



DRIVING BY NUMBERS

They say it's the journey that matters, rather than the destination – but Bill Buttler says that in superannuation, the destination is everything.

When I jump in my car I very rarely have any conscious awareness of the controls around me, including the range of dials and flashing lights that make up the dashboard in front of me.

However, on reflection, I rely on the dashboard for vital information to help keep me out of trouble and reach my destination safely. The speedometer stops me incurring speeding fines (most of the time!), and warning lights make sure I don't run out of petrol or burn out the engine. I am not a mechanic, but I get enough information to alert me to potential problems so I can take the car to someone who is a trusted expert.

The familiarity and simplicity of the dashboard approach to delivering information also appeals to management consultants, and we regularly find "dashboards" popping up as part of a company's business information system.

Now it seems we are about to see the impact of this approach in the area of employee superannuation.

A DASHBOARD FOR SUPER FUNDS

Early in May, the Australian Prudential Regulation Authority (APRA) issued a "final draft" set of regulations to cover the new MySuper product requirements. Responses were required by May 15. Given that the legislation comes into effect from July 1, 2013, and there has already been extensive consultation with the industry, one would not expect major changes.

One of the key pieces of the new regulations is the introduction of a "product dashboard" for superannuation products.

Trustees of public offer super funds must publish a product dashboard for each MySuper product from July 1, 2013. "Choice" products will follow later, from July 1, 2014.

The original idea of MySuper was to standardise and simplify superannuation products being used as investment vehicles for superannuation guarantee contributions, having particular regard to the needs of "disengaged" fund members, many of whom would be in a particular fund simply as a result of an industrial agreement or the fund being otherwise nominated by their employer.

The proposed dashboard will be presented in a tabular form, including a graphical presentation of historic investment performance. The items to be included are:

- Target investment return
- Actual (historic) investment return
- A comparison between actual and target returns
- A measure of the level of investment risk
- A statement of fees and costs

MEETING OBJECTIVES

The explanatory memorandum issued with the exposure draft states: "The product dashboard is designed to increase transparency and allow comparisons between superannuation products."

Will the proposed dashboard cover the basics that super fund members need to enable them to compare MySuper products?

One basic premise of MySuper is that it is a standardised "one size fits all" product that meets certain standards. Hence, it is

unlikely that funds will differentiate on services.

From the evidence of the products that have already been approved, the major differentiator appears to relate to investment strategy (and to a certain extent, price). The range of investment products already includes:

- "Life-cycle" products, where strategy progressively alters (becomes more conservative) as the member approaches retirement age.
- Single-strategy products with a more conventional "balanced" mix of growth and defensive assets.
- Low-cost products with a high content of passive (indexed) portfolios or cash and bonds to keep the cost down.
- Products incorporating some form of guarantee (against loss of capital or negative returns).
- Products with a strongly active management philosophy, including investments in real property and other illiquid assets (for example, infrastructure projects).

A major weakness of the proposed dashboard is that it does not highlight any of these fundamental differences in approach. The sole measure relating to portfolio structure is the measure of investment risk, and this is simply a statement regarding the number of expected negative returns in a 20-year period.

The proposed dashboard does not mention another differentiator: insurance

cover. Admittedly, this could be difficult to include because it is possible for employees of different employers to have different cover arrangements, even though they are in the same licensed MySuper product. However, every MySuper product should have at least a "default" standard insurance package. The premium for insurance cover is normally at least as high as the administration fees charged by the fund, so both the amount (and type) of cover and the premium are surely relevant pieces of information to enable an employee to compare two or more funds.

PERFORMANCE COMPARISON

The draft dashboard measures investment performance net of investment and administration fees and costs. Note that this is the performance for the MySuper product as a whole – results may vary depending on cash-flow timing for individual members. The fact that administration fees are deducted as well as investment management fees may make it difficult to fairly compare funds with different membership profiles. The stated target return must be expressed relative to CPI inflation (for example, CPI plus 3 per cent), based on expectations over a 10-year period.

The dashboard requires a graphical representation of historical performance versus the target return over 10 years, including a moving average return. The moving average cannot be shown until 10 years of performance data is available. Presumably funds that have licensed an already existing product as their MySuper option will be able to show historical performance from day one.

Bearing in mind that the dashboard is aimed at disengaged members, it is relevant to ask how a member will be able to use the dashboard to compare funds on the basis of historical performance. The lack of information about factors that might affect future performance could mean that products will tend to be differentiated on the basis of recent past performance, unless the member seeks financial advice.

INVESTMENT RISK

The "level of investment risk" to be included on the dashboard is based on

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the expected number of negative returns over a 20-year period. Whilst there are a few technical issues relating to the way in which the measure will be calculated, in general terms this is a reasonable measure of performance volatility (although the measure does not provide any indication of the potential size of negative returns in any one year).

The biggest issue with the risk measure is of course that it only measures a single type of risk, and by implication this is the only risk that fund members should be concerned about.

For members who are approaching retirement and who need to focus on capital value, the dashboard volatility measure could be relevant. For the bulk of younger disengaged members, the volatility "risk" is not really a risk at all, particularly compared against the real risk that an overly-conservative portfolio could lose ground against inflation.

THE ROLE OF ADVICE

Unless you are a real petrolhead, you are unlikely to do your own vehicle maintenance, and even do-it-yourself mechanics have to defer to the experts when it comes to serious work on engines and transmissions. In a similar fashion, most fund members will need to seek expert advice from a professional planner when it comes to making major changes to their superannuation arrangements.

