



**Actuaries  
Institute.**

2 September 2024

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Retirement, Advice and Investment Division  
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Langton Crescent  
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Dear Ms Martin,

## **ATO Comparison Tool – inclusion of an investment risk metric**

The Actuaries Institute (the Institute) is the peak professional body for actuaries in Australia. Our members have had significant involvement in the development and management of superannuation in Australia.

The YourSuper Comparison Tool (the Tool) has been largely successful in meeting its policy intent: *to provide superannuation members with simple, clear and trusted information to help them make informed investment decisions.*<sup>1</sup> However, we suggest that priority be given to improving the Tool to better help members make informed investment decisions by including an investment risk metric. We submit that this change to the Tool to incorporate an appropriate investment risk metric offers clear net benefit to informing better risk-adjusted decisions. This is supported by the [consumer testing](#) undertaken by the ATO and the Behavioural Economics Team of the Australian Government (BETA) in October 2022.

We acknowledge the potential reservation that an additional metric would add complexity. However, we believe this change can be achieved without materially compromising the simplicity and clarity of the Tool. We set out in this letter an immediately implementable solution for including an investment risk metric in the Tool using publicly available information already reported by superannuation funds. We also propose a potential longer-term solution for Treasury's consideration.

This letter should be read in conjunction with the Institute's [January 2022 submission to the ATO](#) listing other potential deficiencies with the Tool and outlining how they could be addressed. That submission was discussed at a meeting with Treasury representatives in February 2022.

### **Importance of an investment risk metric**

The Tool currently displays MySuper products. By default, the current version of the Tool sorts products by net returns (noting the Tool uses the highest net return within a lifecycle MySuper product). However, the Tool does not include a measure of the underlying investment risk of each product.

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<sup>1</sup> See '[Your Future, Your Super Review – Summary of issues](#)' released April 2023. The second key objective stated is for the comparison tool to encourage funds to compete by lowering fees and increasing returns for members.

MySuper investment options (as well as Choice investment options) in the market contain a wide range of asset allocations from more defensive to more growth oriented. Based on APRA's most recent MySuper Heatmap, there is a 27% variance in growth asset allocation across single strategy products and a 59% variance across lifecycle products.

To help members compare and choose an appropriate investment product through a like-for-like comparison, we believe members should be informed of the investment risk between different products and investment options. Otherwise, members are likely to shortlist offerings near the top of the list which have the highest historic investment returns without necessarily realising that these products might also be the "riskiest" on the list in terms of volatility of future returns.

### **Incorporation of an immediately available Investment risk metric**

Given the ongoing role the Tool plays in helping members make an informed investment choice and the number of members that are using the Tool, we suggest consideration first be given to adding an investment risk metric to the Tool out of measures readily available.

One measure is the product's allocation to growth assets (the Growth Asset Allocation). Published by APRA in its superannuation heatmaps, a consistent measure of Growth Asset Allocation is calculated by APRA based on strategic asset allocation data reported by superannuation funds at an investment option level. This investment risk metric from APRA's heatmap publications will soon be updated to align with the application of the performance test for 2024. We also considered, as a possible but less suitable alternative, the Standard Risk Measure (SRM) which is also currently available and calculated by superannuation funds for all their MySuper products and Trustee Directed products.

In Appendix A to this letter we outline the pros and cons of these possible solutions against the policy intent of providing simple, clear and trusted information. Our assessment is that the Growth Asset Allocation sourced from the APRA heatmaps is fit for purpose over the short term. It is intuitive and can be easily understood by members. Conversely, many MySuper products have the same SRM which would result in the clustering of results and minimal differentiation between products.

In Appendix B to this letter we provide an illustration of how the Tool could be uplifted to incorporate an investment risk metric. The products in the illustration are listed according to the current default sorting rules applied in the Tool – the only change has been to insert one additional column disclosing the Growth Asset Allocation of each product.

### **Grouping and ordering of products by investment risk**

If an investment risk metric is introduced to the Tool, further consideration will need to be given to how investment products should be grouped and ordered.

We suggest that investment options are grouped under five or six asset allocation groups as this method is commonly used in the industry and is familiar to many members. For example, these might be:

- |                         |                                    |
|-------------------------|------------------------------------|
| • High Growth           | 81% - 100% growth asset allocation |
| • Balanced              | 61% - 80% growth asset allocation  |
| • Conservative Balanced | 41% - 60% growth asset allocation  |
| • Capital Stable        | 20% - 40% growth asset allocation  |
| • Secure                | 0% - 19% growth asset allocation   |

The Balanced category suggested above could be further sub-divided into 61% - 70% and 71% - 80% groups as many MySuper products fall into the 61% to 80% Growth Asset Allocation range.

Consideration would also need to be given to the ordering of the categories. For example, an age-based ordering approach could be adopted so that higher growth allocation groups appear at the top for younger members, and more conservative allocation groups appear at the top for older members. The grouping and ordering of investment products are secondary to the introduction of an investment risk metric to the Tool.

