SUPERRATINGS' MEDIA RELEASE

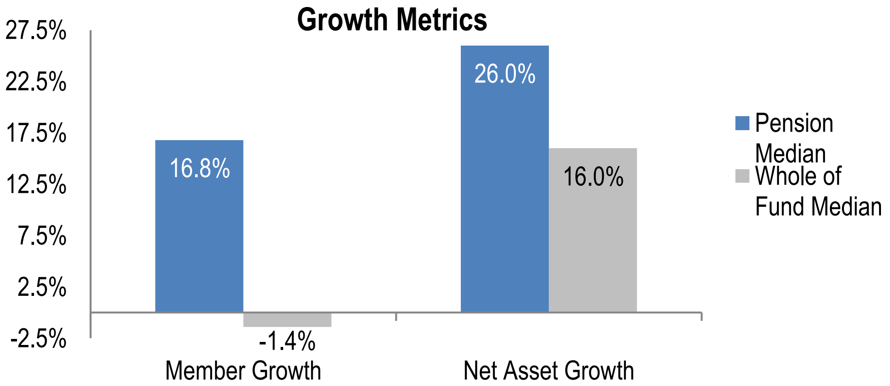
3 November 2014

Funds target pension members to increase scale

As a leading provider of research, benchmark and consulting services to the Australian superannuation industry, SuperRatings is pleased to release findings from our latest Pension Benchmark Report. With coverage of over 160 pension products from all industry sectors, SuperRatings Pension Benchmark Report is the most comprehensive review of the Australian retirement market, incorporating market leading insights, pension growth metrics, investment performance and structures, fees and charges and pension flexibility.

Perhaps the most significant finding from our analysis is the increasing importance of pension membership growth for superannuation funds. Based on SuperRatings data, pension membership across the industry grew by 16.8%, in stark contrast with the decline experienced on a whole of fund basis of -1.4%, driven mostly by lost member account transfers to the ATO and account consolidation between funds.

Whilst whole of fund net assets grew by 16.0%, driven by strong investment returns over the 2013 year, this was also eclipsed by FUM growth in the pension phase, which reached 26.0% for the year.



The combination of strong investment returns and an increasing number of members entering the pension phase has translated into an average account balance of $211,849 in retirement, up significantly from $187,123 in the prior year.

SuperRatings Chief Executive Officer, Adam Gee commented:

"Overall, success in generating pension product growth remains far from uniform. Those funds with strong member servicing, engagement and advice structures remain best positioned to drive growth relative to peers, many of whom have struggled to refine their strategies".

This is highlighted in the chart overleaf, which illustrates the size of pension products as a proportion of overall fund size across the industry.

SuperRatings welcome 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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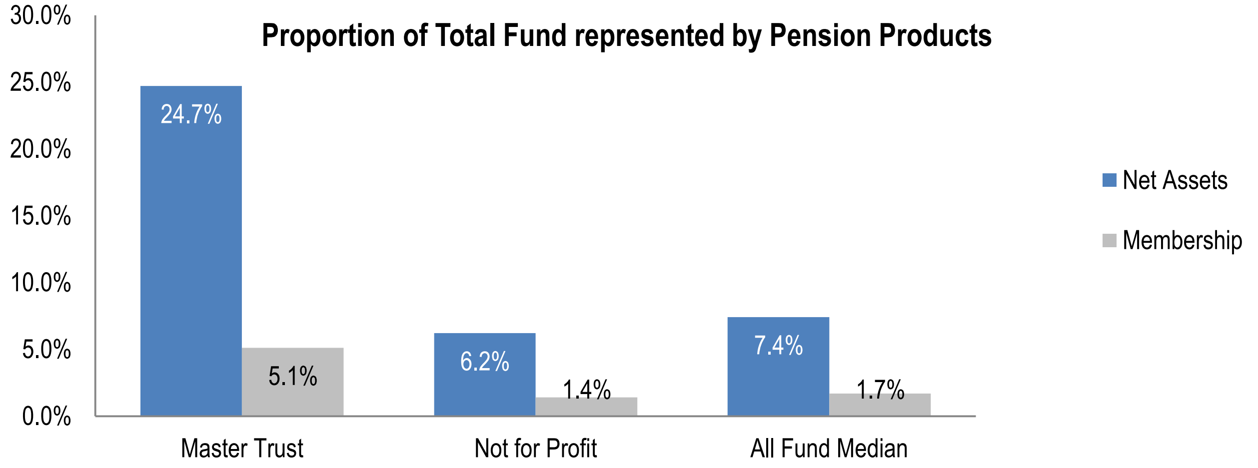


