

# Trustee Tailored Super

**The Next Generation**

MySuper Default Option

**Assisting trustees to implement**

A more efficient MySuper

# TTS Presentation Purpose

Purpose of meeting to:

1. Provide background details prior to TTS formal presentation
2. Engage in the outcome being sought through the Study
3. Enable the benefits of a new solution to be understood
4. Quantify the benefits of improved efficiency thru investing for the Super Purpose
5. Advise how measurement metrics can drive outcomes to serve the Purpose
6. Provide a link to Productivity Commission efficiency study and Treasury submission
7. Outline the inhibitions to change and achieving success

TTS is a new product invention that was patented in 2010, it will revolutionise this MySuper disengaged segment thru creating an extra 1% p.a. average return by tailoring

# TTS About

TTS:

Is owned by the Trustee Tailored Venture Fund (TTVF).

Has an established special purpose company Fiduciarys Friend Pty Ltd (FF) which holds the exclusive Australian TTS license. FF is designed to provide stable long term single sub licenses to superannuation trustees

Made submissions, presented to government and industry over the last 5yrs in order to influence outcomes, regulations and recommendations

Advisory Board (TTSab), consists of individuals with extensive experience in business, government, public relations and financial services

TTS is implementation ready now and discussions with funds are occurring. We will be submitting to the Productivity Commission Study and Government more generally.



# TTS Team

- Douglas Bucknell – Managing Director, Fiduciarys Friend Pty Ltd, TTS founder, AIDF, ARIA, APRA, HSBC, NAB

## TTS Advisory Board

- Dick Warburton: Board of Taxation, Caltex, CEDA, Citigroup, David Jones, Goldfields, Mallegan, Nufarm, RBA, Southcorp, Tabcorp, Westfield
- Mark Gray: ex Qld Under Treasurer - public sector, trade and investment, economic development; Macquarie, PM medal (banking and finance)
- Rodd Pahl: Founder and MD Bluegrass Consulting (public affairs/market positioning), Burson-Marsteller, IPR Shandwick, Network Pacific
- Tony Hodgson: BRI Ferrier, Coles, HSBC, JP Morgan Advisory Board, Melbourne Port, Pact Group, Tabcorp



Team is designed to achieve first fund implementation, marketing and sublicensing

# What's being said about Super?

*"MySuper – 80% of Australians not engaging with their Super"*

*"Government FSI & Cooper - Alternative default option models, annual projected retirement balances"*

*"Academia - Sequencing risk, post fee returns, career breaks, delayed retirement age, life-cycle investing"*

*"Treasury - Increasing pressure to change system - funding, regulations, tax"*

*"Engaged Members - Growth in SMSF's, direct investing, robo advice, member retirement outcome focus"*

*"Suppliers - Development of retirement products, for an ageing society, that meet the purpose of superannuation"*

The Financial System Inquiry (Nov 2015), included focusing on innovation in super, retirement (balance) incomes on annual statements, defining the Purpose of Super in legislation and a Productivity Commission review into MySuper efficiency

# MySuper Product Disillusionment

*"Homogenous, low fee, scale dependent, leading to industry consolidation"*

*"Poor investment efficiency, limited use of available MySuper member investment horizons and risk tolerances"*

*"One size fits all inappropriate - an 18 year old and 65 year old should be invested differently – so should those facing a 'basic retirement' versus self funded retirees"*

*"Purpose of Super to provide for retirement but low balances, limited financial knowledge and poor engagement in MySuper until too late in life"*

*"I want my trustee to look out for me, even though I'm disengaged. Once my balance grows I'll start a SMSF"*

*"Yearly return not linked to projected retirement balance or lifestyle"*

Centre for International Finance and Research (CIFR) August 2015 [industry survey and study](#), recommended 'Smart Defaults' like TTS. *"the main benefit is the potential for lifecycle approaches to eventually evolve into smarter defaults... gathering additional member information, and using it to build more tailored glide-paths...the implicit endorsement of lifecycle strategies within the regulations ... a useful mechanism for greater tailoring and further innovation, and hence a way to address the problems associated with a 'one-size-fits-all' approach."*

# SUPERANNUATION TRENDS & THEMES

- Primary focus has been on providing choice options and advice to engaged members – just 20% of total
- Recent focus is on building post-retirement products – desirable, but too late for many members
- Ideological commentary not on a better default (MySuper) option but on employers default fund employment award nomination

Why not start earlier with the 80% (MySuper) members to get a higher retirement balance in the first place?

