December 2008

RICE warner
ACTUARIES

Superannuation Fees Report 2008

Market Segment Analysis
at 30 June 2008

Prepared for IFSA
By Michael Rice, Director

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1. Executive Summary

1.1 Our Brief

IFSA has requested that Rice Warner update its biennial report on superannuation fees. The latest report is based on figures for the year ending 30th June 2008. The work updates our last report based on data as at June 2006. It includes:

- A survey of the retail market to collect detailed information on the levels actually charged in cases where there are discretionary fees;
- Separating fees for legacy products (refer to sections 9.5 and 10.3);
- Separating fees into the major components of fund manager, administration (member recordkeeping), promoter or platform provider, and adviser (refer to sections 4.3, 5.4, 6.3, 7.4, 8.4, 9.5, 10.3, 11.1.3 and 11.2.3);
- Separating costs which relate to financial advice (refer to section 2.4); and
- Researching the SMSF market more thoroughly to reflect comments made by IFSA members on the conclusions reached last time (refer to section 7).

In addition, IFSA has requested that we gain further information in the following areas:

- The impact of scale on the cost efficiencies in the various sectors of the industry. This extends the analysis made in previous reports for master trusts which were separated into small and large sub-plans. This has now been extended into all other major categories (refer to sections 4.3, 5.4, 8.4, 9.5 and 10.3);
- Potential segmentation of the data into public offer versus other funds;
- The flow of SG contributions into the various sectors of the industry (ideally for each size of fund) (refer to section 1.3.4);
- An indication of how the advice costs are paid for across the sectors and broken down into SG and other FUM (refer to section 1.3.4); and
- On looking at the value of advice - IFSA would like to consider the role advice plays in asset allocation, increasing the levels of investment (those with advice contribute more than the basic 9%) and life insurance.

1.2 Changes since Previous Report

Since the previous June 2006 Report we have made the following improvements and changes:

- We have improved our data collection processes for the corporate, industry, public sector and ERF segments. This has also allowed us to increase our sample size in most of these segments;

- We have separated administration and platform provider fees. In previous reports we had included the platform provider fees in the administration fees. This separation only affects the corporate super master trusts, personal superannuation and retirement income segments;

- We have provided an estimate of the cost of advice for the corporate, industry and public sector segments. These estimates were based on discussions with service providers;

- We have reviewed the fee levels for the SMSF sector; and

- We have broken down the fees for the personal superannuation and retirement income segments into open and legacy products. However, lack of credible data meant that we were unable to separate fees in a similar manner for corporate super master trusts.

1.3 Key Findings

1.3.1 Change in total market

We estimate that the overall fees for the whole superannuation industry, expressed as a percentage of assets, averaged **1.21%** for the year to June 2008 (on assets of $1,173 billion).

Our estimate for the year to June 2006 was **1.26%** (on assets of $913 billion).

These results show that fees, when expressed as a percentage of assets, have reduced marginally over the past 2 years. Indeed this has been a continuing trend (see our table in section 3.3 which sets out expense rates for 2002, 2004, 2006 and 2008).

The largest changes occurred in the following segments:

- Small Corporate Super Master Trust Plans (i.e. plans with less than $5 million in assets) (0.11% increase);

- Self Managed Super (Small) Funds (0.11% increase); and

- Personal Superannuation (0.12% reduction).

1.3.2 Key Drivers

In general, the key drivers influencing fee reduction over the last two years are:

- Increased size of average account balances;

- The decline in legacy products (which generally have higher fees);

- A number of mergers between industry funds and some between master trusts resulting in greater economies of scale;

- The large number of corporate funds that have outsourced. There is keen competition amongst the specialist multi-employer funds to win this business. They usually offer an MER some 10 to 30 bps p.a. lower than the stand-alone corporate fund;

- Higher one off expenses incurred by funds in 2006 to comply with RSE Licensing not being replicated in 2008; and

The factors influencing an increase in fees include:

- Cost of compliance;
- Higher advertising and marketing expenses as a result of Choice of Fund;
- Higher investment fees due to performance related charges by fund managers. These are based on the investment manager's out-performance relative to a benchmark and are paid as long as the manager out-performs that benchmark despite negative investment returns; and
- Higher member benefit protection costs in the year to 30 June 2008 due to negative investment returns. Funds are able to charge a fee up to the level of interest allocated, but can not charge any fee when earnings are negative.

1.3.3 Summary of Results

The tables below show the composition of the expense rates for 2008 and 2006 in terms of the cost of administration, platform, investment management and the cost of advice. Note that in 2006 we included the platform fees in administration costs.

Table 1. Fees and Expenses 2008

Fees and Expenses By Superannuation Segment - Year to 30 June 2008							
Sector	Segment	Administration %	Platform %	Investment Management %	Administration, Platform & Investment Management	Cost of Advice %	Total Fees %
Wholesale	Corporate	0.24	-	0.47	0.71	0.02	0.73
	Corporate Super Master Trust[1] (large)	0.20	0.01	0.56	0.78	0.02	0.79
	Industry	0.38	-	0.67	1.05	0.02	1.07
	Public Sector	0.21	-	0.46	0.67	0.02	0.69
Retail	Corporate Super Master Trust[2] (small)^	0.41	0.43	0.81	1.66	0.46	2.12
	Personal Superannuation	0.17	0.61	0.70	1.47	0.53	2.00
	Retirement Income	0.20	0.42	0.69	1.31	0.53	1.84
	Retirement Savings Accounts	0.60	-	1.70	2.30	-	2.30
	Eligible Rollover Funds	2.03	-	0.47	2.49	-	2.49
Small Funds	Self Managed Super Funds	0.31	-	0.52	0.83	0.15	0.98
Total		**0.28**	**0.14**	**0.59**	**1.02**	**0.19**	**1.21**

* Expressed as a % of *average* assets over the year to 30 June 2008.
^ The difference between the 2008 values and 2006 values is the result of better data.

[1] Excludes employer plans with less than $5 million in assets.
[2] Employer plans with less than $5 million in assets.

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Table 2. Fees and Expenses 2006

Fees and Expenses By Superannuation Segment - Year to 30 June 2006						
Sector	Segment	Administration %	Investment Management %	Administration & Investment Management	Cost of Advice %	Total Expenses %
Wholesale	Corporate	0.30	0.48	0.78	-	0.78
	Corporate Super Master Trust[3] (large)	0.23	0.56	0.79	0.02	0.81
	Industry	0.49	0.64	1.13	-	1.13
	Public Sector	0.25	0.45	0.70	-	0.70
Retail	Corporate Super Master Trust[4] (small)	0.78	0.77	1.55	0.46	2.01
	Personal Superannuation	0.80	0.77	1.57	0.55	2.12
	Retirement Income	0.60	0.66	1.26	0.53	1.79
	Retirement Savings Accounts	0.60	1.70	2.30	-	2.30
	Eligible Rollover Funds	2.08	0.45	2.53	-	2.53
Small Funds	Self Managed Super Funds	0.47	0.26	0.73	0.15	0.87
Total		**0.52**	**0.54**	**1.06**	**0.21**	**1.26**

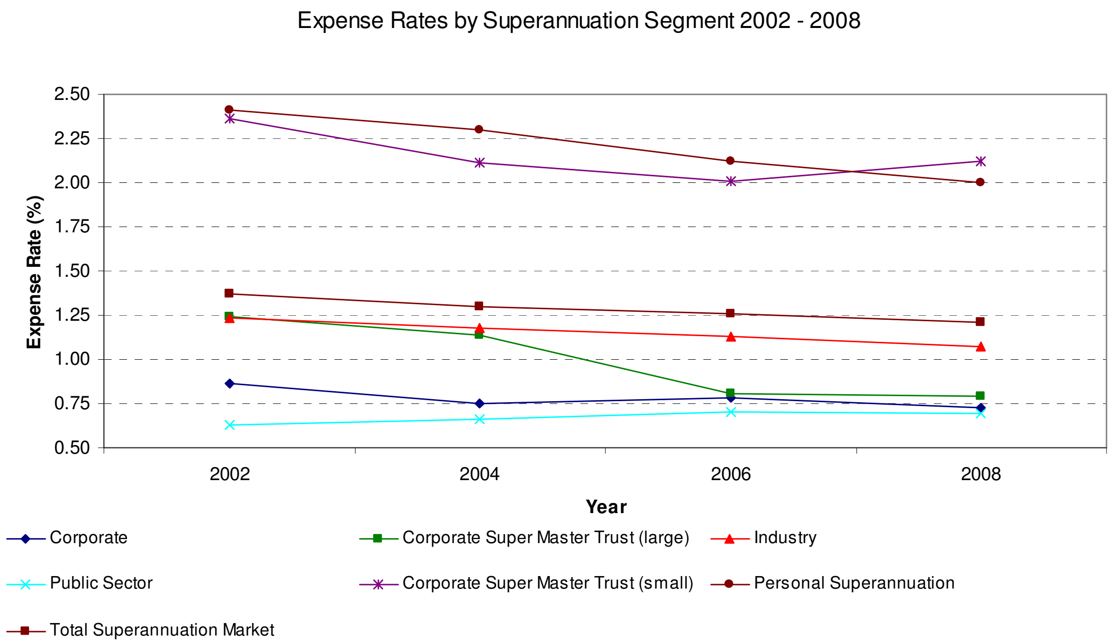
Note: The cost of advice in these tables only includes costs paid out of fund fees. Some advice is paid separately by members

Table 3. Expenses Rate

Expenses Rate By Superannuation Segment					
Sector	Segment	Expense Rate % 2008	Expense Rate % 2006	Expense Rate % 2004	Expense Rate % 2002
Wholesale	Corporate	0.73	0.78	0.75	0.86
	Corporate Super Master Trust (large)	0.79	0.81	1.14	1.24
	Industry	1.07	1.13	1.18	1.23
	Public Sector	0.69	0.70	0.66	0.63
Retail	Corporate Super Master Trust (small)	2.12	2.01	2.11	2.36
	Personal Superannuation	2.00	2.12	2.30	2.41
	Post Retirement	1.84	1.79	2.04	2.02
	Retirement Savings Accounts	2.30	2.30	2.30	2.30
	Eligible Rollover Funds	2.49	2.53	2.53	2.53
Small Funds	Self Managed Super Funds	0.98	0.87	1.01	1.08
TOTAL (%)		**1.21**	**1.26**	**1.30***	**1.37***

[3] Excludes employer plans with less than $5 million in assets.
[4] Employer plans with less than $5 million in assets.

Graph 1. Expense Rates by Superannuation Segment



1.3.4 Superannuation Guarantee Contributions

Over the year to 30 June 2008 total superannuation contributions amounted to approximately $106 billion. Total concessional superannuation contributions comprised about $67 billion of this $106 billion total. This represents about 13% of employee earnings.

