



APRA

DATA INSIGHTS

MySuper Product Heatmap

10 December 2019

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Contents

Foreword	4
Executive summary	5
Significance of MySuper	6
Heatmap – key insights	8
Investment performance	8
Fees and costs	17
Sustainability of member outcomes	22

Foreword

The MySuper Product Heatmap (the Heatmap) provides a major enhancement to industry transparency. The Heatmap is designed to provide stakeholders with insights into the outcomes being delivered by Registrable Superannuation Entity (RSE) licensees for all MySuper products, in particular for investment returns and fees and costs, by providing information that is credible, clear and comparable. The Heatmap enables like-for-like comparisons of outcomes and seeks to foster a culture of continuous improvement across the superannuation industry. The primary users of the Heatmap will be RSE licensees. However, the insights the Heatmap provides will benefit a wide range of stakeholders.

The Heatmap does not provide a complete picture of trustee performance. It provides a starting point for trustees to consider their MySuper product performance and how to improve it. APRA expects RSE licensees also to consider a broader range of metrics in undertaking a holistic assessment of their overall performance and the outcomes being delivered across all of their business operations, services and products.

APRA is integrating the Heatmap into its risk assessment and supervisory intensity model, which is aligned with its new enforcement approach. This ensures that the insights provided in the Heatmap lead to a level of supervisory intensity and oversight that appropriately reflects the quality of the outcomes being delivered by each RSE licensee and that subjects RSE licensees with continued areas of underperformance to more intense supervisory action.

The Heatmap is also a starting point for other industry stakeholders, including policymakers, advisers, employers and members, to develop a greater understanding of superannuation performance and how their choices and personal circumstances can influence retirement outcomes.

This paper provides insights derived from the Heatmap data about MySuper products. These products play a critical role in the industry, as they are default products to which Superannuation Guarantee (SG) contributions are directed in the absence of employee choice. MySuper products are expected to be simple, cost effective and well-designed products that contain basic features required by most members.

APRA welcomes feedback from all stakeholders as we continue to evolve our member outcomes analysis, including consideration of other areas for MySuper products (such as insurance) and extending the analysis to choice products and investment options. Feedback can be emailed to MemberOutcomes@apra.gov.au.

Executive summary

The Heatmap highlights areas for improvement across investment performance and fees for MySuper products, and provides indicators of trends in an RSE licensee's operations relevant to the sustainable delivery of member outcomes.

Analysis using the metrics presented in the Heatmap suggests that good outcomes have been delivered for many members holding MySuper products. In particular, those products with meaningful allocations to growth assets have delivered solid net returns for members, which is as expected given investment market conditions over the five-year period covered by the Heatmap. More single-strategy products outperformed the simple reference portfolio and strategic asset allocation portfolio benchmarks than lifecycle products.

There is, however, significant variation in outcomes across the industry, particularly in the area of investment performance. Underperformance relative to other products and risk-adjusted benchmarks is not isolated to any particular segment of the industry. This variation, and products with significant underperformance, is observed across all investment risk profiles.

The analysis of fees for different account balances highlights the impact of different fee structures. In particular, it is clear that administration fees impact low account balances more heavily, due to the prevalence of dollar-based administration fees that are a large component of total fees for lower balance accounts. Conversely, as would be expected, the analysis also makes it clear that percentage-based administration and investment fees have a greater impact on high balance accounts than dollar-based fees.

The analysis of scale and negative trends in sustainability metrics indicates some correlation with underperformance and hence it is important for RSE licensees to consider such metrics when assessing the sustainable delivery of member outcomes. Further, following the introduction of the Protecting Your Super Package measures, RSE licensees with RSEs that have transferred a high number of inactive, low account balances to the Australian Taxation Office will need to understand how this affects the sustainability of their fee models.

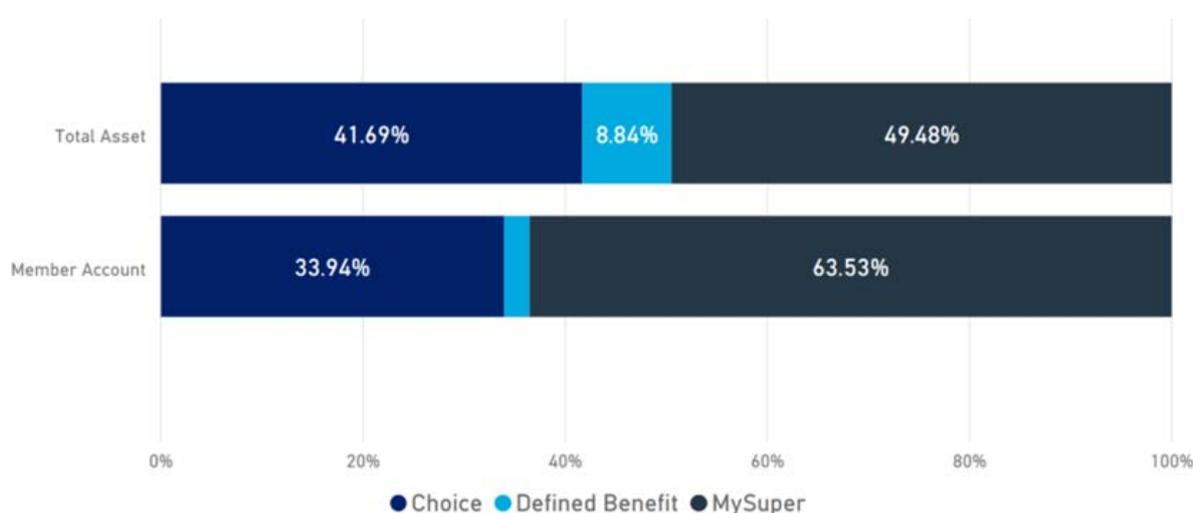
The Heatmap clearly identifies areas of relative underperformance and presents insights into areas that are critical to member outcomes. We expect trustees to analyse the drivers underlying the areas identified as providing relatively poor outcomes and develop action plans, which include key deliverables and timeframes, to address areas of underperformance.

Significance of MySuper

The superannuation industry continues to mature, with funds under management (FUM) as at 30 June 2019 sitting at \$2.9 trillion. Of this total, \$1,922.7 billion resides in APRA-regulated superannuation entities.

Total assets held in MySuper products reached \$762.3 billion as at 30 June 2019, more than double the figure in the 2013/14 financial year. Total MySuper assets now comprise nearly 40 per cent of all assets in APRA-regulated funds. When assets in the pension phase are excluded, MySuper accounts represent over 60 per cent of member accounts and nearly 50 per cent of total assets (Figure 1).¹

Figure 1. Superannuation asset and membership composition in accumulation phase



Note: includes superannuation entities with more than four members and excludes entities that APRA does not regulate, that is Exempt Public Sector Superannuation Schemes and Australian Taxation Office-regulated Self-Managed Superannuation Funds.

MySuper products play a critical role in the superannuation industry. The Super System Review of 2010 (the Cooper Review) concluded that members who contribute to default funds chosen by their employers are generally considered to be disengaged members for whom a simple, cost effective and well-designed product is needed.

