

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Additional Estimates

23 – 24 February 2011

Question: AET 80

Topic: The Cooper Review/My Super

Senator Bushby asked:

Background information:

How much did the Review cost?

How much were external consultants such as Deloitte paid for their work?

Modelling underpinning the savings estimated by Treasury to deliver the average superannuant an additional \$40,000 in retirement income in the long run.

Did you model the benefits of MySuper? (Page 20 of the Cooper Review Final Report)

Did you identify any cost savings for members?

If so, what is the figure based on? (Likely to be Deloitte research on fees undertaken by the Review Panel and released in April 2010)

Which asset allocation strategy do these cost savings take into account to develop a final number? (Deloitte looked at three different asset allocations)

Did Treasury's estimates take into account that certain investments may be prohibited under MySuper – such as investments which may not comply with the proposed performance fee standards to be developed by APRA?

Has the impact of passive management been taken into account in the Treasury estimate that a My-Superannuant would be \$40,000 better off by retirement?

There are different elements of MySuper, how are they taken into account in the costing the impact of fees for members?

How were elements which are likely to increase costs such as separate licensing and increased regulation treated?

Examining the estimates used by Treasury in Appendix C of the Final Cooper Review Report on current fee levels.

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Did Treasury use the Rice Warner Fee Report (2008) in arriving at assumptions to underpin the fee estimate reduction and its associated benefit of \$40,000 per member?

Would you agree that the MySuper concept is squarely designed for superannuation members in the employer or wholesale sphere?

On a reading of the Rice Warner Fee Report, is Treasury of the view that superannuation fees in the default or wholesale (employer) space are currently competitive and on a downward trend?

For the purposes of its savings estimates, how does the Treasury estimate that the average fee in the default / wholesale sphere is currently 97 basis points (as opposed to the average fee of 82 basis points in the wholesale sphere identified in the Rice Warner report)?

Why has an additional 15 basis points been added to the figure used for the estimate? (Refer to Appendix A - Rice Warner Fees Report table 1 below)

Given that the cost savings attributable to members are based on the short and long term cost of a MySuper fund (which Treasury states will cost 85 basis points in the short term), how is it possible that MySuper will benefit the more than one million members currently in wholesale super arrangements which cost less than 85 basis points in the short term?

Examining the estimates used by Treasury in Appendix C of the Final Cooper Review Report in terms of asset allocation, scale discounts and member services.

The Rice Warner Fees Report shows that there are nearly one million people currently in large master trusts (see Appendix B below) who pay an average of 79 basis points for their superannuation. Won't these individuals be disadvantaged?

Will such members in large corporate arrangements (with current average fees of 79 basis points) benefit from the estimated \$40,000 additional retirement income through lower fees which they already enjoy?

Will these members be disadvantaged by the proposed MySuper removal of scale discounts for corporate members?

Has Treasury considered that over one million corporate superannuants are likely to have reduced member services compared to what they receive now under a MySuper environment?

In terms of the assumptions underpinning the Treasury estimates, how does the estimate that \$340bn of \$700bn of assets are in a default investment option (excluding SMSFs) correlate with 80 per cent of members being disengaged as quoted by the Review?

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How has Treasury arrived at the figure that \$560bn of all super assets are in default funds?

Answer:

Background information

The total cost of the Super System Review was \$2,433,353. Of this, \$160,815.05 was paid to external consultants for work conducted on behalf of the review, including \$33,000 to Deloitte for *Default Fund costs under the MySuper proposals* (Appendix D of the Super System Review final report).

Modelling underpinning the savings estimated by Treasury to deliver the average superannuant an additional \$40,000 in retirement income in the long run

As noted in the responses to questions on notice SBT211 and AET77, an Australian worker aged 30 earning average full-time wages could receive up to \$40,000 more in retirement as a result of the Stronger Super reforms. Deloitte estimated a \$20 billion fund could provide a MySuper product, with an 'active balanced (with alternatives)' investment strategy with annual fees of 66 basis points. The \$40,000 savings estimate is derived from comparing this with Treasury's estimate (based on independent industry data) of 97 basis points for the average fee for the default investment option of existing default funds (see further below). In addition, SuperStream is expected to deliver an additional seven basis point saving, which together results in an estimated 38 basis point saving.

As noted in the response to AET77, the 'active balanced (with alternatives)' investment strategy modelled by Deloitte was chosen for the \$40,000 savings estimate as it is the most representative of existing actively managed default options and most likely to represent the investment strategy chosen for MySuper products. The Deloitte analysis illustrates that MySuper can achieve scale efficiencies using active investment management, including active management in alternative asset classes such as infrastructure.

The Government announced it will determine parameters under which trustees can pay performance fees to fund managers in respect of MySuper products. Implementation details on the proposed performance fee standards are currently being considered in consultations with key stakeholders.

In general, individual recommendations such as separate licensing were not modelled.

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Examining the estimates used by Treasury in Appendix C of the Final Cooper Review Report on current fee levels

As noted in Appendix C of the Super System Review final report, the estimated fee reduction used as part of the \$40,000 savings estimate was based on Rice Warner's *Superannuation Fee Report 2008*.

All members and employers will benefit from the confidence that any MySuper product will meet minimum standards and offer a simple, cost-effective superannuation plan.

The Rice Warner report shows that average superannuation fees have declined from 2006-2008, but the decline is not shared across all segments of the market. Average fees for default members in some segments have risen over this period. Therefore, any overall downward trend is not benefitting all members equally.

Over the long term, Deloitte's estimate that a \$20 billion fund could provide a MySuper product (as described above) for 66 basis points (59 basis points if the benefits of SuperStream are included) shows that fees in all segments could be more competitive.

Treasury's estimate of 97 basis points reflects the weighted average of fees for the 'wholesale' segment and the corporate super master trust (small) segment, as this is likely to be the most representative of fees paid by default members.

The Government is consulting on the detailed design and implementation of MySuper.

Examining the estimates used by Treasury in Appendix C of the Final Cooper Review Report in terms of asset allocation, scale discounts and member services

As noted above, Deloitte estimated that in the long-term a \$20 billion fund could provide a MySuper product with annual fees of 66 basis points. This would result in fees 13 basis points lower than Rice Warner's estimate of 79 basis points for the average annual fees charged to members of large corporate super master trusts.

In regard to member services, MySuper will not prohibit trustees from offering any members services that are in the best financial interests of their MySuper members as a whole. For funds where the majority of members are benefiting from existing services, the trustee of the fund may decide it is in the best financial interests of MySuper members for these services to continue. This heightened obligation on trustees to assess whether members services truly benefit members will ensure that members do not pay for unnecessary 'bells and whistles' they do not need or use.

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As stated in Appendix C of the Super System Review final report, Treasury estimated there were approximately \$560 billion of assets in default funds (as at March 2010), with around \$340 billion of that amount in the default investment option. The \$340 billion estimate is based on Rice Warner and APRA data and represents the amount of assets in the default investment option. This is distinct from the number of members in the default investment option.

The Super System Review final report stated that roughly 80 per cent of members are in the default investment option of the fund chosen by their employer, and of that, 80 per cent did not choose to be there. Consequently, the Super System Review suggested that around 60 per cent of members do not make active choices in relation to their superannuation.