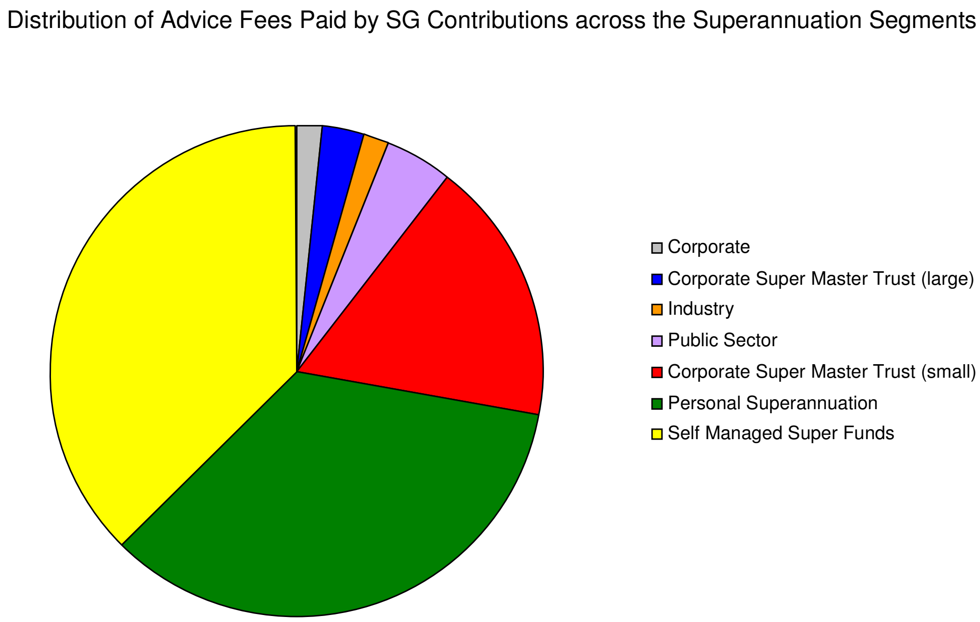
Concessional contributions comprise three components, namely:

- The SG contributions;
- Company contributions above 9% (e.g. the Federal public servants receive a contribution of 15.4% of salary); and
- Salary Sacrifice (and contributions from self-employed persons).

We estimate that the SG component is about $44 billion of this (it is not 9/13 * $67 billion as the SG is capped on wages of about $145,000). We also estimate that approximately $0.4 billion of this SG component is used to pay advice fees.

The chart below shows our estimate of how the advice fees paid from SG contributions are spread across the superannuation market segments. We estimate that the bulk of the advice fees paid by SG contributions may be attributed to the personal superannuation and SMSF segments.

Chart 1 Variation within Segments



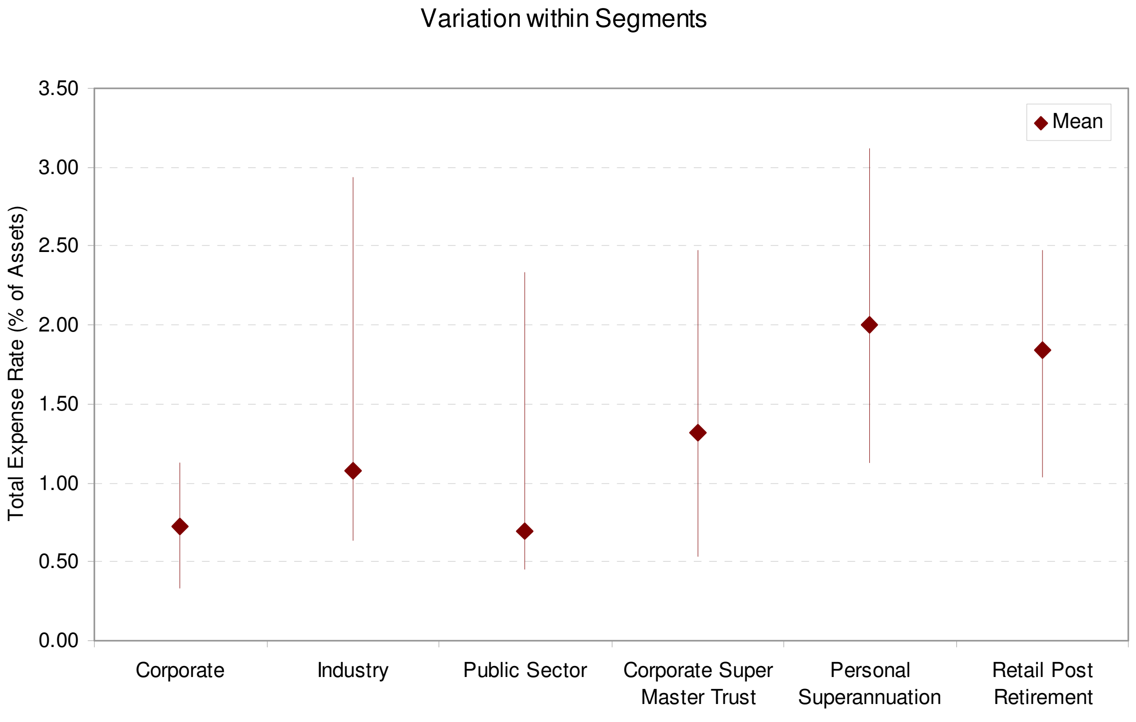
1.4 Variation within Segments

In this report, we show that fees and expenses vary by segment. It is possible to conclude that some segments are dearer than others. However, there are several reasons for the differences and they need to be understood before any direct comparison can be made.

The figure below illustrates the extent of variation in expenses within each segment, based on our samples (with outliers removed). The overall mean fees occur low within the ranges, indicating that the number of expensive funds within each segment is relatively small. But it is certainly not true to say that one category is cheaper than another as it depends entirely on the fund chosen.

As is illustrated by the chart below, there are some industry funds that do not include the cost of advice that are more costly than the mean for personal super funds which do include the cost of advice. This chart illustrates that care needs to be taken when making general statements about the costs associated with any sector.

Graph 2. Variation within Segments



This report was prepared and peer reviewed for IFSA by the following consultants.

Prepared by

Michael Rice
Director
17th December 2008

Peer Reviewed by

Jeff Warner
Director
17th December 2008

2. Market Overview

2.1 Background

Fees and other expenses levied by superannuation funds or otherwise paid by members of those funds are an important aspect of the superannuation industry. They have come under particular scrutiny since the introduction of dollar fee disclosure and "Choice of Fund" for many private sector employees from 1 July 2005.

The media often draws attention to areas where charges are high, and the industry provides media releases from time to time updating the public with information on fee charges and their disclosure.

The various segments of the market operate differently and provide different services. Accordingly, they have different charging structures and experiences. Moreover, changes are occurring within the market which makes it important for information to be updated from time to time.

This report provides an analysis of the fees and expenses in respect of each of the major market segments, suggests reasons for differences and comments on perceived trends.

Over the last 8 years, Rice Warner Actuaries has prepared material on this subject for the Investment Funds and Superannuation Association (IFSA). Some of the numbers in this report referencing previous years' results have been obtained from those reports.

2.2 APRA Statistics

APRA's *Annual Superannuation Bulletin* for the year to 30 June 2007 provides the starting point for analysis of superannuation accounts. The publication detailed 30.4 million superannuation accounts with $1,143 billion in assets by broad market segment. We have combined data published in APRA's *Annual Superannuation Bulletin* with APRA's *Quarterly Superannuation Performance Statistics* at 30 June 2008 and also with our own analysis and other data to arrive at the following breakdown of superannuation accounts and assets as at 30 June 2008 by industry segment:

Table 4. Industry Segments

Industry Segments			
Industry Segment	**Funds**	**Members ('000)**	**Assets ($m)**
Corporate	228	643	61,500
Industry	72	10,832	199,300
Public Sector	40	3,470	170,200
Retail	166	16,106	341,500
Small Funds	393,610	770	362,500
Other	n/a	n/a	37,000
Total	**394,116***	**31,820***	**1,171,900***

* APRA's statistics does not include RSA's.

The "other" shown in the above table is made up of superannuation amounts included in life office statutory funds that APRA has not attributed to the fund types listed.

The total number of members shown actually represents the number of different accounts held by all members. Many members have accounts in more than one fund. We have estimated total members based on actual numbers published by APRA as at 30 June 2007 and the underlying trends.

The overall superannuation industry assets have risen over the year to 30 June 2008 by 2.5%. However, there is some variation between the segments as shown in the following table:

Table 5. Assets – Percentage Change by Industry

Assets - Percentage Change by Industry Segment 2007/08	
Industry Segment	**%**
Corporate	-11.1
Industry	1.0
Public Sector	-4.2
Retail	-7.6
SMSF	26.5
Total	**2.5**

Average balances in members' accounts in the different segments are set out below:

Table 6. Average Member Balances

Average Member Balances at 30 June 2008				
Industry Segment	**Accounts ('000)**	**Members ('000)**	**Assets ($m)**	**Average Member Balances ($)**
Corporate	643	461	61,500	133,493
Industry	10,832	6,059	199,300	32,895
Public Sector	3,470	1,697	170,200	100,302
Retail*	16,106	7,311	341,500	46,710
SMSF	770	657	362,500	551,884
Other	n/a	n/a	37,000	n/a
Total	**31,820**	**16,184**	**1,171,900**	**72,417**

* APRA's statistics does not include RSA's.

Note that these figures represent the average amount of assets available to a member from *all* their superannuation accounts.

2.3 Retail Market Analysis

APRA's report shows that assets for the Retail Market totalled $341,500 million at 30 June 2008, with 16,106 member accounts. In addition, there was a "Balance of Life Office Statutory Funds" of $37,000 million.

The APRA report further details $1,200 million in Retirement Savings Accounts. These assets are not regulated under the Superannuation Industry Supervision Act 1993, and as a result are not included in APRA's total assets. We estimate that there were 120,000 such member accounts.

APRA's "balance" item of $37,000 million includes reserves held within Statutory Funds as well as the assets backing a range of legacy policies. Clearly, no fees are charged on unallocated reserves, so these should be separated from the assets backing legacy policies. Unfortunately, the breakdown is not shown in published material, but we have estimated the unallocated reserves to be $5 billion.

Aggregating the above figures, total retail assets amounted to $379,700 million at 30 June 2008 in respect of 16.2 million member accounts. We have sub-divided these retail assets (including the "balance") into the following market segments, based on our internal analysis:

Table 7. Retail Market Segments

Retail Market Segments		
Industry Segment	**Member Accounts ('000)**	**Assets ($millions)**
Corporate Super Master Trust	1,501	90,046
Personal Superannuation	7,664	190,184
Post-Retirement Products	1,264	86,913
Retirement Savings Accounts	120	1,200
Eligible Rollover Funds	5,677	6,357
Statutory Fund Reserves	-	5,000
Total	**16,226**	**379,700**

Much of the corporate super master trust (employer-sponsored) segment has characteristics of wholesale rather than retail markets and this segment is further divided to reflect different fee levels for different sizes as follows:

Table 8. Corporate Super Master Trust Segments

Corporate Super Master Trust Segments		
Employer Sub-plan Size	**Member Accounts ('000)**	**Assets ($millions)**
> $5m ("Wholesale" Plans)	907	54,422
< $5m ("Retail" Plans)	594	35,624
Total Corporate Super Master Trusts	**1,501**	**90,046**

2.4 Cost of Advice

Our estimates of expenses include fees charged for financial advice in some segments. The table below compares our estimates of the cost of advice for the year to 30 June 2008 for the segments where financial advice is included to our estimates in our previous report for the year to 30 June 2006.

We have estimated the cost of advice based on the amount of commission contained within the fees charged to members. We have also allowed for upfront commissions and have amortised these costs over 10 years. We sampled data from several retail financial institutions to obtain the levels of commission actually paid within the market. This is lower than the levels shown in PDS documents, where most show the maximum allowable.

Table 9. Cost of Advice (% of assets)

Cost of Advice (% of assets) - Comparison to Year to 30 June 2006			
Segment	Cost of Advice Year to 30 June 2008	Cost of Advice Year to 30 June 2006	Difference (2008 - 2006)
Corporate Super Master Trust (Wholesale)[5]	0.02	0.02	0.00
Corporate Super Master Trust (Retail)[6]	0.46	0.46	0.00
Personal Superannuation	0.53	0.55	-0.02
Retail Retirement Income	0.53	0.53	0.00
Self Managed Super Funds	0.15	0.15	0.00

There was generally no change in the estimated costs of advice over the period except for a marginal reduction in the retail personal superannuation segment.

