



# MySuper DashBoards: Not so Super!

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## FINANCIAL POLICY BRIEF

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*In this ACFS Financial Policy Brief, Professor Kevin Davis examines the target return and risk level information provided on the required “dashboards” of MySuper providers. It is startling that, across providers, there is no positive relationship between target return and projected risk level as basic finance theory would predict. There are a number of possible explanations for such an outcome, although they do not give comfort that the dashboard information provided is reliable. APRA should, if it is not already doing so, be investigating the apparent anomalies across MySuper providers in their target return and projected risk figures.*

MySuper default products are meant to be low cost superannuation products available for members who are not engaged with their superannuation, but also for those wanting a simple low cost option. Following the introduction of MySuper default products, since December 2013 providers have been required (under s1017BA of the *Corporations Act 2001*) to provide information about target returns and risk levels (as well as fees and past performance) in a simple “dashboard” format.<sup>1</sup> The return target is expressed as the “annualised target net return above CPI over ten years”. The level of investment risk is expressed as the “estimated number of negative net investment returns over a 20 year period” (and also expressed in words as being from “very low” to “very high”). The former is a real return, the latter is in terms of nominal returns (and after allowing for fees).

The differences between the two in terms of ten versus twenty year horizons and nominal versus real returns complicates matters somewhat, but does not negate a fundamental principle of finance. Higher risk portfolios should be associated with higher expected (target) returns, to compensate for the higher risk.

It would be a concern if dashboard displays did not adhere to this principle, since they are meant to provide useful information for individuals about risk and return of their superannuation savings. The information presented also provides a benchmark against which actual performance can be assessed – although the long horizons involved mean that the day of reckoning is a long way hence. And while past performance figures are required to be

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<sup>1</sup> Details of requirements are available in ASIC Information Sheet Info 170 “MySuper product dashboard requirements for superannuation trustees”, which also outlines the various legislative changes made over time. The form of the dashboard contents is specified in APRA’s Reporting Standard SRS 700.0 Product dashboard (SRS 700.0).

provided to enable members to make some comparison, the standard mantra of the funds management industry is that “past returns are no guide to future returns”, so the veracity of the target return and risk figures is particularly relevant.

So, it is valuable to examine whether the risk and return information provided varies across providers of default products in a logical, coherent, manner. Notably the current draft legislation<sup>2</sup> on which Treasury Consultation<sup>3</sup> recently closed does not refer to this aspect of MySuper dashboards. It does, however, provide APRA with enhanced capacity to cancel a MySuper authorisation and improved intervention powers if there are prudential concerns. If the risk and return information provided for MySuper products is not soundly based, and is potentially misleading, that might be expected to prompt APRA into such actions.

Based on the information about return targets and risk levels supplied by MySuper providers and published by APRA in its Quarterly MySuper Statistics bulletin,<sup>4</sup> APRA probably has reason to be acting already. There is no obvious positive relationship between risk and target return figures across MySuper providers, as would be expected from the fundamental principles of finance!

Figures 1 and 2 show the risk-return information provided by 80 non-life-cycle products at March 2017 and also (for comparison) by 55 such products at March 2014.

