Super Industry 2025

2025 and beyond – a more mature industry, or just a bigger one?

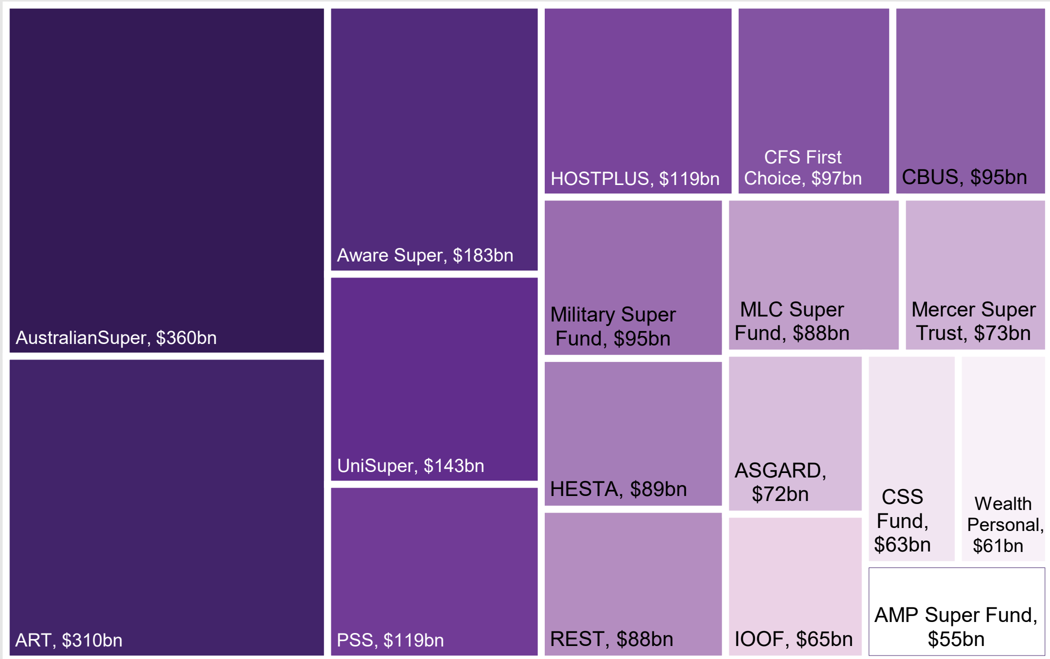
In Super Industry 2025, we analyse last year's highlights, trends and areas of focus to forecast what the super industry can expect in 2025 and beyond.

Industry growth and consolidation continues

2023-2024 saw a continuation of merger activity as funds sought to achieve scale in order to maintain competitiveness. Hostplus joined the ranks of the so-called "mega-funds" with over $100 billion in assets and 18 funds exceeding $50 billion in assets at 30 June 2024, up from 17 funds at 30 June 2023. Since 30 June 2024, CBUS has also joined the group of "mega-funds" with over $100 billion in assets.

While the top end of town has remained relatively steady, there have been significant changes for small and medium funds, with a 55% reduction in the number of funds with FUM under $50bn over the five-year period to 30 June 2024, as shown in figure 2.1. This has resulted in the further consolidation of assets among the large funds, which now control 80% of superannuation assets, up from 63% at 30 June 2019, as shown in figure 2.2.

Figure 1: Superannuation funds with Funds under Management (FUM) over $50 billion as at 30 June 2024[1]



[1] Based on APRA's Annual Fund-level Superannuation statistics 30 June 2024 published on 30 January 2025 which excludes SMSFs, small APRA funds and Exempt Public Sector Superannuation Schemes.

