RESPONSE TO DRAFT REPORT:

" SUPERANNUATION - ASSESSING EFFICIENCY AND COMPETITIVENESS"

PRODUCTIVITY COMMISSION, APRIL 2018

Dr Mike Gilligan, 8 July 2018

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Summary

This comment shares the Commission's aim of creating super for members' needs and in the public interest. I have no financial interest in the issues raised.

The draft report makes valuable progress in identifying structural limitations on efficiency in super through industrial policy. It is to be commended for providing a template for public comment on options which break new ground.

I present evidence, additional to the Commission's, demonstrating that change should be greater than recommended because the system of APRA funds has failed Australians fundamentally. The report's 'system objectives' for funds demonstrably have not and cannot be met by funds.

The APRA- regulated defined contribution industry has failed on multiple counts, having cocooned itself within a spurious investment professionalism which defies SIS legislation and logic, misleading the tens of millions of individuals compulsorily affected, damagingly financially and otherwise. Uncommon investment market results since inception of super have masked serious failings in trustee boards' care and diligence.

ASIC has been enduringly dysfunctional in ignoring statutory funds' covenants on investment strategy. And by misleading members on their benefit outcome to this day, ASIC renders any effort to plan for retirement little more than a fantasy exercise, uninformed of the substantial risk in a lifetime of compulsory saving.

If compulsory payment into super is to continue, Australians must be presented with alternatives to today's incompetent and costly APRA funds. The draft's treatment of SMSFs is weak and sadly misleading on cost and opportunity. Commission has overlooked the extraordinary advances in operational efficiency and investment productivity available by self- managing online. The means are innovative but tried and proven - offering a step advance in efficiency, instead of another bandage on discredited APRA funds.

Online self-managing is easily the most efficient approach to super over a lifetime and should be the default for new super entrants, with transition facilitated for existing funds' members. Australians accept that the digital age is truly here, and will embrace self-reliance in their super if offered honest, informative guidance and intuitive tools at low cost. People address risky issues daily (weather) and need do the same only occasionally to be in command of their super.

A major fiscal risk exists in our retirement system, due to the interaction of super outcomes with age pension entitlement. The taxpayer is the ultimate guarantor of the retirement system. Evidence suggests that Government is unaware of taxpayers' exposure, the management of which is partly in the hands of bodies beholden to shareholders.

While effectiveness of the retirement system is beyond the remit of Commission's review, this fiscal risk means that government should be reminded that other approaches exist, ostensibly as efficient as even online SMSF, wherein retirement income is defined. This option is successful elsewhere but was by-passed without consideration at the creation of universal super.

A Step Forward

My earlier submission was not hopeful of much more from the Commission than the confined incrementalism of previous reviews of super, which took care not to look too far beyond well-nourished interests of vicarious parties more alert to commerce than peoples' needs. It is pleasing that you have done a surprisingly good job of disturbing some of the flagrant sleepers left untroubled for a quarter of a century.

The Commission has done a service by penetrating to the greatest cause of inefficiency in Australia's retirement policy – our odd super contraption embedded in industrial policy bestowing privilege upon myriad and disparate funds at the expense of the people it is inflicted upon.

It is commendable also that the Commission has thought enough about super to propose objectives for various levels of the endeavour. I regret, however, that the draft report has missed the force of my evidence that funds have yet to comprehend the principles of investing for captives monotonously contributing over their lifetime. I will take that up once more, in the context of your stated system-level objectives (draft report Table1.1):

System-level objective #1: *The superannuation system contributes to retirement incomes by maximising long-term net returns on member contributions and balances over the member's lifetime, taking risk into account*

Why No Strategic Benchmarking ?

For the system to achieve this objective, first it needs to be established what the maximum achievable is, surely. Investment experience and theory says achieving that goal would primarily be through funds' investment strategy, which is the main determinant of long term return. The report shows that funds generally implement that strategy through a default strategic asset allocation. The report expends much energy on assessing performance against such defaults as employed by funds. Sadly, the report does not address the fundamental question of which default portfolio would best deliver maximum long term returns taking account of risk ie the default benchmark for Objective #1.

This is a big hole in the draft, avoiding the basic issue of whether funds' have obtained for members what was on offer from passive, low cost exposure to investment markets. How much has been left on the table just by ignorant benchmarking? Perhaps this flaw in the report is explained by the absence of interest in the issue from the super industry. If so, shouldn't that be said? If the Commission is to be honest with Australians shouldn't it advise that the crucial strategic benchmarking and attribution against maximising retirement outcomes is not in the super system's lexicon?

