

Essential Super Stats

Volume 3, July 2007

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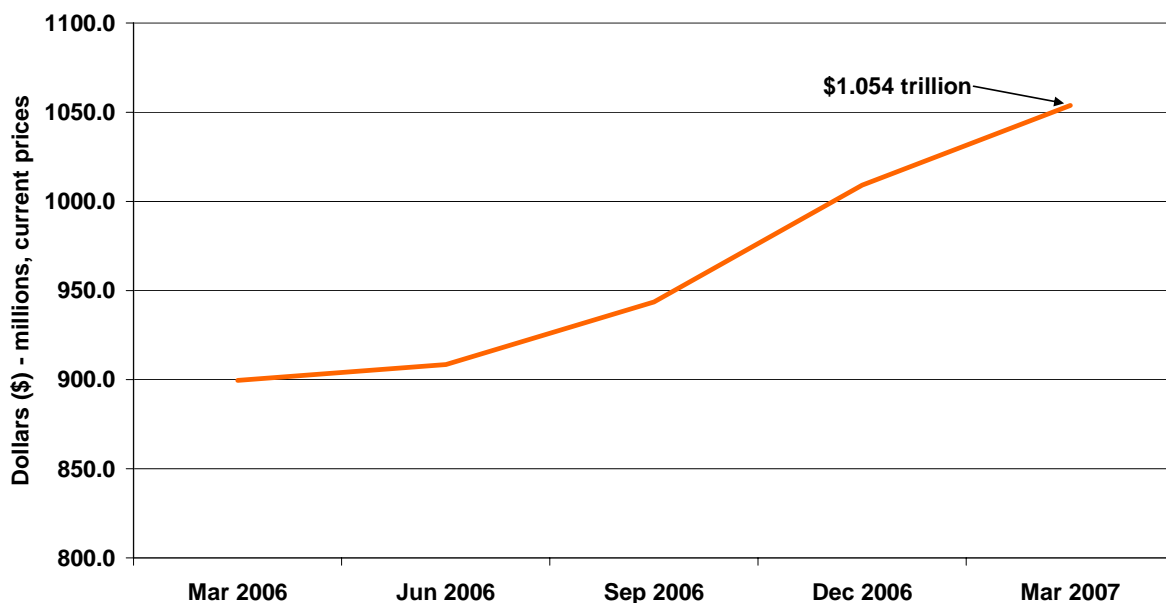
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Total super assets reach \$1.1 trillion

Total superannuation assets reached \$1.1 trillion during the March quarter 2007, according to APRA data. Over the March quarter total assets rose by 4.4% (\$44.7 billion), after increasing by 6.9% during the December 2006 quarter. Over the 12 months to the March quarter 2007 total assets rose by 17.1%.

Total Superannuation Assets, March 2006 to March 2007

source: Quarterly Superannuation Performance, March 2007, APRA



Industry funds showed the strongest growth during the quarter, with assets increasing by 6.2 per cent (\$10.6 billion) to \$182.7 billion. Public sector fund assets grew by 5.1 per cent (\$8.0 billion) to \$165.8 billion, retail fund assets by 3.7 per cent (\$12.4 billion) to \$343.9 billion and corporate fund assets by 2.6 per cent (\$1.7 billion) to \$69.4 billion.

Super fees falling: Rice Warner

According to actuaries Rice Warner, overall fees for the superannuation industry as a whole, expressed as a percentage of assets, averaged 1.26% for the year to June 2006. Their estimate for the year to June 2004 was 1.30%. Fees have thus decreased slightly over the period, continuing the trend from 2002 to 2004.

Expenses Rate By Superannuation Segment				
Sector	Segment	Expense Rate % 2006	Expense Rate % 2004	Expense Rate % 2002
Wholesale	Corporate	0.78	0.75	0.86
	Corporate Super Master Trust ³ (large)	0.81	1.14	1.24
	Industry	1.13	1.18*	1.23
	Public Sector	0.70	0.66*	0.63*
Retail	Corporate Super Master Trust ⁴ (small)	2.01	2.11	2.36
	Personal Superannuation	2.12	2.30	2.41
	Post Retirement	1.79	2.04	2.02
	Retirement Savings Accounts	2.30	2.30	2.30
	Eligible Rollover Funds	2.53	2.53*	2.53*
Small Funds	Self Managed Super Funds	0.87	1.01	1.08
TOTAL (%)		1.26	1.30*	1.37*

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

¹ Excludes employer plans with less than \$5 million in assets.

