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Ms Yvette Goss
Superannuation
Productivity Commission
Locked Bag 2, Collins Street East
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9 September 2016

Dear Ms Goss

Thank you for the opportunity to provide comment on the Productivity Commission's draft report titled 'How to Assess the Competitiveness and Efficiency of the Superannuation System'. Please find attached QSuper's submission outlining key issues for consideration.

For over 100 years, QSuper has been the trusted partner and default superannuation fund of the Queensland Government, helping public sector employees and their spouses create a better financial future. QSuper is one of the country's largest and most trusted superannuation funds with a membership of over 550,000, more than $65 billion in funds under management and more than $93 billion in accounts under administration.

QSuper is a solely Queensland-based financial institution, with specialist experience and capability in meeting the superannuation and insurance needs of Queensland public servants.

QSuper commends the Productivity Commission on the comprehensive nature of the draft report and acknowledges the significant challenges the Commission faced in its preparation. Our submission does not seek to comment on all elements of the draft report, and is restricted to elements where QSuper can add greatest value to the Commission's deliberations. We remain committed to working actively and constructively with the Commission as it progresses through its process.

We would welcome the opportunity to discuss our submission and to assist further. In the first instance, please contact Mr Glen Hipwood, Executive General Manager Strategy and Performance

Yours sincerely

Michael Pennis
Chief Executive Officer

Submission to Productivity Commission Draft Report

How to Assess the Competitiveness and Efficiency of the Superannuation System

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QSuper's Submission

Context

On 2 August 2016, the Productivity Commission (PC) released "How to Assess the Competitiveness and Efficiency of the Superannuation System – Draft Report" (the report) and invited written submissions.

The report is in response to a request from the Australian Government on 17 February 2016 to develop criteria to assess the efficiency and competitiveness of the superannuation system. The report forms part of the first stage of a three stage process the PC will conduct culminating after the full implementation of the MySuper reforms (post July 2017).

QSuper welcomes the comprehensive nature of the report and acknowledges the significant challenge the PC faced in preparing it. QSuper also acknowledges the broad intent of the report and supports any actions that can be taken to enhance the Australian retirement system.

While there are always improvements to be made, it is important to acknowledge the Australian system is widely recognised globally as one of the leading retirement systems. That said, there is no question that more can be done to enhance the system and to support members throughout their lifetime to reach their retirement goals.

QSuper believes that this is best achieved by a combination of good governance and quality default settings supported by education, advice and member support. This will be most effective where there is regulatory certainty and support towards a common goal.

Given the breadth of the PC's report, QSuper has not sought to comment on all aspects. Rather this submission consists of two parts:

- commentary on the proposed system level objectives; and
- specific criteria, indicators and information requests, where QSuper can offer insight.

Part 1: The Objectives of Superannuation

The PC has proposed five system level objectives for Australia's superannuation system with the rationale that they are designed to link back to the Australian Government's primary objective of superannuation[1] 'to provide income in retirement to substitute or supplement the Age Pension'.

Whilst broadly supporting the Australian Government's primary objective for the system, QSuper continues to contend that the objective of the superannuation system should incorporate a single "standard", which takes the form of a "comfortable standard of living in retirement", and includes a target for an increasing number of members to meet that standard.

QSuper acknowledges that satisfying all stakeholders in the selection of a standard or target may be difficult. However, this would allow the Australian Government and others, such as the PC, to evaluate the impacts of policy decisions and the success of the retirement income system overall. Further, QSuper believes that having such a measure of success would help the PC frame its system level objectives and ensure a collective focus on maturing the system to transition from a primarily accumulation oriented system to one of retirement income provision.

System level objectives

QSuper's response to the system level objectives has two main tenets:

1. The primary focus on cost may distract from the more important goal of delivering value to members. Value, rather than cost, is a higher standard and should have regard to member outcomes supported by financial advice and ancillary services that meet members' expectations and needs; and
2. Linked to the above, QSuper contends that adopting net returns exclusively to assess competition in the system is sub-optimal.

