SUPERRATINGS MEDIA RELEASE

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Low super fees far from best

SuperRatings has completed its 12th year of superannuation industry benchmarking and the results continue to show that fees are not the most important factor to make comparisons between funds. Our findings also provide some interesting discussion points, including:

1. Low fees have little correlation with fund performance or retirement outcomes.
2. Despite a drop in fees across the industry, particularly through MySuper, this has not provided any materially better outcomes for fund members.
3. Fee structures may continue to move away from fixed dollar amounts to asset based fees.
4. There is a danger of a “race to the bottom” when it comes to fees.
5. The total cost of passive investment management often exceeds the benefits.

Low fees have little correlation with higher outcomes

“While some commentators suggest a tender process to appoint default funds is the best way to drive fee savings, SuperRatings believes this is an ill-conceived concept and any assessment based on only one criterion, is fraught with danger,” SuperRatings chief executive Adam Gee said.

“Fees are, at best, only loosely correlated with value and any assessment of a superannuation fund should be made using a broad range of criteria, with ‘net benefit’ (investment returns less all implicit fees and taxes) being the only meaningful basis for comparison of fees and investment performance”. Of course, when measuring overall value, consideration must also be given to broader issues including member services, administration capabilities, governance and insurance offerings, all of which can affect retirement outcomes.

SuperRatings’ ‘net benefit’ calculations level the playing field, as they assess the movement of a member’s account balance. Our analysis takes into account Superannuation Guarantee contributions, fees, taxes and investment returns, over a 10 year period, based on an opening account balance and salary of $50,000.

SuperRatings has recently completed a review of all major superannuation funds that have a 10 year performance history. For each of these 162 funds, a net benefit calculation has been applied, leading to some surprising results.

“In the majority of cases, the funds with the lowest fees do not necessarily provide a better retirement outcome or return for its members,” Mr Gee said.

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.

Our Media Contacts

Adam Gee
Chief Executive Officer
Tel: 02 9247 4711
Mob: 0416 044 449
adam.gee@superratings.com.au

Kirby Rappell
Research Manager
Tel: 02 9247 4711
Mobile: 0408 250 725
kirby.rappell@superratings.com.au

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Fees versus net benefit

The following table demonstrates, in more detail, that low fees do not produce a better outcome.

Fund	Fees	Fee Ranking	Earnings	Earnings Ranking	Net Benefit	Net Benefit Ranking
A	$3,898	**1**	$67,148	96	$63,250	41
B	$5,162	**2**	$68,436	83	$63,274	39
C	$5,256	**3**	$65,038	103	$59,782	74
D	$6,699	16	$79,008	10	$72,309	**3**
E	$7,528	36	$87,126	2	$79,598	**1**
F	$10,549	78	$84,525	7	$73,976	**2**
Total		**162**		**162**		**162**

("Fees" and "Earnings" are the aggregate amounts over the 10 year period)

During the ten year assessment period, fees have at times almost had an inverse relationship to retirement outcomes, reinforcing the analysis that lower fees do not necessarily mean a higher fund balance.

To demonstrate this, SuperRatings has compared the three funds with the lowest fees with the three best performing funds on a "net benefit" basis.

The funds that charged the lowest fees generally showed underperformance in relation to their investment earnings. For example, Fund A, in the table above, which charged the lowest fees during the ten year period, produced investment earnings ranked only 96th out of the total 162 funds. The combination of Fund A's low fees and investment earnings only ranked 41st on a net benefit basis.

However, when we looked at those funds that produced the highest net benefit for their members, these funds did not have the cheapest fees. For example, Fund F which had the 2nd highest net benefit was ranked 78th on the low fee scale, just below the industry median for fees.

"Our analysis suggests there can clearly be an inverse relationship between fees and outcomes for members. This certainly supports our view that a tender process based purely on fees will not improve the retirement outcomes for most people," Adam Gee said.

The real cost of forced fee reductions

In our latest analysis, SuperRatings found substantial fee reductions across funds, particularly since the introduction of MySuper classified funds. During the past year this has driven the average superannuation fee down by more than 8% for the whole sector, from $728 to $667, based on a $50k account balance.

The following table summarises fees for both MySuper products and Choice of fund products. Interestingly, fees for choice products continue to fall, with the retail master trusts showing a reduction in excess of 10% during the past 3 years.

Average fee on a 50k balance	2014 MySuper	2014 Choice	2011 Choice
Not for Profit	$501	$506	$508
Retail Master Trust	$586	$876	$982
Overall Industry	$520	$667	$726

The average fee of a MySuper product currently sits at $520 which is $147 or 22% cheaper than the average across the superannuation sector.

"While lower fees can improve returns for members, SuperRatings is concerned about the manner in which some fee cuts have been achieved," Gee said.

"In a number of cases, fund managers have moved their entire portfolio from being actively managed to a fully passive, index approach, with investment returns simply aiming to replicate the underlying indices, in a virtual race to the bottom based on fees", he said.

Many of these fee based decisions and products were also launched during ideal market conditions, with rallying equity markets and low volatility which have helped support current strong returns. However, SuperRatings is concerned that these portfolios could be substantially impacted during volatile markets and market corrections, with no facility to manage asset allocation or stock selection, to the detriment of members.

A rethink on fee structures

While it is pleasing to see fees reducing, we must all recognize that the big picture backdrop to our superannuation sector is one of increasing operating costs and declining fund membership, which means ongoing cost reductions are unsustainable.

With membership reductions expected to continue, as members consolidate multiple accounts, and the impending increase in mandatory transfers of inactive accounts to the ATO, funds may need to re-examine their broader fee structures.

"There is currently a high reliance on dollar-based member fees. Faced with declining membership and rising operational costs, many funds may need to consider introducing or increasing asset-based administration fees to remain sustainable," Gee said.

“During the past year, SuperRatings data found those funds with the most expensive fees were those most likely to achieve some fee reductions. Conversely, funds with the lowest fees actually showed the highest propensity to increase fees,” Gee said.

According to our benchmarking, the main driver of fee reductions during the past year appears to be the removal of many high cost ‘legacy’ products from the system, as well as a deliberate fee based decision to opt for passive investment management.

“There is a place for passive investment, of course, such as across asset classes or sectors when funds believe they cannot add value or do not have the expertise available to them for active management. However, we believe the downside protection offered from active asset allocation, stock selection and currency management will benefit funds over the long term and can reduce risk in volatile markets,” Gee said.

The real cost of passive investment management

No doubt there has been a significant reduction in fees for MySuper funds compared with traditional choice of fund products. However, this has often been achieved by reallocating the portfolio away from active management to passive, index investments.

This has created a range of passively managed funds within the superannuation universe that should, in theory, provide similar returns, given they are passively managed and move in line with their index. On this basis, it would also be reasonable to assume that fees for these funds should also be similar, but there is an unjustifiable disparity of fee structures, ranging between 0.038% of FUM per annum to 1.34% per annum.

In our opinion, the fees associated with passive management of, for example, a balanced portfolio (60% to 76% growth assets) should be no more than 0.05% to 0.1%, with lower cost alternatives also available.

“We are concerned that substantial profits are being made by some funds charging excess investment fees for their passive investment products,’’ Gee said. “Whilst we believe there is a place for passive investment products, they must be appropriately priced to ensure that the net benefit to the member is reasonable and competitive”.

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.

About SuperRatings

SuperRatings Pty Ltd ABN 95 100 192 283 AFSL No. 311800 (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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