Figure 2.1: Number of small, medium and large funds over five years[2]

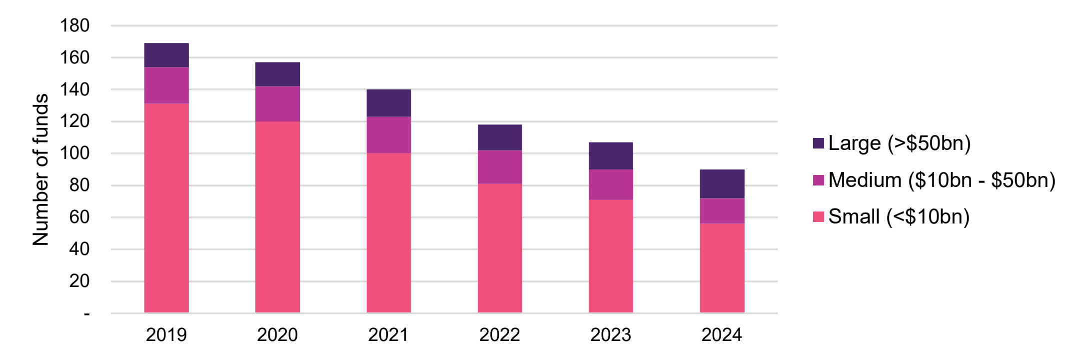


Figure 2.2: Proportion of total assets held by small, medium and large funds over five years[2]

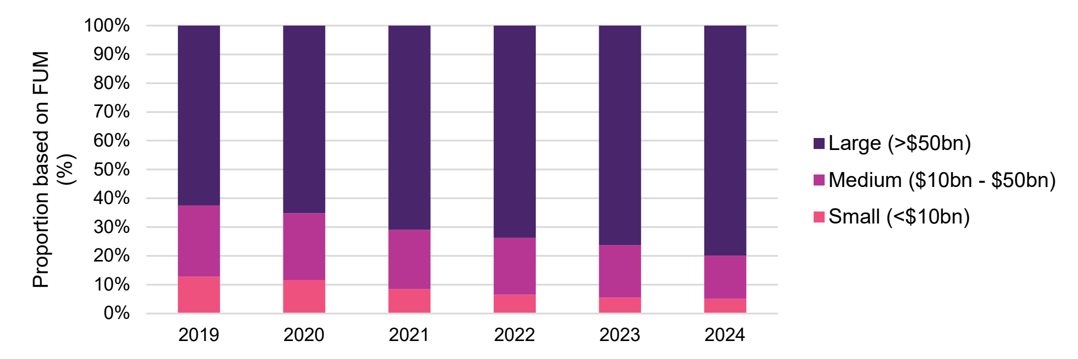
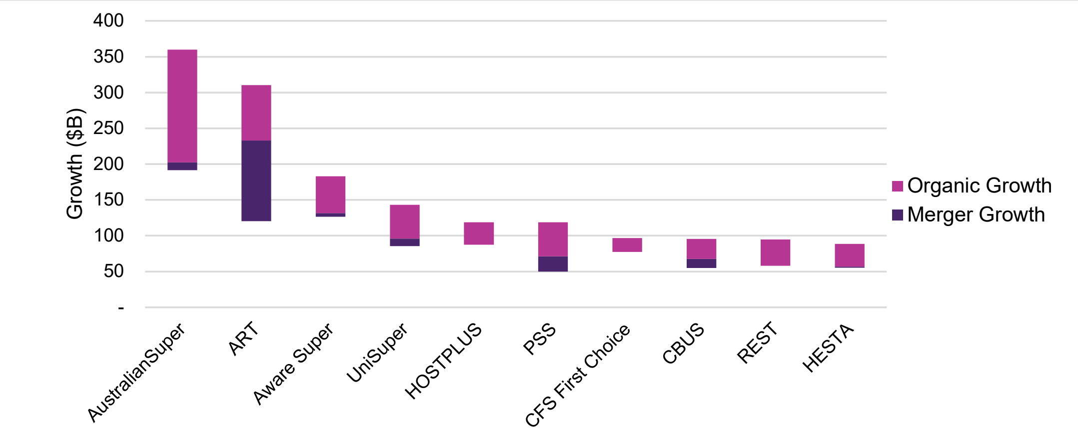


Figure 3: Growth from 30 June 2020 to 30 June 2024 for the 10 largest funds[2]



Growth promotes growth

While mergers continue to drive growth and draw the focus of the Australian Prudential Regulation Authority (APRA), growth driven by merger activity will slow as the number of merger targets reduce over time. For this reason, organic growth arguably provides a stronger indicator of long-term sustainable growth. Figure 3 illustrates that there has been a spread of organic growth across all the largest funds, independent of the level of merger activity.

