



INSIGHTS PAPER

MySuper and Choice Heatmaps

16 DECEMBER 2021

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Dashboard

Superannuation heatmaps



APRA

Objectives



Heighten transparency to hold trustees accountable



Provide comparable measures of performance across products



Promote industry consolidation to drive better outcomes

MySuper Heatmap coverage

75

MySuper products

14m

Member accounts at 30 June 2021

\$853b

Total member benefits at 30 June 2021

Choice Heatmap coverage

120

Choice products in scope

727

Multi-sector choice options in scope

\$349b

Estimated total member benefits at 30 June 2021

Introduction

APRA is committed to improving outcomes for superannuation members. Eradicating unacceptable product performance and improving transparency across the superannuation industry is key to achieving these better member outcomes.

To improve transparency and hold trustees accountable for outcomes they deliver to members, APRA publishes heatmaps on an annual basis. Heatmaps provide clear and comparable information on product performance across multiple dimensions: investment returns, fees and sustainability.¹

The 2021 MySuper Heatmap includes the results of the Government's inaugural *Your Future, Your Super* performance test (YFYS performance test). This year, for the first time, in addition to the MySuper Heatmap, APRA is publishing a heatmap for a segment of choice products.

This first Choice Heatmap has been compiled using external data sourced from SuperRatings. Commencing in 2022, it is intended that all APRA heatmaps will use data provided to APRA under the expanded data collections of the APRA Superannuation Data Transformation project, which were implemented in late 2021.

Together, the MySuper Heatmap and the Choice Heatmap cover around 60 per cent of total member benefits (excluding defined benefits) as at 30 June 2021 in funds with more than four members.

What are MySuper products and choice products?

MySuper products offer a single investment option and are designed to be simple, low cost default products for members that do not to make an active decision on their investment strategy (although any member may choose to be in a MySuper product).

Choice products and options are those in which members have made an active decision to invest and are aimed at members seeking greater flexibility. They are more heterogeneous and complex than MySuper products. Trustees may offer multiple choice products and within these products, trustees offer a wide range of investment options.

Choice investment options provide members with a broader offering with their investment mix that enables members to select their investment options based on their risk profile, goals and personal circumstances. Choice members generally get access to a wider range of features than members of MySuper products, such as additional website functionality and member reporting.

¹ APRA expects to publish its key findings and insights on sustainability of member outcomes metrics in early 2022.

Chapter 1 - MySuper Heatmap

The MySuper Heatmap provides credible, clear and comparable information on the performance of MySuper products, enabling like-for-like comparisons of outcomes. The Heatmap incorporates 75 MySuper products covering 14.2 million member accounts and member benefits of \$853 billion as at 30 June 2021.

The first annual YFYS performance test for MySuper products was conducted in August 2021, consisting of an assessment of investment performance and administration fees.

Thirteen MySuper products failed (comprising 1 million member accounts and \$56 billion in members' benefits).

