

1 March 2016

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

Email: [louise.lilley@treasury.gov.au](mailto:louise.lilley@treasury.gov.au)

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

Email: [jenny.wilkinson@treasury.gov.au](mailto:jenny.wilkinson@treasury.gov.au)

Email: [superannuationtransparency@treasury.gov.au](mailto:superannuationtransparency@treasury.gov.au)

Dear Louise and Jenny,

## Indirect Costs and Product Dashboards

The purpose of this letter is twofold. Firstly we wish to clarify and explain our views about superannuation fund "Indirect costs", and secondly we have attached revised versions of the two example dashboards that we produced late last year.

### Indirect Costs

We refer to our previous submissions of 18 August 2015, 8 October 2015, 11 December 2015 and 17 December 2015 relating to Product Dashboards. Page 2 of our 18 August 2015 letter listed the eight main changes we are seeking for Product Dashboards. One of the recommendations was:

- "Provide a table of fees and costs showing how these are split between administration, advice and investment. The reason for this proposal was set out in our February 2014 submission, and relates to the fact that Investment fees need to be assessed separately by members against the return they might expect based on the fund's specific investment strategy.

The exposure draft regulations issued in December 2015 included a revision to subregulation 7.9.07N(2) that proposed a "**Statement of fees and other costs**" showing:

Investment fees	[ ] % of \$50,000
PLUS administration and advice fees	\$( )
PLUS indirect costs	[ ] % of \$50,000

Although this presentation shows the split between investment fees and administration/advice fees it does not separate the investment and administration/advice components of indirect costs. It also mixes percentages and dollars in one table which would be very confusing to members.

At the Industry Roundtable discussions held in Melbourne and Sydney in mid January 2016, representatives of the Actuaries Institute explained that **indirect costs** should be:

- (a) split between investment and administration/advice,
- (b) combined with investment fees and administration/advice fees, and
- (c) referred to as "other costs" in headings (as has been the situation for some years).

At both meetings these proposals appeared to be well accepted by ASIC and APRA representatives and by the other stakeholders. For the following reasons we believe that these changes are important:

- (1) investment services are paid for by both investment fees and investment costs and cover the costs of investing members' funds to provide an appropriate return on their investments,
- (2) administration/advice services are paid for by administration fees, administration costs and advice fees and cover **very different services from (1) above**, for example, the costs of contribution and benefit processing, member records and a wide range of member services such as education, targeted campaigns, scaled advice and a fund's online services,
- (3) **administration/advice fees and costs** (and the services they provide) should be compared separately from **investment fees and costs** (and the services they provide) - where either measure of fees and costs is significantly different from other funds, the member will be alerted to investigate the reason for these differences.
- (4) the separation of investment and administration/advice fees and costs is far more important than the separation of fees from indirect costs - many consumers will be unnecessarily confused if the superannuation industry retains the past focus on operational/mechanical differences between fees and costs.
- (5) the main problem with the past strong distinction between fees and costs, is that different funds treat fees and costs quite differently and the separation implies a false level of accuracy - very similar costs (and even very similar deduction of those costs from members' accounts) are variously treated as fees and/or costs by different funds.
- (6) the main difference between a fee and cost is that the fee is known in advance whereas a cost is usually known after the period and is based on cost recovery - these subtleties are of little or no interest to members and should usually not enter into comparisons between funds, products or services.
- (7) the statement of fees and other costs must be as kept as simple as possible - unnecessary and confusing jargon (such as "indirect costs", "indirect cost ratios" and "ICR costs") should be removed - but we recommend that the two words "other costs" should be retained in headings to make it clear that they are included.
- (8) separately showing both fees and costs for investment and administration/ advice would result in too many numbers and Dashboards would become unworkable for members.
- (9) there should be no double counting - fees and other costs should only be counted once - "other costs" should comprise any impost which impacts on a member's benefits which is not a fee, tax, or insurance premium.



The main purpose of the Dashboard is to allow members to compare funds and the different practices of what is shown as a fee and what is shown as a cost should not be allowed to confuse members as they try to compare funds. For such a purpose, we believe the fees and costs for administration/advice and the fees and costs for investment are what members need to compare between funds, products and services.

### **Product Dashboards**

The updated copies of the two example Dashboards we enclosed with our submission of 17 December 2015 included a **“Statement of fees and other costs”** based on account balances of \$10,000 and \$50,000. These also combined “Administration and Advice” in the fees and costs table consistent with the Superannuation Transparency proposals. This was a useful simplification. It results in a fee and cost table containing just three lines (i.e. “Administration and Advice”, “Investment” and “Total”) for each balance.