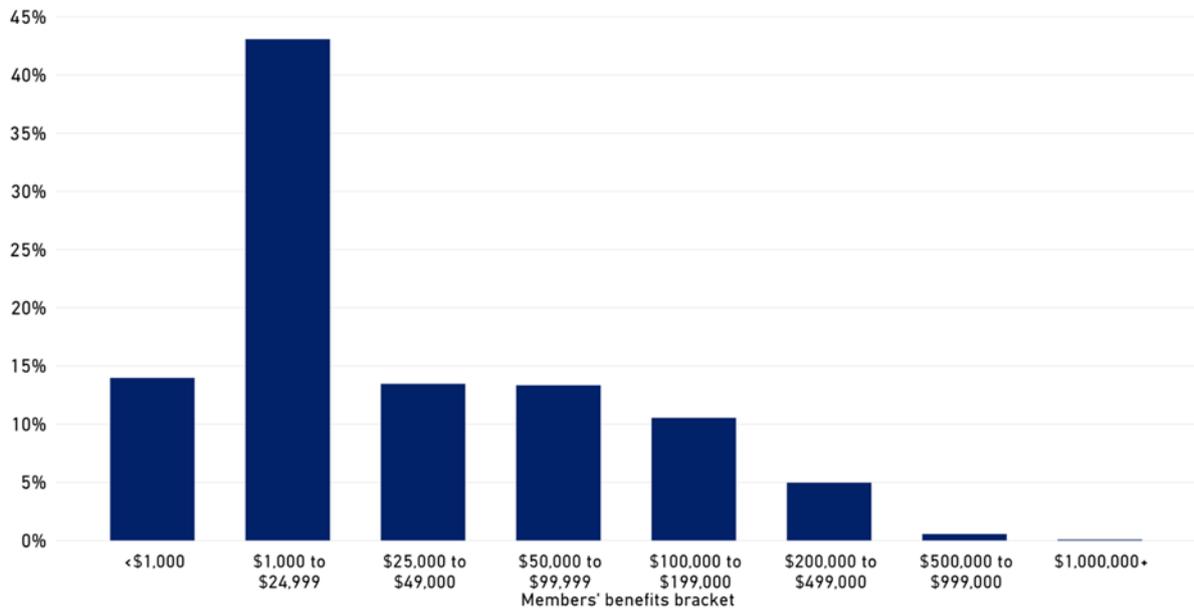
The distribution of member account balances across MySuper products are skewed towards low account balances (Figure 2)². At 30 June 2019, the median account balance for MySuper was below \$25,000 and the average MySuper account balance across the superannuation industry was approximately \$47,000. This is important when assessing fee structures as low

¹ Data to be published in [Annual Superannuation Bulletin June 2019](#).

² Data published in [Annual MySuper Statistics June 2019](#).

account balances are more exposed to fee erosion, particularly from dollar-based administration fees on very low account balances.

Figure 2. Member accounts by member benefit bracket as at 30 June 2019



Heatmap – key insights

Investment performance

Key Insight #1 – Investment outcomes are varied across the industry

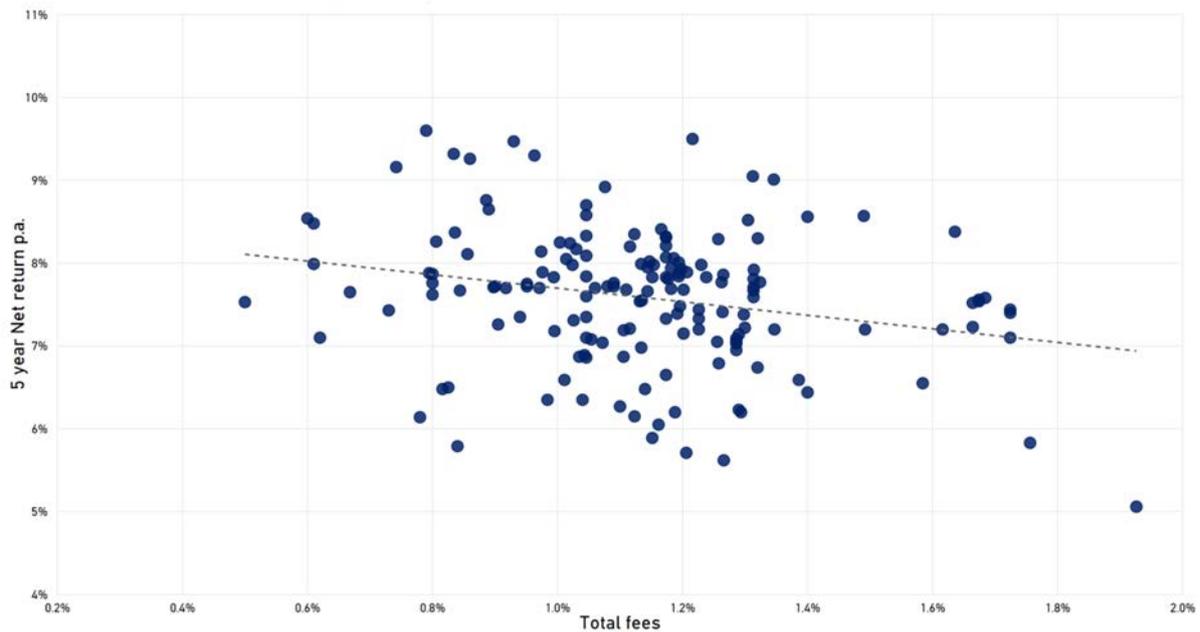
APRA's analysis of the Heatmap data indicates wide variation in the investment outcomes delivered to members. Sound outcomes are being provided to many members holding MySuper products; however, areas of underperformance are evident across all segments of the industry. APRA's insights have focused on five-year performance as this reflects the longest time horizon available for MySuper products using APRA data. Analysis of this data indicated that five-year performance is correlated with three-year performance, which may indicate that markets over these periods have been consistent and favoured products with certain characteristics.

The median five-year net return provided by single-strategy products and lifecycle stages with greater than 60 per cent allocation to growth assets³ was 7.4 per cent p.a. and 7.7 per cent p.a., respectively. APRA notes, however, that there is significant variation in net returns provided to members across the industry, with five-year net returns ranging from 5.1 per cent p.a. to 9.5 per cent p.a. in single-strategy products and from 5.6 per cent p.a. to 9.6 per cent p.a. in lifecycle stages with greater than 60 per cent allocation to growth assets.

Figure 3 below indicates a negative relationship between net returns and total fees over the five-year period to 30 June 2019 for single-strategy products and lifecycle stages with allocation to growth assets greater than 60 per cent. That is, products with higher total fees are not (generally) providing higher net returns than lower fee products.

³ To ensure an appropriate comparison with single-strategy products, this subset of lifecycle stages was chosen, as the majority of single-strategy products have allocations to growth assets of greater than 60%.

Figure 3. 5-year net returns p.a. (as at 30 June 2019) vs total fees (\$50,000 account balance)



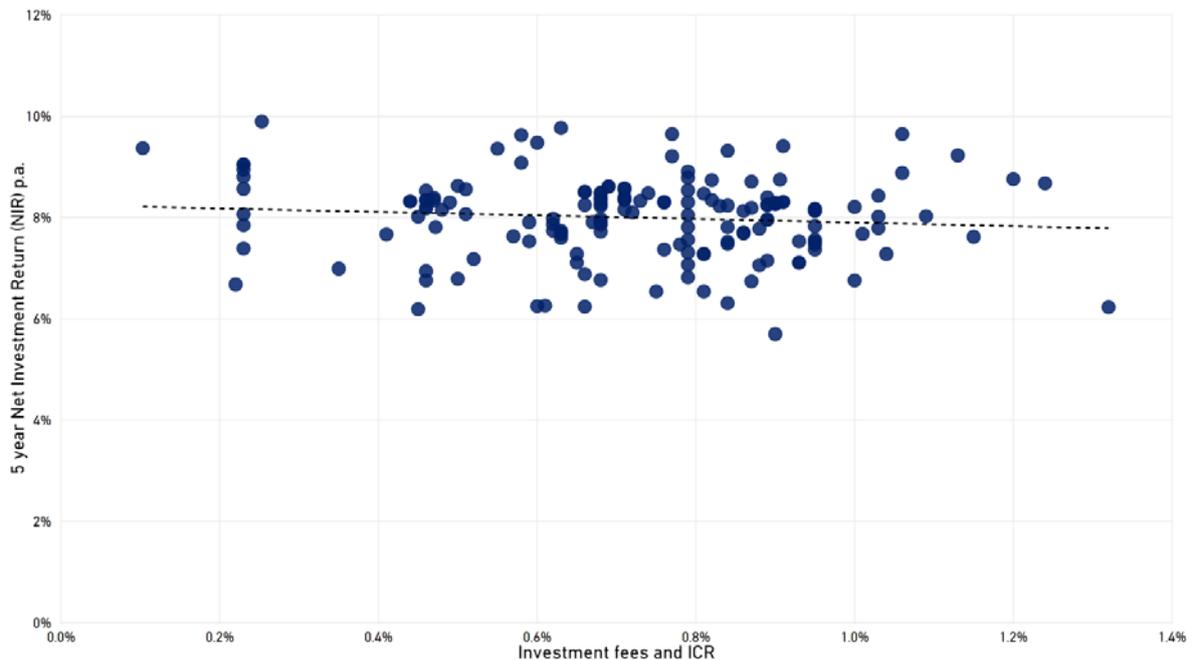
While APRA recognises that net return has value as a headline indicator, it is important to look separately at the drivers of net returns—namely, net investment returns and administration fees—to draw further insights.

