



Superannuation Fees Report 2013

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1. Executive summary

1.1 About this report

The Financial Services Council (FSC) has contracted Rice Warner (Rice Warner) to analyse superannuation fees for the year ending 30 June 2013. We have prepared similar reports since 1999 for the FSC, usually published biennially. We have referenced results from those reports to highlight the longitudinal trend.

The Report is based on published APRA statistics supplemented by information in the Product Disclosure Statements, annual reports and surveys of fund fees. We have also collected fees from legacy retail products from the financial institutions.

We define superannuation fees to be the amounts charged to members for the costs of managing the fund. Several items are excluded, including:

- Taxes and insurance premiums.
- Fee subsidies made by employers and not charged to the fund.
- Fees for personal financial advice which are paid direct by members and not taken out of fund fees.
- Tax credits for deductions on fees and insurance premiums which some funds retain in a separate reserve rather than crediting back to members.

We have added in the investment margin on guaranteed products (term deposits, cash and annuities) for the retail and SMSF sectors

We have separated fees into three major components:

- Operating fees – these are typically called administration fees by the industry. In the retail sector, they often include platform fees, platforms being the portals set up for multiple investments and which provide consolidated reporting to a member and their adviser.
- Financial advice – these are the component of overall fees required to cover the costs of providing advice to members. In the retail sector, these fees are usually deducted from member accounts to finance commissions paid by the product provider; in other sectors they cover the costs of providing advice (e.g. intra-fund advice) directly to the members or the cost of advice services provided by a third party.
- Investment management – this is the cost of investing and includes the costs of asset consultants and in-house investment teams.

We have also added two additional sections to the report which focus on the cost of insurance and intra-fund advice within superannuation.

1.2 Key findings

1.2.1 MySuper

Superannuation funds have been able to offer MySuper since 30 June 2013 and employers have been required to make default contributions on behalf of their employees to a MySuper product since 1 January 2014.

Rice Warner has examined the fees for 98 of the currently listed 117 MySuper products against comparable default options in our 2011 report. The results of our analysis are given in Table 1.

Table 1. MySuper product fees - 2013

| Average fee by account balance (% of assets) | | | | | |
|--|---------------------------|-------------------------|------------|------------|------------|
| Segment | Average \$ per member fee | Average % of assets fee | \$5,000 | \$20,000 | \$50,000 |
| 2011 | | | | | |
| Corporate | 47 | 0.62% | 77 | 170 | 355 |
| Retail | 64 | 1.61% | 144 | 385 | 867 |
| Industry | 68 | 0.76% | 106 | 220 | 449 |
| Public Sector | 28 | 0.58% | 57 | 144 | 317 |
| Total | 63 | 0.92% | 109 | 248 | 525 |
| 2013 | | | | | |
| Corporate | 81 | 0.69% | 115 | 219 | 426 |
| Retail | 72 | 0.82% | 112 | 235 | 481 |
| Industry | 74 | 0.72% | 110 | 217 | 433 |
| Public Sector | 29 | 0.64% | 61 | 156 | 347 |
| Total | 69 | 0.73% | 106 | 215 | 433 |

From the results of our analysis we expect that the introduction of MySuper will cause fees to converge to 1% of assets in the next few years.

1.2.2 Change in overall fees

We estimate that the overall fees for the whole superannuation industry, expressed as a percentage of assets, averaged 1.12% (or 112 basis points [bps]) for the year to 30 June 2013 (on assets of \$1,617 billion).

Our estimate for the year to June 2011 was 1.20% (on assets of \$1,342 billion).

Fees (as a percentage of assets) have decreased between 2013 and 2011. We attribute the decrease to:

- Lower investment costs, which have resulted from greater investment in indexed assets and larger investment mandates.
- A technical decrease due to increased average account balances, reflecting strong returns in investment markets for 2012-13.

The largest changes occurred in the following segments:

- Retirement savings accounts (decrease of 160 bps).
- Small and medium corporate super master trusts (decrease of 52 and 53 bps respectively).
- Personal superannuation (decrease of 14 bps).

1.2.3 Fee changes over the decade

We note that the total fee rate for 2013 is 25 bps lower than the 2002 expense rate (see Table 3, which sets out fee rates over the last decade). The decrease in fees is considered by some commentators to be modest. Fund consolidations have resulted in increased scale and lower fees across the industry. However, other offsetting factors have prevented fees from falling as far as they could.

- A shift in investments to higher cost asset classes, including direct investments in infrastructure, private equity, hedge funds and other international assets.
- A huge growth in member engagement services in all sectors, including the provision of intra-fund advice in many funds.
- Heavy investment in modern administration platforms.
- Increased compliance costs with the introduction of new legislation as part of the Stronger Super reforms.

1.2.4 Fee changes since 2011

Other key drivers influencing fee reduction over the last two years are:

- A number of mergers between industry funds and some between retail corporate master trusts resulting in greater economies of scale.
- Continuation of the outsourcing of superannuation for larger companies and the winding up of smaller corporate funds. There is keen competition amongst the specialist multi-employer funds to win this business. The new arrangements are usually struck at an MER some 10 to 30 bps p.a. lower than the standalone corporate fund.
- Greater awareness of advice fees.
- Increased average account balances with high market returns.
- Lower investment costs due to increased investment in passively or indexed portfolios, which cost less than actively managed equivalent portfolios. In particular, a number of low cost personal superannuation products have now accumulated significant funds under management which is now having a material impact on average fees in that segment. For these products, the cost of advice has been removed (as separate fees for advice are charged) and investment management fees are lower, reflecting higher allocations to indexed investment.
- The continued growth of the SMSF segment whereby many members and their assets are transferred to a lower cost fund.

Other key drivers influencing fee increases over the last two years are:

- Higher advertising and marketing expenses as a result of competition between funds as more become public offer.
- Higher investment fees due to performance related charges by fund managers. Performance based fees have become more prevalent and many active managers have been able to outperform the index.

1.2.5 Summary of results

Table 2, Table 3 and Table 4 show the composition of the fee rates for 2013 and 2011 in terms of the cost of operating, investment management and the cost of advice. Fees are expressed as a percentage of mean fund size over the year to 30 June 2013.

Table 2. Fees 2013

| Fees by superannuation segment – Year to 30 June 2013 | | | | | | |
|---|---------------------------------------|-------------|-----------------------|--|-------------|-------------------------|
| Sector | Segment | Operating | Investment management | Operating & investment management ¹ | Advice | Total fees ¹ |
| | | (%) | | | | |
| Wholesale | Corporate | 0.26 | 0.49 | 0.76 | 0.02 | 0.78 |
| | Corporate Super Master Trust (large) | 0.22 | 0.45 | 0.67 | 0.19 | 0.86 |
| | Industry | 0.41 | 0.62 | 1.03 | 0.04 | 1.07 |
| | Public Sector | 0.20 | 0.52 | 0.72 | 0.04 | 0.76 |
| Retail | Corporate Super Master Trust (medium) | 0.58 | 0.48 | 1.06 | 0.24 | 1.30 |
| | Corporate Super Master Trust (small) | 1.04 | 0.50 | 1.53 | 0.16 | 1.69 |
| | Personal Superannuation | 0.84 | 0.53 | 1.37 | 0.36 | 1.73 |
| | Retail Retirement Income | 0.55 | 0.62 | 1.17 | 0.54 | 1.71 |
| | Retirement Savings Accounts | 0.60 | 0.10 | 0.70 | - | 0.70 |
| | Eligible Rollover Funds | 1.97 | 0.46 | 2.43 | - | 2.43 |
| Small funds | Self-Managed Super Funds | 0.26 | 0.54 | 0.80 | 0.15 | 0.95 |
| Total | | 0.40 | 0.55 | 0.95 | 0.17 | 1.12 |

¹ Components may not add up to totals due to rounding.

Corporate super master trusts have been separated by size into:

- Large funds – sub-plan size above \$5 million
- Medium funds – sub-plan size between \$2 million and \$5 million
- Small funds – sub-plan size below \$2 million.

Table 3. Total fee rate by superannuation segment

| Sector | Segment | Fee rate % | | | | | | |
|--------------------|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | 2013 | 2011 | 2010 | 2008 | 2006 | 2004 | 2002 |
| Wholesale | Corporate | 0.78 | 0.79 | 0.80 | 0.73 | 0.78 | 0.75 | 0.86 |
| | Corporate Super Master Trust (large) ¹ | 0.86 | 0.83 | 0.87 | 0.79 | 0.81 | 1.14 | 1.24 |
| | Industry | 1.07 | 1.13 | 1.26 | 1.07 | 1.13 | 1.18 | 1.23 |
| | Public Sector | 0.76 | 0.82 | 0.81 | 0.69 | 0.70 | 0.66 | 0.63 |
| Retail | Corporate Super Master Trust (medium) ² | 1.30 | 1.83 | 1.95 | 1.87 | 1.83 | 2.11 | 2.36 |
| | Corporate Super Master Trust (small) ³ | 1.69 | 2.21 | 2.41 | 2.16 | 2.04 | | |
| | Personal Superannuation | 1.73 | 1.87 | 2.07 | 2.00 | 2.12 | 2.30 | 2.41 |
| | Retail Retirement Income | 1.71 | 1.75 | 1.85 | 1.84 | 1.79 | 2.04 | 2.02 |
| | Retirement Savings Accounts | 0.70 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 |
| | Eligible Rollover Funds | 2.43 | 2.40 | 2.42 | 2.49 | 2.53 | 2.53 | 2.53 |
| Small funds | Self-Managed Super Funds | 0.95 | 1.00 | 1.01 | 0.98 | 0.87 | 1.01 | 1.08 |
| Total | | 1.12 | 1.20 | 1.27 | 1.21 | 1.26 | 1.30 | 1.37 |

[^] Prior to 2006, corporate super master trusts were only segmented into funds with assets greater than \$5 million and those with less than \$5 million.

¹ Excludes employer plans with less than \$5 million in assets.

² Employer plans with assets between \$2 million and \$5 million.

³ Employer plans with less than \$2 million in assets.

1.2.6 Cost of retail legacy products

The fees quoted for the retail corporate master trust, personal superannuation and retirement income segments include all products provided within those segments, both contemporary products and legacy products.

The fees charged under contemporary products are often substantially lower than those under closed or legacy products. Table 4 estimates the effect of legacy products on the total expense rates for each Retail segment.

Table 4. Effect of legacy products on retail fee rates

| Fees by superannuation segment – Year to 30 June 2013 | | | | |
|---|--------------------------------|--------------------|-------------|-------------------|
| Retail segment | Legacy proportion ¹ | Total segment fees | Legacy fees | Contemporary fees |
| | (%) | | | |
| Corporate Master Trusts | 15.00 | 1.12 | 2.10 | 0.95 |
| Personal Superannuation | 30.00 | 1.73 | 2.23 | 1.52 |
| Retail Retirement Income | 8.00 | 1.64 | 2.02 | 1.61 |

¹ Proportion has been estimated based on previous FSC fees surveys and our knowledge of the segment.

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2. Impact of legislation

2.1 Recent changes

The last year has been significant for the superannuation industry:

- Over the period July 2013 to December 2013, superannuation funds began to promote their MySuper products.
- The implementation of MySuper, APRA Prudential Standards and FoFA, and the start of SuperStream and the new APRA Reporting Standards.
- The change of government has led to some significant fiscal changes:
 - deferral of the SG
 - frozen caps to concessional contributions
 - SG paid (by government) on maternity leave
 - removal of Low Income Super Contribution (LISC)
 - removal of tax on high-income pensions.

2.2 MySuper and Choice

2.2.1 Background

MySuper is the result of the Super System Review's proposal for a simple, low-cost 'default' option to be used for the 80% of employees who are deemed to be 'disengaged' with their superannuation fund. Funds have been able to offer a MySuper product since 30 June 2013. Consequently the impact of MySuper on the fees in the market had not been captured for fees up to 30 June 2013.

MySuper will have a profound impact on fees within the superannuation industry and will commoditise superannuation products. This will arise from a number of mandated features of a MySuper product, including:

- A single default investment strategy 'MySuper' (members who wish to elect an alternative strategy will need to hold a Choice product).
- Standardised fees for all members within a MySuper product (which employers may subsidise). Employers may negotiate a discounted fee for their employees who are members if this can be justified.
- Basic default death and TPD insurance on an 'opt-out' basis.
- No commissions to advisers.
- Large employers (500+ employees) may negotiate a tailored MySuper product.
- MySuper does not apply to defined benefit divisions or retirement products.

Despite MySuper being for the 'disengaged member', funds are able to build intra-fund advice into their fees and MySuper members are also allowed to apply for additional insurance without being Choice members.

Employers have been required to make default contributions on behalf of their employees to a MySuper product since 1 January 2014.

2.2.2 *Impact on fees*

The introduction of MySuper led to significant margin compression on the Commercial master trusts. Most have settled on asset-based fees just under 1% a year which is more expensive than the large industry funds, but much closer than their previous products (which also included the cost of advice).

Many funds have introduced lifecycle investments which also help to curb fees (MySuper legislation allows four different pricing points for these products). This occurs as those with the highest balances are older and have higher proportions of relatively cheaper defensive assets.

Apart from different investment structures, the other areas of product differentiation are:

- sophisticated advice models
- life insurance
- member services – which depend in part on the quality of administration platforms
- introduction of member-direct investments as a defence against members shifting to the SMSF segment.

We have also seen the beginnings of member analytics as funds start to shift to a member-centric world.

At the time of writing, APRA lists 117 authorised MySuper products of which 79 are Public Offer funds and 38 are Non Public Offer. The number of authorised products is much lower than the 200 that APRA expected when the legislation was initially drafted.

We have examined the change in fees for 98 of these MySuper products as at the time of writing this report against the fees we recorded for the default options in the same funds at 30 June 2011. We were unable to capture the full market due to an absence of data in 2011 for some small corporate funds and corporate divisions of retail funds as well as the creation of some new products not existing in 2011.

The results of our analysis are given in Table 5. We have weighted average results by assets and members as at 30 June 2013. We have combined fees for Retail products and large Corporate Super Master Trusts under the heading 'Retail'.

