



10 June 2016

Alex Maevsky
Productivity Commission
Sydney

By email: Alex.Maevsky@pc.gov.au

Dear Alex

Follow-up questions for the Actuaries Institute

Introduction

We realise that the Productivity Commission might wish to have a single measure of efficiency for the superannuation system or for MySuper products as a whole. However, many fees, costs and insurance premiums are member (not product) specific. Also superannuation funds offer four totally different services (member records, investment, insurance and advice) which are provided through a fund's administration function. The importance of each of these services will vary from member to member. Further, the importance of the services provided by the administration system and its effectiveness will vary from member to member.

It is likely that any one metric that relates to all these services will not represent the relative importance of each of the services. Therefore, members who rely on such a metric to compare funds may find they make choices that are not in their best interests.

Though the intention might be to have a system-wide measure of efficiency, the danger is that any such system-wide measure will soon be co-opted, misleadingly, as the member-level measure of value as well.

Should the Commission require an efficiency measure for each of the services we would be happy to discuss possibilities that might fit your objectives, however we caution against trying to adopt a single measure that ultimately will not prove to be "fit for purpose".

Question 1:

Would the Institute be able to share its work on hypothecating components of fund costs to member fees and returns?

Response:

We are uncertain about exactly what this question intends. If the following does not address your intentions, please let us know.

Our analysis of the various components of fees and costs, and how they should be disclosed, is included in the attached letter to the Productivity Commission dated 1 August 2012.

The Institute of Actuaries of Australia

ABN 69 000 423 656

Level 2, 50 Carrington Street, Sydney NSW 2000, Australia

t +61 (0) 2 9239 6100 f +61 (0) 2 9239 6170

actuaries@actuaries.asn.au | www.actuaries.asn.au



The attached letter to APRA dated 19 November 2012 may also be relevant. Note that page 3 of that letter recommends:

... fees, costs and expenses should be broken down into 3 categories for all purposes:

- ▶ Administration - fees, costs and expenses
- ▶ Investment - fees, costs and expenses
- ▶ Advice - fees ...

For example, a Fund may have the following administration fees, expenses and costs:

Administration Fees, i.e. the amounts charged to members – e.g. \$52 p.a. plus 0.1% p.a. of assets – total of \$1M across all members

Administration Expenses i.e. the amount paid from the fund's assets during the year – total of say \$1.2M, because in this particular year administration expenses are abnormally high.

The difference between administration fees and expenses is then \$200,000. If this \$200,000 is deducted (which is a common practice) from members' benefits, or from investment returns before being applied to members' accounts, then this is a "cost" that impacts on members' benefits and therefore should form part of "administration fees and costs".

Our letter of 29 April 2016 to the Productivity Commission attached a copy of our recent letter (about "indirect costs") to Treasury dated 1 March 2016. That letter may also be relevant.

As will be evident from the above submissions, the Actuaries Institute believes that the only fees and costs which should be "hypothecated" to returns are investment fees and costs. Administration fees and costs are often expressed as both a dollar per member and a percentage of fund balances. The following analysis of the largest 20 MySuper products (by Fund assets) at 30 June 2015, shows that the product with the lowest administration fees and costs is:

For members with account balances of \$20,000 or less: QSuper

For members with account balances of \$50,000 to \$200,000: ANZ SmartChoice

For members with account balances of \$500,000 to \$2,000,000: AustralianSuper

This clearly shows that the product with the lowest fees for one member will **not** necessarily be the product with the lowest fees for other members.

Fund	MySuper Fund Size \$b	Member Fee \$	Admin Fee %	ANNUAL ADMINISTRATION FEES AND COSTS *											
				Account balance											
				\$500	\$1,000	\$2,000	\$5,000	\$10,000	\$20,000	\$50,000	\$100,000	\$200,000	\$500,000	\$1,000,000	\$2,000,000
AustralianSuper	81.4	91.76	0.00	\$92	\$92	\$92	\$92	\$92	\$92	\$92	\$92	\$92	\$92	\$92	\$92
First State Super	45.5	61.18	0.18	\$62	\$63	\$65	\$70	\$79	\$96	\$149	\$238	\$414	\$944	\$1,826	\$3,591
QSuper	41.0	0.00	0.20	\$1	\$2	\$4	\$10	\$20	\$40	\$100	\$200	\$400	\$1,000	\$1,000	\$1,000
REST	34.6	57.20	0.10	\$58	\$58	\$59	\$62	\$67	\$77	\$107	\$157	\$257	\$557	\$1,057	\$2,057
Sunsuper	30.5	78.00	0.10	\$79	\$79	\$80	\$83	\$88	\$98	\$128	\$178	\$278	\$578	\$1,078	\$2,078
HESTA	30.5	65.00	0.08	\$65	\$66	\$67	\$69	\$73	\$81	\$105	\$145	\$225	\$465	\$865	\$1,665
CBUS	29.9	91.76	0.10	\$92	\$93	\$94	\$97	\$102	\$112	\$142	\$192	\$292	\$592	\$1,092	\$2,092
UniSuper Accum 1	24.3	96.00	0.00	\$96	\$96	\$96	\$96	\$96	\$96	\$96	\$96	\$96	\$96	\$96	\$96
MLC Business Super	17.4	78.00	0.40	\$80	\$82	\$86	\$98	\$118	\$158	\$278	\$478	\$878	\$2,078	\$4,078	\$8,078
HOSTPLUS	16.1	91.76	0.00	(administration fees and costs are the same as for AustralianSuper)											
ANZ SmartChoice	14.5	50.00	0.01	\$50	\$50	\$50	\$51	\$51	\$52	\$55	\$60	\$70	\$100	\$150	\$250
Plum Super Personal	14.4	90.00	0.37	\$92	\$94	\$97	\$109	\$127	\$164	\$275	\$460	\$830	\$1,940	\$3,790	\$7,490
Mercer SmartSuper	13.4	79.80	0.59	\$83	\$86	\$92	\$109	\$139	\$198	\$375	\$670	\$1,260	\$3,030	\$5,980	\$11,880
AMP 55 Select	12.0	86.32	0.68	\$90	\$93	\$100	\$120	\$154	\$222	\$426	\$766	\$1,446	\$3,486	\$6,886	\$13,686
Vicsuper	11.6	91.76	0.33	\$93	\$95	\$98	\$108	\$125	\$158	\$256	\$421	\$751	\$1,739	\$3,386	\$6,680
Telstra Super	11.1	91.76	0.26	\$93	\$94	\$97	\$105	\$118	\$144	\$221	\$351	\$609	\$1,386	\$2,680	\$5,268
CareSuper	9.5	78.00	0.19	\$79	\$80	\$82	\$88	\$97	\$116	\$173	\$268	\$458	\$1,028	\$1,978	\$3,878
CFS FirstChoice E'er	9.4	60.00	0.60	\$63	\$66	\$72	\$90	\$120	\$180	\$360	\$660	\$1,260	\$3,060	\$6,060	\$12,060
BT Super for Life	8.9	60.00	0.55	\$63	\$66	\$71	\$88	\$115	\$170	\$335	\$610	\$1,160	\$2,810	\$5,560	\$11,060
MTAA Super	8.0	97.88	0.18	\$99	\$100	\$101	\$107	\$115	\$133	\$186	\$274	\$425	\$978	\$1,858	\$3,618
Includes: APRA levies or expense allowances.															
* Excludes: ORFR levies where identified.				Source: Chant West Pty Limited											
Capped at \$1000 per year.															

Question 2:

What are the best measures of risk-adjusted returns in the context of superannuation? Which measures does the industry currently use and what are their advantages and disadvantages?

Response:

In this context, we assume that the question relates to actual returns adjusted for risk, as opposed to measures which measure the reward for risk such as the Sharpe Ratio.

Risk-adjusted returns in the superannuation context are problematic, for four main reasons:

1. If the risk-adjusted historic return is to be based on an objective historical measure of risk (e.g. volatility), there needs to be sufficient historical data covering a period of stable asset allocation. Adequate data is only available for a small number of funds. Further, many industry funds have substantial amounts of unlisted assets (e.g. infrastructure, direct property and private equity) that are generally valued twice a year and therefore have inherently lower volatility than shares and bonds that are valued daily. This means that any risk-adjusted returns for funds with significant unlisted assets will not be comparable to other funds.
2. Classic risk-adjusted returns adjust for short-term risk measured as volatility of market value. However, in the context of superannuation as a very long-term investment for most fund members, it is doubtful whether this is an appropriate risk measure at all.
3. Although standard deviation of a return is usually used as a measure of risk, there are many alternative measures of risk that may be appropriate. For example, if a person wishes to invest in an Australian shares investment product they may wish to measure risk in terms of the volatility of the difference between the actual



return and the market return. Reward for this risk would be measured in the difference between the actual return and the return on the appropriate Australian share index. Having a range of different methods to calculate risk-adjusted returns would confuse all but the most sophisticated investors.

4. Correctly understanding and comparing risk-adjusted returns requires a sophisticated understanding of investment markets and how the risk-adjusted return are calculated. It is likely that the risk-adjusted return will be above or below the actual return received. We believe that most investors would not understand the returns disclosed and could be misled by the returns quoted.

Whilst fund trustees may use risk-adjusted returns as a performance metric in managing their asset class portfolios, to our knowledge there are few if any regularly published examples of risk-adjusted returns on a whole-of-fund basis.

Question 3:

In measuring net risk-adjusted returns, what are the key gaps in the data currently collected by the industry? What is the quality and comparability of the data that are currently collected?

Response:

As indicated above, we do not believe there is any significant existing body of data relating to risk-adjusted returns, nor is it feasible to calculate meaningful or useful risk-adjusted returns from the data that is currently collected. Whatever is done, we doubt whether most members would understand it.

The main issues we have with the current data collected by APRA and disclosed on MySuper dashboards are as follows:

1. Returns are to be disclosed net of all fees, rather than just investment-related fees. We have explained why this can be grossly misleading to consumers in several submissions to Treasury, ASIC and APRA. For reference, we attach a letter to Treasury dated 28 January 2016 which summarises four previous letters about this topic. Please let us know if you need further information or copies of correspondence about any of these.
2. The Dashboard requires the calculation and disclosure of a single risk metric, which is based on short-term market volatility risk. Whilst useful for some consumers, this risk measure is not necessarily relevant to the majority of superannuation investors, who would normally have a long-term investment horizon. For these investors, a more relevant risk measure is the risk of not achieving a positive and reasonable long-term real return relative to inflation. The Institute has made recommendations to Treasury (refer our letter dated 11 December 2015) about this and is in the process of further refining this supplementary long-term risk measure for consideration by industry bodies and the Regulators.
3. There are some issues to do with the way 'crediting rates' and other 'allotment rates' are calculated. These were set out in our letter of 18 December 2014 to ASIC titled "Superannuation Allotment Rates and Investment Returns"

The Institute of Actuaries of Australia

ABN 69 000 423 656

Level 2, 50 Carrington Street, Sydney NSW 2000, Australia

t +61 (0) 2 9239 6100 f +61 (0) 2 9239 6170

actuaries@actuaries.asn.au | www.actuaries.asn.au



Question 4:

How relevant and useful are the product dashboards as currently designed, and what if any changes should be made to improve them?

Response:

We have several issues with the current product dashboards, summarised in our various letters referred to above in response to Question 3. Our letter to Treasury dated 1 March 2016 included two product dashboard examples (one for MySuper and one for a Choice product) which we believe significantly improve the current dashboard design.

Question 5:

What are the best measures of the efficiency of provision of bundled insurance, and how good are the data to support those measures?

Response:

The best measure of the efficiency of bundled insurance is the Loss Ratio, being the ratio of the ultimate claims cost to the premiums that were paid for the cover. Efficient insurance is one that returns all of the premiums to consumers as claims after deducting an allowance for a fair return for insurers for the risk they carry and also for reasonable operational expenses that they incur. Benchmarks are readily available for each of the benefits provided within superannuation (death and Terminal Illness, TPD and Income Protection).

The data should be readily available within the superannuation funds and insurers, but it is not currently collected or published by APRA.

APRA does already collect information at selected member ages regarding the type and amount of 'default' or 'automatic' cover, and the premiums charged for this cover. However, benefit designs, terms and conditions vary significantly from fund to fund, as do the membership profiles, and it can be misleading to compare funds using this data,

Information is also available within the PDS documents or insurance guides published by funds and these documents provide full disclosure of terms and conditions and pricing.

A key consideration regarding insurance is that the need for insurance and therefore the value of default cover to an individual fund member varies from member to member, based on the member's personal circumstances. It could be argued that superannuation funds should not provide any insurance cover at all, since the cost of cover reduces the eventual retirement income that can be supported. On the other hand many superannuation members "retire" due to disability and many families are afforded financial protection in the event of death. The role (and cost) of such insurance benefits should therefore be considered as part of the objectives for (and efficiency of) the superannuation system. Moreover, research demonstrates that most individuals do not have adequate insurance against loss of life or income, and therefore 'default' superannuation cover plays an important role in ensuring at least a minimal level of protection. It also reduces the cost and need for Government funded disability support benefits.

Further, the cost of insurance provided by superannuation funds will generally be much lower than the cost of insurance outside superannuation due to the purchasing power of large superannuation funds, the ability to obtain insurance without providing medical evidence and the absence of commissions. Therefore, the provision of insurance through superannuation funds is an efficient method of ensuring a minimum level of insurance is provided. This is also readily measured using Loss Ratios as described above.

The Institute of Actuaries of Australia

ABN 69 000 423 656

Level 2, 50 Carrington Street, Sydney NSW 2000, Australia

t +61 (0) 2 9239 6100 f +61 (0) 2 9239 6170

actuaries@actuaries.asn.au | www.actuaries.asn.au



Under the current regulatory framework:

- a. There is a small minimum level of default death cover that must be provided for MySuper products;
- b. Members must be able to 'opt out' of cover under a MySuper product;
- c. Trustees must consider whether the type and amount of cover made available to members is appropriate having regard to the member demographics of the fund;
- d. Trustees must also consider whether the cost of cover is likely to erode members' retirement benefits.

In our view, the current regulatory framework is adequate to manage the efficiency of delivery of bundled cover. Having said that, the industry is going through a development phase, with the need to address several challenges, such as:

- a. The fact that premiums for some of the largest funds are now the size of the total life business for a small or medium sized life insurance company. This represents a capacity challenge for the life insurance industry, and new models may need to be developed to deal with it.
- b. Some members are under-insured, which causes problems when they die. Some members are over insured. This is a function of the balance trustees strike when setting the default for all members with differing circumstances. Members should be encouraged to effect appropriate levels of insurance cover. While premiums reduce their age retirement benefits, the problems caused by death and disability are usually far more severe. Reduced retirement benefits may be able to be made up by saving harder later in life, when a member's children are no longer financially dependent on their parents. Inadequate cover when a death or permanent disablement occurs can never be made up.

Question 6:

What are the key barriers to greater uptake of retirement income products that provide longevity insurance? How would the optimal level of uptake be measured?

Response:

We have covered this topic in several submissions to government and Regulators, including the following, which can be located on our website at <http://www.actuaries.asn.au/public-policy-and-media/submissions>

- a. 22 September 2014: "Review of retirement income stream regulation"
- b. 23 March 2015: "Financial System Inquiry".

Please let us know if you require further information or explanation about any of the above responses.

Yours sincerely

Andrew Boal
Convenor, Superannuation Practice Committee

The Institute of Actuaries of Australia

ABN 69 000 423 656

Level 2, 50 Carrington Street, Sydney NSW 2000, Australia

t +61 (0) 2 9239 6100 f +61 (0) 2 9239 6170

actuaries@actuaries.asn.au | www.actuaries.asn.au



1 August 2012

Default Superannuation Funds in Modern Awards
Productivity Commission
Locked Bag 2, Collins Street East
Melbourne vic. 800311111

By Email: default.super@pc.gov.au

Dear Sir/Madam

Response to Default Superannuation Funds in Modern Awards Draft Report

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 3,800 members, including more than 2,000 actuaries.

On 13 April 2012, the Institute wrote to the Productivity Commission in relation to the Default Superannuation Funds in Modern Awards Issues Paper. We wish to take this opportunity to make some additional comments on one of the issues raised in the June 2012 Draft Report.

Management Expense Ratio

Section 4.3 of the Draft Report refers to the use of a "management expense ratio (MER)" to compare the costs of superannuation funds. The MER expresses the investment and operating expenses of a fund as a percentage of the fund's net asset value.

We note that the Commission has identified deficiencies with the MER which the Draft Report expresses as follows:

"The MER may not allow a uniform comparison across all funds (Finch 2005), and it will underestimate operating and investment expenses where embedded fees are incurred."

The Institute agrees and also considers that there are a number of other deficiencies with the MER which makes it unsuitable to use in comparing fund costs, including:

1. The MER mixes investment and administration costs. We have previously submitted to Treasury, APRA and ASIC that these costs must be considered separately for a valid comparison. The extent and effectiveness of the investment and operational (or 'administration') services and the associated fees and costs should be considered separately to ensure that a meaningful comparison is achieved. We attach as Appendix A (3 pages), an extract from our submission to the Cooper Review, which summarises the reasons for this conclusion.
2. If the MER approach is used to compare (only) administration costs, expressing these costs as a percentage of the value of fund assets is still unsound. Expressing administration costs as dollars per member would be an improvement because most direct administration fees are currently expressed this way, and a significant part of ongoing administration expenses varies with changes in membership numbers.

Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



3. The Commission makes it clear that the assessment of a fund should be from the perspective of what is in the best interests of the members. Therefore, the administration costs should only include costs which impact on members' benefits. Hence if an employer is paying all or some of the administration costs then the costs payable by the employer should not be included in the calculation. From an employer perspective, it is appropriate to consider all administration expenses.

To illustrate point 2 above, consider this simplified example.

Assume two funds have an administration fee of \$1.50 per member per week and no other administration costs which directly or indirectly impact on members' benefits. Unless there is a difference in service levels, administration costs should not affect the choice between these two funds.

