

11th Transatlantic Conference

at The Sagamore Resort

June 19-21, 2019

Innovation in Plan Designs – Australia

The Hon. Nicholas Sherry, Former Minister for Superannuation/Assistant
Finance Minister, Chair FNZ APAC and Household Capital

Superannuation – The Future

Where we are at the moment –

- **1992**, \$150b; **2018**, \$2.65 trillion; **2025**, \$3.5/5 trillion; **2035**, \$6/7 trillion.
- **Compulsory defined contribution** - 90 % of system; lump sum at retirement.
- **Driven by** - 9.5% SG, to rise to 12% years 2021/25.
- **Default** – Membership of fund via industrial awards or individual selection (via “advisers”).
- Default investment **My Super** – variable investment base.
- **Trustee** governance - best interest of members, prudent person, sole purpose test.
- **APRA/ ASIC** - Prudential regulation entity licensing, conflicts management, product, adviser licensing.
- **Ongoing reforms** - over 30 years, contributions, tax, access age, licensing, individual choice, Stronger Super (Super Stream), MySuper, FOFA, auto consolidation account less than \$6000 and much more.
- **Very complex system** – Contributions, insurance, tax, estate, early access, transition to retirement, etc.

Where we are at the moment (cont.)

Number of Funds			growth %
	2012	2018	
Corporate	119	22	-81
Industry	56	38	-52
Public Sector	38	18	-53
Retail	131	116	-11
SMSF's	.5m	.6m	+20

Assets \$b			growth %
	2012	2018	
Corporate	58	54	-7
Industry	292	630	121
Public Sector	237	461	97
Retail	398	589	58
SMSF's	478	727	56

Number of Funds by Sector

	2002	2011	2018
Corporate	2484	139	22
Industry	134	60	38
Public Sector	76	39	18
Retail	254	143	116
Self-managed	227,000	453,000	600,000

Assets by Allocation %

Equity; Australian listed	23
Equity; International	24
Equity; Unlisted	4
Fixed Income;	21
Cash;	10
Property Infrastructure;	14
Other (hedge, etc);	4

Retirement Phase at December 2016

- No compulsory pension/annuity at retirement
- A lump sum draw down with minimums – age related percent from account at age 60
- Transition to retirement from age 55
- Still evolving

	No. of members '000	Assets \$100m
Transition to Retirement	148	263
Account-based pension draw down	538	142
Allocated pension-usually (10-20 years)	358	75
Annuity-lifetime	14	35
Totals	1058	515

Drivers of Innovation

- Maturing DC system with average balance at retirement \$220,000
- Ageing, 12 % over age 65, 22% by 2050
- Longevity, average at age 65, males 86, females 89
- IT/admin, digital and web
- Behavioural, approaching and in retirement “less risk”, cognitive decision making
- Very complex decisions, how long will the \$'s last, state pension means tested, tax, etc
- Globalising funds, 30% offshore

Innovation Outcome - Emerging

- **Post Retirement “Income” Mix**
 - Draw down default account largely pre-retirement/mix, or
 - Life staging i.e. phased into bonds/cash in 50s into 60/70s
 - Or draw down predominately bonds/cash, or
 - Via term life annuities (10 to 15 years), little life time pensions
 - Self selected via platform
- **Information delivery**
 - Forecast showing probable outcomes, personalised, continuous updating via

- **3 Pathways**

- Via advice (human confirmation), “robo”, or default

- **Retirement Package**

- Investment options, whole of retirement 3 steps income (active 10 years/semi active 5-10 years/age care 3 years), in home care and age care provision, home equity draw down funding and planning.

Innovation Outcome-Emerging

- Funds globalising investment (have to), establishing offices and partnering offshore
- Developing new asset classes ie infrastructure with higher return/less volatility, speciality providers eg IFM/Macquarie, increased direct ownership of assets
- Investing heavily in new scale IT/admin systems which deliver complex solutions with maximum personal coms
- Significant investment in – regulatory, operations, investment, planners