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Industry Super Australia is an advocacy body for 15 not-for-profit Industry SuperFunds including AustralianSuper, Cbus, HESTA, Hostplus and MTAA. The funds invest and manage superannuation retirement savings on behalf of over 5 million members - around half the Australian workforce - and deliver all profits to members. Please direct questions and comments to:

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Investment outperformance

**Better returns to members**
Industry super funds outperformed retail funds by 1.7% on average over the last 19 years and outperformed SMSFs by 0.4% on average over the last 7 years.

**Economic benefits of outperformance**
Industry super funds outperformance has added around $51 billion in total to national super savings over the 19 year period.

Reasons for outperformance
Two factors are connected with outperformance in the not-for-profit industry super funds business model:

- **Investment beliefs**
  Investment in unlisted assets, especially physical assets, accounts for nearly two thirds of total outperformance.

- **Governance and profit orientation**
  Industry super funds profit orientation, underpinned by the “all profits to members” principle accounts for more than one third of outperformance.

Solving the infrastructure deficit

**Shortfall in infrastructure**
The public infrastructure investment deficit is estimated at $80 billion or around 7 per cent of Australia’s existing stock of infrastructure.

**Filling the infrastructure shortfall**
Industry super funds will invest approximately $10 - 20 billion in equity over next decade which will fill the $80 billion infrastructure gap by more than 12%.

**A different funding model**
IFM Investors and ISA have developed a bid model which is designed to align the interests of government and project partners over the life cycle of the project, cutting costs and potentially speeding up delivery by 30%.

ISF impact of the economy

$2.8 BILLION CAPEX → $2.7 BILLION UPSTREAM SPENDING → CREATING 46K JOBS

In 2015 alone, more than $2.8 billion in capital expenditure was made in maintenance, development and greenfield extensions, contributing around $1 billion in direct value added or supporting 20,000 jobs across states and territories. Indirect economic impacts contributed around $1.7 billion in value added or supported 26,600 in jobs.

Source: Industry super and the Australian economy, October 2016

1. Boston Consulting Group, 2014
EXECUTIVE SUMMARY

For more than 30 years, industry super funds have made a unique contribution to the Australian economy. On behalf of more than 5 million members, these funds now have unmatched capacity to invest even more deeply in the economy over the decades ahead, with a clear philosophy of creating a decent standard of living for all.

This study attempts to quantify and illustrate the distinctive economic contribution of industry super funds, relative to for-profit and small funds. It also examines the potential of industry super funds to work in practical and cost-effective partnership with governments to modernise infrastructure and drive productivity.

Outperformance

The outperformance of Australia’s industry super funds is well-documented. Industry super funds have outperformed retail funds by 1.7 per cent a year on average over the last 19 years and outperformed self-managed super funds (SMSFs) by 0.4 per cent on average over seven years.

Analysis by Boston Consulting Group identifies two factors connected with outperformance in the not-for-profit industry super funds business model:

- Investment in unlisted assets, especially physical assets, which accounts for nearly two-thirds of total outperformance; and
- Profit orientation (including margins and other business model choices) - underpinned by the “all profits to members” principle. This accounts for more than one-third of total outperformance.

We estimate that on average an industry fund member would be $10,282 better off than a retail fund member over the full 19 year period due to past net performance differences. This matters materially to most Australians as their super savings represent the largest component of wealth outside the family home.

Economic impact

We estimate that industry super funds’ outperformance has added around $51 billion in total to national superannuation savings over the 19 year period.

This study has identified the following major economic benefits stemming from industry super funds’ distinct investment approach:

- Stimulating economic activity through capital expenditure
- Deepening the stock of productive capital
- Deepening the pool savings, helping to lower the cost of borrowing
- Acting as a liquidity buffer to financial markets and the broader economy through counter cyclical investment

In particular, the broader benefits of industry super funds’ unlisted Australian infrastructure and property assets (worth $45 billion) can be shown to flow directly into the Australian economy and federal budget.

In 2015 alone, more than $2.8 billion in capital expenditure was made in maintenance, development and greenfield extensions, contributing around $1 billion in direct value added or supporting 20,000 jobs across states and territories. Indirect economic impacts contributed around $1.7 billion in value added or supported 26,600 in jobs. In total, this investment added around 0.17 per cent to Gross Domestic Product (GDP) across regional economies.
This inflow boosts the federal budget bottom line annually by an estimated $702 million by raising tax revenue, lowering debt interest payments and reducing age-related payments.

Over time, higher capital spending boosts productive capital, drives up labour productivity growth via capital deepening and innovation impacts. This adds around $287 million to long-term GDP each year.

We also estimate that industry super funds have helped to lower net foreign indebtedness across the national economy by generating additional savings. Our estimate is that this is worth around $77 million each year in interest savings.

Notably, industry super funds and other funds with strong cash positions were able to recapitalise the Australian share market during and after the global financial crisis (GFC), providing an automatic stabiliser that helped to support activity and employment.

Each of these benefits above relate to the drivers of outperformance of industry super funds which, in tandem with compulsory superannuation and the normal home country bias in investment, lead to a welfare-enhancing net increase in the national capital stock. Without superannuation, Australians would have saved less for their retirement and relied more heavily on foreign investment.

Infrastructure: Partnering with governments

Industry super funds are planning to invest at least $10 billion dollars over the next five years in Australian projects, supporting around 16,000 jobs through construction expenditure to upgrade the airports, ports, roads, rail and other infrastructure assets in which the funds are invested.

Internal analysis of one leading industry super fund suggests that holding more rather than fewer unlisted assets would boost long-term fund performance by about three basis points for every percentage point (ppts) increase in the illiquid allocation.

National shortfall

However, the consensus among experts is that there remains a significant shortfall in public infrastructure investment, estimated at $80 billion, or around 7 per cent of Australia’s existing stock of infrastructure.

With long experience in infrastructure investment, industry super funds are ready-made for the task of narrowing this gap. Industry Super Australia (ISA) in conjunction with IFM Investors and the Complex Program Group have developed a new procurement process known as the “Inverted Bid Model” which is designed to align the interests of government and project partners over the life cycle of an infrastructure project, making construction significantly cheaper and potentially speeding up delivery by around 30 per cent. The many barriers deterring government investment in greenfield projects could be overcome by adopting this approach.

Partnering with the community

The economic challenges of an ageing population are increasing pressure on both state and federal governments. Constructive policy to ease the fiscal burden and fire up productivity needs to be prioritised if Australia is to retain a decent standard of living by mid-century.

This study demonstrates that industry super funds have the scale, expertise and willingness to partner with government to formulate policies that will drive large scale investment in major projects while simultaneously delivering strong returns to millions of super fund members.

While public-private infrastructure offerings must be sufficiently attractive to private sector investors, they must also satisfy the public interest and be considered in the context of broader community concern currently reflected in global political debate over fairness and conduct in markets.

Industry super funds’ track record of long-term, public-spirited ownership, coupled with strong, positive cashflow to improve the quality of assets, provides a model that respects the “social licence” implicit in all public-private infrastructure partnerships.
Price should continue to be a key factor in assessing value for money but a sustainable model must also include a rigorous assessment of qualitative factors including proponents’ track record, motivations, expertise and investment horizon. Governments need to distinguish between these types of prospective owners when selling an asset.

If constructive partnerships can be established in coming months, the significant pool of national superannuation savings can be put to work through deep, long-term investments that will benefit the vast majority of Australians over many decades.

**What’s in this report**

The first section of this study examines the current and future structure of the entire superannuation sector by segment in terms of funds under management (FUM) and holdings of unlisted infrastructure and property.

It examines the current portfolio allocation and not-for-profit nature of industry super funds and how this contrasts with the investment choices and for-profit model of retail and self-managed super funds (SMSFs). It models the projected effects of these blunt structural differences by 2030.

In Section 2, structural differences between industry segments are examined to identify the key drivers of higher returns earned by industry super funds, with unlisted asset investment emerging as a decisive factor.

In the sections following, the study measures the economic uplift of higher returns for super fund members (Section 3), the broader economy (Section 4) and the Commonwealth budget (Section 5).

The study concludes with policy recommendations (Section 6), not simply to stimulate discussion but to provide practical public policy direction for Australia’s maturing superannuation system.

Already celebrated globally, it is now time to build on the system’s tried and tested features and discard the elements that are a drag or even a danger to its progress. Superannuation will grow to hold an increasingly dominant position in the financial landscape and, if we can get the settings right, it will become a social and economic powerhouse capable of permanently transforming Australia for the better.
1. Structure and portfolio allocation

1.1 Industry assets in 2015 and 2030

The total of superannuation assets in Australia today is over $2.02 trillion. When the Future Fund is included, it is $2.138 trillion.

- Not-for-profit funds consist of around 42 per cent of total superannuation assets, where industry super funds represent around $434 billion (17 per cent), public sector funds represent around $351 billion (21 per cent) and corporate sector funds account for 3 per cent of the total.
- For-profit retail funds represent 29 per cent of the total assets.