Net Investment Return (NIR)

RSE licensees establish and implement an investment strategy for their MySuper product that reflects the level of investment risk deemed appropriate for the members of the product, and incur investment (and administration) fees and costs in its implementation. Net investment returns (after investment fees and costs) and the management of investment risk are central to delivering quality outcomes for members.

APRA's analysis of the relationship between five-year net investment returns and investment fees and costs for single-strategy products and lifecycle stages with allocation to growth assets greater than 60 per cent indicates a weak relationship during this period (correlation was -0.1, Figure 4).

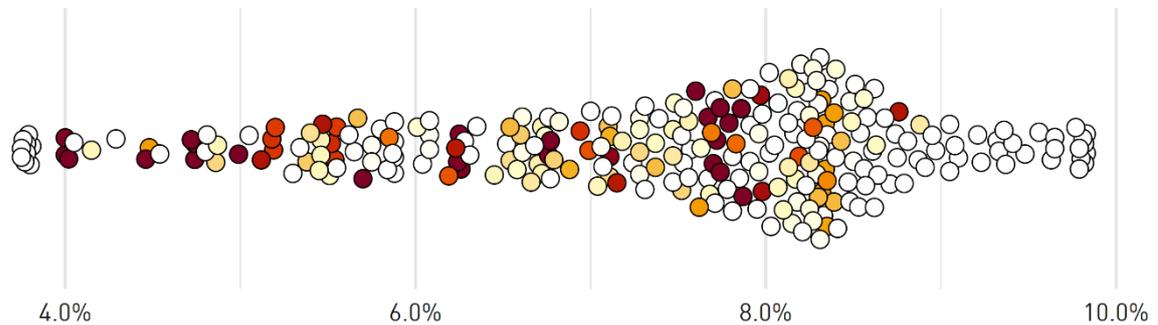
Figure 4. 5-year net investment returns p.a. (as at 30 June 2019) vs investment fees



However, the analysis provides evidence that some MySuper products have been able to generate strong net investment returns by accessing (higher growth) asset classes and investments that typically incur higher costs (e.g. through allocations to active management and/or illiquid assets).

Figure 5 below shows the significant variation in net investment returns across all MySuper products. However, it is important to recognise that this variation can be partially explained by the differing exposures to growth and defensive assets. This differing exposure was reflected in the assessment of performance in the Heatmap by using a consistent growth/defensive asset definition which then enabled each product or lifecycle stage to be assessed based on its risk profile when applying the colour overlay. The outcome of this approach is illustrated in Figure 5 by the darker red dots appearing at different levels of return—each dot reflects the level of underperformance against products with similar risk profiles and hence the benchmark for underperformance for products with higher allocations to growth assets is higher than for those with lower allocations to growth assets. Figure 5 provides stakeholders with more meaningful insights into the variation of returns across products with similar risk profiles.

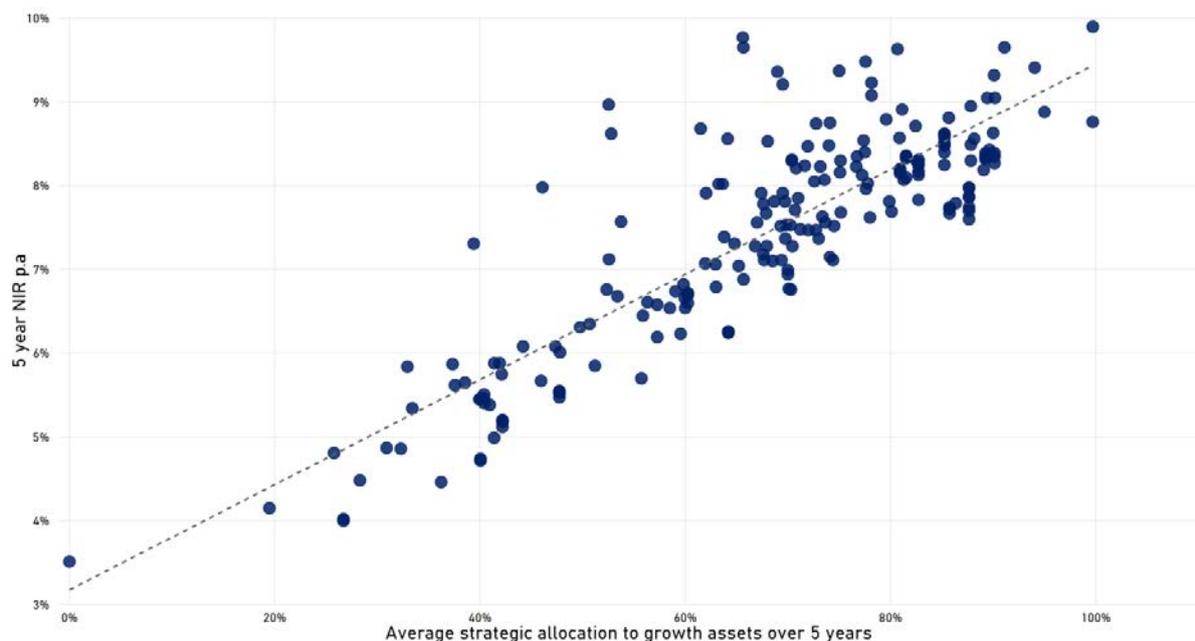
Figure 5. Distribution of outcomes for 5-year net investment return p.a. (as at 30 June 2019)



Key Insight #2 – Underperformance is evident across all investment risk profiles

Figure 6 below shows the five-year net investment return for each MySuper product or lifecycle stage against its risk profile (as represented by its average growth asset allocation). The peer-derived trend line⁴ shown in Figure 6 reflects this relationship. As expected given investment market conditions over the last five years, there is a positive relationship between net investment returns and growth asset allocation. However, it is also evident that there is considerable variation in outcomes for MySuper products or lifecycle stages with similar allocations to growth assets.

Figure 6. 5-year net investment return peer comparison by average growth allocation p.a. (as at 30 June 2019)



⁴ The trend line represents an industry average NIR across products and lifecycle stages of the same growth asset allocation

To provide additional insight into the relative performance of products across different risk profiles, Figure 7 provides information on the performance of products and lifecycle stages relative to the trend line and within various growth asset allocation segments.

Figure 7 below shows that 52 (or 55 per cent) of the 94 products or lifecycle stages with 60 to 80 per cent growth asset allocation had performance above the trend line; 21 per cent were slightly below the trend line (between 0 and -0.25 per cent p.a.). Relative underperformance (below the trend line) is evident in all asset allocation categories. Overall, 23 (or 9 per cent) of the 263 products and lifecycle stages displayed underperformance of 0.75 per cent p.a. or more relative to the trend line.

Figure 7. 5-year net investment return relative to trend line p.a. by growth asset allocation band (as at 30 June 2019)

Growth asset allocation	≥ 0%	<0% and ≥-0.25%	<-0.25% and ≥-0.50%	<-0.50% and ≥-0.75%	<-0.75%	Total products / lifecycle stages
0%-20%	12 ⁵ (92%)	1 (8%)	0 (0%)	0 (0%)	0 (0%)	13
20%-40%	12 (60%)	2 (10%)	2 (10%)	0 (0%)	4 (20%)	20
40%-60%	20 (36%)	14 (25%)	5 (9%)	11 (20%)	5 (9%)	55
60%-80%	52 (55%)	21 (22%)	12 (13%)	4 (4%)	5 (5%)	94
80%-100%	30 (37%)	24 (30%)	12 (15%)	6 (7%)	9 (11%)	81
All	126 (48%)	62 (23%)	31 (12%)	21 (8%)	23 (9%)	263

