# Fees and costs

Technical Supplement 5,Superannuation: Assessing Efficiency and Competitiveness, Productivity Commission Inquiry Report

 Commonwealth of Australia 2018



Except for the Commonwealth Coat of Arms and content supplied by third parties, this copyright work is licensed under a Creative Commons Attribution 3.0 Australia licence. To view a copy of this licence, visit [<http://creativecommons.org/licenses/by/3.0/au>](http://creativecommons.org/licenses/by/3.0/au). In essence, you are free to copy, communicate and adapt the work, as long as you attribute the work to the Productivity Commission (but not in any way that suggests the Commission endorses you or your use) and abide by the other licence terms.

Use of the Commonwealth Coat of Arms

Terms of use for the Coat of Arms are available from the Department of the Prime Minister and Cabinet’s website: <https://www.pmc.gov.au/government/commonwealth-coat-arms>

Third party copyright

Wherever a third party holds copyright in this material, the copyright remains with that party. Their permission may be required to use the material, please contact them directly.

Attribution

This work should be attributed as follows, *Source: Productivity Commission, Fees and costs, Technical Supplement 5*.

If you have adapted, modified or transformed this work in anyway, please use the following, *Source: based on Productivity Commission data, Fees and costs, Technical Supplement 5*.

An appropriate reference for this publication is:

Productivity Commission 2018, ‘Fees and costs’, Technical Supplement 5 to the Inquiry Report *Superannuation: Assessing Efficiency and Competitiveness*, Canberra, December.

Publications enquiries

Media, Publications and Web, phone: (03) 9653 2244 or email: mpw@pc.gov.au

| The Productivity Commission |
| --- |
| The Productivity Commission is the Australian Government’s independent research and advisory body on a range of economic, social and environmental issues affecting the welfare of Australians. Its role, expressed most simply, is to help governments make better policies, in the long term interest of the Australian community.The Commission’s independence is underpinned by an Act of Parliament. Its processes and outputs are open to public scrutiny and are driven by concern for the wellbeing of the community as a whole.Further information on the Productivity Commission can be obtained from the Commission’s website ([www.pc.gov.au](http://www.pc.gov.au/)). |
|  |

# 5 Technical supplement: fees and costs

This technical supplement documents the data sources used to analyse fees and costs in chapter 3 of the Commission’s inquiry report and provides some additional analysis of data in support of that chapter. Section 5.1 details the data sources used. Section 5.2 discusses the methodological issues encountered in the data analysis. Section 5.3 provides additional supporting analysis. This technical supplement (tech. supp.) should be read in conjunction with appendix B (on data sources) and technical supplement 4 (on investment performance), which document in further detail the data sources used.

## 5.1 Data sources

The Commission has utilised data:

* collected by regulators — the Australian Prudential Regulation Authority (APRA) and the Australian Taxation Office (ATO) — including publicly‑released data and unpublished data provided to the Commission on a confidential basis
* purchased on a proprietary basis from private research firms
* collected through the Commission’s own surveys of funds (appendix C; tech. supp. 2).

These datasets have pros and cons (table 5.1).

