Australian Government

REVIEW INTO THE GOVERNANCE, EFFICIENCY, STRUCTURE AND OPERATION OF
AUSTRALIA'S SUPERANNUATION SYSTEM

PHASE TWO

OPERATION AND EFFICIENCY

Issues Paper

16 October 2009

www.SuperSystemReview.gov.au

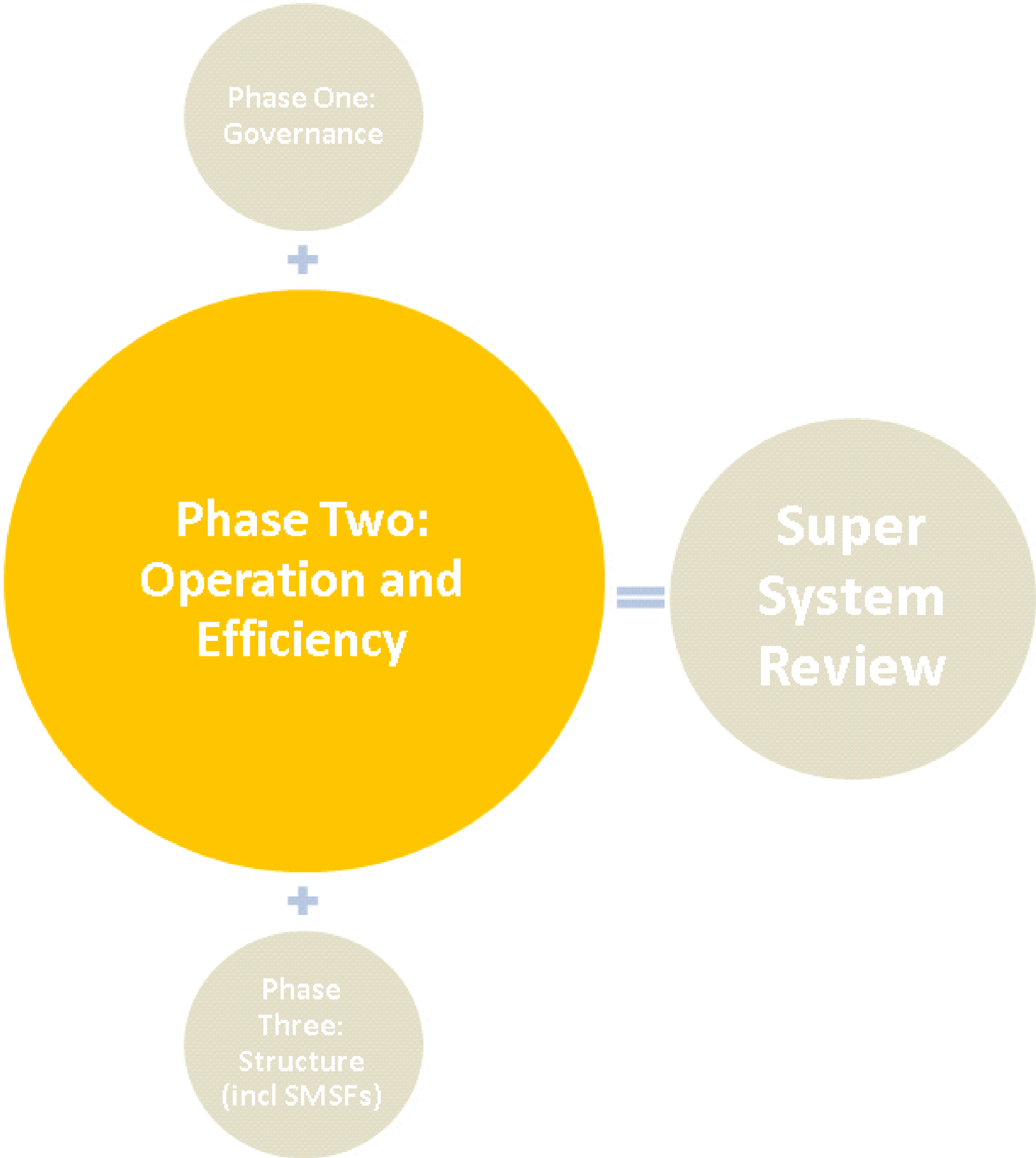
ISBN 978-0-642-74555-2

Internet:

This report and other related information about the Super System Review is available at:

www.supersystemreview.gov.au

Phase Two: Operation and Efficiency



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1. INTRODUCTION

On 29 May 2009, the Government announced a comprehensive review of Australia's superannuation system: the Super System Review (Review).

The Review has broad **terms of reference**.[1] It has been charged with examining and analysing the governance, efficiency, structure and operation of Australia's superannuation system. The Review is focused on achieving an outcome that is in the best financial interests of members and which maximises retirement incomes for Australians.

The Chair of the Review is Jeremy Cooper, a former Deputy Chairman of the Australian Securities and Investments Commission (ASIC). Jeremy is supported by a Panel of seven part-time members: Mr Kevin Casey, Mr Greg Evans, Mr Sandy Grant, Dr David Gruen, Ms Meg Heffron, Mr Ian Martin and Mr Brian Wilson. Short **biographies** for each of the Panellists are on the Review website.[2]

2. SCOPE OF THE REVIEW

The Scoping Paper entitled 'The Scope of the Review – a three phased consultation', released on 25 August 2009 and available at www.supersystemreview.gov.au, explains the scope of the Review.

There are some observations that need to be made about the way the Review is approaching some of the issues within its terms of reference. We have decided to defer a detailed discussion on issues relating to advice and distribution (which might ordinarily have been dealt with in this Phase) until after the report of the 2009 Parliamentary Joint Committee on Corporations and Financial Services Inquiry into Financial Products and Services in Australia (Ripoll Inquiry) has been handed down (scheduled to be on 23 November 2009). Also, in our initial scoping paper, we said that the Government's lost member accounts and clearing house proposals were outside scope. While that remains the case, this issues paper canvasses issues that are closely related to both of those topics (eg multiple accounts, eligible rollover funds and central clearing for all superannuation transactions).

3. KEY DATES

Phase Two: Operation and Efficiency		
Release of Issues Paper	**Closing date for submissions**	**Release of preliminary recommendations**
16 October 2009	*14 December 2009*	*March - April 2010*

1 http://www.supersystemreview.gov.au/content/terms_of_reference.aspx
2 http://www.supersystemreview.gov.au/content/the_review_panel.aspx

Submissions for this phase of the Review close on 14 December 2009. Section 12 explains how to make a submission.

4. BACKGROUND

4.1 Key questions

The scope and scale of the Australian superannuation system has grown significantly and rapidly. The number of transactions has increased dramatically, as has the dollar value involved.

Some sectors of the industry have experienced rationalisation (eg a decrease in number of funds following licensing reform by the Australian Prudential Regulatory Authority (**APRA**)) while other sectors have grown (eg self-managed super funds (**SMSFs**)).

The questions that need to be addressed now are whether the superannuation system is operating as efficiently as it could be, whether the full benefit of economies of scale is being harnessed and whether processes and procedures that worked when the system was smaller are still appropriate.

It is also important to question the key philosophical underpinnings of the super industry. *Is it just another industry or is it a distinct and special sector deserving different treatment because it is largely a piece of social infrastructure provided by the private sector?* The answer to this question impacts issues like: whether normal principles of competition apply to super; whether more infrastructure should be shared; whether more than normal levels of Government intervention are warranted when financial outcomes for members do not appear to be optimal due to inefficiencies or agency costs.

4.2 What is efficiency?

Efficiency operates on different levels. For example, from a Government perspective, an efficient superannuation system is one that imposes the least demand on its fiscal position via the aged pension and its regulatory and taxation systems, while still achieving the Government's policy objectives. For most members, efficiency means the highest end benefit for a given level of contributions during the accumulation phase.

The Review Panel takes the view that wholesale investment markets are fairly efficient, and so there are only marginal potential gains in efficiency that can be made through increased gross investment returns. There seems, however, to be much greater scope to improve system efficiency overall by refining and streamlining operational processes and reducing costs and leakages (including agency costs). Therefore, the determinant of efficiency should, in the first instance, be the ability to reduce the aggregate of those costs and leakages, rather than looking for ways to increase gross investment returns.

Having said that, less tangible efficiencies for members could also be brought about by overall simplification, fewer conflicts, better design of default funds and default investment strategies, fewer investment choices and better disclosure (independent of any reduction of costs and leakages). Admittedly, these sorts of efficiencies might be difficult to measure. The means to achieve some of these qualitative efficiencies are also canvassed in this paper.

There is certainly also the possibility that better investment returns could arise from some of those qualitative efficiencies by themselves (ie without any reduction in costs and leakages).

4.3 Where can efficiencies come from?

Conceptually then (disregarding measures aimed solely at increasing investment returns) there are two methods of achieving efficiencies:

- **Reducing costs**: The first is reducing the actual costs of services used in the industry so that the providers of those services can do so at a reduced price, while still retaining their current profit margin (eg greater use of technology, removing redundant regulatory requirements). Achieving efficiencies this way is appropriate when service providers are quite competitive, but there are high costs common to all suppliers largely due to system design/external factors.

- **Lower profit margins**: The second way is for some service providers to accept a lower profit margin than they are currently enjoying. Achieving efficiencies by this method is appropriate if there is evidence that competition between service providers is less than optimal. They could be pressured to do this by demand-led competition, for example, fuelled by better data around what the profit margins are in super. This would involve working out a way to achieve transparency in pricing and profitability from all service providers to the industry.

The majority of the issues raised in this paper go to the first method; that is, seeking to reduce the cost of the 'moving parts' of super.

There is a risk that a push for greater efficiency through lower prices would result in too much focus on services such as administration and insurance where fees are more transparent, and insufficient attention on achieving efficiencies from areas such as investment management and distribution, where the fees imposed on members are less transparent.

