



**Actuaries
Institute.**

22 June 2026

Retirement Income and Superannuation Division
The Treasury
Langton Crescent
PARKES ACT 2600

via email: PerformanceTest@Treasury.gov.au

Dear Sir/Madam

Strengthening the Superannuation Performance Test — Consultation Paper Response

The Actuaries Institute ('the Institute') welcomes the opportunity to respond to Treasury's consultation paper on Strengthening the Superannuation Performance Test (May 2026).

The Institute is the peak professional body for actuaries in Australia. Our members work in a wide range of fields including insurance, superannuation and retirement incomes, banking, enterprise risk management, data science and AI, climate change and sustainability, and government services. Actuaries have had significant involvement in the development and management of superannuation in Australia, and work across APRA-regulated funds, SMSFs and public sector funds.

The Institute has a longstanding commitment to contribute to public policy discussions where our members have relevant expertise. The comments made in this submission are guided by the Institute's Public Policy Principles that any policy measures or changes should promote public wellbeing, consider potential impacts on equity, be evidence-based and support effectively regulated systems.

The Institute acknowledges that the performance test (the test) has worked well in achieving its policy intent of reducing persistent underperformance, removing weaker products from the system, and placing downward pressure on administration fees. At the same time, the test has a number of well-acknowledged limitations about benchmark hugging and unintended investment constraints, and the reforms to date have come with significant implementation costs for policymakers, regulators and trustees. Performance test reform must therefore be weighed against the importance of progressing other priorities for the superannuation system, including insurance in superannuation, better help, guidance and advice, and advancing the retirement phase of superannuation. Within this context, the Institute supports measured and orderly change to the test, together with a mechanism for periodic review. Any reform should preserve the benefits the test has delivered while addressing the well-documented unintended consequences raised in the consultation paper.

The Institute's preferred long-term position is for the test to transition to one that better measures a product's performance on a risk-adjusted basis. As noted in [our 2024 submission](#), no single 'bright line' investment-option-level test can fully assess member outcomes. For this reason, the Institute's preference is to move towards a multi-metric test, recognising that any single test will have limitations, or towards a test that allows APRA to apply appropriate discretion in its administration where the test's design is not well suited to a particular product or strategy. If a single-metric approach is retained, it should be a better-designed metric that addresses the key shortcomings of the current approach which focus on investment implementation performance.

Within the single-metric options consulted on, the Institute considers that a simple reference portfolio (Option 2) holds the most merit. A transition to Option 2 would involve material implementation costs. The case for transitioning to Option 2 would depend on the final design of the reference portfolio and failure buffer.

Our key recommendations are:

- **Option 2 (Simple Reference Portfolio):** Our preferred option where a single-metric test is retained, and one that could replace the existing strategic asset allocation benchmark portfolio, subject to the transition being managed prudently and in an orderly way. The SRP should: be built from transparent, investable and liquid market indices only; exclude unlisted indices; use rolling quarterly returns to calculate volatility; and reflect realistic home bias and FX hedging assumptions. The failure buffer should be widened to more than 50 bps to reasonably account for higher-growth higher-volatility investment options and the level of unlisted assets.
- **Options 1.1 and 1.2 (Emerging and Alternatives asset classes):** Not our preferred standalone reform, as both retain the fundamental shortcomings of the current benchmark-relative framework. That said, expanding the asset classes covered by the existing test would be additive. It could be an appealing option given the lower costs of transition and when considered alongside other changes to the design and application of the test.
- **Option 3 (Routine review of the benchmarks):** Support, regardless of the test methodology adopted. A five-yearly cycle with independent oversight strengthens governance, and periodic review should extend to the framework as a whole, not only the benchmarks.
- **Option 4 (Externally directed accumulation products):** Support extension in principle, recognising that not testing externally directed products may create perverse incentives for trustees to channel members into less-scrutinised offerings with potentially higher fees, reducing the integrity of the system-wide accountability framework. Recent events, including the Shield and First Guardian Master Fund collapses, have drawn attention to the gap in performance scrutiny for externally managed products distributed through platforms. Extending the test to externally directed products would involve considerable implementation costs for APRA and for the superannuation investment options brought within scope, and would require careful design of in-scope products (including wraps and separately managed accounts), a phased rollout, consideration of a simpler test variant and an amended consequence management framework.
- **Retirement products:** We do not support extending the performance test in its current form into retirement. Ideally, any retirement income tests or comparisons should be at the 'member level' targeting the three objectives under the Retirement Income Covenant. The current design of the test does not necessarily reflect the end outcomes received by members. We would support the inclusion of a risk-based measure of investment performance as part of a broader measurement test applied to Retirement Income Products.¹
- **Administration fees and representative member balance:** Retain the 12-month lookback for administration fees. Lift the representative member balance from \$50,000 to \$100,000 (and to approximately \$250,000 for platform products) to better reflect contemporary member balances.
- **Transition:** Having no transition period would make the test highly problematic as it would be retrospective with very little notice. We would support any changes to prospectively apply from 1 July 2027, with a 5-year transition period during which options failing the new test would be reassessed under the existing test. A 5-year transition period recognises historical investment decisions taken under the existing test, reduces restructuring costs for members and mitigates the risk of wider systemic disruptions. We also encourage a wider failure buffer be considered during the transition.

