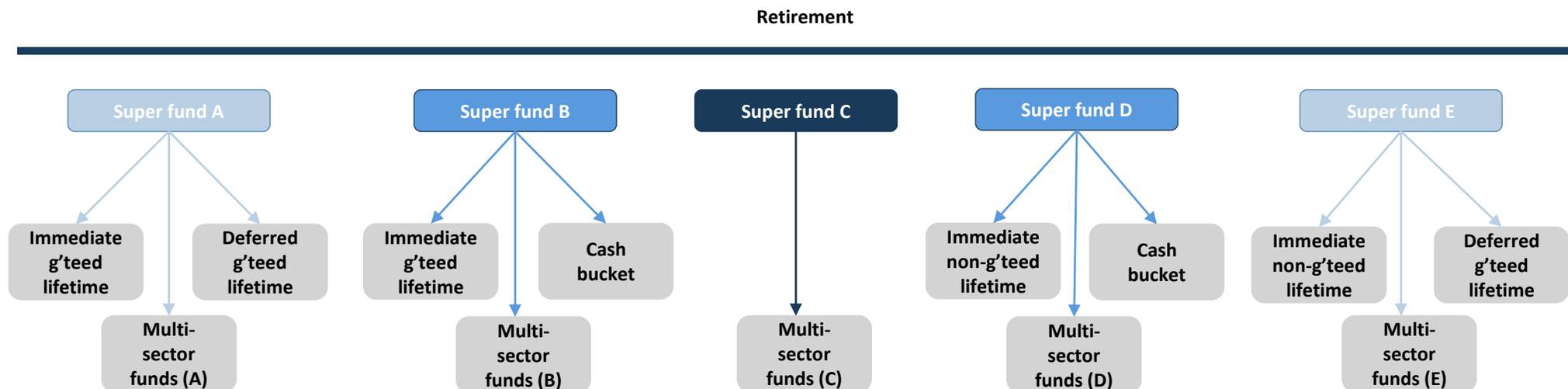
Like MySuper, trustees of Simple Choice superannuation products develop their own multi-sector and single-sector options, and are responsible for the performance of those options



<b>Overview</b>	Each super fund has its own MySuper option, and is responsible for the performance of that MySuper option	Investor (typically self-directed, maybe with adviser guidance) selects an investment option matched to their target investment strategy (potentially tailored for specific or additional allocations) from their super fund provider
<b>Objective</b>	Broadly consistent objective to grow their superannuation balance as fast as possible	Members have largely similar needs (potentially wanting tailored exposures and/or for additional engagement)
<b>Member engagement</b>	Members do not regularly assess performance (have largely been defaulted into by employer / prior employment, or chosen MySuper option for its performance)	Members have chosen their investment options (potentially with initial adviser support), but typically don't engage / review often
<b>How members address poor performance</b>	Change superannuation funds	Adjust / Tailor investment options within Simple Choice framework or switch superannuation funds for better performance
<b>Application of YFYS Performance Test</b>	Assess performance of trustee's investment strategy for disengaged members	Assess superannuation fund's performance for each of their multi-sector option investment strategies and their simple asset allocation strategies

# Retirement differs: members typically have more than a single investment option

In accumulation, a single trustee created Default option is suitable for many. However, in retirement, the dramatically different potential drawdown needs and spending profiles of members is unlikely to be met by a single investment strategy / option designed for 'most'



<b>Overview</b>	Members have very different spending desires and confidence in potentially running out of their savings in retirement, and need support in balancing flexibility and running out of capital before they die. Funds will provide a limited range of options for retirees, based on their member's likelihood to need and use those different product options
<b>Objective</b>	Members have dramatically different needs and confidence levels (requiring education and help in choosing solutions for them)
<b>Member engagement</b>	Members largely maintain a similar investment portfolio as they move into retirement (potentially with a cash buffer or lifetime income) but are not sure of the trade-offs involved, nor what is most appropriate for them (and so shift to reducing cash drawdowns and Age Pension for lifetime income)
<b>How members address poor performance</b>	Adjust / Tailor investment options within retirement product (few switching of superannuation funds to chase performance)
<b>Application of YFYS Performance Test</b>	None – as no single investment option is intended as a member's entire retirement portfolio, there should be no performance test for pension phase

# Implications

**Applying a performance test to Broad Choice products, all single-sector products in Simple Choice, and retirement products would result in poor member outcomes, and place a significant burden on providers (with additional cost for no member benefit)**

## Member implications (Simple Choice)

- ▶ **Potentially reduced choice of single sector options:** Broadens gap between Simple and Broad Choice product options, requiring investors to use Broad Choice to satisfy any demand for broader investment choice.
- ▶ **Increased awareness of funds underperforming asset allocation targets**

Overall: *marginally positive* (especially for disengaged) investors

## Other implications (Simple Choice)

- ▶ **Significant effort & cost in ongoing data collection**
- ▶ **Dilution and confusion over roles & responsibilities:** Members receiving ongoing advice in simple products may be told a suitable option for them is underperforming, despite it being assessed against an irrelevant benchmark to the member.
- ▶ **Wrong conclusions:** some assessments are incorrect, as they do not capture benefits of fee aggregation / family linking that apply in many choice products

Overall: *higher cost* for funds (and members)

## Member implications (Broad Choice)

- ▶ **Reduced choice & decreased flexibility to achieve member's desired outcomes:** Investment options that are expected to provide good performance in future will be unavailable to members (with reduced flexibility for members to choose their preferred investment options).
- ▶ **Increased cost (platform, tax, trading):** Increased number of 'failing' options (failed testing, despite being appropriately chosen by members and investment advisers / gatekeepers) will increase transaction costs and taxes, reducing member benefits.