[5] Excludes employer plans with less than $5 million in assets.
[6] Employer plans with less than $5 million in assets.

3. Background

3.1 Variation between Segments

Our analysis of fees paid by superannuation funds shows that fees vary between segments. The difference is largely due to:

- Cost of advice provided to employers and members;
- Cost of platform or administration structure;
- Economies of scale;
- Regulatory differences (between ATO and APRA regulated funds);
- Advertising and promotional costs for public-offer funds in a competitive environment;
- Variations in servicing standards and educational activities between funds; and
- Variations in product features, in particular, the range of investment and insurance options.

Appendix A shows the items that affect fee/expense levels in each segment.

In carrying out the work, the focus has been on the cost to members. Thus it is the fees and charges which have been levied on the funds or under the superannuation products which have been incorporated. Therefore, some expenses are not included; these include:

- Costs borne by companies which subsidise their staff super fund by employing staff and donating executive time; and
- The costs of financial planning where members pay for this directly (fee for service)

We present an overall expense ratio for ease of comparison. However, this figure must be treated cautiously. As new information comes to hand, we are able to confirm and revise our previous estimates. We consider that our overall expense ratio is accurate to within 10 basis points. It is not possible to be more precise than this due to the assumptions required.

APRA's statistical reports *Annual Superannuation Bulletin 2007* and *Quarterly Superannuation Performance, June 2008* provide much of the data and statistics on which this report is based.

Unfortunately, APRA's returns from the superannuation funds do not capture all the information necessary for useful analysis. In some cases, costs are treated as deductions from investment income; in other situations, charges are levied on members outside the superannuation funds.

APRA's figure for "Total Operating Expenses" for the Corporate, Industry, Public Sector and Retails segments in 2007/08 totals $5,570 million. Our estimate, allowing for all the fees and charges impacting superannuation members' balances, determined from our detailed examination of market data, is $14,093 million.

3.2 Consolidated Results

A summary of fees and expenses by segment is as follows:

Table 10. Fees and Expenses by Superannuation Segment

Fees and Expenses By Superannuation Segment - Year to 30 June 2008				
Sector	**Segment**	**Members ('000)**	**Assets ($m)**	**Expenses ($m)**
Wholesale	Corporate	643	61,500	494
	Corporate Super Master Trust[7] (large)	907	54,222	438
	Industry	11,270	222,498*	2,419
	Public Sector	3,032	147,002*	1,057
Retail	Corporate Super Master Trust[8] (small)	594	35,624	766
	Personal Superannuation	7,664	190,184	3,848
	Retirement Income	1,264	86,913	1,405
	Retirement Savings Accounts	120	1,200	26
	Eligible Rollover Funds	5,677	6,357	147
Small Funds	Self Managed Super Funds	770	362,500	3,494
Statutory Fund Reserves		-	5,000	-
Total		**31,940^**	**1,173,200**	**14,093**

* These figures are different from APRA's totals as we have included UniSuper under Industry Funds whereas APRA classifies the fund as Public Sector.

^ We have estimated total members based on actual numbers published by APRA as at 30 June 2007 and the underlying trends.

3.3 Summary of Current Expense Rates

The current charging scale of the various segments of the superannuation industry can be simplified to the following expense rates expressed as a percentage of assets. These include an allowance for the contribution charges applying to retail products, typically paid to the financial adviser for financial advice. The table below summarises the findings of the report. It is difficult to make direct comparisons between the fees charged by each segment because the product segments vary in the services and advice they provide.

Table 11. Expenses Rate by Superannuation Segment

Expenses Rate By Superannuation Segment					
Sector	**Segment**	**Expense Rate % 2008**	**Expense Rate % 2006**	**Expense Rate % 2004**	**Expense Rate % 2002**
Wholesale	Corporate	0.73	0.78	0.75	0.86
	Corporate Super Master Trust[7] (large)	0.79	0.81	1.14	1.24
	Industry	1.07	1.13	1.18	1.23
	Public Sector	0.69	0.70	0.66	0.63
Retail	Corporate Super Master Trust[8] (small)	2.12	2.01	2.11	2.36
	Personal Superannuation	2.00	2.12	2.30	2.41
	Post Retirement	1.84	1.79	2.04	2.02
	Retirement Savings Accounts	2.30	2.30	2.30	2.30
	Eligible Rollover Funds	2.49	2.53	2.53	2.53
Small Funds	Self Managed Super Funds	0.98	0.87	1.01	1.08
TOTAL (%)		1.21	1.26	1.30*	1.37*

* Restated from the previous report due to more accurate data now available

[7] Excludes employer plans with less than $5 million in assets.
[8] Employer plans with less than $5 million in assets.

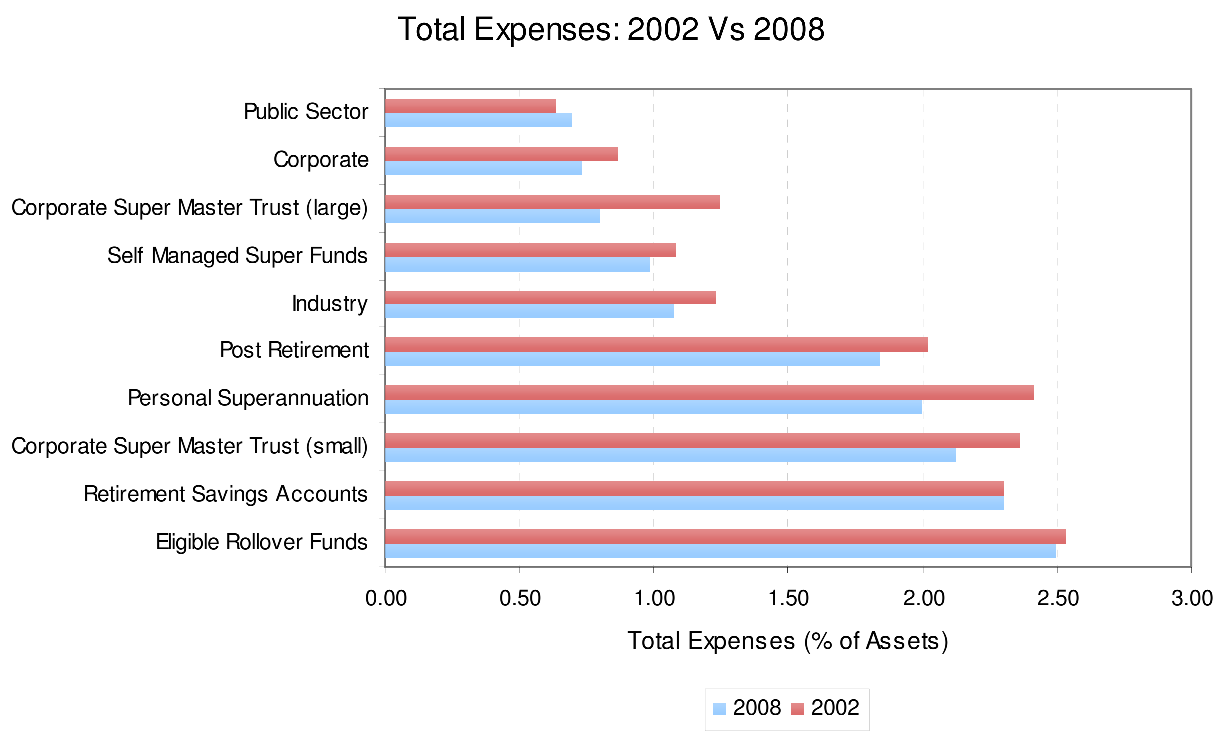
In dollar terms, the estimated total expenses are:

- Year to 30 June 2008: $14,093 million
- Year to 30 June 2006: $10,475 million
- Year to 30 June 2004: $8,104 million

The table shows that while corporate funds, wholesale corporate master trusts and public sector funds remain the least expensive funds when cost is measured as a percentage of assets, costs across the board are reducing as a percentage of assets.

The figure below shows total expenses in 2002 Vs 2008. The retail master trust segments (Corporate Super, Personal Super, Post Retirement) and Self Managed Super Funds have shown the largest reductions over the six years.

Graph 3. Total Expenses



3.4 Impact of Advice

Superannuation is complex and a number of advisers including actuaries, lawyers and superannuation consultants provide advice to funds. The cost of these services is paid by the trustees out of the fees charged by the fund. Some employers and members also seek advice but the payment methods vary for this service.

Large employers with their own fund tend to pay for advice on a fee-for-service basis. Sometimes the cost is borne separately by the employer but it is often paid by the trustee as a cost to the fund. A large sub-fund of a master trust or industry fund may require additional services and the funds will charge appropriately for these.

An area where practice is polarised is financial planning. Industry funds tend not to provide advice to members in bulk but offer some limited advice as an additional service. Members taking up this service pay for it in different ways. In some cases, the initial advice is provided free (that is, borne by the fund out of its overall fees); in others members are charged a fee by the fund; and finally sometimes the advice fee is kept low via a subsidy

In the retail sector, it is common for the cost of advice to be built into the fee structure. As advice is provided on a continuous basis, the most common fee structure is a "trail commission", namely a regular payment related to the assets managed. This fee covers advice provided to the employer (eg benefit design, default investment or insurance structure) and to individual members on their personal circumstances.

The table below compares our estimates of adviser fees charged over 2008 to those charged over 2006:

Table 12. Cost of Advice by Superannuation Segment

Cost of Advice by Superannuation Segment* (%)			
Sector	**Segment**	**Adviser % 2008**	**Adviser % 2006**
Wholesale	Corporate	0.02	-
	Corporate Super Master Trust[9] (large)	0.02	0.02
	Industry	0.02	-
	Public Sector	0.02	-
Retail	Corporate Super Master Trust[10] (small)	0.46	0.46
	Personal Superannuation	0.53	0.55
	Retirement Income	0.53	0.53
	Retirement Savings Accounts	-	-
	Eligible Rollover Funds	-	-
Small Funds	Self Managed Super Funds	0.15	0.15
Total		**0.19**	**0.21**

* Expressed as a % of *average* assets over the year to 30 June 2008.

Note: The cost of advice in the table only includes costs paid out of fund fees. Some advice is paid separately by members

[9] Excludes employer plans with less than $5 million in assets.
[10] Employer plans with less than $5 million in assets.

The cost of advice (as a percentage of assets) has reduced in all retail market segments. This has happened for a number of reasons:

- Increased competition has lead to lower fees;
- Higher average balances have seen commissions decrease as a percentage of assets;
- As account balances have grown, contribution fees have decreased as a percentage of all assets.

We have estimated that the cost of advice for corporate, industry and public sector funds is approximately 0.02% of assets. These advice costs are often paid out of the administration fees collected. We have adjusted the administration fees for these sectors to reflect this. Our estimates of the cost of advice for these three market segments are based on discussions with service providers.

3.5 Retail Sector

The total costs associated with the retail sector of the market are higher; this is partly because the cost of advice is included in the fees. Retail costs are also higher due to product flexibility, including choice of options and more complex reporting requirements.

For wholesale corporate funds and industry funds, advice is not factored into the cost of the product which leads to the perception of lower total fees.

3.6 Results by Segment

There are different trends between segments.

3.6.1 Corporate Funds

As the smaller (more expensive) corporate funds exit the market, we would expect the overall expenses for this segment to decrease as the remaining funds are larger and operate at lower cost. We consider that this trend will accelerate as all but about 100 of the very large corporate funds gradually exit this segment.