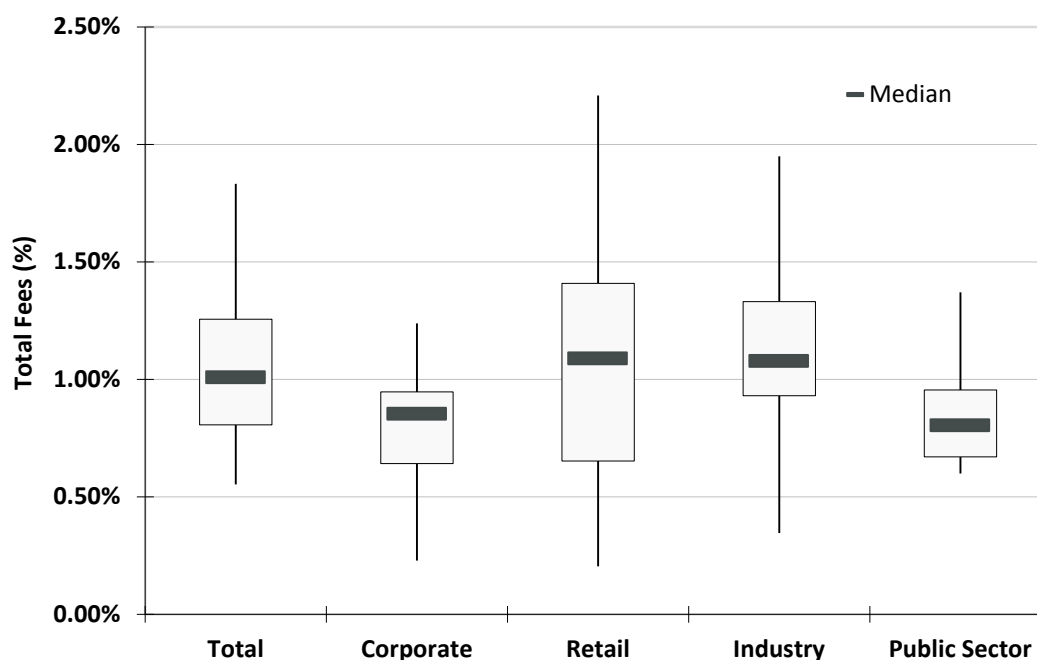
Table 5. MySuper product fees - 2013

| Average fee by account balance (percentage % of assets) | | | | | |
|---|---------------------------|-------------------------|------------|------------|------------|
| Segment | Average \$ per member fee | Average % of assets fee | \$5,000 | \$20,000 | \$50,000 |
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| Retail | 64 | 1.61% | 144 | 385 | 867 |
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| Public Sector | 28 | 0.58% | 57 | 144 | 317 |
| Total | 63 | 0.92% | 109 | 248 | 525 |
| 2013 | | | | | |
| Corporate | 81 | 0.69% | 115 | 219 | 426 |
| Retail | 72 | 0.82% | 112 | 235 | 481 |
| Industry | 74 | 0.72% | 110 | 217 | 433 |
| Public Sector | 29 | 0.64% | 61 | 156 | 347 |
| Total | 69 | 0.73% | 106 | 215 | 433 |

The results show that average fees have come down overall due to a reduction in asset based fees, however, dollar based fees have increased. The largest reduction has occurred within retail fund offerings with a reduction in percentage based fees from 1.61% to 0.82%. Average fees for corporate and public sector funds have actually increased.

The distribution of MySuper fees captured varies by segment as shown in Graph 1.

Graph 1. Distribution of total MySuper fees by segment



From the results of our analysis we expect that the introduction of MySuper will cause fees to converge to 1% of assets in the next few years.

2.2.3 *Passive investments*

Pressure to reduce the headline fee of MySuper products has caused some funds to invest some of their assets passively rather than with active managers.

- Passive management means the investment manager attempts to achieve the same performance as the benchmark or market, as closely as possible.
- Active management involves the investment manager attempting to outperform the market return by holding higher allocations to individual investments that they expect to perform well.

Passive management is a less expensive way to manage assets given that there is less time spent by the investment manager analysing the market, in addition to a lower number of trades being placed. Further, it is possible to purchase an indexed fund where the fund purchases and holds the individual stock.

With the introduction of MySuper our research indicates that:

- Many large industry funds continue to invest actively and have left their allocations unchanged.
- Some smaller industry funds have increased the proportion of passively managed assets in their portfolios to reduce costs.
- Of a representative basket of leading commercial funds the average percentage of assets passively managed has increased from 24.0% in 2011 to 46.6% in 2013.
- Corporate and public sector funds have largely left their allocations unchanged.

A demonstration of the impact of passive investments for a representative basket of funds for whom passive asset allocation percentages were available is given in Table 6.

Table 6. Impact of passive asset allocations on fees (sample of leading funds)

| Passive Allocation | Retail |
|--------------------|--------|
| >75% | 0.39% |
| 50% - 75% | 0.50% |
| 25% - 50% | 0.59% |
| <25% | 0.84% |

There is a greater degree of variation in allocation to active or passive funds management within the MySuper products of retail funds than industry funds. Industry funds' MySuper products generally have a very low degree of passive allocation. Retail funds, however, have designed new products in response to the perceived competitive tension in the default market by designing a range of MySuper products with significantly different levels of passive or active management. As outlined in Table 6, this has resulted in different fees for different MySuper products that reflects the degree of active or passive management, which could be expected to generate different rates of return between these products over time.

2.3 SuperStream and ATO lost super

SuperStream was another key recommendation of the Review which has been supported by the Government. SuperStream was initially designed to enforce electronic commerce within superannuation, as well as account consolidation over three years.

Intra-fund consolidation became effective from 1 July 2013. Auto-consolidation via the use of a member's Tax File Number (TFN) as the primary locator of member accounts was initially expected to commence from January 2014. Since writing our previous report, this measure has been deferred. The government has announced increases to the threshold below which lost accounts are transferred to the ATO. As a consequence of this measure, it is unlikely that inter-fund auto-consolidation will be implemented.

In the past, the ATO has routinely collected accounts from superannuation funds in respect of 'lost members'. Previously, the balance threshold below which the account must be to be transferred was \$200 (unless the member had reached preservation age, at which no balance threshold applied). In December 2012, this threshold was increased to \$2,000 and since then planned increases to \$4,000 in December 2015 and \$6,000 in December 2016 have also been announced.

We note many industry funds rely on inactive accounts to subsidise fees for active members. If this source of fees disappeared, the active members would need to pay much more. We expect that the reduction in accounts will lead to an increase in per capita administration fees across the industry with the largest impact felt on industry funds (which have the highest number of inactive accounts).

The second component of SuperStream is the application of data standards and e-commerce for funds and employers. These data standards will remove several inefficiencies that have been allowed to develop within the industry, affecting in particular the costs of collecting and allocating member contributions.

The improved efficiency of collecting and allocating contributions will lead to lower costs. Again, the biggest saving will come from the industry fund sector. It is not clear whether the savings will outweigh the impact of increased per capita costs from account consolidation.

3. Background

Fees levied by superannuation funds are an important aspect of the superannuation industry. Fee levels have been a core focus of the industry in recent years and the goal of reducing fees for unengaged members led to the introduction of MySuper on the back of the Stronger Super reforms.

The media often draws attention to areas where charges are high, and the industry provides media releases from time-to-time updating the public with information on fee charges and their disclosure.

The various segments of the market operate differently and provide different services. Accordingly, they have different charging structures and experiences. Moreover, changes are occurring within the market which makes it important for information to be updated regularly.

This report provides an analysis of the fees charged in respect of each of the major market segments, suggests reasons for differences and comments on perceived trends.

3.1 Variation between segments

Our analysis of fees charged by superannuation funds shows that they vary between segments. The differences are largely due to:

- the cost of advice provided to employers and members
- the cost of platforms or the operating structure
- economies of scale
- regulatory differences (between ATO and APRA regulated funds)
- advertising and promotional costs for public-offer funds in a competitive environment
- variations in service standards and member engagement activities between funds
- variations in product features, in particular the range of investment and insurance options.

We present an overall fee ratio for ease of comparison. However, this figure must be treated with caution. As new information comes to hand, we are able to confirm and revise our previous estimates. We consider that our overall fee ratio is accurate to within five basis points.

3.2 Consolidated results

A summary of fees by segment is as shown in Table 7.

Table 7. Fees and expenses by superannuation segment

| Fees by superannuation segment – Year to 30 June 2013 | | | | |
|---|--|------------------------------|---------------------------|---------------|
| Sector | Segment | Accounts ('000) ¹ | Assets (\$m) ¹ | Fees (\$m) |
| Wholesale | Corporate | 556 | 67,804 | 509 |
| | Corporate Super Master Trust (large) ² | 3,366 | 75,901 | 624 |
| | Industry | 11,910 | 329,678 | 3,204 |
| | Public Sector | 3,424 | 245,576 | 1,728 |
| Retail | Corporate Super Master Trust (medium) ³ | 335 | 8,422 | 105 |
| | Corporate Super Master Trust (small) ⁴ | 939 | 32,448 | 527 |
| | Personal Superannuation | 4,590 | 182,731 | 3,153 |
| | Retail Retirement Income | 1109 | 158,632 | 2,359 |
| | Retirement Savings Accounts | 83 | 1,900 | 12 |
| | Eligible Rollover Funds | 4,043 | 5,468 | 124 |
| Small funds | Self-Managed Super Funds | 982 | 507,200 | 4,508 |
| Statutory Fund Reserves | | | 1,407 | |
| Total | | 31,337 | 1,617,169 | 16,852 |

¹ These figures are different from APRA's totals as we re-classified a number of funds between the various market segments.

² Excludes employer plans with less than \$5 million in assets.

³ Employer plans with assets between \$2 million and \$5 million.

⁴ Employer plans with less than \$2 million in assets.

3.3 Summary of current expense rates

The current charging scale of the various segments of the superannuation industry can be simplified into the following fee rates expressed as a percentage of assets. These include an allowance for the contribution charges applying to retail products, typically paid to the financial adviser for financial advice.

Table 8 summarises the findings of the report. It is difficult to make direct comparisons between the fees charged by each segment because the product segments vary in the services and advice they provide.

Table 8 shows that corporate funds, large corporate master trusts and public sector funds remain the least expensive funds when cost is measured as a percentage of assets.

Table 8. Fee rate by superannuation segment

| Sector | Segment | Fee rate (%) | | | | | | |
|--------------------|--|--------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | | 2013 | 2011 | 2010 | 2008 | 2006 | 2004 | 2002 |
| Wholesale | Corporate | 0.78 | 0.79 | 0.80 | 0.73 | 0.78 | 0.75 | 0.86 |
| | Corporate Super Master Trust (large) ¹ | 0.86 | 0.83 | 0.87 | 0.79 | 0.81 | 1.14 | 1.24 |
| | Industry | 1.07 | 1.13 | 1.26 | 1.07 | 1.13 | 1.18 | 1.23 |
| | Public Sector | 0.76 | 0.82 | 0.81 | 0.69 | 0.70 | 0.66 | 0.63 |
| Retail | Corporate Super Master Trust (medium) ² | 1.30 | 1.83 | 1.95 | 1.87 | 1.83 | 2.11 | 2.36 |
| | Corporate Super Master Trust (small) ³ | 1.69 | 2.21 | 2.41 | 2.16 | 2.04 | | |
| | Personal Superannuation | 1.73 | 1.87 | 2.07 | 2.00 | 2.12 | 2.30 | 2.41 |
| | Retail Retirement Income | 1.71 | 1.75 | 1.85 | 1.84 | 1.79 | 2.04 | 2.02 |
| | Retirement Savings Accounts | 0.70 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 |
| | Eligible Rollover Funds | 2.43 | 2.40 | 2.42 | 2.49 | 2.53 | 2.53 | 2.53 |
| Small funds | Self-Managed Super Funds | 0.95 | 1.00 | 1.01 | 0.98 | 0.87 | 1.01 | 1.08 |
| Total | | 1.12 | 1.20 | 1.27 | 1.21 | 1.26 | 1.30 | 1.37 |

¹ These two segments were only split from 2006 onwards.

² Excludes employer plans with less than \$5 million in assets.

³ Employer plans with assets between \$2 million and \$5 million.

⁴ Employer plans with less than \$2 million in assets.

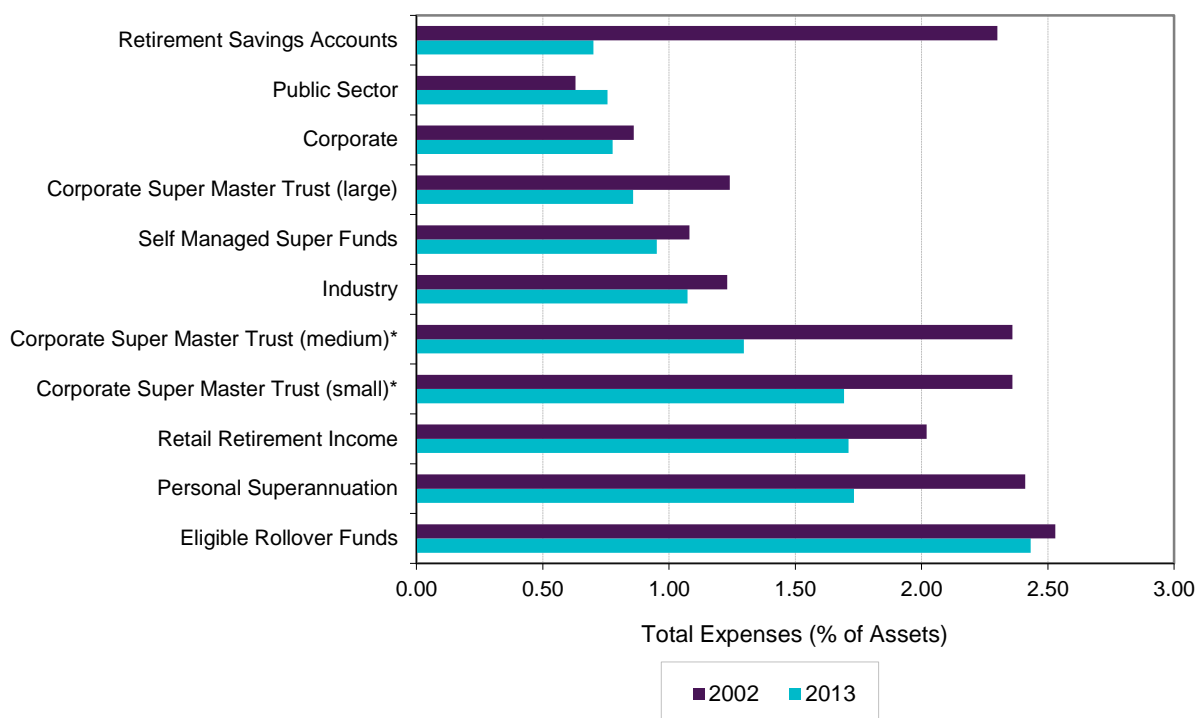
Estimated total fees for the current and previous five reports produced by Rice Warner are shown in Table 9.

Table 9. Total fees 2006 - 2013

| Year to | Total fees (\$m) |
|--------------|------------------|
| 30 June 2013 | 16,852 |
| 30 June 2011 | 15,164 |
| 30 June 2010 | 14,704 |
| 30 June 2008 | 14,093 |
| 30 June 2006 | 10,475 |
| 30 June 2004 | 8,104 |

Graph 2 shows total fees in 2002 and 2013. The retail master trust segments, (corporate super master trusts, personal superannuation and retail retirement income) and RSAs have shown the largest reductions over the eleven years.

Graph 2. Total expenses – 2002 and 2013



* In 2002, small corporate super master trusts were defined as funds with assets less than \$5 million. In 2013, we have further divided the small corporate master trust segment into two segments: small corporate master trust and medium corporate master trust. Medium corporate super master trust is defined as sub-plans with assets of between \$2 million and \$5 million, while small corporate super master trust is now defined as sub-plans with assets less than \$2 million.

3.4 Retail sector

The total fees associated with the retail sector of the market are higher than those of the wholesale sector. This is partly because the cost of advice is included in the fees. Retail costs are also higher due to product flexibility, including choice of investment options and more complex reporting requirements.

For wholesale corporate funds and industry funds, advice other than simple (intra-fund or scaled) advice on superannuation related matters is not factored into the product fees which leads to the perception of lower total fees.

