



# AXIS

## SUPER TRANSFORMED

SUPER PLAN EVALUATOR FOR

**ABC PTY LTD**

The page features a decorative border composed of large, overlapping triangles in various shades of blue (dark, medium, and light) and grey, creating a modern, geometric aesthetic.

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# TRANSFORMING YOUR SUPER

The first stage in the transforming of Super (which is the second largest employer funded employee entitlement) into a Superior Benefit for employees is to understand the current position. The AXIS Super Plan Evaluation is a combination of analysis of data using a proven algorithm and AXIS extensive technical and industry experience designed to arm you with the data and knowledge to either approach your current providers and place commercial pressures on them to improve the plan design, delivery and performance or approach the market for alternative proposals.

This Super Plan Evaluator is presented in three sections

1. The current situation
2. Evaluation of the benefit design and service delivery model
3. Super Transformations to implement in order to transform your super into a superior benefit for your workforce

The following transformations are a result of our evaluation of your current plan design and service delivery.

## TRANSFORMATION 1 - INVESTMENT PERFORMANCE

Investment strategy and performance play a crucial role in creating a superior benefit for employees. It is important to ensure that performance is satisfactory, as sustained underperformance can negatively impact member's income in retirement. Comparing the current investment performance with the market median is one way to measure performance, the other being comparisons to relevant peers.





# TRANSFORMING YOUR SUPER

## TRANSFORMATION 2 - SERVICE DELIVERY

Engaging plan members can be a difficult task, however if the demographic of the membership is understood, it can be achieved with superior outcomes.

The absence of employee engagement with their super raises questions around how **SERVICE PROVIDER** are servicing the members of the **ABC PTY LTD** default plan, and whether the members are receiving value.

To address these concerns:

- A service plan should be implemented, if not already, which incorporates both service targets but also measured activity over the period;
- This can be used by **ABC PTY LTD** to hold **SERVICE PROVIDER** accountable for services promised, as well as ensuring transparency in the services which are being delivered to members of the fund;

## TRANSFORMATION 3 - PROMOTION

Without a firm understanding of the value and services on offer and how effectively these are delivered to fund members, effective promotion of the default super arrangements can be an exercise in futility. With a keen understanding of the current arrangements in place, it becomes much easier for **ABC PTY LTD** to confidently promote the plan to the workforce as a superior benefit.

We note that the current participation within the plan is relatively low, with **only 36% of employees joining the DEFAULT plan.**

- The current level of participation suggests that employees may not perceive value in the current default benefit offering;





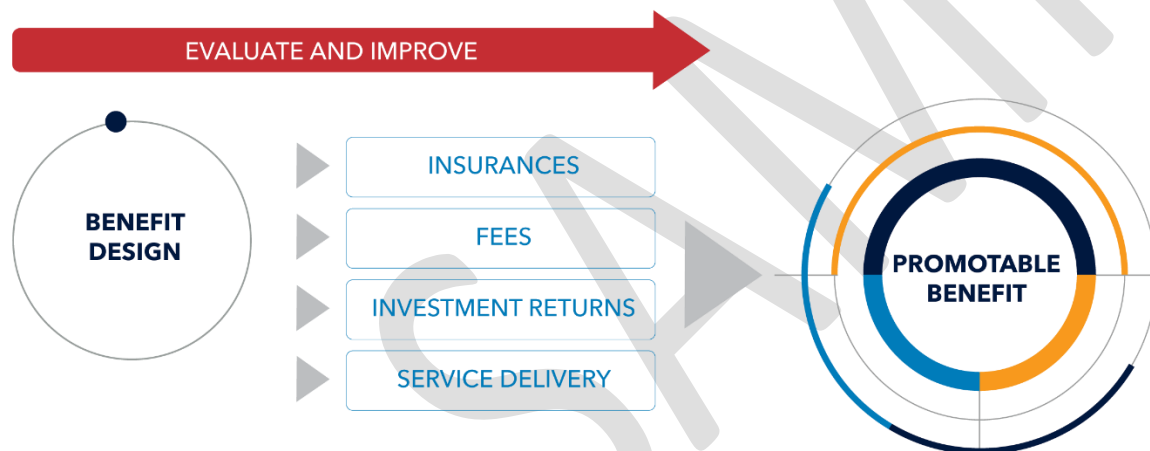
# SUPER – THE MODERN APPROACH

Super is an employer funded employee entitlement which is paid into a fund as an employee benefit. It is a significant cost which leading employers make work for them as a benefit to take care of their employee's financial well-being.