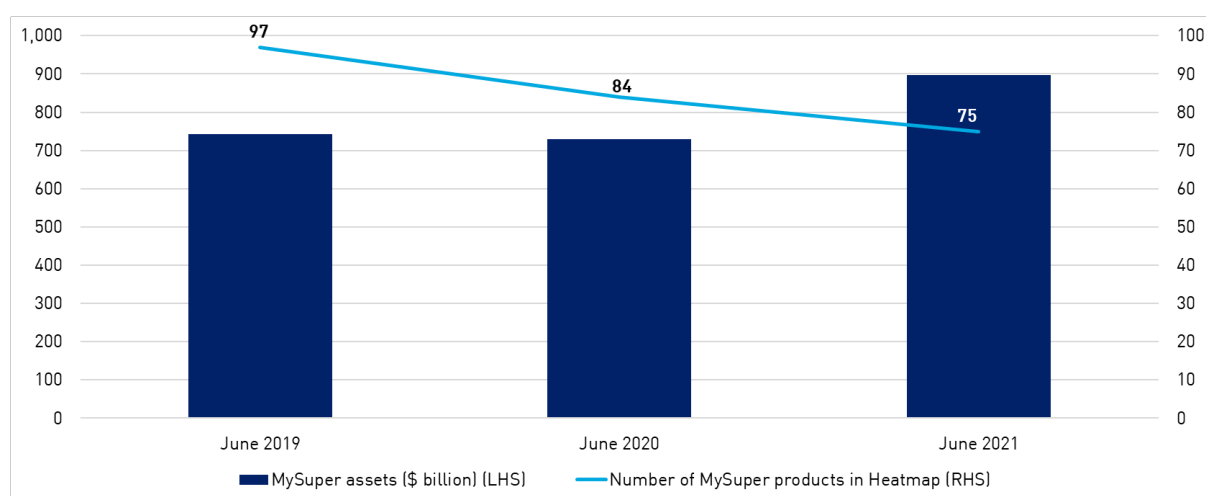
1.1 Product closures

Since December 2019, 22 MySuper products have closed.

Since APRA published the first MySuper Heatmap in 2019, 22 MySuper products have closed (comprising 1.3 million member accounts and \$41.8 billion in member benefits). This is a result of APRA's continued supervisory intensity to improve outcomes for members. These 22 products had been identified, including in APRA's heatmaps, as having poor investment returns and/or high fees.

Of the 22 closed MySuper products, three products that also failed the YFYS performance test have closed (comprising 73,800 member accounts and \$3.7 billion in members' benefits at 30 June 2021).

Figure 1. MySuper total assets (at 30 June) and number of MySuper products



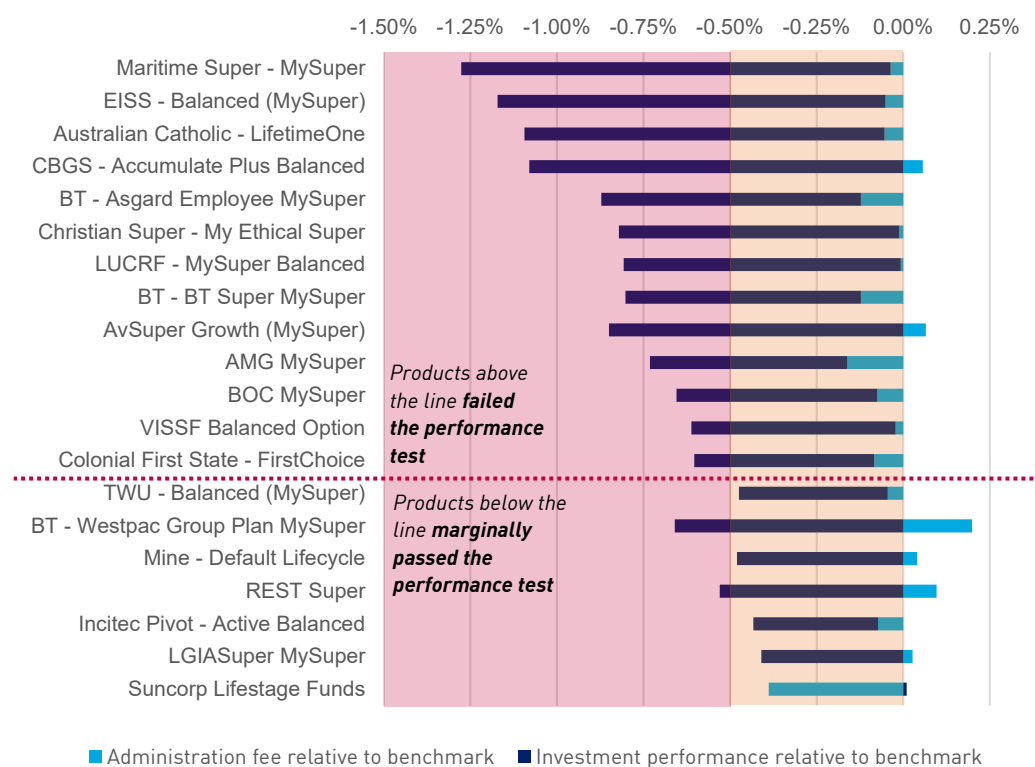
² The number of MySuper products are as at the date of release of each respective Heatmap.

