



ASIC

Australian Securities & Investments Commission

REPORT 84

**Monitoring superannuation
fees and costs
(October 2005 to June 2006)**

November 2006

What this report is about

This report is the first in a series of at least five annual reports monitoring trends in superannuation fees and costs.

The report focuses on superannuation fees and costs for balanced investment options as set out by trustees in compliance with the 'enhanced fee disclosure regulations'. These regulations applied to superannuation Product Disclosure Statements from 1 July 2005.

We have prepared this report in response to a request from the Government to monitor and report on trends in superannuation fees and costs in the five years following the introduction of Super Choice.

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1. Executive summary

Why we are reporting on superannuation fees and costs

1.1 The Australian Government made a commitment to monitor and report on superannuation fees and costs for at least the first five years following the introduction of Choice of Superannuation Fund ('Super Choice') on 1 July 2005.¹ As part of this initiative, the Australian Securities and Investments Commission (ASIC) was asked to collect information about particular fees and costs and to make it publicly available on the FIDO website (www.fido.gov.au).² This is the same information that superannuation trustees must include in their Product Disclosure Statements (PDSs) under the 'enhanced fee disclosure regulations' to help consumers compare superannuation funds.³

1.2 In addition to collecting this information and making it available on our FIDO website, we have also been asked to report on observations and trends in superannuation fees and costs disclosure over the first five years after the introduction of Super Choice. This report is the first in a series of annual reports that will highlight trends in superannuation fees and costs.⁴ As the first report, it contains baseline information only on selected fees and costs included by superannuation trustees in their PDSs—trend analysis will appear in future reports.

Information analysed in this report

1.3 This report analyses information provided to us between 1 October 2005 and 30 June 2006 on the fees and costs of 1270 superannuation products offered by 191 superannuation trustees.⁵ The information was provided by superannuation trustees via Part 2 of the PDS in-use notice (ASIC form FS53).

1.4 The information is based on the worked example prescribed by the enhanced fee disclosure regulations, which assumes that assets are allocated into a balanced investment option, there is a balance of \$50,000 and a total of \$5000 is contributed in a financial year. The aim of the worked example is to show how fees and costs can affect investments over a 12-month period.

¹ See Senator Helen Coonan, Press Release C053/04 *Employees to control their superannuation* (21 June 2004).

² FIDO is ASIC's website for consumers.

³ The 'enhanced fee disclosure regulations' are set out in Schedule 10 of the Corporations Regulations 2001, as amended by the Corporations Amendment Regulations 2005 (No. 1). They applied to superannuation PDSs from 1 July 2005.

⁴ See paragraph 1.16 for more information on the possible limitations of the findings in this report.

⁵ Superannuation trustees can offer more than one product.

1.5 The fees and costs analysed in this report are:

- contribution fees;
- management costs;
- cost of fund;⁶
- establishment fees; and
- termination fees.

These fees and costs are defined in the glossary at the end of the report.

1.6 The types of superannuation funds included in the analysis are:

- corporate superannuation funds;
- industry funds that are not public offer;
- public offer funds that are industry funds;
- public offer funds that are not industry funds;
- public offer [CO 04/1030] funds;⁷
- eligible rollover funds; and
- ‘other’ funds (including public sector superannuation funds).⁸

These fund types are defined in the glossary at the end of the report.

1.7 The information in the report is summarised in three aggregation levels:

- across all funds;
- by type of fund; and
- by type of fee or cost.

⁶ Cost of fund is the total of contribution fees plus management costs. Trustees of superannuation funds are required to disclose the minimum and maximum amount for cost of fund in Part 2 of the PDS in-use notice. See the glossary at the end of the report for more information.

⁷ See the glossary for more information on public offer funds under Class Order [CO 04/1030] *In-use notices for employer-sponsored superannuation*. In general, these are public offer superannuation funds that are not industry funds and that include a number of substantially similar standard employer-sponsored superannuation sub-plans.

⁸ ‘Other’ funds include all superannuation funds that are not in the other categories. In general, most of these funds are public sector superannuation funds.

Our findings

Note: Our findings should be read in the light of the limitations set out in 1.16.

Average fees and costs

1.8 Table 1 below provides a summary of the average fees and costs across all 1270 superannuation products. Paragraphs 1.9–1.12 provide an overview of the findings by type of fee or cost. See Section 6 for further explanation and detailed analysis of each type of fee or cost.

Table 1: Summary of average fees and costs across all 1270 superannuation products

Type of fee or cost	Average fee or cost	Percentage
Establishment fee	\$1.93	N/A
Contribution fee	\$24.02 to \$61.42*	0.48% to 1.23%**
Management costs	\$616.13 ⁺	1.23% ⁺⁺
Cost of fund	\$640.15 to \$677.54 [♦]	N/A
Termination fee	\$3.11	N/A

* These figures are based on a total yearly contribution of \$5000.

** These percentages are based on a total yearly contribution of \$5000.

⁺ This figure is based on an account balance of \$50,000.

⁺⁺ This percentage is based on an account balance of \$50,000.

[♦] Cost of fund equals contribution fees plus management costs. These figures are based on average cost of fund for a balanced investment option with an account balance of \$50,000 and a total yearly contribution of \$5000.

Source: ASIC

Findings by type of fee or cost

1.9 Our analysis shows that 95.28% of all products did not have any establishment fees. Where an establishment fee was charged, the average fee was \$48.94.

1.10 The analysis also indicates that 73.23% of products did not have any contribution fees. The average across all funds was between \$24.02 and \$61.42 (i.e. a contribution fee of between 0.48% and 1.23%). Among the products that charged contribution fees, the average was between \$89.74 and \$229.42 (i.e. a contribution fee of between 1.79% and 4.58%).

1.11 Of the 1188 products that did have management costs, the average fee was \$658.65 (i.e. 1.32% for every \$50,000 in the fund). Public offer superannuation funds that are not industry funds had the highest average

management costs at \$763.07 (i.e. 1.53% for every \$50,000 in the fund).⁹ The data also highlights that 82 of the 1270 products (i.e. 6.46%) did not charge any management costs.

1.12 Nearly 96% of all products did not have termination fees. Of the products that did charge termination fees, the average fee was \$74.64.

Findings by type of fund

1.13 Table 2 below highlights the main statistics for cost of fund¹⁰ by fund type. Public offer superannuation funds that are not industry funds recorded the highest mid-point average, mid-point median and maximum cost of fund, where the mid-point represents the value that sits precisely between the minimum and maximum values. Corporate superannuation funds recorded the lowest mid-point average and mid-point median.

Table 2: Cost of fund statistics across all funds¹¹

Type of fund	Minimum	Maximum	Mid-point average	Mid-point median
Public offer superannuation fund that is not an industry fund	\$0	\$2276	\$807	\$905
Corporate superannuation fund	\$0	\$1125	\$437	\$388
Public offer superannuation fund that is an industry fund	\$197	\$1389	\$480	\$437
Industry fund that is not public offer	\$75	\$980	\$487	\$513
Public offer [CO 04/1030] fund	\$357	\$1414	\$684	\$686
Eligible rollover funds	\$190	\$1295	\$767	\$740
Other funds	\$0	\$1445	\$659	\$687

Source: ASIC

Findings on RSAs

1.14 As well as the fees and costs of superannuation products, we also collated and analysed information on the fees and costs of retirement savings accounts (RSAs): see Section 7. RSAs are included in this report

⁹ We have not included eligible rollover funds and public offer [CO 04/1030] funds in our analysis when ranking the highest and lowest fees and costs by category of fund, as these types of funds only represent 0.6% and 0.5% respectively of the total data collected.

¹⁰ Cost of fund equals contribution fees plus management costs. These figures are based on average cost of fund for a balanced investment option with an account balance of \$50,000 and a total yearly contribution of \$5000.

¹¹ The figures in Table 2 have been rounded to the nearest dollar. Note that the cost of fund figures for public offer [CO 04/1030] funds or eligible rollover funds should be read with caution, as these types of funds only represent 0.6% and 0.5% respectively of the total data collected.

because they are a product choice under Super Choice and are an alternative to superannuation, usually targeted at casual and part-time workers who have low contributions into superannuation. RSAs are not strictly comparable to superannuation, as, among other differences, they do not offer investment options in growth assets such as shares and property. Consequently, the fees and costs charged by RSAs are considerably lower than fees and costs charged by superannuation products.

Buy–sell spread

1.15 We are aware that the prescribed worked example required in PDSs of superannuation funds does not include all fees and costs that may have an impact on a member's superannuation balance. One of these key fees or costs is the buy–sell spread. In Appendix B we have included an examination of these costs relying on third party research. Calculations based on data obtained from that research show that the average buy–sell level charged is around 0.31% of the amount transacted.

Possible limitations of the findings

1.16 It should be highlighted that there are possible limitations on the findings in this report, due to the nature of the fees and costs information and the method used to collect it. Possible limitations may arise because:

- The report does not include fees and costs from all superannuation trustees because some trustees updated their fees and costs information before ASIC started collecting the fees and costs information on 1 October 2005.
- The fees and costs data for eligible rollover funds and public offer [CO 04/1030] funds only represents 0.6% and 0.5% respectively of the total data collected. As such, the findings for these two categories of superannuation funds should be read with caution.
- The fees and costs information provided to ASIC for public offer [CO 04/1030] funds is that presented in the initial offering by the trustee to particular employer sponsors. This is the fees and costs information stated in the relevant PDSs. The actual fees and costs charged may alter based on individual negotiations with employer sponsors.
- The fees and costs information provided to ASIC does not take into account any fee rebates provided to individual members by a trustee that may have an impact on the total fees and costs charged.
- The sample data used to analyse the impact of buy–sell spreads in Appendix B is not comprehensive and, as such, the analysis should only be used as guidance.

- It should also be noted that the fees and costs information provided to ASIC may not be a comprehensive list of all the fees and costs that may be charged. For instance, some funds charge performance fees in addition to the management costs. These fees are disclosed in the additional information in a PDS but not in the worked example prescribed by the enhanced fee disclosure regulations.

2. Methodology

Data collection

2.1 The information about superannuation fees and costs in this report is the information superannuation trustees are required to disclose in PDSs for superannuation products from 1 July 2005 under the enhanced fee disclosure regulations.¹² The information is based on a worked example where assets are allocated into a balanced investment option that has an account balance of \$50,000 and an annual contribution of \$5000. Table 3 on the following page shows the worked example set out in Division 5 of Schedule 10 of the Corporation Regulations.

2.2 For the period 1 July 2005 to 30 September 2005, superannuation trustees provided the Australian Prudential Regulation Authority (APRA) with information about fees and costs on a voluntary basis, and APRA passed this information on to us. However, from 1 October 2005 we began receiving information about superannuation fees and costs on a compulsory basis by adding a Part 2 to our existing ASIC form FS53 (PDS in-use notice).

2.3 This report is based on the information about superannuation fees and costs provided in Part 2 of PDS in-use notices during the period 1 October 2005 to 30 June 2006—i.e. it does not include the information collected on a voluntary basis by APRA. In many cases, the voluntary information was not provided in a consistent manner that could be used for the purposes of this report.

Number of PDS in-use notices received

2.4 During the period 1 October 2005 to 30 June 2006, we received 1291 PDS in-use notices from 191 superannuation trustees. Our analysis is based on the information in 1270 of these in-use notices. See Appendix A, 'Data integrity and explanatory notes', for more detailed information on our methodology for collecting and collating the data used in this report.

2.5 APRA's recent licensing of superannuation trustees indicates there are 307 trustees in the industry. We did not receive fees and costs information from all superannuation trustees because in-use notices are lodged when PDSs are first issued or when a supplementary PDS is issued, and some trustees had updated their fees and costs information before 1 October 2005 (i.e. before Part 2 was added to the PDS in-use notice). Also note that trustees of self-managed superannuation funds are not required to comply with the enhanced fee disclosure regulations.

¹² These are set out in Schedule 10 of the Corporation Regulations 2001, as amended by the Corporations Amendment Regulations 2005 (No. 1).

2.6 Despite the fact that the complete data set was not available, we consider that this report provides valuable illustrative fees and costs information across all those superannuation funds that are required to comply with the enhanced fee disclosure regulations.

