

29/01/16

By email:

superannuationtransparency@treasury.gov.au

Ms Jenny Wilkinson
Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Dear Madam,

Re: AustralianSuper submission: Product Dashboard for Choice Investment Options

AustralianSuper welcomes the opportunity to make a submission responding to draft legislative amendments to the product dashboard regime.

AustralianSuper is Australia's largest single superannuation fund and is run only to benefit members. We don't pay commissions to anyone to recommend us, nor do we pay dividends to shareholders. We have over 2 million members and manage over \$90 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for our members.

AustralianSuper fully supports the disclosure of comparative decision-making information for consumers in the form of product dashboards. We are of the view that every superannuation investment option that is open to new investors should produce a product dashboard to enable consumers to compare key superannuation information between investment options. Any disclosure regime which provides less, rather than more information for consumers when they are choosing where to invest their life savings is unfair to them and is unacceptable.

AustralianSuper is concerned that the combined effect of two key exclusions from product dashboard disclosure will result in more than 60% of all investment options *not* being required to produce product dashboards. This creates an unlevel playing field for the superannuation industry, and more importantly a dangerous information asymmetry for consumers choosing where to invest their lifetime savings.

We do not see the merit in excluding investment options on the basis of funds under management held by the option, as it does not take into account the information needs of those *choosing* the investment option, which is the primary reason for having a product dashboard.

We note that MySuper investment options are highly regulated and presently subject to product dashboard disclosure. This is rightly so given that default superannuation monies can only be accepted into MySuper investment options.

It is somewhat anomalous therefore, that the same key comparative information about an option is not available to consumers when they actually *use* their right to choose, that is, consider investing in a choice investment option – yet this is what is proposed by Government regulation.

Our concerns with this approach can be summarised as follows:

- AustralianSuper disagrees with the proposed exclusion of all choice investment options except for the top 10 FUM investment options of a product issuer when overlaid with the exemption described below.
- Draft Regulation 7.9.07M seeks to carve out ‘platform’ offerings as follows:
 - *“An investment option is excluded...if the trustee, or the trustees, of the **fund** do not have the absolute discretion to vary or replace the financial products, or other property, allocated to the investment option.”*
- The combined operation of these two exclusions removes over 60% of all investment options in the superannuation industry from reasonable comparison, removing the ability for consumers to make informed investment decisions about the investment of their life savings. On this basis alone this regime is unfair to consumers and unacceptable.
- In any event, different fee disclosure requirements apply to platform products which makes attempts to create a like-for-like fee comparison with such products potentially misleading to consumers. These same platforms have been exempted from the new requirements of RG97 and CO 14-1252 so cannot be properly compared with investment options that are subject to more complete fee disclosure.
- The repeal of the requirement to provide a product dashboard with a member’s annual statement ensures that less consumers will see comparative information when choosing investment options.
- All retirement income products are choice investment options. This regime makes comparative disclosure of retirement products effectively *optional* for the superannuation industry as most will be subject to one of the abovenamed exclusions. At a time when baby boomers are retiring from the workforce and in need of comprehensive comparative retirement information this scenario is against the public interest.

- AustralianSuper supports the proposed separated dashboard disclosure for each lifetime stage of lifecycle investment options.
- AustralianSuper does not support the use of projections on ASIC's MoneySmart website in the context of a product dashboard.

ASIC's MoneySmart website is an informative and accessible website for consumers of financial products. The use of an ASIC MoneySmart projection in the context of the product dashboard does not assist consumers in making a decision about choosing an investment option for the following reasons:

- (i) Most consumers will *not* receive this information because it will not be produced for most investment options, making product dashboard comparison between most investment options impossible.
- (ii) Proposed Regulation 7.9.07V requires that a projection of the member's balance at retirement will be based upon the fees charged and the target returns for the investment options based on a \$50,000 balance. This is problematic because:
 - a. There is an unlevel playing field on fee disclosure between MySuper and some choice products (platforms) which will produce uneven results which will mislead consumers. Platforms have been exempted from the new requirements of ASIC RG97 and CO 14-1252.
 - b. Providing a projection for consumers using target returns assumptions will be inconsistent with other projection information provided to consumers using ASIC relief such as:
 - i. Retirement projections permitted to be included with annual statements under ASIC relief are not allowed to use target returns as an assumption – they use figures mandated by the Australian Government Actuary.
 - ii. Calculators permitted under ASIC relief are not allowed to use target returns as an assumption either.
 - iii. To present a third projection to consumers using different assumptions, as advocated here, will provide a different retirement estimate, potentially confusing and misleading consumers.
 - c. Using a target return as an assumption for a projection is inherently problematic as a target return is really only an *intention* to achieve a particular level of performance; it does not mean the investment option has *achieved* that level of performance.

- AustralianSuper disagrees with the use of the Standard Risk Measure as the sole risk measure to be disclosed for investment decision-making purposes. Superannuation is a mandatory long term investment and the Standard Risk Measure measures volatility – a single short term measure. It does not measure the impact of other risks in investment, and does not measure the effect or impact

of volatility – for example, the size of a negative return, only the probably of a negative return occurring.

- AustralianSuper would prefer that the investment mix pie chart be referable back to PDS disclosure, and not APRA reporting requirements for ease of consumer comprehension.

Attached are specific responses to each of the consultation questions on page 3 of the *Product Dashboard Comparison Metric* Consultation Paper issued in December 2015.

AustralianSuper would like the opportunity to discuss and provide further information regarding the potential effect of the product dashboard proposals on superannuation fund members.