### **Proposed Long-term Solution**

We note the 2022 [consumer testing](#) undertaken by the ATO and BETA found that “respondents were more likely to select the appropriate investment risk for a young person starting off in their career if it was described with a common industry term” (e.g., ‘Conservative’, ‘Balanced’, ‘Growth’ etc). The key challenge preventing these common industry labels from immediate implementation is the lack of standardisation across funds. The lack of standardisation across funds is due to a lack of industry consensus on categorising assets as ‘growth’ or ‘defensive’.

The Institute supports ongoing work led by the Conexus Institute and its Growth/Defensive asset categorisation working group to progress consensus across industry on a standard approach. We believe the proposed Growth/Defensive asset categorisation would materially improve the definition currently used in APRA’s superannuation heatmaps because it considers investment risk at an asset specific rather than asset class level. The product’s asset allocation to underlying growth assets could then be disclosed to members as a ‘growth score’ to communicate investment risk. Adoption of this approach, potentially subject to Treasury or APRA led consultation, could therefore bed down a longer-term solution that has the support and confidence from all stakeholders.

The Institute would welcome the opportunity to discuss this matter with Treasury and will be in contact to seek a meeting.

Your sincerely,

(Signed) Elayne Grace  
CEO

## Appendix A: Considerations for immediately available investment risk metric solutions

Potential solution	Simple	Clear	Trusted
A “Growth score” based on the APRA Heatmap classifications	<ul style="list-style-type: none"> <li>(Pros) Commonly used in the industry and therefore familiar to many members</li> <li>(Pros) Intuitive and can be easily understood by members (higher means more risky and lower means less risky)</li> </ul>	<ul style="list-style-type: none"> <li>(Pros) Uses a consistent definition of growth and defensive assets based on APRA standardised methodology</li> </ul>	<ul style="list-style-type: none"> <li>(Cons) The classification focuses on asset class level and does not consider the underlying asset selection, which may not be an accurate representation of the product’s risk profile (e.g., prime property and opportunistic property are not differentiated)</li> </ul>
Standard risk measure (SRM, the expected number of negative annual returns over a 20-year period)	<ul style="list-style-type: none"> <li>(Pros) Intuitive and can be easily understood by members (higher means more risky and lower means less risky)</li> </ul>	<ul style="list-style-type: none"> <li>(Pros) Provides a consistent disclosure to the funds’ publicly available materials, where SRM is shown in product disclosure statements, MySuper product dashboards and on funds’ websites</li> </ul>	<ul style="list-style-type: none"> <li>(Cons) Only suitable for a certain cohort (e.g., members who are approaching retirement) due to its short-term focus</li> <li>(Cons) Different assumptions and methodology used by funds in calculating this metric</li> <li>(Cons) Tends to encourage members to opt for a more conservative option with a focus on short-term volatility, which may lead to poor retirement outcomes</li> <li>(Cons) Many MySuper products have the same SRM which will result in the clustering of results and minimal differentiation between products</li> </ul>

## **Appendix B: Illustration of proposed changes to ATO Comparison Tool incorporating the growth asset allocation as investment risk metric**

With an additional column in the Tool that shows the growth asset allocation, members will be able to filter investment portfolios that are more comparable from a risk perspective before comparing their investment return performance and fees.

In the illustrative example below, for a member who currently invests in an investment option with 70% growth allocation, they can look at other investment portfolios around 70% for a more like-for-like comparison (see the yellow highlighted group). This includes selecting the relevant life stage within a glidepath investment portfolio to make meaningful comparison. This is to prevent members from comparing performance of an investment portfolio on one extreme of the risk spectrum (e.g., 34% for the TelstraSuper MySuper Conservative investment option) against performance of investment portfolios on the other side of the extreme of the risk spectrum (e.g., 93% for the Mine Superannuation MySuper Age 50 and Under investment option).

#### Illustration of proposed changes to the current version of the Comparison tool incorporating the proposed interim solution

Note:

- Lifecycle products have been shown below based on the expanded dropdown view
- Products have been sorted according to the current sorting rules applied in the Comparison tool
- Strategic growth asset allocations have been sourced from APRA's 30 June 2022 MySuper heatmap

#### Results

**APRA data** Current as at 31 March 2024 | **Disclaimer**

Filter and sort super products to shortlist funds for a detailed comparison. This tool will only compare MySuper products. Check with your super fund to find out if you have a MySuper product.