The traditional approach to super has resulted in the mismanagement of the employee's benefit. Poor plan design and service delivery has meant that employee super balances have been eroded unnecessarily.

A modern approach to super is to create a benefit that is promotable to the entire workforce and to ensure that the service delivery is managed so that providers are held accountable for their promises. There is a two stage process to transforming super into a superior benefit.

## STEP 1 - EVALUATE AND IMPROVE THE BENEFIT



### TRADITIONAL MODEL DEFICIENCIES WHICH NEED TO BE ADDRESSED

- **FEES** lack transparency.
- **INSURANCES** are poorly structured for the employees circumstances
- **RETURNS** low or variable
- The **COMBINATION** of the above factors result in a benefit that is not promotable.



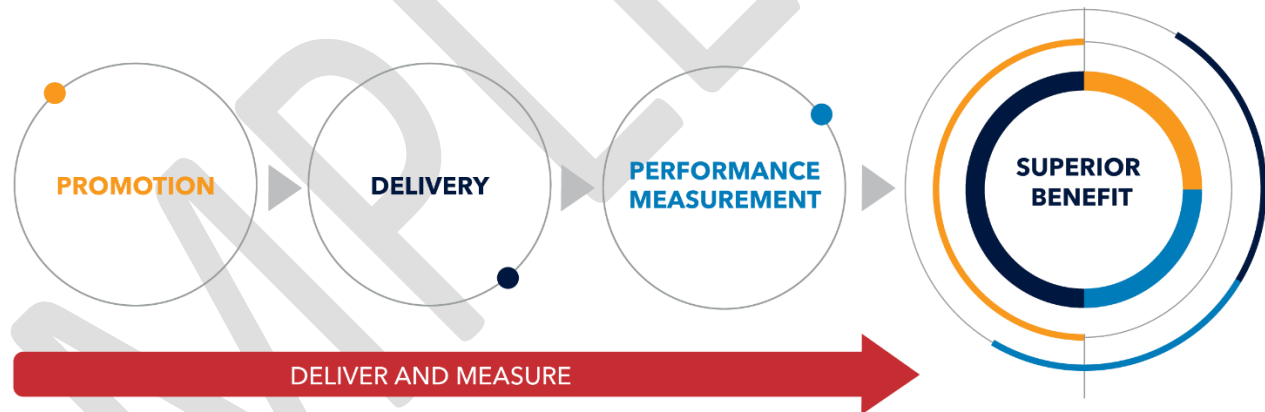


# SUPER – THE MODERN APPROACH

## STEP 2 - DELIVER AND MEASURE THE BENEFIT

### TRADITIONAL MODEL DEFICIENCIES WHICH NEED TO BE ADDRESSED AT THIS STAGE

- **If the benefit is poorly promoted** to the workforce, it cannot be a superior benefit for the company.
- **Delivery deficiencies** result in the workforce not being serviced well and hence not optimizing their super.
- **Providers are not held accountable** for their promises with no meaningful performance indicators against which they can be measured



The following sections analyse the plan data so that meaningful conclusions can be drawn, in order to transform the super into a superior benefit.





# CURRENT SUPER PLAN DESIGN – FEES

## CURRENT DESIGN AND COSTS - ACCUMULATION

The following table shows a snapshot of the [ABC PTY LTD](#) Corporate Superannuation Plan Total Assets, Fee Structure, and Total Cost.

<a href="#">ABC PTY LTD</a>	
<b>Membership (Accumulation)</b>	
Total Asset (\$M)	\$36.3
Total Members	506
<b>Fee Structure (Default Investment)</b>	
Administration Fee \$ p.a.	\$50
Administration Fee % p.a.	0.20%
Total Investment Fee % p.a.	0.51 – 0.54%
<b>Annual Cost of Default Investment</b>	
Total Cost of \$100,000 in Default super plan	\$790

- Total membership of 506 members refers to [ABC PTY LTD](#) payroll data, however [SERVICE PROVIDER](#) plan data shows 604 active members. This difference indicates there may be a number of ex-employees who have not yet been de-linked from the plan.