Table 1 – Superannuation assets excluding and including Future Fund, June 2015

<table>
<thead>
<tr>
<th>Superannuation</th>
<th>$bn</th>
<th>Share %</th>
<th>Superannuation and Future Fund</th>
<th>$bn</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>$593</td>
<td>29%</td>
<td>Retail</td>
<td>$593</td>
<td>28%</td>
</tr>
<tr>
<td>SMSFs</td>
<td>$586</td>
<td>29%</td>
<td>SMSFs</td>
<td>$586</td>
<td>28%</td>
</tr>
<tr>
<td>Industry</td>
<td>$434</td>
<td>17%</td>
<td>Industry</td>
<td>$434</td>
<td>16%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>$351</td>
<td>21%</td>
<td>Public Sector</td>
<td>$351</td>
<td>20%</td>
</tr>
<tr>
<td>Corporate</td>
<td>$54</td>
<td>3%</td>
<td>Corporate</td>
<td>$54</td>
<td>3%</td>
</tr>
<tr>
<td>Future Fund</td>
<td>$117</td>
<td>5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$2,020</strong></td>
<td><strong>100%</strong></td>
<td><strong>Total</strong></td>
<td><strong>$2,138</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


Figure 1 – Superannuation and Future Fund assets, $bn, June 2015

Source: APRA Quarterly Statistics March 2016 and Future Fund Website June 2015
Figure 2 – Superannuation assets without Future Fund assets by sector, June 2015

Total superannuation funds under management projected for 2030 are estimated by Rice Warner to grow to around $6.1 trillion, which is likely to be even greater than the assets holdings of commercial banks. Significant growth in market share in terms of assets under management are expected to occur for both industry funds (rising to 27 per cent) and retail funds (rising to 35 per cent), largely at the expense of public sector funds (falling to 11 per cent) due to the closure of the more generous defined benefit schemes and corporate funds. SMSF’s share of the market is expected to stay constant at 26 per cent, although this projection will need to be reviewed in light of the recent announcement of lifetime concessional caps and greater scrutiny regarding the performance of smaller SMSFs.

Table 2 – Projected superannuation assets, excluding and including Future Fund, 2030

<table>
<thead>
<tr>
<th>Superannuation</th>
<th>$bn</th>
<th>Share %</th>
<th>Superannuation and Future Fund</th>
<th>$bn</th>
<th>Share %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail</td>
<td>$2,174</td>
<td>35%</td>
<td>Retail</td>
<td>$2,174</td>
<td>34%</td>
</tr>
<tr>
<td>SMSFs</td>
<td>$1,638</td>
<td>26%</td>
<td>SMSFs</td>
<td>$1,638</td>
<td>25%</td>
</tr>
<tr>
<td>Industry</td>
<td>$1,689</td>
<td>27%</td>
<td>Industry</td>
<td>$1,689</td>
<td>26%</td>
</tr>
<tr>
<td>Public Sector</td>
<td>$690</td>
<td>11%</td>
<td>Public Sector</td>
<td>$690</td>
<td>11%</td>
</tr>
<tr>
<td>Corporate</td>
<td>$0</td>
<td>0%</td>
<td>Corporate</td>
<td>$0</td>
<td>0%</td>
</tr>
<tr>
<td>Future Fund</td>
<td>$296</td>
<td>5%</td>
<td>Total</td>
<td>$6,485</td>
<td>100%</td>
</tr>
</tbody>
</table>


Note: The Future Fund asset projection used the projected target asset provided by the Australian Government Actuary on 21 July 2015. The annual growth rate is assumed to be 7.7 per cent per annum, which is the annual superannuation growth rate according to Rice Warner Superannuation Market Projection. From 2020, we assume that the government will start drawing down on Future Fund assets by an initial amount of $4 billion per annum, growing at 1.5 per cent faster than the annual asset growth rate.
1.2 Industry allocations

As at June 2015, the portfolio holdings of industry super funds included the following allocations:

- 46 per cent to listed equities in roughly equal proportions between domestic and foreign holdings;
- 16 per cent to fixed income assets;
- 11 per cent to cash;
- 25 per cent to unlisted property (8 per cent) and infrastructure and private equity and others (17 per cent); and
- 2 per cent to listed property.

Figure 3 – Industry fund asset allocation, as at June 2015

1.3 Industry versus retail and SMSF allocations

The approaches to asset allocation are markedly different between the sectors, reflecting trustee investment philosophy and expertise, fund scale, business model and fund structure. The different performance outcomes of the sectors are in part driven by the long-term strategic investment beliefs, particularly the significantly greater weighting to unlisted assets and diversification. Unlisted assets are less liquid, and this is a compatible match for industry funds’ longer term investment horizons, and materially bolsters portfolio performance over the long-term through exposure to a broader universe of assets and negative correlation with other asset classes.

A key point of difference between industry funds, retail funds and SMSF funds are the total portfolio holdings of unlisted infrastructure assets and unlisted property.¹

¹ There is a significant difference in unlisted equity holdings too (which includes private equity and venture capital). While it is out of the scope of this paper to estimate these economic impacts, where these allocations exist in the primary market they have many parallels to physical infrastructure and so are far more likely than not to involve the creation of new capital.
Retail

Directly comparing investment portfolio allocations between industry and retail funds suggests that the key difference between the two are the following:

- Industry super funds hold significantly more unlisted infrastructure (5 ppts), unlisted property (6 ppts)
- Retail funds hold significantly more Australian fixed income (7 ppts) and Australian listed equity (5 ppts)

Figure 4 – Industry v retail asset allocation, differences greater than 5 ppts, as at June 2015

SMSFs

Directly comparing investment portfolio allocations between industry and SMSFs is perhaps even more revealing, as it suggests more marked key differences due to diversification. Industry super funds hold significantly more international listed equities (24 ppts), fixed income (11 ppts) and unlisted infrastructure (6 ppts), whereas SMSFs hold significantly more cash (17 ppts), listed Australian equities (11 ppts) and unlisted property (7 ppts). A question for SMSF holdings of unlisted property is whether these are truly ‘arm’s length’ investments, or assets associated with the current or former business activities of fund members located in the fund for purposes of tax minimisation, not allowing them to achieve diversification in income streams.

Source: APRA Quarterly Statistics March 2016
Figure 5 – Industry v SMSF asset allocation, differences greater than 5 ppts, as at June 2015

Source: APRA Quarterly Statistics March 2016 and Australian Tax Office
Note: SMSF data is at June 2014.

The asset allocations of each fund type are summarised in Figure 6 below.
Figure 6 – Industry v Retail v SMSF asset allocation, as at June 2015

Source: APRA Quarterly Statistics March 2016 and Australian Tax Office

Note: SMSF asset allocation is as at June 2014. The Australian Tax Office (ATO) reports SMSF asset allocation data in a different format from APRA’s reports. Where possible, SMSF asset allocations are aggregated to the appropriate category for comparison. SMSF “Other” includes listed and unlisted trusts, insurance policy, managed investments, collectables and personal use assets and other investments.²

² A proportion of these ‘other’ investments can carry a level of unobserved gearing. For example, SMSFs can invest in geared unit trust (Enticott, 2016). This might present a significant risk, and it would require the ATO to collect additional data to provide insights.
1.4 Unlisted property and infrastructure fund holdings

The total stock of unlisted physical assets (infrastructure and property) held by Australian super funds was around $169 billion, of which we estimate that around $142 billion were located domestically, as at 30 June 2015, based on APRA and ATO statistics (Table 3).

Of unlisted property totaling $127.6 billion, nearly $114 billion was held in domestic property. SMSFs accounted for the largest ownership share of unlisted property at 48 per cent, worth $60.8 billion. Nearly 90 per cent of SMSFs’ investments in unlisted property were held domestically. Industry super funds hold around $33 billion in physical property (26 per cent of total), of which an estimated $26.6 billion is in domestic property. The public sector’s unlisted property investments were estimated at $21.6 billion or 17 per cent of total unlisted property investments. The corporate and retail sector’s investments in unlisted property were limited compared to the rest of the sector, sitting at $3.4 billion and $8.6 billion respectively.

In terms of unlisted infrastructure investment, industry super funds were by far the largest player in this asset class. Industry super funds have invested nearly $27 billion in unlisted infrastructure (64 per cent of total superannuation investments in this asset class), of which $18.6 billion was in domestic projects. Public sector funds invested $11.3 billion in unlisted infrastructure (27 per cent of total superannuation investments in this asset class), with around $7 billion domestic holdings. Corporate and retail sector’s unlisted infrastructure investments were a lot more limited at $1.5 billion and $2 billion, respectively. SMSFs did not participate in this investment activity, perhaps due to expertise, investment beliefs, advisor competence and or inefficiency of the SMSF structure (i.e. scale or collective action problems).

Table 3 – Allocations to unlisted property and infrastructure by sector, $bn, as at June 2015

<table>
<thead>
<tr>
<th></th>
<th>Unlisted property</th>
<th>Unlisted infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Overseas</td>
</tr>
<tr>
<td>Retail</td>
<td>6.9</td>
<td>1.7</td>
</tr>
<tr>
<td>SMSFs</td>
<td>60.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Industry</td>
<td>26.6</td>
<td>6.7</td>
</tr>
<tr>
<td>Public sector</td>
<td>17.3</td>
<td>4.3</td>
</tr>
<tr>
<td>Corporate</td>
<td>2.7</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>113.9</td>
<td>13.7</td>
</tr>
</tbody>
</table>

Source: APRA Quarterly Statistics June 2015, and Australian Tax Office (ATO)

Note: SMSFs data is at 30 June 2014. Domestic unlisted property is assumed to account for 80 per cent of total unlisted property investments in APRA-regulated funds. This is probably a significant over statement based on preliminary data reviewed as part of this study.

