The Association of Superannuation Funds of Australia Limited
ABN 29 002 786 290
ASFA Secretariat
PO Box 1485, Sydney NSW 2001
p: 02 9264 9300 (1800 812 798 outside Sydney)
f: 02 9264 8824
w: www.superannuation.asn.au

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Super System Review
GPO Box 9827
Melbourne VIC 3001

by email: info@supersystemreview.gov.au

## ASFA Submission – Super System Review – 'MySuper' preliminary report

The Association of Superannuation Funds of Australia is pleased to provide this submission in response to the 'MySuper' preliminary report released by the Review by the Australian Government into the Governance, Efficiency, Structure and Operation of Australia's Superannuation System (the Panel).

ASFA is a non-profit, non-political national organisation whose mission is to advance effective retirement outcomes for members of superannuation funds through research and advocacy. We focus on the issues that affect the entire superannuation industry. Our membership, which includes corporate, public sector, industry and retail superannuation funds, has as members over 90% of the approximately 12 million Australians with superannuation.

Our Constitution requires that we promote and protect the interests of superannuation funds, their trustees and their members. As such we conduct extensive research, engage our membership in debate and offer what we believe is sound public policy which rises above vested interests.

### 1. ASFA's general position on the MySuper report

On 20th April 2010, the Panel released their Phase One – Preliminary Report entitled "MySuper – Optimising Australian superannuation" (the report).

ASFA sees merit in the intended objective of delivering a simple, cost-effective product with a diversified portfolio of investments that delivers good performance designed to cater for the large number of Australians who prefer to delegate the task of investing their superannuation to fund trustees. We are pleased that the Panel has listened to the industry's call for any solution to work within the current default structures as much as possible, in order to minimise disruption to the industry and unnecessary costs to members.

Many aspects of the report appeal to ASFA, and those are discussed further in this submission. However, while ASFA is broadly supportive of the direction of the Panel, there are a number of unanswered questions and areas in which little by way of detail has been provided. These are discussed in section 3 of this submission. Additionally, our members have expressed concern in the following two fundamental areas.

### 1.1 MySuper will not substantially reduce costs

Whilst ASFA is broadly supportive of the themes expressed in the Panel's MySuper proposals, we question the validity of the assertion that the introduction of MySuper will lead to a substantial (i.e. 50%), or possibly any, reduction in costs. ASFA contends that, unlike SuperStream which we expect will deliver greater industry efficiency and substantial cost savings, any reduction in costs associated with MySuper would not be of the magnitude claimed in the report and accompanying media release. Our analysis in support of this position is set out in Appendix 1.

### 1.2 A new system creates complication and confusion

The second area of concern raised by our members is that the proposed MySuper solution is unnecessarily over-engineered and complex. They contend that similar outcomes could be achieved under existing structures, without the need to introduce a new universal MySuper regime, which seems to be creating a two tier governance structure – one for MySuper accounts and a different one for 'choice' accounts. Some contend that similar outcomes could be achieved more quickly and efficiently by other measures such as providing APRA with greater powers (including a standard-making power).

The Panel's stated view that many existing default funds already have most of the features of a MySuper product is a valid one. This raises the question about why a whole new regime of licensing, product segregation, disclosure, compliance and differing trustee duties needs to be applied to funds' default products when they already very nearly satisfy the proposed MySuper requirements. A number of our members question whether, in fact, there is a need for another layer of complexity in terms of licensing and compliance to usher in a product that is intended to simplify the primary offering of superannuation funds.

## 2. Areas that ASFA supports

Notwithstanding the concerns discussed above, ASFA is broadly supportive of some of the proposals contained in the MySuper report, which includes minimum obligations imposed on trustees through the introduction of 'hard' (objective) and 'soft' (subjective) principles.

We believe it is a positive step to impose safeguards and built-in protections in respect of default funds, particularly given the mandated and tax advantaged nature of the system. We support the imposition of different and potentially broader trustee duties in relation to MySuper members (whether they are in the MySuper option by choice or through apathy), including the need for trustees to provide members with an "appropriately designed investment strategy at an overall cost aimed at optimising their financial best interests, as reflected in the net investment return over the longer term". ASFA supports the need for trustees to have a clear and transparent justification for both the investment strategy it formulates and the overall cost and net return to members.

While the MySuper proposals are arguably not that different to the current fiduciary obligations imposed on trustees, they do go beyond codifying existing duties. They establish a standard that the regulators can regulate against, as well as a framework in which trustees can provide objective proof that they are complying with their fiduciary obligations.