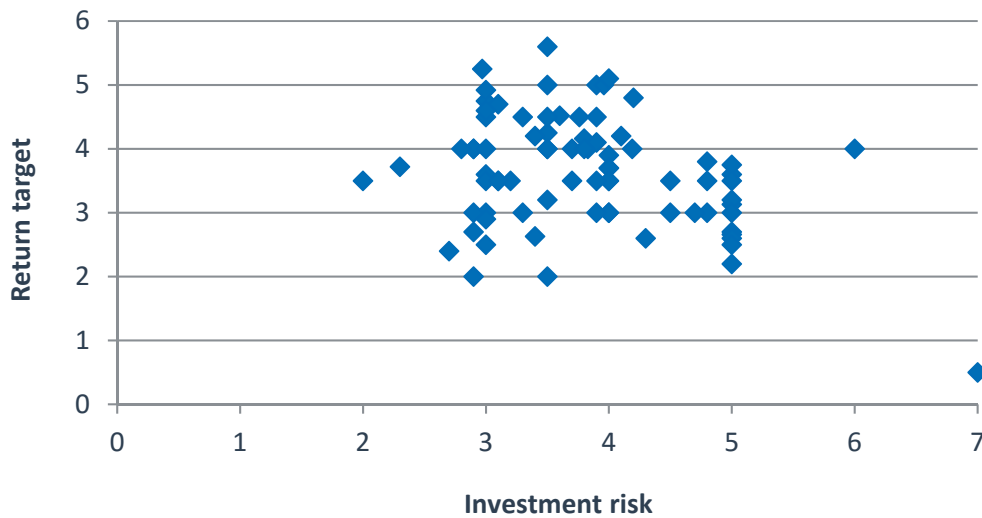
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<sup>2</sup> Treasury Legislation Amendment (Improving Accountability and Member Outcomes in Superannuation) Bill 2017

<sup>3</sup> The draft legislation is available at <http://www.treasury.gov.au/ConsultationsandReviews/Consultations/2017/Improving-Accountability-and-Member-Outcomes-in-Superannuation>

<sup>4</sup> <http://www.apra.gov.au/Super/Publications/Pages/Quarterly-MySuper-Statistics.aspx>

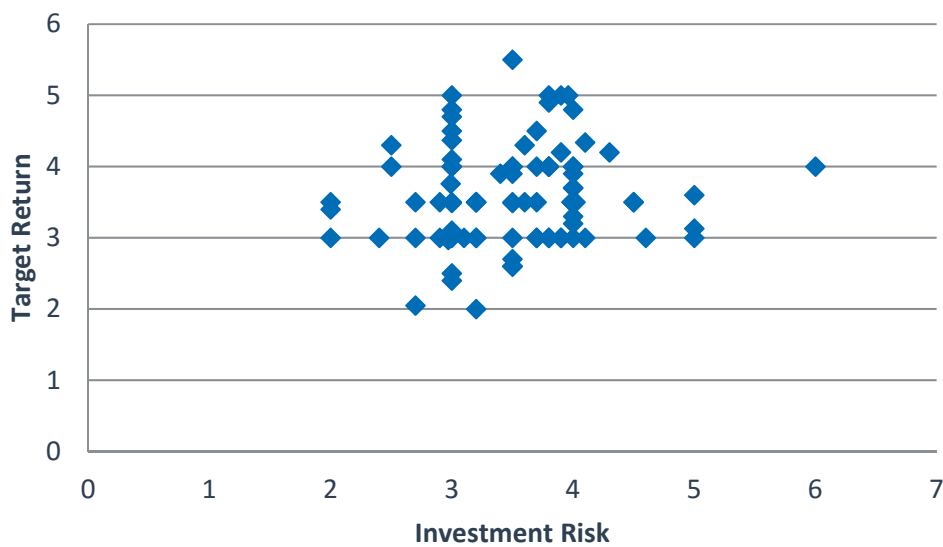
**Figure 1: Target return and risk reports: March 2017**



Notes: 'Return target' is the annualised target return above CPI over ten years. 'Investment risk' is the estimated number of negative net returns over a 20 year period.

Source: Author's calculations based on APRA MySuper Statistics.

**Figure 2: Target return and risk reports: March 2014**



'Return target' is the annualised target return above CPI over ten years. 'Investment risk' is the estimated number of negative net returns over a 20 year period.

Source: Author's calculations based on APRA MySuper Statistics.

What is immediately apparent is that the expected positive relationship between risk and return is nowhere to be seen, neither at March 2014 nor at March 2017. In fact, if a couple of outliers are discarded, there appears to be no relationship. Higher levels of projected risk do not involve higher (or lower) target returns. That is confirmed by comparing the average target returns for products reporting the same level of risk as shown in Table 1 for both quarters (although the number of funds reporting in some of those cases is quite small).