¹ Our position on performance testing of retirement products is set out in [Public Policy Statement: Australia's Retirement Income System](#) (See Position 3.a.i.c.).

- **Consequences framework:** Retain current arrangements for MySuper products. For choice products, replace the prescribed member notification with a requirement for the trustee to provide APRA with an action plan addressing the underperformance.
- **YourSuper Comparison Tool:** Improve the ATO YourSuper Comparison Tool by disclosing a risk metric, so consumers can compare products that might have similar labels but with meaningfully different risk profiles.
- **Removing barriers to consolidation:** Legislate CGT roll-over relief so trustees can perform intra-product transfers on a similar basis to successor fund transfers where this is in members' best financial interests.

The Attachment sets out our responses to each of the consultation paper questions.

If you would like to discuss any aspect of this submission, please contact the Institute via (02) 9239 6100 or public_policy@actuaries.asn.au.

Yours sincerely,

Signed

Elayne Grace

CEO

Attachment: Responses to consultation questions

The following table sets out the Institute's response to each of the questions in the consultation paper, together with additional areas arising from the consultation that are not addressed by specific questions.

Option 1.1: Introducing a new emerging covered asset class	
<p>Question 1</p> <p><i>To what extent does the test constrain decisions to invest in certain asset types? Which asset types are most affected, and why?</i></p>	<p>The test creates a material constraint on investment decisions for assets that are poorly represented in the existing benchmarks. Concerns are most acute for:</p> <ul style="list-style-type: none">• Emerging asset classes such as venture capital, renewable energy projects and social or affordable housing, whose risk-return characteristics are poorly proxied by the listed and unlisted equity, property and infrastructure benchmarks they are currently mapped against.• Values-based strategies (e.g., faith-based and ESG-focused) which rely on exclusions or tilts away from benchmark indices and therefore experience structurally higher tracking error without the expectation of compensating alpha.• Active strategies whose tracking error against passive benchmarks is unrelated to their long-term risk-adjusted return for members. <p>The constraint operates through the incentive for trustees to manage tracking error against the benchmarks to reduce the risk of failure, particularly as a fund approaches the failure threshold. Analysis by the Conexus Institute suggests that one per cent tracking error over the test period is sustainable; if the industry converges towards this level over time, the resulting opportunity cost to members in terms of foregone potential returns would be material.</p> <p>Emerging investments – renewables and climate adaptation measures</p> <p>The Institute considers that climate change and other structural challenges are directly relevant to members' long-term financial outcomes. Three considerations are particularly relevant:</p> <ul style="list-style-type: none">• Investment challenges: Climate adaptation and similar nation-building investments (such as affordable housing) often involve long time horizons, uncertain cashflows and benefits that are local and shared across multiple stakeholders, making them difficult to deliver at scale on a standalone commercial basis.• Role of government: In these cases, the Institute considers there is a role for government to facilitate investment, including through coordination, and potentially co-investment or concessional arrangements.• Financial materiality: Climate-related and other systemic risks are financial risks over the long term and should form part of trustees' assessment of members' best financial interests.