Select up to 4 products to view a detailed comparison

**Find your own MySuper product**

Searching by fund or product name

59 super products found

Balance \$50,000.00

Name	Investment performance	Annual fee	9 year net return	Strategic growth asset allocation	Shortlist product
<b>HOSTPLUS Superannuation Fund</b>					
Hostplus MySuper	Performing	\$606	7.84%	78%	<input type="checkbox"/> Select
<b>Local Government Super</b>					
Active Super Lifecycle Product	Performing	\$591 - \$621	3.9% - 7.82%	53% - 87%	<input type="checkbox"/> Select
Active Super Lifecycle - Accumulator		\$596	5.40%	69%	
Active Super Lifecycle - Appreciator		\$591	3.90%	53%	
Active Super Lifecycle - Accelerator		\$621	7.82%	87%	
<b>Meat Industry Employees Superannuation Fund</b>					
MIESF MySuper	Performing	\$427	7.68%	58%	<input type="checkbox"/> Select
<b>Mine Superannuation Fund</b>					
MySuper Lifecycle	Performing	\$392 - \$437	3.7% - 7.67%	52% - 93%	<input type="checkbox"/> Select
MySuper Age 50 and under		\$392	7.67%	93%	
MySuper Age 65 and above		\$437	3.70%	52%	
MySuper Age 51		\$397	7.07%	90%	
MySuper Age 52		\$397	6.99%	88%	
MySuper Age 53		\$402	6.89%	85%	
MySuper Age 54		\$402	6.79%	82%	
MySuper Age 55		\$407	5.58%	80%	
MySuper Age 56		\$412	5.49%	77%	
MySuper Age 57		\$412	5.39%	74%	
MySuper Age 58		\$417	5.31%	71%	
MySuper Age 59		\$417	5.21%	68%	
MySuper Age 60		\$422	5.12%	65%	
MySuper Age 61		\$427	5.03%	63%	
MySuper Age 62		\$427	4.94%	60%	
MySuper Age 63		\$432	4.84%	57%	
MySuper Age 64		\$432	4.76%	55%	
<b>Australian Retirement Trust</b>					
Lifecycle Investment Strategy	Performing	\$475 - \$507	5.33% - 7.53%	52% - 77%	<input type="checkbox"/> Select
Age 55		\$504	7.42%	77%	
Age 56		\$501	7.20%	73%	
Age 57		\$498	6.98%	71%	
Age 58		\$494	6.76%	68%	
Age 59		\$491	6.54%	66%	
Age 60		\$488	6.32%	63%	
Age 61		\$485	6.10%	61%	
Age 62		\$481	5.88%	57%	
Age 63		\$478	5.66%	55%	
Age 64		\$475	5.43%	52%	
Age 65 and over		\$475	5.33%	53%	
Age 54 and under		\$507	7.53%	77%	
<b>AustralianSuper</b>					
AustralianSuper MySuper	Performing	\$445	7.51%	73%	<input type="checkbox"/> Select
<b>Guild Retirement Fund</b>					
Guild Super MySuper Lifecycle	Performing	\$429 - \$464	5.3% - 7.46%	61% - 98%	<input type="checkbox"/> Select
Building		\$429	7.46%	98%	
Growing		\$459	6.87%	88%	
Consolidating		\$464	5.30%	61%	
<b>Mercer Super Trust</b>					
Mercer WGSP MySuper	Performing	\$349 - \$389	4.61% - 7.3%	51% - 89%	<input type="checkbox"/> Select
Mercer SmartPath - Born prior to 1929 - CSD		\$389	4.61%	51%	
Mercer SmartPath - Born 1929 to 1933 - CSD		\$349	4.82%	52%	
Mercer SmartPath - Born 1934 to 1938 - CSD		\$364	4.68%	52%	
Mercer SmartPath - Born 1939 to 1943 - CSD		\$374	4.68%	52%	
Mercer SmartPath - Born 1944 to 1948 - CSD		\$369	4.63%	51%	
Mercer SmartPath - Born 1949 to 1953 - CSD		\$374	4.76%	51%	
Mercer SmartPath - Born 1954 to 1958 - CSD		\$354	5.34%	57%	
Mercer SmartPath - Born 1959 to 1963 - CSD		\$389	5.98%	69%	
Mercer SmartPath - Born 1964 to 1968 - CSD		\$384	6.74%	82%	
Mercer SmartPath - Born 1969 to 1973 - CSD		\$374	7.25%	88%	
Mercer SmartPath - Born 1974 to 1978 - CSD		\$369	7.28%	88%	
Mercer SmartPath - Born 1979 to 1983 - CSD		\$364	7.30%	88%	
Mercer SmartPath - Born 1984 to 1988 - CSD		\$359	7.29%	89%	
Mercer SmartPath - Born 1989 to 1993 - CSD		\$359	7.20%	88%	
Mercer SmartPath - Born 1994 to 1998 - CSD		\$359	7.18%	88%	
Mercer SmartPath - Born 1999 to 2003 - CSD		\$364	6.98%	88%	
Mercer SmartPath - Born 2004 to 2008 - CSD		\$374	Not available	88%	
Mercer SmartPath - Born 2009 to 2013 - CSD		\$374	Not available	88%	
Mercer SmartPath - Born 2014 to 2018 - CSD		\$374	Not available	88%	
<b>Telstra Superannuation Scheme</b>					
TelstraSuper MySuper	Performing	\$432 - \$567	4.14% - 7.17%	34% - 84%	<input type="checkbox"/> Select
MySuper Moderate		\$467	4.70%	n/a	
MySuper Growth		\$567	7.17%	84%	
MySuper Balanced		\$547	6.13%	70%	
MySuper Conservative		\$432	4.14%	34%	
<b>CONSTRUCTION AND BUILDING UNIONS SUPERANNUATION FUND</b>					
Growth (MySuper)	Performing	\$498	7.15%	74%	<input type="checkbox"/> Select