

Actuaries Institute Podcast

That's Super: - Optimising member outcomes

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Guests: Vivian Dang

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Christine Li: Hello and welcome to the Actuaries Institute Podcast. My name is Christine Li and I'm the Secretary of the Institute's Superannuation and Investments Practice Committee, also known as the SIPC. This podcast is the first in a series of episodes where we zoom out a little to explore and discuss areas of the superannuation industry.

Christine Li: We'll kickstart this with a discussion on one of the most intriguing areas of work in superannuation, which is member outcomes. And today I am joined by Vivian Dang, who is also a member of the SIPC and the strategy lead at UniSuper. In this episode, Vivian and I will discuss what member outcomes is, who are the members, what outcomes are we measuring, and why is it so important in our work? Vivian, welcome. Firstly, could you give us an overview on your current role and tell us a little about your actuarial journey that has led you to where you are?

Vivian Dang: Hi, Christine. So, my current role is strategy lead at UniSuper, so one of the key things our team is accountable for is ongoing implementation and accountability for SPS 515, which is the APRA obligations around member outcomes in part. That's a key part of my current role in the strategy team and the UniSuper strategy team, we have our other general strategic responsibilities as well for UniSuper. Been in that role for about over one year. Previously, I was at MLC as an internal actuary, looking after the defined benefit funds from a funding perspective. And before that, I was working in consulting for over 10 years at various places, so very traditional type of DB consulting background, working on corporate funds.

Christine Li: Awesome. I love how everyone's journey is really different and it's always so interesting to hear them. Now, before we dive into member outcomes, I just want to congratulate you on the newest little addition into the family. And this is an exciting time, how's everyone doing?

Vivian Dang: Yeah, all good. So, the new baby is two weeks and two days old now, so if you hear screaming... Actually, he doesn't scream anyways. You're not going to hear screaming today, he's really quiet and laid back. The six and three-year-old you might hear screaming from, because they're more likely to cause a ruckus, but the baby's going quite well.

Christine Li: Does he just sleep a lot?

Vivian Dang: He poos, well, he tries to poo, and then he poos and then he sleeps and then the cycle repeats. Yeah, kind of constantly, so apart from when they're feeding, the poo, well, the attempt, and then the poo and then the sleep is a pretty consistent cycle.

Christine Li: It's a good life. It's a good life.

Vivian Dang: Yeah.

Christine Li: And I mean, one of the good things to come out of a work from home situation like this is that you do actually get to spend more time with family.

Vivian Dang: Yeah, I can't imagine... Well, I mean, I've got three now compared to two, but I can't imagine I'm heading back to work and leaving my wife trying to deal with three little ones. Not that I do a lot anyway, but it's just having that extra pair of hands every now and again, definitely useful throughout the day.

Christine Li: No, you're there. It's the presence.

Vivian Dang: So, they don't gang up on her, three versus two, versus three versus one, so it's a little bit fairer, yeah.

Christine Li: Awesome. All right, let's get into this. Well, when I first started working, I kept hearing member outcomes everywhere at work and I was quite confused actually on what it meant early on. And then a year later, when I chatted to some of the newer grads, they asked me the same question, "What is member outcomes?" And then the same happened with some of the interns that we had and I realised that a lot of us starting out aren't actually too clear about what is essentially a very important aspect of our industry. So, I'm hoping that you can chat with us a little on this, which is the SPS 515 member outcome requirements, what they are, and why is it so important in our superannuation work?

Vivian Dang: Yeah, it's definitely an interesting question just for what is member outcomes. Without going too far into the history, now, if you look at the media, you look at the news, everyone's walking around

saying member outcomes, right? Everyone's focused on member outcomes and every fund apparently is doing great work on their member outcomes. But the two words in itself probably only really started being used about four years ago now, maybe. It wasn't around in the past, if you think about how this superannuation industry has evolved from pure occupational schemes back in the 1980s to what it looks like now, which is very different. So, obviously we had the Productivity Commission review into superannuation, which started in, I remember, 2016, completed in late 2018.

Vivian Dang:

Report was released in 2019, so if anyone has free time and a lot of free time, they can go and read that 700-page report, which is available online from the Productivity Commission, but one of their key... Well, they had 27-odd key recommendations, very, very strong, very structurally different changes to the structural framework of the industry. But one of the key things was that the industry kind of, if I'm paraphrasing not correctly, the industry kind of is a little bit self-serving and focused on how do we take care of ourself when really the key focus should be on what are we delivering to our members. So, they had those words, 'member outcomes'. So, if I'm not mistaken, that might have been like when the first use of those words started being really put... That was early 2019, the report was released. At the same time around that year we had the Royal Commission, which some funds didn't come out looking too sweet there.