	<p>(A full discussion of points 1 and 2 is provided in the Mobilising Investment For Climate Adaptation report published by the Institute in November 2025.)</p> <p>The performance test framework should support trustees in considering these longer-term risks and opportunities. We hold concerns that the current test, which is predominantly backward-looking and focused on shorter-term outcomes, does not fully capture these factors.</p>
<p>Question 2</p> <p><i>To what extent would a new covered asset class with a CPI + X benchmark address investment constraints the test may impose?</i></p>	<p>Option 1.1 would deliver some improvement. However, as CPI + X benchmarks are conceptually mismatched with many of the assets they are intended to accommodate, three particular concerns arise:</p> <ul style="list-style-type: none"> • J-curve effects. Many assets that would fall into the emerging asset class — particularly venture capital and similar long-horizon private market strategies — exhibit low or negative returns in early years before stronger performance potentially emerges as assets mature. Even with a 10-year lookback, funds would face several years of negative contribution against a CPI-linked benchmark, which may constrain investment behaviour rather than enable it. Funds can take some steps to mitigate J-curve effects — for example, relying more on co-investments or secondaries in earlier years, which may also support greater equity across different age cohorts — but the opportunity to do so is limited and varies across asset classes. • Calibration difficulty. Setting X across heterogeneous emerging assets is technically difficult. Set too low, the benchmark weakens discipline; set too high, it continues to penalise long-horizon assets. A single X is unlikely to be appropriate across the full range of eligible investments. • Gaming risk. Without strong guardrails, the option creates a risk that borderline assets are relabelled as 'emerging' to access a softer hurdle.
<p>Question 3</p> <p><i>How could this new covered asset class be designed?</i></p>	<p>If Option 1.1 is pursued, the following design parameters would need to be considered:</p> <ul style="list-style-type: none"> • 3.1 Eligible asset types: determined by clearly defined criteria (limited market depth, absence of an established investable benchmark, materially different risk-return profile from existing covered asset classes), rather than by prescribing specific asset types. This would preserve flexibility as investment practices evolve. • 3.2 CPI + X target: set centrally rather than by trustees, to support comparability across products. The level of X should reflect the expected real return profile of eligible investments, smoothed using a 10-year rolling geometric average of CPI to filter short-term shocks, and reviewed periodically. • 3.3 Different targets for growth and defensive assets: yes. A single CPI + X is unlikely to fairly reflect the diversity of eligible assets. Separate growth and defensive thresholds, consistent with the existing Alternatives, Growth Alternatives and Defensive Alternatives covered asset classes, would partially mitigate this issue although the risk of misclassification is high.

	<ul style="list-style-type: none"> • 3.4 Allocation cap: approximately 5 per cent of a product's total strategic asset allocation. Any allocation above the cap should be reallocated to other covered asset classes for testing purposes. The cap should be reviewed periodically through Option 3. • 3.5 Other safeguards: prospective application to new investments only; treatment of the new covered asset class as an interim measure, with assets transitioning into the relevant covered asset class once a suitable market benchmark is available or the return profile is sufficiently mature; and central review of eligibility decisions and X.
<p>Question 4 <i>What are the key implementation and transition considerations for this option?</i></p>	<p>Key considerations include:</p> <ul style="list-style-type: none"> • Clearly defining eligibility criteria and securing industry agreement on their application. • Calibrating X and developing a defensible methodology for periodic review. • Ensuring prospective application to avoid retrospective penalty for past investment decisions. • Confirming the fee and tax assumptions applied to a non-market benchmark, as these are not naturally derived in the same way as for indexed benchmarks. Further consideration should be given to whether the same assumptions should apply. • Coordinating with APRA reporting requirements (in particular SRS 550.0 Asset Allocation).
<p>Option 1.2: Improving the existing Alternatives covered asset class</p>	
<p>Question 5 <i>To what extent would improving the Alternatives covered asset class address investment constraints the test may impose?</i></p>	<p>Option 1.2 would, on its own, deliver some improvement. The current Alternatives benchmarks use broad listed equity and bond indices to proxy risk exposures, which inadequately reflects the low correlation to traditional betas that is the principal investment rationale for many Alternatives strategies.</p> <p>Working within the established framework would limit transition risks and implementation burden especially when considered alongside other changes to the design and application of the test. However, continued reliance on listed market indices may not fully address stakeholder concerns for assets that are not well represented in those indices, and expanding the assets eligible for the Alternatives covered asset classes is likely to magnify this mismatch. Expanding the Alternatives category may also increase subjectivity in classification and reduce comparability across products if similar assets are treated differently across funds.</p>
<p>Question 6 <i>How could the Alternatives covered asset classes be improved?</i></p>	<ul style="list-style-type: none"> • 6.1 Eligible asset types: broadening the list could be considered, but would require clear and enforceable classification rules to prevent drift and inconsistency. Periodic expert review of classifications is essential.

	<ul style="list-style-type: none"> • 6.2 Changes to benchmarks: refinement of the current composite benchmarks could be considered, but would not address the fundamental mismatch with the risk-return drivers of alternative strategies. Replacement of the existing composite benchmarks with a CPI + X benchmark could be considered as an alternative, but would face the same calibration difficulties as Option 1.1.
<p>Question 7 <i>What are the key implementation and transition considerations for this option?</i></p>	<p>Key considerations include:</p> <ul style="list-style-type: none"> • Prospective application of any classification or benchmark changes to avoid retrospective penalty. • Classification rules sufficiently clear and enforceable to support consistent application across products. • Coordination with APRA reporting requirements. • Periodic expert review of benchmark composition through the routine review mechanism contemplated by Option 3. <p>As noted in our response, Option 2 represents a more effective response to the issues identified by the consultation.</p>

Option 2: Introduce an assessment of risk-adjusted returns

Question 8

To what extent would introducing a simple reference portfolio address investment constraints the test may impose?