With this in mind, and if you have any further queries on this matter, please do not hesitate to contact me on (03) 8648 3847.

Yours sincerely



Louise du Pre-Alba
Head of Policy

APPENDIX 1 - AUSTRALIANSUPER SUBMISSION REGARDING NEW PRODUCT DASHBOARD REQUIREMENTS

Product Dashboard Comparison Metric – Consultation Paper Focus Questions

AustralianSuper is supportive of using a product dashboard comparison metric, however, this information is of little use to consumers if it is applied to less than 50% of the investment options in the market place.

Proposed regulatory settings for the product dashboard mean that less than 50% of all investment options will be obliged to produce product dashboard disclosure. This is against the public interest and creates a dangerous information asymmetry between the financial services industry and consumers making decisions about their lifetime savings.

All comments below are subject to this primary and fundamental concern.

1. Would the inclusion of comparison metrics on the product dashboard provide easily understandable and valuable information for consumers? What are the pros and cons of such a comparison?

The inclusion of comparison metrics on the product dashboard *should* be able to provide consumers with more easily understandable information of relevance to consumers making a choice between investment products. However, for the reasons outlined above the comparison is not accurate, nor like for like, and potentially misleading in some circumstances.

Further, the carveouts described above mean that most comparisons between investment options will be unable to be effected by consumers.

Consumers can and should be able to compare investment options in the following different ways:

- (a) Someone choosing a new investment option in a new fund.
- (b) Someone switching from a MySuper option in one fund to a MySuper option in another fund.
- (c) Someone switching from a MySuper option to a Choice option in another fund.
- (d) Someone switching from a MySuper option to a Choice option in the *same* fund.
- (e) Someone switching from a Choice option in one fund to a Choice option in another fund.
- (f) Someone switching from a Choice option to a Choice option in the same fund.

There are further scenarios that could be mentioned, eg, moving from a Choice option into a MySuper option in the same fund, or in another fund. In each scenario a comparison of investment option information is required, and further in some circumstances, a comparison between other fund information.

The proposed exemptions from product dashboard requirements mean that at least six of the above comparison scenarios would not be able to be effected in most circumstances as operators of choice investment options would avail themselves of the exemptions proposed.

2. Would a comparison metric be easy or difficult for superannuation funds to implement? Why?

There is a cost to preparing a comparison metric, but apart from that there is no reason why superannuation funds cannot prepare comparison metrics.

There is a risk that newly created investment options are being compared with investment options that have demonstrated performance over a long period. There should be an additional warning about comparing products that are less than five years old as a comparison using investment performance information that is short term can be misleading to consumers.

3. How should MySuper products be compared to each other?

MySuper products should be compared to each other and to other investment options without differentiation. The reasoning behind this is that if a superannuation fund member has a fully portable benefit that is able to be transferred from one investment option to another, then disclosure of comparator information (eg. Product Dashboards), should follow this transferability and inform the consumer in their decision-making process.

4. How should choice investment options be compared to MySuper products?

Choice products should be compared to each other and to other investment options without differentiation. Again, if a consumer holds a fully portable benefit that is capable of being transferred to any open investment option in the superannuation system, then product dashboard comparison metrics should follow this transferability and be made available to consumers in their decision-making process.

5. Is a range the most appropriate comparison? Does it provide sufficient information to consumers about how their investment option is performing compared to others? If so, what range would be the most suitable?

The Item 2 diagram comparison on page 2 of the Consultation Paper showing a range of fees charged appears comprehensible, but should be accompanied by the text contained in Item 1 for full consumer comprehension.

6. What other comparison metric could be suitable? How would this be measured and displayed?

As stated above, it would be preferable if Item 1 and Item 2 comparisons were shown alongside each other, so Item 1 becomes the narrative for the Item diagram comparison.

7. Would a comparison metric be suitable for the risk, return, return target and fee metrics on the dashboard? If not, why not?

Whilst this comparison metric is suitable for fees, it is not suitable for all variables shown.

It is not suitable for risk because the singular risk measure used in the dashboard is of itself not suitable. The Standard Risk Measure used only measures volatility, and even then, not the effect of volatility (ie, the quantum of a negative return, instead of just the probability of a negative return). The Standard Risk Measure does not measure inflation risk, or other risks relevant to long term products such as superannuation. Indeed it may mislead because it is effectively a short term risk measure, which is not appropriate to an investments that is long term by legislative fiat.

It may be suitable for a returns comparison, providing that you are comparing all products with for example, a five year return and ten year return figure, and not comparing them with a single return figure for a new investment option. Perhaps the comparison metric could compare returns for all funds/investment options with a ten year performance figure, and have different comparison segments for those with shorter investment timeframes, and a warning about use of short timeframes for comparisons.

8. If a comparison range is to be used, do you prefer a line of text, a diagram comparison or would you propose an alternate model? Why? Describe the alternate model you would propose.

N/A

9. If a diagram comparison is preferred, how would the information be presented? What text would be necessary to complement the diagram?

Refer items 5 and 6.

10. Are there any issues with using the available APRA data to make these comparisons? Issues could include technical issues. For example:

- **Is it a problem that not all superannuation funds have the same reporting date?**

No. They can calculate the same performance metrics, just with different starting and end points. Over the long term this information would not seriously differ purely as a result of having differing reporting dates.

- **What would happen if the comparison were made as at a June reporting date, but an investment option's metrics were updates after this date?**

Disclosure of the date on which the metrics were reported would need to be disclosed so that consumers factors this into their use of the comparison metric. That is, this is potentially a limitation on the use of a comparison metric, but not one which is fatal to the use of such comparisons.