

Lessons From Australia - Accumulation Default Investment Strategy

Netspar Conference
Rotterdam
June 2014

Rosemary Vilgan, CEO QSuper



Australia

Three pillars

1. Means-tested age pension (Centrelink) from age 65 (moving to 67 and then maybe 70)
2. Compulsory occupational defined contribution system
 - Mandatory employer contributions (currently 9.25% - to go to 12%)
3. Voluntary employer and member contributions

Structures – Not for Profit, Retail (eg banks), Self Managed

Choice of Fund - Employment Based – Industrial debate



The Good, Bad and the Ugly

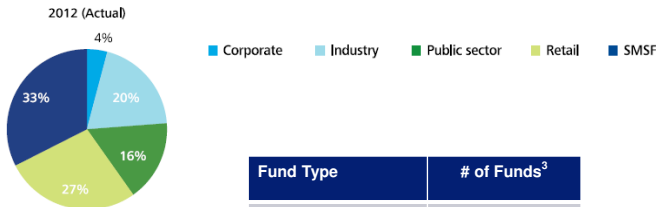
- Good
 - Compulsory contributions for most
 - Voluntary tax advantaged contributions
 - Means tested social security
- Bad
 - Some systemic inefficiencies – multiple funds, choice of fund
 - Undiversified investment risk – Equity and peer risk dominate
- Ugly
 - Little formal annuitisation
 - Gap between age for lump sum and social security

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Australia - AU\$1.6¹ trillion

- Proportion of superannuation assets by market segment²



Fund Type	# of Funds ³
Corporate	108
Industry	52
Public Sector	38
Retail	127
SMSF	512,375

1. Dynamics of the Australian Superannuation System The next 20 years: 2013-2033 Deloitte September 2013
 2. Deloitte Actuaries & Consultants, 2013
 3. Australian Prudential Regulatory Authority (APRA)



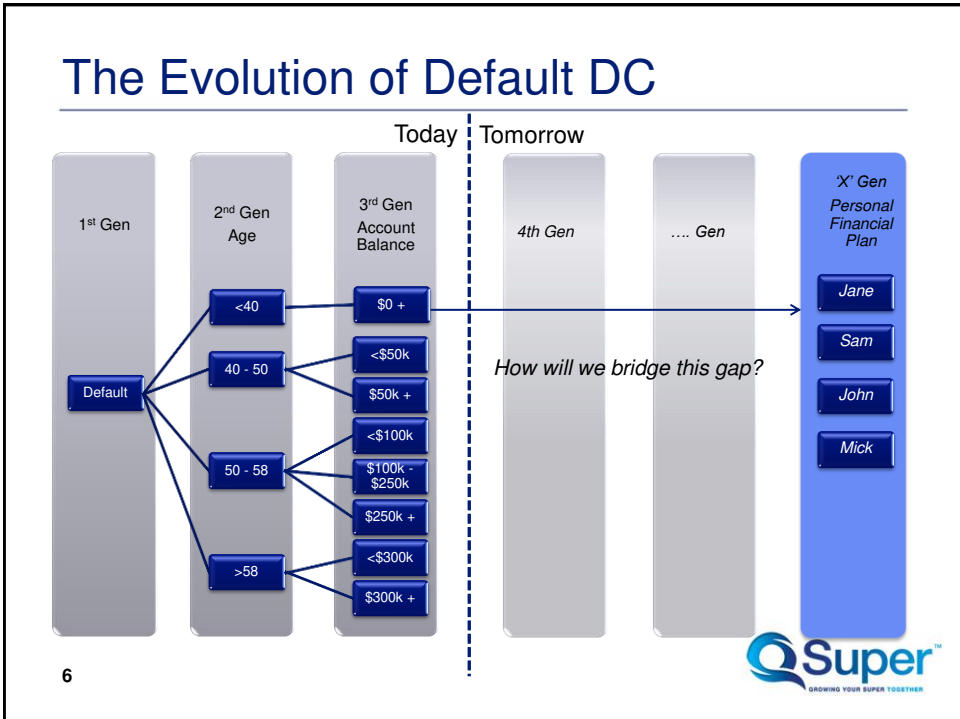
YOUR FIGURES
should always speak for
THEMSELVES.

