A SUPER GAME CHANGER

Implementing a superior employer super plan into your workforce.

Written by
Harry Burke
TECHNICAL SPECIALIST

AXIS
FINANCIAL GROUP

INTRODUCTION

The goal of the Employer E-Book Guide is to provide an informative and credible overview about employer super. While the guide is somewhat non-specific, it should be seen as a means to better inform employers of the benefits of selecting specialists who will deliver a superior value from your employer plan as opposed to the alternative.

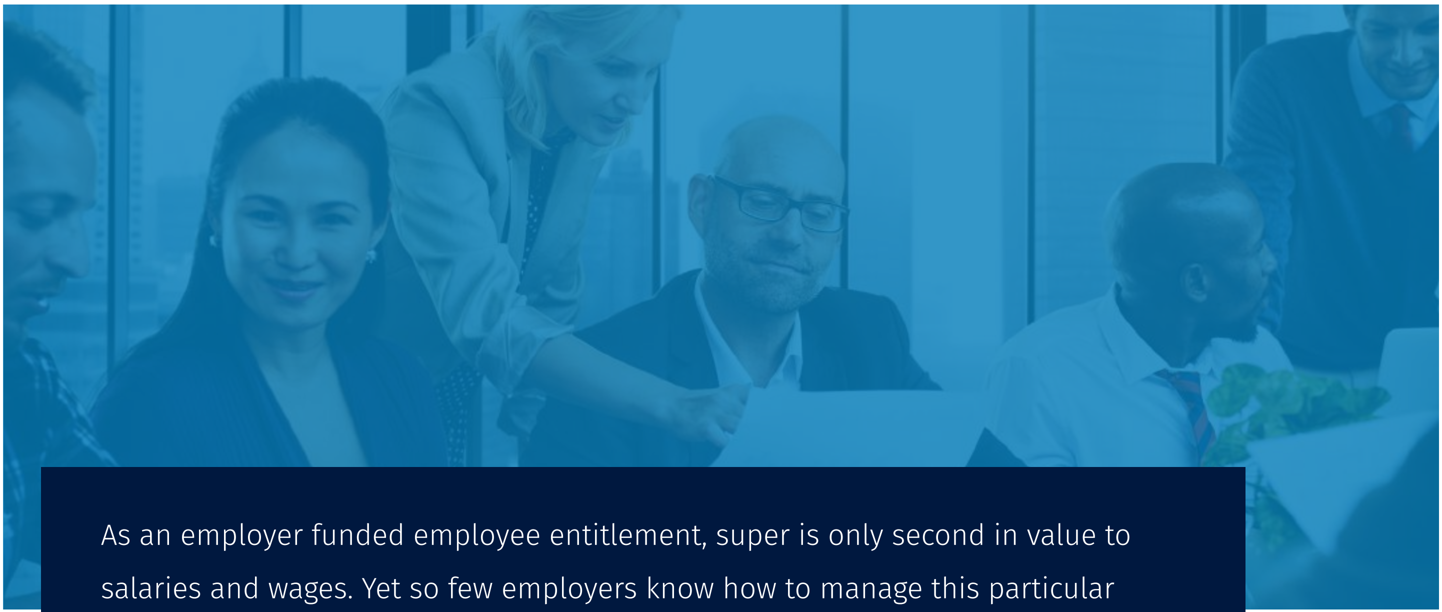
Employer super can appear to be full of misinformation and bias, identifying a lack of authenticity from the financial services industry. If this guide assists you in your journey towards making an informed decision around selecting a trusted combination of service providers, then the purpose of this communication has been achieved.

From here, once you have a general understanding of options available to you, I believe that it is important for you to seek the combination of products and services appropriate to your situation.

Of course, if you find this guide intriguing, I look forward to meeting you to introduce AXIS and the unique services we offer.

Best Regards,
HARRY BURKE
Technical Specialist
AXIS FINANCIAL GROUP

AXIS
FINANCIAL GROUP



As an employer funded employee entitlement, super is only second in value to salaries and wages. Yet so few employers know how to manage this particular client/supplier relationship, where an underperforming provider would be put on notice and even replaced for service delivery below industry standards. As a result, the employer is funding a large benefit (i.e. annual contributions plus accumulated asset) without knowing if the value delivered is motivating their workforce.

THE STATUS OF EMPLOYER SUPERANNUATION

Not to put too fine a point on where employer super is now, is it possible that the traditional employer super model is actually very dated? The service model operated by all products has the illusion of improvement but it is still the same model as we approach a new decade as was delivered over ten years ago.

Another relevant question at this time around employer super might be what the government's medium term consideration is as far as the purpose of super is concerned? Super has been a controversial subject since it was made compulsory in 1992, attracting certain entities whose primary objective was to drive their own financial growth strategies instead of their clients. The constant accumulated growth in asset through contributions and investment returns has meant that many of these entities have continued to make more and more revenue every year for little additional effort.