As to the second method, the capacity to achieve reasonable profitability is a prerequisite for professional service providers to participate in the super system. However, it could be argued that trustees should know the extent of that profitability in order to be satisfied that, in selecting a particular service provider, they are serving the best financial interests of members. There is only limited information about the profitability of the various service provider components in the super industry, which makes achieving improvements via the second method more difficult. A recent survey in the United States found that fund sponsors were not fully aware of the fee revenues they sustained for fund managers, generally perceiving that managers earn between 10 per cent and 20 per cent less than they actually do.[3]

One way of approaching efficiency might be on a macro-level; asking how much it costs Australia to run the superannuation system. A comparison could then be made with comparable data from other jurisdictions. From here, an analysis could be made as to which of the potential changes to the system could yield significant efficiencies and which ones

3 Callan Associates, *2009 Investment Management Fee Survey*, September 2009.

were likely only to be incremental. The identified changes could then be pursued in order of estimated magnitude of savings.

5. ISSUES

The issues set out in this Paper are not intended to be exhaustive and submissions are not limited to the issues identified. The Review may or may not make recommendations on all of the issues raised. **You do not have to answer all the questions.**

6. DESIGN/ARCHITECTURE

6.1 Technology

Information technology used by super funds, fund administrators, other service providers and employers plays a central role in delivering an efficient, low-cost system that works in members' financial interests. The range of technologies employed by different participants in the super system, the existence of multiple legacy technologies within some organisations and the retention of manual and paper-based processes in other areas, seem to present challenges to the efficient operation of the system.

6.1.1 Quantum leap

Could the Australian superannuation system use technology more to improve efficiencies and deliver lower costs? Is there a technological quantum leap for the super system to make (like CHESS was for the ASX)? What incentives could be created to encourage trustees, and more particularly, employers and administrators, to make better use of technology? If there were a major improvement in the technological infrastructure of super, who would finance, build and own it?

Could such a leap be in central clearing? The Australian funds management industry, including the superannuation system, does not have any centralised clearing system (eg like the central counterparty clearing house (ASX Clearing House) and the settlement facility (CHESS) allowing for highly efficient trading on ASX). This hampers efficiency in fund-employer and fund-member transactions. This is to be contrasted with the situation in, for example, the United Kingdom, where the funds management industry uses services like Clearstream's Central Clearing Facility to settle transactions.

6.1.2 Do super funds need to provide daily unit pricing?

Does it add extra expense if funds unit price daily or allow switching on every normal business day? Would it reduce costs if this were to occur on a fortnightly (or other) basis in superannuation?

6.1.3 Data standards

Would some form of Government intervention to set rules and impose data standards over the various payment routes in the superannuation system assist stakeholders to improve *efficiencies and deliver lower costs?*[4] For example, the Government could help develop a common system for superannuation payment routes, perhaps akin to the role of the Payment Systems Board (**PSB**). Under the *Payment Systems (Regulation) Act 1998*, the PSB can declare a 'payments system' allowing it to:

- determine rules for participation in that system, including rules on access for new participants, drawing on expertise from the Australian Competition and Consumer Commission (**ACCC**);
- set standards for safety and efficiency for that system. These may deal with issues such as technical requirements, procedures, performance benchmarks and pricing; and
- direct participants in a designated payment system to comply with a standard or access regime.

6.2 Default funds and default investment options

Super contributions for employees who have not actively chosen a fund are made to a ‘default fund’ where the fund trustee sets the available investment options. At present, there are two main ways in which default funds are selected:

- For employees covered by an award, employer and employee groups negotiate to select the funds that are included as the default fund in an award. Sometimes, several funds are nominated in an award and employers then choose.
- For employees not covered by an award, employers choose the default fund.

Within the default fund, members may be placed in a default investment option where the trustee sets the asset allocation, or members may actively select one or more investment options from a menu determined by the trustee. In some funds, trustees structure default investment options on the basis of age so that as members pass various age thresholds, their balance is automatically adjusted along a so-called 'glide path' from growth to more defensive assets as the member gets closer to retirement.

Superannuation funds with a default investment option which is not age-based, typically use a 'balanced' asset allocation. In Australia, 'balanced' most commonly refers to an approximately 70/30 growth/defensive asset allocation. By contrast, some other countries typically use far more conservative default investment options for their default funds. For example, the New Zealand KiwiSaver default investment option is required to include no more than 15-25 per cent of growth assets.

As at June 2008, 46 per cent of total assets in APRA-regulated funds with more than four members were in default investment options, ranging from 23.4 per cent of assets in retail funds to 73.8 per cent of assets in industry funds.[5] This proportion of assets translates to a higher proportion of members, as members with lower account balances are over-represented in default investment options.

Given that the vast majority of employees do not actively choose their fund or their investment option, it is important that default funds have default investment options that

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4 Eg member to fund, employer to fund, fund to fund and fund to member.

5 APRA (2009), Annual Superannuation Bulletin: June 2008, *APRA Statistics*.

appropriately accommodate a variety of members and that members' best financial interests are served. Current regulatory arrangements provide limited assurance on that aspect, instead relying on SIS Act sections 52(2) and 52(4) to reinforce trustees' fiduciary duty to act in the best financial interests of members. A key consideration for the Review is whether these regulatory arrangements can be significantly improved for default funds and default investment options.

One challenge is that the characteristics of default funds vary, so that the most appropriate default fund for one member will not necessarily be the most appropriate for another. There might, therefore, be limits to the degree of specificity that can be applied to default fund characteristics. That said, there are concerns that some default funds have a record of longer-term poor performance through a combination of poor returns and/or high fees.

There are a range of issues to be considered when examining what would constitute appropriate default fund arrangements, including the composition of the default investment option (including, but not limited to, the use of age-based defaults, which are often referred to as life cycle, glide path or target date defaults),[6] insurance arrangements, whether commissions should be payable, the provision of financial advice, the level of fees, the treatment of members ceasing employment with a particular employer-sponsor and the process of selecting a default fund.

6.2.1 Employer selection of default fund

How do employers select a default fund? Is there a more effective and efficient method for selection of a default fund? Should there be a small number of default funds (or even a single default fund) to reduce costs and to take advantage of economies of scale (eg a Government-operated national default fund)?

6.2.2 A national default fund

Over 90 per cent of all businesses in Australia are small businesses with less than 20 employees.[7] As at June 2008, small businesses employed over five million workers, accounting for around half of all private sector employment.[8] *Would a Government-operated national default fund be attractive to many small businesses and their employees, particularly if it were simply designed, low-cost and easy to understand?*[9] A national default fund would have the benefit of being fully portable. As workers moved from employer to employer, they would not have to consolidate their benefits from the default funds of different employers. Inactive accounts in different default funds can expose members to duplicated fees and charges. Partly to solve this problem, a national fund is being introduced into the UK in 2012

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6 OECD (2009), Pensions at a Glance: Retirement-Income Systems in OECD Countries

7 Australian Bureau of Statistics (2007), Counts of Australian Businesses, including entries and exits, June 2003 to June 2007 – 8165.0, Table 13, *ABS Statistics*.

8 Australian Bureau of Statistics (2009), Australian Industry, 2007 to 2008 – 8155.0, Table 2.1, *ABS Statistics*.

9 Sy W 2009 Towards a national default option for low-cost superannuation, *Accounting Research Journal* Vol. 22 No. 1, 2009.

through the Personal Account Delivery Authority.[10] *Should Australia have something similar?*[11]

6.2.3 The typical Australian default investment option

Is it appropriate that the typical default investment option treats all members as having the same investment horizons and risk appetite? Target date, glide path or lifecycle funds have gained popularity overseas and have been recommended, in at least one report, as the best default investment option.[12] In the United States, about two-thirds of 401(k) plans offered lifecycle funds as an investment option at year-end 2007.

Should a lifecycle fund, or some similar model, be mandated as a default investment option?

Many overseas lifecycle investment options move to quite defensive asset allocations by the time a member is in their early 50s. Modelling suggests that lifecycle asset allocation is effective in protecting the retirement assets for about 10 per cent of fund members who experience extreme adverse investment outcomes very close to the time they withdraw their savings.[13] However, it comes at the price of significantly limiting median outcomes. *Given the role of growth assets in protecting retirees against longevity risk, how should lifecycle options be structured to generate optimal outcomes? Should lifecycle funds take into account factors other than just a person's age? For example: should there be some regard in the operation of lifecycle funds for equity prices (using proxies like dividend yield or price-earnings ratios), an estimate of the prevailing risk premium offered by equities or how far a member is away from their savings target (eg 70 per cent of pre-retirement income)?*

6.2.4 Design of default investment option

Should there be a prescribed asset allocation of the default investment option and more consistent labelling of all investment options? Is the current way in which default asset allocation decisions are made by trustees appropriate for members who don't make a choice? Should the default investment option in a default fund be substantially passively invested? Should the Government mandate certain features of default funds (eg investment strategy, fees etc)? Could APRA be empowered to give greater guidance?

6.2.5 Range of investment options

Most funds offer numerous investment options. Research shows that members are initially attracted to a wide number of choices, but then find it very difficult to make decisions.[14] Recent APRA data show that the average number of investment options offered by retail funds was 137.[15] There is clear correlation (though not necessarily causation) between the

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10 Jones T. (2009) A pension in every pot: pension reform in the United Kingdom, *Rotman International Journal of Pension Management* Vol. 2, Issue 2, pp.42-48.

11 Ingles D and Fear J: The case for a universal default superannuation fund – The Australia Institute, Policy Brief No. 3, September 2009, ISSN 1836-9014.

12 OECD (2009), Pensions at a Glance: Retirement-Income Systems in OECD Countries.

13 Basu, Anup K. and Drew, Michael E. (2007) Portfolio Size and Lifecycle Asset Allocation in Pension Funds. In Lee, Cheng F. and Thi, Cao Hao, Eds. *Proceedings The 15th Annual Conference on Pacific Basin Finance, Economics, Accounting and Management*, Ho Chi Minh City, Vietnam.

14 Mottola, Gary R and Utkus, Stephen P, Can there be too much choice in a retirement savings plan?, Vanguard Centre for Retirement Research 2003.