The MySuper proposals, which look to impose different and potentially broader responsibilities on trustees in relation to default members, means that trustees' skills and abilities in relation to fund governance will need to be improved. ASFA is updating its Best Practice Paper No.7: *Superannuation Fund Governance*, which is designed to assist trustees and management to understand, identify and address the governance issues that are currently relevant to their own funds.

As stated previously, ASFA is supportive of the Panel's intention to work within current default structures as much as possible. In this regard, ASFA's understanding is that funds will effectively be able to 're-badge' their default options as MySuper (so long as they conform with the criteria to qualify as a MySuper product) which means that funds will not be required to establish, and transition their current default members into, a new MySuper option.

ASFA is also pleased with the introduction of mandatory forecasts of members' retirement benefits and is generally supportive of the intra-fund advice requirements (refer to section 4.5 for further details).

Section 3 of this submission deals with the MySuper recommendations which ASFA believes require further clarification, while in section 4 we discuss a number of areas of concern stemming from the MySuper proposals.

## 3. Unresolved questions – "the devil is in the detail"

Although we are broadly supportive of the objectives of the Panel and some of the MySuper proposals, there remain some unanswered questions as well as growing concerns in a number of areas. ASFA understands that many of these questions will be answered, and the details settled, in the course of the consultation process with industry (and assuming the Government decides to implement the various recommendations). However, we believe it would be useful to articulate some of these unresolved questions at this point, in order to commence the debate.

### 3.1 More than one MySuper allowable

The report states that "individual members cannot be offered more that one MySuper product and they can only be defaulted into a single product, not a range of them". It also states that "generally, there will be only one MySuper product in each RSE. However… where a trustee has multiple distinctly branded products… one MySuper may be permitted under each brand name". ASFA contends that trustees should be able to determine how many different MySuper products it offers within its fund (whether it be by brand name, age band or some other differentiator). But in doing so, trustees must be able to ensure that each individual member is only offered or defaulted into one MySuper product. This is a very important concept which ASFA contends needs to be implemented in order for MySuper to work.

Additionally, some funds currently offer different default options to different age groups of members (eg. one default option for members under age 30, another option for members between 30 and 45 etc). In a similar fashion, funds should be able to offer different MySuper options to different age groups and allow trustees to automatically transfer members from one MySuper option to another as they transition from one age group to another. However, the wording of the report precludes the automatic transfer of a member out of a MySuper option without the member's consent unless they are being transferred to an Eligible Rollover Fund.

### 3.2 Scale

One of the 'soft' principles requires trustees to form a view, on an annual basis, that the MySuper product has sufficient scale on its own (with respect to both assets and number of members) "to provide optimal retirement savings" for its members. However, we are concerned that there are a number of unresolved questions that arise in relation to this requirement, which will need to be addressed.

Some of the practical issues include:

- Over what time period would trustees need to determine that their fund has sufficient scale (i.e. over the next 12 months, 3 years, 5 years, 10 years etc) to provide optimal retirement savings for their members?
- Who confirms that trustees have made a defensible decision/self-assessment regarding scale and costs? What are the standards to be applied?
- Who reviews this decision (will there be an independent government player like APRA or the ATO)? What are the guidelines for making these assessments?
- What does "on its own" mean in relation to this self-assessment? Do trustees have to ignore any economies of scale available due to members in choice options or other sub-plans? Can trustees take into account any employer subsidies?

One way of achieving scale is through mergers between funds. ASFA does not advocate mandatory fund mergers, however we believe there should be transparency around any decision on whether or not to merge. For instance, if a trustee receives an approach to merge, it needs to consider the merits of the offer in full and be accountable to members for their ultimate decision. To this end, ASFA contends that there should be full disclosure to members where a decision has been taken to merge the fund (similar to the rules that apply to ASX listed companies) or, alternatively, trustees must inform members of the reason(s) for the trustee's decision not to merge.

In addition, as stated in our response to Phase 1 of the review in relation to scale, it is a mistake to think that bigger is always better. This is especially the case since the industry is moving towards shared infrastructure which will allow even quite small funds to run efficiently. Scale does generally provide lower costs but, in some cases, larger funds have increased their fees in recent times.

There will always be a place for smaller niche providers, many of which outsource the major services of administration, investment and insurance, thereby benefiting from scale created through pooled arrangements and providing good value to their members.

