SUPER AS A REMUNERATION BENEFIT

AXIS
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‘Unless we can move - and move rapidly - we will put the Commonwealth Government age pension system under unbearable stress and condemn an entire generation of elderly people to an unsatisfactory and poorly provided retirement’.

PAUL KEATING, 1991

THE SUPER MARKET MODEL

WHAT THEY ARE DOING	CONTROLLING ENTITIES	WHAT THEY NEED TO DO
Redifining super as a national asset Too many regulations frequently subject to change Assessing super incorrectly	**FEDERAL GOVERNMENT**	Understand super as a personal asset Identify the existing product model as inappropriate Research servicing of super as a personal asset
Overly focused on enforcement Commerciality inept Existing regulations are 'what not to do' Controls focused on product model	**THE REGULATORS ASIC/APRA**	Understand the importance of limited advice + optimising super as a personal asset Properly consult with market experts in delivering value
Balance registration model Inferior service at individual account level Compliance focused Weak value proposition	**PLATFORMS PRODUCTS TRUSTEES**	Recognise their existing limited value proposition Present the limitations of their model to the public
80% Without personal service 80% Financially uneducated Super asset not optimised	**EMPLOYER MARKET**	Properly interrogate their product value proposition Properly manager super as a remuneration benefit

THE THREE DOMINANT FORCES CONTROLLING SUPER.

1. ***The regulator does not appreciate the importance of a true commercial service model in the delivery of value to the market.***
2. ***No service provider in the financial services industry is honest about the defects in their value proposition to market.***
3. ***Finally, employers do not see super as their responsibility in optimising the accumulated asset as a remuneration benefit.***

Clearly there is a very difficult challenge in deciding where to from here?

SALES & SERVICE MODELS FOR SUPER

For most people, there is no advisory service to assist them in optimising super as a personal asset. There are two common service models:

1. The Platform Model
2. The Choice of Fund Model

Over 80% of employees need financial education if they are to optimise their super and thereby their lifestyle in retirement. Access to such a service would increase an individual's projected income in retirement by over 20% and most likely over 30% per annum for the first twenty years of retirement.

WHAT IS WRONG WITH SUPER?

- Platforms only really record an individual's balance, are not set up to provide personal advice at an individual account level
- Every platform has a marketing statement of brand but no platform has a stated point of difference from their competitors
- The entire platform market is increasing their investment in unlisted assets so that they can compete with platforms already publicising their outperformance solely because of unlisted assets
- The government and other parties emphasise cost as the critical consideration in optimising super as opposed to contribution and investment considerations
- The government, defined as all political parties, has said "super is a national asset" as opposed to a personal asset and more of it should be spent in Australia on 'essential nation building programs'

KEY CONSIDERATIONS FOR EMPLOYEE SUPER

Product Selection

Employer super is less and less popular with each passing year and more and more employees are electing to choose their own individual product. This is to do with the public's impression around which product is best as distinct from the value of advice.

Most employees do not know how they would benefit from advice limited to their super, partially because of the complications presented to the public by government and the regulator.

In truth, the fees charged for large employer plans are the lowest in the market and the advisory service is currently the same whether you choose the employer plan or your own personal selection.

Cost Control

The critical point on cost is not necessarily the percentage administration fee charged on the individual's balance. Where managed by the product, it is most often found that 30 to 40% of the premium is charged to the employees over 50, who only represent 15 to 20% of the workforce. Insurance premiums accelerate from age 50 and, if examined as a proportion of an individual's annual employer contribution, employees should reconsider every year whether or not they should retain the cover.

Contribution Strategy

Most employees do not commence salary sacrifice until late in their career. It would be more advantageous for them to initiate this strategy early in their career in doing just a modest amount over a long period.

Investment Strategy

The actual design of all MySuper investment defaults are flawed as they do not fully expose the individual investor to 100% of growth assets when appropriate and then only start to de-risk someone's super asset based on their age without any consideration of market conditions.

Considering market timing, the idea of matching your super investment in line with market conditions reads as common sense, considering that, globally, not all markets fall together and not all rise together either.

THE MANAGEMENT OF SUPER AS AN EMPLOYEE BENEFIT

Identification of the Value being delivered

If super is funded by the employer but then owned and optimised by the employee, it is important that both parties understand the decisions to be made in managing the accumulated asset. The first decision to be made is around the services required if the model is to be optimised. Generally speaking, most employers think that the management of their employee's super asset will be improved if they change from their current platform to another platform. The employer does not realise they have only changed the label without actually fixing the problem.

Initially, both the employer and some employee representatives need to identify and agree what is wrong with the current approach in managing employer/employee super. The question to be asked involves an examination of the current arrangement and whether or not it is optimising the value of super at an individual account level for all parties and in all markets.

Choice of Service Model

It is possible that the current approach suits some but not all of the employees and it is likely that both management and employees will need new information to accurately assess what needs to be done to improve financial outcomes. Until everyone understands the quality of the financial outcomes currently being delivered by their service provider, no one is in a position to actually define the shortfall in servicing being delivered.