15 APRA (2009), Superannuation Fund-Level Rates of Return: December 2008, *APRA Statistics*.

number of investment choices on offer in a fund, and the cost of being a member of that fund.[16] *Should there be a statutory limit on the number of investment options that default funds can offer?* Over the past 18 months, 17 trustees of retail funds applied to APRA to suspend or vary 30-day portability obligations on a total of 465 investment options, most of which had underlying illiquid managed investment schemes. *What are the lessons arising from the GFC on the availability and design of investment options in super?*

6.2.6 'Stickiness'

Are the current settings around how quickly members can change investment options or to leave the fund optimal? Would it be better for the system overall if member choices could only be implemented over longer periods than currently apply? Would it be preferable if unlisted and illiquid assets were subject to lock-up arrangements (like in a private equity context) so that valuation and arbitrage problems were less acute and funds were able to invest in assets with much longer-term horizons than is currently the case? This might mean that super funds would offer investment options that had a fixed-term maturity of say 5 or 10 years or longer. *Would this be workable? Have super funds adequately embraced the opportunities available in infrastructure projects and other long-term unlisted investments? Are there currently impediments, structural or otherwise, to super funds investing in such assets? Have the 30-day portability obligations had any effect on trustees' decisions about infrastructure investments?*

6.3 REGULATION

6.3.1 Effectiveness of regulation

Can the cost-effectiveness and usefulness of regulation in super be assessed? Should regulation in super be regularly reviewed to determine whether it continues to be appropriate and to achieve the purpose for which it was established? How could this be done? While changing the overall regulatory architecture is outside the scope of this Review, do elements of the current prudential and market conduct regulatory regime add deadweight costs to the super system? If so, can you identify and measure them?

6.3.2 Regulator efficiency

Shared administration of the same provisions by different regulators, with their distinctive approaches to fulfilling their statutory mandates, may lead to particular problems as industry sectors develop in different directions.

APRA and ASIC reviewed their administrative practices to identify unnecessary regulatory burdens that could be addressed. One area was breach reporting by trustees under both APRA and ASIC licensing requirements, which has subsequently been addressed. APRA and ASIC have also established a joint forum to provide industry with an opportunity to raise issues with regulatory coordination. *Are there any other areas where the operations of these two regulators could be made more efficient?*

The Australian Taxation Office (**ATO**) has roles in relation to superannuation in monitoring Superannuation Guarantee (**SG**) contributions from employers, and administering the Superannuation Guarantee Charge (**SGC**) in relation to employers that do not meet their

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16 Chant West (2008), Superannuation Industry - Fee Comparison Report: May 2008.

statutory obligations. *Given the links between super contributions, the SGC, tax deductibility of certain individual contributions and the Government co-contribution, would there be advantage in having the ATO as the sole agency responsible for monitoring all super contributions?*

Trustees are required to report on contributions to the ATO, but it often involves a number of processes to get the correct information. *Can the process between the ATO, funds, employers and members be streamlined to address these inefficiencies as they are directly reflected in increased administration costs (and therefore member fees)?*

6.4 INACTIVE ACCOUNTS, LOST MEMBERS AND ELIGIBLE ROLLOVER FUNDS

Eligible rollover funds (**ERFs**) are intended to handle certain types of super benefits that other super funds do not want. ERFs do not accept either employer or member contributions. Super funds sometimes have different protocols as to when they transfer member benefits to an ERF, but they usually do so when:

- a person becomes a 'lost member' under the SIS Regulations; or
- a person who is a 'protected member' under the SIS Regulations leaves their job and doesn't give the fund any rollover information.

6.4.1 Rapid growth of ERF assets over the last five years

	30 June 2003	**30 June 2008**
Member accounts[17]	3.6 million	5.9 million
Total assets[18]	$3.6 billion	$5.5 billion
Average account size	$1,003	$930
Assets in Lost Member Register	$7.3 billion	$12.9 billion
Accounts in Lost Member Register	4.9 million[19]	6.4 million[20]

In the five years to 30 June 2008, ERF membership increased by over 66 per cent to 5.909 million accounts, while over the same period, mainstream super fund membership, measured by number of member accounts, increased by around 27 per cent. ERF assets of $5.5 billion as at 30 June 2008 represented an increase of over 52 per cent from 30 June 2003.

ERFs offer some protection against benefits being eroded by administration fees, but fees can still be charged. 'Protection' means only that fees on a member's account cannot exceed the investment return allocated to the account, unless the investment return is negative. Tax is still payable and the fund can also deduct fees before determining the investment return. ERFs were estimated by Rice Warner as the highest cost superannuation sector in 2008 at an

17 APRA (2009), Annual Superannuation Bulletin: June 2008, *APRA Statistic,* table 3.
18 APRA (2009), Annual Superannuation Bulletin: June 2008, *APRA Statistics*, table 9.
19 ATO Annual Report for 2003-04.
20 ATO Annual Report for 2007-08.

average rate of 2.49 per cent.[21] ERFs do not offer life insurance. Investment strategies range from aggressive through balanced to very conservative. In 2008, declared returns ranged from -17.7 per cent to +4.9 per cent.[22]

While 87 per cent of ERFs actively perform ATO matching to help Australians find lost and unclaimed super,[23] they typically have little success in matching members with their other super, in part because of the poor quality of identification data provided by the transferring funds.[24] One ERF undertook cross-matching of 3 million accounts in 2008, leading to matching of 104,000 accounts, with a total value of $39 million, at a cost of $3.68 for each successful match.[25]

6.4.2 Optimal vehicles

Given their purpose, is there any reason to have more than one ERF nationally? Is the current configuration of ERFs optimal for ridding funds of lost or inactive/uneconomic members, but at the same time maximising the retirement savings of those whose benefits are, for one reason or another, in an ERF? Alternatively, would it be more efficient for balances currently rolled into an ERF to be transferred to the Consolidated Revenue Fund, and payable to the member on application? Why are ERF fees so high compared with other super funds that have more features?

6.4.3 Government role

Should the Government provide a single, low-cost ERF as a default for all lost or inactive/uneconomic member benefits? Alternatively, would it be feasible for the Government to require ERFs to be selected only on the basis of a competitive tender on a range of qualitative criteria including fees and quality of investment strategies?

6.4.4 Need for ERFs

Is the fact that there are so many lost or inactive/uneconomic accounts symptomatic of other problems that need addressing, rather than establishing a more efficient ERF to put them in? Is it a case of creating different incentives for trustees? Would a tax on super funds that had a higher than benchmark level of lost accounts make a difference or simply impose an added burden on active members? Have some sectors already been burdened with a membership demographic more predisposed to becoming lost or inactive? Should funds have to disclose their percentage level of lost accounts? Could members (or others) be incentivised to pay more attention to lost accounts? Is there a role for automatic consolidation of accounts via use of TFNs? Should each member be provided with a personal superannuation identification number that must be given to the trustee of each super fund in which the person participates during their working life (in the same way that employees must provide TFNs to employers)?

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21 IFSA and Rice Warner Actuaries (2008), Superannuation Fees Report – Market Segment Analysis at 30 June 2008: June 2008.

22 APRA (2009), Superannuation Fund-Level Rates of Return: December 2008, *APRA Statistics*.

23 SuperRatings media release (2009), Wanted – 5.88 Million Australians Who Want To Find $5.5 Billion Eligible Rollover Funds Grow 12% As Australians Ignore Super: May 2009.

24 APRA, anecdotal reports.

25 Superpartners, unpublished data.

7. PARTICIPANTS

7.1 MEMBERS

Possibly one of the biggest inefficiencies for members, even active members, is having multiple member accounts. It is generally not in a member's financial interests to have more than one account in the accumulation phase of an APRA-regulated fund. However, the average employee had approximately three accounts as at 30 June 2008.[26]

Rice Warner has estimated that around $333 million in fees were charged on 8 million unnecessary inactive member accounts (not including ERFs) in the year to 30 June 2008. This is a considerable wastage of potential retirement savings.

7.2 EMPLOYERS

Employers play an important role, along with the tax system, in making sure that SG contributions are made correctly. However, there is a view that employers could play a greater role in ensuring that basic information about employees is entered into the super system in a more accurate and more uniform way. On the other hand, many employers regard this task as a major compliance burden for which they are not compensated.

The cost of processing contributions accounts for around 35 per cent of total super industry administration and service delivery costs or $1.25 billion.[27] These costs reflect a number of factors.

The way in which funds process contributions is complex and lacks consistency in electronic capabilities and information requirements. As a result, many employers revert to the lowest common denominator payment method, rather than having to deal with multiple disparate processes. High-cost cheque and paper transactions with employers account for between 50 and 80 per cent of transaction flows. (Rollover transactions, of which there are upwards of 2 million annually, are almost exclusively paper-based.)[28]

Employers must remit the SG contributions, but have no obligation to ensure that contributions are accompanied by correct and complete information. Together with widespread use of non-electronic payment methods, this leads to poor data quality which, in turn, leads to processing delays and duplicated and lost accounts which add costs in the system.

The Government is currently working on reducing the administrative burden caused by business to Government reporting through the Standard Business Reporting (**SBR**) initiative.[29] This will include, among other things, adopting common reporting language based on international standards and developing business software to pre-fill reporting forms automatically.

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26 Hattingh A, Ng J, and Rice M, *Consolidation of superannuation accounts*, prepared for CHOICE by Rice Warner Actuaries, November 2008.

27 ASFA Superannuation Clearing House & Lost Member Framework – Background Paper May 2009.

28 ASFA Superannuation Clearing House & Lost Member Framework – Background Paper May 2009.

29 http://www.sbr.gov.au/content/default.htm.

In the 2008-09 Budget, the Government announced funding of $16 million over three years to establish an optional superannuation clearing house facility to assist employers, and particularly small businesses, in meeting their super obligations in a cost-effective manner. The mechanics of this arrangement are being finalised. Questions raised in this paper explore whether there might be value in building on this clearing house proposal.

In New Zealand, all superannuation contributions are remitted to the Inland Revenue Department with employers' pay as you go tax remittances, and are identified with the equivalent of the tax file number for passing on to the relevant super fund.

Employer SG contributions are required to be paid no less frequently than quarterly, but there could be advantages for members if payments were made more frequently (ie in line with wage and salary payments). Most large businesses make contributions on a monthly or more frequent basis, with quarterly payments tending to be made by small businesses.

While requiring more frequent contributions would potentially add to cash-flow issues for some employers, could there be sufficient administrative savings in aligning the frequency of payment of SG contributions with normal payroll activity to offset that?