Asset and membership size should not be the only determinants in assessing whether a fund is able to provide "optimal retirement savings" for its members. Notwithstanding the questions raised above in relation to trustees assessing sufficient scale, ASFA contends that size is only one of the factors to be considered (albeit an important one). Qualitative measures should also be included in the standards to be applied. That is, trustees must also satisfy themselves that the current structure and services of their fund continue to meet their members' needs.

However, where funds decide to merge for reasons of scale or efficiency, ASFA believes that the current rollover relief for Capital Gains Tax (CGT) liability should apply, and funds and their members should not be unduly penalised by such constraints. ASFA contends that the current CGT rollover relief extension until 30 June 2011 should be provided permanently.

### 3.3 Fund promotion and advertising

We believe the extent to which fund promotion/advertising can be used as an avenue to member engagement requires further clarification. This has been a vexing question in the industry for some time, although there seems to be some degree of acceptance that promoting a fund's brand can have a range of tangible and intangible benefits to the broader membership. For instance, advertising arguably helps to achieve greater scale. But it is generally acknowledged that there must be a limit, and that limit may be lower (for some funds) in the MySuper landscape.

This raises an immediate question: how do trustees and the regulator distinguish between the MySuper product engagement/advertising and that directed at choice members or potential members, particularly if the advertising is no more than promoting a fund logo and brand personality as is commonly the case now?

A degree of uncertainty emerges in the MySuper proposals as they relate to the degree, and the costs, of engagement/disengagement that a fund might adopt in relation to MySuper members.

The thrust of the MySuper proposal appears, in certain parts of the report, to be directed at the 'accepted' fact that many members are disengaged, and many will continue to be disengaged, and the level of spending directed at "engagement" ought to acknowledge and reflect that reality. The Panel notes that the MySuper solution recognises that direct engagement in superannuation is not a priority for a large proportion of the population. It also notes that MySuper should be value for money and simple, that the focus be on optimising net investment returns and reducing overall costs, and that MySuper members defer to the trustee generally in relation to all aspects of their superannuation.

This position appears to be contradictory. On the one hand, the Panel's intentions as far as where spending on member engagement services in MySuper should go seem clear enough. But on the other hand, the Panel has also made clear that it does not want to force a certain level of disengagement in an effort to reduce costs. In fact, the report suggests that MySuper will result in a greatly enhanced environment for those members who want to engage with their superannuation.

Trustees may be understandably confused by these apparent contradictions. As a result, we believe the industry requires further clarification and guidance on this key issue given its broad and very important implications for how a fund's spending on "engagement" should be approached under the MySuper model.

Engagement is a function of a number of factors, primarily age and fund balance. As members get older and/or as balances grow, they do and need to become more engaged. Based on evidence provided by funds to ASFA, members are becoming increasingly more engaged, with the number of calls from members and website visits steadily (and sometimes significantly) increasing in recent years. ASFA believes that trustees are generally aware of the level of engagement of their funds' various demographic groupings and expend most of their efforts on engagement at these segments. This targeted approach ensures that there is minimum 'wastage' in relation to the overall costs incurred by funds towards member engagement. ASFA supports this practical and balanced approach, and believes that to step back from this (eg. by encouraging trustees to accept the concept that members are, and will continue to be, disengaged and should therefore set their level of spending on engagement accordingly) would be detrimental for members in general.

ASFA believes that there is further work to be done on clarifying what constitutes "engagement" and how to increase it where members are genuinely not interested, and not managing or monitoring their superannuation savings. At the same time, recognition needs to be given to those members who understand that superannuation benefits are available in the sometimes distant future, and who, while not overtly engaged, still learn about superannuation from their fund trustees and demonstrate the industry's messages about staying invested for the long term.

### 3.4 Additional services

The report states that the Panel has yet to come to a view on whether additional services can be offered in MySuper. We note the Panel's concern that offering additional services might unnecessarily increase costs (i.e. without a discernible corresponding benefit to members). ASFA believes this is an important issue which will need to be addressed as part of the consultation process with industry. A number of our members strongly believe that providing member seminars, webinars, newsletters and emails to members are all extremely effective in promoting member engagement with their super, which should be a goal that trustees continue to aspire towards (including, and perhaps even more so, in relation to MySuper members).

Services provided, and the standards of these services, can vary considerably from fund to fund. As discussed above, many funds place a high emphasis on member engagement services, including financial advice. ASFA contends that it would be a retrograde step for the industry to cut back on these services in an attempt to make products cost-competitive. Further guidance must be provided to trustees on which additional services, and associated costs, are allowable in MySuper and which are not.