Table 3: Hypothetical worked example of annual fees and costs for superannuation funds from the enhanced fee disclosure regulations

EXAMPLE—balanced investment option		Balance of \$50,000 with total contributions of \$5000 during year
Contribution fees	0–4%	For every \$5000 you put in, you will be charged between \$0 and \$200.
PLUS Management costs	1.6% + \$52 (\$1 per week)	And for every \$50,000 you have in the fund, you will be charged \$800 each year plus \$52 in administration fees regardless of your balance.
EQUALS Cost of fund		If you put in \$5000 during a year and your balance was \$50,000, then for that year you will be charged fees of from: \$852 to \$1052* What it costs you will depend on the investment option you choose and the fees you negotiate with your fund or financial adviser.

* Additional fees may apply:

Establishment fee—\$50

And, if you leave the fund early, you may also be charged withdrawal fees of between 0% and 5% of your total fund balance (between \$0.00 and \$2500 for every \$50,000 you withdraw).

Contribution fees and cost of fund

2.7 The enhanced fee disclosure regulations state that contribution fees and cost of fund should be expressed with minimum and maximum values rather than as a single figure (i.e. where a range of fees and costs apply). Consequently, these fees and costs are presented as a range in this report.

Withdrawal fees not included in this report

2.8 We have excluded any analysis of withdrawal fees from this report because of the inconsistency with which some trustees reported on these fees in their PDS in-use notices. For instance, some trustees reported withdrawal fees based on a withdrawal of \$5000, while other trustees reported on withdrawal fees based on a withdrawal of \$50,000. There were also trustees that indicated buy–sell costs as their withdrawal fees. In some cases, trustees provided a percentage of the withdrawal costs to the amount withdrawn rather than a dollar figure.

2.9 In addition to the inconsistency with which trustees reported on withdrawal fees, some trustees reported that there were a variety of specific terms and conditions that may determine what fee is actually charged to a customer. For example, a member may:

- have their withdrawal fee waived where they are considered to be under financial hardship;
- have their withdrawal fee waived if the amounts in their superannuation product are rolled over into another product offered by the same institution;
- be charged for a partial withdrawal while a full withdrawal would be free;
- not be charged for the first withdrawal (whether full or partial), but would be charged a withdrawal fee thereafter;
- elect, upon entry to the superannuation product, to pay an establishment fee instead of a withdrawal fee; or
- only be charged if they exceed the number of free withdrawals allowed in the one financial year.

2.10 We are currently considering options to amend Part 2 of the PDS in-use notice to capture some of the withdrawal fee information on a consistent basis in the future.

Public offer [CO 04/1030] funds included as a separate category

2.11 In Part 2 of the PDS in-use notice we created a separate category for public offer superannuation funds that rely on the relief contained in ASIC Class Order [CO 04/1030] *In-use notices for employer-sponsored superannuation*. This class order provides relief to trustees of public offer superannuation funds from the requirement to lodge an in-use notice for each standard employer-sponsored sub-plan. The relief is invariably taken up by such funds where they have a significant number of employer-sponsored sub-plans that are essentially the same. These funds also typically have a separate personal sub-plan that members of the employer-sponsored sub-plan can be transferred into once they have left the employment of the sponsoring employer of the employer-sponsored sub-plan.

2.12 The purpose in reporting on a separate category for these types of funds is to compare the fees and costs between the employer-sponsored sub-plans and the personal sub-plans of these funds.

2.13 The fees and costs reported by trustees in the PDS in-use notice for this type of fund are those presented in the initial offering by the trustee to particular employer sponsors. The actual fees and costs may alter based on individual negotiations with employer sponsors.

3. How to read the information in this report

3.1 The main statistical concepts used in this report are as follows:

Minimum:	Smallest value in a data set
Maximum:	Largest value in a data set
Average:	Arithmetic average of the data set (sum of all observed entries divided by the number of entries)
Standard deviation:	A measure of spread of the data set. The higher its value relative to the average, the more spread the data set is. Statistical theory indicates that spread of the data set about the mean may be measured by a multiple of the standard deviation ¹³
Ranked data:	Data set sorted from smallest to largest value
Median	An estimation of the centre of the data set. It divides the ranked data set in half. 50% of the values are smaller than the median and 50% of values are larger than the median
25th percentile	The 25th percentile divides the ranked data in such a way that 25% of values are smaller than the 25th percentile and 75% of values are larger than the 25th percentile
75th percentile	The 75th percentile divides the ranked data in such a way that 75% of values are smaller than the 75th percentile and 25% of values are larger than the 75th percentile
Interquartile range	Another measure of spread of the data. The interquartile range is the difference between the 75th and 25th percentiles and shows where 50% of the entries lies within the data set
Skewness	Indicates where the extreme values of a data set are. For example, if a data set is skewed to the right, it means that its extreme values are on the right or are greater than the data set average

¹³ As a rule of thumb, it is estimated that approximately 75% of the data set should lie between 2 standard errors above and 2 standard errors below the average. A large standard deviation relative to the average means that the data is widely spread about the average.

3.2 As a general rule, if:

Average > median, then the data set is generally skewed to the right

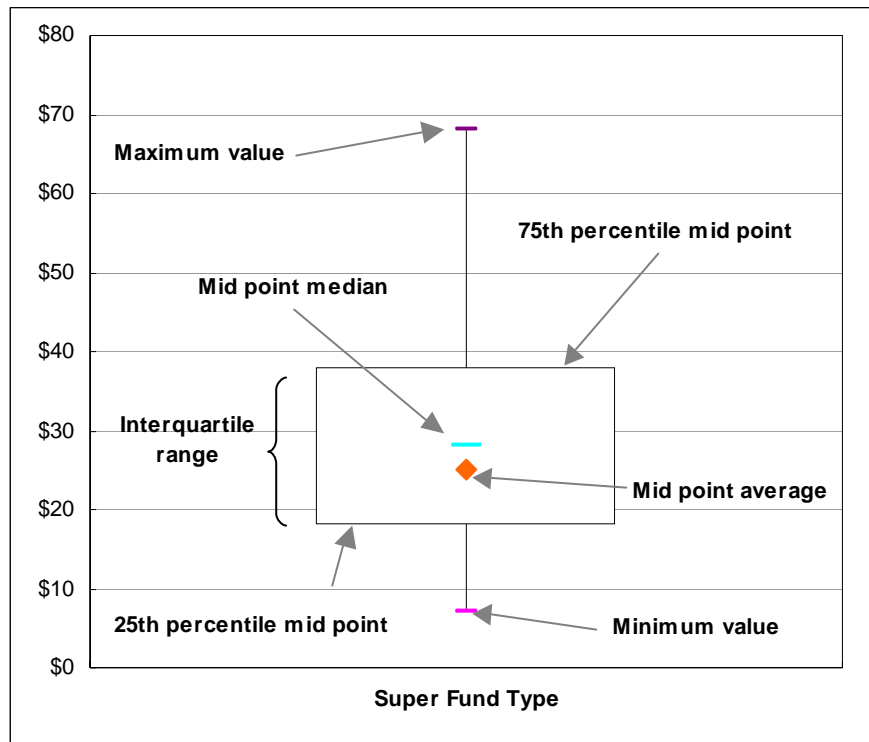
Average < median, then the data set is generally skewed to the left

Average ≈ median, then the data set is symmetrically distributed

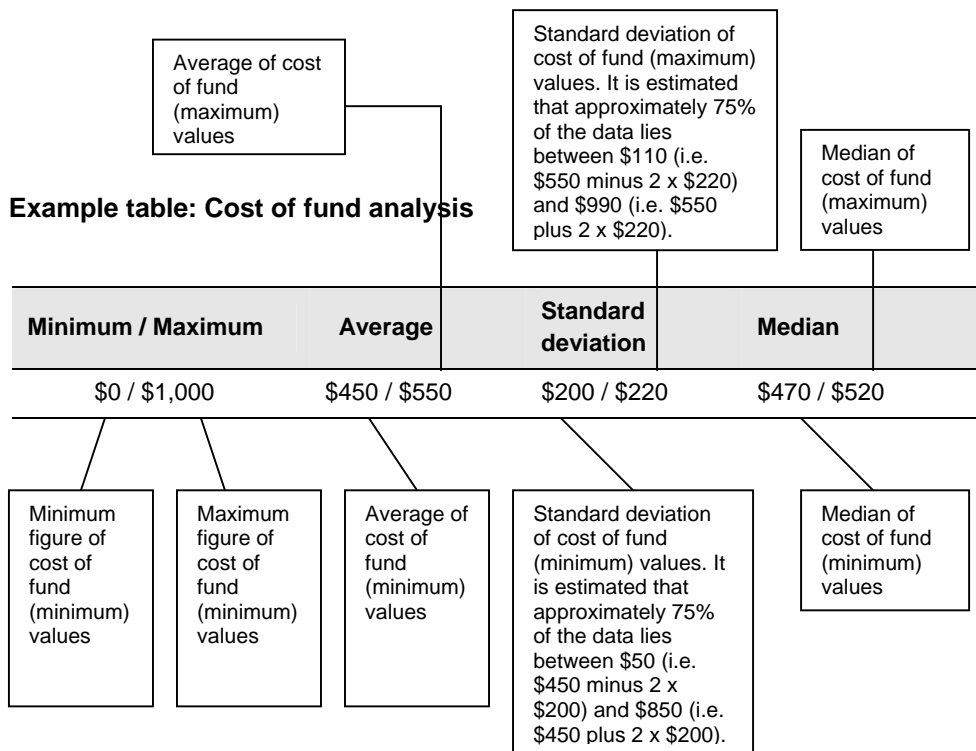
3.3 In Graph 1 (Section 4) and Graph 2 (Section 5), we have used mid points instead of using minimum and maximum averages, medians, 25th percentiles and 75th percentiles. The mid point is simply the value that sits precisely between the relevant minimum and maximum values. For example, if the cost of fund (minimum) average is \$640 and the cost of fund (maximum) average is \$678. The mid point average is then calculated to be \$659 (i.e. $[\$640 + \$678] / 2 = \$659$).

3.4 We have used mid points to make the graphs easier to read by not having too many representations on them. The next graph is a representation of the main elements in Graph 1 (Section 4) and Graph 2 (Section 5).

Example graph: Basic statistics on cost of fund per type of superannuation fund



The table below is an illustrative example as to the interpretation of the statistics presented in Sections 3 and 4 of this report.



4. Analysis: All funds

Types of funds

4.1 Table 4 below shows the number and percentage of products per category of superannuation fund. Public offer superannuation funds that are not industry funds had the highest number of Part 2 PDS in-use notice lodgements at 687 (or 54.1%), followed by corporate superannuation funds with 310 (or 24.4%).

Table 4: Number of products by type of superannuation fund

Type of fund	Number	Percentage
Public offer superannuation fund that is not an industry fund	687	54.1%
Corporate superannuation fund	310	24.4%
Public offer superannuation fund that is an industry fund	119	9.4%
Industry fund that is not public offer	74	5.8%
Public offer [CO 04/1030] fund	8	0.6%
Eligible rollover fund	6	0.5%
Other	66	5.2%
Total	1270	100.0%

Source: ASIC

Cost of fund analysis

4.2 Among the costs and fees disclosed in Part 2 of the in-use notice, cost of fund¹⁴ is the most significant measure because it is the sum of the contribution fee and management costs in the worked example prescribed by the enhanced fee disclosure regulations. Contribution fees and management costs are the most common fees and costs across all funds—establishment, termination and withdrawal fees were not charged by most of the products included in this report.

4.3 Table 5 below provides a statistical overview of the cost of fund across all 1270 products, regardless of fund type. See the example table in

¹⁴Note that cost of fund equals contribution fees plus management costs. These figures are based on average cost of fund for a balanced investment option with an account balance of \$50,000 and a total yearly contribution of \$5000.

Section 3 for more information on how to read Table 5 and subsequent tables in this report.