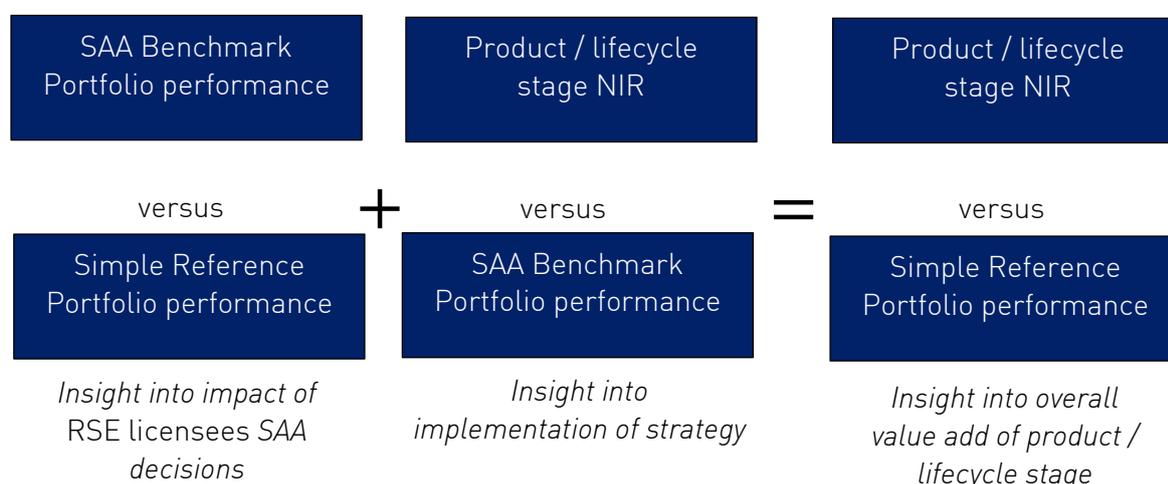
⁵ The 12 lifecycle stages, which belong to a single lifecycle product, is represented by a single dot in figure 6

Investment performance relative to benchmark portfolios

Through the use of benchmark portfolios—the Simple Reference Portfolio and Listed Strategic Asset Allocation (SAA) Benchmark Portfolio—APRA has sought to provide additional insights into the investment performance of MySuper products. Current approaches often favour a mix of peer relative and real return measures. Although these approaches provide some insights into performance, they are not sufficient to assess risk-adjusted outcomes.

Performance relative to the Simple Reference Portfolio measures the overall value generated for members through an RSE licensee’s investment process, while the SAA Benchmark Portfolio measures the value generated through implementation of the investment strategy. Figure 8 below provides an example of how a simple performance attribution can be performed using APRA’s reference and benchmark portfolios.

Figure 8. Performance attribution



As shown in Figure 8, overall value added by the RSE licensee can be broken down into two components: value add from SAA decisions⁶ and from implementation of the investment strategy. The impact of SAA decisions is the value generated as a result of differences in a product or lifecycle stage’s asset allocation compared to the Simple Reference Portfolio. The impact of implementation of the investment strategy captures the value from active management, which includes decisions to deviate from the SAA, the use of active managers and decisions to invest in illiquid assets or complex assets. It is important that RSE licensees seek to understand the drivers of their product performance, particularly where there are any persistent trends in underperformance.

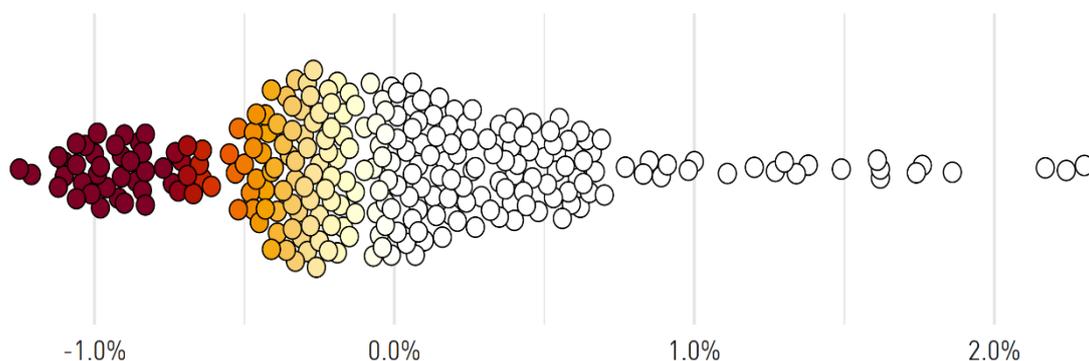
The Simple Reference Portfolio

The Simple Reference Portfolio is a portfolio of passive, low cost and liquid investments. Figure 9 below provides insights into the distribution of outcomes on a risk- adjusted basis,

⁶ Value add from SAA decisions can be calculated as [NIR relative to Simple Reference Portfolio p.a.] – [NIR relative to Listed SAA Benchmark Portfolio p.a.], which are both metrics in the Heatmap, for the relevant time horizon.

based on the deviation in net investment return of each MySuper product from the net return of the Simple Reference Portfolio. It highlights those MySuper products that are underperforming and the level of that underperformance (further emphasised by the colour overlay). Figure 9 shows the wide range of relative performance against the Simple Reference Portfolio across all MySuper products and lifecycle stages.

Figure 9. Distribution of outcomes for 5-year net investment return relative to Simple Reference Portfolio p.a. (as at 30 June 2019)



Key Insight #3 – More single-strategy products outperformed the benchmark portfolios compared to lifecycle products

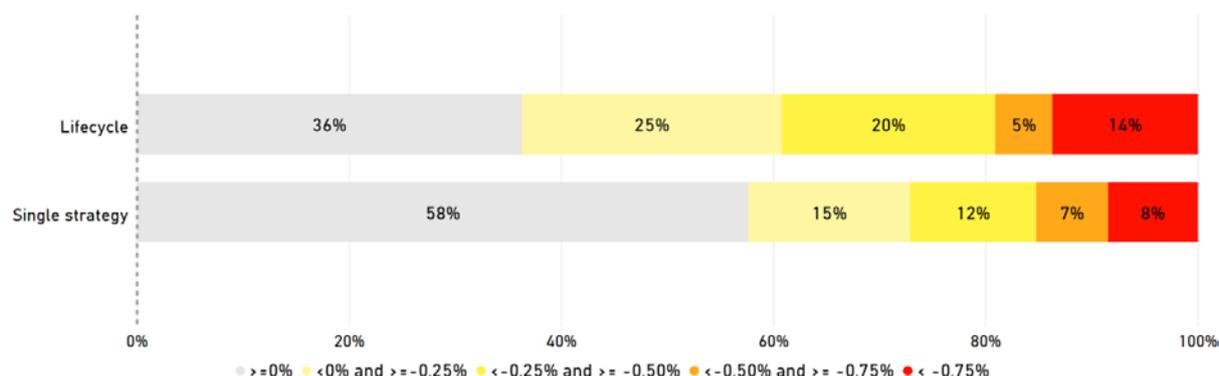
Underperformance against the Simple Reference Portfolio is evident in both single-strategy and lifecycle products; however, a higher proportion of lifecycle strategies underperformed the Simple Reference Portfolio and SAA Portfolio benchmarks.

Simple Reference Portfolio

Of the 59 single-investment strategy My Super products, 34 (or 58 per cent) of total single-strategy products) outperformed the Simple Reference Portfolio over the five years to 30 June 2019. However, of the 204 lifecycle stages in products with a life cycle investment strategy, only 74 lifecycle stages (or 36 per cent of total lifecycle stages) outperformed the Simple Reference Portfolio over the five years to 30 June 2019.

There were 5 single-strategy products (or 8 per cent of total single-strategy products) and 28 lifecycle stages (or 14 per cent of lifecycle stages) that delivered a 5-year net investment return of 0.75 per cent p.a. or more below the Simple Reference Portfolio (Figure 10).

