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APPENDIX A: THE SUPER SYSTEM REVIEW PANEL

1.1 The Panel

The Chair of the Review Panel was Jeremy Cooper. Jeremy was supported by seven part-time panel members: Kevin Casey, Greg Evans, Sandy Grant, Dr David Gruen, Meg Heffron, Ian Martin and Brian Wilson whose summary biographical details are set out below.

Chair

Jeremy Cooper — a former Deputy Chairman of ASIC (2004 — 2009). Prior to that, he was a partner at Blake Dawson, where he worked principally in the area of mergers and acquisitions and corporate advice for 20 years. Mr Cooper has been a member of the Corporations Committee of the Business Law Section of the Law Council of Australia since 1995. Jeremy is a senior fellow of the Financial Services Institute of Australasia (Finsia) and a fellow of the Australian Institute of Company Directors. From 2006 to 2009, he was a member of the Corporations and Markets Advisory Committee, which considers references from the Australian Government on corporate law reform issues. Jeremy is also a member of the Finsia Policy Advisory Council, the Geelong Grammar School Council, and the Industry Advisory Committee of the Australian Centre for Financial Studies. While at ASIC, Mr Cooper had oversight responsibility across a range of ASIC's teams in the financial services sector, including superannuation, financial advisers and consumers and retail investors. Apart from this Review, Mr Cooper has no interest in the superannuation industry other than being, with his wife, a trustee-director and member of their SMSF.

Expert Panel

Kevin Casey — has had more than 40 years experience in the superannuation industry, mainly in the retail superannuation sector. Mr Casey spent 30 years at AMP where he variously managed corporate superannuation relationships, development of superannuation computer systems, superannuation administration procedures and superannuation and technical strategy for AMP's superannuation businesses. Mr Casey also served as Secretary and a director of AMP Superannuation Limited, AMP's public offer trustee and was also a member elected director of the then AMP Officers' Provident Fund. Mr Casey also sat on joint Government/department/industry committees on the development of superannuation legislation, was a member of the Investment and Financial Services Association (IFSA) superannuation committee and the Association of Superannuation Funds (ASFA) post retirement committee and after he left AMP, was CEO of the Australian Retirement Income Streams Association (ARISA) before it merged with IFSA in 2002. Mr Casey is now retired and has his retirement savings in an allocated pension managed by an Industry Fund.

Greg Evans — is the Director of Economics at the Australian Chamber of Commerce and Industry (ACCI). Mr Evans is an economist with a background in both the private and public sector. His early career commenced in the banking sector where he specialised in project finance for infrastructure and resource related projects. Moving to the public sector, he worked for the Commonwealth Department of Finance and was involved in the sale of several government business enterprises. He later joined the Commonwealth Treasury in the international economy division. Mr Evans has subsequently held positions as a ministerial adviser and in various industry associations in the farming and energy sectors. He joined the Australian Chamber of Commerce and Industry in 2004.

He is a director of the International Chamber of Commerce (Australia) and is a member of the Government's Standard Business Reporting board. His superannuation arrangements include a balance held in a public sector fund and he is also a contributing member to an industry superannuation fund.

Sandy Grant — has a superannuation and financial services industry background spanning more than 40 years, mainly, but not exclusively, in the not-for-profit superannuation fund sector. Positions held by Mr Grant include managing director of building industry fund Cbus, managing director of Industry Fund Services and general manager of superannuation administrator, Jacques Martin Industry. Prior to that, Mr Grant held various positions with the Colonial Mutual Group where he began his career. After retiring from full-time work in 2008, Mr Grant served as chair of the policy committee of the AIST until his appointment to the Panel. He is presently a trustee-director of CareSuper, a director of Members Equity Bank (a full-service bank owned by industry super funds), chair of the Members Equity subsidiary Industry Fund Services Pty Ltd, a director of Superpartners Pty Ltd, a superannuation administrator, and a director of Master Builders Victoria Foundation Limited. He is a member of Cbus and CareSuper.

David Gruen — is Deputy Secretary and Executive Director, Macroeconomic Group at the Australian Treasury, which he joined in 2003. Prior to that, Dr Gruen was Head of the Economic Research Department at the Reserve Bank of Australia between 1998 and 2002. He worked at the Reserve Bank for 13 years, in the Economic Analysis and Economic Research Departments. With financial support from a Fulbright Postdoctoral Fellowship, Dr Gruen was visiting lecturer in the Economics Department and the Woodrow Wilson School at Princeton University from 1991 and 1993. Before joining the Reserve Bank, Dr Gruen worked as a research scientist in the Research School of Physical Sciences at the Australian National University and holds PhD degrees in physiology from Cambridge University, England and in economics from the Australian National University. He is a member of the Reserve Bank of Australia's Officers Superannuation Fund, the Public Sector Superannuation Scheme, and Vanguard Personal Superannuation.

Meg Heffron — is a principal and senior actuary of Heffron Pty Ltd, an independent firm which has specialised in providing self-managed superannuation fund services to accountants, financial advisers and trustees since 1998. Prior to establishing Heffron, she was a principal at Mercer Wealth Solutions in the firm's corporate superannuation department and responsible for actuarial and general advice to trustees and employer sponsors of corporate superannuation funds. Meg is a recognised expert on self-managed superannuation fund issues and one of the few actuaries to specialise exclusively in this area. She participates in a range of industry and professional committees including the Small Funds sub-committee of the Institute of Actuaries of Australia and the National Tax Liaison Group (Superannuation) of the Australian Taxation Office. She and her husband have operated their own SMSF since 1997.

Ian Martin — has over 25 years experience in the investment management, superannuation, investment banking and financial services sectors in Australia and internationally. He is a former Managing Director and CEO of the BT Financial Group and Chairman of the Global Investment Management Group of Bankers Trust New York Corporation. He was also the Inaugural Chairman of the Investment and Financial Services Association (IFSA). Prior to joining the private sector, initially as an economist before moving into investment management, Mr Martin spent nine years in various positions with the Australian Treasury. He holds an Honours Degree in Economics from the University of Adelaide, an Advanced Diploma from the Australian Institute of Company Directors, and has completed advanced short courses in investment management at London Business School and Princeton University. He is currently a non-executive director of Argo Investments Limited;

St Vincent's and Mater Health Limited; and Chairman of Sydney's Wayside Chapel Foundation; and has previously been an independent non-executive director of Babcock & Brown Limited and GPT Group. Mr Martin has an SMSF.

Brian Wilson — Mr Wilson has extensive financial services experience, including involvement with both the funds management and investment management sectors. Mr Wilson retired in 2009 as a Managing Director of the global investment bank Lazard, after co-founding the firm in Australia in 2004. His career as an investment banker specialising in corporate financial advice encompassed over 30 years. Prior to joining Lazard, he was a Vice Chairman of Citigroup Australia and its predecessor company Salomon Smith Barney Australia and previously a director and co-head of Investment Banking of Schroders Australia, a principal of Lloyds Corporate Advisory Services and a director of Bank of America Australia. Mr Wilson is also Pro-Chancellor of the University of Technology, Sydney, a non-executive director of Bell Financial Group and a member of the Foreign Investment Review Board. Apart from this Review, Mr Wilson has no interest in the superannuation industry other than as a trustee-director and member of his and his wife's SMSF.

1.2 Panel brief

The Panel was supported by a secretariat drawn from Treasury, the private sector and the regulatory agencies with responsibility for superannuation.

The Panel was asked to examine and analyse the governance, efficiency, structure and operation of Australia's superannuation system, so as to achieve outcomes in the best interests of members and to maximise retirement incomes for Australians. The Review was asked to report to the Government by 30 June 2010.

In announcing the Review, the former Minister for Superannuation and Corporate Law, Senator the Hon Nick Sherry, noted:

'The Expert Panel will guide what will be a substantial national project aimed at boosting the retirement savings of all Australians by increasing efficiencies, reducing costs and fees and in turn lifting long-term rates of return'.¹

On 6 June 2009, the Hon Chris Bowen MP was appointed the Minister for Financial Services, Superannuation and Corporate Law, and assumed responsibility for the Review.

1.3 Approach to the task

1.3.1 Three-phased consultation process

The Review was divided into three phases:

Phase One — Governance;

Phase Two — Operation and Efficiency;

Phase Three — Structure (including SMSFs).

1 Senator The Hon Nick Sherry, Media Release no. 066, 'Expert Panel and Terms of Reference for Review into the Governance, Efficiency and Structure and Operation of Australia's Superannuation System', 29 May 2001, <<http://ministers.treasury.gov.au>>.

More detail about the approach the Panel took to the Review can be found in *The Scope of the Review: A Three-Phased Consultation*.²

At the start of each phase, the Panel published an issues paper with a view to helping stakeholders frame their submissions at the appropriate conceptual level.³ Interested parties had a period of approximately eight to ten weeks to make submissions in response to the themes and issues raised in each issues paper. The Panel then released one or more preliminary report(s) in response to each phase (outlined at 0).

The Panel received over 450 formal submissions, and many more informal submissions, amounting to over 7,300 pages of opinions, ideas and data. Importantly, over 200 of those submissions were made by individual super fund members.

The Panel continued to receive submissions addressing its preliminary recommendations until mid June 2010. These submissions were all considered by the Panel and taken into account in finalising the recommendations.

1.3.2 Stakeholder engagement

The Panel and Secretariat consulted with a range of stakeholders throughout the Review process, attending over 200 meetings.

More specifically, this stakeholder engagement included:

- a two-week overseas study tour visiting major retirement funds, financial institutions, retirement fund experts and academics, regulators and policy-makers in New York City, Pennsylvania, Washington DC, Amsterdam, Stockholm, London and the OECD in Paris;
- consultation with international experts, including discussions with various Canadian pension fund executives and officials from the Chilean Superintendencia de Pensiones;
- consultation with focus groups of super fund members in capital cities and regional centres to better understand the member experience;
- discussions with academic and industry experts, super fund executives, professional services firms, fund managers, investment banks, trustees, industry organisations and regulatory agencies, both in Australia and overseas;
- industry roundtables on topics as diverse as: insurance; administration; advice; DB plans; SMSFs (three roundtables); legal governance (two); member and consumer issues; and on the choice architecture proposals (two);

2 Super System Review, *The Scope of the Review: A Three-Phased Consultation*, 25 August 2009, <www.supersystemreview.gov.au>.

3 Super System Review, *Phase One: Governance*, 25 August 2009, <www.supersystemreview.gov.au/content/downloads/governance_issues_paper/governance_issues_paper.pdf>. Super System Review, *Phase Two: Operation and Efficiency*, 16 October 2009, <www.supersystemreview.gov.au/content/downloads/operation_efficiency_issues_paper/Phase_Two_Operation_and_Efficiency_Issues_Paper.pdf>. Super System Review, *Phase Three: Structure*, 14 December 2009, <www.supersystemreview.gov.au/content/downloads/structure_issues_paper/Phase_3_Structure.pdf>.

- making information about the Review publicly available online: www.supersystemreview.gov.au;
- various newspaper opinion pieces; and
- stimulating public debate through participation and speaking engagements at a range of conferences and seminars.

1.3.3 Preliminary Reports

Prior to this final report, the Panel issued a total of nine preliminary reports and papers, along with a report from Deloitte Actuaries & Consultants about the likely total cost to members of MySuper. The decision to release preliminary reports was made in the interests of transparency and to encourage debate.

Title	Date of release	Content
Scope of the Review: A Three-Phased Consultation	25 August 2009	Set out the Panel’s approach to the Review
Phase One Issues Paper — Governance	25 August 2009	Raised issues relevant to governance, to guide interested parties in making submissions
Phase Two Issues Paper — Operation & Efficiency	16 October 2009	Raised issues relevant to operation and efficiency, to guide interested parties in making submissions
A Statistical Summary of Self-Managed Super Funds	10 December 2009	A broad factual overview of the SMSF sector
Phase Three Issues Paper — Structure (including SMSFs)	14 December 2009	Raised issues relevant to structure and SMSFs, to guide interested parties in making submissions
Clearer Super Choices: Matching Governance Solutions	14 December 2009	The phase one preliminary report that outlined a ‘choice architecture’ for the industry
SuperStream	22 March 2010	The phase two preliminary report addressing ‘back office’ issues with the superannuation industry
MySuper	19 April 2010	Further detail on an aspect of the choice architecture outlined in the phase one preliminary report
Self-Managed Super Solutions	29 April 2010	The phase three preliminary report discussing SMSFs

The Review also received a number of supplementary submissions in response to the preliminary reports, reflecting the importance that individual members, and industry, attach to the issues addressed by the Review.

APPENDIX B: OVERVIEW OF THE SUPERANNUATION SYSTEM

2.1 Background

The aim of superannuation is to provide a means by which people can save for a dignified retirement. For many years, the age pension was the central means of providing retirement incomes for most Australians. However, while the age pension will provide an essential safety net, superannuation savings holds the key to higher retirement income, for most people.

To ensure that the retirement income policy is fiscally sustainable in the context of an ageing population, Australia has a three-pillar approach. The three pillars are: voluntary superannuation and other private savings; compulsory superannuation savings through the SG Act arrangements; and a means-tested, taxpayer-funded age pension.

2.2 Different superannuation sectors

Superannuation funds are the vehicles for the superannuation system to deliver the intended retirement savings outcomes. APRA divides Australia's superannuation funds into five main segments: corporate, public sector, industry, retail and small funds. The Review uses these classifications for the purposes of this report.

Corporate funds are funds operated for the benefit of employees of a particular company or corporate group.

Industry funds are funds formed to provide access to superannuation for employees working in the same industry, although an increasing number of industry funds are now open to the public.

Public Sector funds are funds that provide benefits for government employees, or are schemes established by a Commonwealth, State or Territory law. There are also Exempt Public Sector Superannuation Schemes which choose not to be regulated by APRA or the SIS Act. However, for statutory purposes, a number of EPSSSs report data to APRA under an agreement between the Commonwealth Government and each of the State and Territory Governments.

Retail funds offer superannuation products on a commercial basis and their trustees are typically a part of a larger financial conglomerate. For APRA's purposes, ERFs are considered to be retail funds.

Small funds are those with less than five members. Almost all small funds are SMSFs, although some are small APRA funds (SAFs).

The following table shows that, at March 2010, corporate funds accounted for 4.8 per cent (\$60.9B) of Australia's total superannuation assets, industry funds 18 per cent (\$226.6B), public sector funds 14.1 per cent (\$177.4B), retail funds 27.9 per cent (\$351.2B) and small funds 32 per cent (\$401.8B).

Table B1: Australia's superannuation industry by entities and assets (as at March 2010)

Sector	Entities	Assets(\$B)	Market Share of Assets
Corporate	171	60.9	4.8%
Industry	65	226.6	18.0%
Public sector	39	177.4	14.1%
Retail	154	351.2	27.9%
Small funds	426,566	401.8	32.0%
Balance of life office statutory funds	n/a	39.6	3.1%
Total	426,995	1,257.5	100.0

Source: (Quarterly Superannuation Performance, APRA).

Note: Excludes PSTs and single member ADFs.

The table below shows that the number of corporate, industry, public sector and retail superannuation funds has fallen in recent years, reflecting a trend toward consolidation within those sectors of the superannuation industry. This contrasts with continued growth in the number of small funds (almost exclusively SMSFs). The number of small funds has grown steadily, from just over 260,000 entities as at June 2003 to over 410,000 entities as at June 2009.

Table B2: Recent trends in the number of Australian superannuation industry by entities (2003-2009)

Sector	2003	2004	2005	2006	2007	2008	2009
Corporate	1,862	1,405	962	555	287	226	190
Industry	124	106	90	80	72	70	67
Public sector	58	42	43	45	40	40	40
Retail	235	232	228	192	176	169	166
SMSFs	262,175	286,313	303,004	323,200	361,860	389,308	414,707
Pooled Super Trusts	160	143	130	123	101	90	82
Total number of entities	264,614	288,241	304,457	324,195	362,536	389,903	415,252

Source: (Annual Superannuation Bulletin June 2009, APRA).