# CURRENT SUPER PLAN DESIGN – INSURANCE

It is critical to have the appropriate insurance for each employee and group so that unnecessary insurance costs do not erode the funds available for investment. Below details the insurance offering for Death and Total and Permanent Disablement (TPD) for new members under each plan.

	SERVICE PROVIDER
<b>Death and TPD</b>	
Death and TPD Cover Design	10% Salary * Years to Age 65
Death and TPD Cover to Age	65
Automatic Acceptance Limit (AAL)	\$800,000
# Members holding cover	640

- The majority of members (~84%) have not made any changes to their insured sums for Death and TPD cover, with a small amount (6%) having elected to increase cover and the remainder (10%) having cover either reduced or not held at all;
- Salary Continuance is available through the plan for a 2 year benefit period and choice of waiting periods (30, 60 and 90 days).







# CURRENT SUPER PLAN DESIGN – INVESTMENTS

The key to an optimal plan design relating to investments lies in the ability of members to diversify, together with strong, consistent returns, so that the employees' investable amounts are maximised. The current investment design and return target of the fund are shown in the table below.

SERVICE PROVIDER	
<b>Default Investment Design</b>	
MySuper Design	Lifestage
% of members in Default	Unknown
% of Plan Asset in Default	95%
<b>Investment Choice Menu</b>	
Number of Investment Options	20
Diversified Funds	14
Asset Sector Specific	6

- The **SERVICE PROVIDER's** approach to investing default members employs the lifestage method, with the growth asset exposure of each member starting high during their earlier years, and reducing as the member approaches retirement age;
- Greater than 95% of members money remains in the default investment, making **default option performance a key focal point for ensuring adequate outcomes are delivered to ABC PTY LTD employees;**





# CURRENT SUPER PLAN DESIGN – INVESTMENTS

INVESTMENT RETURNS TO PERIOD ENDING: 30<sup>th</sup> JUNE 2018

Investment Option	Return Target	Growth Weighting	1 Year Return	1 Year Market Median	3 Year Return p.a.	3 Year Market Median
Lifestage MySuper 1980s	CPI + 4.5%	90%	10.1%	10.5%	7.9%	7.8%
Lifestage MySuper 1970s	CPI + 4.2%	85%	9.2%	10.5%	7.4%	7.8%
Lifestage MySuper 1960s	CPI + 3.5%	70%	7.6%	9.2%	6.3%	7.2%

- Having strong default investment performance is vital to [ABC PTY LTD](#) employees who have not made an active investment selection, which we estimate to be greater than 95% of members;
- Any sustained underperformance can lead to sub-optimal outcomes in retirement, which is explored in the Super Plan Evaluator section further in this document.





## SERVICE DELIVERY

The second component of a superior benefit is the promotion, delivery and performance measures in place to so that the plan is considered by the whole workforce as a benefit of value to them. Without adequate focus on these areas it becomes a missed opportunity for the employer, but also the employer is not fulfilling its obligation to act in the best interests of its employees.

The following sections provide commentary of the promotion, delivery and performance management of the fund.

### CURRENT EMPLOYEE FUND PARTICIPATION (WORKFORCE PENETRATION)

Fund participation is an indication of the effectiveness of the promotion activities to the workforce.

The current employee participation rates in the Funds on offer are as follows:

Provider	Funds Under Management	No. of Members	% of Workforce
ABC PTY LTD Default Super	\$ 36,300,000	506	36%
Employees Exercising Choice of Fund		894	64%
<b>Total Employee Numbers</b>		<b>1,400</b>	<b>100%</b>

- One measure of whether a corporate superannuation plan and associated benefits is well received by employees is the participation rate. Generally, we would anticipate a minimum of 50% of eligible employees to be members of the default superannuation plan;
- **36% participation in the default plan is comparatively low**, and points to deficiencies in the structure and promotion of the default plan which lead employees to seek alternate arrangements;
- A total of 124 products were chosen by the 894 employees electing choice of fund.





# SERVICE DELIVERY – WORKFORCE PENETRATION

The Demographics and Participation of people by their length of service is shown in the table below.

