Member Outcomes: Know Thy Fund

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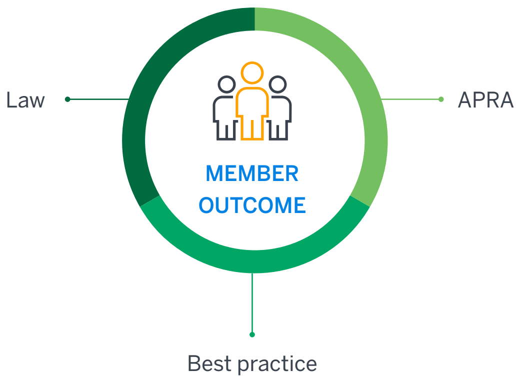
"Gnōthi seautón" which means "know thyself", is a proverb from Greek philosophy, attributed most popularly to Socrates. The saying has been well known throughout history; from ancient philosophical texts, right through to a more recent version being used in the Matrix movie, where an inscription outside the Oracle's place pays homage to the original on the Temple of Apollo in Delphi.

For super funds, a confluence of political and regulatory events has made it time to bring this concept to the Member Outcomes regime.



Knowing members for better business strategy

It's not a vague and fluffy academic point to make. The business plan, as required under SPS 515 Strategic Planning and Member Outcomes, is now a practical issue for funds. It is a forward looking, detailed document to be produced on a rolling 3-year basis. The media and industry commentary on Member Outcomes coverage has largely focused on the benchmarking aspect of the regime; the concept that we must compare a fund to another fund. But how do you produce a business plan, or compare your fund to another, without first knowing whether a fund stands on its own two feet for its own members?

This is deeper than the easy rhetoric of "we know our members" from an anecdotal, employer or even from a basic marketing lens. For too long, super has gotten away with knowing as little as possible about the individuals that make up funds, instead focusing on managing a fund at the "pool" level. We forget that all of those zeros that make up millions or billions of funds under management, actually comprise everyday individuals who are saving for retirement, and who are all unique, rather than a homogenous group.

Bringing DB, member-centric thinking to DC

As funds get bigger and bigger, we compare our industry to the way that the giant overseas pension plans are managed. But many of them are still in a defined benefit (DB) rather than a defined contribution (DC) system. Their actual client (the sponsor) might be different to the end member, but those funds still manage to know more about what the outcome per member needs to be.

In DC, having been borne of the managed fund environment, we aggregate and manage money to simpler metrics. We don't stop to think beyond an assumption that individuals have deliberately accessed that pool to benefit from scale, and that their unique requirements are easily diluted by the overall fund's average targets. But as we know, the average depth of Sydney Harbour is not a relevant number, in isolation, when the world's largest cruise ship needs to sail into it.

The Member Outcomes regime has, in the process of calling out poor performing funds, inadvertently questioned simple funds management style thinking. It has recognised that assessing funds across a range of metrics is more important than single short term performance figures. It has asked funds to demonstrate that they understand the members who actually make up their pools of assets, and once they have done this, how they intend to manage the pool of assets to achieve what those individuals require.

Using technology to move beyond simple segmentation

Done properly, a fund would understand itself, not as a pool divided into a few types of members, but as individual member outcomes aggregated up into groups, to form a holistic picture of what the fund really looks like. A bottom up approach, rather than a top down one.

THE EASY APPROACH
It can be easy to segment a fund according to which product a member is in.

MEMBER INSIGHTS
Analysing the membership from the ground up starts with comprehensive modelling and third party data.

BEYOND SIMPLE SEGMENTATION

STEPPING BACK TO UNDERSTAND THE PROBLEM
A member may not be invested in the product that's truely suitable for their needs.

COHORTS COME AFTER ANALYSIS
Rather than pre-determining types of members, letting the cohorts fall out of the analysis means a more insightful view of the fund that either cements or helps pivot the fund's business strategy.

If that sounds like an overwhelming task, that's because it has been, up until now. But, as we approach the end of this decade, with the data and technology available to us, it's easier than one might first think.