**Table 1: Average target return for different risk levels**

	RISK = 2	RISK = 3	RISK = 3.5	RISK = 4	RISK = 5
March 2014	3.3	3.8	3.4	3.7	3.2
March 2017	3.5	3.8	4.1	3.7	2.7

Source: Author's calculations based on APRA MySuper Statistics.

There is no obvious reduction in target returns associated with a given level of risk between March 2014 and March 2017 or equivalently a higher level of risk associated with a given target return. Of the 75 products for which data are available for both quarters, around 40 per cent had no change in return target and the rest were equally divided between increased and decreased return targets. In terms of risk levels, over 40 per cent had an increase in risk level, one-third had constant risk level and one-sixth had a decreased risk level.

A decrease in risk level (at any return target figure) might have been expected if there has been a decline in longer run inflation expectations associated with increased perceptions that we are living in, and will continue to live in, a low inflation world. This is because the risk measure refers to the chances of nominal returns being below zero – which is less in a higher inflation world, while the target return is a real figure and thus not affected by inflation expectations. But perhaps the acceptance of a “low inflation world” outlook was already in place before 2014, or more uncertainty about economic conditions outweighed any such inflation outlook effect.

There are, at least, five possible explanations for the lack of apparent relationship between risk and target returns shown in Figures 1 and 2. One is that the (relatively well paid) managers of some super funds do not really understand the relationship between risk and return, giving rise to a somewhat random pattern of risk-return observations in the Figures. A second explanation is that the managers of some funds have an inflated view of their ability to provide superior performance, such that they believe they can generate high returns without adopting higher risk portfolios.

A third, explanation is that different fund managers have different views of future economic conditions and thus the risk and return associated with particular asset classes. Pessimists might believe that we are in for an extended period of generally low returns with significant volatility which would lead them to be in the bottom right corner of the figures. In contrast, optimists could expect generally higher returns and little volatility, placing them in the upper left corner of the figures. A fourth possibility is that the long lead time before their fund will be properly held to account against the dashboard information may cause some managers to

“gild the lily”. A fifth possibility that some part of the differences reflect differences in fees charged by the funds (since the target return is net of fees).

Whichever of these (or other) explanations is relevant, the patterns shown in the figures should be of significant concern to our regulators and policy makers. The dashboards are designed to be simple, and provide important information in a format that current and potential fund members can understand. But if that information is unreliable, in the sense of not being compatible with realistic views of the future or fund manager ability, it is less than useless. Individuals may choose default funds on the basis of what could (in popular current parlance) be termed “fake news”, and have a high chance of experiencing disappointed expectations about long run performance.

An indication of the unexplained variability in dashboard information provided can be illustrated by comparing funds with similar asset allocations. At March 2014 there were five funds which each had international listed equity allocation of 27 per cent of total assets, domestic listed equity allocation of either 26 or 27 per cent, fixed income allocation of between 12 and 15 per cent, and allocations to cash, property and infrastructure which were not markedly different. While all reported relatively similar investment risk levels (3.3 to 3.9), the return targets varied from 3 per cent p.a. to 5 per cent p.a. The relatively minor differences in asset allocation are unlikely to explain those differences, nor are disclosed fee levels.

There is much more research required to unravel the causes of the risk-return paradox in MySuper reporting, and some of this is already underway. Nevertheless, there are enough questions raised by the data presented here to cause worry about the veracity of the MySuper dashboard reporting.

Our regulators should, if they are not already doing so, be acting upon this apparent inconsistency in dashboard information. At the very least, managers should be required to provide information about the analysis which underpins their target return and risk projections. More relevantly, what penalties exist for managers “gilding the lily”, particularly since a full reckoning of actual against predicted performance is going to take a decade at least? None that I know of.

There is much current, appropriate, discussion of managerial accountability in banking. It is no less appropriate in the superannuation space.

*This Financial Policy Brief was prepared by Professor Kevin Davis, Research Director of the Australian Centre for Financial Studies*

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