HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS SUPERANNUATION SECTOR - RESPONSES TO QUESTIONS ON NOTICE

BT – Westpac

BT154QON

Ms Howes: It depends on the size of the migration. We did another tranche in August, which was a much simpler tranche, and the freeze period was much shorter. So it depends on the size and scale. It was a little longer than we had expected because of the market instability, which we weren't expecting when we planned that. But certainly these things are planned ahead of time, and members are informed. It is unfortunate that there was a disruption, but the context for this is that 97 per cent of members that we migrated are better off. They are in a new digital product and they have access to their super when they want on the Panorama mobile app. So it is a much-improved customer experience. We understand that there is some unfortunate disruption getting customers there, but the end result is a much better member outcome for them.

Dr LEIGH: How many members did you lose as a result of that? How many members chose to leave BT, being disgruntled at being locked out of their accounts?

Ms Howes: I don't have those numbers with me, but I can take that on notice.

Response

BT Funds Management Limited and Westpac Securities Administration Limited (collectively referred to as '**BT**'), migrated 277,679 members to BT Super in February 2020, which is a new product that offers an improved customer experience. The members experienced disruption during the migration process whereby they could not access their accounts.

Approximately 38,000 members out of the abovementioned cohort have left BT post February 2020. The aggregate figure includes all member exits, which may be due to natural membership attrition and the Early Release of Superannuation Initiative. BT does not collect information regarding the reason(s) for member exit. As such, we are unable to provide the number of members that have left BT as a direct result of the disruption during the migration process.

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BT – Westpac

BT155QON

Ms Howes: I should clarify that we don't have default status under any awards; however, we do have a corporate superannuation business whereby some employers choose us for their corporate plans.

Mr SIMMONDS: How many of those kinds of relationships do you have in place?

Ms Howes: We have around 30,000 employers. I'd have to get the exact number for you. I can take that on notice.

Response

As of October 2020, BT has approximately 16,162 employer plans covering 207,207 member accounts for individuals employed by the corresponding employers. This figure excludes retained members that have left the relevant employers.

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BT – Westpac

BT156QON

Mr SIMMONDS: That would be great; thank you. Are you able to provide the committee with a little bit of understanding about who are the biggest of those employers?

Ms Howes: Yes. We range from large employers. Our largest client is Westpac; we run the Westpac staff superannuation fund. There are other large corporates as well, and we operate all the way through to some small SME-type businesses of four or five employees. We can certainly provide that information on notice.

Response

BT's largest employer plan is the Westpac Group Plan which accounts for 32,531 members and $4.7b in FUM. These figures exclude retained members that have left the employer. The top employer plans by FUM include: professional services companies; mining companies; telecommunications; building; and manufacturing companies.

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BT – Westpac

BT157QON

Ms Howes: Certainly, if any of those members contact us, we have a vulnerable customers program, which we would employ. There are support services available. But I don't believe that we've made any proactive reach-outs to those members at this stage.

Mr SIMMONDS: How many people through the COVID process currently are accessing the vulnerable program that you just spoke about?

Ms Howes: I don't have those figures with me, but I can provide them on notice.

Response

Whilst the Early Release of Superannuation Initiative (**ERSI**) did not commence until April 2020, BT was voluntarily supporting members impacted by COVID-19 from March 2020. BT assisted approximately 3,376 vulnerable customers between March 2020 and November 2020.

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BT – Westpac

BT158QON

Dr MULINO: Maybe this is something to be taken on notice. It's not clear to me how you are getting these higher returns early on. I would appreciate a bit more clarity on justifying this claim that, again, in this sea of red—I know you're saying that you're expecting things will look different in the next batch of returns. I'd appreciate a bit more clarity around disentangling this life cycle approach versus, say, comparing that to somebody who has a fixed asset allocation across their life. In your case, I'd appreciate clarity around how it is that your past returns have looked better than they do, or are better than they appear.

Ms Howes: We'll take that on notice.

Mr Collocott: Very happy to engage.

Response

Background – Lifestage approach

A number of superannuation funds have designed their default MySuper product using a Lifestage approach. This is based on the premise of strategically reducing exposure to growth assets as the member approaches retirement through the application of a 'glide path' approach. This approach aims to achieve higher returns earlier in life as a reward for higher risk taken, while minimising losses later in life. The goal is to optimise the members' income in retirement.