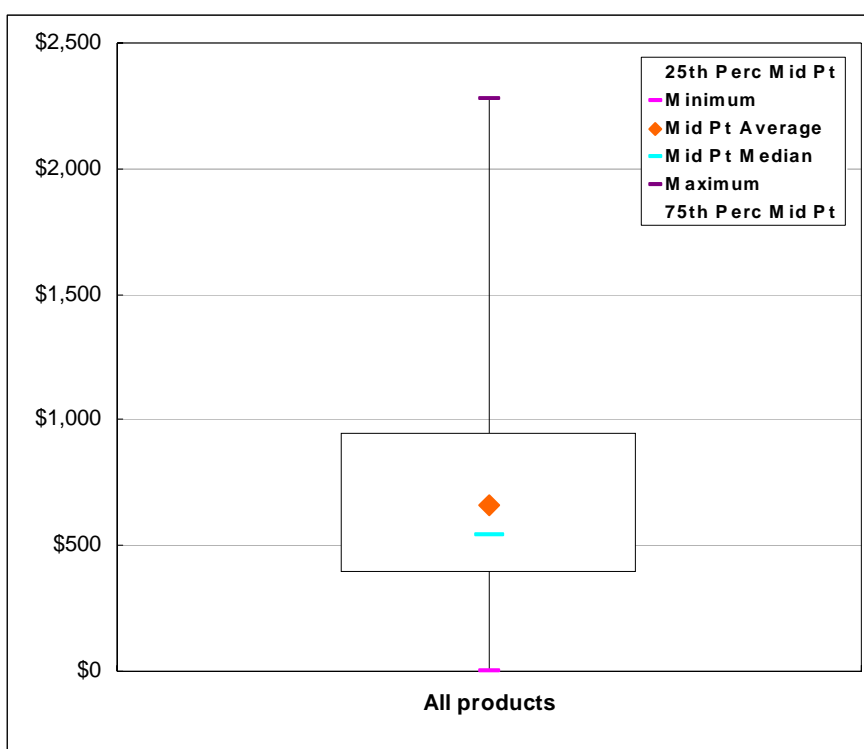
Table 5: Cost of fund across all products¹⁵

Minimum / maximum	Average	Standard deviation	Median
\$0 / \$2276	\$640 / \$678	\$331 / \$375	\$539 / \$540

Source: ASIC

4.4 The figures suggest that there were more fees and costs with values below the average (median smaller than average). However, although there were fewer fees and costs above the average, some of these fees and costs have values large enough to push the average up (skewing the distribution to the right). Graph 1 is an illustrative representation of the cost of fund figures across all products.

Graph 1: Cost of fund across all products



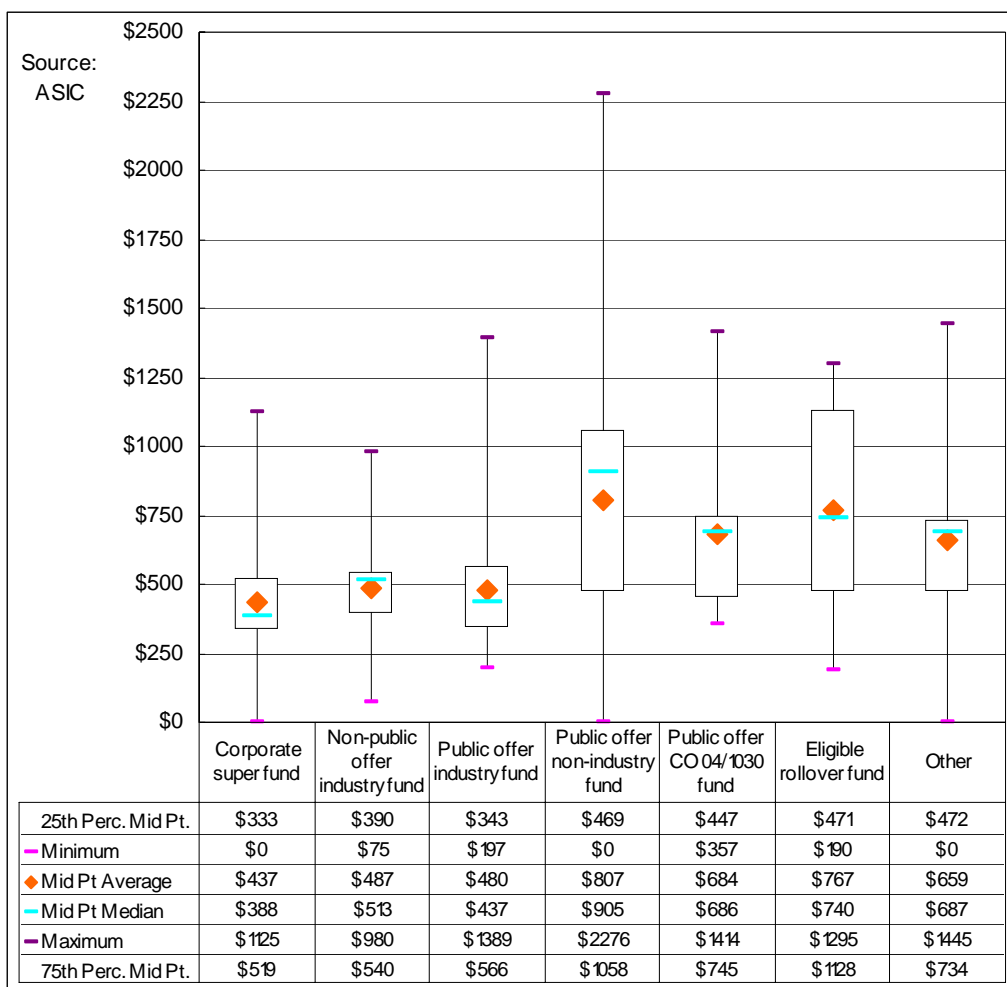
¹⁵ These figures have been rounded to the nearest dollar.

5. Analysis: Types of funds

General overview

5.1 The average cost of fund¹⁶ across the industry was between \$640 and \$678.¹⁷ However, the data showed considerable variability across different types of funds. Graph 2 below highlights the main results for all funds.

Graph 2: Basic statistics on cost of fund per type of superannuation fund



5.2 The mid points in the graph are simply the values that sit precisely between the minimum and maximum values of each respective range. We have used these to make the graph easier to read by not having too many representations on it.

¹⁶ Note that cost of fund equals contribution fees plus management costs. These figures are based on average cost of fund for a balanced investment option with an account balance of \$50,000 and a total yearly contribution of \$5000.

¹⁷ All of the cost of fund figures in Section 5 have been rounded to the nearest dollar.

5.3 Public offer superannuation funds that are not industry funds recorded the highest mid-point average, mid-point median and maximum cost of fund when comparing across all other types of funds. Corporate superannuation funds recorded the lowest mid-point average and mid-point median values. Public offer superannuation funds that are not industry funds and eligible rollover funds presented the higher spread of cost of fund (i.e. larger interquartile range as represented by the length of the rectangles in the graph). Industry funds that are non-public offer had the smallest spread of cost of fund charged.

Corporate superannuation fund

5.4 Table 6 below provides a statistical summary of the cost of fund disclosed by corporate superannuation funds. The average cost of fund was between \$432 and \$441, with standard deviation of \$187 and \$186 respectively for minimum and maximum values. The median cost of fund was \$388 (no range as maximum and minimum medians are exactly the same). The values above suggest that distribution of this type of fund was skewed to the right and more than 50% of products disclosed costs below average.

Table 6: Cost of fund—corporate superannuation fund

Minimum / maximum	Average	Standard deviation	Median
\$0 / \$1125	\$432 / \$441	\$187 / \$186	\$388 / \$388

Source: ASIC

Industry fund that is not public offer

5.5 Table 7 below provides a statistical summary of the cost of fund disclosed by industry funds that are not on public offer. The average cost of fund was around \$487 with standard deviation of \$156. The median was \$513. This type of fund had a distribution slightly skewed to the left, with not much difference between minimum and maximum values.

Table 7: Cost of fund—industry fund that is not public offer

Minimum / maximum	Average	Standard deviation	Median
\$75 / \$980	\$486 / \$487	\$156 / \$156	\$513 / \$513

Source: ASIC

Public offer superannuation fund that is an industry fund

5.6 Table 8 below provides a statistical summary of the cost of fund disclosed by public offer superannuation funds that are industry funds. The average cost of fund was between \$476 and \$484, with standard deviation of \$208 and \$225 for minimum and maximum values respectively. The median was between \$430 and \$443. The figures suggest that the distribution was skewed to the right.

Table 8: Cost of fund—public offer superannuation fund that is an industry fund

Minimum / maximum	Average	Standard deviation	Median
\$197 / \$1389	\$476 / \$484	\$208 / \$225	\$430 / \$443

Source: ASIC

Public offer superannuation fund that is not an industry fund

5.7 Table 9 below provides a statistical summary of the cost of fund disclosed by public offer superannuation funds that are not industry funds. These funds may comprise both personal or employer-sponsored sub-plans or sub-funds. The average cost of fund was between \$776 and \$838, with standard deviation between \$346 and \$400. The median cost of fund was between \$837 and \$936. The averages and medians are not far apart, suggesting that the number of products with costs above and below the average was reasonably evenly distributed for this type of fund. However, the standard deviation values suggest that the spread of the data was large.

Table 9: Cost of fund—public offer superannuation fund that is not an industry fund

Minimum / maximum	Average	Standard deviation	Median
\$0 ¹⁸ / \$2276	\$776 / \$838	\$346 / \$400	\$837 / \$936

Source: ASIC

¹⁸ For eight products offered by public offer superannuation funds that are not industry funds, the trustees stated a zero cost for cost of fund and, consequently, for contribution fees and management costs. The zero cost is for members and does not mean that the product is free. It means that the employer covers any fees and costs. Those products were fee-free corporate superannuation funds that have rolled into a master trust and have retained the same pricing for members. Because those products (sub-plans) have rolled into a master trust, they are classified as public offer.

Public offer [CO 04/1030] fund

5.8 Table 10 below provides a statistical summary of the cost of fund disclosed by the eight public offer [CO 04/1030] fund products. These costs are charged to members of the standard employer-sponsored sub-plans of these funds. If the members were to move to the personal sub-plans of these funds, the cost of fund figures in Table 9 would apply. Members move to these sub-plans when they are no longer employed by a standard employer sponsor of the fund but remain members of the fund. Due to the small sample size in this category, the results should be considered illustrative only.

Table 10: Cost of fund—public offer [CO 04/1030] fund

Minimum / maximum	Average	Standard deviation	Median
\$332 / \$1414	\$658 / \$710	\$353 / \$327	\$626 / \$745

Source: ASIC

Eligible rollover fund

5.9 Table 11 below provides a description of the cost of fund disclosed by the six eligible rollover fund products. Due to the small sample size in this category, the results should not be considered conclusive but only illustrative.

Table 11: Cost of fund—eligible rollover fund

Minimum / maximum	Average	Standard deviation	Median
\$190 / \$1295	\$767 / \$767	\$440 / \$440	\$740 / \$740

Source: ASIC

Other (including public sector superannuation funds)

5.10 Table 12 below provides a statistical summary of the cost of fund disclosed by funds classified as 'other'. This category has a sample size of 66 products and includes all types of funds that lodged a PDS in-use notice with ASIC and are not included in the previous definitions.

Table 12: Cost of fund—other

Minimum / maximum	Average	Standard deviation	Median
\$0 / \$1445	\$654 / \$664	\$307 / \$314	\$687 / \$687

Source: ASIC

6. Analysis: Types of fees and costs

General overview

6.1 Table 13 details the minimum, maximum, average and median fees and costs across all products. The figures in Table 13 below indicate that management costs are the highest average fee or cost across all types of fees and costs, with an average of \$616.13, while establishment fees are the lowest average fee or cost, with an average of \$1.93.

6.2 In relation to these figures, it is important to note that:

- establishment fees are not typically based on the amount contributed to establish an interest in a superannuation fund (i.e. they are a flat fee);
- contribution fees are typically a percentage of contributions made. In the worked example in the enhanced fee disclosure regulations, the contribution made is \$5000;
- management costs are typically a percentage of funds under management. In the worked example in the enhanced fee disclosure regulations, the management costs are based on a balance of \$50,000; and
- termination fees are typically a flat fee.