A potential danger of the dashboard approach is that it may make super seem simpler than it really is, and employees may end up changing funds the way they might change banks or energy suppliers, on the basis of a limited range of key numbers.

There is a role for the advice profession to raise public awareness of the relevant issues, and to assist governments and regulators further develop the dashboard concept to the point where it can become a valuable point of reference for superannuation investors.

A SUPERANNUATION GPS SYSTEM

The proposed dashboard may meet some of its objectives in acting as a tool to help super fund members compare products on a consistent basis. But this is only part of the story. A modern car dashboard with GPS also provides continual feedback to help drivers assess whether they are on target to reach their destination, to avoid traffic and to make adjustments if their ETA becomes unachievable.

The MySuper product dashboard only addresses the question of historical performance of the product as a whole. No matter how much the comparison is "dumbed down", the nature of superannuation means that it will always be difficult for a fund member to make a valid comparison of two funds on the basis of a limited set of historical numbers.

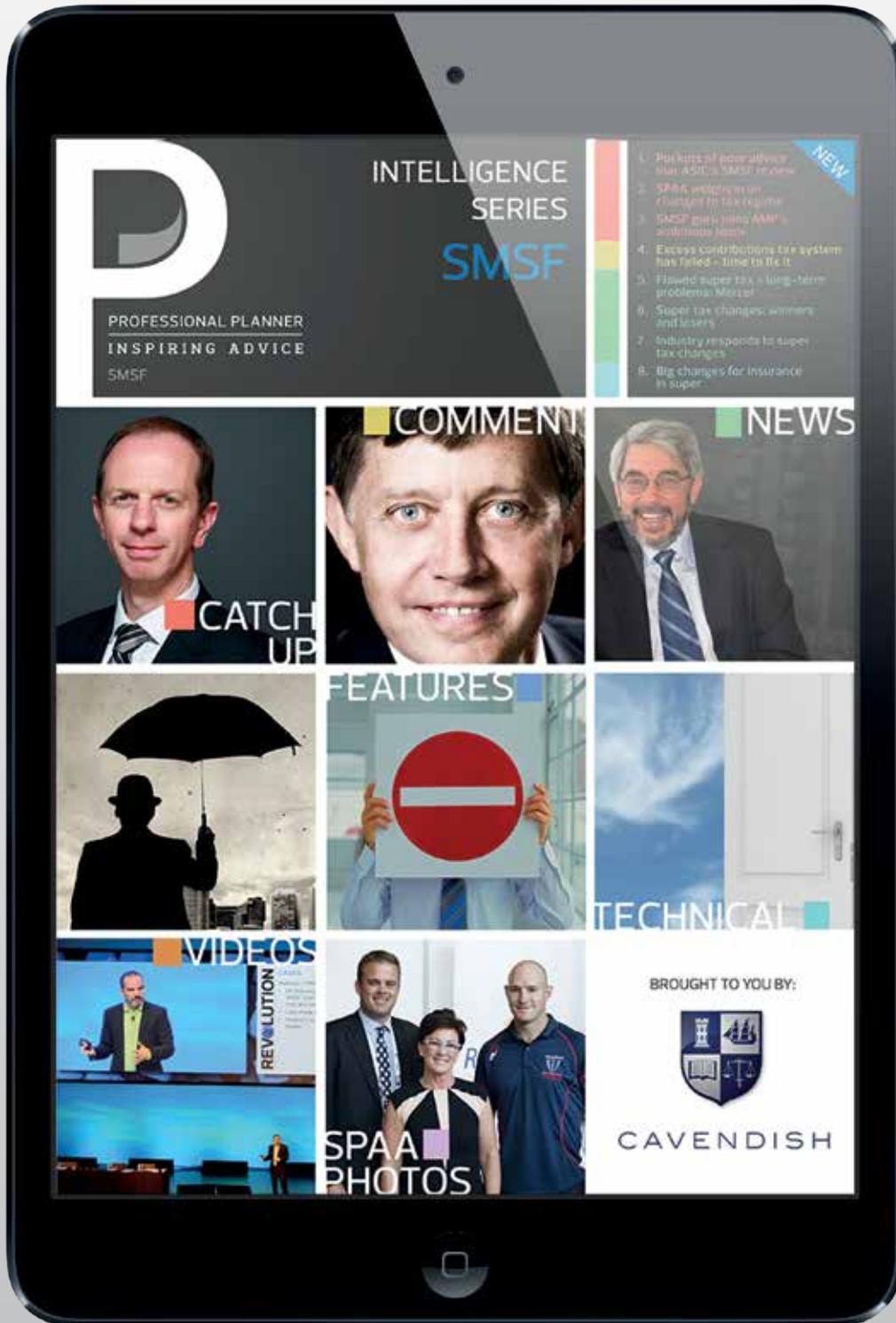
For individual fund members, it is arguably at least as important to understand how they are tracking towards retirement, as it is to decide whether they are in the right fund or not. Employees who use professional planners are in a position to take early action if they find their expected retirement benefit will not support their preferred lifestyle. Employees who are yet to seek advice could benefit by a mandated system of projected retirement outcomes to be included on annual benefit statements. Whilst there are obvious limitations in providing benefit projections based on aggregate information, the evidence is that members who receive such statements are more likely to seek professional advice, particularly as they approach retirement.

In the case of superannuation, it is really the destination that counts, not just the journey. ■

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