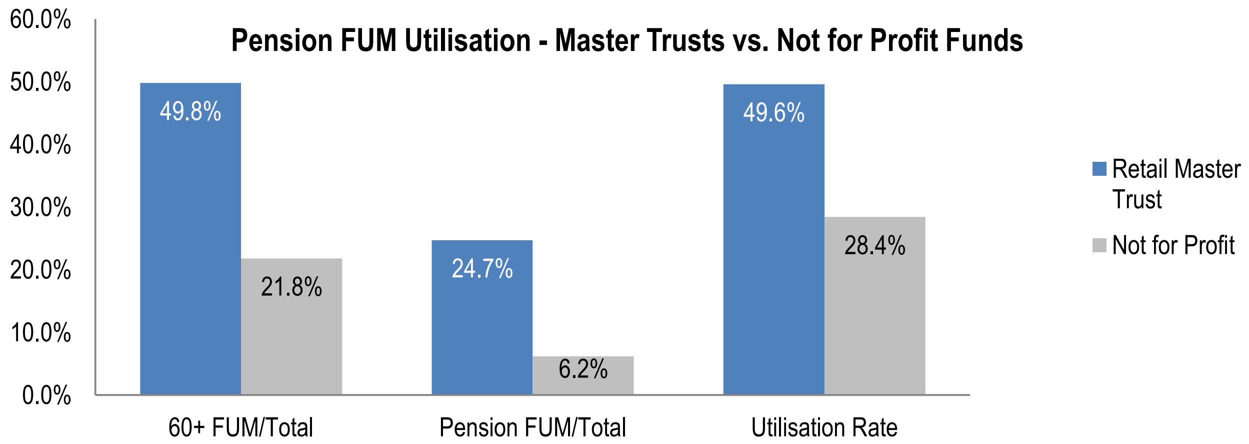
SuperRatings Executive Manager of Consulting, Wendy Tse further notes:

"Given the median account balance for pension members is more than four times the whole of fund median, there is no doubt funds are recognising it is imperative to retain an existing member into pension phase, necessitating further investment in pension products, whilst also focussing member segmentation and servicing to achieve greater engagement of members prior to or at retirement".

Pension conversion rates – still a way to go?

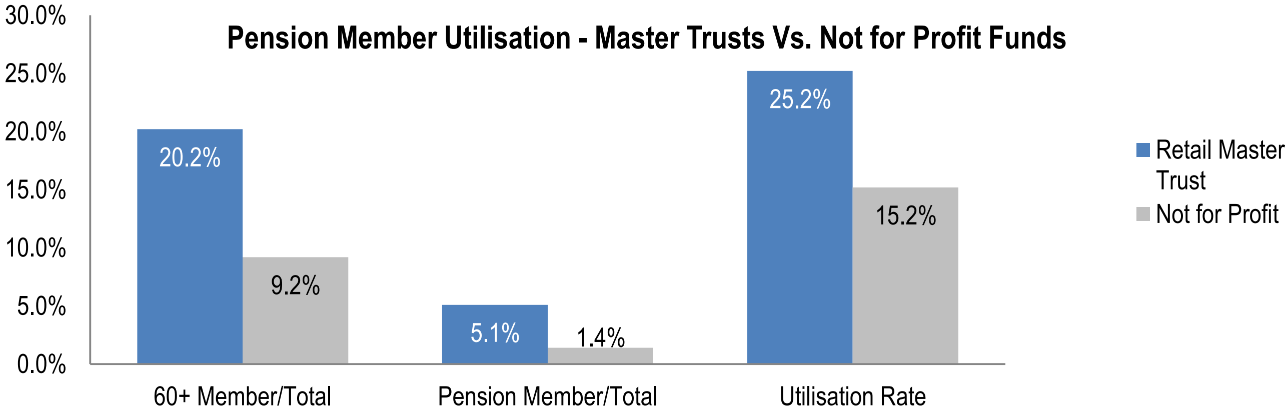
Despite pension products being a major growth engine for funds, significant scope remains to improve member awareness of retirement products and to drive an uplift in pension conversion ratios. SuperRatings has analysed each fund's Pension Utilisation Rate to ascertain the proportion of each fund's membership base that may be eligible for an account based pension in comparison to those that have actually commenced a pension product.