As a consequence, all forms of super have attracted more and more regulatory attention over the years, to the extent that super is seen as subject to constant change and not as a major achievement by a relatively small Australian nation.

THE POTENTIAL FUTURE FOR $3 TRILLION OF SUPER

The compulsory nature and guaranteed growth of super has created an industry of some size. The major achievement of the financial services industry is locked into the creation of product. So the financial services industry should really be referred to as the financial products industry.

The fairly recent Royal Commission identified mistakes within the industry and made an abundance of recommendations to the government, all of which will be introduced in one format or another. Does that mean that all products and all service propositions in the financial services industry are essentially bad or is it most are bad or just a few bad apples?

THE EVIDENCE?

There are various service models within the financial services industry around employer super:

- The master trusts like an AMP or an IOOF
- The industry funds like Australian Super and Sunsuper
- Financial planners utilising an individual product commonly referred to as wrap account
- Financial planners/accountants and self-managed super funds
- Government super

The master trusts have quite frankly taken a deserved hammering through the Royal Commission. Where owned by a bank, such financial services companies have now been sold or are being targeted for sale to a new owner. It is noticeable that market competition will probably be reduced once this process is completed.

For whatever reason, industry funds did not come under the same scrutiny as master trusts and therefore suffered much less brand damage. At its simplest level, it is arguable that modern awards should have been examined as far as super is concerned. Certain industry funds have been approved for use within EBA's, the result being that there is a number of industry funds approved for EBA's and not much else.

The publication of annual investment returns has been a tremendous influencer with the public in terms of product choice and yet the Royal Commission has not examined the differences in models around the classification of investment risk, methodologies used for asset valuation and whether or not independent valuers are really independent. The best performing funds seem to have a higher proportion of unlisted assets subject to independent valuation?

Many underlying practices by each product provider do escape public scrutiny, an example being the various factors involved in measuring investment risk.

Overall the evidence from the Royal Commission involves some bad practices but also the identification of some mistakes, some of which will inevitably happen again as all parties try to manage a $3 trillion asset.

WHAT ABOUT FINANCIAL PLANNERS?

Based upon the concept of holistic advice, it can be argued that financial planners provide financial education and therefore much improved financial management for their clients. In some cases, financial planners are product sales people with more of a focus on their own income and lifestyle to the detriment of their client's wealth management.

It is a known fact within the financial services industry that financial planners identify and target members of employer plans with high balances. Every product provider has a range of products aligned to their advisory capability and there is a belief that many a corporate plan is managed as a sales funnel to sell the higher priced financial planning service.

Financial planners do have their value but every client of a financial planner should consider a straightforward calculation measuring the cost each year against the benefit delivered and whether or not the same value could have been achieved within their employer's super plan for a proportion of that cost?

IS YOUR EMPLOYER SUPER IN CHECK? WE HAVE PROVIDED SOME QUICK INSIGHTS + TIPS

1. Understanding the value of employer super

From an employer perspective, super is a serious component of every employee's remuneration and yet so few employers ensure value is truly being optimised. The main reason for this is that super is a very difficult employee benefit to measure and manage. Unfortunately, from an employer's point of view, some even think their obligation ceases as long as they have met conditions specified around super guarantee legislation. Whether it is soon or a few years away, employers will find out, in what is developing to be a very litigious society, that they have a greater duty of care than they think.

2. Engage a specialist, not a salesperson.

While no employer sees the management of super as a full time role for an internal resource, there is much misinformation and mistrust in the market as to where an employer can access a service specialising in acquiring and maintaining the level of technical knowledge required to hold super product providers to account. Indeed the product providers themselves actually proliferate the misinformation in the market as they roll out their sales and retention strategies.

There are specialist sales people within the financial services industry who can grow a product provider's book above market trend over 5 or 6 years before they move on to a similar exercise for another company. It is probable that most major product providers around employer super have bigger marketing budgets than servicing resources. Employers are less attentive to the true value being delivered by their super provider, just as every provider applies psychology around softly managing relationships with their target market.

All employers need to realise they are not being provided the right information on which to base any decision.

3. Change of product doesn't mean change in beneficial outcomes

There are consultants who promote traditional solutions to employers where the employer is unhappy with their current product provider. The most common solution offered to employers is to run a market tender. The consequence of this process is the employer still has the same problem as before and has really only changed the label.

It is a fairly major change to move from one employer super product to another and the management involved will want to sell the outcome as a major improvement. So there will be some euphoria after the change is completed as management will want to promote the outcome achieved as beneficial.