If the system had addressed what is essentially the reason for its existence, long term market evidence would have led to a default strategic benchmark which delivers maximum return while also minimising risk. That, of course, is a free lunch and anathema to the long prevailing investment paradigm. Therefore a healthy debate about long term investing for captives should have ensued. And with care, skill and diligence an investment approach to our members' requirements would have evolved. Instead, the industry has nothing offer, bar trotting out money management products designed for other purposes. I will return to the enticing prospect of a free strategic lunch later.

Funds' Strategic Statutory Failure

This intellectual and practical neglect is inexcusable for a number of reasons. Prominent among them is that the founding law embedded in the Superannuation Industry Supervision Act (SIS) is explicit about strategic investment requirements.

SIS s52 (6) requires that risk and likelihood be prominent factors specified in funds' covenants:

> *(6) The covenants referred to in subsection (1) include the following covenants by each trustee of the entity:*
> *(a) to* ***formulate, review regularly and give effect to an investment strategy*** *for the whole of the entity, and for each investment option offered by the trustee in the entity, having regard to:*
> *(i)* ***the risk involved*** *in making, holding and realising, and the* ***likely return*** *from, the investments covered by the strategy, having regard to the trustee's* ***objectives*** *in relation to the strategy* (emphasis added)

The "system" has yet to have regard to what constitutes a 'likely" strategic return. The strategic risk remains unregarded also. Nor has second thought been given to what constitutes "return" in members' perception and best interests, as distinct from the time-worn money managers' preoccupation with annual investment results.

In addressing trustee's objectives, the obvious place to start is with the intention of funds' members to build wealth sufficient for retirement over available working life. That is, the focus should be accumulated benefit over multiple periods. A key factor would be long time horizons, of variable length. Yet super strategies and products commonly go by descriptors devised by the money management industry for a fixed, short period (growth, balanced, defensive..) derived according to variability of expected annual returns, which say nothing of end-benefits and risks.

A valid investment strategy must have regard to the likely return to a working lifetime of saving – this is the members' interest. Instead, the "system" focusses on a return which is not only largely irrelevant (mean annual outcome) but is not likely. A likely return or benefit (with something like 80-90% chance of obtaining less) opens up a very different planning perspective for members compared to the mean return employed by the super system (50% chance).

While it could be debated whether the law is clear that strategic investment focus should be on end- outcomes, there is no doubting that law requires a likely outcome to be central to investment strategy. **A valid investment strategy is unattainable without addressing what is likely**. Yet any trace of a 'likelihood' notion is undetectable in the system's strategic investment thinking and practice.

Wrong Risk and Regulatory Dysfunction

Generally across the super industry, investment strategy is derived using theory and techniques of the money management industry. That this practice has persisted for twenty five years demonstrates the power of the unsaid founding assumption that super is all about money management. From the outset Australians savings were entrusted to unskilled, insecure trustee boards unable to question manipulation by a wealth industry in no doubt that enculturation into its paradigm would ensure members needs were met.

But that paradigm and its theory (still referred to as “modern portfolio theory”) was not designed for super investors. The theory targets investors with discretion to exit at any time. Hence the theoretical edifice is built around short-period risk. The risk measure (volatility) describes variability around a mean value for annual investment returns. Volatility takes no account of 'time' as a variable and therefore is unable to say anything about end-benefit and its risk. Portfolio construction tools such as mean-variance optimisation and efficient frontiers offer nothing against the legislated requirements SIS s52 (6).

The 2002 Nobel winner for economics Daniel Kahneman observed:

“the evaluation of risk depends on the choice of measure- with the obvious possibility that the choice may have been guided by the preference for one outcome or another – defining risk is thus an exercise in power”(from “Thinking. Fast and Slow”,Farar, Straus, and Giroux,2011, p141)

This is not to suggest a grand conspiracy to impose an investment paradigm around a self-serving measure of risk, but to illustrate that choice of risk measure has powerful consequences, directing inquiry fruitfully if relevant but excluding valid perspectives when of little relevance. The latter is the case with Australia’s super, through nothing more complicated than carelessness, lack of skill and of diligence.

Community expectation is that the law would be followed, and a fund covenant as critical as SIS s52 (6)(i) would be addressed assiduously. But this legal requirement has been ignored. Instead the system has been preoccupied with its own assumption of ‘professionalism’, regardless of law and logic.

This failure, with complicit regulatory involvement as will be shown next, raises the question of the credibility of law enforcement and protective mechanism ie regulatory failure to pursue **SIS s52(2) which requires a prudent trustee to exercise care, skill and diligence..**

Whatever. It is clear that the strategic investment capability necessary to deal professionally with the Commission’s #1 System Objective is non-existent. The collective incapacity of the super industry to grasp and explain the product which it was created to deliver leaves no alternative to pursuing avenues other than APRA funds to meet Australians’ needs.