| Table 5.1 Summary of data sources used for fees and costs analysis |
| --- |
|

| Data | Time series | Pros | Cons | How used?a,b |
| --- | --- | --- | --- | --- |
| **Regulator data** |
| APRA | For costs: 2004 to 2017 For fees: 2014 to 2017 | Comprehensive coverage of APRA‑regulated fundsComprehensive product‑level data for MySuper products | Investment fee revenue and cost data have not been collected from many funds No product‑level data for choice products, retirement products or pre‑MySuper default products | Costs for APRA‑regulated funds by service (administration, investment, total) and by broad fund type (retail and not‑for‑profit) (figures 3.6, 3.9)Fee revenue for APRA‑regulated funds by service (administration, investment, activity, advice, other, total) and/or by fund type (corporate, industry, public sector, retail) (figures 3.5, 3.12, 3.19)Transition of assets from accrued default to MySuper (figure 3.4) |
| ATO | 2010 to 2016 | Comprehensive coverage of SMSF segment | SMSF cost data not fully comparable with APRA cost data | SMSF costs by service type (administration, investment, total), by size bracket, and by age of SMSF (figures 3.22–3.26) |
| **Private research firm data** |
| SuperRatings | 2007 to 2017  | Generally has greater coverage of APRA funds than other research firmsOn request, SuperRatings identified default options prior to MySuper | Possible selection biasPossible survivor bias | Advertised fees for products of APRA‑regulated funds by service (administration, investment, total), in accumulation and retirement segments, in MySuper and choice segments, by broad fund type (retail and not‑for‑profit) and by option type (figures 3.3, 3.4, 3.7, 3.8, 3.10, 3.11, 3.13, 3.15–3.18, 3.20, 3.21)  |
| CEM Benchmarking | 2016  | A source of comparable international investment costs data | Limited sample of funds for some regionsPossible selection bias | Compared with Australian investment costs collected from the Commission’s funds survey (figure 3.2) |
| **Commission survey data** |
| Supplementary funds survey | 2012‑13 to 2016‑17  | Provides investment management costs by asset class for many APRA funds | Responses by funds were incomplete and some funds may have interpreted questions differentlyPossible selection bias | Compared investment management costs by asset class with international benchmarks from CEM data (figure 3.2) Compared the investment costs by asset of different fund types (figure 3.14) |

 |
| a The figure references are to chapter 3 of the report. b Unless otherwise evident, ‘total’ fees are the sum of administration and investment fees. |
|  |
|  |

### Regulator data

#### APRA

The Commission relied on various statistics provided by APRA.

* The *Annual Superannuation Bulletin* contains key aggregate superannuation statistics. It was the Commission’s primary source of data on fee revenue and costs.
* The *Annual Fund‑level Superannuation Statistics* report contains detailed profile and structure, financial performance position, fee and membership information for APRA‑regulated funds. The Commission used these statistics to measure costs relative to assets, including by fund type, and as the key source of data on assets and member accounts for various subsets of the APRA‑regulated system.
* The *Quarterly MySuper Statistics* report contains relatively comprehensive product‑level data for MySuper products. The Commission used these statistics to analyse trends in MySuper fees, and to analyse the impact of the MySuper reforms on fees.
* The Commission relied on unpublished APRA data on member accounts to assess costs per member account.

A general strength of APRA data is that all APRA‑regulated funds are covered, including the fees that were actually paid by members (in aggregate) to their fund (as opposed to advertised fees). However, the data are subject to inconsistent reporting by funds, especially for investment costs and investment management fees (chapter 3, section 3.4). This makes it difficult, if not impossible, to estimate the full costs that funds are incurring and that members are paying for.

The MySuper data are generally of superior quality, owing to the fact that they are collected at the product level and include indirect investment and other costs. However, the data are only available from 2014, following the introduction of MySuper in 2013.

#### ATO

The ATO’s *Self‑managed superannuation funds: A statistical overview 2015–2016* (and back issues) were the primary source of the Commission’s data on self‑managed super funds (SMSFs). Data are collected by the ATO directly from SMSF trustees on an annual basis.

The ATO’s SMSF data include member demographics, member assets, asset allocations and costs. The Commission used these data to measure SMSF costs relative to assets and to help inform its analysis of average member costs in the SMSF segment of the market.

The Commission also relied upon unpublished SMSF data provided by the ATO. At the request of the Commission, the ATO provided data on returns and expense ratios, based on assets at the beginning of the period. This is more comparable to the APRA methodology than ATO’s standard approach of using the average value of assets over the period. The Commission used these data to analyse how costs relative to assets vary by the size of SMSFs, for both investment and administration services, and for new SMSF establishments.

