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9 July 2018

**Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018
[Provisions]**

QSuper welcomes the opportunity to make a submission in relation to the matters considered by the *Treasury Laws Amendment (Protecting Your Superannuation Package) Bill 2018*.

For over 100 years, QSuper has been the default superannuation fund of the Queensland Government, helping current and former public-sector employees and their spouses create a financially secure future. QSuper is one of the country's largest and most respected superannuation funds, with a membership of over 576,000 and more than \$78 billion in funds under management. On 1 July 2017, QSuper became a public offer fund, opening our doors for all Australians to join.

Please find attached QSuper's specific feedback regarding measures to reduce the inappropriate erosion of superannuation benefits by fees.

We trust this feedback will be beneficial. QSuper would welcome an opportunity to discuss our submission in further detail with Treasury. Chris Ramsay, Senior Manager External Affairs and Policy is the primary QSuper contact regarding our submission and can be contacted on

Yours faithfully

Glen Hipwood
Executive General Manager
Strategy and Performance
QSuper

Submission – Measures to reduce the
inappropriate erosion of superannuation
benefits by fees

Treasury Laws Amendment (Protecting Your
Superannuation Package) Bill 2018

Referred to Senate Economics Legislation
Committee for inquiry and report

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Background

The Explanatory Memorandum to the Bill identifies that:

1.3 Superannuation is a major part of Australia's retirement income system. Together with the Age Pension and savings outside superannuation, it supports Australians in their retirement years.

1.4 Superannuation is now the second-largest savings vehicle for Australian households (accounting for 17 per cent of household assets). It is projected to grow rapidly in the coming decades, as the superannuation system matures.

1.5 Given the importance of superannuation to Australians, the Government is seeking to ensure that people's hard-earned savings are not unnecessarily eroded by fees or inappropriate insurance arrangements.

1.6 In 2015-16, accounts with balances below \$6,000 comprised over 40 per cent of all accounts in the system. These accounts face disproportionately high fees and insurance premiums.

1.7 For these accounts, the principal source of growth is through compulsory contributions; however, high passively incurred fees (such as administration and investment fees) can mute this growth. These fees are imposed under the equal fee structures built into default MySuper products and many choice products and are highly regressive in their impact on low balance accounts.

QSuper supports the principle that members' benefits should not be inappropriately eroded by fees. We consider that these principles should apply to all members within a fund and are concerned that there are instances where the proposed legislated provisions may require change to better achieve this objective.

Fee Cap on Low Balances

The Bill provides that a fee cap will apply where "on the last day of a year of income of the fund a member of the fund has an account balance with the fund that relates to the product that is less than \$6,000".¹ Any fees paid over the year that exceed 3% of the member's account balance on that day will need to be refunded to the product.

We consider that the proposed legislation does not adequately consider the situation where a member has a large balance throughout the year and then reduces their balance so that on the last day of the year their balance is below \$6,000. For example, a member with a \$1 million balance could reduce their balance to \$100 the day before the calculation is performed. A member's balance in a product could reduce because they have withdrawn funds, rolled funds over to another fund, or moved funds to another product, such as a pension product.

In this situation, the fund would be required to refund the fees in excess of fees calculated on a \$100 balance and not the member's balance throughout the year. This could potentially be used annually by members to rollover funds in the last week of the year to avoid paying fees. As funds source revenue by administration fees on members' accounts, the only mechanism to recoup this is via increasing the fees of remaining members.

Conversely, if the member's balance increased to over \$6,000 the day before the calculation day, the fee cap provision would not be triggered. We understand that this is not the intent of the legislation and request that the legislation be amended to remove this anomaly.

¹ Proposed section 99G(1)(b)

Similar considerations apply where a member exits a fund. We also recommend that the legislation and Explanatory Memorandum clarify that the fee cap will apply at a product level (and not on accounts or sub-accounts within a product).

Inappropriate erosion of fees - MySuper Administration Fees

QSuper fully supports the Government's objective to protect balances from inappropriate fee erosion noting that QSuper's current fee structure already complies with the proposed maximum fee ceiling for low balances.