The presence of merger growth does not necessarily preclude organic growth. In fact, a well-executed merger can in turn provide a foundation for strong long-term organic growth.

It is generally expected that following a merger, administrative and operational costs will reduce proportionately with increased scale, as fixed costs are spread over a larger asset and membership base. However, does this align with what is happening in practice?

The administration and operational expense data recently released by APRA indicates a slight downward trend in the ratio of expenses to FUM (expense ratio) as scale increases, with all funds having FUM over $10bn showing an expense ratio of 0.4% or less. Interestingly, for smaller funds (less than $10bn), there is no real indication that smaller scale directly leads to a higher expense ratio. Instead, there appears to be greater variance in expense ratios among funds at the smaller end.

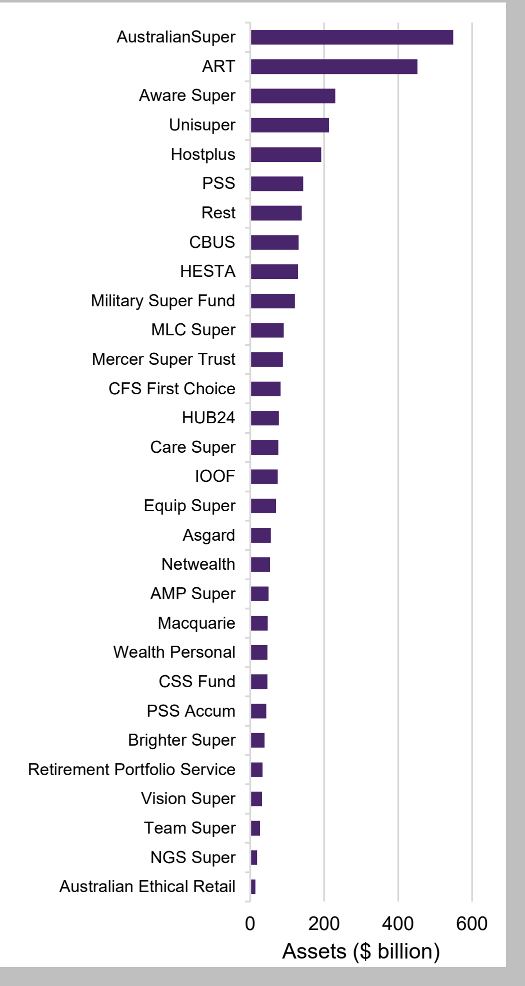
[2] Based on APRA's Annual Fund-level Superannuation statistics back series June 2004 to June 2024 published 30 January 2025 which excludes SMSFs, small APRA funds and Exempt Public Sector Superannuation Schemes.

How does the future look?

Figure 4.1 lists the top 30 APRA-regulated superannuation funds at 30 June 2024[1]. Using WTW's Fund Navigator™ model, the membership, assets and cashflows of each fund have been projected for the five years following 30 June 2024, as shown in figure 4.2. Funds that have merged, and those that have announced mergers since 30 June 2024, have been consolidated in the five-year projection. Funds that have wound up since 30 June 2024 and funds with significant data not disclosed in the publication, have been removed.

Figure 4.1: Fund Rankings at 30 June 2024

Figure 4.2: Projected Fund Rankings in five years



[1] Based on APRA's Annual Fund-level Superannuation statistics 30 June 2024 published on 30 January 2025 which excludes SMSFs, small APRA funds and Exempt Public Sector Superannuation Schemes.