Length of Service	Number of Employees	Employees in Default Plan
<3yrs	700	29%
3-4yrs	250	30%
5-6yrs	150	40%
>6yrs	300	45%
<b>Total</b>	<b>1,400</b>	<b>36%</b>

- The participation rate is low among lower tenured employees, falling from 45% for those who have been with [ABC PTY LTD](#) greater than 6 years, to 29% among those who have joined in the past 3 years;
- These differentials and information surrounding member engagement indicate potential issues:
  - A lack of promotion and education around the benefits of the plan;
  - Low servicing of members by the [SERVICE PROVIDER](#);
  - Certain groups of employees adopting a view that the plan offers lower value than alternative superannuation arrangements.





# SUPER PLAN EVALUATION

There are a number of factors that can impact the workforce benefit. An employer pays superannuation as a cost to their business, but the effectiveness of the payment as an employee benefit can be eroded significantly if not measured and managed properly.

Typically, employers and providers focus on the wrong performance indicators, which masks shortfalls in the design and delivery of the corporate default super fund and a reduction in the workforce future wealth and income in retirement. At best this is a missed opportunity for the employer to turn the cost of super into a valuable promotable benefit and at worse, an employer not fulfilling their obligations to do the best for their workforce.

By evaluating the super plan appropriately, and armed with robust technical data and comparatives, an employer can take action to improve the plan design and delivery which could be by negotiation with the existing provider or, if not satisfied, seek alternative proposals from the market.

Superannuation is a complex area and AXIS has applied its accumulated skills and knowledge to provide an examination of the relative costs and benefits of the existing Corporate Superannuation Plan and comparing them to alternative arrangements together with an assessment of the impact on the employees benefit. The evaluation is against benchmarks and other providers as appropriate, based on categories of employees and is in the following areas:

- Fees and insurance costs;
- Investment returns
- Service delivery and workforce penetration

The evaluation is then used to provide Super Transformations which the employer can execute to improve the plan design and service delivery into a promotable plan to its workforce.





# SUPER PLAN EVALUATION

## TOTAL ANNUAL PLAN COSTS

When analysing the impact of provider choice upon superannuation outcomes, we assess both the costs across the entire employee base, and the long term impact of differing cost structures on individual members. Below is the expected costs of the plan for one year across various providers:

Total Plan Costs	ABC PTY LTD Default Super Plan	Super Plan X	Super Plan Y	Super Plan Z
Administration Fees	\$98,000	\$115,000	\$230,000	\$205,000
Investment Fees	\$200,000	\$240,000	\$260,000	\$245,000
Death and TPD Premiums	\$280,000	\$255,000	\$295,000	\$305,000
Salary Continuance Premiums	\$220,000	\$215,000	\$155,000	\$220,000
<b>Total Plan Cost</b>	<b>\$798,000.00</b>	<b>\$825,000.00</b>	<b>\$940,000.00</b>	<b>\$975,000.00</b>

- ABC PTY LTD default super plan positions themselves as a low cost provider, and they remain the lowest cost in this comparison for both administration and investment fees;
- Death and TPD premiums remain broadly in line with alternate provider standard arrangements, however there may be some scope for reductions.





# SUPER PLAN EVALUATION – INVESTMENT RETURNS

## INVESTMENT RETURN TARGETS AND PERFORMANCE: AS AT 30<sup>th</sup> JUNE 2018

Product providers have target returns for their default options, but it is more also important to analyse how well providers perform against both return targets and peers.

The table shows the actual returns compared with targets for how a 42 year old member would be invested:

	<b>ABC PTY LTD Default Super Plan</b>	<b>Super Plan X</b>	<b>Super Plan Y</b>	<b>Super Plan Z</b>
Return Target	6.5%	6.4%	7.0%	8.0%
MySuper Return (3 Yr.)	7.8%	9.0%	7.7%	8.4%
Growth Allocation	80%	80%	90%	70%

- **Super Plan Y** and **Super Plan Z** both operate their MySuper default as a single investment option where members are invested, irrespective of their age or likely retirement goals, in the absence of an informed investment selection;
- **ABC PTY LTD** and **Super Plan X** operate their MySuper default as a lifestage strategy, where members are exposed to a higher level of risky (growth) assets while they are young, and the exposure to risky assets tapers as the members approach retirement;
- As the projections that follow demonstrate, it is important that members achieve strong and consistent returns over the long term to ensure adequate outcomes in retirement.