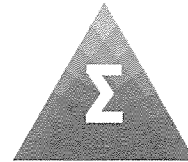
The following table shows how the ratio of administration costs to assets might vary in a particular year for members with different past membership periods.

Past Membership	Average Account Balance (\$)	Administration Fee Charged (\$)	MER(%)
1 year	2,250	78	3.47
2 years	6,863	78	1.14
3 years	11,706	78	0.67
4 years	16,791	78	0.46
5 years	22,130	78	0.35
6 years	27,737	78	0.28
7 years	33,624	78	0.23
8 years	39,805	78	0.20
9 years	46,295	78	0.17
10 years	53,110	78	0.15

Assume one fund has 20% of members with one year of membership, 60% with 5 years and 20% with 10 years, its MER would be 0.32. Assume the other fund has 30% of members with one year of membership and 70% with 5 years, its MER would be 0.48.

The MER approach suggests that the first fund has lower administration costs even though the funds' administration fees charged to individual members are identical. If dollar cost per member was used instead, this would give the correct conclusion (in these circumstances).

Section 4.3 of the Draft Report points out that: "The average MER of default superannuation funds has consistently trended below that of all superannuation funds (figure 4.2)". The above example demonstrates that this may not be due to lower administration costs. It may merely indicate that default funds, whose members would probably have greater periods of past membership, have higher account balances than non-default funds and hence lower MERs. Whether or not this is actually the case would of course require deeper analysis.



The comparison of administration expenses and their impact on members on a sound basis is not easy. The Institute has previously submitted an alternative approach to various enquiries, including the Cooper Review. This alternative approach uses projections prepared by funds on a specified basis illustrating the effect on benefits for say 5 membership periods, which would be included in Product Disclosure Statements. We attach, in Appendix B (5 pages), a further extract from our submission to the Cooper Review which explains this approach. We also attach, in Appendix C (4 pages), a letter we sent to APRA on 13 December 2011 about the form in which useful statistics on administration fee and costs could be collected and published.

Our Recommendation

Having regard to our comments above we recommend the following:

1. Only fees and costs that impact on members' benefits should be considered.
2. The MER approach discussed in the Productivity Commission's Draft Report should not be used in the assessment of fees and costs.
3. The fees and costs associated with investments and the fund's operation should be considered separately.
4. Draft Recommendation 4.3 should be reworded as follows:

"The selection and ongoing assessment of superannuation funds for listing as default funds in modern awards should include consideration of the following:

- The appropriateness of the investment fees and costs charged by the MySuper product, given its stated investment return objective and risk profile; and
- The appropriateness of the operating fees and costs charged to members by the MySuper product given the services provided and the quality and timeliness of those services."

Please contact either Melinda Howes, Chief Executive of the Actuaries Institute
) or Andrew Boal, Convenor of the
Actuaries Institute's Superannuation Practice Committee
if you would like to discuss our comments, or for any
further information.

Yours faithfully

David Goodsall
President

Encls: Extract from Institute of Actuaries letter to Super System Review dated 18 November 2009
Standardised Disclosure of Fees and Costs - the Way Forward
Letter to APRA re Annual Statistics for MySuper Products dated 13 December 2011



Extract from Letter to Super System Review dated 18 November 2009

REASONS FOR SEPARATING FEES AND COSTS INTO INVESTMENT AND NON-INVESTMENT COMPONENTS

[Five fruit or two apples and three oranges ?]

The Institute's first recommendation is:

All superannuation fund expenses and superannuation fees and costs which impact on members' benefits should be subdivided into an "investment" component and an "administration" component for all purposes.

Without this it is not possible to give members and prospective members a sound basis for comparing the costs of two or more superannuation funds. To do this effectively, members need to know and consider:

- (1) The fund administration fees and costs (and the services provided for those fees and costs), and
- (2) The investment fees and costs (and the expected net investment returns) in respect of all the various investment options.

Administration fees and costs and investment fees and costs have different attributes which make it necessary to demonstrate their effect on members in different ways. This can only be done if the fees and costs are subdivided into administration and investment components. The most relevant attributes making subdivision essential are as follows:

ATTRIBUTES OF ADMINISTRATION FEES AND COSTS

1. Administration costs incurred by a fund are usually higher in the year the member is enrolled in the fund (marketing cost may also be significant) and in the year the member receives or commences to receive a benefit. In the intervening years servicing costs are lower and are often not expected to vary much from year to year. Funds seeking to allocate costs between members on an equitable basis reflect this pattern in the way fees and costs are deducted from member accounts. The costs to be met by a member should therefore be measured over the period of membership. As that period is not known in advance, figures for comparison between funds need to be provided for a number of membership periods - five periods are used in the recommended basis submitted.
2. Administration costs often vary according to the level of contribution (and/or the size of account balances) so that costs for more than one contribution level need to be provided for comparison of funds - two contribution levels are used, in the recommended basis submitted.



3. In addition to the above variations in administration costs, the general level of a fund's administration fees and costs can vary from year to year e.g. in the year a major upgrade of the fund's computer administration system is necessary. For a fund operated by an institution the costs charged to members from year to year may be relatively stable as the institution may absorb the fluctuations over a period and make less frequent revisions to the fees payable to the institution by the fund. For a mutual fund, such as the typical industry or corporate fund, the fee may be relatively stable where administration is outsourced. The service provider may absorb the fluctuations over a period. However for a mutual fund handling all or most administration in-house, the costs can vary significantly from year to year. As the fees deducted from members' accounts in any year will differ from the actual costs in that year the difference is typically deducted from or added to investment income for that year. This is disclosed as a positive or negative "percentage of assets" administration fee or cost and may be averaged over say two or three years. (Other funds address this problem by putting administration fees deducted from member accounts into an account and paying administration expenses from that account. If the amount in the account is not sufficient, administration fees have to be increased. The current balance in the account may be disclosed in the PDS.)

ATTRIBUTES OF INVESTMENT FEES AND COSTS

1. Investment costs vary significantly (and reasonably) for different types of investment, typically being higher for growth investments such as shares and property. Accordingly costs must be disclosed separately for each investment option offered by the fund. For a master trust or similar offering a choice of investment manager as well as a choice of investment types, the number of options can be very large.

2. Investment costs for a particular investment type or option are not expected to vary much from year to year as a percentage of assets (except for performance fees). Accordingly it is usually sufficient to provide fees and costs for a single year for a valid comparison of funds.

Some have suggested it would be easier for members if the level of investment and administration fees and costs could be illustrated using one combined figure for the fund. This would be done by using only the investment cost for one investment option being that for a "balanced investment option". First this would not overcome the need for separate administration costs for different membership periods and different contribution levels. Secondly there is no such thing as a standard "balanced investment option". Some might include the same proportion of share investments but use different proportions of Australian and International shares. Some include infrastructure assets while others do not. Some might include a higher level of passive investments in the example used in the PDS and reduce or even exclude any active investments from the example. Some funds do not even have an investment option which could be regarded as a balanced investment option. Two funds could have the same basic fees and costs for their administration but the figures in the PDS could be very different because of the asset-mix used to calculate the cost for the "balanced option". While it would be simple to have just one figure it could be misleading and therefore may lead to the selection of a fund that does not best meet a person's requirements.



Cost is not the only factor to be taken into account in selecting a fund. Different people want a different range of administration services. A person in stable employment and not close to retirement may only need basic administration services. A person who changes jobs frequently or is self employed or retired may have very different requirements. Likewise some want access to a wider range of product features (such as contribution, insurance, disablement and pension alternatives) and investment choices.

Having separate figures for administration and investment costs is not only more accurate for comparison purposes but makes it easier to select a fund providing the administration services required and the desired range of investment options.

The basis for disclosure submitted makes it easier for members and prospective members, not by compromising on the validity of the fund comparison but by using two simple tables, one for administration and one for investment. Also, where the administration element has more than one fee and cost component, the third step of the suggested disclosure regime avoids the need for the person to understand how each administration fee or cost component is calculated. It is the aggregate effect of these components as shown in the table which the person needs to know.

A beneficial consequence of the separation of fees and costs into "investment" and "administration" is that the unnecessary and confusing terms "management costs" and "other management costs", which are currently specified in Corporations Regulations, can be dispensed with.

Splitting the fees and costs is consistent with the definition of "net earnings" in Corporations Regulation 7.9.01. Also, in the United States new legislation was recently passed which requires 401k plans to separate their fees into administration and investment management components. Our recommendations are consistent with overseas developments.

We believe that separation of administration fees and costs from investment fees and costs is not difficult. Trustees will usually know the investment component of fees and costs, or can make a reasonable estimate. In practice, we believe that many trustees will already be regularly making a subdivision of these costs as part of normal internal supervision of the costs of operating the fund. Guidelines could be issued to clarify some details and achieve consistency.

Standardised Disclosure of Fees and Costs - the Way Forward

[Updated November 2009]

The first version of this note was published in the August 2003 edition of *Actuary Australia*, the monthly magazine of the Institute of Actuaries of Australia. To take into account refinements suggested by various industry participants an updated version was published in the May 2004 edition of that magazine and another was included in our April 2007 submission to the Parliamentary Joint Committee on Corporations and Financial Services. For this November 2009 update we have incorporated some changes resulting from the work of the Institute of Actuaries Benefit Projections Working Group (of which Colin Grenfell and Ray Stevens are members) for its submissions to ASIC on benefit projections.

To help consumers compare different superannuation plans and products requires some standardisation in the way that fees, charges and costs are disclosed in Product Disclosure Statements (or PDS's). In fact, the same can be said of any product with an investment component, such as a managed fund or a life office or friendly society investment-linked policy or bond.

Just over ten years ago, Colin Grenfell wrote an article "KFS Disclosure - no easy matter" which was published by the Association of Superannuation Funds of Australia (ASFA) in the December 1998/January 1999 edition of *SuperFunds*. The article summarised the then public views on fee disclosure as expressed by the Liberal-National Coalition, the Labor Party, the Australian Securities and Investments Commission (ASIC), the Industry Funds Forum and others.

The article also noted that the Institute of Actuaries of Australia recommended that:

- (1) Investment performance should be reported net of tax and investment transaction costs and net of all investment costs.
- (2) Key Features Statements should include a brief description of all fees and charges.
- (3) In addition there should be some form of analysis of the impact of fees and charges which should focus on all non-investment fees and charges.
- (4) The impact of these fees and charges should be shown net of employer subsidies but should include any costs in excess of fees and charges which impact on members' benefits.

The authors of this note believe that these four recommendations reflect sound principles that remain valid today.

The authors note that the Institute's principles include the need to show separately the effect of investment fees and costs and of non-investment (or broadly administration) fees and costs. The authors consider this split is essential for a sound comparison of funds. The split also facilitates member investment choices. It is noted that the Report commissioned by ASIC from Professor Ian Ramsay, released in September 2002, recommended that investment and administration fees should be separated. Investment fees and costs would be defined consistent with Corporations Regulation 7.9.01 which refers to "... relating to the management of investment of fund assets".

In our previous work we have referred to non-investment fees and costs as “administration” fees and costs. The early material issued by the Cooper Review seems to have expressed a preference to call these non-investment fees and costs “superannuation” fees and costs rather than “administration” fees and costs. This is an innovative and very appropriate proposal which we support provided the new terminology is mandatory and clearly specified in regulatory guidance and/or legislation. We have therefore amended the terminology in this update to allow for this preference.

The August 2003 and May 2004 articles explain the background and relevant events since 1998. A further article in August 2005 expands on recommendations (1) and (3) above.

What happens next?

We suggest that the way forward should include the following three level fee and cost disclosure framework:

1. At a glance

This component of the framework would summarise the existence of various fees and costs using standardised terminology, order of contents and grouping. For example;

INVESTMENT		SUPERANNUATION	
Ongoing fees	<i>Yes</i>	Initial fees	<i>No</i>
Ongoing extra costs	<i>Yes</i>	Ongoing fees	<i>Yes</i>
Switching fees	<i>Yes</i>	Ongoing extra costs	<i>Yes</i>
Buy-sell spread	<i>Yes</i>	Benefit fees	<i>Yes</i>
		Exit fees or penalties	<i>No</i>

OTHER	Any other fees or costs?	<i>No</i>
	Are any dollar fees indexed	<i>Yes</i>
	Are fee rates expected to increase in the next 5 years?	<i>No</i>
	Are some tax deductions withheld?	<i>No</i>

2. Brief description

This component would be similar to the brief descriptions of fees and charges used in Member Booklets and some PDS's, but there would be a few important constraints. For example;

- Must include brief descriptions of how each of the above "Yes" responses is calculated and charged.

- Must start a new paragraph for each fee or cost.
- Must be in the same order as the first component and use the same grouping.
- Must briefly describe the services provided.
- Must use standard terminology similar in style and depth to the requirements of Corporations Amendment Regulations 2005 (No. 1) but, primarily as a consequence of the separation of fees and costs into “investment” and “superannuation” components, without the unnecessary and confusing terms “management costs” and “other management costs”.

3. Impact of fees and costs

This third and final component would replace the current Corporations Regulations “example of annual fees and costs”. Like the current example it would exclude service fees. It would have two distinct parts, one for Investment fees and costs and one for Superannuation fees and costs. For example;

INVESTMENT

For each investment option, list:

- (a) the ongoing net of tax fees and extra costs as a single annual dollar amount per \$10,000 of average assets (eg. if fees were .44% net of tax and the only other investment costs were Consultant's fees of .09% net of tax, then list \$53 per annum for this option), and
- (b) the buy-sell spread (if any) and state whether this margin is paid to the fund manager or left in the fund for the benefit of other members.

SUPERANNUATION

A standardised superannuation fees and costs projection (similar to that now required in the United Kingdom) for at least two levels of contributions. This is probably the most important part of the framework.

This part includes the following five columns for initial annual contributions of \$5,000 and \$10,000 respectively:

- | | |
|---|----------------------------|
| (1) At end of years | 2, 5, 10, 20 and 40 |
| (2) Total paid in to date | 3 or 4 significant figures |
| (3) Account balance without fees and costs deducted | 3 or 4 significant figures |
| (4) Effect of fees and costs to date | 2 or 3 significant figures |
| (5) Account balance with fees and costs deducted
[= (3) - (4)] | 3 or 4 significant figures |

The Institute of Actuaries of Australia's 6 November 2008 response to ASIC Consultation paper 101 suggested, in its answer to Question 4 in Section B5 (page 30 of the response), how the two contribution levels in 3. above should be determined from time-to-time. The Institute suggested that they should be based on the future SG rate (and any soft compulsion rate of member contributions) applied to say 75% and 150% of an average weekly earnings figure (annualized) with the resultant annual contributions rounded to the nearest \$1,000 and \$2,000 respectively. For example, if average weekly earnings were \$1,300 and the SG rate were 9%, then:

- Lower standard contribution = $\$1,300 \times 0.75 \times 52 \times 9\% = \$4,563 = \$5,000$
- Higher standard contribution = $\$1,300 \times 1.50 \times 52 \times 9\% = \$9,126 = \$10,000$

Sample Product Disclosure Statements

Two sample Product Disclosure Statements, which reflect the principles that we consider should apply to fee and cost disclosure, have been prepared and can be supplied if required. One sample is for a hypothetical Retail superannuation fund and the other is for a hypothetical Industry plan named "ZIS". (They have not been updated to reflect legislative or taxation changes since 2004.)

The next page is an extract from the latter PDS to illustrate the third component of our recommended framework.

This extract has been updated to amend the terminology for non-investment fees and costs from "administration" fees and costs to "superannuation" fees and costs and to use initial contributions of \$5,000 and \$10,000 as determined above.

We consider that if our proposal is adopted, the Australian Government Actuary should be given the responsibility of setting and monitoring the superannuation fee and cost projection basis.

We draw to your attention the following three important features of "Table 5":

- The first three columns would be common to all funds (when making a comparison of two or more funds, this feature gives the reader confidence that they are comparing "like with like").
- The fourth and fifth columns are unique to each fund since they depend directly on each fund's superannuation fees and costs.
- The fourth column shows that after 2 year's the effect of fees and costs (for ZIS) for a \$10,000 initial annual contribution is **115%** of that for a \$5,000 initial annual contribution but after 40 year's the effect of fees and costs for a \$10,000 initial annual contribution is **191%** of that for a \$5,000 initial annual contribution (this large relative difference demonstrates why with any comparator it is essential to have results for both short and long durations and for at least two contribution levels).

Colin Grenfell and Ray Stevens

[extract only]

Table 4: ZIS Annual <u>INVESTMENT</u> Fees and Costs Summary per \$10,000 account balance in each investment option			
	<u>Option A</u>	<u>Option B</u>	<u>Option C</u>
Ongoing (and Extra)	\$161	\$140	\$124
Buy-sell spread	Nil	Nil	Nil

Assumptions on which the following fee table is based

The table below uses the standard assumptions about account balance, contributions and investment returns that all funds must use to show the impact of their superannuation fees and costs. These assumptions are as follows:

- Account balance at start: nil.
- Initial Annual Employer contributions of \$5,000 or \$10,000 (before tax).
- Contributions payable mid-year (or say weekly) and increasing by 4.5% each year.
- Member contributions: nil.
- Net annual investment return of 7% (net of tax and net of investment fees and costs).
- Dollar fees increase by 3% each year.
- Results in “today’s dollars” (ie deflated using a salary increase assumption of 4.5% each year).
- No allowance for any tax payable on benefits.