ASIC Misrepresents the Super Benefit

Enabling members to understand what to expect from their super on retiring has always been a sideshow for funds. It has not ever been viewed as involving the same considerations as investment strategy. If trustees had met their legal obligations on investment strategy funds would have possessed the intellectual capacity to advise people of their likely benefit.

Eventually, in 2008, that job was flicked to the regulator ASIC. Eight years after 'choice of fund' was introduced to enable retail funds to compete, a Minister asked ASIC to determine the benefit outcome question – which speaks amply of how seriously funds took the 'competition' that was supposed to descend upon them from choice.

In May 2008, following seventeen years of compulsory member payments, the Minister for Superannuation and Corporate Law, Nick Sherry tasked ASIC with enabling Australians to comprehend the outcome of their super in the terms:

*" very few fund members have any idea what they are **likely** to end up with in savings at likely retirement age. Developing an accurate forecasting and calculator will significantly improve our system in a number of ways:*
** it will provide an estimate of **likely outcome** at **critical ages***
** greater focus and emphasis will be placed on **the long-term rate of return** and the elements that impact on it such as contribution levels and total fees and charges;*

"Likelihood' looms large here, reflecting the SIS legal requirements for investment strategy. As one involved in submitting to that review, it became clear that it was an exercise in meeting funds wishes, which were left in the hands of their lobbyist bodies (ASFA etc), who have no obligations to funds' members. The review was led by ASIC deputy Chair Jeremy Cooper (now flogging annuities) and did not ever report.

Today, anyone seeking information on the expected benefit from their super is generally referred to ASIC's online MoneySmart software https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/superannuation-calculator

or to a financial planner using the same estimation method.

ASIC's *"Superannuation Calculator"* (offered under the heading *"Financial Guidance You Can Trust"*) requires an individual to enter key parameters such as age, contributions, amount currently held in super, investments, retirement age etc. ASIC then displays the result of a lifetime in the super system as a single dollar amount with the advice that it is the "estimated super balance" at retirement.

I have tried to assist the Commission with a reproduction of ASIC's advice but it is not possible to retain a record (no print or save).ASIC supplies only a screen graphic showing a steadily growing balance over the working period (eg 30 years). It says nothing of risk along the journey nor of the likelihood of the result. There is a disclaimer, which omits the critical advice that the estimate has 50% chance of being optimistic. No estimate of risk is supplied. Industry funds provide a similar online calculator which similarly trivialises the task and misleads members (example of output at ATTACHMENT A).

Thereby, the super industry deceptively presents the super journey to Australians as an orderly, dependable progression, the unique result of which is said to be suitable for retirement planning. Reality is different.

Figure 1 is derived from stochastic modelling developed to address benefit risk in super. It shows that a span of pathways and outcomes should be expected, using the example of a 30 year old assessing prospects of retiring at age 65. Each of the pathways depicted is equally likely. Information on likelihood can be derived from analysis of the cross-sectional density of expected pathways at any time. The risk measure of most help to funds' members should address uncertainty at the point of retirement, in particular lesser outcomes. This is a subject in itself, which would have been at the centre of trustee deliberation if the legislated requirement for investment strategy had been met.