Table 13: Summary of fees and costs across all 1270 products

	Establishment fee	Contribution fee (min.)	Contribution fee (max.)	Management costs	Termination fee
Minimum	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Maximum	\$1500.00	\$495.00	\$843.00	\$2071.25	\$250.00
Average	\$1.93	\$24.02	\$61.42	\$616.13	\$3.11
Median	\$0.00	\$0.00	\$0.00	\$521.80	\$0.00

Source: ASIC

6.3 Table 14 below details the average fee or cost by fund type. Management costs represented the most significant fee or cost across all types of funds in comparison to other fees or costs charged.

Table 14: Average fees and costs by type of fund

	Establishment fee	Contribution fee (min.)	Contribution fee (max.)	Management costs	Termination fee
Corporate superannuation fund					
Dollar amount	\$0.74	\$53.19	\$62.03	\$378.89	\$5.50
Percentage	N/A	1.06%	1.24%	0.76%	N/A
Industry fund that is not public offer					
Dollar amount	\$0.00	\$12.99	\$13.59	\$473.46	\$4.26
Percentage	N/A	0.26%	0.27%	0.95%	N/A
Public offer superannuation fund that is an industry fund					
Dollar amount	\$1.03	\$22.68	\$31.11	\$453.26	\$4.04
Percentage	N/A	0.45%	0.62%	0.91%	N/A
Public offer superannuation fund that is not an industry fund					
Dollar amount	\$3.03	\$13.28	\$75.35	\$763.07	\$1.39
Percentage	N/A	0.27%	1.51%	1.53%	N/A
Public offer [CO 04/1030] fund					
Dollar amount	\$0.00	\$41.53	\$93.41	\$616.81	\$0.00
Percentage	N/A	0.83%	1.86%	1.23%	N/A
Eligible rollover fund					
Dollar amount	\$1.67	\$0.00	\$0.00	\$767.23	\$0.00
Percentage	N/A	0.00%	0.00%	1.53%	N/A
Other					
Dollar amount	\$0.00	\$13.71	\$23.56	\$640.64	\$7.58
Percentage	N/A	0.27%	0.47%	1.28%	N/A

Source: ASIC

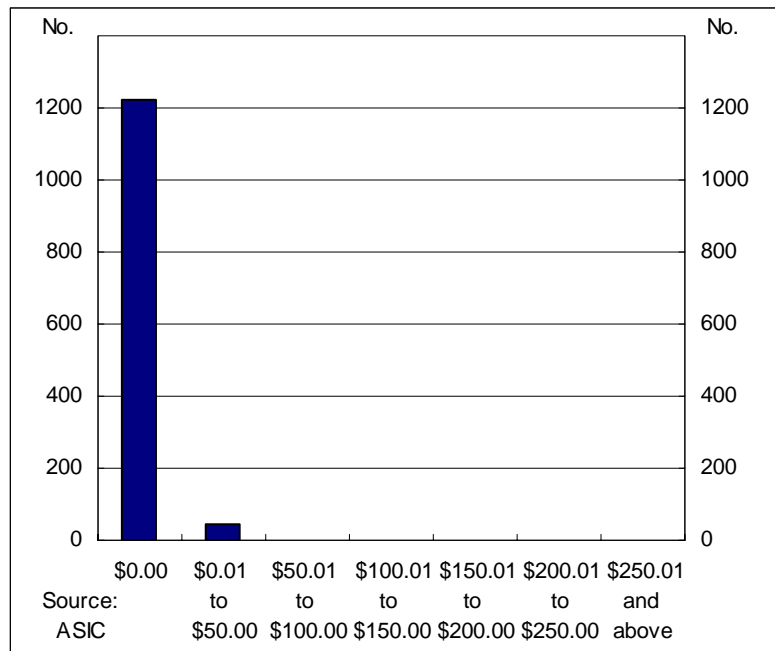
6.4 Public offer superannuation funds that are not industry funds recorded the highest average management costs, with an average of \$763.07 (i.e. 1.53%).¹⁹ Corporate superannuation funds recorded the lowest average management costs of \$378.89 (i.e. 0.76%).

¹⁹ We have not included eligible rollover funds and funds grouped under public offer Class Order [CO 04/1030] in our analysis when ranking the highest and lowest fees by category of fund. Note that the statistics for these types of funds should be read with caution as their sample sizes are negligible (eight and six products, respectively), making the results not comparable to the other types of funds.

Establishment fee

6.5 Graph 3 below highlights the frequency and spread of establishment fees across all 1270 products. The figures show that 1210 products (i.e. 95.28%) did not have any establishment fees.

Graph 3: Establishment fee—distribution



6.6 It should be noted that 60 of the 1270 products (i.e. 4.72%) had specific terms and conditions attached that may apply to the product holder and either increase or decrease the price of the establishment fee.²⁰ We have not conducted a complete analysis of establishment fees with specific terms and conditions attached because of the varying terms and conditions that may apply.

6.7 Where there were specific terms and conditions attached to the establishment fee, we used the primary fee²¹ disclosed by the trustee in the PDS in-use notice in our calculations and analysis.

6.8 Due to the various terms and conditions attached to each product, there may be a slight distortion in the statistical analysis. Therefore the

²⁰ An example of a product with specific terms and conditions attached is a product with a flat fee of \$X.XX and a percentage of account opening balance depending on the investment option selected. As such, the establishment fee would vary depending on the investment option chosen and the account balance for that individual account.

²¹ Primary fee refers to the actual fee disclosed in the PDS in-use notice without considering any of the specific terms and conditions that may be attached to that specific product.

findings on establishment fees should be read with caution and used only as a guide.²²

Establishment fee—fee-charging products

6.9 Of the 60 products that had specific terms and conditions attached, 50 had an establishment fee greater than \$0.00.²³ Table 15 below provides a statistical analysis of these 50 products, which represent 3.94% of all 1270 products. Of the 50 products with an establishment fee greater than \$0.00, the average establishment fee was \$48.94.

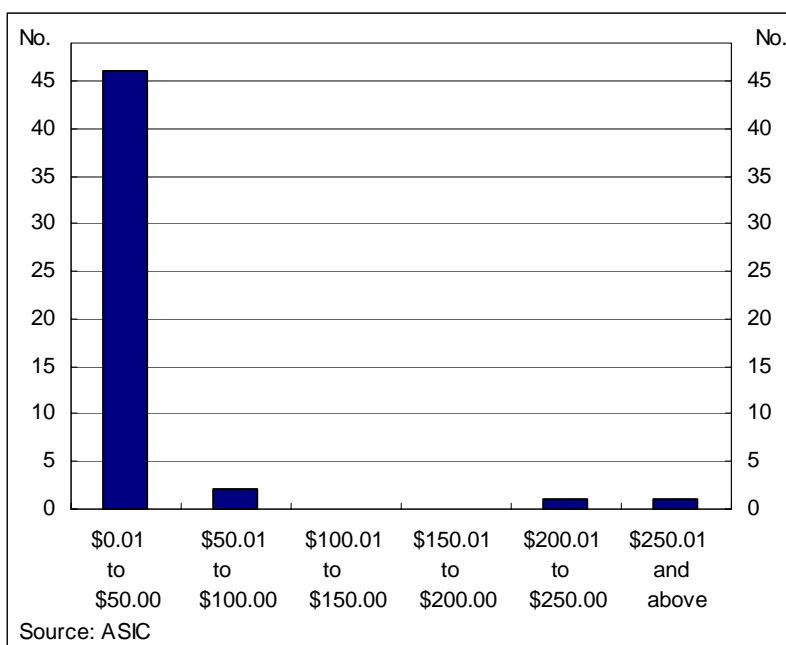
6.10 Public offer superannuation funds that are not industry funds offered most of these products (i.e. 46 out of the 50 products, or 92%).

Table 15: Establishment fee—fee-charging products

Number of products	Minimum	Maximum	Average	Median
50	\$10.00	\$1500.00	\$48.94	\$13.00

Source: ASIC

Graph 4: Establishment fee—distribution of fee-charging products



²² See Appendix A, 'Data integrity and explanatory notes', for more information on a possible distortion in the aggregated values with respect to establishment fees as a result of specific terms and conditions being applicable to a product holder.

²³ It should be noted that all 50 products that charged establishment fees had specific terms and conditions attached that could increase the establishment fee. As such, the following statistical analysis should be read with caution and used only as a guide.

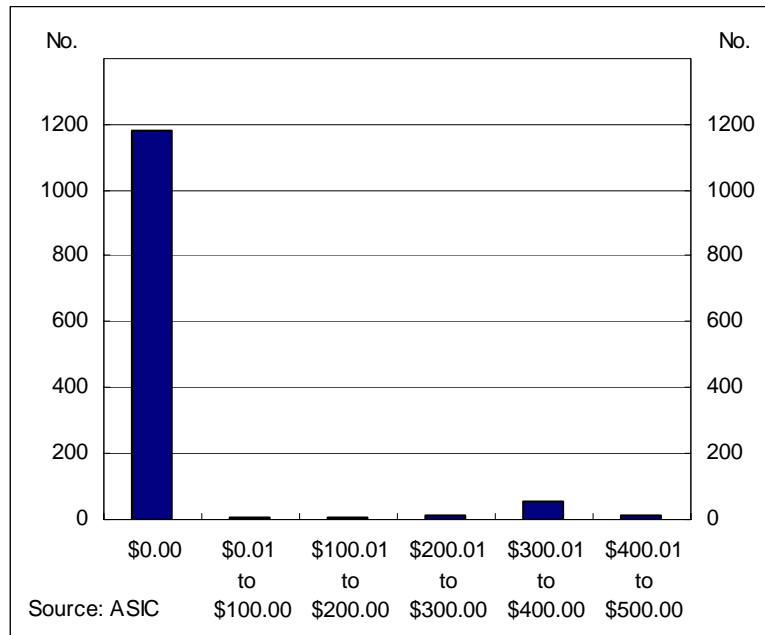
6.11 Graph 4 above highlights the distribution of establishment fees across all 50 products that had a fee greater than \$0.00. Ninety-two per cent of these products had a fee between \$0.01 and \$50.00.

Contribution fee (minimum)

6.12 In Part 2 of the PDS in-use notice, trustees are required to disclose both the minimum and maximum amount for contribution fees based on a contribution of \$5000.

6.13 Graph 5 below shows the distribution of the contribution fee (minimum) across all 1270 products. It highlights that 92.68% of all products had a minimum contribution fee of \$0.00 and that 4.25% of all products (i.e. 54 products) had a minimum contribution fee in the \$300.01 to \$400.00 bracket.

Graph 5: Contribution fee (minimum)—distribution



Contribution fee (minimum)—fee-charging products

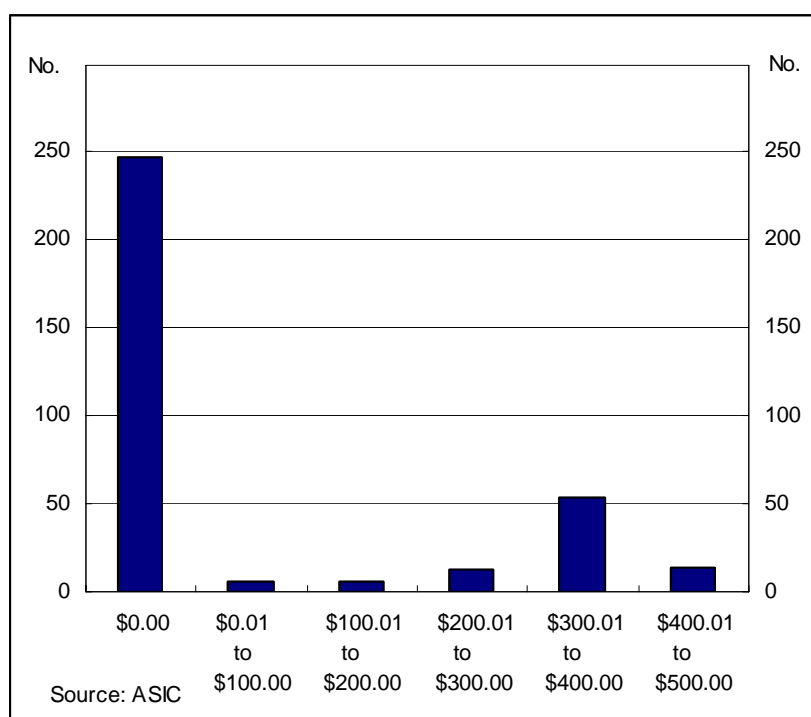
6.14 Table 16 below provides a statistical analysis of the 340 products (i.e. 26.77% of all 1270 products) that could have a contribution fee greater than \$0.00.