Table 5: Effect of ZIS <u>SUPERANNUATION</u> Fees and Costs				
If withdrawn	Total Paid in to date	Account Balance without fees and costs deducted	Effect of fees and costs to date *	Account Balance with fees and costs deducted *
<u>Initial Annual Contribution \$5,000</u>				
after 2 years	\$ 10,000	\$ 8,700	\$ 130	\$ 8,570
after 5 years	\$ 25,000	\$ 22,560	\$ 420	\$ 22,140
after 10 years	\$ 50,000	\$ 47,940	\$ 1,260	\$ 46,680
after 20 years	\$100,000	\$108,700	\$ 4,700	\$104,000
after 40 years	\$200,000	\$283,000	\$22,500	\$260,500
<u>Initial Annual Contribution \$10,000</u>				
after 2 years	\$ 20,000	\$ 17,400	\$ 150	\$ 17,250
after 5 years	\$ 50,000	\$ 45,120	\$ 610	\$ 44,510
after 10 years	\$100,000	\$ 95,880	\$ 2,080	\$ 93,800
after 20 years	\$200,000	\$217,400	\$ 8,500	\$208,900
after 40 years	\$400,000	\$566,000	\$43,000	\$523,000

* The fees and costs include all fees and costs, except investment fees and costs and insurance charges. They include the benefit payment fee. For ZIS there are no other surrender penalties or exit fees and ZIS does not pay any commissions.

The last line of Table 5 (for an annual contribution of \$10,000) shows that over a 40 year period the effect of the total deductions could amount to \$43,000 (in today’s dollars). Putting it another way, this would have the same effect as bringing investment returns down from 7% a year to 6.63% a year.



13 December 2011

Mr Ross Jones
Deputy Chairman
Australian Prudential Regulation Authority
400 George Street (Level 26)
SYDNEY NSW 2000

Dear Sir

APRA ANNUAL STATISTICS FOR MYSUPER PRODUCTS

The Actuaries Institute is the sole professional body for actuaries in Australia, providing independent, expert and ethical comment on public policy issues where there is uncertainty of future financial outcomes. It represents the interests of over 3,800 members, including more than 2,000 actuaries.

The Institute has made a number of submissions to the recent Super System Review and participated in other ways with the development of MySuper products.

We understand that APRA will be required to publish statistics relating to the fees and costs, and investment information, for MySuper and other superannuation products to facilitate comparisons by members. A Working Group of the Institute has done considerable work on these issues over recent years and has recently developed a discussion document on the form in which useful statistics on administration fees and costs of MySuper products could be collected and published.

The impact of administration fees and costs can be demonstrated in a number of ways. One approach is to calculate an "index" showing the projected benefit at the end of the membership period, expressed as a percentage of the projected benefit which would apply at the end of the membership period if there were no fees and costs affecting the member's benefit. Another is to show the "dollar reduction" in the projected end benefit (in today's dollars) caused by the administration fees and costs. We see merit in both these approaches.

Briefly, we believe that the main issues relating to reporting administration fees and costs to members are the effect of these fees and costs:

1. on members who have different contribution levels and different initial account balances, and
2. over different periods of membership.

We suggest that showing the impact of administration fees and costs given two contribution levels, say \$5,000 p.a. and \$10,000 p.a., and no initial account balance, would allow a member (or prospective member) of a fund to select the level which best matches the person's situation. We would not advocate showing the impact given a range of initial account balances, given the additional complexity that would be introduced.

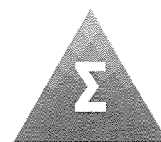
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Comparisons over a 40 year membership period could be used for ranking funds, but a much shorter period, say 10 years, would highlight the fact that for some funds the effect of administration fees and costs can be different for shorter membership periods.

The attached document illustrates both the "index" and "dollar reduction" approaches described above, using \$5,000 p.a. and \$10,000 p.a. contribution levels. The impact of the administration fees and costs is shown over periods of 10 or 40 years for 27 Funds with administration fees and costs as described.

The Institute would welcome the opportunity to discuss with APRA the issues that we believe need to be considered. We propose to separately address the considerations in relation to investment statistics.

The calculations in the attached document are based on the principles that have been used in submissions relating to administration fees and costs in Product Disclosure Statements over a number of years by members of the Institute. We believe that consistency between APRA's data collection standards and ASIC's disclosure requirements is important.

We would welcome the opportunity of meeting with an appropriate person or group to provide more details of our proposal. Please do not hesitate to contact Melinda Howes, CEO in this regard, or for any further information.

Yours sincerely

Barry Rafe
President

cc David Shade Email: david.shade@apra.gov.au
Advisor, Statistics
Australian Prudential Regulation Authority

Prashanti Ravindra, Email: Prashanti.Ravindra@asic.gov.au
Lawyer, Strategic Policy
Australian Securities and Investments Commission

Ged Fitzpatrick Email: Gerard.Fitzpatrick@asic.gov.au
Senior Executive Leader
Investment Managers & Superannuation Team
Australian Securities and Investments

ADMINISTRATION FEES AND COSTS

The two tables below provide information about the administration fees and costs charged by superannuation funds and the effect of these on members' benefits. Both of the tables exclude all fees and costs relating to investment. They also exclude insurance premiums and advice fees. The tables assume zero initial fund balances. If a member has an existing superannuation balance, then the tables do not indicate the full effect of administration fees and costs on the member's overall superannuation benefits.

Annual Contribution \$5,000						
If your annual contribution exceeds \$7,500, see the blue table below						
	Index (note 3)		Effect of Fees and Costs (in today's dollars)		Rank	
	Membership		Membership		Membership	
	40 years (note 1)	10 years (note 2)	40 years (note 1)	10 years (note 2)	40 years (note 1)	10 years (note 2)
Fund 05	98.8	99.0	-\$3,861	-\$515	1	1
Fund 14	98.7	98.7	-\$4,093	-\$635	2	3
Fund 09	98.5	98.5	-\$4,750	-\$737	3	4
Fund 10	98.0	98.0	-\$6,333	-\$983	4	6
Fund 26	97.6	98.8	-\$7,584	-\$595	5	2
Fund 11	97.5	97.5	-\$7,917	-\$1,229	6	9
Fund 23	97.1	97.1	-\$9,238	-\$1,434	7	13
Fund 01	97.0	97.0	-\$9,374	-\$1,455	8	14
Fund 04	97.0	97.0	-\$9,500	-\$1,475	9	15
Fund 17	96.5	96.5	-\$11,084	-\$1,721	10	17
Fund 08	96.0	96.0	-\$12,667	-\$1,966	11	18
Fund 20	95.4	98.4	-\$14,565	-\$797	12	5
Fund 19	95.0	95.0	-\$15,834	-\$2,458	13	20
Fund 22	94.5	96.6	-\$17,387	-\$1,692	14	16
Fund 27	94.0	94.0	-\$19,000	-\$2,949	15	24
Fund 18	94.0	95.6	-\$19,126	-\$2,140	16	19
Fund 16	93.0	97.6	-\$22,136	-\$1,166	17	7
Fund 13	92.7	97.2	-\$22,998	-\$1,388	18	10
Fund 25	92.6	97.5	-\$23,299	-\$1,225	19	8
Fund 03	90.1	91.6	-\$31,292	-\$4,139	20	27
Fund 06	89.2	95.0	-\$34,071	-\$2,459	21	21
Fund 12	87.9	97.1	-\$38,440	-\$1,429	22	12
Fund 02	87.7	97.1	-\$38,975	-\$1,420	23	11
Fund 07	85.2	94.7	-\$46,832	-\$2,601	24	22
Fund 24	84.8	94.2	-\$48,054	-\$2,840	25	23
Fund 15	83.5	93.7	-\$52,409	-\$3,081	26	25
Fund 21	77.9	92.7	-\$69,852	-\$3,586	27	26

Please note:

- 1 This membership has been used to sort the above table (because 40 years is closer to the total potential membership of most people).
- 2 This membership has been included to illustrate how rankings may depend on the period of fund membership. Each fund's PDS shows the effect of fees and costs for periods of 2, 5, 10, 20 and 40 years.
- 3 The index provides a measure of how administration fees and costs effect members' benefits. The smaller the index the greater the effect on benefits. A fund where members incur no fees or costs (e.g. because they are paid by the employer) would have an index of 100.

Annual Contribution \$10,000						
If your annual contribution is less than \$7,500, see the green table above						
	Index (note 3)		Effect of Fees and Costs (in today's dollars)		Rank	
	Membership		Membership		Membership	
	40 years (note 1)	10 years (note 2)	40 years (note 1)	10 years (note 2)	40 years (note 1)	10 years (note 2)
Fund 14	99.4	99.4	-\$4,093	-\$635	1	2
Fund 05	99.3	99.5	-\$4,561	-\$539	2	1
Fund 09	99.3	99.3	-\$4,750	-\$737	3	3
Fund 10	99.0	99.0	-\$6,333	-\$983	4	5
Fund 11	98.8	98.8	-\$7,917	-\$1,229	5	6
Fund 23	98.5	98.5	-\$9,238	-\$1,434	6	8
Fund 04	98.5	98.5	-\$9,500	-\$1,475	7	9
Fund 17	98.3	98.3	-\$11,084	-\$1,721	8	10
Fund 26	98.0	99.2	-\$12,451	-\$763	9	4
Fund 08	98.0	98.0	-\$12,667	-\$1,966	10	12
Fund 01	97.5	97.5	-\$15,707	-\$2,438	11	16
Fund 19	97.5	97.5	-\$15,834	-\$2,458	12	17
Fund 27	97.0	97.0	-\$19,000	-\$2,949	13	20
Fund 22	95.8	97.8	-\$26,885	-\$2,133	14	14
Fund 20	95.6	98.5	-\$28,090	-\$1,428	15	7
Fund 18	94.8	96.5	-\$32,873	-\$3,430	16	21
Fund 03	94.0	95.6	-\$37,769	-\$4,363	17	23
Fund 16	93.5	98.1	-\$41,256	-\$1,840	18	11
Fund 13	93.5	97.9	-\$41,467	-\$2,038	19	13
Fund 25	92.9	97.8	-\$44,829	-\$2,161	20	15
Fund 06	89.3	95.1	-\$67,630	-\$4,833	21	24
Fund 12	87.9	97.1	-\$76,651	-\$2,819	22	18
Fund 02	87.7	97.1	-\$77,950	-\$2,839	23	19
Fund 24	86.1	95.6	-\$88,113	-\$4,302	24	22
Fund 07	85.4	95.0	-\$92,170	-\$4,945	25	25
Fund 15	83.5	93.8	-\$104,411	-\$6,091	26	27
Fund 21	78.9	93.9	-\$133,355	-\$5,999	27	26

Please note:

- 1 This membership has been used to sort the above table (because 40 years is closer to the total potential membership of most people).
- 2 This membership has been included to illustrate how rankings may depend on the period of fund membership. Each fund's PDS shows the effect of fees and costs for periods of 2, 5, 10, 20 and 40 years.
- 3 The index provides a measure of how administration fees and costs effect members' benefits. The smaller the index the greater the effect on benefits. A fund where members incur no fees or costs (e.g. because they are paid by the employer) would have an index of 100.



19 November 2012

Neil Grummitt
General Manager
Policy, Research and Statistics
Australian Prudential Regulation Authority
GPO Box 9836
Sydney NSW 2001

Dear Neil

**APRA Discussion Paper – 19 September 2012
Reporting standards for superannuation**

The Actuaries Institute is the sole professional body for actuaries in Australia. It represents the interests of over 3,800 members, including more than 2,000 actuaries. Our members have had significant involvement in the development of insurance regulation, financial reporting, risk management and related practices in Australia and Asia.

We have reviewed the Discussion Paper, "Reporting standards for superannuation", dated 19 September 2012 ("Discussion Paper"), and the draft reporting forms and instructions. The Discussion Paper, forms and instructions were discussed at a meeting between APRA and Institute representatives on 8 November. At that meeting it was suggested the Institute should make two submissions:

- (1) This submission which focuses on the forms and instructions as currently proposed, and
- (2) A second submission which will focus on suggested changes (particularly for defined benefit, self insurance and transition matters) which should be provided before Christmas this year.

Our comments for the first submission are provided below.

We note from the Discussion Paper that *"overall APRA expects that this new data collection will be of significant benefit to all industry stakeholders by providing greater transparency of investments and costs in superannuation and by providing information relevant to the Stronger Super reforms"*.

For defined benefit funds and self insured funds it is not clear how this additional reporting will be of benefit to all industry stakeholders, and we note that it will be at substantial expense to those funds. We also note that information has been requested quarterly that we would not expect to change materially from one quarter to the next, particularly in relation to defined benefit and self insured arrangements. From an industry perspective we expect that annual reporting would be sufficient for many of the items requested. If APRA requires more regular reporting for specific funds, (eg if a fund is in an unsatisfactory financial position), then this could be requested on an ad-hoc basis or quarterly as required.

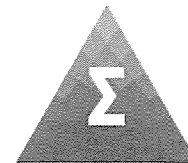
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



1. Reporting Form SRF 160.0 - Defined Benefit Matters

Actuarial projection assumptions (question 2)

The Instructions say "Item 2 collects the actuarial projection assumptions used at the most recent actuarial investigation date to calculate information reported in item 1."

The Instructions then go on to say "Report the assumptions which are applicable over the next 12 months that are used in the most recent actuarial investigation in item 2. These are not necessarily the long-term assumptions that are used in the most recent actuarial investigation."

The assumptions used in item 1 (at the last actuarial investigation) would generally be long term assumptions, not those applicable over the next 12 months. We therefore recommend that the Instructions should be revised to make it clear that in this situation the long term assumptions should be reported.

When the assumptions contain "short term" components these are usually for periods of two or three years. We therefore suggest that assumptions be separated into (a) long term, and, if relevant, (b) short term year one, (c) short term year two and (d) short term year three.

Investment return assumptions (question 2.1)

The Instructions refer to "the assumption used in the actuarial investigation for investment return gross of fees and taxation". For most private sector defined benefit lump sum plans this is of no or little relevance because such plans are unlikely to have any tax exempt pension liabilities - and hence all their liabilities will be subject to tax on investment income and capital gains. It is also possible that the allowance for investment fees and costs might be an implicit assumption rather than an explicit one. We therefore suggest that the forms and instructions report investment return assumptions:

- (a) gross of all fees and costs and taxation, and
- (b) after investment fees, investment costs and investment taxation.

In some situations (a) above will not be available. We assume that in these cases a blank response will suffice.

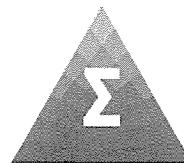
Have benefit payments been made in accordance with actuarial recommendations? (question 7.2)

This question is only applicable if a sub-fund is technically insolvent or, subject to SPS 160's final requirements, an unsatisfactory financial position. We therefore suggest the Instructions clarify how a fund should respond if benefit payments are not subject to actuarial recommendations. Maybe a drop down "not applicable" response could be made available.

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Age Segmentation by member accounts (question 9)

The use of the term "member account" is confusing in a defined benefit fund. We suggest this heading is changed to "age segmentation by membership". It is not clear what information is to be provided in column (2) – if it is the number of members in each age group we suggest the heading is amended.

For defined benefit and hybrid funds it would also be logical to separate membership before retirement from pensioner members in question 10.

2. Reporting Form SRF 330.2 – Statement of Financial Performance – sub-fund

Form 330.2 requires Operating Costs (note that the terminology "operating" is inconsistent with MySuper's "administration and investment" fees structure) to be broken down into the following categories:

- Administration Costs - split into 3 sub categories
- Advice Costs – split into 4 sub categories
- Compliance Costs – split into 5 sub categories
- Distribution Costs – split into 2 sub categories
- Overhead Costs – split into 8 sub categories

This is a very ambitious proposal and will be costly and difficult for Trustees to prepare on a quarterly basis. Also, we believe that the proposed number of categories and sub categories will mean that the resultant expense subdivisions will often be very subjective and error-prone. In our submission to Treasury to the Stronger Super proposals dated 31 May 2011 (copy enclosed as Appendix A) we recommended (see recommendation 6) that fees, costs and expenses should be broken down into 3 categories for all purposes:

- Administration - fees, costs and expenses
- Investment - fees, costs and expenses
- Advice - fees (see Appendix A)

Consistent with the Corporations Regulations, the words "fees and costs" are intended to include expenses which impact on members' benefits but which are not included in fees.

For example, a Fund may have the following administration fees, expenses and costs:

Administration Fees, i.e. the amounts charged to members – e.g. \$52 p.a. plus 0.1% p.a. of assets – total of \$1M across all members

Administration Expenses i.e. the amount paid from the fund's assets during the year – total of say \$1.2M, because in this particular year administration expenses are abnormally high.

The difference between administration fees and expenses is then \$200,000. If this \$200,000 is deducted (which is a common practice) from members' benefits, or from investment returns before being applied to members' accounts, then this is a "cost" that impacts on members' benefits and therefore should form part of "administration fees and costs".

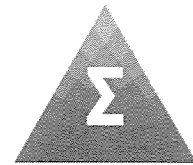
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Total Administration Costs are defined in the Instructions for SRF330.2 as "Represents costs paid or payable that relate to administration. Includes: costs incurred by the RSE licensee for payments to external administrators and in relation to the provision of internal administration services."

We further note that in SRF 537.0, 537.1, 538.0 and 538.1 Administration fees (see below) are defined differently.

We are most concerned that the inconsistent definitions are likely to lead to inconsistent reporting and confusion for funds. We recommend that the same terminology is used for all purposes.

3. Reporting Forms SRF 537.0 – Product Dashboard and Related Information and SRF 537.1 – Investment Performance

Investment Return Target

The Instructions explain that the investment return target:

"Represents an estimate of the average future annual net investment return (after investment fees and taxes) measured in excess of the annual percentage change in AWOTE".

The Institute fully supports the use of AWOTE as a reference base for investment return targets (or investment objectives) because, unlike the CPI, it includes an allowance for improvements in community living standards – which we consider is appropriate for benefit adequacy purposes. However we also realise that many plans use CPI as a reference base and we expect that some of them will argue vehemently for this to be allowed as a base. We therefore suggest that the Form 537.0 should accommodate both bases and that APRA should encourage, but at least initially not require, an AWOTE reference base.

We also note that cash and fixed income assets may not have a target investment return that is "in excess" of AWOTE, so the investment return target may be negative on this basis.