In summary, QSuper believes:

1. Efficiency is critically important but must be considered in the context that overall member value should be the primary goal;
2. Measurement of value should be multi-dimensional, taking into account fees (price), net investment returns and member satisfaction (measured via accepted Net Promoter Score (NPS) methodology);
3. Net risk and tax-adjusted returns are an appropriate measure but should be enhanced to measure a fund's success in delivering against their stated objective; and
4. Quality defaults are critical and will only become more so in the future.

The below provides additional context for the PC's consideration.

1. Focus on value over cost

QSuper contends that an emphasis on cost rather than value has the potential to materially impact members achieving adequate retirement outcomes. Members would be better served by receiving exceptional value from their fund.

> Members are better served by receiving exceptional value from their fund, and an undue focus on cost may lead to negative consequences from competition based on cost alone.

Fund members seek confidence their fund can support them in achieving a comfortable standard of living in retirement and this does not necessarily relate directly to provision at the lowest cost. A primary focus on cost is likely to lead to the adoption of low cost passive investment strategies, funds being unable (or unwilling) to provide sufficient levels of service and advice/assistance, and less than optimal product solutions (and defaults).

While supporting the position that returns and low fees are important to achieving the objectives of the system, member and ancillary services such as qualified financial advice, service and self-help tools are also integral to providing confidence to an individual's retirement outcome.

1 How to Assess the Competitiveness and Efficiency of the Superannuation System – Draft Report; Productivity Commission, page 4.

QSuper is therefore supportive of the PC's recognition that members place value on services, when it states in relation to Net Returns;

'An assessment of this objective also needs to take into account other relevant outputs, such as member and ancillary services. For example, some members may place a high value on the level of service quality (beyond investment returns) they receive from their superannuation funds'.[2]

What Members Value

Members are seeking high levels of service and advice, security and stability. This includes regulatory certainty.

Since the Global Financial Crisis (GFC), there has been a heightened sense of awareness among consumers when it comes to superannuation. Consequently, there is an increased consumer expectation around 'value for money' rather than simply cost, and an assurance their superannuation fund is working as hard as it can to secure their financial security in retirement.

QSuper research indicates that while members value strong returns and low fees, they are also seeking help, guidance and advice, security and stability. For a system that has an objective of income in retirement, QSuper contends that security, stability and certainty measures must therefore be part of any assessment criteria. As we continue to experience times of economic uncertainty, members will increasingly look to these attributes as a means of differentiating providers to achieve their financial goals.

This must be supported by regulatory certainty. Ongoing regulatory change impacts the system in two ways – it contributes to higher regulatory costs on funds but, perhaps more importantly, materially erodes confidence in the system and this has potentially exacerbated perceived lower engagement in the system.

It is also relevant that members do not consider their superannuation fund in isolation to their other financial institutions such as banks and insurance companies. These adjacent industries continue to enhance their services, and digital offerings and members rightly expect their funds to deliver a similar experience. The expectation that their superannuation fund must provide sophisticated, cross-channel engagement options for what is often their largest financial asset, means that funds must offer services that are "on par" with these institutions to remain a viable option for members seeking an alternative to commercial retail funds and providers.

Many members also strongly indicate they do not want to be commoditised. They are seeking their funds to offer only relevant products and services for their personal circumstances and to proactively communicate with them at key moments of truth. Being treated as an individual – whether through a customised investment strategy, provision of advice or other engagement – will increasingly be demanded from members, particularly as demographic changes flow through the system.

Changing demographics are also increasing the demands on funds as members increasingly seek personalised guidance and advice, linked primarily to the realisation that retirement is approaching but also in response to ongoing legislative change. Members over the age of 50 are materially higher consumers of products and services from funds and this cohort is an increasing part of funds' memberships.

To adequately meet these needs, significant future investments in services and products are inevitable. A fund's ability to deliver value in the future will therefore be invariably linked to having the scale to invest in value-adding products, services and advice. Scale therefore plays a key role and should be considered in the context of not only available financial resources but also an appropriately skilled workforce.

Past financial system reviews have made the observation that funds have not appropriately leveraged their scale to improve outcomes to members. However, in QSuper's case, QSuper decided to leverage its scale by launching its own wholly-owned life insurance company, QInsure. QInsure was established after careful consideration and assessment of our members insurance cover needs and expectations. It was only after the market was unable to meet QSuper's high standards of cover at an acceptable value for all occupations (including Police and Emergency Services workers) that QSuper elected to use its scale to deliver material financial and cover option benefits for its members.