Costs as a percentage of assets have decreased from 0.78% two years ago to 0.73%. Note the trend for this segment as set out in the table in section 3.3 shows a general reduction since 2002, but with an increase in 2006 due to the one off costs incurred by corporate funds to obtain an RSE License. Fees in this segment remain relatively low and this can be partly ascribed to the high average account balances in corporate funds, as well as subsidisation of costs by employers.

Total fees and expenses for the year vary by fund size. Funds with more than $5 billion average 0.59%, whereas those under $50 million average 1.58%.

3.6.2 Industry Funds

Industry funds have been revamping their product offerings, either by increasing member services within the original product or by developing a new corporate super master trust product. There have also been mergers between industry funds, the most high profile being the merger of STA and ARF on 1 July 2006 to form AustralianSuper. More recently JUST Super and Print Super have merged to form Media Super.

Some industry funds now compete successfully with the retail master trust providers. However, they need to price these enhanced more flexible services differently to the base industry fund product.

Fees as a percentage of assets have reduced over the last two years from 1.13% to 1.07% due to growth in average member account balances, as well as growth in the average asset base due to fund mergers. The trend has been for fees to reduce, although we note since 30 June 2008 some funds have increased their fees (notably AustralianSuper from $1 per week to $1.50 per week). We believe that the reinvestment in systems and the broader services provided by these funds is increasing the underlying cost structure of industry funds.

3.6.3 Public Sector Funds

The public sector funds typically have higher average member balances than those in retail master trusts and industry funds. The dollar fees per member for the public and corporate funds, when expressed as a percentage of assets, are therefore lower than in other segments.

These are the cheapest funds due to high membership and large balances. The expense rate of 0.69% of assets has marginally decreased from 0.70% of assets in 2006.

3.6.4 Corporate Super Master Trusts

These funds have the most sophisticated arrangements of any segment. They are effectively equivalent to Corporate Funds which have outsourced most of their management and administration.

Competition in the market is strongest in this segment and as a result the level of member services and product features in this segment is more comprehensive than in any other segment. A few large industry funds also compete for complex employer sub-plans, however, this is a relatively small component for industry funds.

The fees vary by the size of the employer. For very large funds, the costs are comparable to stand-alone corporate funds – costs for plans over $20 million average 0.73% of assets. Medium to large plans have fees comparable to industry funds, costs averaging 1.17% of assets for plans with assets between $5 million and $20 million. The average costs for plans smaller than $5 million are 2.12% of assets; this is close to retail levels, reflecting the extra cost of advice provided by financial planners.

Overall costs as a percentage of assets are 1.32%, a reduction from 1.36% for the year to 30 June 2006. Fees for plans with more than $5 million in assets have fallen marginally from 0.81% in 2006 to 0.79% in 2008.

3.6.5 Personal Superannuation

The expense ratio for the Personal Super Segment reflects that fees for these products include the cost of financial planning and the relatively higher costs of a retail product (due to absence of scale); furthermore, these products are not granted fee reductions based on the total assets of the employer. However, advisers will often discount financial planning fees nowadays. Overall fees, in percentage of assets terms, have decreased from 2006, from 2.12% to 2.00%. A reduction in investment management fees (as a percentage of assets) has been the major contribution to the overall decrease.

3.6.6 Post-retirement products

Fees for this segment have marginally increased over the last 2 years, from 1.79% of assets at 30 June 2006 to around 1.84% of assets at 30 June 2008.

3.6.7 Self Managed Superannuation Funds (SMSFs)

These funds comprise self-managed funds and APRA approved funds with less than 5 members.

These funds are cheaper than retail arrangements due to the large average balances held by members. Further, only a portion use regular financial planning advice (which costs about 0.15% of assets p.a. when spread over all funds). In addition, where administration and investment selection are not outsourced, it is carried out by the members on a private basis. The time spent by members on these self-administration activities is an additional 'cost' which is not reflected in our analysis.

An increase in the estimated costs for assets held in fixed interest securities and cash (from 0.02% to 1.00%) is largely responsible for the significant increase in the average costs for these funds from 0.87% to 0.98% over the last two years. The reasoning behind this dramatic increase is that most SMSF entities use a retail cash management trust for their bank account. The fee on this is about 1% p.a.. Other cash is held in term deposits which arguably also have a fee of at least 1% p.a. of the deposit.

We have also assumed that 30% of funds obtain advice from a financial adviser, and this has been included in the estimated costs.

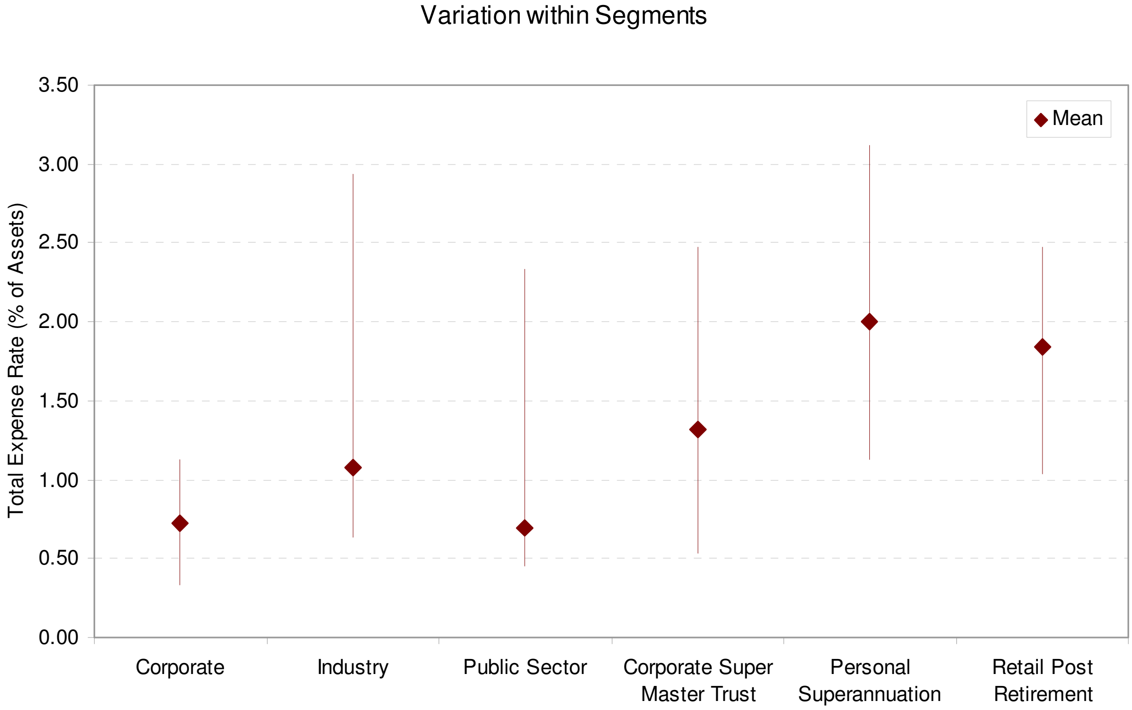
3.7 Variation within Segments

In this report, we show that fees and expenses vary by segment. It is possible to conclude that some segments are dearer than others. However, there are several reasons for the differences and they need to be understood before any direct comparison can be made.

The figure below illustrates the extent of variation in expenses within each segment, based on our samples (with outliers removed). The overall mean fees occur low within the ranges, indicating that the number of expensive funds within each segment is relatively small. But it is certainly not true to say that one category is cheaper than another as it depends entirely on the fund chosen.

As is illustrated by the chart below, there are some industry funds that do not include the cost of advice that are more costly than the mean for personal super funds which do include the cost of advice. This chart illustrates that care needs to be taken when making general statements about the costs associated with any sector.

Graph 4. Variation within Segments



3.8 Dollar Fee Disclosure

All statements to members from July 2005 must show fees expressed in dollars. These fees include all asset-based fees currently deducted from earning rates. The following table sets out the fees which would apply had a member been in a typical fund for the segment. As the fee often varies with account balance, we have shown different examples. These have been constructed by considering for each segment the component of the fee which is typically fixed in dollar terms, and the component of the fee which is typically asset-based.

The difference in fee levels needs to be considered in conjunction with the differences in services. Further, the figures on the next page are based on the average fee for the segment.

However, there is a wide range within segments.

Table 13. Average Dollar Fee by Account Balance

Average Dollar Fee By Account Balance				
Sector	**Segment**	**$5,000**	**$20,000**	**$50,000**
Wholesale	Corporate	85	185	390
	Corporate Super Master Trust[11]	80	175	360
	Industry	100	210	440
	Public Sector	60	155	345
Retail	Corporate Super Master Trust[12]	180	460	1,020
	Personal Superannuation	125	420	1,015
	Retirement Income	115	385	925
	Retirement Savings Accounts	115	460	1,150
	Eligible Rollover Funds	125	500	1,245

The table below expresses the variation in fees by account balance in percentage terms:

Table 14. Average Fee by Account Balance (% of Assets)

Average Fee By Account Balance (% of Assets)				
Sector	**Segment**	**$5,000**	**$20,000**	**$50,000**
Wholesale	Corporate	1.67	0.92	0.78
	Corporate Super Master Trust[11]	1.61	0.87	0.72
	Industry	1.96	1.06	0.88
	Public Sector	1.21	0.78	0.69
Retail	Corporate Super Master Trust[12]	3.58	2.29	2.04
	Personal Superannuation	2.45	2.10	2.03
	Retirement Income	2.26	1.91	1.85
	Retirement Savings Accounts	2.30	2.30	2.30
	Eligible Rollover Funds	2.49	2.49	2.49

[11] Excludes employer plans with less than $5 million in assets.
[12] Employer plans with less than $5 million in assets.

4. Corporate Funds

4.1 Nature of Corporate Funds

A Corporate Fund is an employer-sponsored superannuation fund managed under its own trust deed. It is sponsored by a single employer or several closely related employers.

The trustees must comprise equal numbers of employer and member representatives. The trustees, as with all superannuation funds, are responsible for all compliance, including audit, lodgement of statutory returns and communications with members.

The administrative and legal requirements of the current superannuation regime include APRA RSE licenses. This has added significant complexity and compliance risk for corporations and many have wound up their funds and transferred members and assets into other funds.

This has reduced the number of corporate funds and, as it is the smaller funds which have exited first, increased the average size of the remaining funds.

Many corporate funds have a defined benefit (often closed to new members) and accumulation (defined contribution) structure, though there has been a gradual decline in the number of defined benefit arrangements.

Company funds charge members for services at cost. Many services are subsidised for larger funds. For example, the time spent by trustees and the fund secretary will be donated by some organisations and some costs and insurance premiums are also paid by some funds. In this analysis, we have not allowed for the value of any subsidies from the employers.

Some funds are self-administered and others outsource this function. The vast majority use external fund managers to invest the assets of the fund, though some funds have direct investments.

4.2 Market Data

APRA statistics report total stand-alone corporate superannuation assets as $61.5 million as at 30 June 2008. Data was obtained by examining the charging structures of a sample of 26 corporate funds with combined assets of $54.1 billion. The data was obtained from an examination of the 30 June 2008 annual reports of the funds, supplemented by other published material. The sample amounts to just under 88% of the corporate fund assets totalling $61.5 billion.

The annual returns of the corporate superannuation funds do not usually include the separately disclosed costs of investment management. However, many now have accumulation sections with investment choice which indicate investment management charges. We have used this information in conjunction with estimates of investment management charges where no data was available.

As expenses vary by size of fund, we have segmented total assets into different size segments (under $50 million, $50-$500 million, $500 million to $1 billion, etc.). We show the breakdown of expenses for these segments.

