16 September 2016

Ms Karen Chester
Deputy Chair
Productivity Commission
Locked Bag 2, Collins St East
Melbourne VIC 8003

Dear Ms Chester

Competitiveness and Efficiency of the Superannuation System – Draft Report

The Actuaries Institute welcomes the opportunity to comment on the Commission's Draft Report. The report is both wide-ranging and comprehensive so the Institute has focussed on providing comment primarily on several system-level objectives.

Given the limited time for deep consideration of the report our comments are concise but we would be happy to expand or clarify any aspects of the submission, if it assists the Commission's deliberations

Our key points are summarised under the following proposed system-level objectives. Supporting material is contained in the enclosed annexure.

- *The superannuation system maximises net returns on member contributions and balances over the long term.*
  The system-level objectives and measuring system need to be capable of application across a wider range of products. Defined benefit plans and sub-plans exist and need to be considered.

  In addition, we propose removal of the reference to 'net returns' which is potentially misleading to members. If this term is to be retained, we suggest changes to the definition and calculation of net returns, which provide more meaningful information.

- *The superannuation system meets member preferences and needs, in relation to information, products and risk management, over the member's lifetime.*
  We believe a more practical objective is; "The superannuation system optimises the balance between retirement benefits to members and the level of risk borne by members over the long term".

  An additional objective could refer to the payment of income streams in retirement: "The superannuation system delivers income streams for members in retirement such that members can supplement the means tested age pension and achieve a reasonable replacement rate of their pre-retirement income, payable in such a way that helps them to manage longevity risk."

Institute of Actuaries of Australia
ABN 69 000 423 656
Level 2, 50 Carrington Street, Sydney NSW Australia 2000
t +61 (0) 2 9239 6100 **f** +61 (0) 2 9239 6170
e actuaries@actuaries.asn.au **w** www.actuaries.asn.au

- *The superannuation system provides insurance that meets members' needs at least cost.*

  We submit that the requirement to 'meet members' needs' is a significant extension of current requirements for insurance in superannuation which we anticipate would prove problematic in practice. A more accurate definition of efficiency for insurance would be:

  "The superannuation system provides near universal coverage via a basic level of efficiently priced default cover".

- *Competition in the superannuation system that drives efficient outcomes for members.*

  There are other components of the 'system' that are relevant in measuring efficiency. For example, employers incur costs in collecting and remitting contributions to funds. Their costs may be affected by the rules that determine how many and which funds they need to deal with. These costs could be affected by any changes to the current 'default fund' arrangements via industrial Awards and EBAs.

  In addition, the ATO administers the taxes on contributions and benefits, and manages balances for 'Lost' members and members with small balances. There have been recent proposals for changes to taxation that might have significant impact on the ATO workload – the potential impact of such changes ought to be measured as part of an efficiency metric.

I trust you will find this submission useful to the Commission's deliberations. If you would like to consult further please contact the Actuaries Institute office

Yours sincerely

Lindsay Smartt
President

Actuaries Institute Submission

Objectives

PROPOSED SYSTEM-LEVEL OBJECTIVES

1. The superannuation system maximises net returns on member contributions and balances over the long term.
2. The superannuation system meets member preferences and needs, in relation to information, products and risk management, over the member's lifetime.
3. The superannuation system provides insurance that meets members' needs at least cost.
4. The superannuation system complements a stable financial system and does not impede long-term improvements in efficiency.
5. Competition in the superannuation system that drives efficient outcomes for members.

