



Annual Superannuation Performance Test – design options

Australian Council of Trade Unions (ACTU) Submission to the
Treasury Consultation on the *Annual Superannuation
Performance Test – design options*

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Introduction

Since its formation in 1927, the Australian Council of Trade Unions (ACTU) has been the peak trade union body in Australia. There remains no other national confederation representing Australian unions. Together with its 37 affiliate unions, the ACTU represents 1.8 million trade union members around Australia who work across a broad spectrum of industries and occupations in both the public and private sectors.

The Australian trade union movement led the campaign to establish superannuation to provide workers with dignity in retirement. Through industrial action, bargaining and advocacy at both the Australian Conciliation and Arbitration Commission and the High Court, the union movement won the introduction of superannuation for many workers. The ACTU and affiliates were instrumental in the creation of the Accord which introduced universal and compulsory superannuation through the legislation of the Superannuation Guarantee (SG) by the Keating Labor Government.

In the 30 years since the establishment of universal, compulsory, fully vested and portable superannuation, the ACTU and affiliates remain dedicated to ensuring that all workers live and retire in dignity and out of poverty. To do so, unions remain active contributors to the superannuation system. Member-representative trustee directors, nominated by the ACTU and affiliates, ensure that members' interests are the priority of these superannuation funds and that these funds continually demonstrate industry-leading, best-practice governance, investment performance and administration and return all profits to members.

It is vital that members have access to information about the performance of their superannuation fund so that they can make informed choices in their best financial interests. The performance test has played an important role in removing underperformance from the system and therefore, the test must now work to incentivise best practice to maximise returns for members and enhance members' experience of superannuation and their superannuation funds.

Working people need a strong performance test to ensure that their retirement savings - often the largest asset they will ever own - are grown and preserved to provide them with a dignified retirement. For-profit funds continually demonstrate underperformance and weaken members' retirement outcomes through removing money from members' accounts to enrich shareholders. For-profit funds should be removed from the system to ensure that members' best financial interests are upheld and their savings are maximised.

The performance test must be designed to uphold the objective of super and therefore, must apply to all funds and all products and reflect the long-term nature of the investment over workers' lives. The test must measure, and report to members, on the four components influencing their account balances – long-term investment performance, long-term investment fees, long-term administration fees, and profits paid out of member balances to corporate shareholders.

The test must enable investment in long-term, high return, assets which will maximise members' financial returns and improve their working and retirement lives and must not encourage inappropriate risk taking or a reduction in service standards. Consideration should be given to alternate test models to achieve the best outcomes for members including parallel benchmarks such as risk adjusted returns and CPI+ which give funds the ability to choose which they are assessed against based on their strategic approach while ensuring that their members receive the benefits of a performance test.

Objective of Super

The superannuation performance test must be aligned with, and incentivise funds to realise, the objective of super:

The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

As the objective of super is to preserve savings, the objective is not realised by for-profit superannuation products. A member's savings are not preserved if their savings are paid to shareholders and not returned to the member to deliver income for a dignified retirement.

Performance Test Objective

The performance test was created to identify poor performance; incentivise improvement and remove poor performing products and funds where sufficient improvement was not made. The test has largely met its objective with underperforming funds and products either improving their performance or exiting the market. The performance test must, therefore, now work to incentivise and reward best practice to ensure that the best possible value is delivered for members. To do so, the test must encourage performance above minimum standards not inadvertently incentivise funds to hug benchmarks. However, the test must do so in a way that does not create perverse outcomes for members by incentivising inappropriate, and ever expanding, risk appetites which do not serve members in the long-term.

Performance Test Design

A test that reflects, and maximises, returns to members over the life of the investment

To ensure that the superannuation performance test is consistent with the objective of super, measures performance towards members' best financial interests, and is useful to members in the data that it provides to them, it must measure, and reflect, the comparative value that members receive from their funds. In other words, the test must provide members with information that allows them to easily understand whether the dollar value in their account would be greater through an alternate fund.

To do so, the performance test must measure the contributors to members' superannuation balances: investment performance over time, investment fees over time, administration fees over time and the amount paid from members' accounts to shareholders as profits. These four factors each significantly impact the amount of money that members will be left to retire with and must be thoroughly and properly measured and communicated to members.

Long-term investment performance and investment fees

Superannuation is a long-term investment that generates returns over, and because of, its investment over a member's working life. Therefore, the performance test must assess, and report, on long-term investment performance and fees.

If the test is not sufficiently longitudinal, it will not measure the true performance of the investment and, instead, risks discouraging funds from investing in long-term, high return assets which are well suited to superannuation.

There are many investments, such as the transition to a net zero economy or meeting the housing supply crisis, which have the ability to generate high returns for members, and improve members' working and retirement lives, which require long-term investment. The performance test must not unintentionally discourage investment in assets which will deliver for members' best financial interests.