Overall: *negative* member outcome

## Other implications (Broad Choice)

- ▶ **Significant effort & cost in ongoing data collection**
- ▶ **Performance test assesses asset managers, not trustee's performance:** So assessment will not address any reason for underperformance.
- ▶ **Dilution & confusion over role & responsibilities:** Members may receive notice that investment options underperformed, even though managers have addressed issues that caused underperformance (i.e. long-term performance remains low, but short-term performance has significantly improved).
- ▶ **Wrong conclusions:** some assessments are incorrect, as they do not capture benefits of fee aggregation / family linking that apply in many choice products

Overall: *higher cost* for members

**Alternative regulatory focus/approach:** YFYS performance test should only apply to MySuper and Simple Choice (multi-sector and broad single sector trustee-directed options) and not apply to Broad Choice products to acknowledge the role of financial advisers investment selection and ease the regulatory burden. A communication framework for communicating performance could be implemented using existing Broad Choice engagement structures

## Case Study 2: Retirement Income Covenant

# Retirement Income Covenant (“RIC”): Overview

## Purpose/intent of the regulations

**The Retirement Income Covenant looks to improve trustee’s focus on delivering outcomes for retirees.**

## Approach taken/current status

The RIC requires trustees to develop strategies (and potentially solutions) for retirees to maximise members’ expected retirement income over their retirement, and help improve sustainability and stability of retirement income, while maintaining some flexibility of capital access.

To date, Trustees have developed strategies supporting their existing approach to retirement, and the regulator has noted that only some Trustees have considered their membership characteristics and/or developed retirement products in response.

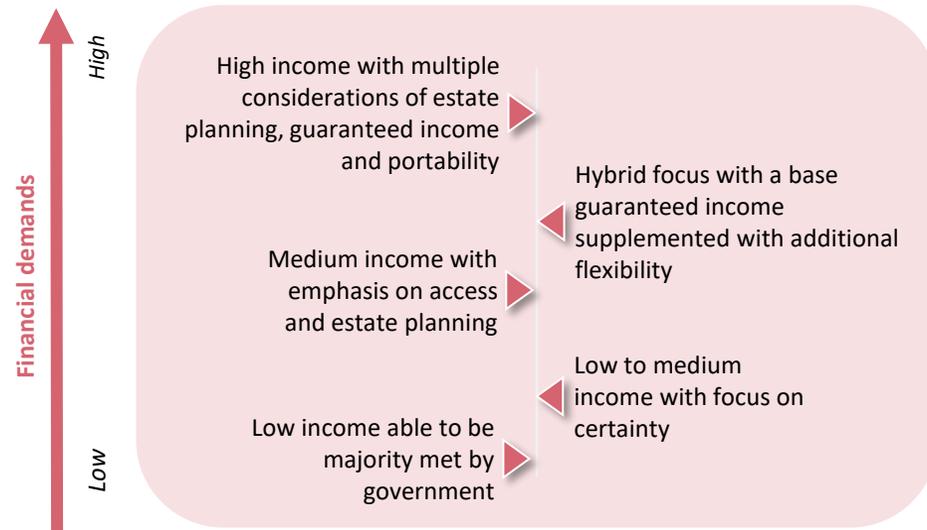
## Issues in relation to Choice

As Choice products are intended to provide choice to members (for members and their advisers to choose the best for their circumstances) imposing an additional framework on the Trustees of Choice products (who already provide choice) to guide or direct a retirement approach to members who are engaged and actively make or review decisions is additional cost and regulatory burden for limited (and potentially negative) benefit to members.

# Retirement needs vary for wealth and financial demands

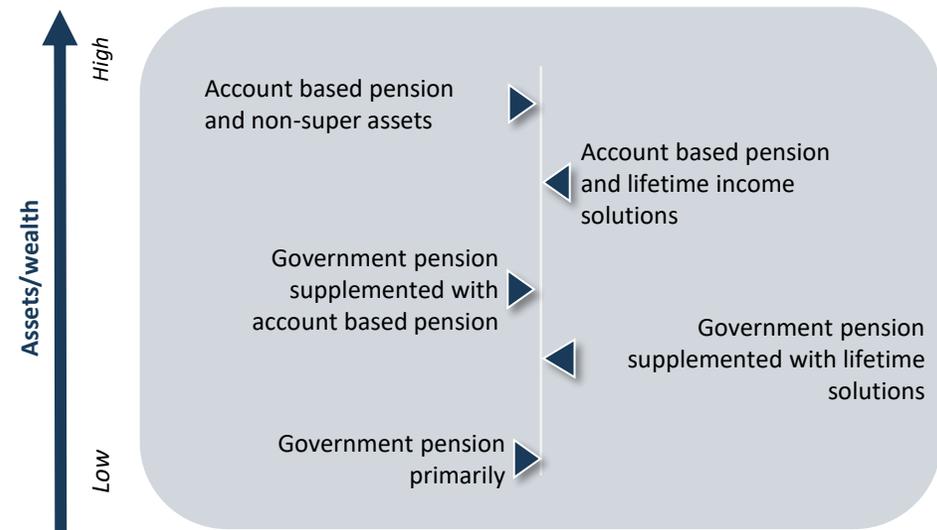
Member total assets or wealth and financial demands will dictate both retirement income sources and retirement product requirements