Actuaries Institute response:

A Pooled risk segments of the market (e.g. defined benefit funds):

- We realise that the Commission is constrained by its terms of reference, which refer specifically to net returns to members. However, there are difficulties in applying the first objective across all segments of 'the superannuation system'.
- The objective is framed in terms of defined-contribution accumulation plans where the member bears all investment risk. However, a substantial component of current liabilities relates to defined-benefit funds ($340b in Table 8 of the 30 June 2015 issue of APRA's Superannuation Bulletin. This does not include significant unfunded liabilities for several Public Sector defined benefit funds.)
- Defined benefit funds use pooling of assets and contributions to manage the significant risks facing both active employees and retirees. We note that objective 2 does address the question of risk, but without a more specific reference, it is unlikely that the reader will
  - (i) make the important connection between Objectives 1 and 2, and
  - (ii) understand their near lack of relevance to pooled risk vehicles.
- It may be objected that most defined benefit funds are closed to new members and this is therefore a declining market segment. However, there is at least one large non-government fund that is committed to long-term provision of defined benefits and salary-related lifetime pensions and there are some defined benefit sub-plans which remain open to new members. Moreover, there is growing interest throughout the industry in pooled post-retirement solutions to manage longevity and sequencing risks. In addition, some funds have reportedly been examining 'Collective Defined Contribution' models, which involve a similar pooling of risk.

- The system-level objectives and measuring system therefore need to be capable of application across a wider range of products. Developing a measuring system that can sensibly balance the utility of member risk management against the quantum of retirement benefit delivered by the system is not easy. However, it ought to be possible to provide some simple system-level metrics – we have included these in our comments on the 'indicators' later in this submission.

B Improving the Objectives

- It is not true to say that the system seeks to maximise net returns, even for defined contribution funds. They seek to maximise net returns, subject to an agreed level of risk.
- One way of improving the objectives would be to separate out 'risk management' from the catch-all second objective and encapsulate it into the first objective, at the same time focusing on net retirement outcomes rather than investment returns. For example: "The superannuation system optimises the balance between retirement benefits to members and the level of risk borne by members over the long term". This objective would be capable of application across a much wider range of product types.
- Our proposed alternative objective removes the reference to 'net returns'. If this term is to be retained, we do have comments on the definition and calculation of net returns, which we will address later in this submission and in the appendix.

C Impact on entities outside of 'The Superannuation System':

- The stated objectives focus solely on the best interests of members. Again we recognise the constraints of the Commission's terms of reference, but there are other components of the 'system' that are relevant in measuring efficiency.
- For example, employers incur costs in collecting and remitting contributions to funds. Their costs may be affected by the rules that determine how many and which funds they need to deal with. These costs could be affected by any changes to the current 'default fund' arrangements via industrial Awards and EBAs.
- In addition, the ATO administers the taxes on contributions and benefits, and manages balances for 'Lost' members and members with small balances. There have been recent proposals for changes to taxation that might have significant impact on the ATO workload – the potential impact of such changes ought to be measured as part of an efficiency metric.

D Insured benefits:

- Objective 3 requires that 'The superannuation system provides insurance that meets members' needs at least cost'.
- The role of life and disability insurance in superannuation is not specified by legislation. Beyond provision of a low minimum level of insurance cover for MySuper products, the SIS Act and Regulations and published Prudential Standards leave the task of determining suitable levels of insurance cover to each fund's own Trustee Board.

- It is highly likely that the cost of levels of insurance that meet members' 'needs' would have a significant adverse impact on emerging retirement benefits. Moreover, 'needs' may vary with the personal circumstances of each member, depending on number of dependants, financial commitments such as mortgages, and many other factors.
- As such, **we submit that the requirement to 'meet members' needs' is a significant extension of current requirements for insurance in superannuation which we anticipate would prove problematic in practice.**
- 'At least cost' is an absolute statement and implies testing by competitive tender or similar. This may lead to unsustainable outcomes and may neglect other important factors such as terms of cover (including disability definitions), the financial strength and stability of the insurer, the services offered by the insurer including claims and data management, underwriting and reporting.
- As such, we submit that an alternative requirement such as **'efficiently priced on a sustainable basis'** is preferable to 'at least cost'.
- The draft report discusses allocative efficiency whereby well-informed members make decisions in their best interests. Where this involves members switching superannuation funds, it may inadvertently cause inefficiencies for insurance. Group insurance relies on members commencing cover under standard arrangements (i.e. immediately upon commencing employment and joining the fund, subject to a fairly basic definition of being "at work"). Where switching of funds occurs, there are generally conditions or exclusions attached to the insurance cover unless the member undergoes underwriting. This leads to inefficiencies in relation to insurance
- In our opinion, a better definition of efficiency for insurance would be:
    - 'The superannuation system provides access to near universal coverage via a basic level of efficiently priced default cover'