4.3 Current Expense Charges

We expressed the expenses incurred by each of the sample funds as a percentage of average fund assets over the year. The asset percentages calculated from the sample data were in line with our expectations – that is, they are inversely proportional to fund size, indicating economies of scale (size).

We increased these percentages by the cost of investment management expenses. The estimated investment management charges ranged from 0.90% of assets for funds under $50 million to 0.42% for funds over $5 billion.

We adjusted the estimated expense rates in each segment to allow a smooth progression in the expense rate from segment to segment. We then applied these smoothed expense rates to the total of the funds in each segment to determine the total expenses incurred by the corporate funds. Our sample did not contain any funds with assets under $50 million. We estimated expenses for these funds through extrapolation from the other segments and our general market knowledge.

The results are given in the following table:

Table 15. Corporate Fund Expenses

Corporate Fund Expenses – Year to 30 June 2008					
Fund Size	Funds	Members ('000)	Assets ($m)	Expense Rate* (%)	Expenses ($m)
under $50 million	135	19	1,816	1.58	32
$50 to 500 million	72	153	5,399	1.14	68
$500 million to $1 billion	6	33	4,006	0.89	39
$1 to $2 billion	6	68	8,106	0.77	69
$2 to $5 billion	5	134	12,357	0.67	92
over $5 billion	4	235	29,816	0.59	194
Total	**228**	**643**	**61,500**	**0.73**	**494**

* Expressed as a % of *average* Corporate Fund assets over the year to 30 June 2008.

The calculated expenses of $462 million for funds greater than $50 million compares with the total reported to APRA of $342 million. The difference is largely due to investment management expenses being deducted from investment earnings for the purposes of reporting to APRA.

We estimate the breakdown of expenses by function to be as follows:

Table 16. Corporate Fund Expenses (%)

Corporate Fund Expense Rate* (%) – Year to 30 June 2008				
Fund Size	Administration	Investment Management	Advice	Total
under $50 million	0.66	0.90	0.02	1.58
$50 to 500 million	0.52#	0.60	0.02	1.14
$500 million to $1 billion	0.32	0.55	0.02	0.89
$1 to $2 billion	0.25	0.50	0.02	0.77
$2 to $5 billion	0.20	0.46	0.02	0.67
over $5 billion	0.16	0.42	0.02	0.59
Total	**0.24**	**0.47**	**0.02**	**0.73**

* Expressed as a % of *average* Corporate Fund assets over the year to 30 June 2008.
# The increase of 0.08% since our previous report is the result of better data.

The relatively low expense rate of 0.73% is a function of relatively high average member balances, economies of scale and absence of distribution expenses.

The administration fees level off, partly due to complex benefit design amongst some larger funds. Investment management fees are highly correlated to fund size and they reduce as assets grow.

The overall fee level of 0.73% is lower than our previous estimate of 0.78% as at 30 June 2006. The 0.05% decrease is due a decrease in investment management charges of 0.02%, combined with a reduction in the administration expenses of 0.04%. The previous estimate also took into account the one off costs incurred by funds to obtain an RSE License.

5. Industry Funds

5.1 Nature of Industry Funds

An Industry Fund is a regulated superannuation fund providing full administration and communication services, and a number of insurance and investment options. Most of the larger industry funds have public offer status.

Industry Funds have an umbrella trust deed and a trustee that is independent of members and employers. Board members of the trustee company are split between employee representatives and employer representatives, usually being appointed by trade unions and employer associations respectively. Some funds also have one or more independent Board members.

The same member fees apply irrespective of size of employer. An exception is made for the tailored company sub-funds where the benefit design is non-standard. For example, some funds allow defined benefit members on different insurance arrangements.

Fees charged are normally expressed as a fixed amount per week – typically $1.00 to $1.50. These fees are not always sufficient to meet the costs of running the funds and, in an increasing number of cases, a supplement is also taken out of investment earnings. For example, REST has an explicit levy of 0.10% and Equipsuper has an explicit levy of 0.15% of fund assets.

The investment management fees are deducted from fund earnings and, they vary by investment option; with the more complex/aggressive options incurring higher fees. Typically, for the larger funds, the investment management expense ratios range from 0.35% for a Capital Stable option up to 0.65% of assets for a Growth Option. A typical balanced option would attract a fee in the range of 0.55% - 0.80% of assets.

Many industry funds declare crediting rates periodically (typically monthly). The administration is cheaper than a unit-pricing structure but is subject to more manual processes. Costs will rise slightly in this segment as more funds convert to unit-pricing.

5.2 Member Protection

Many industry funds have large numbers of “protected” inactive members with balances less than $1,000, for whom contributions have ceased or are received irregularly. The experience of industry funds has generally been that the investment earnings foregone on protected members’ account balances are not sufficient compensation for expenses incurred in maintaining these accounts. Consequently, a small reduction is made in the overall crediting rate to make allowance for the cost of managing these accounts, i.e. the cost is effectively spread over the remaining membership.

The cost of member protection is estimated to be of the order of 0.10% of assets on average for industry funds. Funds in other segments also incur this cost but have fewer members with balances below $1,000. However, as member protection is essentially a cost transfer from members with low balances to other members, there is no cost to the fund in aggregate, and the cost is therefore not reflected in the aggregate expense rates in our analysis below.

5.3 Market Expense Data

APRA statistics show that there were 72 industry funds at 30 June 2008 with total assets of $199.3 billion. This compares with 81 funds as at June 2006 with assets of $150.5 billion. The number of industry funds in the market is gradually declining (the majority through mergers with large funds).

APRA's statistics for industry funds do not include the $23.2 billion industry fund UniSuper, which it classifies as a public sector fund. However, we have classified UniSuper as an industry fund for the purposes of this report. The fund is generally regarded as an industry fund, and its structure more closely resembles that of an industry fund. Hence, our figures show 73 industry funds at 30 June 2008 with total assets of $222.5 billion.

We have examined the 2008 annual reports of 65 industry funds with total assets of $211.3 billion (93.2% of the industry funds total). In total, the funds reported investment and administration expenses of $2.2 billion.

We adjusted the estimated expense rates in each segment to allow a smooth progression in the expense rate from segment to segment. We then applied these smoothed expense rates to the total of the funds in each segment to determine the total expenses incurred by the industry funds. Our sample did not contain any funds with assets under $50 million. We estimated expenses for these funds through extrapolation from the other segments, our general market knowledge and past data.

Expenses vary considerably between funds and are influenced by the number of members, average account balance, number of employers (particularly small employers not using electronic payment of contributions), member protection and performance fees on investment returns.

5.4 Total Industry Fund Expenses

We estimate that total incurred expenses were $2,419 million, which may be expressed as 1.07% of assets over the year. This is considerably higher than APRA's estimate of the investment and operating expenses of industry funds over the period, which may be expressed as 0.75% of assets on the same basis. However, our analysis includes an estimate of investment management expenses deducted from fund earnings in addition to the explicit investment costs reported in the accounts.

Industry fund expenses are estimated to vary by size of fund as follows:

Table 17. Industry Funds Expenses

Industry Funds Expenses – Year to 30 June 2008					
Fund Size	Funds	Members ('000)	Assets ($m)	Expense Rate† (%)	Expenses ($m)
under $50 million	8	5	101	2.02	2
$50 to $500 million	18	383	4,880	1.70	84
$500 million to $1 billion	14	1,010	10,783	1.45	159
$1 to $2 billion	10	777	13,996	1.26	179
$2 to $5 billion	12	1,361	37,687	1.11	425
over $5 billion	11	7,733	155,052	1.00	1,570
Total	**73**	**11,270**	**222,498***	**1.07**	**2,419**

* Includes $23.2 billion assets in UniSuper which APRA includes in its public sector fund statistics.
† Expressed as a % of *average* Industry Fund assets over the year to 30 June 2008.

The estimated breakdown of fees by function was as follows:

Table 18. Industry Funds Expenses Rate (%)

Industry Funds Expense Rate* (%) – Year to 30 June 2008				
Fund Size	Administration	Investment Management	Adviser	Total
under $50 million	1.30	0.71	0.02	2.02
$50 to $500 million	0.98	0.70	0.02	1.70
$500 million to $1 billion	0.74	0.69	0.02	1.45
$1 to $2 billion	0.56	0.68	0.02	1.26
$2 to $5 billion	0.42	0.67	0.02	1.11
over $5 billion	0.32	0.66	0.02	1.00
Total	**0.38**	**0.67**	**0.02**	**1.07**

* Expressed as a % of *average* Industry Fund assets over the year to 30 June 2008.

The lower expense ratio is in part due to strong growth of the asset base through fund mergers and increased levels of contributions. This was partially offset by an increase in investment management charges (mainly due to increased investment in non-listed assets).

The fee, when expressed as a percentage of assets, is higher than the average expense rates for corporate funds and very large retail corporate super master trusts. This reflects the lower average member balances within industry funds.

Industry funds tend not to provide advice to members in bulk but offer some limited advice as an additional service. Members taking up this service pay for it in different ways. In some cases, the initial advice is provided free (that is, borne by the fund out of its overall fees); in others members are charged a fee by the fund; and finally sometimes the advice fee is kept low via a subsidy

6. Public Sector Funds

6.1 Nature of Public Sector Funds

Public sector funds are funds operated for the benefit of the employees of government departments and agencies. There is a strong trend away from defined benefit plans, many unfunded, to defined contribution plans, particularly for new employees.

Most funds are open for public sector employees only. As a result, administration of some aspects of these funds is relatively simple (e.g. the fund does not have to contend with multiple pay centres) and the corresponding expenses are therefore low. However, this is starting to change with some large funds moving to public offer status.

Further, some funds have complicated benefit design and that leads to higher costs.

6.2 Market Data

APRA's statistics indicate that there were 40 public sector funds as at 30 June 2008 with assets of $170.2 billion. APRA's statistics for public sector funds include the $23.2 billion industry fund UniSuper, which we have included as an industry fund in this report. Hence, our figures show 39 public sector funds at 30 June 2008 with total assets of $147.0 billion.

We examined the 2008 annual reports of a sample of 14 public sector funds. The sample funds had total assets of $100.4 billion, which represents 68% of the public sector fund total. The overall average cost of administration was 0.23% of assets.

Nearly all sample funds disclosed their direct investment costs. However, in most cases there are other costs which are deducted from the investment earning rate. Based on our analysis of these funds we estimated that the average cost of investment was approximately 0.46% of assets.

6.3 Current Expense Charges

We have calculated a total expense ratio of 0.69%. This is marginally lower than our estimate at 30 June 2006 (0.70% p.a.). The overall decrease is the result of a decrease in administration costs offset by a small increase in investment management costs. We estimate total expenses for the sector at $1,057 million.

Table 19. Public Sector Funds Expenses

Public Sector Funds Expenses† - Year to 30 June 2008				
	Members ('000)	Assets ($m)	Expense Rate* (%)	Expenses ($m)
Total Public Sector	3,032	147,002	0.69	1,057

* APRA's public sector fund statistics include a further $23.2 billion assets in UniSuper, included under industry funds in this report.

† Expressed as a % of *average* Public Sector Fund assets over the year to 30 June 2008.

We estimate the breakdown of expenses by function to be as follows:

Table 20. Public Sector Funds Expense Rate (%)

Public Sector Funds Expense Rate* (%) – Year to 30 June 2008				
	Administration	Investment Management	Adviser	Total
Total Public Sector	**0.21**	**0.46**	**0.02**	**0.69**

* Expressed as a % of *average* Public Sector Fund assets over the year to 30 June 2008.

Public sector funds have similar structures to industry funds for providing financial planning advice.