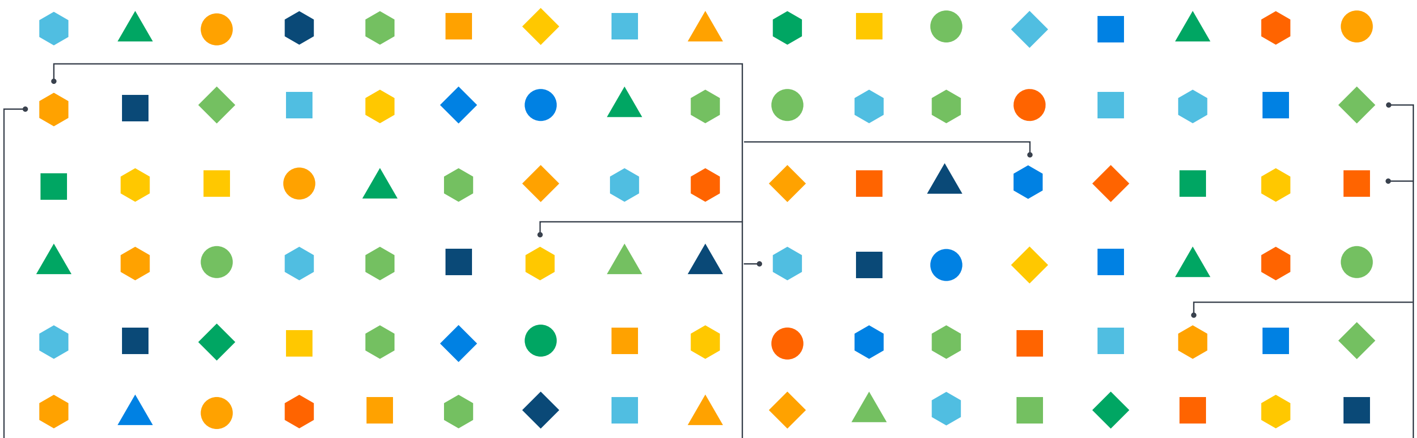
Our understanding of modelling has changed: it's become real-time, and it's no longer based on simple, linear assumptions. It's outcomes and goals based rather than simply risk-based. It is genuinely forward looking.

We also have data science available like we never have before. If a global shopping centre chain can pinpoint the exact geography for its next centre, based on data science, our super funds should be able to say, with a great deal of confidence, what it's doing for each member.

Combining such technological tools to form a real time, expert opinion on where a fund is right now, and how it's planning on delivering outcomes, is more important than ever.

Technology is the only way a fund can implement the business plan for SPS515 that is a living and breathing vehicle; one that moves with the changes in economic cycles and demographics; smoothing out short term trends over the long term. And, perhaps most importantly, data and sophisticated modelling is how we combine the member services and investment management parts of a super fund for holistic outcomes delivery. It ensures segmentation isn't just used for basic marketing purposes, and it challenges assumptions like the one that states lifecycle investing is the only way to combine member data with investment strategy.

Analysis on an individual level



ROBERT
Age: 35–45
Income: $175,000
Meeting goals: At risk

Probability of goal

60%

Traditional demographic segmentation supports the notion that Robert is on track to meet his goals. And yet here, he is labelled as "at risk". This is because when he is regrouped with others who share his spending patterns and lifestyle, his financial needs are projected more accurately. His fund has better insight from this deeper segmentation, and can build a targeted communication strategy to ensure that Robert and others get back on track for retirement.

COHORTS
Age: 35–45
Account balance: High
Mortgage at retirement: Low
Income: $150K–250K

Supplemental cohort:
Free Spenders
Lifestyle cost:
Extravagant
Contribution level:
Low

Debt levels:

Getting from A to B

Member Outcomes requires three things of funds: they must show where they are right now, know where they are going, and how they are planning on getting there. It is only after they can do this, and demonstrate that they "know thine own self", that they can better benchmark themselves against another fund. And, arguably, for funds who offer choice products, doing so will mean that they might be able to prove there is no suitable other fund to compare themselves to after all.

It is time for the industry to pivot to being more consumer-led, and less peer-driven. We will continue to lag behind most other industries until we do. In the meantime, the Member Outcome regime will be one way that regulation forces us to incrementally get there.

If you have any questions about member outcomes or the solutions offered by Milliman please contact us on 02 8090 9100

About Milliman

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In Australia, Milliman specialises in the retirement sector, where it partners with a range of organisations providing consulting, data insights & analysis, technology and financial modelling and Investment solutions, to the financial services industry.

Milliman provides products and solutions that create better outcomes, designed to help people have a better retirement. For further information, visit au.milliman.com

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