In addition, the ATO provided data on returns and expenses disaggregated by the age and size bracket of SMSFs, and some data underlying an earlier ATO (2018b) longitudinal analysis of SMSFs (covering the period 2012 to 2016).

Because of how the data are collected and reported by the ATO (and thus the nature of the data), SMSF data are not comparable with APRA data (section 2).

### Private research firm data

#### SuperRatings

The Commission used SuperRatings data to inform its analysis of fees in the APRA‑regulated system, including the trend in fees by service (investment and administration), by market segment (including the retail and not‑for‑profit segments), as well as fee dispersion. SuperRatings data were also used in the Commission’s analysis of the impact of the introduction of MySuper on fee levels. To this end, and at the Commission’s request, SuperRatings identified (some but not all) funds’ default investment options in their database. Finally, SuperRatings data were used to analyse the relationship between fees and net returns.

SuperRatings data have a higher coverage of APRA funds than other research firms’ data. Further, in contrast with APRA data, SuperRatings data include comprehensive product and option level data, and include investment management fees for most funds as well as indirect investment management costs.

Administration fees in SuperRatings data cover asset‑based administration fees and dollar‑value administration fees. SuperRatings administration fees do not include activity‑based fees such as platform fees.

SuperRatings fees data are the advertised fees for the balanced investment option of each product as reported by funds, including through product disclosure statements and fund websites. If a product does not have a balanced option, SuperRatings used the option that most closely aligned with a balanced option. SuperRatings’ approach reflects that most assets are in balanced options.

To estimate trends in advertised fees across the superannuation system for various fund types and asset classes, the Commission weighted the SuperRatings fee data by an estimate of the value of assets in each product. The value of assets in each product was estimated as follows.

1. The Commission used product‑level asset data for MySuper products from APRA. The combined value of assets for choice and retirement products were inferred from the difference between APRA’s fund level data and its MySuper data.
2. The Commission merged APRA MySuper product data with SuperRatings data on the basis of product names and other product details (including the fund’s Australian Business Number). APRA fund‑level data were merged with SuperRatings data on the basis of the Australian Business Number for each fund, which the Commission found to be a reliable unique identifier of funds across different datasets.
3. APRA asset data were allocated to MySuper products in the SuperRatings data. The residual fund‑level asset data (after allocating assets to MySuper products) were apportioned across choice and retirement products based on the share of assets in these products in the SuperRatings product data. Where there were no SuperRatings assets data for any choice or retirement product of a fund, assets were apportioned equally between that fund’s choice and retirement products.

Using the same method, APRA member data were merged with SuperRatings fees data and allocated across products in the SuperRatings dataset. These data were used to estimate the share of members in various segments of the APRA‑regulated system.

#### CEM Benchmarking

The Commission purchased data from CEM Benchmarking of Canada to gauge the level of investment management costs in other countries across individual asset classes (table 5.2).

CEM Benchmarking was the only source of international data on investment management costs by asset class that the Commission could identify. Yet, in some instances, the underlying sample in the CEM database is not large (tech. supp. 4, table 4.2).

#### Other data sources

The Commission also used published estimates of total (administration and investment) fees from Rainmaker and Rice Warner. The Commission incorporated this data into its analysis of the trend in aggregate fees (presented in figure 3.3 of the chapter).

As noted in appendix B, the coverage of the Rainmaker and Rice Warner datasets are lower than for SuperRatings.

| Table 5.2 International comparison: investment management costsaAsset weighted average cost in basis points, 2016 |
| --- |
|