Of the 32.7M superannuation accounts covering the Australian population as at June 2009, 0.7M were in corporate funds, 3.1M were in public sector funds, 11.6M were in industry funds, 16.6M were in retail funds (which includes ERFs) and 0.8M were in SMSFs.⁴

In addition to the different types of funds, there are also different types of benefits: defined contribution and defined benefit and a combination of the two called 'hybrid' benefits.

4 APRA 2009 Annual Statistical Bulletin.

Superannuation has become a significant financial asset for many Australians and an important part of the household balance sheet. In August 2009, 88 per cent of all employees had superannuation contributions paid into a superannuation scheme on their behalf by their employer.⁵

It was partly the scale and significance of superannuation that influenced the Government to charge the Panel with the job of reviewing Australia's super system, but also the fact that, despite its growth, there had not been an over-arching review of the current system since its inception in 1993. While there have been other government reviews of aspects of the superannuation system, this is the most comprehensive review so far.⁶ As Mercer said in its May 2010 response to the Review's preliminary reports: '*Such a review is long overdue*'.⁷

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- 5 ABS August 2009, '*Employee earnings, benefits and trade union membership*'. Catalogue no. 6310.0, 10 May 2010, <[www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/C61C93BF656DB4C6CA257720001D7CE2/\\$File/63100_august%202009.pdf](http://www.ausstats.abs.gov.au/ausstats/subscriber.nsf/0/C61C93BF656DB4C6CA257720001D7CE2/$File/63100_august%202009.pdf)>.
- 6 These have included: Superannuation Working Group, *Improving the Safety of Superannuation*, March 2002; Productivity Commission, *Review of the Superannuation Industry (Supervision) Act 1993 and Certain Other Superannuation Legislation*, April 2002; Parliamentary Joint Committee on Corporations and Financial Services, *Inquiry into the structure and operation of the superannuation industry*, August 2007.
- 7 *Securing Retirement Incomes: Mercer's response to Cooper's preliminary reports*, May 2010, page 1, <http://www.mercer.com.au/referencecontent.htm?idContent=1366410>

APPENDIX C: TREASURY ASSUMPTIONS FOR MODELLING

3.1 Key assumptions underpinning the 25-year scenario

A number of assumptions have to be made when making a scenario of the size and structure of the superannuation system in 25 years' time. It is a baseline and does not take account of any changes that might flow from this Review. However, it does take account of recent government policy changes to phase in increases to the SG contribution to 12 per cent by 2020 and for the government to co-contribute up to \$500 annually for members on incomes up to \$37,000. The key assumptions underlying the forecast are:

- All real forecasts have been calculated using 2009 as the base year with the CPI increasing 2.5 per cent per annum thereafter.
- In real terms, total superannuation assets are assumed to grow at an annual average of about 4.3 per cent from around \$1.08T in 2009 to about \$3.2T in 2035. Small funds, including SMSFs and small APRA funds, will grow to slightly more than a third of total superannuation assets.
- The number of superannuation funds is expected to continue to decline as funds consolidate. The number of APRA-regulated superannuation funds will reduce from 447, excluding ERFs, in 2009 to 74 in 2035.
- The number of industry funds and retail funds will continue to decline at the same average rate (around 7 per cent per annum) as they have since 1996.
- The number of public sector funds will decline at 2 per cent per annum, the average rate experienced since 1996, excluding the two outlier years experienced after the introduction of the APRA registrable superannuation entity licensing requirements, which saw a large reduction in corporate funds.
- The number of corporate funds has declined, on average, by 20 per cent each year from 1996 to 2009. It is projected this rate of decline will gradually slow.

3.2 Key assumptions in projecting benefit to members of MySuper

The MySuper reforms would have both short-term and long-term impacts on fees as the superannuation industry fully adjusts to the reforms. The direct effect would be to benefit those people who are currently in a MySuper-equivalent product who would have access to lower fees. These are the people who are currently in the default investment option of default funds. As at March 2010, Treasury estimates that there were approximately \$560B of assets in default funds, with around \$340B of that amount in the default investment option.⁸ Treasury estimates an average fee for these assets is 97 bps, based on the Rice Warner *Superannuation Fee Report 2008*.

⁸ Based on Rice Warner Superannuation Fee Report 2008, APRA 2009 Annual Statistical Bulletin and APRA March 2009 Quarterly Superannuation Performance.

MySuper would also affect other members indirectly. As members could switch between products, it is expected that a lower price for MySuper products would lead to members switching into that product or fees charged in other segments falling (for example, due to consolidation occurring in 'choice' products). This switching would be supported by the new financial advice rules which will require planners to put members' interests above their own and hence the lower fees expected in MySuper would need to be taken into account by planners in making recommendations to members. In addition, there is already some evidence that large financial institutions are more actively marketing lower cost, MySuper-style products. The SuperStream reforms would also help facilitate people switching by making portability easier.

For the purpose of this analysis, it is assumed that the only indirect impact would be members switching to MySuper products, rather than fees for choice products falling.

Given the uncertainty over the regulatory and market reaction to MySuper, these estimates are only broadly indicative. There has been no quantification of costs for ongoing or transitional costs of funds meeting the new MySuper requirements. It is also assumed that fees otherwise remain at their current levels as a percentage of assets.

3.2.1 Short-run impact

Funds would need to consider whether they wished to offer a MySuper product and whether they had the scale to optimise net benefits to members to ensure that they receive an APRA MySuper licence. It is assumed that funds would price their product in the short run, on average, at around 85 bps (all up) for an account balance of \$25,000, with a similar investment style as would currently be the case. Based on the Deloitte report, *Default fund costs under the MySuper proposal*, this would be consistent with an average asset size of around \$5B, which is around one-sixtieth of the existing overall default option pool. It is assumed that people currently paying for advice in default products would, under MySuper, rely on intra-fund advice that is already factored into the Deloitte MySuper fee.

Based on default assets of \$340B, this suggests the initial direct impact could be a saving of about \$400M per year from reduced fees in existing default investment options that convert to the MySuper framework.

The indirect impact would depend on the impact of MySuper on fee differentials and the propensity of members to move from the choice and SMSF sectors to the MySuper sector. Treasury assumes in its modelling that there is no movement from retirement income stream products, including SMSFs in the pension phase, into MySuper products. This leaves around \$725B of assets in the accumulation phase in SMSFs and the choice sector. Treasury estimates the average fee for these assets is around 128 bps — a differential of 31 bps compared to existing default fund fees. Assuming average MySuper fees fall initially to around 85 bps, the differential would be around 43 bps.

Switching rates between super fund products are currently low. However, the new financial advice reforms and the expected public awareness of the introduction of MySuper could increase the switching rate (that is, there could be a one-off switching rate boost). Treasury assumes 5 per cent of assets (around \$35B) are switched to MySuper products in the short run, saving around \$150M per year in fees. The combined direct and indirect annual savings in the short term therefore could be around \$550M.

3.2.2 Long-run impact

The MySuper reforms would have a larger impact over time as the superannuation system fully adjusts to the reforms. MySuper members will benefit from even lower fees as MySuper funds fully exploit the benefits from economies of scale. Deloitte estimate an average fee (including intra-fund advice) of around 66 bps is achievable on large scale (\$20B plus assets) MySuper products. It is assumed that these scale benefits are fully achieved across MySuper products, yielding an aggregate saving of over \$1B per year on existing MySuper-comparable assets.

The indirect impact would also be greater in the long run because: (a) the incentive to switch would be higher as MySuper fees fall as scale increases; (b) members who might have initially not switched decide to switch; and (c) members who previously would have moved into the choice and SMSF segments decide to remain in the lower fee MySuper products. In other words, there would continue to be some switch in the stock of funds into MySuper and the flow of funds into the choice and SMSF sectors would slow.

Obviously in the longer run, there will also be more assets in the whole system. However, to simplify comparability, the long-run impact is estimated on the existing size of the superannuation industry. It is assumed the long-run switching rate would be around 15 per cent, that is, around \$110B of assets would move to the MySuper segment. (This is consistent with the long-run proportion of assets in default investment options increasing from around 32 to 42 per cent (excluding pension products). Given the fee differential, this equates to a saving of around \$700M. The combined direct and indirect impacts could therefore be around \$1.7B per year.

3.3 Key assumptions in projecting benefits of SuperStream

The impact of SuperStream would directly reduce the fees of APRA-regulated funds which hold assets of about \$860B by reducing operating costs including administration. Treasury estimates that current operating costs of APRA-regulated funds are approximately \$4.1B per year or 48 bps per year, based on the Rice Warner *Superannuation Fee Report 2008*.

Several submissions⁹ estimate that SuperStream reforms would reduce operating costs in the current system by up to \$1B per year and Treasury has used this estimate in its assumptions. Operating costs are expected to reduce because of a combination of innovative technology (such as automated administration and the use of TFNs), stakeholder connectivity, straight through processes, broader industry collaboration on administration functions and fund consolidation.

Treasury has not independently verified these cost reduction estimates. It should also be noted that there would be some upfront costs required by funds to implement SuperStream, such as adjustment of IT systems to meet the new data standards. These have not been estimated though it is expected that the ongoing costs will be relatively small compared to the benefits.

9 For example, Ernst & Young, Submission no. 136, page 8; BT Financial Group, Submission no. 151, page 5; and SuperChoice, Submission no. 189, page 27.

3.4 Impact on typical member

The impact on a typical member has been based on a person on average weekly ordinary time earnings (AWOTE)¹⁰ over a 37 year working life who pays all up annual fees of 97 bps which is estimated to be the current average default investment option fee. In the long run, it is assumed, consistent with the above aggregate analysis, that this member would pay a fee of around 59 bps, as follows:

- MySuper products (with assets of \$20B) being delivered for 66 bps (excluding the impact of SuperStream, as estimated by Deloitte; and
- SuperStream delivering savings of around a further 7 bps to the average member in a MySuper fund.

Treasury estimates indicate that this presently represents around a 40 per cent fee cut, lifting the representative member's final superannuation balance by around \$40,000 or 7 per cent.

¹⁰ ABS (2010), *Average Weekly Earnings*, Cat. 6302.0, February 2010.

APPENDIX D: DELOITTE REPORT

DEFAULT FUND COSTS UNDER THE MYSUPER PROPOSALS

Super System Review

Default Fund costs under the MySuper proposals

19 April 2010

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1 MySuper: the context for this report

This report details the results of our investigations into the projected costs of a large default superannuation fund established within the MySuper proposals currently being considered by the Review. The basis for this report was a draft discussion paper “MySuper: Optimising Australian superannuation”. While this might differ from the Review’s final recommendations we are advised that the key aspects of this paper (the Paper) that we mention in this report as influencing our conclusions remain valid.

Our brief

The scope of this report is described in an Official Work Order, which asked us to analyse the projected costs that a large default superannuation fund could charge for an average member with an account balance of \$25,000 and for other account balances, assuming a number of investment strategies including:

- A typical balanced asset allocation;
- A defensive asset allocation;
- Use of alternative investments.

We are also asked to comment on the levers and variables involved.

The aim is not to provide definitive conclusions on the actual cost that might apply within a default fund but rather to provide information which can then be used by the Review for informed discussions with the industry.

1.1 This report

The results we present must necessarily be considered within the context implied by the MySuper proposals and we include in this report a brief description of those key features in the Paper most significant in determining costs.

It is widely recognised that there is a lack of quality and consistent data throughout the superannuation industry in Australia. It is not easy for individual Australians, let alone experienced industry practitioners, to compare and contrast performance and costs of funds. We describe the approach we have taken in arriving at the costs presented in this report and the data sources that we have used.

In broad terms we have chosen to subdivide costs into:

- Investment related costs; and
- Operating costs which include any fees paid to third party administrators where they are used as well as the cost of intra-fund advice.

It is our view that investment related costs should be related to the quantum of funds under management and should therefore be expressed as a percentage of assets. Operating costs however, are more correctly related to the number of members and we have, therefore, chosen to express these as a \$ cost per member per annum.

All costs quoted in this report exclude any bundled advice and distribution costs as mandated under the MySuper proposals.

We have not taken into account the potential impact of SuperStream proposals in this report.

1.2 No single national default fund

The Paper states that every existing superannuation fund will be able to establish, within its current structures, a MySuper product. There will be no single national default fund but rather the opportunity for all existing superannuation funds to offer a MySuper product.

The Panel is conscious that the overwhelming majority of Australians find themselves in the default investment option of whichever superannuation arrangement they are in. Moreover, for many Australians the fund that they are members of is simply the "default fund" that applies to them because of their current employment or employer.

The Paper proposes that only a MySuper product will be able to qualify as a default fund and that any MySuper product can be nominated as a default fund under award or by an employer.

The Paper therefore anticipates a future where, as today, there are a significant number of default (MySuper) funds of different shapes and sizes.

Defined benefits are explicitly excluded from the MySuper proposals and from this report.

1.3 MySuper: conditions attaching

The Paper states that MySuper is predicated on providing a simple, cost-effective product with a diversified portfolio of investments for the vast majority of Australian workers who are invested in the default option in their current fund.

It is expected that the MySuper product offered by existing funds will essentially be based on their existing default investment option. While this does not require establishment of a separate pool of assets the Paper describes conditions that must be satisfied to qualify as a MySuper product.

These include:

- Separate accounting and reporting;
- Streamlined member reporting and disclosures;
- An obligation to accept all types of contributions;
- A single investment option is to be offered;
- Limits to cross-subsidies;
- Exclusion of bundled advice, but access to general and intra-fund advice in accordance with ASIC RG 200;
- No trailing commissions or ongoing advice payments;
- Basic insurance can be offered but with no commission or like payments;
- Certain requirements surrounding fees:
 - No entry fees
 - Buy/sell spreads demonstrably linked to costs
 - No non-explicit discounts and no rebates
 - Any performance-based fees must comply with Performance Fee Standards to be developed by the Panel in consultation with the industry.

The description above is not comprehensive but rather focuses on points relevant to this report.

1.4 Costs to be balanced against member benefit

The Paper expresses the objective of MySuper to be the availability of a low-cost, no-frills, base superannuation option to all Australians. In emphasising the importance of containing costs the Paper

recognises the impact that costs have on the build up of retirement benefits. However, the Paper does not adopt cost as the only, or indeed the most important, measure of product quality.

To the contrary, it explicitly acknowledges that trustees can and will take decisions on behalf of members that increase costs because in their view the end result will be better outcomes for members. It is not hard to describe some such decisions: the view that a "higher cost" balanced investment strategy is better for members than a "lower cost" conservative strategy; the appointment of investment managers at a higher fee than others because of an informed view that they will produce higher net (after fees) returns.

MySuper takes the view that this is not only acceptable but a trustee obligation. The Review, however, seeks to impose greater transparency and accountability on trustees for those decisions.

This is an important point because if cost was the sole criterion then MySuper would encourage trustees to invest assets passively at dramatically lower costs. We know that some funds already invest part of their assets this way. However, the majority do not and many funds firmly believe that they can point to a track record where active investment management, albeit at a higher fee, has produced positive long-term added value for their members.

1.5 MySuper: key points

MySuper, therefore, builds on what exists today and it is expected that the core default investment options of any particular existing funds could form the basis for a MySuper product should they decide to offer one.

To qualify as a MySuper product it must meet certain standards regarding reporting and trustee duties and not include any bundled advice or distribution costs.

This has implications for the costs that we will initially see in MySuper products.

1. On the operations side, the starting position is existing systems and costs. MySuper will include intra-fund advice which will demand much more than a simple record keeping capability. Indeed much of the functionality associated with Choice and highly engaged members will need to be retained. We expect a single operational infrastructure serving all fund members (MySuper and Choice) and only relatively minor segregation of costs between the two.

Provided that bundled advice and distribution is excluded, we can expect MySuper operating costs to be at or about current costs.

2. Investment costs range widely and depend on some basic trustee decisions including investment style, asset allocation and performance/risk objectives. Consequently, the estimates in this report should not be viewed as being exact and absolute. Instead we present projected costs for a range of basic trustee decisions. These costs represent a baseline with trustees always able to incur higher cost if they believe that in so doing they will generate sufficient extra net return to benefit their membership.

Significantly, it will remain possible for funds to pool the buying power of all their members, MySuper and Choice both, in purchasing assets. Otherwise costs might increase due to loss of scale.

2 Data

The quality and quantity of publicly available data on the superannuation industry has not kept pace with the growth of the industry.