1.2 Drivers of underperformance

Investment returns are the primary driver of underperformance.

The YFYS performance test provides useful insights into the relative impact of investment returns and fees on outcomes for members. *Figure 2* displays the YFYS performance test results (August 2021) for the 13 MySuper products that failed the test and seven products that marginally passed, including the results in the investment and administration fee components of the test. The primary reason for failing is investment performance relative to benchmark (as illustrated by the dark blue bar in *Figure 2*).

Figure 2. Unpacking the August 2021 YFYS performance test results



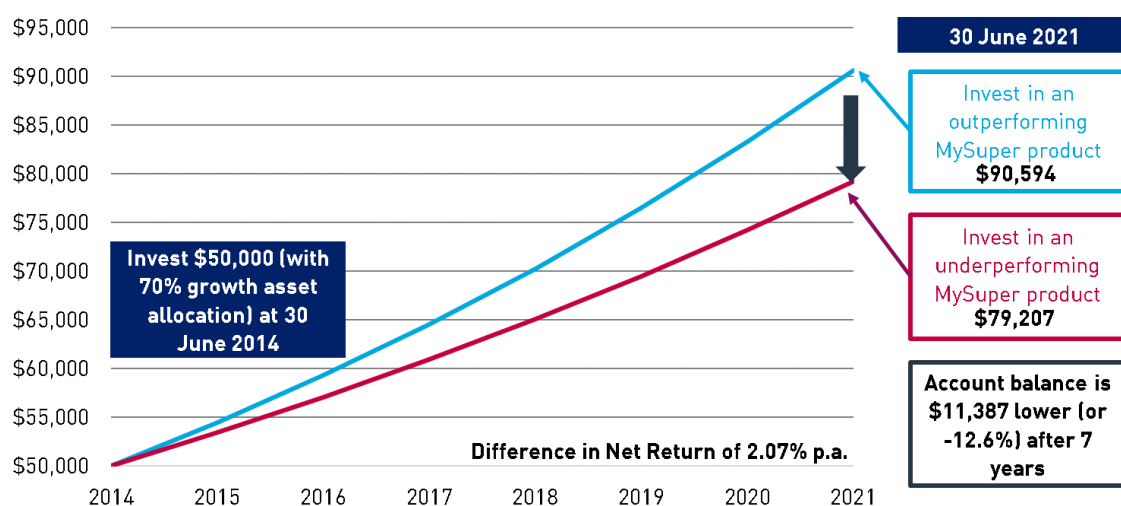
APRA expects trustees to improve the performance of underperforming products in a timely manner to protect all members. This is particularly the case where the product has failed consecutive performance tests and becomes closed to new members, which may result in further sustainability challenges for the trustee.

Passing the YFYS performance test is not enough to deliver good retirement outcomes.

The MySuper Heatmap indicates further improvement in investment outcomes to members is required. 31 products (of 69 products with 7-year returns history, or 45 per cent of MySuper products) have performed below APRA's heatmap benchmarks.³

The impact on a member of being in a poor performing MySuper product is significant. The MySuper Heatmap indicates a 2 per cent return differential every year between a good performing product and a poor performing product of the same risk profile.⁴

Figure 3. Growth of a \$50,000 member account over 7 years



³ To enable comparison, APRA has calculated a single measure of heatmap performance by taking the average relative difference of the product's investment return to the four heatmap benchmarks. Refer to the Technical Paper - MySuper Heatmap for further explanation of heatmap performance.

⁴ Refer to the Technical Paper - MySuper Heatmap for details of the calculation methodology.