At the Industry Roundtable discussions held in mid January 2016, it was suggested that the fee and cost table could usefully be expanded by adding fees and costs for an account balance of \$250,000. We believe that this idea has merit because it shows the full impact of fees and costs over a much wider range of account balances. Because of the removal of the “Indirect cost” line (based on our recommendations) and the combining of “Administration and Advice”, it can also now be achieved without over-complicating the table.

We have therefore updated our two example Dashboards to include a **“Statement of fees and other costs”** based on account balances of \$10,000, \$50,000 and \$250,000. The revised examples are enclosed for your consideration.

We are currently exploring ways of replacing the three-by-two “Investment Risk” table on each example with two graphics – one for illustrating short-term investment risk and the other for illustrating long-term investment risk. Replacing the table with two graphics improves the visual presentation and we believe it will help improve consumer understanding of the two investment risks. We are currently developing this and will forward it to you as soon as possible.

Please do not hesitate to contact myself or the Chief Executive Officer of the Actuaries Institute, David Bell (phone 02 9239 6106 or email [david.bell@actuaries.asn.au](mailto:david.bell@actuaries.asn.au)) to discuss any aspect of this letter.

Yours sincerely,

Andrew Boal

**Convenor, Superannuation Practice Committee**

cc **Maan Beydoun**  
Senior Specialist, Investment Managers and Superannuation, ASIC  
[maan.beydoun@asic.gov.au](mailto:maan.beydoun@asic.gov.au)  
**Helen Rowell**  
APRA Deputy Chair, APRA  
[hrowell@apra.gov.au](mailto:hrowell@apra.gov.au)  
**Pauline Vamos**  
Chief Executive Officer, ASFA  
[pvamos@superannuation.asn.au](mailto:pvamos@superannuation.asn.au)

# ABC Super Dashboard

## Australian Shares Option

An explanation of the terms used in the Dashboard can be found at this link, [Explanation of Terms](#).

### Investment Return

(Average for 10 years to 30 June 2015)

Investment Return Objective	S&P/ASX 300 Accumulation Index (Adjusted for tax)	<b>6.9% pa</b>
Actual Investment Return	S&P/ASX 300 Accumulation Index (Adjusted for tax) + 0.7%	<b>7.6% pa</b>

### Investment Risk

Short-term volatility	Chance of a negative investment return in any given year	<b>6 in 20</b>
Long-term growth	Chance of investment return lower than CPI + 4% pa over 20 years	<b>3 in 20</b>

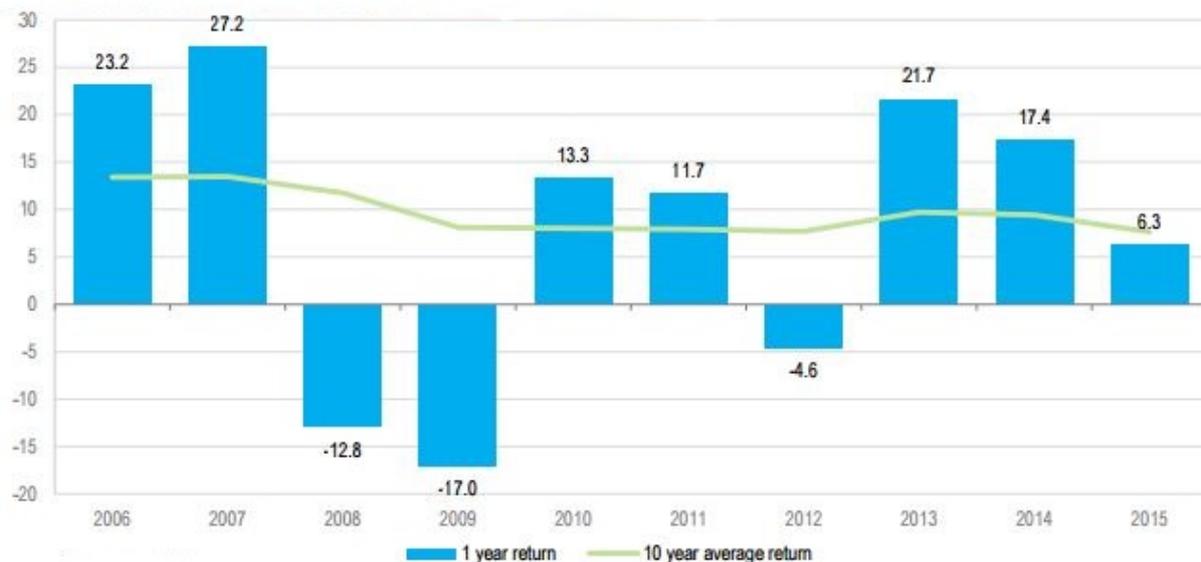
### Statement of fees and other costs (per annum)