2 How to Assess the Competitiveness and Efficiency of the Superannuation System – Draft Report; Productivity Commission, page 68

The lowest cost product is not always the best value product nor the best solution to achieve a member's retirement outcome.

In other industries, consumers will rarely, if ever, consider the costs incurred by a manufacturer of a product when deciding on what particular brand of product to purchase. Rather, a main driver of consumer choice is the price (fee in the context of superannuation) and the 'value' received for this price.

Member insurance premiums, for example, are a case-in-point and are impacted by a number of factors. Operational cost is one of these, but more significant are claims experience, investigation costs and risk control. Delivery of effective claims management is a key driver of the level and sustainability of member premiums, and this may require higher operational costs initially to deliver appropriate return-to-work outcomes and ultimately improve members financial wellbeing. Risk control is also a key factor, and for members, this means access to cover, certainty of benefits at point-of-claim and availability of member choice and product flexibility.

In summary, with regard to value and cost, QSuper contends:

- Value rather than cost is the most important measure of system success;
- Lowest cost is not perfectly correlated to enhanced member outcomes;
- Changing demographics and member expectations will continue to place upward pressure on the system as demand for multi-channel products, services and advice intensifies; and
- Funds must continue to drive further efficiencies to deliver expected products and services within acceptable fee ranges.

Proposal for a Benchmark/Measure to Assess Fund Value

QSuper proposes the following benchmark/measure to assess fund value, made up of:

1. the total fee/MER charged by a fund/s;
2. a common "net-returns value" measure. In addition to after fees and tax returns, this incorporates a Confidence Index (see Part Two of this paper) indicating how reliable a fund has been at reaching its stated investment objectives over a specified time period; and
3. NPS as a good proxy for determining member satisfaction with products (including returns), services and fees.

A score determined by applying this formula would give a single score or dashboard. This would act as a proxy illustration of value and could take the form of a Star Rating system, in a similar way as the five-star rating system indicates energy efficiency for appliances.

A simplistic example is provided below and leverages QSuper's position on Net Returns and benchmarking as set out in Part Two of this paper.

Fund A

Total MER (fee) to member 60bps
Net after fees and tax return over 10 years = 6%
Success in achieving investment objective over 10 years = 80%
NPS score of Fund = 10

Fund rating = 60bps x .06 x .8 x 10 = 28.8
Assuming the agreed band for a "four star" rating is between 25 and 30, this fund would be a Four Star Fund

Note: Different weightings could be applied to each component of the measure

Engaging with members

QSuper agrees the ultimate aim should be for every member to be actively engaged with their superannuation fund. However, QSuper acknowledges this aspiration is one that will only be fulfilled over the long-term and there is no universal definition of engagement.

Like a number of funds, QSuper invests significant resources into proactively communicating to members and providing multi-channel tools, guides and advice to its members. QSuper has also implemented a multi-dimensional Master Segmentation model which segments the total membership based on age, demographics, behavioural and attitudinal elements. This assists QSuper to understand an individual's situation and provide relevant communication and services to suit individual preferences. Overwhelmingly, members are appreciative of proactive and relevant engagement.

Engagement is generally measured in the industry based on the number and nature of a member's recent interactions with the fund. However, QSuper acknowledges a member's true level of engagement is difficult to measure and segmentation and other indicators may not accurately represent all members. Members may be classified as 'engaged' but consciously they are not. Similarly, some members may seem to be disengaged, when in reality these members have taken conscious steps to consider their superannuation and have concluded they trust their fund to make the decisions on their behalf.

While engagement with superannuation may not appear to be as high as other wealth services, there are valid reasons for this as noted by the PC. This includes that superannuation is compulsory, long-term, and increasingly subject to regulatory change and uncertainty. It is also important to acknowledge that within the industry, members join funds using different paths. In Self Managed Super Funds (SMSFs) and retail funds the point of entry is often assisted by financial advisors. By definition, the fund entry process is therefore active and these members are often considered to be engaged as a result.

For the vast majority of members, they join a superannuation fund via their employer through some form of default process. For many, particularly young members, this "automatic" process provides the opportunity for them to take a passive role for reasons stated above.