Vivian Dang:

And then obviously then APRA, just after that, as part of that as well, APRA released this new SPS 515 standard around strategic planning and member outcomes. So really, with all these different reviews and the Royal Commission, they spent two weeks on superannuation, it's really just all coming together at the same time and just saying, "As a superannuation industry, our sole focus should be on improving the outcomes for the members where we hold their money." It's one of those things to understand that it's a little bit different in superannuation compared to, say, a normal financial services product. Obviously, if you're a retail super fund, the trust is owned by the retail entity, but same thing about we're under trust law, we're not under normal corp law and things like that.

Vivian Dang:

So, there's all these differences, which make superannuation a bit different, which makes the reason why, now we have this focus on member outcomes that really helps to drive better behavior and it's a key thing from APRA now. APRA is heavily focused on member outcomes. You can look at APRA's new KPIs, which was just released in their corporate plan, which was released, I think, last week when I was on leave. It's got a key focus on improving

member outcomes by reducing the number of members in underperforming products, so that's one of APRA's KPIs now. ASIC is very focused on customer outcomes now, so making sure that customers in different situations, well, obviously they regulate other industries as well that they're taking care of and the Government has their reforms as well.

Vivian Dang:

At a high level, there's a very big focus on that now, which didn't used to be there in the past and every fund is really meant to have that front of mind when they make decisions. I guess, in terms of practicalities, I'm in an industry fund now... Well, sorry, I'm in a, I'd call it a profit for member fund, but that wouldn't be the correct legal terminology. We're a fund that doesn't pay dividends to shareholders. Well, actually that might not be quite right either. I'm not sure, I'm not a lawyer, but we're not making profit, so I would think that historically our decision making is generally to have the best outcome for members anyway, but that's not necessarily the case, I guess, across the whole industry and maybe not everyone had that as clear focus.

Vivian Dang:

So it's really, with all your decision making that you make, how do you demonstrate that when you're making decisions to do something, whether it's have expenditure, you're going to spend money on something, spend money on marketing, are you going to put your name on a stadium, all those type of things, you need to have that justification of, "Well, by doing this how is this is going to improve the outcomes for members in my fund?"

Christine Li:

And could you give us some examples of what outcomes these super funds are measuring?

Vivian Dang:

Yeah, that's a really interesting question. That's the debate we're having right now in the industry. There's no clear set of outcomes of what it is that you have to do, which isn't quite right either. Under SPS 515, it's up to the trustees to set the strategic objectives for the fund and then that kind of then flows on, well, by setting these objectives, this is the outcomes we want for our members. But obviously, there's lots of different things happening around the super industry. So, if we look at the ATO comparison website, for example, which is public now, and I'd encourage everyone just to log in and have a look and you can see the ATO's got a public website, it's relatively fancy, good to use, they've sourced data from APRA, so you can see all of the super funds with MySuper products finally, and you can see comparison data for them.

Vivian Dang:

So, when we say, "Okay, what data have they used?" They've used fees and net return. So, if you take that as an industry guidance of

what the government wants, which is basically what they want, the focus on members' outcomes is lower fees and better net return. And superannuation is really us investing members' money, so at a very high level, that really is the key outcomes that we want, right? If members have lower fees that have better return, members have more money in their pocket for their retirement. But obviously that's a very narrow focus and there's lots of other things that you could be looking at and measuring for member outcome. For example, if members have higher engagement and make more investment decisions themselves, then what might be more important for a member is to be invested in the right option, not the return for the option itself being 10 basis points higher than some benchmark.

Vivian Dang:

So that could be younger members investing more aggressively and actually making investment decisions, instead of staying in the MySuper default. You see some funds are more successful at, I don't know, whether offering advice to their members or download advice or trying to get members having high member engagement to make investment choices and you see other funds where it might be something like 85%, 90% are just sitting in the MySuper default. But then some MySuper defaults might be life cycles, maybe that's okay, but then it's just things in net return is a very quantitative narrow measure, but there's other things you could be doing around member engagement or improving an outcome.

Christine Li:

And were there any examples for work that you've done personally, to look at this?

Vivian Dang:

Member outcomes? UniSuper, I mean, in terms of a lot of work we did last year and some of the things we published as well, UniSuper is in a very rare position where we have some of the lowest fees in the industry, depending on how you do rankings, we're ranked two or ranked three, there's not much that beats us. ANZ staff tend to beat us on some rankings, that's because they're a corporate super fund and ANZ, the employer, at pays fees, right? So, our fees are very, very low and our investment team is very, very good. Our net return is also one of the highest, so in terms of quantitative measures of what I've looked at since I've been in the role here, we're doing very well, so it's very easy for me to, I guess, do analysis of my work, because it's very easy for me to point and say, "What else is the member going to get?"