The lack of standard (and mandatory) reporting templates means that it is very difficult to compare cost structures between funds, between industry sectors and over time. This is true of fees, costs and profit margins earned by those who are providing services to the industry.

Costs are particularly difficult to assess because the annual reports of superannuation funds typically:

- Only record a small component of total investment related expenses; and
- Aggregate other expenses into a single amount which may or may not be described in the notes.

Proprietary data does exist within a number of research houses but is rarely comprehensive or readily comparable across the entire industry.

2.1 Sources of data

For this report we have relied on data that is available publicly, available from deep analysis of publicly available information, and from a range of internal research projects undertaken by Deloitte into the industry, together with the superannuation experience of our practitioners.

One research project is particularly relevant to this report.

Research into costs

In 2008, we undertook research to determine whether there existed scale economies and benefits within the Australian superannuation industry.

At that time we deliberately chose to limit our research to Australian Industry Funds.

There were a number of reasons for this but most relevant to this exercise was that the Industry Funds offered better access to data in that the funds themselves produce financial statements, which are by and large independent of related entities.

Our research examined:

- Annual reports to members, and where available, full financial statements for the fund. These were examined to reveal total operating costs as well as any additional (usually internal) investment costs incurred by the fund.
- The PDS for the default option, which allowed us to identify investment related costs deducted from the return (or unit price) delivered to members. The PDS also provided us with a statement of all member fees which then allowed us to calibrate fees against costs.
- Total fund statistics in terms of the number of members and assets under management to give measures of scale. This was easier to establish within an industry fund context as institutional operations have a number of products, and funds with infrastructure applied across them all.

For this report we have updated this research to allow for the impact of inflation.

More recently, we also surveyed a small number of large Australian superannuation funds across all sectors to gain insights into their responses to intra-fund advice.

The funds surveyed have a combined membership of some 5 million members and, to that extent, offer a reliable view of how the industry might deliver cost-effective advice to members. The responses to this survey, together with a significant amount of additional work we have undertaken over the past six months, gives us the ability to estimate the range of costs at which intra-fund advice could be delivered to members.

3 Describing costs

Set out below is a brief description of the approach that we have taken in presenting costs in this report. In particular it has become common in Australia to express total superannuation costs as a single statistic -- the MER for a fund. This equates all costs to a single % of assets.

However, this disconnects non investment costs from the factors that primarily influence them. Moreover, where such fees are paid to third parties and linked to a growing body of assets it builds in cost escalation.

Investment related costs are quite properly related to the assets under management. We would expect, other things equal, that the quantum of these costs would increase in broad proportion to the amount of assets.

Administration and operating costs are another matter. Many of these costs are transaction -based, while some are fixed. Fundamentally, we would expect that the larger the number of members, the greater the quantum of these costs. In this report we first present operating costs as an annual \$ amount per member.

But industry practice is entrenched. These costs are also expressed as a % of assets.

To assist in comparison, when we aggregate all costs (investment plus operating) we do express total costs as a % of assets.

3.1 Investment costs

Investment costs come in a variety of forms and are heavily dependent on the way in which assets are managed and the type of asset held.

Scale influences structure

Smaller funds are less likely to be able to justify an internal investment staff. They will rely more on external advice, support and execution, with trustees and the secretariat devoting some of their time to investment matters. The Australian market place offers assistance in many ways.

As funds grow they approach a size where they can increasingly complement external assistance with internal skills and resources.

It is the overwhelming common practice in Australia for (all but the largest) funds to outsource stock selection decisions to external fund managers in the major asset classes. More recently and with the increase in the use of alternatives we have seen a number of funds also build up portfolios acquired directly, though selected with external advice and assistance.

Some of the larger funds have developed quite an extensive internal investment capability that assumes responsibility for managing a portion of fund assets as well as external supplier relationships, with a range of fund managers.

The size of superannuation funds in Australia is not large by global standards. The simple reality is that many do not have the capacity to put in place specialist internal investment skills and must rely on advice and assistance from third parties.

The asset consultants in Australia occupy a very important and influential position in determining where and how money is invested.

Implemented consultants

As a result of the above we have seen in Australia the rise of what are known within the industry as "implemented consultants". These are organisations which offer a "one-stop-shop" packaged investment capability to those funds that are unable to in-source some or all of the capabilities essential for investment management.

In their simplest form the implemented consultants deliver a service which includes:

- Asset allocation and portfolio construction advice and product;
- Manager research and selection;
- Ongoing monitoring of manager performance and consequent hiring/firing;
- Access to a range of diversified multi-manager portfolios, which typically include a balanced and a conservative option;
- Access to a range of multi-manager sector specific portfolios. Almost always these include the major domestic and international asset classes, and more recently have been extended into alternatives;
- The security afforded by the custodial arrangements put in place by the implemented consultants; and
- The ability to leverage off investment education materials developed by the implemented consultants and made available to their clients.

The implemented consultants operate in a very competitive market and we can draw on a large amount of data in estimating the cost to a fund of retaining their services. This is not intended to be a recommendation to use their services but rather recognises that implemented consultants do offer small to medium funds access to scale that is otherwise unavailable within the funds themselves.

Importantly, the fee charged by implemented consultants includes both:

- The consultants own costs for research, staff and a profit margin; as well as
- The fees that they pay to the managers that they appoint, which include margins for those managers.

From the fund's viewpoint the fees charged by the implemented consultant are regarded as a cost.

In this report we use the implemented consultant offerings as a proxy for active investment management for funds up to \$2 billion in assets.

This figure is a little arbitrary and in our view is still a little below the (cost) breakeven point beyond which it would be possible for a fund to be able to actively manage diversified multi-manager portfolios via direct mandate.

Beyond \$5 billion in assets we seek to estimate costs for active investment through a combination of an internal (to the fund) investment function and use of external managers appointed to fund specific mandates.

Active & passive investment

The alternative to active investment is passive or indexed investment. This is more popular overseas than in Australia but there are a number of specialist providers active in the Australian market.

Passive investment is much cheaper than active investment. Very large funds can invest in the major asset classes at close to "nil cost" and effectively capture market returns. It is also accessible to investors at all size points, including individuals. It can be achieved by physically holding assets and regularly rebalancing them or, at an even lower cost, through synthetic instruments.

Our decision to include passive investment in the analysis does not imply any statement from us on the pros and cons of active versus passive. Rather, it is a fact that funds can invest passively at much lower cost.

A decision to invest actively at a higher fee is, therefore, justified in the belief that to do so will generate extra return that more than offsets the additional cost. In fact, the bulk of superannuation assets in Australia are actively invested and many believe they can point to a track record of active management delivering added value.

In this report we show costs for both active and passive investment management.

Asset allocation

The other major factor influencing investment cost is asset allocation.

In this report we produce estimates for a Balanced as well as a Conservative investment portfolio.

We include two sets of calculations.

- For the first we construct a Balanced and a Conservative portfolio excluding some of the more costly alternative asset classes.
- For the second we then recalculate these estimates including some exposure to alternative assets.

We have chosen to build portfolio costs up from costs identified for each asset class. The portfolio costs are simply the weighted sum of the portfolio components. The asset allocation is shown for each portfolio.

Performance fees

We have noted the requirement that performance based fees only be permitted within MySuper products if they satisfy as yet unspecified conditions.

Performance fees in asset management have grown dramatically to the point where they sometimes exceed base fees within a given asset class and can be a material component of total manager fees within diversified portfolios.

The costs presented in this report are based on data, some of which might include an element of performance fees. We are not overly concerned with this. While it might result in our overstating MySuper costs to some extent, performance based fees are not prohibited in MySuper; they are only subject to conditions that are not yet known.

It is also widely known that there is increased scrutiny of performance fees in the wake of the Global Financial Crisis and some funds have openly spoken about acting to contain them.

Presentation of investment costs

In summary, we present estimated investment costs in this report in a way which allow comparisons to be made between:

- Active versus passive;
- Balanced and Conservative asset allocations;
- No exposure to alternatives or some exposure; and for
- Funds of varying sizes.

3.2 Operating costs

It should be possible to analyse operating costs, in total and in segments, within a superannuation fund as is done in other businesses. Unfortunately the data needed is not widely available.

We have been able to estimate total operating (i.e. all non-investment related) costs from our research and also from the annual statements of funds that do not have commissions, like payments, or the cost of extensive comprehensive advice on their P&L statements.

The research did not include funds that paid commissions or where platform fees were paid.

Some funds do include the cost of some elements of advice. Some large funds have internal planners but the cost increment when spread over all members is low (because of low take-up). Some smaller funds capture elements of intra-fund advice from their third party administrator and to this extent the costs we report are a little higher than they would otherwise be. Thus total operating cost has become our starting point.

We have drawn on other available sources, including our tender work, to estimate the costs that a third party administrator would charge funds of varying size. In doing this we have been aware that when administration is bundled with other services (especially asset management) it can be used as a loss leader. Moreover, the range of services provided under the generic label of administration varies widely and often include items that fall within what the Review has termed “bells and whistles”. It is impossible to extract these out. Again, the effect is to slightly overstate fees charged by the third party administrators for a strict “no frills” administration service. However, we do not believe this is material.

Internal “trustee office” costs are the difference between the two.

We believe that we can reliably estimate the fees in the market. Moreover, those fees would be inclusive of profit to the provider at levels consistent with current industry practice.

3.3 Intra-fund advice

Our research indicates that the provision of personal advice (including intra-fund advice) is currently a major issue across all sections of the industry. Much thought and effort is going into how this can be delivered en-masse to members at low cost. For some this means identifying gaps in operational infrastructure and working out how to fill it. For others it means promoting capabilities that have been dormant in the past. For some it may mean radically rethinking operating structures and partners.

The reality is that intra-fund advice is in its infancy. It has not been widespread in the past. Most funds have hitherto restricted themselves to providing general information and in exceptional cases escalating contact via telephone for more complex queries. Some have introduced an ability to deliver a Statement of Advice in certain circumstances but use of this latter facility has not been widespread.

The significance of this is that an analysis of past costs will not include a significant component attributable to advice.

MySuper makes provision of intra-fund advice compulsory but envisages that it will be spread across the entire membership which will clearly add to costs.

The following graphic seeks to simply describe the “advice continuum” as this is central to the way in which we have sought to allow for intra-fund advice in this report.



Basic information	From knowledge to understanding	General assistance	Assistance on specific matters	More complex advice but still restricted to matters within the fund	Full comprehensive financial advice
The member should know what their current interest is	But what does this mean. The member should understand their benefits, entitlements and rights	The member is provided with general information that they may or may not use to assist them in structuring their participation in the fund.	The member is offered clearly defined or scoped assistance/advice on a particular matter – as it applies to the member. Commonly a single issue such as insurance, contributions, salary sacrifice	This is all about assisting the member as far as is possible in helping the member capture full value from their participation in the fund – as it applies to the member. It does not extend to matters beyond the fund and needs must be suitably qualified	Some need it, but at specific times

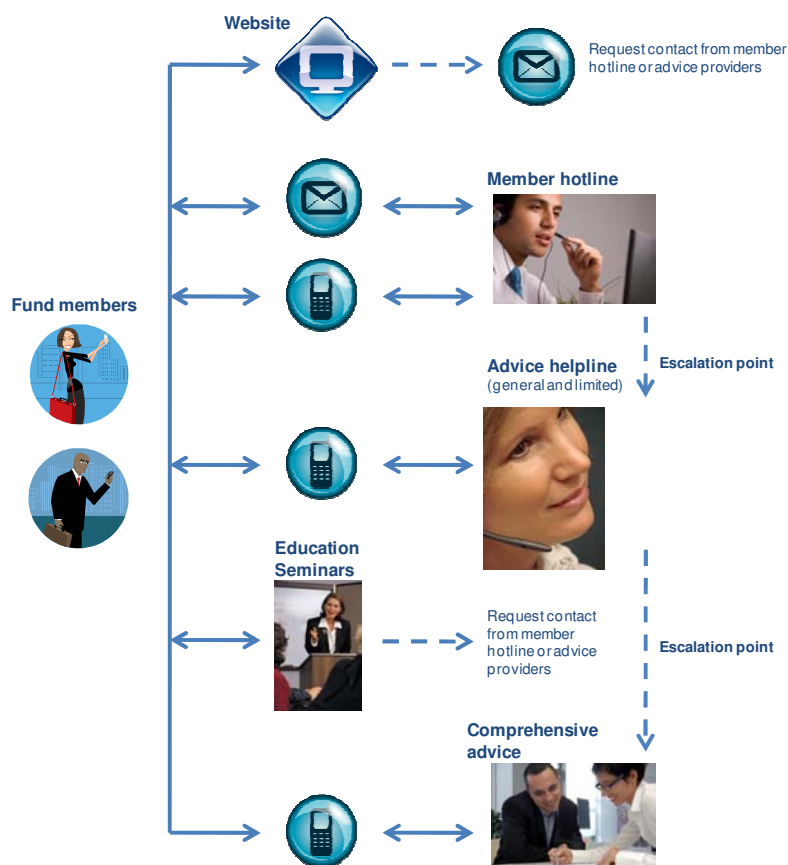
Most funds already provide assistance ranging between basic information and through to some form of general assistance. They do this through written material, statutory disclosures, tools on the website, and response to phone queries. Importantly, provided demand is manageable, the cost is (and can be) met from existing infrastructure.

Comprehensive financial advice usually involves face to face contact with a professional adviser. As such it is labour intensive and involves a significant cost. Some funds do offer this, but those funds upon which we have based our costs do so to a very limited extent, and of these many charge the individual member an additional fee for service. Our understanding is that a MySuper product will not package full comprehensive advice within its standard fee, though the members would be able to access this service on a user pays basis.

What remains is member specific assistance/advice on either a single issue or on a more complex matter, but in respect of matters relating to participation in the fund, as the areas that will generate the bulk of additional operating costs associated with intra-fund advice.

The cost of intra-fund advice depends on both the demand for this and the cost of delivery in each case. It is fair to say that a number of organisations are gearing up to provide third party services, linking into the existing administrative infrastructure of funds. Indeed, this is essential in order to provide the service cost effectively. In some cases there will be a need to materially upgrade administration system functionality, reliability and the training given to people in contact with members - but this is not a bad thing in itself.

A major challenge for funds is to efficiently put those seeking intra fund advice in touch with appropriately qualified people. The graphic below illustrates the process envisaged, as well as showing how delivery of intra-fund advice is intertwined with the administrative infrastructure of any fund. The better administration platforms are able to rapidly deploy existing (though latent) intra-fund advice capability without significant transition cost.



3.4 Insurance & insured benefits

It is proposed that MySuper products will be able to offer certain insured benefits and the Panel has asked the industry to respond with its views on what should and should not be permitted.

The reality is that insurance premiums and related costs constitute one of the largest items of expenditure of superannuation funds. Despite this we have decided that it would be inappropriate to include premiums as a cost item in this report because premiums for individuals vary according to the risk, amount of cover, and the type of benefit. At a fund wide level the total premium is highly dependent on the fund's demographic profile.

We adopt the view that an insurance contract for services and benefits is entered into between the trustee acting on behalf of members and the insurance company and should be assessed separately to other aspects of the fund's operations.

3.5 Costs & profit

Costs paid by a fund, or a MySuper product, to an unrelated third party service provider will include an unspecified profit margin to the provider.

Consequently, many of the costs that are cited in this report include service provider profit margin.

3.6 Uncertainty in costs quoted

In this report we present projected costs in a series of tables, expressed as either a % of assets under management or as an annual cost per member. We believe that the costs are reasonable, achievable and offer a realistic picture of what might be incurred within a no-frills MySuper product.

We have also described the process by which we have arrived at these numbers and it should be apparent that there is some element of approximation and estimation inherent in their calculation. The cost estimates presented should be regarded as being representative of a range of costs, anywhere within which it would be reasonable to expect that a MySuper product costs could lie.

4 Investment costs

Investment costs across the superannuation industry range broadly. It is impossible to generalise and any statement of costs must necessarily be presented within the context of:

- Whether the assets are managed actively or passively;
- The underlying asset allocation;
- The extent to which the trustee has decided to invest in alternative and illiquid assets in an effort to capture the benefits of diversification and the returns available in those asset classes;
- Scale.

