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Inaugural *How Australia Saves* report unlocks member level insights into Australia's superannuation system

A landmark report providing insights into how superannuation policy settings and product designs flow through to member-level outcomes has been released today, with the launch of *How Australia Saves 2017*.

This inaugural Australian report, a collaboration between Vanguard and Sunsuper, draws on in-depth analysis of the transaction behaviour and investment experience of over 1 million Sunsuper members over five financial years to 30 June 2016.

The report is based on the same research methodology that has been developed by Vanguard's Centre for Investor Research for the US defined contribution pension system, examining trends in contribution behaviours, choices and outcomes at the individual member level.

In the US Vanguard has been producing *How America Saves* since 2000, with annual updates providing a unique insight into trends in defined contribution (DC) plan participant behaviour and retirement plan design. Over time *How America Saves* has become a resource that is widely leveraged by pension plan sponsors, consultants, regulators, policy agencies and academics alike.

"We see the launch of *How Australia Saves* in 2017 as a major milestone, and the first step in a similar journey here," Vanguard Australia managing director Colin Kelton said.

"This first edition of *How Australia Saves* unlocks a wealth of information about the way the Australian superannuation system works, and the actual outcomes experienced by different investor types and demographic segments.

"As we continue to build on this knowledge base, we envisage that *How Australia Saves* will become a valuable resource for all stakeholders in the retirement industry, and ultimately provide insights that will improve superannuation product design and benefit the end investor," Mr Kelton said.

"By helping Australians put their own experiences with super into context, we also hope that the report will encourage people to think more about the kind of retirement they want, and more importantly what action they can take to make that a reality."

Commenting on the report Sunsuper's Chief Executive Officer Scott Hartley noted the importance of a member focused approach.

"Like Vanguard Sunsuper, as one of the nation's biggest profit-for-members superannuation funds, puts its customers at the heart of every initiative we undertake," Mr Hartley said.

"As such, both companies invest significant resources into developing a profound understanding of the needs and wants of customers when it comes to their superannuation. In fact, Sunsuper's unique in-house administration capability allow us to readily access and organise data that provides meaningful analysis and helps us build products and services with the aim of maximising the retirement savings of our members.

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“*How Australia Saves* augments that work and gives us deeper insight into the attitudes and behaviours of investors in relation to superannuation which will be used for the ultimate benefit of our customers,” Mr Hartley said.

Super on track as system matures

Having grown to near-universal coverage of the working population and over \$2 trillion in assets over the past 30 years, Australia’s superannuation system is on its way to reaching maturity as a vehicle for all facets of accumulation, management and drawdown of retirement assets.

“Amid ongoing discourse about the system’s efficacy in the face of regulatory change, varied levels of member engagement and volatile investment markets, *How Australia Saves* shows that by and large the system is delivering on its core purpose,” Vanguard’s Senior Manager Superannuation Policy, and co-author of the report, Paul Murphy said.

“The report confirms that member accounts are largely underpinned by the mandatory superannuation guarantee (SG) of 9.5 per cent. However, deep analysis of behavioural and demographic segments unlocks a number of insights into the drivers of voluntary contributions beyond the mandated minimums. It also highlights outcomes experienced by members who depend on default settings for key aspects such as asset allocation, diversification and portfolio re-balancing.”

Outcomes by Investor Type

How Australia Saves examines the member experience by looking at three distinct investor types:

- *Lifecycle* investors, the largest category, were invested in Sunsuper’s default MySuper strategy, which features in-built incremental changes to a more conservative asset allocation after members reach age 55. These members experienced very uniform outcomes with annualised 5-year total returns to 30 June 2016 tightly clustered around 8.3 per cent per annum, with low variability of returns relative to the major underlying asset classes of Australian and international equities and Australian bonds.
- *Diversified balanced* investors were invested in their choice of one of a number of diversified investment options (Growth, Balanced, Conservative etc), which have in-built re-balancing but without any age-based asset allocation changes. These members were more likely to be older, longer-tenured and to be making additional voluntary contributions. Their investment experience was more broadly dispersed than those of lifecycle investors, reflecting the fact that different diversified options have quite distinct asset allocations catering to different risk preferences.
- *Self directed* investors chose their own investment options (up to a maximum of 10) from a list of 21 diversified and single-asset class options available. This group had the greatest dispersion of risk and return outcomes, with the most striking result being that very few of them experienced better return outcomes than the default lifecycle strategy over the 5-year period measured.

“Comparing the outcomes across these three distinct investor types sends a strong message about the important role that professionally managed, well diversified default products and choice architecture play in the superannuation system,” Mr Murphy said.

Accessing Super Assets

Turning to the drawdown phase, the relative youth of Australia’s super system and of Sunsuper’s membership mean that only a relatively small portion of members included in the sample for the 2017 *How Australia Saves* were eligible for or already in retirement.

“As the system continues to mature the report will provide further insight into the drawdown phase, however looking at this year’s analysis already shows those in pension mode are drawing down their assets at a modest median rate of 6 per cent.

“This is consistent with recent research into pensioner drawdown behaviour and contrary to the notion that self-funded retirees are inclined to deplete their superannuation quickly to in order to ‘double dip’ into the age pension,” Mr Murphy said.

Looking Ahead

“Our aim with future *How Australia Saves* reports will be to gain a deeper understanding of how the system and fund providers can continue to improve member outcomes. We will also start to see the impact of the significant super reforms that come into effect from 1 July 2017, and of other initiatives such as the First Home Owner Super Saving scheme announced by the Government in last month’s federal budget.

“We are incredibly grateful to Sunsuper for helping make this first edition possible, and we look forward to partnering with them in future years in addition to expanding the report to include member data from additional superannuation funds,” Mr Murphy said.

The full *How Australia Saves 2017* report is available online at www.vanguard.com.au/howaustraliasaves.

This link also provides access to an *Australian Superannuation System Overview* that Vanguard has produced to accompany the inaugural *How Australia Saves* report, providing more detailed information on the policy settings, history and structure of Australia’s superannuation system.

About Vanguard: With more than AUD \$5.5 trillion in assets under management as of 31 March 2017, including more than AUD \$940 billion in ETFs, Vanguard is one of the world’s largest global investment management companies. In Australia, Vanguard has been serving financial advisers, retail clients and institutional investors for more than 20 years.

About Sunsuper: Sunsuper has been taking care of its members’ superannuation savings since 1987 and is today one of Australia’s largest and fastest growing super and retirement businesses with, as at June 2017, more than \$42 billion in retirement savings for more than one million members. With more than 700 staff based in offices right across the nation, our purpose is to inspire and empower Australians to fulfil their retirement dreams. We also help more than 90,000 businesses across the country manage their super obligations through a range of products and services that are designed to make managing employees’ superannuation easy and efficient.

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