# PROBLEMS WITH MYSUPER DEFAULT FUNDS

- No tailoring of options for members
- Potential lifetime earnings of members not optimised
- Inefficient use of investment horizons
- Personal retirement outcomes receive insufficient attention

- ❖ One size doesn't 'fit all'
- ❖ Needs of 25yo are different from 45yo
- ❖ Two 25yo's have different needs due to different Retirement Lifestyle prospects



## MySuper Characteristics Needed



A product that is more efficient than 'one size fits all' or Age only life-cycling



Focus on Purpose: Retirement rather than 1,3,5 yearly return outcomes



Product differentiation for trustees that caters for funds unique profile



Shows disengaged members their trustee is looking out for them



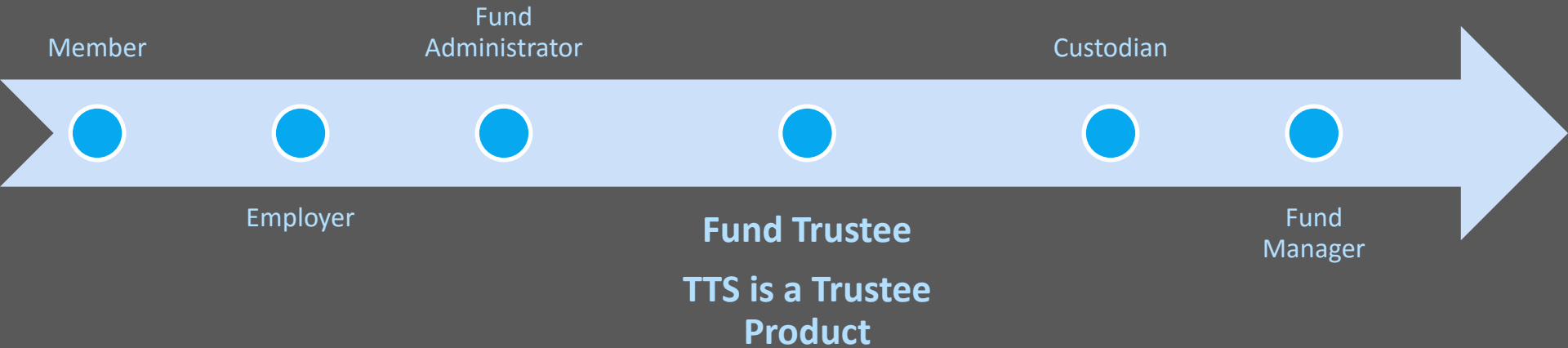
Is flexible, targets better outcomes in a changing retirement system



Grows Funds Under Management faster than competitors



# Super Industry Supply Chain – TTS Position



TTS is only implementable by a trustee, no other party has the member data access and link to investment side

# Trustee Tailored Super (TTS)

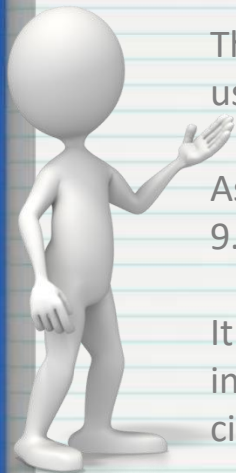
The Next Generation

click to find out how TTS  
combines these factors



Lifecycle

## What's new



The next generation of life cycling uses 'factors' beyond just 'age'

As permitted by MySuper Reg. 9.47 and legislation S29TC(2)

It enables greater tailoring to individual MySuper members' circumstances, by trustees.

