

Appendix Nine

IFF's Supplementary Submission



ROLLOVER SERVICE ANALYSIS

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Appendix A: Rollover Service Recommendation Data



1. Introduction

The purpose of this report is to detail the activity of the IFS Member Services Rollover Service and looked at the recommendations made by the Rollover Service concerning exit penalties charged by other funds when members consider rolling over to another fund.

The report will also look at the time taken by other funds to administer requests for information and ultimately process rollovers.

2. Overview

2.1 Time frames

The time frame chosen for the purposes of this report is July 2001 to 30 June 2003.

2.2 Data Source

The data used in this report has been collected from the Rollover Service database.

The Rollover Service provides analysis and recommendations to industry fund members regarding whether it is in their financial interest to roll money out of their other superannuation funds into their industry account. A recommendation is made based on the fees and charges associated with their other fund compared to their industry fund.

Data is recorded on a specially designed access database it records time frames, fee information and the advice provided. Due to privacy considerations, data identifying specific individuals has not been included, e.g. member names, address, member numbers, etc.



3. Results

3.1 Recommendations

3.1.1 All Recommendations

For the period from 1 July 2001 to 30 June 2003 the Rollover Service produced a total of 2310 recommendations. 40% of all policies analysed had some form of exit penalty attached to them.

Each recommendation was made based on information provided by other funds. This information was then compared with the fee structure of the balanced fund of the member's industry fund. Subject to the fee information provided by the other fund, two basic types of rollover recommendation were made. They were:

1. Rollover Recommendations
 - a. No exit penalty
 - b. Exit penalty

2. Do Not Rollover Recommendations
 - a. Issue other than exit penalty
 - b. Exit penalty

For detailed information regarding the recommendations please see Appendix A.

3.1.2 Recommendation to Rollover

Out of the total number of recommendations made, 1923, or 83.2%, were to rollover, of which 1196 had no exit penalty and 727 had an exit penalty.

Recommendation	Number of Policies	% of 'do rollover'	Approx Total Account Balance	Approx. Exit Penalty
Rollover - No exit penalty	1196	62	\$26m	n/a
Rollover - Exit penalty	727	38	\$19m	\$0.63m

3.1.2.1 *No exit penalty*

The value of rollovers recommended where there was no exit fee was



3.1.2.2 *Exit penalty*

The 727 recommendations to rollover were despite an exit penalty represent 37.8% of recommendations to rollover, and 31.5% of all recommendations made.

Where a recommendation is made to rollover despite their being an exit penalty, it has been assessed that the exit penalty would be recuperated over time due to the fee savings made by rolling into an industry fund, i.e. the industry fund had lower investment management fees, no contributions fees, no adviser fees etc.

The total value of exit penalties for these recommendations was \$626,982, or 34.5% of the value of the corresponding total account balance (\$18.2 million)

Where the recommendation was to rollover despite an exit penalty, 137 of the policies were from AXA and 131 were MLC, representing 18.8% and 18% respectively of the total (727).

3.1.3 Do Not Rollover Recommendations

Of the total recommendations made, 387 were recommendations not to rollover. This represents 16.8% of all recommendations.

Do not rollover recommendations can be further broken down into two categories based on the reason not to rollover. The reasons are:

1. Issues other than identifiable exit penalties
2. Exit penalties

3.1.3.1 *Issues other than Exit Penalties*

193 policies were recommended not to rollover due to issues other than exit penalties, representing approximately 8.4% of all recommendations. The value of these policies was \$4,165,729.

There are three main reasons why a rollover is not recommended in this category. They are:

1. Other fund has fees which are lower and there is no exit penalty
2. Other fund has lower fees and there is an exit penalty
3. Other fund is an endowment/whole of life policy

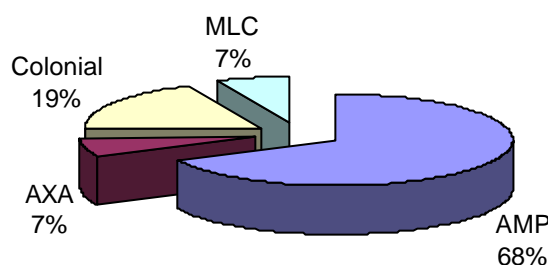
The first case we highlight the benefits of consolidation and recommend the member look at investment returns.

The second case we highlight the benefits of consolidation but recommend that it may be advisable to speak to a financial planner.

Endowment policies are recommended not to rollover due to the forfeiture of terminal and reversionary bonuses. Endowment policies represent 31% of the 193 policies in this category. The account value of these endowment policies represent was \$1.2m, or 29%, of the total account value (\$4.2m) of all policies where recommended not to rollover for issues other than exit fees.

AMP accounted for 68% of all do not roll endowment policy recommendations – see Chart 1 below.

Chart One - Endowment Policies by Fund



3.1.3.2 Exit Penalties

194 policies were recommended to not rollover due to exit penalties during the period 1 July 2002 to 30 June 2003. This figure represents 50% of recommendations to not rollover and 8.4% of all recommendations.