The Institute's overall preference is to move towards a multi-metric test, recognising that any single test will have limitations. Among the single-metric options consulted on, however, a simple reference portfolio holds the most merit, although any transition would involve material implementation costs that would need to be managed in an orderly way (see Question 10). A well-designed simple reference portfolio (SRP) framework would substantially address the investment constraints the current test imposes. Not without its own limitations, an SRP approach has several meaningful advantages over the current strategic asset allocation benchmark:

- It is designed to assess the value trustees deliver for a given level of risk, aligning the test closer to the overarching duty of trustees to act in members' best financial interests.
- It reduces the incentive to track multiple asset-class benchmarks and therefore the incentive for investments within asset allocations to hug the test's benchmark.
- It removes the need for separate treatment of emerging or alternative assets. Where such assets contribute positively to the risk-return profile of the overall portfolio, they will be additive under the SRP approach without any special carve-out.
- It reduces opportunities for gaming and unintended behavioural responses observed under the current test, including persistent deviations between strategic asset allocation and actual portfolio positioning. In our view, this is a key limitation inherent to the existing test design.
- It is conceptually familiar to the sector, including through APRA's Comprehensive Product Performance Package, and is consistent with approaches adopted by other large pension investors internationally (for example, the New Zealand Superannuation Fund and CalSTRS).
- It is likely to reduce ongoing costs for trustees by relying on a smaller number of commercial indices that are also more readily available.

The Institute notes that the SRP concept aligns with how some funds already implement and monitor a Total Portfolio Approach — beginning with a simple portfolio of market betas and rigorously assessing each investment for incremental improvement against the defined objective.

We also recognise the limitations of the SRP approach. By design, the SRP excludes significant parts of the investable universe, particularly unlisted assets. The exclusion preserves objectivity (see Question 9) but means that uncorrelated assets and deliberately divergent strategies (such as values-based strategies) will retain a baseline level of tracking error risk. The 10-year lookback partially mitigates this. Additionally, valuation differences between listed and unlisted assets create a smoothing-bias advantage for unlisted-heavy portfolios, discussed further in Question 9. These limitations should be acknowledged and revisited periodically through Option 3.

Question 9

How could the simple reference portfolio be designed?

Our support for Option 2 is subject to a comprehensive review of the composition of the SRP and an appropriate failure buffer.

9.1 Asset classes and market indices. The credibility of Option 2 will depend heavily on how the SRP is constructed. There is an inherent trade-off to be struck between complexity (capturing as much of the realistic beta opportunity set as possible) and simplicity (avoiding a benchmark that is too easy for funds to beat and therefore not a useful test). It is critical that the exposures selected remain representative of key asset class building blocks represented within super fund portfolios to capture equity, credit and term premia while adhering to design principles.

The Institute considers the following design principles should apply.

- **Transparent, investable and liquid indices only.** The SRP should comprise market indices that are transparent, investable and liquid, and that are broadly representative of global capital markets. Indices should reflect the bond and equity home bias and currency hedge ratios that are typical of well-constructed Australian superannuation portfolios.
- **Exclusion of unlisted indices.** Including unlisted indices in the SRP would compromise the objectivity of the frontier because the calculation of volatility relies on valuation governance of the underlying assets. Survivorship bias, appraisal-based valuations and the inability to mark to market would all undermine the integrity of the comparison.
- **International equity diversification.** The use of an international equity component in the SRP should reduce the concentration risks associated with the S&P/ASX 300. The SRP design should specify assumptions for the split between domestic and international equity, and between hedged and unhedged exposures, in a way that does not inadvertently influence trustee currency hedging policy.

The Institute emphasises that the SRP should remain simple and transparent. Responding to tracking error concerns by expanding the SRP risks reintroducing complexity and undermining the intent of the framework; these issues are more appropriately addressed through the calibration of the failure buffer (9.3). The SRP used in APRA's Comprehensive Product Performance Package and Heatmap from previous years provides a starting point for the design exercise, subject to the principles above.

9.2 Is volatility an appropriate proxy for risk? Volatility, measured as the standard deviation of returns, is an imperfect but practical proxy for risk. It is well understood, can be calculated consistently across products, and is already collected by APRA. The Institute supports its use, subject to two important design considerations.