7.2.1 The occupational model

Is it the most efficient model for employers to remain involved in superannuation management? Does the equal representation model for trustee boards and for policy committees of certain public offer funds add value or is there a better model? What do employers want from the super system?

7.2.2 Accuracy of employee information

Largely because of employees' right to select their own super fund, employers must have the capacity to provide new member details, and remit regular contributions, to a variety of funds. Industry has suggested the lack of formal obligations on employers in relation to data accompanying super contributions is a contributing factor in poor data quality. For example, one administrator reports that 0.3 per cent of members for whom a contribution has been made in the past 12 months have provided a TFN not their own.[30]

However, a driver of poor data quality could be funds with different administrators, each with their own IT platforms, seeking electronic data transfer in different formats. Because no benefit flows to employers, their incentive is to minimise costs, usually resulting in paper transfers as the lowest common denominator. The data quality is often poor, leading to members being incorrectly enrolled in funds with a resultant risk of multiple accounts being created. Contributions often cannot be correctly allocated to members, resulting in money being put in suspense accounts and ultimately being returned to the employer. This avoidable process accounts for a substantial portion of total administration costs.

Should employers be under an obligation to supply better quality information about employees into the super system? Do quality problems stem from the fact that a member of an employer-sponsored fund is not required to sign anything on joining the fund? Is it feasible to adopt a framework similar to that of SBR to increase the accuracy of employee information and assist in reducing the administrative costs associated with processing contributions?

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[30] Superpartners, unpublished data.

Would there be value in requiring basic new member data and regular contributions to be submitted by employers in a standard form (possibly via a central clearing house)? Would there be value in having this as a mandated form required by, for example, the ATO, linked with the employee's tax file number declaration (NAT 3092)?

Would the extent of electronic funds and data transmission be enhanced if administrators moved over time to a common standard in relation to their IT platforms? Would an Australian Standard in respect of superannuation administration assist in this regard?

Would there be advantage in requiring all superannuation contributions (other than to SMSFs) being channelled through a central government sponsored exchange facility which could:

- *Require all payments to be attached to the member's TFN to ensure proper member identification;*
- *Require electronic data and funds transfers or charge an additional handling fee for paper-based transactions;*
- *Monitor any employers which had a high incidence of incorrect or incomplete member data; and*
- *Transfer clean data to super funds in a timely manner?*

Should the costs of a centralised exchange be spread across all fund members, including those in benefit payment phase, through an increase in the supervisory levy?

7.2.3 Standard forms for super

Should there be a suite of standard forms across superannuation (eg member applications, making contributions, benefit payments, requesting a rollover) with standard terminology and standard information required? Should these be under APRA's control so that funds would have to use the forms approved by APRA from time to time? Would any other areas of administration benefit from standardisation?

7.2.4 Inducements from super funds or associates

Are there instances where super fund trustees or their associates provide discounts to employers on other products and services in order to influence the employer's selection of default fund? Is this practice prevalent and, if so, should section 68A of the SIS Act be strengthened?

7.2.5 Salary sacrifice

Under current rules, if an employee makes an effective salary sacrifice, the employer's SG contribution is required to be made only on the reduced salary amount. *Does this discourage employees from salary sacrificing, particularly when the employer could be seen to benefit? Should salary-sacrificed super contributions be required to be contributed to a super fund in the same time period as after-tax contributions under section 64 of the SIS Act? Should the regulation of all super contributions sit with the ATO, including salary-sacrificed amounts and after-tax member contributions made through an employer or via payroll deductions?*

7.2.6 Electronic funds transfer

Should it be mandatory for APRA-regulated funds to have an EFT facility so that payments can be made electronically? Would this be of help to employers who are currently forced to write cheques for a number of funds? If there are impediments or unacceptable costs preventing this from happening, what are they?

7.3 INVESTMENT MANAGERS

The following table released by Standard & Poor's on 30 July 2009 (in the context of Australian managed funds, not segmented into super and non-super) provides some analysis, based on fund data supplied by Morningstar Australia, of the ability of active managers to beat relevant indices in four time periods, that is, the calendar years 2004 to 2008, the last three of those years, 2008 itself and the half-year to 30 June 2009.

Standard & Poor's – Percentage of Funds Outperformed by the Index[31]

Fund Category	Comparison Index	Year To Date	One Year	Three Year	Five Year
Australian Equity General	S&P/ASX 200 Accumulation Index	50.78	28.68	56.25	66.07
Australian Equity Small Cap	S&P/ASX Small Ordinaries Index	60.00	21.54	35.00	52.17
International Equity General	MSCI World Ex Australia Index	38.27	64.60	71.34	76.15
Australian Bonds	UBS Composite Bond Index 0+Y	25.81	87.88	94.12	97.22
Australian Equity A-REIT	S&P/ASX 200 A-REIT Index	2.78	28.95	50.00	58.57

Source: Standard & Poor's/Morningstar.
There has been no deduction of expenses from index returns.
Data to June 30 2009.

As can be seen from the table, two-thirds of active managers did not perform better than the S&P/ASX 200 Accumulation Index for the five years to the end of 2008. *Do trustees concentrate too heavily on strategies that rely on active trading of investments thereby incurring additional costs and taxes that ultimately reduce the returns to members? Should passive management styles play more of a role in super or is there a justification for using active managers widely?*

7.4 ADMINISTRATORS

Some 60 per cent of APRA-regulated funds use an external administrator. However, three of the largest administrators administer more than 10 million member accounts, representing

31 http://www2.standardandpoors.com/portal/site/sp/en/us/page.article/3,1,1,0,1204848544865.html

superannuation assets in excess of $130 billion, being 32 per cent of all accounts in funds with more than four members, and 16 per cent of assets for the same population.[32]

7.4.1 Administrators as systemically significant institutions

Are super fund administrators systemically significant institutions? Should there be minimum capital requirements and compulsory APRA licensing for super administrators, with accompanying operating standards? Alternatively, should APRA be empowered to engage directly with administrators, rather than through the relevant trustee as is currently the case?

7.4.2 Disqualification

The SIS Act does not regulate administrators, though disclosure obligations (including whistle blowing), disqualification powers and enforcement provisions are applied to investment managers and custodians as well as trustees. *Is this appropriate? Should the SIS Act be extended to administrators in this regard*?

7.4.3 Identity issues

What could be done to deliver a more foolproof low-cost means of verifying the identity of members, for example when they request a rollover to another fund, or to avoid multiple accounts that do not follow naming conventions (eg B. Smith, Bill Smith and William J Smith all being one and the same person)? Is there something else that trustees and administrators could rely on as identity verification? Should the current rules that make it difficult for members to switch and consolidate accounts (eg requiring certified copies of personal documents – Schedule 2A of the SIS Regulations) be relaxed?

7.4.4 Tax file numbers

As at February 2009, 92 per cent of statements reported on the ATO's member contribution statement system had a TFN. Under current *Privacy Act* guidelines, TFNs cannot be used by fund administrators to match against member accounts. *Should this be changed so that TFNs can play a larger role in identifying member accounts? How could TFNs be made more robust - ie verifiable at the commencement of membership of a fund so various participants in the system could depend on the TFN being correct? Is there a privacy problem with using TFNs in this way when information about taxpayers and their ABNs is freely available?*

7.4.5 Pricing and performance fees

Does the downward pressure on administration fees risk making administration companies unviable in the long-term? Is this a concern for trustees? Would a 'user pays' system of administration be fairer to members and administrators so that those who make more demands on the administration system pay more?

As with investment managers, administrators often bargain for increased fees if certain short-term performance measures are met. *Is this appropriate? On the other hand, are penalty fees for administrator under-performance appropriate?*

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32 APRA, unpublished data.

7.5 THE VALUE CHAIN

The table below is an estimate of the relative fees charged by the different component parts of each segment of the superannuation industry in the 2008 financial year.

Estimate Super Fees by Segment (2008) (% of Funds Under Management)

Segment	Administration %	Investment Management %	Administration & Investment Management %	Cost of Advice %	Total Expenses %
Corporate	0.21	0.47	0.68		0.68
Industry	0.38	0.67	1.05		1.05
Public Sector	0.21	0.46	0.67		0.67
Retail	0.69	0.69	1.37	0.44	1.81
SMSF	0.31	0.52	0.83	0.15	0.98
Total	**0.42**	**0.59**	**1.02**	**0.19**	**1.21**

Source: Banc of America Securities – Merrill Lynch estimates based on Rice Warner 2008 fee analysis

Are there any observations about fee levels across the component parts of each industry segment that would assist the work of the Review, having regard to:

- *long-term average investment returns achieved for members in each segment;*
- *overall services provided and value added to members;*
- *structural, regulatory or other factors that unnecessarily add to costs;*
- *the complexity of the products and services offered and the way fees are charged and disclosed; and*
- *the level of price competition at each level in each segment?*

Are there any invisible costs that are not evident in fees data commonly used by the industry? If so, what are some examples and how could they be captured? In the retail sector, is there a trend for distribution (including wraps and platforms) to be gaining a larger share of fees? If so, why?

8. INFORMATION

8.1 PERFORMANCE DATA AND OTHER COMPARATIVE INFORMATION

Since 1998, APRA has been collecting data from regulated super funds and has published aggregated statistics according to industry sectors. The Choice in Super legislation in 2005 resulted in increased consumer and industry demand for more information on the investment performance of super funds.

The Review has been requested by the Minister for Financial Services, Superannuation and Corporate Law, The Hon Chris Bowen MP, to consider issues surrounding the collection and publication of superannuation data, including data produced by APRA. In particular, the Review has been asked to look at:

- the scope of APRA's current and prospective superannuation performance data;
- the methodology used by APRA for calculating the performance of superannuation funds;

- the comparability of performance measures, including the structure and classification of fees and investment returns; and
- other aspects of superannuation performance reporting and data collection considered relevant by the Review panel.

8.1.1 Data collection agency

The GFC has highlighted that relying on commercial agencies to collect critical data and to rate institutions and securities carries certain risks. The collection and rating processes in commercial agencies can lack transparency and accountability, partly for proprietary reasons.