E Retirement incomes

- an additional objective could refer to the payment of income streams in retirement:
    - The superannuation system delivers income streams for members in retirement such that members can supplement the means tested age pension and achieve a reasonable replacement rate of their pre-retirement income, payable in such a way that helps them to manage longevity risk.

Assessment criteria

Table 1 Competitiveness and efficiency assessment criteria for the superannuation system

Competitiveness	Efficiency
Demand-side characteristics (members and member intermediaries)	***Net returns***
Is there sufficient member engagement to exert competitive pressure?	Are net investment returns being maximised over the long term, taking account of service features provided to members?
Are members and member intermediaries able to make informed decisions?	Are costs incurred by funds and fees charged to members being minimised, taking account of service features provided to members?
Is there low market segmentation along member engagement lines?	Do all types of funds have opportunities to invest efficiently in upstream capital markets?
Do active members and member intermediaries have sufficient countervailing power?	Is the system effectively managing tax for members, including in transition?
Are principal–agent problems being minimised?	***Member needs and preferences***
Supply-side characteristics (through the supply chain)	Are member preferences and needs being met by:
Is there rivalry among incumbent providers?	• minimising unpaid contributions and lost accounts?
Is the market contestable?	• funds collecting relevant information to ensure their product offerings are suitable for their diverse member bases?
Are there material anticompetitive effects of vertical and horizontal integration?	• the system providing high-quality information and financial advice to members to help them make decisions?
Conduct and outcomes	• the system providing products and information to help members optimally consume their retirement incomes?
Do funds compete on costs?	• member balances being allocated in line with their risk preferences and needs?
Are economies of scale utilised and the benefits passed through to members?	Is the system using lessons from behavioural finance to design products and 'lean' against well-known biases in how people make decisions?
Do funds compete on relevant non-price dimensions?	Are trustees acting in the best interests of members?
Is there innovation and quality improvement in the system?	***System stability***
Are outcomes improving at the system level?	Are there material systemic risks in the superannuation system?
	Insurance
	Do funds offer insurance products that meet members' needs?
	Are the costs of insurance being minimised given the type and level of cover?

Actuaries Institute response:

A. Are members and member intermediaries able to make informed decisions?

Are net investment returns being maximised over the long term, taking account of service features provided to members?

Are costs incurred by funds and fees charged to members being minimised, taking account of service features provided to members?

We have a number of serious concerns about each of these matters. Last month the Actuaries Institute issued a Media Release about this and we forwarded a copy to you. Also we draw your attention to our submissions 2014.12, 2015.10, 2016.01and 2016.03 enclosed with our submission of 29 April 2016 to the Commission.

The Appendix to this submission is also relevant. It provides a definition of 'net returns' and suggests that the Commission should change how the word 'cost' is used in its final Report and use the word 'expense' in place of 'cost' as used in its draft Report.

B. Do funds offer insurance products that meet members' needs?

Are the costs of insurance being minimised given the type and level of cover?

We draw the Commission's attention to our comments about insurance in the Objectives section.