4. Improvement in your employer super plan can be achieved with the right approach

In examining any level of improvement in an employer super plan, the first consideration is around the process to be adopted in managing the change and what definitive outcomes you are looking for as the choice of a new super provider involves a long term commitment.

Whoever is going to lead this process will require certain level of skills to be successful but will also require specialist technical input so that they can gather the right information on which to make a decision and how to continue to manage super as a remuneration benefit of high value.

The steps involved are relatively straightforward but achieving the improvement required is far from simple.

Internal management will require up to date technical information around product and service offerings in considering what the problem might be with the current super product. Most product providers have a superficial but well established sales and service approach in masking whether or not they actually deliver the value they promise. Most consultants who might advise you around change are not change specialists and are unable to provide you with the information required for an employer to make an informed decision.

Indeed some consultants are also engaged by super product providers, a factor that might present a conflict.

5. Information = knowledge enabling the right decision leading to quality outcomes

Given the level of misinformation around employer super, this is far easier said than done! The truth is that change and improvement management presents a much bigger challenge if the risks of failure are not identified and well managed.

The first requirement is the collation of appropriate information, then this requires discussion and hopefully everyone then feels on the same level of understanding in debating the problem. No one wants change for change's sake.

Decisions based upon knowledge are far more likely to work successfully. In addition, it is possible one might find that the appropriate solution to most of the problem is not a change in product provider at all. It is often likely that a change in perspective around employer super will lead to the resolution of the problem and an improvement in the value being delivered.

Once the problem has been defined and then the solution applied, super as a remuneration benefit must continue to be managed. If the solution involves staying with the current product provider as agreement has been reached on some necessary changes around servicing, as with any other supplier, the employer must have a continual assessment process to ensure the promised improvements continue to be delivered. In addition and also given the current market disarray, change and improvement in product performance will most likely proliferate as employers do demand changes and super providers are held to account.

Examining both supplier performance on an ongoing basis and also being market aware of changes being offered by other market players is a vital ongoing activity for super if the objective is to ensure a superior value is indeed delivered from this employer funded employee entitlement.

Will a change in strategy make a difference?

In considering all of the above thoughts, it is important to consider the difference that can be made.

There is a significant amount of data collected but for the purpose of this paper, let's simplify it a little:

The Base Employer super Model

Each and every product provider of employer super have a base model as applied to the majority of the members of their plans. Essentially each employee will sit in the MySuper investment default and receive general information but not the information to optimise their individual account balance. In examining returns for MySuper as at 30th June 2020, the base model would present as follows:

Product	Level of Direct Assets	Level of Growth Assets	5 Year MySuper Investment Return
Product 1	25%	70%	7.35%
Product 2	33%	76%	6.98%
Product 3	0%	90%	6.90%
Product 4	26%	69%	6.45%
Product 5	14%	70%	6.19%
Product 6	4%	90%	6.08%
Product 7	0%	90%	5.94%
Product 8	10%	90%	5.92%
Product 9	5%	70%	5.78%
Product 10	9%	95%	5.32%
Product 11	3%	87%	5.28%
Product 12	22%	65%	5.22%
Product 13	3%	87%	5.02%
Product 14	10%	85%	4.55%
Product 15	10%	90%	3.98%

Returns have been taken from an average of member account returns for products where this was available to AXIS (Products 6, 9 and 10), with all other products having their returns reported as disclosed by SuperRatings.

The above table details the annual return for the MySuper investment default option of a member under the age of 50 across fifteen different products. Figures for direct asset holdings have been taken from provider disclosures where granular information is supplied, and informed estimates where this detail is not disclosed explicitly. Growth asset allocation listed above is self- reported by each provider, meaning some providers – particularly those with high levels of direct assets where providers have some discretion around classification – may report a lower growth asset ratio than others are required to do for the same holdings.

The above analysis is presented as a statement of fact without actually identifying each product. If over the longer term, say 25 to 30 years, an individual can earn an extra 1% return in their super account, this alone will increase their income in retirement by over 20% per annum for the first 20 years of retirement.

Having the above data available in examining how super is being delivered as an employee benefit to your workforce would clearly enable an improved sense of care between employer and employee.

This is only one perspective around super as a remuneration benefit but it is a very important examination of the difference that can be achieved in value delivered. If you are to be an employer of choice, hard evidence must exist around your approach in attracting, retaining and then motivating what is sometimes referred to as your biggest asset.

An Optional Super Model

Let's examine a slightly different aspect of employer super. All employer super products have an investment choice menu. Would an individual's super value be enhanced either by using the current menu or indeed examining the current menu and asking for improved choices?