4.1 Passive investment

Those who advocate passive investment contend that over the long term it is difficult to outperform the market and that investors should simply aim for market returns within a given asset class, minimise fees and devote attention to asset allocation which is responsible for the bulk of actual return.

In any case, the fact is that fees paid for passive management in the major asset classes are significantly less than for otherwise equivalent active management. Consequently, if we desire to illustrate how low asset management fees can be, then our starting point is passive management. Importantly, passive management is readily accessible by all Australian superannuation funds and individuals, if so desired.

Cost numbers

The following table shows estimates of costs for passive investment for funds of varying sizes.

Cost of investing passively (Basis points)									
Asset class	Asset allocation		Total MySuper fund asset size \$ millions						
	Balanced 70/30	Defensive 30/70	<100	500	1,000	2,000	5,000	10,000	>20,000
Aust shares	30%	15%	25	15	10	5	4	2	1
Int'l shares	25%	15%	28	17	13	8	4	2	1
Emerging markets	5%	0%	70	55	45	30	22	16	8
Aust listed property	5%	0%	30	15	10	5	2	1	1
Global listed property	5%	0%	50	45	16	8	4	2	1
Aust FI	15%	35%	15	6	5	4	3	2	1
Int'l FI	10%	25%	25	10	8	6	4	2	1
Cash	5%	10%	10	5	5	3	1	<1	<1
Custody Costs**			4	4	4	3	2	1	<1
Overall portfolio cost (Basis points)									
Balanced option (70/30)*			31	21	16	10	7	4	2
Conservative option (30/70)*			24	14	12	8	5	3	2

* Numbers shown should be viewed as centred within a range extending $\pm 1-2$ basis points

** Where the fund holds the assets via a mandate with the investment manager, otherwise close to zero.

Comment

The costs quoted involve a direct relationship with the supplier of the passive products. We know that some funds offer passive options in the major asset classes as part of a broader investment menu. This allows individuals to select them if they choose to. Prices can vary widely.

We have not included Exchange Traded Funds in our analysis. These are readily available at costs lower than shown above.

It could be justifiably argued that a fund, no matter how small, will devote some internal resources to investment management. It will at least require access to some independent advice in arriving at a decision to invest passively, in deciding on the asset allocation/investment strategy and in deciding the organisation to appoint. Thereafter, it must necessarily monitor performance and periodically reassess the appropriateness of the arrangements in place.

This is undoubtedly true, and those costs would be in addition to those shown.

That said:

- It is our experience that a smaller fund would make key strategic decisions with external advice and then delegate broadly to the investment managers appointed. Performance would be monitored by the trustee and its secretariat, without a dedicated investment department. Periodically they would review strategic decisions, again with external advice.
- The larger the fund the more likely that it will have internal investment specialists and the broader the role that they will play in investment decision making. Practice varies widely depending on a number of variables. We do show estimates of these costs in the table showing active management costs. We have not included them here as it would be likely that a large fund would certainly hold a mix of active and passive investments, and might well bring the latter function in house if it could do so at lower cost.

4.2 Active management

Some degree of active management is undertaken by the vast majority of Australian superannuation funds.

Over the past decade there has been growth in the use of multi-manager vehicles for both sector specific investment and in the construction of diversified portfolios across the risk spectrum. This is one way to reduce manager risk through diversification, and also allows for more sophisticated portfolio construction between and within asset classes.

This approach raises scale questions. A small fund is limited in the extent to which it can diversify manager risk- appoint too many managers and the size of each mandate becomes sub-scale and uneconomic.

It is partly for this reason that the Australian market has seen the rise of implemented consultants who offer “packaged” multi-manager options at both the asset class and diversified portfolio levels. This allows small to medium sized funds to access multi-manager portfolios at a far lower cost than they could themselves.

However, there is no hard and fast rule. There are many smaller superannuation funds that deliberately eschew implemented consulting products, work actively with traditional consultants and manage multi-manager portfolios to mandates, review manager performance regularly and make changes to the manager line-up as appropriate. These funds acknowledge the higher costs entailed but point to evidence that this approach is in the best interests of members.

In our analysis we have assumed that smaller funds, investing actively, would use implemented products in the way described. It produces a lower cost but this is reasonable given the philosophy underpinning MySuper and the purpose of this report.

A small fund, indeed any fund, could still create its own multi-manager portfolio if it chose but that would involve a substantially higher investment cost and it would behave the trustee to justify those higher costs in terms of value to members.

There is legitimate difference of opinion about when it becomes more efficient and practicable to bring manager selection and portfolio construction in-house. In this report we have assumed that this occurs at an asset value somewhere in excess of \$2 billion, but we are not wedded to this number.

In practice, we generally observe a gradual shift towards greater trustee office investment expertise and internal responsibility for decision making as funds get larger.

In our analysis we have assumed that funds with about \$5 billion or more will manage assets internally to mandate, using a combination of internal resources and external advice and research. We have followed general Australian practice which employs managers to invest and has the internal department effectively working with the trustee to set strategy and “manage the managers”.

We know that this approach is under active review by some large Australian funds.

To begin with we exclude investment in alternatives.

Cost numbers

The following table show our cost estimates.

Cost of investing Actively (Basis points)									
Excluding alternatives									
Asset class	Asset allocation		Total MySuper fund asset size \$ millions						
	Balanced 70/30	Defensive 30/70	<100	500	1,000	2,000	5,000	10,000	>20,000
Aust shares	30%	15%	50	45	40	38	35	27	22
Int'l shares	25%	15%	70	55	50	48	44	38	34
Emerging markets	5%	0%	100	90	80	78	70	66	61
Aust listed property	3%	0%	40	35	30	28	25	21	19
Aust unlisted property	3%	0%	80	70	65	63	61	58	53
Global listed property	5%	0%	80	70	65	63	55	50	45
Aust FI	15%	35%	30	25	20	17	15	12	10
Int'l FI	10%	25%	30	25	20	17	15	12	10
Cash	5%	10%	25	18	12	10	7	5	3
Internal team***							6	5	4
Custody Costs**			8	7	6	6	3	2	1
Overall portfolio cost (Basis points)									
Balanced option (70/30)*			62	53	46	44	43	36	30
Conservative option (30/70)*			47	39	33	30	31	24	20

* Numbers shown should be viewed as centred within a range extending $\pm 2-3$ basis points

** Where the fund holds the assets via a mandate with the investment manager, otherwise close to zero

*** Includes cost of asset consultants and external advice generally. Numbers shown are within a range of ± 1 basis points

Comment

A review of Product Disclosure Statements reveals that the fees deducted from investment returns for a “balanced” diversified portfolio vary for a number of reasons.

These include:

- Manager costs, which can and do vary widely. Some managers command a premium. Some managers are on performance based fees that themselves can be very significant;
- The actual asset allocation of what is called a “balanced” fund might itself vary materially between funds; and
- Many funds express all or part of the administration fee charged to members as a percentage of account balance and/or deduct it from the return.

For this report we have sought to isolate all non investment related “fees” deducted from returns and assume that the remainder reflect investment related fees paid to third parties. We then add all direct (internal) investment fees recorded in P&L statements, expressing them as a % of assets.

We are confident of the costs presented for funds below \$2 billion given our experience in assisting funds go to the market for implemented services. We would fully expect the implemented consultants to offer a lower (basis point) fee for even larger mandates, thereby setting a “bar” to be met by those making a positive decision to construct their own portfolios.

The use of an implemented product does reduce the need for internal involvement but it does not by any means eliminate it. The trustee and its staff still have a responsibility to ensure effective oversight and to seek independent advice. Internal costs can still be material and for small funds appear even more significant.

For funds exceeding \$5 billion, we have assumed that management is undertaken internally with external advice and assistance as required. There are not that many funds of this size, and so it is difficult to present statistically reliable numbers.

The numbers we use are based on our own internal research, and seek to mitigate the impact that performance fees have had in recent times.

4.3 Active management: with alternatives

The possibility of investing in alternative asset classes adds a new dimension to the analysis of potential costs.

There are a large number of asset classes which, may be defined as “alternatives”. Some have existed for many years, while some are relatively recent additions to the suite of options available to superannuation funds.

Alternatives can be complex...

There is also some controversy surrounding the nature and inherent character of some of these investments. Some are classified as “growth”, others as “defensive”. Yet some so-called defensive assets have been amongst those most exposed during the Global Financial Crisis.

The reality is that the nature and structure of these investments come in so many forms and guises that it often requires much greater scrutiny and research to fully understand them ahead of fully informed purchase.

... As can be estimating costs

In some alternative classes the investment by a fund is in a vehicle which itself invests in managers who deduct their fees before returns are credited to the investment vehicle. This last point highlights a potential difficulty that exists in measuring the cost of some “fund of fund” products. The only fee visible is that deducted by the direct vehicle. Downstream fees are not always quantified.

Liquidity

The other major characteristic of some alternative assets is that they can be relatively illiquid. This is compounded by the fact that some assets are unlisted and so it is necessary to have the assets periodically valued by professionals.

The result can be additional costs.

What we have assumed

To incorporate the effect of investing in alternatives it is necessary to make a number of assumptions.

1. Exposure to alternatives is something that differs markedly within different sectors of the superannuation industry and between funds. Generally, it has been the larger Industry Funds that have invested more into infrastructure and some other illiquid alternative classes, partly because they have had less need for liquidity than other more corporate based funds and partly because of their willingness to team together on major projects.
2. We have assumed that the exposure to alternatives will be limited to 10% of assets in each of the already described Balanced and Conservative portfolios. In effect 10% of those portfolios will be diverted to a bundle of alternative assets.
 - i. The 10% alternatives in the Balanced portfolio will be split 70/30 between those alternative asset classes classified below as Growth or Defensive respectively. We call this the “Balanced Bundle”;
 - ii. The 10% alternatives in the Conservative portfolio will be split 30/70 between those alternative asset classes classified below as Growth or Defensive respectively. We call this the “Conservative Bundle”;
 - iii. The classification of alternatives into Growth and Defensive is somewhat arbitrary. Most do not fit naturally into this somewhat anachronistic (but still widely used) classification. It does not have any significant impact on the conclusions presented in this report.

Alternative “asset classes”	
Growth	Defensive
Private equity	Global credit
Global macro	Leveraged loans
Event - driven	Global high yield
Market neutral	Global listed infrastructure
Long short	Global unlisted infrastructure
Commodities	Infrastructure debt
	RMBS
	Hedge funds
	Fund of hedge funds (excluded)

3. Costs have been estimated from data we have seen in respect of some, generally larger, funds. However, it is difficult to translate this data into firm and precise estimates of the cost of alternatives. The numbers range widely and moreover, the nature of the assets involved often entails significant management costs, as well as increased time and effort from the investment wing of the trustee office.
4. Should we assume that smaller funds invest in alternatives? There is no doubt that some product manufacturers are seeking to satisfy the demand for such assets within smaller funds by offering “alternative” portfolios. Implemented consultants are introducing some exposure to alternatives.

But there are issues surrounding liquidity, and so we have not produced a cost number for alternatives for a fund below \$100 million. For all larger funds we have used the same 10% exposure to the Balanced and Conservative alternative bundles;

5. Our work does bring us into contact with funds of all shapes and sizes. We generally observe lower allocations to alternatives in smaller funds and many restrict themselves to investment in only some of the alternative asset classes. This suggests that we could model exposure to alternatives and the respective Growth and Defensive bundles of alternatives by fund size. This adds another layer of complication to the analysis and acts to understate the scale benefits enjoyed by larger funds. After all, if these investments add value to members then funds should act accordingly. We have, therefore, adopted the same bundle and allocations for all fund sizes;
6. It is not always possible to invest passively in alternative asset classes. We have, therefore, restricted our analysis of alternatives to an extension of active management.

Cost numbers

This shows our estimate of costs where a portion of assets are invested in alternatives.

Cost of investing Actively (Basis points)						
Including alternatives						
Total MySuper fund asset size \$ millions						
	<500	1,000	2,000	5,000	10,000	>20,000
Overall portfolio cost (Basis points) Excluding Alternatives (see earlier table)						
Balanced option (70/30)*	53	46	44	43	36	30
Conservative option (30/70)*	39	33	30	31	24	20
Cost of alternative assets bundles						
Balanced Bundle**	182	151	140	109	101	89
Conservative Bundle**	153	125	116	89	77	67
Overall portfolio cost (Basis points) Including Alternatives (exposure 10% of total)						
Balanced option (70/30)***	65	57	54	50	43	36
Conservative option (30/70)***	50	42	39	36	30	24

* Numbers shown should be viewed as centred within a range extending ± 2 -3 basis points

** Numbers shown should be viewed as centred within a range extending ± 15 to 20 basis points

*** Numbers shown should be viewed as centred within a range extending ± 3 -5 basis points

Comments

The table demonstrates the well known fact that investment in alternatives involves significantly higher fees than those generally paid in the more traditional asset classes. Nevertheless, our estimates suggest that some alternative exposure should be achievable at quite reasonable investment costs, even for relatively small superannuation funds.

Our calculations are based on 10% of assets being invested in alternative assets. The effect has been to increase overall portfolio costs by between:

- 5 and 13 basis points for the Balanced portfolios;
- 5 and 12 basis points for Conservative portfolios.

Scale is again the dominant factor, with the increase being:

- In excess of 10 basis points for the smaller funds; and
- In the order of 5 basis points for very large funds.

Alternatives classified as Growth tend to cost more than those classified as Defensive and it is also our experience that performance based fees can be significant and complex.

It is a separate question and one outside the scope of this report, whether such an exposure is appropriate given the specific factors that might be present within a given superannuation fund. We especially have in mind the need for liquidity.

We know that the technical justification for many alternatives is diversification and various protections against downward market movement. Our table shows that in some cases this does not come cheaply.

4.4 Investment costs in summary

We can draw together our estimate of the costs presented above into a single table.

	Total investment costs (Basis points)						
	Total MySuper fund asset size \$ millions						
	<100	500	1,000	2,000	5,000	10,000	>20,000
Passive investment							
Balanced portfolio	31	21	16	10	7	4	2
Conservative portfolio	24	14	12	8	5	3	2
Active investment (excluding alternatives)							
Balanced portfolio	62	53	46	44	43	36	30
Conservative portfolio	47	39	33	30	31	24	20
Active investment (including alternatives)							
Balanced portfolio	---	65	57	54	50	43	36
Conservative portfolio	---	50	42	39	36	30	24

5 Operating costs

Operating a superannuation fund is a complex matter requiring a host of skills and infrastructure. It is rare for a fund to possess all of that which is necessary internally. Funds rely on partners to varying degrees.

The major exception to this is the major wealth management institutions that have built extensive in-house proprietary administration systems and have access to capital to invest in that infrastructure.

A difficulty is that the definition of administration and the services that it entails is itself evolving. The graphic below is based on internal work that we have done and seeks to show the range of functions and services and the potential breadth of partnering arrangements. It includes some elements of service related to investment

		Scale economies demanded			Service quality the critical issue
The Customer Interface	Call Centre	Completely outsourced, shared with other clients	Completely outsourced, dedicated staff for fund	Completely outsourced, fund hand-picks staff	In-house staffing (systems could still be outsourced)
	Website	Generic shell website, may have customised logo and colours	Design sourced internally, content supplied externally	Design and content sourced internally (may still use third party builder and host)	
	Mail room	All mail sent to third-party office for processing	Mail processed (including scanning) by local bureau and forwarded to third party administrator		Mail processed (and scanned) internally
Back-office processing	<ul style="list-style-type: none"> ▪ New members, ▪ Benefit payments ▪ Contribution upload ▪ Annual review ▪ Investment transactions ▪ Compliance and reporting 	Completely outsourced, shared with other clients	Completely outsourced, dedicated staff for fund	Completely outsourced, fund hand-picks staff	In-house staffing (systems could still be outsourced) Outsourced staff, located in fund's own office
Record-keeping systems	Member records	System run and used by administrator (system may be supplied and maintained by a third-party)	Commercially-supplied system run in-house on own hardware	System developed, maintained and run in-house on own hardware	
	Transactions	Managed by third-party administrator as part of overall administration service		Separate general ledger package or integrated with member-record-keeping system (rare)	
	Investments	Normally handled by an external Custodian			

Where a fund sits and the policies it adopts depend in no small part on the overall business and competitive strategies.

