Media Release

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10 years of MySuper has driven a lot of change, but what has it achieved for members?

MySuper came into force in January 2014. It was supposed to usher in an era of simpler, cost-effective super that would lead to better member outcomes, particularly for disengaged members. It's driven a lot of industry change, but what has the MySuper initiative achieved for fund members?

A MySuper product has been a 'must have' for all super funds since January 2014, because from that date, only MySuper products have been able to receive default Superannuation Guarantee (SG) contributions. And since 1 July 2017, all default member accounts have had to be invested in MySuper products. Total MySuper assets are now approximately $1 trillion, representing roughly 28% of the entire super system. As new employees enter the workforce, its significance in the system is set to keep growing.

Fees have fallen

The stated intention of the MySuper reforms was to provide "a simple, cost-effective, balanced product for the vast majority of Australian workers who are invested in the default option of their current fund". Note the emphasis on cost. However, there was no explicit objective to improve member outcomes by maximising their incomes in retirement.

Our view is that reduced costs – especially investment costs – are only beneficial if they result in improved net returns to members. Cost reduction per se is not enough. That said, let's look at what's actually happened to fees in the past 10 years for both industry and retail funds.

Changes in Median Default Super Fees Since the Start of MySuper (% pa)

	Pre-MySuper	Start of MySuper (January 2014)	Post RG97 (December 2017)	December 2023
Industry funds				
Administration fee (on $50k)	0.27	0.29	0.37	0.32
Investment fee	0.68	0.67	0.88	0.61
Total fee	**0.95**	**0.96**	**1.25**	**0.93**
Retail funds				
Administration fee (on $50k)	0.74	0.73	0.69	0.40
Investment fee	0.74	0.50	0.70	0.60
Total fee	**1.48**	**1.23**	**1.39**	**1.00**

Source: Chant West

The fees table tracks median fees for default super accounts from immediately prior to the introduction of MySuper, for the initial MySuper products, after the introduction of the RG97 fee disclosure regime in 2017 and the most recent fee levels at the end of 2023.

When we compare the two industry segments, it's apparent that industry funds' total fees have always been lower than those of retail funds, although the gap between the two has certainly closed. The composition of those fees is also quite different between the segments. For industry funds, administration fees have always made up about a third of the total. The retail segment, however, started out pre-MySuper with the two components roughly equal. That changed when many of them decided to take a low-fee approach to their MySuper offerings, which meant an increase in the level of (cheaper) passive management, therefore reducing their overall investment fees with little change to their administration fees. Industry funds generally chose not to go down that path, and their investment fees barely changed as they rebadged their previous default as their MySuper.

The third column shows a marked increase in investment fees for both segments. In reality, however, the increase was not in the actual fees and costs funds incurred; rather it was an increase in the fees and costs they were obliged to disclose as a result of RG97.

The final column shows that in recent years the median industry fund's administration fee has fallen modestly, although they're still higher than they were before MySuper. The modest fall in fees has largely been due to smaller, higher-fee industry funds merging with larger, lower fee industry funds. There's generally been little change to the administration fees of individual funds, even with their greater scale, due to higher regulatory costs and greater expectations from members in terms of services provided – especially personalised and digitised interactions. Meanwhile, their investment fees have reduced significantly since RG97. That comes from making better use of their scale to negotiate lower fees from their investment managers, also allowing them to more efficiently access investment opportunities in unlisted asset classes.

Retail funds have also reduced their fees in recent years, in particular their administration fees, which have fallen by over 40% since 2017. This has been due to market pressure to offer competitive administration fees, as well as the prominence of current administration fees in the performance test and the ATO's YourSuper comparison tool.