Hence the GFC experience suggests that key data for superannuation should be collected officially and be made publicly available wherever possible. *Should APRA remain the sole collector and publisher of official superannuation data? Or should some or all of the data or functions be shared with other official collection agencies such as the Australian Bureau of Statistics?*

8.1.2 Data scope

APRA is already collecting critical data in relation to prudential supervision. *Should the scope of data collected be extended to include sub-fund data as well as other areas (yet to be identified)? What sorts of additional data should be made publicly available? Should the collection be extended to data to inform public policy and consumer interests? How should the balance be struck between the cost of data collection incurred by all parties involved and the benefits that the data provide? Are there new methods and technologies that should be used to collect and publish data more efficiently?*

In response to a Government request, APRA recently published investment returns of superannuation funds on a total-fund basis.[33] This reporting at the institutional level aligns APRA's superannuation publications with those for its other supervised industries. Since mid-2008, APRA has been consulting with industry about publishing a wider range of statistics with a greater level of disaggregation.

8.1.3 Investment returns

Is the investment performance data about super funds currently published by APRA adequate? APRA uses rate of return to measure fund investment performance. Is this the most appropriate fund performance metric? There has been debate on the need for APRA to publish investment returns for individual investment options within super funds. *Should this be done, bearing in mind that super funds can have many individual investment options and that there is no consistent terminology or standard for determining what asset allocation parameters each option should have?*

Should APRA persist in trying to identify an investment option that is comparable across all super funds? Would it assist consumers and policy-makers if there were standardised definitions of asset classes and investment options used in super funds? If so, is the industry capable of generating those definitions within a reasonable time, or should definitions be statutorily prescribed and funds and fund managers be required to report against those definitions?

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33 APRA (2009), Superannuation Fund-Level Rates of Return: December 2008, *APRA Statistics*.

There has been a suggestion to use a risk adjusted value added (RAVA) metric to compare and rank super funds, rather than to compare individual investment options.[34] *Would this performance metric provide useful comparative information? Does this comparative information justify the collection and possibly the publication of quarterly asset allocation data?*

Apart from returns, what other comparative information is useful for the industry and consumers? On what basis and how would that information be used? Can different data be obtained to enable better comparisons across superannuation products and providers? Should the industry adopt standard terms and definitions with respect to performance metrics to ensure comparability? In particular, how can trustees and their service providers be incentivized or compelled to make fees and charges more transparent and comparable for members?

8.1.4 Industry metrics and ratios

Are there other tools used by the industry to measure the relative costs and performance of super funds (ie efficiency)? Are existing metrics adequate for members, analysts and regulators? If not, what other metrics and ratios would be helpful? For example, would it be helpful for information such as the average tax rate payable by the fund, portfolio churn rate, portfolio transaction cost information (ie what it is costing to run the investments in each particular portfolio), total audited expenses to income ratio, cost growth year-on-year and dollar cost per member, to be more widely available?

Is data currently available that would permit the calculation of more useful metrics? Is there currently a lack of incentive driving the production of better measures of efficiency? If so, how could those incentives be created?

8.1.5 After-tax reporting

Should any trustee be allowed to engage a fund manager to manage a portfolio or be remunerated for performance or report investment returns, other than on an after-tax basis? What impediments (if any) are there to an industry standard on after-tax reporting of investment returns?

8.2 INFORMATION GIVEN TO MEMBERS

8.2.1 Product Disclosure Statement[35]

Trustees are required to give a product disclosure statement (PDS) to members at the time of an offer or issue of the product. This does not apply for people who join an employer-sponsored fund as an employer-sponsored member. In that case, the trustee must give the member the PDS as soon as reasonably practicable, but no later than three months after the date the member joined. *Should a default fund have a different PDS requirement from a fund that is actively chosen? Could super trustees be given the option of lodging a PDS with regulators, rather than automatically providing one to each new member, so that a member*

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34 Sy W. and Liu K. (2009), Investment performance ranking of superannuation firms, *APRA Working Paper*.

35 The Government's Financial Services Working Group is working on a new approach to financial product disclosure, including in superannuation, but is focused on disclosure within the current regulatory framework.

could get one on request? Would optional PDSs make more sense if there were fewer choices in super?

8.2.2 Advice to members

What is the most cost effective way to get advice to consumers? Should the Government subsidise advice in super? At what stage of life is advice most likely to be valuable? Would the provision of such advice out of the resources of the fund, or directly as a charge to the member's account, be consistent with the sole purpose test?

Should there be a specific standard or higher qualification that advisers must meet in giving advice about super? If a member is in a well-designed, low-cost default fund, should there be a higher hurdle applied to an adviser who seeks to have that member change funds or investment options?

8.2.3 Uniform fees and charges disclosure

Is there a way of boiling fees and charges down to a small number of distinct types (using mandated naming conventions) so that members could make useful comparisons between funds? What about the following four levels of fees and charges:

- *Entry price (what does it cost to join the fund)?*
- *Annual member account costs (how much was charged to my account this year)?*
- *Annual asset level costs (what was my share of the fees and costs that were paid out of the assets of the fund, including those charged by other trusts in which the fund invested and any life company statutory fund this year)?*
- *Exit fees (how much will I be charged to leave the fund)?*

Would it be feasible to prohibit trustees from allowing any other fee or cost to be paid from the fund that did not fall within one of the four types, all of which would be fully disclosed using only the mandated nomenclature?

Alternatively, could ASIC's enhanced fee disclosure regime be improved in any way to help members understand and compare fees between funds?[36] *Could the ACCC's component pricing policy be applied so that funds would have to provide a prominent single total price for the product offered?*[37]

8.2.4 Government website dedicated to superannuation

Is there a role for a high-quality Government website solely dedicated to providing information about superannuation (possibly in other languages as well)? Could this assist in making disclosure cheaper and easier for trustees by allowing them to link to such a site, rather than having to reproduce 'boilerplate' information about super such as: preservation ages, taxation arrangements and so on in a wide range of different documents?

36 *Corporations Amendment Regulations 2005 (No.1)* and ASIC Regulatory Guides 97 (Enhanced fee disclosure regulations: Questions and answers) and 182 (Dollar disclosure).

37 http://www.accc.gov.au/content/index.phtml/itemId/816199

8.2.5 Traffic lights

Would it be feasible to require all funds to display on their websites and disclosure documents a simple traffic light symbol or some other easy to understand graphic, intended to highlight how the fund compared against its peers on fees and charges? Just by way of example, the traffic light could look like this:

Red	-	150bps and above
Amber	-	100bps to 149bps
Green	-	below 100bps

Investor behaviour research shows that people tend not to choose the product depicted as being at the bottom of a hierarchy, but will choose the middle one (the compromise effect). A two light model, might resolve this.[38] Red could be for all funds that were more than 20 per cent above the median fee level and all the rest could be green.

Would a system like this help members? Is it desirable to focus so closely just on fees? What about a high quality, full service fund that comes at a high cost? Are notions of quality and service relevant to the average member in a highly regulated and compulsory product that is intended to secure them the highest possible retirement savings?

8.2.6 Disclosure more generally

Are there more efficient ways that super funds could satisfy their various disclosure obligations? Alternatively, could super funds very cheaply and simply exceed those obligations by, for example, placing the fund's trust deed and other material agreements on the fund's website? It is unlikely that the average member would need this information, but transparency and instantaneous access to information has major systemic benefits for analysts, advisers, research houses which would ultimately flow to members.

8.2.7 Annual reports

Are annual reports useful to members or could they be phased out with the information made available on the fund's website or another internet site? Amendments in March 2009 to the *Corporations Regulations* make permanent the relief previously provided by ASIC allowing trustees to make the annual report available on their websites, rather than sending each member a printed copy. This is subject to requirements such as getting member approval and notifying members when the annual report is placed on the website. *How are members responding to this change? Have funds been able to save costs by not sending out annual reports? Has it been difficult to get member approval? Are there changes to the content requirements for annual reports that would make them more useful to members, and their advisers, without increasing costs?*

8.2.8 Remuneration

Is there currently adequate disclosure to members about the level of remuneration paid to directors and executives of super funds and about the remuneration arrangements of service providers (eg should members be able to find out about the incentive arrangements

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38 Kamenica, Emir: Contextual Inference in Markets: On the Informational Content of Product Line, American Economic Review 2008.

applicable to the executives of their investment managers)? Should the remuneration standards applied by APRA in relation to banks and insurers also apply to superannuation?[39]

8.2.9 Electronic communications generally

Is there room for further liberalisation of the extent to which trustees can communicate with members electronically? Could members who opt to receive paper communications, be required to pay for it? Vanguard in the United States says that 60 per cent of its clients were registered for internet account access at the end of 2008 and clients completed 72 per cent of all transactions online in 2008.[40]

8.2.10 Research houses

Are super fund members adequately served by the research on super funds generally available? Could research houses be improved to better serve the needs of members? Do research houses have enough staff and resources to do meaningful analysis of all available data? Should they be allowed to report performance on a monthly basis that is not audited and subject to a range of assumptions, including estimates of tax payable? Should research houses in super be required to hold higher levels of training and skills than is currently the case? Are the current fee arrangements used by research houses sufficiently free of conflicts? Are the arrangements properly understood by members? Should research houses be required to disclose all commercial arrangements that they (or related parties) have with the funds being rated?

8.2.11 Calculators

Are online calculators helpful in allowing members to experiment with different scenarios for their super or is the quality of assumptions and other features still in need of some form of standards either via an industry code or more regulation?

8.2.12 Audited accounts

Would it assist analysts, advisers and some members if the fully audited accounts of all APRA-regulated super funds were required to be displayed on the fund's website, with hard copies available free of charge to members on request? Would it be more efficient if the accounts were in XBRL[41] *format so they could be more effectively interrogated and compared?*

8.2.13 Renewal notices in super

What if, each year, funds were required to send members a bill for next year's estimated fees; effectively a renewal notice similar to those sent by insurers? The invoice could give members two choices for making the payment: BPAY from their bank account or out of their fund account (this would be an automatic default if the other option were not used). The benefits of making a voluntary contribution by paying the fees from outside the fund could be explained. The invoice could, of course, be integrated with the existing member benefit statement format. The aim would be to unbundle the fees and present them to members just as is done with other products. This is likely to invite scrutiny from members, lead to

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39 http://www.apra.gov.au/Policy/Response-to-submissions-Remuneration-Proposed-extensions-to-governance-requirements-for-APRA-regulated-institutions.cfm

40 Vanguard Group, Inc (2009), *How America Saves 2009, The authoritative report on on defined contribution plans at Vanguard*, page 7.