3.5 Cost of legacy products

The fees quoted for the retail corporate master trust, personal superannuation and retirement income segments include all products provided within those segments, both contemporary products and legacy products.

The fees charged under contemporary products are often substantially lower than those under closed or legacy products. For example:

- ANZ Smart Choice has a \$50 p.a. administration fee and a 0.5% p.a. investment fee which, for an account balance of \$20,000, equates to an overall fee of 0.75% p.a. with no advice fees.
- BT Super for Life has a management fee of 0.95% per annum plus an operating fee of \$5 per month which equates to an overall fee of 1.25% per annum and no advice fees.

- Under AMP Flexible Super Core product with the same account balance, fees are up to 0.65% per annum plus \$1.90 per week which equates to an overall fee of 1.14% per annum with no advice.

These fees are substantially lower than the average fees quoted in Table 8. However, in both the above cases, the fees increase when a member chooses to engage a financial adviser on a retainer. On the other hand, fees for many legacy products are higher than the average fees quoted.

We note that the reduction in average fees will take some time to take hold of the retail market. MySuper legislation requires that existing Accrued Default Amounts (ADAs) are transferred to a MySuper compliant product by July 2017. Consequently, many legacy products are expected to continue to run up until this date.

Fees for employer master trusts, personal superannuation and retail retirement income products have reduced significantly over the past few years. For example, our 2002 report *Superannuation Fees – Market Segment Analysis* showed average fees of:

- 2.10% p.a. for corporate master trusts
- 2.23% p.a. for personal superannuation
- 2.02% p.a. for retail retirement income products.

We would expect that current fee levels in relation to legacy products within these three market segments would be similar to those for the whole market stated in our 2002 report.

Table 10 estimates the effect of legacy products on the total fee rates for each product of the retail segment.

Table 10. Effect of legacy products on retail fee rates

| Fees by superannuation segment – Year to 30 June 2013 | | | | |
|---|--------------------------------|--------------------|-------------|-------------------|
| Retail segment | Legacy proportion ¹ | Total segment fees | Legacy fees | Contemporary fees |
| | (%) | | | |
| Corporate Super Master Trusts | 15 | 1.12 | 2.10 | 0.95 |
| Personal Superannuation | 30 | 1.73 | 2.23 | 1.52 |
| Retirement Income | 8 | 1.64 | 2.02 | 1.61 |

¹ Proportion has been estimated based on previous FSC fees surveys and our knowledge of the segment.

Table 10 shows that for all retail segments, the total fee rates for contemporary products are lower than the total for the respective segments.

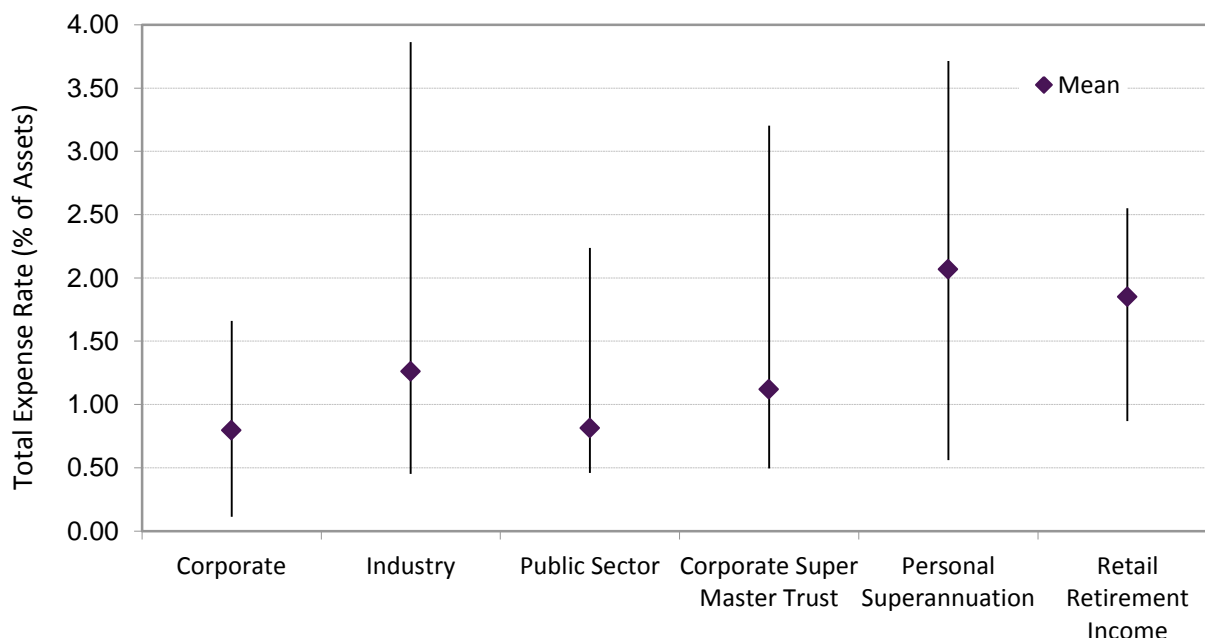
3.6 Variation within segments

In this report, we show that fees vary by segment. It is possible to conclude that some segments are dearer than others. However, there are several reasons for the differences and they need to be understood before any direct comparison can be made.

Graph 3 illustrates the extent of variation in expenses within each segment, based on our samples (with outliers removed). The overall mean fees occur low within the ranges, indicating that the number of

expensive funds within each segment is relatively small. However, it is certainly not true to say that one category is cheaper than another as it depends entirely on the fund chosen.

Graph 3. Variation within segments



3.7 Dollar fee disclosure

All statements to members from July 2005 must show fees expressed in dollars. These fees include all asset-based fees currently deducted from earning rates. Table 11 sets out the fees which would apply had a member been in a typical fund for the segment. As the fee often varies with account balance, we have shown different examples. These have been constructed by considering, for each segment, the component of the fee which is typically fixed in dollar terms, and the component of the fee which is typically asset-based.

The difference in fee levels needs to be considered in conjunction with the differences in services. Further, the figures on the next page are based on the average fee for the segment.

However, there is a wide range within segments.

Table 11. Average dollar fee by account balance

| Average dollar fee by account balance | | | | |
|---------------------------------------|--|---------|----------|----------|
| Sector | Segment | \$5,000 | \$20,000 | \$50,000 |
| Wholesale | Corporate | 110 | 215 | 430 |
| | Corporate Super Master Trust (large) ¹ | 90 | 175 | 350 |
| | Industry | 115 | 230 | 465 |
| | Public Sector | 70 | 175 | 385 |
| Retail | Corporate Super Master Trust (medium) ² | 130 | 270 | 560 |
| | Corporate Super Master Trust (small) ³ | 170 | 380 | 795 |
| | Personal Superannuation | 150 | 380 | 840 |
| | Retirement Income | 120 | 375 | 880 |
| | Retirement Savings Accounts | 35 | 140 | 350 |
| | Eligible Rollover Funds | 120 | 485 | 1,215 |

¹ Excludes employer plans with less than \$5 million in assets.

² Employer plans with assets between \$2 million and \$5 million.

³ Employer plans with less than \$2 million in assets.

Table 12 expresses the variation in fees by account balance in percentage terms.

Table 12. Average fee by account balance (percentage % of assets)

| Average fee by account balance (% of assets) | | | | |
|--|--|---------|----------|----------|
| Sector | Segment | \$5,000 | \$20,000 | \$50,000 |
| Wholesale | Corporate | 2.17 | 1.08 | 0.86 |
| | Corporate Super Master Trust (large) ¹ | 1.78 | 0.88 | 0.70 |
| | Industry | 2.26 | 1.15 | 0.93 |
| | Public Sector | 1.39 | 0.88 | 0.77 |
| Retail | Corporate Super Master Trust (medium) ² | 2.56 | 1.36 | 1.12 |
| | Corporate Super Master Trust (small) ³ | 3.39 | 1.89 | 1.59 |
| | Personal Superannuation | 3.03 | 1.90 | 1.68 |
| | Retirement Income | 2.41 | 1.87 | 1.76 |
| | Retirement Savings Accounts | 0.70 | 0.70 | 0.70 |
| | Eligible Rollover Funds | 2.43 | 2.43 | 2.43 |

¹ Excludes employer plans with less than \$5 million in assets.

² Employer plans with assets between \$2 million and \$5 million.

³ Employer plans with less than \$2 million in assets.

4. Intra-fund advice

4.1 What is advice?

Financial advice is advice provided to an individual or family to assist them to grow, manage and protect their wealth. It includes strategic advice, recommendations about suitable investment classes, appropriate products (investments, superannuation and insurance) as well as explanation of the impact of legislation, taxation and other external factors on their financial position.

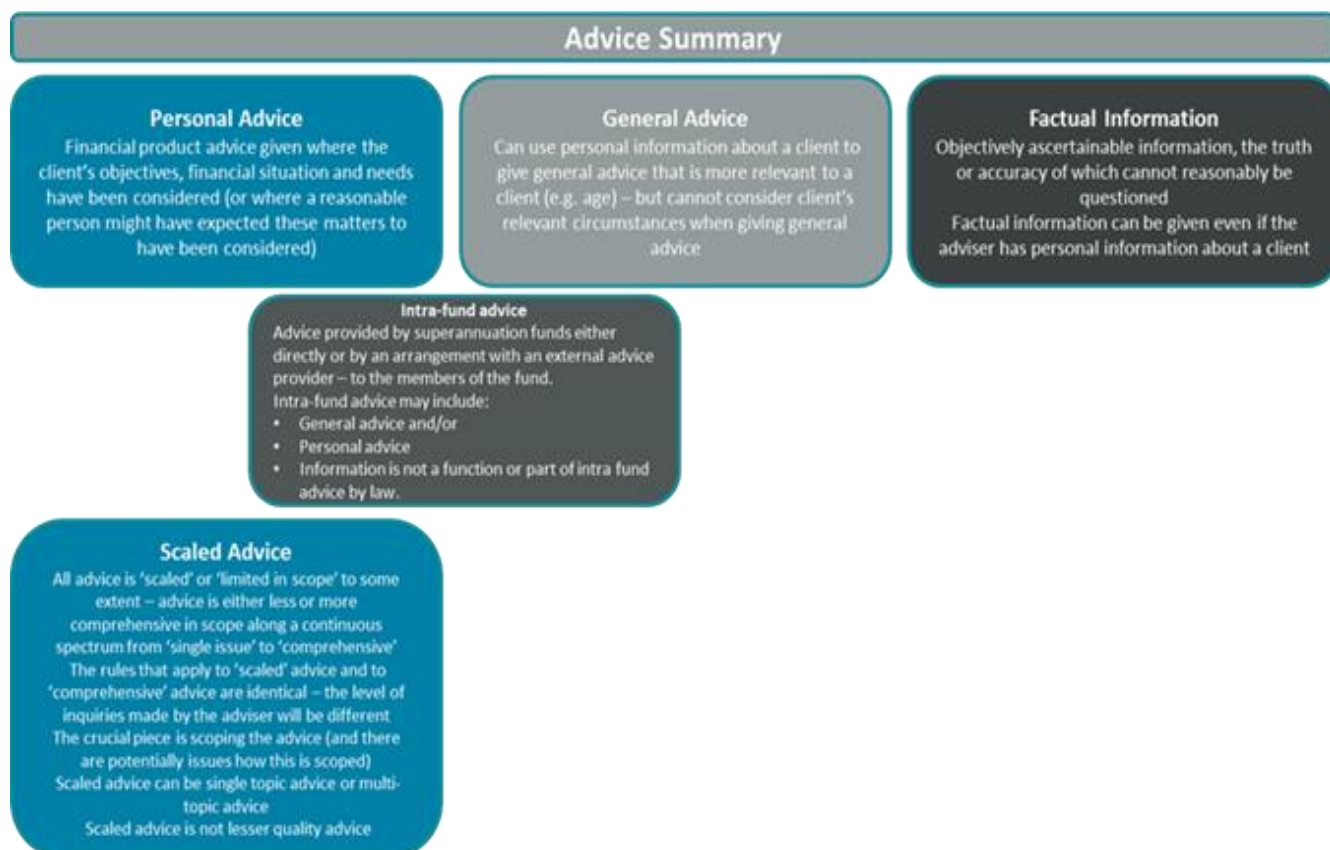
There are three broad forms of 'interaction' with clients/members:

- Providing information
- General advice
- Personal Advice which is scalable from single issue to holistic.

Intra-fund advice may be considered a fourth category of interaction with members which intersects with each of the three forms above.

Figure 1 provides definitions for the different types of advice that can be delivered to members.

Figure 1. Summary of types of financial advice



4.2 Intra-fund advice

Intra-fund advice (or single issue advice) is often provided by superannuation funds to members. The advice is commonly provided over the phone by the fund's call centre or an outsourced financial planning organisation. Intra-fund advice is defined as 'the types of advice that a superannuation trustee can provide to members where the cost of the advice is borne by all members of the fund'. Intra-fund advice must relate to the member's interest in their superannuation fund and is usually limited to:

- Member Investment Choice (excluding MDI advice)
- Insurance inside super
- Concessional and non-concessional contributions
- Transition to retirement
- Retirement planning (very suitable for members over age 45)
- Superannuation Pension.

Intra-fund advice must not be ongoing in nature. Examples of advice that does not constitute intra-fund advice include:

- Super consolidation/Rollover
- Financial products outside the fund
- More comprehensive advice topics such as:
 - debt reduction
 - estate planning
 - aged care.

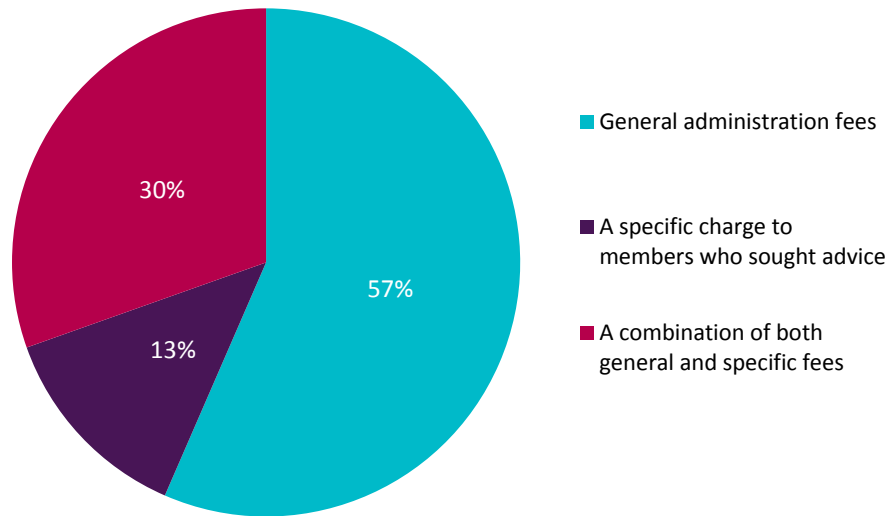
4.3 How do members pay for advice?

There are a variety of different approaches that funds take to charging members for advice. The typical cost of a piece of advice ranges from \$150 to \$300, however, many members are unwilling to pay directly for this advice. This leads many funds to pay for intra-fund advice via the administration fee which is charged to all members. Under this model, all members pay a proportion of the cost of advice regardless of whether they actively seek advice or not.