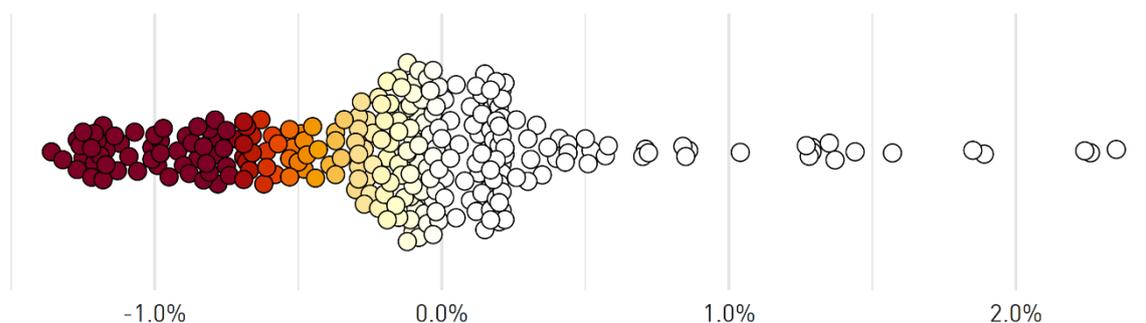
Figure 10. 5-year net investment return relative to Simple Reference Portfolio p.a. by single-strategy and lifecycle stages (as at 30 June 2019)



Listed SAA Benchmark Portfolio

The listed SAA Benchmark Portfolio provides a product-specific and tailored benchmark that reflects the long-term strategic asset allocation that underpins the investment strategy of the product. The distribution of the outcomes is shown in Figure 11 below, again highlighting the significant variation in outcomes—in this case relative to the SAA Benchmark Portfolio—across all MySuper products and lifecycle stages.

Figure 11. Distribution of outcomes for 5-year net investment return relative to the SAA Benchmark Portfolio p.a.



As was the case for performance against the Simple Reference Portfolio, underperformance is evident relative to the SAA Benchmark Portfolio for both single-strategy and lifecycle products, however a higher proportion of lifecycle strategies underperformed the SAA benchmark.

In this regard, 26 single investment strategy MySuper products (or 44 per cent) of all single-strategy products) and only 55 lifecycle stages (or 27 per cent of total lifecycle stages) outperformed the SAA Benchmark Portfolio over the 5 years to 30 June 2019. Thirteen single-strategy products (or 22 per cent of all single-strategy products) and 37 lifecycle stages (or 18 per cent of lifecycle stages) achieved net investment returns of 0.75 per cent p.a. below the SAA Benchmark Portfolio (Figure 12). Further, 29 per cent of lifecycle stages achieved NIRs between 0.25 and 0.75 per cent p.a. below the SAA Benchmark Portfolio compared to only 22 per cent of single-investment strategy MySuper products.

Figure 12. 5-year net investment return relative to the SAA Benchmark Portfolio by single strategy and lifecycle stages p.a.

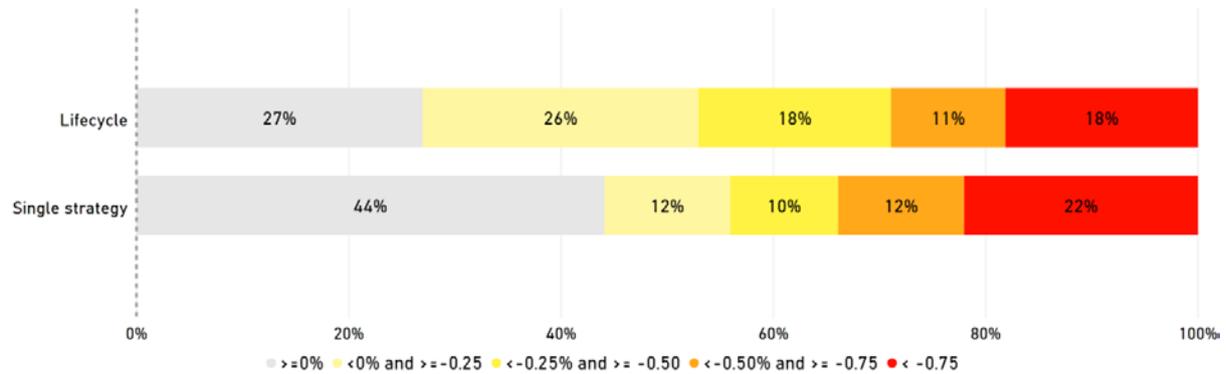
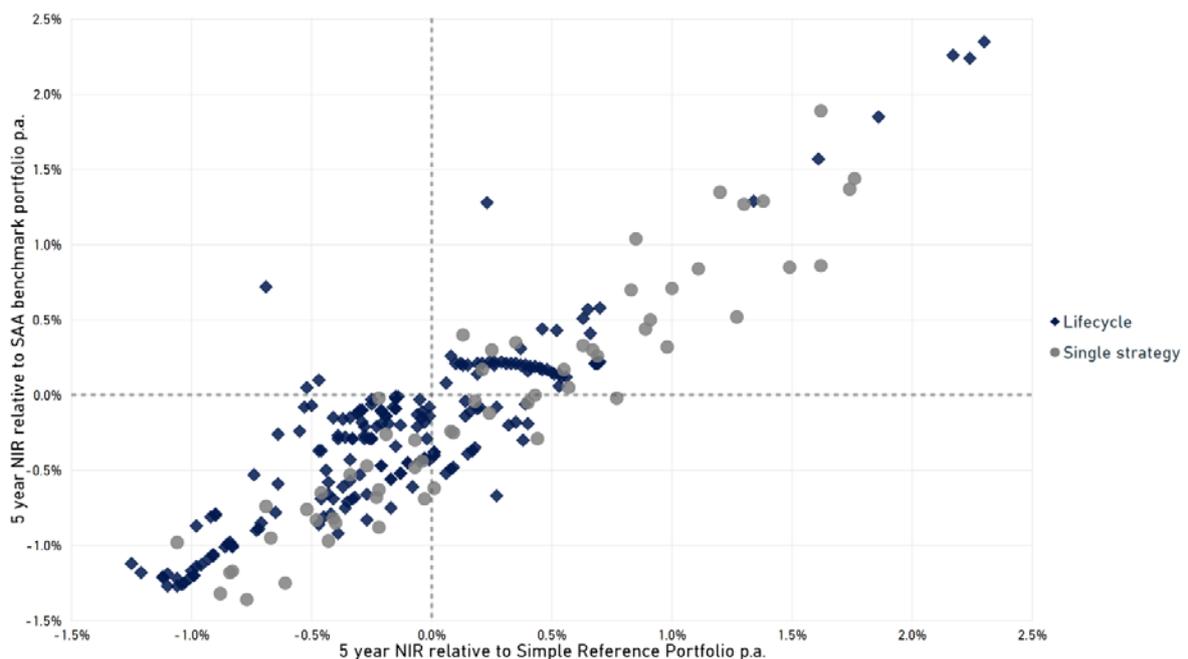


Figure 13 below shows the relationship between NIRs relative to both the Simple Reference Portfolio and SAA benchmark portfolios. Although the metrics are correlated, as shown by the upward slope of the pattern of dots, use of simple attribution (as outlined in Figure 8 earlier) provides additional insights into the drivers of performance. For example, the MySuper products and lifecycle stages in the top right quadrant have added value through both the SAA decisions underpinning their investment strategy and their implementation of the investment strategy as they have outperformed relative to both the Simple Reference Portfolio and SAA Benchmark. By contrast, products in the bottom right quadrant of the chart have generated value overall (i.e. outperformance relative to the Simple Reference Portfolio), but value has been detracted from implementation of the investment strategy (i.e. underperformance relative to the SAA Benchmark Portfolio).

Figure 13. 5 year NIR relative to Simple Reference Portfolio vs SAA benchmark portfolio p.a.



Fees and costs

Administration fees are a key driver of net returns and can materially affect outcomes for members within a MySuper product. The use of different fee structures, such as dollar-based fees, percentage-based fees and fee caps, leads to wide variation in the outcomes for members with different account balances.

The Heatmap uses the fees disclosed in Reporting Form SRF 703.0 *Fees Disclosed*, which represents the highest level of fees that may be charged to members of MySuper products. Some members may pay lower fees, for example due to fee discounts provided as part of some employer-sponsored arrangements in some MySuper products. However, to enable consistent comparisons, such arrangements have not been reflected in the Heatmap as they are not available to all members of those products.

Key Insight #4 – Fee structures have different impacts according to account balance size

Figures 14 and 15 show the relationship between administration fees and total fees across two representative account balances (\$10,000 and \$250,000). The metrics are correlated across these account balances, as shown by the upward slope of the observations in Figure 14 and 15. However, the correlation between administration fees and total fees is more significant in lower account balances. Administration fees are a more significant driver of total fees for low account balances, whereas investment fees are a more significant driver for higher account balances.