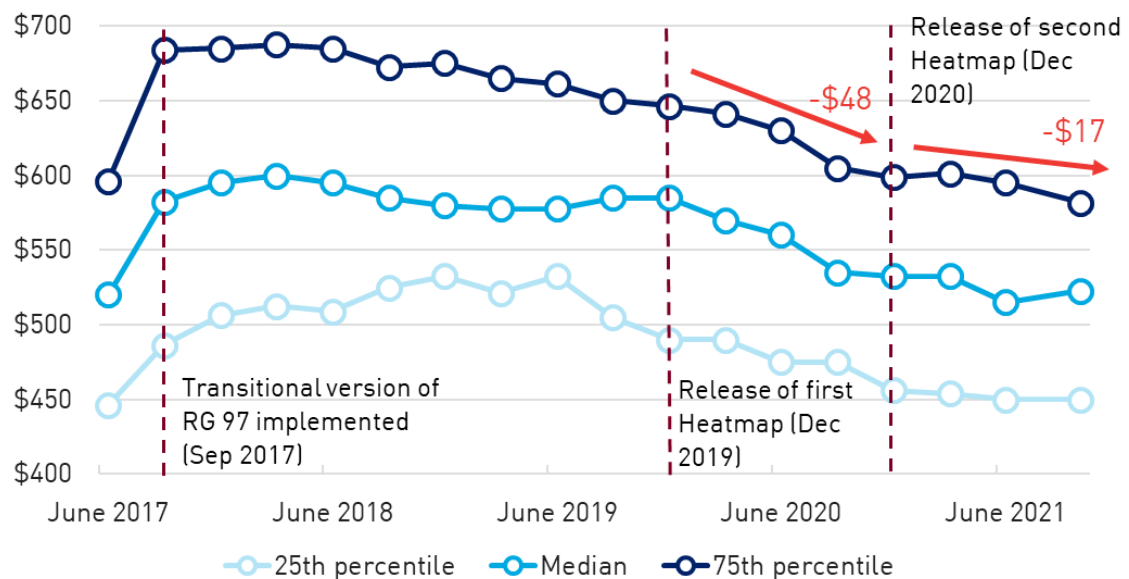
1.3 Fees and costs

Fees and costs for MySuper products are declining, but there remains considerable scope for further reductions.

Intense supervisory engagement with the trustees of the most expensive products has resulted in fees trending down, converging to the median:

- In December 2019, one quarter of MySuper products charged total fees and costs of more than \$646 per annum for a member with a \$50,000 balance.⁵ The equivalent figure in December 2021, was \$582, a reduction of \$65 or more than 10 per cent.
- However, the fees of the most expensive products can reduce further. The majority of products identified as charging high administration fees in the 2020 MySuper Heatmap continue to charge fees that are significantly higher than other MySuper products.

Figure 4. Trend of total fees and costs (\$50,000 account balance)



⁵ Total fees and costs consist of administration fees and investment fees and indirect costs.

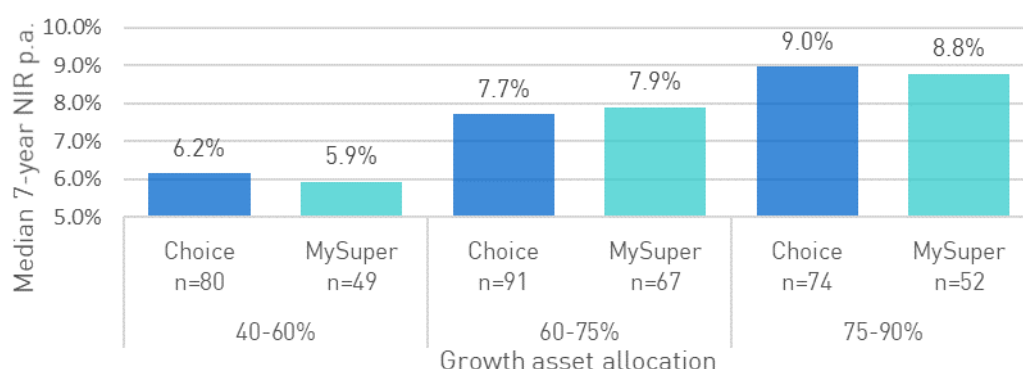
Chapter 2 - Choice Heatmap

APRA is stepping up transparency of superannuation industry's performance by extending the heatmaps to the choice sector. APRA's first Choice Heatmap focuses on a specific segment of the choice sector: multi-sector investment options. APRA will expand the coverage of the Choice Heatmap in future years, using data reported to APRA under the superannuation data collection.