Under the Bill, three distinct account-based administration fees will be permitted, being:

- administration fee/s for low balances under \$6,000 (subject to a cap);
- an upper administration fee cap, that will apply to large balances (currently permissible); and
- administration fees that will apply to all other members (currently permissible).

However, in line with the Government's policy intent, QSuper advocates for a change to the permitted MySuper administration fee structure. The inclusion of an administration fee floor will allow administration fees to be tailored to more closely align with a fund's cost to serve individual members.

For a fund such as QSuper, we continue to strive to ensure that all aspects of the fund are equitable and earlier this year discussed our proposal with Federal Treasury and APRA to allow MySuper funds to charge a minimum fee (in addition to the current allowable fee cap). This is not presently allowable under current legislation and we believe this would further enable funds to more equitably allocate costs across the whole membership and would aid comparability.

In practice, a fee floor would allow funds flexibility to set administration fees for members with balances greater than \$6,000, but less than a set balance that approximates the fund's minimum cost to serve. This would reduce the extent to which members within the fund are paying for the costs to serve other members, and is consistent with the proposal for a fee cap for small balances and the existing upper administration fee cap. This would require a change to legislation, which we respectfully request is considered as part of the amendments being drafted to implement the Government's Budget announcements in relation to superannuation.

Inappropriate erosion of fees - MySuper Investment Fees

Also in line with the policy intent to avoid inappropriate erosion of member balances, QSuper advocates for a change to the permitted MySuper investment fee restrictions so that funds can charge members with the same investment strategy the same investment fee. QSuper considers that there is currently a legislated inconsistency between investment fees and investment strategies that causes superannuation funds to apply fees in a way that ultimately means some members balances will be inappropriately eroded.

Section 29VA (9) of the Superannuation Industry (Supervision) Act (the SIS Act) sets out the rules that apply to Lifecycle differentiated investment fees. In this section the number of permissible age cohorts is limited to four, effectively meaning there is a limit of four different investment fees for a MySuper product using a lifecycle investment strategy. This section further requires "... a fair and reasonable attribution of investment costs of the fund between the age cohorts."

However, the MySuper lifecycle exemption in 29TC(2) of the SIS Act allows individualisation, personalisation and customisation of investment strategies through the use of five prescribed factors (as defined at 9.47 of the Superannuation Industry (Supervision) Regulations) in addition to age. This means the legislative rules around using prescribed factors in investment strategies contrasts and conflicts with the age factor limits on investment fees.

As a consequence, a fund like QSuper, which uses the lifecycle exemption in relation to investment strategy for its MySuper product, is effectively forced to cross-subsidise investment fees between members.

QSuper is leading the industry in tailoring and individualising investment strategies for members as they move through life stages. QSuper's MySuper product, QSuper Lifetime, has been in place since 2013.

Under Lifetime, members are allocated to one of eight cohorts with investment strategies based on their age and account balance. As a result, members in different cohorts (even those who are the same age) may have exposure to different asset mixes and therefore investment costs. Strategies with allocations to higher risk asset classes are higher cost (and vice versa). However, under current rules (section 29VA(9)(c) of the SIS Act) QSuper may only charge four different investment fees which means that some members have investment fees which are higher (or lower) depending on their membership cohort.

QSuper is actively building an enhancement to Lifetime to further individualise investment strategies to include gender. This will further exacerbate the issue of cross subsidisation mentioned above and we believe that this was not the intention of the legislation when drafted.

To the best of our knowledge, QSuper is the only fund currently using any of the regulated prescribed factors, and these factors were inserted following close consultation with Federal Treasury when drafted. There have however been indications from other funds intending to go down this path. We therefore believe this is a matter for the industry as a whole and will be a challenge for more funds as investment strategies become more sophisticated and individualised.

On the basis of the above, QSuper is seeking a change to legislation to enable funds which have availed themselves of the lifecycle exemption in 29TC(2) of the SIS Act, to allocate appropriate, fair and reasonable costs to individual members. We do not believe this change will open up the legislation to a risk of fee manipulation and is in line with the policy intent in the current sub-section 29VA(9)(d), that investment fees be attributed on a fair and reasonable basis.
