AXIS

FINANCIAL GROUP

DECONSTRUCTING SUPER

WHY YOU'RE NOT GETTING VALUE FROM YOUR EMPLOYER SUPER PLAN AND WHAT YOU CAN DO ABOUT IT

Break the misconceptions and discover how real service from your super provider can add value to your Employer Super Plan, turning it into a superior benefit for your workforce.

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1. WHAT'S WRONG WITH SUPER?

What is wrong with super? Unlike the Royal Commission of 2018, this e-book is not intended to dismantle the financial services industry and their efforts to service the employer super market. That said, there exists more than a few common misconceptions about super amongst employers, especially in relation to how much value they receive from companies who claim to be service providers. Given that the overall asset accumulated in super is now worth some $3 trillion, it would be naive to think most within the financial services industry aren't at least subconsciously trying to possess more of that asset.

It's time for employers to sit up and pay close attention.

Right now, most (if not all) product providers focus simply on the development and maintenance of products, rather than the management of super at an individual account level. To win business, most are happy to falsely promise individual account level servicing for employees - but what they receive is usually more akin to a call centre service. Worse still, it's a well-known fact that all providers are less than transparent - none of them disclose every dollar earned through their product structure, or how it affects their bottom line. When it comes to the current state-of-play for super, neither the government nor the regulator has anything positive to say - they limit their examination of service models to costs and the investment performance of MySuper defaults.

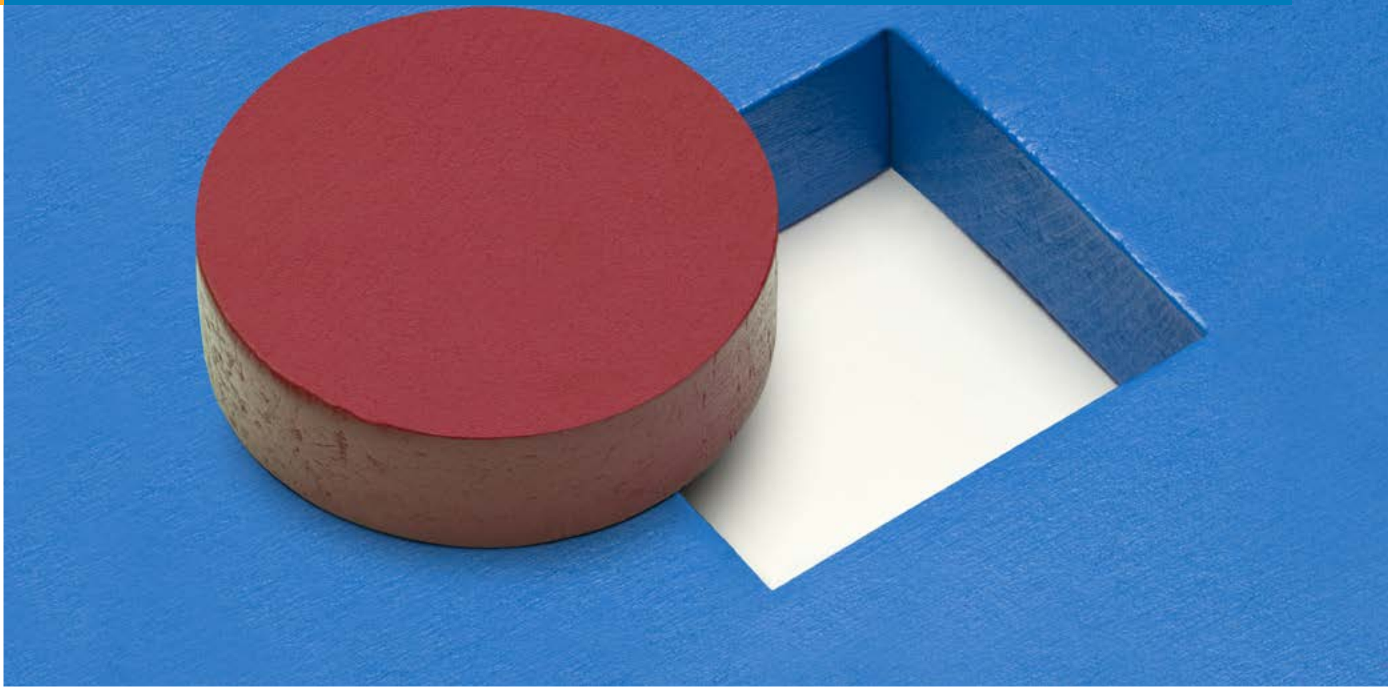
For HR and Remuneration executives, this presents a challenge. Most just aren't equipped with the necessary technical expertise to know if each employee's super entitlement is optimised and performing well.

Why is it important? Because when done right, super can be a powerful and motivating employee benefit.

So, it's time to start asking the hard questions around the delivery of value from your Employer Plan! We can help you do that.

This e-book focuses on the employer super sales and service models and AXIS' proof of value for that market segment. It shows that, by partnering with AXIS, medium to large employers have the opportunity to transform super into a highly valuable remuneration benefit for its workforce.

2. THE ONE-SIZE-FITS-ALL APPROACH



THE MYSUPER INVESTMENT DEFAULT

While there is clear evidence that individual super balances are not being optimised, the regulator's approach seems to focus on costs and the default's investment performance as the basis of scrutinising the value being delivered. This one-size-fits-all approach does not encourage individuals to engage with their super to optimise their balance.

For a look at the costs and fees of MySuper, please refer to and examine the APRA Heat Map: www.apra.gov.au/mysuper-product-heatmap.

