

## FILE NOTE

DATE: 3 December 2019  
 RE: Request for Modelling (Rest current)  
 TO: Brendan Daly/Sarah O'Brien (Rest)  
 FROM: Steve Freeborn (Rice Warner)

## Modelling results

The modelling aims to assess the impact on projected retirement outcomes of various fee bases for a representative portfolio and shows how Rest compares to these.

The modelling is conducted on each of the two scenarios as shown in Table 1.

**Table 1. Scenario metrics**

	Scenario 1	Scenario 2
Asset allocation	APRA representative balanced fund simple reference portfolio	APRA representative balanced fund simple reference portfolio
Investment performance	APRA 5-year net investment return (NIR) relative to simple reference portfolio	Rice Warner long-term expected annual gross investment return (over the next ten years).
Fee level	25 <sup>th</sup> , 50 <sup>th</sup> and 75 <sup>th</sup> percentile <b>administration fee</b> , corresponding to the low, median and high MySuper administration fee levels. Investment management fee remains unchanged.	25 <sup>th</sup> , 50 <sup>th</sup> and 75 <sup>th</sup> percentile <b>total fees</b> , corresponding to the low, median and high MySuper total fee levels
Cohort	25, 35, 45 and 55 to retirement age at 67	25, 35, 45 and 55 to retirement age at 67

## Scenario 1

Graph 1 shows the median projected retirement balance of a representative member incurring administration fees at each of the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile for each of the different cohorts under consideration. Table 2 shows the percentage difference in projected retirement balance for each of these scenarios relative to the Rest current fee level. Table 3 shows the dollar difference in retirement balance for each of these scenarios relative to the Rest current fee level. Overall, the impact of different percentile administration fee bases on projected retirement balances is relatively small.

Rest's current fee level is close to, though slightly lower than the MySuper 25<sup>th</sup> percentile administration fee. It is also highly competitive against the MySuper 50<sup>th</sup> and 75<sup>th</sup> percentile administration fee levels. The projected retirement balance under Rest's current fee level is slightly higher than the projected retirement outcome for a member with the 25<sup>th</sup> percentile administration fee, ranging from approximately \$4,000 or approximately 0.5% higher for members aged 25 down to \$700 or approximately 0.2% higher for members aged 55.

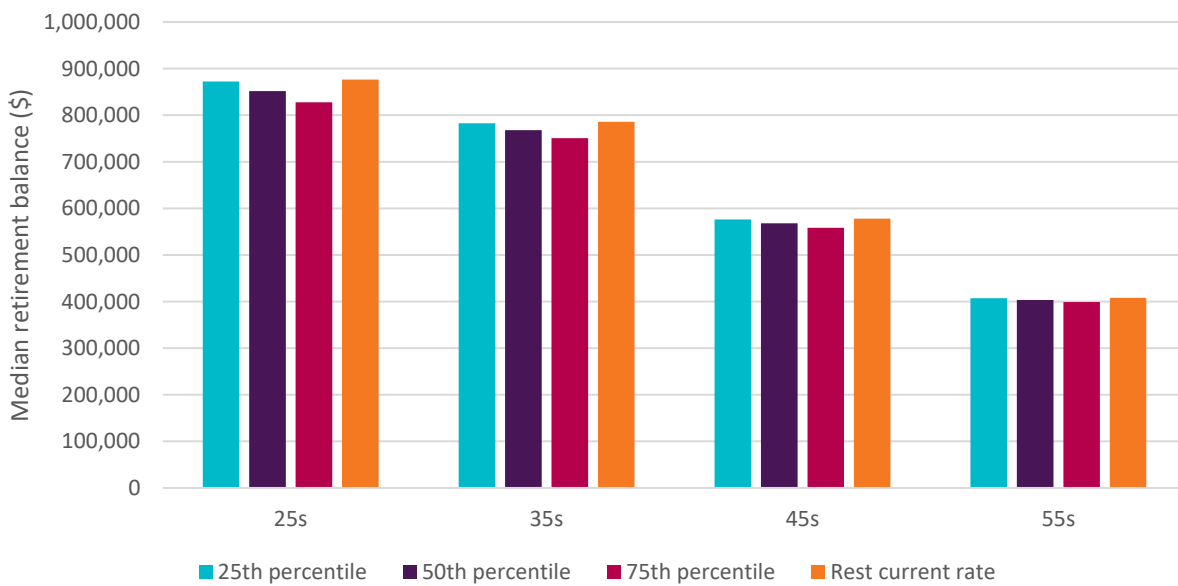
Relative to the median level of administration fees, members who are 25 years old and incurring fees at the 25<sup>th</sup> percentile administration fee level, are expected to achieve a projected retirement benefit of around \$872,000, which is approximately \$21,000, or 2.4%, higher than the retirement benefit that might receive by the members paying fees at the median level.