Indicators

Table 2	Illustrative excerpt of indicators
Competition criterion: Do funds compete on costs?	***Efficiency criterion: Are costs incurred by funds and fees charged to members being minimised, taking account of service features provided to members?***
• Costs relative to assets and member base: wholesale (by service) and retail (by segment) * (input) • Margins: wholesale (by service) and retail (by segment) * (output) • Investment management fees by asset class compared to other countries* (output) • Alignment of the structure of member fees and underlying costs (output) • Transparency and efficacy of fee disclosure by funds, including for distinct services (behaviour)	• Costs relative to assets and member base: wholesale (by service) and retail (by segment) * (input) • Margins: wholesale (by service) and retail (by segment) * (output) • Investment management fees by asset class compared to other countries* (output) • Pass through of benefits from scale economies (wholesale and retail) to members* (output) • Investment costs and fees across equivalent products and between market segments (input, output) • Relationship between investment fees and returns (output) • Use and disclosure of performance attribution by funds (behaviour) • Administrative costs and fees at system level and for market segments (input, output) • Cost savings from SuperStream (output) • Relationship between level of administrative fees and quality of member services (output)

* Indicators marked with an asterisk are common to both competition and efficiency.

Actuaries Institute response:

A Are member preferences and needs being met by member balances being allocated in line with their risk preferences and needs?

In our comments on the system-level objectives, we suggested that there should be metrics to indicate the extent to which the system provides members with products that manage significant risks, including sequencing risk, general investment risk and longevity risk.

One simple approach, utilising the statistics collected by APRA, would be to calculate the percentage of total system-wide 'Accrued Benefits' that is represented by:

1. Products that provide protection for active working members against sequencing investment risk (e.g. lump sum defined benefits)

2. Products that provide protection for retired members against investment and longevity risk (e.g. annuities and defined benefit pensions)
3. Products that provide protection for retired members against longevity risk alone (e.g. pooled longevity products)

The term 'Accrued Benefits' has an accepted meaning for defined benefit funds. For accumulation funds, it would simply be the total member account balances.

APRA already classifies between accumulation and defined benefit members for statistical data collection. Calculating the above metrics would require some further classifications, but the changes would represent an extension of the existing data collection process, not a complete new set of data for funds to provide.

These metrics would enable monitoring of the risk exposure of members over time, and would also be relevant in assessing the ability of the system to offer members innovative new products to address their needs over time.

B Do funds offer insurance products that meet members' needs?

In our opinion some of the indicators may be difficult to measure and problematic to collect. Some alternative measures may include:

- Percentage of fund members with insurance obtained by automatic acceptance.
- Percentage of fund members with tailored cover
- Average insurance cover by age band
- Average annual cost as a percentage of annual superannuation guarantee contribution

C Additional useful analysis on Scale

- The impact of scale benefits needs to take into account a number of items, including:
  - Fees
  - Net returns
  - Services provided.
- For fees, it would be useful to analyse the impact of scale on the following fee types:
  - Investment
  - Administration
  - Insurance
  - Total fees
- It is also important to analyse the impact of the number of funds on fee levels, i.e. what are the aggregate fee levels under different scenarios in relation to the number of funds in Australia. This needs to be based on input from:
  - Different types of fund costs
  - Fixed versus variable cost types
- A final piece of scale analysis is the impact of a reduced number of member accounts on the aggregate fee levels in the industry.

Summary of 'Information requests' extracted from Draft report of the Productivity Commission

INFORMATION REQUEST #1 (PAGE 82)

1. What other indicators do the industry and researchers use to assess member engagement? How could those indicators be applied in a system-level assessment of competitiveness and efficiency?
2. What is the aggregate size and number of corporate tenders run each year, and what proportion of the system is accounted for by funds selected through this mechanism? How reliable are the APRA data on corporate fee discounts? Is there a more reliable source?

#1.1 – no comments

#1.2 – Statistical data on corporate tenders would need to be sourced directly from tender advisers and responding funds. However, several Institute members have been prominent in the corporate tender market both as advisers and employees of funds responding to tender requests. The following comments are based on this experience.

Historically, the APRA Corporate Funds segment contained many more funds than it does today (34 as at 30 June 2015). During the period roughly up to 2000, a much high proportion of companies operating in Australia had their own corporate funds (APRA number of corporate funds as at 30 June 1996 was 4600).