These projections are based on several assumptions regarding economic outcomes and member behaviour. Cash flow assumptions – such as contribution levels, fees and insurance premiums – along with demographic assumptions (e.g. member movements including exits, transfers and new entrants) have been derived from APRA data, supplemented by other data published by the Australian Bureau of Statistics (ABS). Importantly, these projections account solely for organic growth and do not factor in potential unknown mergers.

Rest, Hostplus and HESTA are expected to be significant beneficiaries of organic growth, driven by new entrants to the workforce and stapling. Rest is projected to move up five positions, from 12th to 7th in the fund rankings, over the next five years, whilst CBUS and HESTA will likely jostle for the 8th position. Care Super and Equip Super are also expected to rise in the rankings, partly due to announced mergers with Spirit Super and Telstra Super, respectively. Vision Super and Team Super have both entered the top 30 since 30 June 2024, following their recent mergers with Active Super and TWU Super respectively. With strong organic growth, AustralianSuper is expected to remain Australia's largest superannuation fund in five years' time and if anything, increase its dominance of the industry.

In general, retail funds are projected to decline in the rankings, with funds such as Retirement Portfolio Service (which includes various ANZ products), CFS First Choice, Macquarie, Asgard, Wealth Personal and AMP Super all expected to drop between two to six positions over the next five years. The notable exception to this trend is HUB24, which is projected to climb eight positions over the next five years based on their current organic growth levels. This follows a climb from 25th to 22nd over the year to 30 June 2024. Other notable retail funds on the rise include Australian Ethical Retail Superannuation Fund, which is expected to rise six positions to break into the top 30 funds.

Our WTW team of experts has a deep understanding of the current state of the superannuation market and are ready to help you navigate all the important issues to ensure your fund's current and future success.

The merger is just the beginning

A merger, whatever form it takes – whether it is a successor fund transfer, acquisition, or change of trustee – goes beyond simply identifying the target fund with the cheapest fees. While ensuring the arrangement is in the best financial interests of members should remain the primary goal of both trustees, mergers can fail at various stages. Therefore, alignment in ethos, culture and approach between the two trustees is an important starting point.

For transferring trustees who have not undertaken a project of this nature before, finding a merger advisor with the right experience and capabilities can significantly ease the process. Advisors can assist in presenting the fund in the best light by:

- Ensuring alignment among key stakeholders
- Undertaking initial market scans
- Preparing the tender request
- Reviewing responses and preparing a shortlist for trustee consideration
- Guiding the trustee through the due diligence process, from financial analysis through to data cleansing
- Advising on strategies for special groups, such as defined benefit members or pensioners
- Developing effective communications strategies

Merger advisors can also assist in digesting a merger – simplifying or aligning the various products, fee levels, insurance structures, underlying systems and processes, and harmonising investment options, that resulted from the merger.

With over 20 years of experience and close to 100 transitions behind us, WTW has developed a best-practice approach to all phases of a fund merger, from market insights and due diligence to integration planning and execution. Our recent experience spans 16 fund mergers and transitions, covering $37 billion in assets and includes large complex corporate funds. Our Merger Advisory team has served as directors of RSE licensees over the last 20 years, so we understand firsthand the challenges that transitions bring to a fund. We also recognise the key issues that trustees must focus on to ensure long-term strategic success.

With an increased focus on governance, are funds ready?

As super funds increase in size, regulators' focus on governance has also intensified. In 2023 and 2024, there were at least ten instances of regulatory actions or fines announced against superannuation entities (several of these remain ongoing at the time of writing). The final total of penalties and fines could exceed $100 million, not including the cost of legal advice, governance changes, member remediation. and excluding class actions. These issues covered a broad range of topics, yet all share a common thread – governance failures.

In 2024, APRA finalised new prudential standards and guidance on operational risk management and ORFR, member outcomes, and recovery and exit planning. It also published fund-level expenditure data for the first time, along with the findings from its review of trustees' progress in implementing enhanced valuation governance and liquidity risk management requirements under SPS 530 Investment Governance. ASIC also released recommendations and guidance based on its surveillance of greenwashing and death benefit claims handling. Both regulators raised their expectations on retirement income strategies for funds.