Figure 14. Administration fees vs Total fees for \$10,000 account balance

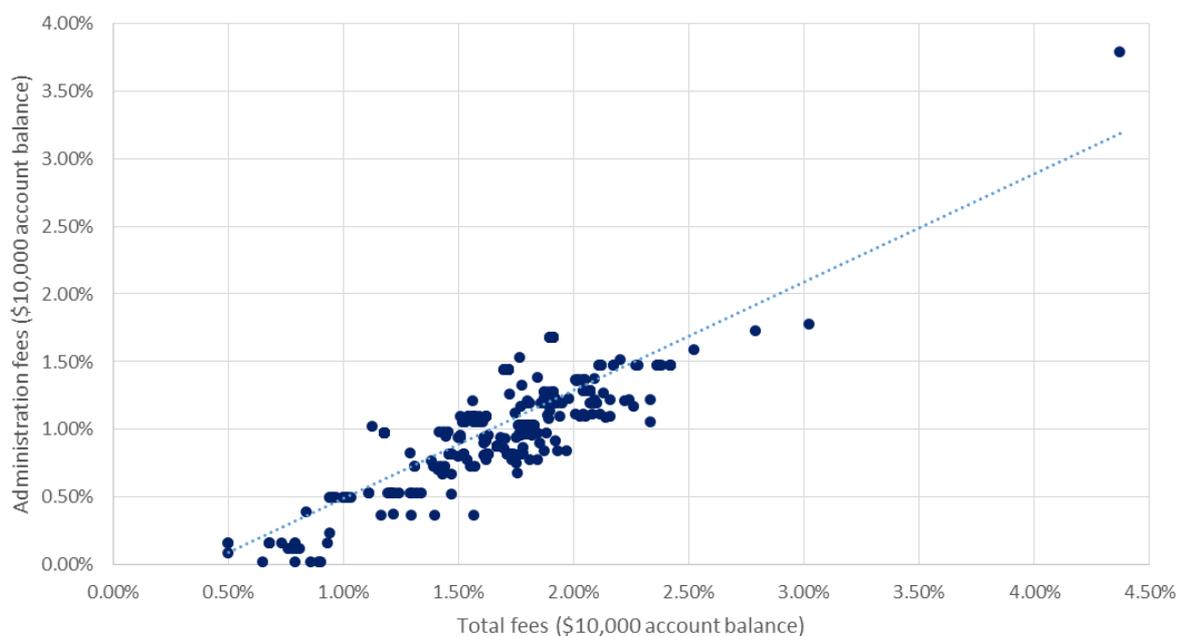
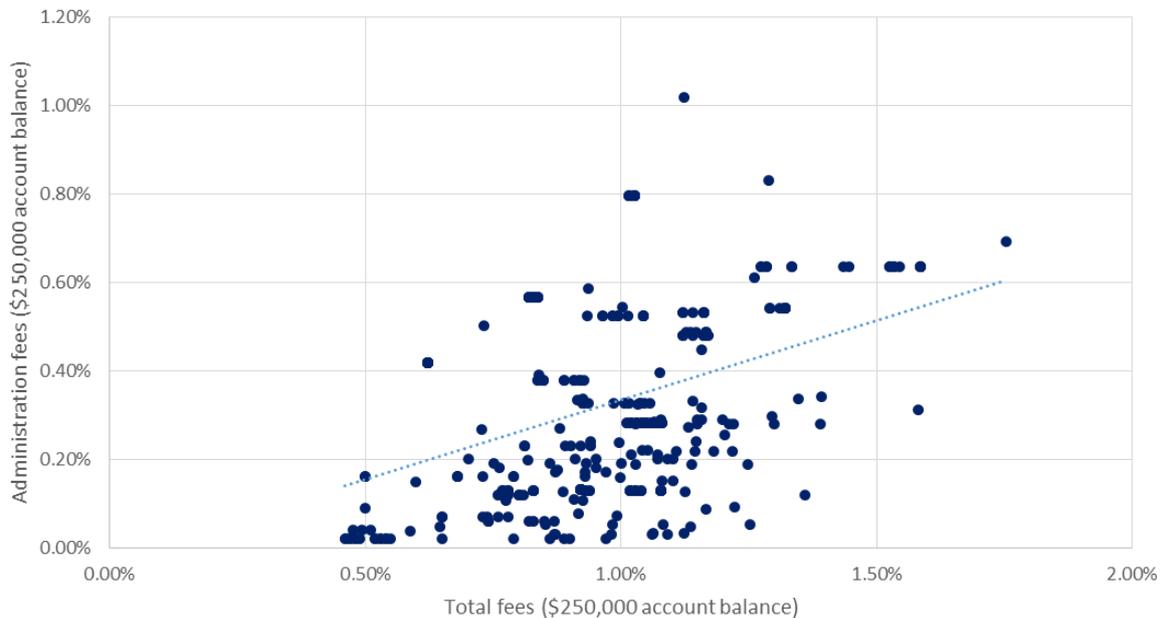


Figure 15. Administration fees vs Total fees for \$250,000 account balance



Figures 16 and 17 show the range of administration fees charged to MySuper products as a percentage of \$10,000 and \$250,000 account balances. Figure 16 clearly identifies the impact that administration fees have on low balance accounts, with about 42 per cent of MySuper products where administration fees in excess of 1 per cent are charged for a \$10,000 account balance. Nine products have administration fees of 1.4 per cent or above, the threshold level that APRA has determined indicates where administration fees represent significant underperformance for a \$10,000 account balance.

Figure 16. Distribution of outcomes for administration fees for \$10,000 account balance

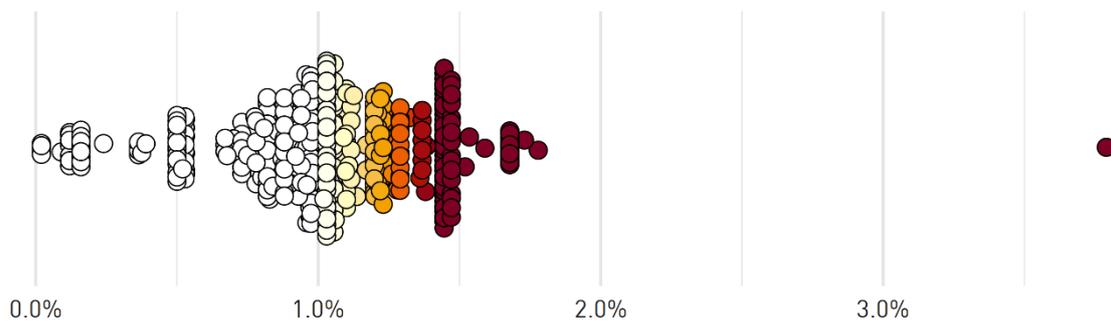
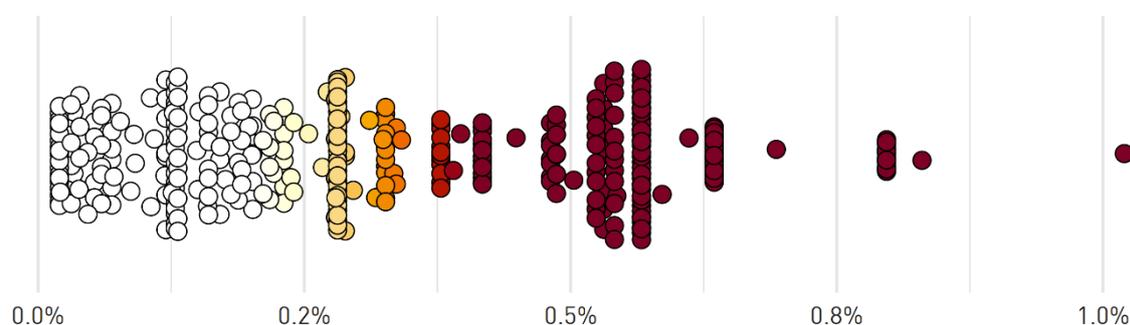


Figure 17 identifies the impact of administration fees on a \$250,000 account balance, with about 45 per cent of MySuper products with administration fees in excess of 0.20 per cent charged for a \$250,000 account balance. Seventeen products have administration fees of 0.40 per cent or above. Figure 17 also shows that the distribution of administration fees for the \$250,000 account balance is relatively wider than the distribution of administration fees for the \$10,000 account balance.

