Ref: SUPER 490 - Para 3

**Supplementary submission to explain terminology in the Key Features Statement**

**Management Expense Ratio (MER)**

The MER (Management Expense Ratio) has been used by many as a measure of the cost of running a fund. It is meant to show what percentage of total assets are expended each year to run the fund.

The problem with the MER has been that it is not easily understood and there are many ways of calculating the MER so often people are not comparing apples with apples. For example, the MER does not always reflect the total costs of running the fund if some of costs are netted against income. For example, manager fees for unlisted pooled vehicle.

There have also been examples where members or prospective members have been told incorrectly that the fund charges $1 per week plus a fee of 0.96% that is effectively an asset charge. The facts are the fund has a MER of 0.96% which it recovers by deducting $1 per week from the members' accounts to cover administration and trustee costs and the balance of the 0.96% MER, the investment management costs are deducted from investment earnings, before the crediting rate is applied to the members' accounts. These mistakes or misrepresentations probably occur often because the MER and charges are difficult to understand, and sometimes because competitors or their advisers deliberately misrepresent the facts.

The amendments to Regulations in 2001 covering Product Disclosure Statement (PDS) give legal effect to the Financial Services Reform (FSR). Under these changes the MER, which is now called the Ongoing Management Charge (OMC), is expected to make it easier to understand the costs of running the fund. Further, the OMC is expected to reflect the full cost of running the fund as costs previously netted off will need to be required to be added back.

The new OMC will show members and potential members the cost of running a fund. However, it should be noted that the OMC has no relationship to the actual amount charged to members. ASFA confirms this "The ongoing management charge should not be taken to be representative of the actual fee and charges and expenses that will be borne by an individual". There is nothing as far as I can see to stop a fund from charging a member 100 times its OMC. There is simply no direct relationship what so ever between charges to members and the cost of running a fund.

Yet some are claiming that the new disclosure requirement will protect members by making it easier to understand fees and charges. I don't believe this is so at all, it will simply make it easier to identify and compare the costs of running a fund.

Whilst this is helpful it does not solve the problem for members needing to understand what fees will be passed on to them and how will they be charged.

I believe that the most appropriate way to educate and disclosed to members the fees and charges for superannuation funds is to require the fund to show how the OMC will be recovered by the Fund and what impact the fees charged to the member will have on the end benefit.

For example the OMC Recovery could be explained in the following way:

| | |
|---|---|
| **<u>THE FUND'S OMC (Ongoing Management Charge)</u>**<br>This tells you the portion of member assets used to run the Fund and manage the investments. | **<u>0.96%</u>** |
| This is Recovered by: | |
| **<u>ADMINISTRATION FEES DEDUCTED FROM YOUR ACCOUNT</u>**<br>of 0.85 cents per week plus a Contribution Charge of 0 51 cents per week | **0.43%** |
| Plus: | |
| **<u>INVESTMENT MANAGEMENT CHARGE AGAINST INVESTMENT EARNINGS</u>**<br>This is the cost of managing investments. It is deducted from the investment earnings. and the balance of investment earnings are credited to your account. | **0.37%** |
| **CHARGE AGAINST RESERVES**<br>This is the cost of member protection and the shortfall of Administration fees deducted from members' accounts to cover the actual administration charges of the fund. This or any other cost not passed on directly to the member, is deducted from reserves (if there are no reserves it will be deducted from Investment earnings. | **0.16%** |

Ref: SUPER 490 - Para 7

**Fees and returns for (allocated) pension ('IRIS')**

The fees charged to members using IRIS are 1.2% per annum. This is deducted quarterly in arrears. There is also a $1 charge for pension payments made by bank transfer.

Since inception on 1/3/97 the average annual return for the three investment options are

| | |
|---|---|
| Secure | 5.3% |
| Stable | 7.7% |
| Growth | 10.9% |

To 30/6/01 the earning rates were

| | |
|---|---|
| Secure | 6.7% |
| Stable | 7.7% |
| Growth | 8.7% |

Ref: SUPER 492 - Para 3

**Salary continuance ("Income Protection") Product**

We confirm that the CBUS Income Protection Product arrangement is totally external to the Fund. The arrangement negotiated using the CBUS purchasing power includes a range of income protection products at rates lower than those normally available to individuals or employers on their own.

The arrangement is only available to CBUS members or Employer Sponsors. The main products utilised are general insurance products that provide greater access to cover at shorter waiting periods for the high risk occupations existing within the building industry.

The product recommended is dependent on the risk profile of the proposed insured party. For example, a predominantly white collar group would normally be recommended the use of a life insurance product instead of the general insurance product.

The basis of operation is as follows:

**The products are available to:**

- Self employed persons as policy owner
- An individual employee of a sponsoring employer where the individual is the policy

owner
- Employers as policy owner insuring their employees.
- Premium payments are the responsibility of the policy owner and are not related to superannuation contributions
- Administration is provided by IFS Insurance Broking on behalf of the underwriter
- The underwriter provides the claims assessment and benefit payments.
- Premium rates for individual's are published and standard for all self employed and individual employee policies
- Premium rates for employers are dependent on the employer's employee occupational mix and past claims experience where the employer is transferring cover from an alternative arrangement.

At present the policies are mainly, if not totally, self employed persons or individual employees.