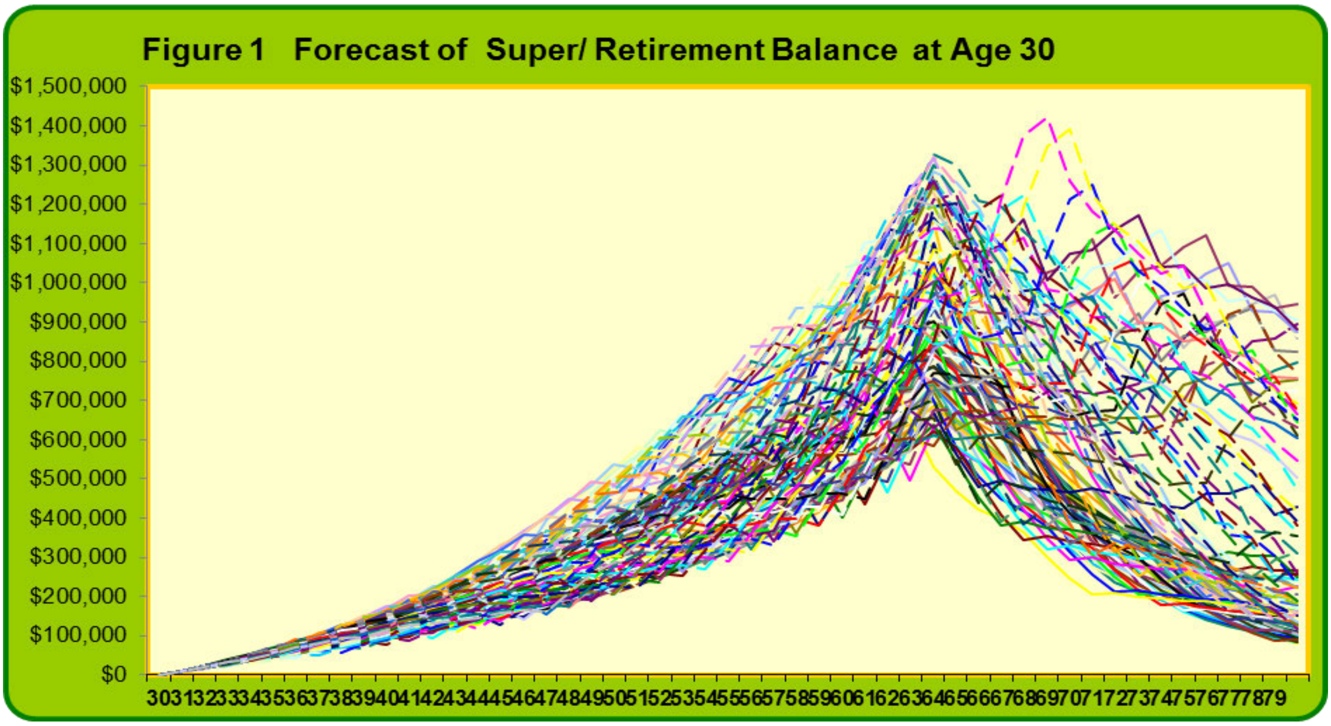


Figure 1 Forecast of Super/ Retirement Balance at Age 30

ASIC's estimate of a single value for end-balance is but one pathway which exists within the universe shown above ie the path of the mean value which lies around $927,000. The span of expectations extends from a worst case of $530,000 to a best case of $1.33 million – a long way either side of the ASIC estimate.

The modelling shows that it is likely (90% confidence) that the retirement balance will be at least $668,000. Therefore, the estimate supplied by the ASIC method is almost 40% higher than the likely value. This type of probabilistic information can be presented in various ways and is readily assimilated and weighed by most Australians (think BOM and weather).

Funds are complicit with ASIC in this deceptive advice. Trustees, carelessly, have relied upon ASIC's approach to estimating end-balance for their members. I can demonstrate that major "best-in-show" funds had ample opportunity to act, on their own and to influence ASIC, but showed no interest.

The effect of funds being roundly in breach of the statutory duty to address risk and likely return in setting investment strategy per SIS s52 (6)(i), with the imprimatur of ASIC, has been to render members' efforts to plan for retirement little more than a fantasy exercise, leaving them uninformed of the substantial risk to their lifetime of imposed savings.

Defining a Default Portfolio to Meet System Objective #1

My earlier submission to the Commission in August 2016 *("A Weather Eye on Superannuation"*) demonstrated that a buy-and– hold portfolio of diverse equity is expected to deliver more end-wealth after a lifetime in super than the prevailing industry posture of balanced portfolios, **and at lesser downside risk** (see Figs 1 and 2 of that paper). This is the 'free lunch' cited earlier. It can be rationalised, though that discussion is beyond this.

Therefore, again, any finding about how well the super industry meets the requirements of Objective #1 must be adverse as the prevailing defaults are anything but all-equity allocations. It matters little, therefore, how funds have performed against defaults (which the draft report is much occupied with), when the default is inferior on expected benefit and risk.

Careful and diligent trustees would have been aware that members were expected to forego substantial financial benefit while running more risk through investment strategy centred on balanced default portfolios.

How the "System" Got Lucky

That said, funds have experienced rare luck in the portfolio returns obtained from non-compliant investment strategy. Investment strategy in the broadest terms is about creating a long term portfolio from assets that are either equity or debt in character. The balance struck across these two is the key. Debt becomes more important with shorter investment horizons at the cost of higher returns expected from the greater equity risk premium. However, the period over which our super has been in existence has witnessed a secular decline in interest rates from record highs. As a consequence the return to debt investments (bonds, fixed interest) has been well beyond the long term expectation[1].

Which means, luckily, that it has mattered little which portfolio a fund adopted in terms of strategic benchmark returns. Any strategic investment skill would have been masked. Only by good fortune are funds not required to explain heavy financial shortfalls for members had long run risk premia prevailed. Which begs the question that if the twenty-five years of our super investing has proven to be not long enough for strategic skill to win through decisively why should the 12-year time period over which the Commission assessed fund performance be given weight, other than for a mechanical capacity to match a benchmark.