Table 4 - Future Fund allocations to unlisted property and infrastructure, $bn, as at June 2015

<table>
<thead>
<tr>
<th></th>
<th>Unlisted property</th>
<th>Unlisted infrastructure</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Domestic</td>
<td>Overseas</td>
</tr>
<tr>
<td>Future Fund</td>
<td>3.60</td>
<td>5.19</td>
</tr>
</tbody>
</table>

It is very difficult to pin down the actual stock of physical assets held separately by the public and private sector within Australia as no authoritative official estimates of the total stock exists.\(^3\) ISA has attempted to infer lower boundaries for the national stock of public infrastructure and property (publicly and privately held) by studying sectoral capital stock data published by the Australia Bureau of Statistics (ABS).\(^4\)

- Economic infrastructure (the physical structures from which goods and associated services are derived by individuals, households and industries, including rail, roads and public transport, water and energy networks, ports and airports) were valued at around $761 billion by 30 June 2015 of which most was owned by the public sector (around 70 per cent) split roughly in equal shares between the general government and public non-financial corporations.\(^5\)

- Social infrastructure (the facilities and equipment used to satisfy education, health and community service needs, such as hospitals and schools) were valued at around $365 billion by 30 June 2015 of which again the vast majority was still owned by the public sector.

- Commercial and residential buildings were valued at $1.2 trillion and $1.9 trillion respectively (this includes around $100 billion in publicly owned assets) by 30 June 2015 and a further $163 billion in public assets were devoted directly to the ‘administration and safety’ sector.

Based on the measure presented above, it seems that superannuation funds hold up to 10 per cent (approximately) of the equity shares in the stock of public infrastructure and commercial property held in private hands, with the bulk of this held by industry super funds.\(^6\)

2. Fund performance and drivers

Typically industry super funds have historically outperformed for-profit super funds. ISA analysis of fund performance over the period from 1997 through to 2015 suggests that industry super funds have earned excess returns. We see below that outperformance is led by a range of factors including asset allocation. Outperformance directly improves member adequacy, drives broader economic benefits and strengthens the federal budget position.

2.1 Relative performance

Examining the historical performance of different super fund types suggests that, over time periods from July 1996, on average, industry funds consistently outperform retail funds over any time period that is considered (Figure 7). In the 19 years to June 2015, industry super funds outperformed retail funds by 1.7 per cent on average.

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\(^{3}\) The Productivity Commission (2014) has estimated the stock of public infrastructure and buildings using data from the ABS publication Government Finance Statistics 5512.0.3 and National Accounts 5204.0. They found that for 2011-12, Australian governments owned 'infrastructure and other construction' assets valued at $614 billion. This mainly comprised economic infrastructure, such as road, rail, energy and water assets. Governments owned a further $263 billion worth of buildings, much of which is social infrastructure, including schools and hospitals. These data exclude public infrastructure that is owned or leased long-term by the private sector (including electricity and telecommunications assets, airports, ports, toll roads, schools and hospitals), which they valued at around $260 billion.

\(^{4}\) 5204.0 Australian System of National Accounts, Table 63. Net Capital Stock, by industry by type of asset.

\(^{5}\) Productivity Commission 2014, pp. 55 and 180.

\(^{6}\) Industry super fund’s holdings of public infrastructure ($28 billion / $228 billion) and commercial property ($114 billion / $1.2 trillion) held in private hands.
Analysis shows that on average industry super funds have also outperformed the SMSF sector. In the seven years to June 2014, industry super funds outperformed SMSFs by 0.4 per cent (Figure 8).

However, SMSF results tend to be skewed in favour of a small number of large funds, while smaller scale funds perform more poorly than even retail funds. This is due to a number of reasons, including lack of diversification and higher fee structures (Table 5 & Figure 8).

- Subscale SMSFs (those with less than $500K assets) experienced, on average, zero or negative returns over the seven years to June 2014.
- More than 85 per cent of SMSFs (i.e. those with assets of less than $2 million) underperform industry super funds over the same period.
- More than 40 per cent of SMSFs (i.e. those with assets of less than $500,000) underperform retail funds over the same period.

Only a very small number of SMSF members (133,000 or around 13 per cent of all SMSFs members) actually earn returns greater than wholesale super funds. This segment represents less than 6 per cent of all Australians. In reality these SMSFs are often unconventional investment vehicles used by the very wealthy for, among other things, tax minimisation and estate planning.
Figure 8 – Average returns of SMSFs, industry and retail funds to June 2014

Source: APRA Superannuation fund level rates of return 2015, ATO SMSF statistics

Note: SMSF figures are only available for 7 years to June 2014. Returns for <1M SMSFs are asset weighted returns across the performance of respective fund sizes.

Table 5 – Returns of APRA funds and SMSFs by funds size, as at June 2014

<table>
<thead>
<tr>
<th>Fund Sector</th>
<th>3 year</th>
<th>5 year</th>
<th>7 year</th>
<th>% of SMSFs by asset range</th>
<th>Members</th>
</tr>
</thead>
<tbody>
<tr>
<td>SMSFs</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>$1 - $50k</td>
<td>-15.9%</td>
<td>-13.2%</td>
<td>-15.0%</td>
<td>6.2%</td>
<td>61,481</td>
</tr>
<tr>
<td>&gt;$50k - $100k</td>
<td>-5.8%</td>
<td>-4.1%</td>
<td>-7.2%</td>
<td>4.4%</td>
<td>43,631</td>
</tr>
<tr>
<td>&gt;$100k - $200k</td>
<td>-1.1%</td>
<td>0.2%</td>
<td>-3.3%</td>
<td>9.7%</td>
<td>96,187</td>
</tr>
<tr>
<td>&gt;$200k - $500k</td>
<td>3.3%</td>
<td>3.9%</td>
<td>0.0%</td>
<td>24.1%</td>
<td>238,981</td>
</tr>
<tr>
<td>&gt;$500k - $1m</td>
<td>5.7%</td>
<td>6.0%</td>
<td>1.9%</td>
<td>23.8%</td>
<td>236,006</td>
</tr>
<tr>
<td>&gt;$1m - $2m</td>
<td>6.9%</td>
<td>7.1%</td>
<td>3.1%</td>
<td>18.4%</td>
<td>182,458</td>
</tr>
<tr>
<td>&gt;$2m</td>
<td>8.0%</td>
<td>8.6%</td>
<td>4.6%</td>
<td>13.4%</td>
<td>132,877</td>
</tr>
<tr>
<td>APRA-funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Industry super funds</td>
<td>9.1%</td>
<td>9.0%</td>
<td>3.5%</td>
<td>n/a</td>
<td>6,223,000*</td>
</tr>
<tr>
<td>Retail funds</td>
<td>7.5%</td>
<td>7.5%</td>
<td>1.9%</td>
<td>n/a</td>
<td>7,110,000</td>
</tr>
</tbody>
</table>

Source: APRA annual fund returns 2015, ATO SMSF statistics, Rice Warner

Note: Member numbers for industry and retail super funds are Rice Warner estimates for June 2015.
2.2 Drivers of outperformance

A previous analysis undertaken by Boston Consulting Group for ISA suggests that the key driver of industry funds’ historical outperformance is their higher allocation to unlisted physical assets, coupled with their not-for-profit status. The analysis attributed 63 per cent of the outperformance to the higher allocation to unlisted physical assets and 37 per cent to their not-for-profit status.7

It is certainly true that not-for-profit super funds have an undeniable competitive advantage over for-profit funds. There are a range of business practices which contribute to the margin factor including the structure of products and charges and the nature of related party transactions (significantly lower reliance on related parties and arm’s length commercial terms).

It also seems that APRA-regulated, not-for-profit super funds are capturing the advantages of diversification stemming from investment in unlisted infrastructure and property. These asset classes help to bring stability to asset portfolios, by providing:

- Stable and predictable cash flows by virtue of their strong predictable revenues and inelastic demand curves;
- greater focus from management and capability to fully develop underlying assets to drive economic value; and
- reductions in expenses achieved by minimising the role of financial intermediaries that would otherwise be integral to assets being offered through listed financial instruments.8

In addition, standard portfolio asset allocation theory suggests that unlisted investments in infrastructure and property help to reduce overall portfolio volatility. The argument is that earnings on these assets are generally stable, or somewhat uncorrelated, a factor reflected in their asset prices.

Figure 9 presents the historical rolling five-year standard deviations of major asset classes. Comparing the volatility of different classes of assets through time suggests unlisted assets have significantly lower volatility than, for example, listed equities and listed property. In particular, unlisted infrastructure has remained much less volatile over the time period for which we have data, even during and after the GFC.

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7The Boston Consulting Group and ISA analysis using a 40 year working life cameo projection model drawing on recent differences in fees and 3yr differences in rates of return as measured by APRA in Superannuation Fund-level Profiles and Financial Performance 2013.

8The flip side of this argument is that the more ‘homogenous’ any given asset is (either infrastructure or especially property), the less likely it is to generate diversification benefits. Although it is possible to bundle together ownership of a group of homogenous assets and achieve locational or other network benefit as explained in more detail below.
Figure 9 – Rolling 5-year annualised standard deviations, June 1991- June 2015

The following indices are used: S&P/ASX 300 Index, MSCI World ex Australia Index (hedged in AUD), Australia Mercer Unlisted Property Index, Bloomberg AusBond Composite 0+ Yr Index, Barclays Global Aggregate Index, Bloomberg Bank Bill Index, S&P/ASX 300 Property Index, ASX Infrastructure Accumulation Index, IFM Australian Infrastructure Fund.