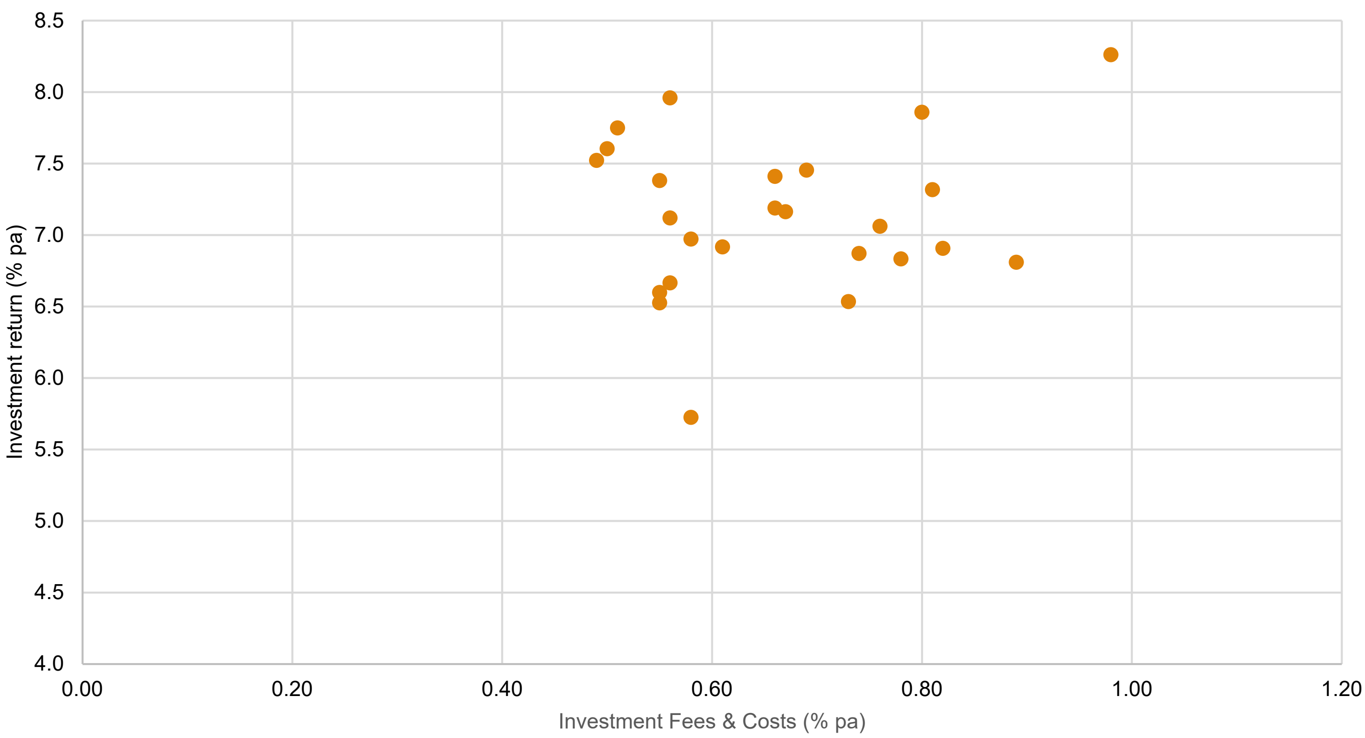
In summary, over the last 10 years, industry funds have had a slight increase in administration fees and costs as well as a modest reduction in investment fees and costs. That reduction in investment fees has been more significant than the bare numbers suggest due to the introduction of RG97. But the biggest change in fees has been for retail MySuper products where administration fees and costs have almost halved over the period.

No evidence of correlation between investment fees and performance

There's often an implicit assumption that lower fees must inevitably result in higher returns. That's simply not true and we can demonstrate that with evidence from our database.

The chart below plots the net of investment fees and tax returns of the 25 funds in our MySuper Growth category (61 to 80% growth assets) with 10 years of performance history against their investment fees and costs. It seems quite apparent that there's little or no correlation between the two measures. Indeed, some of the top performers are those with the highest investment fees, while some in the lower fee contingent are among the laggards in performance.

MySuper Growth Funds – Returns and Investment Fees
Net Investment Returns – 10 years to 31 December 2023



Source: Chant West

When we compare performance (net of investment fees and tax) for funds with higher than the median investment fee and less than the median investment fee, funds with higher than the investment fee actually have higher slightly returns over the 10 years to 31 December 2023 – 7.16% pa vs 7.05% pa.

MySuper Investment performance – lifecycle funds vs single option

When we consider the performance of MySuper products, we need to consider both lifecycle MySuper products and single option MySuper products. One way to do this is to track the lived experience of representative fund members based on their current age and, for lifecycle products, the changing risk exposures of their fund over time.