The rub is that this luck has run its course. Broadly, the future holds either stagnant yields or declining prices for bonds (interest rates probably have only one way to go in the medium

[1] To illustrate, the Australian 10-year bond has delivered 5% annualised in nominal price appreciation resulting from yields falling from 10% to 3% since 1993. Price index appreciation of Australian equities was also 5% pa in that time. To that must be added about 4% for average dividend yields and a titch for tax benefits to obtain the total equity return. Likewise the 5% for bonds has to be adjusted up for discounted yields so that difference in returns between bonds and shares over the twenty five year period of our super system has been modest.

term). Thus balanced funds' returns will either stagnate (best case) or revert to a below-average price trend downwards. This is not a judgement, just mathematically inevitable.

This gift of market fortune does not moderate the condemnation of funds ignorance and failure to comply with legal obligations and to inform members of the risks they face. Demonstrably, various of the Commission's criteria flowing from Objective #1 are unsatisfied:

"E1 Are long term net investment returns being maximised over members' lifetimes, taking account of risk?"

No, nor does the super industry possess the care and diligence to even begin addressing the issues of long term returns over member's lifetimes taking account of risk.

Failure Against System-Level Objective #2

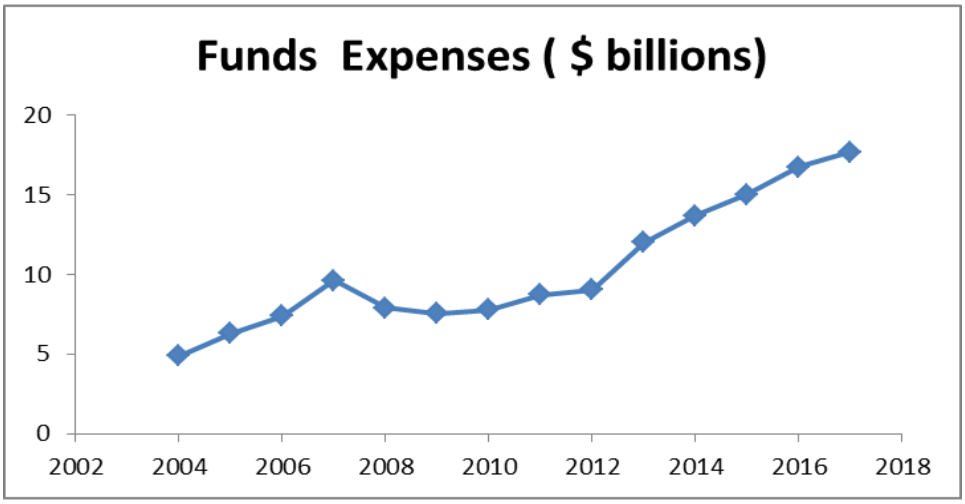
System level objective #2 is that *"The superannuation system meets member needs, in relation to information, products and risk management, over the member's lifetime".*

Members' fundamental needs have not been met, beginning with the obvious expectation that funds would abide by the law governing investment strategy. Systemic violation of the funds' covenant required by SIS demonstrates that funds have yet to consider the essential issue, thereby undermining any information provided on products and risk management.

What information is supplied is misleading about the risk involved in the super journey, masking the large variability which should be made plain to members. Products do not inform members of long term return, likelihood or relevant risk.

Cost

Growth in funds' expenses is simply extraordinary, as APRA data shows: now almost $20 billion annually. Over the last five years expenses have doubled, an annualised growth rate of 10%.



The super fund was conceived as an administrative entity created to hold, invest and dispense monies presented to it, according to rules. In the digital age this is fertile ground for economies of scale. Expenses should have flattened long ago. No doubt, funds will point to regulatory demands and 'innovations' which benefit members in other ways – a testament to lavish complexity and paucity of forethought characteristic of Australia's brand of super.

Funds find new ways to spend members' money, transmogrifying from mere assiduous guardians into profit-seekers and activists supporting layers of lobbying bodies. Industry funds no longer describe themselves as 'not for profit' but 'profit for member', a makeover in purpose and motivation. This new vista has escaped APRA which persists with the old-fashioned classification in its documents. A self- awarding culture befitting of the film industry is entrenched in the super industry, with no awards for parsimony.

Commission Can Do Better on Self- Managing

I encourage the Commission to recognise that it can make a lot more progress on the SMSF side – for which I suspect many millions of people will be forever thankful.