Relation between financial demands in retirement and product requirements



- ▶ Financial demands are not simply tied to level of income – additional factors including but not limited to portability and access to capital, risk/certainty and impact on estate planning and government pension also contribute

Relation between asset/wealth level at retirement and income sources

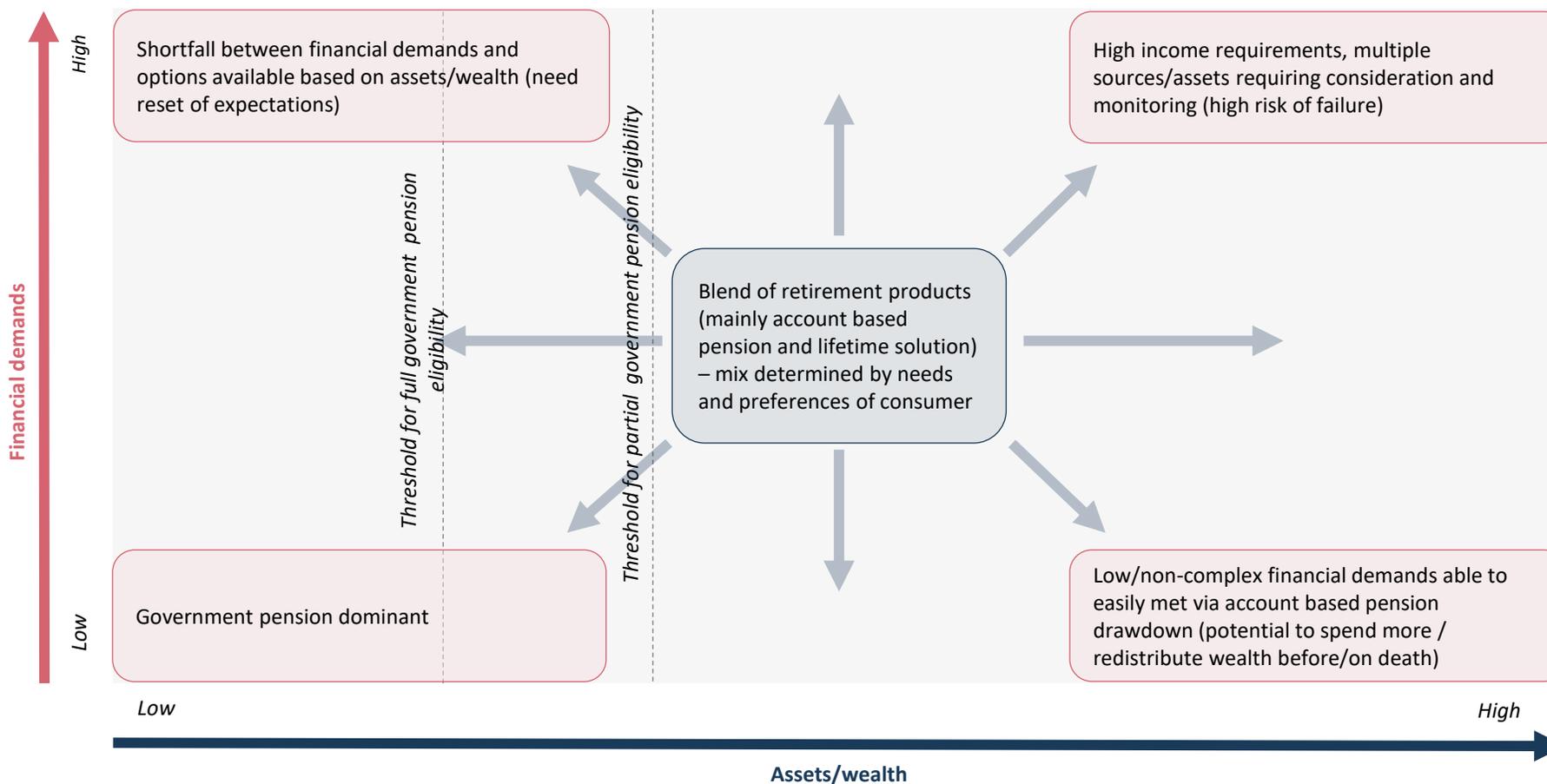


- ▶ As the level of assets/wealth at retirement increase, the potential income sources available also changes with the role of assets held outside of superannuation also likely to increase
- ▶ The correlation between wealth/assets and actual financial complexity is not perfect, the ability to influence the level of government pension receivable adds another layer

# Collectively, wealth & financial demands determine feasible & appropriate retirement strategy

Wealth and financial demands must be considered simultaneously, and a member's trade-offs will drive their optimal product allocation

Relation between asset/wealth level at retirement, financial needs and retirement strategy