² Employer plans with less than \$5 million in assets.

³ Excludes employer plans with less than \$5 million in assets.

⁴ Employer plans with less than \$5 million in assets.

Rice Warner caution that 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.

Total Expenses: 2002 Vs 2006



Key drivers of fee reduction in the period 2004 to 2006 include: increased average account balances and strong market performance; the decline in legacy products (which generally have higher fees); a number of mergers between industry funds and also between master trusts resulting in greater economies of scale; the large number of corporations that have outsourced; and reduced fees offered by master trusts and industry fund providers in competitive tenders to win new business from outsourcing funds. Source: Rice Warner (<http://www.ricewarner.com>)

Super changes to accelerate fees squeeze

According to the Trowbridge Deloitte Super Model, a projection of the total market for superannuation funds, the 'Simpler Super' changes to superannuation announced in the 2006 Budget Government will have the effect of increasing downward pressures on fees.

Management fees

Pre-retirement

Starting values

	Corporate	Industry	Pub. Sect.	Retail	SMSF	Other
MER	1%	1%	0.5%	2%	2%	2%

Fee squeeze pre-budget

	Corporate	Industry	Pub. Sect.	Retail	SMSF	Other
Fee squeeze p.a.	1.5%	1.5%	0%	2.5%	2.5%	0%
Lower limit	0.7%	0.7%	0.5%	1.4%	1.4%	2%

Accelerated fee squeeze (not margin squeeze) due to budget simplifications:

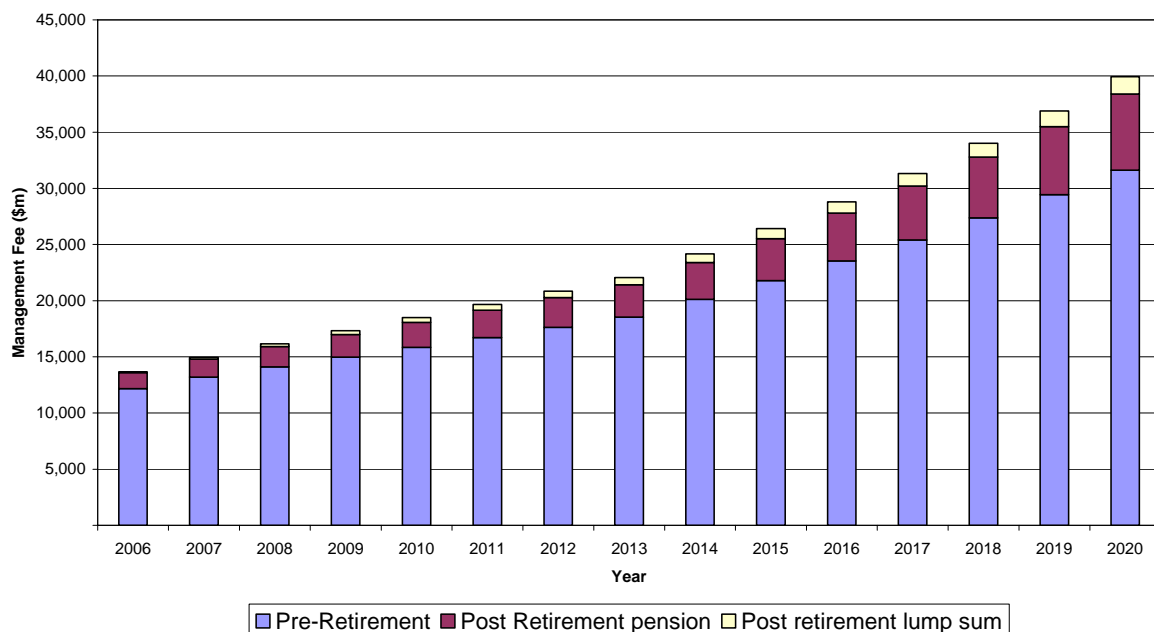
	Corporate	Industry	Pub. Sect.	Retail	SMSF	Other
Fee squeeze p.a.	2.5%	2.5%	0%	5%	5%	0%
Lower limit	0.7%	0.7%	0.5%	1.4%	1.4%	2%

Post-retirement

Retail assumption – 11 basis points reduction

The chart below shows the total amount of management fees for the industry projected to 2020. Management fees are a function of both higher growth in assets and higher fee squeeze, with these trends working in opposite directions.