|  | Defined contribution funds |  | Defined benefit and sovereign wealth funds |
| --- | --- | --- | --- |
| US |  | US | Canada | Nether‑lands | UK | Rest of Europe | Asia‑Pacific | Totalaverage |
| Public stock – domestic | 21.1 |  | 15.5 | 15.7 | na | 12.6 | na | na | na |
| Public stock – global | 26.6 |  | 27.1 | 25.4 | 15.3 | 21.5 | 7.4 | 16.9 | na |
| Public stock – total | 21.3 |  | 21.3 | 23.2 | 15.3 | 19.7 | 7.4 | 16.9 | 18.3 |
| Fixed income – core domestic | 14.3 |  | 9.1 | 7.2 | na | 11.5 | na | na | 8.6 |
| Fixed income – all other | 46.7 |  | 20.9 | 17.4 | na | 12.1 | na | na | 12.2 |
| Fixed income – total | 15.1 |  | 15.9 | 12.0 | 9.8 | 12.1 | 5.9 | 3.1 | 11.3 |
| Cash | 10.9 |  | 3.4 | 14.4 | 7.6 | 7.6 | 1.1 | na | 5.0 |
| Balanced  | 21.6 |  | na | na | na | na | na | na | na |
| Listed property | 25.8 |  | 36.5 | 41.0 | 9.0 | 74.1 | 17.7 | na | 18.8 |
| Unlisted property | 43.4 |  | 127.2 | 56.6 | 100.4 | 73.4 | 55.2 | 77.7 | 103.0 |
| Total property | 36.9 |  | 121.4 | 56.3 | 55.9 | 73.5 | 52.9 | 77.7 | 93.2 |
| Private equity | na |  | 327.9 | 241.1 | 340.3 | 274.6 | 323.4 | 310.9 | 306.1 |
| Unlisted infrastructure | na |  | 196.2 | 67.0 | 153.1 | 159.0 | 95.6 | 88.4 | 92.4 |
| Hedge funds | na |  | 194.3 | 234.8 | 147.9 | 237.1 | 238.6 | 207.7 | 203.0 |
| Natural resources | na |  | 141.7 | 71.5 | 147.7 | 83.9 | 53.3 | 88.6 | 111.4 |
| Global tactical asset allocation | na |  | 49.6 | 8.1 | 15.7 | 27.1 | 63.0 | 25.7 | 35.8 |
| Commodities | na |  | 52.8 | 5.3 | 12.0 | 45.1 | 2.7 | 49.8 | 28.2 |

 |
| a Costs include fees paid to third party managers such as indirect costs. na Not available. |
| *Source*: CEM Benchmarking. |
|  |
|  |

### Funds survey data

The Commission collected fund cost data through its supplementary funds survey. Table 5.3 summarises survey response data on investment management costs by asset class.

| Table 5.3 Survey responses: investment management costsa2017 |
| --- |
|

|  | Number of observations | Investment management costs(per cent) |
| --- | --- | --- |
| Asset class | System | Retail | Not‑for‑profit | System | Retail | Not‑for‑profit |
| Cash | 74 | 31 | 43 | 0.19 | 0.44 | 0.05 |
| Australian listed equity | 80 | 34 | 46 | 0.42 | 0.60 | 0.32 |
| International listed equity | 77 | 32 | 45 | 0.53 | 0.66 | 0.48 |
| Australian fixed income | 75 | 34 | 41 | 0.18 | 0.30 | 0.10 |
| International fixed income | 66 | 28 | 38 | 0.41 | 0.57 | 0.31 |
| Listed infrastructure | 27 | 16 | 11 | 0.49 | 0.75 | 0.38 |
| Unlisted infrastructure | 43 | 7 | 36 | 0.95 | 3.28 | 0.89 |
| Private equity | 43 | 3 | 40 | 2.79 | 3.13 | 2.75 |
| Listed property | 42 | 25 | 17 | 0.54 | 0.65 | 0.37 |
| Unlisted property | 50 | 13 | 37 | 0.88 | 0.93 | 0.88 |

 |
| a Investment management costs for each asset class are calculated as the average cost (weighted by fund assets). |
| *Source*: Supplementary funds survey. |
|  |
|  |

## 5.2 Methodological issues

Assessing fees and costs, and what they mean for members, is not straightforward. Data on fees and costs come from disparate sources, sometimes employing different conceptual frameworks such that the data are not readily comparable. There are also data quality issues. Several methodological considerations were encountered by the Commission and are outlined below.