Calculation of Net Return

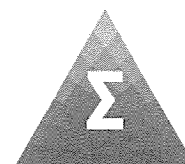
The Institute strongly recommends that investment returns should not be calculated by deducting administration fees as well as investment fees. Net investment returns should only allow for investment related fees, costs and taxes. Other fees and costs and taxes bear no relation to the management of the investment portfolio. An investment option should not be considered to have inferior investment performance simply because the fund provides a wider range of services, or more expensive services, which incur higher administration costs.

We therefore recommend that items 4.5 and 4.6 of Form 537.0 and 3.5 and 3.6 of Form 537.1 should be deleted and that item 5 of Form 537.0 and item 4 of Form 537.1 should be changed from "Average fees" to "Average administration fees" and the latter should be expressed as an annual average per member not as a percentage of assets. The reasons for this are similar to the reasons for our "net investment return" recommendations above.

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



For example, consider two identical superannuation funds with the same membership and fee structure, but where one fund started five years after the other. The newer fund will have lower assets and hence a higher administration cost percentage, yet its fees are the same as the older fund.

Expressing administration costs as a percentage of the value of fund assets is unsound and likely to be misleading. Expressing administration costs as dollars per member would be an improvement because most direct administration fees are expressed this way, and a significant part of ongoing administration expenses varies with changes in membership numbers.

The Government's "Stronger Super" reforms state that MySuper is to be:

"a simple, low cost default superannuation product ... to improve the simplicity, transparency and comparability of default superannuation products."

For the reasons set out above we believe that the proposed "net returns" are simple and transparent but not comparable, whereas our suggestion is simpler (because it has two less items), equally transparent and, importantly, comparable.

Calculation of Returns

Para 7.4.5 of the Discussion paper notes "An RSE licensee may calculate returns based on unit prices or crediting rates, depending on the approach used for each option".

We note that Corporations Regulation 7.9.01 defines net earnings or "net investment returns" as:

"**net earnings**" means the investment return on the assets of a fund after payment of transaction costs, government charges, taxes and duties and charges relating to the management of investment of fund assets."

In our response to the Stronger Super proposals (see Appendix A) we suggested at recommendation 2 that APRA or ASIC should provide guidance to the industry that acknowledges the differences between earning rates (net investment returns) and crediting rates (the amounts allocated to members' accounts). We are concerned that "returns" may be interpreted differently by different users.

We therefore consider that further guidance should be provided and para 7.4.5 should be revised accordingly to remove the reference to crediting rates (or para 7.4.5 should be deleted/disregarded).

Administration Fees

Administration fees are defined in the Instructions for SRF537 as "Represents a fee that relates to the administration or operation of the fund and includes costs incurred by the RSE licensee (that are not otherwise charged as an investment fee, a buy-sell spread, a switching fee, an exit fee or an activity fee). Reference: SIS Act, s. 29V(2)."

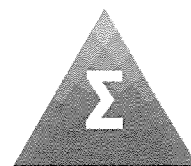
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



This definition is not consistent with that used in SRF 330.2 (see above). To ensure consistent reporting across funds, we believe consistent terminology should be used for all purposes. The SRF 537 definition also needs revision to make it clear that investment costs (as well as investment fees) should be excluded.

Indirect investment fees

Indirect investment fees are defined in the Instructions for SRF 537 as "*Represents investment fees categorised by netting off the expenses prior to, or in the process of, determining or setting of a unit price or crediting rate to value members' benefits*"

This definition is open to different interpretations. For example, it is not clear whether indirect investment fees are "investment costs" i.e. investment-related costs that impact members' benefits but are not included in direct investment fees or whether other "expenses" (which might reflect some administration costs) are to be netted off. For consistency with form 330.2 we recommend consistent terminology should be used as recommended above.

Reporting Forms 537 and 538 - Interpretation

We assume that on both these forms "fees" includes fees and costs (other than insurance premiums and taxes) which impact on members' benefits. Thus:

- (a) Costs which are not fees, insurance premiums or taxes but which impact on members' benefits should be treated as fees, and
- (b) Fees or costs which do not impact on member's benefits (e.g. because they are paid by an employer) should not be counted as fees

It would be helpful if the Instructions could be expanded to explain this.

4. Reporting Form SRF 602.0 – Wind-up

If the wind-up has resulted in individual members accounts being transferred to different funds it is not clear from the Instructions whether the receiving fund for each individual account needs to be listed in item 3.

5. Reporting Form SRF 610.2 – Membership Profile – MySuper Product

This form notes that member accounts must be split:

- MySuper interest as a result of member investment choice (Represents a MySuper interest where the member exercised choice of investment option to direct any portion of their interest into the MySuper product. Reference: SIS Act, s.10(1))
- MySuper interest not as a result of member investment choice (Represents a MySuper interest where the member has not exercised choice of investment option to direct any portion of their interest into the MySuper product. Reference: SIS Act, s. 10(1)).

This will be very difficult for some Trustees to determine and it is not clear to us what the benefit of this information will be.

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



6. Reporting Form SRF 250.0 – Insurance

Some funds may pay insurance premiums annually by way of a deposit premium at the start of the year and an adjustment premium at the end of the year. In some cases the premiums may not be deducted from members' accounts, for example in a defined benefit fund they may be paid from the defined benefit assets or by the Employer as an additional contribution.

SRF 250 requires quarterly reporting of insurance transactions. In cases where premiums are not deducted from members' accounts or where premiums are payable annually it is not clear how this reporting will be performed and how this will be comparable across funds.

7. Reporting Forms SRF 530, 531, 532 and 533 – Asset Classes and Allocations

We assume that "Property" includes unlisted, listed, direct and international property. It would be helpful if the Instructions could be expanded to explain this.

8. Reporting Form SRF 330.1 - Statement of Member flows

Employer Contributions are broken down into 4 sub-categories (mandatory employer contributions, salary sacrifice contributions, non-mandatory contributions and defined benefit contributions).

We note from the Instructions that non-mandatory employer contributions (item 1.1.3) include defined benefit contributions. However defined benefit contributions are also reportable at item 1.1.4. Therefore defined benefit contributions are being reported twice, so if the 4 sub-categories are added together they will not equal total contributions. There is a risk that non-mandatory employer contributions will be reported excluding defined benefit contributions which will lead to inconsistent reporting across funds.

Self-employed members can complete a notice of intent to claim a tax deduction. Such contributions will generally be treated as non-deductible when they are received by the fund until the member submits the notice of intent to claim a tax deduction. It is not clear whether any special reporting is required in these cases.

9. Reporting Form SRF 161 – Self Insurance

As set out in our submission on draft SPS 160, the Institute believes that there should not be a requirement for defined benefit funds to hold specific reserves for self-insurance, however a provision for outstanding and incurred but not yet reported (IBNR) claims is appropriate when assessing a fund's financial position.

We would therefore appreciate the opportunity to discuss what is required by some of the questions relating to reserves and insurance premiums, as well as what is meant by "reinsurance" – in particular if and how this differs from "acquired insurance" – and a number of other matters of detail.

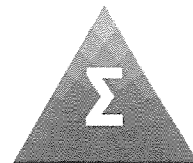
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

† +61 (0) 2 9233 3466 ‡ +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



We believe that quarterly reporting will be onerous and in most (if not all) cases out of proportion with the significance of this risk for large defined benefit funds where investment volatility would be more material than the risk from claims volatility.

We can provide more detailed comments on form SRF 161 in our second submission, but would appreciate the opportunity to discuss this further with APRA in the meantime.

10. Transition to new reporting standards

We note that APRA is proposing to remove the current \$50 million threshold for quarterly reporting. Given the significant additional reporting that will be required (in particular SRF 530-536) we feel this is an unreasonable additional compliance burden and hence cost for funds with less than \$50 million of assets. We do not see what benefit this will provide and request APRA to review this proposal which we do not believe will be in the best interest of fund beneficiaries because of the very significant increase in costs associated with quarterly reporting.

Please do not hesitate to contact Andrew Boal, Convenor of the Superannuation Practice Committee, if there is any way we can assist.

Yours sincerely,

David Goodsall
President

Encl: Letter to MySuper dated 31 May 2011

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Institute of Actuaries of Australia

MySuper
The Treasury
CANBERRA

31 May 2011

Stronger Super Proposals – MySuper and Important Related Issues

The Institute of Actuaries of Australia ("the Institute") is the sole professional body for actuaries in Australia. It represents the interests of over 1,500 Fellows and 2,000 other members.

The Institute has been involved in the recent MySuper Working Group and some of the views in this letter have been expressed there.

For the record, we are now putting a number of issues in writing for Treasury to consider as they move on to the detailed implementation of the MySuper reforms. We make recommendations on seven aspects of how the proposed reforms would be implemented if they were to closely follow the Government's response to the Super System Review.

Whilst some of the recommendations relate to the six Issues Papers considered by the MySuper working group, others relate to an important issue that we believe should be considered at the same time – that is the calculation and presentation of investment earning rates. This is a key underlying issue for MySuper and other parts of the proposed reforms. This is an area in which our members have considerable technical expertise and practical experience, and we considered it vital that superannuation funds calculate and present their returns in a consistent and technically correct manner.

Issues 1, 3, 4 and 6 use the terminology "fees and costs". Consistent with the Corporations Regulations, the words "fees and costs" are intended to include expenses which impact on members' benefits but which are not included in fees.

ISSUE 1: Subdivision of Fees and Costs into Investment and Other Components.

RECOMMENDATION 1: Superannuation funds should be required to disclose investment costs separately from other costs for all reporting purposes.

The Institute considers it is essential for superannuation funds to subdivide fees and costs into an "investment" and an "other" component (which would include administration fees and costs). This is essential to allow –

- (a) **Calculation on a meaningful basis of the net investment return** achieved by a fund, or by an investment option within a fund; and

The Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7 Challis House 4 Martin Place
Sydney NSW Australia 2000

Telephone 02 9233 3466 Facsimile 02 9233 3446

Email: actuaries@actuaries.asn.au Web site: www.actuaries.asn.au

- (b) **Disclosing a fund's fees and costs in its Product Disclosure Statement** on a basis which enables comparison of funds on a sound basis.

We understand one of the prime objectives of the Stronger Super proposals is to enable members to easily compare different superannuation funds and the services that they provide. To achieve this objective it is vital that members are aware of the services provided by each fund and the costs associated with providing these services. With respect to investment and administration services it is therefore imperative that the costs of each of these services be identified separately.

Note that (a) does not require a subdivision be shown in each member's account statement. All that is required is that only the total investment costs for the calculation period for the fund (or investment option), or an allowance for these costs, be deducted in the calculation of the net investment return for the fund (or investment option) that is reported to members.

In regard to (b) the Institute supports the simple and succinct method of describing these fees and costs set out in the "Way Forward" submission dated 4 November 2009 to the Super System Review by two of our members, Colin Grenfell and Ray Stevens.

Our submission of 18 November 2009 to Phase two of the Super System Review is attached as Appendix 1. It provides more detail on this issue.

ISSUE 2: Differences between "earning rates" and "crediting rates".

RECOMMENDATION 2: APRA or ASIC should provide guidance to the industry that acknowledges the difference between earning rates (net investment returns) and crediting rates (the amounts allocated to member accounts).

All defined contribution funds allocate investment income to member accounts on a regular basis either via unit prices or via crediting rates. In some cases, the amount of investment income allocated to members will equal the actual net investment income earned by the assets supporting those members' accounts. In other cases, the amount allocated will be less than the net earnings because, for example, they deduct a further asset-based fee to cover part of administration costs or they deduct amounts to build up operational reserves. The "allocation rate" used to distribute investment income to members' accounts may or may not be equal to the actual net earning rate achieved on the assets supporting the members' accounts.

When comparing the investment performance of funds or investment options this should be based on the net earning rates achieved by the assets supporting the members' accounts, regardless of the distribution method. Where crediting rates are different from earning rates, it can be appropriate to use such crediting rates for some purposes e.g. on a member benefit statement. Whenever a rate is disclosed or reported one must determine which the correct rate is, and ensure the two types of rate are not mixed up in the same table.

We are concerned that research houses and many funds are not reporting and comparing "like-with-like". Investment performance tables may actually be a mixture of earning rates and crediting rates, which is misleading.

If Stronger Super results in APRA publishing "ILeague tables" of earning rates which are intended to be used by a person selecting a fund, it will be even more important to ensure the correct rate is used for this purpose.

The Institute has over the past few years drawn this issue to the attention of APRA, ASIC and the Super System Review, however the issue remains unresolved.

Though no changes seem to be required to the Corporations Act 2001 or Corporations Regulations, we recommend that this issue be addressed and guidance given to the industry before implementation of a number of the related Stronger Super proposals.

A letter to APRA on this issue from some of our members on 12 August 2010 is attached as Appendix 2.

ISSUE 3: Calculation of Net Investment returns

RECOMMENDATION 3: The Government should direct APRA and ASIC to develop a standard for reporting investment returns which ensures that net investment returns include an allowance for investment costs only, not for administration or other services.

Recommendation 4.8 of the Super System Review recommended that APRA be asked to develop a standard for reporting investment returns including the return "net of all costs (administration and investment)".

The Institute strongly recommends that "net investment returns" should not be calculated by deducting administration costs as well as investment costs. Net investment performance and presentation should allow only for investment fees and costs and investment taxes. Other fees and costs and taxes bear no relation to the management of the investment portfolio. A fund or investment option should not be considered to have inferior investment performance because it provides a wider range of services which incur higher administration fees.

Since 1996, the Institute's Professional Standard 101 on "Investment Performance Measurement and Presentation" has required actuaries to determine net investment returns based on the deduction of only investment fees and costs. In July 2010 the standard for member funds of the Financial Services Council was also changed to this basis, but subsequently the change was deferred because of pending FOFA legislation. In 2009 the United States introduced legislation for its 401k plans which is in line with the above methodology. The practice in a number of other countries is also on this basis.

In its response to the Super System Review recommendations the Government has asked APRA and ASIC to develop standards for calculation and presentation of investment returns. We recommend that these standards are not implemented on the basis of the Super System Review recommendation 4.8 in respect of the deduction of non-investment

fees and costs and contributions tax, but should deduct investment-related fees, costs and taxes only.

ISSUE 4: Proposed use of Total Annual Expense Ratio (TAER)

RECOMMENDATION 4: The Government should not proceed with the use of a TAER.

We are concerned about the proposed use of a "Total Annual Expense Ratio" (TAER) referred to in Recommendations 4.12 and 4.19 of the Super System Review.

We understand that for a fund as a whole the TAER for a fund year is calculated by dividing –

- (a) the total expenses in that year incurred by the fund itself and also paid by the fund to non-associated entities, usually investment managers; by
- (b) the average value of the fund's assets in that year.

We also understand a TAER would have to be calculated on the same principles for each investment option.

Recommendation 4.12 would require publication of the "projected" TAER, which we presume is an estimate of the TAER for the current fund year. Recommendation 4.19 would require publication of the TAER's for an unspecified number of previous years.

The TAER is basically the plan (or option) average expense rate. This is meaningless for an individual member, and will often bear little resemblance to the fees and costs actually paid by an individual member as these will sometimes depend on the level of the member's contributions and often depend on the balance in their account. As the TAER is based on a mixture of investment and administration expenses it also has similar deficiencies to those referred to in Issue 1. If two funds have identical fee and cost bases for individual members they will probably have different TAER's because of different relative asset values. This shows that TAERs will normally provide misleading information for members and lead to incorrect decisions being made by members.

Apart from the question as to whether a TAER could serve any useful purpose, it would be extremely difficult to ensure all funds calculated the ratio on a consistent basis. For example, administration expenses for the year would presumably be allocated to investment options pro rata to the average value of the assets for that option. If in a particular year there was a substantial fall in the value of the assets for say the equity share based option, which was not matched by the other options, this would increase the administration expenses allocated to non-share options. So the TAER for the options not affected by the share crash could be significantly increased. There would be many other anomalies.

We do not support the use of TAERs on the basis that it is a flawed measure that does not present any clear benefits for members.

ISSUE 5: APRA's suggested investment risk description based on negative returns.

RECOMMENDATION 5: Treasury should initiate further consultation for the purpose of developing an annual return based measure allowing for inflation risk, and the eventual proposals should be carefully consumer-tested.

In June 2010, APRA advised trustees of regulated superannuation funds that, in consultation with IFSA, ASFA and ASIC, it was developing some guidance for more uniform and objective labelling of the investment options offered by superannuation funds. The guidance included showing the expected frequency of negative (assumed to be annual) returns over a 20 year period for each investment option.

Recommendation 4.9 of the Super System Review was to show the number of quarters of negative returns the option had incurred in the past 10 years.

The Institute is concerned that "Quarters of negative returns" is a poor discriminator of investment risk.

The Institute's Benefit Projections Working Group has examined each of the above and has concluded that the number of negatives in 20 annual periods is a better differentiator of volatility than the number of negatives in 40 quarterly periods. For example, based on one set of historical 40 quarterly returns, the number of negatives were:

Period Ending	"Balanced"	"Capital Stable"
30/9/2008	12	11
31/12/2008	13	12
31/3/2009	14	13
30/6/2009	13	12

The number of negative quarters in 40 quarter periods is clearly not a satisfactory differentiator. We also feel that consumers will relate better to annual periods than to quarterly periods. Hence we favour the APRA approach over Recommendation 4.9 of the Super Review. However we have the following reservations about the APRA approach:

- (a) It should be clearly stated that the investment returns used should be based on "earning rates" (net of tax in the accumulation stage and gross of tax in the decumulation stage) not "crediting rates" where the purpose is or might be to compare like options between funds (See Issue 2 above.)
- (b) It might be satisfactory to use "crediting rates" where the purpose is (only) to compare investments options within one fund.
- (c) More research is possibly desirable before deciding whether the appropriate period is 20 years, 25 years or 30 years.

- (d) Is a more relevant statistic showing whether the option has produced a net return exceeding inflation (according to CPI or AWOTE) over say the past 5 years or 10 years or is there some other way of better illustrating the relative or absolute risk of various options?