- **Rolling period.** Volatility should be calculated using rolling quarterly returns. Annual rolling returns are the closest proxy for economic risk but the limited number of observations over a 10-year window makes this methodology statistically unreliable. Monthly rolling returns produce a marked discount in measured volatility because prevailing valuation practices do not revalue every asset every month, and the resulting figure systematically understates risk. Rolling quarterly returns approximate the valuation cycle of unlisted assets within typical super fund portfolios and close most of the discount in

volatility relative to annual rolling returns. Strengthened regulatory requirements relating to valuation governance mitigate risk of gaming relative to a rolling quarterly calculation methodology.

- **Smoothing bias for unlisted-heavy portfolios.** The Institute acknowledges that realised volatility for portfolios with material allocations to assets valued on a mark-to-model or appraisal basis will be lower than for an economically equivalent portfolio constructed from listed assets. This creates a smoothing-bias advantage for unlisted-heavy portfolios under the SRP framework and may create an unintended incentive to tilt allocations towards less-frequently-valued assets or to value some assets less frequently although APRA's stated policy in this area would make this less possible. Statistical de-smoothing methods exist, but it is unreasonable to expect APRA or reporting entities to apply these for testing purposes. Another way to account for this would be to vary the failure buffer based on the level of unlisted assets. For example, a 100 bps buffer for a portfolio with all listed assets since such portfolios will have a larger tracking error to the SRP than the current reference portfolio, and 50 bps for portfolios with say 30% or more unlisted assets, with interpolation in between based on the average level of unlisted assets.
- **Stability of volatility over time.** Volatility across asset classes is itself unstable over time, which may have unintended consequences for the shape of the efficient frontier if it is constructed from quarterly observations over a 10-year window. These points would need to be worked through from a technical perspective with supporting analysis, including potentially through a technical working group convened by Treasury.

On the alternative of using a growth/defensive split as a risk proxy: the Institute notes the well-known difficulties with consistent industry definitions of growth and defensive assets, which would need to be addressed before this approach could be adopted. If pursued, it would present an opportunity to formalise definitions and improve consistency across the industry. Labels such as 'Capital Growth' and 'Income Generation' may be clearer to consumers than 'growth' and 'defensive'.

9.3 Failure buffer. Under the SRP framework, a flat 50 basis point failure buffer would represent a very different statistical outcome for a conservative low-volatility option than for a high-growth high-volatility option. The Institute considers the failure buffer should be calibrated to risk level to provide sufficient scope for Trustees to invest in the best interests of members. This would mitigate herding behaviour to manage to the test. For example, the failure buffer could be expressed in terms of a percentile of expected outcomes given the option's volatility, or scaled in proportion to the option's measured volatility. The appropriate calibration should be the subject of further technical analysis, including through the potential technical working group convened by Treasury.

Question 10

What are the key implementation and transition considerations for this option?

Key considerations include:

- **Further technical work and stakeholder engagement** to confirm the SRP composition and the calibration of the failure buffer to risk level.
- **Transition design.** Retrospective application of a revised test would undermine confidence and unfairly penalise trustees for decisions taken under different settings. A hybrid test that runs the existing and new tests in parallel indefinitely would be complex, messy and difficult to explain to members. The Institute recommends:
 - The new test commences from 1 July 2027.
 - A defined transition period of 5 years applies.
 - During this period investment options that fail the new test would be reassessed under the existing test before being treated as having failed.
 - Consideration could be given to applying a wider failure buffer during the transition to further smooth implementation.

A five-year transition period is appropriate given portfolios and investment approaches have been, in our view, heavily shaped by the existing test. This allows time for orderly adjustment to a risk-adjusted, total-portfolio framework, avoids abrupt behavioural shifts (including disorderly de-risking), preserves credibility by not re-judging historical decisions under new settings and mitigates transition costs of reorientating to a new test. Given the 10-year lookback period, a 5-year transition means that by the time the new test solely applies it would capture 5 years of investment returns under the previous test and 5 years of investment returns under the transition to the replacement test.

- **Member communication.** The shift from a SAA implementation framework to an efficient-frontier framework will require careful communication, both directly by trustees and through the YourSuper Comparison Tool (see Other matters).
- **Acknowledgement of smoothing-bias issue.** The known smoothing-bias advantage for unlisted-heavy portfolios should be acknowledged in the design and revisited periodically through Option 3.

Option 3: Introduce a routine review of the benchmarks

Question 11

Would introducing a routine review support the ongoing effectiveness of the benchmarks?

Yes. A routine review would provide a structured mechanism to ensure that the benchmarks (or SRP under Option 2) remain fit for purpose as markets evolve.

A clearly defined and well-governed review cycle would balance stability with the need to reflect evolving investment practices and emerging asset classes. It would also provide trustees with greater certainty through predictable review cycles, and provide a consistent basis for considering the cost to trustees of subscribing to commercial indices.