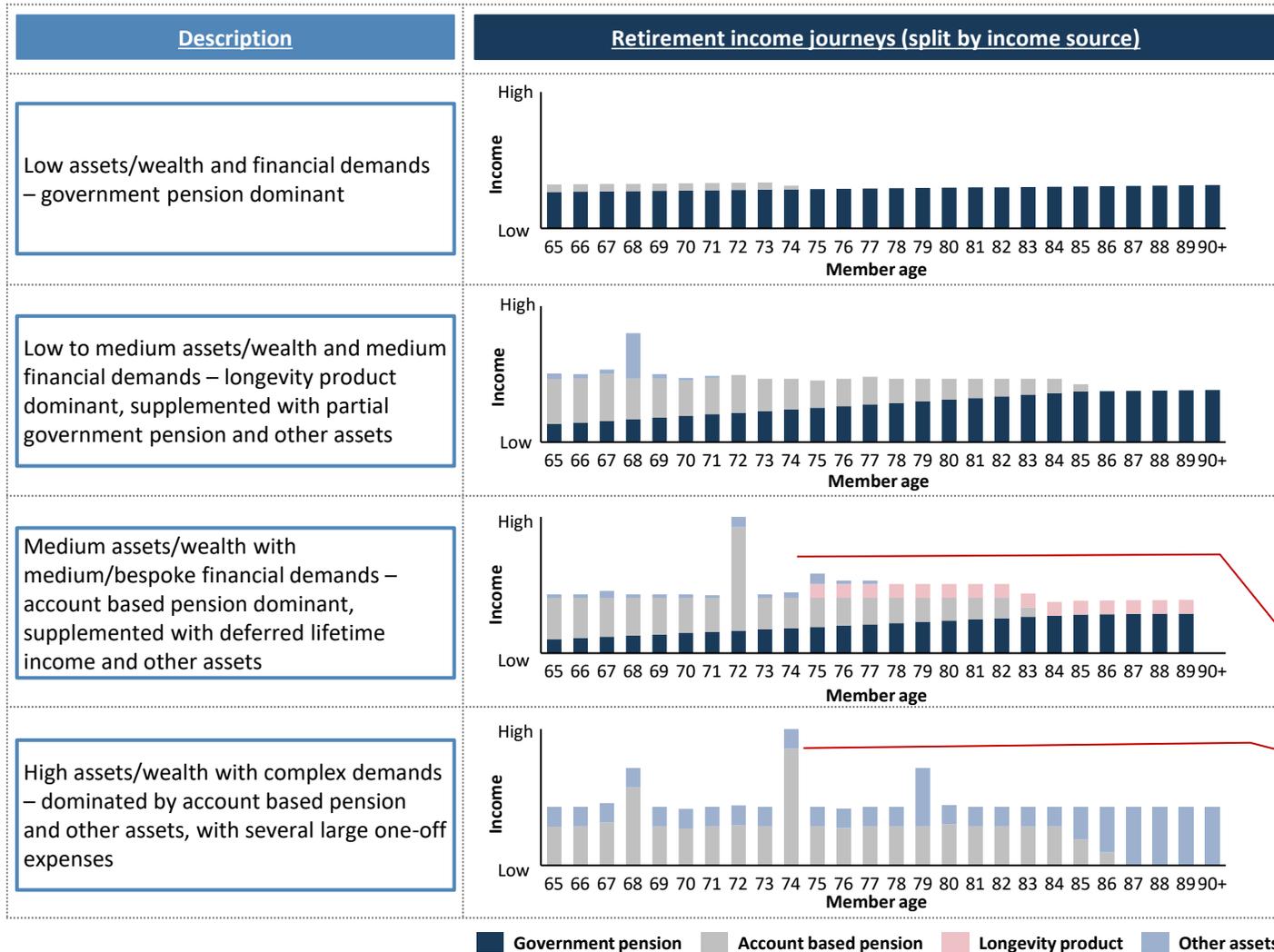


- ▶ The combined impact of asset/wealth levels and financial demands dictates options available and customer needs – the appropriate retirement strategy is the overlap
- ▶ This simplistic view makes two points clear: financial demands will exceed available options based on their assets/wealth for certain members/consumers; and there is no clear one size fits all strategy.

# The interrelation between income sources and variety of available options means there is no simple solution



Many products are available within each income source category, resulting in a broad range of retirement portfolios across multiple product types



Large 'one-off' fluctuations resulting from additional drawdowns to fund large expenses (e.g. car purchases, holidays) require flexibility

- ▶ In its simplest form, there are four sources of retirement income as outlined in the retirement journey examples
- ▶ Retirement strategy (and income source make-up) is more complex in reality, with decisions required regarding initial rollover or lump-sum withdrawal and the product type and option for each income source
- ▶ **Broad Choice context:** member engages an adviser to help them devise a strategy for their future retirement which includes optimizing the amount saved in accumulation, pre-retirement and then retirement. In this process, the investment and product mix that best meets the individual members retirement needs and objectives is agreed with the adviser.
- ▶ **Default context:** member has little engagement and may benefit from additional retirement solutions to optimize how their retirement savings are managed over time (RIC makes sense in this context)

# Implications

**Requiring trustees to develop strategies for members, when those trustees already provide choice for members, has the effect of an additional regulatory layer without any clear member benefits. For members who have a financial adviser, their adviser is best placed to understand their retirement needs and objectives and develop a financial plan that is suited to their specific circumstances**

## Member implications (Simple and Broad Choice)

- ▶ **Potentially restricted choice in investment options:** Trustees focusing on what's 'optimal' for members second guesses what advisers do for clients without having the benefit of deep personal understanding of clients (& adjusting needs), rather than focusing on providing choice of suitable products for consumers (especially given Choice trustees have more limited information on members' overall personal financial situation, needs and objectives compared to their financial adviser).
- ▶ **Potential constraints on member's retirement goals:** If Trustees focus on an 'optimal' solution for all members, they may not provide the same flexibility they otherwise would have provided for members and their advisers to create their tailored outcomes.
- ▶ **Confusion and lack of accountability:** Trustees informing members of the 'optimal' solution for their membership, when individuals are engaged, more financially literate, and advised to address their individual circumstances are met would create uncertainty and anchoring issues that decrease member choice and flexibility.

