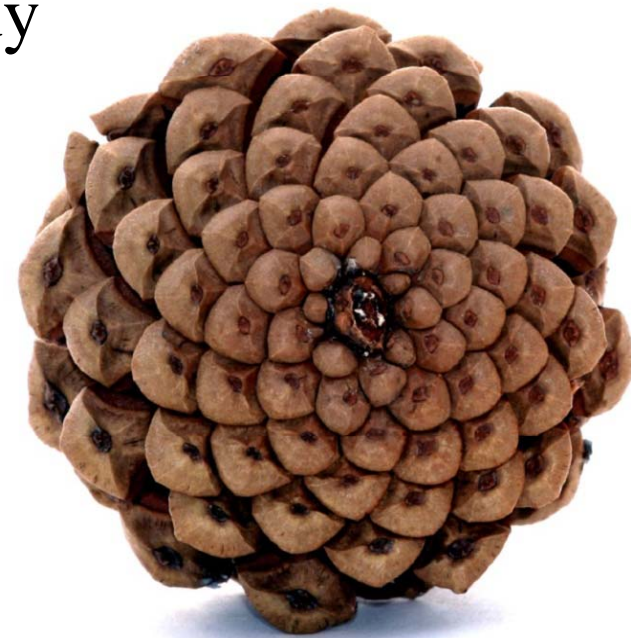


# International superannuation and pension funds fees study

Australia compares well



# Presenters

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# International superannuation funds fees - Agenda

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- Key findings – 5
- Corporate plans and master trusts
- Retail funds
- Industry funds
- Global investment fees and costs
- Countries reviewed
- Conclusions



## Key findings - 1

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**Australia compares well:** A recent global study undertaken by Deloitte Actuaries and Consultants on behalf of Australia's IFSA, found that the investment management costs and fees charged by Australia's largest superannuation funds compare well against the more competitive funds in the world.

## Key findings - 2

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**Scale matters:** There are clear scale benefits when it comes to fees charged by superannuation funds in each country and each sector . **Size matters** when it comes to lower costs.

- **Scale matters:** Australia's largest super funds investment management costs and fees compare well with the more competitive funds in the world
- **Scale disadvantage:** Australia does have scale disadvantage due to its smaller population compared with UK, Japan, and USA

## Key findings - 3

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International comparisons of superannuation fund fees are difficult.

Due to:

- different regulatory environments
- differentiated approach to investment management (confusion fees v.s. costs)
- non-disclosure, especially investment fees
- non-existence of sectors (eg SMSF)
- lack of reliable data/different dates
- employer subsidies
- maturity/average balance differences

## Key findings - 4

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Australia can showcase our retirement savings regulatory system at G20 and other international meetings where ageing populations present significant challenges.

Competition and choice is delivering to consumers in important areas of retirement savings, such as superannuation fees.

## Key findings - 5

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However room for improvement

There are areas in the corporate, retail and industry fund sectors, where further rationalisation can still provide benefits.

The Deloitte study shows there is still plenty of room for efficiency gains in Australia by adopting improvements in automation and elimination of duplicate accounts.

## Corporate funds

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Deloitte's research shows that large Corporate Master Trusts, a highly competitive sector in Australia, have fee levels that compare well with UK/US corporate funds.

Country	Admin fees	Investment management fees	Total
USA – Defined benefit	0.38	0.39	0.77
USA – Defined contribution	0.01	1.01	1.02
Japan – Defined benefit	0.04	0.15 – 0.46	0.19 – 0.50
Japan – Defined contribution	0.32	0.20 – 1.50	0.52 – 1.82
UK	0.40	0.20 – 0.50	0.60 – 0.90
Netherlands	0.19	0.20	0.39
Australia – Stand alone	0.24	0.47	0.71
Australia – Large corporate master trusts	0.20	0.56	0.76

# Corporate Funds

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For medium and larger sized plans, standalone corporates and sub-plans in corporate master trusts, Australia compares favourably.

