

Submission – Best practice principles – Superannuation retirement income solutions

September 2025

Overview

The Responsible Investment Association Australasia (RIAA) thanks the Australian Treasury for the opportunity to respond to the *Best practice principles – Superannuation retirement income solutions consultation paper*.

RIAA supports the objectives of the Government in providing best practice principles, being to provide for superannuation trustees on the design and delivery of high-quality retirement income solutions to their members.

However, we note that superannuation policy and guidance cannot be considered in isolation to the broader legal and regulatory framework – this includes any connection between the accumulation and retirement phases of superannuation. While the consultation paper notes the interaction between the proposed principles and existing legal obligations and duties of trustees, it is silent on how the principles will impact on (and the use of the principles be impacted by) other obligations, in particular the trustees' need to comply with the annual superannuation performance test (performance test). Noting that the Government wants to improve the effectiveness of the retirement income system to “empower Australians to make the most of their retirement as they live longer and healthier lives” and give “Australians more choice”, the performance test could act as a barrier to the manner in which trustees are able to provide products to meet member and consumer needs. The Australian Government recognised this in its 2024 [consultation](#) on the design of the annual superannuation performance test, noting the concerns raised by stakeholders that the test:

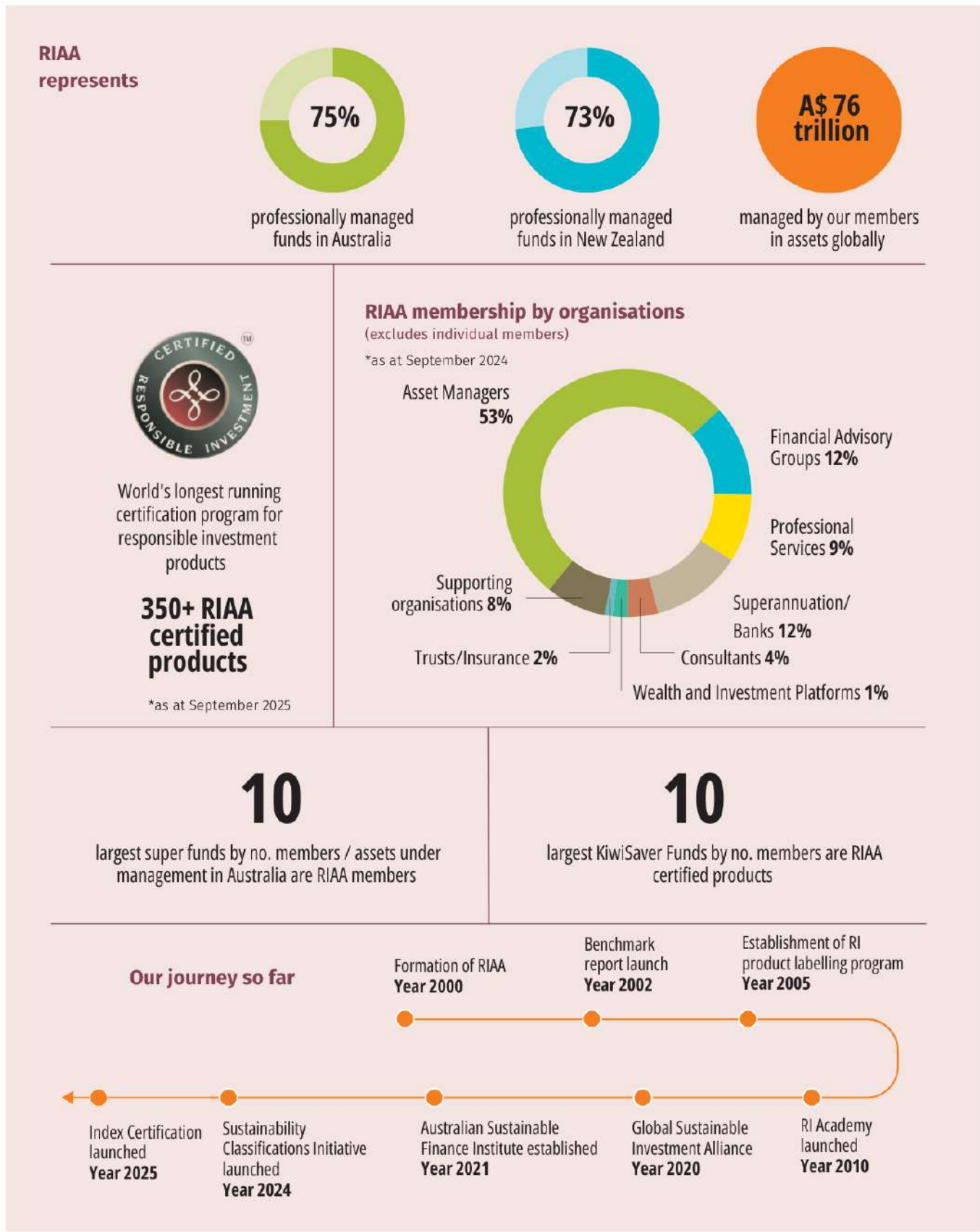
- focuses on investment implementation over other measures of performance;
- encourages short-term decision making;
- incentives benchmark hugging;
- does not provide investment flexibility; and
- reduces choice, diversification, and active management.