**Overall:** *increased* limitations (restricting adviser implementation)

## Other implications (Simple and Broad Choice)

- ▶ **Increased platforms costs:** Resulting from Trustees needing to develop and inform members of a retirement strategy (that doesn't take into account the full scope of advice and personalisation their financial planner will consider and/or incurs significant cost and effort in gathering the information which advisers already have)
- ▶ **Risk that newly added solutions may never get scale:** Choice Trustees already respond to adviser and member needs with a choice of retirement solutions to satisfy the advice personalised to the investor. There is a risk a choice trustee incur considerable costs and risks in a new retirement option that never achieves scale.
- ▶ **Any new longevity solutions would need to be developed by other providers (not the platform):** Platforms provide Trustee layer, admin and supermarket-like access to wide choice of investment products (who may choose to develop products).
- ▶ **Duplication:** Trustees of Choice products already aim to provide a degree of choice for retirees (and their advisers) to tailor the solution to their unique desires in retirement. Imposing additional requirements on Choice trustees would create an unnecessary extra layer.

**Overall:** *higher* cost and unused products

**Alternative regulatory focus/approach:** Regulators should acknowledge financial advisers provide advice to Choice members and recognise the unique circumstances of Choice members. RIC interpretation should encourage Trustees to support member choice and assist members who have made an active choice of product or investment option (either through their financial adviser or direct) within their broader financial circumstances. However, simple choice members are generally likely to require more guidance from trustees.

# Case Study 3: Member Outcomes



# Member Outcome Assessments Overview

## Purpose/intent of the regulations

**Member outcome assessments are intended to ensure superannuation fund trustees assess their performance towards promoting the best financial interests of members, and sharing key findings with members**

## Approach taken/current status

The current approach requires trustees to review and publicise their assessment of the benefits they provide members, i.e. investment performance & risk, fees & costs against peers (including scale, insurance, invest strategy, etc).

## Issues in relation to Choice

To date, there has been no instance of any superannuation fund acknowledging issues in their member outcomes (which is to be expected, given trustees have the obligation to consider those issues in any case, even before Member Outcome Assessments were introduced).

As a result, member outcomes are largely a duplicate (with additional reporting requirements) of trustee responsibilities, and there is little additional benefit to Choice members.

# Approach today of assessing member outcomes

## Member Outcome Assessments in their current state are too generic, and key components of the testing overlaps with YFYS

Member outcomes assessment component	Requirement	What is typically in scope / reviewed by product type		
		Default	Simple Choice	Broad Choice
<b>Investment strategy</b> for each RSE and each investment option offered by the RSE licensee	Analysis to assess investment performance against relevant objective/target/benchmark with consideration of asset allocation, investment strategy (and fees) impact	Asset allocation suits target risk / return outcomes		Sufficient & broad enough choice of options is provided
<b>Insured benefits</b> available to beneficiaries, relative to the costs of those insured benefits	Analysis of the insurance arrangements with consideration of affordability /erosion of member balances	A competitively priced Default group insurance cover suitable to super fund's type member characteristics		Simple Default group cover, and range of personal insurance offers to select
<b>Options, benefits and facilities</b> offered	Determination of the extent of the impact of the cost of these services on outcomes to members. Effectively the appropriateness of service costs being borne by all members or ability for relevant costs to be isolated and charged to specific cohorts	Yes & competitive (limited – not often used)	Yes & competitive (additional features more commonly used)	Choice (choose to pay for extra features)
Basis for the setting of <b>fees</b>	Consideration of the appropriateness of its fee structures, including the way it splits fees between flat and variable and the impact that the charging of the fees has on different member cohorts	Peer relative against other MySuper options	Focus on MySuper adjacent to Simple Choice offer (or core multi-sector option relative to MySuper products if no MySuper)	Competitive for target market and against similar Broad Choice products
<b>Scale</b> of, and within, the RSE licensee's business operations	Consideration of existing and projected scale including: relationship between account numbers and operating costs; impact of size on operational issues or investment strategy; bargaining power; ability to attract/retain key staff; and opportunity to pool risk.	Scale assessed on basis most relevant to product to support pass results (relative to small peer set, absolute size to deliver profit or keep costs in line with peers)		
<b>Operating costs</b> relating to the business operations of the RSE licensee	Consideration of costs incurred by the RSE licensee to operate and manage its business operations and how these costs impact on member outcomes	Without consistent industry benchmarking of costs, ensuring overall costs are comparable to market (or are within revenue earned on fees charged to members)		
<b>Performance</b> against the business plan and projections	Analysis of the RSE licensee's ability to continue to provide the outcomes it seeks to provide to beneficiaries (having regard to its performance against its business plan)	Assessment of appropriateness of MySuper (or core multi-sector options) to meet member requirements		Choice options are regularly assessed against forward looking ratings, used by advisers and clients