QSuper's member research has consistently revealed that when members are active with their fund and avail themselves to advice and education provided through the Fund, they are more likely to retire with a better financial position.

It is widely accepted that members increasingly engage with superannuation as they approach retirement and their account balance rises. Given the varied demographic profiles of funds and accounts across the system, and thus membership engagement levels, any system criteria must reflect these differentiating membership characteristics in the system and be applied consistently across all funds.

Alternatively, engagement could be benchmarked at a specific membership age for all funds. QSuper proposes that age 40 to 45 is where consistent engagement with the fund begins, and where the right decisions and actions can still have a material impact on a member's retirement outcome. However, this measure, while providing a single benchmark of engagement, does not provide insight into the success of various funds and the system in building engagement over the lifetime of a member.

The difficulty of accurately measuring engagement and the multi-dimensional approach required leads QSuper to contend that engagement should only be a supportive factor in assessing the efficiency and competitiveness of the system.

The value of default products

Given the views expressed above, QSuper strongly advocates the importance of quality default products and services. Whilst the ideal outcome is for every Australian to be actively engaged with their superannuation and to receive ongoing, comprehensive personal financial advice, it is clear this is not possible or practical.

It is therefore imperative that default products and services provide high quality with low fees, to ensure that members receive value-for-money at all stages of their life - regardless of whether or not they are actively engaged with their superannuation. Critical to this, QSuper believes that one-size-fits-all defaults cannot be expected to sufficiently meet the needs of individual members and this personalisation approach is the philosophy behind QSuper Lifetime, our MySuper default product.

QSuper Lifetime uses age and account balance to group members, and provide tailored investment strategies based on lifecycle principles. Whilst age is applied as a reasonable proxy for member risk tolerance and preference in traditional lifecycle and target-date funds, the addition of account balance criteria creates the opportunity for greater personalisation of investment strategies.

In addition, instead of using asset volatility as a risk measure, Lifetime assesses the risks relative to projected retirement outcomes and applies asset/liability management methodologies rather than just maximising risk-adjusted returns. The considerations (risks) assessed include adequacy risk, contributions risk, sequence risk, inflation risk, interest rate risk, long-term real returns risk, longevity risk, uncertainty of outcomes, legislative risk and risks relating to the eligibility and level of future Age Pension entitlements.

QSuper is currently seeking to further personalise Lifetime through using more available information. Examples of these include the potential addition of other regulatory prescribed factors such as gender (to allow for career breaks, life expectancy differences) or contribution level (many accounts are inactive). QSuper also seeks to extend the Lifetime retirement income, outcomes-based methodology into the retirement phase, including consideration of longevity risk management strategies.

Going forward, QSuper believes default structures will become even more important for the development of retirement products. In particular the Government's consideration of a Compulsory Income Product in Retirement reinforces this.

2. Net returns and benchmarking

The PC has proposed a system level objective of *"The superannuation system maximises net returns on member contributions and balances over the long term"*[1] and introduces the concept of a reference portfolio to assess performance.

Net risk and tax-adjusted returns are an appropriate measure which should be enhanced to include a measure of a fund's success in delivering against its stated objective.

QSuper acknowledges that members place a great deal of emphasis on returns when assessing funds. We believe the focus on short-term returns is not in the best interest of members or consistent with the long-term nature of superannuation.

Without clear guidance, adopting a blanket net return objective may lead to a return of a one-size-fits-all approach, which seeks to maximise short-term net returns through low cost, low fee products that do not necessarily deliver value and protect members from inherent risks. This may lead to unintended negative consequences, as has been highlighted in the industry which found that low fees have little correlation with fund performance or retirement outcomes.[2]

QSuper believes using a reference portfolio to compare average returns across the industry is not appropriate. The selection of a reference portfolio may become the risk-free position for the industry and lead to some funds simply matching or tightly managing to a benchmark or reference portfolio to avoid competitor risk. This ultimately stifles innovation and results in poorer investment outcomes for members.