It is also useful to look at the relative risk-adjusted performance of different asset classes over time (Figure 10). Over the past 15 years, together with international fixed income, unlisted infrastructure has been a consistent performer. All other asset classes have suffered from periods where they underperformed cash.
Figure 10 – Rolling 5-year annualised Sharpe Ratio, March 2000- June 2015

<table>
<thead>
<tr>
<th>Sharpe Ratio (June 1986-June 2015)</th>
<th>Australian Equities</th>
<th>Int. Equities</th>
<th>Direct Property</th>
<th>Listed Property</th>
<th>Australian Fixed Interest</th>
<th>Int. Fixed Interest</th>
<th>Listed infrastructure*</th>
<th>Unlisted infrastructure*</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>0.17</td>
<td>0.14</td>
<td>0.32</td>
<td>0.12</td>
<td>0.41</td>
<td>0.63</td>
<td>0.39</td>
<td>0.87</td>
</tr>
</tbody>
</table>

*Listed infrastructure from Dec 2013. Unlisted infrastructure from Sep 1995

Source: Bloomberg, IFM Investors

Note: See Figure 9 note. The Sharpe Ratio is a measure for calculating risk-adjusted returns. It takes the average return earned in excess of the risk-free rate per unit of volatility or total risk.

Figure 11 (left hand side) presents the risk and return profiles of the different super industry segments for the period from June 1997 to June 2015. It shows that retail funds over the full 19 year period experienced about the same risk compared to other APRA regulated funds, but also substantially lower returns compared to industry and corporate funds.

Figure 11 (right hand side) presents the risk and return profiles of the different super industry segments for the period from June 2007 to June 2014. It shows that retail funds experienced the highest risk but were not able to generate corresponding higher returns than industry super funds and SMSFs overall. Small SMSFs had the lowest risk and a very low return profile.
2.3 Why industry super funds outperform

Certainly the key role of investment funds in the market economy is to allocate funds to businesses which are likely to produce the highest returns for an acceptable level of risk. A key driver of outperformance by industry super funds is due to asset allocation, especially their use of collective vehicles which manage the selection of unlisted infrastructure and property assets along with private equity investments. This could be characterised as a scale benefit - where the funds have used innovative ways to obtain and deliver scale benefits to members (using strategic advisers and managers). This is consistent with a wholesale investment model where efficiency gains are captured by members, not intermediaries or shareholders.

Some market participants observe that industry super funds’ outperformance is a byproduct of their somewhat younger membership and larger share of default funding flows, on average, compared to for-profit funds. They say that at the margin you would expect industry super funds to allocate a greater proportion of their portfolio to unlisted assets, maintaining a more aggressive, longer term investment strategy which would be expected to generate higher returns. Certainly industry super funds do construct optimised portfolios based on their liquidity requirements and risk/return objectives. However, APRA has consistently found that the retail funds’ lack of exposure to illiquid assets cannot be explained by age or fund cash flows, discounting the usual explanations provided for lower retail performance.\(^9\)

It is also probable that super funds, in general, have not exhausted the potential of the unlisted asset classes in terms of boosting diversification and performance. Internal analysis of a leading industry super fund suggests that it should hold more rather than fewer unlisted assets than it currently does to boost risk adjusted returns. The analysis revealed that holding more unlisted assets would raise long-term performance by about three basis points for every percentage point increase in the illiquid allocation. This

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\(^9\)APRA, 2011; Cummings and Ellis, 2015; Cummings, 2016.
is true even in the face of liquidity stress testing, which indicated that the fund in question could manage redemption risks even in the face of a GFC-style event.

Commentators often claim that industry super funds’ outperformance is really just an “illiquidity premium” or compensation for holding assets which cannot be readily converted into cash. The excess returns that are earned are due to asset allocation and so are effectively ‘burned’ away by funds taking on additional risks. So there is no real net economic benefit from these portfolio allocations. However, such criticism is certainly not demonstrated in the market literature for investors that have long-term horizons. Why would long-term investors purchase assets at prices inflated to compensate them for the inability to achieve a quick sale? On this score, it is instructive that professional valuers from major accounting firms do not factor in these types of margins to their pricing models. It is more likely that the observed premia represents a combination of factors owing to the willingness of funds to see through the lens of a long-term investor:

- Creating additional value by investing in growth assets with stable and resilient revenue streams;
- using scale benefits to reduce intermediation; and
- locking in the economic gains captured from holding interconnected portfolio assets within the same region.

Historically, no single managed fund in Australia had the capacity, size or experience to absorb the financing challenge of big unlisted physical assets onto their balance sheets and still maintain an appropriate level of diversification. To do so they had to form consortia with like-minded funds.

For retail super funds, this meant partnering with competitor businesses trying to steal market share and profit margin. Their for-profit status usually meant they had no incentive to cooperate to achieve an effective network of funds. Now that certain larger retail funds have the critical mass to invest in infrastructure, they don’t do so because their business model is premised on the more lucrative active listed forms of fund management. Funds whose business model is about promoting member choice necessarily have a very short-term horizon and so eschew investment in unlisted assets. For these reasons, very few retail funds hold significant unlisted property assets and it is even rarer for them to hold unlisted infrastructure assets. Perhaps the exception is AMP (previously a mutual).10

For industry super funds, however, they were already bound within a collective network. They were anchored in public policy, and their not-for-profit orientation made possible a greater degree of cooperation through joint ventures and collective investment vehicles to achieve the scale required. A clear example of this approach saw the establishment of the two jointly owned collective asset management vehicles around twenty years ago, namely:

- IFM Investors; and
- Industry Superannuation Property Trust (ISPT).

The cooperation of industry super funds has allowed IFM Investors and ISPT to achieve the necessary scale to internalise network externalities.11 They also have the capability to operate as wholesale investors, remove costly financial intermediation and ensure the profitability of underlying assets is captured by members.

Larger individual industry funds have also now obtained a sufficient scale whereby they are employing internal investment teams and are investigating alternate investments. For example, AustralianSuper and Cbus have started to bring management of certain assets in-house.

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10 AMP was originally in DAF (the precursor of IFM Investors). They were subsequently bought out. Brown and Davis (2009), p.12.

11 A network effect (also called network externality or demand-side economies of scale) directly increases usage that leads to increases in value of the underlying assets or spawns the production of increasingly valuable complementary goods, and this results in an increase in the value of the original product.
3. Member benefits

The following section examines the implications of industry super funds’ superior asset returns for private wealth creation and attempts to measure how much better off the average industry super fund member will be over time as a result.

3.1 The impacts of outperformance on member account balances

Over the period from July 1996 to June 2015, industry super funds have outperformed their retail counterparts by 1.7 per cent per annum. This translates to a significant private wealth benefit to members. Figure 12 illustrates the impacts of industry super funds’ outperformance for a typical industry fund member.\(^{12}\)

Assuming the member’s starting balance is zero in 1996 and they earned average wages throughout the period, in June 2015 they would have an estimated superannuation account balance of $77,555 with an industry super fund, or $67,273 with a retail fund. The member would be estimated to be $10,282 better off with an industry super fund account.

Figure 12 – The impacts of outperformance on member account balances, industry super vs. retail funds, 1996-2015

Source: ISA modelling, ABS 6302.0 - Average Weekly Earnings, APRA Annual Superannuation Bulletin June 2015

Note: The model assumes a starting balance of zero and the average of industry super fund members’ wages throughout the period.\(^{13}\)

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\(^{12}\) ISA estimates that more than 70 per cent of employees earn less than AWOTE on average. From the ATO 2 per cent sample file for 2013-14 (the only year with superannuation data), we identified a sample of potential industry fund members based on a number of characteristics such as superannuation contributions and balances. We calculated that the average wage of these potential members was around 58.3 per cent of AWOTE.

\(^{13}\) See footnote 12.
Similarly, we have modelled the impacts of the difference in returns between industry super funds and SMSFs for the seven years to 2014 (Figure 13). The results show that an industry super fund member was $1,459 better off than SMSF members on average, while SMSF members with less than $1 million in assets were $3,397 worse off than industry super fund members, on average, after only seven years.

**Figure 13 – The impacts of returns on member account balances, industry super vs, SMSFs, 2007-2014**

![Graph showing the impacts of returns on member account balances, industry super vs, SMSFs, 2007-2014](image)

*Source: ISA modelling, ABS 6302.0 - Average Weekly Earnings, APRA Annual Superannuation Bulletin June 2015, ATO SMSF statistics*

*Note: The model assumes a starting balance of zero and the average of industry super fund members’ wages throughout the period.*

### 3.2 Aggregate impacts of outperformance

Given that industry super funds generate superior rates of return through time, controlling for other factors, this inevitably leads to higher average member balances compared to a situation where all funds were invested by the retail sector.

Based on our modelling that an average member would be $10,282 better off by being invested in an industry super fund as opposed to a retail fund (Figure 12), we estimate that industry super funds’ outperformance has translated to an additional $51 billion in wealth for their members on aggregate (Figure 14).
4. Economy-wide benefits

What follows is a discussion of how industry superannuation funds benefit the broader economy.

4.1 How industry funds impact the economy?

We have established that industry super funds have generated superior returns and accumulated savings relative to the counter factual where all relevant amounts are invested by retail or SMSF funds. We have seen the additional returns generated by industry super funds accumulated due to benefits with the business model employed by funds.