Some funds adopt a mixed approach, where some advice may be provided to the member at no direct cost and other pieces of advice may carry a specific charge (for example, the first piece of advice may be provided to a member for free, but subsequent pieces of intra-fund advice may incur a direct charge).

Graph 4 gives a breakdown of the percentage of funds adopting these different approaches based on a survey of funds as at 30 June 2013.

Graph 4. How members pay for intra-fund advice



4.4 The cost of advice

Table 13 provides the Rice Warner estimate of the cost of intra-fund advice by industry segment as a percentage of assets and Table 14 gives the cost per member and total intra-fund advice fees charged.

Table 13. Cost of advice by industry segment

| Sector | Segment | Intra-fund advice | Total Advice |
|--------------|------------------------------|-------------------|--------------|
| | | (%) | |
| Wholesale | Corporate | 0.015 | 0.02 |
| | Corporate Super Master Trust | 0.04 | 0.19 |
| | Industry | 0.03 | 0.04 |
| | Public Sector | 0.03 | 0.04 |
| Retail | Corporate Super Master Trust | 0.04 | 0.24 |
| | Corporate Super Master Trust | 0.04 | 0.16 |
| | Personal Superannuation | 0.04 | 0.36 |
| | Retirement | 0.04 | 0.54 |
| | Retirement Savings Accounts | 0.00 | 0.00 |
| | Eligible Rollover Funds | 0.00 | 0.00 |
| Small Funds | Small Funds | 0.00 | 0.15 |
| Total | | 0.02 | 0.17 |

Table 14. Cost of advice per member

| Sector | Segment | Intra-fund advice (\$ per member p.a.) | Intra-fund advice (Total \$m) |
|----------------|------------------------------|---|----------------------------------|
| Wholesale | Corporate | 18.29 | 10.17 |
| | Corporate Super Master Trust | 9.02 | 30.36 |
| | Industry | 8.30 | 98.90 |
| | Public Sector | 21.51 | 73.67 |
| Retail | Corporate Super Master Trust | 10.07 | 3.37 |
| | Corporate Super Master Trust | 13.83 | 12.98 |
| | Personal Superannuation | 15.92 | 73.09 |
| | Retirement | 57.21 | 63.45 |
| | Retirement Savings Accounts | - | - |
| | Eligible Rollover Funds | - | - |
| Small Funds | Small Funds | - | - |
| Average | | 11.68 | 366.00 |

5. Cost of insurance within super

5.1 Annual premiums

Current legislation allows superannuation funds to deduct insurance premiums from member accounts to pay for death and disability cover purchased on behalf of members. Indeed it is compulsory that MySuper products provide a minimum level life insurance cover under existing legislation.

Table 15 shows annual premium income of insurers for corporate funds, industry funds, public sector funds and employer master trusts. Premiums for personal super and SMSFs are included in the 'adviser sold superannuation' category.

Table 15. Superannuation annual premiums 2013

| Market segment | Term | | TPD | | Income protection | | Total |
|------------------------|--------------|------------|--------------|------------|-------------------|------------|--------------|
| | (\$m) | (%) | (\$m) | (%) | (\$m) | (%) | (\$m) |
| Corporate Funds | 51 | 2 | 45 | 3 | 50 | 4 | 146 |
| Industry Funds | 895 | 31 | 565 | 37 | 570 | 49 | 2,030 |
| Public Sector Funds | 296 | 10 | 187 | 12 | 179 | 15 | 662 |
| Employer Master Trusts | 333 | 12 | 291 | 19 | 174 | 15 | 798 |
| Adviser superannuation | 1310 | 45 | 435 | 29 | 184 | 16 | 1930 |
| Total | 2,885 | 100 | 1,523 | 100 | 1,157 | 100 | 5,566 |

5.2 Cost relative to assets

The cost of insurance varies as a percentage of assets between the sector in which it is offered. We estimate that at 30 June 2013 the cost of insurance premiums within superannuation funds amounted to 0.20% of assets for the sectors against which the premiums were charged.

It is important to note that premiums may vary between segments for a variety of reasons including:

- different levels of default cover
- different levels of member engagement resulting in higher/lower uptake of additional voluntary cover
- differences in pricing arising from claims experience due to the occupations covered by funds
- scale and bargaining power of larger funds
- banks owning retail funds will often also have an associated insurer in the group
- employers in corporate funds or master trusts may subsidise the costs of member premiums
- defined benefit funds (especially in the public sector/corporate super) may self-insure and are not included in the below statistics.

A breakdown of premiums by sector as a percentage of assets is given in Table 16.

Table 16. Superannuation – premiums vs. assets 2013

| Insurance Market segment | Super Market segment | Assets | Premiums | Premiums as (%) of Assets |
|--------------------------|------------------------------|-------------|----------|---------------------------|
| | | (\$million) | | |
| Corporate Funds | Corporate | 67,804 | 51 | 0.08 |
| Industry Funds | Industry | 329,678 | 895 | 0.27 |
| Public Sector Funds | Public Sector | 245,576 | 296 | 0.12 |
| Employer Master Trusts | Corporate Super Master Trust | 116,771 | 333 | 0.29 |
| Adviser superannuation | Small Funds & Personal Super | 689,931 | 1,310 | 0.19 |
| Total | | 1,449,760 | 2,885 | 0.20 |

6. Corporate funds

6.1 Nature of corporate funds

A corporate fund is an employer-sponsored superannuation fund managed under its own trust deed. It is sponsored by a single employer or several closely related employers.

The trustees must comprise equal numbers of employer and member representatives. The trustees, as with all superannuation funds, are responsible for all compliance, including audit, lodgement of statutory returns and communication with members.

The administrative and legal requirements of the current superannuation regime include APRA RSE licences. This has added significant complexity and compliance risk for corporations and many have wound up their funds and transferred members and assets into other funds.

This has reduced the number of corporate funds and, as it is the smaller funds which have exited first, the average size of the remaining funds has increased.

Many corporate funds have a defined benefit (often closed to new members) and accumulation (defined contribution) structure, though there has been a gradual decline in the number of defined benefit arrangements.

Company funds charge members for services at cost. Many services are subsidised for larger funds. For example, the time spent by trustees and the fund secretary will be donated by some organisations and some costs and insurance premiums are also paid by some employers. In this report, we have not allowed for the value of any subsidies from employers.

Some funds are self-administered and others outsource this function. The vast majority use external fund managers to invest the assets of the fund, although some funds have direct investments.

6.2 Market data

APRA statistics report total stand-alone corporate superannuation assets as \$61.3 billion as at 30 June 2013.

However, there are a number of funds that we have re-classified to market segments we believe are more consistent with their characteristics. Table 17 contains details of re-classified funds that affect the corporate segment.

Table 17. Funds re-classified

| Fund | Market segment classification | | Statistics at 30 June 2013 | |
|--------------------------------------|-------------------------------|---------------|----------------------------|--------------|
| | RWA | APRA | Accounts ('000) | Assets (\$m) |
| Australia Post Superannuation Scheme | Corporate | Public Sector | 44 | 6,704 |
| Australian Christian Superannuation | Industry | Corporate | 4 | 62 |

After our re-classifications, there were 108 corporate funds at 30 June 2013 with total assets of \$67.8 billion.

As fees vary by size of fund, we have segmented total assets into different size segments (under \$50 million, \$50 million to \$500 million, \$500 million to \$1 billion, etc.). We show the breakdown of fees for each of these segments.

6.3 Current fee charges

We have expressed the fees incurred by each of the sample funds as a percentage of average fund assets over the year. The asset percentages calculated from the sample data were in line with our expectations, that is, they are inversely proportional to fund size, indicating economies of scale (by size).

We increased these percentages to allow for the cost of investment management. The estimated investment management charges ranged from 0.80% of assets for funds under \$50 million to 0.42% for funds over \$5 billion.

We adjusted the estimated fee rates in each segment to allow a smooth progression of the fee rate from segment to segment. We then applied these smoothed fee rates to the total of the funds in each segment to determine the total fees incurred by the corporate funds. We estimated fees for these funds through extrapolation from the other segments and our general market knowledge.

The results are given in Table 18.

Table 18. Corporate fund fees

| Corporate fund fees – Year to 30 June 2011 | | | | | |
|--|------------|-----------------|---------------|---------------------------|------------|
| Fund size | Funds | Accounts ('000) | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
| Under \$50 million | 58 | 10 | 340 | 1.50 | 5 |
| \$50 to 500 million | 32 | 83 | 14,456 | 1.09 | 162 |
| \$500 million to 1 billion | 5 | 33 | 2,670 | 0.95 | 24 |
| \$1 to 2 billion | 5 | 60 | 4,363 | 0.83 | 34 |
| \$2 to 5 billion | 4 | 120 | 10,079 | 0.73 | 69 |
| over \$5 billion | 4 | 250 | 35,897 | 0.63 | 214 |
| Total | 108 | 556 | 67,804 | 0.78 | 509 |

¹ Expressed as a percentage (%) of *average* corporate fund assets over the year to 30 June 2013.

The breakdown of fees by function is set out in Table 19.

Table 19. Corporate fund fees (percentage %)

| Corporate fund fee rate – Year to 30 June 2013 | | | | |
|--|------------------------|------------------------------------|---------------------|--------------------|
| Fund size | Operating ¹ | Investment management ¹ | Advice ¹ | Total ¹ |
| | (%) | | | |
| under \$50 million | 0.68 | 0.80 | 0.02 | 1.50 |
| \$50 to 500 million | 0.43 | 0.64 | 0.02 | 1.09 |
| \$500 million to 1 billion | 0.35 | 0.58 | 0.02 | 0.95 |
| \$1 to 2 billion | 0.29 | 0.52 | 0.02 | 0.83 |
| \$2 to 5 billion | 0.24 | 0.47 | 0.02 | 0.73 |
| over \$5 billion | 0.19 | 0.42 | 0.02 | 0.63 |
| Total | 0.26 | 0.49 | 0.02 | 0.78 |

1 Expressed as a percentage (%) of *average* corporate fund assets over the year to 30 June 2013.

The relatively low overall fee rate of 0.78% is a function of relatively high average member balances, economies of scale and the absence of distribution fees.

The operating fees level off as size of fund increases, partly due to complex benefit design amongst some larger funds. Investment management fees are highly correlated to fund size and the fee rates reduce as assets grow.

The overall fee level of 0.78% is lower than our previous estimate of 0.79% as at 30 June 2011. The 1 bps decrease is due to a decrease in operating fees of 3.5 bps offset by an increase in investment management charges of 2.5 bps.

The decreases in operating fees are largely the result of higher average account balances.

6.4 Fee charges pre-retirement and retirement

Table 20 contains estimates of the total fees for pre-retirement accounts held in corporate funds. Table 21 provides a breakdown, by function, of the overall fees. Table 22 and Table 23 are the retirement account equivalents to Table 20 and Table 21.

Table 20. Corporate fund fees – pre-retirement accounts

| Corporate fund fees – Year to 30 June 2013 | | | | |
|--|------------|---------------|-----------------------|------------|
| Fund size | Accounts | Assets | Fee rate ¹ | Fees |
| | ('000) | (\$m) | (%) | (\$m) |
| under \$50 million | 10 | 283 | 1.52 | 4 |
| \$50 to 500 million | 81 | 14,178 | 1.11 | 160 |
| \$500 million to 1 billion | 33 | 2,503 | 0.97 | 23 |
| \$1 to 2 billion | 59 | 4,017 | 0.84 | 32 |
| \$2 to 5 billion | 118 | 9,686 | 0.73 | 67 |
| over \$5 billion | 238 | 33,096 | 0.64 | 201 |
| Total | 538 | 63,763 | 0.78 | 487 |

¹ Expressed as a percentage (%) of *average* pre-retirement corporate fund assets over the year to 30 June 2013.

Table 21. Corporate fund fees (percentage %) – pre-retirement accounts

| Corporate fund fee rate – Year to 30 June 2013 | | | | |
|--|------------------------|------------------------------------|---------------------|--------------------|
| Fund size | Operating ¹ | Investment management ¹ | Advice ¹ | Total ² |
| | (%) | | | |
| under \$50 million | 0.67 | 0.83 | 0.02 | 1.52 |
| \$50 to 500 million | 0.44 | 0.65 | 0.02 | 1.11 |
| \$500 million to 1 billion | 0.36 | 0.59 | 0.02 | 0.97 |
| \$1 to 2 billion | 0.29 | 0.52 | 0.02 | 0.84 |
| \$2 to 5 billion | 0.24 | 0.47 | 0.02 | 0.73 |
| over \$5 billion | 0.20 | 0.42 | 0.02 | 0.64 |
| Total | 0.27 | 0.49 | 0.02 | 0.78 |

¹ Expressed as a percentage (%) of *average* pre-retirement corporate fund assets over the year to 30 June 2013.

² Components may not add due to rounding

Table 22. Corporate fund fees – retirement accounts

| Corporate fund fees – Year to 30 June 2013 | | | | |
|--|----------------|--------------|-----------------------|-----------|
| Fund size | Accounts | Assets | Fee rate ¹ | Fee |
| | ('000) | (\$m) | (%) | (\$m) |
| under \$50 million | 0 ² | 57 | 1.34 | 1 |
| \$50 to 500 million | 1 | 278 | 0.76 | 2 |
| \$500 million to 1 billion | 1 | 167 | 0.69 | 1 |
| \$1 to 2 billion | 2 | 346 | 0.64 | 2 |
| \$2 to 5 billion | 2 | 393 | 0.59 | 2 |
| over \$5 billion | 13 | 2,801 | 0.55 | 14 |
| Total | 18 | 4,041 | 0.62 | 22 |

¹ Expressed as a percentage (%) of *average* retirement corporate fund assets over the year to 30 June 2013.

² There are less than 100 accounts in this category.

Table 23. Corporate fund fees (percentage %) – retirement accounts

| Corporate fund fee rate – Year to 30 June 2013 | | | | |
|--|------------------------|------------------------------------|---------------------|--------------------|
| Fund size | Operating ¹ | Investment management ¹ | Advice ¹ | Total ¹ |
| | (%) | | | |
| under \$50 million | 0.78 | 0.54 | 0.02 | 1.34 |
| \$50 to 500 million | 0.22 | 0.52 | 0.02 | 0.76 |
| \$500 million to 1 billion | 0.17 | 0.50 | 0.02 | 0.69 |
| \$1 to 2 billion | 0.13 | 0.48 | 0.02 | 0.64 |
| \$2 to 5 billion | 0.10 | 0.47 | 0.02 | 0.59 |
| over \$5 billion | 0.08 | 0.45 | 0.02 | 0.55 |
| Total | 0.12 | 0.47 | 0.02 | 0.62 |

¹ Expressed as a percentage (%) of *average* retirement corporate fund assets over the year to 30 June 2013.

Whilst the overall fee rates (as a percentage of assets) for retirement products are similar to those for pre-retirement products, this masks some significant underlying differences:

- Retirement accounts have higher average account balances, so percentage based fees are higher in dollar terms than for pre-retirement accounts.
- Overall fees levied by funds that offer post-retirement accounts tend to be less than those that do not. This feature is probably related to the tendency for funds that offer post-retirement accounts to be larger.
- On the other hand, retirement products incur additional costs in paying pensions and the volume of member enquiries is higher which also pushes costs up.