During the period from roughly 1996 to 2006, the vast majority of these corporate funds were outsourced, mainly to specialist corporate master trusts set up within the retail fund sector for this purpose, but also a few to selected Industry funds. The outsourcing program was driven partly by new legislation, including SIS, FOFA and in particular the requirement for RSE licensing that came into effect from 30 June 2006.

Following the 'great outsourcing drive' of 2000-2006, the small number of remaining corporate funds comprises mainly very large funds with particular complexities, where scale justifies the compliance costs of maintaining them as separate entities.

As a result, the flow of outsourcing via corporate tenders has dwindled and will eventually cease.

There is also a 'secondary market' of retendering of plans that are in existing master trusts. In our experience, these tend to mainly be at the smaller end of the market. Occasionally a larger plan will be retendered as a result of merger or acquisition of the sponsoring employer.

As regards fees and fee discounts, it needs to be recognised that many of the corporate sub-plans that have been outsourced from the original APRA Corporate Funds segment are quite different from the 'standardised' structure exhibited by most Industry Funds and new sub-plans into Retail master trusts. Some of them provide defined benefits. Many of them provide insurance cover tailored to the specific needs of members. In many cases, insurance premiums and administration fees are subsidised by employers. Member services, particularly telephone call centres, are particularly important to employers and staff where the previous stand-alone Corporate Fund may have been administered by in-house company staff with a 'hand-on' attitude to quality service delivery rather than anonymous call centre operators. Accordingly, costs may not always be directly comparable against average costs for the rest of the market. Having said that, the outsourcing process is highly competitive and valuable discounts have been obtained for members and employers. Our members with experience in this area will attest to significant cost reductions vis a vis previous in-house costs of running a Corporate Fund.

Short of conducting specific surveys, the current APRA data is likely to be the best available, having regard for the comments above regarding comparing 'apples against apples'.

INFORMATION REQUEST #6 (PAGE 115)

1. What reference portfolio should be used to benchmark long-term net returns in the system and particular segments of the market?
2. What other benchmarks should be used to supplement the analysis? If a CPI + X benchmark was used what is the appropriate level of 'X'?

Actuaries Institute response:

'Net returns' as defined by APRA cannot logically be related to a particular reference portfolio. We would be happy to expand on this point, if required. We recommend that 'net investment returns' should be used.

INFORMATION REQUEST #7 (PAGE 117)

1. What are the appropriate market benchmarks to compare net returns from asset classes within the Australian superannuation system?
2. What data would be required to calculate the net returns (net of fees and taxes) to specific asset classes within or across the superannuation system? How could such data be obtained?

Actuaries Institute response:

As per IR # 6, 'net returns' as defined by APRA cannot logically be related to asset classes. We recommend that 'net investment returns' should be used.

The reason we need a metric to measure investment performance is to allow consumers to compare the investment skills of different service providers. A net of tax investment return reflects the impact of both investment management and tax management skills. However, trustees may sometimes wish to understand or judge the impact of investment management skills on the end result. Thus, we believe it would be reasonable to also quote gross of tax investment returns as one of the comparison metrics.

INFORMATION REQUEST #12 (PAGE 165)

What other sources of data and evidence could be used to report on the assessment criteria and indicators the Commission has developed? What are the strengths and weaknesses of these sources? What new sources of evidence should be pursued to supplement what is already available?

Actuaries Institute response:

The major source of public data is the statistical summaries collected and published by APRA.