Figure 17. *Distribution of outcomes for administration fees for \$250,000 account balance*

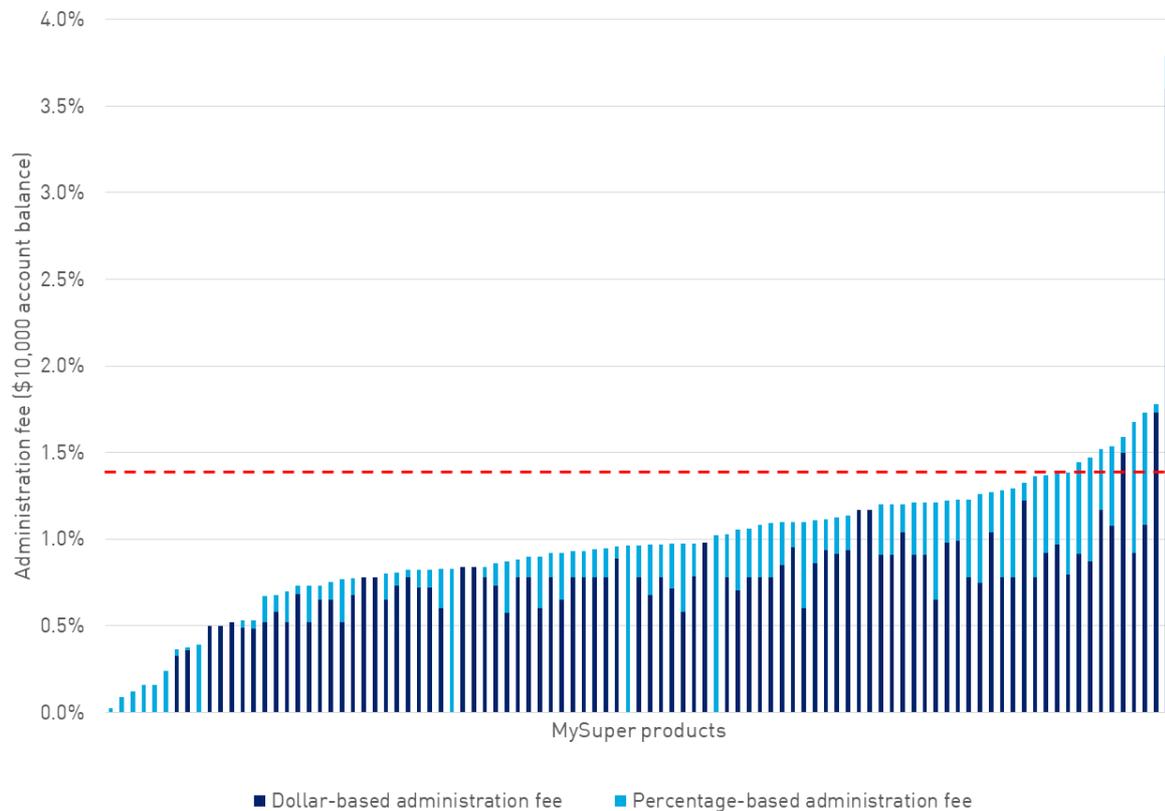


The impact of flat dollar fees and percentage-based fees

Figure 18 shows the breakdown of dollar-based and percentage-based administration fees for a \$10,000 account balance. It is clear that dollar-based fees (to cover fixed administration costs of the fund) are the largest component of administration fees for low account balances for most products, with only 12 per cent of products having percentage-based administration fees comprising more than 40 per cent of the total fees⁷.

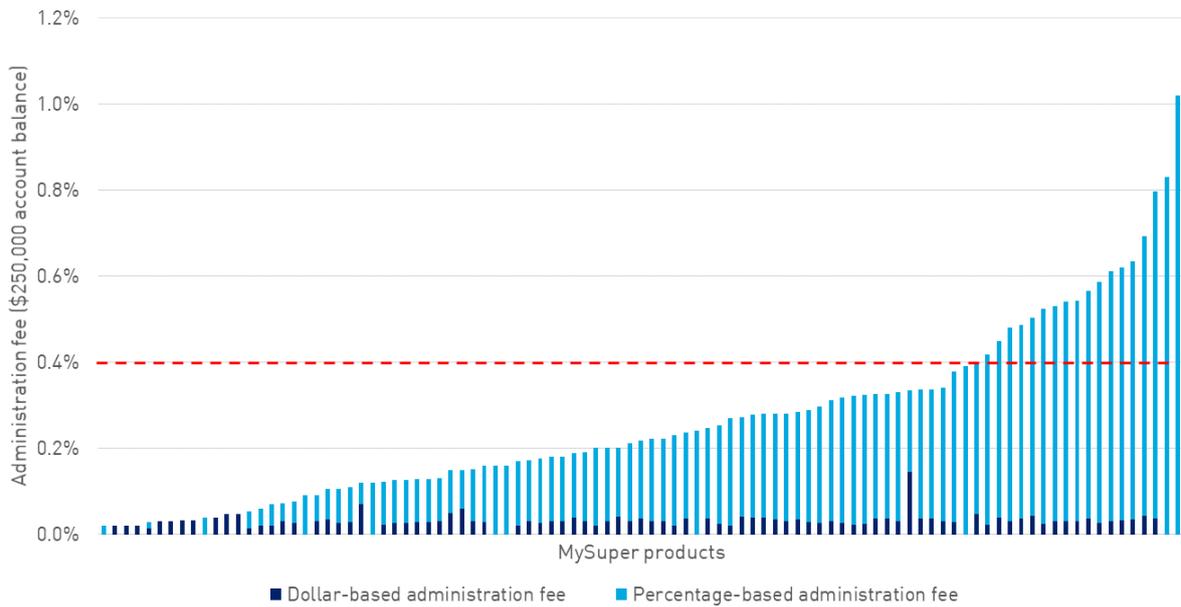
⁷ Excluding six large employer-sponsored products which have waived dollar based administration fees

Figure 18. Administration fees charged for \$10,000 account balance (broken down by dollar-based and percentage-based components)



In contrast, Figure 19 below clearly shows that the percentage-based administration fees charged for a \$250,000 account balance represent the most significant component of administration fees for these accounts, with over 85 per cent of products with account balances of \$250,000 having percentage-based administration fees comprising more than 60 per cent of the total fees.

Figure 19. Administration fees charged for \$250,000 account balance (broken down by dollar-based and percentage-based components)



The different impacts that flat dollar and percentage-based fees have on lower and higher account balances partially explains the stronger correlation between administration and total fees for lower balance accounts as reflected in Figures 14 and 15 above. However, to fully understand how total fees impact higher account balances, as indicated above, investment fees and the Indirect Cost Ratio (ICR), which are both percentage-based fees, must be taken into account. Consideration of the investment fees and the ICR are reflected in the section in this paper on investment returns analysis.