7. Industry funds

7.1 Nature of industry funds

An industry fund is a regulated superannuation fund providing full operating and communication services and a number of insurance and investment options. Most of the larger industry funds have public offer status.

Industry funds have an umbrella trust deed and a trustee that is independent of members and employers. Board members of the trustee company are split between employee representatives and employer representatives, usually being appointed by trade unions and employer associations respectively. Some funds also have one or more independent Board members.

The same member fees apply irrespective of size of employer. An exception is made for a few large tailored company sub-funds where the benefit design is non-standard. For example, some funds allow defined benefit members or different insurance arrangements.

Fees charged are normally expressed as a fixed amount per week – typically \$1.00 to \$1.50. These fees are not always sufficient to meet the costs of running the funds and, in an increasing number of cases, a levy is also taken out of investment earnings. For example, REST has an explicit levy of 0.10% and Sunsuper has an explicit levy of 0.05% of fund assets.

Investment management fees are deducted from fund earnings and they vary by investment option, with the more complex/aggressive options incurring higher fees. Typically, for larger funds, investment management fee ratios range from 0.35% for a Capital Stable option to 0.65% of assets for a growth option. A typical balanced option would attract a fee in the range 0.50% - 0.75% of assets per annum.

Many industry funds declare crediting rates periodically (typically monthly). Less frequent unit pricing/crediting is cheaper than a daily unit-pricing structure, but is subject to more manual processes and can raise equity issues for members entering or leaving the fund or investment option. Costs will rise slightly in this segment as more funds convert to frequent unit-pricing.

7.2 Market fee data

APRA statistics show that there were 52 industry funds at 30 June 2013 with total assets of \$324.7 billion. This compares with 67 funds as at 30 June 2011 with assets of \$249.7 billion. The number of industry funds in the market is gradually declining (the majority through mergers with large funds).

However, there are a number of funds that we have re-classified to market segments we believe are more consistent with their characteristics. Table 24 contains details of re-classified funds that affect the industry fund segment.

Table 24. Funds re-classified

| Fund | Market segment classification | | Statistics at 30 June 2013 | |
|--|-------------------------------|---------------|----------------------------|--------------|
| | RWA | APRA | Accounts ('000) | Assets (\$m) |
| Australian Christian Superannuation | Industry | Corporate | 4 | 62 |
| AV Super | Industry | Public Sector | 6 | 1,493 |
| Electricity Industry Superannuation Scheme | Industry | Public Sector | 3 | 933 |
| Energy Industries Superannuation Scheme | Industry | Public Sector | 22 | 4,064 |
| Guild Retirement Fund | Industry | Retail | 68 | 884 |
| Nationwide Superannuation Fund | Industry | Retail | 69 | 474 |
| Quadrant | Public Sector | Industry | 8 | 637 |
| Vision Super | Public Sector | Industry | 3 | 622 |

After re-classifications, there were 56 industry funds at 30 June 2013 with total assets of \$330.6 billion.

We have adjusted the estimated fee rates in each segment to allow a smooth progression in the fee rate from segment to segment. We have then applied these smoothed fee rates to the total funds in each segment to determine the total fees incurred by members of industry funds. We made use of the *APRA 2013 Superannuation Fund-level Profiles and Financial Performance Statistics* publication to supplement other published material.

7.3 Total industry fund fees

We estimate that fees incurred totalled \$3,204 million which equates to 1.07% of assets over the year to 30 June 2013.

Fees vary considerably between funds and are influenced by the number of members, average account balance, number of employers (particularly small employer's not using electronic payment of contributions) and performance fees on investment returns.

Industry fund fees by size of fund are shown in Table 25.

Table 25. Industry funds fees¹

| Industry funds fees – Year to 30 June 2013 | | | | | |
|--|-----------|----------------|----------------|---------------------------|--------------|
| Fund size | Funds | Members ('000) | Assets (\$m) | Fee rate ² (%) | Fees (\$m) |
| under \$50 million | 3 | 11 | 148 | 2.10 | 3 |
| \$50 to 500 million | 9 | 185 | 2,592 | 1.54 | 35 |
| \$500 million to 1 billion | 10 | 225 | 7,603 | 1.40 | 99 |
| \$1 to 2 billion | 9 | 809 | 15,129 | 1.27 | 179 |
| \$2 to 5 billion | 9 | 963 | 28,372 | 1.15 | 302 |
| over \$5 billion | 16 | 9,719 | 276,767 | 1.04 | 2,585 |
| Total | 56 | 11,913 | 330,611 | 1.07 | 3,204 |

¹ Funds have been re-classified from APRA classifications as per Table 24.

² Expressed as a percentage (%) of *average* industry fund assets over the year to 30 June 2013.

The estimated breakdown of fees by function is shown in Table 26.

Table 26. Industry funds fee rate (%)

| Industry funds fee rate – Year to 30 June 2013 | | | | |
|--|------------------------|------------------------------------|---------------------|--------------------|
| Fund size | Operating ¹ | Investment management ¹ | Advice ¹ | Total ¹ |
| | (%) | | | |
| under \$50 million | 1.31 | 0.75 | 0.04 | 2.10 |
| \$50 to 500 million | 0.80 | 0.70 | 0.04 | 1.54 |
| \$500 million to 1 billion | 0.69 | 0.67 | 0.04 | 1.40 |
| \$1 to 2 billion | 0.58 | 0.65 | 0.04 | 1.27 |
| \$2 to 5 billion | 0.47 | 0.64 | 0.04 | 1.15 |
| over \$5 billion | 0.39 | 0.62 | 0.04 | 1.04 |
| Total | 0.41 | 0.62 | 0.04 | 1.07 |

¹ Expressed as a percentage (%) of *average* industry fund assets over the year to 30 June 2013.

The overall fee level of 1.07% is lower than our previous estimate of 1.13% as at 30 June 2011. The 6 bps decrease is due to decreased operating fees of 2 bps and decreased investment management charges of 4 bps.

The decrease in the total fee rate is driven by higher average account balances, fixed dollar operating costs are spread over larger average balances.

The average fee rate, when expressed as a percentage of assets, is higher than the average fee rates for corporate funds and very large corporate super master trusts. This reflects the lower average member balances within industry funds.

Industry funds tend to provide general advice to members in bulk and offer some limited personal advice as an additional service. Members taking up this service pay for it in different ways. In some cases, the initial advice is provided free (that is, borne by the fund out of its overall fees); in others members are charged a fee by the fund; and finally sometimes the advice fee is kept low via a subsidy.

7.4 Fee charges pre-retirement and retirement

Table 27 contains estimates of the total fees for pre-retirement accounts held in industry funds. Table 28 provides a breakdown of overall fees by function. 0 and Table 30 are the retirement account equivalents to Table 27 and Table 28.

Table 27. Industry fund fees – pre-retirement accounts

| Industry fund fees – Year to 30 June 2013 | | | | |
|---|-----------------|----------------|---------------------------|--------------|
| Fund size | Accounts ('000) | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
| under \$50 million | 11 | 115 | 2.38 | 3 |
| \$50 to 500 million | 182 | 2,003 | 1.65 | 30 |
| \$500 million to 1 billion | 221 | 6,577 | 1.46 | 89 |
| \$1 to 2 billion | 806 | 14,175 | 1.30 | 172 |
| \$2 to 5 billion | 956 | 25,965 | 1.16 | 282 |
| over \$5 billion | 9,653 | 254,742 | 1.05 | 2,415 |
| Total | 11,830 | 303,577 | 1.10 | 2,991 |

¹ Expressed as a % of *average* Pre-retirement Industry Fund assets over the year to 30 June 2013.

Table 28. Industry fund fees (%) – pre-retirement accounts

| Industry fund fees rate – Year to 30 June 2013 | | | | |
|--|-------------|------------------------------------|----------------------|--------------------|
| Fund size | Operating | Investment management ¹ | Adviser ¹ | Total ¹ |
| | (%) | | | |
| under \$50 million | 1.58 | 0.76 | 0.04 | 2.38 |
| \$50 to 500 million | 0.91 | 0.69 | 0.04 | 1.65 |
| \$500 million to 1 billion | 0.74 | 0.67 | 0.04 | 1.46 |
| \$1 to 2 billion | 0.61 | 0.65 | 0.04 | 1.30 |
| \$2 to 5 billion | 0.49 | 0.63 | 0.04 | 1.16 |
| over \$5 billion | 0.40 | 0.61 | 0.04 | 1.05 |
| Total | 0.43 | 0.63 | 0.04 | 1.10 |

¹ Expressed as a % of *average* Pre-retirement Industry Fund assets over the year to 30 June 2013.

Table 29. Industry fund fees – retirement accounts

| Industry fund fees – Year to 30 June 2013 | | | | |
|---|-----------------|---------------|----------------------------|------------|
| Fund size | Accounts ('000) | Assets (\$m) | Fees rate ¹ (%) | Fees (\$m) |
| under \$50 million | 487 | 33 | 1.10 | 0 |
| \$50 to 500 million | 2,575 | 589 | 1.03 | 5 |
| \$500 million to 1 billion | 4,096 | 1,026 | 1.00 | 10 |
| \$1 to 2 billion | 2,864 | 954 | 0.97 | 7 |
| \$2 to 5 billion | 7,225 | 2,407 | 0.94 | 20 |
| over \$5 billion | 66,122 | 22,025 | 0.92 | 170 |
| Total | 83,369 | 27,034 | 0.93 | 213 |

¹ Expressed as a percentage (%) of *average* retirement Industry Fund assets over the year to 30 June 2013.

Table 30. Industry fund fee (percentage %) – retirement accounts

| Industry fund fee rate – Year to 30 June 2013 | | | | |
|---|------------------------|------------------------------------|---------------------|--------------------|
| Fund size | Operating ¹ | Investment management ¹ | Advice ¹ | Total ¹ |
| | (%) | | | |
| under \$50 million | 0.36 | 0.70 | 0.04 | 1.10 |
| \$50 to 500 million | 0.28 | 0.71 | 0.04 | 1.03 |
| \$500 million to 1 billion | 0.26 | 0.69 | 0.04 | 1.00 |
| \$1 to 2 billion | 0.25 | 0.68 | 0.04 | 0.97 |
| \$2 to 5 billion | 0.24 | 0.66 | 0.04 | 0.94 |
| over \$5 billion | 0.23 | 0.65 | 0.04 | 0.92 |
| Total | 0.24 | 0.65 | 0.04 | 0.93 |

¹ Expressed as a percentage (%) of *average* retirement Industry Fund assets over the year to 30 June 2013.

The factors that contribute to the relatively lower fees (as a percentage of assets) levied on retirement accounts including:

- Retirement accounts have higher average account balances.
- Overall fees levied by funds that offer retirement accounts tend to be cheaper than those that do not. This feature is probably related to the tendency for funds that offer retirement accounts to be larger.

On the other hand, retirement products incur additional costs in paying pensions and the volume of member enquiries is higher which also pushes up costs.

8. Public sector funds

8.1 Nature of public sector funds

Public sector funds are funds operated for the benefit of the employees of Government departments and agencies. There is a strong trend away from defined benefit plans, many unfunded, to defined contribution plans, particularly for new employees.

Most funds are open for public sector employees only. As a result, management of some aspects of these funds is relatively simple (e.g. they do not have to contend with multiple pay centres) and the corresponding fees are therefore low. However, this is starting to change with some large funds moving to public offer status.

Further, some funds have complicated benefit designs and that leads to higher costs.

8.2 Market data

APRA's statistics indicate that there were 38 public sector funds as at 30 June 2013 with assets of \$256.9 billion. However, there are a number of funds that we have re-classified to market segments we believe are more consistent with their characteristics. Table 31 contains details of re-classified funds that affect the public sector funds segment.

Table 31. Funds re-classified

| Fund | Market segment classification | | Statistics at 30 June 2013 | |
|--|-------------------------------|---------------|----------------------------|--------------|
| | RW | APRA | Accounts ('000) | Assets (\$m) |
| Australia Post Superannuation Scheme | Corporate | Public Sector | 44 | 6,704 |
| AV Super | Industry | Public Sector | 6 | 1,493 |
| Electricity Industry Superannuation Scheme | Industry | Public Sector | 3 | 933 |
| Energy Industries Superannuation Scheme | Industry | Public Sector | 22 | 4,064 |
| Quadrant | Public Sector | Industry | 8 | 637 |
| Vision Super ¹ | Public Sector | Industry | 3 | 622 |

¹ These statistics exclude the Local Authorities Superannuation Fund of which Vision Super is trustee. APRA classifies this fund separately (from Vision Super) as a public sector fund

After re-classifications there were 36 public sector funds at 30 June 2013 with total assets of \$245.6 billion.

8.3 Current fees

The overall total fee rate was 0.76% for the year to 30 June 2013. This is 6 bps lower than the fee rate in our previous report due to a 2 bps fall in operating fees and a 4 bps increase in investment fees. We estimate that total fees for the sector were \$1,728 million.

The overall increase in the total fee rate is not statistically significant.

Table 32. Public sector funds fees

| Public sector funds fees – Year to 30 June 2013 | | | | |
|---|---------------------------------|------------------------------|------------------------------|---------------|
| | Accounts ¹ ('000) | Assets ¹ (\$m) | Fee rate ² (%) | Fees (\$m) |
| Total public sector | 3,424 | 245,576 | 0.76 | 1,728 |

¹ We have re-classified a number of funds, refer to Table 31.

² Expressed as a percentage (%) of *average* public sector fund assets over the year to 30 June 2013.

A breakdown of fees by function is set out in Table 33.

Table 33. Public sector funds fee rate (percentage %)

| Public sector funds fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|--|-----------|--------------------------|--------|-------|
| | Operating | Investment management | Advice | Total |
| Total public sector | 0.20 | 0.52 | 0.04 | 0.76 |

¹ Expressed as a percentage (%) of *average* public sector fund assets over the year to 30 June 2013.

Note that public sector funds have similar structures for providing financial advice to members as industry funds.

8.4 Fee charges pre-retirement and retirement

Table 34 contains estimates of the different fee rates charged to public sector pre-retirement and retirement accounts respectively. A breakdown of estimated fees by function for pre-retirement and retirement accounts is set out in Table 35.

Table 34. Public sector funds fee – pre-retirement and retirement

| Public sector funds fees – Year to 30 June 2013 | | | | |
|---|---------------------------------|------------------------------|------------------------------|---------------|
| | Accounts ¹ ('000) | Assets ¹ (\$m) | Fee rate ² (%) | Fees (\$m) |
| Pre-retirement Only | 2,996 | 191,304 | 0.81 | 1,432 |
| Retirement Only | 428 | 54,272 | 0.59 | 295 |
| Total public sector | 3,424 | 245,576 | 0.76 | 1,728 |

¹ We have re-classified a number of funds, refer to Table 31.

² Expressed as a percentage (%) of *average* public sector fund assets over the year to 30 June 2013.