One of the major weaknesses of the published statistics is that the 'Retail' segment is not homogeneous. It covers at least the following product groups:

1. 'Large corporate' master trusts: essentially covering company superannuation funds that were once included under the APRA 'Corporate' segment, but which have been outsourced to retail master trust providers;
2. 'Small corporate' master trusts, which mostly cover smaller single-employer arrangements with less customisation of benefits and more investment choice than the 'large corporate' group;
3. Corporate funds that have outsourced the trustee role to a professional trustee but are essentially still run like a Corporate fund;
4. Annuities and post-retirement accounts;
5. Personal superannuation accounts (single-member products with highly-tailored investment portfolios)
6. Legacy products, including life policies.

It is difficult to draw satisfactory conclusions from analysing the published statistics for the Retail segment. For example, the investment strategies for post-retirement products are generally much more conservative than for the other components, so any calculation of investment returns for the segment as a whole may not be directly comparable against similar returns for other APRA market segments (such as Corporate or Industry). Although the Industry segment does include some post-retirement accounts, the segment is much younger (i.e. members have typically been enrolled for much shorter periods and have lower account balances) than the Retail segment. Furthermore, members who leave one of the other segments to purchase an annuity or post-retirement product will be counted as Retail.

For this reason, it would facilitate better use of existing data if the APRA Retail segment was at least sub-divided into pre- and post-retirement products.

Appendix – Net returns

This appendix uses our preferred terminology, similar to that set out in the Actuaries Institute 1 March 2016 submission to Treasury. That is:

"cost" = any impost which impacts on a member's benefits which is not a fee, tax, insurance premium or transfer to or from reserves.

(e.g. indirect investment cost or an administration charge which might be deducted from crediting rates when periodic plan expenses exceed periodic plan fees).

The PC Draft Report

Page 4 proposes the following key first system-level objective:

> *The superannuation system maximises net returns on member contributions and balances over the long term.*

Page 108 states:

> *Maximising net returns (after all fees and taxes) on a given account balance is the most important way in which the superannuation system contributes to adequate and sustainable retirement incomes.*

Page 109 adds:

> *In this report, unless otherwise noted, 'net returns' is defined as what members actually earn on their balances minus the taxes and fees they pay, including administration and investment fees.*

None of the above three quotations accurately define or quantify "net returns". This appendix attempts to provide such a definition.

The retirement benefit that a member receives from a Defined Contribution plan (or from a Defined Contribution component of a "Hybrid" plan) can be separated into:

Contributions paid

- any benefits tax

- contributions tax

- insurance premiums paid

+ 'net returns',

where 'net returns' equal:

(1) Gross investment return based on money-weighted returns

- Investment taxes

- Investment fees

- Investment costs,

less (2) (a) 'Representative' administration/advice fees and costs, plus
(b) Non-representative further administration/advice fees and costs,

plus (3) (a) Transfers from reserves, less
(b) Transfers to reserves.

Component 2(a) above is the administration/advice fees and costs that apply to a 'representative' member with an account balance of $50,000.

Component 2(b) above is the further administration/advice fees and costs that apply to a member with an account balance that is not $50,000. This will be the situation of nearly all plan members. It should be noted that for a member with an account balance of $250,000, component 2(b) will be up to 5 times component 2(a). For a member with an account balance of $10,000, component 2(b) will be up to 80% less than component 2(a).

We recommend that the Productivity Commission's final report should recognise the importance of component 2(b).

Transfers to and from reserves (i.e. components 3(a) and 3(b)) are governed by the requirements of **Sub-regulations 7.9.37 (k), (l) and (m) of the Corporations Regulations**. The Actuaries Institute has recently sent a submission (copy enclosed) to ASIC about the fact that funds interpret these provisions in widely different ways which could result in invalid or misleading comparisons or understanding of fund provisions.

We recommend that the Productivity Commission's final report should recognise that transfers to and from reserves are components of "net returns" but that further consideration of this issue should await ASIC's response.

Other Relevant References follow (note terminology).