5.1 Current industry practices

While industry practice varies widely we can draw some conclusions:

- Most corporate funds will partner with a third party to deliver the bulk of administrative services. The trustee office will typically consist of a secretary and support staff, which may or may not be full time, and where a major part of their role is to liaise and manage service providers;
- Industry Funds generally work with an administrator who undertakes day to day processing where scale benefits are most important, especially amongst the larger funds. Practice is much more variable amongst smaller funds where a number operate their own administration departments often using purchased software packages or using boutique administration service companies. It should be pointed out that a number of industry funds have taken equity positions in their administrator. In either event, a trustee office is maintained;

- Wealth management organisations generally maintain their own internal administration capability using purchased or purpose built administration software. An independent trustee office is maintained and this works closely with the administration arm;
- Public sector funds sometimes use a specialist administrator that evolved with the fund itself. In some cases these divisions have corporatized, and are now promoting themselves as third party administrators to the industry as a whole;
- There are of course exceptions to all of the above.

Specialist administration companies

There has been significant rationalisation amongst administrators over the past few years, as growing industry complexity and the importance of scale in delivering competitive outcomes and in justifying investment have become more important.

There are now, at most, only a handful (or so) of firms that have the depth and resources to be able to deliver competitive services to the mass superannuation market. There are a number of other firms that act as administrators to a relatively small client base but these firms rarely capture new business.

In part this reflects pricing which in the past has been insufficient to attract new entrants. The widely held view is that “administration is a low margin business” and that the bulk of revenue and profit from superannuation comes via asset management.

There is some element of truth to this but it is also fair to say that the inefficiencies in the superannuation system, many of which are described in the SuperStream paper, have made it more difficult for administrators, particularly the mass administrators, to achieve productivity gains and make the most of electronic processing in all its forms.

We have, therefore, seen the emergence of three distinct types of administration platforms over the past few years:

- High touch administrators who, notwithstanding aged systems, have developed the ability to electronically engage with members and through the use of web based and other functionality transferred much of the day to day transactions to what is effectively a user pays environment – in the same way as the banks have utilised ATMs. They have been able to contain costs somewhat and at the same time, have developed value add services for funds that want to engage more closely with their members. They generally resist all paper based transactions;
- The large mass administrators who possess scale and the benefits of incumbency. They too have some developed capability to move to a user pays transactional system but are hostage to the manual, paper based, member interactions that are all too common in this country. This also restricts their ability to reduce costs, contributes to significant amounts of rework, and has limited their ability to develop leading edge value add services to assist funds better engage with members;
- A number of small administrators who have just one or two small to medium size clients.

There is also:

- A latent administrative capability of high standard within the major wealth management organisations, which is essentially quarantined to the clients of those organisations. This is geared towards high touch. It is not usually sold as a standalone service; and
- A number of in-house administration functions maintained by individual funds.

5.2 Components of operating costs

It is therefore apparent that total operating costs are a combination of:

Third party administrator fees

Fees paid to external administrators which will include a profit margin. We acknowledge the view that administration margins are thought to be low. However, it is not within scope for us to consider or comment on an appropriate margin for the future. Should margins increase then this would clearly flow through to increased costs.

Internal costs

Internal or trustee office costs can include some costs that have traditionally been packaged under the administration heading, especially services central to member engagement. However, trustee office costs also include, to the extent not outsourced:

1. Trustee fees & support, including reporting
2. Staff salaries and associated on costs
3. Compliance, audit and statutory fees
4. Management of service providers
5. Insurance claims management
6. Internal IT and accommodation
7. Other corporate overhead
8. Postage, handling
9. Marketing and business development

Some funds have brought some of the functions typically provided by third party administrators in-house and for these funds we will see internal costs rise and third party fees reduce. A number of funds do virtually all administration in-house, have a relatively large number of employees and almost all operating costs appear on the funds P&L statement.

Intra-fund advice

Funds have been providing assistance to members for some time in a number of different ways and financing that assistance in ways ranging from user pays at one end to a general charge for all members at the other.

Calculators and useful information are now routinely provided on websites. Service centres increasingly include (at least some) people qualified to provide assistance beyond simple statements of fact.

A number of funds have gone further and (often with external assistance) are now enabled to deliver advice. We sometimes see simple and limited advice delivered at no extra cost to the member, which means that the cost is included in standard fees.

Many others are now considering how to respond to the ASIC RG 200, which is proposed to be a compulsory feature of MySuper.

At this point, we reiterate the central role that core administration plays in delivering intra-fund advice. Those funds delivering advice must have access to accurate and up to date information about the member and their current interest in the fund. They require what the industry terms a “single member view”, where all member information is quickly and inexpensively available for use.

While this sounds simple, even rudimentary, it has proven to be a major and costly challenge for systems designed at a time when batch processing was the norm and where the only regular contact envisaged with a member was the annual mail out of statutory material.

Systems have, or are, in the process of being upgraded, as is the ability to reduce transactional costs through the use of electronic channels, and straight through processing. These capabilities are already in the DNA of the better administration systems, which are generally found amongst the corporate master trusts and the wealth management organisations.

Those not able to easily upgrade will need to seek external assistance, or contemplate more fundamental change, in order to offer intra-fund advice at a reasonable cost.

Bells & whistles

The MySuper paper makes it clear that members of MySuper funds should not be made to pay for “bells and whistles” that they will not make use of and that their cost should be quarantined to “Choice” members.

We repeat here that in this report we have extracted all costs associated with full comprehensive advice and distribution as provided for in MySuper. Consequently, the points made in the next few paragraphs refer to whatever “bells and whistles” are associated with operational functionality, flexibility and the ability to engage with individual members to assist them.

We think it will be difficult to extract these costs as they are effectively built into the fund’s core operating infrastructure.

It makes little sense and would be uneconomic for a fund to maintain separate operating infrastructures for their MySuper and Choice products. We are firmly of the view that funds will have a single system.

We believe that in many cases it will be difficult for trustees and their providers to accurately account for the cost of that portion of infrastructure that is solely attributable to “bells and whistles” and suspect that it would only constitute a relatively minor part of the total cost. However, if that cost was quarantined then a relatively minor saving for the MySuper members could translate into a substantial increase in costs for Choice members.

A simple example can be used to illustrate this:

Suppose a fund is currently charging all operating costs at a fixed \$100 per member per annum:

- MySuper members comprise 80% of members; and
- 10% of total operating costs are attributable to “bells and whistles”;

If we quarantine the cost of the “bells and whistles” to Choice members but assume that total fund costs do not reduce then:

- Costs charged to the 80% MySuper members will reduce by 10% to \$90 per member; but
- Costs charged to the 20% Choice members will increase to \$140 in order to make good the shortfall.

In fact, total costs might actually increase marginally, as funds incur the cost of allocating costs in whatever way is prescribed.

The figures are even more dramatic where the proportion of MySuper members is greater. If they are 90% of total members then the charge for Choice members would increase by 90% to \$190.

Of course if the cost of bells and whistles is much lower, then the impact as well as the case for change is weakened.

5.3 Operating cost excluding intra-fund advice

We have a significant amount of data that we can use to provide estimates of costs excluding intra-fund advice, including our own research, results of tenders and other client work.

As already mentioned we believe that little intra-fund advice costs are included in the data that we have used and our research has excluded advice and distribution - though we know some marketing and sales costs are included.

Current operating infrastructure will underpin MySuper

Current fund systems, people and processes will form the basis of any MySuper product established by the sponsors of a current fund.

We are consequently comfortable that the costs presented below will be representative of the costs that could be experienced by MySuper products of varying sizes. These costs will, to varying degrees, include a “bells and whistles” component but we do not believe it is very significant and we see some difficulty in separating it out in practice.

Cost numbers

The following table shows operating costs (excluding intra-fund advice) for funds of varying sizes. All costs are expressed as annual amounts per member.

Estimated operating costs excluding intra-fund advice for MySuper products of varying sizes (as \$ per member per annum)							
Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Fund size: membership*	4,000	20,000	40,000	80,000	200,000	400,000	800,000
Third party administration fees**	\$124	\$90	\$78	\$68	\$57	\$49	\$43
Trustee office**	\$120	\$105	\$71	\$46	\$31	\$28	\$23
Total operating costs (excl. advice)***	\$244	\$195	\$149	\$114	\$88	\$77	\$66

* Assuming as instructed an average account balance of \$25,000

** Actual third party admin fees will depend on the range of services contracted for. As already explained, this will possibly differ widely from fund to fund. In the extreme, if all administration is undertaken in-house it will be zero. But we will see a corresponding increase in internal (i.e. Trustee office costs). Because of the above, we can be more confident in estimating total costs. Our estimates are based on research that predates ASIC RG 200 and so, while we know there were some funds that were providing advice, the costs would be minor. We can, therefore, confidently add to this our estimate of the cost of intra-fund advice

*** Numbers should be taken as being centred on a range extending \pm \$5-\$10

Comment

These are significant variations in operating costs from fund to fund. The costs shown are representative of “averages” at the various fund sizes.

The table shows strong scale economies.

It is important to highlight that it is possible for smaller funds to access some of the benefits of scale by partnering with service providers who themselves have scale. This is true of many services, including administration. Yet, an administrator does incur quite high set up costs in putting a system in place for a new client and these are amortised over a number of years (typically 3 to 5). For a small fund this translates into a significant extra cost per member.

On top of this we know that some funds, including some that are quite small, have appointed third party administrators who themselves lack scale or have chosen to self administer.

The result is demonstrated in the table which shows small fund costs are much higher.

The evidence is clear. Larger funds are able, other things equal, to provide basic operational services at a lower per member cost.

5.4 Cost of intra-fund advice

Total intra-fund advice depends on two basic factors: the cost of delivering the service to each individual member and the likely demand for the service.

We refer to Section 3.3 where we presented a view that quality administration platforms were reaching the point where much of the advice was capable of being covered as part of ordinary business, through electronic and telephone contact.

This capability is largely recognised within current operating costs.

The major additional cost will be related to assistance on specific and more complex limited personal advice.

We are able to make some informed estimates of the cost of delivering general and limited advice to individual members from some of the work we have undertaken over recent months. A number of third party providers specialise in these services and provide some insights into fees.

Nevertheless, data is limited and we have had to make some assumptions on the extent to which unit costs would reduce with demand.

Having said this we should point out that opinions do vary and in discussions within the industry we have had opinions expressed that the individual cost of advice could be twice the estimates used in this report.

But, as will be seen, the total cost is incremental within total fund costs.

Member demand for this service is difficult to quantify. We do not hold strongly to the levels assumed in this report, though in discussion with funds they are not felt to be unreasonable.

Cost numbers

Estimated costs of intra-fund advice for MySuper products of varying sizes (as \$ per member per annum)							
Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Fund size: membership	4,000	20,000	40,000	80,000	200,000	400,000	800,000
Demand for advice (% of total membership)							
General advice	10%	10%	10%	10%	10%	10%	10%
Personal advice	5%	5%	5%	5%	5%	5%	5%
Cost of individual piece of advice \$							
Cost general	75	60	50	45	40	35	30
Cost personal	200	170	150	130	120	110	100
Total cost for total fund \$pa	\$70,000	\$290,000	\$500,000	\$880,000	\$2,000,000	\$3,600,000	\$6,400,000
Total cost \$ per member per annum	\$18	\$15	\$13	\$11	\$10	\$9	\$8
Total cost \$ per member per week	\$0.34	\$0.28	\$0.24	\$0.21	\$0.19	\$0.17	\$0.15

Comment

Calculated costs for advice are only a fraction of total operating costs and represent a relatively small charge for each (and every) member. To reinforce the point, we have in this table also calculated the effective weekly charge. This does not alter the cost, but is consistent with industry practice.

We have not included any cost for comprehensive advice in these calculations. Rather, we have assumed that if this was offered by a fund then it would be financed on a user pays basis. Those fees would be disclosed in advance of a member “purchasing” this additional service and under the MySuper proposals could be met out of the member’s account balance.

5.5 Total operating costs

We can now draw all estimated operating costs together into a single table

Cost numbers

Estimated operating costs for MySuper products of varying sizes (as \$ per member per annum)							
Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Fund size: membership*	4,000	20,000	40,000	80,000	200,000	400,000	800,000
Third party administration fees**	\$124	\$90	\$78	\$68	\$57	\$49	\$43
Trustee office**	\$120	\$105	\$71	\$46	\$31	\$28	\$23
Total operating costs (excl. advice)***	\$244	\$195	\$149	\$114	\$88	\$77	\$66
Intra-fund advice****	\$18	\$15	\$13	\$11	\$10	\$9	\$8
Total operating costs (incl. advice)	\$262	\$210	\$162	\$125	\$98	\$86	\$74

* Assuming an average account balance of \$25,000

** Actual third party admin fees will depend on the range of services contracted for. As already explained, this will possibly differ widely from fund to fund. In the extreme, if all administration is undertaken in-house it will be zero. But we will see a corresponding increase in internal (i.e. Trustee office costs)

*** Because of the above, we can be more confident in estimating total costs. Our estimates are based on research that predates ASIC RG 200 and so, while we know there were some funds that were providing advice, the costs would be minor. We can therefore confidently add to this our estimate of the cost of intra-fund advice.

**** Based on the costs and volumes already described.

Comment

One thing is clear: there are large scale economies in operating costs. It could be argued that there should be less scale effects in the delivery of advice than we have assumed and we acknowledge that might be true. But this does not materially change our conclusion because intra-fund advice is only a relatively small component of total operating costs.

Moreover, there are some funds where current operating costs (excluding bundled advice, platform fees and the like) are substantially higher than suggested in the table.

We are firmly of the view that the best way to describe fund costs is as an amount deducted annually from accounts, as they are logically related to fund membership.

5.6 Total operating costs: varying size of account balance

From an individual member's perspective, a charge of, say, \$250 per annum consumes a far greater proportion of a \$10,000 account than it would a \$200,000 account.

In the next table we re-express the total annual per member operating cost as a % of the member's account for a range of possible account balances.

Estimated total operating costs for MySuper products of varying sizes (basis points for varying account sizes) & Inclusive of cost of intra-fund advice							
Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Fund size: membership*	4,000	20,000	40,000	80,000	200,000	400,000	800,000
<u>Account size</u>							
\$10,000	262	210	162	125	98	86	74
\$25,000	105	84	65	50	39	34	30
\$50,000	52	42	32	25	20	17	15
\$100,000	26	21	16	13	10	9	7
\$250,000	10	8	6	5	4	3	3

* Membership based on an average account balance of \$25,000

These estimates follow industry practice which has tended to only look at fees in terms of "MER". They show that a member with a \$10,000 account in a \$100 million dollar fund will likely find administration costs of the order of 2.62% per annum. Of course, in the same fund there might be a member with a \$250,000 account. The \$262 is only 10 basis points (0.10%) and looks, when expressed this way, very small.

All of these costs are before any investment related costs are deducted from returns, and exclude any bundled advice fees.

They serve to illustrate the inefficiency that results from any Australian having multiple "lost", and generally quite small, accounts steadily eroded by regular deduction of administration and other costs.

5.7 Operational reserves

We close this section with an observation about the superannuation industry's approach to establishing and maintaining operating and contingency reserves.

There is no standard. Some funds do maintain reserves but to varying amounts. Some funds rely on service provider contracts in whole or in part to meet costs of errors or rely on insurance arrangements to meet claims. Strictly, all funds should have clear and well thought through policies as part of their risk management plans.

We cannot be confident that this is being done in a way that renders the numbers presented in this report as being fully inclusive of adequate provisioning.

6 Total MySuper costs

We are now in a position to bring investment and operating costs together to estimate the total costs that could be expected under the MySuper proposals presented to us in the Paper.

It is clear that there will be no single answer. There are a number of factors that will influence total cost including:

- Scale, both in terms of assets and membership;
- Investment approach: active or passive
- Asset allocation; and
- Use of higher cost alternative asset classes.

The following table shows total costs as they might vary with changes in each of these variables. For convenience we have expressed all costs as a % of assets because users will compare these numbers with industry data that is almost always presented in that form.