It is unfortunate that the takeaway message from the Commission on self-managing is that it's only for those with big money (Report Figure 3.22). News headlines on release of the draft proclaimed that anyone holding less than $1million in assets should forget SMSF.

The Commission's attitude to SMSF is a worry:

Differences in how data are collected by the ATO (for SMSFs) and APRA (for institutional funds) mean that direct comparisons are not possible (tech. supp. 5). For example, cost data for SMSFs do not capture the opportunity costs of members' time for those that do genuinely manage their own assets. This is likely to be a large impost relative to a member of an institutional fund.

Do we not have muddled thinking on member engagement? The super industry has long bewailed Australians' lack of engagement with super. Now this report discounts the prospect of individuals being engaged in self-managing as a *"large impost"*.

In relation to APRA funds it is observed:

Yet many members struggle to find the right products, and the system — and Government — has made engagement harder than it ought to be. And even where members do get engaged this has not always led them to better outcomes.

Making it easier for members to get engaged and to compare products should thus be a priority. There is scope for much improvement in how funds disclose information on their products. Regulators will need to take the lead on some of this, though there is also scope for funds to lift their game on disclosure.

Why should this sentiment not apply even more to self- managing?

Again, the report's logic is deficient in stating members' needs:

13.3 Products that meet member needs
A well performing super system requires funds to strive to meet the needs of individual members. Robust competition between funds is essential, because competition is a driver of innovation.

This assumes that individuals cannot meet their own needs, and ignores the reality of mechanisms now available for self-managing (which could be far more productive) ie no alternative exists to APRA funds and seeks their *'robust competition"* flying in the face of decades of floundering, extravagant coexistence.

The report goes on to observe:

With ongoing advancements in technology, funds need to be continually improving their products and services to meet the needs of existing and prospective members. Indeed, many are already doing this.

The assumption seems to be that only APRA funds can benefit from technology.

Extraordinary Efficiency Offered by Self Managing Online

The draft report relies upon an analysis of ATO data on self- managing. That data reflects an experience of mixed motives, based on narrow advice and usually implemented through illiquid investments particularly direct property, sometimes complicated by gearing. The generally high cost of SMSF in the ATO data is understandable in this context.

However, technology has enabled self- managed funds to invest in a large universe of liquid assets at little cost while also meeting the statutory and operational requirements of receiving, investing and holding also at little cost.

The fixed cost of online SMSF setup is negligible. Annual operating costs (non –investment, which will fulfil statutory obligations of tax return etc)) are largely fixed also (at less than $1000 pa) and appear significant only in the very early years.

Rapid growth in exchange traded funds (ETF) gives low cost access to a large, expanding universe of assets, including fixed interest, which previously only professional investors could contemplate. These investment costs are variable but generally very low (less than 10bp per transaction).

I personally tested one such SMSF over a few years with entirely satisfactory results (www.esuperfund.com.au). My daughter has gone down this path - last financial year total costs were 1.7 % with a balance of $53,000. Because most of that cost is fixed she will be paying a fee of 0.2% pa when the balance reaches $500,000. I note that esuperfund now offers free setup cost and no recurring fee until beyond year two – competition at work.

The through-life cost of online SMSF generally is much less than any other option.

(So, please, the ongoing costs for SMSF shown in Table 3.22 of the draft report as a function of assets is unhelpful to Commission's credibility)

Online SMSF as Default

It's time: for super policy to embrace the digital age, to show faith in people's ability to be comfortable technologically (evidence is ubiquitous), and to facilitate that transition.

It is within the capabilities of Australians and policy makers to enable individual self-reliance in super. Personal engagement need not be demanding - addressing strategy at the outset, annual signoff on tax, and periodic review of progress which would readily be available as automated updates with attribution diagnostics etc. Most operations can be run algorithmically (portfolio rebalancing etc), with interactive graphics explaining investment strategy options, likely end- benefit and retirement income with through- life risks. Both the law and the objectives which the Commission cites would be met at negligible lifetime cost.

Because the online medium is second-nature to new entrants, it is not glib to postulate a revolution in engagement. Practical issues arise eg investments not marked to market or geared incur heavier costs, but are irrelevant for most; the main ingredients are tried and well-bedded down. It is a matter of emphasis on looking for answers rather than problems.

The efficiency of online SMSFs becoming the default starkly outweighs any approach centred on existing APRA funds. Today's funds' expenses of $20 billion, growing fast, should largely be eliminated over time.

Systemic Risk - Failure Against System-Level Objective #3

It is pleasing that you ask *"Are there material systemic risks in the superannuation system?"* No other review of super has bothered. The evidence suggests the Treasury is uneasy with the issue.