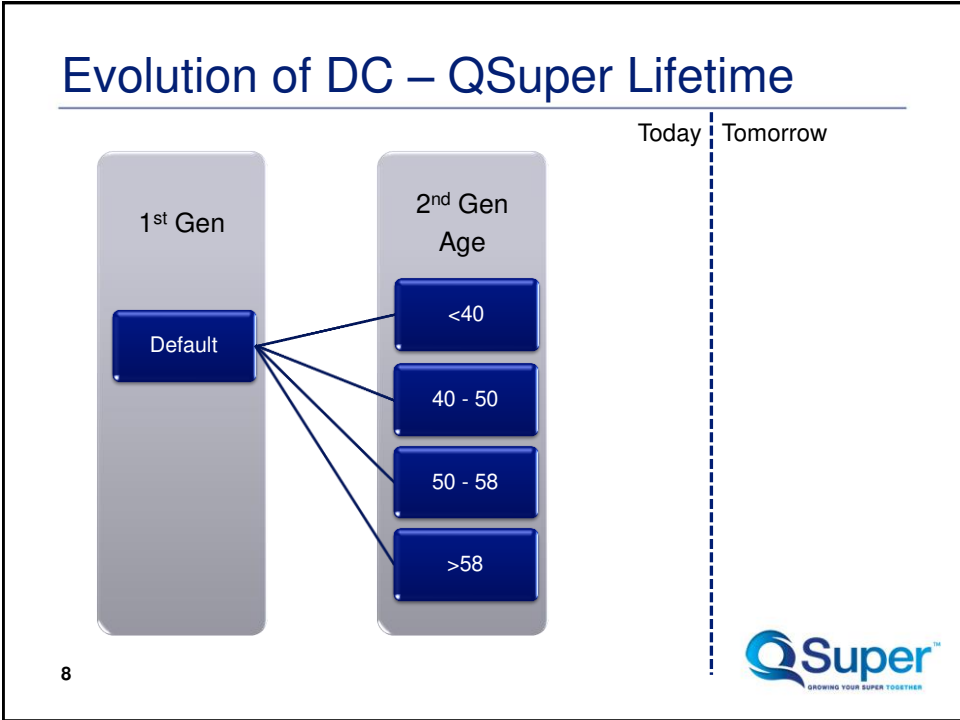
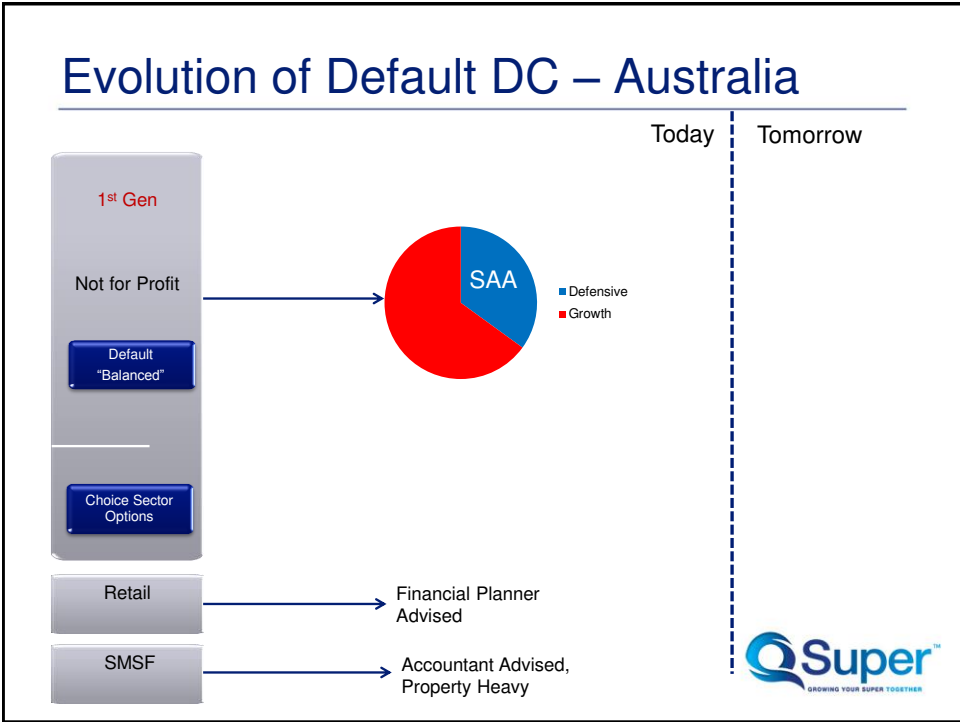
THE GREAT AUSTRALIAN CASE OFFER - 9.55% p.a.
Just \$50,000 investment - 4.95% p.a. guaranteed investment return (original annual) under our
Guaranteed Buy Back Promise - paid in monthly instalments 4 years.

When you're convinced is what you have achieved, and confident in what you are selling, there's no need to add things up For those in the know, the single figure says it all.	\$100,000 \$50,000 \$40,000 \$300 p.a. 30%	Case of Many Tantalising Blended Source Malt Whiskey Plus, performance, including GST Buy Back promise - 4 years from the GST, minimum 4 years Expected investment rate, original amount Percentage of Balance Performance towards GST GST Guarantee - 9.55% p.a. - 4.95% p.a.
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Even when you do compare, you'll find that not many do.