	<p>The Institute observes that periodic review of benchmarks specifically is likely to have a relatively limited impact, given that widely recognised and adopted new indices emerge slowly across asset classes. The more material value lies in periodic review of the framework as a whole — its methodology, parameters, and any unintended consequences emerging from its operation. If Option 2 is adopted, the routine review should focus on the SRP composition, the calculation of volatility, the failure buffer, and other technical design elements of the SRP framework.</p> <p>This approach aligns with the Productivity Commission's original recommendation for an independent review every five years of the effectiveness of the elevated outcomes test, including whether it is meeting its objectives.</p>
<p>Question 12 <i>How could a routine review of the benchmarks be designed?</i></p>	<ul style="list-style-type: none"> • 12.1 Scope: benchmark composition (or SRP composition under Option 2), fee and tax assumptions, the appropriateness of the failure buffer (and its calibration to risk under Option 2), and any unintended consequences emerging from the operation of the test. The smoothing-bias issue identified in Question 9 should fall within scope. • 12.2 Responsibility: led by Treasury or another appropriate Government body, informed by a working group of technical experts including industry representatives. • 12.3 Frequency: every five years, consistent with the Productivity Commission's original recommendation. This frequency balances the need for stability against the need to reflect evolving market practice. <p>If Option 2 is adopted, the structure of the review would differ from that envisaged in the consultation paper. In that case, the review should focus on the SRP composition, the calculation of volatility, the failure buffer, and other technical design elements of the SRP framework.</p>
<p>Question 13 <i>How should the benchmarks be specified and updated over time?</i></p>	<p>There could be merit in moving the specification of benchmarks (or the SRP composition under Option 2) from regulations to a more flexible mechanism that supports timely updates while preserving transparency and regulatory certainty. If benchmarks remain in regulations, the scope to respond to review outcomes in a timely manner may be constrained by legislative processes.</p> <p>As part of discussing appropriate options, one could include an APRA-determined instrument subject to parliamentary scrutiny.</p>

<p>Question 14 <i>What are the key implementation and transition considerations for this option?</i></p>	<p>Key considerations include:</p> <ul style="list-style-type: none"> • Defining the scope and governance of the review, including industry representation. • Providing industry with clear notice of any changes resulting from the review, to maintain trustee certainty. • Ensuring that benchmark changes apply prospectively from a defined date to avoid retrospective penalty. • Designing the review to support resolution of contested issues, rather than reopening debate without a clear pathway to decision. <p>The prospect of regular review need not itself create uncertainty, provided the review process and any resulting changes are transparent and well-communicated.</p>
<p>Question 15 <i>What other issues with the benchmarks could warrant consideration, either as part of a regular review, or more broadly?</i></p>	<p>Beyond the matters identified in the consultation paper, the Institute highlights:</p> <ul style="list-style-type: none"> • The smoothing-bias issue for unlisted-heavy portfolios under any volatility-based framework (see Question 9). • The appropriateness of the fee and tax assumptions embedded in the benchmarks, having regard to evolving market practice and data availability. • The treatment of currency hedging assumptions and the risk that the test inadvertently influences trustee hedging policy. • Periodic confirmation that the indices used remain broadly representative of the asset classes they are intended to proxy. • The interaction between the performance test and other regulatory frameworks, including APRA's Comprehensive Product Performance Package, SPS 530 Investment Governance and SPS 515 Strategic Planning and Member Outcomes.
<p>Option 4: Test externally directed accumulation products, and whether to test single-sector or retirement products</p>	
<p>Question 16 <i>Are there specific products for which performance testing would be unsuitable?</i></p>	<p>Yes. The Institute considers performance testing as currently designed is unsuitable for retirement products. Member outcomes in retirement depend on factors that an investment-performance test cannot capture, including income sustainability, longevity risk and flexible access to funds. The Retirement Income Covenant requires trustees to balance three objectives — maximising expected income, managing risks to the sustainability and stability of that income, and providing flexible access to retirement savings — that an accumulation-style test would not adequately reflect. See further responses to Questions 20 and 21.</p>