Vivian Dang:

They've got a good numerical outcome here for them. So, I haven't directly thought about, for some of the other funds, where your outcomes weren't as good in terms of those narrow measures, I guess, what would it be? And that's one of the things as an

industry, because everyone's kind of come in and said, "Oh yeah, we've improved our members' outcomes," but really, not everyone can have improved it as well as everyone else. It's got to be a spread, so I'm not exactly sure. If you are a fund that wasn't doing as well, other than merging and moving away, what would you be trying to do? Obviously, some funds from an investment perspective, you're seeing a lot of funds now, I guess, throwing in the towel or changing their investment structures.

Vivian Dang:

So you have Maritime's now outsourced to HostPlus basically, so rather than everything's outsourced anywhere, now they've just outsourced the whole pile, giving it to HostPlus, so you're starting to see things like that, I guess, of saying, "Okay, well this is one way to improve member outcomes, we're going to give money to another fund," and you're seeing some increased merger activity and things like that. Top of my head, I can't think of any, I guess, more product level changes other than funds decreasing fees, which you're seeing as well.

Christine Li:

Yeah, and something that we've been hearing a lot around member outcomes is that funds need to promote the best financial interest of their members, so can you explain a little bit more on that and also, how do super funds actually achieve that?

Vivian Dang:

Yeah, so the legislation was changed this year to directly say the trustee must act in the member's best financial interest, rather than best interest, and I won't get into that debate, because I'm not good enough to properly explain this, but the difference between what that means, so that's a very interesting little one word that's been added, which other people have strong views on, which makes it very interesting for us as an industry now, so it's just on every decision that you make, how do you justify that it improves your members' financial interest? So, as an industry, we're still working through that, but as an example, one of the key things that I think the whole industry needs to grapple with is marketing expenditure. Marketing expenditure is one of the key things that was an example.

Vivian Dang:

APRA is kind of looking into marketing expenditure, I know some of the government members are very keen, looked at marketing expenditure for different reasons, probably both sides of the political fence really, and the legislation was changed. In the legislation there's a direct example of marketing expenditure, so if you're going to spend money on marketing, you need to have, what was the word, robust quantitative evidence of how this marketing expenditure improves the financial interest of your members. So, if we think, "Okay, so I'm going to spend money on advertising, some funds sponsor NRL clubs, for example, right? It was in the news

yesterday, EISS, did they just sponsor the ball or something, I'm not sure where they put their logo? They spent something and people were like, "Why are they spending money on a ball?" So, things like that, if you're going to spend money to put your brand out there, what are you getting from it?

Vivian Dang:

Then the next stage would be, "Okay, well, I'm going to expect to attract new members. I'm going to have new members joining my fund." And I guess in the past, maybe that was enough for people to say, "We're advertising to attract new members." That's no longer enough. Now you need to say, "We're advertising, because we want to attract number of members, by having X number of new members that will..." And this is where it gets really tough, "that will then lead to Y benefits for existing members." So that benefits for existing members, that's obviously very hard to quantify, defending how you set up your kind of cost benefit analysis for your fund, that's a whole different issue, but you need to try and make that linkage as much as possible now and that's currently what, across the industry, the different funds are trying to think about how strong is that, how can they do that justification.

Vivian Dang:

Another example, which was in the news today, I think, there were some round table discussions, if you look at, so not best financial interest, so an interesting example of where that needs to be applied is the LGIA purchase of Suncorp. So, you have LGIA, relatively small Queensland local government fund up in Queensland. They're already merging with Energy Super, Queensland Electrical fund. At the same time, LGIA is purchasing the Suncorp Wealth Management Business which Suncorp is selling off, same as all the retails are selling off their wealth management platforms. So, how do you as a profit for member fund basically, how do you justify spending members' money? Won't go into the definition there, but how do you justify spending members' money to buy a superannuation business?

Vivian Dang:

So, in the example that the LGIA CEO gave, she said, "We had a..." I think she said, "15-point matrix across all the different benefits that might happen to our members by purchasing this wealth management business." So, obviously at a high level, you're going to have more scale, right? You're adding \$5 billion to your \$20 billion fund, you go from 20 to 25. That's a big increase for you, you're bigger, right? But then you can't just say, "Oh, we're going to have more scale." You need to say, "Well, what exactly does that mean?" So, is it, if your cost to serve on your admin platform going to be cheaper, so every extra member that you have has a lower variable cost? So, does that mean your admin fee with for members can go down and does that mean you might have access to better investment opportunities? So, it's breaking it

down more detailed into what are the actual benefits that we're trying to give to our members.