The PD Draft Report states (page 118):

Table 6.2 Investment returns: criterion and indicators

Indicators	*Assessment methods*	*Evidence sources*
Are net investment returns being maximised over the long term, taking account of service features provided to members?		
• Long-term (5, 10 and 20 year) historical net returns from the system and market segments compared to benchmarks (output)	• Trend analysis	• Regulator data; industry data
• Long-term (5, 10 and 20 year) historical net returns to specific asset classes at system level compared to asset-class benchmarks (output)	• Trend analysis	• Industry data
• Dispersion of funds and products from a frontier of best-performing funds and products (based on historical long-term net returns) (output)	• Econometrics	• Regulator data; industry data

Our preferred terminology is:

Table 6.2 Investment returns: criterion and indicators

Indicators	*Assessment methods*	*Evidence sources*
Are net investment returns being maximised over the long term, taking account of service features provided to members?		
• Long-term (5, 10 and 20 year) historical net investment returns from the system and market segments compared to benchmarks (output)	• Trend analysis	• Regulator data; industry data
• Long-term (5, 10 and 20 year) historical net investment returns to specific asset classes at system level compared to asset-class benchmarks (output)	• Trend analysis	• Industry data
• Dispersion of funds and products from a frontier of best-performing funds and products (based on historical long-term net investment returns) (output)	• Econometrics	• Regulator data; industry data

The PD Draft Report states (page 127):

Table 6.3 **Costs and fees: criterion and indicators**

Indicators	*Assessment methods*	*Evidence sources*
Are costs incurred by funds and fees charged to members being minimised, taking account of service features provided to members?		
• Investment costs and fees across equivalent products and between market segments (input, output)	• Trend analysis	• Regulator data; industry data
• Investment management fees by asset class compared to other countries* (output)	• Trend analysis	• Industry data
• Relationship between investment fees and returns (output)	• Econometrics	• Regulator data; industry data
• Use and disclosure of performance attribution by funds (behaviour)	• Qualitative	• Surveys; case studies
• Administrative costs and fees at system level and for market segments (input, output)	• Trend analysis	• Regulator data; industry data
• Cost savings from SuperStream (output)	• Trend analysis	• Regulator data
• Relationship between level of administrative fees and quality of member services (output)	• Qualitative	• Surveys; case studies
• Costs relative to assets and member base: wholesale (by service) and retail (by segment) * (input)	• Trend analysis	• Regulator data; industry data
• Margins: wholesale (by service) and retail (by segment) * (output)	• Trend analysis	• Regulator data; industry data
• Pass through of benefits from scale economies (wholesale and retail) to members* (output)	• Econometrics	• Industry data

* Indicators marked with an asterisk are common to both competition and efficiency.

Our preferred terminology is

Table 6.3 **Expenses, fees and costs: criterion and indicators**

Indicators	*Assessment methods*	*Evidence sources*
Are expenses incurred by funds and fees and costs charged to members being minimised, taking account of service features provided to members?		
• Investment expenses and fees** across equivalent products and between market segments (input, output)	• Trend analysis	• Regulator data; industry data
• Investment management fees** by asset class compared to other countries* (output)	• Trend analysis	• Industry data
• Relationship between investment fees** and net investment returns (output)	• Econometrics	• Regulator data; industry data
• Use and disclosure of performance attribution by funds (behaviour)	• Qualitative	• Surveys; case studies
• Administration expenses and fees** at system level and for market segments (input, output)	• Trend analysis	• Regulator data; industry data
• Expense savings from SuperStream (output)	• Trend analysis	• Regulator data
• Relationship between level of administration fees** and quality of member services (output)	• Qualitative	• Surveys; case studies
• Expenses relative to assets and member base: wholesale (by service) and retail (by segment) * (input)	• Trend analysis	• Regulator data; industry data
• Margins: wholesale (by service) and retail (by segment) * (output)	• Trend analysis	• Regulator data; industry data
• Pass through of benefits from scale economies (wholesale and retail) to members* (output)	• Econometrics	• Industry data

* Indicators marked with an asterisk are common to both competition and efficiency.

** fees includes "other costs".