Table 35. Public sector funds fees rate (percentage %) - pre-retirement and retirement

| Public sector funds fees rate ¹ (%) – Year to 30 June 2013 | | | | |
|---|-----------|--------------------------|--------|--------------------|
| | Operating | Investment management | Advice | Total ² |
| Pre-retirement Only | 0.23 | 0.54 | 0.04 | 0.81 |
| Retirement Only | 0.09 | 0.45 | 0.04 | 0.59 |
| Total public sector | 0.20 | 0.52 | 0.04 | 0.76 |

¹ Expressed as a percentage (%) of *average* public sector fund assets over the year to 30 June 2013.

² Fee components may not add up to the total due to rounding.

The factors that contribute to the relatively lower fees (as a percentage of assets) levied on retirement accounts include:

- Retirement accounts have higher average account balances.
- Overall fees levied by funds that offer retirement accounts tend to be cheaper than those that do not. This feature is probably related to the tendency for funds that offer retirement accounts to be larger.

On the other hand, retirement products incur additional costs in paying pensions and the volume of member enquiries is higher which also pushes up costs.

9. Small funds

9.1 Nature of small funds

There are two distinct product offerings in this segment, namely:

- An Approved Trustee service (regulated by APRA). This segment was once 10% of the DIY market, but is now less than 1% and shrinking. Australian Executor Trustees (ex-Tower Trust), Trust Company of Australia and Perpetual hold more than 60% of these 'small-APRA' funds (SAFs).
- The majority of funds have members as trustees and are regulated by the ATO. These funds are commonly known as Self-Managed Superannuation Funds, or SMSFs. Each member must be a trustee or a director of the trustee. Funds can have no more than four members and the typical fund has two.

9.2 Market statistics

At 30 June 2013, there were 509,362 SMSFs regulated by the ATO with \$505.2 billion of assets.

There were only 2,950 SAFs with \$2.0 billion of assets.

9.2.1 Asset allocation

The ATO has issued detailed asset figures as at 30 June 2013. The assets of funds at that date were invested as shown in Table 36.

Table 36. Asset allocation

| Asset allocation | \$m | % |
|--|---------|------|
| Listed trusts | 18,096 | 3.6 |
| Unlisted trusts | 44,018 | 8.7 |
| Insurance policy | 193 | 0.0 |
| Other managed investments | 22,497 | 4.5 |
| Cash and term deposits | 154,147 | 30.5 |
| Debt securities | 4,086 | 0.8 |
| Loans | 3,033 | 0.6 |
| Listed shares | 158,169 | 31.3 |
| Unlisted shares | 5,292 | 1.0 |
| Derivatives and instalment warrants | 2,444 | 0.5 |
| Non-residential real property | 58,604 | 11.6 |
| Residential real property | 17,509 | 3.5 |
| Artwork, collectibles, metal or jewels | 538 | 0.1 |
| Overseas shares | 12,393 | 2.5 |
| Overseas non-residential real property | 1,806 | 0.4 |

| Asset allocation | \$m | % |
|------------------------------------|----------------|------------|
| Overseas residential real property | 99 | 0.0 |
| Overseas managed investments | 195 | 0.0 |
| Other overseas investments | 365 | 0.1 |
| Other assets | 2,058 | 0.4 |
| Total assets | 505,542 | 100 |

While the cash component looks high, this reflects the investment strategy of many retired people who simply use term deposits (and thereby secure the capital of their investments). The equity component has grown in recent years, while property has reduced despite the frequent media commentary about investing in direct property via SMSFs. A possible explanation for this is that newer funds tend to favour online share broking as their prime vehicle for investment.

It should be noted that managed funds are a small, but growing, proportion of investments.

9.2.2 Membership

The ATO also shows membership by age at 30 June 2013. Over half of all members are over 55 and approximately 25% of all members are at or above Age Pension age (currently 65 for males).

Table 37. Membership

| Age ranges | Male (52.9%) | Female (47.1%) | Total (%) |
|------------|-----------------|-------------------|--------------|
| <25 | 1.10 | 1.10 | 1.10 |
| 25-34 | 4.00 | 4.00 | 4.00 |
| 35-44 | 11.90 | 13.70 | 12.70 |
| 45-54 | 22.70 | 25.30 | 23.90 |
| 55-64 | 31.60 | 33.10 | 32.30 |
| >64 | 28.80 | 22.80 | 25.90 |

9.2.3 Fund size

The latest ATO figures for the financial year to 30 June 2012 show that the percentage of those with account balances of less than \$200,000 is 23.3% which is lower relative to our previous report (24.2%).

The proportion of funds with assets greater than \$1 million has remained largely static at 27.7% in 2011/2012.

Table 38. Fund size

| Asset range | 2010-11 | 2011-12 |
|---------------------|------------|------------|
| | (%) | |
| \$0 - \$50,000 | 6.90 | 6.70 |
| \$50,000-\$100,000 | 5.70 | 5.50 |
| \$100,000-\$200,000 | 11.30 | 11.10 |
| \$200,000-\$500,000 | 25.30 | 25.60 |
| \$500,000-\$1m | 22.90 | 23.40 |
| \$1m-\$2m | 16.90 | 16.90 |
| \$2m-\$5m | 9.10 | 9.00 |
| \$5m-\$10m | 1.60 | 1.50 |
| > \$10m | 0.30 | 0.30 |
| Total | 100 | 100 |

9.2.4 Pre-retirement and retirement assets and accounts

Using the ATO statistics and our own knowledge of the small funds sector, we have broken the assets and accounts into pre-retirement and retirement components. Our estimates are set out in Table 39.

Table 39. Small funds pre-retirement and retirement assets and accounts

| Small funds | Funds ('000) | Accounts ('000) | Assets (\$m) |
|--------------------------|--------------|-----------------|----------------|
| Pre-retirement | 359 | 687 | 258,672 |
| Retirement | 154 | 295 | 248,528 |
| Total small funds | 457 | 982 | 507,200 |

Retirement funds comprise close to half of the total Small Funds assets, but make up only a little under a third of accounts. Newly formed SMSFs today are much smaller than those created prior to 2006 when people could transfer all of their assets into superannuation tax free.

9.3 Fees

The SMSF segment is highly fragmented with a number of specialist administrators and many self-administered portfolios. As with other segments, costs fall into three categories, namely operating, investment and advice costs.

9.3.1 Operating (operating costs)

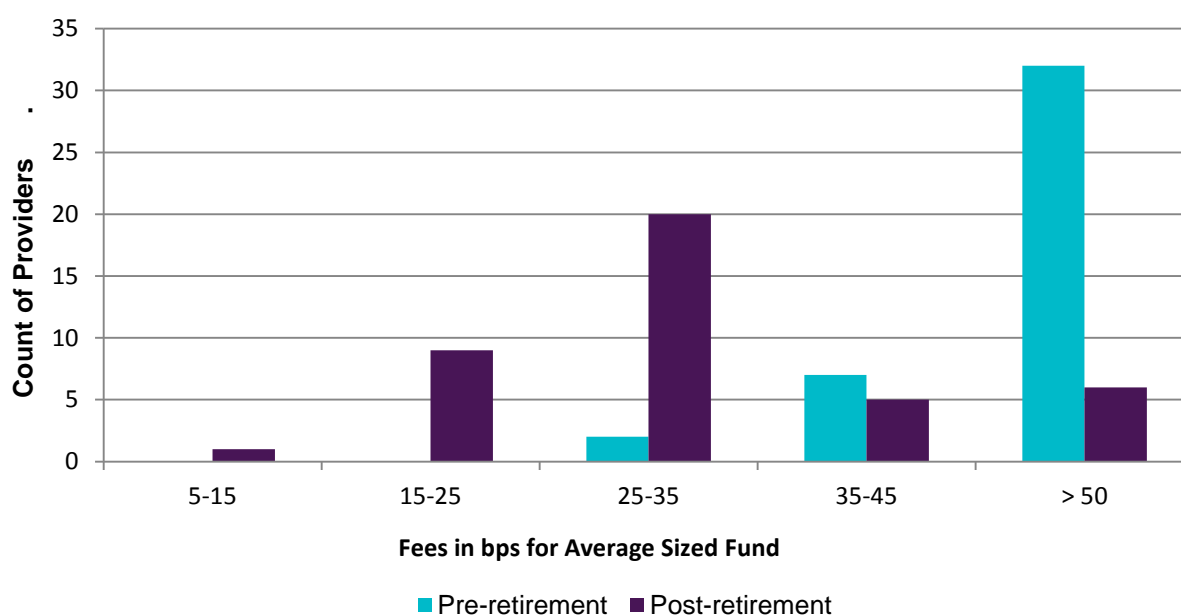
The operators of small funds usually have services provided by an accountant. Accounting firms usually have a charge of \$1,500 to \$3,000 for the combined accounting/audit function. Where a specialist administrator is used, the separate audit fee is typically \$400 to \$600. However, the overall fees are similar. This fee does not vary by size of fund.

Where an accountant is the sole service provider, fees are typically around \$2,000 per year. This includes the cost of audit, tax lodgement and annual review. There are other costs such as updating trust deeds, ATO levy and bank charges. Together these average about \$400 per fund a year. A further \$300 per year, on average, is charged for funds in the pension phase.

Graph 5 shows the range of fees for an average sized SMSF (approximately \$375,000 and \$840,000 for a pre-retirement and retirement SMSF respectively) based on the fees charged by 41 key providers of SMSF operating services. Key features of the graph include:

- The level of fees charged for SMSF operating can vary significantly between providers (despite the provision of similar services).
- A handful of providers charge operating fees as a percentage of assets. The asset-based fees are usually tiered and generally result in overall operating fees of greater than 50 bps for an average sized SMSF.
- Total operating fees (when expressed as a percentage of assets) for retirement funds are lower than for pre-retirement funds. This is because fixed dollar operating costs are spread over a greater asset base.

Graph 5. Selected SMSF operating fees for an average sized SMSF



We estimate that the total fees for SMSFs in the pre-retirement phase averages \$2,400 per fund, while retirement fund fees are \$2,700 per fund. This results in total operating costs of \$1,227 million for SMSFs, with \$827 million of the total attributable to pre-retirement SMSFs and the remaining \$399 million attributable to retirement SMSFs.

We previously estimated operating costs of \$7,900 per SAF. Recent APRA statistics indicate that average balances of SAFs are lower and consequently our total fee estimate is lower due to fees which are a percentage of assets. Our new estimate of costs per SAF is \$5,200. As for SMSFs, an additional \$300 per fund per year is generally charged for SAFs in the pension phase. This results in total operating fees of \$16 million for SAFs, with those in the pre-retirement phase accounting for \$11 million and those in the retirement phase for the \$5 million balance.

As SAFs form only a small part of the small funds segment, the decrease in estimated operating costs per fund does not have a significant impact on the overall total fee rate for small funds.

This brings the total operating costs for Small Funds to \$1,243 million. This is equivalent to 0.26% of average small fund assets over the year to 30 June 2013.

9.3.2 Investment fees

To determine investment fees, we have assumed that individuals largely manage the direct investments themselves, making no charge on the funds. We note that investment fees for pre-retirement funds and retirement funds are similar. The estimated costs by asset class for ATO regulated funds (\$505.2 billion) are given in Table 40.

Table 40. Estimated investment costs

| Estimated investment costs | | | |
|------------------------------------|---|------------------------|-------------------------------|
| Asset class | Investment fees and transaction costs (%) | Asset distribution (%) | Investment costs (\$ million) |
| Managed investments | 0.70 | 4.5 | 148 |
| Fixed interest securities and cash | 1.00 | 32.3 | 1,523 |
| Listed shares | 0.20 | 44.1 | 416 |
| Direct property | 0.50 | 15.4 | 364 |
| Other | 0.50 | 3.7 | 87 |
| Total | 0.54 | 100.0 | 2,538 |

Most SMSF entities use a retail cash management trust for their bank account. The fee on this is about 1% p.a. Other cash is held in term deposits which have an implicit fee of, arguably, at least 1% p.a. of the deposit. We have not observed any significant increases in these fees since our previous report. We note that this type of fee is outside APRA/ASIC definitions of fees in MySuper.

Managed investments are generally held through an investment platform. Investment fees are typically in the order of 0.70% p.a. of assets and have come down from 0.9% since our previous report.

To determine investment fees for the other asset classes, we have relied on discussions with service providers as to the broad breakdown of investments, and our other experience of the fees associated with the management of those investments.

The small APRA funds are more likely to invest in managed funds that attract an asset-based fee on all investments. We estimate the average investment fee to be 0.90% of assets over the year, or \$18 million.

The total investment fees for this segment are therefore \$2,555 million per annum for total assets of \$507.2 billion, or 0.54% of average assets over the year to 30 June 2013.

9.3.3 Advice costs

Where services are supplied through an investment adviser, there are added advisory services relating to retirement planning, investment strategy and technical matters.

There has been no indication of any significant change in the cost and delivery of advice to small funds. Accordingly we have retained our estimate of advice fees for this segment, which were based on the views of various suppliers of services to self-managed funds. Our estimate assumes that financial planners/advisers are involved in about 30% of the market and that the fee for this additional service (advice) is, on average, 0.50% of assets. We do not consider there to be a material difference in the overall fee for providing advice (when expressed as a percentage of assets) between pre-retirement and retirement funds.

Total fees for advice are therefore 0.15% of assets, or \$710 million over the year to 30 June 2013.

9.4 Summary of small fund fees

Aggregating our estimates of investment management fees, operating fees and advice fees, we estimate that small funds paid total fees of 0.95% of average assets, which amounted to \$4,508 million over the year to 30 June 2013.

Table 41. Small funds fee summary

| Small funds fee summary – Year to 30 June 2013 | | | | | |
|--|-----------------|--------------------|-----------------|---------------------------|---------------|
| | Funds ('000) | Accounts ('000) | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
| Pre-retirement | 358,618 | 687,400 | 258,672 | 1.05 | 2,504 |
| Retirement | 153,694 | 294,600 | 248,528 | 0.87 | 2,004 |
| Total Small Funds | 512,312 | 982,000 | 507,200 | 0.95 | 4,508 |

¹ Expressed as a percentage (%) of average SMSF assets over the year to 30 June 2013.

The estimated breakdown of fees by function is shown in Table 42.

Table 42. Small funds fee rate (percentage %)

| Small funds fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|--|-------------|--------------------------|-------------|-------------|
| | Operating | Investment management | Advice | Total |
| Pre-retirement | 0.36 | 0.36 | 0.36 | 0.36 |
| Retirement | 0.36 | 0.36 | 0.36 | 0.36 |
| Total Small Funds | 0.26 | 0.54 | 0.15 | 0.95 |

¹ Expressed as a percentage (%) of average SMSF assets over the year to 30 June 2013.

The total fee rate of 0.95% for small funds represents a decrease of 5 bps from our 2011 estimate of 1.00%. The decrease is due a reduction in administration costs and higher account balances compared to the previous year which resulted in a 7 bps reduction in the fee rate attributable to operating costs, offset by a 2bps rise in investment costs (due to changes in asset allocation).

10. Corporate super master trusts

10.1 Nature of corporate super master trusts

A retail corporate super master trust is a public-offer, regulated superannuation fund providing full operating and communication services, and a number of insurance and investment options. Many managers of the trusts are owned by the major banks and other financial services groups.