The total value of exit penalties identified was \$747,994, that is 19% of the corresponding account balances (\$3.9m)

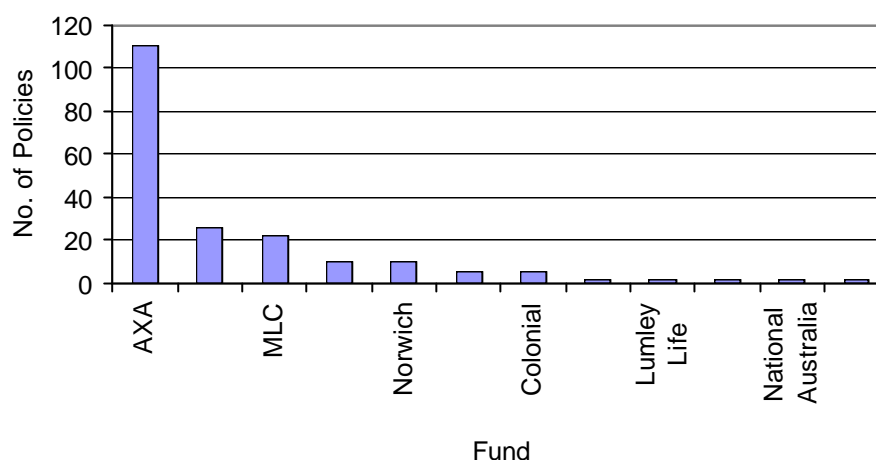
It is interesting to see that in cases where recommendations were made not to rollover due to exit penalties, AXA policies account for 111, or 57%, of the 193 policies where a rollover was not recommended due to exit penalties. See Chart 2 below for the number of policies by all funds in this category. AXA's 111 policies had exit penalties that accounted for 48.7% (\$347,668) of the total value of exit penalties identified in this category.

The next highest was Tower with 26 policies, i.e. 13.4% of all policies in this category. Tower's exit penalties account for 20.3% of the total value of exit penalties.

Details of all exit penalties can be found in Appendix A.



Chart Two -Do Not Rollover Recommendations - Exit Fees



Tables 1 & 2 show, by fund, the top three policies by exit fee value and exit fee as a percentage of account balance during 1 July 2001 to 30 June 2003.

Table One –Top three exit penalties by dollar value

Fund	Exit Penalty Value	Exit Penalty as % of Acc Bal
Colonial	\$52,482.65	71 %
Tower	\$40,595.40	19%
Tower	\$14,893.49	26%

Table Two - Top three exit penalties as a proportion of account balance

Fund	Exit Penalty Value	Exit Penalty as % of Acc Bal
MLC	\$3,297.69	100.72%*
AMP	\$2,031.87	100.00%
MLC	\$ 8,050.31	94.98%

* This represents exit penalties plus shortages

Details of all other individual exit penalties can be found in Appendix A.



3.2 Response Times

There are two specific occasions where the time taken by the other fund to respond to requests can significantly impact on the service provided by the Rollover Service and ultimately the value of the account rolled over.

The two occasions are:

1. the time taken by other fund to respond to fee information requests by the rollover Service and,
2. the response time by the other fund to administer a rollover request.

3.2.1 Fee Information Request

The median response time for information requests across all funds is 17 days. However, Tower is the slowest by taking a median response time of 38 days to provide information.

Table Three - Median and mean number of days taken by funds to respond to fee information requests.

Fund	Mean (No. of Days)	Median (No. of Days)
All Funds	22.899	17
AMP	22.59	16
AXA	14.773	10
Colonial	26.788	18
ING	35.233	25
MLC	22.714	17
Tower	37.2	38

3.2.2 Rollover Request Completion

The median response time for administering rollover requests for all funds is 15 days. However, Tower again was the slowest with a median turn around time of 32 days, which is 2.1 times longer than the all fund median.



Table Four - Median and mean number of days taken by funds to process rollover requests.

Fund	Mean (No. of Days)	Median (No. of Days)
All Funds	24.125	15
AMP	20.51	14
AXA	29.271	15
Colonial	25.937	15
ING	18.458	15
MLC	28.566	17
Tower	45.28	32

Delays in responding to rollover requests can have a serious impact on members account balance as market values fluctuate daily. This is particularly true in the present climate where socio economic and political issues adversely impact domestic and international market activity.



4. Conclusion

4.1 Exit Penalties

From the information in this report and Appendix A, it is apparent that negative impact of exit penalties on account values is very real.

Members can make a choice whether to rollover as the exit penalty they are charged can be recuperated over time due to the fees saving made in an industry fund.

However, as the Rollover Service demonstrates, some members have to miss out on lower on going fees as the exit fee is so high it can not be recuperated despite fee savings. Alternatively, members severely disadvantage their account balance where they decide to pay the exit penalty and rollover.

4.2 Response Times

The response times experienced by the Rollover Service from most funds is acceptable. However, for both requests for information and processing rollovers, Tower takes a considerably longer than the average. It has been established that one of the main reasons for the extra time taken by Tower is due to older Tower policies details not being store electronically and information being sourced from archives.

Delays in responding to rollover requests can have a serious impact on members account balance as market values fluctuate daily. This is particularly true in the present climate where socio-economic and political issues adversely impact domestic and international market activity.



Appendix A

See excel file titled 'Rollover Recommendations 2001-03'