# Implications

**Member outcomes have been a significant regulatory & disclosure requirement (with additional costs to funds & members) without any additional benefit to members, as no improvements have flowed through to members**

## Member implications (Simple and Broad Choice)

- ▶ **Increased cost of trustee reporting to member outcomes:** Trustees have always been required to assess the factors in member outcomes as part of their duties. However, the additional transparency and reporting of the findings has been superficial and an additional cost to members without any benefit to members.
- ▶ **Assessment doesn't take into account variation of selection factors by product type, resulting in judgement against non-member relevant factors**
- ▶ **Increased overall transparency:** Whilst this is of potential benefit to members, as no fund has ever acknowledged they have failed (despite significant regulatory and other fund merger activity), it indicates that Member Outcomes is not providing additional benefit.

**Overall:** *increased* cost and transparency (overall benefit limited by inaction)

## Other implications (Simple and Broad Choice)

- ▶ **Additional cost:** Additional requirement on trustees to not only satisfy obligations but report to members and capture data to meet reporting obligations.
- ▶ **Limited impact:** There is no evidence funds have made significant improvements as a result of Member Outcomes Assessment (MOA) they would not have made as part of their usual trustee obligations.
- ▶ **Complexity:** Given a key focus of Choice product trustees (especially Broad Choice) is to provide a range of investment options to suit investors with higher advice needs, the assessment of member outcomes (providing choice in a cost effective, scalable and efficient manner) is highly complex for providers and provides limited useful information to members.

**Overall:** *increased* cost and complexity

**Alternative regulatory focus/approach:** Consolidate Member Outcome Assessment into other trustee obligations.

Case Study 4:  
Directing means and methods of  
member engagement &  
communications

# Directing means and methods of member engagement: Overview

## Purpose/intent of the regulations

The regulations prescribe the communication the funds must have with members, to improve the likelihood that members are aware of and engaged with their superannuation balance (and fund more broadly)

## Approach taken/current status

The regulations prescribe the provision of statements and communications to members (e.g. annual member statements).

## Issues in relation to Choice

The regulations impede the flexibility of choice and platforms to communicate to members effectively. For example, notices advising the he failure to meet the performance test do not consider platform features or allow trustees to provide meaningful information. For broad choice products, the communication requirements are more extensive for underlying investments in non-superannuation vehicles (e.g. managed investments).

Different Choice products support different ways that members (& intermediaries) want to be engaged (and the engagement mechanism is often a key selection factor for a Choice product). Choice products have significantly broader engagement mechanisms in place to support their membership (both with and without an adviser).

While broad requirements to communicate with members should required for all funds, the means and methods of that communication should not be prescribed for Choice products beyond that minimum level, because providers are continually evolving their engagement and interaction, and the regulations are unable to keep up with the technological evolution.

# Summary of how engagement works today

The approach today is not just due to regulations. Broad Choice products are developed to suit needs of high and tailorable engagement

Approach by product type	Default	Simple Choice	Broad Choice
<b>Member specific</b> Engagement level	Disengaged	Set and forget	Engaged
Timeframe mindset	It's a lifetime away	I should look at it	Now and beyond
Adviser role	Nil	Optional	Fundamental
<b>Provider specific</b> Emails	Limited	Some	All
Web access	Limited access, and low use	Some	All
Access points available	Hard copy / simple online access	Sometimes	Web, adviser data fees, apps, etc
Access flexibility	Limited	Some	High

## Client engagement & ability to access/communication

- ▶ Service proposition and engagement approach is a key selection factor of Broad Choice products/providers
- ▶ The ability to meet the engagement demands (including ability to tailor engagement/access for the adviser and client) is a clear differentiator from the Default and Simple Choice products/providers
- ▶ Imposing mandated communications (including method) for all superannuation fund members would be at the detriment of Broad Choice clients who already have the engagement/communication tailored to suit their individual needs.
- ▶ It must be recognised that whilst improvements to minimum standards may be beneficial for those at the bottom end of engagement, a blanket approach without consideration of clients who have already had their tailored needs met is not the optimal solution

# Implications

## Member implications (Simple and Broad Choice)

- ▶ **Reduced member experience:** Optimal/preferred communication channels and cadence already agreed, tailored and implemented with adviser.
- ▶ **Confusion:** Prior communications via adviser/intermediary or simply surmised (dependent upon obligation to pass onto member).
- ▶ **Increased engagement and awareness (only positive if existing service offering simply aligns with minimum standards):** Broad Choice service proposition/standard is generally well beyond minimum standards given it is a key platform selection factor – an increase in standards is therefore not expected to impact Broad Choice offerings, however, there is the potential to impact and potentially benefit some Default and Simple Choice members.

Overall: *reduced* member experience

## Other implications (Simple and Broad Choice)

- ▶ **Service proposition negatively impacted:** Service is a key selection factor which adds to and contributes to justification for higher cost – user experience shifts downwards closer to non-platform/Simple/Default
- ▶ **Additional and avoidable effort and associated costs:** Resulting from additional (and assumed unwanted) servicing, if a default means of forced communication is implemented.