As can be seen from the chart below, success in converting accumulation members into the pension phase varies significantly between Retail Master Trusts and Not for Profit funds. Members aged over 60 represented just under half of FUM for the median Retail Master Trust, while net assets actually sitting in pension products represented just under a quarter of total FUM, resulting in a utilisation rate of 49.6%. In contrast, members aged over 60 represented 21.8% of the median Not for Profit's FUM, with net assets in pension products amounting to just 6.2% of total fund assets, resulting in a utilisation rate of 28.4%.



Funds that have had great success in pension FUM utilisation have seen rates upwards of 70% in respect of this metric, supporting their investment in pension products and member engagement tools.

Overall utilisation is lower when measured on a membership basis. Members aged over 60 represented 20.2% of the median Retail Master Trust, but only 5.1% of total members held assets in a pension account. This means that only 25.2% of those members who may be eligible to commence a pension actually have. Not for Profit funds have experienced similar challenges on a membership basis, with a utilisation rate of just 15.2%, signifying that pension products remain under-utilised in both Retail Master Trust and Not For Profit funds.



Mr Gee suggests that:

"There is no doubt that funds that have invested heavily in their advice strategies, member segmentation and communication techniques and differentiated pension investment options have had the greatest success in pension membership and FUM utilisation. Funds that have yet to invest need to consider their membership base and how they are educating their members in relation to retirement solutions in advance of members retiring. If they do not do this, they risk losing large balances to other funds, despite it not being in the member's best interest in some cases".

Changes to social security deeming rules should drive funds to action

The legislative changes to deeming rules for the Age Pension income test, which are due to take effect from 1 January 2015, hold significant implications for both funds and members. Under current legislation, income from account based pensions is subject to an income exemption, reflecting the portion of the income that is considered a return of capital from the initial account balance. This has the effect of removing the double assessment, as the account balance of the pension is already assessed under the asset test. The changes from 1 January 2015 will result in account based pensions being included in the definition of financial assets, which means they will be subject to deeming rules for both Centrelink and Department of Veteran's Affairs income test purposes, with the income exemption no longer applying.

Under grandfathering provisions however, these changes will only apply to pensions commenced after 1 January 2015. As a result, any fund member currently receiving the Aged Pension can also commence an account based pension, and if done so prior to 1 January 2015, will be assessed under the current legislation. This grandfathering provision will be removed if the member alters their pre 1 January 2015 account based pension by aggregating multiple accounts, adding or removing reversionary beneficiaries or commencing a death benefit pension for anyone other than a reversionary beneficiary.

Wendy Tse, Executive Manager, Consulting suggests that:

"The above change in the legislation is a clear call to arms for funds in terms of educating its members, as the new pension deeming rules will have a far greater impact than the majority of retirees appreciate. The changes provide a window of opportunity for funds to promote the benefits of commencing a pension prior to 1 January 2015, given the benefits of the grandfathering provisions announced. Funds with strong advice capabilities should ensure these are used effectively to provide appropriate recommendations targeted at those members who would benefit most from commencing a pension".

In addition, given the strict grandfathering provisions, funds are presented with a powerful member retention strategy. As a change of provider will be considered a new account based pension and therefore not subject to grandfathering provisions, existing pension members should be made aware of the implication if they were to move away from their current fund. This provides a clear incentive for funds to engage in retention strategies to ensure members do not leave their fund post 1 January 2015 resulting in a loss of the grandfathering provisions enjoyed under current legislation.

Additional database information and pension product benchmarking services

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.

SuperRatings also undertakes individually tailored pension product benchmarking for a number of funds within the superannuation industry, including detailed analysis of all of the items mentioned above. For any further information regarding our database or pension benchmarking services, please contact the SuperRatings team.

Release Ends