### There are gaps in reported investment management costs

As noted in chapter 3, APRA data contain gaps in reported investment management costs, particularly indirect costs paid to related parties. For example, about 25 per cent of funds reported *zero* investment management costs to APRA in both 2016 and 2017 (these funds represent about $248 billion in assets, or an average of $5 billion each). Of these funds, 80 per cent were retail funds (figure 5.1).

Further, there is likely to be significant underreporting of indirect investment costs (although the precise extent of it cannot be directly quantified). Indirect investment costs are deducted from an investment return before those returns are paid back to members, but because these are not charged as direct investment fees to the member, they are not captured in APRA fee data. This omission materially influences estimates of fee revenue, given that costs that are netted off investment returns (and ultimately paid for by the member) are not explicitly reported as fees. This has implications for the analysis of particular indicators on costs (and their alignment with fees). It also affects the Commission’s decomposition of investment returns (chapter 2), where SuperRatings data have been used to provide an indicative estimate of the magnitude of unreported investment costs.

| Figure 5.1 Value of assets in APRA‑regulated funds that did not report investment costs2017 |
| --- |
|

| This figure shows the value of assets in 2017 and the fund type of those funds that did not report investment costs to APRA in 2016 or 2017. Most of these funds were retail funds, with assets ranging down from over $50 billion. |
| --- |

 |
|

|  |  |
| --- | --- |
| Source | PC analysis of APRA unpublished data. |
| Coverage | All APRA‑regulated funds. |
| Survivor Bias | No | Selection Bias | No |

 |
|  |
|  |

### The difference between advertised fees and fee revenue data

Broadly speaking, there are two ways of evaluating trends in fees: by analysing the fees advertised in product disclosure statements (and collected by research firms — sometimes referred to as ‘sticker’ fees); or by analysing fee revenue collected by funds (and reported to APRA). Conceptually, advertised fees would capture the unit price of what an individual member will pay for a particular product, or an element within a product (such as the ability to switch options), whereas fee revenue data capture what members actually pay in aggregate dollar terms at the fund level.

In practice, the fees in advertised fee data are notably higher than in fee revenue data (as a percentage of assets). This reflects that advertised investment fees include (though not fully) the indirect costs disclosed in product disclosure statements (from which the research firm data are largely sourced). These indirect fees are generally absent in the fee revenue data reported to APRA as they are not paid directly from the member to the fund. This is discussed above.

While advertised fee data do not necessarily provide a complete picture of the fees an individual member might pay (as this could depend on a range of factors including whether the member accesses specialised advice services), they do provide a consistent basis on which to assess fee trends, and in any case will capture a significant majority of fees incurred by members.

In contrast, fee revenue in a given year could be impacted by differences in how members use their accounts, rather than differences in the underlying fee structures that members actually face. The Commission has used both data sources to analyse fees, but is aware of the differences between them.

Two further differences between advertised fees and fee revenue paid by members are worth noting.

* Some members are given a rebate on particular fees (for example, in some employer‑based plans). However, it is unlikely that fee rebates materially affect segment‑level trends in fees paid by members. In 2017, total fee rebates across funds represented just 5.6 per cent of total fee revenue, or 8 per cent of total administration and investment fee revenue (APRA 2018b, tables 6 and 8). Fee rebates constituted a similar proportion of fee revenue in the years 2014 to 2016 (the years for which fee rebate data are available).
* Funds technically source fee revenue from sources other than members, and these would not be picked up in advertised fees reported in product disclosure statements. Again, however, this is unlikely to materially contribute to differences between advertised fees and fee revenue. In aggregate, member fees constituted 93 per cent of total fee revenue.

### What is a ‘representative member’?

The fees charged to members by superannuation funds depend on a range of factors, including the extent to which fees are levied as a percentage of the member’s account balance. Therefore, the Commission has employed the concept of a ‘representative member’ with a fixed account balance in its analysis of advertised fees.