	\$10,000 account balance	\$50,000 account balance	\$250,000 account balance
Administration and Advice	<b>\$98</b>	<b>\$178</b>	<b>\$578</b>
Investment	<b>\$31</b>	<b>\$155</b>	<b>\$775</b>
<b>Total</b>	<b>\$129</b>	<b>\$333</b>	<b>\$1,353</b>

### Average Investment Returns compared with Objective (% per annum)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Investment Return Objective for 10 years to 30 June (% pa)	12.8	13.0	11.2	7.1	7.0	7.2	6.9	9.3	8.9	6.9
10 year average Investment Return to 30 June (% pa)	13.4	13.5	11.7	8.1	8.0	7.9	7.7	9.7	9.4	7.6

### Investment Returns over the last 10 years (% per annum)



## Explanation of terms

### Investment Return

The **Investment Return** is the net investment return achieved over a period after investment taxes and investment fees and costs.

The **Investment Return Objective** is the objective that the Trustee of the Fund has set for the Australian Shares Option over the medium to long term. The investments held by the Trustee are selected to achieve this objective. Future returns are not guaranteed, so this is only an objective and therefore may not be achieved.

The **S&P/ASX 300 Accumulation Index (Adjusted for Tax)** is a benchmark that measures the investment return that an investment in the shares of the top largest 300 Australian companies (weighted by the market value of all the shares in each company) would have achieved allowing for the dividends that are paid by these companies and the tax that a superannuation fund would pay.

The **Actual Investment Return** is the actual compound average Investment Return achieved over the 10 year period to 30 June 2015.

### Investment Risk

**Short-term volatility** indicates how likely it is that the value of your investments will fall over any given year.

**Long-term growth** indicates how likely it is that your investments will not grow sufficiently faster than CPI over the longer term, which could mean you won't have enough income in retirement. The 4% margin over CPI is a standard margin set for all Australian superannuation funds to measure the long-term growth investment risk.

**CPI** is the Consumer Price Index, reported by the Australian Bureau of Statistics.

### Statement of fees and other costs (per annum)

The fees and costs on the Dashboard assume that the member is fully invested in the Australian Shares Option.

#### Administration

ABC Super charges a flat fee of \$1.50 each week. The fee is charged directly to a member's account.

Further administration costs have been deducted from investment earnings. For the year ending 30 June 2015 this cost was 0.2% of the value of fund assets.

#### Advice

There is no charge for general advice that is provided to members. Advice that takes into account your personal circumstances is negotiated between you and your adviser. This can include advice on your investment options, insurance cover, contributions to super and retirement pension options and can be deducted from your super account or paid directly to your adviser. The cost of advice on non-super matters can't be deducted from your account.

#### Investment

The investment fees and costs for the Australian Shares Option were 0.31% for 2014/15.

This includes investment management, custodian and asset consultant fees, including performance fees. The amount quoted in the Dashboard is calculated looking back at 30 June each year (using the average value of all assets in the investment option over the year to 30 June). These may change from year to year. For the last three years performance fees have been 0.01% (2012/13), 0.00% (2013/14) and 0.01% (2014/15) of the value of assets for the Australian Shares Option. The 2014/15 fee has been included in the investment fees and costs shown on the Dashboard.

### Average Investment Returns Compared with Objective (% per annum)

The **Investment Return Objective for 10 years to 30 June (% pa)** is the compound average [Investment Return Objective](#) over 10 year periods to 30 June each year.

The **10 year average Investment Return to 30 June (% pa)** is the compound average [Investment Return](#) actually achieved over 10 year periods to 30 June each year.

It is useful to compare the actual average investment return achieved over 10 year periods with the average Investment Return Objective for the same period. This will provide a guide as to how well a fund is progressing towards satisfying its Investment Return Objective. Green shading indicates that this guide to the objective was met.

### Investment Returns over the last 10 years (% per annum)

The **1 year return** is the [Investment Return](#) for each year to 30 June for each of the last 10 years for the Australian Shares Option.

The **10 year average return** is the compound average Investment Return actually achieved over 10 year periods to 30 June each year.

