

12 February 2014

The Manager  
Superannuation Unit  
Financial System Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

Dear Sir/Madam

Re: 

- **Submission - Better regulation and governance, enhanced transparency and improved competition in superannuation**
- **Product Dashboards**

You have requested comments on the applicability of the MySuper Product Dashboard in relation to the proposed publication of Product Dashboards for Choice Products.

The intention of the Product Dashboard is to allow consumers to make informed choices regarding each MySuper Product and subsequently the Choice Products.

While the paper *Better regulation and governance, enhanced transparency and improved competition in superannuation* deals directly with Choice Products, the current MySuper Product Dashboard contains two pieces of information which will be used by members and commentators to compare funds and may need further consideration before applicability is considered for Choice Products.

On this basis, we would like to provide a submission regarding the method of calculation of two aspects of the Product Dashboard which may result in inconsistencies in the comparability of different funds and in members' decision making processes for both MySuper and Choice Products, i.e.

- the Standard Risk Measure; and
- the Statement of fees and other costs.

#### **Standard Risk Measure**

The Standard Risk Measure (SRM) provides an estimate of the number of negative years that can be expected for a particular investment product over the next 20 years based on a number of assumptions. However, there is currently no commonality in the assumptions used in relation to the calculations of the SRM. As a result, the Standards Risk Measures published by different funds are not directly comparable for both members and consumers.

#### **Recommendation**

**It is recommended that in order that the Standard Risk Measures published by different funds for different MySuper and/or Choice Products are directly comparable, the assumptions regarding future returns for different investment sectors be prescribed annually by ASIC.**

## Statement of fees and other costs

### *Investment fees as distinct from Administration fees*

The Statement of fees and other costs provides a measure of the costs that are deducted from the representative members' account balance as a result of both:

- Investment fees; and
- Administration costs.

Prior to the advent of MySuper, it was difficult particularly in relation to retail funds to determine the true investment cost. The investment fee charged to members in the same master trust could vary between different sub-funds through the use of the investment fees to fund administration costs and also to gain a competitive advantage in a tender. MySuper has required that funds charge the same investment fee to all members within a product. Please note that this may not be the case for Choice Products.

However, it remains that the investment fee does not represent the true investment fee as it can be loaded to allow for a profit margin which can be used either to fund administration costs or in a retail environment to pay shareholders. To enable consumers to be able to compare both MySuper and Choice Products, the investment fee should be true to label and should be on a cost recovery basis only.

### *Comparability of Investment fees*

The active management of investments is more costly than a more passive approach. While the cost of active management is higher, there is an expectation that investment performance will reflect this in the long term.

*The use of a single measure of the Statement of fees and other costs which does not distinguish between the administration and investment fee component will directly disadvantage funds that are actively pursuing higher investment returns for the best interest of members.* Due to the inclusion of the higher investment fee, a member may be dissuaded from investment in that MySuper and/or choice product on the basis of that particular fund's higher Statement of fees and other costs.

Passive investment management and lower equity exposure and the resultant lower number for the Statement of fees and other costs can be used by promoters of a product to represent a particular MySuper/Choice product as a "low cost product". However, in the long term this may be of significant detriment to members.

The higher investment performance that may result from active management of investments and/or a higher equity exposure is reported through the graphical representation of the comparison between the return target and the actual net return. However, these graphs are not published by media commentators and may be difficult for a consumer to interpret when comparing different products. The publication of the 10 year average net return does take into account both investment and administration fees and does assist consumers to compare funds. However, there are many new MySuper and Choice Products that do not yet have these historical returns.

**Recommendation**

**It is recommended that:**

- **Both MySuper and Choice Product providers be required to disclose investment fees on a cost recovery basis only. This will enable investment return, net of investment costs only, to be a useful disclosure in Product Dashboard for both the MySuper and Choice Product and for the term *investment fee* to be true to label; and**
- **The Statement of fees and other costs be amended to provide a separate disclosure for the Investment fees as distinct from an administration fee and to include a comment that the Investment fee is reflected through the investment returns and that the Investment fee will vary according to the style of investment management and a product's exposure to equities and other higher cost investments.**

*Reflection of a tax benefit to members*

It is noted that the graph which is included in the Product Dashboard allows funds to reflect any tax relief provided to members through the offset of contribution tax with the tax deductibility of administration costs.

However, this is not reflected in the Statement of fees and other costs. This provides an unjustified competitive advantage to funds that do not provide this tax benefit to members and may be misleading to consumers. While the graph does reflect the tax benefit to members, it is the Statement of fees and other costs which is the number which is more likely to be used by media commentators and consumers in comparing MySuper and/or Choice Products. Members who chose a MySuper and/or Choice Product on the basis of the Statement of fees and costs may, in the case of a provider who does not pass on this tax offset, have chosen a product which in reality is a more expensive product but with a lower Statement of fees and other costs than a provider who does provide this tax relief.

**Recommendation**

**It is recommended, for funds which provide tax relief to members, that a tax offset between contribution tax and administration fees be allowed to be reflected in the Statement of fees and other Costs.**

*Funds which include a range of fees*

It is unlikely that a Fund is able to determine accurately at the beginning of each year, the level of administration costs that are actually incurred through the year and the level of investment performance fees that will be paid to Investment managers. As a result, the Statement of fees and other costs will need to make assumptions regarding the level of these costs.

However, it is unclear in relation to the Product Dashboard where there can be a variation in a fee whether it is the average fee or the maximum fee that should be reflected and to which year it should relate.

This lack of clarity will result in a lack of transparency in relation to the number published in the Statement of fees and other costs and again will not provide a clear indication for consumers regarding the comparability between difference products.

This is also inconsistency between various legislative requirements as follows:

- SRF 703.0 “Fees disclosed” envisages a single dollar and percentage fee;
- The fees and costs template for disclosure in a PDS at clause 204(3) of Schedule 10 to the Corporations Regulations appears to permit a range of fees;
- In relation to disclosure on the product dashboard, Corporations Regulation 7.9.07W (3) states that “the period in relation to which the statement of fees and costs must be worked out is the current financial year. The instructions to SRS 700.0 ‘Product Dashboard’ include against Item 4 “Calculate the statement of fee and other costs as the sum of.... for the year ending 30 June”. While this would indicate that the fees to be disclosed on the product dashboard are the actual fees for a representative member that was charged for the prior financial year, i.e. not a range or maximum, it is not clear if this is the case. It is also not clear if the fees relate to the previous financial year or to an estimate for the current financial year. As a result, the Statement of fees and other costs is open to interpretation between different funds and may lead to the inability by consumers to compare funds.

**Recommendation**

**It is recommended that ASIC provide greater clarity regarding the disclosure of fees which are likely to vary from the date of publication of the Product Dashboard as a result of the experience of the fund for that financial year e.g.**

- **Administration costs; and**
- **Investment Performance fees.**

Please do not hesitate to contact me on 02 9715 3720 if you would like me to clarify any aspect of our submission.

Yours sincerely



Angie Matrippolito  
CEO/Fund Secretary  
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