The Choice Heatmap covers 120 products offering 727 multi-sector investment options (options) totalling around \$394 billion in member benefits as at 30 June 2021. Of these, 73 products offering 398 options, offered by 56 trustees, have seven years of performance history. This is the basis of the summary analysis in this Insight Paper. Further analysis of the full set of 727 choice options is included in the Technical Paper - Choice Heatmap.

For investment options with similar risk profiles (measured by allocation to growth assets), the median net investment return for choice investment options is similar to MySuper products, as illustrated in *Figure 5*.⁶

Figure 5. Median 7-year Net Investment Return for choice options and MySuper products at 30 June 2021



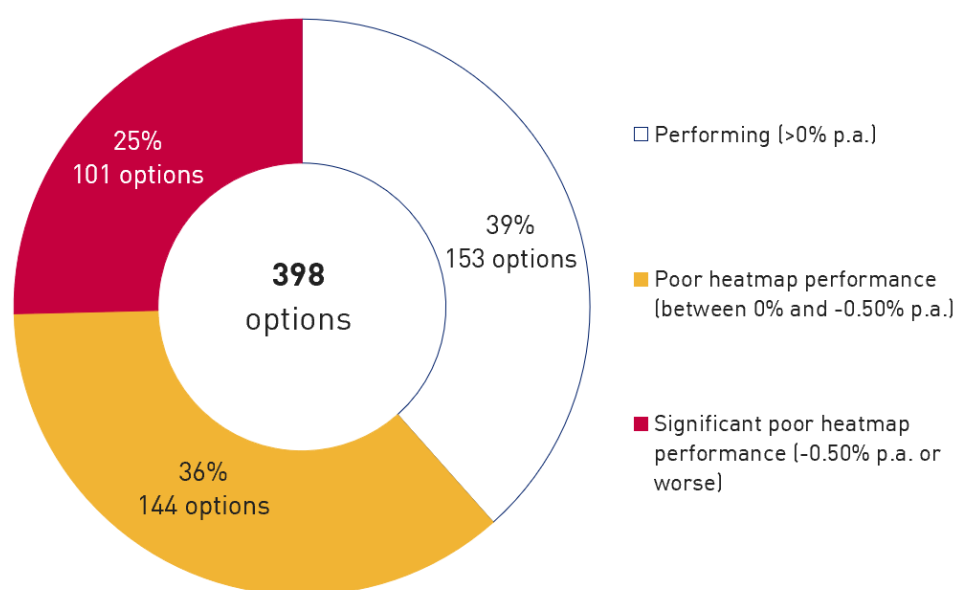
While good outcomes are being provided to many choice members, poor performance is evident across all growth asset categories. Further, the Choice Heatmap indicates that there is a wide variation across choice investment options around the median.

⁶ As the majority of MySuper products have a growth exposure between 40 per cent and 90 per cent, Figure 5 includes only comparison of growth asset categories in this range. Each MySuper lifecycle stage is treated separately.

2.1 Benchmarking investment returns

More than 60 per cent of investment options in the Choice Heatmap had returns less than APRA's heatmap benchmarks, with 25 per cent of options delivering significantly poor returns.

Figure 6. 7-year investment returns of choice options relative to heatmap benchmarks



Sixty-one per cent of options (144 options in the amber segment and 101 options in the red segment of *Figure 6*) generated returns below the APRA heatmap benchmarks over the last seven years⁷. This indicates that the trustee's investment strategy has not delivered good investment returns compared to peers and benchmarks, particularly for the 101 options with significant poor investment returns in the heatmap.

Poor performing choice products are concentrated in the hands of a few trustees.

In addition to considering the investment returns of individual choice investment options, it is useful to look at the investment returns across options offered by the trustees. Multiple poor

⁷ To enable comparison, APRA has calculated a single measure of heatmap performance by taking the average relative difference of the option's investment return to the four heatmap benchmarks. Refer to the Technical Paper - Choice Heatmap for further explanation of heatmap performance.

performing investment options indicates broader issues with the trustees' approach to investments and their product offerings.

The Choice Heatmap identifies that there are 31 trustees with at least one significant poor performing investment option (for a total of 101 investment options).