7. Self Managed Super Funds

7.1 Nature of Small Funds

A Self-Managed Superannuation Fund, or SMSF, is often colloquially known as a DIY Fund. There are two distinct product offerings in this segment, namely:

- An Approved Trustee service (regulated by APRA). This segment was once 10% of the DIY market but is now about 1% and shrinking. Australian Executor Trustees (ex Tower Trust), Trust Company of Australia and Perpetual hold more than 60% of these "small-APRA" funds.

- The majority of funds have members as trustees and are regulated by the ATO. Each member must be a trustee or a director of the trustee. Funds may have no more than four members and the typical fund has two.

7.2 Market Statistics

At 30 June 2008 there were 387,936 funds regulated by the ATO with $358.3 billion of assets. Note that in September 2008 APRA substantially increased its calculation of the assets of this segment.

There were only 5,538 small-APRA funds with $4.1 billion of assets.

APRA's Small Funds statistics further include $0.1 billion of assets in respect of single-member Approved Deposit Funds (ADFs). This brings the total assets in this segment to $362.5 billion.

7.2.1 Asset Allocation

The ATO has issued detailed figures as at 30 June 2008. The assets of funds at that date were invested as follows:

Table 21. Asset Allocation

Asset Allocation	$m	%
Cash	97,215	27.1
Loans	1,917	0.5
Equities	178,603	49.9
Property	44,937	12.5
Other	9,734	2.7
Overseas	2,198	0.6
Life policies	269	0.1
Other managed	23,396	6.5
Total assets	**358,269**	**100.0**

While the cash component looks high, this reflects the investment strategy of many retired people who simply use term deposits (and secure the capital of their investments). The equity component has grown in recent years and property has reduced. This suggests that newer funds have tended to use online share broking as the prime vehicle for investment.

It should be noted that managed funds are a small, but growing, proportion of investments.

7.2.2 Membership

The ATO also shows membership by age at June 2008. Just over half of all members are over 55 but less than 17% are above Age Pension age (65 for males):

Table 22. Membership

Age ranges	Male (54.0%)	Female (46.0%)	Total
<25	1.0%	1.0%	1.0%
25-34	4.8%	5.0%	4.9%
35-44	14.5%	16.9%	15.6%
45-54	26.2%	28.9%	27.5%
55-64	34.3%	34.2%	34.2%
>64	19.2%	13.9%	16.8%

7.2.3 Fund Size

The latest ATO figures for the last two financial years to 30 June 2007 show that the percentage of those with account balances of less than $200,000 is reducing - from 33% in 2005/2006 to 25% in 2006/2007.

Conversely, there has been an increase in the funds that have a balance above $1 million from 19% in 2005/2006 to 29% in 2006/2007. Fund performance is likely to have been a key contributor to this growth.

Table 23. Fund Size

Asset Range	2005-06	2006-07
$0 - $50,000	10.5%	8.0%
$50,000-$100,000	8.0%	5.8%
$100,000-$200,000	14.0%	11.0%
$200,000-$500,000	27.3%	24.1%
$500,000-$1m	21.0%	22.1%
$1m-$2m	13.0%	17.5%
$2m-$5m	5.4%	9.7%
$5m-$10m	0.7%	1.6%
$10m-$100m	0.2%	0.3%
Total	**100.0%**	**100.0%**

7.3 Expenses

The SMSF segment is highly fragmented with a number of specialist administrators and a number of self-administered portfolios. As with other segments, costs fall into 3 categories, namely investments, operating expenses and advice.

7.3.1 Administration (Operating Costs)

The operators of small funds usually have services provided by an accountant. Accounting firms usually have a charge of $2,000 to $3,000 for the combined accounting/audit function. Where a specialist administrator is used, the separate audit fee is typically $400 to $600. However, the overall cost is similar. This fee does not vary by size of fund.

Where an accountant is the sole service provider, fees are typically around $2,500 per year. This includes the cost of audit, tax lodgement and annual review. There are other costs such as updating trust deeds, ATO levy and bank charges. Together these probably average about $300 per fund a year.

The total costs probably average $2,800 a fund, or $1,086 million. Small APRA funds would have higher costs than this at around $5,000 a fund, or $28 million. This brings the total operating costs for small funds to $1,114 million. This is equivalent to 0.31% of average small fund assets over the year to 30 June 2008. The reduction from our previous year’s estimate is largely due to the increase in assets in this segment.

7.3.2 Investment Costs

To determine investment costs, we have assumed that the individuals largely manage the direct investments themselves, making no charge on the funds. The estimated costs by asset class for the ATO regulated funds ($358.3 billion) are:

Table 24. Estimated Invesment Costs

Asset Class	Estimated Investment Costs Investment Fees & Transaction Costs	Asset Distribution	Investment Costs ($ million)
Managed Investments	0.90%	6.6%	210
Fixed Interest Securities and Cash	1.00%	27.1%	957
Listed Shares	0.20%	49.9%	352
Direct Property	0.50%	12.5%	221
Other	0.50%	3.9%	68
Total	**0.51%**	**100.0%**	**1,807**

Most SMSF entities use a retail cash management trust for their bank account. The fee on this is about 1% p.a.. Other cash is held in term deposits which arguably also have a fee of at least 1% p.a. of the deposit.

Managed investments are generally held through an investment platform. Investment fees are typically in the order of 0.90% of assets.

To determine investment costs for the other asset classes, we have relied on discussions with service providers as to the broad breakdown of investments, and our other experience with the costs associated with the management of those investments.

The small APRA funds are more likely to invest in managed funds and will attract an asset-based fee on all investments. We estimate the average investment cost to be 0.90% of assets over the year, or $37 million.

The total investment fee for this segment is $1,845 million for total assets of $362.5 billion, or 0.52% of average assets over the year to 30 June 2008.

7.3.3 Advice Costs

Where services are supplied through an investment adviser, there are added advisory services relating to retirement planning, investment strategy and technical matters.

Based on the views of various suppliers of services to self managed funds, we have assumed that financial planners/advisers are involved in about 30% of the market. We have estimated that the cost of this service additional service (advice) is 0.50% of assets on average.

The total cost for the advice is therefore 0.15% of assets, or $535 million over the year to 30 June 2008.

7.4 Summary of SMSF Expenses

Aggregating our estimates of Investment Management Expenses, Operating Costs and Advice Costs, we estimate that SMSFs paid total expenses of 0.98% of assets, which amounted to $3,494 million over the year to 30 June 2008.

Table 25. SMSF Expense Summary

SMSF Expense Summary - Year to 30 June 2008				
Funds	Members ('000)	Assets ($m)	Expense Rate* (%)	Expenses ($m)
393,474	770	362,500	0.98	3,494

* Expressed as a % of *average* SMSF assets over the year to 30 June 2008.

The estimated breakdown of expenses by function is as follows:

Table 26. SMSF Expense Rate (%)

SMSF Expense Rate* (%) - Year to 30 June 2008				
	Administration (Operating Costs)	Investment Management	Advice	Total
Total Self Managed Super Funds	0.31	0.52	0.15	0.98

* Expressed as a % of *average* SMSF assets over the year to 30 June 2008.

8. Corporate Super Master Trusts

8.1 Nature of Corporate Super Master Trusts

A Retail Corporate Super Master Trust is a public-offer, regulated superannuation fund providing full administration and communication services, and a number of insurance and investment options. Many managers of the trusts are owned by the major banks and other financial services groups.

The master trust has the facility to accept contributions from any employer and cater for the needs of a typical employer-sponsored plan. The funds have an umbrella trust deed and a trustee that is independent of members and employers (but is related to the fund sponsor).

The products often include facilities for personal superannuation business, non-super investments and post-retirement products such as account-based pensions.

Competition in the market is strongest in this segment and as a result the level of member services and product features in this segment is more comprehensive than in any other segment. A few large industry funds also compete for complex employer sub-plans. However, this is a relatively small component for industry funds.

8.2 Market Data

Corporate super master trust superannuation can be divided into two broad segments.

Where the assets of the corporate sub-plan are less than $5 million, the services of an investment adviser are generally used (or the employer may deal directly with the master trust, particularly if the product is owned by a bank). The fee scale published in the Product Disclosure Statement (PDS) of the master trust will generally apply, though initial fees will vary according to the time taken to set up the plan. If the services of an adviser are used, the adviser is rewarded on a commission basis (and possibly also with service fees). These are retail products.

Where the assets exceed $5 million, the employer generally uses the services of a professional adviser to select the master trust. The trust is selected after a tender and the fee scale is substantially less than the PDS scale. The professional adviser is rewarded by a fee for actual service rather than by a commission based on the value of business. This is not an economic option for smaller funds as the cost of employing a fee-based consultant would be prohibitive. Further, the commission is paid by members, whereas a consulting fee would normally be paid by the employer.

These products are effectively wholesale for business over $5 million, though they are included in the Retail segment by APRA because they are often part of the same public offer fund as retail business.

We have determined the market fees by reference to a survey of the fees charged by 5 master trust providers operating in this market for a range of plan sizes. We have supplemented this data by our own experience of the fee levels charged by master trusts in outsourcing tenders over the period.

We have calculated the fee rates separately for each sub-segment.

8.3 Advice Services

In contrast to industry funds where employers do not require specific advice about benefit design or the suitability of a fund, master trusts are often used by employers seeking such advice.

Advisers will help employers select a fund, develop an appropriate level of insurance benefits and select and monitor the default investment strategy. Advisers will also attend policy committee meetings and deal with some members' queries.

The comprehensive advice services provided by the master trust manager, whether directly or through a financial adviser, are covered by the product charges. For some smaller arrangements the adviser may negotiate an extra fee.

Estimates of the amounts involved are shown separately in the summary below.

8.4 Current Expense Charges

The results of our calculations are shown in the following table. The expense ratios are calculated assuming that investments are within the default "growth" funds. In practice, some members will choose investment options with a higher growth component, attracting higher fees, and some will choose investment options with a lower growth component, attracting lower fees. The default options generally strike a balance, and represent a position close to the average investment allocation.

The distribution of assets between the plan size segments is based on our market knowledge and a survey of master trusts. The total amount of the assets for the sector has also been obtained from our analysis of various reports.

Table 27. Corporate Super Master Trust Expenses

Corporate Super Master Trust Expenses - Year to 30 June 2008			
Employer Plan Size	Assets ($m)	Expense Rate* (%)	Expenses ($m)
>$50 m	39,607	0.71	287
$20m - $50m	6,584	0.81	54
$10m - $20m	3,814	0.99	38
$5m - $10m	4,417	1.32	59
Sub-total	**54,422**	**0.79**	**438**
$2m - $5m	4,638	1.87	88
$1m - $2m	4,603	2.05	96
< $1 m	26,383	2.18	583
Sub-total	**35,624**	**2.12**	**766**
Total	90,046	1.32	1,204

* Expressed as a % of *average* Corporate Super Master Trust assets over the year to 30 June 2008.

The expenses of $1,204 million represent 1.32% of the average assets. However, the average fee after excluding smaller funds (those less than $5 million) is only 0.79% of assets. This expense rate for the larger employer plans is comparable with the average expense rate of corporate funds.

Our estimate of Corporate Super Master Trust expenses at 30 June 2006 was higher at 1.36%.

We estimate that total expenses varied by function as set out below:

Table 28. Corporate Super Master Trust Expense Rate (%)

Corporate Super Master Trust Expense Rate* (%) - Year to 30 June 2008					
Employer Plan Size	**Administration**	**Platform**	**Investment Management**	**Adviser**	**Total**
>$50 m	0.17	0.00	0.54	0.00	0.71
$20m - $50m	0.22	0.00	0.57	0.03	0.81
$10m - $20m	0.32	0.00	0.58	0.05	0.95
$5m - $10m	0.36	0.18	0.67	0.12	1.32
$2m - $5m	0.38	0.44	0.78	0.26	1.87
$1m - $2m	0.40	0.49	0.82	0.34	2.05
< $1 m	0.42	0.42	0.82	0.52	2.18
Total	**0.29**	**0.18**	**0.66**	**0.19**	**1.32**

* Expressed as a % of *average* Corporate Super Master Trust assets over the year to 30 June 2008.