41 Extensible Business Reporting Language – see http://www.xbrl.org/WhatIsXBRL/

comparisons with what other members were being charged and, above all, might lead to considerably more engagement with the product.

What would be the practical implications of such a proposal? There would be an initial implementation cost and some ongoing administration cost, but would it drive greater efficiency in the long term?

9. DIRECT COSTS

According to a global pension fund analyst, these are the five key levers that affect the administration costs of running a super fund (in order of impact):[42]

1. Economies of scale (including the size of the average member account balance);[43]
2. Transaction volumes;
3. Cost environment (ie relative labour costs);
4. Complexity of the product; and
5. Service levels offered to members.

Based on these factors then, the ideal fund that emerges is large, passively invested, simply-designed and one in which members have relatively large account balances. This provides us with a lens through which the subject of the actual costs of running a super fund can be viewed.

9.1 FEE DATA

Rice Warner Actuaries, in a report prepared for the Investment and Financial Services Association (**IFSA**), says average annual fees for super were 1.21 per cent of average super assets in 2008, down from 1.37 per cent in 2002 and 1.26 per cent in 2006.

Fees by super fund type for 2008 were as set out in the following table.[44]

Industry segment	Average % fees for FY 2008
WHOLESALE	
Corporate	0.73
Corporate super master trust (large)	0.79
Industry	1.07
Public sector	0.69
RETAIL	
Corporate super master trust (small)	2.12
Personal super	2.00

42 CEM Benchmarking Inc: www.ipers.org/publications/misc/pdf/other/cemexecsummary.pdf.

43 APRA data (page 5) show that the average member account balance, across all sectors, was $36,600 at 30 June 2008, but the distribution is heavily skewed with approximately 79 per cent of women and 63 per cent of men having less $40,000. See Clare, R, *Retirement Savings Update*, Association of Superannuation Funds of Australia (**ASFA**), February 2008.

44 IFSA and Rice Warner Actuaries (2008), Superannuation Fees Report – Market Segment Analysis at 30 June 2008: June 2008.

Retirement income	1.84
Retirement savings accounts	2.30
Eligible rollover funds	2.49
SMALL FUNDS	
Self-managed super funds	0.98
TOTAL	**1.21**[45]

In preparing its estimates of fees, Rice Warner has focused on the costs directly borne by fund members and has excluded some expenses, including the cost to employers of subsidising their staff superannuation funds and advice paid for directly by fund members. RiceWarner also say that it is difficult to make direct comparisons between fees charged by each type of superannuation fund because differing levels of service and advice are provided.

9.2 WHAT DO COMMISSIONS COST MEMBERS?

Commissions related to SG payments in calendar 2008 amounted to $546 million (or 4 per cent of the $14.1 billion of fees paid to super funds in that year) and total commission payments revenue from the super industry totalled $1.41 billion.[46]

9.3 FEES AND CHARGES

There are in excess of 100 million[47] transactions per annum conducted within the superannuation system and this generates substantial costs that are recouped through fees. Fees cover investment and fund administration costs and may also cover the cost of financial advice services (sometimes through ongoing commissions to financial advisers) and other product features or services (such as insurance options, daily unit pricing and call centres). We understand that some super funds allow members to pay for limited advice about their super directly from their accounts. Super funds employ a range of fee structures, including annual management fees, performance fees, exit fees, contribution fees, and transaction fees.

In a survey done in 2008, Watson Wyatt found that superannuation and pension funds around the world were paying 50 per cent more in fees than five years earlier.[48] The main reason attributed to the increase was that funds were paying for manager skill in delivering above market returns largely through alternative investments, even though the report concluded that this was not actually being delivered.

9.3.1 Should there be a ceiling on fees in super?

The KiwiSaver model in New Zealand involves a certain level of government pressure on fee levels. The six default schemes available under KiwiSaver were assessed on a range of factors, including fees, and all schemes are subject to a requirement that fees not be unreasonable. *Is there a basis for controlling fees in super in Australia, whether universally or in respect of members in default funds and default investment options? Whether on all*

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45 Expressed as a percentage of average assets over the year to 30 June 2008.
46 Rainmaker Consulting (2009), Commissions Revenue Report: May 2009.
47 Ernst & Young (2008), The Super Iceberg – What's beneath the surface of choice? : October 2008.
48 Watson Wyatt media release (2008), Funds paying 50 per cent More Investment Fees than Five Years Ago: 28 February 2008.

contributions or just SG contributions? Should any controls be by regulation or by suasion and much improved fee information and disclosure?

9.3.2 Factory gate pricing

Factory gate pricing is where the cost of acquiring an interest in the fund is disclosed separately from fees relating to additional services like advice. This would see prices perhaps broken into: the basic product (which would include the investment management fee), a separate administration fee and a separately priced advice component. Members could then decide whether they wanted advice and, if so, how much, rather than just being presented with a bundled price. *Would factory gate pricing help in super?*

9.3.3 Commissions on employer contributions

Should trustees be allowed to pay trailing commissions in respect of employer SG contributions or, more correctly, should trustees be allowed to increase fees charged in respect of employer contributions in order to fund trailing commissions payable to advisers? Should the position be different in respect of members of default funds, or default investment options within default funds where, on the face of it, no marketing or distribution costs are involved and little or no advice is given.

9.3.4 'Shelf-space' fees

In a superannuation context, shelf fees are paid by fund managers to master trusts for inclusion as an investment option, or by trustees, themselves, to dealer groups or licensees for having the fund on their investment menu, or approved product list. Shelf fees are, one way or another, part of the cost of the system, being subsidised by other fees and charges sourced from the fund. *Are shelf fees an unnecessary layer of complexity and cost to members and, if so, what should be done about them?*

9.3.5 Exit fees

Exit fees (in addition to a sell spread) are sometimes charged by super funds when a member leaves the fund. Sometimes the fees expire after a period and sometimes not. They are generally charged to recoup the cost of paying adviser commissions and other expenses that were not charged to the member at the outset (ie a deferred contribution fee). The 2007 Parliamentary Joint Committee Inquiry into super recommended that exit fees in excess of the actual transaction costs of exiting the member be prohibited prospectively.[49] *Do you agree, or disagree, with this recommendation? If so, why?*

9.3.6 Buy spread

Is it necessary to charge a buy spread on all contributions to a super fund? Some funds do not charge any buy spread, but others do. *Is this cost difficult for members to identify and understand? Is there a better way of distributing transaction costs equitably across the members? Should they be captured within the Indirect Cost Ratio calculations or just phased out of superannuation altogether?*

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49 Parliamentary Joint Committee on Corporations and Financial Services, The *Structure and Operation of the Superannuation Industry*, 2007.

9.3.7 'Flipping' members to personal plans

Should trustees be able, unilaterally, to move members out of an employer plan to a personal plan with higher fees, often coupled with less insurance, when a member changes jobs (ie cease to be employer-sponsored)? Also, is it common practice, for people who were not treated as smokers in the corporate fund to be charged for insurance as if they were a smoker in the personal plan? What are the commercial drivers behind this practice? Are personal plan fees being used to make up for the low prices quoted to win large corporate accounts? Does this area need closer regulation? Is this also a 'retirement' issue in that retirement will almost always mean ceasing to be a member of the corporate fund, but not necessarily leaving the superannuation system? Is disclosure potentially a solution here or do we need something different?

9.3.8 Placement agent fees

In this context, a placement agent refers to a person who locates capital for investment managers, generally by dealing with super funds and their asset consultants, in return for a commission payable by the investment manager. The cost of such commissions is then embedded in the price paid by the fund for the investment, correspondingly reducing the long-term return to members. *Do placement agent fees have a place in super? Are special rules needed regarding the use of placement agents?*

9.3.9 Interactions between super funds and life company statutory funds

Do investments by super funds in the statutory funds of related life companies lead to an obscuring of fees and costs charged while in that structure? What value is added to the superannuation fund by investing through a life office structure, rather than through other asset management devices?

9.3.10 Fees in a default fund

If a member is in a default fund, is it appropriate that the same level of fees and commissions are charged in respect of that member in contrast to a member who chose that fund on advice? Should there be limits on the fees and commissions that can be charged to default members in default funds (both at asset level and member account level)? Should the cost of advice in a default fund be regarded as personal to the member and always charged at member account level, rather than being bundled with other fees?

9.4 PERCENTAGE REMUNERATION

Percentage remuneration refers to the practice of remunerating advisers, managers and other service providers via a percentage fee based on the value of funds under management (or under advice) or the investment they are about to make.

Assume a single fund manager managed all of the superannuation savings in Australia from 1996 to 2006 for total fees of 1.25 per cent of assets under management per annum. Over that period, APRA data show that superannuation assets nearly quadrupled from $245 billion to $912 billion.[50] The manager would have enjoyed an increase in gross annual fee income of some 272 per cent or $8,337,500,000, equating to a compound annual growth rate of

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[50] APRA (2007), APRA Insight - Issue Two Special Edition – Celebrating 10 years of superannuation data collection, Table 1 page 18.

14.05 per cent, compared to compound annual nominal GDP growth over that same period of 5.8 per cent.[51]

Under an internal funds management model, scale benefits the member because the costs per member of running the fund are diluted as the fund grows in size and so fees per member can be reduced. Under the external model, fees reduce only if the manager agrees to cap them as scale increases and hence the manager generally reaps the reward from scale. *What factors have played a part in the Australian industry adopting the external model? Would other models work in Australia?*

External investment managers typically enjoy a competitive advantage over in-house managers in terms of investment and risk management expertise, and potentially in terms of trading costs and market-making capacity. However, for those elements to work to the mutual advantage of the investment manager and the member, the costs of the external manager must be clearly apparent and proportionate to the value added.