Management Fees Pre and Post Retirement

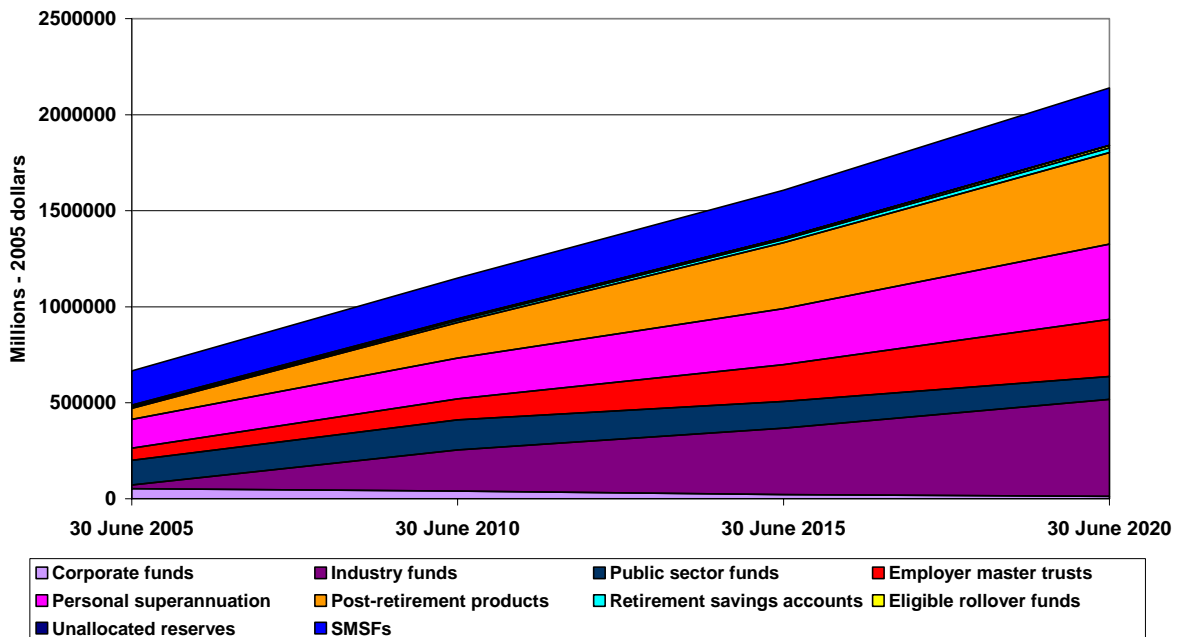


Source: Trowbridge Deloitte (<http://www.trowbridge.com.au>)

Rice Warner projections show large increase in post retirement products

Actuarial firm Rice Warner (<http://www.ricewarner.com>) has projected the total superannuation market to 2020. The chart below shows the projected increases in 2005 dollars by industry segment to 30 June 2020. The total superannuation market is expected to be \$2,139 billion on 30 June 2020. According to Rice Warner, there will be a significant shift from lump sums to pensions as members choose to maintain their benefits in a tax-free environment. Average member balances (referring to the average balance held by a member in *all* their superannuation accounts) are projected to rise from \$45,700 in 2005 to \$103,600 by 2020.

Projected superannuation assets by industry segment



Both retail funds and industry funds are projected to grow rapidly over the period, rising by 319.6% (10.0% p.a.) and 321.8% (10.1% p.a.) respectively (see table below). The two segments that are projected to decline over the period are corporate and public sector funds. The total superannuation market is projected to grow by 179.4% (7.1% p.a.). Post retirement products are anticipated to experience the greatest rise, at 717.4% (15.0% p.a.), reflecting the Baby Boomers reaching their retirement years.