Long-term administration fees

To prevent temporary reductions in fees to circumvent the test, a long-term assessment of administration fees must be incorporated. Administration fees should be assessed over the same time period as investment performance - 10 years. This longer-term assessment will ensure that members are provided with a true picture of their expenses and funds are incentivised to permanently lower costs for members while providing high returns and quality service.

Profits to shareholders

A fundamental determinant of the amount of money that members receive from their superannuation funds is whether any of their balance is used to pay dividends to shareholders. Therefore, any test that measures and reports to members on the factors influencing their superannuation balances must include the profits paid to shareholders out of members' accounts.

As profits paid to shareholders are a key contributor to balances, measuring the amount by which they erode members' savings and disclosing this to members is a vital transparency measure to ensure that members can make informed choices in their best financial interests.

Furthermore, as the test aims to do with investment fees and administration fees, such assessment and reporting will likely incentivise the reduction of such payments which currently erode members' account balances and therefore, will assist members' best financial interests.

All retirement income products

To support the objective of super and members' best financial interests, the superannuation performance test should be extended to all retirement income products. To do so effectively, the design of the test must acknowledge and reflect that different products have different objectives and risk appetites based on member choice and stage of life.

The way in which superannuation delivers for members in retirement (deaccumulation) is very different to how superannuation delivers for members while they are working (accumulation). Without accounting for this necessary variability, the test risks driving the creation of a homogenous product, inappropriate risk-taking and the erosion of savings by fees and profits to shareholders.

The *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry* found that retirees had been put into low return, high-cost products which benefited the for-profit superannuation providers but were contrary to members' best financial interests. Therefore, the performance test must be extended to retirement products to ensure that retirees are not ripped off and do not lose their life savings.

Service to members

A fundamental component of superannuation funds' work is the service that they provide to members. Funds must provide quick and easy access for members to their money, high quality and accessible financial advice and information, and ease and speed of engagement with their fund.

The service a fund is required to provide its members often increases as members age and become more engaged with their superannuation as they transition to retirement and when in retirement.

The performance test must not be designed in such a way that it puts downward pressure on service standards as a cost minimisation strategy. Members' best financial interests are not met if they cannot readily access, understand and engage with their superannuation savings.

Realistic assumptions

The performance test, as with all regulation, must be based on realistic data that reflects the experience of a broad range of Australians. Therefore, the average assumed balance must be reduced from \$50,000 to \$25,000. This more realistically reflects Australians' superannuation balances and incorporates the experience of many workers whose incomes, and the current Superannuation Guarantee rate and payment parameters, mean that their superannuation balances remain low.

Alternative models

Alternative models for the performance test should be considered to ensure that the test is as robust as possible and incentivises funds to meet members' best financial interests.

Consideration should be given to the creation of parallel frameworks, such as risk adjusted returns and CPI+, where funds are given the flexibility to choose which of the two benchmarks they are assessed against based on their strategic asset allocation and fund design. This would allow for variations in the strategic approaches of funds while ensuring that all funds and all products are assessed by the performance test and therefore, all members' best financial interests are met.

Governance and Co-ordination

A Retirement Incomes Commission should be established to oversee the governance and administration of Australia's retirement incomes system. Retirement is sustained by the Age Pension, superannuation, and private savings. However, these three pillars operate largely independently from one another with very little co-ordination or relationship between providers. Despite this, the significance and complexity of the influence of each pillar on the others makes navigating retirement a labyrinth for members. A Retirement Incomes Commission will enable governance and coordination of the retirement incomes system to ensure that all sectors are performing in members' best financial interests, including superannuation through measures such as the performance test. The Retirement Incomes Commission will help to ensure that the performance test is functioning as intended and consistent with the objective of super in delivering for members.

Conclusion

Since campaigning for, and winning, universal superannuation, the union movement has championed the fundamental objective of superannuation - to provide dignity to all workers in retirement through investing responsibly and returning all profits to members.

The performance test must assess superannuation funds' performance against this objective and provide reliable information to members to allow them to make informed choices in their best financial interests.

The performance test has played an important role in improving underperformance in the industry and therefore, must now work to incentivise best practice for members. To realise the objective of super the test must apply to all funds and all products and reflect the long-term nature of the investment over workers' lives. The test must measure, and disclose to members, the four components influencing their account balances – long-term investment performance, long-term investment fee trends, long-term administration fee trends and profits paid out of members' balances to corporate shareholders.

The test must enable investment in long-term, high return, assets which will maximise members' financial returns and improve their working and retirement lives and it must not encourage inappropriate risk taking or a reduction in service standards.

Consideration should be given to alternative test models to achieve the best outcomes for members. Considerations should include parallel benchmarks - such as risk adjusted returns and CPI+ - to enable funds to choose which they are assessed against based on their strategic approach while ensuring their members receive the benefits of a performance test.

This review is an important opportunity to reform and improve the performance test to strengthen Australia's world-class superannuation system to ensure that it delivers best practice for members to enable all Australians to live with dignity in retirement.

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