

# Super Outcomes

A photograph of two hikers, a man and a woman, crossing a river by stepping on large, smooth rocks. The man is wearing an orange jacket and white shorts, and the woman is wearing a red jacket and blue shorts. They are both carrying backpacks. The background is a dense forest with sunlight filtering through the trees. There are several grey rectangular shapes of varying sizes in the upper right corner of the image.

## Why your default super fund matters

Do your employees view superannuation as a major benefit? Will it provide them with a fulfilling retirement? If not, it may be time to review your default fund.

Surpassed only in priority by salary and wages, superannuation is an important employee benefit and a key contributor to their financial wellness. The default super fund provided for employees will have a significant impact on the outcome they hope or expect in their retirement years.

Under the choice of fund regime in Australia, most employers select a default fund but the rationale and history behind this has often become lost. While employers running their own corporate super fund was once commonplace, many moved to a fully-outsourced default fund a number of years ago.

At that time, these employers were looking forward to a long-term solution. Now, their feedback questions if the arrangement has been as effective as they were hoping or whether it's time to make a change.

We are seeing examples of companies where less than 50% of their employees are participating in the employer's chosen default fund - this can weaken the employer's ability to 'bulk buy' on behalf of employees. We are also seeing examples of employers who now have several default funds as a result of merger and acquisition activity over the years - this increases the employer administration and governance burden.

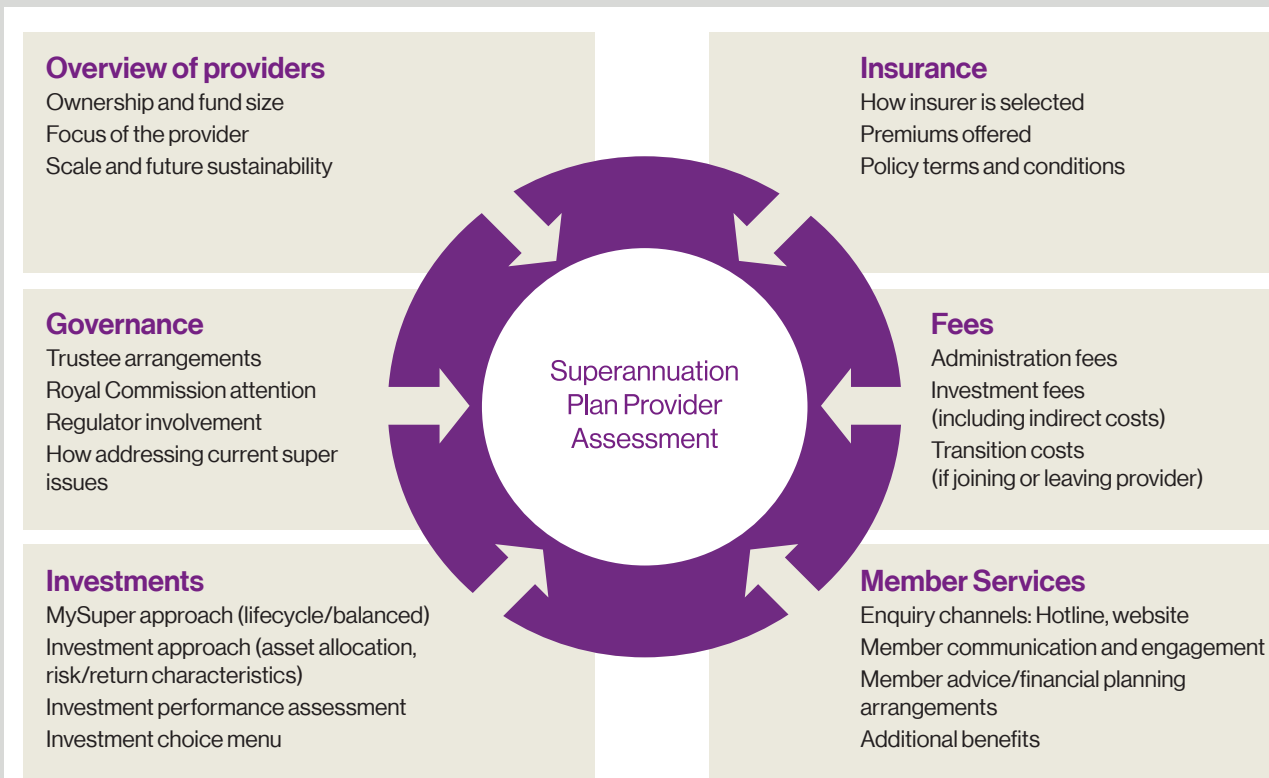
Assessing your default super fund, also known as a MySuper product, goes beyond cost to other factors such as its reputation, investment performance (both absolute and relative to other funds), insurance arrangements and the quality of the support that employees receive as members whether online, via an app or over the phone. If your employees are not viewing these aspects of your default super positively, it may be devaluing this important employee benefit.

In our experience, employers have expressed a desire to increase their level of governance of their default fund with these factors in mind. Employers are wanting to better understand what the uptake of the default fund by their employees is telling them and where improvement may be needed.

## Where are the opportunities to improve?

Superannuation combines a number of different services. While particular areas (such as past investment performance, or fees) tend to grab the limelight, it's important to assess each of the areas shown in Chart 1 when reviewing a superannuation provider before reaching an overall assessment.

