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Your Future, Your Super Review –draft Superannuation Performance Test Regulations 2023

Prime Super is an independent, profit-to-members superannuation fund. We have provided superannuation and retirement solutions to Australians for close to 25 years. Today we manage approximately \$6.3 billion in retirement savings for around 140,000 members who work in industries including agriculture, horticulture, health, education, aged care and recruitment.

Prime Super makes the following comments in relation to the Your Future, Your Super proposed regulations –the *Superannuation Industry (Supervision) Amendment (Your Future, Your Super –Addressing Underperformance in Superannuation) Regulations 2023* (Regulations).

The Regulations include a proposed new definition of “representative administration fees and expenses” or “RAFE” as well as changes to aspects of the performance test formulae.

In our view, there are two key areas that require further consideration, which both relate to costs and the use of member fees.

1. Investment costs and administration fees must be considered separately

A stand-alone comparison of fees provides misleading information, where fees do not represent the actual cost of running a superannuation fund.

To this point, and in view of the APRA Fund Level Statistics report in Table 6 (Column Y) *Total administration fees paid*, and the report in Table 3a (Column BH) *Total administration and operating expenses* we note that in most cases, the total value of fees collected from members is less than the total administration and operating costs of the business.

It is clear from APRA data that the revenue generated from member fees is less than the cost of running the business for many trustees; therefore, the cost of operations is subsidised from investment returns. Accordingly, a simple comparison of member fees (as provided in the APRA Heatmap and through the YourSuper comparison tool) does not provide consumers with relevant information or facilitate valid comparisons between funds due to the fact that member fees do not reflect the actual administration and operating expenses of the funds.

A valid facilitation of consumer decisions would enable comparisons between returns net of all investment costs, administration and operating costs and deductions from reserves. It is our view that these factors should be made transparently available for consumers as they endeavour to make comparisons between funds.

2. Administration and operating costs

As member fees are not a true reflection of the costs of operations of a business, administration and operating costs should also be considered based on a fund's total number of members due to the fact that the cost of administering an account with a balance of \$1 is the same as the cost of administering an account with a balance of \$1 million.

The administration function for a fund is transactional and has no correlation with the value of an account. However, the current performance measures in the regulations provide for only one administrative cost-comparison based on funds under management. This approach enables some inefficient funds to continue to function—not because they are cost effective in their service delivery, but because their members have larger average account balances which obscures the funds' inefficiency.

A measure of total administration and operating costs across all members within a fund would enable system-wide comparisons of the cost of operations of a fund. In

addition, it removes opportunities for pricing structures aimed solely at delivering the perception of a better outcome at single measurement points.

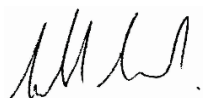
Some benefits being attributed to scale are actually driven by the average account balance and not by the total value of a fund. That is, where administration and operating costs are measured against the total value of the fund, a higher average account balance will result in a lower administration and operating costs ratio; this is not an overall scale benefit.

If administration and operating costs are compared separately, the industry would achieve better efficiencies over the long term; transactional costs would become evident and increased transparency would enable consumers to make more accurate and meaningful comparisons.

From an oversight perspective, a secondary measure should be established whereby administration and operating costs are compared based on a standardised average account balance, in the same way that member fees are compared based on a hypothetical \$50,000 account balance.

Prime Super would be happy to discuss any aspects of this submission further. I can be contacted on 0419 550 250.

Yours faithfully,



Lachlan Baird

Chief Executive Officer