Table 16: Contribution fee (minimum)—fee-charging products

Number of products:	340			
	Minimum	Maximum	Average	Median
Dollar amount	\$0.00	\$495.00	\$89.74	\$0.00
Percentage	0.00%	9.90%	1.79%	0.00%

Source: ASIC

6.15 Graph 6 below highlights the distribution of the minimum contribution fee across all 340 products that could have had a contribution fee greater than \$0.00. Of the 340 products that could have charged a contribution fee above zero, 247 had a contribution fee (minimum) of \$0.00. There were 54 products that had a contribution fee (minimum) of \$300.01 to \$400.00 (i.e. the minimum contribution fee that could be charged by those 54 products was between \$300.01 to \$400.00).

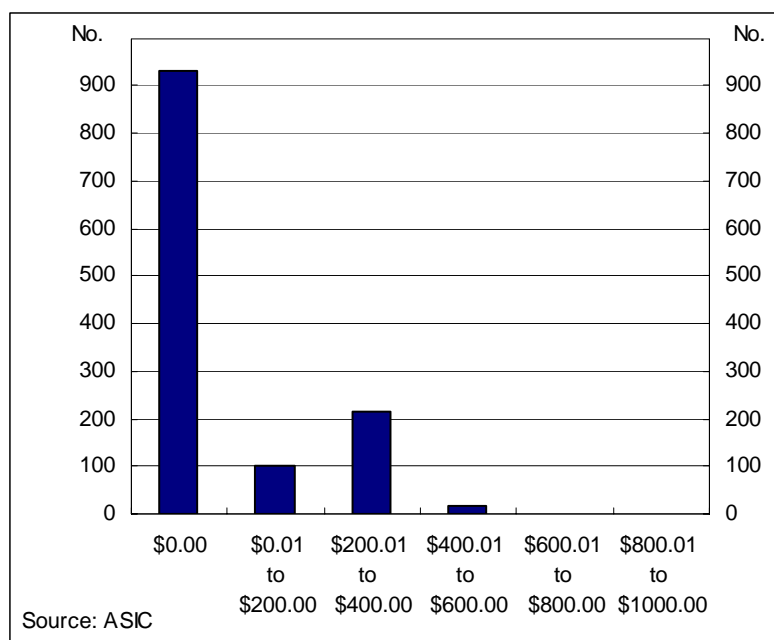
Graph 6: Contribution fee (minimum)—distribution of fee-charging products

Contribution fee (maximum)

6.16 Graph 7 below shows the distribution of the contribution fee (maximum) across all 1270 products. It highlights that 73.23% of product had a maximum contribution fee of \$0.00. In other words, these products

did not charge contribution fees. There were 216 products (i.e. 17.01% of all 1270 products) with a contribution fee (maximum) figure in the \$200.01 to \$400.00 bracket.

Graph 7: Contribution fee (maximum)—distribution



Contribution fee (maximum)—fee-charging products

6.17 Table 17 below provides a statistical analysis of the 340 products (i.e. 26.77% of all 1270 products) that had a contribution fee (maximum) greater than \$0.00. Public offer superannuation funds that are not industry funds represented 252 of the 340 products (i.e. 74.12%) that had a contribution fee (maximum) greater than \$0.00.

Table 17: Contribution fee (maximum)—fee-charging products

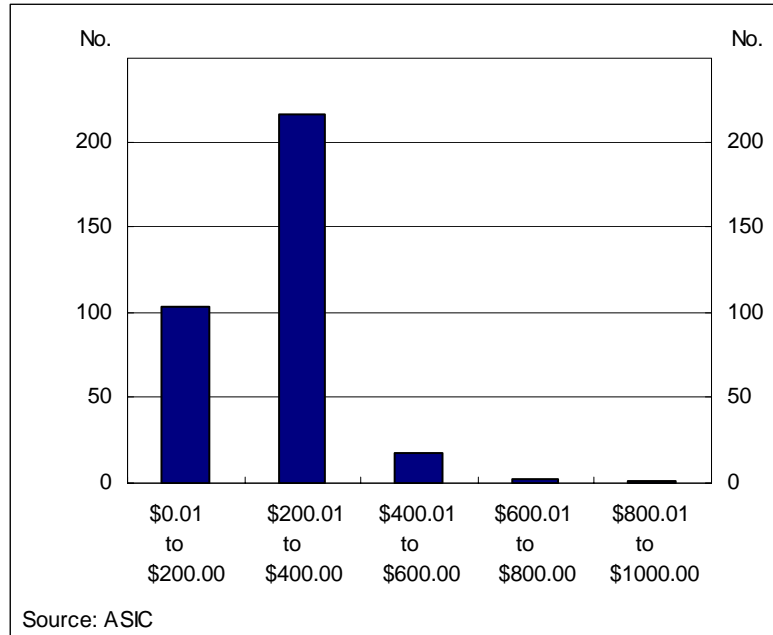
Number of products:		340			
	Minimum	Maximum	Average	Median	
Dollar amount	\$2.60	\$843.00	\$229.42	\$233.00	
Percentage	0.05%	16.86%	4.59%	4.66%	

Source: ASIC

6.18 Graph 8 below highlights the distribution of contribution fee (maximum) across all 340 products that have a fee greater than \$0.00.

More than 60% of the 340 products had a contribution fee (maximum) in the \$200.01 to \$400.00 range (i.e. 216 products).

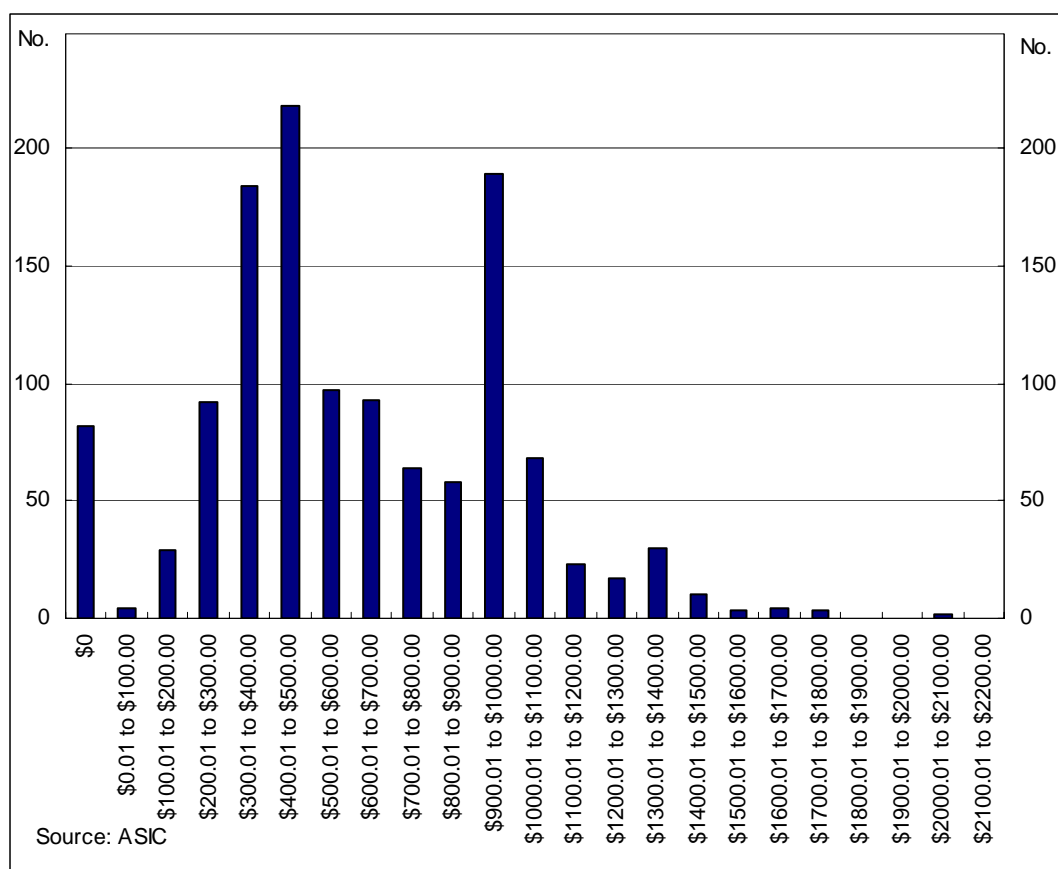
Graph 8: Contribution fee (maximum)—distribution of fee-charging products



Management costs

6.19 Graph 9 below shows the distribution of management costs across all 1270 products. It highlights that the highest number of products (i.e. 218 or 17.17%) lie in the \$400.01 – \$500.00 range amount and that 82 (or 6.46%) of all products did not have management costs. Approximately 50% of all products had management costs in the \$0.00 to \$500.00 range.

Graph 9: Management costs—distribution



Management costs—fee-charging products

6.20 Table 18 below provides a statistical analysis of the 1188 products (i.e. 93.54% of all products) that have management costs greater than \$0.00. Public offer superannuation funds that are not industry funds represented 653 (or 54.97%) of the 1188 products that had management costs greater than \$0.00.

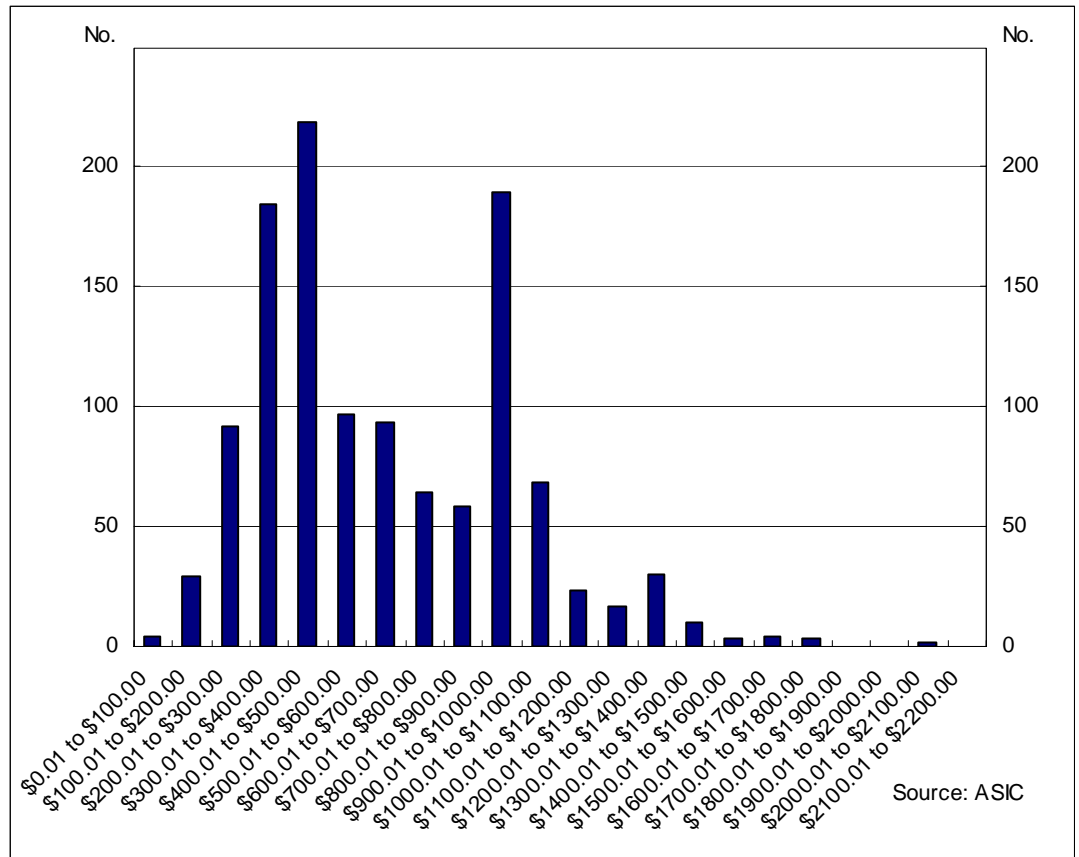
Table 18: Management costs—fee-charging products

Number of products:		1188			
	Minimum	Maximum	Average	Median	
Dollar amount	\$65.00	\$2071.25	\$658.65	\$562.00	
Percentage	0.13%	4.14%	1.32%	1.12%	

Source: ASIC

6.21 Graph 10 below highlights the distribution of management costs across all 1188 products that had a cost greater than zero. The dollar range that had the highest frequency of costs is the \$400.01 to \$500.00, with 18.35% (i.e. 218 products). Of the 1188 products that had a management cost greater than zero, 44.36% lie in the \$0.01 to \$500.00 dollar range amount (i.e. 527 products).