In this section we will attempt to explain how the unique investment approach taken by industry super fund trustees has affected broader macro economy aggregates. In a nut shell, the superior performance by industry super funds implies an upward spiral of economic expansion achieved mainly via greater capital formation:

1. Outperformance by industry super funds (driven by business model and asset allocation) produce a larger pool of funds invested in unlisted assets, raising the capital outlays by funds;
2. Higher capital expenditure raises has a number of impacts. It supports the level of output and employment and raises long-term productivity outcomes, which lifts living standards by generating higher real incomes for workers and more broadly;
3. Higher wage compensation for workers, results in greater superannuation saving by members which raises national savings to fund greater capital investment;
4. A bigger pool of national savings equals lower foreign indebtedness, which reduces reliance on external credit markets and potentially lowers the risk premia on foreign borrowing;
5. Greater national savings provides an automatic stabiliser during periods of financial crisis by purchasing assets when others are selling (counter-cyclical investment) and helping to capitalise operating firms and the banking system to head off the worst aspects of financial market shocks; and
6. A larger pool of national savings raises the quantum of managed funds to invest.

Each of these theoretical economic outcomes flow from aspects of industry super funds’ outperformance, as represented in Figure 15 below.

**Figure 15 – The upward spiral of economic expansion achieved by industry super**

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4.2 Portfolio allocation raises business investment in physical assets

To really assess the contribution of industry super funds in driving economic activity in Australia, we must understand how savings placed in superannuation are invested.

At a system level, superannuation uses cash received over time (primarily from contributions and from investment returns) for further investment. This investment falls into two general categories:

1. Purchasing existing financial assets in secondary market transactions, such as acquiring listed equity previously issued by an operating company; and
2. Purchasing new financial assets reflecting an interest in new capital, such as newly issued listed equity, the proceeds of which are received by the issuer and used for capital expenditure by the issuer.

Secondary market transactions have little direct impact on economic activity as they represent a transfer of existing financial assets.\(^\text{14}\) Primary market transactions, however, involve the issuance of new interests in businesses (debt or equity, listed or unlisted) especially transactions involving the purchase of new unlisted infrastructure or property assets.\(^\text{15}\) These transactions have a direct positive economic impact where a financially sustainable asset is acquired or created. The underlying physical asset(s) must be maintained or developed via capital expenditure funded either from retained earnings (generated from those underlying business assets) or by the company raising the necessary equity or debt from financial markets (including super funds). The ‘capital’ injections to modernise, develop or make more environmentally sustainable existing assets represent a net addition to the economy.

Because industry super funds actively choose to play a significant role in primary markets in Australia, the activity associated with these transactions represents a net addition to the domestic economy in output and income terms. As industry super funds outperform through time, these benefits are ‘locked away’ in members’ accounts representing the superiority of their business model. From the perspective of the national economy, they represent net returns or ‘profits’, in other words income streams flowing to Australians and supporting domestic output and jobs, not a leakage of dividends paid to foreign owners.\(^\text{16}\)

Each of these economic benefits referred to above relate to the drivers of outperformance of industry super funds which, in tandem with the compulsory superannuation system and the normal bias towards home country investment, lead to a welfare-enhancing net increase in the national capital stock through time. Absent of these factors, Australians would undoubtedly save less for their retirement and our small, open economy would have to rely more on foreign investment. National income would have been reduced as Australia’s productive capital stock would be smaller.

The longer term investment horizon of industry super funds encourages the development of underlying assets rather than short term purchase and resale.\(^\text{17}\) While there are certainly alternative domestic owners for infrastructure or property assets, most of them lack the incentives or capacity to develop assets to the same extent as not-for-profit super funds (including industry super funds).

A lower reliance on foreign savings due to fund outperformance delivers, in aggregate, a deeper stock of capital and technology owned by Australians than the counterfactual as is explained below.

\(^\text{14}\) But they do underpin the market itself and form a platform from which new capital is raised. Owners do continue to undertake capital expenditure on their assets which helps to improve the living standards over the longer term.

\(^\text{15}\) In addition, in some circumstances a superannuation fund, as an investor, might through its ownership rights have influence over the capital expenditure decisions of an operating company. For example, the investor might determine to direct net income of such a company into further capital investment by that company, as opposed to seeking to distribute net income to investors as a dividend.

\(^\text{16}\) Whether these investments would occur in the absence of industry super funds is an interesting question. Certainly some entity outside the superannuation sector would hold most of the unlisted infrastructure and larger commercial property assets, and this would not be retail funds and SMSFs. In most cases assets would be purchased by a foreign managed fund (sovereign wealth fund, life insurance company or investment fund). If excess returns were generated by these assets, they would not be captured within the super sector for the benefit of working Australians but would mainly pass to their foreign owners.

\(^\text{17}\) History suggests that industry super funds have the requisite knowledge and skills to steward the existing capital assets they purchase and greenfield assets they produce. This is why their fund returns are so high and why there is no shortage of domestic and foreign bidders who want to partner with them on new offerings. Indeed, many of the infrastructure projects undertaken outside the industry super funds’ network (typically managed by IFM Investors) by managers such as Hastings or QIC are undertaken on behalf of industry super funds or because industry super funds hold a significant equity stake (10 to 30 per cent) alongside foreign investors. Foreign investors are often only interested in projects if they can partner with a significant domestic player, and the most significant of all is IFM investors and the larger industry super funds. Often multiple foreign bidders form consortia with different industry super funds and they bid up the price of assets in the process. In the case of public asset sales this introduces true competition in the bidding process which benefits the public balance sheet in terms of sales receipts.
In June 2015, industry super funds held:

- Around $18.6 billion in Australian unlisted infrastructure (around 66 per cent of total super holdings).
- Around $26.6 billion in Australian unlisted property (around 23 per cent of total super holdings).

For the purposes of the economic impact analysis presented below, we surveyed major industry super funds and asset managers regarding their unlisted investments on an asset by asset basis, removing double counting relating to interlocking ownership shares. These agencies held in June 2015:

- Around $15 billion in Australian unlisted infrastructure (around 81 per cent of industry super holdings of total Australian infrastructure holdings).
- Around $22 billion in Australian unlisted property (around 83 per cent of industry super holdings of total property holdings).

### Table 6 - Capital stock by asset type, millions $

<table>
<thead>
<tr>
<th>Asset Value</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td>$15,039</td>
</tr>
<tr>
<td>Law courts</td>
<td>$50</td>
</tr>
<tr>
<td>Aged Care - residential</td>
<td>$50</td>
</tr>
<tr>
<td>Railways</td>
<td>$250</td>
</tr>
<tr>
<td>Airports</td>
<td>$4,846</td>
</tr>
<tr>
<td>Seaports</td>
<td>$3,579</td>
</tr>
<tr>
<td>Toll roads</td>
<td>$2,395</td>
</tr>
<tr>
<td>Water</td>
<td>$834</td>
</tr>
<tr>
<td>Electricity generation</td>
<td>$962</td>
</tr>
<tr>
<td>Pipelines</td>
<td>$162</td>
</tr>
<tr>
<td>Other Public</td>
<td>$1,911</td>
</tr>
<tr>
<td>Property</td>
<td>$21,805</td>
</tr>
<tr>
<td>Residential</td>
<td>$337</td>
</tr>
<tr>
<td>Retail</td>
<td>$9,200</td>
</tr>
<tr>
<td>Mixed</td>
<td>$3</td>
</tr>
<tr>
<td>Industrial</td>
<td>$1,642</td>
</tr>
<tr>
<td>Commercial</td>
<td>$9,987</td>
</tr>
<tr>
<td>Other</td>
<td>$636</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$36,844</strong></td>
</tr>
</tbody>
</table>

Source: ISA asset database and Multiregional Model Regional Forecasting version 5 or (MMRF5) database.

### Short-term value added

The net addition to economic activity or value added by industry super funds due to asset allocation as at 30 June 2015 was estimated as follows.

Our survey of major funds provided data on unlisted asset holdings and the dollar value of capital expenditure spending (Table 6). To the capital expenditure data we then applied standard input-output

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18 Survey respondents included seven major industry super funds (Australian Super, Caressuper, Cbus, Hesta, HostPlus, MTAA and UniSuper) and the network asset managers IFM Investors and ISPT.
‘multiplier’ analysis based on inputs extracted from the regional economic database supporting the long-term economic forecasting model developed by the Productivity Commission.\(^\text{19}\)

Our estimates are very conservative for a number of reasons:

1. Funds could not always identify every last dollar of capital expenditure undertaken on each and every asset;
2. Funds did not identify other spending associated with the direct management of these assets; and
3. ISA applied only ‘simple multipliers’ in the analysis undertaken to capture the first round and industrial support effects, from capital expenditure spending, but excluding downstream effects related to household consumption-induced effects that can arise via wage payments.\(^\text{20}\)

Given the conservative basis of the ISA capital expenditure modelling, our results should be viewed as the lower bound of possible impacts. It is hoped that over time we can refine our estimates with the support of our stakeholder funds and by using more sophisticated modelling approaches to include an exact estimate of the downstream impacts of major projects.\(^\text{21}\)

The key ‘multiplier’ results stemming from our survey of major industry super funds and asset managers are presented in the following tables.

The total output impacts associated with extending industry super funds’ infrastructure and property capital expenditure at 30 June 2015 is presented in Table 7 by asset type. The purpose of the table is to quantify the estimated impact on regional economic activity stemming from the capital expenditure associated with the asset allocation of industry super funds.