Projected growth in assets 30 June 2005 to 30 June 2020 (2005 dollars)				
Total employer funds	Corporate funds	Industry funds	Public sector funds	Total superannuation market 179.4%
111.7%	-76%	321.8%	-7.4%	
Total retail funds	Employer master trusts	Personal superannuation	Post retirement products	
319.6%	376.2%	161.9%	717.4%	
Retirement savings accounts	Eligible rollover funds	Unallocated reserves	Self managed funds	
451.3%	169%	-100%	67.8%	
Source: Rice Warner				

Rice Warner estimates that the 'Simpler Super' reforms announced in the 2006 Federal Budget will result in the total pool of superannuation assets increasing by in excess of an extra 20% to 2020 over what it would otherwise have done so. For the year to June 2007 alone, they have projected that contributions will rise by \$7.8 billion over what they would have been otherwise, from \$78.2 billion to \$86.0 billion. Of this increase, 64.2% is due to increased employer contributions, 34.2% is due to increased member contributions and 1.6% is due to increased government contributions.

Enhanced KiwiSaver makes debut

“KiwiSaver,” New Zealand’s pension plan, commenced operation from 1 July. KiwiSaver is a voluntary (opt-out) scheme with choice of fund. The default rate of deductions is 4 percent; employees can also choose a higher 8 percent rate. Significant changes to the pension plan were announced in the latest budget.

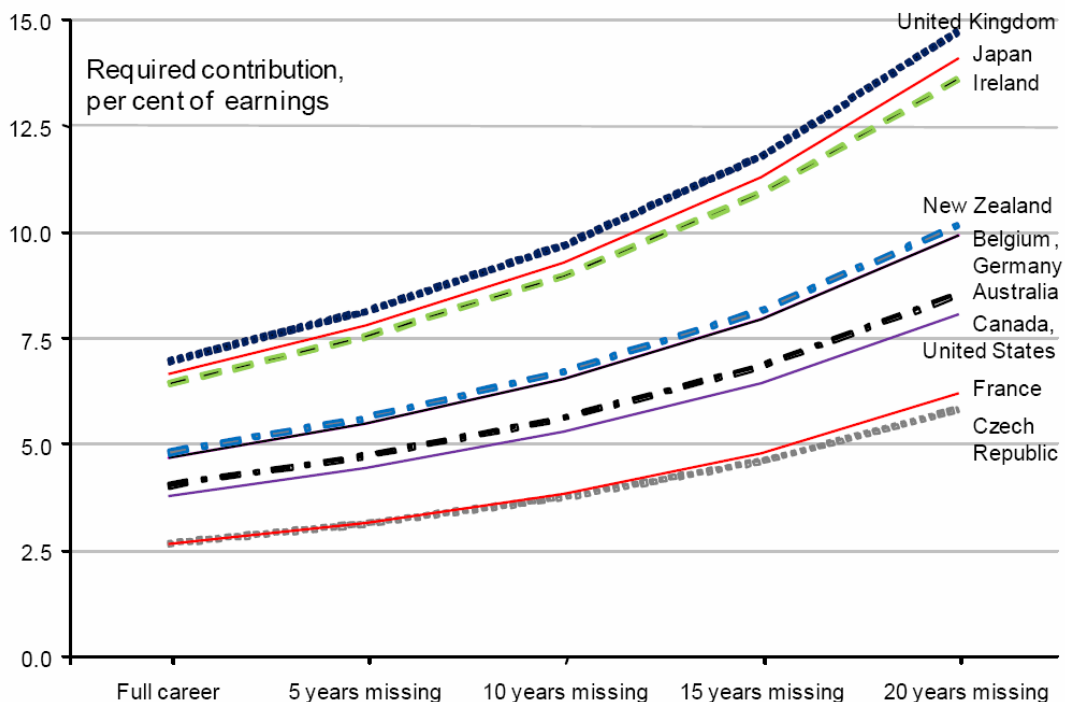
Additional measures announced include:

- Companies will be required to contribute 1% of a worker’s gross income to superannuation in the 2008-09 financial year, rising to 4% by 2011-12;
- These contributions will qualify for a matching tax credit to reduce costs to the firm. Employers will be reimbursed for the cost of matching contributions by the government through a new tax credit capped at \$20 per week per worker (about \$1,040 per worker per year), and their contributions will also remain tax free under amendments introduced last year; and
- Full-time workers will qualify for a tax credit when KiwiSaver begins on July 1 2007. The tax credit matches contributions at 100 per cent, up to \$20 per week (about \$1,040 per year). In addition, the government is kick-starting KiwiSaver with an initial upfront contribution of \$1000 and will be providing an annual fee subsidy. The subsidy has been set at \$40 per member, per annum.