The master trust has the facility to accept contributions from any employer and cater for the needs of a typical employer-sponsored plan. The funds have an umbrella trust deed and a trustee that is independent of members and employers – trustee directors are appointed by the fund sponsor.

The products often include facilities for personal superannuation business, non-superannuation investments (via a separate, non-superannuation master trust or direct ownership) and retirement products such as account-based pensions.

Competition in the market is strongest in this segment and, as a result, the level of member services and product features in this segment is more comprehensive than in any other segment. A few large industry funds also compete for complex employer sub-plans. However, this is a relatively small component for industry funds.

10.2 Market data

Corporate super master trust superannuation can be divided into two broad segments.

Where the assets of the corporate sub-plan are less than \$5 million, the services of an investment adviser are generally used (or the employer may deal directly with the master trust, particularly if the product is owned by a bank). The fee scale published in the Product Disclosure Statement (PDS) of the master trust will generally apply, although initial fees will vary according to the time taken to set up the plan.

Where the assets exceed \$5 million, the employer generally uses the services of a professional adviser to select the master trust. The trust is selected after a tender and the fee scale is substantially less than the PDS scale. The professional adviser is rewarded by a fee for actual service rather than by a commission based on the value of business. This is not an economic option for smaller funds as the cost of employing a fee-based consultant would be prohibitive.

These products are effectively wholesale for business over \$5 million, though they are included in the retail segment by APRA because they are often part of the same public offer fund as retail business.

We note that the advent of MySuper is resulting in a change in the way employers select a master trust. Standard MySuper pricing may be discounted for large employers by product provider and insurance may be tailored for particular employers, however, the default investment option must be the same for all members in the same MySuper product. Some larger employers may opt for a tailored MySuper product. To date, APRA has authorised 12 tailored MySuper products.

We have determined the market fees by reference to a survey of the fees charged by master trust providers operating in this market for a range of plan sizes. We have supplemented this data by our own experience of the fee levels charged by master trusts in outsourcing tenders over the period.

We have calculated the fee rates separately for each sub-segment.

10.3 Advice services

In contrast to industry funds where employers do not require specific advice about benefit design or the suitability of a fund, master trusts are often used by employers seeking such advice.

Advisers will help employers select a fund, develop an appropriate level of insurance benefits and select and monitor the default investment strategy. Advisers will also attend policy committee meetings and deal with some members' queries.

The comprehensive advice services provided by the master trust manager, whether directly or through a financial adviser, are covered by the product charges. For some smaller arrangements the adviser may negotiate an extra fee.

Estimates of the amounts involved are shown separately in the summary below.

10.4 Current fee charges

The results of our calculations are shown in Table 43. The fee ratios are calculated assuming that investments are within the default 'growth' funds. In practice, some members will choose investment options with a higher growth component, attracting higher fees, and some will choose investment options with a lower growth component, attracting lower fees. The default options generally strike a balance, and represent a position close to the average investment allocation.

The distribution of assets between the plan size segments is based on the survey of master trusts supplemented by our market knowledge. The total amount of the assets for the sector has also been obtained from our analysis of various reports.

Table 43. Corporate super master trust fees

| Corporate super master trust fees – Year to 30 June 2013 | | | | |
|--|--------------------|----------------|---------------------------|--------------|
| Plan category | Employer plan size | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
| Large | >\$50 m | 52,571 | 0.62 | 314 |
| | \$20m - \$50m | 6,203 | 1.10 | 65 |
| | \$10m - \$20m | 8,405 | 1.61 | 130 |
| | \$5m - \$10m | 8,722 | 1.38 | 116 |
| | Sub-total | 75,901 | 0.86 | 624 |
| Medium | \$2m - \$5m | 8,422 | 1.30 | 105 |
| | Sub-total | 8,422 | 1.30 | 105 |
| Small | \$1m - \$2m | 7,490 | 1.49 | 107 |
| | < \$1 m | 24,958 | 1.75 | 420 |
| | Sub-total | 32,448 | 1.69 | 527 |
| Total | | 116,771 | 1.12 | 1,256 |

1 Expressed as a percentage (%) of *average* corporate super master trust assets over the year to 30 June 2013.

The fees of \$1,256 million represent 1.12% of the average assets for the year to 30 June 2013. However, the average fee for larger funds (with assets more than \$5 million) is only 0.86% of assets. This average fee rate for the large employer plans is comparable with the average fee rate of corporate funds.

Our estimate of corporate super master trust fees at 30 June 2011 was higher at 1.29%. The reduction in the fee rate during the year to 30 June 2013 was primarily due to a lower rate of investment management fees, reflecting competition in the investment management market and a shift to more defensive assets classes with lower fees.

We estimate that total fees varied by function as set out in Table 44.

Table 44. Corporate super master trust fee rate (percentage %)

| Corporate super master trust fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|---|-------------|-----------------------|-------------|-------------|
| Employer plan size | Operating | Investment management | Adviser | Total |
| >\$50 m | 0.17 | 0.45 | 0.00 | 0.62 |
| \$20m - \$50m | 0.22 | 0.45 | 0.43 | 1.10 |
| \$10m - \$20m | 0.29 | 0.46 | 0.86 | 1.61 |
| \$5m - \$10m | 0.43 | 0.47 | 0.48 | 1.38 |
| \$2m - \$5m | 0.58 | 0.48 | 0.24 | 1.30 |
| \$1m - \$2m | 0.80 | 0.49 | 0.20 | 1.49 |
| < \$1 m | 1.11 | 0.50 | 0.15 | 1.75 |
| Total | 0.47 | 0.47 | 0.18 | 1.12 |

¹ Expressed as a percentage (%) of *average* corporate super master trust assets over the year to 30 June 2013.

We separate these into large (employer plan size greater than \$5 million), medium (between \$2 million and \$5 million) and small (less than \$2 million) as shown in Table 45.

Table 45. Corporate super master trust fee rate (percentage %)

| Corporate super master trust fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|---|-------------|-----------------------|-------------|-------------|
| Employer plan size | Operating | Investment management | Adviser | Total |
| Large (Employer sub-funds over \$5m) | 0.22 | 0.45 | 0.19 | 0.86 |
| Medium (Employer sub-funds between \$2m and \$5m) | 0.58 | 0.48 | 0.24 | 1.30 |
| Small (Employer sub-funds under \$2m) | 1.04 | 0.50 | 0.16 | 1.69 |
| Total | 0.47 | 0.47 | 0.18 | 1.12 |

¹ Expressed as a percentage (%) of *average* corporate super master trust assets over the year to 30 June 2013.

10.5 Cost of legacy products

Charges in legacy products will tend be higher than those for contemporary products currently on sale. However, legacy products comprise only a small part of the corporate super master trust business; we estimate around 15% of corporate super master trust assets are held in legacy products (based on FSC fees surveys and our knowledge of the segment).

Total fees for corporate super master trusts products, driven by fierce competition, have reduced substantially since 2002, from 2.10% to 1.12% in 2013. We would expect that current fee levels in relation to legacy products would be similar to those stated in 2002. Therefore, we estimate that the fees for contemporary corporate super master trust products average approximately 0.95% compared to 2.10% for their legacy counterparts. Refer to Section 3.5 (Cost of legacy products) for further commentary.

11. Personal superannuation

11.1 Nature of personal superannuation products

Personal superannuation products are offered by public offer superannuation funds which invest the whole of their funds into life company superannuation policies or pooled superannuation (unit) trusts (PSTs) and master trusts. They include full operating and communication services, and a number of insurance and investment options.

They accept contributions (single or regular) in respect of individuals. There are multiple types of members within the personal superannuation sector including:

- directly marketed personal superannuation
- exited members from employee divisions of corporate master trusts
- self-employed persons or employees of small businesses which do not establish a super fund for them
- adviser sold business on platforms
- legacy business.

11.2 Market data

There is a wide group of products ranging from conventional life insurance contracts (traditional and investment account, now closed to new business) through to savings plans, managed funds and super wrap products. The cost structures vary considerably. We have based our analysis on a survey of the actual fees charged by a number of personal superannuation master trusts.

11.3 Adviser services

Many individuals with personal superannuation use the services of a professional financial adviser, this is expected to fall with the advent of directly marketed personal superannuation products by the banks. The cost of these services is mainly incorporated in the product charges. However, in some cases the financial adviser may negotiate with their clients an annual fee for advice.

11.4 Current fee charges

The estimated total fee rate over the year, including the cost of advice, is 1.73%. The breakdown by size of account is shown in Table 46.

Table 46. Personal super fees

| Personal super fees – Year to 30 June 2013 | | | |
|--|----------------|---------------------------|--------------|
| Account balance | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
| >\$1 million | 4,418 | 0.95 | 42 |
| \$500,000 - \$1 million | 8,187 | 1.20 | 98 |
| \$250,000 - \$500,000 | 20,166 | 1.32 | 265 |
| \$100,000 - \$250,000 | 45,254 | 1.46 | 659 |
| \$50,000 - \$100,000 | 41,042 | 1.63 | 667 |
| \$25,000 - \$50,000 | 31,241 | 1.83 | 568 |
| <\$25,000 | 32,423 | 2.64 | 854 |
| Total | 182,731 | 1.73 | 3,153 |

¹ Expressed as a percentage (%) of *average* personal super assets over the year to 30 June 2013.

Our estimates of the fees by function are shown in Table 47.

Table 47. Personal super fee rate (percentage %)

| Personal super fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|---|-------------|-----------------------|-------------|-------------|
| Account balance | Operating | Investment management | Adviser | Total |
| >\$1 million | 0.49 | 0.33 | 0.12 | 0.95 |
| \$500,000 - \$1 million | 0.54 | 0.37 | 0.28 | 1.20 |
| \$250,000 - \$500,000 | 0.59 | 0.42 | 0.31 | 1.32 |
| \$100,000 - \$250,000 | 0.66 | 0.47 | 0.33 | 1.46 |
| \$50,000 - \$100,000 | 0.74 | 0.53 | 0.37 | 1.63 |
| \$25,000 - \$50,000 | 0.86 | 0.59 | 0.37 | 1.83 |
| <\$25,000 | 1.49 | 0.67 | 0.48 | 2.64 |
| Total | 0.84 | 0.53 | 0.36 | 1.73 |

¹ Expressed as a percentage (%) of *average* personal super assets over the year to 30 June 2013.

The overall fee rate of 1.73% represents a total decrease of 14 bps from the 2011 estimate of 1.87%. A 7 bps decrease in investment management, a 7 bps decrease in advice costs contribute to the total 14 bps decrease.

The changes in fees are a result of:

- a shift from active to indexed investments
- increased competition between investment managers
- consolidation of funds leading to higher investment mandates
- greater awareness of advice fees leading members to negotiate reduced advice fee levels.

11.5 Legacy products fee charges

Charges in legacy products will tend to be higher than those for contemporary products currently on sale. However, these products represent only a small part of the total personal superannuation business; we estimate around 30% of personal superannuation assets are held in legacy products (based on previous FSC fees surveys and our knowledge of the segment).

As already noted in Section 3.5 (Cost of legacy products), total fees for personal superannuation products have reduced substantially over the past few years, from 2.23% in 2002 to 1.73% in 2013. We would expect that current fee levels in relation to legacy products would be similar to those stated in our 2002 report. Therefore, we estimate that the fees for contemporary personal superannuation products is approximately 1.52% compared to 2.23% for their legacy counterparts.

12. Retail retirement income products

12.1 Nature of retirement income products

Retirement products cover a range of individual, retail, regulated products. They provide full operating, communication services and a number of investment options.

They do not accept regular contributions, being designed to convert a lump sum amount at retirement into a regular income stream. Products include guaranteed lifetime and term certain annuities, and account based pensions.

12.2 Market data

Account based pensions/annuities account for 93% of the assets of the segment, and guaranteed annuities (i.e. term certain and lifetime annuities) for the other 7% (4% lower since our previous report). Annual charges for account based pensions are slightly lower than charges for personal superannuation due to the economies of scale gained from the much larger average balances. These outweigh the additional operating costs associated with paying pensions and the higher utilisation of services such as the call centre by pension members.

We estimate that the average charge for account based pensions equates to 1.71% of assets.

Fees for guaranteed annuities are embedded in their pricing. As such there is no explicit charge. However, we estimate an implicit charge of approximately 2.00% of assets based on our knowledge of the market. This fee includes the cost of the guarantee provided and is the same as our previous estimate for the year to 30 June 2011.

12.3 Current fee charges

Based on the previous section and our sub-division of the APRA data, we estimate that retirement income members were charged \$2,359 million in the year to 30 June 2013. This is equivalent to 1.64% of average retail retirement income assets over the year to 30 June 2013.

Table 48. Retail retirement income product fees

| Retail retirement income product fees ¹ – Year to 30 June 2013 | | | |
|---|-----------------|------------------------------|---------------|
| Account based pensions Account Balance | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
| >\$1 million | 8,019 | 1.15 | 83 |
| \$500,000 - \$1 million | 24,720 | 1.31 | 286 |
| \$250,000 - \$500,000 | 41,594 | 1.48 | 547 |
| \$100,000 - \$250,000 | 46,803 | 1.70 | 705 |
| \$50,000 - \$100,000 | 18,292 | 1.97 | 319 |
| \$25,000 - \$50,000 | 5,926 | 2.31 | 121 |
| <\$25,000 | 1,694 | 2.87 | 43 |
| Total Account based Pensions/Annuities | 147,047 | 1.61 | 2,104 |
| Guaranteed Annuities | 11,586 | 2.00 | 255 |
| Total Retail Retirement Income | 158,632 | 1.64 | 2,359 |

¹ Expressed as a percentage (%) of *average* retail retirement income assets over the year to 30 June 2013.

The breakdown of the overall fee rates by function is set out in Table 49.

Table 49. Retail retirement income product fee rate (%) – Year to 30 June 2013

| Retail retirement income product fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|---|-------------|-----------------------|-------------|-------------|
| Account balance | Operating | Investment management | Adviser | Total |
| >\$1 million | 0.35 | 0.45 | 0.35 | 1.15 |
| \$500,000 - \$1 million | 0.39 | 0.51 | 0.40 | 1.31 |
| \$250,000 - \$500,000 | 0.44 | 0.59 | 0.45 | 1.48 |
| \$100,000 - \$250,000 | 0.51 | 0.67 | 0.52 | 1.70 |
| \$50,000 - \$100,000 | 0.61 | 0.76 | 0.59 | 1.97 |
| \$25,000 - \$50,000 | 0.75 | 0.87 | 0.68 | 2.31 |
| <\$25,000 | 1.06 | 1.00 | 0.81 | 2.87 |
| Total Account based Pensions | 0.49 | 0.63 | 0.49 | 1.61 |
| Total Guaranteed Annuities | 1.25 | 0.50 | 0.25 | 2.00 |
| Total Retail Retirement Income | 0.55 | 0.62 | 0.47 | 1.64 |

¹ Expressed as a percentage (%) of *average* account based pension assets over the year to 30 June 2013.

The total fee rate of 1.64% is lower than our previous estimate of 1.75% for the year to 30 June 2011. The overall reduction in the total fee rate of 11 basis points is a function of:

- decreased operating fees of 7 bps
- decreased investment management costs of 5 bps
- increased adviser fees of 2 bps.

Note that these numbers do not add to the actual 11 bps reduction due to rounding.