We separate these into wholesale (employer plan size greater than $5 million) and retail (less than $5 million) as follows:

Table 29. Corporate Super Master Trust Expense Rate (%)

Corporate Super Master Trust Expense Rate* (%) - Year to 30 June 2008					
Employer Plan Size	**Administration**	**Platform**	**Investment Management**	**Adviser**	**Total**
Employer sub-funds over $5m	0.20	0.01	0.56	0.02	0.79
Employer sub-funds under $5m^	0.41	0.43	0.81	0.46	2.12
Total	**0.29**	**0.18**	**0.66**	**0.19**	**1.32**

* Expressed as a % of *average* Corporate Super Master Trust assets over the year to 30 June 2006.
^ The difference between the 2008 values and 2006 values is the result of better data.

9. Personal Superannuation

9.1 Nature of Personal Superannuation Products

Personal superannuation products are offered by public offer super funds which invest the whole of their funds into life company superannuation policies or pooled superannuation (unit) trusts (PSTs) and master trusts. They include full administration and communication services, and a number of insurance and investment options.

They accept contributions (single or regular) in respect of individuals. The participants are the self-employed, people with preserved benefits, and the employees of small businesses which do not establish their own super funds for them.

9.2 Charging Methods

Product prices include the cost of advice, which are usually charged for the initial consultation (up-front fee, expressed as a percentage of the initial contribution/amount invested) and ongoing advice (trail commission, which is based on the size of the account balance).

'Nil Entry Fee' products have similar charging structures to 'Entry Fee' products, but the entry fee is amortised over several years (typically 3 – 4 years). That is, the entry fee is deferred rather than nil.

We have set out ranges of some typical charges that apply to retail products:

Fees and Charges	Fee
Entry Fee	0 – 5% Contribution (Deposit)
Administration/ Account Keeping/ Member Fee	$0 - $100 p.a.
Management Charges	1.0% - 2.5% Account Balance
Other Charges	Up to 0.4% Account Balance
Switching Charges	Up to $20 plus asset based fee
Withdrawal/ Termination Charges	Applicable for Nil Entry: up to 5%, amortised over several years (typically 3-4 years)

9.3 Market Data

There is a wide group of products ranging from conventional life insurance contracts (traditional and investment account, now closed to new business) through to savings plans and managed funds. The cost structures vary considerably. We have based our analysis on a survey of the actual fees charged by a number of personal superannuation master trusts. Our sample included a number of legacy products.

9.4 Adviser Services

Virtually all individuals effecting personal superannuation do so through the services of a professional financial adviser. The cost of these services is mainly incorporated in the product charges. However, in some cases the financial advisers may negotiate with their clients an annual fee for advice.

Within the product, adviser costs are recognised in initial and contribution charges under the current on sale products and on going commissions. The contribution charges may be up to 5% for smaller amounts invested and regular contributions. In the case of larger contributions, the initial fee is usually negotiated down to lower percentages, sometimes to zero.

9.5 Current Expense Charges

The estimated total expense rate over the year, including the cost of advice is 2.00%. The breakdown by size of account was as follows:

Table 30. Personal Super Expenses

Personal Super Expenses - Year to 30 June 2008			
Account Balance	Assets ($m)	Expense Rate* (%)	Expenses ($m)
>$1 million	5,942	1.70	102
$500,000 - $1 million	20,311	1.75	359
$250,000 - $500,000	39,854	1.80	728
$100,000 - $250,000	57,223	1.89	1,094
$50,000 - $100,000	33,814	2.01	690
$25,000 - $50,000	19,516	2.23	442
<$25,000	13,523	3.16	433
Total	**190,184**	**2.00**	**3,848**

* Expressed as a % of *average* Personal Super assets over the year to 30 June 2008.

Our estimates of the fees by function are as follows:

Table 31. Personal Super Expense Rate (%)

Personal Super Expense Rate* (%) - Year to 30 June 2008					
Account Balance	Administration	Platform	Investment Management	Adviser	Total
>$1 million	0.01	0.49	0.66	0.54	1.70
$500,000 - $1 million	0.02	0.53	0.67	0.52	1.75
$250,000 - $500,000	0.03	0.57	0.68	0.51	1.80
$100,000 - $250,000	0.07	0.61	0.69	0.51	1.89
$50,000 - $100,000	0.16	0.64	0.71	0.51	2.01
$25,000 - $50,000	0.31	0.68	0.72	0.53	2.23
<$25,000	1.08	0.69	0.73	0.66	3.16
Total	**0.17**	**0.61**	**0.70**	**0.53**	**2.00**

* Expressed as a % of *average* Personal Super assets over the year to 30 June 2008.

The overall expense rate of 2.00% represents a decrease over the last four years (2.12% in 2006 and 2.30% in 2004).

Charges in legacy products will tend be higher than those for products currently on sale (open products). However, these products represent only a small part of the total personal superannuation business. The total expense rate for the legacy business in our sample was 2.34% of assets, compared to 1.99% of assets for open products. As the legacy business matures, average Personal Superannuation fees will fall further.

Our estimates of the fees for open products and legacy products by function are as follows:

Table 32. Personal Super Open Products Expense Rate (%)

Personal Super Open Products Expense Rate* (%) – Year to 30 June 2008					
Account Balance	Administration	Platform	Investment Management	Adviser	Total
>$1 million	0.01	0.41	0.68	0.53	1.63
$500,000 - $1 million	0.01	0.47	0.69	0.52	1.69
$250,000 - $500,000	0.02	0.54	0.70	0.51	1.78
$100,000 - $250,000	0.05	0.62	0.71	0.51	1.89
$50,000 - $100,000	0.10	0.72	0.72	0.51	2.06
$25,000 - $50,000	0.20	0.82	0.74	0.53	2.30
<$25,000	0.74	0.95	0.75	0.67	3.11
Total	**0.11**	**0.64**	**0.71**	**0.53**	**1.99**

* Expressed as a % of *average* Personal Super assets over the year to 30 June 2008.

Table 33. Personal Super Legacy Products Expense Rate (%)

Personal Super Legacy Products Expense Rate* (%) – Year to 30 June 2008					
Account Balance	Administration	Platform	Investment Management	Adviser	Total
>$1 million	0.01	0.90	0.44	0.58	1.94
$500,000 - $1 million	0.02	0.96	0.44	0.55	1.98
$250,000 - $500,000	0.05	1.03	0.45	0.52	2.04
$100,000 - $250,000	0.10	1.10	0.45	0.50	2.14
$50,000 - $100,000	0.21	1.17	0.45	0.49	2.32
$25,000 - $50,000	0.42	1.25	0.46	0.49	2.61
<$25,000	1.15	1.33	0.46	0.59	3.54
Total	**0.24**	**1.14**	**0.45**	**0.51**	**2.34**

* Expressed as a % of *average* Personal Super assets over the year to 30 June 2008.

10. Retail Retirement Income Products

10.1 Nature of Retirement Income Products

Retirement Products cover a range of individual, retail, regulated products. They provide full administration, communication services and a number of investment options.

They do not accept contributions, being designed to convert a lump sum amount into a regular income stream. Products include guaranteed lifetime and term certain annuities and allocated pensions.

10.2 Market Data

Allocated pensions/annuities account for 88% (82% in 2006) of the assets of the segment, and guaranteed annuities (i.e. term certain and lifetime annuities) for the other 12% (18% in 2006). Annual charges for allocated pensions are slightly lower than charges for personal superannuation due to the economies of scale gained from the much larger average balances. These outweigh the cost of the additional administration associated with paying pensions.

We estimate that the average charge for allocated pensions equates to 1.86% of assets.

Guaranteed annuities do not have an explicit charge, but we estimate the implicit charge as 1.70% of assets based on our knowledge of the market.

10.3 Current Expense Charges

Based on the previous section and our sub-division of the APRA data, we estimate that retirement income investors were charged $1,405 million in the year to 30 June 2008. This is an average 1.86% of assets.

Table 34. Post Retirement Product Expenses

Post Retirement Product Expenses* – Year to 30 June 2008	Assets ($m)	Expense Rate* (%)	Expenses ($m)
Allocated Pensions Account Balance			
>$1 million	4,166	1.51	55
$500,000 - $1 million	12,633	1.60	175
$250,000 - $500,000	21,026	1.73	314
$100,000 - $250,000	25,435	1.91	419
$50,000 - $100,000	9,995	2.16	186
$25,000 - $50,000	2,802	2.54	61
<$25,000	465	3.91	16
Total Allocated Pensions/Annuities	**76,521**	**1.86**	**1,224**
Guaranteed Annuities	**10,392**	**1.70**	**180**
Total Retail Post Retirement	**86,913**	**1.84**	**1,405**

* Expressed as a % of *average* Retail Post Retirement assets over the year to 30 June 2008.

Our estimates for the year to 30 June 2006 were 1.82% of assets and 1.70% of assets for allocated pensions and guaranteed annuities respectively.

The estimated Allocated Pensions expense rates by function and the total guaranteed annuities expense rate are as follows:

Table 35. Allocated Pension Expense Rate (%)

Allocated Pension Expense Rate* (%) – Year to 30 June 2008					
Account Balance	Administration	Platform	Investment Management	Adviser	Total
>$1 million	0.01	0.33	0.63	0.53	1.51
$500,000 - $1 million	0.01	0.38	0.68	0.53	1.60
$250,000 - $500,000	0.02	0.44	0.73	0.53	1.73
$100,000 - $250,000	0.05	0.51	0.79	0.56	1.91
$50,000 - $100,000	0.10	0.58	0.85	0.63	2.16
$25,000 - $50,000	0.22	0.67	0.92	0.73	2.54
<$25,000	0.99	0.77	0.98	1.17	3.91
Total Allocated Pensions	**0.05**	**0.48**	**0.76**	**0.57**	**1.86**
Total Guaranteed Annuities	**1.25**	**-**	**0.20**	**0.25**	**1.70**
Total Retail Post Retirement	**0.20**	**0.42**	**0.69**	**0.53**	**1.84**

* Expressed as a % of *average* Allocated Pension assets over the year to 30 June 2008.

The fee estimates reflect the Personal Superannuation market, but with lower administration and platform charges.

Our estimates of the fees for open products and legacy products by function are as follows:

Table 36. Allocated Pension Open Products Expense Rate (%)

Allocated Pension Open Products Expense Rate* (%) – Year to 30 June 2008					
Account Balance	Administration	Platform	Investment Management	Adviser	Total
>$1 million	0.01	0.36	0.60	0.49	1.45
$500,000 - $1 million	0.01	0.42	0.64	0.51	1.57
$250,000 - $500,000	0.02	0.48	0.69	0.54	1.73
$100,000 - $250,000	0.05	0.55	0.74	0.59	1.92
$50,000 - $100,000	0.10	0.63	0.80	0.66	2.19
$25,000 - $50,000	0.21	0.72	0.86	0.78	2.58
<$25,000	0.95	0.83	0.93	1.21	3.92
Total	**0.05**	**0.52**	**0.72**	**0.57**	**1.86**

* Expressed as a % of *average* Allocated Pension assets over the year to 30 June 2008.