Trustees may take into account a combination of these factors in designing a lifecycle investment strategy

- account balance
- contribution rate
- current salary
- time to retirement



TTS

## Retirement Balance



TTS combines those factors into a projected Retirement Balance per MySuper member

Following the FSI, projected Retirement Balances will be included on annual statements

Retirement Balance is key to the purpose of the Superannuation System – retirement lifestyle

TTS tailors MySuper by using those Retirement Balances to focus on the purpose of Super

click to find out how TTS  
combines these factors



Lifecycle

## TTS System



- ❖ Set Lifestyle Retirement Bands (LRBs) for the MySuper fund
- ❖ Set glide paths for each LRB
- ❖ Calculate projected retirement balance per MySuper member

## TTS Process

- Allocate members to their LRB
- Place on their LRB glide path for their age
- Switch member investment option
- Recalibrate each year for changed member circumstances, new variables e.g. age pension, tax rates, retirement lifestyle factors

# Why Now – Right Timing?

In late 2015 the FSI recommended and the government accepted, proposals to include:

- ❖ retirement incomes (balances) on member statements
- ❖ legislation of the Purpose of Super (retirement income/life-style) and
- ❖ have the Productivity Commission review the efficiency of existing Default (MySuper) arrangements.

Next generation lifecycle MySuper products are supported by government, regulators and legislation

Also in 2015, [CIFR Research and Survey](#), confirmed that the industry's attention has moved to life-cycling, member engagement and tailoring to default members. It concluded:

***“Smart defaults** – As improved member outcomes are likely to result from the capacity of funds to tailor products, regulators and policy makers might aim to foster the development of smart defaults by accommodating the evolution of lifecycle products beyond simple age-based strategies.”*

This pressure on funds is useful, but they are conservative by nature, their personal incentives to drive change are muted - they need clear direction and strong measurement

# INHIBITIONS TO CHANGE ACHIEVING SUCCESS

- Potential career risk for seasoned end of career executives and directors – limited personal upside and huge MySuper FUM involved
- Lack of competitive tension to act in (disengaged) MySuper members interests
- Wrong short term KPI/Measurement - Potential lifetime earnings not optimised and inefficient use of investment horizons
- Inertia, lack of Knowledge of TTS as an option

How to provide reputational cover/support for 1<sup>st</sup> implementers?

# METRICS TO DRIVE OUTCOMES

## Recommendations

1. Dual measurement via key performance indicators (KPI), one for the accumulation phase and one for the retirement phase
2. Accumulation Phase KPI should be **Projected Retirement Balances**

## Key Attributes

1. Already required to be calculated as starting position for retirement income
2. Expressed in Today's Dollars for easy comparison and included on annual statements
3. Existing (ASIC approved) calculators on fund websites can be used for consistency

This is consistent with the objective and the other retirement incomes KPI in fact adds necessary rigor to that element.



# MEASUREMENT OF METRIC PROJECTED RETIREMENT BALANCE

- How is this MySuper Fund performing (ref. Productivity Commission review)?
- How is much did the average projected retirement balance change (last annual statement to this annual statement or over 3 or 5 annual statements)?
- For those with a projected retirement balance that indicates, for example retirement on the Full Age Pension, how much did the average grow (ref. other pillars of the system)?
- For individual members, how is my fund performing, what type of retirement can I expect, what impact did that wage increase/career break/maternity leave/voluntary contributions last year, have on my retirement prospects and what action should I now take?

Answers to these questions are key to fulfilling the Purpose  
They will drive a more competitive and focused industry

# Productivity Commission Efficiency Study

We will present this evidence of lack of current operational, allocative and dynamic efficiency to the Productivity Commission review

TTS can substantially improve the outcomes and performance of MySuper on an after fees basis

The suggested tender for MySuper, leading to significant industry consolidation & dislocation with more oligopolistic tendencies, will not be warranted

A dynamic competitive market where trustees tailor outcomes to disengaged MySuper members, based on their funds demographics, thereby improving average retirement lifestyle is now possible

The correct action now can build a vibrant industry that achieves its purpose and measurable

# PATHWAY TO ACHIEVING THE PURPOSE

1. We broadly agree with the FSI Proposed purpose
2. Include in your consultation the FSI Theme *“Drive economic growth and productivity through settings that promote innovation.”*
3. Equal footing should be given to FSI Recommendation 10 *“Improving efficiency during accumulation”* as 11 *“The retirement phase of superannuation”*.
4. The FSI Subsidiary Objectives should be re-ordered logically (6,4,3,5,1,2)
5. Subsidiary Objective 6 does **not** hold true for 80% of (MySuper) Members – their trustee is sophisticated – some complexity (with higher post returns) is warranted

How to encourage improved outcomes that achieve the Purpose?