Overall: *higher* cost for funds and *negatively* impacted service proposition

**Alternative regulatory focus/approach:** The regulatory framework should recognise that Broad Choice product users have already set-up and chosen their preferred engagement and communication preferences to their provider (which goes beyond existing minimum and is tailored to member needs). While improving minimum standards is desirable to improve member knowledge and engagement, any changes should exempt Broad Choice products, acknowledging these members have already made decisions re their communication preferences.

## Case Study 5: Fee templates and data requirements

# Fee templates and data requirements: Overview

## Purpose/intent of the regulations

Superannuation funds are (appropriately) obliged to provide details of all fees charged to members, which get reported across various comparison tools for MySuper and Choice (Trustee directed) products.

## Approach taken/current status

The data collected for fee disclosure is based around a superannuation only solution, where the trustee controls the underlying investments.

## Issues in relation to Choice

Choice products are designed to support members with multiple advice needs across multiple family members, and across both superannuation and non-super structures. To support those offers, administration fees are often subject to aggregation or family groupings etc; and investment fees will vary based on each product's actual experience of performance, transactions and negotiated asset management fees which are often commercially sensitive and are not captured within the current fee data templates.

# Summary of Choice fee arrangements

**While Choice products are able to satisfy requirements for fee disclosure (ASIC Regulatory Guide 97), the structure and amount of tailored fee arrangements for members, advice groups and asset management products means there is significantly higher complexity in providing fees into heat maps, performance tests, and comparison tools**

Fee types:	Administration	Investment	Investment Transaction	Member activity related	Other
Considerations for Default	<ul style="list-style-type: none"> <li>▶ \$ account fees</li> <li>▶ % based fees</li> </ul>	<ul style="list-style-type: none"> <li>▶ % based fees</li> <li>▶ Performance-based fees</li> </ul>	<ul style="list-style-type: none"> <li>▶ Estimate of transaction costs for investment pool</li> </ul>	<ul style="list-style-type: none"> <li>▶ Limited (typically only exit related transactions – as members do not undertake activity)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Default insurance rates</li> <li>▶ Employer based discounts for large cohort of members</li> </ul>
Additional Considerations for Simple Choice	<ul style="list-style-type: none"> <li>▶ Fee scales for member balances</li> <li>▶ Maximum fee caps</li> </ul>	-	-	<ul style="list-style-type: none"> <li>▶ Any member activity fees (eg advice, switching, buy-sell spreads etc)</li> </ul>	<ul style="list-style-type: none"> <li>▶ Additional insurance costs, and other fees</li> </ul>
Additional considerations for Broad Choice	<ul style="list-style-type: none"> <li>▶ Multiple account discounts (eg super &amp; non-super) for members</li> <li>▶ Family groupings and discounts</li> <li>▶ Negotiated fees for adviser groups</li> </ul>	<ul style="list-style-type: none"> <li>▶ Experienced performance-based fees will vary considerably based on underlying member experience (level of holding, time and when held), even though technically same for investment option across all platforms</li> <li>▶ Negotiated fees with managers for some advice groups / platforms are not always deducted from investment option fee disclosure</li> </ul>	<ul style="list-style-type: none"> <li>▶ Estimated transaction costs in new investment options types (i.e. SMAs) may be impacted by amount of member activity (and be different for same investment options across superannuation funds, based on member activity not actual investment option)</li> </ul>	-	-

It should be recognised that member outcomes does not require trustees to apply the same assessment / criteria as used in other APRA outputs (e.g. YFYS performance test, heatmaps, etc), and trustees will determine what fees and costs are appropriately benchmarked

# Implications

## Member implications (Simple and Broad Choice)

- ▶ **Confusion:** fees for Broad Choice products on dashboards and included in the performance test are likely to overstate fees actually being paid by members (actual fees are lower due to member or family discounts and/or negotiations by the client's adviser).

Advisers assess (and negotiate) fees for superannuation funds as part of individuals (and/or household's) overall multiple advice needs at the time of (and ongoing) recommending the Broad Choice product to suit these needs.

A narrow view about fees will be of little additional use to members given the personalized assessment they already receive and inaccuracy has a negative impact due to confusion.

**Overall:** *uncertainty* and *limited value* in applying current fee templates for Broad Choice products

## Other implications (Simple and Broad Choice)

- ▶ **Additional and avoidable effort and associated costs:** Resulting from additional reporting on investment options which are already highly reported (and whose fees / performance are standard across the market).
- ▶ **Increased chance of inconsistency (due to errors):** Reporting requirements can already be difficult/strenuous at the most simplistic level (MySuper, TDPs), more options (also more complex) will increase this difficulty and also likelihood of errors and inconsistencies with already available reporting.

