

## SC15QW

### Question

Transferring to MySuper products

- a) What was the period of time you took to complete the transfer of your members' accrued default amounts (ADAs) into MySuper products following the commencement of the MySuper regime on 1 January 2014?
- b) How did that duration reflect the best interests of your members?
- c) Was there anything that prevented you from transferring accounts sooner?
- d) Please quantify the fee revenue lost if you had transferred members by 30 June 2014, 2015, 2016 and 2017 respectively.

### Answer

Adopting the numbering in the questions above:

- a) SPSL completed the transfer of ADA amounts subsisting in the SMT by 19 June 2017, ahead of the 1 July 2017 statutory deadline.
- b) The following is a non-exhaustive list of considerations which illustrate the complexity involved in determining when ADAs should be transferred in the best interests of members, particularly in circumstances where 1 July 2017 had been set as the statutory deadline by the legislature.
  - i) There were a significant number of SMT members holding ADA balances, and those members had a wide range of individual circumstances and likely had differing investment objectives;
  - ii) Many SMT members holding ADA balances were in default funds that had been chosen by sophisticated employers, often with the assistance of a policy committee and professional advisers;
  - iii) Different investment options contained different perceived advantages and disadvantages and different risk and reward profiles that would be suitable to some people and less suitable to others depending on their individual circumstances;
  - iv) In its consideration of the best interests of members, SPSL was required to consider investment performance and risk and reward profile, in addition to fees and commissions payable;
  - v) It is inherently difficult to predict the future performance of investments;
  - vi) SPSL did not generally transfer members' investments between investment options without receiving a direction from the member to do so, except in circumstances where it formed the view that a particular investment option was impaired in some way (for example, consistent failure to meet performance benchmarks, significant disruption to management, or lack of sustainability given reduced membership numbers);

- vii) SPSL did not have a practice of moving members between products, except in limited circumstances (for example, as part of a program of simplifying the product portfolio of the SMT);
- viii) Transferring the ADAs later provided more time for members to exercise their own investment choice, including by “opting out” of the ADA transfer process; and
- ix) If SPSL had transferred the ADAs significantly earlier than the legal deadline, it may have been exposed to criticism if members’ MySuper investments had performed less well than if they had remained in the default products, which had often been chosen for those members by their employers, presumably with their best interests in mind and most likely after receiving professional advice.

In further answer to question SC15QW(b), SPSL refers to the answer to question (c) below.

- c) Prior to the commencement of ADA transfers, SPSL completed a significant program of simplification and consolidation of investments within the SMT, known as the Super Simplification Program. Detailed planning of SSP began in 2014 and the project was completed in 2017. Through SSP, members of the SMT were migrated from 43 product offerings to 10 product offerings and shared in an estimated \$6.3m per annum in ongoing fee reductions as a result.

ADA transfers could not responsibly have been undertaken prior to the SSP migrations, for reasons that include the following.

#### Complexity of unit pricing

Prior to SSP, SPSL received over 700 unit prices each day in relation to the investment options supporting the SMT, either directly or through the Optimum Pooled Superannuation Trust and its investment channels. This figure was reduced to approximately 300 unit prices per day following the completion of SSP migrations. This reduction in the number of unit prices made the transfer of ADAs following SSP a simpler and more efficient process than would have otherwise been the case.

#### Transfer of ADA balances prior to SSP may have created scalability issues in certain products

Prior to SSP, investment options were not necessarily shared across product types. As a result, the transfer of ADA balances out of investment options in this period may have caused scalability issues for certain of those investment options, rendering them unviable. This had the potential to adversely impact members of the SMT who were not involved in the ADA transition. Following SSP migrations, the available investment options were rendered broadly common to all Brighter Super products and this issue did not arise. Additionally, following the launch of MySuper compliant investment options on 1 January 2014, those options had a limited investment track record and did not have significant scale. Allowing a period of time for further testing and development of, and building of scale in, those options was consistent with the precautionary principle.