QSuper advocates that funds must differentiate members. Members are not homogenous, and funds must pay regard to these differences when constructing products – particularly defaults. In particular, different risks matter for different members and this will change depending on the member's stage of life. QSuper therefore contends that the net return objective must be carefully constructed, is adjusted for risk and tax, and includes a measure of the success of funds meeting their stated objective. This will provide quantifiable guidance on the credentials of a fund to deliver stated member objectives and improve confidence in outcomes.

1 How to Assess the Competitiveness and Efficiency of the Superannuation System – Draft Report, Productivity Commission page 4.
2 'Low super fees far from best', SuperRatings, Media release 27 April 2015

Confidence Index

As stated in its submission to the Financial System Inquiry, QSuper believes that Trustees should focus on achieving their stated objectives.

QSuper contends that funds should be held to account on the basis of the consistency of meeting stated investment objectives, targeted towards the delivery of the primary objective of a comfortable standard of living in retirement.

This could take the form of a 'Confidence Index' that measures the success of a fund achieving its investment objectives.

If the goal of a fund is a generic CPI+% target, how often has the fund achieved that over each of the last five or ten years? Or, if the fund has a goal of members achieving target amounts, how successful has the fund been?

QSuper submits that a measure designed in such a fashion would better direct funds to focus on the consistency of investment performance against the commitment given to members.

In relation to Net Returns and Benchmarking, QSuper contends:

- Net return objectives must be adjusted for risk and tax and include a measure of success in meeting the fund's stated objectives;
- Adopting a blanket risk-return objective may lead to a one-size-fits-all approach that reinforces a culture of tightly managing to a benchmark;
- Any measure must test whether the individual risks faced by members are being managed;
- The selection of a reference portfolio may have the unintended consequence of becoming the risk-free position for the industry;
- Creating a system-wide reference portfolio may ultimately lead to poorer investment outcomes for members; and
- The current inconsistency in the disclosure of fees must be addressed as a priority and codified in legislation. A failure to address this key input will materially impact the usefulness of this measure. Should legislation seek to establish a system level objective, then there must be absolute clarity of the component inputs. An example of this are fees, which the Australian Securities and Investments Commission (ASIC) is seeking to address through the release of the amended Regulatory Guide 97.

Further explanation of QSuper's views on benchmarking returns and the use of a reference portfolio can be found in Part Two of this submission. In particular, QSuper also recommends the PC considers input-based measures to performance as a test of whether risks consistent with the objectives of superannuation are being managed across the industry. QSuper appreciates that while the range of risks members face to manage their retirement can be difficult to measure, they must be contemplated in designing products to satisfy individual members' preferences for certainty of retirement outcomes.

Part 2: QSuper's response to information requests, proposed criteria and proposed indicators

Overview

In responding to the PC's specific Information Requests, QSuper has focused on areas where we believe we can offer insight and where issues have previously been raised.

QSuper's Response to Information Requests	
Information Request	**QSuper's View**
Are there benchmarks for optimal asset allocation by age cohort? Do these benchmarks have widespread support in the financial literature?	The vast majority of superannuation funds have a single default MySuper product which has a generic investment strategy and does not take into account a members' differing circumstances. This has been largely historical with some funds, such as QSuper, employing different investment strategies based on a member's age. In QSuper's case, QSuper Lifetime (QSuper's MySuper product), has gone one step further and applies different investment strategies for members based on their age and their account balance. With respect to the specific question posed by the PC in this information request, there is not a benchmark for optimal asset allocation by age cohort. As noted in the draft report it is 'impossible to define what optimal asset allocation looks like'. **1. Age-based asset allocation** The decision to adopt a different asset allocation for different ages must, by nature, be at a high level and based on managing a variety of risks. Managing asset volatility and sequence risk is prioritised at later ages at the expense of a potential upside in adequacy and longevity risk for example. This may be considered in terms of expected risk preferences, where older members tend to be more conservative, particularly around the time to retirement. The extent of the lifecycle asset allocation is broadly influenced by a starting point, the speed, the end point and the extent of de-risking (i.e. how conservative is the end point). Each of these components is subject to much debate and may be influenced by the demographics for a given fund (e.g. those funds with higher member balances may be more inclined to desire a more conservative asset allocation close to retirement as these members have more capital at risk). Ultimately, there is not an optimal asset allocation for a given age. **2. "To" versus "through" retirement** In a 'to retirement' framework, an age-based asset allocation would predominantly focus on de-risking up to a point of retirement, for the purpose of protecting a lump sum (or the value of the superannuation balance around retirement) against sequence risk. Alternatively, if risk management involves investing through retirement, this de-risking concept may be extended to incorporate investing in long-dated bonds as a hedge/risk management strategy for potential income streams/annuitisation in retirement. Therefore, it should be noted this may lead to further differences in asset allocation for a given age. **3. Other factors** Age is not the only factor that is permitted as a basis for varying asset allocation. MySuper legislation allows for investment strategy to be differentiated by age, account balance, contribution rate, current salary, gender and likely time to retirement. This provides some basis for the contention that comparing asset allocation on age cohorts alone may be insufficient. Despite not being able to benchmark against an optimal asset allocation for given age cohorts, there is still merit in observing the asset allocations adopted across different market segments and products as a means of understanding how the system is managing risk (not just sequence risk). QSuper notes there are target date fund surveys in the US that aggregate the industry asset allocations in different life stages.