	<p>The Institute also considers that single-sector products are not well-suited to performance testing at this stage, given their concentrated exposures, varied investment objectives, and the role they play in supporting member choice for those with specific risk preferences. See further response to Question 19.</p>
<p>Question 17 <i>How could the test be extended to externally directed products? What design elements need to be considered?</i></p>	<p>The Institute supports extending the test to diversified externally directed accumulation products in principle. This recognises that:</p> <ul style="list-style-type: none"> • Not testing externally directed products may create a perverse incentive for trustees to channel members into less-scrutinised offerings with potentially higher fees, reducing the integrity of the system-wide accountability framework. • Trustees remain responsible for product selection and ongoing monitoring under their best financial interests duty. They also play an active role in selecting and offering externally directed products and are remunerated for this function; it is therefore appropriate that they bear responsibility for the overall value delivered to members through these offerings. • Recent events, including the Shield and First Guardian Master Fund collapses, have drawn attention to the gap in performance scrutiny for externally managed products distributed through platforms. <p>Given the considerable implementation costs this would impose on APRA and on the superannuation investment options brought within scope, careful design will be essential. Key design elements to consider include:</p> <ul style="list-style-type: none"> • Identification of in-scope products, including the treatment of separately managed accounts. While members typically commence in a default model portfolio, they generally hold a high degree of control over investment allocation, which may align these products more closely with member-directed products. The appropriate treatment of separately managed accounts requires further consideration. • Reassessment of peer-group structures, given the very large number of additional products that would be brought within scope (up to approximately 7,500 across 37 superannuation entities, the majority offered through platforms). • Treatment of administration fees, including consideration of an updated representative member balance. Even where products are externally managed, administration services are typically set by the trustee and may differ across funds offering the same underlying investment product. The same product could pass the test in one fund and fail in another largely due to fee differences. The Institute recommends the representative member balance be lifted to \$100,000 generally and approximately \$250,000 for platform products (see Other matters). • Simpler test variant. Consideration should be given to whether a simpler test variant involving changes to the consequences framework would better accommodate the diverse nature of externally directed products, as a compromise between consistent member protection and operational complexity.

	<ul style="list-style-type: none"> • Phased rollout to allow operational arrangements to be developed and trustees to engage with external managers on data quality and timeliness. • An amended consequence management framework to reflect the more engaged nature of members who often hold EDPs as part of a broader superannuation investment portfolio (see Other matters).
<p>Question 18 <i>What are the key implementation and transition considerations in extending the test to externally directed products?</i></p>	<p>In our view, the key consideration is the design of the consequences framework, particularly for externally directed products that form part of broader member-directed or adviser-led portfolios, where performance at the individual option level may not reflect overall member outcomes.</p> <p>Other important considerations include:</p> <ul style="list-style-type: none"> • Practical challenges trustees may experience in accessing timely and verifiable performance data from external managers, where information may be subject to reporting delays or prepared using different methodologies. • The impact on peer-group dynamics, including benchmark administration fee settings, given the significant expansion in the number of products assessed. • The potential reputational impacts on external managers and products from inconsistent outcomes across trustees offering the same product, despite administration fees being outside the external manager's control. • The broader risk that trustees may rationalise their offerings in ways that reduce member choice or diversification – this has been evident with trustee-directed products offered by some funds. • Alignment of fee assumptions, including the representative balance, to avoid inconsistent outcomes. <p>These risks must be considered through careful design, including a phased rollout and engagement with industry on operational arrangements.</p>
<p>Question 19 <i>What are the key considerations in extending the test to single-sector products?</i></p>	<p>Single-sector products account for around 6 per cent of member assets and play an important role in member choice. Key considerations include:</p> <ul style="list-style-type: none"> • The difficulty of establishing benchmarks that fairly reflect the risk-return characteristics of concentrated single-sector exposures. • The risk that performance testing single-sector products may discourage appropriate portfolio diversification at the member level, particularly for members who have actively selected these products for specific risk preferences. • The role of single-sector products in supporting member choice. <p>Single-sector products would be more appropriately considered at a future phase of reform, once the framework changes resulting from this consultation have bedded down. Sufficient evidence will be needed</p>

	<p>first to confirm that concerns such as the convergence of investment strategies under the current test have been resolved under whichever new framework is adopted.</p>
<p>Question 20 <i>What are the key considerations in extending the test to retirement products?</i></p>	<p>Retirement income products are by their very nature different from accumulation superannuation products. Unlike accumulation products where the primary product features affecting outcomes for all members are investment returns after all fees, retirement products require consideration of investment sequencing, investment market, inflation and longevity (both individual and pool) risks. This leads to a need for a wide array of retirement income products (or product options within an umbrella product) to meet heterogeneous member needs and risk profiles. It follows that ensuring members understand the distinguishing features and potentially differing outcomes when choosing between and combining different types of retirement income products is more important than adopting a 'bright line' investment performance test within similar types of retirement income products.</p> <p>The Institute supports the view that an appropriate test is needed to hold trustees accountable in the retirement phase. However, the Institute does not support extending the Superannuation Performance Test in its current form into retirement. The current design of the test does not necessarily reflect the end outcomes received by members and is not consistent with the requirement to balance objectives under the Retirement Income Covenant. We would support the inclusion of a risk-based measure of investment performance as part of a broader measurement test applied to Retirement Income Products.</p> <p>Ideally, any retirement income tests or comparisons should be at the 'member level' targeting the three objectives under the Retirement Income Covenant: level of retirement income, associated risk to the sustainability and stability of the retirement income, and flexible access to retirement savings. This reflects the broader point that the Retirement Income Covenant operates at the member outcome level, requiring trade-offs across objectives that sit above individual products and investment returns. Under <i>SPS 515 Strategic Planning and Member Outcomes</i>, trustees are required to consider whether products are performing from a Retirement Income Covenant perspective when conducting annual outcomes assessments.</p> <p>We would support a stronger focus on member outcomes assessments suitable for the retirement phase that can be applied within super funds and across the industry. Member outcomes assessments performed by the trustee should go beyond simply product-based assessments (such as fees and absolute and peer relative investment performance) and be explored further in APRA's Comprehensive Product Performance Package. Outcomes should be assessed holistically and focus on the sum of a cohort/members' interests in a fund to measure actual "member outcomes".</p>