Graph 10: Management costs—distribution of fee-charging products

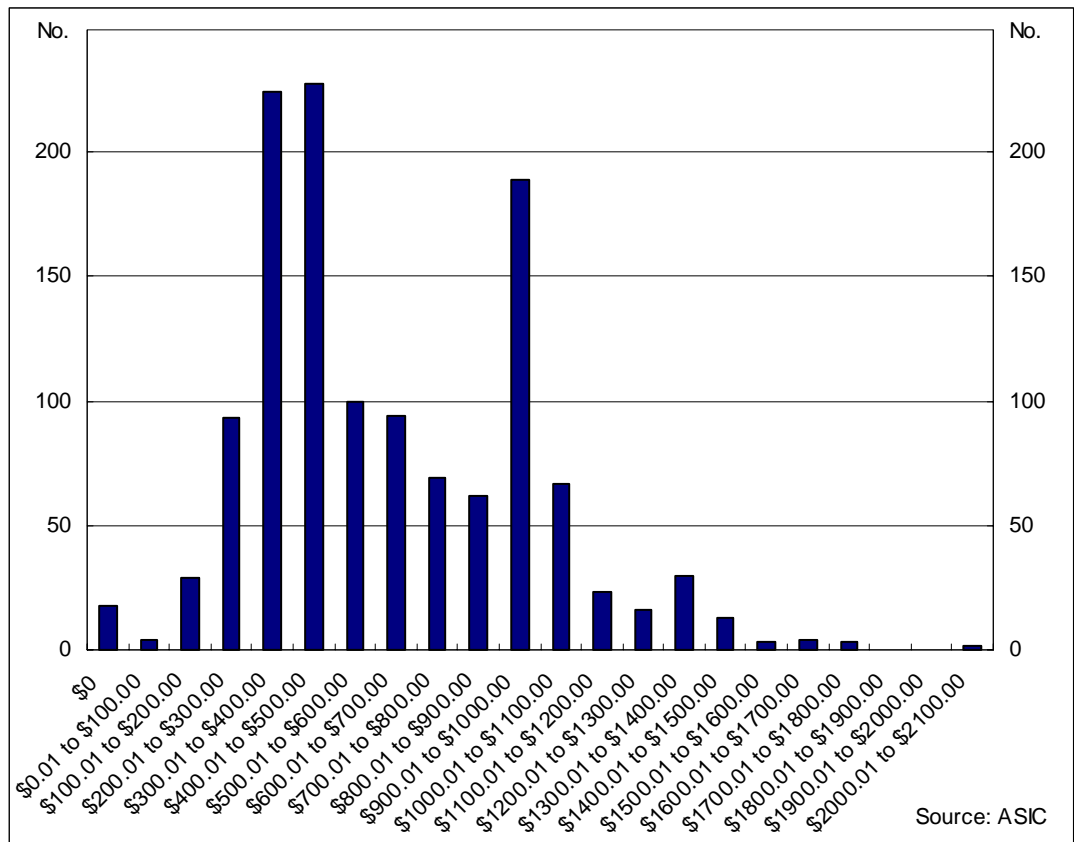


Cost of fund (minimum)

6.22 In Part 2 of the PDS in-use notice, trustees are required to disclose both the minimum and maximum amount for cost of fund. Note that cost of fund (minimum) is the sum of the contribution fee (minimum) and management costs.

6.23 Graph 11 below shows the distribution of the cost of fund (minimum) across all 1270 products. The highest proportion (17.87%) was in the \$400.01 – \$500.00 range amount (i.e. 227 products). The graph also shows that 46.85% of all 1270 products had a cost of fund (minimum) of less than \$500.00 (i.e. 595 products).

Graph 11: Cost of fund (minimum)—distribution

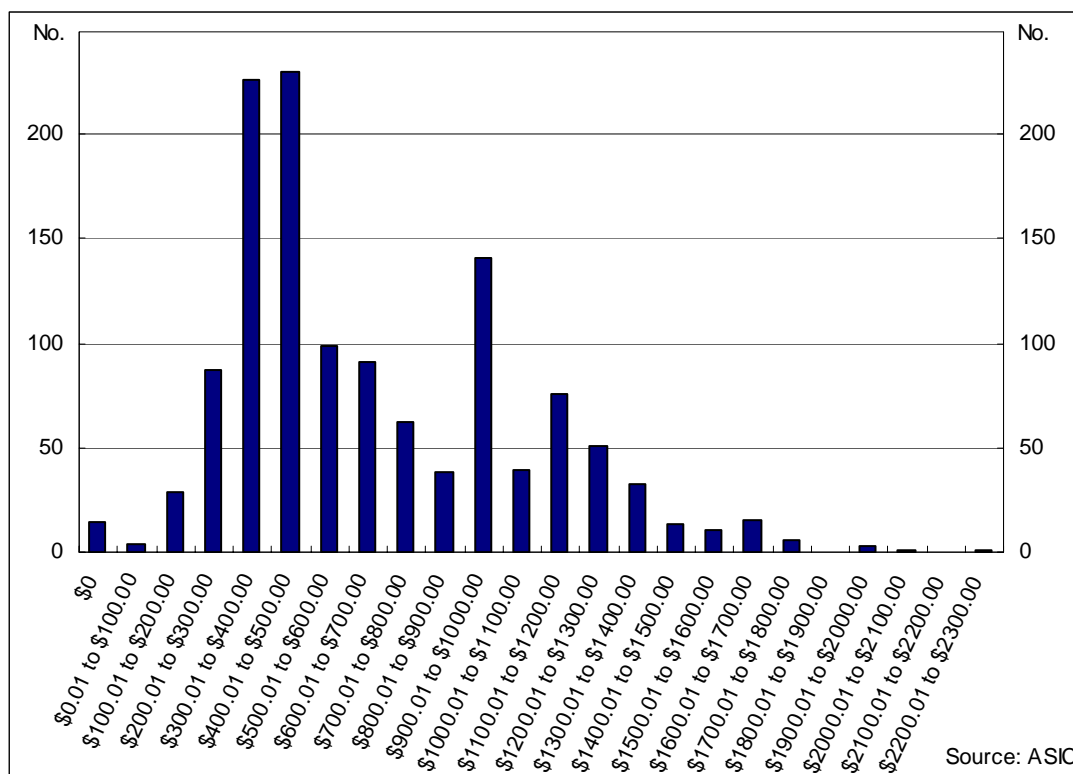


Cost of fund (maximum)

6.24 Graph 12 below shows the cost of fund (maximum) distribution across all 1270 products. Note that cost of fund (maximum) is the sum of the contribution fee (maximum) and management costs. The graph highlights that the highest proportion (18.11%) were in the \$400.01 to \$500.00 dollar range amount (i.e. 230 products) and that 46.46% of all 1270 products had a cost of fund (maximum) of less than \$500.00 (i.e. 590 products). The graph also shows that 14 products (i.e. 1.10%) did not charge members management costs and contribution fees. Of these 14 products, nine were offered by public offer superannuation funds that are not industry funds.²⁴

²⁴ It should be noted that these nine public offer superannuation funds were previously corporate superannuation funds that have been rolled over into master trusts.

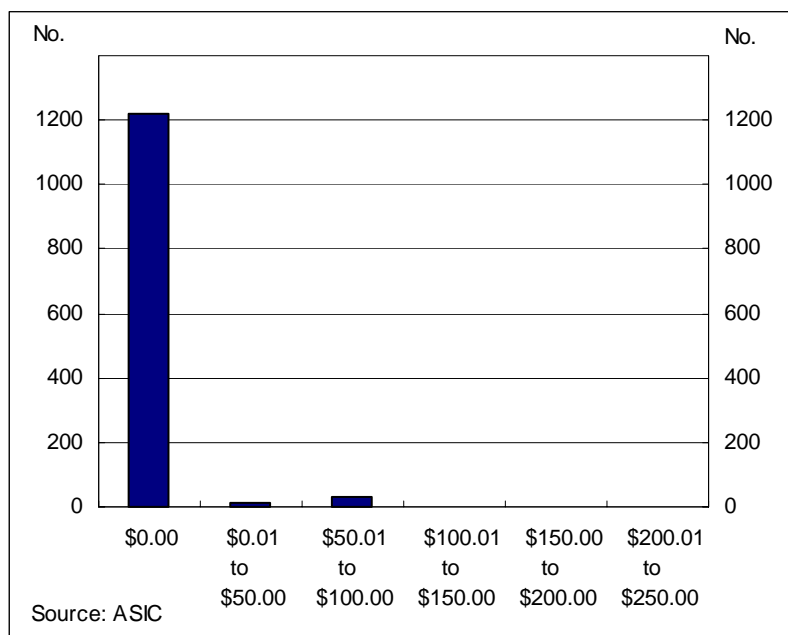
Graph 12: Cost of fund (maximum)—distribution



Termination fee²⁵

6.25 Graph 13 below details the distribution of termination fees across all 1270 products. Typically, termination fees are a flat fee. It highlights that 1217 products (i.e. 95.83% of all products) did not have termination fees, while 33 products (i.e. 2.60% of all products) had a termination fee in the \$50.01 to \$100.00 bracket. There were 12 products (i.e. 0.94% of all products) that had specific terms and conditions attached that may apply to the product holder and increase or decrease the price of the termination fee.

²⁵ See Appendix A, 'Data integrity and explanatory notes', for more information on a possible distortion in the aggregated values with respect to termination fees as a result of specific terms and conditions being applicable to a product holder.

Graph 13: Termination fee—distribution

6.26 Where there were specific terms and conditions attached to the termination fee, we used the primary fee²⁶ disclosed by the trustee in the PDS in-use notice in our calculations and analysis. Due to the various terms and conditions attached to each product, there may be some distortion in the statistical analysis. However, it should be noted that the impact would be minimal, as only 0.94% of all 1270 products in the sample data indicated that there were specific terms and conditions that may apply to the product holder and increase or decrease the price of the termination fee.

Termination fee—fee-charging products

6.27 Table 19 below provides a statistical analysis of the 53 products (i.e. 4.17% of all products) that had a termination fee greater than \$0.00. Twenty of these 53 products (i.e. 37.74%) were corporate superannuation funds. Of the 53 products that charged a termination fee, the average fee was \$74.64.

Table 19: Termination fee—fee-charging products

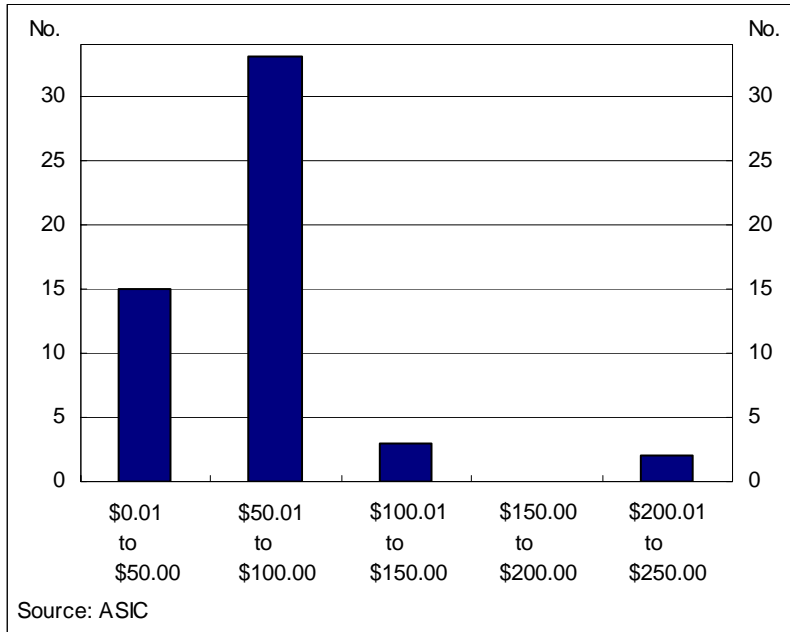
Number of products	Minimum	Maximum	Average	Median
53	\$10.00	\$250.00	\$74.64	\$75.00

Source: ASIC

²⁶ Primary fee refers to the actual fee disclosed in the PDS in-use notice without considering any of the specific terms and conditions that may be attached to that specific product.