We suggest some members of the Working Group could be involved in future consultations on this issue and that the eventual proposals should be carefully consumer-tested.

The letter to APRA on 12 August 2010, is relevant to this issue.

ISSUE 6: Cost Categories

RECOMMENDATION 6: Cost category reporting should be simplified to allow for Investment, Administration and Advice categories only and for all purposes.

Table 4.2 of the Super System Review proposed that superannuation costs reported to APRA should be separated into the following seven categories:

- Administration
- Advice and distribution
- Corporate overhead
- Investment management
- Legal and compliance
- Member insurance
- Taxation

This is a very ambitious proposal and in our view it is fraught with danger, is overly complex and will be costly to implement and maintain. In contrast, our submission of 18 November 2009 on the Review into the Operation and Efficiency of Australia's Superannuation System attached as Appendix 1 to this submission, is far more modest, and recommended that fees, cost and expenses all be separated into:

- Administration
- Investment
- Advice fees

Our submission stresses the importance of one split for all purposes. To clarify our third recommended category above, 'Advice fees', this would treat advice fees paid by a fund as fund administration expenses but would treat advice fees paid by members as fees to be disclosed to members separate from "administration" fees and costs and separate from "investment" fees and costs.

It should be noted that this issue is not just a matter of seven versus three categories. For example, our "administration" and "investment" components would each include (unless zero or insignificant) a portion of "Corporate overhead", "Legal and compliance" and "Taxation". Also our "administration" includes "advice and distribution", "Member

insurance" and (unless zero or insignificant) a portion of "Corporate overhead", "Legal and compliance" and "Taxation".

Our submission of 18 November 2009 to Phase two of the Super System Review, attached as Appendix 1, is relevant to this issue.

ISSUE 7: Retirement Income Forecasts

RECOMMENDATION 7: The Government should require Retirement Income Forecasts to be mandatory for at least MySuper products.

Recommendation 1.17 of the Super System Review was that retirement forecasts should be mandatory for MySuper products. The Government did not support this recommendation, but did ask ASIC to continue development of rules for voluntary issue of retirement income forecasts by superannuation funds.

The Institute has done considerable work on the regulation requirements for mandatory and voluntary benefit projections with ASIC and the Australian Government Actuary. In April 2008 our Benefit Projections Working Group issued a 45 page Discussion Paper on "Outstanding Issues for Benefit Projections and Online Calculators". This paper identified a number of "gaps" in the rules and practice in this area, with suggestions to address these issues.

In July 2008, ASIC issued Consultation Paper 101 which set out for comment its proposals for action in the field.

The Institute considers that the issue to superannuation fund members of a printed estimate of the income the member is likely to receive in retirement from the superannuation and Age pension systems would be extremely useful to members (and the community). It would encourage members to take more interest in their superannuation and indicate whether the member should be considering making additional voluntary contributions to achieve an adequate retirement income. In 2008 there was wide discussion in the industry and the wider community of the desirability of making it mandatory for superannuation funds to issue benefit projections either annually or say every 3 years.

The Institute was disappointed to note the Government did not support the Super System Review recommendation to introduce mandatory projections for at least MySuper products. With mandatory projections the Government can have stronger control over the uniformity and quality of the information provided. It is also likely to be more economical and effective than a system of voluntary statements by some funds in a variety of formats.

We recommend the Government support mandatory retirement income forecasts for at least MySuper products.

Our 30 July 2010 joint submission with the Association of Superannuation Funds of Australia (ASFA) to ASIC is attached as Appendix 3.

If required, we would be happy to discuss our views on this matter. Please do not hesitate to contact Melinda Howes, CEO

Yours faithfully

Barry Rafe
President

Encl: Appendix 1: Letter to Super System Review dated 18 November 2009 (with enclosures of letters dated 17 July 2008, 1 July 2009 and 4 November 2009)
Appendix 2: Letter to ASIC from BPWG dated 12 August 2010
Appendix 3: Joint submission from Institute and ASFA to ASIC dated 30 July 2010

Cc Mr Greg Medcraft
Chairman of the Australian Securities and Investments Commission (ASIC)



28 January 2016

Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
Parkes ACT 2600

Email: superannuationtransparency@treasury.gov.au

Dear Sir

Product Dashboard Comparison Metric

The purpose of this submission is to provide feedback on the Treasury's Product Dashboard Comparison Metric, as outlined in the Consultation Paper released in December 2015. We have framed most of our comments as answers in response to the Focus Questions in the Consultation Paper.

Background

Whether a comparison metric will be effective clearly depends on whether the Dashboard item which is to be compared is itself appropriate. This presents us with a problem because we believe that some important changes are required to ensure that the current MySuper and the proposed Choice Dashboard items do not mislead consumers. The reasons for this view have recently been explained in the following letters to Treasury and in recent meetings with Treasury, ASIC and APRA representatives:

- | | |
|------------------|--|
| 18 August 2015 | Listed the main changes and additions required to the current Dashboard, and the reasons, and attached examples for a MySuper and a Choice Dashboard. |
| 8 October 2015 | Summarised the key changes suggested, the benefits for consumers, the Government and the superannuation industry and attached two revised and simplified examples. |
| 11 December 2015 | Refined and explained the Long Term Risk Metric and examined the Dashboards of four MySuper funds against information from PDS's and websites of the sample funds, to show how inappropriate the current MySuper Dashboard structure is for Choice products. |
| 17 December 2015 | Expressed our grave concern that the above proposals have not been addressed or reflected in the Government's December 2015 Product Dashboard Consultation Paper and related exposure draft regulations, and attached further revised Dashboard examples. |

Our comments below therefore assume that the key aspects of our proposals above are reflected in the next round of Dashboard regulations. Should this not eventuate then we believe that the proposed comparison metrics will be ineffective.

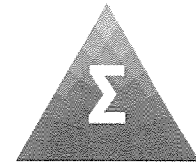
Institute of Actuaries of Australia

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



Terminology

In our answers to the Focus Questions we have used the following terminology:

- **"Composite options"** for those Choice options that are the typical diversified three or four options called "Aggressive" / "High Growth"; "Balanced" / "Growth"; "Stable" / "Moderately Conservative"; "Conservative" etc.. A Composite option will comprise a number of different asset classes with the proportion of each asset class being dependent on the risk profile of the option. The Composite option will include both growth and defensive asset classes.
- **"Prime sector options"** for single asset class Choice options. Prime sector options typically have only one asset class. However, Prime sector options include options that have two or more growth asset classes (e.g. International Shares (unhedged) and International Shares (hedged)) or two more defensive asset classes (e.g. Australian and International Fixed Interest investments).

We acknowledge that some options may not clearly be either Prime or Composite (e.g. a "100% Growth" option with a small allowance for cash for liquidity) so that further refinement may be required if different requirements were to be applied based on the classification of an option as Prime or Composite (as we suggest later in this submission).

Focus questions

1. Would the inclusion of comparison metrics on the Product Dashboard provide easily understandable and valuable information for consumers? What are the pros and cons of such a comparison?

The current Product Dashboard shows some key metrics for a particular fund but gives no comparative information. Many members will not go to the trouble of comparing two Product Dashboards from different funds. A comparative metric should alert a person to whether or not a fund's particular metric is significantly different to the comparable metrics from other funds. If it is, then the person should be advised to investigate why this differential exists. Whether the metrics will provide easily understandable and valuable information will depend on how they are presented.

Consumer testing indicates that most people have difficulty understanding most of the metrics included on the Dashboard. The inclusion of a comparative metric introduces the risk that a person will rely only on the comparative metric in choosing a fund without further investigation. A person may choose a fund with higher than average investment returns or lower than average fees and costs without understanding the reasons why this is the case. This might lead to poor decisions. For example, if lower than average fees and costs are due to a lesser level of service (such as no call-centre or limited on-line services) or a lower quality of service (such as frequent errors or delays) then a decision to choose a fund with apparently lower fees and costs might subsequently be regretted.

We believe that the inclusion of comparison metrics will work best for MySuper Dashboards and might be workable for Composite options, but will be difficult or impossible for Prime sector options. MySuper products tend to be more generic – the portfolios are mostly balanced or thereabouts so comparison metrics might be useful (though lifecycle options are problematic and are becoming more prevalent). However Choice products vary over the whole spectrum. We would expect that consumers who were utilising the Dashboard metrics would want to compare the MySuper options with the Composite options, but we doubt whether this would be workable. If the consumer wanted to investigate the Prime sector



options we would expect that they would be more financially competent and would be prepared to examine the details in the PDS relevant to each option.

2. Would a comparison metric be easy or difficult for superannuation funds to implement? Why?

For MySuper products we do not believe it will be overly difficult for superannuation funds to implement comparison metrics such as those proposed in the Consultation Paper (and amended as based on our proposals). There will be some additional costs in redesigning the Dashboard to include this information, but this should not be excessive and could be done at the same time as other proposed changes to the Dashboard. The cost of annually updating this data should be minimal, as long as APRA annually provides the comparative data on a timely basis. Funds should not be required to change this comparison data more regularly than annually, so they can update the comparative information at the same time as they update their returns to the latest 30 June.

This presents a significant timing issue - funds will not be able to update their dashboards until after APRA can provide the comparative information for the prior year to 30 June. The issue of funds being required to compare their current year fees with the range and average for the prior year also merits some consideration.

For Choice products, we suggest that the comparison metrics should initially only be considered for Composite options (with comparisons limited to 'similar' Composite options, not to MySuper options). Then, perhaps at a later date consideration could be given to Prime sector options.

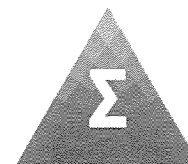
3. How should MySuper products be compared to each other?

The six metrics that could, subject to our answers to other questions, be compared between funds are the following:

- Investment objectives
- Average 10-year 'net investment return'
- Short term risk metric
- Long term risk metric
- Investment fees and costs
- Administration and advice fees and costs

As suggested at the Melbourne Roundtable meeting in January, if investment objectives (rather than return targets) are used in the Dashboard, it would seem desirable for APRA to provide more detailed guidance as to how investment objectives should be determined. One aspect of this guidance would be the probability that the objective would be met.

In this context it should be recognised that our suggested comparison of the investment objective with the actual ten-year net investment return should provide some pressure on trustees to develop more realistic investment objectives. If their investment objective is too high the bulk of actual returns will be lower than the objective. Consumers will see this as a negative. If the investment objective is too low, then, even though the bulk of actual returns may exceed the objective, consumers will question whether this will continue to occur in the future and may select funds that have higher investment objectives.



We recommend that 'net investment return' (i.e. the return net of investment fees and costs and tax) is used to compare fund performance as this measure is generally independent of account balance. This is not the case for 'net return', the performance net of all fees and costs assuming a balance of \$50,000, which is not relevant for members with a different balance. We also believe performance comparisons are best done by deducting only the fees and costs paid to obtain that performance (i.e. investment fees and costs) and not deducting fees and costs that provide other unrelated services such as administration, advice and other member services. We note that consumer testing has indicated that many people might ignore this metric as they believe the \$50,000 balance is not relevant to their circumstances. The inclusion of a metric that is (generally) independent of the level of a person's account balance should be seen as being relevant to all.

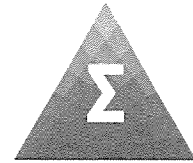
Investment fees and costs should be compared separately to administration fees and costs as these two types of fees and costs provide very different types of services to members. Investment fees and costs cover the cost of investing members' funds to provide an appropriate return on their investments whereas administration fees and costs typically cover the costs of administration services and a wide range of member services such as education, targeted campaigns, scaled advice and the fund's online services. The level and quality of these services vary markedly between funds. Therefore, administration and advice fees and costs should be compared separately to investment fees and costs so members can easily compare the level of administration and advice fees costs with other funds. Where these costs are significantly different to other funds fees and costs, the member will be alerted to investigate the reason for this difference.

4. How should choice investment options be compared to MySuper products?

Choice investment options are difficult to compare to MySuper products. Many Choice options are invested very differently to MySuper options (eg. Choice options will include Prime sector options) and may have very different return objectives. A comparison with Prime sector options will be even more difficult. Consumer testing indicates consumers would also find the inclusion of Prime sector options confusing and difficult to understand.

We note that the inclusion of Prime sector options would require APRA to specify how Prime sector options should be grouped for reporting purposes to ensure that the comparative results represented the results of options that were similar. This would in itself be quite difficult as APRA have highlighted the near impossibility of getting agreement on something as fundamental as whether some assets are defensive or growth assets.

A comparison of Prime sector options with other Prime sector options might be possible. It would require the classification of Prime sector options into a range of similar options (eg. Australian shares, international shares, hedge funds, etc.). It should be kept in mind that Prime sector options are not really 'products' because members tend to use a combination of them rather than seeing them as an alternative to MySuper.



5. Is a range the most appropriate comparison? Does it provide sufficient information to consumers about how their investment option is performing compared to others? If so, what range would be the most suitable?

If the purpose of the Dashboard is to allow a member to compare specific metrics across funds, the range covering two-thirds of products is appropriate. This range will exclude any funds that have extreme metrics.

6. What other comparison metric could be suitable? How would this be measured and displayed?

It is important that the average of the metrics of all funds also be shown. Whilst helpful, the range by itself does not provide any indication of the distribution of results within that range. Another useful metric would be the median as 50% of results lie below the median and 50% lie above the median. We are however concerned that consumers might not understand this term. In most cases the median and average are close to each other and therefore the median (the more appropriate metric) could be replaced by the average (the more easily understood metric) without a significant loss of accuracy.

7. Would a comparison metric be suitable for the risk, return, return target and fee metrics on the dashboard? If not, why not?

Yes, but subject to the qualifications in our answers to other Focus Questions, and provided the key aspects of our four letters to Treasury are reflected in the next round of Dashboard regulations.

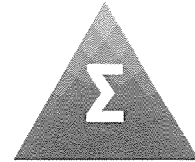
8. If a comparison range is to be used, do you prefer a line of text, a diagram comparison or would you propose an alternate model? Why? Describe the alternate model you would propose.

The feedback from ASIC's consumer testing is that diagrams are generally more easily understood than a line of text. A diagrammatic comparison, as proposed in the Consultation paper, would probably work better than descriptive text.

9. If a diagram comparison is preferred, how would the information be presented? What text would be necessary to complement the diagram?

The presentation at the bottom of page 2 of the Consultation paper seems appropriate, however:

- (a) the comparison should be based on the six items in our answer to 3. above,
- (b) the current data label 'This product's total fees and others costs' should simply be an abbreviated name of the fund, and
- (c) the diagram should be presented in such a way that it requires little if any explanatory text.



10. Are there any issues with using the available APRA data to make these comparisons? Issues could include technical issues. For example:

- Is it a problem that not all superannuation funds have the same reporting date?**
- What would happen if the comparison were made as at a June reporting date, but an investment option's metrics were updated after this date?**

Some funds have reporting dates other than 30 June but this should not be a problem as long as performance is always shown to 30 June. This is the currently the case for returns shown on the MySuper Dashboard, which are all to 30 June.

APRA's data currently has some inconsistencies but given it is only being used to calculate ranges and averages, the data inconsistencies for some funds should not significantly affect the comparison metrics. We also expect the quality of APRA's data will improve as funds get used to providing APRA with the prescribed data and understand more clearly what is required. We are also confident that the data quality will significantly improve when our simplification proposals are implemented.

During the year, funds may need to change the fees and costs they show on the Dashboard to reflect current fee and cost levels, but they should not need to change the fee and cost comparison metrics which should only change once every 12 months. The best time to issue the new comparison metrics would probably (but see our answer to question 2 above) be a month after 30 June when the June returns are being determined and the Dashboard updated.

Yours sincerely,

Andrew Boal
Convenor of the Actuaries Institute Superannuation Practice Committee

cc Maan Beydoun
Senior Specialist, Investment Managers and Superannuation
Australian Securities & Investments Commission

Helen Rowell
Deputy Chair, APRA
Australian Prudential Regulation Authority

Pauline Vamos
Chief Executive Officer
Association of Superannuation Funds of Australia



11 December 2015

Louise Lilley
(Acting Manager)
Insurance and Superannuation Unit
Financial System and Services Division
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Louise,

Product Dashboards

We refer to our previous submissions of 18 August 2015 and 8 October 2015 on the above subject and our meeting of 24 September 2015.

Long Term Risk Metric

In the letter of the 8 October, we indicated that, with respect to the Long Term Risk Metric, the margin of 4.5% over CPI was for illustration purposes only and that we would need to carry out further analysis to determine the appropriate margin to use. The Superannuation Projections and Disclosure sub-committee of the Institute's Superannuation Practice Committee has now carried out that analysis and has determined that an appropriate margin to use would be 4% above CPI. The results of their analysis are set out below. Superannuation fund trustees will likely use a variety of organisations to carry out similar analysis. This may produce results that are different to those set out below. However, we expect that their results will support the conclusions that we have drawn below.

We would also emphasise that the benchmark chosen for the Long Term Risk metric should not be confused with the Investment Objectives set by trustees for the various investment funds. The primary objective of the Long Term Risk benchmark is to provide an appropriate basis to differentiate the long term risks of different investment funds. We expect the Investment Objectives of many investment funds to be significantly different to the Long Term Risk benchmark.

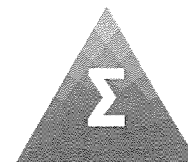
Institute of Actuaries of Australia

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



Analysis of Long Term Risk Metrics						
Type of Investment	% of Growth assets	Compound Average Net Return pa over 20 years*	Compound Average increase pa in CPI over 20 years*	Probability that the 20 year Return will be less than		
				CPI	CPI + 4%	CPI + 4.5%
Cash	0%	4.8%	2.7%	4.0%	91.3%	96.0%
Semi Government	0%	5.3%	2.7%	3.5%	76.8%	88.5%
Capital Stable	30%	5.7%	2.7%	2.3%	72.3%	83.8%
Balanced	70%	6.8%	2.7%	3.0%	47.5%	54.3%
Growth	80%	7.1%	2.7%	3.3%	42.8%	50.3%
Australian Shares	100%	8.4%	2.7%	3.8%	28.3%	33.3%

* Based on 400 simulations and specified methodology, return and risk parameters of the underlying assets set out in "Australian Investment Performance 1959 to 2013 (and Investment Assumptions) for Stochastic Models" by Colin Grenfell.