Of these 31 trustees, eight trustees with eight products have a majority of options with significant poor investment returns in the Heatmap (for a total of 43 investment options).

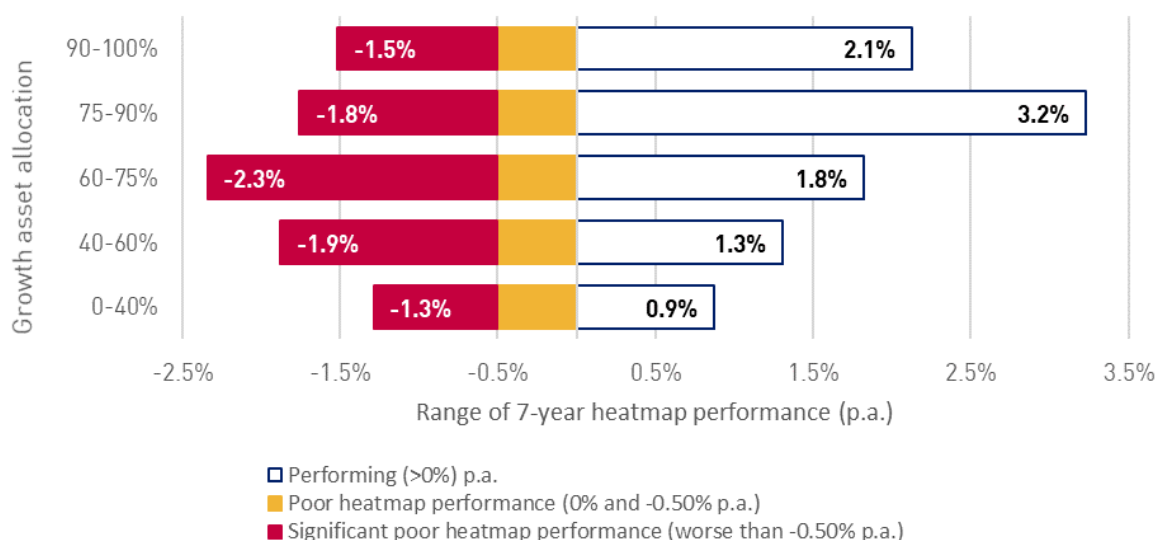
2.2 Performance variability

Performance of choice products varies considerably more than MySuper products.

APRA's analysis of the poorest performing options in the Choice Heatmap indicates that there is a very long tail of poor performing options in all growth asset categories:

- The lowest performance relative to heatmap benchmarks being -2.3 per cent p.a. over seven years (*Figure 7*).
- This poor performance is significantly worse than the performance delivered by MySuper products, where the lowest performance relative to heatmap benchmarks was -1.1 per cent p.a. over seven years.

Figure 7. Wide range of performance relative to heatmap benchmarks (7 years)



2.3 Fees and costs

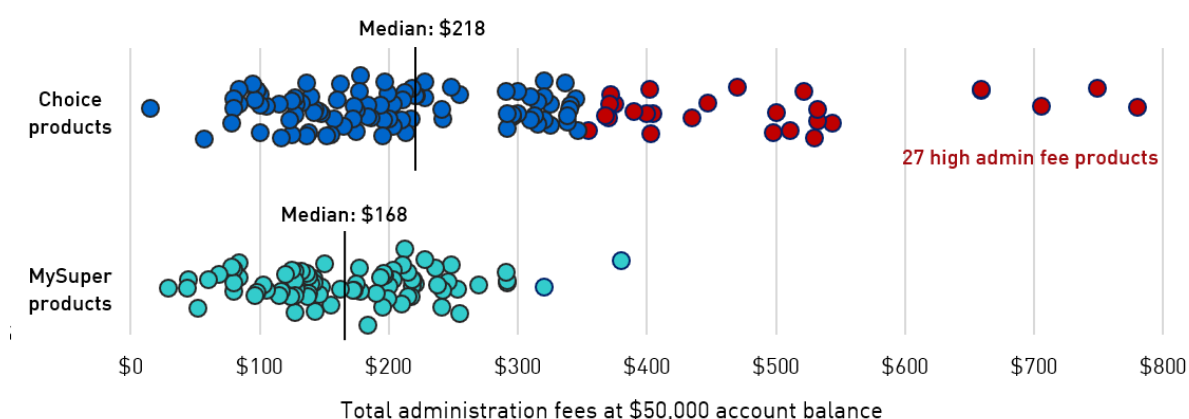
Fees and costs in choice products are considerably higher than MySuper products, without obvious benefit in financial outcomes to members.

