

SUPERRATINGS MEDIA RELEASE

Monday 3 April 2017

PRODUCTIVITY COMMISSION FINDINGS NO WINDFALL FOR RETAIL FUNDS

RETAIL FUNDS STILL LIKELY TO MISS OUT ON DEFAULT STATUS

The release of the Productivity Commission's Draft Report *Superannuation: Alternative Default Models* on Wednesday has certainly raised some conjecture across the superannuation industry. The Report's recommendations warrant a serious assessment given their potential ramifications for what remains a burgeoning superannuation industry, with a substantial number of funds still co-existing, despite ongoing pressures for consolidation.

SuperRatings notes that the over-arching criteria for assessment and inclusion as a default fund proposed by the Productivity Commission is a focus on net-returns, which SuperRatings has been advocating for many years, via its net benefit modelling. This measures a fund's net returns after the deduction of all fees and taxes over a 10-year period.

Given the findings closely align to SuperRatings' existing net benefit modelling, we have analysed the funds that would be likely to sit within the 'List of 10' default funds, assuming a key focus on net returns, under the Productivity Commission's proposed multi-criteria tender model. These funds are, in alphabetical order:

Fund
AustralianSuper
BUSQ
CareSuper
Catholic Super
Cbus
HOSTPLUS
QSuper
Rest Industry Super
Telstra Super
UniSuper

Based upon SuperRatings net benefit modelling, the above funds have the highest net investment returns over a 10-year period and hence, would be included based on a pure net investment performance measure.

As can be seen from the above table, each of the top performing funds on a net return basis is a Not-for-Profit fund, suggesting that the Retail Fund sector may continue to struggle to be named as defaults, unless a broader assessment of measures is utilised.

SuperRatings CEO, Adam Gee, commented "Whilst we remain supportive of the Productivity Commission's broader intentions, limiting a default list to only 10 funds will result in some outstanding value for money funds missing out on default fund status, which may sound the death knell for many of these, despite delivering excellent outcomes for their members".

SuperRatings welcomes media enquiries regarding any of our research or information held in our database.

We are also able to provide commentary and customised tables/graphs for your use.

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RECOMMENDATIONS VERY SIMILAR TO THE NZ KIWISAVER MODEL

Through its research and ratings of the NZ KiwiSaver system, SuperRatings recognises substantial similarities between the recommendations contained within the Productivity Commission report, particularly in respect of Model 3 – the multi-criteria tender.

This includes the Productivity Commission's suggestion of using the Australian Taxation Office as a centralised clearing house. The New Zealand equivalent, Inland Revenue Department, currently provides this service for contributions to be made by employers, which are then distributed to each of the relevant KiwiSaver schemes. This process also ensures (with legislative support) that only a single account can be created for an individual during their lifetime, removing the multiple account issue that continues to be problematic within the Australian system. Similarly, the KiwiSaver model moved towards a limited model for default contributions in 2014, via a selection process, in which nine of the approximate forty schemes available in the market at the time, were authorised as default providers.

SuperRatings believes that the KiwiSaver system remains one of the most efficient markets, particularly in relation to its operational and administrative processes. Referring to SuperRatings' 2016 ratings of the KiwiSaver market, Mr Gee said "We continue to rate the KiwiSaver market highly in comparison to the other global retirement systems, with strong levels of member engagement and investment choice evident, underpinned by very cost effective operating models."

Evidencing the efficiency of the KiwiSaver market and streamlined nature of its contribution and membership flows, SuperRatings research noted that a comparison of operating costs between NZ and Australia showed material differences. Based upon SuperRatings "Cost per Member" calculation (which effectively normalises the operating costs to an annual per member basis), the annual cost to a fund to operate a KiwiSaver member sits at slightly less than \$60. This is in stark contrast to the average cost per member within Australia of \$255, suggesting there may be some merit in the NZ model.

A REASONABLE START BUT A BROAD ASSESSMENT NEEDED

Whilst SuperRatings believes there is already a reasonable level of competition evident in most sectors of the superannuation marketplace, it also recognises that any changes that introduce greater competition into the market and provide members with better retirement outcomes can only be positive.

That said, SuperRatings does recognise that the initial assessment criteria proposed by the Productivity Commission remains limited. Mr Gee further commented that "the exclusion of insurance from the assessment is fraught with danger, given the important role it continues to play within superannuation and the community more broadly".

In line with its value assessment of a superannuation fund, SuperRatings continues to believe that a broad assessment of quality is required in order to select a default superannuation fund. This must include an assessment of a range of underlying metrics in respect of investments, fees, insurance, member servicing/advice, administration and governance, to ensure that every facet of a superannuation fund's offering can be appropriately interrogated.

SuperRatings looks forward to continuing to assess the outcomes of the Productivity Commissions Draft Report and will continue to engage in the consultation process.

Release Ends

ADDITIONAL DATABASE INFORMATION

We believe our database to be the largest in Australia dealing with multi-employer superannuation funds, where the great majority of Australians have their retirement benefits invested. SuperRatings' captures data from key industry players on a monthly basis, enabling us to maintain the most up-to-date data across the superannuation industry. For any further information, please contact one of the SuperRatings team.



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About SuperRatings

SuperRatings Pty Ltd ABN 95 100 192 283 AFSL No. 311880 (SuperRatings) is a superannuation research house with specialist areas of expertise that was originally established in 2002. From 1 July 2011, SuperRatings became a fully owned subsidiary of the entity currently registered as Lonsec Fiscal Holdings Pty Ltd, a privately owned and independent entity with a multi-brand strategy of providing leading financial services research and investment execution. SuperRatings believes that professional financial services institutions and members need informed opinions on the best superannuation and pension financial products. To meet this need, SuperRatings has in place an experienced research team, which draws on a robust research process to undertake in-depth assessment of superannuation financial products. No fee is paid by superannuation and pension funds to SuperRatings for reviewing and rating superannuation and pension financial products.

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