The concept of a ‘representative member’ is used by APRA (in its MySuper reporting framework) and by a number of research firms and rating groups, with the convention being to use an account balance of $50 000.

Consistent with this, the Commission has focused its analysis of fees for a representative member in the accumulation phase on representative account balances of $50 000, but has also considered fees for alternative representative balances. Likewise, in the retirement phase, in which there are higher average balances, the Commission used several representative balances ranging up to $500 000, and compared these with fees in the accumulation phase.

### There are challenges when comparing APRA and ATO data

Data limitations and differences in methodologies affect comparisons of costs for SMSFs with APRA‑regulated funds. While the methodology used by the ATO (to estimate SMSF expenses) is similar to that used by APRA (to estimate APRA‑regulated funds’ costs), the data collected are invariably different and in some instances not suitable for direct comparison.

* SMSF expenses are estimated using data disclosed on annual tax returns, and thus may include costs that would not be treated as operating expenses in APRA’s institutional fund data, such as insurance premiums and deductions related to capital gains.
* SMSFs do not report the ‘opportunity costs’ associated with the (unpaid) time and effort of trustees, whereas all labour costs would be reflected in the expenses captured for institutional funds. In this respect, SMSF expenses are likely to be underestimated.
* Establishment and wind‑up costs incurred by members of SMSFs are not distinguished from operating costs in the ATO data (this is because these costs are capital in nature and thereby not deductible from assessable income for tax purposes). The impact of these costs on average expense ratios is examined below (section 5.3). Similar costs are generally not embedded in administration cost data for APRA‑regulated funds.
* The ATO reports the ratio of costs to assets in terms of the average value of assets over the period. In contrast, APRA reports costs relative to assets at the beginning of the period. The ATO’s approach tends to inflate the cost ratio for smaller SMSFs because it discounts SMSFs that move into higher bands during the period by virtue of earning high investment returns.

Taken together, the above factors suggest that any comparison of SMSF costs with APRA‑regulated funds’ costs is complicated by the structural differences between the two. This means that, in general, costs for SMSFs and institutional funds cannot be compared on a completely like‑for‑like basis.

## 5.3 Supporting analysis

The Commission undertook additional analysis on investment management costs, investment management fees, administration fees and SMSFs.

### Investment management costs

In the supplementary funds survey, the Commission asked funds to provide data on investment management fees and costs by asset class for each year over the period 2008 to 2017. This included investment management fees incurred with unrelated investment managers, and costs incurred either in‑house or with related party investment managers. It also included any indirect costs that are taken out of returns. A comparison using reported data for 2017 indicates that the distribution of investment costs for retail funds exhibits larger variance across all asset classes (with at least 25 observations) compared with not‑for‑profit funds (figure 5.2). Other asset classes are not reported here due to small sample sizes.

| Figure 5.2 Variation in asset class investment costs by segment, 2017a |
| --- |
|

| The 10th percentile, median, and 90th percentile are shown for cash, listed equity, and fixed income for retail and not-for-profit funds in 2017. The difference between the 10th and 90th percentile is larger for retail funds across all asset classes, indicating a higher degree of variation in costs. |
| --- |

 |
|

| **Source** | Supplementary funds survey. |
| --- | --- |
| **Coverage** | In 2017, the funds in this figure represent up to 81 per cent of total assets and 73 per cent of member accounts of APRA‑regulated funds. |
| **Survivor Bias** | Yes. | **Selection Bias** | Yes. |

 |
| a The figure shows investment costs reported by funds for 2017. The dots represent the median investment cost for each asset class by segment. The lower and upper bars are the 10th and 90th percentile respectively, meaning 10 per cent of observations are below the bottom bar and 90 per cent are below the top bar. Only asset classes with at least 25 observations for both retail and not‑for‑profit funds are reported.  |
|  |
|  |

### Investment management fees by option type

The Commission drew on SuperRatings advertised fee data to examine how investment management fees for different investment option types have changed over time (figure 5.3, upper panel). A fall in investment management fees has been broadly observed across all types of investment options.