6.28 Graph 14 below details the distribution of the 53 products that had a termination fee greater than \$0.00. It highlights that 62.26% of these products had a termination fee between \$50.01 and \$100.00.

Graph 14: Termination fee—distribution of fee-charging products



7. Retirement savings accounts (RSAs)

What are RSAs?

7.1 RSAs are an alternative to superannuation funds more commonly applicable to employers and employees making relatively small contributions into super (usually casual and part-time workers).

7.2 An RSA can be opened with as little as \$1.00 and the account balance can grow slowly over time. RSAs do not offer investments in growth assets (shares and property), which limits their return in comparison to superannuation funds. They are also not required to provide life or other types of insurance.

7.3 RSAs are subject to member protection rules that require them to protect balances of less than \$1000, as are all superannuation funds that contain some compulsory employer contributions. RSAs are also capital guaranteed (contributions and interest on the account can only be reduced by fees and costs) and are fully transferable to other RSAs or superannuation providers.

7.4 Important characteristics of RSAs include the absence of a trust structure and the practicality of the operation, similar to bank savings accounts. RSAs are offered by banks, building societies, credit unions, life insurance companies and prescribed financial institutions. They are also subject to the same preservation and payment standards that superannuation funds are.

7.5 We have included this section on RSAs because they are a possible choice of product open to a consumer under Super Choice. However, these products are not subject to the enhanced fee disclosure regulations. Our analysis of the fees and costs charged for this type of product is based on information extracted directly from PDSs for RSAs.

Sample size

7.6 Due to the small number of RSA products available in the market, the results on RSAs should be read with caution, as they are not by any means comparable to the results of our superannuation fees and costs analysis.²⁷

Fee structure

7.7 In general, RSAs have the following basic fees structure:

- establishment fees;

²⁷ The sample size is based on eight products currently available in the Australian market.

- administrative fees;
- contribution fees;
- termination fees; and
- withdrawals fees.

7.8 Due to the nature of the product, there are usually a variety of specific terms and conditions that may need to be satisfied to determine whether a fee is charged to a customer. For instance, a customer may not be charged a fee if their balance falls below \$1000, or they may be entitled to four free withdrawals per financial year before being charged \$40 for each withdrawal thereafter in that financial year.

General fee analysis

7.9 The figures in Table 20 below provide a statistical description of the distribution of fees and costs charged on RSAs. The average charge by type of fee for RSAs is significantly lower than that for superannuation funds.

7.10 RSAs are classified as a conservative option for superannuation purposes because the investment options accessible through them are characteristically of low risk and low return. Subsequently, the investment returns on RSAs are generally significantly lower than those of most superannuation funds.

7.11 As the fees relate to investment options different from those accessible through superannuation funds, the information on fees in Table 20 cannot be directly compared with the fees and costs information for superannuation funds in this report.

Table 20: RSA fee analysis²⁸

	Establishment fee	Administrative fee	Contribution fee	Withdrawal fee	Termination fee
Minimum	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Maximum	\$0.00	\$25.00	\$0.00	\$38.50	\$38.50
Average	\$13.06	\$3.44	\$0.00	\$8.56	\$9.19
Median	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00

Source: ASIC

²⁸ Calculated on a per transaction basis. The results in Table 20 indicate the lowest fee paid by an RSA holder if all conditions are met and no additional fees are charged.

Appendix A: Data integrity and explanatory notes

Source of information

A.1 The information in this report is obtained from two main sources:

- the fees and costs stated by superannuation trustees in Part 2 of PDS in-use notices lodged with us between 1 October 2005 and 30 June 2006; and
- PDSs for RSAs that were in use between 1 October 2005 and 30 June 2006.

A.2 Trustees of regulated superannuation funds²⁹ must lodge a PDS in-use notice (ASIC form FS53) under s1015D(2) of the Corporations Act where:

- the in-use notice relates all or in part to a PDS in respect of a superannuation product that is an interest in a regulated superannuation fund; or
- the in-use notice relates all or in part to a supplementary PDS in respect of a superannuation product that is an interest in a regulated superannuation fund.

A.3 Part 2 was added to the PDS in-use notice to collect information on fees and costs restricted to balanced investment options with balance of \$50,000 and a total yearly contribution of \$5000. This is the information that must be included in superannuation PDSs under the enhanced fee disclosure regulations. The regulations provide an example of how the fees and costs in the balanced investment option for superannuation funds should be disclosed in PDSs.³⁰ We have reproduced this example at Table 3 (Section 2) in this report.

A.4 Where a fund does not offer an investment option similar to a balanced investment option, the regulations require disclosure of fees and costs information based on the fund's default investment option.³¹ Where a fund did not have a balance of \$50,000, it was required to provide information referring to a balance as close as possible to \$50,000.

²⁹ A regulated superannuation fund is one where the trustee has made an irrevocable election to become regulated pursuant to s19 of the *Superannuation Industry (Supervision) Act 1993*.

³⁰ See Division 5 of Schedule 10 of the Corporations Regulations, as amended by the Corporations Amendment Regulations 2005 (No. 1).

³¹ See cl 220(1) in Schedule 10 of the Corporations Regulations, as amended by the Corporations Amendment Regulations 2005 (No. 1).

Data integrity

A.5 Between 1 October 2005 and 30 June 2006, we received 1291 PDS in-use notices. Of the 1291 in-use notices submitted, 21 were excluded from the sample data for the following reasons:

- in seven of the in-use notices trustees had disclosed fees and costs based on average balances of greater than \$50,000; and
- as at 31 July 2006, we were still waiting for some trustees to clarify some information disclosed in 14 in-use notices that appeared to be statistical outliers.

A.6 The data collated from the in-use notices used in this report covers only those notices that were signed by the relevant persons required to submit the form. By signing the form, the relevant persons confirmed that all the information contained in the form was true and accurate at the time of submission. As such, we are not responsible for the accuracy or review of the figures submitted in the forms. However, where appropriate, we have made attempts to rectify incorrect data caused by human error from either the trustee when lodging the in-use notice or by ASIC staff when inputting the data into the database.

Self-managed superannuation funds

A.7 Self-managed superannuation funds (SMSFs) are substantially regulated by the Australian Taxation Office (ATO). Trustees of SMSFs are not required to comply with the enhanced fee disclosure regulations. Therefore, this report does not analyse or make any comparisons on the costs involved in establishing or maintaining SMSFs.

Retirement savings accounts (RSAs)

A.8 RSAs are not required to comply with the enhanced fee disclosure regulations. However, they are an option under Super Choice. For this reason, we have undertaken analysis of the fees and costs charged for this type of product, based on information extracted directly from applicable PDSs.

A.9 We have relied upon the fees and costs as disclosed in the PDSs for RSAs, and have accepted the figures to be true and correct for the purpose of this research.

A.10 We have also relied upon the definitions of establishment fee, contribution fee, termination fee and withdrawal fee in clause 101 of Schedule 10 of the Corporations Regulations when categorising the fees and costs for each RSA product, notwithstanding that RSAs are not subject to the enhanced fee disclosure regulations. However, it is possible that the product issuer of an RSA has not used these definitions.

A.11 Certain organisations and industry groups offer RSAs to their employees and families. It should be noted that, where this is the case, the organisation or industry group has incurred most, if not all, of the fees and costs associated with establishing and maintaining an RSA on behalf of the employee. As such, the absorption of the fees and costs by the organisation or industry group has had an impact on the results of our analysis of fees and costs. This is because the true costs of establishing and maintaining the fund are not accurately reflected—only what is actually charged to the RSA account holder is shown.

A.12 It should be noted that an RSA would not be considered a ‘balanced’ investment because it is a conservative investment product. As such, we have not made any direct comparative analysis with the figures obtained from the in-use notices.

Establishment fees—data consistency

A.13 Due to the nature of superannuation products, there may be a variety of specific terms and conditions that may need to be satisfied to determine what establishment fee is actually charged to a customer. For example, a customer may have their establishment fee waived if:

- the amounts in a particular superannuation product are rolled over into another product offered by the same institution; or
- the member has choice as to whether to accept a higher establishment fee for a lower contribution fee.

A.14 It should be noted that in this report (unless specifically stated otherwise), where there are specific terms and conditions attached to a particular fee or cost, we have used the primary fee or cost disclosed by the trustee in the in-use notice in our calculations and analysis.³²

A.15 Due to the various conditions attached to each particular type of fee or cost, there may be some distortion in the statistical analysis performed on the data received. Therefore, the findings in certain sections of this report should be read with caution and used only as a guide. We have indicated where this is the case.

Rebate of fees and costs not taken into account

A.16 It should be noted that the fees and costs reported by trustees in Part 2 of the PDS in-use notice may differ from the actual fees and costs that may be paid by a member. The actual fees and costs that may be paid by a member may be affected by the results of individual negotiations between members (including applications), their advisers or the trustee itself.

³² Primary fee refers to the actual fee disclosed in the PDS in-use notice without considering any of the specific terms and conditions that may be attached to that specific product.

A.17 In many cases individuals become members of funds through an intermediary such as a financial adviser. Negotiations between advisers and individuals may involve rebating some or all of certain fees and costs where those fees and costs include commission payments to advisers. Alternatively, rebates may be negotiated directly between the member and the trustee.

Appendix B: Buy–sell spread

Introduction

B.1 Since the introduction of the enhanced fee disclosure regulations, there have been suggestions that there would be increases in other types of fees and costs that are not captured by the requirements of the prescribed worked example. Those fees and costs, although not required to be included in the prescribed worked example, do impact on a member's superannuation balance. One of those key fees or costs is the buy–sell spread. In this appendix we have added an examination of the buy–sell spread cost, relying on information made available by SuperRatings.

Definition

B.2 Buy–sell spread is the difference between the purchase and the sale of unit prices. It represents an estimation of the costs of buying and selling investments of the investment option as a consequence of amounts being invested in and paid from an investment option. Those costs may include brokerage fees and government taxes and charges.

B.3 It is common for superannuation funds to incur costs for buy–sell spreads. According to information contained in some PDSs, most of the investment options (excluding listed securities) have a buy–sell spread, which is sometimes referred to either as transaction costs or as buy–sell margin.

B.4 According to information in some PDSs, the buy–sell spread is intended to ensure that members who transact infrequently do not bear the costs generated by members who transact more frequently.

Example

If considered in isolation, the effect of the buy–sell spread of 1.0% on a \$1000 investment would result in the reduction of the investment to approximately \$990 upon its sale. That is, \$1000 less the buy–sell spread of \$10 (1.0%) = \$990.

Methodology

B.5 Buy–sell spreads are disclosed to members through PDSs as ‘additional fees information’. Trustees do not need to provide information about buy–sell spreads in an in-use notice as they are not required to include this type of fee or cost information in the prescribed worked example in a PDS. For the analysis in this section, we have used information made available by SuperRatings through ‘SMART’ (Superannuation Market Analysis Research Technology).

B.6 In order to keep the information about buy–sell spreads consistent with the analysis of fees and costs in this report, we have included only charges referring to balanced investment options. However, in this section, we have used the SuperRatings definition of balanced investment, which is options that have 60% to 76% of assets allocated to growth investments.

B.7 Buy–sell spread is charged on the investment option level. For example, when switching from one investment option to another within the same product, it is very likely that the charge will apply. In the SMART tool, an overview of fees and costs applicable to a product, including buy–sell spread for investment options, shows which funds charge that type of fee or cost and what is the range potentially charged across all investment options that can be accessed via that product. However, some funds that have stated such charges on the overview have failed to provide the information actually applicable to individual investment options.

