



Super policy and defaults the critical drivers of member outcomes

Vanguard launches 2019 How Australia Saves: a comprehensive review of super member behaviour

Sydney, 20 March 2019 - Vanguard today released its second edition of **How Australia Saves** – a report which takes a deep dive into how Australians are managing their superannuation savings and the outcomes they are achieving.

The report takes a look at trends in contribution behaviour, choices and outcomes at an individual member level of over 2.3 million members over the three financial years to 30 June 2018, representing close to 10% of all APRA-regulated fund assets.

The report is the product of a collaboration between Vanguard and three of Australia's leading profit-for-member superannuation funds – First State Super, Sunsuper and VicSuper. Vanguard launched the first edition of How Australia Saves with the support of founding partner Sunsuper back in 2017.

The research is based on methodology developed by Vanguard's Centre for Investor Research in the US who have 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.

Steve Utkus, Head of Vanguard's Centre for Investor Research said "We are delighted to issue this second edition of insights on the Australian superannuation system. Our view is that comprehensive data analysis can help inform better retirement policy and industry practice."

The new publication joins similar Vanguard efforts in the U.K. and U.S.

"One of the key research insights is that while retirement systems differ across countries, certain behavioural characteristics are globally pervasive, such as inertia in decision-making. This puts the onus firmly on policymakers and industry to ensure both defaults and policy settings are well aligned to the best interests of members", said Mr Utkus.

Superannuation in 2018 - still a maturing system

Paul Murphy, co-author of the report, Senior Manager, Government Relations & Industry Policy at Vanguard Australia, presented key findings of the 2019 report at the launch event in Sydney commenting, "Despite its size and rapid growth rate, the Australian superannuation system is yet to reach full maturity.

"Superannuation is at a key tipping point in its evolution with its transition into a broader lifetime pension system, fuelled by the movement into retirement of the initial cohort of the baby boomer generation.

"What this report provides are key metrics which can provide a foundation for long term evidence-based assessments as markets and regulation evolves."

Only 12% of members made additional contributions

The report showed that member contribution rates are firmly anchored to the Superannuation Guarantee demonstrating the importance of good policy design.

Twelve per cent of working members made salary sacrifice or non-concessional contributions or both during the period studied and the level of these voluntary contributions was consistent during the three-year period.

Self-directed members made a higher proportion of voluntary contributions, with 25% of members in this category contributing over and above the Superannuation Guarantee.

Female members made more non-concessional contributions than males across all investor types observed.

The data showed a strong correlation between age and voluntary contribution rates. Members with total contribution rates between 10% and 15% of salary in 2018 had a median age of 49, and members with contribution rates above 15% had a median age of 59.

Few members hold extreme asset allocations, default options most popular

The research confirmed a vast majority, 87%, of accounts were solely invested in default (MySuper) investment options.

Only 1% of members had no allocation to growth investments such as shares and property, while at the other extreme, the percentage of members investing exclusively in growth investments was also only 1%.

Over the past three years the allocation to growth investments across the full member population remained consistent at 69%. Surprisingly, the report showed that self-directed investors were on average choosing a more conservative asset allocation with 59% allocated to growth assets.

Median investment returns were strong

The median estimated total return for fund members was 10.2% for the one-year period ended 30 June 2018. Over the three years the report covers, median estimated member total annual returns were 8%.

There was wide variation in returns among members, however members holding the lifecycle and target risk options had very little dispersion in estimated returns while unsurprisingly self-directed members saw the most variation in risk and return outcomes.

Member switching was muted

Only 3% of total members made one or more portfolio switches during the 2018 financial year, which was consistent with the previous two years. Both target risk and self-directed members displayed higher rates of switching than lifecycle members at 4% and 16% respectively.

Low incidence of fund rollouts and withdrawals

Only 4% of members rolled their funds into another APRA-regulated super fund during the period, and 1% made a partial rollout. Less than 0.5% of members rolled out their super funds into a self-managed super fund.

In the group studied 2% of members in 2018 were pensioners receiving regular income stream payments, with a median withdrawal of \$21,321 or 8% of account balances (including lump sum withdrawals as well as income stream payments).

Another 1% of members were in the Transition to Retirement (TTR) eligibility age bracket, with a median age of 62. Among this group 16% availed themselves of the TTR facility in 2018, with a median drawdown of 9% of account balances.

Thanking our partners

Wrapping up the session, **Vanguard managing director, Frank Kolimago** said “We would not have been able to compile this report without the gracious participation of our research partners, founding partner Sunsuper, along with First State Super and Vic Super joining us in this edition, who all share our common goal of improving member outcomes.

“Our aim is to deliver this research on a biennial basis, providing high quality and impartial data that becomes a critical resource over time as the superannuation industry continues to evolve.”

Deanne Stewart, CEO of First State Super said: “Our collaboration with Vanguard and our partner funds has produced research that allows us to understand how Australians are managing their super and their retirement outcomes at scale. This insight into member behaviour will support our efforts to shape the future of superannuation and inform the development of products and services that will help members to achieve the best retirement outcomes.”

Scott Hartley, CEO of Sunsuper commented “A research project of this magnitude is no small feat, but I truly believe that the work we’re doing through *How Australia Saves* is invaluable for us as an industry in terms of delivering better outcomes for and engagement with our members.”

Michael Dundon, CEO of VicSuper said “We have no doubt that *How Australia Saves* will be increasingly influential in identifying opportunities for participating super funds in looking for ways to better serve their members. We’re pleased to be able to be involved in this valuable piece of research that will help us create even better experiences and outcomes for our members.”

You can download a copy of *How Australia Saves* on Vanguard’s website [link]

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About Vanguard

With more than AUD \$6.9 trillion in assets under management as of 31 December 2018, including more than AUD \$1.2 trillion 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 First State Super

With \$91bn in assets, First State Super is one of Australia’s largest industry funds providing superannuation, advice and retirement solutions to those who teach, nurse, care, respond and help others in our communities. We consistently deliver strong long-term returns and keep our fees low, so members can retire with more. Our investments are focused on delivering strong long-term returns. We aim to not only benefit our environment but contribute to jobs in the communities where our members live, work and retire.

About Sunsuper

Sunsuper is a profit-for-members superannuation fund that has been taking care of its members’ super savings since 1987. It is one of Australia’s largest and fastest growing super funds with more than \$60 billion in funds under management, 1.3 million members and 100,000 employer clients.

About VicSuper

VicSuper is a \$21 billion-strong profit-to-member superannuation fund with over 240,000 members and over 24,000 employers. The underlying assets of the Fund have doubled over the past 5 years. VicSuper is the Conexus, Member Services Fund of the Year 2017 and 2018, and Best Advice Offering 2018.

Open to all Australians, membership is strongest in Victoria where the Fund began over 20 years ago. The Fund’s strategic plan is designed to grow and build resilience into the Fund to help deliver long-term value for its members.