

Media Release

SYDNEY March 10, 2021

The opportunity cost to consumers of the Government's Your Future, Your Super (YFYS) performance test could far exceed the forecast benefits, according to research by The Conexus Institute, which is calling for design improvements of the test.

The research shows the opportunity cost, due in large part to constraints on investments in return-seeking assets, could be \$3.3 billion per year.

The research also shows that the opportunity cost could exceed the forecast benefits of the entire YFYS reform package.

The research, which explores the impact of the performance test, was authored by David Bell the executive director of independent, not-for-profit The Conexus Institute, and reviewed by investment industry researchers from Frontier, JANA, Mercer, Rice Warner, and Willis Towers Watson. Full details of the working group are provided in Addendum 1.

The driver of the opportunity cost estimates is the sizable degree to which the performance test will constrain the investment strategies of super funds. This will limit exposure to some return-seeking investment opportunities. If the primary focus of super fund trustees becomes passing the performance test (due to the strong penalties of failure), then the working group estimates the opportunity cost to consumers to be \$3.3 billion per annum. For context, in the Budget, the forecast benefits of the YFYS performance test were \$10.7 billion over 10 years. The forecast benefits of the entire YFYS reform package were estimated to be \$17.9 billion over 10 years.

The research, all open source ([here](#)), quantifies an important concern that the working group has with the design of the YFYS performance test.

"We felt compelled to explore how the constraining impact of the YFYS performance test on the investment strategy of super funds would flow through and impact consumer outcomes. Unfortunately, the results of our research reveal a large adverse outcome to consumers. I'm sure this isn't the intent of the policy." said Bell.

"If anything, we are worried that we have understated the opportunity cost to consumers since we have ignored the restrictive impact the test design will have on the ability to manage portfolio risk".

This latest finding continues research undertaken by the working group.

Initial research demonstrated that the YFYS performance test will statistically have weak effectiveness at differentiating between good and poor performing funds (because the YFYS performance test focuses only on a component of performance rather than a more complete measure of performance). The initial research also identified many undesirable outcomes, impacting funds, consumers, and industry structure. This subsequent round of research

explores the constraining nature of the performance test and the opportunity cost this has on consumer outcomes.

Nonetheless Bell remains positive: “The YFYS performance test is well-intended but the design requires improvement. The intention of the test can be achieved without many of the adverse impacts generated by the present design. Some well-considered modifications would have a large positive impact,” said Bell.

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Addendum 1

Working group members.

	Affiliation
David Bell	The Conexus Institute
Kim Bowater	Frontier
David Carruthers	Frontier
Matthew Griffith	JANA
Emily Barlow	Mercer
Clayton Sills	Mercer
Andrew Boal	Rice Warner
Nick Callil	Willis Towers Watson
Tim Unger	Willis Towers Watson

About the Conexus Institute

Established as an independent, philanthropically funded think tank designed to be a catalyst for positive change to Australia’s retirement system, The Conexus Institute adopts a research-for-impact model. Much of its work involves collaborating with industry and academia while the Institute presents itself as an unbiased sounding board resource for regulators and policymakers.

Notable pieces of work over the last year included growth / defensive asset categorisation, research on portfolios with illiquid assets, analysis of the Your Future, Your Super performance test and involvement in the UNSW Sandbox Program. Research is generally made open source and can be accessed at the [Conexus Institute website](http://www.conexusinstitute.org.au).

The priorities for this year will be to continue to focus on the Your Future, Your Super reforms, complete work on growth / defensive categorisation and the governance of portfolios with illiquid assets, before shifting the focus to financial guidance and retirement solution design.