- **Efficiency:** small number of larger plans in Australia, which are well established and generally efficiently run, leveraging scale by appropriate outsourcing of scale based functions
- **Competition:** intense competition for these employers in the corporate master trust and industry fund sectors by the most efficient operators
- **Scale:** the benefits of scale delivered by a multi-employer plan.

# Retail sector

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- Direct comparisons difficult due to
  - inclusion of advice (US and UK trend is to exclude advice)
  - differences e.g. stakeholder pensions / IRAs.
- Potential for new product set in Australia
  - lower fees, fewer bells and whistles
  - advice separate

# Retail Funds

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UK regulators introduced stakeholder pensions in 2001 - a low cost, no-frills, highly focused product for low income members - subject to max fees of 1.5% p.a. of the account balance, but the major providers typically offer fees of 1% p.a. or less.

This has had very low take-up in the UK.

# Industry funds

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- Large funds globally competitive
- Clear scale benefits
- System inefficiencies need to be removed
  - multiple small accounts
    - creates member protection costs (10bp)
  - Increase automation
- Differentiated investment strategies



# Comparisons of industry funds

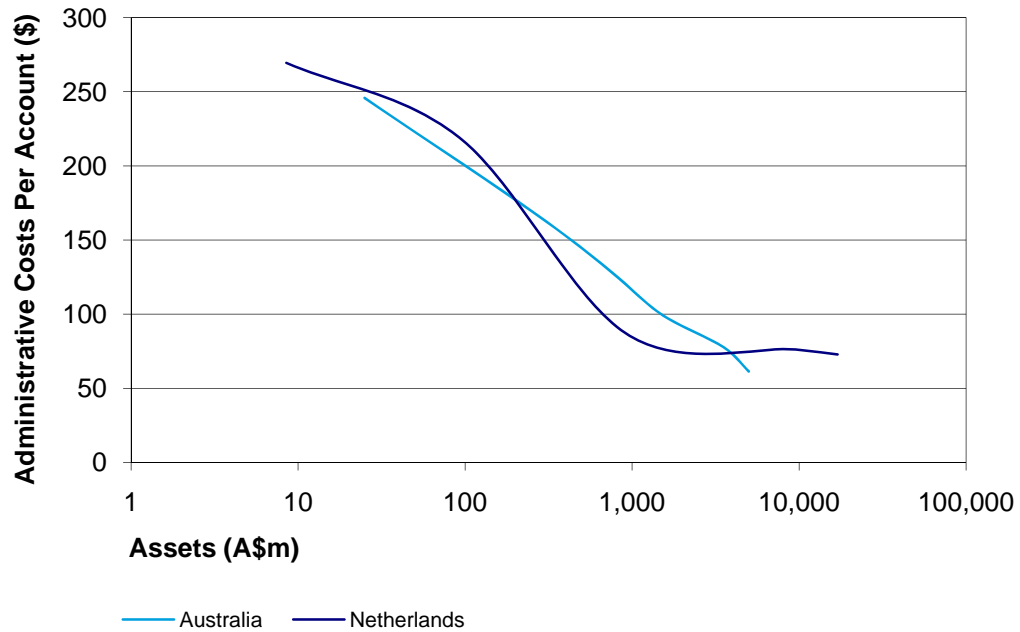
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Country	Administration fees (%)	Investment management fees (%)	Total (%)
Australia	0.38	0.67	1.05
Netherlands	0.13	0.13	0.26
Denmark	0.14	0.16	0.30