To put this in context, consider the example of airports. Industry super funds undertook around $507 million in capital expenditure which directly raised gross regional output by around $205 million, with upstream or indirect value added raised by $290 million, for a total increase in value added of $495 million. The ratio of total value added to direct value added, which is referred to here as the value added multiplier, was 2.4.

Total estimated capital expenditure across asset classes was close to $2.8 billion. This expenditure led to higher regional output, directly contributing around $1 billion to gross regional product across Australia. Based on an estimate of total value added, the overall multiplier is 2.6. This represents total activity of around $2.7 billion in value added (0.17 per cent of GDP in 2015). This implies ‘indirect’ upstream economic impacts adding a further $1.7 billion to the first round or direct spending impact.

\(^{20}\) Using ‘simple multipliers’ is consistent with the conservative practice adopted by official agencies that use or advise on the use of I-O multipliers. For example, the NSW Treasury suggests that “as consumption induced effects are tentative and unobservable it is good practice to exclude them from I-O impact analysis and use the simple multiplier”.

The use of simple multipliers while not capturing the full downstream consumption effects, will still capture the more direct impacts in local regions, electorates and local government areas, which are the primary focus of ISA analysis. They do not, however, include those project impacts which may be crowded out by factor price changes at the state or national level.


Through approaches such as computable general equilibrium modelling.
Table 7 - GDP impacts of capital expenditure spend by asset type, millions $

<table>
<thead>
<tr>
<th>Sector</th>
<th>Value added – Gross Regional Product</th>
<th>Capital expenditure</th>
<th>Direct</th>
<th>Indirect</th>
<th>Total</th>
<th>Multiplier (1B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Infrastructure</td>
<td></td>
<td>$1,108</td>
<td>$450</td>
<td>$630</td>
<td>$1,080</td>
<td></td>
</tr>
<tr>
<td>Law courts</td>
<td></td>
<td>$10</td>
<td>$4</td>
<td>$6</td>
<td>$10</td>
<td>2.39</td>
</tr>
<tr>
<td>Aged Care - Residential</td>
<td></td>
<td>$4</td>
<td>$1</td>
<td>$2</td>
<td>$3</td>
<td>2.41</td>
</tr>
<tr>
<td>Railways</td>
<td></td>
<td>$10</td>
<td>$4</td>
<td>$6</td>
<td>$10</td>
<td>2.41</td>
</tr>
<tr>
<td>Airport</td>
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<td>$507</td>
<td>$205</td>
<td>$290</td>
<td>$495</td>
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<td>Toll road</td>
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<td>$43</td>
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<td>$24</td>
<td>$42</td>
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<tr>
<td>Water</td>
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<td>$22</td>
<td>$31</td>
<td>$53</td>
<td>2.39</td>
</tr>
<tr>
<td>Electricity generation</td>
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<td>$23</td>
<td>$9</td>
<td>$13</td>
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<td>Pipelines</td>
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<td>$50</td>
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<td>Other Public/Various</td>
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<td>Property</td>
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<td>$1,675</td>
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<td>Residential</td>
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<td>Retail</td>
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<td>2.65</td>
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<td>Industrial</td>
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<td>$70</td>
<td>$111</td>
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<td>Commercial</td>
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<td>$440</td>
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<td>2.73</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$2,783</td>
<td>$1,030</td>
<td>$1,682</td>
<td>$2,711</td>
<td>2.63</td>
</tr>
</tbody>
</table>

Source: ISA super in the economy database and MMRFS5 model database.

Total employment impacts associated with the asset allocation of industry super funds and their capital expenditure in 2015 is presented below in Table 8. It details the direct, indirect and total employment impacts of the total industry super fund capital expenditure spend of $2.8 billion in financial year June 2015. This spending directly employed around 19,500 Full Time Employment (FTE) persons with further indirect employment impacts adding a further 26,600 FTE persons to the workforce each year. In total, the combined direct and indirect impacts suggest the capital expenditure spend supported just over 46,000 FTE jobs. These are real jobs, building technical skills and experience across a broad range of industries and occupations through regions. The ratio of total employment to direct employment, which is referred to here as the employment multiplier, was 2.6.
In terms of total employment impacts, the greatest beneficiaries are the larger states, with New South Wales, Queensland and Victoria almost in equal proportion (Figure 16).
Spending Multipliers

Spending and employment multipliers associated with additions to public infrastructure and property holdings are considered to be some of the highest achievable. That is for every dollar spent directly on capital goods, significant upstream purchases of raw materials, trades and specialist services are required to produce the asset which generates significant downstream consumer purchases out of income flows from workers’ wages.

This is why governments turn to new construction projects as a means of stimulating economic activity at times of economic downturn based on ‘bang per buck’ criteria.\(^{22}\)

Above we have seen expenditure and employment impacts (ratio of total/direct) imply large multipliers. In other words, the $2.8 billion of capital expenditure spending by funds generated further upstream activity or value added worth around $2.7 billion for a total multiplier of around 2.6. This same spending generated or supported about 46,000 jobs. These figures are summarised in Figure 17 below.

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\(^{22}\) The only problems with these policies are the lags associated with rolling them out at exactly the right time in the business cycle. This is because there are lags associated with project selection, approvals, construction etc.
4.3 Higher business investment raises productivity

Labour productivity growth is the most important driver of per capita income ‘living standards’ through time. Increasing real incomes give people the capacity to buy more goods and services, save and invest, as well as more freedom to choose how to spend their time. Higher incomes also generate more tax revenue for government services and income support. Higher productivity growth also supports a more stable inflationary environment which in turn underpins business confidence and over the long run enhances the purchasing power of members’ savings.

In the aftermath of the China boom, the Australians face declining living standards as falling terms of trade imply that the world wants to pay us less for our goods and services. This is against a backdrop of low growth and low returns across the global economy. To maintain and raise Australian living standards in the current environment demands spurring growth in labour productivity.

Broadly speaking labour productivity growth is achieved through two means, capital deepening and multifactor productivity for a given labour force.23

Investments in newly produced assets tend to contribute significantly to measured labour productivity once assets are fully operational. By definition, a larger or deeper capital stock applied to a given workforce raises measured output per unit of labour. Importantly, there is a clear empirical link between spending on public infrastructure and measures of labour productivity as estimated in the early 1990s, even if we now think the impacts are likely to be significantly smaller.24

A comparison of the growth in public investment to the growth in labour productivity across 33 OECD member countries between 1995 and 2013 suggests that raising the rate of public investment in the economy by 1 per cent would increase measured labour productivity growth by 0.1 per cent in any given year. This trend is confirmed in Figure 18 below. Applying this to an estimate of the total stock of Australian public infrastructure (in public and private hands) of $1.1 trillion at 30 June 2015, suggests that the stock contributes an additional $124 million to output each year.25

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23The other major source of labour productivity gain is to invest in the quality of human capital through education and training.


25Industry super funds have added, or are managing up to $15 billion in public infrastructure assets out of a total stock of $1.085 billion. Assuming around one half of the $181 billion in annual physical CAPITAL EXPENDITURE by corporations flows to public infrastructure assets then the permanent increase in output via capital deepening is around 0.1 * $15/$1085 * $181* 0.5 = $124 million.
Some argue that labor productivity gains from capital deepening are more likely to be temporary or static gains for an economy. Certainly, high growth rates cannot be sustained through factor accumulation alone.\textsuperscript{26}

Some reason that labor productivity gains achieved via total factor productivity (TFP) are preferable as they argue they lead to ongoing ‘dynamic’ efficiency gains which drive up growth rates through time. TFP, or broadly speaking, technological change generated via better industrial organisation, research and development (R&D), and deeper investment by business and government and spillovers associated with each, is usually attributed to the bulk of economic growth through time.\textsuperscript{27} The American economist Robert Solow was one of the first to identify the links between economic growth and technological change.

Indeed he attributed 80 per cent of economic growth to such change.\textsuperscript{28} But it should also be noted that the distinction between capital deepening and TFP is somewhat arbitrary as TFP measurement captures any technology and innovation impacts associated with new infrastructure. TFP growth rates are also impacted by levels of public infrastructure spending in economies. This is the reason why regenerating and extending

\textsuperscript{26}Easterly, W and Levine, R 2001.

\textsuperscript{27}Davis & Rahman, 2006, p 14.

\textsuperscript{28}Solow, 1957.
a nation’s stock of public infrastructure is so important as the technology embodied in the stock allows for spillover effects and a path of dynamic advance through economies.

We estimate that for 20 OECD nations, raising the rate of public investment growth by 1 per cent increases measured TFP growth over time by 0.13 per cent. This trend is confirmed in Figure 19 below. Applying this ratio to an estimate of the total stock of public infrastructure (in public and private hands), we calculate that the stock contributes an additional $164 million to output each year.29

Figure 19 – Relationship between the growth in multifactor productivity and the growth in investment, 1995 to 2013

\[ y = 0.1293x + 0.4414 \]
\[ R^2 = 0.2188 \]

4.4 Stronger economy, higher savings and lower net debt

As long as Australia is heavily dependent on external sources of funding and the net borrowings of Australian households, corporates and governments are still rising rapidly, credit ratings agencies will be sensitive to the total stock of national debt, its composition and purpose. The stock of net external borrowings currently totals around $974 billion or 61 per cent of GDP at 30 June 2015. Maintaining strong credit worthiness is important for Australia as a small, open economy. The nation relies in large part on the savings of foreigners to fund ongoing investment requirements and has relatively volatile export earnings.