The impact of the changes to KiwiSaver is predicted to be significant. For a couple on the average household income, with one income earner entering KiwiSaver at age 30, their accumulated savings at age 65 in constant dollar terms are projected to be \$380,000 under the revised KiwiSaver scheme compared with \$170,000 under the initial provisions. Source: NZ Government website <http://www.kiwisaver.govt.nz>

According to the OECD, in terms of additional voluntary contributions required to bring retirees up to an OECD average level of income in retirement, New Zealand continues to rank above Australia but below the UK, Japan and Ireland. Source: [OECD Pensions at a Glance, June 2007, OECD](#)

Contribution rate needed to reach OECD average replacement rate for average earners by years of contributions

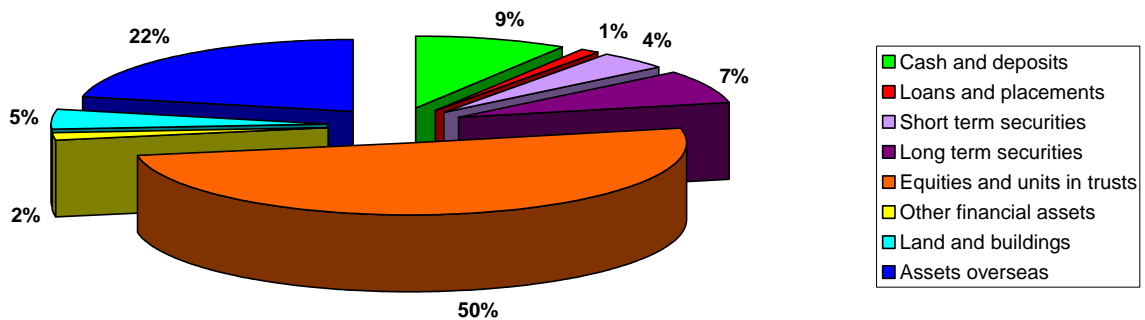


Equities half of superannuation assets, with Australia's breakdown similar to overseas average

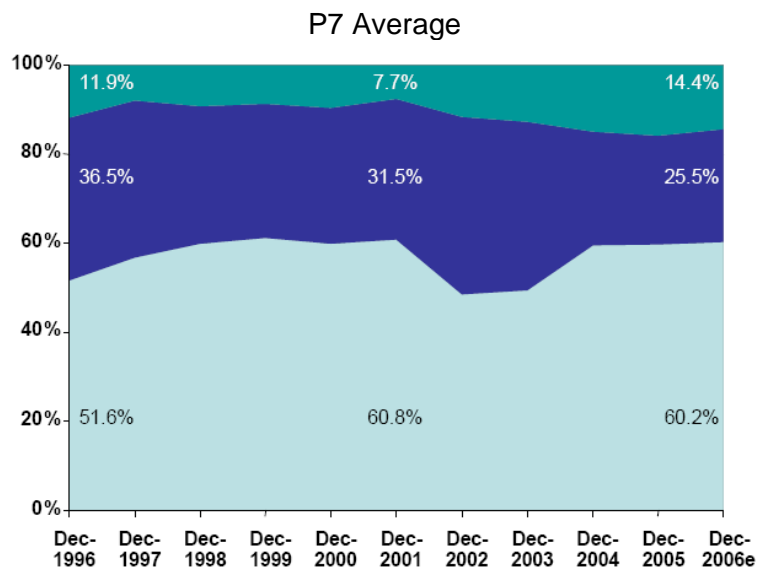
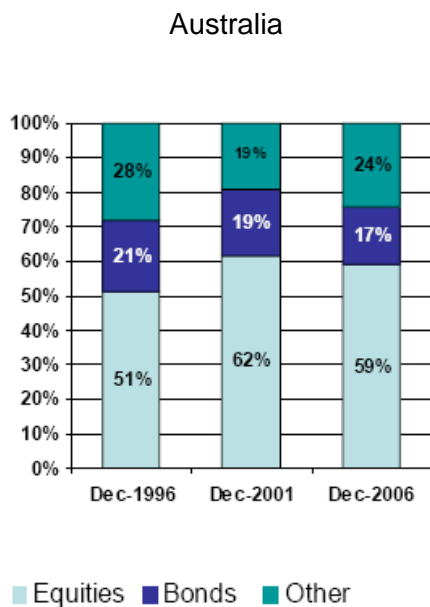
According to the ABS, approximately 50% of total superannuation assets in Australia are comprised of equities (see chart below).