QSuper's Response to Information Requests

Information Request	QSuper's View
a) What reference portfolio should be used to benchmark long-term net returns in the system and particular segments of the market? b) What other benchmarks should be used to supplement the analysis? If a CPI + X benchmark was used what is the appropriate level of 'X'?	A reference portfolio should not be used to compare average returns across the superannuation industry. Potential issues with an aggregated reference portfolio include:. • Aggregating returns across many investment options that pursue different objectives. • Net returns and performance against a benchmark is a poor proxy for the objectives of superannuation. • It is difficult to reflect risk management decisions by comparing historic returns or realised risk to a benchmark. The reference portfolio has the potential to become the risk-free position and dominate portfolio outcomes at the detriment of member outcomes. Alternatively, for default options, input-based measures of performance could test whether risks consistent with the higher level objectives of superannuation are being managed across the industry. For example, how many default options: • Consider the funding position of the member? • Manage sequencing risk? • Have a strategy for longevity risk? Each of these input measures can be influenced by a superannuation fund and is well-aligned with the primary objective of superannuation for a default member. For Choice products, selecting appropriate input measures is more difficult since the motivations for selecting a choice product are not known to the fund and will differ greatly across the membership. Some high level possibilities include: • The strength of the governance framework; • For multi-asset class options, the consistency between Investment Principles and Investment Strategy; • Diversification within the strategy (perhaps measured by risk, not simply the dollars allocated to different asset classes or strategies); and • Whether a range of risk and return measures are reported to members. However, exclusively comparing average returns across the industry to a CPI+ benchmark would have similar issues. For example: • The sample would need to be restricted to funds with CPI+ objectives; • Good risk management decisions may not be reflected in CPI+ returns; and • A CPI+ benchmark is also not investible. Assessing performance against a CPI+ target could lead to a benchmark or reference portfolio. Very few investment instruments are linked or even highly correlated with inflation. Accordingly, whilst many funds report a CPI+ objective or target, it is really a forecast not an objective the investment strategy is engineered to deliver. How an investment performed against a CPI+ benchmark is largely due to market returns. An informative assessment of the investment decisions made would likely require comparison against a benchmark portfolio to see if the decisions made reduced underperformance (or increased outperformance) against the CPI+ forecast. Members and planners do find the CPI+ objectives useful for decision-making. However, QSuper feels this should be just one of many risk and return measures communicated to assist in choosing an investment option. Examples of other relevant measures include the Standard Risk Measure, historic drawdowns of an investment strategy and the funding risk associated with choosing a particular level of return. If CPI+ is used in member and planner decision making, members must be able to understand the range of possible CPI+ outcomes. QSuper sees this as particularly important in the current environment where due to low interest rates, all funds have a low chance of delivering against CPI+ objectives and there are few investment solutions that don't entail introducing additional investment risk. QSuper is currently considering what additional risk and return information that can be provided to members to better communicate the range of risks and outcomes possible with different investment options.

