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## **Your Future, Your Super regulations and associated measures**

Prime Super is an independent, profit-to-members superannuation fund. We have provided superannuation and retirement solutions to Australians for close to 25 years. Today we manage approximately \$5.7 billion in retirement savings for around 122,000 members who work in industries including agriculture, horticulture, health, education, aged care and recruitment.

Prime Super makes the following comments in relation to the Your Future, Your Super proposed regulations and proposed legislation.

### **1. Single Default Account**

Prime Super supports the concept of stapling a superannuation account to an individual to prevent the creation of duplicate accounts in the system.

### **2. Addressing Underperformance in Superannuation**

The following paragraphs provide feedback on the effectiveness of the measures for addressing underperformance in super in the proposed legislation and supporting regulations. The proposed regulations use data provided to APRA as the basis on which performance will be assessed.

In our view, there are two separate areas to measure superannuation fund performance: net investment performance and operational efficiency.

#### *1. Investment Costs and Administration Fees Must be Considered Separately*

We note that the current draft legislation contemplates a performance measure based on a total cost of superannuation which includes the cost of both the investment and administration functions. This approach will not deliver efficient and effective measurement of the performance of a superannuation fund.

Investment costs should be compared through net investment returns. This provides a fair comparison of the absolute performance of various styles of investing and the cost of those strategies. The key outcome to be delivered to members is a better net investment outcome, not simply the lowest cost outcome.

Consequently, the comparison of investment returns on a total return and a risk adjusted return basis is an appropriate and meaningful comparison tool. The data for this comparison is included in the current APRA heatmap.

There are a number of reasons why administration costs should be considered separately.

Administration costs should be based on the total number of fund members. This is because the administration is transactional - the cost of administering an account with \$1 is the same as the cost of administering an account with \$1 million.

If administration costs are measured separately, it would be possible to drive the industry to better efficiencies over the long term, as the focus is on transactional costs, and is not driven simply by the balance of a member account.

The current, proposed performance measure in the regulations provides for administrative costs comparisons based on funds under management, not the number of fund members. This approach means some inefficient funds continue to function - not because they are cost effective in their service delivery, but because their members have large account balances.

The data already collected for the APRA heatmap can be used to make comparisons based on member numbers rather than funds under management.

## *2. Calculating administration fees*

The legislation and regulations propose to use administration fees to determine fund performance, so it is important that valid comparisons are made using appropriate and consistent measures.

Administration fees should cover the total cost of a fund's administration function, including processing contributions, paying benefits, answering of phone calls, providing of annual member statements and annual reports. It cannot be just a fee disclosed in the Product Disclosure Statement. In some instances, the total cost of administration is recovered from members through both the administration fee and the investment fee. Consequently, any elements of administration in the investment fee should be included in the administration cost of a product.

A second issue is the use of comparison points for administration fees. The APRA heatmap uses two account balance comparison points: \$50,000 and \$10,000. By using comparison points it is possible for funds to have a fee structure that delivers the right number at the comparison point, but the overall product cost to members can be very different at other account balances.

The appropriate measure to be utilised is the total cost of administration and operating expenses as reported to APRA. This total cost provides the full detail of the cost of running a fund. This also ensures that any understatement in administration fees as disclosed to members does not translate through to the performance measure of the fund by APRA.

### 3. *Net return*

The legislation proposes to use 'net returns' as a performance measure.

However, APRA currently reports a 'One year rate of return' based on capital flows, income flows and investment flows, which is not an appropriate measure of the fund returns. This is because it is a composite internal rate of return, not a performance comparison measure. The 'One year rate of return' has been picked up by the media and mis-interpreted as an investment performance measure, which it is not. The internal rate of return masks the real investment performance of products as it has no allowance for the timing of the capital, income and investment flows. In addition, this figure is a simple average, with no allowance for the time weight of money.

#### *Summary*

The proposed legislation and its supporting regulations should focus on the establishment of two measures to compare superannuation funds:

#### *(i) Net investment return*

First, a net investment return calculated on a time-weighted basis, after investment costs and taxes. This information is readily available and is the investment return reported to members. It allows for appropriate comparison of funds, regardless of the cashflow, and show members the true benefit of being invested in the fund.

The risk adjusted return currently calculated by APRA provides a secondary measure of performance allowing for the type of investments being made by the Fund.

#### *(ii) Administration cost per member*

Second, the total administration and operating costs incurred by a superannuation fund should be measured against the average fund membership over a year. This measures the efficiency of a fund across its total membership and allows for suitable efficiency comparisons between funds, over time.

A measure of total administration and operating costs across all members allows for system wide comparisons of the cost of operations of a Fund. In addition, it removes opportunities for pricing structures aimed solely at delivering a better outcome at measurement points, rather than for the membership as a whole.


### **3. Improving Accountability and Member Outcomes**

The accountability of superannuation funds and the delivery of strong member outcomes will be delivered through appropriate comparison at total fund level of the net investment earnings of the fund added to the pool of members funds, and what was the administrative cost of running the business deducted from the pool of members funds. These measures indicate at the total fund level how effective and efficient a fund is in the delivery of investment returns to members and the provision of administration services.

These are simple measures for members to understand and are simple measures to compare between funds.

Prime Super would be happy to discuss any aspects of this submission further. I can be contacted on 0419 550 250.

Yours faithfully,



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