Consolidated Superannuation Assets by Asset Type, March Quarter 2007

source: ABS Catalogue 5655.0 Managed Funds Australia, March Quarter 2007



Watson Wyatt Worldwide, an actuarial firm, in its *2007 Global Pension Assets Study*, breaks down the 'assets overseas' category to produce the following data comparing allocation between the seven countries with largest pool of pension assets (P7).



Australia, Canada, the UK and the US (the Anglophone nations) had the highest allocation at the end of 1996, 2001 and 2006. Their equity allocations at year end 2006 were 59.0%, 54.4%, 67.8% and 63.5% respectively.

Source: Watson Wyatt Worldwide, *2007 Global Pension Asset Study*
http://www.watsonwyatt.com/europe/netherlands/research/publicaties/pdf/GlobalPensionAssetsStudy_FinalPresentation.pdf

Average return of 1.8% for growth super funds during May 2007: Intech's *Super Survey*

According to Intech's *Super Survey*, the average return for growth super funds was 1.8% during February 2007 (net of fees and tax). Australian equities significantly outperformed international equities over each of the last five years. However, listed property produced slightly higher returns over the period.

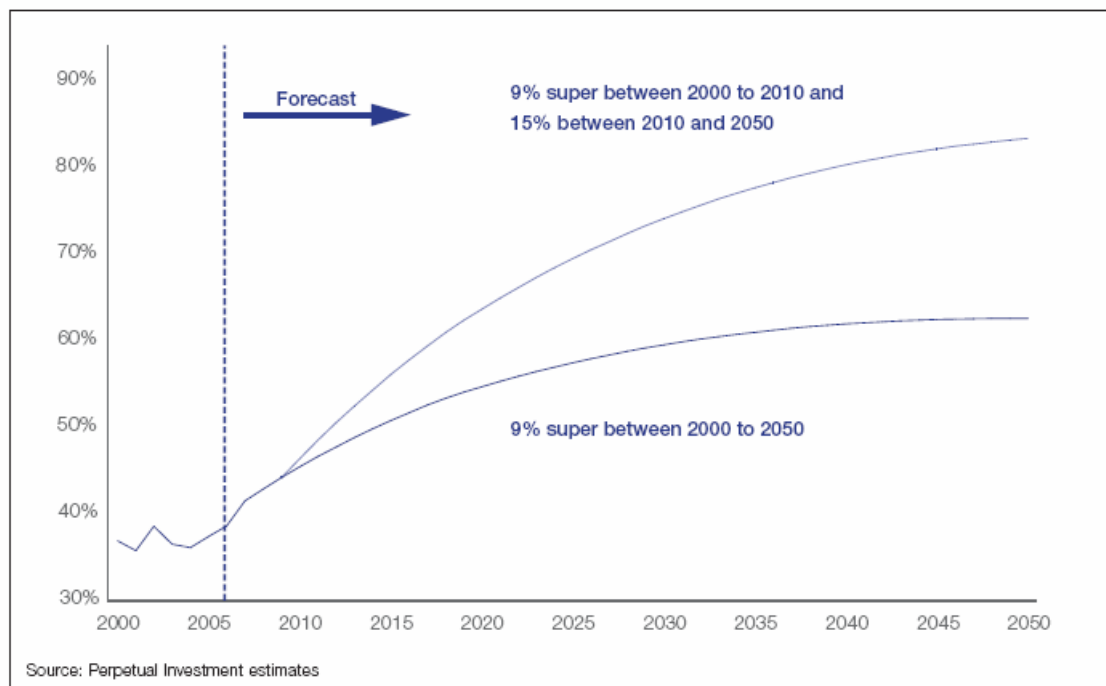
Average fund returns	1 month	1 year return (%)	2 year return (%)	3 year return (%)	4 year return (%)	5 year return (%)
Growth funds (net)	1.81	17.18	16.75	15.52	14.76	10.93
Australian equities (gross)	2.64	31.60	29.37	27.49	25.53	18.24
International equities (unhedged, gross)	3.43	13.00	15.68	11.82	12.05	4.24
Listed property (gross)	4.18	40.81	27.99	23.15	20.44	19.45

Source: Intech's *Super Survey* May 2007 (<http://www.intech.com.au>)

Burgeoning super pool to increasingly dominate Australian economy and sharemarket

According to Emilio Gonzalez, Chief Investment Officer at Perpetual Investments, the proportion of shares trading on the Australian market owned by superannuation funds is likely to rise over time. This is due to the burgeoning superannuation assets, which are predicted to triple over the next decade. Demand in 2007 for Australian-listed securities is expected to total \$42 billion, with net new issuance of securities expected to total \$30 billion. Accelerating super inflows suggest that this may be a feature of the Australian investment landscape for the foreseeable future, according to Mr Gonzalez.