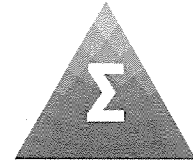
You can see from our analysis that, if we use a margin of zero, the probability of not meeting the benchmark is less than 5% for all investment strategies. Therefore, a target of CPI only does not provide a metric that would allow proper differentiation between the risk characteristic of each of the different investment strategies. As the margin over CPI increases, the probability of not achieving the target increases and the metric's effectiveness as a differentiator improves.

It can be seen from the results in the table, that if the margin is increased, the probability of not achieving the target (i.e. that the return will be less than CPI + 4% or 4.5%) reduces as the growth component of the strategy increases.

The 4% and 4.5% margins show that the chance of not achieving the target for conservative investment strategies (Cash, Semi-Government and Capital Stable) is very high– in fact Cash would be seen as High Risk from the point of view of the Long Term Risk Metric.

For Balanced and Growth the probability of not achieving the CPI + 4% target is just under 50%. We would therefore consider these investment strategies to have medium risk from the point of view of the Long Term Risk Metric as the probability of success or failure is evenly balanced.

With the 4.5% margin suggested in our letter of 8 October, the probability of not achieving the target increases is just **over** 50% for Balanced and Growth (based on the same 400 simulations, specified methodology and return and risk parameters as used on the previous page). This does not seem desirable for such common investment allocations. Another possible problem with the 4.5% margin is that the probability of not achieving the target increase is 96% for Cash, again using the same assumptions. This is getting quite close to 100%; we consider that the 91.3% result with a margin of 4% is more "believable".



We note that with a 4% margin, if we increase the exposure to 100% Australian shares the risk of not achieving the target reduces to approximately 28%. Therefore, even though a 100% investment in Australian shares would be considered to have a high to very high investment risk for any member with a short term investment horizon, the investment risk for a member with a long term investment horizon would be medium to low.

We also note that a 4% margin above CPI is significant but achievable. This is an appropriate feature of any target. It is also a target that is often used for the Investment Return Objectives set by Trustees for their growth orientated investment products. We also investigated the possibility of a 3.5% margin above CPI. However we believe that the 4% margin is more appropriate than a 3.5% margin because it provides greater differentiation between the probabilities that different types of investment option do not meet the Long Term Risk Metric.

Given the above, we are satisfied that a target of CPI + 4% will provide an appropriate target for the Long Term Risk Metric. We would still like Treasury to consider moving this metric to an AWOTE basis over time but we appreciate that further discussions and industry engagement may be needed for such a change to take place. As mentioned previously, we recommend that the Government make at least some reference to this as part of its response to the November 2013 Consultation submissions.

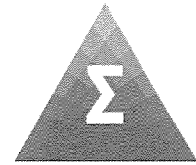
Current MySuper Dashboards

We also indicated at the meeting on 24 September that the approach used in current MySuper dashboards was not only confusing but would not work for Choice fund dashboards. To demonstrate this we have examined a number of MySuper dashboards which have a full ten year return history. A sample of these dashboards and our comments are set out below. We have chosen the examples to demonstrate specific points about the current MySuper dashboard requirements and the selection should not be seen as any criticism by the Institute on any of these funds. Indeed some of the sample MySuper dashboards are among the best dashboards currently provided. Given the sensitive nature of identifying the deficiencies in the sample funds' dashboards, we request that all recipients keep our analysis confidential.

AMIST Super

The points to note about this dashboard (see attachment 1) are:

1. The 10 year average return is quoted as 6.3% as at 30 June 2015. There is no indication in the dashboard that this return is net of both investment and administration fees and costs. The "Net Compound Average Returns" shown elsewhere on the AMIST website for the same period is 6.68% (see attachment 2). This return is expected to be higher than the Net Return disclosed on the dashboard as administration fees and costs will have been deducted from the return disclosed on the dashboard. However, as the dashboard provides no indication of this we would expect a member to be confused.
2. The Return Target quoted on the dashboard is 2% above inflation after fees and taxes. Again there is no indication whether these fees include administration fees and costs. The Investment Return Objective quoted in the PDS (which is called the Target Return even though it would not be reduced by administration fees and costs for a Representative Member) (see attachment 3) is the same as the Target Return quoted on the dashboard. We would expect that the two objectives should be different because administration fees and costs for a member with a \$50,000 balance have to be deducted from the Return Target quoted on the dashboard. This would lead to confusion for members who are seeking to obtain a more detailed understanding of



the MySuper product. Worse, it could be potentially misleading. Further, it will make comparisons with other funds difficult.

3. The Target Return is specified for the period 2016 to 2025. We would assume therefore, that the Target Return would take into account the state of the investment market at the time that the Target was determined. If this is the case, then we would expect that the Target Return should change from time to time as market conditions change. If the Target Return does not change from time to time, then the inclusion of the specified time period is misleading. The Investment Return Objective in the PDS is over 'rolling ten-year periods', suggesting it does not take into account the current state of the investment market.
4. The Level of investment risk is Medium to High. Approximately 75% of this MySuper product is invested in growth assets. As can be seen from our analysis above such a fund has approximately a 50% chance of achieving our proposed target. Therefore, we would argue that the Investment Risk for this product for a member with a long term investment horizon (most members) is, at worst, a medium investment risk. The concern is that a member with a long term investment horizon may not invest in this option because it is "high risk". If the member did invest in an investment option that was labelled as Low Risk, then we would expect that their final retirement benefit will be significantly lower than if they had chosen the MySuper option.
5. The fees and costs are quoted as \$379 per year. There is no explanation of the composition of this number or the services the member receives. Clearly a breakdown of \$150 administration (mainly fixed \$ fees) and \$229 investment is significantly different to a breakdown of \$229 administration and \$150 investment, particularly for a member who has a balance well below \$50,000 for whom the split between \$ and % fees would be quite different.

First State Super

The points to note about this dashboard (see attachment 4) are:

1. The First State MySuper approach involves two different funds, a Diversified option and a Balanced option. The default option for a member under the age of 60 is the Diversified option and for a member 60 and over is the Balanced option. Members will automatically be transferred from the Diversified option to the Balanced option when they reach age 60. This is not evident from the dashboard. In fact, it is likely that the inclusion of two options would confuse members.
2. Note 1 states that the Return Target is not the same as the Investment Objective disclosed in the Product Disclosure Statement. The Investment Objectives of the Diversified and Balanced Option are CPI + 3.75% and CPI + 3.25%, which are significantly different to the Return Targets quoted on the dashboard (see attachment 5). As we have said previously this must be a major source of confusion for members.
3. With respect to the level of investment risk, similar comments to that made for AMIST Super apply.
4. Note 4 states that the fees and other costs cover investment, administration and advice fees and costs. However, there is no breakdown of the different components.



5. We are aware from other sources that the First State Super's fees have been reduced by the tax benefit generated by these fees and costs. Most funds show fees gross of tax (ie before the benefit of the tax deduction related to these fees and costs). Therefore First State Super's fees and costs cannot be compared with most other funds. This anomaly arises because of First State Super's interpretation of APRA's requirements for MySuper Dashboards.
6. On a positive note, First State makes use of hyperlinks to access further information on selected matters.

TIS Super

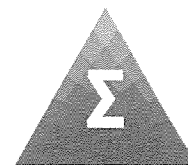
The points to note about this dashboard (see attachment 6) are:

1. The Return Target is specified to be over a ten year period. This could be reasonably interpreted to be any ten year period and therefore it would not take into account the current investment market conditions from time to time. This is not consistent with the interpretation of other funds where the Return Target is set for the following ten years.
2. The Investment Return Objective specified by the trustee (see attachment 7) is "To provide a net return after tax and investment costs, equal to or better than inflation plus 4% p.a. when measured over a rolling 5 year period and over a rolling 10 year period". The dashboard shows the Target Return as CPI plus 4% p.a. However, it should probably be different to the Investment Return Objective as the Return Target also has administration fees and costs for a Representative Member deducted.
3. The Return Target and Returns do not state whether they are net of administration and investment fees and costs. A member could reasonably assume that they can compare these returns with returns quoted elsewhere by the fund. But returns quoted on TIS Super's website (see attachment 8) are different to the dashboard returns (higher by 0.13%) as they have not had the \$65 administration fee deducted for the Representative member. This is very confusing for members.
4. The fund is a growth orientated fund. Therefore the comments above on the Investment Risk being medium to high apply to this fund.
5. The comments above on the lack of detail in the Statement of fees and other costs apply to this fund.

UniSuper

The points to note about this dashboard (see attachment 9) are:

1. The introductory note to the dashboard states that "Different account balances will have an effect on returns, return targets and fees and costs". Effectively this says that the information in the dashboard cannot be used by any member with a balance different to \$50,000. Given that most members will have balances that are smaller or larger than \$50,000, the dashboard cannot be used by most members.
2. The Return Target is specified to be over a ten year period. The note "About the return target" states that it is based on long-run return assumptions therefore it does not take into account the current investment market conditions from time to time. This is not consistent with the interpretation other funds.



3. The annual returns and the 10 year return provide no indication that these returns are net of both investment and admin fees and costs. However, since the dashboard returns are lower than UniSuper's published returns (which are net of only investment fees and tax), it seems clear that the dashboard returns are net of both administration fees and costs. Once again, it is very confusing for members when a fund shows a different return on its dashboard (a return that has administration fees and costs as well as investment fees and costs deducted and only applies to members with a \$50,000 balance) to what it shows on its website (a return that only has investment fees and costs deducted and applies to all members).
4. The note "About the return target" states that the Return Target and the Investment Objective of the MySuper fund are different. The note attempts to explain part of the reason for this difference. However, we would expect it would lead to confusion amongst members.
5. The fund is a growth orientated fund. Therefore the comments above on the Investment Risk being medium to high apply to this fund.
6. The comments above on the lack of detail in the Statement of fees and other costs apply to this fund.

As mentioned above, our comments relate to a sample of funds with ten year return histories. Similar comments would apply to virtually all other MySuper dashboards that we have examined. Overall, we feel that the current MySuper dashboards will provide little help to members who are trying to compare MySuper options from different funds. Further, members will possibly be confused if they investigate the MySuper option in more depth by considering information on the rest of the website. The sample above also clearly demonstrates how inappropriate the current MySuper dashboard structure would be for Choice fund dashboards.

We look forward to discussing our proposed simplified dashboard and our above comments with you in the near future.

Yours sincerely,

Andrew Boal
Convenor of the Actuaries Institute Superannuation Practice Committee

cc Maan Beydoun
Senior Specialist, Investment Managers and Superannuation
Australian Securities & Investments Commission

Helen Rowell
APRA Member
Australian Prudential Regulation Authority

Pauline Vamos
Chief Executive Officer
Association of Superannuation Funds of Australia



Attachments

- Attachment 1) AMIST dashboard
- Attachment 2) AMIST actual returns
- Attachment 3) AMIST investment objective in PDS
- Attachment 4) First State dashboard
- Attachment 5) First State Investment Objectives
- Attachment 6) TIS 2014 dashboard
- Attachment 7) TIS Investment Return Objective
- Attachment 8) TIS Investment returns
- Attachment 9) UniSuper MySuper dashboard

[ABOUT US](#)

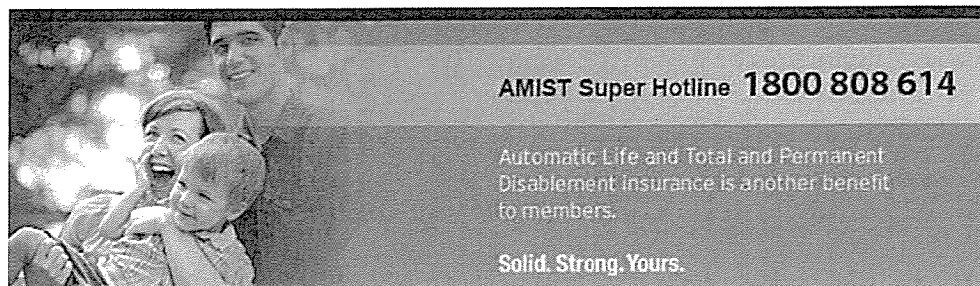
[PRODUCTS](#)

[INVESTMENTS](#)

[INSURANCE](#)

[AMIST
PENSION](#)

[FORMS AND
PUBLICATIONS](#)



[I am
an employee](#)

[I am
an employer](#)

[I am
over 50](#)

[I am
self-employed](#)

[I'm on a
temporary Visa](#)

AMIST MySuper Product Dashboard

The Product Dashboard below is required by law and you can use this dashboard to compare AMIST MySuper with other MySuper products. Go to ASIC's MoneySmart website for more information on how to pick the right MySuper fund for you.

Return

10 year average return of 6.3% as at 30 June 2015.

Returns take into account past investment history of AMIST Balanced, being the default investment option offered in AMIST prior to commencement of AMIST MySuper.

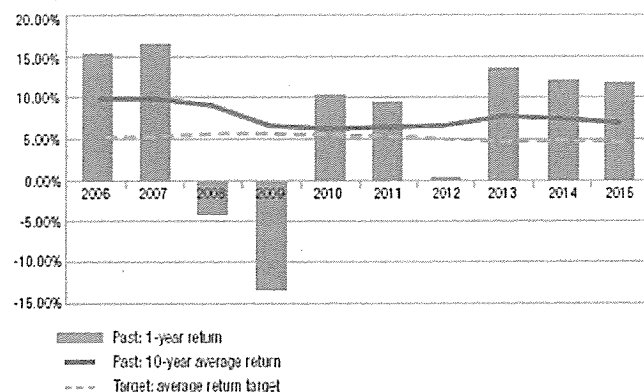
Past performance is not a reliable indicator of future performance.

Return Target

Return Target for 2016-2025 of 2% per year above inflation, after fees and taxes.

Future returns cannot be guaranteed. This is a prediction and returns ultimately achieved may be materially different from this target.

Comparison between return target and return



Level of investment risk

Medium to High

The estimated number of years of negative net investment returns is estimated to be 3.5 out of every 20 years.

The higher the expected return target, the more often you would expect a year

of negative returns.

Statement of fees and other costs

\$379 per year

Statement of fees and other costs assumes a member with a \$50,000 account balance fully invested in AMIST MySuper. Also, the stated amount does not reflect all the fees and costs that may apply (e.g. activity fees and insurance fees are not included).

The information in this Product Dashboard may change from time to time.

Please refer to the Product Disclosure Statement before making any decision relating to your investment in AMIST.

**Long Term Employer Sponsored / Personal Division Net Compound
Average Returns**

Net Compound Returns to 30 June 2015

	Secure	Capital Stable	MySuper	Balanced	Growth	High Growth
Three Year	3.30%	6.74%	11.65%	11.65%	14.43%	18.46%
Five Years	4.02%	6.44%	9.02%	9.02%	10.57%	12.77%
Ten Years	4.47%	N/A	6.68%	6.68%	6.81%	N/A

The Capital Stable and High Growth Options were introduced in 1 April 2010; therefore there is no ten year history to report.

Attachment 3 – AMIST Investment Return Objective

MYSUPER OPTION

This is the default option if you do not make a choice

Inflation plus 2% over rolling ten-year periods.

Estimated probability of a negative return is 3.5 out of every 20 years.

MySuper Strategic Asset Allocation Range

15% - 35%

15% - 35%

10% - 22%

0% - 20%

10% - 32%

Product dashboards

You can use these product dashboards to compare First State Super's MySuper product with other MySuper products. Go to ASIC's MoneySmart website for more information on how to pick the right MySuper fund for you.

View product dashboards for:

- MySuper Life Cycle Diversified
- MySuper Life Cycle Balanced

MySuper Life Cycle Diversified

Return target¹

CPI +3.0% per annum over ten years

Return²

10-year average return of 6.49% as at 30 June 2015

Level of investment risk³

High

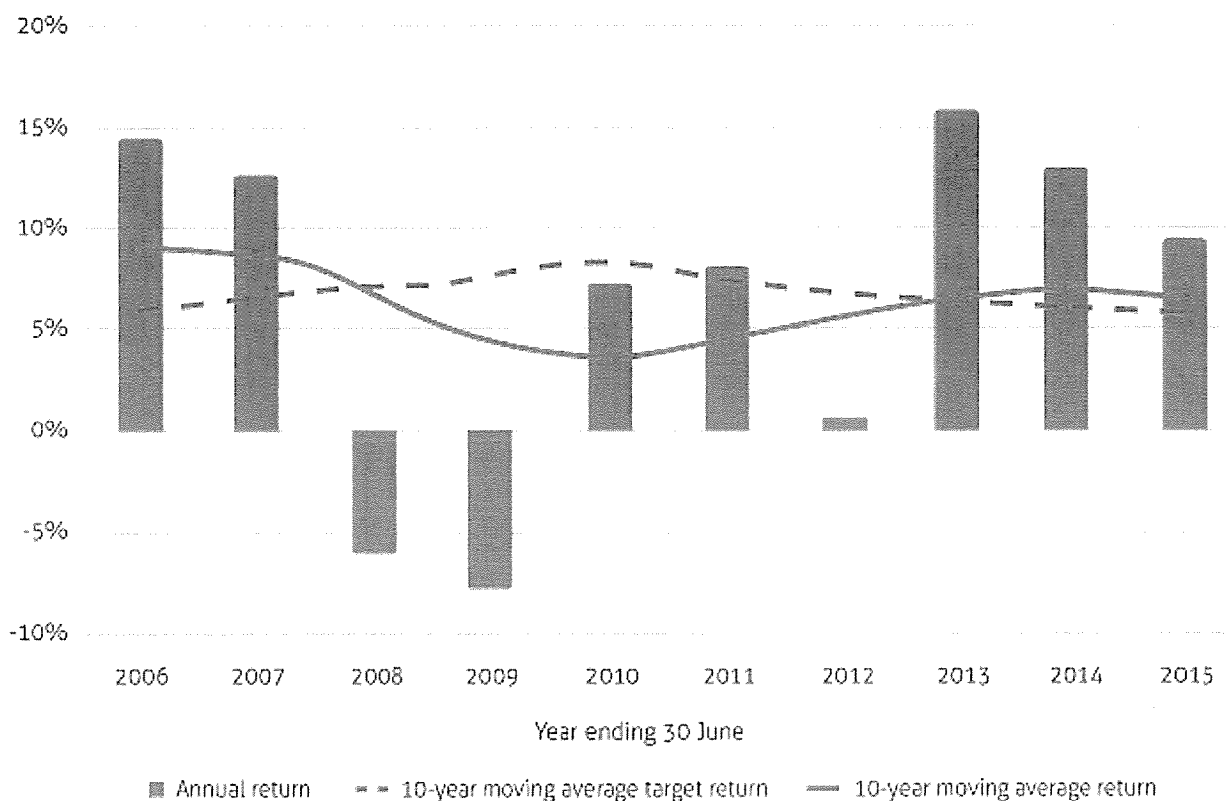
The estimated number of negative annual returns over any 20-year period is between 4 and 6. The higher the expected return target, the more often you would expect a year of negative returns.