Refer to section 4.6 below for the discussion regarding ASFA's concern around focusing excessively on reducing costs.

### 3.5 Post-retirement

A key concept of MySuper is the Panel's view that trustees must ultimately offer a post-retirement product. ASFA supports this objective, which is consistent with our view that members should have the ability to invest through retirement. However, there is very little in the way of details provided on this issue. The report states that extensive consultation and development with industry is required in this area. ASFA very much supports this assertion.

### 3.6 Transition period

The Panel has recommended that the industry be given "ample time" to assess and prepare for the implications associated with the implementation of the MySuper recommendations. The amount of time required will depend on the extent to which the Government accepts the MySuper proposals as well as the amount of industry consultation and development work required in order to flesh out and settle the details (in addition to the timing and extent of the SuperStream changes).

ASFA contends that an appropriate transition period will be required by the industry prior to the implementation of the MySuper changes.

## 4. Practical considerations / concerns

ASFA is keen to ensure that there are no unintended consequences arising from the introduction of MySuper which would have a detrimental impact on fund members. For instance, there should not be a reduction in default members' benefits when they are, or their fund is, transitioned to the MySuper option. ASFA believes there should be a mechanism in place to allow trustees to apply a "no detriment" test when transitioning into MySuper, so there needs to be sufficient flexibility in the MySuper proposals to allow this to occur (possibly by way of trustees seeking exemptions). For instance, where current default members have insurance benefits greater than the basic cover they would otherwise have in the fund's MySuper option, trustees should be able to seek an exemption or apply discretion such that the relevant members' benefit entitlements are not reduced as a result of transitioning to MySuper. Alternatively, most of the transition issues (cost, complexity etc) could potentially be solved by only applying the MySuper requirements to new members (relying on natural turnover to achieve a transition from default funds to the MySuper regime over time).

In addition to the uncertainties discussed above and the two key areas of concern raised by our members (discussed in sections 1.1 and 1.2), ASFA has identified a number of other areas of concern, or issues which we believe require further consideration with respect to the MySuper proposals. These are discussed further below.

### 4.1 Separate audited accounts

The requirement for trustees to produce separate audited accounts for the MySuper option as if it were a stand alone RSE may be problematic for some funds. Based on feedback from ASFA members, there is a view that this requirement will result in significant additional complexities for funds and their administrators as well as being costly to implement in practice (anecdotally, the figure quoted is somewhere in the vicinity of $50,000 – $100,000 per annum due to the complexity of auditing a sub-fund). In a corporate master trust where there are a number of employer sponsors and therefore a number of different sub-funds, there will potentially be a number of MySuper products. In this situation, the trustee of the master trust would be required to produce a substantial number of audited financial statements (could be 200+) for the various MySuper products.

### 4.2 Cross-subsidisation

A key message of MySuper is that trustees must have an understanding of the cross subsidies between those members who wish to make investment choice and those that do not, and how trustees can ensure that the differences in members' needs are transparently accounted for. However, from an operational perspective, this may present some difficulties for funds (or their service providers) as it may be difficult to monitor.

As stated in section 3.4, we believe that further guidance must be provided to trustees regarding which services/costs are permissible in MySuper. Once this has been determined, trustees will then need to ensure that the costs are accounted for and report separately for MySuper products.

Section 4.2.3 of the report states that "there should be no direct or indirect cross-subsidisation of costs between MySuper products and other products offered by the fund". ASFA contends that this statement is too strong and questions whether this is, in fact, an achievable outcome. While we believe that cross-subsidies can and should be minimised, it will be impossible to completely eliminate cross-subsidies.

Instead, as part of their formal policy on how costs are allocated, trustees should be required to ensure that no inappropriate cross-subsidisation occurs. ASFA believes that there will need to be extensive industry consultation on this matter and sufficient guidance will need to be provided to trustees.

### 4.3 MySuper licence

The report suggests that a 'MySuper APRA licence' would be required by trustees in order to provide a MySuper product/option. However, the report does not elaborate on whether this involves obtaining a separate MySuper licence or whether it is merely an amendment to an existing APRA licence that is required. ASFA contends that it should be the latter, and establishing a separate licensing regime for MySuper is unnecessary.

There should be an automatic modification of existing RSE licences to cater for the additional trustee obligations associated with MySuper. The regulators could then be given a certain timeframe, say two years, to assess a trustee's ongoing ability to comply with both the hard and soft MySuper principles.

