



ACTUARIAL SOCIETY
OF SOUTH AFRICA

Advancing Actuarial Excellence

Value for money – UK and Australia case studies

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Session overview



How to achieve good pension outcomes

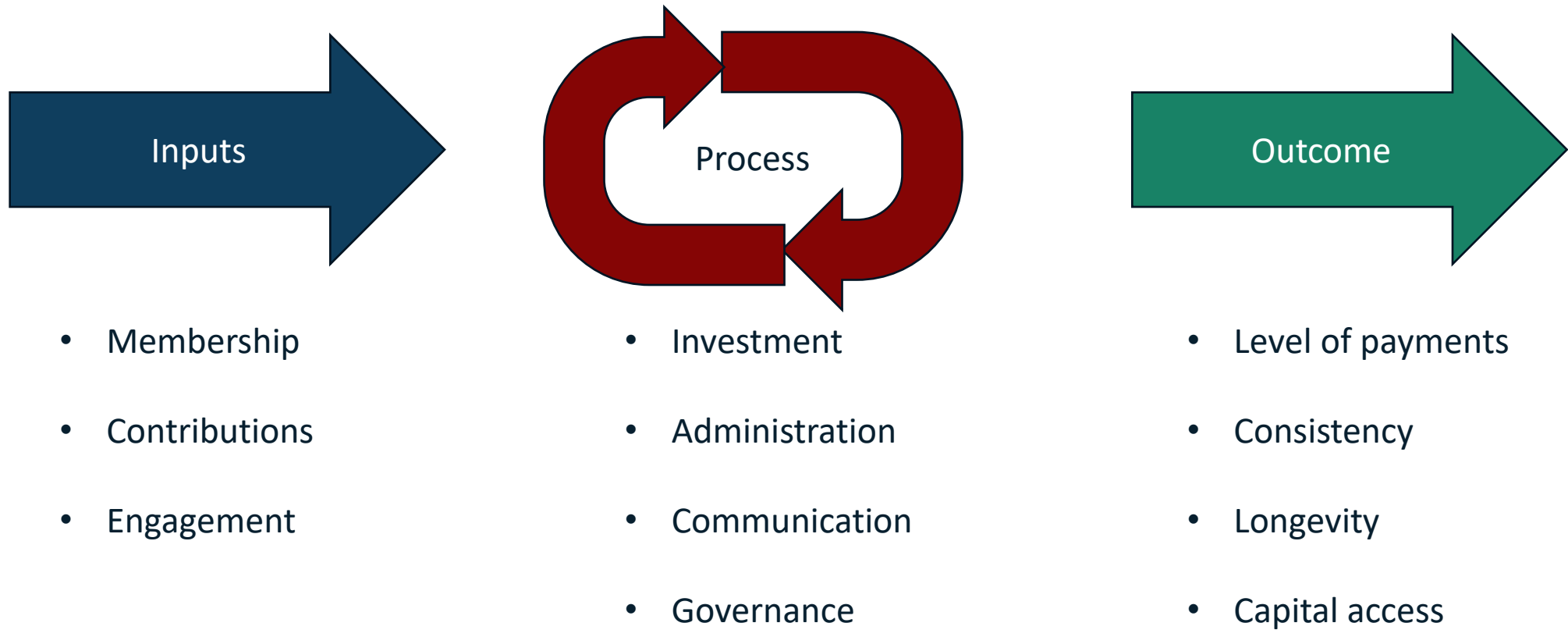
Australia case study

UK case study

Lessons for RSA



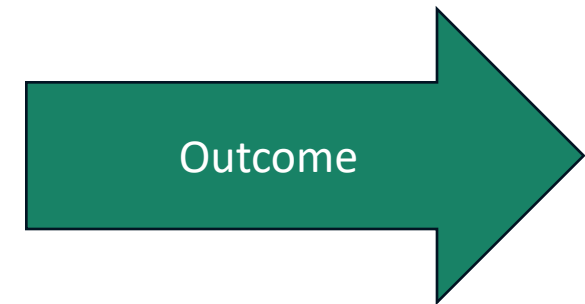
Ensuring good pension outcomes





We cant wait to learn from outcomes

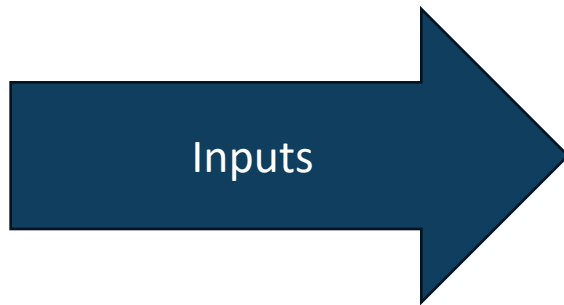
- We can't tell if a DC pension cohort joining in their 20s gets a good outcome for ... 80 years?
- Level of payments determined entirely by inputs and processes.
- Shape of payments determined combinations of:
 - Fiduciaries
 - Regulations
 - Individuals
 - Leakage (costs and taxes)
- Defining outcome objective is critical, but measuring value for money based on outcomes risks poor value for generations.