The ultimate risk-bearer in Australia's retirement system is the taxpayer. To the extent that funds' investment returns fall below policy expectations the system formulaically provides for increased age pension expenditure. This unpalatable weakness has been pointedly downplayed by Treasury.

Briefly, the closest Treasury has come to explaining its view on system stability was as part of the "adequacy" debate from a decade ago. To the extent that members' benefits turn out to be less than Treasury's policy assumptions the taxpayer picks up the difference through the age pension. Treasury has maintained that its modelling shows that the system is robust. However, its modelling is deterministic, centred on a mean value for investment returns.

In 2007, a Treasury paper purported to address this uncertainty by sensitivity testing the retirement system to investment returns. Extraordinarily, the paper addresses only the upside (+1%) and omits the results of downside testing *("The Adequacy Of Australian Retirement Incomes - New Estimates Incorporating The Better Super Reforms"*, Paper presented to the Fifteenth Colloquium of Superannuation Researchers, University of New South Wales,19 & 20 July 2007, Dr George Rothman, The Treasury, Canberra).

Obviously, Treasury found the downside results of its sensitivity analysis too sensitive to address publicly, avoiding exposing the effect of even a minor degradation of 1% in return. The medium term prospects for markets outlined above could credibly result in annualised returns of 2% or more below long run assumptions – over a period in which the system is beginning to mature..

In the same way, certain retirement income products are risky for taxpayers. Commercial annuity products rely on market assumptions which are not transparent. Given their history of failure it is sensible to suspect their robustness. Risk can be moderated overall by pooling mortality, the extent being proportional to the population adopting the product. In certain well-informed retirement systems (Sweden) such annuities are provided by the state – which makes sense as taxpayers bear the risk ultimately.

In Australia, annuity providers seek profit for shareholders through mortality pooling mechanisms with the risk being underwritten by taxpayers. Further underwriting is being pursued by the industry seeking compulsion of retirees to adopt these products.

Which makes the point that while government might think it has avoided retirement risk through our retirement system, that is wrong. Government cannot escape retirement risk, but there is no shortage of entrepreneurial ambition interposing to divert government from facing the risk holistically.

Starting Again, with People's Needs?

The obvious needs of Australians were incidental to the creation of current retirement policy – true universality, equity, clarity of prospective retirement incomel, conducted efficiently.

A perfidious wisdom prevails that defining benefits for retirement is too risky, a result of overly generous corporate schemes in the past. That wisdom seeks to pass on retirement risk. But for government this risk can never disappear. The taxpayer is the ultimate risk bearer should Australia's defined contribution system falter. Under our retirement system the taxpayer shoulders that risk while funds and legions of service providers profit from it.

At its simplest, an alternative system would require super contributions to be paid direct to the state, from where benefits would then flow directly back as pre-defined retirement income, taxed frictionlessly and exploiting mortality pooling

Opportunity for fees and redirections (eg insurance) is thereby limited. Most of that $20 billion (growing at 10%pa) which disappears annually in funds' expenses would stay where it belongs.

Other nations, such as Sweden, have forged retirement policy delivering defined retirement income; for example, based on past contributions and income at ceasing work. And they ensure that annuity provision is in state hands, where the risk is borne.

Questions of transition would be important and challenging though no reason not to re-evaluate. Existing asset holdings could 'buy-in'. And so on.

The status quo cannot be countenanced –.a future of continually reacting to yet another malfunction of a system designed around irreconcilable purposes. The topical policy debate is about '" nudging " people into a ' comprehensive income product for retirement ' (CIPR) requiring that trustees be afforded legal 'safe harbour' from forcing people into annuities. What could better typify the constant suboptimal, self- interested, imposed fiddling which will forever plague us by persisting with our super contraption?

Moving to an efficient, modern defined contribution system through online SMSF is a quantum step forward. But Australians should also be afforded the dignity of a serious look at defined benefit options which might be even more efficient while also the most effective.

Bio

Science - Australian National University; PhD - Leeds 1972 (propellant combustion)

Senior executive roles in Department of Defence- division head responsible for development policy and analysis

General Manager Investment Strategy, Commonwealth Funds Management 1994-99

General Manager Total Risk Management 1999 (acquired by US actuaries Towers Perrin)

Created risk research business specialising in super (Risk Research International 2005)

Shepherd for last five years.