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DC legislation – MySuper

	TOTAL	STATIC SAA	LIFECYCLE
Retail	27	13	14
Industry	45	41	4
Corporate	35	33	2
Public Sector	9	7	2
Total	116	94	22

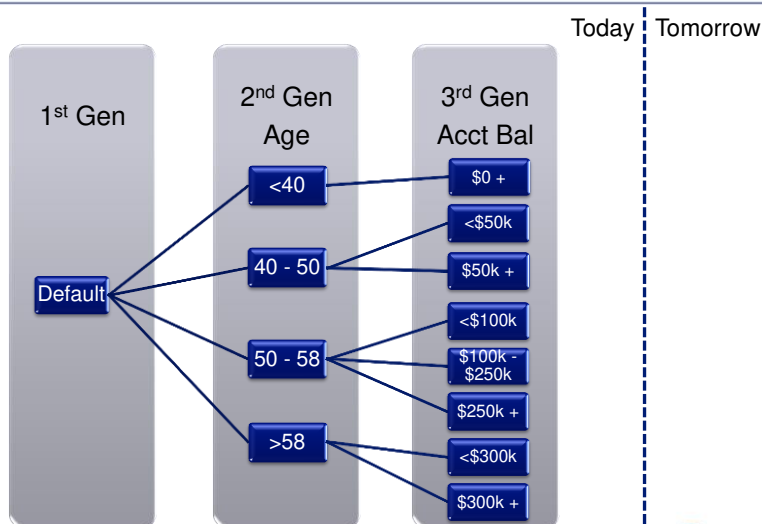
As at 10 January 2014

Source: APRA

- Average exposure of 88% to growth assets at beginning of lifecycle, average of 38% at retirement.
- Most funds have elected not to use the maximum of four price points allowed by APRA for lifecycle strategies.



Evolution of DC – QSuper Lifetime



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QSuper

- Fund for current and former employees of the Queensland public service and their families (two-thirds Health and Education)
- 540,000 members (55,000 DB; 250,000 inactive; 27,000 pension)
- Closed DB section ~ \$25billion
- Default DC with 8 cohorts/investment strategies
- Investment Choice DC with 9 investment options } ~\$45billion
- Soft compelled 17.75% contribution rate (5% member)
- 90% of Accumulation members are in the default DC – *QSuper Lifetime*