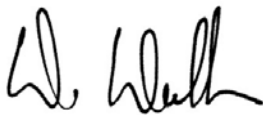
Estimated total costs for MySuper products of varying sizes (all costs expressed as basis points) Investment costs + Operating costs (incl. intra-fund advice)							
Fund size: \$millions	<100	500	1,000	2,000	5,000	10,000	>20,000
Passive investment							
Balanced portfolio	136	104	80	60	46	38	32
Conservative portfolio	129	98	76	58	45	37	32
Active investment (excluding alternatives)							
Balanced portfolio	166	136	111	94	83	70	60
Conservative portfolio	151	123	97	80	70	59	49
Active investment (including alternatives)							
Balanced portfolio		149	121	104	89	77	66
Conservative portfolio		134	107	89	76	64	54

7 Reliances and Limitations

We have relied on the accuracy and completeness of all data and other information (qualitative, quantitative, written and oral) provided to us for the purpose of this report. We have not independently verified or audited the data but we have reviewed it for general reasonableness and consistency. It should be noted that if any data or other information is inaccurate or incomplete, our advice may need to be revised.

This report has been prepared for the sole use of the Super System Review for the purpose set out in this report.

Yours sincerely



Wayne Walker
Deloitte Actuaries & Consultants



Michael Monaghan
Deloitte Actuaries & Consultants

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APPENDIX E: SECRETARIAT

The secretariat was established in Melbourne to assist the Panel with staff drawn from Treasury, the private sector and the regulatory agencies with responsibility for superannuation.

Secretariat:

Roger Brake and the staff of the Superannuation Unit of Treasury

Roger Brown on secondment from APRA

Pedro Café on secondment from the ATO

Scott Donald, University of New South Wales

Peggy Haines, Freehills

Hilda Miller on secondment from ASIC

Paul Murphy, UniSuper (*Consultant*)

Philip Russell on secondment from ASIC

Wilson Sy on secondment from APRA

Brad Tallents on secondment from KPMG

Sophie Trumble on secondment from ASIC

APPENDIX F: ABBREVIATIONS AND ACRONYMS

ABA	Australian Bankers' Association
AASB	Australian Accounting Standards Board
ABS	Australian Bureau of Statistics
ACR	Auditor Contravention Report
ACSI	Australian Council of Super Investors
ACTU	Australian Council of Trade Unions
ADF	Approved Deposit Fund
ADI	Approved Deposit-taking Institution
AFSL	Australian Financial Services Licence
AFTS	Australia's Future Tax System
AGA	Australian Government Actuary
AGM	Annual General Meeting
AIG	Australian Industry Group
AIST	Australian Institute of Superannuation Trustees
ALLS	Adult Literacy and Life Skills Survey
AML/CTF Act	<i>Anti-Money Laundering and Counter Terrorism Financing Act 2006</i>
APRA	Australian Prudential Regulation Authority
ASFA	Association of Superannuation Funds of Australia
ASIC	Australian Securities and Investments Commission
ASX	Australian Securities Exchange
ATO	Australian Taxation Office
AUASB	Australian Auditing and Assurance Standards Board
AUSTRAC	Australian Transaction Reports and Analysis Centre
Bps	Basis Points — a basis point is one-hundredth of a percentage point
CAMAC	Corporations and Markets Advisory Committee
CGT	Capital Gains Tax
CHESS	Clearing House Electronic Subregister System
Complaints Act	<i>Superannuation (Resolution of Complaints) Act 1993</i>
Corporations Act	<i>Corporations Act 2001</i>
Corporations Regulations	Corporations Regulations 2001
CPA	CPA Australia
CPI	Consumer Price Index

DB	Defined Benefit
DC	Defined Contribution
EFT	Electronic Funds Transfer
EPSSS	Exempt Public Sector Superannuation Scheme
ERF	Eligible Rollover Fund
ERISA	Employee Retirement Income Security Act (US)
ESG	Environmental, social and governance
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FOS	Financial Ombudsman Service
FPA	Financial Planning Association
FS(COD)	<i>Financial Sector (Collection of Data) Act 2001</i>
FSG	Financial Services Guide
FTSE	Financial Times/London Stock Exchange Group
GDP	Gross Domestic Product
GEERS	General Employee Entitlement and Redundancy Scheme
GFC	Global Financial Crisis
HILDA	Household, Income and Labour Dynamics in Australia
ICAA	Institute of Chartered Accountants in Australia
ICR	Indirect Cost Ratio
IFF	Industry Funds Forum
IFSA	Investment & Financial Services Association (to be renamed the 'Financial Services Council' with effect from 20 July 2010)
IGR	Intergenerational Report
IGT	Inspector-General of Taxation
IHA	In-house Asset
ISN	Industry Super Network
MER	Management Expense Ratio
MOU	Memorandum of Understanding
NIA	National Institute of Accountants
NICRI	National Information Centre on Retirement Investments
OECD	Organisation for Economic Cooperation and Development
PDS	Product Disclosure Statement
PSB	Payment Systems Board
PST	Pooled Superannuation Trust

RBA	Reserve Bank of Australia
REST	Retail Employees Superannuation Trust
RMP	Risk Management Plan
RMS	Risk Management Strategy
RSA	Retirement Savings Account
RSE	Registrable Superannuation Entity
SAF	Small APRA Fund
SBR	Standard Business Reporting
SCT	Superannuation Complaints Tribunal
SEC	Securities and Exchange Commission
SG	Superannuation Guarantee
SG Act	<i>Superannuation Guarantee (Administration) Act 1992</i>
SGC	Superannuation Guarantee Charge
SIS Act	<i>Superannuation Industry (Supervision) Act 1993</i>
SIS Regulations	Superannuation Industry (Supervision) Regulations 1994
SLWG	Squam Lake Working Group
SMSF	Self-Managed Super Fund
SPAA	SMSF Professionals' Association of Australia Limited
SPIN	Superannuation Product Identification Number
STP	Straight-Through Processing
SWG	Superannuation Working Group
SwimEC	Superannuation, Wealth And Investment Management Electronic Commerce
TAER	Total Annual Expense Ratio
TFN	Tax File Number
TPB	Tax Practitioners Board
TPD	Total and Permanent Disability
UK	United Kingdom
US	United States

APPENDIX G: GLOSSARY

Term	Definition
Account-based product	A product where the value of the amount from which an income stream is drawn is determined by the member's account balance.
Accumulation fund	A superannuation fund where the value of the final retirement benefit payable to members is the member's account balance at the relevant time.
Accumulation phase	The period of time over which a fund member builds the value of their benefits before retirement.
Administrator	A party contracted by the trustee to provide services such as record-keeping and member account management for the fund.
AFTS Review	The 2009 report and recommendations of the Review of Australian Future Tax System, also known as the Henry Review.
After-tax return	The return on an investment after all applicable government charges, duties and taxes have been deducted or accounted for.
Annuity	Generally, a stream of payments made at regular intervals. In superannuation, a fund member can use all or part of their benefits to purchase an annuity from an insurer in order to receive the value of their benefit as an income stream.
APRA-regulated fund	All superannuation funds regulated by APRA under the SIS Act, but does not include SMSFs.
Asset-based fees	A fee payable for a service calculated by reference to the value of the assets to which the service relates.
Asset allocation	The distribution of a superannuation fund's assets in investments in different classes of assets, such as equities, fixed interest, cash and real property.
Auto-consolidation	A process by which different superannuation accounts in respect of the same person are automatically consolidated within a superannuation fund and across different funds.
Bundling	Building in a number of services or features in a single product which cannot be separated.
Choice architecture	A model for the regulation and governance of the superannuation system where regulation and trustee responsibility is based on the degree to which members make choices and take responsibility for their super.
Choice product	A superannuation product in the choice architecture model (described in chapter 1) where a member has made a choice that their superannuation would not be in MySuper or their own SMSF.
Clearing house	A service provided to employers effectively outsourcing the distribution of superannuation contributions and information to superannuation funds. The clearing house receives a single payment from the employer and then distributes all the necessary contributions on behalf of the employer to the funds chosen by the employees.
Commission	A fee payable as an incentive or reward to the seller of a product, usually based on the value of the goods or services sold.
Consolidation (of accounts)	The transfer of one or more of a person's superannuation fund accounts into a single or a reduced number of superannuation accounts, with resulting administration fee savings.
Consolidation (of industry)	The gradual process whereby the number of superannuation funds is reduced as a result of fund mergers.

Term	Definition
Cost cross-subsidisation	Where members of one fund, or one investment option, subsidise costs attributable to others.
Custodian	An entity that acts as a bare trustee and holds assets of a superannuation fund on behalf of the superannuation fund trustee. The custodian holds the legal title to the asset and acts only at the direction of the fund trustee.
Default fund	The superannuation fund to which an employer's Superannuation Guarantee contributions will be paid if the employee does not direct the employer to make the contributions to a fund chosen by the employee.
Default investment option	The investment strategy the trustee of a superannuation fund will use when investing the assets of the fund unless a member directs the trustee to invest their benefits (wholly or partly) in another strategy made available by the trustee for selection by members.
Default level of cover	The member's level of insurance cover in a superannuation fund that will apply unless the member opts-out of cover or is able to obtain a higher level.
Deferred annuity	An annuity where payments do not commence immediately. In superannuation, the commencement of payments is tied to the circumstances in which a superannuation fund could pay benefits.
Defined benefit	A superannuation benefit the value of which is determined by reference to a formula.
Defined benefit fund (or plan)	A superannuation fund where contributions are pooled and are not allocated to particular members. Under the SIS Act, if a fund has even one member with a defined benefit, it is treated as a defined benefit fund.
Defined contribution fund	An alternative expression for accumulation fund.
Drawdown phase	Another expression for post-retirement.
E-commerce	The linked electronic transmission of data and money.
Economies of scale	The effect of generally lowering the cost of each iteration of an activity when the activity is conducted on an increasing scale. In relation to a superannuation fund, scale advantages can relate to investment fees, in-house investment expertise, private placement capabilities, ability to spread investment risk through diversification, reduced administrative unit costs, and enhanced availability of education, information and service. Another example is using the pool of members in a fund to purchase insurance on a group risk basis, rather than individually.
Eligible rollover funds (ERFs)	Superannuation funds or approved deposit funds that are eligible to receive benefits automatically rolled-over from other funds. ERFs typically accept superannuation money from other funds where the member has become 'lost'.
Exempt public sector superannuation schemes (EPSSS)	Funds that provide benefits for government employees, or are schemes established by a Commonwealth, State or Territory law that are not directly subject to the SIS Act and APRA regulation.
First non-associated level	In relation to the investments made by a superannuation fund, the first investment in a layered structure of investments that is not associated with or related to the trustee of the fund.
Flipping	The practice of a member being automatically moved from one division of a superannuation fund to another (generally to a 'personal' division or plan) on cessation by the member of the particular employment to which the original fund division related.
Forecasts of retirement benefits	Advice from the trustee of a superannuation fund to fund members that aims to provide an indication of the value of their ultimate retirement benefit.

Term	Definition
GEERS	General Employee Entitlement and Redundancy Scheme — a Government scheme to compensate employees who lose their jobs as a result of the liquidation or bankruptcy of their employer and who are owed a range of employee entitlements.
Grandfathering	The preservation and continuation of a state of affairs created by legislation, usually beneficial, when new and less advantageous legislation is introduced.
Group risk insurance	Insurance acquired by a superannuation fund trustee that collectively covers all the persons who may, from time to time, be members of the fund and which covers fund members in the event of death, TPD and loss of income due to ill-health.
Henry Review	Another name for the AFTS.
Inactive account	Generally, a member account in a superannuation fund where the fund has not received a contribution or rollover in respect of the member within the last five years.
Income protection insurance	Insurance acquired by the trustee of a superannuation fund in respect of a fund member, the proceeds of which are used by the fund trustee to provide periodic benefits to continue (wholly or partly) the income that the member was receiving before commencing a period of ill-health or temporary disability.
Instalment warrant	A form of derivative or financial product that entails borrowing to invest in an asset, such as a share or real property (the underlying asset), with limited risk to the investor. In its simplest form, the investor makes an upfront payment, which typically includes prepaid interest and borrowing fees. The underlying asset is held in trust during the life of the loan to provide limited security for the lender. The investor is required to pay one or more future instalments to the lender.
Intra-fund advice	Current ASIC arrangements under which superannuation fund trustees that hold an AFSL to provide personal financial product advice can give advice to fund members about certain aspects of their existing interest in the fund, with the level of inquiry and consideration in relation to that advice set by the trustee's fiduciary duty to members, rather than the Corporations Act. Also includes ASIC guidance in relation to giving personal advice to fund members only in relation to specific fund features under the generic standards in the Corporations Act. The regime is due to be expanded by the Government under its Future of Financial Advice package and the final report generally uses the expression in that expanded sense.
Investment option	An investment strategy formulated by a superannuation fund trustee in which a fund member may select to have all or part of their benefits invested.
Investment risk	The uncertainty with respect to the financial return an investment will generate. In an accumulation fund, the investment risk in relation to the fund's assets affects the value of the investment return credited, or debited to, members' accounts.
Issues Paper	One of the Panel's publications seeking submissions in relation to each phase of the Review: Phase one — Governance, 25 August 2009; Phase two — Operation and Efficiency, 16 October 2009; and Phase three — Structure (Including SMSFs), 14 December 2009.
Large APRA fund	An APRA-regulated fund with more than four members, including ERFs, but excluding PSTs.

Term	Definition
Legacy product	Generally, an older-generation superannuation product held by fund members that is no longer available for issue to new members.
Lifetime annuity	An annuity payable over the life of the recipient.
Liquidity	The capacity of a superannuation fund trustee to transform fund assets quickly into cash without a material change in price to make timely payments as required, such as pension payments or requests from members to transfer their benefit to another fund.
Longevity risk	The uncertainty about how long a particular person (or group of people) will live. For a superannuation fund member, it is the risk an income stream superannuation benefit will be depleted before they die. For providers of lifetime annuities, it is the risk recipients will live longer, and draw more benefits, than the provider has allowed for.
Lost member	Generally, a member of a superannuation fund determined by the trustee, in accordance with the SIS Regulations, as uncontactable or in relation to whom no contributions have been received by the fund in the last five years.
Lump sum	An amount of a superannuation benefit paid to a fund member as a stand-alone cash amount. Benefits can be paid as one or more lump sums.
Member	A person who holds an interest in a superannuation fund either because they are accruing benefits to provide income in retirement or because they are receiving benefits from the fund.
Member protection	Regulatory arrangements under which, generally, superannuation fund members with an account balance of less than \$1,000 cannot have that balance debited for fund administration costs greater than the earnings on the account.
MySuper product	A superannuation product in the choice architecture model where, among other things, members rely on the trustee to make decisions for them with respect to investment and insurance.
Net investment return	The return on an investment after deducting all costs relating to the investment, such as fees, brokerage, administration and taxation.
Operational risk reserve	Part of the asset base of a superannuation fund aggregated and held for the specific purpose of providing financial resources to allow the trustee to mitigate operational risks, such as unit pricing errors, where costs are not met by third parties.
Outsourcing	Where a superannuation fund trustee contracts for another person to perform activities in relation to the fund, such as fund administration and investment management, on behalf of the trustee.
Panel	Collectively, the chair and the part-time members appointed by the Government to conduct the Review.
Performance-based fee	A fee payable calculated by reference to the performance of an investment made by a superannuation fund trustee or to the performance of a superannuation fund or investment option.
Phase (of the Review)	A phase to which the Review's Issues Papers related — Phase one — Governance; Phase two — Operation and efficiency; and Phase three — Structure (including SMSFs).
Portability	A fund trustee's obligation under the SIS Act to pay (within a 30-day period) the value of a member's benefits to another superannuation fund on request of the member.
Post-retirement	The phase of a person's life during which the person has retired from the workforce, has usually ceased to build superannuation benefits and begun to rely on their benefits for income in retirement.