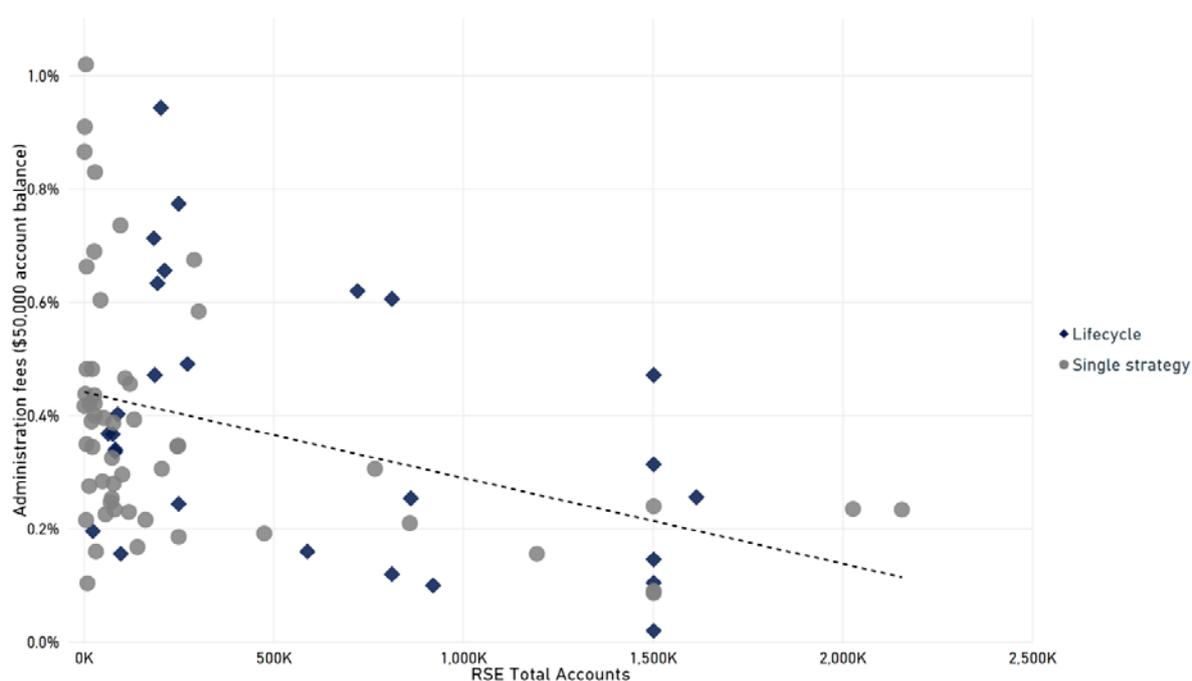
Sustainability of member outcomes

An RSE licensee's ability to sustainably deliver appropriate member outcomes into the future and address areas requiring improvement is an important aspect to consider. Having adequate scale (in terms of assets and member accounts) can contribute to ongoing sustainability as, for example, it enables an RSE licensee to spread fixed costs over a larger membership and to invest in the development of products, systems and services to meet the needs of its membership.

Key Insight #5 – Less scale and negative trends in sustainability metrics may contribute to underperformance

Figure 20 shows the relationship between RSE total number of accounts and level of administration fees charged (for the \$50,000 representative member). It indicates that there is some evidence of economies of scale for MySuper products with higher numbers of member accounts, as the level of administration fees shows a downward trend as the number of member accounts increases.

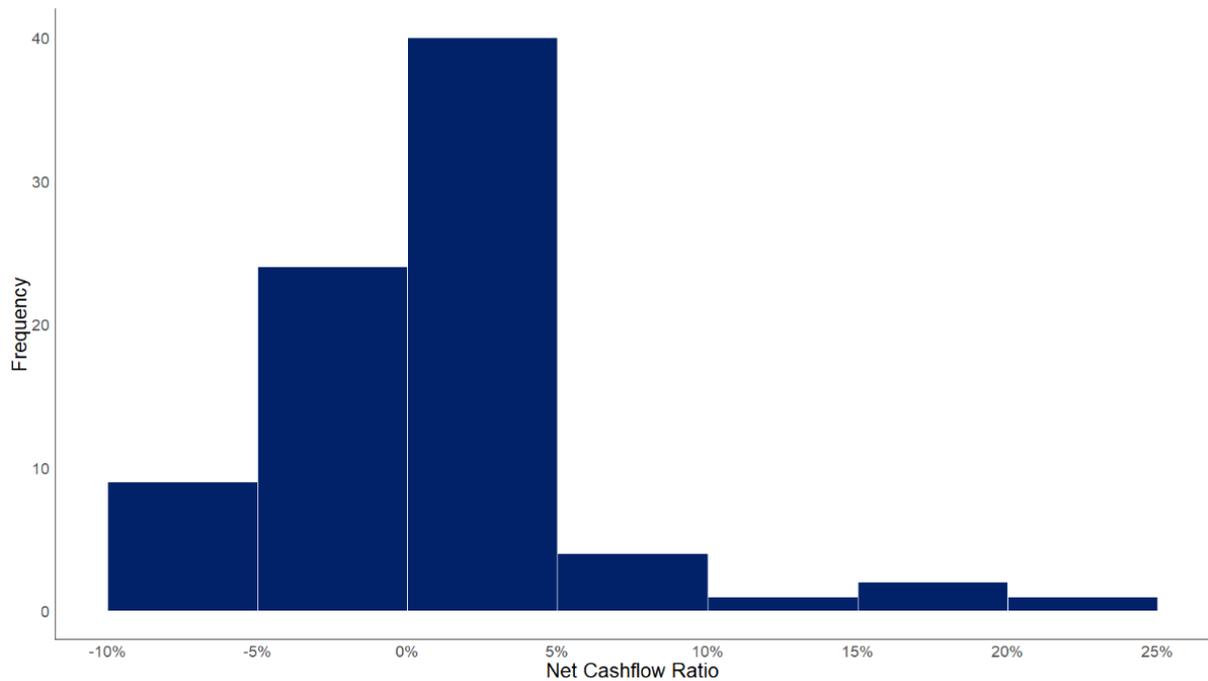
Figure 20. Administration costs (\$50,000 account balance) vs RSE total accounts



The Heatmap includes three key forward-looking trend indicators, which are relevant to the future sustainability of an RSE licensee's business operations: the net cash flow ratio, adjusted total account growth and net rollover ratio, considered at the RSE level over three years.

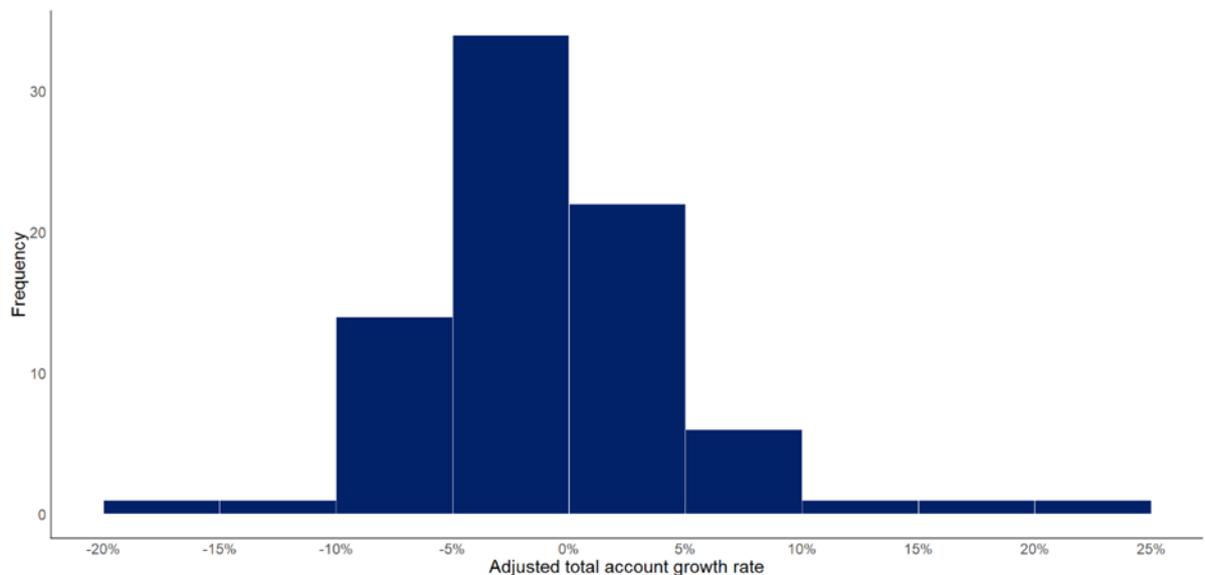
APRA's data indicates that net cash flows have been steady over the last three years, with a median net cash flow ratio (three-year average) of 0.8 per cent p.a. for RSEs with MySuper products. Figure 21 shows the distribution of net cash flow ratios for all RSEs with MySuper products, which reflects that the superannuation system continues to mature and is largely still in the accumulation phase.

Figure 21. *Distribution of RSE net cash flow ratio p.a. (three-year average)*



APRA’s data also indicated a reduction in the total number of member accounts over the last three years, with the median adjusted total account growth (three-year average) being -1.0 per cent p.a. Figure 22 shows the distribution of adjusted total account growth for all RSEs with MySuper products, which reflects the general trend of account consolidation across the industry.

Figure 22. *Distribution of RSE adjusted total account growth rate p.a. (three-year average)*



This trend is expected to continue for the next 12-18 months with the movement of low balance, inactive accounts to the Australian Taxation Office following the introduction of the



APRA