Within employer super, the MySuper default investment strategy is a single-dimensional product option with a focus on low fees and a universally applied investment strategy, supported by basic call centre support at the individual level. A comparison of projected income in retirement within a number of MySuper defaults for employer super products indicates the following variation in long term outcomes:

Table 1

Projected Income in Retirement - MySuper Portfolio – comparison between a mix of products			
Persona	Product 1	Product 2	Product 3
Young	$39,500	$40,000	$41,400
Middle	$34,300	$34,400	$35,500
Old	$28,900	$28,700	$29,800

The projection is just an estimate, not a guarantee. The actual money you receive in your retirement may be very different from this estimate and can be impacted by a number of factors such as the investment option you choose, investment returns, fees, contribution levels, withdrawals etc. Amounts shown are in today's dollars and exclude any non-superannuation assets or entitlement to age pension. Current tax and superannuation laws remain unchanged.

Assumptions: https://www.axisfg.com.au/june2020assumptions

Product providers present themselves as being both product and service specialists. While all product providers do maintain an excellent record of individual balances, their focus is on providing generic rather than personal service.

WHY YOU SHOULDN'T SET-AND-FORGET

In recent years, super has attracted a lot of attention. Most of the commentary has been negative, in no small part due to the scale of remediation costs, and new regulations being developed and enforced. Theoretically, super is undergoing a process of rectification, change and improvement, but in reality continuous re-regulation has failed to properly identify and resolve the issue.

The traditional model within employer super is a sales model which targets revenue for the product provider, not additional benefit to the client.

In terms of employer super, the traditional sales and service models have been around for decades. From the viewpoint of market structure, the government appears to be developing a disengagement model by passing regulations that inhibit the development of an efficient market model based on competitive forces. Traditionally, there has been an overemphasis on selling product. When failing to deliver appropriate financial benefit, product providers have blamed the disinterest of both employers and employees, whilst using soft marketing activities as 'proof' of their own efforts to provide value and create engagement.

Despite the push to simply accept the status quo and be happy with the bare minimum, some forward-thinking employers have taken advantage of the opportunity to transform the statutory cost of super into a valuable remuneration benefit for their workforce.

So, how can you do the same?

The steps to measure and evaluate the performance of your product providers are not as simple as a cost comparison of administration fees, insurance premiums, and a look at historical investment returns. Any assessment of employer super requires technical expertise. Choices about super can have far-reaching impacts, either proving to be a long term mistake or significantly benefitting your business as a valuable employee benefit.

3. SUPER AS A BENEFIT

UNTAPPED POTENTIAL

There are many competing voices within employer super but one thing that's clear is that major stakeholders fail to address how optimal value can be delivered to the actual owner of the super asset, the individual employee.

Stakeholder	Value Focus
Government	Control over the total dollar value in the asset pool
Regulator	The reinforcement of the model defined by regulation
Super Product Providers	The standard default model, minimising cost and thereby maximising margin
Employers	Super as a statutory cost and not as a high value remuneration benefit

Employers must consider their responsibilities in delivering value around an employee benefit that is 100% funded by the employer. Not only is it a governance issue, but it could possibly be a missed opportunity to show employees that they are valued.

With some effort, employers can turn this statutory cost into a valuable remuneration benefit to attract, retain and motivate their workforce.

The table below compares the annual projected income in retirement for the MySuper default within one product against the same calculation based upon a portfolio developed using two different product's investment choice menus:

Table 2

Projected Income in Retirement – Best performing MySuper vs Active Investing			
Persona	MySuper	Portfolio 1	Portfolio 2
Young	$41,400	$56,400	$59,300
Middle	$35,500	$46,000	$44,400
Old	$29,800	$33,800	$34,500

The projection is just an estimate, not a guarantee. The actual money you receive in your retirement may be very different from this estimate and can be impacted by a number of factors such as the investment option you choose, investment returns, fees, contribution levels, withdrawals etc. Amounts shown are in today's dollars and exclude any non-superannuation assets or entitlement to age pension. Current tax and superannuation laws remain unchanged.

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Often employers look to product providers for advice and to add value to the Employer Plan, both at plan design level and at individual employee level. Each product provider has their own definition of how they add value; often what they deliver falls short of what they promise.

At present, very few service providers within employer super seriously offer what is known as personal scaled advice. Generally speaking, within the financial services industry, employer super is seen as a low margin service which provides an opportunity for further sales of high margin products and associated services.

In order to manage super as a benefit, companies need to partner with experienced super specialists whose job it is to know more about super than they do.

4. NEXT STEPS

Super is one of the largest savings pools in the world and yet it is apparent that the last stakeholder segment that is considered when it comes to optimising value is the 12 million individual account holders who own the asset.

Some of those individual account holders are employed by your company. You are one of those individual account holders. This is your opportunity to position your company as an Employer of Choice and make a difference to the retirement income of your workforce.

Contact AXIS Financial Group to arrange a consultation with either Roy Tan or Richard Matsinger to discuss how the AXIS Model could benefit your workplace.

AXIS FINANCIAL GROUP

Email: consulting@axisfg.com.au

Free Call: 1800 111 299

Website: www.axisfg.com.au

BOOK YOUR FREE CONSULTATION

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AXIS FINANCIAL GROUP

Level 4, 150 St Georges Terrace Perth WA 6000
PO Box 7259 Cloisters Square WA 6850

FreeCall: 1800 111 299

Email: consulting@axisfg.com.au