# ABC Super Dashboard

## Balanced Option (MySuper)

An explanation of the terms used in the Dashboard can be found at this link, [Explanation of Terms](#).

### Investment Return

(Average for 10 years to 30 June 2015)

Investment Return Objective	CPI + 4% pa	<b>6.6% pa</b>
Actual Investment Return	CPI + 4.7% pa	<b>7.3% pa</b>

### Investment Risk

Short-term volatility	Chance of a negative investment return in any given year	<b>4 in 20</b>
Long-term growth	Chance of investment return lower than CPI + 4% pa over 20 years	<b>5 in 20</b>

### Statement of fees and other costs (per annum)

	\$10,000 account balance	\$50,000 account balance	\$250,000 account balance
Administration and Advice	<b>\$98</b>	<b>\$178</b>	<b>\$578</b>
Investment	<b>\$57</b>	<b>\$285</b>	<b>\$1,425</b>
<b>Total</b>	<b>\$155</b>	<b>\$463</b>	<b>\$2,003</b>

### Average Investment Returns compared with Objective (% per annum)

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Investment Return Objective for 10 years to 30 June (% pa)	6.6	6.7	7.1	7.2	7.2	6.9	6.7	6.7	6.8	6.6
10 year average Investment Return to 30 June (% pa)	10.0	10.1	8.6	6.0	5.7	6.1	6.4	7.6	7.6	7.3

### Investment Returns over the last 10 years (% per annum)



## Explanation of terms

### Investment Return

The **Investment Return** is the net investment return achieved over a period after investment taxes and investment fees and costs.

The **Investment Return Objective** is the objective that the Trustee of the Fund has set for the MySuper option over the medium to long term. The investments held by the Trustee are selected to achieve this objective. Future returns are not guaranteed, so this is only an objective and therefore may not be achieved.

The **Actual Investment Return** is the actual compound average Investment Return achieved over the 10 year period to 30 June 2015.

**CPI** is the Consumer Price Index, reported by the Australian Bureau of Statistics.

### Investment Risk

**Short-term volatility** indicates how likely it is that the value of your investments will fall over any given year.

**Long-term growth** indicates how likely it is that your investments will not grow sufficiently faster than CPI over the longer term, which could mean you won't have enough income in retirement. The 4% margin over CPI is a standard margin set for all Australian superannuation funds to measure the long-term growth investment risk.

**CPI** is the Consumer Price Index, reported by the Australian Bureau of Statistics.

### Statement of fees and other costs (per annum)

The fees and costs on the Dashboard assume that the member is fully invested in the MySuper Option.

#### **Administration**

ABC Super charges a flat fee of \$1.50 each week. The fee is charged directly to a member's account.

Further administration costs have been deducted from investment earnings. For the year ending 30 June 2014 this cost was 0.2% of the value of fund assets.

#### **Advice**

There is no charge for general advice that is provided to members. Advice that takes into account your personal circumstances is negotiated between you and your adviser. This can include advice on your investment options, insurance cover, contributions to super and retirement pension options and can be deducted from your super account or paid directly to your adviser. The cost of advice on non-super matters can't be deducted from your account.

#### **Investment**

The investment fees and costs for the MySuper Option were 0.57% for 2014/15.

This includes investment management, custodian and asset consultant fees, including performance fees. The amount quoted in the Dashboard is calculated looking back at 30 June each year (using the average value of all assets in the investment option over the year to 30 June). These may change from year to year. For the last three years performance fees have been 0.13% (2012/13), 0.07% (2013/14) and 0.05% (2014/15) of the value of assets for the MySuper option. The 2014/15 fee has been included in the investment fees and costs shown on the Dashboard.

### Average Investment Returns Compared with Objective (% per annum)

The **Investment Return Objective for 10 years to 30 June (% pa)** is the compound average [Investment Return Objective](#) over 10 year periods to 30 June each year.

The **10 year average Investment Return to 30 June (% pa)** is the compound average [Investment Return](#) actually achieved over 10 year periods to 30 June each year.

It is useful to compare the actual average investment return achieved over 10 year periods with the average Investment Return Objective for the same period. This will provide a guide as to how well a fund is progressing towards satisfying its Investment Return Objective. Green shading indicates that this guide to the objective was met.

### Investment Returns over the last 10 years (% per annum)

The **1 year return** is the [Investment Return](#) for each year to 30 June for each of the last 10 years for the MySuper option.

The **10 year average return** is the compound average Investment Return actually achieved over 10 year periods to 30 June each year.