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OPINION-EDITORIAL

ON

MySuper

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The Super System Review has released a second Phase One preliminary report entitled 'MySuper – Optimising Australian superannuation'. MySuper is the refinement of the Review Panel's earlier 'universal' fund idea. This article addresses some of MySuper's features and corrects some misconceptions about the preliminary recommendation for a new type of super.

First, a bit of housekeeping: let me bury once and for all the furphy that the Review Panel was ever contemplating a single national default fund. We weren't and MySuper is not some sort of watered-down version of that idea.

Our biggest aim with MySuper is lowering overall costs while maintaining a competitive market based, private sector infrastructure for super. We want to make super better value for money and we have designed the MySuper concept with this in mind. We have talked about removing 'bells and whistles', but what we really mean is that we want the overall cost to members to be lower. How would we do that? We are not proposing a cap on fees, but we are going to recommend improving the transparency and comparability of the fees charged for MySuper. We are also proposing to recommend a sharper duty on trustees to manage overall costs, backed up by a new type of regulatory supervision that focuses on efficiency.

We also want a well-informed and specific debate about costs. To that end, we commissioned a report from Deloitte Actuaries and Consultants seeking their view of reasonable and achievable total costs for an average member with a \$25,000 account balance assuming the adoption of the MySuper model.

This is Deloitte's view of what the future could look like:

MySuper fund size/investment strategy	\$2bn	\$5bn	\$10bn	\$20bn
Passive balanced	0.60%	0.46%	0.38%	0.32%
Passive conservative	0.58%	0.45%	0.37%	0.32%
Active balanced	0.94%	0.83%	0.70%	0.60%
Active conservative	0.80%	0.70%	0.59%	0.49%
Active balanced (with alternatives)	1.04%	0.89%	0.77%	0.66%
Active conservative (with alternatives)	0.89%	0.76%	0.64%	0.54%

The figures are intended to offer a realistic picture, rather than a pinpoint prediction, of what MySuper costs might look like. The Deloitte report explains the bases on which they reached their conclusions. A copy of the Deloitte report is available on our website – www.supersystemreview.gov.au.

Fees currently paid by super fund members are distributed in a wide range across the different fund types and sectors for a variety of underlying reasons. However, it is fair to say that nearly all today's default fund members are paying more than the fees projected by Deloitte, bearing in mind that their estimates include operating costs, investment costs and intra-fund advice. Some members are currently paying more than twice these amounts. So, for them, if MySuper were introduced and these cost ranges came to pass, it could mean they pay less than half what they are paying now. This would represent a very significant boost to retirement savings.

I should also stress that these numbers do not take account of any savings from our SuperStream proposal to modernise the 'back office' of the super industry. We also asked Deloitte to keep the account balance

used in the examples low (reflecting the arithmetic average account balance in a system distorted by multiple accounts). An account balance of \$250,000 would see operating costs, including for intra-fund advice, of between 0.05% for a \$2bn fund and 0.03% for a \$20bn fund, to which percentage-based investment management fees would have to be added.

Early critics of MySuper suggest that it would be 'cheap and nasty' and members would be worse off because they would be forced into poorly performing low cost investment strategies. This is not so. The cost estimates shown above include an element of performance fees and range across passive and active investment strategies, including exposure to alternative asset classes. Funds in the MySuper environment would be obliged to consider and implement, as appropriate, what they consider to be the optimal strategy to maximise net investment returns for their members. There is no justification for the assertion that MySuper would negatively impact net investment returns – especially when research shows that high fees are the single most significant negative influence on members' retirement savings. MySuper calls for the optimisation of investment strategies and overall cost for the benefit of members. These are the two levers of superannuation and MySuper calls for both of them to be employed to benefit members.

Others have said that MySuper would increase costs in some areas. If funds think that extra costs would flow from MySuper, let's work through these issues. So far, we have not seen any evidence that MySuper would materially increase costs. There would naturally be some implementation costs, but the Review Panel has worked hard to structure the proposal in a way that minimises these where possible.

One area where the Panel unapologetically has not sought to minimise costs is in securing transparency and comparability between funds. As the most important example, MySuper products would need to maintain and publish audited accounts, even though administration and investment would generally sit as part of a larger fund. In this way, members and others would know exactly the financial position of each MySuper product.

It is clear from the work of Deloitte, and other material analysed by the Review, that there are substantial benefits from scale in the super industry. The Panel's proposed trustee responsibilities would require trustees explicitly to consider whether they have enough scale to ensure benefits to members are optimised.

Another important feature of the MySuper proposal is that it would put more control in the hands of members; they wouldn't be forced to pay for expensive advice that they either didn't get or didn't need. If they wanted advice, then they could get it from their fund or from a financial adviser who would be required to renew any advice payment arrangement every year. If a member didn't need ongoing advice, they wouldn't agree to renew the arrangement.

MySuper is designed with two large groups of members in mind: those who take no real interest in their super (at least not initially) and those who choose to have an expert make decisions about their super for them. But it also works just as well for the person who consciously chooses to be in a large, low-cost and well-managed fund. Those who want to make other choices with part, or all of their super, would do as they do now. The Panel is not seeking to prevent funds offering members options with many of the features we currently see in the market.

Another misconception is that MySuper would reinforce disengagement with super. We want to enhance engagement, while at the same time being realistic about human nature. Most members do not benefit from excessive choice and complex documents. On the other hand, members who are interested in their super will have access to a wider range of information and this will be clearer in our final report.

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