Chart 1: **Assessing your current and possible superannuation providers**



Source: Willis Towers Watson

## Understanding investment arrangements

Providers adopt different asset mixes for their MySuper product and may classify their growth and defensive assets differently to each other. It is important to understand the consequences of this from a risk/return perspective, so the, relative investment performance can be assessed more consistently.

The MySuper design may be a single “balanced” asset allocation or a lifecycle approach where the exposure to growth assets reduces with age. Even within the lifecycle approach there are some significant variations. Some lifecycle options start with growth assets as low as 70% and others have growth assets closer to 100%. Some funds de-risk more strongly near retirement to around 40% in growth assets, whilst others retain a higher allocation to growth assets at 60% or more. This alone can have a significant impact on the benefit a MySuper member will receive in future.

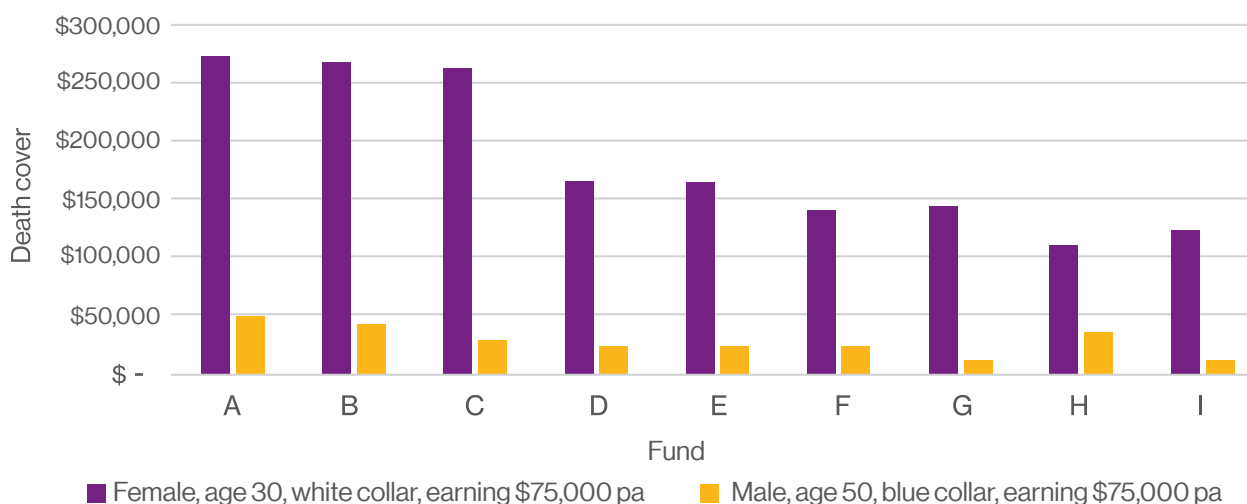


## What about pricing?

Pricing also plays an important role in assessing what a provider is offering to members. If you have sufficient members and assets in your default fund, then you may be in a position to negotiate more competitive fees as you 'bulk buy' on behalf of your employees.

Insurance premiums are an important part of the pricing discussion and we see some significant variations in insurance pricing being offered, as Chart 2 demonstrates.

Chart 2: **Death cover for \$1 per week premium**



Source: PDS documents for each Fund effective 30 September 2019

Of the nine different funds compared in Chart 2, there are significant variations in the amount of default Death cover provided for a premium of \$1/week. For a female member aged 30 in a white-collar occupation, the cover provided ranges from \$111,000 to \$273,000. Taking another example, for a male member aged 50 in a blue-collar occupation, the cover provided ranges from \$10,000 to \$48,000.

## What does a review process look like?

When starting the journey, we encourage employers to workshop the objectives of the review and desired outcomes, taking into account your benefits philosophy and employee value proposition. It is important at the outset to ensure the potential outcome is aligned with any EBA and/or employment contract requirements.

When deciding which providers to include in the review, consider:

- Retail funds have made their niche in providing bespoke arrangements, with flexibility in branding, insurance design and may in some cases provide more favourable fees than their "rack rate" fees

- Industry funds often provide less tailoring, however their "profit for members" business model, strong brands and historical investment performance can make them attractive.

It is important to look under the bonnet of the provider arrangements, but this can be done in different ways. Determine if a simple benchmarking exercise or a full market tender is required – sometimes a benchmarking exercise is sufficient to confirm the current provider remains appropriate, and/or can be helpful in narrowing the field before going to a full tender.



## Is now the time to review your default fund?

Superannuation is a significant employee benefit and the choice of default super fund provided for your employees is therefore important. The industry is in a period of disruption following the findings of the Financial Services Royal Commission, reputational damage for some providers, the push for fund mergers to achieve greater scale and reduce costs, and the subsequent raft of legislative changes that are underway. For employers who have not reviewed their default fund in recent years, now is the time to consider whether your default fund continues to be appropriate.

### Andrea Piaia

Director, Retirement

T +61 3 9655 5114

[andrea.piaia@willistowerswatson.com](mailto:andrea.piaia@willistowerswatson.com)

Level 4, 555 Bourke Street

Melbourne VIC 3000

T +61 3 8681 9800

[www.willistowerswatson.com.au](http://www.willistowerswatson.com.au)

### Jackie Downham

Director, Retirement

T +61 2 9253 3186

[jackie.downham@willistowerswatson.com](mailto:jackie.downham@willistowerswatson.com)

Level 16, 123 Pitt Street

Sydney NSW 2000

T +61 2 9285 4000

[www.willistowerswatson.com.au](http://www.willistowerswatson.com.au)

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