### 4.4 Quantifying and classifying risk

Section 4.1.2 of the report states that "trustees should disclose the level of return targeted by their investment strategy… with an indication of risk and volatility being provided by reference to the likelihood of a negative return being posted… and the maximum potential loss that could be reasonably expected". We believe that this will have potential benefits for fund members, however further guidance will need to be provided to trustees to ensure industry-wide consistency.

There has been a lack of progress made by the industry on this issue to-date. To overcome this, ASFA is currently working with APRA and ASIC on developing risk classification standards, and we expect that APRA will shortly be issuing guidance to the industry on this issue. It is important that any recommendation from the Panel on risk quantification/classification should take this work into account.

### 4.5 Intra-fund advice

The requirement for funds to provide intra-fund advice has a number of positive aspects, including the ability for members to access affordable, quality advice. Another positive aspect is the fact that intra-fund advice applies at the whole fund level, not just in the MySuper option, so members can receive advice on which investment option(s) offered by the fund best suits their needs.

However, the compulsory nature of the provision of intra-fund advice is, in some respects, problematic. There are some practical implications which would need to be considered prior to implementation. For example, mandatory intra-fund advice may involve additional cost for trustees that do not currently offer this service (including the cost of obtaining an AFSL or contracting out intra-fund advice to an AFS licensee).

Also, some trustees have raised the issue that the provision of this advice will involve a cross-subsidy between the majority of fund members who are unlikely to use this service and the minority that will, sometimes on multiple occasions (free advice is good, but it is inconsistent with the no cross-subsidy ethos).

With respect to licensing, ASFA contends that intra-fund advice should be recognised as a sub-category of personal advice and provided in a manner generally consistent with other forms of personal advice. Further, a trustee should be able to apply for an AFSL authorisation to only provide "personal financial product advice limited to intra-fund advice". This is similar to the approach that ASIC has taken with issuing licenses to operators of certain managed investment schemes allowing the operator to provide advice only in relation to that scheme. ASIC could exercise a similar administrative discretion in regards to issuing advice licenses limited to providing intra-fund advice.

ASFA further contends that trustees should be allowed to engage external providers, operating under their own AFSL, to provide intra-fund advice to members. The current proposal implies that intra-fund advice can only be provided under the trustee's own licence.

Additionally, ASFA believes that the definition of intra-fund advice should be extended to include advice on in-house pension products, including moving from a fund's MySuper accumulation option to a MySuper pension (including advice on re-contribution strategies, consolidation etc).

### 4.6 Danger of excessively focusing on costs

We note the Panel's statement in the report in reference to MySuper that "there is an emphasis on low costs, but not at the expense of investment returns". ASFA strongly supports this statement and believes that there are inherent dangers associated with only focusing on the cost of investments. ASFA contends that the focus must be on investment returns after fees/costs and tax. An excessive focus on costs may drive funds towards passive investing. We believe there is a place for active management, which can increase pricing efficiency, market liquidity and help deliver greater longer term returns across each asset class. Too great an emphasis on reducing costs could also lead to:

- Trustees becoming too defensive in setting investment objectives and strategies for MySuper portfolios and, as such, avoid investments such as emerging markets;
- A temptation for trustees to use less expensive investment managers as a cost-cutting measure; and
- A lack of innovation in the industry, which may erode Australia's competitive advantage in investment management and ultimately impact the ability of Australia to become a financial services centre for the region.

ASFA further contends that there may be dangers inherent in a policy of driving down costs in all areas of the industry. For example, there is an argument that custodians are currently underpaid for the services they provide (anecdotally by about 5 basis points). The role played by custodians in ensuring the security of superannuation fund assets cannot be over-emphasised. The same can be said for role played by administrators and the level of remuneration they receive. There is a danger that excessively focusing on cost reduction within MySuper could further squeeze service providers already operating on tight profit margins, which could eventually lead to a reduction in the level of service provided by these entities, a reduction of asset security or, more severely, to the failure of key service providers. These outcomes would be to the ultimate detriment of the industry and fund members.

## 5. Conclusion

Overall, ASFA is supportive of Panel's objectives and a number of the MySuper proposals, particularly in relation to ensuring members who are not actively engaged with their super have appropriate, well constructed and fairly priced default options. MySuper is an improvement on the initial 'universal' choice architecture framework proposed, and we are pleased to see the Panel's recognition of the need and ability of funds to meet differing needs within existing structures.