RIAA urges the Government to progress its reform of the performance test without delay prior to establishing additional, peripheral guidance, which may not be able to achieve its objectives without such reform. RIAA has been committed to working with industry and the Government to assess and suggest possible solutions and will continue to do so.

This submission focuses on the impact of the performance test on the proposed principles for the relevant questions. Further details of RIAA's view of the performance test can be found in its [2024 submission](#) to Government on the above consultation.

About RIAA

Established in 2000, the Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and Aotearoa New Zealand. It is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy



Response to consultation questions

- 4) ***Are there any impediments to trustees implementing the principles?***
- 10) ***Are trustees able to construct products and product settings in a way that supports both the offering of trustee-designed solutions and individually-tailored solutions?***
- 11) ***Should the principles consider other risks in the design and delivery of retirement income solutions?***

RIA A submits that the current performance test could act as an impediment to the success of the best practice principles. The test has had the unintended consequence of disincentivising the superannuation sector from long-term decision-making, preventing at times the ability of the superannuation funds to take advantage of investment opportunities in new and emerging sectors, including in non-traditional asset classes and private markets, as well as those which focus on the economic transition to net-zero.

Because of the test, trustees must navigate the tension between a heightened likelihood of failing the performance test at some point or having to reduce the degree to which longer-term transition activities are implemented. This is potentially inconsistent with investing in accordance with the long-term financial interests of members, and/or with members' sustainability preferences.¹

Long-term investing for the purpose of providing retirement benefits is a complex proposition that interacts with the inherent complexity of the financial market. Properly measuring the value added by a trustee and ensuing trustee accountability is vital but will naturally reflect this complexity. RIA A acknowledges that there are a number of different views across industry regarding the appropriate approach (if any) to amending or replacing the performance test, including among RIA A's 500+-strong member base. However, through wide consultation and engagement with funds that pursue different strategies and approaches, and considering the importance of a joined-up policy response to both the climate change crisis and transitioning the Australian economy to net-zero, as well as RIA A's mission,² we consider the current performance test to constitute a regulatory barrier which is, at present, disincentivising the superannuation sector to invest outside of a limited universe that tracks carbon intensive benchmarks.

As noted in the consultation paper, the Retirement Income Covenant intends to broaden industry's focus on members' outcomes beyond the accumulation phase and requires trustees to implement strategies that consider the needs of members in retirement. However, this is complicated by the impact of the performance test which may interact with and impact the delivery of the three objectives of a retirement income strategy:

- maximising their expected retirement incomes;
- managing expected risks to the sustainability and stability of their expected retirement income; and
- having flexible access to expected funds during retirement.

It's clear from the data that responsible investing does not forego financial return. For example, as at March 2025 RIA A [certified products](#) outperformed the average return achieved across the total combined Responsible and Non-Responsible market based on CAGR across all time periods: 1-year, 3-year, 5-year and 10-year, although results varied by asset class.³

There is a greater diversity of offerings of responsible investment approaches in Trustee Directed Products or other Choice Products where consumers make an active decision to choose their preferred product. By not recognising the deliberate choice of consumers to follow a particular investment strategy,

¹ Research by the Conexus Institute, [Constraints on ESG, Sustainability and Carbon Transition Activities](#) (November 2022)

² To promote, advocate for, and support approaches to responsible investment that align capital with achieving a healthy and sustainable society, environment and economy.

³ ISS Market Intelligence, [Responsible Investment Funds in Australia & Aotearoa New Zealand \(RIA A Certified\) Mar 2025](#)

in many cases informed by their specific values, the performance test may fail products that are in fact delivering on members' investment choices or consistent with their specific beliefs, as well as delivering on financial return. This is contrary to the Government's objective for the performance test which includes improving member outcomes.

It is important to note that Choice Products are a diverse mix, and include single asset classes, and smaller ethical funds, and that any assessment of their performance should be understood in relation to the specific focus of the product, the objectives of the members, and the particular exclusions that could be a factor in driving a larger tracking error.

Superannuation fund members increasingly expect their money to be invested in line with their own values, in addition to returning strong financial returns. RIAA's study, [*From Values to Riches 2024: Charting consumer demand for responsible investing in Australia*](#) found high expectations that funds will invest responsibly: 88% of Australians expect their bank account and their super to be invested responsibly and ethically.