B.8 This analysis includes only information that was available for individual investment options and not on the overview of the tool. In addition, product providers usually offered the same investment options across all their own products. Those investment options were included as many times as the number of products where they were offered. For example, if provider XXX has four different products and in each one of them the Investment Option Y is offered, then Investment Option Y will be included four times and not just once.

Buy–sell spread analysis

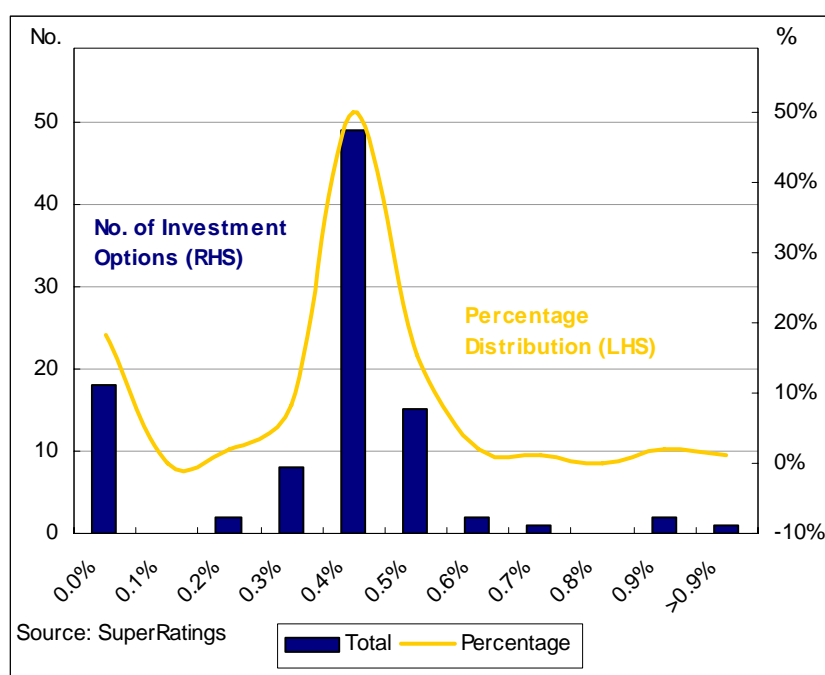
B.9 On 19 July 2006, the SuperRatings website contained information about 91 products from different providers. As set out in Table 21 below, 42 products stated that a buy–sell spread was charged to clients on the product level. The remaining 49 did not state any charge of buy–sell spread.

Table 21: Number of buy–sell spread charging products per type of fund as at 19 July 2006

Type of fund	Buy–sell spread		Total
	Yes	No	
Corporate	0	1	1
Government	1	5	6
Industry fund—allocated pension	0	1	1
Non-public offer industry fund	4	16	20
Public offer industry fund	4	20	24
Industry fund—term allocated pension	0	1	1
Master trust—allocated pension	5	0	5
Master trust—corporate	20	5	25
Master trust—personal	5	0	5
Master trust—term allocated pension	3	0	3
Total	42	49	91

Source: SuperRatings

B.10 Of the 42 products that stated some level of buy–sell spread, 29 provided information on actual charges on the investment option level. Those 29 products had 98 balanced investment options available to clients. Graph 15 below shows that approximately half of those 98 balanced investment options charged a buy–sell spread fee between 0.3% and 0.4%.

Graph 15: Buy–sell spread distribution per value charged

B.11 Table 22 below sets out the average buy–sell spread per type of fund. The average buy–sell spread across all balanced investment options aggregated by type of fund was 0.31%. The government sector contributed only one investment option. The remaining types of funds presented averages around 0.30%.

Table 22: Average value of buy–sell spread per type of fund as at 19 July 2006

Type of Fund	Number of investment options	Minimum %	Maximum %	Average %	Standard deviation %
Government	1	0.45	0.45	0.45	N/A
Non public offer industry fund	4	0.00	0.50	0.35	0.23
Public offer industry fund	5	0.00	0.50	0.31	0.19
Master trust—allocated pension	13	0.00	0.40	0.30	0.14
Master trust—corporate	47	0.00	0.82	0.31	0.21
Master trust—personal	18	0.00	0.38	0.28	0.15
Master trust—term allocated pension	10	0.32	0.36	0.35	0.02
Total	98	0.00	0.82	0.31	0.18

Source: SuperRatings

Glossary

balanced investment option An investment option in which the ratio of investment in growth assets (such as shares or property) to investment in defensive assets (such as cash or bonds) is as close as practicable to a 70:30 ratio.³³

contribution fee An amount paid or payable against the initial, and any subsequent, contributions made into a product by or for a retail client for the product. Note that an employer may make a contribution on behalf of the product holder or retail client.³⁴

corporate superannuation fund Includes company superannuation funds sponsored by a single employer or a group of usually related employers for the benefit of company employees.³⁵

cost of fund The sum of contribution fees and management costs.

eligible rollover fund A superannuation fund or approved deposit fund that is eligible to receive benefits automatically rolled over from other funds.³⁶

enhanced fee disclosure regulations These are set out in Schedule 10 of the Corporations Regulations 2001, as amended by the Corporations Amendment Regulations 2005 (No. 1). Among other things, these regulations introduced new fees and costs disclosure requirements for superannuation Product Disclosure Statements from 1 July 2005. One of these requirements was to disclose a worked example of annual fees and costs based on a balanced investment option that has an account balance of \$50,000 and a contribution during that year of \$5000.

establishment fee An amount paid or payable for the establishment of a client's interest in a product. However, it does not include contribution fees paid or payable against the initial contribution into the product.³⁷

industry fund that is not a public offer fund Industry fund that draws members from a range of employers across a single industry (or group of related industries) and is usually established under an agreement between parties to an industrial award. This type of industry fund does not allow members of the general public to join.³⁸

³³ From cl 101 in Schedule 10 of the Corporations Regulations 2001 (Corporations Regulations), as amended by the Corporations Amendment Regulations 2005 (No. 1).

³⁴ From cl 101 in Schedule 10 of the Corporations Regulations.

³⁵ From APRA *Classification of Superannuation Entities*, 04 May 2005.

³⁶ From APRA *Classification of Superannuation Entities*, 04 May 2005.

³⁷ From cl 101 in Schedule 10 of the Corporations Regulations.

³⁸ From APRA *Classification of Superannuation Entities*, 04 May 2005.

management costs Includes any of the following:³⁹

- in relation to a product or fund, an amount payable for administering the fund;
- for a custodial arrangement, the cost involved, or amount paid or payable, for gaining access to, or participating in, the arrangement;
- distribution costs;⁴⁰
- other expenses and reimbursements in relation to a product or fund;
- amounts paid or payable for investing in the assets of the fund;
- amounts deducted from a common fund by way of fees, costs, charges or expenses, including:
 - amounts retrieved by an external fund manager or product issuer; and
 - amounts deducted from returns before allocation to the fund;
- estimated performance fees;⁴¹
- any other investment-related expenses and reimbursements, including any associated with custodial arrangements.

Excludes the following fees and costs:⁴²

- contribution fee;
- transactional and operational costs;⁴³
- an additional service fee;
- an establishment fee;
- a switching fee;⁴⁴
- a termination fee;
- a withdrawal fee;
- costs (related to a specific asset or activity to produce income) that an investor would incur if he or she invested directly in the asset;
- incidental fees.⁴⁵

³⁹ From cl 102(1) in Schedule 10 of the Corporations Regulations.

⁴⁰ Distribution costs are the costs or amounts paid or payable for the marketing, offer or sale of a product: see cl 101 in Schedule 10 of the Corporations Regulations.

⁴¹ A performance fee is the amount paid or payable, calculated by reference to the performance of a product or a fund: see cl 101 in Schedule 10 of the Corporations Regulations.

⁴² From cl 102(2) in Schedule 10 of the Corporations Regulations.

⁴³ Transactional and operational costs include brokerage, buy-sell spread, settlement costs (including custody costs), clearing costs and stamp duty on an investment transaction: see s103 in Schedule 10 of the Corporations Regulations.

⁴⁴ A switching fee is the amount paid or payable when a product holder transfers all or part of their interest in the financial product from one investment option to another: see cl 101 in Schedule 10 of the Corporations Regulations.

⁴⁵ Incidental fees are defined in cl 101 in Schedule 10 of the Corporations Regulations.

‘other’ fund the category of superannuation fund to be used in Part 2 of ASIC form FS53 to describe a fund that does not fit within the following categories:

- public offer superannuation fund that is not an industry fund;
- public offer superannuation fund that is an industry fund;
- public offer [CO 04/1030] fund;
- industry superannuation fund that is not public offer,
- corporate superannuation fund; or
- eligible rollover fund).

For example, public sector superannuation funds, which are superannuation entities where the sponsoring employer is a government agency or a business enterprise that is majority government-owned, may belong in the category of ‘other’. However, self-managed superannuation funds (SMSFs) do not, as SMSFs are not required to comply with the enhanced fee disclosure regulations.

Product Disclosure Statement (PDS) A PDS is required by s1012A, 1012B, 1012C or 1012I of the Corporation Act in accordance with Division 2 of Part 7.9. It generally sets out the following information:

- features of the product;
- fees that apply;
- the benefits and risks of investing;
- commissions that may affect investor returns;
- information about complaints handling and cooling off rights; and
- other information that is material to an investor’s decision to invest.

public offer [CO 04/1030] fund A public offer superannuation fund that has the following characteristics:

- it is set up as a master trust that includes a number of standard employer sponsored superannuation products and non-employer sponsored superannuation products;
- the standard employer-sponsored superannuation products are made available to the employees of different employers; and
- the features, terms and conditions of the standard employer-sponsored superannuation products made available via the master trust are essentially the same. The differences between these products are only very minor reflecting the limited choices that an employer can make in respect of its own employees.

These funds have the benefit of the PDS in-use notice relief under ASIC Class Order [CO 04/1030] *In-use notices for employer-sponsored*

superannuation. That is, the trustee of the fund does not need to provide in-use notices for each substantially similar standard employer-sponsored superannuation product made available via the public offer superannuation fund.

public offer superannuation fund that is an industry fund Includes standard employer sponsored⁴⁶ superannuation funds that have some non-standard employer sponsored members or where the trustee has elected for the fund to become a public offer fund. Public offer superannuation funds that are industry funds allow members of the general public to join. However, the vast majority of members of this type of industry fund are from the industry for which the fund was established.⁴⁷

public offer superannuation fund that is not an industry fund This type of fund is typically known as a retail fund, which is a type of fund that offers superannuation products to the public on a commercial ‘for profit’ basis. Retail funds are usually run by large financial institutions that provide a range of wealth management products. Included in this type of fund are large public offer superannuation trusts that comprise a number of smaller funds (whether or not described as sub-plans or sub-funds) that have been consolidated into larger trusts. These smaller funds may comprise ‘personal’ or ‘employer-sponsored’ sub-plans or sub-funds. These funds are commonly known as superannuation master trusts.⁴⁸

retirement savings accounts (RSA) Described in Section 7 of this report and defined in the *Retirement Savings Accounts Act 1997*.

sample size The number of records in ASIC’s Super Fees database classified as ‘active data’ as at 30 June 2006 and referring to account balances of \$50,000. The fee data collection started in October 2005.

termination fee The amount paid or payable on the disposal of all interests held in a financial product.⁴⁹

withdrawal fee Includes an amount, other than a termination fee, paid or payable in respect of:

- a withdrawal; or
- the disposal of an interest in a product.⁵⁰

⁴⁶ Standard employer sponsors are employers who contribute to the fund through an arrangement between the employer and the trustee of the fund. Employer sponsors that are not standard employer sponsors are those that contribute to the fund without having an arrangement between the employer and the trustee.

⁴⁷ From APRA *Classification of Superannuation Entities*, 04 May 2005.

⁴⁸ This definition is based on the definition in APRA *Classification of Superannuation Entities*, 04 May 2005.

⁴⁹ From cl 101 in Schedule 10 of the Corporations Regulations.

⁵⁰ From cl 101 in Schedule 10 of the Corporations Regulations.