# SUPER PLAN EVALUATION - DEMOGRAPHICS

## CASE STUDY DEMOGRAPHIC DETAILS

Taking your employee demographics into consideration, we've based our evaluation on 3 comparative scenarios:

Scenario	Age	Salary	Current Super Balance
Young	29	\$70,000	\$40,000
Middle Aged	42	\$90,000	\$110,000
Older	55	\$110,000	\$200,000

The following scenarios and plan designs are particular to employees of [ABC PTY LTD](#), and should not be applied to any other situation or employer.







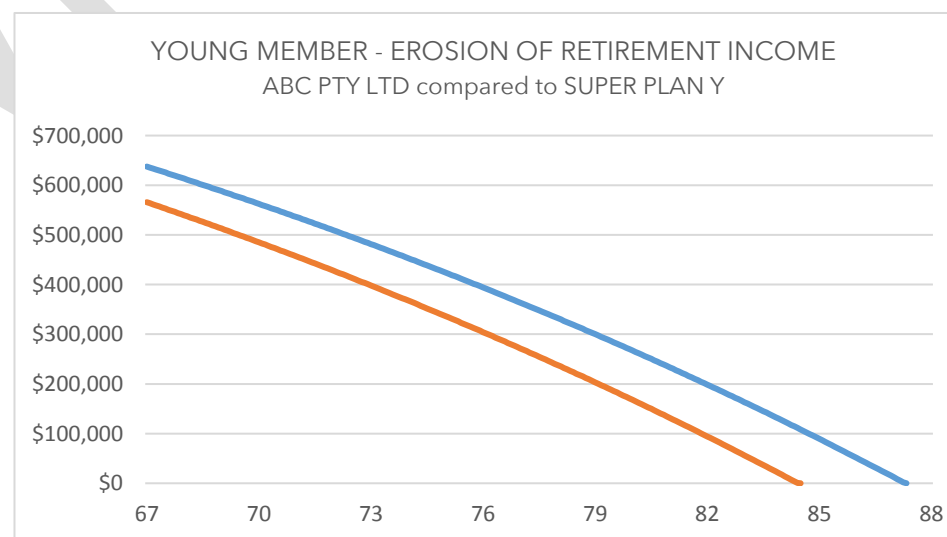
# SUPER PLAN EVALUATION – BENEFIT EVALUATION

## FEES AND INSURANCES

A broad measure of a plan's value comes in assessing the fees and premiums that will reduce the superannuation balance a member can expect to retire with. The table below represents the difference fees and insurances play while the same investment performance is achieved across all providers.

	ABC PTY LTD Default Super Plan	Super Plan X	Super Plan Y	Super Plan Z
Investment Return CPI + 4.0%				
Young	\$49,500	\$46,500	\$42,000	\$43,000
Middle Aged	\$41,000	\$39,000	\$36,500	\$37,000
Older	\$33,000	\$23,000	\$31,000	\$31,000
<b>Young Member - Estimated Retirement Balance (Today's Dollars)</b>				
At Age 67	\$639,000	\$609,000	\$565,000	\$570,000

- When considering both fees and insurance premiums, ABC PTY LTD default plan provides the greatest retirement income for members of each demographic;
- This extra difference in retirement balance can add years to the longevity of a member's superannuation pension;
- An extra \$74,000 at retirement, which is the difference between the highest and lowest projected retirement balance, can potentially provide an additional 3 years of worth income during retirement;
- This is assuming the member withdraws \$40,000 (rising in line with CPI) each year in retirement, earning a real return of 2.5% p.a. net of all fees.





# SUPER PLAN EVALUATION – BENEFIT IMPACT

A well designed plan coupled with a robust and well managed service delivery model can have a marked impact on the employee benefit. With tailored fees and investment returns for employees, appropriate service delivery can set in motion a strategy that increases the employee super balance and hence the income in retirement.