This compares to a projected retirement benefit for a 25-year-old member paying administration fees at the 75<sup>th</sup> percentile level of around \$828,000, which is approximately \$24,000 or 2.8% lower than the projected retirement benefit that might be received by the member paying administration fees at the median level.

The retirement projection for a member aged 25 incurring administration fees at the current rate charged by Rest is forecast to be around \$876,000, which is around \$25,000 or 2.9% above the projected retirement benefit for a member incurring fees at the median level.

Members at older ages will also enjoy higher projected retirement benefits under Rest’s current administration fee base than under any of the scenarios being considered, though the extent of benefit improvement is diminished as a consequence of the reduced time to retirement. This is expected given the reduced compounding effect.

**Graph 1. Median retirement balance of various admin fee bases for different cohorts**



**Table 2. % difference in retirement balance compared to Rest current fee level**

Age group	25th percentile	50th percentile	75th percentile
25s	-0.47%	-2.82%	-5.56%
35s	-0.38%	-2.25%	-4.45%
45s	-0.29%	-1.72%	-3.41%
55s	-0.18%	-1.08%	-2.16%

**Table 3. \$ difference in retirement balance compared to Rest current fee level (rounded to the nearest thousand)**

Age group	25th percentile	50th percentile	75th percentile
25s	-4,000	-25,000	-49,000
35s	-3,000	-18,000	-35,000
45s	-2,000	-10,000	-20,000
55s	-1,000	-4,000	-9,000

## Scenario 2

Graph 2 shows the median projected retirement balance of a representative member incurring total fees at each of the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentile for each of the different cohorts under consideration. Table 4 shows the percentage difference in retirement balance for each of these scenarios relative to the Rest current fee level. Table 5 shows the dollar difference in projected retirement balance for each of these scenarios relative to the Rest current fee level. Overall, the impact of different percentile total fee bases on retirement balances is more pronounced than relative to considering just the administration fees.

It should be noted that the return assumptions under Rice Warner's long-term expected annual gross investment return (over the next ten years) are lower than the returns achieved over the past 5 years and which are used in APRA's NIR metrics. As a result, projected retirement benefits for all cohorts under Scenario 2 are lower than under Scenario 1.

Rest's current total fee level is between the 25<sup>th</sup> percentile and 50<sup>th</sup> percentile total fees levels for all MySuper products. As a result, the projected retirement balance under Rest's current fee level is slightly lower than the 25<sup>th</sup> percentile total fee, which is ranging from approximately \$24,000 or 3.5% lower for members aged 25 down to \$5,000 or 1.4% lower for members aged 55.