Total administration fees of choice products can be more than double that of MySuper products.

Choice products have higher total administration fees, as indicated by the median administration of \$218 p.a. for a \$50,000 member balance (which is 30 per cent higher than the median fee of \$168 p.a. for a \$50,000 member balance in a MySuper product). Looked at another way, 68 per cent of choice products (or 82 choice products) have an administration fee for a \$50,000 member balance that exceeds the median administration fee (\$168 p.a.) for a MySuper product with the same balance.

Further, the Heatmap identifies 27 choice products that have high administration fees relative to peers, based on APRA's benchmarks.

Figure 8. Total administration fees at \$50,000 account balance



APRA analysis of the higher fees in choice products indicates that high asset based fees are driving the long tail of total administration fees for choice products and choice products with high administration fees are generally offered by RSEs with less than \$10 billion net assets.

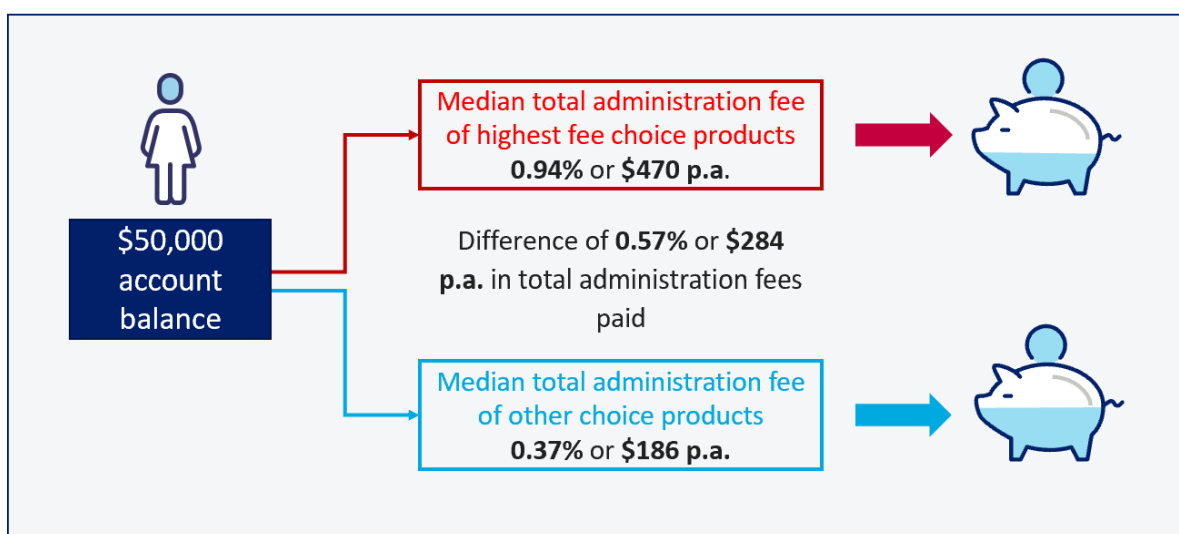
Choice products with high administration fees are often differentiated by tailored features and services, including account flexibility with access to a wider range of investment options, online website functionality and member reporting.

Nevertheless, trustees must be able to demonstrate the value of their product offerings (including services and features), and the fees charged to members are in the best financial interests of members. Where fees are high and do not clearly contribute to improved financial outcomes for members, APRA expects trustees to reduce fees.