Half-yearly Investment Performance of GIC Sectors



Fund managers currently manage about 40% of the Australian sharemarket. This is predicted to

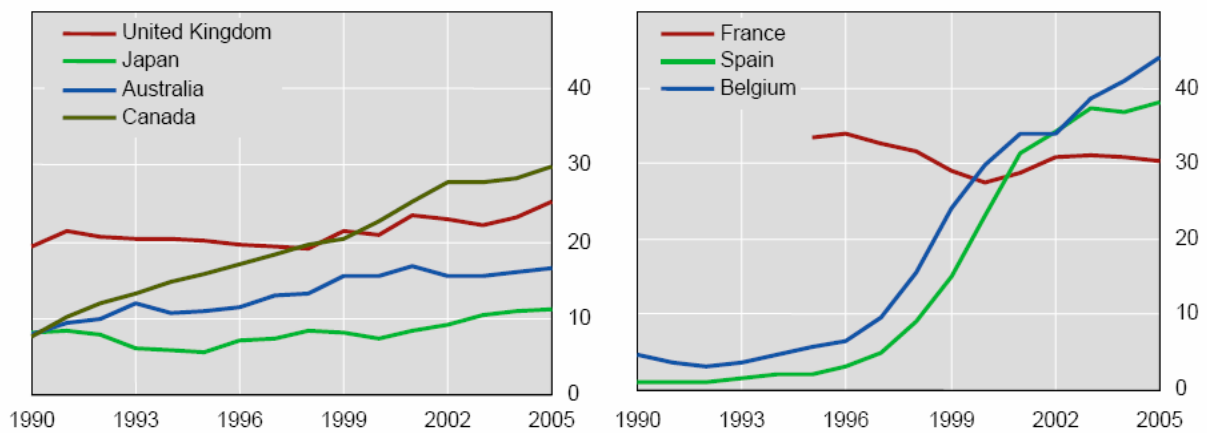
rise to about 55% over the next 15 years (see chart above). A diversity of actors in markets with different objectives promotes liquidity and opposing trades. The increase in the concentration of ownership may lower liquidity and increase volatility. The continued supply-demand imbalance is likely to result in higher price-earnings ratios for Australian shares. Investors may thus need to either accept lower return for the same level of risk, or diversify into other asset classes that offer higher returns and diversify risk, according to Mr Gonzalez. (source: Perpetual's *In Focus* quarterly newsletter, Autumn 2007 (<http://www.perpetual.com.au/pdf/InfocusAutumn07.pdf>))

Pension fund investments in foreign bond markets rising

According to the Bank for International Settlements, international investors from developed countries such as pension funds are increasingly investing in developing world debt markets. This is part of a broader phenomenon of declining home bias and growth of funds under management by institutional investors. (source: <http://www.bis.org/publ/cgfs28.pdf>)

Holdings of foreign securities by insurance companies and pension funds

As a percentage of total financial assets



Source: CGFS (2007).

Key Economic Data

Latest economic data for Australia from the Australian Bureau of Statistics:

	Current period	Annual
Unemployment rate	4.2% (seasonally adjusted) May 2007	4.8% (seasonally adjusted) May 2006
CPI	0.1% March quarter 2007	2.4% March quarter 2006 – March quarter 2007
Economic growth	1.6% (seasonally adjusted) March quarter 2007	3.8% (seasonally adjusted) March quarter 2006 – March quarter 2007
Company gross operating profits	7.6% (seasonally adjusted) March quarter 2007	17.1% (seasonally adjusted) March quarter 2006 – March quarter 2007
Wages and salaries	3.4% (seasonally adjusted) March quarter 2006	10.2% (seasonally adjusted) March quarter 2006 – March quarter 2007

Comments / queries? Please contact

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