Statement of fees and other costs⁴

\$362 per annum

Fees and other costs for a member with a \$50,000 balance.

Comparison between return target and return⁵



MySuper Life Cycle Balanced

Return target¹

CPI +2.3% per annum over ten years

Level of investment risk³

Medium-high

The estimated number of negative annual returns over any 20-year period is between 3 and 4. The higher the expected return target, the more often you would expect a year of negative returns.

Return²

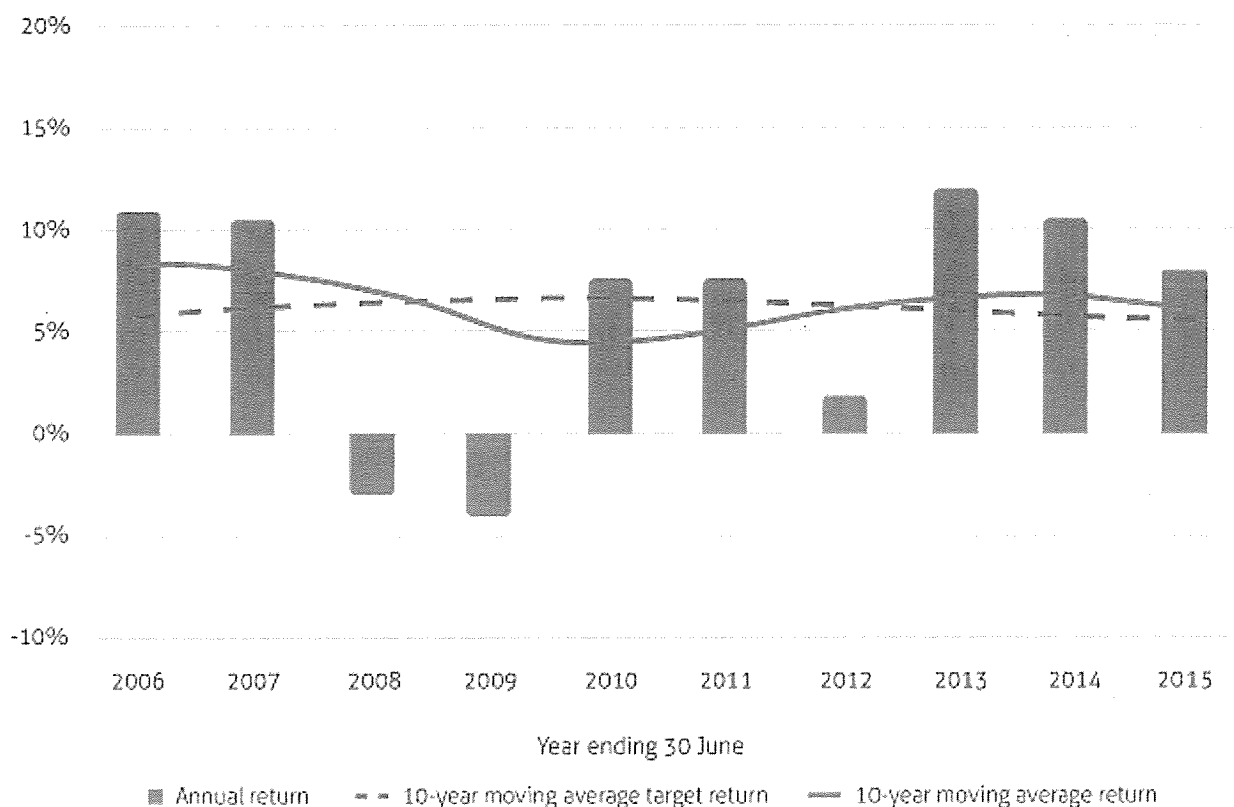
10-year average return of 6.03% as at 30 June 2015

Statement of fees and other costs⁴

\$352 per annum

Fees and other costs for a member with a \$50,000 balance.

Comparison between return target and return⁵



Important notes

1 The return target is expressed as a target level of return above inflation (as measured by the Consumer Price Index) for a representative member* over a ten-year period from 1 July 2015. The return target is the average of the expected annual returns for the ten-year period, based on long-run return assumptions, net of all investment, administration and advice fees, costs and taxes. The return target differs to the investment objective disclosed in our Product Disclosure Statement. The return target does not constitute a forecast or guarantee of future performance or future rate of return.

2 The return is an average net return for a representative member* over the 10 years from 1 July 2004 to 30 June 2015. The return is net of all investment, administration and advice fees, costs and taxes. It is important to remember that past performance is no indicator or guarantee of future performance, and the value of investments can rise or fall. [Click here](#) for more information on the reporting of past investment performance following the merger of the First State Super and Health Super investment options.

3 The level of investment risk is based on the Standard Risk Measure (SRM). [Click here](#) for more information on the SRM and First State Super's modelling methodology.

4 The statement of fees and other costs shows the dollar value of investment, administration and advice fees and costs for a representative member*. [Click here](#) for more information on fees and costs.

5 The columns in the graph show the one-year net return of a representative member* (see note 2) for each year to 30 June. The green line shows the 10-year moving average net return of a representative member* to 30 June of each year. The blue line shows the 10-year moving average return target to 30 June of each year.



* a 'representative member' has a \$50,000 balance fully invested in the investment option.

Our awards

Attachment 5 – First State Investment objectives

Pre-mixed investment options

If you do not choose an investment option, your superannuation will be invested in one of the two age-based MySuper Life Cycle options described below. You can also invest in the Diversified and Balanced options as part of the Choice strategy.

	Diversified (MySuper Life Cycle option for members up to and including age 59)	Balanced (MySuper Life Cycle option for members aged 60 and over)
Investment objective ¹	CPI + 3.75% pa over rolling 10-year periods net of tax and fees.	CPI + 3.25% pa over rolling 10-year periods net of tax and fees.
Growth / income allocation ²	 75% growth assets 25% income assets	 55% growth assets 45% income assets

TIS MySuper Product Dashboard

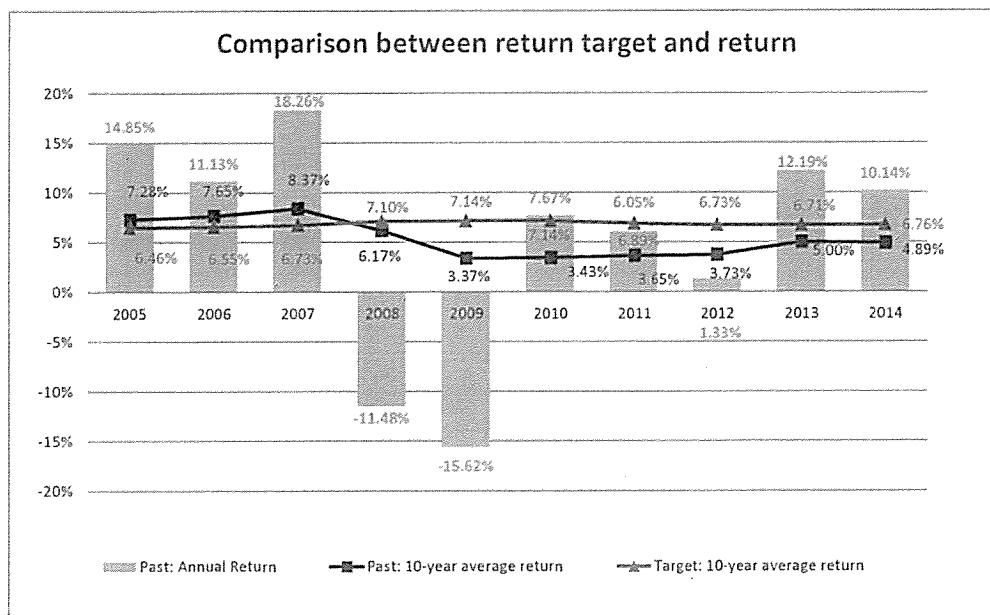
This product dashboard is to provide members with key information about Fund's fees, risk and performance. You can use this dashboard to compare TIS MySuper with other MySuper products.

Return Target

CPI + 4% over 10 years

Return

Financial Year	Return
2005	14.85%
2006	11.13%
2007	18.26%
2008	-11.48%
2009	-15.62%
2010	7.67%
2011	6.05%
2012	1.33%
2013	12.19%
2014	10.14%



Investment returns are not guaranteed. Past performance is not an indication of future performance.

Level of Investment risk

Medium to High - negative annual return is expected in 3-4 over 20-year period

Statement of fees and other costs

\$830

Fees and other costs for a representative member who is fully invested in the product has a \$50,000 balance for the year and incurs no activity fees. This may not represent your personal situation.

Warning: the information in this dashboard follows specific statutory requirements and, for this reason, may not be identical to information disclosed in previous annual member statements or in Annual Reports.

Attachment 7 – TIS Investment Objectives

Table 1 Investment Options summary

	Cash			Conservative			TIS MySuper		
Suitability	Designed for investors with a very short time frame who can accept little or no investment risk.			Designed for investors with a shorter term time frame and/or those who are willing to sacrifice some of their expected return for less risk.			Designed for investors with a longer term investment time frame, seeking sound returns above inflation, and who are able to tolerate a medium to high level of investment risk.		
General Objective	To provide capital security by investing in cash and other bank-backed assets and a net return after tax and investment costs, equal to or better than inflation plus 0.5% p.a. when measured over a rolling 1 year period.			To provide a net return after tax and investment costs, equal to or better than inflation plus 2% p.a. when measured over a rolling 5 year period.			To provide a net return after tax and investment costs, equal to or better than inflation plus 4% p.a. when measured over a rolling 5 year period and over a rolling 10 year period.		
Minimum Investor Time Horizon	1 month			5 years			8 years		
Risk Level	Very Low (probability of between 0.5 negative returns in every 20 years)			Low to Medium (probability of between 1 & 2 negative returns in every 20 years)			Medium to high (probability of between 3 & 4 negative returns in every 20 years)		
Asset Allocation	Benchmark %	Min %	Max %	Benchmark %	Min %	Max %	Benchmark %	Min %	Max %
Cash	100	100	100	20	10	50	5	2	40
Fixed Income	0	0	0	45	20	70	25	10	50
Defensive Assets	100			65	30		30	10	90
Australian Shares	0	0	0	15	5	35	30	15	50
Overseas Shares	0	0	0	7.5	2	15	15	5	30
Alternative Assets	0	0	0	5	0	20	10	0	20
Property	0	0	0	7.5	0	15	15	5	30
Growth Assets	0			35			70	25	90

Note: Cash as referred to in the Cash Option includes, cash bank deposits, term deposits, bank accepted bills of exchange and bank cash management accounts.

Attachment 8 – TIS Investment Returns

Investment	U	U	U	1.5	U	10	10	5	20
Growth Assets	0			35			70	25	90

Note: Cash as referred to in the Cash Option includes, cash bank deposits, term deposits, bank accepted bills of exchange and bank cash management accounts.

Earnings rate for the financial year ended	TIS MySuper (Default - formally Balanced)	Conservative	Cash
2011	6.16%	n/a	4.30%
2012	1.44%	n/a	3.53%
2013	12.32%	n/a	2.23%
2014	10.27%	n/a	1.54%
2015	10.43%	1.78%	0.98%
Compound average annual return over 5 years*	8.05%	n/a	2.51%

Notes:

- Past performance is not an indication of future performance.

MySuper Dashboard

This dashboard is for Accumulation 1, Accumulation 2 or Spouse Account members with any part of their account invested in our Balanced option. This is not for DBD or Pension members invested in the Balanced option. All information is based on a member with an assumed balance of \$50,000 with no activity fees. Different account balances will have an effect on returns, return targets and fees and costs.

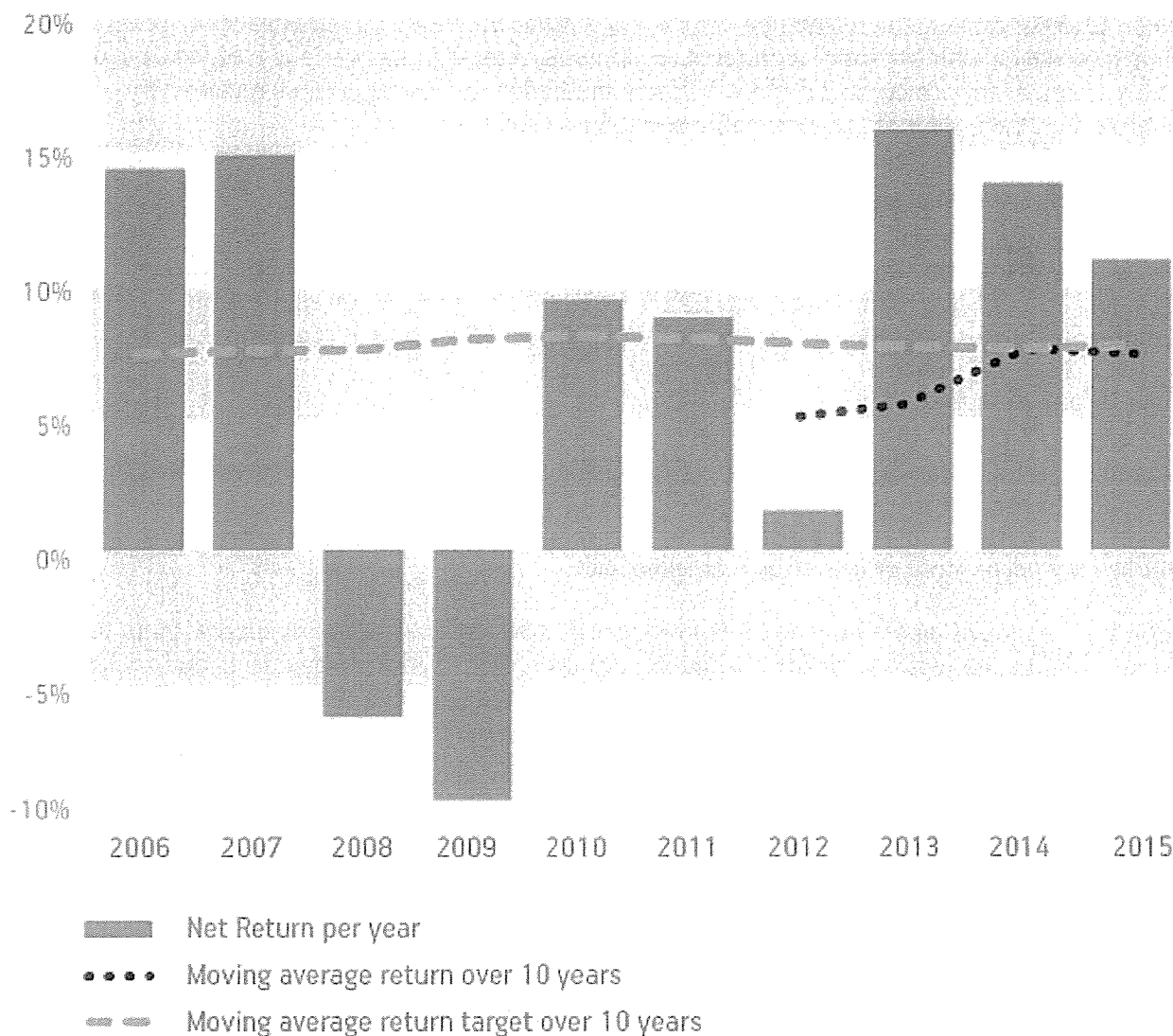
Return Target CPI + 4.8% p.a. over 10 years

Return for years ending 30 June[#]

2015	10.79%
2014	13.65%
2013	15.65 %
2012	1.44 %
2011	8.64 %
2010	9.33 %
2009	-9.30 %
2008	-6.20 %
2007	14.75 %
2006	14.21 %

Return (moving average over last 10 years to 30 June 2015)

6.94%



Statement of fees and other costs

\$375 p.a.

Level of investment risk – High

Negative returns expected in four in 20 years.*

About the return target

The return target for the Balanced (MySuper) option has been calculated in accordance with requirements that apply to MySuper. It is the average of the expected returns, based on long-run return assumptions.

The investment strategies for the Balanced (MySuper) option and the Balanced option are the same. However, the return target for the Balanced (MySuper) option appears higher than the investment objective for the Balanced option because it has been calculated differently.

This does not mean that we are aiming for the Balanced (MySuper) option to have higher returns, or that it has a riskier investment strategy.

