

# RICEWARNER

Insight like no other

## Cameo Analysis – MySuper vs Choice



Australian Institute of Superannuation Trustees

13 September 2018



AUSTRALIAN INSTITUTE of  
SUPERANNUATION TRUSTEES

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## **1. Executive Summary**

### **1.1 Overview**

The Australian Institute of Superannuation Trustees (AIST) has commissioned Rice Warner to provide analysis comparing outcomes for MySuper and Choice products for the Retail and Profit-to-Member (PTM) market segments.

Analysis has been provided in two reports. The first report compared fees for MySuper and Choice products for PTM and Retail funds and assessed their impact on projected aggregate fees and funds under management.

This report illustrates the impact of MySuper and Choice products under a range of hypothetical cameo scenarios for individuals who experience different financial circumstances over the course of their life. The report highlights the impact on retirement income outcomes for those who spend time out of the workforce for those with MySuper and Choice products.

### **1.2 The Rice Warner Retirement Engine**

Cameo modelling included in this report was produced with Rice Warner's retirement engine – PHOEBE.

### **1.3 Summary of Findings**

Cameo analysis in this report shows:

- Assumed higher return and lower fees of MySuper products will provide people with higher levels of superannuation assets at retirement (compared to Choice products).
- Higher superannuation assets at retirement results in higher total lifetime retirement benefit.
- Cameos show that taking a five year career break will significantly impact the superannuation balances of women at retirement.

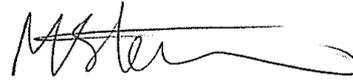
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## 2. Background

### 2.1 Introduction

As part of its 2018 research agenda, the Australian Institute of Superannuation Trustees has commissioned Rice Warner to provide analysis comparing MySuper and Choice products for the PTM and Retail market segments.

Analysis has been provided in two reports. The first report:

- Compared fees paid by Choice and MySuper members in Retail and PTM funds.
- Included two hypothetical projections scenarios to illustrate the projected impact of fees and asset allocation of Choice and MySuper products on member outcomes and industry size.
- Examined historical outcomes of MySuper and Choice products for the PTM and Retail market segments for the 3 years to 30 June 2017.

This report includes hypothetical cameo analyses to illustrate the impact of MySuper and Choice products on the retirement incomes of people with a range of different financial and personal circumstances.

Asset allocation and fee assumptions for MySuper and Choice are taken from the projections scenarios included in the previous report. Given the assumed asset allocations and lower fees of MySuper products, the cameos below generally show higher levels of retirement income for those choosing MySuper products.

### 3. Cameo Analysis

The cameo analysis below compares retirement income outcomes under MySuper and Choice scenarios for:

- 25 year old's today, with low (\$30,000), medium (\$60,000) and high (\$100,000) levels of income.
- Singles and couples.
- Women who experience a five year career break from age 30.

Wage growth is assumed to be constant at 4% p.a. for the projection period for both men and women. Wage growth is also assumed to be constant across the income distribution. Therefore, cameos with low, middle and high income experience the same wage growth across the projection period.

Career break scenarios assume a person (either single or in a couple) takes a five year career break from age 30.

Individuals are assumed to draw down the legislated minimum amount in retirement and are assumed to survive until age 87 (retiring at age 67, with a 20-year retirement). Cameo results for the various combinations above are outlined below.

Total retirement benefit presented in cameos is the net present value of total retirement income and benefits remaining at life expectancy.

Table 1 shows the retirement outcomes for a single individual at the three income levels (who does not take a career break). Outcomes are compared for the *MySuper* and *Choice* scenarios. For low-income people, the assumed lower return under the *Choice* scenario reduces the person's balance at retirement by around \$17,000. The resulting net present value of total retirement benefits would be around \$28,000 lower (in 2017 dollars deflated by growth in average wages).

The difference in balance at retirement increases for individuals with medium and high-income levels.

The net present value of total retirement benefits is higher for those with assumed MySuper returns.

**Table 1. Retirement outcomes for a single person with no career break (today's dollars)**

Scenario	Measure	Low income	Medium income	High income
MySuper	Balance at retirement	175,097	317,243	503,063
	NPV of total retirement benefit	666,605	738,841	766,793
Choice	Balance at retirement	158,246	286,326	452,693
	NPV of total retirement benefit	638,585	717,705	742,562

Table 2 shows the retirement outcomes for individuals in a couple who do not take a career break. Superannuation balances at retirement are equal to those included in Table 1. However, individuals' total retirement outcomes have changed as these individuals are subject to the Age Pension means test thresholds for couples rather than singles.

As for the single person with no career break, the MySuper scenario provides stronger outcomes than the Choice scenario. For the low-income individual, total retirement benefits are reduced by \$20,000 (in today's dollars).

**Table 2. Retirement outcomes for a person in a relationship with no career break (today's dollars)**

Scenario	Measure	Low income	Medium income	High income
MySuper	Balance at retirement	175,097	317,243	503,063
	NPV of total retirement benefit	536,847	566,555	652,171
Choice	Balance at retirement	158,246	286,326	452,693
	NPV of total retirement benefit	517,123	554,335	597,641

Tables 3 and 4 highlight the impact on retirement income outcomes for a hypothetical woman taking a five year career break from age 30. This assumption is designed to model the impact of this person taking a break from the labour force to care for young children.

Taking a five year career break reduces the superannuation balance at retirement at all income levels under both the Choice and MySuper scenarios. The net present value of total retirement benefits is higher under the MySuper scenario for all scenarios.

**Table 3. Retirement outcomes for a single woman who takes a five year career break (today's dollars)**

Scenario	Measure	Low income	Medium income	High income
MySuper	Balance at retirement	149,184	271,355	426,635
	NPV of total retirement benefit	640,289	726,581	753,565
Choice	Balance at retirement	136,108	247,127	387,397
	NPV of total retirement benefit	616,881	703,724	736,878

**Table 4. Retirement outcomes for a woman in a relationship who takes a five year career break (today's dollars)**

Scenario	Measure	Low income	Medium income	High income
MySuper	Balance at retirement	149,184	271,355	426,635
	NPV of total retirement benefit	514,367	537,204	577,820
Choice	Balance at retirement	136,108	247,127	387,397
	NPV of total retirement benefit	496,882	529,956	544,382