RAINMAKER SUBMISSION—YOUR FUTURE, YOUR SUPER BILL

Senate Standing Economics Committee
Inquiry into Treasury Laws Amendment
(Putting Members' Interests First) Bill 2019

Parliament House
Canberra ACT 2600

17 March 2021

INQUIRY SUBMISSION

Rainmaker Information Pty Limited is a financial services research firm that has been operating in Australia since 1992. Rainmaker's research spans superannuation, investment management, financial planning, platforms and the broader wealth management sectors in Australia.

Within the context of the proposed legislation that is being reviewed by this Committee, Rainmaker has prepared this submission for information purposes as it may help set some context against which this legislation may operate.

The issues this submission will speak to are:

- Stapling of default superannuation products;
- Super fund underperformance and fees; and
- Portfolio holdings disclosure.

STAPLING

If the intention of the stapling proposal is to break-open the market and introduce more competition between super funds, Rainmaker's view is that this stapling proposal may unintentionally have the opposite affect.

This view is based on the following analysis:

- Data published by APRA in its Annual Fund Level Statistics, Table 12, that details the age group profile of super funds revealed that for 2020, of the 22.5 million member accounts, 2.7 million being 12%, were owned by members under the age of 25. See **Table 1**.
- 75% of these accounts owned by these young people aged below 25 years are held within just 10 super funds, 60% are held by just five.
- 83% of this biggest-10 share is held by the leading industry super funds of Rest, AustralianSuper, Sunsuper, HostPlus, CBUS and HESTA.
- Moreover, these market ranks have been remarkably stable through the five year period to 2020 as the data reveals that four of the biggest five super funds for young people have been ranked in the biggest-5 throughout this period.

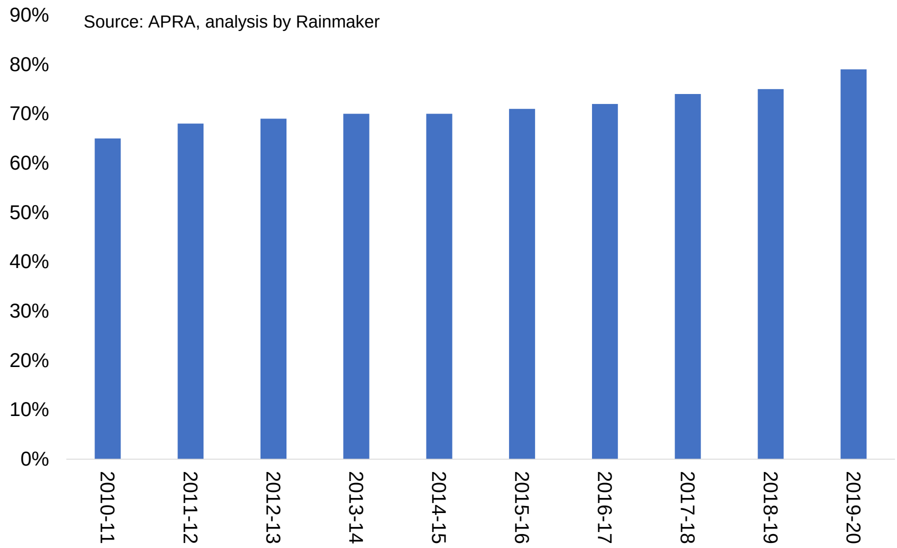
Table 1: Most commonly used funds for people aged under 25, 2020

		Accounts	Share of fund	Market share	Cumulative share
1	Rest	627,425	34.0%	23.4%	23.4%
2	AustSuper	318,073	13.0%	11.8%	35.2%
3	Sunsuper	274,901	18.0%	10.2%	45.4%
4	HOSTPLUS	271,657	21.0%	10.1%	55.6%
5	CBUS	118,017	15.0%	4.4%	59.9%
6	BT	98,024	11.0%	3.6%	63.6%
7	ANZ Wealth	91,686	11.0%	3.4%	67.0%
8	MLC Super	78,633	7.0%	2.9%	69.9%
9	HESTA	78,225	9.0%	2.9%	72.9%
10	AMP Super	69,046	8.0%	2.6%	75.4%
	Subtotal biggest-10	2,025,687	na	75.4%	na
	The rest	660,162	na	24.6%	na
	Total all funds	2,685,849	15%	100%	100%