ATTACHMENT A

Industry SuperFunds

RETIREMENT BALANCE PROJECTION

MY INFORMATION

Age	30
Sex	M
Annual income	$60,000
Employer contribution	9.5%
Approx super value	$20,000
Retirement age	67
Retirement income	$840 / fortnight
Lump sum at retirement	$0

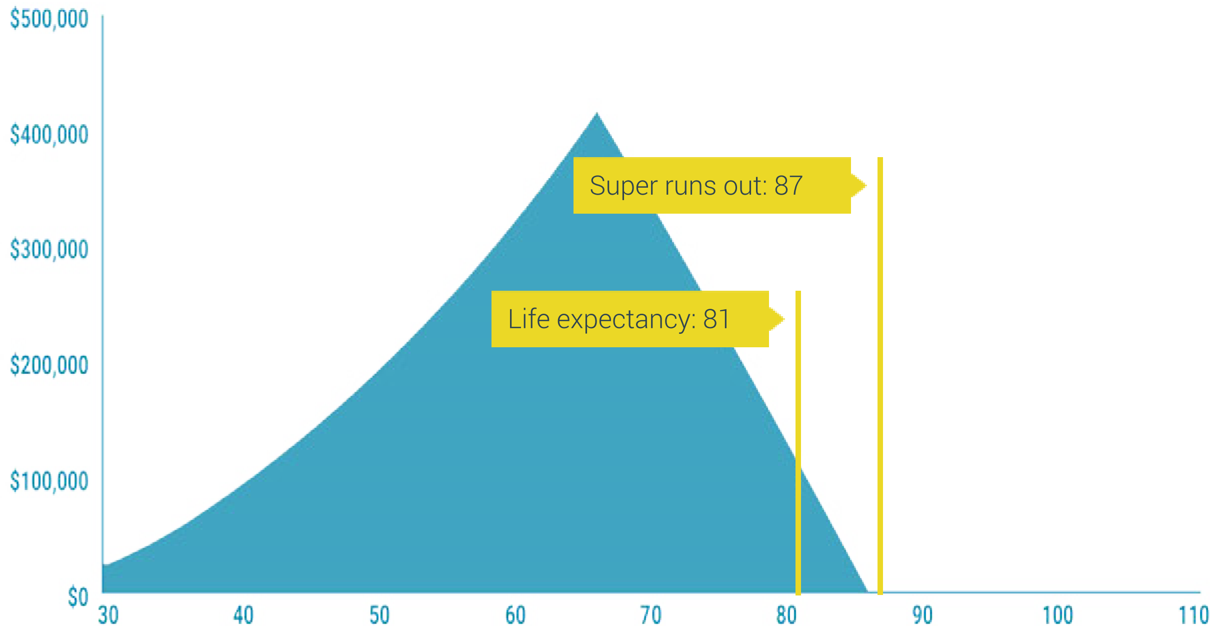
EXISTING CONTRIBUTIONS

After tax contributions	N/A
Before tax contributions	N/A

EXTRA CONTRIBUTIONS

After tax contributions	N/A
Before tax contributions	N/A

My projection $416,200 **at retirement**



Industry SuperFunds

RETIREMENT BALANCE PROJECTION

ASSUMPTIONS

Investment returns (accumulation)	5.7%
Investment returns (pension)	4.2%
Salary increase	3.5%
Inflation	2.5%
Asset fee	1.1%
Admin fee (per year)	$50
Advisor service fee	0%
Insurance premiums (per year)	$0

FIXED ASSUMPTIONS

This calculator works for accumulation funds only. It will not work for defined benefit funds.
This calculator does not allow self-employed people to project their retirement balance.
The outcome relies on the following fixed assumptions and settings which cannot be changed:
- Outcome is based on your contributions being made annually, at the mid-year point, on your fees being deducted annually, insurance premiums being charged annually and your investment returns being credited to your account annually
- We assume that your super is invested in a balanced option. Investment returns can be adjusted above.
- Superannuation Guarantee Contribution is currently 9.5% and then increases to 12% as per current legislation
- The LISTO applies from 1 July 2017
- Contribution tax of 15% is assumed
- No contribution fee payable
- No tax is payable on fees
- We assume that insurance premiums are tax deductible within super
- We assume that you have provided your Tax File Number to your superannuation fund
- All amounts are in today's dollars which means they are adjusted for inflation.
- We assume that inflation is 2.5% each year due to the rising cost of living. You can adjust that rate above. Employer and voluntary contributions, fees and the concessional contribution cap increase with inflation.
- We assume that you will satisfy the Work test at older ages and so are able to contribute
- Life expectancy is based on The Australian Life Tables which are produced by the Australian Government Actuary
- We assume that you qualify for the Government co-contributions if you make after tax contributions and the total income used to determine if you qualify for any co-contributions is equal to your annual salary before tax and are below the income limit.
- We assume that when you exceed the concessional contributions cap ($25,000 in 2017/18), you pay contributions tax according to your adjusted taxable income on any additional superannuation contributions.