Note: All fees above are expressed as a percentage of assets

# Industry funds – administrative costs

## Industry funds – administrative costs



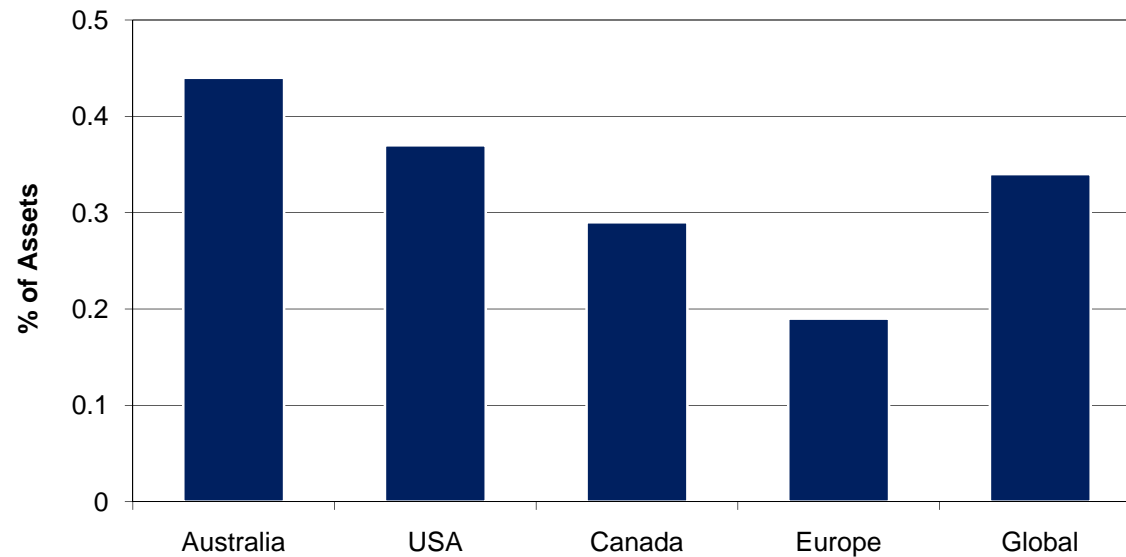
Sources: Rice Warner, Dutch Central Bank, Deloitte Analysis

Note: the administration fees have been smoothed to take out the effects of the different funds and their pricing anomalies.

# Global investment costs – large funds

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## Average investment management cost



Source: CEM Benchmarking, *The World's Lowest Cost Funds*.

# Investment management

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- Australian costs higher due to:
  - much higher proportion of defined contribution plans/assets
  - return seeking in pre-retirement phase
  - defined benefit plans using matching and LDI strategies
  - asset allocation to growth assets
  - active management vs passive
  - more use of alternative assets.
- Better disclosure in published data



# Large plan admin costs

## Costs and cost drivers by country – 2007 medians

	Australia	Canada	Netherlands	U.S
Cost per active & annuitant	\$124	\$104	\$112	\$75
Service	68	60	69	72
Complexity	24	13	21	38
Transaction type score	127	84	116	94
Economies of scale (active members & annuitants)	77,900	180,000	74,800	201,400
# of systems	10	9	15	38

Source: CEM Benchmarking, 2007 data.

# Countries reviewed

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	2008 assets (US\$bn)	2008 assets/GDP (%)	Size relative to Australian assets
US	12439	87	1732%
Japan	2731	56	380%
UK	1746	63	243%
Netherlands	867	95	121%
Australia	718	67	100%

Deloitte used academic, commercial and government research, as well as its global superannuation/ pension and actuarial network to obtain and interpret data on fees charged in different countries.

Source: *Global Pension Assets Study by Watson Wyatt Worldwide, January 2009*

# Conclusions

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- **The larger** Australian funds in each sector are broadly competitive globally
- **Regulatory regimes** have a major impact on structure and costs. All countries surveyed maintain highly regulated pension systems.
- **Scale** is critical to achieving lower fees in any superannuation system
- **Rationalisation** has delivered scale benefits and lower fees to members.
- **Further rationalisation:**
  - Corporate and industry funds particular could achieve greater benefits from further rationalisation
  - Retail funds: separation of product & advice fees should result in lower costs to members
- **Room for efficiency** with more automation & elimination of duplicate accounts
- **International comparisons** are complex & difficult with lack of comparable data
- **Comparing fees** as a percentage of a member's assets/account balance can be misleading, especially for administration costs, which for the most part have no relationship with assets.

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