Source: APRA, analysis by Rainmaker

- Rainmaker's view is thus, while stapling may make it easier for young people to deal with superannuation, this same stapling policy could unintentionally concrete-in this market dominance of the leading super funds.
- This lack of competition in superannuation is further illustrated by a separate research finding that in 2019-20, according to analysis of APRA data, Australia's 20 most popular super funds receive 79% of all contributions.
- Further analysis of APRA annual fund level statistics reveals this level of concentration for superannuation contributions is going up. In the decade 2010-20 it rose one-fifth from 65% to 79%. See **Figure 1**.

Fig 1: Share of all contributions going to the 20 most popular funds



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UNDERPERFORMANCE AND FEES

Rainmaker has published extensively on the issue of underperformance among choice investment options offered through superfunds. Rainmaker thus supports the intention of the Bill to address it.

However, while the initial focus of the public discussion has centred on performance of MySuper super products, Rainmaker believes attention should turn to underperformance of investment choice options.

When Rainmaker conducts performance analysis, it takes the view that if assessing the member experience of investment performance is the goal, Rainmaker should analyse investment returns net of all fees. To assess super fund investment from this perspective, Rainmaker ensures performance figures are standardised to take account of:

- Investment fees;
- Indirect costs;
- Administration fees;
- Member fees; and
- All applicable taxes.

If these standardisations are not applied by the super fund, Rainmaker applies them.

But if the goal is assessing investment management efficiency, for example, in Rainmaker's analysis of risk-adjusted returns, Rainmaker assesses investment performance net of investment costs only—returns net investment fees, the Indirect Cost Ratio and applicable taxes.

Reflecting these perspectives, Rainmaker's view is that if the APRA super fund performance test is trying to measure the lived experience of a super fund member, then investment performance from the member's perspective—net of all fees— should be used.

However, any analysis of underformance raises the question of overall super fund fees.

Rainmaker has been analyzing superannuation sector fees since 2004 and has played a crucial public role is helping to hold the superannuation sector to account while also monitoring the considerable efficiency improvements Australia's superannuation sector has been manifesting through this time.

Illustrating this, in the most recent 2020 study, released as part of the Superannuation Benchmarking Report, March 2020 edition, Rainmaker found:

- The average total fees charged by default MySuper products was 1.12% pa.
- Total super fund fees paid by fund members across Australian is estimated to amount to $30 billion pa, down 5% through 2019-20. This does not include the annual $8 billion cost in superannuation group insurance premiums.
- The average investment fee was found to be 0.72% pa, with the remaining 0.40% pa being for product fees, ie, administration and member fees.
- Investment fees therefore account for an average 64% being almost two-thirds of all super fund fees.

As a result, Rainmaker's view is that if Australian super fund trustees wish to offer on average lower fees, this will in the main have to be done by lowering investment fees.

There are arguably three ways to accomplish this:

1. Simplify the asset mix of super funds noting that, as a broad rule, the more bonds and cash in a super fund's portfolio the cheaper will be its total investment costs;

2. Super funds should switch to managing more of their asset internally; and/or

3. Super funds should manage more of their assets on an indexed basis whether this be through traditionally indexed investment mandates or through the use of Exchange Traded Funds (ETF).