Term	Definition
Pooled Superannuation Trust or PST	Broadly, a unit trust authorised by APRA to invest the assets of superannuation funds and other like entities.
Preliminary Report	The Panel's publication of its preliminary views — Phase one: Clearer Super choices, 14 December 2009 and MySuper 20 April 2009; Phase two: SuperStream, 22 March 2010; and Phase three: Self-managed super solutions, 29 April 2009.
Premium	In relation to insurance, the amount paid to secure insurance coverage. Generally, the premium is paid by the fund trustee to obtain insurance cover in relation to the members of the fund, but there are also personal arrangements where the member pays for their insurance directly.
Preservation age	The minimum age prescribed in the SIS Regulations at which the superannuation benefits of a fund member become available to be paid from the superannuation fund to the member, eg retirement, disability.
Public Sector Fund (scheme)	Superannuation funds that provide benefits largely for government employees or employees of statutory authorities, or are schemes established by a Commonwealth, State or Territory law.
Replacement rate	The proportion of a member's current employment income that the current value of the member's superannuation benefits would represent if paid to the member as an income stream over the member's retirement.
Retirement income	The income on which a person relies after they retire from the workforce. This includes superannuation benefits as well as the age pension and private savings.
Retirement phase	The period of a person's life, and superannuation fund membership, after they have retired from the workforce and qualify for, and may be in receipt of, superannuation benefits.
Retirement savings account (RSA)	A capital guaranteed product offered by licensed ADIs, life insurance companies and prescribed financial institutions for retirement savings as a low risk/low income accumulation account.
Reverse mortgage	A form of borrowing under which a person is advanced money and provides a portion of the equity in their home as security with the effect of reducing their equity, rather than increasing it.
Review	This Review into the governance, efficiency, structure and operation of Australia's superannuation system established by the Minister for Superannuation and Corporate Law on 29 May 2009.
Ripoll report	The 2009 report and recommendations of the Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Financial Products and Services in Australia.
RSE licence	A registrable superannuation entity licence granted by APRA under the SIS Act.
RSE licensee	A trustee that is a body corporate or that is a group of individuals who hold an RSE licence.
Safe harbour	A legal protection for a superannuation fund trustee from liability to a fund member if the member directs the trustee to invest some or all of the member's account in an investment option other than the default investment strategy, so long as the trustee had conducted appropriate due diligence in relation to making the option available.
Self-insurance	Where a superannuation fund carries all or a part of the liability for the value of members' death or disability benefits (or both) (that is, from the fund's assets), rather than covering these benefits through external insurance.

Term	Definition
Self-managed superannuation fund (SMSF)	A superannuation fund that has fewer than five members, all of whom are trustees or are directors of a corporate trustee, and is regulated by the ATO and the SIS Act. No member can be an employee of another member unless they are related.
Small APRA fund (SAF)	A superannuation fund that has fewer than five members, but is not an SMSF. SAFs are required to have a professional trustee and are regulated by APRA.
Sole purpose test	The obligation under the SIS Act that a superannuation fund must be maintained by the trustee only for specific retirement purposes and a limited number of other purposes such as disablement.
Successor fund transfer	The transfer of a members' benefits from one fund to another without their consent where the trustees of both the transferring and the receiving funds agree that 'equivalent rights' are provided to the transferring members in the receiving fund after the transfer.
Superannuation Guarantee	The legal requirement under the SG Act for an employer to make contributions at least quarterly equal to a percentage (currently 9 per cent per annum) of an employee's ordinary time earnings into a superannuation fund or RSA on behalf of the employee.
SuperStream	'SuperStream' describes a package of recommendations to enhance the current 'back office' of superannuation (see chapter 9). This includes new requirements to improve the quality of data provided by employers, to allow the use of TFNs and to require the use of technology to improve processing efficiency.
Systemic transparency	Disclosure by a trustee, typically on the fund's website, of a wide range of information, including fund documents and details about fund processes and fund management, making this information available to regulators, academics, analysts, advisers and interested members.
Total Annual Expense Ratio (TAER)	A new expense measure derived from the total expenses incurred by a fund or investment option in carrying out all its activities, regardless of whether they are characterised as relating to management, administration, investment or portfolio transactions.
Trailing commissions	Commission payments structured to be paid on an ongoing basis for as long as the members remains in the superannuation product to which the commission relates.
Trust	A legal structure in which a person (the trustee) holds property on behalf of others (the beneficiaries) who are intended to benefit from the property or income of that property. A trust is the accepted legal structure for providing superannuation in Australia.
Trust deed	The legal document establishing and governing a superannuation fund. The trust deed is the source of the trustee's powers and sets out the benefits to be paid to members from the fund.
Trustee	A person or company holding property on behalf of and acting for the benefit of another party. A trustee has fiduciary duties to beneficiaries. The trustee of a superannuation fund is the entity with sole legal responsibility under the SIS Act for the management of the fund for the benefit of fund members.
Unlisted	In relation to a superannuation fund investment, an asset for which there is no formal market for listing, quotation or trading to establish the value of the asset.

Term	Definition
Voting	In relation to a superannuation fund's investments such as securities and interests in managed investment schemes, the trustee exercising, causing to be exercised or overseeing the exercise by a delegate of, voting rights in relation to the company or trust to which the security or interest relates.
www.super.gov.au	The proposed government website about superannuation to centralise information currently provided by a wide range of government websites. This central website would include standard disclosure of legislative, tax and other superannuation-related features as well as act as a portal to other superannuation information.

Notes

- (a) Figures in tables and generally in the text have been rounded.
- (b) The following notations are used:
- \$M \$ million
- \$B \$ billion
- \$T \$ trillion
- (c) The term 'Government' is used when referring to the current government and the decisions and activities made by the current Government on behalf of the Commonwealth of Australia.
- (d) The term 'government' is used when referring to a past government or governments and the decisions and activities made by past governments on behalf of the Commonwealth of Australia.
- (a)

APPENDIX H: BIBLIOGRAPHY AND REFERENCE MATERIAL

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APPENDIX I: SUBMISSIONS

The Panel wishes to thank all the individuals and organisations who contributed to the Review process by making a submission. The non-confidential, formal submissions can be viewed at: www.supersystemreview.gov.au. The following is a list of those submissions.

Number	Author
1	WALL, MARITA
2	DEBENHAM, RAY (1)
3	BIRD, RON AND GRAY, JACK
4	ROSE, ROBERT
5	WHITE, GAVIN
6	NAME WITHHELD
7	ROMIJN, SIMON
8	MAHON, VINCENT (1)
9	TRYTELL, MORRIS
10	APPELT, MARK
11	NETHERCOTE, BARRY
12	DREW, MICHAEL
13	BAXTER, CHRIS
14	CHAPMAN, CRAIG
15	JAPHENER
16	BLACKLOW, COLIN
17	CONFIDENTIAL
18	AUSTRALIA INSTITUTE (1)
19	HICKMAN, RAY
20	AUSTRALIAN COUNCIL OF PUBLIC SECTOR RETIREE ORGANISATIONS (1)
21	GILBERT, STUART
22	HODGKINTON, NORMAN (1)
23	SUPER ADVICE SERVICES (1)
24	ASSOCIATION OF INDEPENDENT RETIREES (1)
25	COSTELLO, TERRY
26	HURR, TOM
27	MAIR, PETER
28	NSW TREASURY (1)
29	RESPONSIBLE INVESTMENT ASSOCIATION AUSTRALASIA
30	SEMPLE SOLUTIONS (1)
31	WATSON WYATT (1)

Number	Author
32	ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA) (1)
33	AUSTRALIAN SECURITIES LENDING ASSOCIATION
34	AXA ASIA PACIFIC HOLDINGS (1)
35	CBUS (1)
36	COUNT FINANCIAL (1)
37	CPA AUSTRALIA (1)
38	ERNST & YOUNG (1)
39	GORDON, ISABEL (1)
40	INDUSTRY FUNDS MANAGEMENT
41	INDUSTRY SUPER NETWORK (ISN) (1)
42	INSTITUTE OF ACTUARIES OF AUSTRALIA (1)
43	INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA (ICAA) (1)
44	MACQUARIE BANK (1)
45	CONFIDENTIAL
46	CONFIDENTIAL
47	CONFIDENTIAL
48	CONFIDENTIAL
49	NAME WITHHELD
50	REED, MERVIN (1)
51	SMSF PROFESSIONAL ASSOCIATION OF AUSTRALIA (SPAA) (1)
52	STATEWIDE (1)
53	SUNCORP LIFE (1)
54	TOWER AUSTRALIA GROUP (1)
55	TOWNSENDS BUSINESS & CORPORATE LAWYERS (1)
56	UNISUPER (1)
57	WARAKIRRI ASSET MANAGEMENT
58	WINSEN, JOE
59	AMP (1)
60	ASHER, ANTHONY (1)
61	AUSTRALIAN COUNCIL OF SUPERANNUATION INVESTORS
62	AUSTRALIAN INSTITUTE OF SUPERANNUATION TRUSTEES (AIST) (1)
63	BRAES, THOMAS
64	BT FINANCIAL GROUP (1)
65	CLIMATE INSTITUTE (1)
66	CORPORATE SUPERANNUATION ASSOCIATION (1)
67	DAVIS, NOEL
68	D'SOUZA, TREVOR

Number	Author
69	FRASER, DEREK
70	INDUSTRY FUNDS FORUM (1)
71	ING AUSTRALIA (1)
72	INVESTMENT & FINANCIAL SERVICES ASSOCIATION (IFSA)(1)
73	LAW COUNCIL OF AUSTRALIA (1)
74	MALLESONS STEPHEN JAQUES
75	MERCER (1)
76	CONFIDENTIAL
77	NAME WITHHELD
78	CONFIDENTIAL
79	CONFIDENTIAL
80	CONFIDENTIAL
81	CONFIDENTIAL
82	CONFIDENTIAL
83	NATIONAL TERTIARY EDUCATION UNION
84	PAYNE, GERRY
85	PRICEWATERHOUSECOOPERS (1)
86	QSUPER (1)
87	REGNAN
88	SELMES, DJ (1)
89	SELMES, DJ (2)
90	AUSTRALIAN COUNCIL OF TRADE UNIONS (1)
91	GOVERNMENT EMPLOYEES SUPERANNUATION BOARD (1)
92	CONFIDENTIAL
93	CONFIDENTIAL
94	ST DAVIDS RD ADVISORY (1)
95	MLC (1)
96	AUSTRALIANSUPER (1)
97	DREW, LES
98	KERESTEN, ANTHONY
99	RETAIL EMPLOYEES SUPERANNUATION TRUST (REST) (1)
100	SIOUCLIS, E
101	CONFIDENTIAL
102	AUSTRALIAN BANKERS' ASSOCIATION (1)
103	FINANCIAL PLANNING ASSOCIATION (FPA) (1)
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Number	Author
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112	NAME WITHHELD
113	HEALTHY FINANCES
114	LUMSDEN, GRAEME
115	CAPITAL PARTNERS
116	HAJSZAN, W
117	CONFIDENTIAL
118	RATNAKUMAR, RATNA (1)
119	MCLINTOCK, GEORGE
120	PEACE, DARYL
121	CONFIDENTIAL
122	CONFIDENTIAL
123	SOMERVILLE, LINDSAY
124	AUSTRALIA INSTITUTE (2)
125	DOW, DAVID A
126	BROUWER, PAUL
127	CONFIDENTIAL
128	SUPER ADVICE SERVICES (2)
129	ASSOCIATION OF INDEPENDENT RETIREES (2)
130	GOLDBERG, JOHN
131	CONFIDENTIAL
132	HCF LIFE
133	AUSTRALIAN COUNCIL OF PUBLIC SECTOR RETIREE ORGANISATIONS (2)
134	CORPORATE SUPERANNUATION ASSOCIATION (2)
135	EQUIPSUPER (1)
136	ERNST & YOUNG (2)
137	INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA (ICAA) (2)
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141	JENSEN, GERALD
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Number	Author
143	CONFIDENTIAL
144	CONFIDENTIAL
145	ACCENTURE
146	AMP (2)
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148	AUSFUND
149	AUSTRALIAN CUSTODIAL SERVICES ASSOCIATION
150	AUSTRALIAN INSTITUTE OF SUPERANNUATION TRUSTEES (AIST) (2)
151	BT FINANCIAL GROUP (2)
152	CBUS (2)
153	CONSTELLATION
154	COUNT FINANCIAL (2)
155	COX, KEVIN
156	CPA AUSTRALIA (2)
157	CUSCAL
158	EO GROUP
159	FIRST DOLLAR SOFTWARE
160	HAMSON, DOM
161	HODGKINTON, NORMAN (2)
162	INSTITUTE OF ACTUARIES OF AUSTRALIA (3)
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164	KRISTOF
165	LAW COUNCIL OF AUSTRALIA (2)
166	LEGALSUPER
167	LG SUPER
168	LOWE, MARK (1)
169	MELBOURNE CENTRE FOR FINANCIAL STUDIES
170	MERCER (2)
171	MORNINGSTAR
172	NAME WITHHELD
173	CONFIDENTIAL
174	NAME WITHHELD
175	CONFIDENTIAL
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177	CONFIDENTIAL
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182	PROFESSIONAL ASSOCIATIONS SUPERANNUATION LIMITED
183	QSUPER (2)
184	QUADRANT SUPERANNUATION (1)
185	SEMPLER SOLUTIONS (2)
186	SMITH, ALAN
187	SNOWBALL GROUP
188	STATEWIDE (2)
189	SUPERCHOICE
190	SWIFT SERVICES AUSTRALIA
191	T ROWE PRICE
192	TOWNSEND, TONY
193	UNISUPER (2)
194	WA LOCAL GOVERNMENT SUPERANNUATION PLAN
195	WATSON WYATT (2)
196	CHALLENGER (1)
197	DEGABRIELE, ROSALIE
198	GOVERNMENT EMPLOYEES SUPERANNUATION BOARD (2)
199	MVISION PRIVATE EQUITY ADVISERS
200	REED, MERVIN (2)
201	RETAIL EMPLOYEES SUPERANNUATION TRUST (REST) (2)
202	CONSUMER ACTION LAW CENTRE
203	CONFIDENTIAL
204	PERPETUAL LTD
205	SMSF PROFESSIONAL ASSOCIATION OF AUSTRALIA (SPAA) (2)
206	SUPER FRINGE ADVISERS
207	AXA ASIA PACIFIC HOLDINGS (2)
208	CORPORATE SUPER SPECIALIST ALLIANCE (1)
209	MLC (2)
210	OFFICE OF THE PRIVACY COMMISSIONER
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216	ST DAVIDS RD ADVISORY (2)
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223	DST GLOBAL SOLUTIONS
224	FINANCIAL PLANNING ASSOCIATION (FPA) (2)
225	INDUSTRY SUPER NETWORK (ISN) (2)
226	INVESTMENT & FINANCIAL SERVICES ASSOCIATION (IFSA) (2)
227	LEWIS, RUSSELL
228	SUNCORP LIFE (2)
229	SUPER COMPLIANCE SERVICES (1)
230	TOWER AUSTRALIA GROUP (2)
231	AUSTRALIAN ADMINISTRATOR SERVICES
232	CONFIDENTIAL
233	RICE WARNER ACTUARIES (1)
234	WATERS DACE PARTNERS
235	NATIONAL INSTITUTE OF ACCOUNTANTS (2)
236	JOHNSTON, ADAM
237	HOPSON, KATHRYN
238	AUSTRALIAN BANKERS' ASSOCIATION (2)
239	PATERSON, ROBERT
240	RYAN, ROBIN
241	HURFORD, GREG
242	JACOBS, A B
243	LAUWERS, HERMAN
244	DUNS, JOHN AND GAY, ROGER
245	CONFIDENTIAL
246	NICHOLAS, GRAEME
247	DREOSTI, VIC
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259	LBW CHARTERED ACCOUNTANTS
260	STANWAY, ADAM
261	ALEXANDER, BRUCE
262	JACOBS, RICHARD
263	MAHON, J AND V (2)
264	CUMMINGS, ALLEN
265	NAME WITHHELD
266	CHIDZEY, WILLIAM
267	NAME WITHHELD
268	CONFIDENTIAL
269	JONES, WILLIAM
270	FRENCH, JOHN
271	HEBBARD, COLIN
272	PRYOR, ANNE
273	NAME WITHHELD
274	HORSHAM, TONY
275	PAZOLLI, NICK
276	REITH, ALAN
277	NAME WITHHELD
278	RATNAKUMAR, RATNA (2)
279	PROCTOR, DAVID
280	AUSTRALIAN INVESTORS ASSOCIATION
281	BORBIRO, PETER AND POGE, BRENDAN
282	DOBLE, ALAN
283	GOREY, JAMES
284	HAY, MONICA
285	CONFIDENTIAL
286	SUPER ADVICE SERVICES (4)
287	ERNST & YOUNG (3)
288	EVANS, DOUG
289	HEYMAN, LAWRENCE

