

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Supplementary Budget Estimates

17 October – 18 October 2012

Question: SBT 19

Topic: Superannuation Funds Transaction Costs

Hansard Page: pg 89-90, Thursday 18 October 2012

Senator CORMANN asked:

Senator CORMANN: In order to finish off this MySuper third tranche issue, did you assess the transaction costs involved from shifting people's superannuation funds, including chosen funds, to default funds, given that there has to be a change in asset mix and so on? Have you quantified the transaction costs? No, you have not.

Do you recognise that they are potentially quite significant and that they would have a further adverse impact for people whose funds are shifted without their approval in that way?

Mr Rollings: I guess there will be some costs where asset mixes change. There will be some benefits for members through reduced fees and potentially no commissions.

Senator CORMANN: They are significant fees. If you have to sell assets and buy back into assets, firstly, you have the market risk and, secondly, you have the transaction fees. The fact you have said that you have not actually assessed and quantified it further increases my worry about all of this.

Mr Rollings: In many cases, these assets will all be held by the same fund and there will be no need for the fund to sell out. It will only be if there are significant changes in investment allocation.

Senator CORMANN: I do not think that is right.

Mr Murphy: We will look into that.

Answer:

The Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 requires trustees to attribute certain member balances (accrued default amounts) to a MySuper product by 1 July 2017. Where a fund offers a MySuper product, this process would generally only require underlying assets to be sold where the investment strategy for the MySuper product differs significantly from the investment strategy in existing default investment options. Where there is no change in investment strategy, funds will be able to simply convert their existing default investment option into their MySuper product with no transaction costs arising from the sale of assets.

Treasury has not quantified the possible transaction costs. Given MySuper products can only be offered from 1 July 2013, there is no available information as yet on the intended investment strategies of MySuper products.