Given the exposure the Australian economy has to ‘debt’ issues, a premium is placed on savings ‘stabilisers’ embedded in the economy, such as the compulsory superannuation system. In this sense, superannuation savings are a cornerstone of the financial system, helping to reduce borrowing costs for all by lowering the total indebtedness of Australians. It is generally accepted that compulsory superannuation leads to an increase in household saving, as credit constrained lower income earners cannot respond to compulsory

29 Refer to footnote 25 for basis of calculation.
savings with less discretionary saving elsewhere. Research on whether some of the additional household savings attributable to superannuation are offset by decreases in savings elsewhere has generally found an involuntary savings offset to compulsory superannuation of greater than zero but less than one - typically the range is from 0.3 to 0.8, which is normally calibrated at 50 per cent.

If industry super funds have added around $51 billion to Australian superannuation savings via outperformance over the last 19 years, and each dollar in superannuation savings adds at least 50 cents to national saving, this indicates that national savings has risen by around $26 billion due to the outperformance of industry super funds. This estimate is likely to be conservative given that most industry super fund members are typically lower income earners and have a low capacity for discretionary saving.

The flip side of Australian residents holding more financial wealth over time is that the Australian economy has to service lower net external liabilities (net debt), which potentially allows all Australian borrowers to access global credit markets on more favorable terms. Research undertaken by the Treasury during the 2000s suggests that for each 1 per cent reduction in total net external liabilities, borrowing costs are reduced (conservatively) by at least 3 basis point (bps) over time by lowering the risk embedded in interest rates. Combing the additional $65 billion in additional net assets over the period with a lower risk premia on foreign debt implies a total interest saving across the national economy worth around $77 million each year (Figure 20).

Figure 20 – Lower foreign borrowing reduces borrowing costs for all Australians

4.5 Higher superannuation saving acts as an automatic stabiliser

It is often argued that government support to the major banks helped the Australian economy weather the GFC storm. While from a profitability standpoint, the major banks were and remain among the most profitable banks in the world, they did require extraordinary government support during the GFC. Some of the support was direct in the form of explicit guarantees of bank bonds and deposit liabilities. Some of the

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30 Other savers have more discretion in their savings decision so that if you force them to save more in one way they will save less in another.
31 Connolly and Kohler, 2004; Gruen and Soding, 2011; Shanker and Vidler 2014.
32 It is generally accepted in the literature that compulsory superannuation leads to an increase in household saving, largely due to the credit constraints of low-income earners.
33 Raising national saving does not always directly reduce net external liabilities in an accounting sense, but does always strengthen the net asset position of the nation.
support was implicit because the capital markets perceived the major banks as being ‘too big to fail’ and therefore viewed the major banks as certain to receive government support in times of stress. Finally, some of the government support was indirect, in the form of broader fiscal stimulus measures which benefited their customers, reducing the credit risk of Australian consumers and the default risk of bank assets.

Less well known is the extent to which industry super funds with strong cash positions were able to recapitalise Australian banks and operating companies during and after the GFC. For example, the major banks were significant beneficiaries, being able to recapitalise quickly through a number of private placements. The need for speed advantaged not-for-profit institutional investors such as industry super funds whose wholesale business model and existing asset allocation provided scope to engage in ‘off-market’ private placements over short time periods. Where super funds had a more retail ‘choice’ their rapid response capacity was lessened.

Some evidence of this pattern can be seen by comparing the holdings of households and super funds in Australian equities during the GFC. The countercyclical investment behaviour displayed by superannuation funds as they managed their strategic asset allocations contrasted with the pro-cyclical tendency of other investors, including retail investors that sold assets as prices fell and bought as they rose. Households reduced direct ownership but super funds, driven by strategic asset allocations, boosted holdings (Figure 21). This strategy should provide benefit over the long-term and certainly boosted fund returns in calendar year 2013 when the value of Australian equities rebounded.

Figure 21 – Holdings of equity: households vs. superannuation

5. Budget benefits

What follows is an attempt to quantify the contribution of industry super funds to the federal budget above and beyond what retail funds or SMSFs could offer.

5.1 How industry super funds impact the federal budget

A stronger economy has definite budget impacts. It raises tax receipts and lowers outlays on transfer payments and interest costs. Table 9 below which is sourced from the 2015-16 mid-year economic and fiscal outlook (MYEFO) helps to illustrate this point.

It shows that a 1 percentage point increase in real GDP raises revenue receipts by around $4.5 billion after two years.\(^\text{35}\) Income tax collections increase because of the rise in the number of wage earners and additionally from higher real wages. The stronger labour market also increases tax collections from superannuation funds because contributions (including compulsory contributions) are higher. The increase in personal incomes leads to higher consumption which results in an increase in goods and services tax (GST) receipts (with the corresponding receipts passed on in higher GST payments to the states). In addition, the stronger economy results in higher levels of corporate profitability, increasing company taxes.

| Table 9 - Sensitivity of the budget balance to a 1 per cent increase in real GDP |
|--------------------------------------|----------------|----------------|
|                                      | 2015-16 $billion | 2016-17 $billion |
| Receipts                             |                |                |
| Individuals' and other withholding taxes | 1.9            | 1.6            |
| Superannuation fund taxes             | 0.1            | 0.2            |
| Company Tax                          | 1.1            | 1.7            |
| Good and services tax                | 0.5            | 0.6            |
| Excise and customs duty              | 0.4            | 0.4            |
| Other taxes                          | 0.0            | 0.0            |
| **Total Receipts**                   | **4.0**        | **4.5**        |
| Payments                             |                |                |
| Income support                       | 0.0            | 0.2            |
| Other payments                       | 0.1            | 0.1            |
| Goods and services tax               | -0.5           | -0.6           |
| **Total Payments**                   | **-0.4**       | **-0.3**       |
| Public debt interest                 | 0.0            | 0.2            |
| **Underlying cash balance impact**   | **3.6**        | **4.4**        |

Source: MYEFO 2015-16, Part 3, Attachment A, Table 3.22, p.64

It also shows that an increase in real GDP also reduces the overall call on government outlays by reducing the demand on income support payments and other transfer payments due to the stronger economy, which saves around $300 million each year.

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\(^{35}\)The table assumes a permanent shock to the level of labour augmenting technical change over 10 years which causes capital deepening. The framework has balanced growth so the capital output ratio is fixed. This means a 1 per cent shock to the level of labour augmenting technical change induces a 1 per cent increase in the capital which implies a 1 per cent increase in the level of labour productivity (labour supply is fixed). This relies on sufficient CAPITAL EXPENDITURE to achieve the productivity improvement.
Based on the household wealth and economic impacts outlined earlier in this paper, industry super funds contribute around **$702 million** to the budget bottom-line after two years. This is illustrated by component in Figure 22. Each contribution to this stronger budget bottom-line is explained below in the following three sections.\(^{36}\)

**Figure 22 – Federal Government budget benefits in short-term from industry super**

5.2 Higher tax receipts from stronger growth

Total capital expenditure by industry super funds surveyed as part of this study was $2.8 billion or around 0.17 per cent of national output in 2015-16. In the short run, higher capital expenditure on physical assets by industry super funds implies a close to **$663 million** dollar improvement in the federal budget bottom line after two years net of GST receipts based on the sensitivity table published in MYEFO papers.

5.3 Lower pension payments from private asset holdings

An increase in private asset holdings leads to lower pension payments. If industry super funds help to raise the average asset holdings of their members in retirement phase, that will feed back into lower Age Pension outlays by the Federal Government. In section 2.1 it was shown that the average super fund member was around $10,300 per member better off over the last two decades from being in an industry super fund relative to a retail fund and SMSF. Given that around 110,000 current and former members are in retirement phase, most of these have relatively modest asset holdings, this implies a modest **$5 million** saving, on average.\(^{37}\) However this number will rise significantly over time as more industry fund members reach retirement phase.

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\(^{36}\)The magnitude of these savings may be easier to picture if they are compared to the cost of building new schools and hospitals. For example, the capital cost of building a new high school can be up to $100 million. The capital cost of building a new state of the art public hospital can be as much as $2.1 billion.

\(^{37}\)According to the 2011-12 Survey of Income and Housing we estimated that there are around $12,000 retired industry super funds members in the age group 65 to 74. They represented about 35 per cent of the 1,417,000 Australians in this age group. Most of the $12,000 were full-rate pensioners. We estimated that 22,000 members had an Aged Pension which was reduced by an average amount of $210 per year because of industry fund outperformance. So the annual save in Age Pension outlays was about $5 million.
5.4 Lower interest costs from higher growth

Treasury’s sensitivity table of budget impacts implies that a 1 per cent of GDP increase lowers public interest costs on public debt by around $200 million. With industry super funds’ investment at 0.17 per cent of national output, this implies a saving on public debt interest of around $34 million each year.

6. Policy implications

Superannuation funds have the potential to invest for the long-term in productive assets that leave the economy stronger and put more money in members’ pockets. Public policy changes can help elevate this kind of investment for some funds. Retail funds could do much more of this kind of investing. Industry super funds have invested in this way to a greater degree than other kinds of funds, but can do even more. SMSFs, however, are not well-suited to long-term investments in direct assets because of scale, liquidity, and collective action problems.

6.1 Default ‘safety net’ is the pillar of investment and growth

Industry super funds’ outperformance has been driven by the investment beliefs and values of the super fund trustees, and the ability and preparedness to capture illiquidity premia. A default fund selection process based on merit can help to connect superannuation savers to high quality providers that will invest for the long-term. In addition, members who rely on or are guided by default settings unlock the potential for super funds to invest in more illiquid assets because the risk of rapid and unexpected withdrawals and switching activity by members is reduced.