Table 37. Allocated Pension Legacy Products Expense Rate (%)

Allocated Pension Legacy Products Expense Rate* (%) - Year to 30 June 2008					
Account Balance	Administration	Platform	Investment Management	Adviser	Total
>$1 million	0.01	0.20	0.81	0.43	1.45
$500,000 - $1 million	0.01	0.23	0.87	0.45	1.56
$250,000 - $500,000	0.03	0.27	0.94	0.48	1.71
$100,000 - $250,000	0.06	0.31	1.01	0.53	1.91
$50,000 - $100,000	0.12	0.35	1.09	0.62	2.18
$25,000 - $50,000	0.26	0.40	1.17	0.75	2.59
<$25,000	1.16	0.46	1.26	1.25	4.14
Total	**0.06**	**0.29**	**0.98**	**0.52**	**1.85**

* Expressed as a % of *average* Allocated Pension assets over the year to 30 June 2008.

10.4 Comparison to Other Retirement Income Products

Our estimate of the industry and public sector funds' total expenses included expenses derived from retirement income products. To put the fees charged on retail retirement income products into perspective, we detail the range of fees charged by the retail, industry and public sector segments below (these figures were sourced from product disclosure statements):

Product Disclosure Statement Fees		
Segment	$ Fees	% Fees*
Retail	0 – 78	1.50 – 2.00
Industry	0 – 200	0.50 – 1.00
Public Sector	0 – 52	0.50 – 1.00

*Includes administration and investment management fees.

The table above shows that the asset based fees for the retail segment are typically 1.00% greater than for the industry and public sector segments. Note: that although the range of dollar fees charged by industry funds is quite wide, only a handful of funds actually charge more than $78.

11. Other Retail Products

11.1 Retirement Savings Accounts (RSAs)

11.1.1 Nature of RSAs

Retirement Savings Accounts are capital guaranteed superannuation accounts operated by financial institutions without any trust arrangement. Contributions to these products can be made by employers or members. These products are run like simple bank accounts and they do not include any superannuation services or financial advice.

11.1.2 Market Data

Seven institutions offer RSAs; five of these are currently open to new monies. There are also RSA "look-alikes" offered as an investment-option in some master trusts. Account fees vary based on whether an explicit fee or an interest rate spread is used.

Where an interest rate spread is used, it is necessary to treat this as the implicit fee on the product. If this is not done, the fee will appear to be negligible. We estimate that the average implicit fee is 1.2% for small account balances of less than $5,000.

Our estimated range of fees and charges is set out below:

Fees and Charges	Typical Charges
Account Keeping/ Member Fee	$0 – $30p.a.
Implicit Charge	
$0 - $1,000	Protected
$1,000 - $4,999	1.25% - 2.84%
$5,000 - $9,999	0.75% - 2.41%
$10,000 - $49,999	0.25% - 1.99%
Over $50,000	0.00% - 1.77%

11.1.3 Current Expense Charges

Based on the previous section, we retain our previous estimate of 2.30% of assets for this market segment. This amounts to total fees of $26 million in the year to 30 June 2008. The relatively high average percentage of assets of 2.30% reflects the low average balance for this product.

Total RSA Fund Expenses – Year to 30 June 2008		
Assets ($m)	**Expense Rate* (%)**	**Expenses ($m)**
1,200	**2.30%**	**26**

* Expressed as a % of *average* Retirement Savings Account assets over the year to 30 June 2008.

The estimated Retirement Savings Account expense rates by function are as follows:

Retirement Savings Account Expense Rate* (%) - Year to 30 June 2008	Administration	Investment Management	Adviser	Total
Total Retirement Savings Account	**0.60**	**1.70**	**-**	**2.30**

* Expressed as a % of *average* Retirement Savings Account assets over the year to 30 June 2008.

11.2 Eligible Rollover Funds (ERFs)

11.2.1 Nature of ERFs

When a member leaves a superannuation fund and gives no direction as to how their account is to be administered, the trustee of the fund may transfer the account to an Eligible Rollover Fund. ERFs consist of many small accounts and have traditionally maintained a conservative investment style. However, some funds are now moving towards more aggressive investments with some holding up to 60% of the investments in growth assets.

The ERF market is estimated to be approximately $6,357 million at 30 June 2008.

11.2.2 Market Data

We have used fund documents to estimate the size of the ERF market and the expense charges. Our fee estimates are based on the entire ERF market.

11.2.3 Current Expense Charges

We estimate that ERF members paid expenses of $147 million.

Eligible Rollover Fund Expenses – Year to 30 June 2008			
Members ('000)	Assets ($m)	Expense Rate* (%)	Expenses ($m)
5,677	6,357	2.49%	147

* Expressed as a % of *average* Eligible Rollover Fund assets over the year to 30 June 2008.

The estimated Eligible Rollover Fund expense rates by function are as follows:

Eligible Rollover Fund Expense Rate* (%) - Year to 30 June 2008				
	Administration	Investment Management	Adviser	Total
Total Eligible Rollover Fund	2.03	0.47	-	2.49

* Expressed as a % of *average* Eligible Rollover Fund assets over the year to 30 June 2008.

The estimated expense rate is slightly lower than our previous estimate of 2.53%. As the ERF market is small, the exact magnitude of these estimates is immaterial in measuring overall superannuation market fee trends.

The high rate is not unexpected given the low average account balance in this segment (just marginally in excess of $1,000 per account).

Appendix A. Variations between Segments

In this Appendix we illustrate how fees and expenses vary by segment. As noted in the report, it is possible to conclude that some segments are more expensive than others. However, there are several reasons for the differences and they need to be understood before any direct comparison can be made.

The table below shows the items that have affected average fee/expense levels in each segment.

Segment	Influence To Higher Fees	Influence To Lower Fees
Corporate	▪ Complex benefit design (sometimes defined benefit) ▪ Heavy consulting & compliance costs ▪ In-house administration	▪ High average balances ▪ High membership ▪ Single Payroll ▪ Subsidy from employers ▪ Limited advice
Industry	▪ Compliance costs for the public offer funds. ▪ Higher marketing expenses to counter Choice of Fund ▪ No discounts for large employer groups ▪ Low average balances ▪ High level of manual transactions ▪ Cost of member protection	▪ Large membership ▪ The cost of personal financial advice is not included in the product costs ▪ Lack of flexibility ▪ Fund mergers ▪ Basic platforms with lower levels of management information for clients (and no facility to provide supporting documentation for advisers
Public Sector	▪ Some defined benefit costs	▪ Large membership ▪ Small number of payroll sites ▪ High level of electronic transactions ▪ High average balances ▪ No personal financial advice
Self Managed Super Funds	▪ Stand-alone documentation ▪ High compliance costs per member ▪ Small membership	▪ Very high average balances ▪ Direct investments with low transaction fees ▪ Only a small number of funds use regular financial planning advice ▪ Self- administration and 'other' costs are not captured

Segment	Influence To Higher Fees	Influence To Lower Fees
Corporate Super Master Trusts	▪ Significant levels of investor choice ▪ Flexible benefit design ▪ Large emphasis on education ▪ Financial advisers for employers and employees ▪ Compliance costs for public offer funds ▪ Large number of investment options	▪ Discounts for larger employer groups ▪ Reasonable average balances ▪ Fund mergers ▪ Discounts below "rack rate" in competitive tenders in the year to 30 June 2006 to win business prior to RSE Licensing has continued as funds compete aggressively in a market with limited opportunties
Personal Super	▪ Significant levels of investment choice ▪ Flexible benefit design ▪ Large emphasis on education ▪ The cost of personal financial advice is included in the product costs ▪ Compliance costs for public offer funds	▪ Competition between products and platforms ▪ Larger than average balances
Retirement Incomes	▪ Personal financial advice ▪ Compliance costs for public offer funds ▪ Complexity of legislation ▪ Regular payments, PAYE Tax	▪ Very high average balances
Retirement Savings Accounts	▪ High interest margin held by banks ▪ Low average balances ▪ Low volumes	▪ Simplicity of product ▪ Absence of advice ▪ Minimum servicing of account
Eligible Rollover Funds	▪ Low average balances ▪ Low volumes	▪ Simplicity of product ▪ Absence of advice ▪ Minimum servicing of account

Appendix B. Charging Structures

Method of calculating fees

Each segment of the superannuation industry charges its members in different ways and the benefits and service levels vary between them.

In the following sections of this report, we:

- Construct a more detailed picture of the segments;
- Explain the fees and other expenses charged to superannuation fund members within the various segments; and
- Combine the two previous items to calculate the total expenses charged by the superannuation industry.

Charging Methods

While some employers, particularly those running defined benefit funds, subsidise the costs of managing superannuation, almost all corporate funds now recover costs by charging a fee to members.

Superannuation funds charge their members a variety of fees as shown in the following table. Some funds (such as retail master trusts) apply all of these charges, while others (such as industry funds) prefer to combine all charges into a simpler structure comprising just a member fee and an asset fee.

Type of cost	Method of charging
Administration costs	Fixed dollar amount per member; and/or percentage of assets, plus percentage of contributions (for smaller sub-funds)
Trustee costs	
Cost of compliance	
Fund Manager, Custodian	Percentage of assets
Benefit payments	Fixed dollar amount per transaction
Insurance	Percentage of insurance premium; profit-sharing
Cost of distribution and advice	Percentage of contribution;
	Percentage of assets

In addition, several funds charge fees for the advice provided in establishing an account. These amounts vary from case to case.

In this report, we have converted complex charging scales back to simple scales for comparative purpose.

Comparing Fees

The comparison of fees charged by two separate superannuation products can be complicated. This is because each fund will have its own unique charging structure based on a combination of the different charging methods outlined above.

ASIC has gone some way to addressing this problem by mandating that super funds must use a fee template in its Product Disclosure Statements (PDSs) in a format prescribed by ASIC. This includes the disclosure of:

- The type of fee, e.g. dollar based fee, asset based fee etc;
- The dollar amount expected to be charged;
- When the fee is expected to be levied, e.g. weekly, monthly, annually; and
- How the fee is to be charged, e.g. by a deduction from the member account, by a reduction in the crediting rate etc.

Investment management fees are required to be included in this template.

In addition to this, ASIC requires a single annual fee example using an opening account balance of $50,000, annual contributions of $5,000 and investment in an appropriate "balanced" investment option.

ASIC also promotes a calculator on its website and encourages consumers to use it to compare the fees of different funds. ASIC requires the existence of this calculator to be disclosed in every super fund's PDS.

Large Employers

Employers with larger businesses often have their own corporate superannuation funds. Analysis of these and their fees and expenses is set out in section 4 of this report

Other larger employers "outsource" their superannuation to industry funds and corporate super master trusts (the latter categorised as retail business by APRA). The fees and expenses of these are analysed in sections 5 and 8 of this report.

Smaller Employers

Smaller employers tend to participate within retail master trusts or industry funds to discharge their compulsory superannuation responsibilities. The employers choose the fund for their employees. If there is a strong union influence or a strict mandate from an industrial award, an industry fund is used. If there is no restriction, the employer will often select a master trust, often with the assistance of an adviser.

The majority of businesses are small and have the following characteristics:

- They belong to a multi-employer fund;
- They have an accumulation benefit design;
- Members pay for their own insurance (but many funds have no insurance);

- Few employers subsidise the costs of the fund;
- They pay contributions at the compulsory superannuation guarantee rate only;
- They tend to use a default investment and insurance structure (in other words, they are not interested in setting benefit design); and
- The owner will usually participate within the fund on a minimalist basis.

Analysis of the fees and expenses of smaller employers' superannuation arrangements are set out in section 8 of this report.

Some small employers (proprietors) contribute to a "small" fund (i.e. where the number of members is less than 5). Small funds are analysed in section 7.