The changes in fees are a result of:

- a shift from active to indexed investments
- increased competition between investment managers
- consolidation of funds leading to higher investment mandates.

12.4 Comparison to other retirement income products

Table 50 contains our estimate of the fee rates by function for each segment with retirement income products. The table shows that:

- The total fee rates for retail retirement income products are greater than the other segments by between 0.71% and 1.05% (this is lower than the margin that we estimated in our previous report).
- Retail retirement income products are dearer for all functions. This largely reflects the difference in distribution channels used and the broader range of product options available in the retail segment.

Table 50. Comparison of retirement income products fee rates – Year to 30 June 2013

| Segment | Operating | Investment management | Adviser | Total |
|---------------|-----------|-----------------------|---------|-------|
| Corporate | 0.12 | 0.47 | 0.02 | 0.62 |
| Industry | 0.24 | 0.65 | 0.04 | 0.93 |
| Public Sector | 0.09 | 0.45 | 0.04 | 0.59 |
| Retail | 0.55 | 0.62 | 0.47 | 1.64 |
| Small Funds | 0.18 | 0.54 | 0.15 | 0.87 |

12.5 Cost of legacy products

Charges in legacy products will tend be higher than those for contemporary products currently on sale. However, legacy products comprise only a small part of the retail retirement income segment; we estimate around 8% of retail retirement income assets are held in legacy products (based on previous FSC fees surveys and our knowledge of the segment).

Since 2002, the total fees for retail retirement income products have reduced significantly, from 2.02% to 1.64% in 2011. We would expect that current fee levels in relation to legacy products would be similar to those stated in 2002. Therefore, we estimate that the average overall fee rate for contemporary retail retirement income products is approximately 1.61% compared to 2.02% for their legacy counterparts. Refer to Section 3.5 (Cost of legacy products) for further commentary.

13. Other retail products

13.1 Retirement Savings Accounts (RSAs)

13.1.1 Nature of RSAs

Retirement Savings Accounts are capital guaranteed superannuation accounts operated by financial institutions without any trust arrangement. Contributions to these products can be made by employers or members. They are run like simple bank accounts and do not include any superannuation services or financial advice.

The RSA market is dominated by credit unions that constitute eight of the ten providers. There are also RSA 'look-alikes' offered as an investment option in some master trusts.

13.1.2 Market data

Information on the RSA market is limited. APRA provides statistics on the total assets of RSAs but there are no statistics on the number of accounts held in RSAs. The lack of information on this market segment makes it difficult to estimate the underlying fees.

In previous reports we have estimated total RSA fees of 2.30% of average assets. The previous fee rate estimates were based on the spread between the interest rates credited to RSAs and the 180 day bank bill rate since almost all RSA providers do not charge explicit fees. The fee ranges implied by the interest rate spread for the year to 30 June 2013 are set out in Table 51.

Table 51. RSA range of fees for the year to 30 June 2013

| Fee type | Typical fees |
|-----------------------------|-----------------|
| Account Keeping/ Member Fee | \$0 – \$30 p.a. |
| Implicit Fee | |
| \$0 - \$4,999 | 0.80% - 2.75% |
| \$5,000 - \$9,999 | 0.50% - 2.00% |
| \$10,000 - \$49,999 | 0.00% - 1.80% |
| Over \$50,000 | 0.00% - 0.90% |

Given the wide range of fees and the lack of any average account balance statistics (although we expect them to be relatively low); it is not easy to identify trends in total RSA fees.

RSAs are generally supported by relatively stable assets such as cash and short-term fixed interest securities.

Given the fall in the spread between interest earned in an RSA and the 180 day bank bill rate we have revised our fees estimate down to 0.70% of average RSA assets for the year to 30 June 2013.

13.1.3 Current fees

The fee rate of 0.70% of RSA average assets totals \$12 million for the year to 30 June 2013.

Table 52. RSA fee summary

| Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
|-----------------|------------------------------|---------------|
| 1,900 | 0.70 | 12 |

¹ Expressed as a percentage (%) of *average* retirement savings account assets over the year to 30 June 2013.

The estimated RSA fee rates by function are shown in Table 53.

Table 53. RSA fee rate (%)

| Retirement Savings Account fee rate ¹ (%) – Year to 30 June 2013 | | | | |
|---|-------------|--------------------------|----------|-------------|
| | Operating | Investment management | Advice | Total |
| Total Retirement Savings Account | 0.60 | 0.1 | - | 0.70 |

¹ Expressed as a percentage (%) of *average* Retirement Savings Account assets over the year to 30 June 2013.

We note our fee estimate for RSAs is not material in the context of the overall superannuation market. RSAs comprise only a small segment of the market, approximately 0.1% of total superannuation assets at 30 June 2013.

13.2 Eligible Rollover Funds (ERFs)

13.2.1 Nature of ERFs

When a member leaves a superannuation fund and gives no direction as to how their account is to be administered, the trustee of the fund may transfer the account to an Eligible Rollover Fund. ERFs consist of many small accounts and have traditionally maintained a conservative investment style.

Given recent changes to rules regarding member protection and the increase in the threshold above which lost accounts are transferred to the ATO it is expected that this segment will disappear over the coming years.

The ERF market is estimated to total approximately \$5,468 million at 30 June 2013.

13.2.2 Market data

We have used fund documents and the *2013 APRA Superannuation Fund-level Profiles and Financial Performance* publication to estimate the size of the ERF market. We have also used the ERF fund documents to estimate the fees. Our fee estimates are based on the entire ERF market.

13.2.3 Current fee rates

We estimate that ERF members paid fees of \$124 million in the 12 months to 30 June 2013.

Table 54. ERF fees summary

| Accounts (’000) | Assets (\$m) | Fee rate ¹ (%) | Fees (\$m) |
|--------------------|-----------------|------------------------------|---------------|
| 4,043 | 5,468 | 2.43% | 124 |

¹ Expressed as a percentage (%) of *average* Eligible Rollover Fund assets over the year to 30 June 2011.

The estimated ERF fee rates by function are shown in Table 55.

Table 55. ERF fee rate (%)

| Eligible Rollover Fund fee rate ¹ (%) – Year to 30 June 2011 | | | | |
|---|-------------|--------------------------|----------|-------------|
| | Operating | Investment management | Advice | Total |
| Total Eligible Rollover Fund | 1.97 | 0.46 | - | 2.43 |

¹ Expressed as a percentage (%) of *average* Eligible Rollover Fund assets over the year to 30 June 2013.

The estimated total fee rate is 3 bps higher than our previous estimate of 2.40%. The increase in the total fee rate is the combination of a 2 bps increase in operating fees and a 1 bps increase in investment management fees.

The ERF segment remains the most expensive in the Australian superannuation market. The high total fee rate is not unexpected given the low average account balance in this segment (less than \$1,000 per account).

Appendix A Variations between segments

In this appendix we illustrate how fees and expenses vary by segment. As noted in the report, it is possible to conclude that some segments are more expensive than others. However, there are several reasons for the differences and they need to be understood before any direct comparison can be made.

Table 56 shows the items that have affected average fee/expense levels in each segment.

Table 56. Factors influencing fee levels

| Segment | Influence to higher fees | Influence to lower fees |
|---------------------------------|--|--|
| Corporate | <ul style="list-style-type: none"> Complex benefit design (sometimes defined benefit) Heavy consulting and compliance costs In-house operating | <ul style="list-style-type: none"> High average balances High membership Single payroll Subsidy from employers Limited advice |
| Industry | <ul style="list-style-type: none"> Compliance costs for the public offer funds Higher marketing expenses to counter Choice of Fund No discounts for large employer groups Low average balances High level of manual transactions Cost of member protection Subsidy of financial advice services | <ul style="list-style-type: none"> Large membership The cost of full personal financial advice is not included in the product costs Lack of flexibility Fund mergers Basic platforms with lower levels of management information for clients (and no facility to provide supporting documentation for advisers) |
| Public Sector | <ul style="list-style-type: none"> Some defined benefit costs Subsidy of financial advice services | <ul style="list-style-type: none"> Large membership Small number of payroll sites High level of electronic transactions High average balances The cost of full personal financial advice is not included in the product costs |
| Self-Managed Super Funds | <ul style="list-style-type: none"> Stand-alone documentation High compliance costs per member Small membership | <ul style="list-style-type: none"> Very high average balances Direct investments with low transaction fees Only a small number of funds use regular financial planning advice Self-operating and 'other' costs are not captured |

| Segment | Influence to higher fees | Influence to lower fees |
|--------------------------------------|--|--|
| Corporate Super Master Trusts | <ul style="list-style-type: none"> ▪ Significant levels of investor choice ▪ Flexible benefit design ▪ Large emphasis on education ▪ Financial advisers for employers and employees ▪ Compliance costs for public offer funds ▪ Large number of investment options | <ul style="list-style-type: none"> ▪ Discounts for larger employer groups ▪ Reasonable average balances ▪ Fund mergers ▪ Discounts below 'rack rate' in competitive tenders as funds compete aggressively in a market with limited opportunities |
| Personal Super | <ul style="list-style-type: none"> ▪ Significant levels of investment choice ▪ Flexible benefit design ▪ Large emphasis on education ▪ The cost of personal financial advice is included in the product costs ▪ Compliance costs for public offer funds | <ul style="list-style-type: none"> ▪ Competition between products and platforms ▪ Larger than average balances ▪ Moving towards passive investments ▪ Moving towards lifecycle options, lower level of expensive growth assets |
| Retirement Incomes | <ul style="list-style-type: none"> ▪ Personal financial advice ▪ Compliance costs for public offer funds ▪ Complexity of legislation ▪ Regular payments, PAYE Tax | <ul style="list-style-type: none"> ▪ Very high average balances |
| Retirement Savings Accounts | <ul style="list-style-type: none"> ▪ High interest margin held by banks ▪ Low average balances ▪ Low volumes | <ul style="list-style-type: none"> ▪ Simplicity of product ▪ Absence of advice ▪ Minimum servicing of account |
| Eligible Rollover Funds | <ul style="list-style-type: none"> ▪ Low average balances ▪ Low volumes | <ul style="list-style-type: none"> ▪ Simplicity of product ▪ Absence of advice ▪ Minimum servicing of account |

Despite the differences in the segments, fees across all segments are converging with the introduction of MySuper.

Appendix B Charging structures

B.1 Method of calculating fees

Each segment of the superannuation industry charges its members in different ways and the benefits and service levels vary between them.

In this appendix we provide a more detailed picture of the various superannuation market segments and explain the fees and other expenses charged to members within the various segments.

B.2 Charging methods

While some employers, particularly those running defined benefit funds, subsidise the costs of managing superannuation, almost all corporate funds now recover costs by charging a fee to members.

Superannuation funds charge their members a variety of fees as shown in the Table 57. Some funds (such as retail master trusts) apply all of these charges, while others (such as industry funds) prefer to combine all charges into a simpler structure comprising just a member fee and an asset fee.

Table 57. Types of fees

| Type of cost | Method of charging |
|------------------------------|---|
| Operating fees | Fixed dollar amount per member; and/or percentage of assets, plus percentage of contributions (for smaller sub-funds) |
| Trustee fees | |
| Cost of compliance | |
| Fund Manager, Custodian | Percentage of assets |
| Benefit payments | Fixed dollar amount per transaction |
| Insurance | Percentage of insurance premium - profit-sharing |
| Distribution and advice fees | Percentage of contribution |
| | Percentage of assets |

In addition, several funds charge fees for the advice provided in establishing an account. These amounts vary from case to case.

In this report, we have converted complex charging scales back to simple scales for comparative purpose.

B.3 Comparing fees

The comparison of fees charged by any two specific superannuation products can be complicated. This is because each fund/product will have its own unique charging structure based on a combination of the different charging methods outlined above.

ASIC has gone some way to addressing this problem by mandating that super funds must use a fee template in its Product Disclosure Statements (PDSs) in a format prescribed by ASIC. This includes the disclosure of:

- the type of fee, e.g. dollar based fee, asset based fee etc.
- the dollar amount expected to be charged
- when the fee is expected to be levied, e.g. weekly, monthly, annually
- how the fee is to be charged, e.g. by a deduction from the member's account, by a reduction in the crediting rate, etc.

Investment management fees are required to be included in this template.

In addition to this, ASIC requires a single annual fee example using an opening account balance of \$50,000, annual contributions of \$5,000 and investment in an appropriate 'balanced' investment option.

We note that the introduction of MySuper has limited the types of fees that funds are able to charge members. Fees a member can be charged in MySuper products are limited to:

- administration fee
- investment fee (including a performance-based fee)
- buy and sell spreads (limited to cost recovery)
- exit fee (limited to cost recovery)
- switching fee (limited to cost recovery).

In addition, trustees may charge fees for certain member-specific costs initiated by the member or a court; for example, account splitting following a family law decision.

B.4 Large Employers

Employers with larger businesses often have their own corporate superannuation funds. Analysis of these and their fees and expenses is set out in Section 6 (Corporate funds) of this report

Other larger employers 'outsource' their superannuation to industry funds and corporate super master trusts (the latter categorised as retail business by APRA). The fees and expenses of these are analysed in Section 7 (Industry funds) and Section 10 (Corporate super master trusts) of this report.

B.5 Medium and small employers

Medium and small employers tend to participate within retail master trusts or industry funds to discharge their compulsory superannuation responsibilities. The employers choose the fund for their employees. If there is a strong union influence or a strict mandate from an industrial award, an industry fund is used. If there is no restriction, the employer will often select a master trust, often with the assistance of an adviser.

The majority of businesses are small and have the following characteristics:

- they belong to a multi-employer fund
- they have an accumulation benefit design

- members pay for their own insurance
- few employers subsidise the costs of the fund
- they pay contributions at the compulsory superannuation guarantee rate only
- they tend to use a default investment and insurance structure (in other words, they are not interested in setting benefit design)
- the owner will usually participate within the fund on a minimalist basis.

Analysis of the fees and expenses of medium and small employers' superannuation arrangements are set out in Section 10 (Corporate super master trusts) of this report.

Some small employers (proprietors) contribute to a 'small' fund (i.e. where the number of members is less than five). Small funds are analysed in Section 9 (Small funds).

Appendix C Re-classified funds

There are a number of funds that we have re-classified (from APRA's classifications) to market segments we believe are more consistent with their characteristics. Table 58 contains details of all the funds we have re-classified.

Table 58. Re-classified funds

| Fund | Market segment classification | | Statistics at 30 June 2013 | |
|--|-------------------------------|---------------|----------------------------|--------------|
| | RWA | APRA | Accounts ('000) | Assets (\$m) |
| Australia Post Superannuation Scheme | Corporate | Public Sector | 44 | 6,704 |
| Australian Christian Superannuation | Industry | Corporate | 4 | 62 |
| AV Super | Industry | Public Sector | 6 | 1,493 |
| Electricity Industry Superannuation Scheme | Industry | Public Sector | 3 | 933 |
| Energy Industries Superannuation Scheme | Industry | Public Sector | 22 | 4,064 |
| Guild Retirement Fund | Industry | Retail | 68 | 884 |
| Nationwide Superannuation Fund | Industry | Retail | 69 | 474 |
| Quadrant | Public Sector | Industry | 8 | 637 |
| Vision Super | Public Sector | Industry | 3 | 622 |