Such a safety net of strong default settings also help consumers. Individuals bear significant risks in superannuation that research repeatedly suggests they are not well suited to manage. Delivering a maximised retirement income for life that is reasonably stable involves managing investment, sequencing, longevity and inflation risk.

Even maximising long-term investment returns has demonstrably been difficult for individuals. The evidence points to a conundrum for policy makers and economists – the more consumers choose, the more they typically lose in retirement savings benefits, compared to the outcomes achieved by the members of (largely not-for-profit) default products, and so the greater the opportunity cost they bear in terms of lost savings/living standards. This is summed up by the maxim ‘you choose and you lose’ when it comes to superannuation and this is summarised in Figure 23.

The more fund members are channeled into a choice environment, the lower their retirement nest egg is likely to be, on average, and the more the structural underpinnings of the national economy are undermined. This is in no small part due to the willingness of many for-profit choice providers to exploit consumers. Research attributes the underperformance of retail funds to “agency issues” – uncommercial payments to related parties, a failure to realise economies of scale, lower allocations to higher returning infrastructure and property assets, and retaining members in poor value legacy products. The system architecture and the lower regulatory settings that exist around the choice sector have placed considerable responsibility on individual savers to manage these conflicts of interest and other risks. The evidence would suggest that too often they are not equipped to do so.
While improving financial literacy and engagement is important, particularly for the superannuation industry, the lessons of behavioural economics and the evidence of outcomes of many choice members point to the fact that, like disclosure, member engagement on its own will not ensure system efficiency and competition. More effective consumer protection is needed, with strong settings that connect members to high quality providers and products, even for members who are seen as being more engaged. Meanwhile, efforts to further enhance the outperformance of the default system, including to incorporate specific net performance measurement into the selection of default products through the Fair Work Commission, are vital but remain stalled after legal action by the bank-owned super funds.

### 6.2 The objective of superannuation should capture superannuation’s role in the economy

The Government’s recent consultation on enshrining the objective of superannuation in legislation provides an opportunity to clearly articulate the capacity of superannuation to benefit the broader economy.

A concrete objective will better enable benchmarking of whether the system is becoming more or less efficient over time and the extent to which all Australians are benefiting from the superannuation system.

In ISA’s submission to the Government’s consultation on setting a policy objective for the superannuation system, the proposed objective for Australia’s superannuation system is:

*To deliver financial security and dignity in retirement to all Australians by providing regular income that is, when combined with any public pension and other sources of income, sufficient to secure a comfortable standard of living by reasonable community standards.*

In addition to its primary role of providing for members’ retirement, it is proposed that there should be secondary objectives – which should include bolstering the role of the superannuation system as a significant component of Australia’s financial system and economy.
ISA’s submission recommended the development of explicit subsidiary objectives that would provide an opportunity to define how the system can work most efficiently in these areas.

These subsidiary objectives should be guided by the following considerations:

- **Superannuation is a pool of national savings which can fund direct, long-term productive investment, as well as serve as a macroeconomic buffer to protect our economy from funding shortages and sentiment-driven volatility in global financial markets.**

- **Direct investment by super funds in infrastructure, unlisted equity and unlisted property has the capacity to directly increase member net returns and lift Australia’s productivity growth. In turn, a more productive economy benefits members and retirees by increasing employment levels and lifting living standards.**

- **While the efficiency of investment outcomes is captured in long-term net returns, direct investment in productive capital assets is of such importance that it warrant measurement as a discrete element of the superannuation system.**

These subsidiary objectives would play an important role in bolstering the primary objective by recognizing the inextricable link between retirement incomes and direct investment in the economy.

### 6.3 More public infrastructure and stronger linkages to superannuation

#### 6.3.1 There is a need for more public infrastructure

It is well accepted that Australia lacks an adequate stock of public infrastructure needed to provide necessary services to meet current requirements of a fast growing population. Evidence of these shortfalls are everywhere, including, traffic congestion, outdated commuter rail networks, inadequate renewable energy generation and antiquated eastern state freight rail systems, etc.

The total deficit in public infrastructure has been estimated at **$80 billion** by the Office of the Infrastructure Coordinator in its submission to the recent Productivity Commission Inquiry in 2014, or around **7 per cent** of the existing stock of infrastructure (Figure 24).\(^{38}\)

A shortfall in public infrastructure is consistent with an unmet demand for services from produced assets in Australia, which must tend to lower trend economic growth, income and living standards. Raising the stock of productive capital by lifting spending on projects with high benefit to cost ratios should certainly raise living standards for all, and there is certainly a strong appetite for mature, listed and unlisted infrastructure by the managed funds sector once the assets are actually constructed. The key barrier is the lack of greenfield investment by the general government sector and corporations (both public and private).

Industry super funds and their asset managers have plans to invest up to $10 billion dollars over the next five years mainly in Australian public infrastructure projects, representing a significant contribution to eliminating the measured infrastructure shortfall. Over the next decade, the $10 billion spending pipeline in

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\(^{38}\) There are estimates of the infrastructure shortfall that are much higher. For example, Engineers Australia estimated the gap at $700 billion in 2010. Admittedly, not all of the ‘measured’ shortage of infrastructure services requires new spending to address the underlying deficiency.

In terms of private provision, part of the problem is regulatory, in the sense that existing arrangements may act as a barrier to greenfield public investment. Reasons include provision of insufficient mandated rate of returns and ‘crowding out’ caused by existing public involvement in a given sector. Also existing procurement models do not balance construction and other risks between project participants.

In terms of public provision, governments often cut back on capital spending before recurrent spending in times of fiscal consolidation. This is because the absence of capital spending is not missed for some years until crumbling infrastructure becomes apparent, as it is becoming now in the United States and Europe.
Australia is dedicated to developing existing assets and is likely to support around 16,000 jobs through the construction phase.

Figure 24 – The shortfall of public infrastructure in Australia – Industry Super Funds

6.3.2 Greenfield investment is not attractive to institutions

Greenfield projects are more challenging than brownfield assets as they do not have stable ‘mature’ characteristics and so pose:

- Construction risks
- Operational risks
- Demand risks

These risks are not insurmountable but under current procurement models, industry super funds have found that short-term project participants tend to extract the value for themselves in the form of high fees and inflated demand projections. This leaves longer term project participants to bear the real project risks.

6.4 New funding models for government and superannuation

New procurement models can improve value for government and raise greenfield investment by super funds.

One proposal developed by ISA in conjunction with IFM Investors and Complex Program Group is designed to incentivise significant new private funding of greenfield public infrastructure projects. It is known as the ‘Inverted Bid Model’ and is designed to align the interests of government and other project partners over the life cycle of an infrastructure project. Under the ‘Inverted Bid Model’, the traditional bidding process is ‘reversed’ and broken into two stages. In the first stage of the bidding process, project financing is secured through an equity funding competition in advance of tenders relating to the construction and operation and maintenance (O&M) stage and to the raising of debt. In other words, the government tenders initially for the long-term owner-operator. In the second stage, after the project special purpose vehicle (SPV) has been funded by long-term equity investors, there is a separate bidding process administered by the SPV for construction, O&M and debt finance. This effectively inverts the bid process relative to current public...
private partnership procurements that typically only see long-term equity after an initial sell down by project sponsors.

This process is summarised in Figure 25.

**Figure 25 – Inverted Bid Model**

![Inverted Bid Model Diagram]

The expected benefits of the inverted bid model include:

- **Efficiency**: costs are estimated to be reduced from 1.5 per cent of the total project cost to 0.8 per cent of the total project cost. The drivers of these cost savings include the competitive tendering of funding and construction, the incremental design of the project, and the effects of participation in the process of owners with long-term incentives.

- **Speed**: delivery times are estimated to improve as the process is undertaken in bite-sized pieces, with the detail and complexity of each stage more fit-for-purpose.

- These benefits are expanded upon below, along with other benefits such as greater transparency.
The most effective models could involve the long-term owner-operator bidding on their margin over the other project capital, operating and financing costs.

An inverted bid process would more effectively align the interest of all parties, significantly reduce fee leakage and deliver a better value for money outcome.

Such a model could provide a mechanism to allow all Australian super funds the opportunity to participate in equity funding, creating a truly mutualised ownership structure for infrastructure and voiding many arguments for privitisation of those assets. Historically, the private ownership of public assets has been quite controversial but is seen as a big positive when the ownership is seen to switch from millions of taxpayers to millions of workers/retirees benefitting from the positive operation of those assets.

Certainly it is now time for governments to work with industry super funds to trial the ‘Inverted Bid Model’ on real world projects.

6.5 Priority is policy engagement

Arguably, governments have failed to recognise and leverage the competitive advantage available to the Australian economy from the relatively large pool of superannuation savings with a long-term investment horizon.

The characteristics and nature of this funding are unique and there is clear evidence that well-motivated trustees are acting in ways that not only maximise member returns but also involve significant economic spin-offs. However, a significant pool of savings is captured by sectors that have a poor track record that detracts from member and economic outcomes.

Default settings in the super system must also have an eye to facilitating efficient economic outcomes, because that is good for members and also promotes the national economy and budget bottom line.

Greater engagement in formal and informal policy is the key to having the not-for-profit superannuation sector constructively participate with government. It is a reasonable proposition to suggest that more participation will lead to deeper understanding of policy drivers and better outcomes through time.
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