

Article Information

Authors: Lisa-Marie McKechnie, Kathy Neilson, Kerry Jacobs, Wendy Gao
Service: Banking & Finance, Corporate & Commercial, Corporate Governance
Sector: Financial Services

‘Your Future, Your Super’: APRA’s superannuation performance test turns a spotlight on poor performance and high fees amongst Choice products

The annual superannuation performance test has shone a light on poor performance in the MySuper segment since its introduction in 2021. Now the Choice segment is under the spotlight as more than one in 10 trustee-directed products fail to meet test benchmarks in 2023.

On 31 August 2023, the Australian Prudential Regulation Authority (APRA) released the results of the 2023 superannuation performance test. The annual test is intended to hold registrable superannuation entities (**RSE licensees**) to account for product underperformance through greater transparency measures and increased consequences for failure. Underperformance of superannuation products may lead to lower retirement savings for members.

What is the performance test?

On 1 July 2021, amendments to the *Superannuation Industry (Supervision) Act 1993* (Cth) came into effect to introduce an annual performance test for MySuper products and other prescribed products. The performance test applied in relation to MySuper products on and after 1 July 2021 and trustee-directed products on and after 1 July 2023.

The methodology for the performance test is outlined in the *Superannuation Industry (Supervision) Regulations 1994* (Cth) and involves two elements: an assessment of a product’s investment performance against a benchmark portfolio tailored to its investment strategy and an assessment of its administration fees charged in the last financial year against the median fee charged for the category of product.

A product is considered to have failed the performance test if it underperforms the combined test by more than 0.50%. If a product fails the performance test in two consecutive years, the RSE licensee is prohibited from accepting new members into that product. Investment performance is assessed over an eight-year period.

This year, the test was expanded to assess the performance of 805 ‘trustee-directed products’, a subset of the ‘Choice’ segment. MySuper products were assessed for the third consecutive year, with 64 MySuper products assessed.

Choice products, such as trustee-directed products, are generally investment products that members have actively chosen to join. They are typically more complex and varied than default MySuper products for members who have not chosen a different investment option. Broadly, trustee-directed products are multi-asset products where the trustee has control over the design of the investment strategy of the product.

This year’s test showed that 96 trustee-directed products failed to meet the required benchmarks. Of these products, 75 per cent were offered by just four trustees.

In comparison, only one MySuper product failed to meet benchmarks, improving on the five failed products in 2022 and the 13 in 2021. The failed product—AMG MySuper—has underperformed for three consecutive years and is now closed to new members, with the trustee planning to close the product entirely.

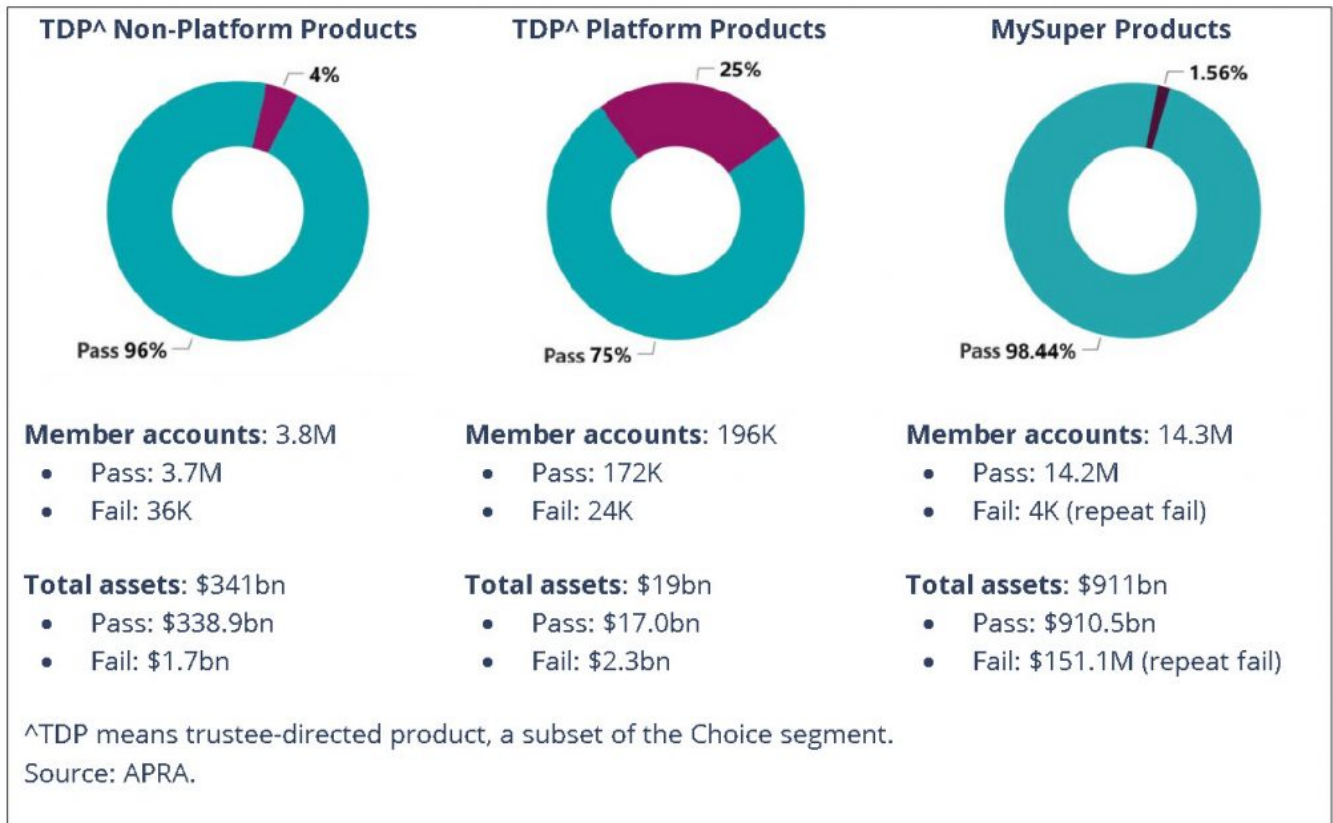
Of the trustee-directed products, platform products had the highest rate of underperformance, with 76 of 305 products failing to meet benchmarks, and the highest administration fees and costs (0.54 per cent of assets). In comparison, 20 of