- Level of payments
- Consistency
- Longevity
- Capital access



Fiduciaries have limited control of the inputs



- Membership
- Contributions
- Engagement

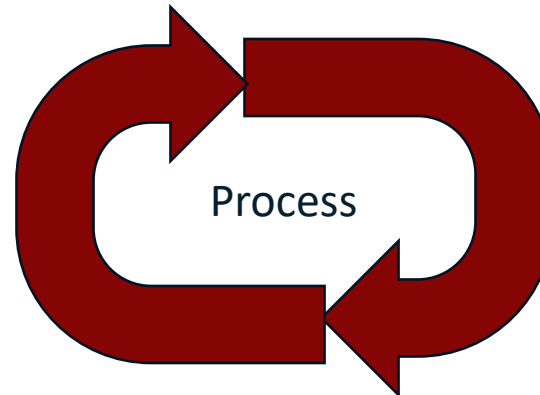
- Membership increasingly dictated by employment law (UK Auto-Enrolment, Australia compulsion).
- Likewise, contributions determined between a combination of:
 - Employment law
 - Employers
 - Unions
 - Tax reliefs
- Engagement (ie decision-making) does effect outcomes and fiduciaries have some control. However:
 - Different segments have different engagement norms
 - Libertarian paternalism seeks to deliver outcomes despite disengagement.
- Inputs generally taken out of consideration of value for money.



And so the focus is on processes

Hard processes

- Investment returns
 - Costs
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- Service levels
 - Satisfaction and complaints
 - Numbers of communications
 - Numbers of meetings
 - Completing reporting...on time.



- Investment
- Administration
- Communication
- Governance

Soft processes

- Prospective returns
- Decision-making processes
- Transparency (->trust)
- Clarity (->understanding)
- Inclusion

**Easiest to focus on the hard numbers
with direct outcome impacts**



What are the biggest influences on outcomes?

1. Membership and contributions	Increasingly determined by the state Risk that minimum contribution level insufficient for mid- and higher-earners
2. Engagement, transparency and clarity	To the extent that the system requires additional contributions or choices to work, engagement is required and participants have to trust they will get the outcomes they need / want.
3. Net investment returns	Of course!
4. Decumulation cashflow management and returns	Whether the system expects capital withdrawal or lifetime income, or offers choice is the core success criteria and a critical design feature. Performance during rising interest rates is most interesting question...
5. Service quality	Feeds into trust, errors and delays stop people saving and investing for their future.

Re-order depending on expectations of additional contributions, investment choice and retirement flexibility



Australia

- Mandatory superannuation from 1992.
- Increases in contribution rate so now 12% from employers (only). c.AUD\$110bn a year
- Market is around AUD\$3.1tn (March 2026) with another AUD\$1tn in small plans.
- MySuper reforms (2014) low-cost defaults for new employees. Caused significant consolidation of providers and accounts:
 - 442 APRA-regulated products (2014) now <130.
 - Currently 52 MySuper products.
 - Around 25m accounts for 18m individuals (1.4 per member) down from 3-4 before 'stapling'.





Australia – performance test

- Supers submit quarterly asset allocation data (97 asset classes).
- APRA determines a benchmark return based on this allocation in standard indices and standard fee assumptions.
- APRA compares actual rolling 10-year net investment returns to this benchmark (annually).
- A fail is -0.5% relative performance.
- 1 fail – you write to your members to tell them.
- 2 fails – you cannot take new members until performance improves.
- Consequences:
 - Consolidation accelerated.
 - Removal of active management.





The United Kingdom

- Auto-enrolment from 2012 with contributions reaching 8% of 'band earnings' from 2018.
- UK workplace market is around £1.6tn serving around 16m workers, £50bn per year.
- Competition has focussed on fees resulting in very low-cost propositions. Some large employers might pay 0.15%pa. Investments are largely passive against indices.
- Value for Money has had two distinct phases:
 - Transaction costs and naïve value for money (2016).
 - Scale, private markets and deep value for money (2027?).





The United Kingdom

- VFM 1:
 - Concerns raised by the Office of Fair Trading (2013) that competition wasn't working. Unclear and opaque charges, potentially high transaction costs. AE would trap savers into arrangements delivering poor value.
 - Charge cap (2014) of 0.75%pa.
 - Bans on adviser charges, commission and 'active member discounts'
 - Disclosure of transaction costs.
 - Chair's statement articulating whether the arrangement was VFM.
- Consequences:
 - Transaction costs were low and introduced confusing definition.
 - Charge cap definition enabled gaming.
 - All schemes were VFM (some exceptions).
 - Lawyers and advisers charge fees.





The United Kingdom

- VFM 2:
 - Concerns that focus on costs were missing the wider picture of outcomes.
 - Desire to build scale and enable greater domestic and private markets investment (Mansion House Accord).
 - Still consulting on the details...
- Consultations:
 - V1 (2022) – anything that contributes to better outcomes should be in scope of the assessment. Schemes have to understand their target market and articulate why spending / proposition fitted their needs.
 - V2 (2026) – it's about performance and other proposition elements can only reduce scores. We need to assume future returns (FLM) to permit private markets investment.
- Risks:
 - Significant peer benchmarking.
 - Gaming of FLM.
 - Every scheme will still be assessed as VFM.





Will regulatory mechanisms ensure good outcomes?



1. Membership and contributions	Determined by state	Determined by state Levelling down of contributions Risk to provision for poor VFM scores.
2. Engagement, transparency and trust	Improved transparency for investment performance and costs.	Improved transparency for investment performance and costs. Will take a while to bed in.
3. Net investment returns	Reduction of bad outcomes, and good? Benchmark hugging in listed markets Less TAA	Reduction of bad outcomes, and good? Peer group hugging? Private markets increases...now?
4. Decumulation cashflow management and returns	Limited solutions Capital protection mindset	Limited solutions Capital protection mindset
5. Service quality	Excluded	Can mark down scores, not up



What should RSA learn?

- Value for money is an unarguable, but in practice:
 - People value different things
 - Comparing wider proposition features and suitability is key, but difficult to achieve
 - Starting point has to be the regulatory concerns:
 - High charges?
 - Poor investment performance?
 - Poor participant decision-making?
 - Lack of choice?
 - Poor administration quality?
 - Scale?
 - Domestic investment?
 - None individually is 'value for money', but all taken together might be.
 - Temptation is to focus on the 'hard processes' – these are important, but don't call it VFM!
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