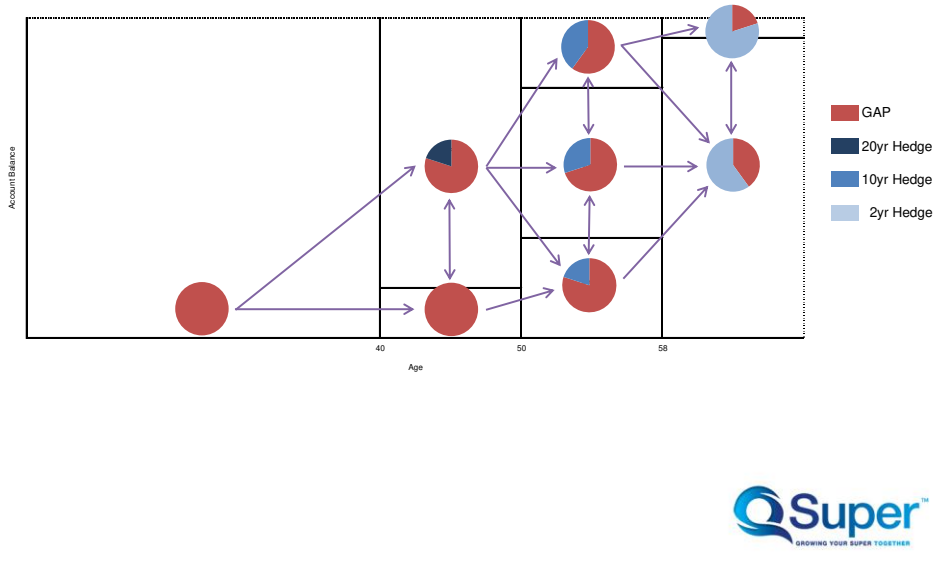


The path QSuper is following

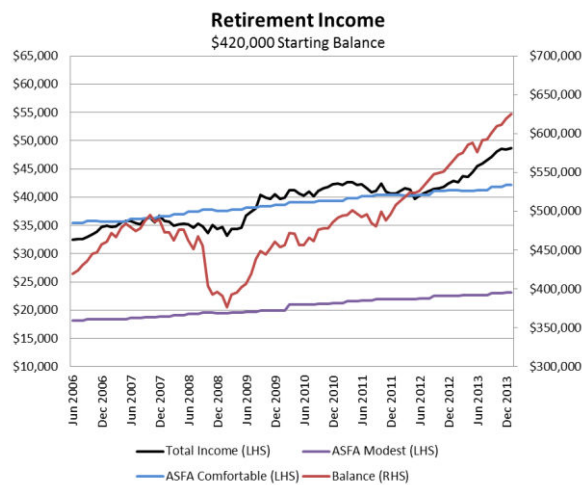
- **Goal:** exercise fiduciary authority to accumulate assets and transition to retirement income across member lifecycle.
- Eventual aspiration is to set strategy for each individual, but we will begin by . . .
 - Segmenting default Accumulation members into meaningful cohorts
 - Developing investment strategy for each cohort using asset-liability management (ALM) principles
 - Managing strategies dynamically as cohorts and risks change



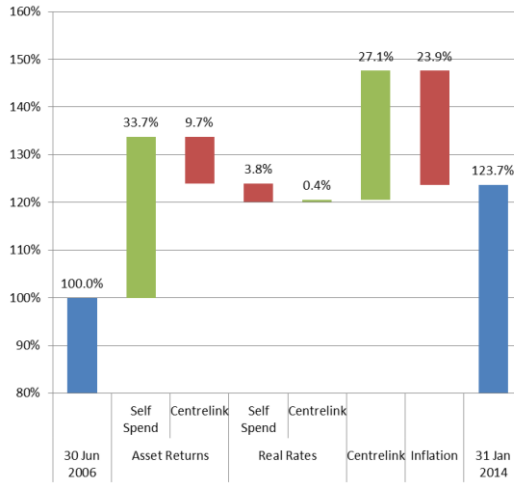
Stylised QSuper Lifetime structure



Monitoring Retirement Income



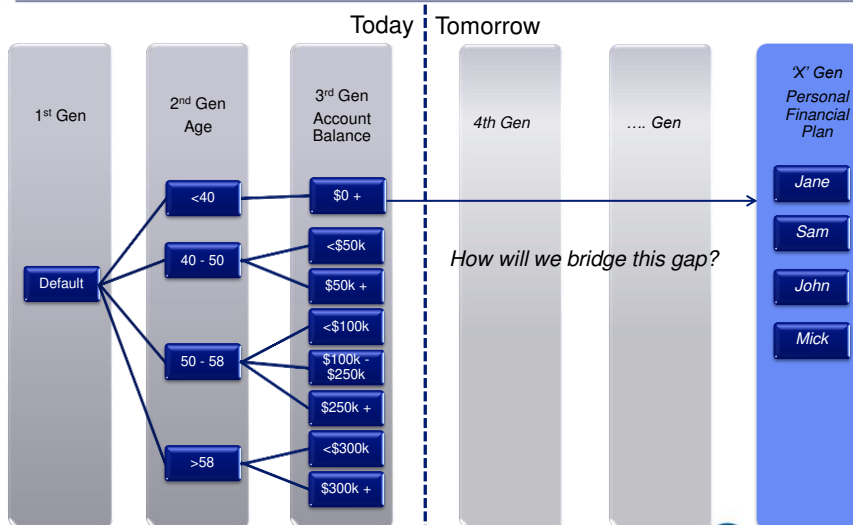
Attribution of Effects (\$420,000)



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The Evolution of Default DC



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The Future of Default DC

Today | Tomorrow

4th Gen

Automated but member engaged

- eg Merton, Financial Engines

Default

"Give me 5 minutes"

- Trustee still guides
- Small advice conversations

.... Gen

Full wealth picture in mass financial planning using:

- Wealth aggregator tools
- Default income streams
- Long life insurance

X' Gen

Ideal Personal Financial Plan

Jane

Sam

John

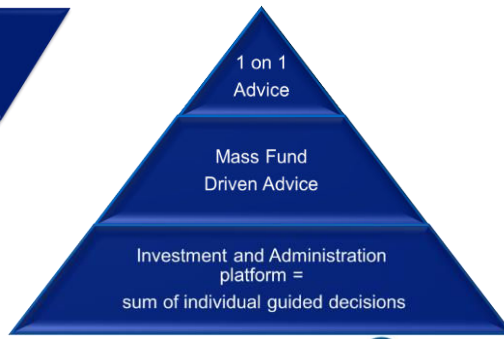
Mick



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"When" not "if"

- In 10 years time, would you ignore what you know about your members?
- Funds will become advice engines; even to default members
- This will invert current business plans



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Current initiatives and future steps

- Monitoring retirement income
- “Default” post retirement structures – use behavioural learnings
- Moving from lump sums to annuitisation of retirement benefits
- Extending scaled advice
- Wealth aggregator
- Product development for deferred annuities and longevity protection
(? Pooled long life insurance)
- Much more consciousness of individual’s different structural and economic climate challenges