<p>Question 21</p> <p><i>Could performance testing retirement products create risks to broader retirement income objectives? If so, what are these risks and how could they be mitigated?</i></p>	<p>Yes. The risks include:</p> <ul style="list-style-type: none"> • Constraining innovation in retirement income product design, including in lifetime income features and longevity protection, at a critical juncture for the system. An estimated 2.5 million Australians are expected to transition from the accumulation phase into retirement over the next decade. • Encouraging trustees to manage retirement products against an accumulation-style benchmark, undermining their ability to discharge obligations under the Retirement Income Covenant. • Failing to capture the features that distinguish retirement products, which may misclassify well-designed retirement products as underperforming. • Creating uncertainty for members at a sensitive life stage. <p>These risks could be mitigated by:</p> <ul style="list-style-type: none"> • Ensuring that any retirement-phase assessment occurs at the member or member-cohort level rather than at the product level. • Designing any future assessment around the three objectives of the Retirement Income Covenant, rather than around investment returns alone. • Placing greater emphasis on supervisory of trustee practices in implementing their enhanced SPS 515 strategic planning and member outcomes obligations and ensuring strong linkages back to the Retirement Income Covenant.
<p>Other matters arising from the consultation</p>	
<p>Administration fees and representative member balance</p>	<p>The Institute supports retention of the 12-month lookback for administration fees and continues to consider that the inclusion of administration fees in the test is one of its most beneficial design features. The approach has supported a meaningful reduction in median MySuper administration fees since the test's introduction.</p> <p>The Institute recommends that the representative member balance be lifted from \$50,000 to \$100,000 for most products, and to approximately \$250,000 for platform products, to better reflect contemporary member balances. The original \$50,000 balance was calibrated to the average MySuper balance more than a decade ago and is no longer representative. This change would also be appropriate for the broader disclosure framework (including product disclosure statements).</p>
<p>Consequences framework</p>	<p>The Institute supports retention of the current consequences framework for MySuper products. The MySuper sector serves members who have not made active choices, and the current framework appropriately supports members who are defaulted into a failing product to consider their options.</p>

	<p>For choice products, the Institute considers that the consequences should be revised to reflect the more engaged nature of the choice cohort and the inherent risk of 'false positives' in any single-metric test. We recommend that the consequences for failing the test for choice products instead require the trustee to provide APRA with an action plan (and implement it) addressing the underperformance, including determining whether and when underperforming options should be closed. This approach is consistent with APRA's existing posture in engaging with trustees on underperforming products identified in its Comprehensive Product Performance Package (CPPP).</p>
<p>Removing barriers to consolidating closed and underperforming products</p>	<p>Even where a trustee determines that consolidating members from an underperforming product into a better-performing product is in members' best financial interests, current legislative and tax settings can act as barriers. For platform choice products, tax considerations are particularly material; for other taxed choice products, legislation prevents trustees from moving members to new products (rather than new investment options within the product) without member consent.</p> <p>The Institute recommends that the Government legislate CGT roll-over relief so that trustees can perform intra-product transfers on a similar basis to successor fund transfers, where the trustee considers this is in members' best financial interests. This would help trustees act on their best financial interests duty without imposing tax costs on members that would not arise on a successor fund transfer.</p>
<p>Disclosure on the YourSuper Comparison Tool</p>	<p>The Institute recommends that the ATO YourSuper Comparison Tool be improved to disclose a risk metric for each product. The current tool reports pass/fail outcomes and historical net returns but does not disclose the level of investment risk taken by each product.</p> <p>Given that products vary widely in their risk exposures — within MySuper and particularly across the broader choice sector — disclosure of a risk metric would enable consumers to make better-informed comparisons. This improvement would also complement a shift to a risk-adjusted assessment under Option 2, providing consumers with information consistent with the framework used in the underlying test.</p>