QSuper's Response to Proposed Indicators

Criteria	QSuper's View	Rationale
Is the system effectively managing tax for members, including in transition?	Agree	QSuper agrees the "Use of tax strategies by funds for members in transition" is a strong indicator as to how the superannuation system is managing tax for members. QSuper recognised the potential member inequity that arises when a member transitions from an accumulation account to a pension account and that a member's share of the unrealised tax provision is released to all remaining accumulation members, not the retiring member. This is why QSuper developed the Income Account Transfer Bonus. The Bonus, coupled with the fact that QSuper has segregated its assets into accumulation and pension pools, seeks as accurately as possible to align the benefit of the pension phase tax exemption with the members whose actions (ie transferring into an Income Account) created that benefit for the fund. However, tax strategies adopted by a fund are also critical during the accumulation phase and not just for members in transition. In particular, income tax impacts can vary widely where funds choose to invest offshore or invest across a range of asset classes. Therefore, whilst the "average effective tax rate" for a particular fund will generally reflect the extent to which it is successful in managing the overall incidence of tax for members (and therefore is an effective indicator), QSuper considers absolute post-tax returns are a better indicator of how the system is managing tax for members. That is, a member may be better off incurring a higher average tax rate if exposure to particular investments (eg foreign infrastructure) results in higher post-tax returns over an alternative investment. However, QSuper acknowledges the PC's use of average effective tax rates as appropriate to gain insight into tax management. The PC is proposing to examine whether differences in tax management between large institutional funds and SMSFs influence member behaviour and in particular, whether differences in the manner in which tax is managed is a motivator for setting up a SMSF. QSuper considers that whilst differences in tax management may influence behaviour at the margin, the key reason for choosing a SMSF is likely to be control over the direction of the capital held by the fund, eg the ability to invest in specific assets such as residential real estate. For members setting up a SMSF closer to retirement, differences in tax management are likely to be a greater influencer than for a younger member. QSuper agrees that the take-up rates of co-contributions and offsets is an effective indicator of the extent to which the superannuation system is managing tax and enhancing balances for members and is an indicator of member engagement with the system.

QSuper's Response to Proposed Additional Indicators		
Objectives	**Criteria**	**Rationale**
The superannuation system provides insurance that meets members' needs at least cost.	Do funds offer insurance products that meet members' needs? Indicators include: • Comparability of insurance product information disclosed by funds* (input)	QSuper acknowledges that comparing insurance products across funds is difficult given the complexity of cover and options provided. The current method of disclosure could be enhanced to assist members to make informed decisions about whether funds offer products that meet their needs. While QSuper advocates any measures that enhance comparability, there is currently no consistent comparison method used by all funds and until such time that a consistent, fair and reasonable method is developed and used throughout the industry, there is little merit in using this indicator.
	Are the costs of insurance being minimised given the type of level and cover? Indicators include: • Insurance expenses (incurred by funds) (input) • Erosion of member balances due to insurance premiums (output)	QSuper believes that focusing on insurance expenses incurred by funds as an appropriate indicator of industry cost minimisation for a given type and level of cover is not appropriate. QSuper is strongly of the view that holistic assessment of value of cover, terms and conditions is a more appropriate goal. QSuper contends that any indicator measuring insurance expenses incurred by funds must not inadvertently lead to adverse outcomes for members. For example, a measure that considers minimising claims investigation costs may lead to collection of less than comprehensive data resulting in unnecessary delays or incorrect decisions. In addition, QSuper does not believe that erosion of member balances due to premiums should be considered as an indicator of whether costs are being minimised given type and level of cover. An assessment of the value of insurance cover provided holistically per dollar of premium would need to be developed in order for this indicator to be meaningful.

QSuper's Response to Proposed Criteria			
Objectives	**Criteria**	**Indicator**	**Rationale**
The superannuation system provides insurance that meets member needs at least cost	Do funds offer insurance products that meet member needs?	Ease of members making a claim	QSuper believes that the process for members to make an insurance claim is critically important to a member and this should be easy, efficient and supportive. An indicator that measures the ease of making a claim will be a sound way to measure efficiency, relating to insurance products meeting member needs.
		Ability for members to amend their insurance	QSuper believes this should be considered as an indicator because members need to be able to tailor their insurance to suit their needs and not be constrained by rigid products. This should be supported by well constructed default levels of cover and by offering additional product features, tailoring and options, so that members can feel secure in personalising their cover.