Vivian Dang:

And then on the other side of the fence, you have the really big mega funds. So Aware Super, for example, you can see their media the last month or so, they're saying that by us going from whatever they were five years ago, like 60 bn (\$60 billion), kind of middle of the pack right now, they're like 140-odd (\$140 billion) I think. Us being at this big size, now we have access to more investment opportunities that we wouldn't necessarily have before, because we can go off and buy things overseas, because we have so much money hanging around, whereas before we wouldn't be able to access those markets and that's kind of the position that Australian Super and UniSuper has been in to a certain extent in previous years where we're bigger, we've got strong internal investment teams, you can go and buy a toll road. So, there's different benefits at different levels of the scale across the industry, so now you have to justify that. You can't just say, "Oh, we're going to do this, because we're going to get scale." You need to be able to try and justify it more.

Christine Li:

So, it's a lot of focusing on the transparency and the 'why' of all your business actions so that members can understand how these impact them.

Vivian Dang:

Yeah, that's right. And it is interesting, because the sector is not the same, right? The different funds are different and have different commercial reasons for how they operate, so the reasons that one fund may use, may be different to another fund. Obviously, in the for-profit sector, you're owned by a shareholder, right? And I guess that's, if we go back to our conversation started with member outcomes, I guess the higher arching aim is to be really focusing back on that, that yes, everyone's got their own interest and things like that, but as a trustee, your sole interest should be improving the financial interest of your members, and you should demonstrate that through the improved member outcomes. So, trying to narrow it down as much as possible to gain the right thing for the industry, but at the same time all those examples I just talked through then, once you get down to the 'why', it's really not straightforward.

Christine Li:

All right, last one from me here. Will there be future reforms and what will those address? And also, what do you see in the future of member outcomes assessments?

Vivian Dang:

So, I mean, there will be future reforms. There's always big policy movements happening in the superannuation space. Obviously, there's another discussion that recently started about, well, do we

just nationalise and use future fund? Which is not a new discussion, that's already happened before, but that's resurfaced again. Keep talking about potential restructure reforms on one end, other end of the spectrum we're still kind of, I guess, implementing the current Your Future, Your Super reform, some of which only applied from 1st July, stapling, which is obviously a massive issue for the industry. It doesn't happen until 1st of November this year, so we still haven't even seen the implication for that, or the impact of that yet. So, we've got a lot of reform going on that we're still working our way through in the industry to see what's going to happen on the other side.

Vivian Dang:

Member outcomes assessment, so there's a member outcomes assessment, it's a legislative piece of analysis that the trustee must do and must publish on the fund's website. And it's relatively narrow in that the legislation and the SPS tells you some other things that you have to measure these things. You have to look at fees, you have to look at return, you have to look at scale, so you just got to tick off those items, put up your analysis and magically, every single fund says that they passed their MOA last year. So yeah, good for the industry, including the funds that failed the performance test, so I guess that would be interesting there. I mean, that's relatively new. Last year was the first real year we had to do it and publish it and the year before was just the trial, but that would be an interesting area of, given everything that's happening across all different things, is an MOA something that's going to be expanded? Are there areas added to it, or maybe even dial it back a little bit?

Vivian Dang:

I'm not sure. There's a lot going on, because we've got new annual member meeting publication requirements for the AOA. We have other SPS 515, APRA's reviewing SPS 515 as well, they're going to release a new one next year they said. They're reviewing SPS 530, which is the investment one as well, so there's so much going on at different levels right now, it's hard to get a clear hold of what, I guess, the next thing could be.

Christine Li:

Yeah, there's always a lot that's happening and then you have to monitor all of them. All right, thanks, Vivian. Now that's all we have time for today. Listeners, we hope you enjoyed this discussion. You can listen to more Actuaries Institute podcasts by visiting the podcast section of Actuaries Digital or via all mainstream podcast apps. If you'd like to continue the conversation with us on social media, please follow us on Facebook and LinkedIn at '@ActuariesInstitute' and our Instagram and Twitter at '@ActuariesInst'. Please write in with your questions and comments on the show. We'll love to hear from you. Thanks for joining the podcast today, Vivian.

Vivian Dang:

Thanks, Christine. Bye everyone.

Christine Li:

I'm Christine Li. Bye for now.