#### Complexity of investment structure prior to SSP

Prior to SSP migrations, the investment structure underpinning the assets of the SMT for different member cohorts were held either by SPSL or the Optimum Pooled Superannuation Trust. The complexity of this structure, which was eliminated by the SSP

migrations, meant that a transfer of ADAs prior to the completion of SSP would have had increased execution risk, and may also have had adverse tax consequences.

Number of investment products in which ADA balances were invested

Prior to SSP, ADA balances were invested in 209 underlying investment products within 396 product-based investment options. As a result of SSP, ADA balances were invested in only 41 investment options. Implementing ADA transfers prior to the simplification brought about by SSP in this regard would have involved greater implementation risk and more time than a transfer of ADAs following SSP.

Concurrent fund activities

In the period from 1 January 2013 to June 2017, and in addition to SSP, a number of significant regulatory and business change activities were delivered by SPSL in relation to the SMT. These other projects not only required significant funding and human resources, they also, in many cases, had a significant impact on the workings and structure of the SMT and its underlying investments. Attempting to implement ADA transfers in parallel with these other projects would have carried various risks, including risking the timely or efficient completion of those other projects. The Transformation stage of SSP, which, similar to the ADA transfers, involved the migration of members' investments within the SMT, provided the first logical opportunity to efficiently combine similar projects of work.

- d) For the reasons described in answer to question (c) above, ADA transfers could not reasonably have been undertaken prior to the SSP migrations. To attempt to do so would have required substantial expense to be incurred in completing work which would have been substantially duplicative of the SSP – and likely a similar timeframe. That expense would ultimately have been borne by members of the SMT through increased fees.

In addition, it is not possible to account for how the earlier transfer of members ADA balances would have impacted on the volume and timing of investment directions received from ADA members seeking to opt-out of the ADA transfer process. A significant number of investment directions were received by SPSL in the period from 1 January 2014 to 1 July 2017, with a significant increase in the number of members making an election close to the ADA transfer deadline and following the issue by SPSL of significant event notice communications relating to the ADA transfers on 6 March 2017.

As a result, any calculation of the difference in revenue is necessarily hypothetical and may be materially inaccurate. Nevertheless, SPSL has completed calculations and estimates that the following differentials in fee revenue would have arisen by the earlier transfer of ADA amounts in the SMT. The following notes apply to the figures:

- i) the figures provided are cumulative (i.e. the total revenue lost for each requested date represents the entire forecasted amount from that date up until 30 June 2017);
- ii) prior to SSP, a number of older product offerings had single, "bundled" administration and investment fees which were a combination of Suncorp administration fees and external investment management fees. In the time available to respond, it was not possible to accurately segregate the expected revenue for

SPSL and a conservative assumption has been used which is likely to inflate the stated difference to SPSL revenue;

- iii) the calculated figures do not take into account the higher costs that would have been passed on to members to implement other competing regulatory reforms with earlier compliance dates during the relevant period;
- iv) the figures are calculated on the basis of the fees that were charged (as opposed to any estimate of fees which would have been charged had the additional work required for the earlier completion of ADA transfers been undertaken); and
- v) the figures are calculated on the basis of the assumption that each member who ultimately did opt out of the ADA transfer process by the making of an investment election would have opted out of the ADA transfer process regardless of when that process occurred.

The figures do not include any investment fees, insurance premiums or regulatory levies charged on the basis that those investment fees were passed through to third party investment managers, insurers or regulators.

It should also be noted that the amount of fees charged in relation to investments in each product were generally reflective of the cost to SPSL of providing access to those products to members of the SMT.

Hypothetical ADA transfer date	Estimated total difference to SPSL revenue
30/06/2014	\$18,842,539
30/06/2015	\$11,181,700
30/06/2016	\$4,482,496
30/06/2017	\$0 <sup>1</sup>

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<sup>1</sup> The transfer of ADAs within the SMT was completed prior to this date.