500 non-platform products failed to meet benchmarks and administration fees and costs (0.27 per cent of assets) were similar to those for MySuper products (0.26 per cent of assets).

A platform trustee-directed product is one offered through one or more lists of investment options of the platform type.

2023 superannuation product performance

In 2023, the fail rate for trustee-directed products, a subset of Choice products, was much higher than for MySuper products:



APRA Deputy Chair Margaret Cole noted the significance of extending the scope of this year's test for increasing transparency to members in respect of their investment options.^[1] Ms Cole said:

"The annual performance test remains a powerful tool to help APRA hold trustees to account for product performance, fees and costs. Since its introduction in 2021, nine underperforming MySuper products have exited the market and a total of 800,000 members, with combined assets of \$39 billion, have moved to better performing products."^[2]

Ms Cole said assessing performance of products that members have selected was more nuanced than for default MySuper products.

"Members in trustee directed products make active decisions about their investment options and some might select products for reasons beyond performance. Nevertheless, all trustees must take responsibility for the products they make available and ensure the products they offer are in their members' best financial interests."

APRA's expectations of trustees with failed products

Trustees of failed products must notify members of their funds of the test outcomes by 28 September 2023. If a product has failed for two consecutive years, the trustee can no longer accept new members into the product.

For all failed products, trustees are required to identify the causes of underperformance and develop and implement a plan to rectify this underperformance, where appropriate. In addition, trustees must assess the potential implications of the products failing the test on the fund and the sustainability of business operations.

Trustees with failed products are also expected to consider whether the transfer of members to another product or fund would be in members' best financial interests.

Communications about performance test failure

The Australian Securities and Investment Commission (**ASIC**) recently told trustees they need to focus more on their members in communications about performance test failure.

In a review of performance communications by trustees that again failed the annual performance test for MySuper products in 2022, ASIC found that, whilst trustees generally complied with mandatory disclosure obligations and had sound processes to prevent new members joining the closed products, some trustees needed to design and deliver performance communications with their current members in mind. Areas for improvement included:

- considering from members' perspectives the nature and timing of communications to ensure that members understand the impact of relevant changes;
- providing consistent messaging about performance across the fund's website;
- ensuring to provide balanced communications about short-term performance, products and mergers that do not undermine the fact of product test failure; and
- having clear call-centre transcripts for staff to discuss the performance failure or product closure and related options with members.

ASIC Commissioner Danielle Press said, "The performance test supports transparency of superannuation product performance so members can make informed financial decisions for their retirement... Trustees that fail the performance test need to get the balance right in their communications - they need to be transparent and factual about the performance of the failed product."[\[3\]](#)

ASIC said it will continue to monitor underperformance communications and, where failure to comply with disclosure obligations is identified, ASIC will consider regulatory action if appropriate.

Trustees are advised to have regard to ASIC's regulatory guidance including RG 234 *Advertising financial products and services (including credit)* and RG 53 *The use of past performance in promotional material* to ensure they meet ASIC's expectations for underperformance communications.

[\[1\]](#) APRA, 'APRA releases 2023 superannuation performance test results' (Media Release, 31 August 2023).

[\[2\]](#) Ibid.

[\[3\]](#) ASIC, 'Super trustees told to focus more on their members in communications about performance test failure' (Media Release, 12 April 2023).