The superannuation sector has grown so large that the focus has extended beyond its traditional regulators. In September 2024, the Reserve Bank of Australia identified the sector's rapid growth, the rise in herding around common benchmarks and increased exposure to margin calls.

Additionally, the sector's growing interconnectedness with banks and expanding footprint in financial markets means that funds' investment decisions and liquidity risk management practices now have greater potential to amplify shocks across the entire financial system. This focus is expected to intensify in 2025 and beyond, with both APRA and ASIC outlining plans to continue holding trustees accountable across a broad range of governance-related areas.

CPS 190 Recovery and Exit Planning commenced on 1 January 2025, followed by the Financial Accountability Regime on 15 March 2025. CPS 230 Operational Risk Management and the new versions of SPS 114 ORFR and SPS 515 Strategic Planning and Member Outcomes will all commence on 1 July 2025. APRA has also recently begun consultation on a major package of proposed changes aimed at further strengthening funds' governance arrangements. In addition, some superannuation funds will be included in APRA's system-wide stress test for the first time, with the test commencing in the second quarter of 2025.

APRA has warned the industry that it will intensify its focus on trustees' practices around expenditure management in 2025 after identifying deficient practices and questionable expenditure in the data received from funds. It has also announced plans to monitor trustees responsible for underperforming Choice products, ensuring they either improve or exit these products, while also driving improvements in trustees' recovery and exit capabilities to strengthen their ability to respond to stress. The "Payday Super" proposals, if enacted, will require super funds to uplift their processing standards for contributions to meet the tighter timeframes proposed.

APRA and ASIC will continue to work together to improve trustees' responses to the retirement income covenant, with APRA intending to assess the costs, benefits and capacity of trustees for enhanced data collections in this space. Both regulators have also been recently requested by the government to conduct another pulse check of retirement strategy implementation in 2025. There will also be engagement with individual trustees where the regulators hold concerns about the progress being made to implement the covenant, and where poor conduct or practices are identified.

With actions on complaints and claims handling already before the courts, ASIC published a letter to CEOs in late November 2024, addressing funds' handling of death benefit claims. The letter's purpose was to prompt immediate action over consistently weak trustee practices it had identified in this area. ASIC considers that many of the insights in the letter are equally applicable to the governance of other member services. ASIC's final report is expected soon, along with more enforcement actions in this area. Notably, in March 2025, ASIC commenced further action against AustralianSuper relating to alleged death benefit claims handling failures.

Retirement challenges remain – are your members ready?

Last year's review posed the question of whether 2024 would be the year the focus finally moved to retirement. With 2.5 million members expected to move to the retirement phase over the next 10 years, and mounting evidence that retirees are not using their retirement savings efficiently to support their standard of living in retirement, this is a pressing issue that needs to be addressed.

The regulators reported progress in their 'pulse check' on the implementation of the retirement income covenant in mid-2024, identifying increased effort by trustees to better understand member needs and an ongoing focus on member guidance and advice. But they also raised concerns regarding a lack of progress by funds in measuring and tracking the success of their retirement income strategies. Another pulse check is due by the end of 2025.

As noted last year, product development is not something that can be done quickly, and trustees have identified ongoing challenges, including uncertainty around the financial advice framework, concerns around collecting sufficient data to better understand and support member needs, and a general lack of engagement and financial literacy among many members. APRA's increased focus on expenditure will only heighten the risks associated with significant expenditure on product development that may not generate sufficient member interest.

Yet the pace of change is accelerating. Over the past year, there has been a notable increase in the development of funds' retirement income strategies and a rise in product development, especially insured products. The government also announced further changes to the retirement phase of super in November 2024, adding pressure on trustees to prepare for what has been called the 'retirement tsunami'.

WTW's Retirement team has developed an innovative retirement outcomes framework to help trustees design, develop, and assess their retirement income strategies and products. This flexible framework focuses on retirement-related member outcomes and incorporates both member preferences and multi-dimensional cohort analysis.

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