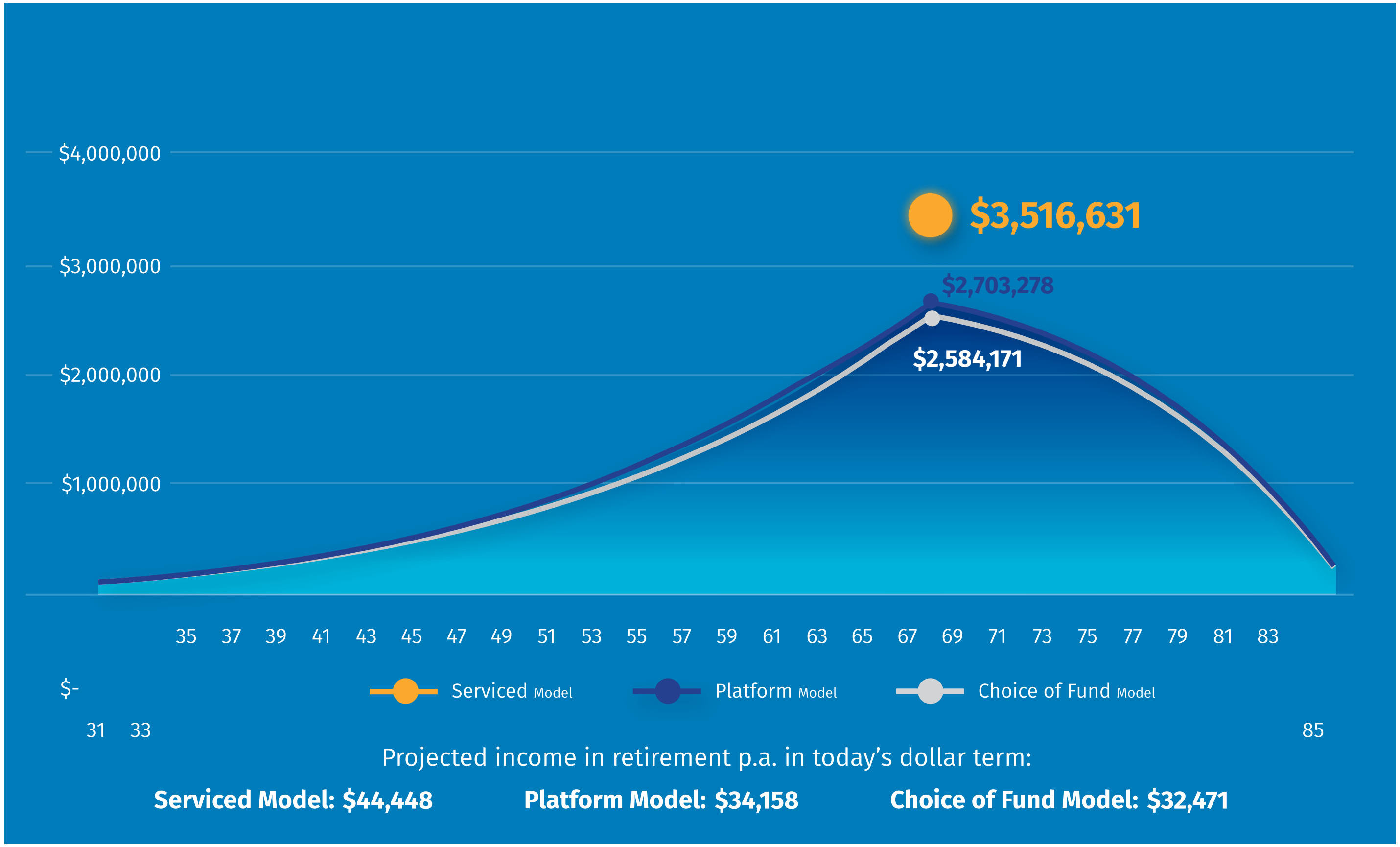
Most people's opinion is based on a fraction of the information required and then with a high dependency on historical investment performance and employee impression from various marketing slogans.

Buying a Product or a Personal Service?

The platform model's value is mainly in maintaining a record of the individuals balance. Some 75% or more of employees are not doing salary sacrifice, continuing to retain their insurance and invested in the MySuper investment default. In other words, 75% or more of employees are adopting the universal service offering promoted by all service providers in optimising their asset. By definition, employees are not being serviced at an individual account level with the objective being to optimise their asset and thereby their income in retirement.

Employees are really paying for a product to record the movements in their balance over time and not for an advisory service which grows and defends their super balance when appropriate.

RETIREMENT VARIANCE BETWEEN SERVICED, PLATFORM AND CHOICE OF FUND MODELS



By paying attention to super and accessing advice at an individual account level, an employee's projected income in retirement in today's dollars can be increased by 30%.

PERSONA ASSUMPTIONS

- Age 30
- Male
- Annual Salary of $85,000
- Superannuation Account balance of $150,000
- Death & TPD Formula of 15% of Salary x Number of Years to Age 65
- No Income Protection Cover
- Blue Collar
- Serviced Model: $1,040 p.a. salary sacrifice, insurance cease age of 51 & actively managed investment portfolio (risk profile Aggressive)
- Platform Model & Choice of Fund Model: insurance cease age of 63 & default investment portfolio (Platform: Lifestages, Choice of Fund: Single Option)

Full list of assumptions can be found at https://superwiser.com.au/assumptions

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