Under the external model, there is a strong incentive to expand products and gather assets, rather than reduce costs or achieve operational efficiencies. Where the investment manager is an associate of the trustee, there might be a common duty to the parent entity to maximise operational profits, and this might be achieved by making pricing less than transparent to the member. *Where this is the case, should the trustee be obliged to disclose expressly the profit expectations of the parent?*

In the United States, some investment managers offer 'breakpoints' in the fees that they charge the trustee for managing the fund. That is, when funds under management reach a certain aggregate level, the manager's fee reduces, thereby sharing with investors the benefits of economies of scale.[52] This is in addition to the normal fee discounts individual members get for investing above a certain amount in the fund.

What is the best way to encourage trustees to strike the most appropriate balance between in-house and outsourced investment management to optimise returns to members?

9.5 POTENTIAL TO SIMPLIFY FEES BY ELIMINATING REBATES

Super fund trustees must treat all members fairly and members of the same class equally. The relevant duty at general law is that the trustee act impartially between the different interests.[53]

Therefore, at fund level, members in the same situation must be charged the same prices for entry to the fund, investment management, administration and so on. However, almost all super funds have differential price structures, by means of rebates, namely:

- rebate of fees for larger account balances; and

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51 $518.8bn to $967.4bn – Source: Australian Bureau of Statistics, Australian National Accounts, 1996 to 2006 – 5206.0, Table 30, *ABS Statistics*.

52 Investment Company Institute, Trends in the Fees and Expenses of Mutual Funds, 2008 http://www.ici.org/research

53 Edge v Pensions Ombudsman [1998] Ch 512 at 533-534, 537-538 per Sir Richard Scott VC [1998] 2 All ER 547 (affd [2000] Ch 602, [1999] 4 All ER 546, CA).

- rebate of fees to the degree that the adviser accepts less than the maximum commission on offer from the trustee. Advisers are not under the same obligations to treat their clients equally.

Where a super fund sets a maximum fee or commission, but then allows rebating, the additional processes are seen to create inefficiencies because there is an unnecessarily circular flow of funds. It also creates confusion in the resulting account statement and information asymmetry in the wider market because only certain participants know what is actually being charged. Arguably, the system lacks transparency when members cannot determine what the actual prices are (eg on the internet) unless they start negotiations with an adviser.

Also, it leads to the strange outcome where a person joining a super fund without an adviser might end up paying a full 4 per cent contribution fee, but would pay less on using an adviser, because of the rebate system. This does not seem efficient or equitable.

For example, a fund might have a 0.9 per cent administration fee, with a system of rebates that look like this:

Account balance	Rebate of fee
$200K - <$500K	0.1 per cent
$500K - <$1 million	0.3 per cent
$1 million or more	0.5 per cent

If differential fees were allowed to be charged directly, the fee structure could be simpler and avoid a two-step process. The fees would then be presented to members like this:

Account balance	Administration fee
< $200K	0.9 per cent
$200K - <$500K	0.8 per cent
$500K - <$1 million	0.6 per cent
$1 million or more	0.4 per cent

Alternatively, funds could have a base price, with mark-ups (ie higher prices) if a member wanted to make a smaller investment or use the services of an adviser. *Is the current system of rebates driven, in part, by unit pricing considerations (ie the need to only have one price at fund level)?*

9.5.1 Cost and transparency

How much more does it cost to administer a system of rebates, rather than transparent discounts or mark-ups? Why are fees for additional services, like advice, not added to the price of the product as occurs in other industries?

9.6 PERFORMANCE FEES

A number of super funds pay investment managers extra fees based on short-term out-performance against a particular benchmark. Typically, these are based on pre-tax performance, are reflected in the daily unit price and paid monthly. However, there is a variety of ways of calculating and paying these fees and a range of ways of ensuring equity across new, ongoing and exiting members.

Performance fees in super are analogous to performance bonuses in executive remuneration. On the one hand, if properly designed, they can align the interests of members and managers. On the other hand, there is an 'agency' problem in that investment managers can be incentivised to engage in behaviour that is not in the long-term interests of members in order to earn their performance fees. The way performance fees are generally designed, managers do not share in any losses, but only in the gains. There is also a lack of transparency in that members cannot work out in advance what fees are ultimately going to be charged and those fees are complex.

From a member perspective, periods of outperformance in a long-term savings vehicle are where their wealth comes from and it seems counter-productive that they should be sharing outperformance with wealth managers. The challenge for trustees is how they can ensure that these fees are appropriately aligned with the long-term financial interests of members.

9.6.1 Standards

Should there be some form of standards applying to performance fees? Ideas here could include: requiring that they only be chargeable on an after-tax basis; that only appropriate risk-adjusted benchmarks are used (for example, one fund uses the RBA cash rate as a benchmark against which its enhanced cash fund earns a performance fee); that longer horizons are used than is currently the case; and that there be rules about horizontal equity; clawbacks and high watermarks, disclosure and auditing.

9.6.2 Discount on other fees

Should performance-based fees only be allowed if there is a tangible discount in fixed fees, perhaps to a floor equivalent to the cost of the service or even less?

9.6.3 Prohibition

Should performance fees be prohibited on assets invested in the default investment option and in ERFs?

9.7 OTHER WAYS TO REDUCE COSTS

Are there other areas where super funds could save money and, if so, what are they? Are there areas where too much money has already been saved, that is, are there areas where costs pressures have reduced services to the detriment or potential detriment of members?

10. INEFFICIENT BEHAVIOUR

10.1 CLEARER STATEMENT OF BELIEFS AND OBJECTIVES

Could it lead to better outcomes for members if trustees were required to explain clearly and on a regular basis what their investment beliefs were, the objectives of each investment option offered and the broad objectives of the fund itself (ie why does the fund exist)? If part of the answer to the last question includes delivering a profit to a party other than the *members, then should that be spelled out, including estimates of profit margins to be earned by related party fund managers, custodians and other associated service providers? If you agree with this approach, what level of prescription should be employed? Should trustees be required to state whether low overall costs forms part of their beliefs and, for example, whether they believe that higher cost active managers are appropriate and give their reasons?*

10.2 COSTS IN PRICES AND SPREADS

In complex funds management and investment transactions, there are many points at which prices are struck for any number of products, including foreign exchange and derivative dealings. These transactions will often involve a mixture of an express (visible) charge for the service, together with a spread (ie the difference between the bid and offer price in the relevant market). The implications of the spread and who is transacting as a counterparty are often more difficult to assess. Similarly, there are a number of implementation and execution issues where leakages can occur. These leakages can occur during portfolio transitions, order allocation and illiquid trading where unintended market exposures, wide bid-offer spreads on account adjustments and internal cash management fees can add to costs beyond expressed charges. Such costs will be invisible except under quite close scrutiny.

Do trustees have the necessary tools and mechanisms to ensure that the members' best financial interests are adequately protected in relation to these issues?

10.3 COMPETITION

Many members do not actively make decisions about their super, which reduces the degree of competition that would otherwise exist. The failure to make an active choice of a fund or investment option effectively sees a high proportion of individuals entering default funds and default investment options, rather than making choices that drive competition between funds. Barriers to individuals making choices include product complexity, inadequate information and low levels of engagement, financial literacy, capital gains tax and, in some cases, exit fees. These behavioural and educational constraints help to explain the reluctance of many Australians to make active choices concerning their super. Where price competition is ineffective at the individual member level, providers are motivated to compete at the level of the intermediary or distribution channel, sometimes tending to increase the costs of the system. There is also a view that a substantial amount of competition-induced behaviour, such as offering extensive product choice is unnecessary and ineffective and only leads to higher costs.[54]

Concerns have also been expressed that the award system, a misalignment of trustee and member interests, and closed distribution networks, also limit competition.

10.3.1 Impact of choice of fund

Do the advantages of choice of fund outweigh the costs to members and employers? Could choice arrangements be varied so as to reduce deadweight costs in the system?

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54 Bird, Ron and Gray, Jack: How to make super funds more efficient, The Australian Financial Review, 5 September 2009, p62.

10.3.2 Bargaining power of trustees

Trustees of super funds seem to be price-takers in the market for investment management services. *Is this the case and, if it is, what can be done to balance the power of trustees to strike more favourable prices for members?*

10.3.3 Outsourcing model

As super funds get bigger, should they continue to outsource to such a large extent? The average industry and public sector funds have over 20 service providers each, the average corporate fund has 12.3 service providers and the average retail fund (excluding funds that operate as investment platforms) has 6.8 service providers per fund.[55] In half of all instances, fees to service providers are not formally disclosed, but are simply netted off against investment returns.[56] *Would it be more cost-effective for more services to be performed in-house?*

10.3.4 Complexity and information asymmetry

There is evidence of consumers having significant difficulty understanding super. For example, the *ANZ Survey of Adult Financial Literacy in Australia, October 2008*, found that of those members who said they read their member benefit statements, 31 per cent found them difficult to understand. *Does the complexity and information asymmetry in super make normal demand-led price competition difficult, if not impossible?*

10.3.5 Sharing of infrastructure

Is there more room for the sharing of infrastructure or forming alliances in super to reduce costs? If so, what prevents it from happening currently?

10.4 THE COST OF SHORT-TERMISM

The 1997 Financial System Inquiry (Wallis) concluded that super had become a more market-linked product, regulated and transacted in much the same way as other financial products; particularly managed funds. The ideas that went along with this thinking were that members principally needed regulation to support adequate disclosure so they could make informed choices about super; that they should be able to choose what fund they belonged to (ie super choice) and that other features that applied to financial products, should apply to super. Following the recent GFC, it is a good time to revisit these conclusions.

The Review is interested in whether linking super to a contestable financial product market is in the long-term financial interests of members.

10.4.1 Excessive focus on short-term returns

Is it appropriate that trustees of super funds concern themselves with 'peer risk' (ie the risk that another fund performs better and hence is seen as a more attractive place for members to have their super) and hence make decisions that are focused on short-term returns? Does the focus on matching peer performance reduce genuine differentiation between

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55 APRA (2008), APRA Insight - Issue One – Superannuation fund governance – Trustee policies and practices, page 11.

56 APRA (2008), APRA Insight - Issue One – Superannuation fund governance – Trustee policies and practices, page 13.

superannuation funds and hence make the capacity to choose between funds less meaningful? Does daily unit pricing drive short-termism?