In the table below we have selected ages to represent the most significant stages of the lifecycle 'glide path' and the comparative returns across those age groups. We have also shown how "aggressive" the investments have been over the period by showing median growth assets at the start and end of the period.

MySuper Products: Performance and Growth Assets at Different Ages
Net Investment Returns to 31 December 2023

	Current growth assets (%)	Growth assets 10 years ago (%)	10 year return (% pa)
Age now: 35			
Median Lifecycle	90	90	7.3
Median Single Option	72	71	7.1
Age now: 50			
Median Lifecycle	86	85	7.2
Median Single Option	72	71	7.1
Age now: 55			
Median Lifecycle	72	74	6.9
Median Single Option	72	71	7.1
Age now: 60			
Median Lifecycle	64	70	6.7
Median Single Option	72	71	7.1
Age now: 65			
Median Lifecycle	52	56	6.3
Median Single Option	72	71	7.1

Source: Chant West

What does the table tell us? A 35-year-old now, who was 25 at the start of MySuper and invested in a lifecycle product, has had a 90% exposure to growth assets, on average, over the full 10-year period. Their return of 7.3% p.a. is better (if only slightly) than the return of the median traditional single option with about 70% growth assets of 7.1% p.a. However, they done so by taking on significantly more sharemarket risk.

For most of the current lifecycle products, there is not a lot of change in growth asset exposure until about age 50. By that age, the typical growth exposure has dropped slightly from 90% to 86%, so the de-risking process is under way. By age 55, the growth component has fallen to 72% (the same as the non-lifecycle growth median) and lifecycle returns are slightly lower than the single option MySuper products.

The level of growth assets for lifecycle MySuper products continues to fall to 64% at age 60 and 52% at age 65. For these older members, especially those currently aged 65, their 10 year return of 6.3% p.a. was markedly lower than the 7.1% p.a. achieved by the median single option. But all the way through, these members have been protected from larger falls in their investments by having a lower growth asset allocation.

Has it all been worthwhile?

The verdict on MySuper depends very much on your role in the industry, be it regulator, super fund or fund member. For Government and the regulators, it probably rates as a success. Fees have come down and some underperforming funds have been removed from the system.

The industry's view is generally less sanguine. The heavy emphasis on fees has caused some funds to compromise on how they invest, exacerbated in recent years by having to manage to a performance test that still has unresolved flaws. Arguably, some funds have been removed from the system largely due to flaws in the performance test rather than flaws in the way they were managing members' savings.

Members' views will of course vary depending on their individual experience with their fund and risk profile. Many will likely take comfort from the perception that the system has driven down fees and protected them from 'dodgy' funds with high fees and poor performance.

The new lifecycle product design, favoured by most retail funds and a small group of profit-for-member funds, has proven to be beneficial for younger members. But it has led to lower returns for the older cohorts at a time when the size of their account balance magnifies the effect of this performance differential. However, these members have been less exposed to risk as they approach retirement.

Along with younger members in lifecycle strategies, the biggest winners over the 10 years of MySuper are those members who were in good growth options at inception and have remained in those products throughout. The better funds have stuck to their investment principles, reduced costs where they could and improved the range and effectiveness of their member services – acting in members' best interests by maximising their net investment returns. Those members have enjoyed strong performance well in excess of inflation and of the funds' own objectives, all at an acceptable and appropriate level of risk.

But as an industry, the level of service must improve across super funds as more is now expected of funds which are under much greater scrutiny – rightly so given the large amount of assets being managed. More attention must also be given to driving strong outcomes for members in retirement, which is much harder and more personalised than in accumulation – never forgetting that this is the exact reason why super funds exist.

Media Release

About Chant West

Senior Investment Research Manager Mano Mohankumar and General Manager Ian Fryer are available to discuss this release. Please call Darlene White on 0438 041 032 to arrange a time.

Mano Mohankumar

Mano has over 20 years of experience in the finance industry and regularly provides media comment on superannuation and investment matters.

Ian Fryer

Ian has worked in the superannuation industry for about 25 years in a range of research, consulting, actuarial and administration roles.