The rise of Lifestage investing in Australia came about following the experiences for members during the GFC. Members who invested their superannuation savings into a balanced option, and who were close to retirement, lost a substantial amount of their retirement savings at a time when they had little chance of recovering those losses. This was also observed earlier this year, as the COVID-19 induced market fall impacted many Australians' retirement savings.

The Productivity Commissions report into Assessing Efficiency and Competitiveness for the Superannuation system, dated 21 December 2018, made a finding emphasizing the benefits of lifecycle investing. Finding 4.3 states:

> *'Well designed life cycle products can produce benefits greater than or equivalent to single strategy balanced products, while better addressing sequencing risk for members. There are also good prospects for further personalisation of life cycle*

products that will better match them to diverse member needs, which would require funds to collect and use more information on their members.'

BT believes this finding supports the design principles of our Lifestage funds, and the changes we have made over the 12 years we have been managing this type of product. As we have gained greater insight into and understanding of the demographics and behaviours of our membership cohorts, we have adapted the product to seek to enhance members' retirement outcomes.

Performance of BT's Lifestage funds

It is generally difficult to compare the returns between Lifestage funds and a single-strategy default fund, most of which are Balanced funds, which typically have between 60% and 80% of members' assets exposed to 'growth assets' regardless of members' ages or time to intended retirement. Lifestage funds by contrast take age-appropriate risk over the working life of the member.

In response to the question on notice, BT has analysed the delivery of returns on an absolute basis using APRA data captured in the MySuper Heatmap. BT's younger cohort members (born between the 1970s and 1990s, and account for 72% of BT's total MySuper memberships), who by product design are invested in funds with a high exposure to growth assets, have exceeded the median Net Investment Return (**NIR**) of single-strategy funds over 3 and 5 year periods[1].

Under the lifecycle glide path approach, members' allocation to growth assets reduces as they move through their working life and approach retirement. As such, towards the retirement end of the spectrum the returns can be lower relative to typical Balanced default funds (which hold the growth asset allocation and corresponding risk constant over time). BT's MySuper members born between the 1940s and 1960s are exposed to lower levels of growth assets, and as such, have performed below the median NIR[1]. These results are considered appropriate given the level of future risk to our members' retirement incomes.

[1] The analysis is based on the following:

- APRA Heat Map data released in December 2019 (June data) using NIRs, 3 years and 5 years.
- BT's Lifestage 1970s, 1980s, 1990's funds are used representative of our younger members. These lifecycle cohorts are exposed to higher levels of growth assets. Growth Asset allocations for these cohorts are around 87%. BT's Lifestage 1940's, 1950's and 1960's target older members nearing retirement. These cohorts are exposed to a lower level of growth assets as the members move towards retirement.
- The BT Lifestage funds are measured against all APRA Heatmap reported MySuper products that have between 60% and 80% Growth assets (what is generally defined as a 'Balanced fund').

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BT – Westpac

BT159QON

Dr MULINO: You are for profit. To the extent that there are profits, do any dividends get returned to parent entities on the performance of your fund?

Ms Howes: We've just released Westpac's annual results and you can certainly see the disclosures that we make there. I'm not sure what information we have available around that, but I'd be happy to take that on notice and see what we can provide to the committee.

Response

Generally, where there are surplus profits available over and above regulatory capital requirements and additional internal capital buffers, these will be considered by BT’s boards for approval for distribution via a dividend to the parent entity. Performance fees are only payable to external investment managers of certain underlying portfolios and are not one of the fee categories that BT can earn revenue from (i.e. not a source of dividend payment to the parent entity). However, strong investment performance within BT’s superannuation funds will likely lead to increased fund inflows, which may impact the level of dividends paid to the parent entity.

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BT – Westpac

BT160QON

Dr MULINO: Yes. I would appreciate you indicating what public declarations have been made of any flows to other entities such as your parent entity and I guess also the extent to which certain flows may not be disclosed publicly if they're commercial in confidence.

Ms Howes: I'll take that on notice.

Response

As per our response in BT159QON, where there are surplus profits available over and above regulatory capital requirements and additional internal capital buffers, these will be considered by BT's boards for approval for distribution via a dividend to the parent entity. The financial statements of the relevant entities are lodged with ASIC and are publicly available for review. BT Funds Management Limited and Westpac Securities Administration Limited (in its capacity as trustees of its superannuation funds) have paid $25.1 million in dividends to the parent entity in FY 2020.