Further, there has been a compositional shift away from high‑growth products towards balanced options since 2009 (defined as having 60 to 76 per cent of funds in growth assets) (figure 5.3, lower panel). Since the average fee for a balanced option is less than that of higher‑risk growth options, this shift has contributed to the observed decline in the average total investment management fees.

| Figure 5.3 Investment fees have fallen across most option types and assets have shifted towards balanced optionsa |
| --- |
|

| Investment management fees as a share of assets |
| --- |
| This figure shows trends in investment fees from 2006 to 2017 for different investment options as a proxy for different asset classes. It shows that investment fees have fallen across most asset classes over this period.  |
| Assets by option type as a share of total assets |
| This figure shows trends in the composition of total assets from 2006 to 2017 for different investment options as a proxy for different asset classes. It shows a broad compositional shift towards balanced growth options since the global financial crisis.  |

 |
|

|  |  |
| --- | --- |
| Source | PC analysis of SuperRatings options data. |
| Coverage | The SuperRatings sample is APRA‑regulated funds which, in 2017, comprised 7605 options.  |
| Survivor Bias | Yes | Selection Bias | Yes |

 |
| a Numbers in parenthesis in the legend are the proportion of growth assets in each option type. |
|  |
|  |

### How are administration fees levied?

The Commission used SuperRatings advertised fee data to examine how funds levy administration fees. Funds levy administration fees as a fixed‑dollar fee per member or as a percentage of a member’s balance (table 5.4). Percentage‑based administration fees are more common in retail products. Just under 70 per cent of all products include both types of administration fees.

| Table 5.4 How are administration fees charged to members?a,bType of fee as a proportion of products, June 2017 |
| --- |
|

|  | Percentage‑based fee only | Fixed‑dollar fee only | Both fee types |
| --- | --- | --- | --- |
|  | % | % | % |
| Retail | 27 | 11 | 59 |
| Not‑for‑profit | 5 | 14 | 78 |
| **Total** | **17** | **12** | **68** |

 |
| a Percentage shares by fund type do not add up to 100 per cent because there are no administration fees data in SuperRatings for some funds. b Data are for a representative asset balance of $50 000. |
| *Source*: PC analysis of SuperRatings data. |
|  |
|  |

Fixed‑dollar administration fees are typically lower (in dollar equivalent terms) per member than percentage‑based fees, other than for very low account balances (table 5.5). Because of the contribution of percentage‑based fees, the average administration fees paid by a member rises with the member’s balance, for example from $220 for an asset balance of $50 000 to over $1200 for an asset balance of $500 000.

| Table 5.5 Average administration fees vary by size of balancea,b$‑equivalent, June 2017 |
| --- |
|

| Member balance | Percentage‑based fee | Fixed‑dollar fee | Total administration fee |
| --- | --- | --- | --- |
| 10 000 | 27 | 83 | 111 |
| 25 000 | 69 | 83 | 152 |
| 50 000 | 139 | 81 | 219 |
| 100 000 | 279 | 71 | 350 |
| 200 000 | 559 | 65 | 625 |
| 500 000 | 1 226 | 65 | 1 291 |

 |
| a SuperRatings data do not include any administration fee caps. b Figures may not add due to rounding. |
| *Source*: PC analysis of SuperRatings data. |
|  |
|  |

There are also large differences across segments — a member with a $50 000 balance would pay a much higher administration fee in dollar terms if they were in the average retail fund ($374 per year) than if they were in the average not‑for‑profit fund ($127) (table 5.6). Most of the difference is due to percentage‑based fees.