Let's again examine some summary investment returns as at 30th June 2020:

Product	Growth Assets	Level of Risk	1 Year Return	3 Year Return	5 Year Return
Product 1	100%	Aggressive	2.71%	8.78%	8.46%
	80%	Assertive	2.23%	7.36%	7.23%
	70%	Prudent	2.07%	6.67%	6.63%
	69%	Default	0.52%	6.65%	7.35%

Product	Growth Assets	Level of Risk	1 Year Return	3 Year Return	5 Year Return
Product 2	100%	Aggressive	0.82%	7.69%	6.78%
	80%	Assertive	1.01%	6.61%	5.85%
	70%	Prudent	0.97%	6.00%	5.57%
	90%	Default	-6.94%	3.07%	3.98%

Please note that past performance is not an indicator of future performance and should be used as a guide only.
Returns displayed above are calculated net of fees and taxes, and sourced from SuperRatings as at June 2020.

The above table details annual returns for similar choice investment strategies in two major employer superannuation providers, as well as the returns of the respective MySuper default.

The presentation of even minimal data starts to make one think. Is one product group simply better at investing than the other product group? Maybe the sensible question would be why such a difference in investment performance between product groups? Most people are in the MySuper investment default but it appears better returns are available from the investment choice menu? Using the level of growth assets as a single determinant of risk appears somewhat superficial if you start to consider other aspects of risk such as asset type, geographical spread and even liquidity.

The Impact on Projected Income in Retirement

It is an oft quoted phrase that past returns are no guarantee of future performance. In working in the financial services sector and given the complexity of regulation and the need to operate compliantly within an Australian Financial Services License, the basic challenges of knowing your client and then your products is both complicated and occasionally extreme. In examining what products might sustain their performance from a cost and investment return point of view, the variation in projected income in retirement at age 67 can effectively be anything up to plus or minus 20% depending upon whether you make the right decisions around your super or possibly the wrong ones.

The bulk of the working population is younger than age 50 and unfortunately making the same mistakes as previous generations. From an employer perspective, where there is a need to take every opportunity to motivate their workforce consistent with company commercial goals, management see super as just too hard in spite of the high value involved in this employer funded employee entitlement.

There are calculations that can be done to prove the value of employer super as it currently is and whether or not the existing employer super plan is optimal, what might be better, and if the default employer super plan is actually superior to the choices being made by more and more individuals.

Based upon an actuarial algorithm, research would indicate that a long term investment in a MySuper default does not optimise an employee's super. If that is so, why are so many members of employer super plans invested in the MySuper default?

Examples of a small proportion of products indicates projected income in retirement at Age 67 as follows:

Scenario	Age 25	Age 35	Age 45
Product 1 Aggressive	$44,300	$35,500	$25,900
Product 2 Aggressive	$42,800	$34,400	$25,300
Product 3 Aggressive	$41,700	$33,700	$24,900
Product 1 MySuper	$37,300	$30,600	$23,300
Product 2 MySuper	$37,100	$30,600	$23,500
Product 3 MySuper	$33,300	$27,800	$21,800

Assumptions: www.axisfg.com.au/june2020assumptions

Projected income in Retirement is a forward looking assessment on the outcomes AXIS expects each provider to deliver to members across their entire investment timeframe. This assessment incorporates factors such as fees, asset management, insurance, returns and sustainability, all of which are important determinants of likely outcomes for members. The above figures show the projected income in retirement for various members, demonstrating our expectation that choice investment strategies are likely to result in greater retirement outcomes when properly implemented.

This table provokes some thoughts around MySuper investment performance versus the selection of currently available choices from the existing investment menus.

Mass or Individual Servicing

In recent years, most platforms have minimised their investment in their products, especially around the idea of any kind of digital service interface at an individual account level. Any level of over-regulation around super only complicates the development of personal scaled advice. Then again, all product providers have made deliberate choices around defining their roles and there is material in abundance that defines and therefore limits their responsibility to both employer and therefore their employees.

Employers do need a specialist service to assist them in reviewing and forward managing their employees super as a remuneration benefit. It is arguable that super as an employer funded employee entitlement is as important as what the employee takes from their wage or salary for their current cash flow. In managing the comings and goings of all employees, every employer has to work harder and harder to attract quality personnel and once they have such employees in house, every employer has to work hard to keep key personnel.

However, some time over the horizon, the long term and valuable employee has to be able to afford to leave employment and access his or her super and other assets.

Where to from here?

For anyone involved in trying to understand and manage employer super, whether you are HR, Rem & Benefits, or CFO, it might prove to be a surprise conversation should you want to contact one of our consultants for a brief thirty minute conversation around what arrangement you currently have and what you should really be doing.

AXIS FINANCIAL GROUP

Head Office:
Level 4, 150 St Georges Terrace
Perth, WA 6000

PO Box 7259
Cloisters Square, WA 6850

Free call: 1800 111 299
Office: +61 8 9426 5800
Fax: +61 8 9426 5850
Email: consulting@axisfg.com.au

www.axisfg.com.au