Number	Author
290	HUTCHISON, GREG
291	QSUPER (3)
292	HEWISON & ASSOCIATES
293	HODGKINTON, NORMAN (3)
294	HOGG, DENIS
295	MELBOURNE SMSF
296	MERCER (3)
297	TAYLOR, PAULINE
298	ASSOCIATION OF INDEPENDENT RETIREES (3)
299	AUSTRALIAN COUNCIL OF PUBLIC SECTOR RETIREE ORGANISATIONS (3)
300	BOUCHER, JEFFREY
301	CBA WEALTH MANAGEMENT (2)
302	CORPORATE SUPERANNUATION ASSOCIATION (3)
303	DEBENHAM, RAY (2)
304	DIXON ADVISORY
305	GERRIE, BRENDA
306	GLYNN, DANIEL
307	GORDON, ISABEL (2)
308	LOCAL SUPER
309	CONFIDENTIAL
310	PITCHER PARTNERS (1)
311	ROHWEDDER, JURGEN
312	SEQUAL
313	SMITH, RICHARD
314	STEVENS LAFFERTY SELLERS
315	ULTON
316	ABACUS AUSTRALIAN MUTUALS
317	AMP (3)
318	ASHER, ANTHONY (2)
319	ASSOCIATION OF FINANCIAL ADVISERS
320	ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA) (3)
321	AUSTRALIAN INDUSTRY GROUP
322	BAILEY, KYM
323	BLOORE, ANDREW
324	CPA AUSTRALIA (3)
325	DAVIES, PHIL
326	DAVIS, OWEN

Number	Author
327	DUNSFORD, GEOFF
328	EQUIPSUPER (2)
329	FINANCIAL PLANNING ASSOCIATION (FPA) (3)
330	HAYDEN FINANCIAL SERVICES
331	HEY, PHILLIP
332	INSTITUTE OF ACTUARIES OF AUSTRALIA (4)
333	INTERNATIONAL UNDERWRITING SERVICES
334	JOINT SUBMISSION: ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA), AUSTRALIAN INSTITUTE OF SUPERANNUATION TRUSTEES (AIST), INVESTMENT & FINANCIAL SERVICES ASSOCIATION (IFSA), CORPORATE SUPERANNUATION ASSOCIATION
335	KINGSLEY, RANDALL
336	LAW COUNCIL OF AUSTRALIA (3)
337	LOWE, MARK (2)
338	MACQUARIE BANK (2)
339	MARKWELL, JOHN
340	MULTIPOINT
341	CONFIDENTIAL
342	CONFIDENTIAL
343	CONFIDENTIAL
344	CONFIDENTIAL
345	CONFIDENTIAL
346	CONFIDENTIAL
347	CONFIDENTIAL
348	CONFIDENTIAL
349	CONFIDENTIAL
350	CONFIDENTIAL
351	CONFIDENTIAL
352	NSW TREASURY (2)
353	PARTNERS SUPERANNUATION SERVICES
354	PAULL GROUP
355	POSITIVE LIFE NSW
356	PRICEWATERHOUSECOOPERS (3)
357	PROFESSIONAL FINANCIAL SOLUTIONS (2)
358	REID, R E AND S M
359	SELMES, DJ (3)
360	SMALL INDEPENDENT SUPERANNUATION FUNDS ASSOCIATION
361	SMARTSUPER
362	SMITH AND HALL

Number	Author
363	SMSF STRATEGIES
364	SUPER COMPLIANCE SERVICES (2)
365	TAXATION INSTITUTE OF AUSTRALIA
366	TOWER AUSTRALIA GROUP (3)
367	TOWERS WATSON
368	TOWNSENDS BUSINESS & CORPORATE LAWYERS (2)
369	TRUSLOVE, ALLEN
370	UNIONS NSW (1)
371	UNISUPER (3)
372	WEBB, DONALD
373	WILLIAMS PARTNERS
374	CONFIDENTIAL
375	CONFIDENTIAL
376	OUTLOOK TAX & ACCOUNTING SOLUTIONS
377	PRICE FINANCIAL INTELLIGENCE
378	TAXPAYERS AUSTRALIA
379	TRIOLI, JOHN
380	AUSTRALIAN INSTITUTE OF SUPERANNUATION TRUSTEES (AIST) (3)
381	AUSTRALIAN SHAREHOLDERS ASSOCIATION
382	INVESTMENT & FINANCIAL SERVICES ASSOCIATION (IFSA) (3)
383	CONFIDENTIAL
384	RENNICK, BOB
385	ROBINS, TRISH
386	INDUSTRY SUPER NETWORK (3)
387	AUSTRALIANSUPER (2)
388	AXA ASIA PACIFIC HOLDINGS (3)
389	NATIONAL INFORMATION CENTRE ON RETIREMENT INVESTMENTS (2)
390	VICTORIAN GOVERNMENT
391	AUSTRALIAN COUNCIL OF TRADE UNIONS (3)
392	BT FINANCIAL GROUP (3)
393	CBUS (3)
394	CORPORATE SUPER SPECIALIST ALLIANCE (2)
395	HEFFRON CONSULTING & CAVENDISH SUPERANNUATION
396	INSTITUTE OF CHARTERED ACCOUNTANTS IN AUSTRALIA (ICAA) (3)
397	KPMG (ALL PHASES INCLUDING SMSFS)
398	CONFIDENTIAL
399	PROFESSIONAL FINANCIAL SOLUTIONS (3)

Number	Author
400	SMSF PROFESSIONAL ASSOCIATION OF AUSTRALIA (SPAA) (3)
401	SUNCORP LIFE (3)
402	EDWARDS, PETER
403	HALSTEAD, BRIAN
404	RICE WARNER ACTUARIES (2)
405	ST DAVIDS RD ADVISORY (3)
406	INVESTMENT & FINANCIAL SERVICES ASSOCIATION (IFSA) (4)
407	ESSENDON CPA DISCUSSION GROUP
408	CONFIDENTIAL
409	NAME WITHHELD
410	NATIONAL INSTITUTE OF ACCOUNTANTS (3)
411	MLC (3)
412	ING AUSTRALIA (2)
413	CONFIDENTIAL
414	AUSTRALIAN BANKERS' ASSOCIATION (3)
415	CONFIDENTIAL
416	INFRASTRUCTURE PARTNERSHIPS AUSTRALIA
417	MUSHALIK, MATT
418	WALLIS, IAN
419	GREEN, GRAEME
420	NATIONAL SENIORS ASSOCIATION
421	AUSTRALIA POST
422	NAME WITHHELD
423	NAME WITHHELD
424	NAME WITHHELD
425	NAME WITHHELD
426	NAME WITHHELD
427	NAME WITHHELD
428	NAME WITHHELD
429	GORDON MACKENZIE
430	NAME WITHHELD
431	CORPORATE SUPER ASSOCIATION
432	MERCER (4)
433	JOINT SUBMISSION (ICAA, CPA, NIA)
434	ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA) — SMSFS (4)
435	ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA) — SUPERSTREAM (5)
436	ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA) — MYSUPER (6)

Number	Author
437	LAW COUNCIL OF AUSTRALIA (4)
438	SMSF PROFESSIONAL ASSOCIATION OF AUSTRALIA (SPAA) (4)
439	PITCHER PARTNERS (2)
440	CBA WEALTH MANAGEMENT (3)
441	ASSOCIATION OF SUPERANNUATION FUNDS OF AUSTRALIA (ASFA) — SUPPLEMENTARY SUBMISSION (7)
442	CHALLENGER (2)
443	RICE WARNER ACTUARIES (3)
444	ING AUSTRALIA (3)
445	INDUSTRY FUNDS FORUM (2)
446	INDUSTRY FUNDS FORUM (3)
447	UNIONS NSW (2)
448	PRINDABLE, ROSS
449	QUADRANT SUPERANNUATION (2)
450	AMP (4)
451	ASSOCIATION OF WESTERN AUSTRALIAN ART GALLERIES
452	SUPER COMPLIANCE SERVICES (3)
453	WHK

APPENDIX J: PUBLISHED SPEECHES

The following speeches are available on the Super System Review website (www.supersystemreview.gov.au).

Date	Speech
8 June 2010	The Review so far ... Stockbrokers Association Of Australia, 2010 Annual Stockbrokers Conference Jeremy Cooper, Chair, Super System Review
26 May 2010	Super: the case for microeconomic reform An address to the Committee for Economic Development of Australia (CEDA) Jeremy Cooper, Chair, Super System Review
18 February 2010	A Conversation About SMSFs 2010 SPAA National Conference Jeremy Cooper, Chair, Super System Review
12 November 2009	Scale, Focus and Alignment ASFA 2009 Conference: 'Super in the New Age' Jeremy Cooper, Chair, Super System Review
18 June 2009	Observations on Retirement ASFA Luncheon Jeremy Cooper, Chair, Super System Review

APPENDIX K: OTHER SUPERANNUATION RELATED REVIEWS

This Review has been conducted concurrently with several other super-related reviews, including:

Australia's Future Tax System Review (**AFTS**) — which reported to Government on 31 December 2009 and was responded to by Government on 2 May 2010;

- The Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Financial Products and Services in Australia (**Ripoll report**) — which reported to Government on 23 November 2009 and was responded to by Government on 26 April 2010; and
- The Australian Financial Centre Forum's report, Australia as a Regional Financial Centre: Building on Our Strengths (**Johnson report**) — which was released on 15 January 2010 and responded to by Government on 11 May 2010.

This final report needs to be viewed in the context of the issues addressed by these reviews.

11.1 AFTS Review

The Henry Review was tasked with recommending improvements to the tax and transfer payment system for retirees. Consequently, these issues are beyond the terms of reference of this Review. As changes in this area have the potential to alter the superannuation system significantly, it is worth noting that the AFTS Review recommended that:

- the tax on contributions be abolished and employer contributions be treated as income in the hands of the individual, that an offset for low income earners be introduced, and the annual cap on contributions should be maintained;
- the tax rate on superannuation fund earnings should be halved to 7.5 per cent. It should also apply to capital gains (without a discount) and the earnings from assets supporting superannuation income streams. Superannuation funds should retain their access to imputation credits;
- the restriction on people aged 75 and over from making contributions should be removed. However, the work test should still apply for people aged 65 and over. There should be no restrictions on people wanting to purchase longevity insurance products from a prudentially regulated entity;
- the government should support the development of a longevity insurance market within the private sector through making available the data needed to create and maintain a longevity index, issuing long-term securities when fiscally appropriate and removing prescriptive rules in the SIS Regulations relating to income streams that restrict product innovation. This should be done in conjunction with the recommendation to have a uniform tax on earnings on all superannuation assets;
- the government should consider offering an immediate annuity and deferred annuity product that would allow a person to purchase a lifetime income;

- superannuation guarantee contributions should be paid at the same time as wages and employers should report superannuation contributions to their employees when a contribution is made;
- there should be a method of linking superannuation records, such as client identifiers like the tax file number, to make it easier for people to manage their superannuation;
- a superannuation portal where people can interact with government agencies and get information on retirement incomes should be developed. Over time this portal should evolve, subject to suitable safeguards, so that people can manage all their superannuation through one channel; and
- the preservation age for Service Pensioners should remain at 60 as it is already legislated to align with the eligibility age for that pension. An increase in the preservation age should apply to people who currently have a legislatively prescribed retirement age.

In response, the Government has announced an initial package of superannuation reforms:

- a 12 per cent SG — commencing with a 0.25 percentage point increase in 2013-14 and 2014-15, followed by 0.5 percentage point increments until the SG reaches 12 per cent by 2019-20;
- a low income earners Government contribution — from 1 July 2012. The Government will provide a contribution of up to \$500 annually into the superannuation account of workers on adjusted taxable incomes of up to \$37,000;
- concessional superannuation contribution caps for those nearing retirement — from 1 July 2012. Workers aged 50 and over with superannuation balances below \$500,000 will be able to make up to \$50,000 in annual, concessional superannuation contributions; and
- Raising the SG age limit from 70 to 75 — from 1 July 2013.

The Government also announced that it would consider the majority of recommendations further, although it has ruled out offering a Government annuity product.

11.2 Ripoll report

As the superannuation system is a component of Australia's financial system, overall changes to financial products and services regulation has implications for the superannuation system. In this regard, the Ripoll report made a number of recommendations of particular relevance to superannuation, including that:

- the Corporations Act be amended to explicitly include a fiduciary duty for financial advisers operating under an AFSL, requiring them to place their clients' interests ahead of their own;
- the Corporations Act be amended to require advisers to disclose more prominently in marketing material restrictions on the advice they are able to provide consumers and any potential conflicts of interest;
- the government consult with and support industry in developing the most appropriate mechanism by which to cease payments from product manufacturers to financial advisers;

- ASIC immediately begin consultation with the financial services industry on the establishment of an independent, industry-based professional standards board to oversee nomenclature, and competency and conduct standards for financial advisers; and
- ASIC develop and deliver more effective education activities targeted to groups in the community who are likely to be seeking financial advice for the first time.

In response, the Government announced the Future of Financial Advice reform package, which includes measures that go beyond the recommendations of the Ripoll report. Overall, the reforms are focused on improving the quality of financial advice and enhancing retail investor protection. They include:

- the introduction of a statutory fiduciary duty so that financial advisers must act in the best interests of their clients, subject to a 'reasonable steps' qualification, and place the best interests of their clients ahead of their own when providing personal advice to retail clients;
- simplifying the disclosure of advisory services provided to consumers by improving the Financial Service Guide (**FSG**);
- a prospective ban on conflicted remuneration structures, including commissions and volume based payments, in relation to the distribution and advice of retail investment products including managed investments, superannuation and margin loans. The measure does not initially apply to risk insurance. Furthermore, percentage-based fees (known as assets under management fees) can only be charged on ungeared products or investment amounts and only if this is agreed to by the retail investor;
- establishing an expert advisory panel which will review professional standards in the financial advice industry, including conduct and competency standards;
- the introduction of a product neutral 'adviser charging' regime, which retains a range of flexible options for which consumers can pay for advice, and includes a requirement for retail clients to agree to the fees and to annually renew (by opting into) an adviser's continued services;
- expanding the availability of low-cost 'simple advice' to provide access to and affordability of financial advice;
- enhancing the powers of the ASIC in relation to licensing and banning of individuals from the financial services industry; and
- an examination of the need for, and costs and benefits of, a statutory compensation scheme for financial services by Mr Richard St John, who has significant corporate law experience.

The majority of these reforms, including the prospective ban on conflicted remuneration structures, adviser charging regime, and statutory fiduciary duty, will commence from 1 July 2012, following the Government consulting with industry on the implementation of the reforms.

11.3 Johnson report

The Johnson report found that, as at June 2009, the Australian funds management industry had \$1.2T under management and that it has the largest pool of funds under management in the Asia-Pacific region and the fourth largest in the world (this largely reflects Australia's compulsory superannuation system).

The recommendations of the Johnson report, which were largely accepted by the Government, cover a number of measures that are designed to see Australia realise its potential as a regional financial centre. For example, an increase in the pool of funds under management in Australia will benefit the superannuation industry by introducing efficiencies (through scale) and thereby lowering transaction costs. It will also encourage innovation in financial products. Easing restrictions on cross-border transactions will make a greater range of investment opportunities available.

While there is some degree of overlap between this report and the recommendations of concurrent reviews, this reflects the interconnected nature of the financial system. Where potential overlap applies, this report seeks to build on the recommendations of either the Henry Review or Ripoll Report as they specifically apply to the superannuation system. In particular, this report makes several recommendations relating to financial advice (particularly in chapters 1 and 8), the payment of contributions (chapter 9) and the development of an information portal (chapter 4). The Panel takes a different position in relation to adviser commissions in insurance from that taken in the *Future of Financial Advice* package. In chapter 5, the Panel recommends that adviser commission on insurance in superannuation be banned.