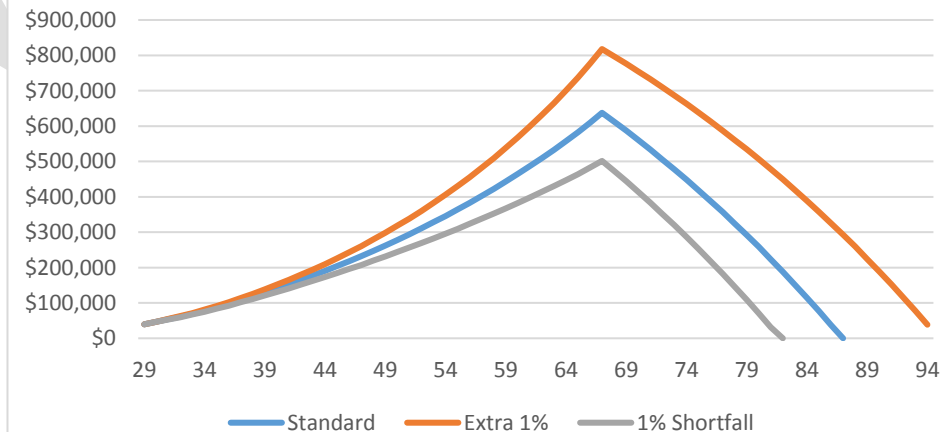
## THE IMPACT OF AN ADDITIONAL 1% RETURN

We illustrate the impact of an additional 1% on a young person's super. A 1% increase in returns results in younger members receiving a substantial boost to their balance at retirement, and consequentially, the standard of living they can expect in retirement.

Accumulation Return	Estimated Retirement Balance	Annual Drawdown	Balance Exhausted at Age
1% Shortfall (CPI + 3.0%)	\$502,000	\$40,000	82
Standard Return (CPI + 4.0%)	\$638,000	\$40,000	87
Extra 1% (CPI + 5.0%)	\$818,000	\$40,000	94

- Earning an extra 1% throughout the accumulation phase, the young member can potentially expect to increase their retirement balance by 28% (\$180,000).
- A relatively small difference in a members retirement balance, which is often achieved through investment performance alone, can lead to a significant gulf in retirement savings after a number of years of drawing a pension;
- This difference provides the member with potentially 7+ years of annual income to fund their retirement goals earning an extra 1%, while falling 5 years short earning 1% less, assuming the annual drawdown of \$40,000 in all scenarios.

IMPACT OF THE EXTRA 1% - YOUNG MEMBER





# PERFORMANCE MEASUREMENT

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What isn't measured isn't managed!

Historically, the Corporate Super Default Plan hasn't received the focus and attention it deserves by either employer or service providers, and meaningful performance measures not established to ensure that the benefit is delivering to the providers promises and, more importantly, delivering its intended purpose, future wealth for the workforce.

Without adequate measurement of the plan fees, insurance practices and delivery to the workforce, the following can result:

- If the benefit is poorly promoted to the workforce, it cannot be a superior benefit for the company.
- Delivery deficiencies result in the workforce not being serviced well and hence not optimizing their super.
- Providers are not held accountable for their promises with no meaningful performance indicators against which they can be measured

In our experience, we would anticipate and expect performance measures around:

- Workforce penetration trends to measure the effectiveness of promotional activities;
- Investment returns and transparent, meaningful analysis of the investment choices of fund providers
- The impact on the workforce wealth as a result of provider's activities.

However, Superannuation is a complex area and it is often not in the best interests of a provider to be transparent with all of the data, and they are very skilled at promoting their strengths and masking weaknesses, which makes setting accountability targets difficult for employers.





# DISCLAIMER AND DISCLOSURE

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### **Additional Brokerage, Benefits and Receipts**

AXIS Financial Group Pty Ltd and its representatives do not receive any additional brokerage, benefits or receipts of any form.





# APPENDIX

## APPENDIX - EVALUATION ASSUMPTIONS

### EVALUATION ASSUMPTIONS

The following assumptions have been made for the purposes of running the calculation:

- CPI of 2.5% p.a.;
- Example members used in projection are Male and White Collar;
- Retirement age of 67;
- Drawdown cease age of 84;
- Tax deductions for fees and premiums are passed onto members where applicable;
- Annual Salary Increases assumed as 2.5% per annum;
- Member and Administration fees remain the same for each platform pre and post retirement;
- Modelling for impact of insurance premiums has considered Death, TPD and Salary Continuance as per plan design;
- Super Guarantee contribution rate is in line with legislation as per the below table

Date	SG Rate
Current	9.5%
01/07/2021	10.0%
01/07/2022	10.5%
01/07/2023	11.0%
01/07/2024	11.5%
01/07/2025	12.0%





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