10.4.2 All things to all members?

Is there currently a trend for many super funds to seek to be 'all things to all members', offering a wide range of choices and services in order to keep up with perceived risks from competitors who offer them? Or are these wide ranges of choice and services because of member demand? Can the cost of this trend be estimated? Is there an argument that this level of choice is unnecessary?

10.5 ACHIEVING ECONOMIES OF SCALE?

As funds become larger, either through merger or organic growth, the potential exists for economies of scale to reduce the percentage of fund assets expended on administration and investment management costs. However, the evidence is mixed on whether such economies of scale are being realised in Australia. APRA data on the average annual return on assets of funds over the ten years from 30 June 1997 to 30 June 2006 shows that funds with over $1 billion in assets achieved higher returns (net of costs) than smaller funds, which suggests that these funds might have benefited from economies of scale either in terms of better investment outcomes or lower costs, or a combination of the two. There was, however, no evidence that returns decreased with size for funds below $1 billion, as the table below indicates.[57]

1997-2006	10-year average return	Volatility (standard deviation of returns)	Number of entities
$100m < $500m	6.3 per cent	6.0 per cent	73
$500m < $1bn	6.3 per cent	6.3 per cent	46
At least $1bn	6.8 per cent	6.3 per cent	58

It is possible that a $1 billion threshold is too low to see economies of scale in investment management costs. Data from a recent international survey show that investment management costs decline by about half, from 0.33 per cent for funds under US$1billion, to 0.16 per cent for funds over US$50 billion. [58] The average fund size in Australia as at 30 June 2009 was roughly $2.38 billion.[59]

The view that economies of scale can be realised by the largest funds, but not necessarily by funds growing from small to medium sized, has been supported by work conducted at the University of New South Wales.[60] This work also concluded that most of the benefits from increased scale are derived from savings in the areas of distribution and marketing.

A recent Deloitte paper compares fees within various sectors in Australia as well as internationally.[61] A key finding is that scale is critical to achieving lower fees.

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57 APRA (2007), APRA Insight - Issue Two Special Edition – Celebrating 10 years of superannuation data collection.

58 Watson Wyatt Worldwide (2009), 2009 Global Pension Asset Study: January 2009.

59 APRA (2009), Quarterly Superannuation Performance: June 2009*, APRA Statistics*.

60 Evans, John, address to the Fund Executives Association Limited annual conference, August 2006.

61 Deloitte and IFSA (2009), International Superannuation & Pension Fund Fees: September 2009

A study conducted by CEM Benchmarking Inc across a database of US pension funds showed that increasing funds under management tenfold would, on average, result in a reduction of annual administration costs per member of US$108 and reduce investment management costs by 0.17 per cent. [62]

It has been suggested by large pension funds in Canada, Sweden and The Netherlands that funds of between US$20 billion and US$40 billion are still too small. "Small funds cannot afford to deliver the quality and depth of governance, investment skills, and risk management expertise their members need and deserve."[63]

Given the relatively small size of the average Australian super fund, these figures seem compelling. *Have there been impediments to the further consolidation of super funds in Australia? If so, what are they?*

The Review is interested in observations from trustees that have been involved in fund growth by merger and successor fund transfers. *Were economies of scale expected and were they achieved? If not, what were the impediments? Were there systems, legal/regulatory, cultural or other issues that prevented reductions in costs per member? Is there a size that has to be reached in the Australian market before economies of scale occur? If so, what is it?*

10.6 INNOVATION

Are there sufficient incentives in place for trustees (and other participants in the super industry) to pursue innovative measures to increase the efficiency of their operations or do the potential risks outweigh the advantages? Could the tax system be used to motivate a greater focus on efficiency? Are there examples of innovation in other industries that could be useful for the Australian superannuation industry?

11. OTHER

11.1 MISCELLANEOUS ISSUES

11.1.1 Other systems

Do any other countries have systems for defined contributions funds that operate more efficiently and generate better outcomes for members in any particular respect than our system? What are the features of that system?

11.1.2 Death benefits

Could current arrangements surrounding payment of death benefits be simplified to reduce the discretion of trustees, and hence remove a source of disputes within the industry? For example, would it be useful to mandate that, in the absence of a binding death benefit nomination, any death benefit would simply be paid to the deceased member's estate? Is the claim of creditors against the estate the main problem with automatic payment to the

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62 The Ambachtsheer Letter, May 2009, *Scale in Pension Fund Management: Does it matter?*

63 Nobrega, Michael, CEO Ontario Municipal Employees Retirement System, speaking at a conference on 20 April 2009 hosted by the Conference Board of Canada, citing a recent report by the Ontario Expert Commission on Pensions.

estate? Are there others? Should all nominations (unless clearly legally invalid) be binding? Are the interdependency rules helpful to trustees?

11.1.3 Grandfathering

Successive governments have sought to protect the interests of superannuation fund members from any adverse impact of change in the system by 'grandfathering' pre-existing entitlements. Over time, the number of people protected tends to decline, but all funds must maintain systems and procedures to accommodate those various entitlements. *Is there any capacity to reduce the number of grandfathered provisions?*

11.1.4 Sole purpose test

Are super funds engaged in activities that cost members (but which are not closely connected to increasing the long-term investment returns of members) and consequently, should not be undertaken? Alternatively, should a more open approach apply to the sole purpose test so that funds could provide a range of other products to members (eg home loans, other types of insurance, health insurance)?

Is the sole purpose test in section 62 of the SIS Act: too restrictive in the context of a large fund with many thousands of members; inhibiting efficiency in the superannuation industry as fund assets cannot be used to pay for financial advice that is not strictly related to super; or about right?

Should the sole purpose test be tightened so that trustees of funds with consistently higher than benchmark fees or consistently lower than benchmark performance would be in danger of breaching the sole purpose test?

If scale (ie keeping members and attracting new ones) is seen by the trustee as important, are there more efficient ways of doing this, eg a merger with another fund? Are existing members' interests being protected where fund assets are spent on advertising and sponsorship? Could there be a justification for banning advertising by super funds? Should the sole purpose test be amended to address this issue specifically?

11.1.5 Horizontal equity

Should all defined contribution funds be required to be unitised and subject to more uniform, transparent and rigorous valuation and unit pricing rules? Alternatively, are crediting rates a better mechanism for super?

11.1.6 Harmonisation of benefit payment timeframes

The various timeframes for movement of superannuation money are inconsistent. For example, movement between investment options within a fund (no timeframe); out of a fund, but within the system (30 days for portability requests, 90 days for family law splits); out of the system (90 days for family law payments; 'as soon as practicable' for death and retirement benefits and on prescribed days for unclaimed temporary residents benefits). It seems that compliance with those timeframes is uneven across the system. *What are possible solutions to this situation?*

11.1.7 Member-protection for small accounts

A recent report cited a Rice Warner estimate that member protection costs industry super funds around ten basis points per annum in additional fees per member.[64] *Is member protection achieving its policy objective or acting as a disincentive to consolidate small accounts? Should it be retained? Would another solution be to reduce the services provided to small accounts (eg mail outs)?*

11.1.8 Should super be covered by the GEERS scheme?

The General Employee Entitlements and Redundancy Scheme (**GEERS**) is a Government scheme that helps former employees who are owed entitlements (eg unpaid wages, annual leave and redundancy pay) by bankrupt or externally administered employers. *Unremitted employer contributions to super are not included in GEERS; should they be?*

11.1.9 Dispute resolution

Does the Superannuation Complaints Tribunal have sufficiently wide powers to deal with complaints in super? Should the time limit on TPD claims be extended to 5 or 10 years or even eliminated altogether? Trustees currently have 90 days to respond to a complaint before a member can go to the Tribunal. *Is this too long? Should it be shortened to, say, 45 days?*

11.2 2007 PARLIAMENTARY JOINT COMMITTEE INQUIRY RECOMMENDATIONS

On 30 June 2006, the Parliamentary Joint Committee on Corporations and Financial Services agreed to inquire into the structure and operation of the *Superannuation Industry (Supervision) Act 1993* and the superannuation industry to discover if it provided an efficient, effective and safe regulatory structure for the management of superannuation funds.

The Committee's report 'Inquiry into the structure and operation of the superannuation industry' was tabled on 7 August 2007. The report's recommendations 1, 3, 6, 8, 13, 15 and 22 fall within this phase of the Review and are addressed in the body of this issues paper.

11.3 FINANCIAL SERVICES WORKING GROUP

The Government has made a commitment to an overhaul of financial disclosure documentation, so that documents are simple, readable and standardised. The Financial Services Working Group is currently developing a standardised fee disclosure model based on three levels of fees and charges (entry costs, costs while the member is in the fund, and exit costs) including a worked example based on prescribed assumptions. The worked example will provide members with a single figure; expressed as a dollar amount and as a percentage. The final model will be prescribed in the *Corporations Regulations*. The Review will therefore need to take the Working Group's outputs into account in making any recommendations in this area.

11.4 SELF-MANAGED SUPER FUNDS

There are some important operation and efficiency issues specific to the SMSF sector. We propose dealing with those issues, and other issues relating to SMSFs, in the Structure phase.

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64 Deloitte and IFSA (2009), International Superannuation & Pension Fund Fees: September 2009.

However, stakeholders wishing to make submissions about SMSF operation and efficiency in this phase are welcome to do so. We expect to devote a substantial part of the resources of the Review to SMSFs and would not want any contrary inference drawn merely because we are proposing to do so in Phase Three, rather than Phase Two.

12. MAKING A SUBMISSION

There is no set structure for submissions and participants may comment on any matter they consider relevant to the topic. **You do not have to answer all the questions**. This could range from a short letter outlining your views on the topic to a more substantial document covering a range of issues. Where possible, you should provide data and/or documentation to support your views.

We ask that submissions follow these guidelines:

- Each submission should be accompanied by a cover sheet as set out in the appendix to this paper (also available on the Review website www.supersystemreview.gov.au). This is so we have your contact details. You do not need to repeat your contact details in the actual submission.
- While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted.
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- Make sure you read the information about public posting and privacy below.

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APPENDIX

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