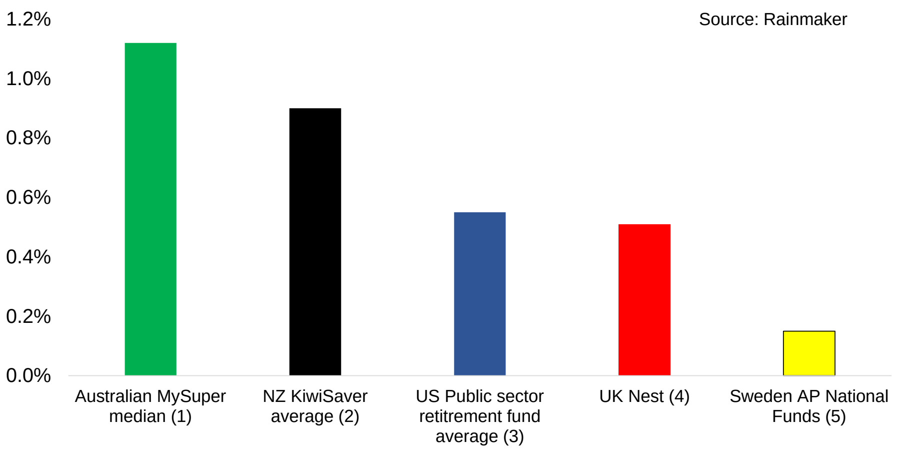
Super funds are lowering their fees

Reflecting how this sentiment and trend towards lower fees is widely held and supported by many superannuation trustee boards, Rainmaker's fee research continues to see evidence of concerted efforts by funds to lower their fees.

For example, since the last annual super fund fee study that was conducted mid-2020, Rainmaker, through its ongoing research programme in which it routinely monitors 457 superannuation products, has found that:

- Between August 2020 and end January 2021, more than half (55%) of these products (254) revised their Product Disclosure Statement (PDS).
- Almost two-thirds (64%) of these PDS revisions (162) involved lowering their super fund's fees.
- 18% (45) involved no changes to fees.
- But 18% (47) involved an increase in fees.

Fig 2: Australia super fund fees cf overseas benchmarks 2019-20



Sources:
1. Rainmaker Superannuation Benchmarking Report, March 2020 edition.
2. Derived by Rainmaker from data published in the KiwiSaver Annual Report 2020.
3. 2019 NCPERS Public Retirement Systems Study.
4. Derived by Rainmaker from the UK Nest System Annual Report 2020.

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This evidence reinforces the view that the long-run trend is for Australian super fund fees to continue reducing.

Indeed, while the Australia superannuation system has long been considered to be a well-priced system charging fees around the OECD median, it is Rainmaker's view that the fee debate has reset.

This has been brought on through the past year by increased scrutiny and acknowledgement that several jurisdictions with which Australia reasonably compares itself now offer pension fund systems or default pension funds with median fees lower than available in Australia. See **Figure 2**.

While it is not possible to know where the median Australian super fund fee could head, it is not unrealistic to expect, in Rainmaker's view, that continued fund consolidation with commensurate scale benefits and the increasing focus on investment implementation efficiency, that a median fee metric of around 0.5% pa may be achievable through the coming 10-15 years.

It is encouraging to note that in Rainmaker's 2020 fee study there were already 21 MySuper products that charged total fees less than 1%. Even more encouraging, almost one-in-three of these low-cost products were operated by retail trustee groups.

Rainmaker confidently expects tis number of ultra low-cost super funds to increase rapidly when the 2021 super fund fee study results are published later this year.

PORTFOLIO HOLDINGS DISCLOSURE

Rainmaker has for several years now been monitoring the incidence of super funds publishing details of their portfolio holdings. Unfortunately, this practice of portfolio holdings disclosure (PHD) is observed by far too few super funds, and even for the funds that do practice it, it is implemented inconsistently.

This low take-up of PHD is, in Rainmaker's view, the result of ASIC repeatedly delaying the date at which they would require funds to compulsorily disclose their holdings.

Note that Rainmaker strongly advocates that all super funds should practice PHD for the simple reason that super fund members have the right to know precisely what assets their superannuation savings are being invested into. And this disclosure should be complete, ie, for all assets across all asset classes and investment options.

Unpublished research conducted into portfolio in early 2021 found:

- PHD is practiced by only 60 super funds, being about one-third of APRA-regulated super funds.
- Most funds that practice PHD do so for their equities holdings, with only a small number doing so other asset classes such as property, bonds, infrastructure, private equity and cash.
- Of the funds that disclose their major shareholdings, they typically disclose only the largest 20 holdings, 6-monthly in arrears.
- Not-for-profit super funds are much more likely to practice PHD than retail super funds. While not many retail funds practice PHD, their number is, however, increasing.

/ENDS

For more information, please contact Rainmaker.

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