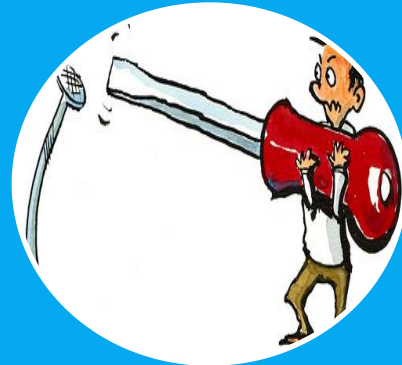
# Super Trends and Themes



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Recent focus is on building post-retirement products – desirable, but too late for many members



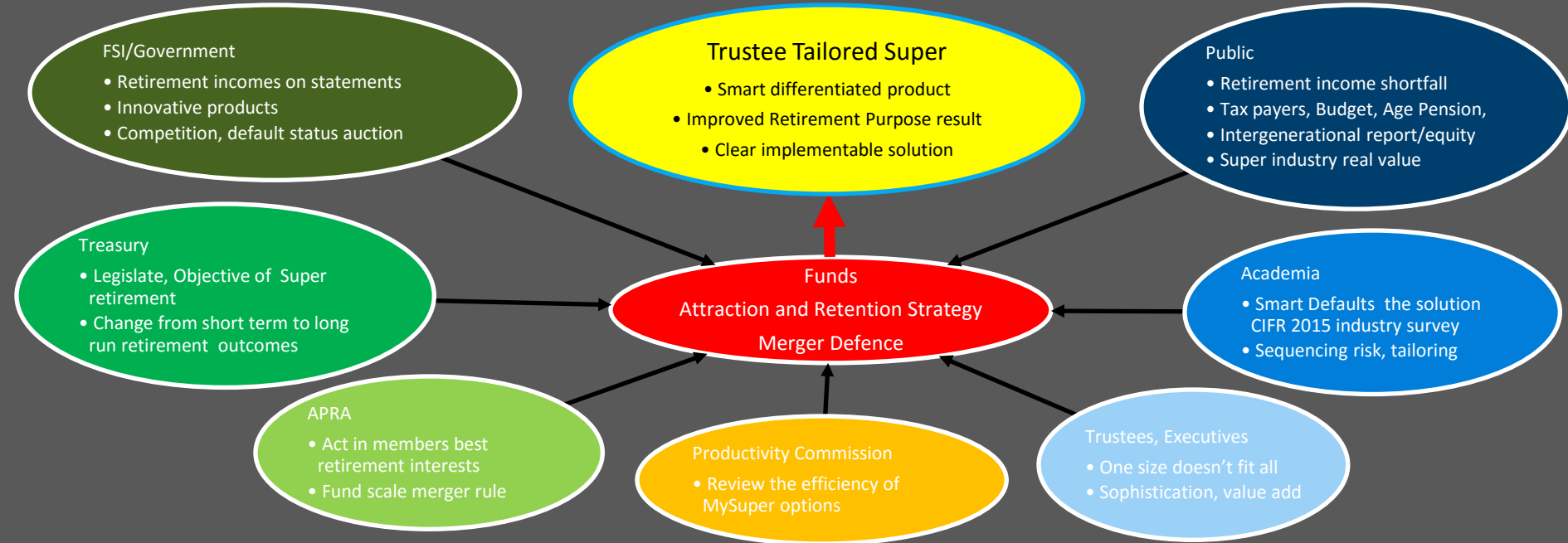
Ideological commentary\* not on a better default (MySuper) option but on employment award nomination

Why not start earlier with the 80% (MySuper) members to get a higher retirement balance in the first place?

Starting earlier, with better tools, will by design achieve much better outcomes

\*Refer to Treasury Purpose of Super & Productivity Commission Study industry submissions

# Why Now – Mark Receptiveness, Right Timing?



**CIFR Smart Defaults** – “As improved member outcomes are likely to result from the capacity of funds to tailor products, regulators and policy makers might aim to foster the development of smart defaults by accommodating the evolution of lifecycle products beyond simple age-based strategies.”

# Questions More Information?



**Douglas Bucknell**  
**Managing Director**  
**Fiduciarys Friend Pty Ltd**



TTS assisting trustees create more wealth for their MySuper members

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