Statistically, we have a higher level of confidence in achieving the investment objective for the Balanced option (CPI + 3% p.a. over 10 years) than the above return target.

About the return data

On 30 November 2013 we implemented MySuper. Historical returns are based on our Balanced option and are calculated in accordance with MySuper requirements, showing returns minus various fees, costs and taxes. Historically, returns were calculated using a different methodology. Actual returns received by members will depend on the timing of transactions within their account.

About the comparison-of-returns graph

Return targets are a relatively new requirement, meaning we did not calculate a return target prior to November 2013. For 2013/14, the return target was CPI + 4.8% and the graph assumes the same CPI+ 4.8% return target applied in earlier years. Fluctuations in the return target reflect past fluctuations in CPI.

[View Disclaimer Information more](#)

Past performance is not an indicator of future performance. Return targets are not guaranteed. Return targets and fees may change.

* Negative returns may occur more or less often than expected.

This information is of a general nature only and includes general advice. It has been prepared without taking into account your individual objectives, financial situation or needs. Before making any decision in relation to your UniSuper membership, you should consider your personal circumstances, the relevant product disclosure statement for your membership category and whether to consult a licensed financial adviser. This information is current as at 30 June 2015. Information is subject to change.



18 December 2014

Ged Fitzpatrick
Senior Executive Leader, Investment Managers and Superannuation
Australian Securities & Investments Commission
100 Market Street
Sydney NSW 2000

Dear Ged,

Superannuation Allotment Rates and Investment Returns

We refer to your meeting on 20 November 2014 with Glenn Langton and Colin Grenfell of the Actuaries Institute Superannuation Projections and Disclosure Sub-committee.

At that meeting we undertook to write to you further about:

1. The many differences between:
 - (a) Rates relating to the allocation of investment earnings to members' accounts via unit prices or via crediting rates (which we will refer to in this letter as "allotment rates"); and
 - (b) Rates relating to investment performance (which we refer to in this letter as "investment returns"), technically referred to as "net investment returns" and referred to in the Corporations Regulations as "net earnings" or the "rate of net earnings".
2. Other differences of methodology that may arise when calculating Net Investment Returns that may mean that the returns for different investment funds or options cannot be reasonably compared.

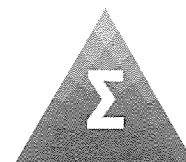
This letter deals with only 1 above; we plan to write to you separately about 2 above early in the New Year.

Further detail about 1 above is contained in our letter of 20 June 2013 (copy enclosed). The purpose of that letter was to explain why we believe there is a pressing need for ASIC to provide guidance to the superannuation industry on how and when these different rates should be disclosed to members. In particular, ASIC should ensure that allotment rates are not used for comparing investment performance.

It is our understanding that some funds are disclosing allotment rates where a statement of past investment performance is required or intended. It remains our view that the need for such guidance is therefore urgent and that the lack of such guidance is hindering the successful implementation of the Government's Stronger Super reforms.

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



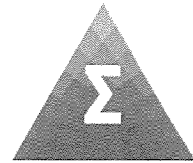
Investment returns are returns achieved on the assets backing an investment product and are independent of the amount of money under investment or the amount in a member's account. This contrasts with allotment rates which are used to allocate an amount (which comprises investment earnings after tax and, potentially, a number of other non-investment related amounts) to members' accounts.

As requested at the meeting on 20 November 2014, this letter just lists the many differences between (a) and (b), without further explanation.

The list below is arranged in approximately the same order as differences are mentioned in our letter of 20 June 2013. For completeness, we have added (in italics) three items to the list where allotment rates and investment returns are the same.

Item	Reflected In Allotment Rates	Reflected in Investment Returns
<i>Investment fees and costs</i>	yes	yes
<i>Investment tax</i>	yes	yes
Asset-based administration fees	usually	no
Asset-based administration costs	usually	no
<i>Other administration fees and costs</i>	no	no
Transfers to ORFR's	usually	no
Transfers from ORFR's	usually	no
Transfers to other reserves	usually	no
Transfers from other reserves	usually	no
Advice fees and costs	sometimes	no
Investment earnings on reserves	sometimes	no
Money-weighting	sometimes	no
"Hard" prices	seldom	usually
"Soft" prices	usually	seldom
Legislated timing	none	30 June
Corporations Regulations (section)	7.9.37	7.9.01
Methodology	varies by Fund and category	APRA standard

Practices relating to allotment rates vary widely between funds, hence the entries in the middle column are indicative – there will be some exceptions.



Matters relating to transfers to and from Operational Risk Financial Reserves ("ORFR's") and to and from other reserves are set out in the following letters:

- (a) Our letter to APRA of 5 March 2012 (copied to ASIC with (b) below)
- (b) Our letter to Treasury of 20 December 2013 (copied to ASIC)
- (c) Our letter to ASIC of 23 October 2014.

We trust that this analysis will assist further in demonstrating the potential differences between allotment rates and investment returns, the potential for these differences to cloud comparisons, and the resulting need for specific regulatory guidance.

Please let us know if you need further copies of (a) to (c) immediately above or if you would appreciate any further information or explanation.

Yours sincerely,

Daniel Smith
President

cc Maan Beydoun
Senior Specialist, Investment Managers and Superannuation
Australian Securities & Investments Commission
100 Market Street
Sydney NSW 2000



20 June 2013

Mr Maan Beydoun
Senior Specialist, Investment Managers and Superannuation
Australian Securities & Investments Commission
Level 5, 100 Market Street
Sydney NSW 2000

Dear Maan

Superannuation Allotment Rates and Investment Returns

The Actuaries Institute is the sole professional body for actuaries in Australia, providing independent, expert and ethical comment on public policy issues where there is uncertainty of future financial outcomes. It represents the interests of over 4,000 members, including more than 2,000 actuaries.

The purpose of this letter is to explain why we believe there is a pressing need for ASIC to provide guidance to the superannuation industry regarding the many differences between:

- (a) Rates allocated to members' accounts via unit prices or via crediting rates (which we will refer to in this letter as "allotment rates"); and
- (b) Investment performance (which we refer to in this letter as "investment returns") technically referred to as "net investment returns" and referred to in the Corporations Regulations as "net earnings" or the "rate of net earnings".

We have forwarded a copy of this letter to APRA because, in the light of their implementation responsibilities for Stronger Super legislation, there might also be a related need for them to provide guidance to the superannuation industry about (a) and (b) above and the differences between these and "net returns". The highlighted section on page 4 of this letter summarises our views on this.

Background

On 12 August 2010 a working group of the Actuaries Institute wrote to ASIC and suggested that some guidance is required from the regulator about how differences between allotment rates and investment returns should be communicated to superannuation fund members. On the same day a similar letter, prompted by APRA's 29 June 2010 Letter to Trustees of APRA Regulated Superannuation Funds concerning "Investment Risk Description", was sent to APRA.

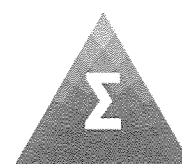
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



The following are some relevant extracts from these letters.

We are concerned that Research Houses and many superannuation funds are not reporting and comparing "like-with-like". From 1 July 2009, superannuation funds will be required to report long-term returns prominently in periodic member statements.

There are three main issues that we feel need to be clarified when reporting long term returns. In particular, whether returns should be:

- Shown net or gross of administration fees and costs (which may be deducted from the investment return or built into a fund's unit prices and therefore impact on returns),
- Including or excluding adjustment to returns for the changes in reserves, and
- On a time weighted or money weighted basis.

Essentially these issues relate to the differences between "crediting" and "earning" rates. These issues are not new (they were unresolved prior to the introduction of disclosure of long term returns), but the new reporting requirements provide an opportunity to clarify them.

The "crediting" (or allotments to member accounts) might be via crediting rates or via unit prices. This makes no difference to the issue under consideration. The issue applies in both situations and it applies to all accumulation and hybrid superannuation funds, but not to defined benefit interests.

The following table summarises the key differences between "crediting" and "earning" rates:

	Crediting Rates	Earning Rates
(1) Fees and Costs	Net of investment fees and costs and net of asset-based administration fees and costs	Net of investment fees and costs only. Corporations Regulations 7.9.01 defines these as "charges relating to the management of investment of fund assets".
(2) Reserve Movements	Crediting rates are reduced by transfers to reserves and increased by transfers from reserves. The reserves might be general-purpose contingency reserves or operational reserves to cover fluctuating expenses or investment "smoothing" reserves.	Earning rates are not net of reserve movements. They reflect the fund's or sub-fund's investment return which is unrelated to reserve movements.

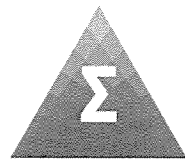
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



We consider that the differences between "crediting" and "earning" rates are logical and that the Corporations Regulations requirements are appropriate and sound.

Our prime concern is that differences (1) and (2) above are not recognised by Research Houses and by most funds and most advisors. If this is true then consumers are not comparing "like with like". They are being misled. This may lead to compliance problems and likely confusion as funds move into the detailed implementation of the new requirements.

We feel that some guidance is required from the regulator about how differences (1) and (2) should be communicated to members.

Subsequent Events

- 31 May 2011 The Actuaries Institute wrote to Treasury and put forward seven recommendations for Treasury to consider as it moves on to the detailed implementation of Stronger Super proposals and MySuper reforms. The second recommendation was that "APRA or ASIC should provide guidance to the industry that acknowledges the difference between earning rates (net investment returns) and crediting rates (the amounts allocated to member accounts)."
- 5 March 2012 The Actuaries Institute wrote to APRA and set out five reasons why we believe that any deduction made from a member's account (either directly, or indirectly via a deduction from investment earnings added to members' accounts) in relation to operational risk or other reserves should be identified separately from fees and costs. The "deduction" relates to allotment rates and the "earnings" relates to investment returns.
- 18 April 2012 The Actuaries Institute issued an Information Note for its members. The Information Note specifies six Principles which the Institute considers represent best practice for the calculation of investment returns reported to members of Australian superannuation funds to help them compare past investment returns for different investment options within a fund or comparable investment options in different funds. The Note also explains that unlike investment returns:
- crediting rates or allocation rates:
- (a) are net of investment taxes and net of investment fees and costs, but are often also net of asset-based administration and/or advice fees and costs;
 - (b) may take into account the impact of investment earnings on reserves that are supported by assets that are not part of the assets supporting the investment options provided to members;
 - (c) may be reduced by transfers to reserves and increased by transfers from reserves (these reserves might be general-purpose contingency reserves or operational reserves to cover fluctuating expenses or "investment smoothing" reserves); and

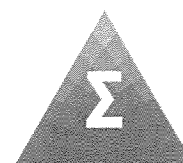
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



(d) may be calculated on a money-weighted basis (particularly when the allocations are based on annual crediting rates rather than unit prices or monthly crediting rates).

16 May 2012 The Actuaries Institute wrote to Treasury about the Exposure Draft of the *Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill*. This included comments on the proposed sub-paragraph 1(c) of Section 348A of the SIS Act which requires APRA to publish "the net returns to beneficiaries". The Institute explained that if the intention of this requirement is to publish net investment returns which will allow the comparison of the investment performance of different superannuation funds, then this can only be achieved if the return published is the net investment return, not the allotment rate.

19 Nov 2012 The Actuaries Institute wrote to APRA about its 19 September 2012 Discussion Paper "reporting standards for superannuation plans". On page 5 of that letter we re-iterated our recommendation of 31 May 2011 above about the need for industry guidance on the difference between allotment rates and investment returns, and added:

We are concerned that "returns" may be interpreted differently by different users. We therefore consider that further guidance should be provided.

Related to the above, the Actuaries Institute has also been making submissions about a third rate of return (and potentially a fourth) which is neither an allotment rate nor an investment return. These are the "Net Return" and the "Net Return Target" that draft regulations suggest might have to be disclosed in product dashboards. In the following submissions the Institute has explained why we believe that disclosure of a Net Return where administration fees have been deducted is technically unsound:

2 October 2012	to PJC on Corporations and Financial Services
11 March 2013	to ASIC
22 March 2013	to APRA
15 May 2013	to Treasury.

We would be pleased to provide copies of any of the above submissions if required. **The submissions explain why we believe that the need for a Net Return (and corresponding Target) should be replaced with:**

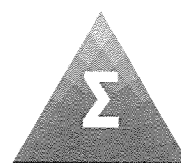
- disclosure of net investment returns,
- net investment objectives based on AWOTE or CPI, and
- two illustrative examples of first year administration fees and costs for specimen members.

As well as being technically unsound we are concerned that Net Returns will confuse consumers because, in the context of this letter, they are an unnecessary third rate.

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Current Legislation

On page 2 of this letter we stated that "the differences between "crediting" and "earning" rates are logical and that the Corporations Regulations requirements are appropriate and sound". For completeness, the following is an extract from our April 2012 Information Note which summarises the current legislative requirements relevant to this letter:

Corporations Regulation 7.9.20AA states:

"Requirements from 1 July 2010

- (8) The trustee must provide the following, in the periodic statement for a reporting period that is provided from 1 July 2010, to each member of the regulated superannuation fund:
 - (a) if the member is invested in an investment option at the end of the reporting period -- a statement of the long-term returns of the investment option;
 - (b) if the member is not invested in an investment option at the end of the reporting period -- a statement of the long term returns of the sub-plan, or, if none, the fund in which the member holds an interest at the end of the reporting period.
- (9) For paragraph (8)(a), the long-term returns must be stated as:
 - (a) the compound average effective rate of net earnings of the investment option for the period of 5 years ending at the end of the last financial year or reporting period before the provision of the periodic statement; and
 - (b) the compound average effective rate of net earnings of the investment option for the period of 10 years ending at the end of that financial year or reporting period."

Corporations Regulation 7.9.01 states:

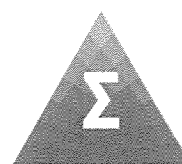
"net earnings" means the investment return on the assets of a fund after payment of transaction costs, government charges, taxes and duties and charges relating to the management of investment of fund assets."

The general requirement for the investment choice information in a Product Disclosure Statement (PDS), as detailed in SIS Regulation 4.02, is for members to have enough information to make an informed decision about their preferred investment choice. Therefore there is no specific legislative requirement for historical investment returns to be shown in a PDS. There is also no longer any legislative requirement to show past investment returns in annual Trustee reports.

Institute of Actuaries of Australia
ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000
t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Reasons for Suggesting that Guidance is Necessary

There are some subtle, but important, reasons why allotment rates are different to investment returns.

With respect to allotment rates, we feel that the first important point is that an allotment rate is really an allocation rate (ie. it is a rate used to allocate a range of items to a member's account where the allocation will be based on the balance in the member's account over the year). Clearly, investment earnings are one of these items. However, the items that are to be allocated are determined at the discretion of the trustee (subject, of course, to the terms of the governing trust deed and trustee policies as communicated to members), and other items that are allocated this way may or may not have anything to do with the investment earnings. For example, allocations to and from reserves may be included. Asset based administration fees may be included. The important point is that, what is included is at the discretion of the trustee. Therefore, you cannot be certain of drawing any reliable conclusions about relative investment performance from a comparison of allotment rates from different funds, and sometimes even from different categories within a fund, without understanding the extent of any differences in how allotment rates are determined.

The second important point is that, where the allotment rate is less frequent than daily, the annualised rate produced by compounding the allotment rates over a year may not reflect either the time weighted rate of return of the fund over the year or the effective average actual return on the member's balance over the year. Where the allotment rate is more frequent than yearly and the member has significant cash flows into or out of their account during the year, this annualised rate may differ significantly from the effective average actual return (technically the internal rate of return) achieved by the member over the year as this will be affected by the relationship between the opening balance and the cash flow during the year. Further, if the rate is declared say 6 monthly or once a year, then the rate will be affected by the actual cash flow of the fund and may differ significantly from the investment earnings that \$1 at the beginning of the year (the time weighted rate of return) would have achieved over the year.

Even where member allocations are based on daily unit prices the (time-weighted) rate of return calculated from unit prices at the beginning and end of the year may be different from the net investment return because the unit prices have been adjusted to reflect reserve movements and/or asset-based administration fees (differences can also arise because of issues such as estimates of asset values and tax provisions being used in setting unit prices). Most Retail Funds deduct asset-based administration fees from their unit prices and the March 2012 ASFA *SuperFunds* magazine shows that 26 of 44 Industry Super Funds have asset-based administration fees.

Post 1 July 2013, it is expected that all funds will have Operational Risk Reserves with reserve movements impacting on allotment rates. This increases the urgency for guidance about the differences between allotment rates and investment returns.

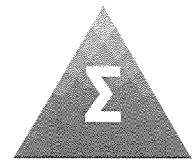
Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au



Guidance Scope

The guidance requested might cover issues such as:

- how investment returns should be calculated
- how and when investment returns should be disclosed
- how and when allotment rates should be disclosed
- how and when details of movements in reserves should be disclosed
- how and when the manner in which allotments are made should be disclosed
- how and when the reserve management strategy should be disclosed
- the differences between allotment rates and investment returns
- that allotment rates should not be used when communicating investment returns
- the possible penalties for not complying with the above.

Conclusion

We believe there is a pressing need for ASIC, and possibly APRA, to provide guidance to the superannuation industry regarding the many differences between allotment rates and investment returns. To achieve this we would welcome the opportunity to discuss this matter with you or to provide further assistance.

Please do not hesitate to contact Melinda Howes, Chief Executive Officer of the Actuaries Institute for any further information.

Yours sincerely

John Newman
President

cc Ms Katrina Ellis, Head of Research, Australian Prudential Regulation Authority
Mr Timothy Goodland, Superannuation Unit, Financial System Division, The Treasury
Ms Pauline Vamos, Chief Executive Officer, ASFA

Institute of Actuaries of Australia

ABN 69 000 423 656

Level 7, 4 Martin Place, Sydney NSW Australia 2000

t +61 (0) 2 9233 3466 f +61 (0) 2 9233 3446

e actuaries@actuaries.asn.au w www.actuaries.asn.au