**Overall:** *increased* cost and chance of errors

**Alternative regulatory focus/approach:** Fee templates should capture the range of different fee configurations allowing Broad Choice fee structures to be more easily reported and contextually interpreted by superannuation members

# Appendices



# NMG's Financial Complexity Model

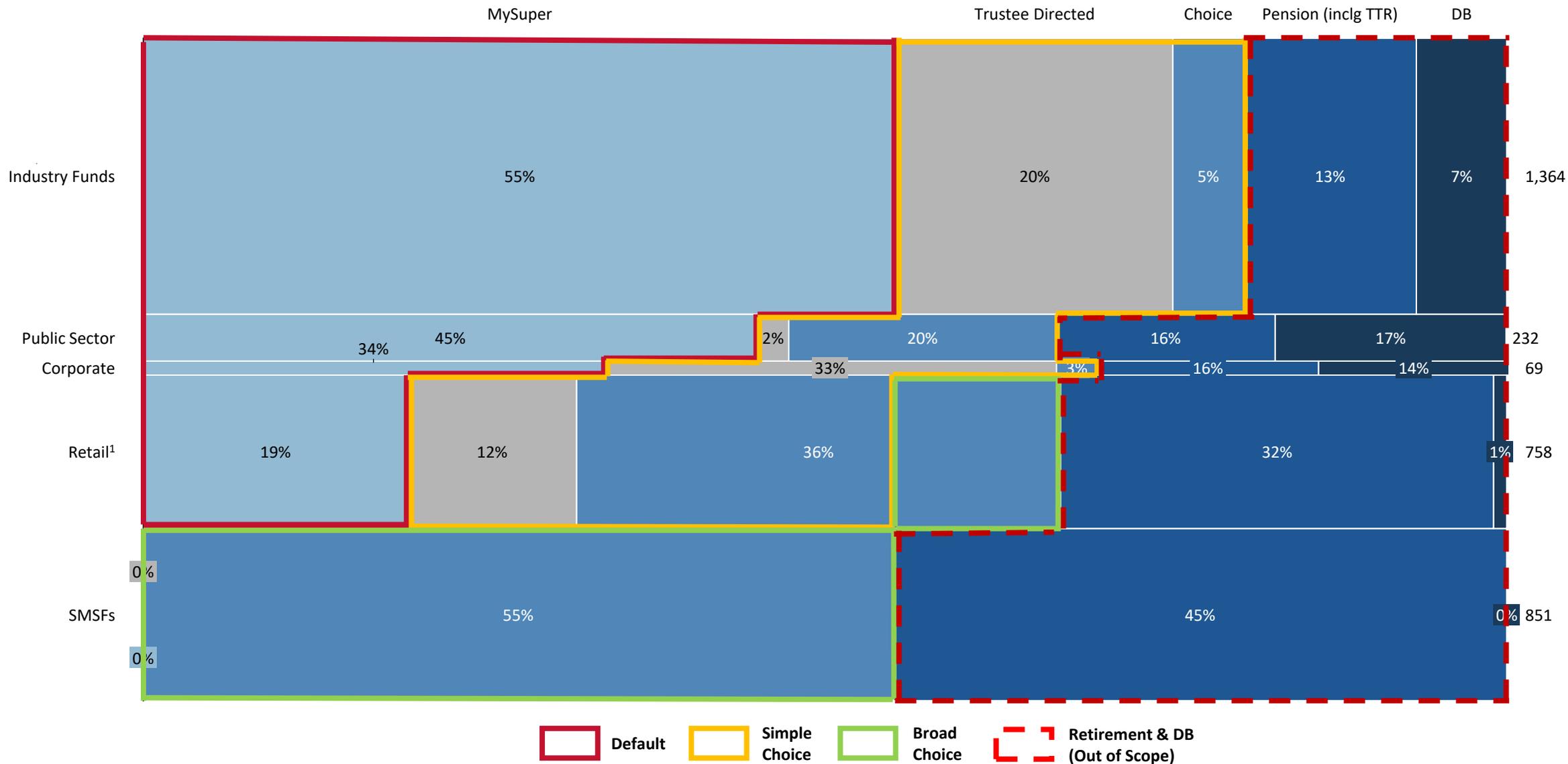
**NMG created a model based on the key factors (previously outlined) to understand the relative financial complexity and level of advice needs among Australian households**

## Model

- ▶ Financial complexity / level of advice needs has been calculated based on key contributing metrics including family situation, living arrangement, employment status, household salary, and wealth (including and excluding superannuation).
- ▶ Each factor is then assigned a value, which when summed results in a total financial complexity value per person allowing them to be classified.
- ▶ There are a maximum of 18 potential factors contributing to a person's financial complexity with population scores ranging from 6 to 29.
  
- ▶ **No advice needs:** Scores of <10 (14% of population)
- ▶ **Limited advice needs :** Scores 10 – 11 (19% of population)
- ▶ **Simple advice needs :** Scores 12 – 16 (46% of population)
- ▶ **Multiple advice needs :** Scores 17 – 19 (14% of population)
- ▶ **Many and complicated advice needs:** Scores > 19 (7% population)

Category	Factor
Income sources	Employment status – unemployed/casual/part time/full time
	Household salary amount
	Change to employment - job loss or unplanned job change/ career break
	Retirement (planned change to income source)
Breadth of wealth assets	Superannuation value
	Investments/savings value exc. superannuation
	Notable change to wealth - significant financial windfall (inc. expected)
Debt	Mortgage (existing or planned property purchase)
	Other debt – investment loans
Dependents	Family situation – single/de-facto/marriage/divorce/widow
	Children – expecting/newborn/teenager/adult/left home
	Parents - aged care (inc. expected)
Business Ownership	Business ownership / self-employed status
	SMSF ownership

# Industry mapping: Industry Segment vs APRA classifications vs Choice type



Source: NMG Super Funds Review, APRA, ATO, NMG Analysis

Note: [1] Retail will include Employer Master Trust – this contributes to Retail’s Trustee Directed allocation

# Thank you

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For more information,  
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