Also, notwithstanding the fact that SMSFs may be appropriate for certain individuals, ASFA is encouraged by recent discussions with Jeremy Cooper which confirmed that APRA regulated funds have the major role to play in terms of servicing the needs of members who exercise choice.

However, we question whether there is a need to introduce an entirely new product / licensing regime or whether in fact similar outcomes can be achieved under existing structures.

There are also still some unresolved questions and practical considerations which will need to be addressed in the course of the consultation process with industry.

I trust that the information contained in this submission is of value. We would be pleased to meet with you to discuss our submission.

Yours sincerely

David Graus
General Manager, Policy & Industry Practice

<u>*Enclosures:*</u>

*Appendix 1: Discussion around the impact of MySuper on current costs*

## Appendix 1 – Discussion around the impact of MySuper on current costs

ASFA is concerned that some of the cost assumptions quoted in the MySuper report in relation to operating a fund portfolio may not be correct, in particular, the Panel's view that trustees will be able to substantially reduce current costs.

In the media release distributed on 20 April 2010 accompanying the MySuper report, reference is made to an independent report commissioned from Deloitte[1] by the Panel. In referring to the independent report, the media release states that "if the MySuper proposals were introduced, some default fund members could expect to pay less than half what they are paying for their super now".

This bold statement is not actually contained in the Deloitte report, and arguably is not even implied by the report. What the report does provide are estimates of administration and investment costs for funds of different sizes on the assumption that there are significant economies of scale which reduce administration costs and to a lesser extent investment costs, and where there are not costs linked to comprehensive advice and associated distribution.

The estimates also rely on the assumption that funds have average account balances of $25,000, which is lower than for some funds but considerably higher than is currently the case for many industry funds.

The sources of data for the report are not transparent, but appear to involve data collected by Deloitte in regard to industry funds. Despite what they admit are limitations to the data, they report significant and smoothly declining administration and investment costs with increasing fund size. However, there appears to be no analysis in the Deloitte report of:

- the shift to lower fixed fees and higher performance fees;
- opportunities to share investments through pooling arrangements;
- the higher costs of many asset classes (direct property, infrastructure, private equity, hedge funds); and
- the relationship between lower costs on passive investment versus expected higher returns on active management.

The report acknowledges "there is some element of approximation and estimation inherent in their calculation" and that "it is possible for smaller funds to access some of the benefits of scale by partnering with service providers who themselves have scale". In addition, the report acknowledges that fixed costs of operating limited advice models have been ignored. These costs can be substantial, so the cost estimates in relation to intra-fund advice set out on page 25 of the Deloitte report are, we believe, flawed. The stated variable costs of providing general and simple personal advice are noted as "informed estimates" and appear to be based on fees charged rather than underlying costs. Even so, they appear to be significantly lower than the fees that have been observed in the market.

Research conducted by the ASFA Research Centre of the costs and fees of various industry funds confirms this latter proposition, with a clustering of fee levels (the aggregate of both administration and investment) at around the 80 to 90 basis point mark if adjustments are made to standardise average account size. Lower basis point figures can be associated with scale, but close relationships with employers (making electronic transmission of data more likely) and use of passive investments also play large roles.

Essentially, the Deloitte report indicates that most industry funds have, when adjustment is made for differences in average account balances, costs and fees in the range of around 55 to 105 basis points. If the MySuper products are similar in structure and costs to the default options of industry funds then that is the range of costs that will be applicable to such products. In ASFA's view, the adoption of the MySuper model might lead to the elimination of default funds of 3% of employees

[1] Super System Review – Default Fund costs under the MySuper proposals, Deloitte, 19 April 2010

which have significantly higher costs, but it would not lead to a halving of cost levels in regard to default fund members generally.

This assertion is particularly compelling given the added costs associated with the preparation of separately audited accounts, enhanced accounting and disclosure, greater accountability of service providers, the provision of intra-fund advice and the development of post-retirement default arrangements. Also, having different disclosure requirements for different classes of members will arguably increase costs, not decrease them.

Another issue related to cost is that there is arguably a tangible link between members with significant account balances being in choice options rather than in the default option. These members with large balances effectively cross-subsidise the other members to some degree, given that most funds have a certain level of fees based on a percentage of assets. Removing any direct or indirect cross-subsidisation of costs between MySuper and non-MySuper options, as recommended by the Panel, could mean that costs will go up for non-MySuper members (possibly by a significant amount).