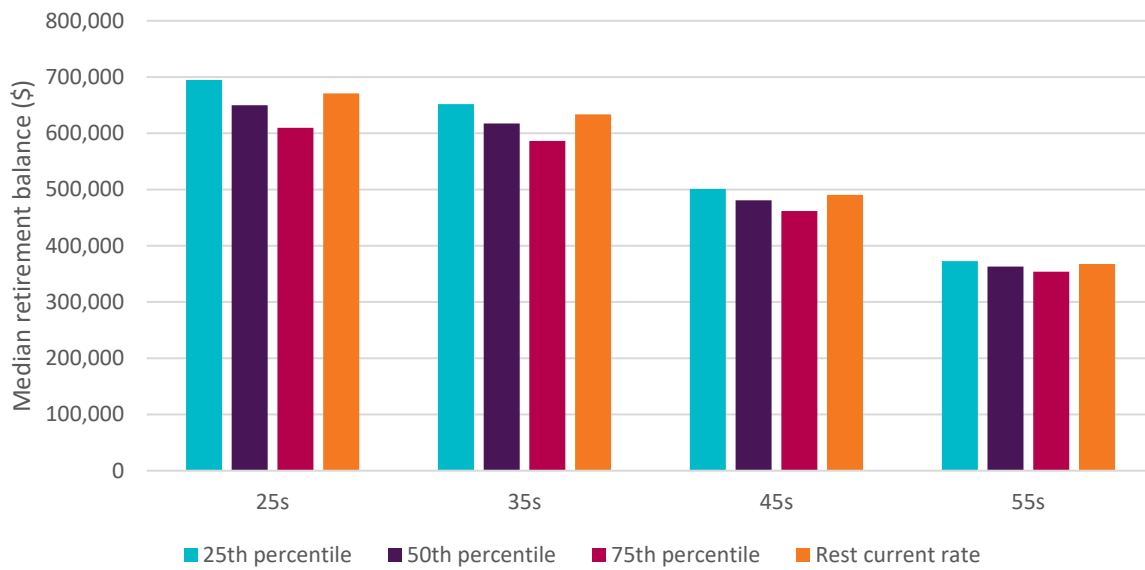
Relative to the median level of total fees, members who are 25 years old and incurring fees at the 25<sup>th</sup> percentile total fee level are expected to receive a projected retirement benefit of around \$695,000, which is around \$45,000, or approximately 7%, higher than the projected retirement benefit of \$650,000 that a member paying fees at the median level might receive.

This compares to a projected retirement benefit for a 25-year-old member paying administration fees at the 75<sup>th</sup> percentile level of around \$610,000, which is approximately \$40,000 or approximately 6% lower than the projected retirement benefit that might be received by the member paying administration fees at the median level.

The retirement projection for a member aged 25 incurring administration fees at the current rate charged by Rest is forecast to be around \$671,000, which is approximately \$21,000 or 3% above the projected retirement benefit for a member incurring fees at the median level.

Members at older ages will also enjoy higher forecast retirement benefits under Rest's current total fee base than members paying total fees at the median level, though the extent of benefit improvement is diminished as a consequence of the reduced time to retirement. This is expected given the reduced compounding effect.

**Graph 2. Median retirement balance of various total fee bases for different cohorts**



**Table 4. % difference in retirement balance compared to Rest current fee level**

Age group	25th percentile	50th percentile	75th percentile
25s	3.55%	-3.14%	-9.11%
35s	2.86%	-2.54%	-7.44%
45s	2.20%	-1.97%	-5.81%
55s	1.39%	-1.26%	-3.76%

**Table 5. \$ difference in retirement balance compared to Rest current fee level (rounded to the nearest thousand)**

Age group	25th percentile	50th percentile	75th percentile
25s	24,000	-21,000	-61,000
35s	18,000	-16,000	-47,000
45s	11,000	-10,000	-29,000
55s	5,000	-5,000	-14,000

## Appendix A Methodology and assumptions

**Table 6. Annual salary and super account balance assumption**

Age	Annual salary	Superannuation account balance
	(\$)	
25	59,000	30,000
35	78,000	69,000
45	80,000	125,000
55	71,000	198,000

**Table 7. ARPA representative balance fund simple reference portfolio**

Asset class	Asset allocation
Cash	5.95%
Australian Fixed Interest	11.91%
International Fixed interest	11.91%
Australian Shares	35.11%
International Shares (hedged)	17.56%
International Shares (unhedged)	17.56%

**Table 8. Investment return assumption**

Asset class	APRA 5-year net investment return	Rice Warner long-term expected gross investment return
Cash	1.74%	3.02%
Australian Fixed Interest	4.22%	3.50%
International Fixed interest	4.04%	2.74%
Australian Shares	8.83%	7.92%
International Shares (hedged)	11.13%	7.50%
International Shares (unhedged)	7.70%	7.48%