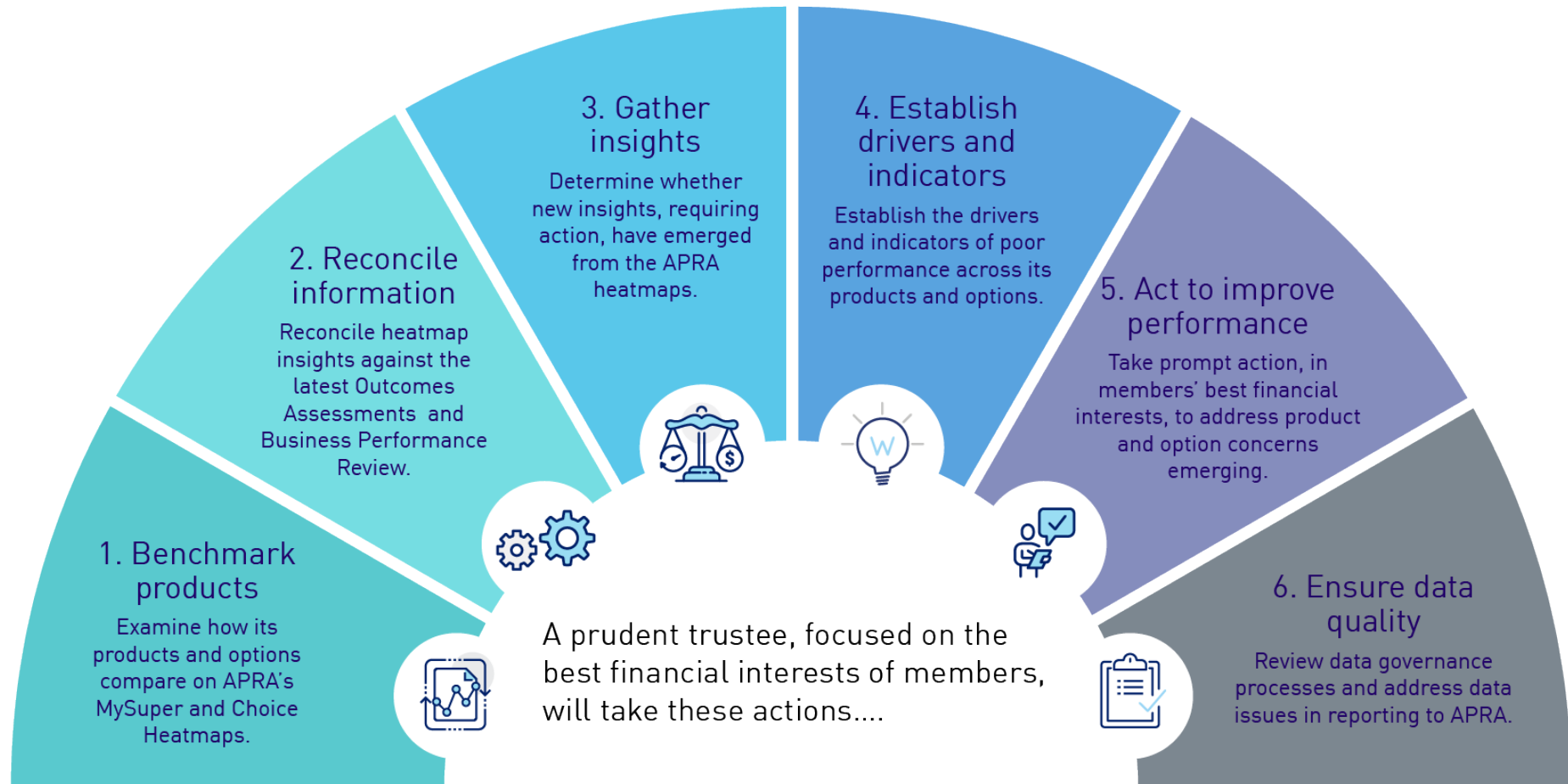
High fees erode retirement outcomes.

Figure 9 shows the median total administration fees paid by a member with a \$50,000 account balance of the 27 highest fee choice products, compared to other choice products. This difference of \$284 per annum (or 2.5 times higher than other choice products), over time, compounds the erosion of members' retirement income.

Figure 9. Total administration fees paid on \$50,000 account balance in highest fee choice products vs other choice products



Chapter 3 - Industry next steps





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