| Table 5.6 Administration fee levels vary by fund typeaAdministration fees for an average member account, June 2017 |
| --- |
|

|  | Percentage‑based fee | Fixed‑dollar fee | Total administration fee | Contribution of percentage‑based fee to total administration fee |
| --- | --- | --- | --- | --- |
|  | $‑equivalent | $‑equivalent | $‑equivalent | % share |
| Retail | 268 | 106 | 374 | 72 |
| Not‑for‑profit | 61 | 66 | 127 | 48 |
| **Total** | **139** | **81** | **219** | **63** |

 |
| a Data are for a representative asset balance of $50 000. |
| *Source*: PC analysis of SuperRatings data. |
|  |
|  |

The estimates above do not include data for caps on percentage‑based fees because these data are currently only available from APRA for MySuper products. APRA data indicated that caps on MySuper products ranged from $73 to $2735 per member per year in 2017 (APRA 2018a, table 3).

### SMSF expenses

#### Age and size data

To shed light on whether SMSF returns are biased by establishment costs, the Commission obtained ATO data on returns and expenses by the age and size of SMSFs (in size brackets based on balances at the beginning of each year). While most SMSFs have existed for five or more years, a material portion is younger than this, especially in the smaller size brackets (figure 5.4). This size and age distribution has not changed markedly in the five years to 2016.

| Figure 5.4 Younger SMSFs are more prevalent in smaller size brackets2016 |
| --- |
|

| This figure shows the age profile for SMSFs in each size bracket in 2016, which indicates that SMSFs of 5 or more years age are more prevalent in higher brackets.  |
| --- |
| The figure shows the composition by size bracket of SMSFs in each age cohort. Five per cent of SMSFs were less than 2 years of age in 2016. |

 |
|

| **Sources** | ATO (pers. comm., 31 August 2018, 24 September 2018). |
| --- | --- |
| **Coverage** | The ATO data represent all SMSFs in the system. |
| **Survivor bias** | No. | **Selection bias** | No. |

 |
|  |
|  |

In aggregate, newer SMSFs (under 2 years of age) had systematically higher average expense ratios (expenses as a percentage of total assets) and therefore lower net returns than older SMSFs (figure 5.5). These differences between new and established SMSFs appear to persist over time. To the extent they reflect one‑off establishment costs being a temporary influence on expense ratios for newer SMSFs, members would not necessarily be worse off over the long term.

However, the effect of establishment costs is likely to be modest for two reasons. First, the SMSF Association (sub. DR194, p. 14) submitted that the average establishment cost over the years 2015–2017 was $2129. Since the average size of new SMSFs (less than 2 years old) in 2016 was $390 000, this suggests average establishment costs in the vicinity of 0.5 per cent of initial balances.

| Figure 5.5 Younger SMSFs have higher costs and lower net returns, on averagea2013–2016 |
| --- |
|

| The top figure shows that, in aggregate, SMSFs under 2 years of age had higher average expense ratios than older SMSFs, in each year. The bottom figure shows that, in aggregate, SMSFs under 2 years of age had systematically lower net returns than older SMSFs, in each year. |
| --- |

 |
|

| **Source** | ATO (pers. comm., 31 August 2018). |
| --- | --- |
| **Coverage** | The ATO data represent all SMSFs in the system. |
| **Survivor bias** | No. | **Selection bias** | No. |

 |
| a Adjustments have been applied to SMSF returns data to approximate a ‘rate of return’ calculation, as per Sy (2009). |
|  |
|  |

Second, ATO data indicate that expense ratios are much more clearly related to fund size than fund age. Indeed, SMSFs between 4 and 5 years old have expenses that remain above 1.5 per cent of assets a year on average, and those aged between 2 and 3 years have similar or higher expenses on average compared with those that are under 2 years (figure 5.5 above).

The results could reflect the presence of wind‑up costs (where some funds in the sample are in the process of being closed), especially for established SMSFs in the smaller size categories. In 2016, average costs for SMSFs that were wound up were $5860, and collectively the costs of these wound‑up SMSFs were equivalent to about 1.1 per cent of aggregate expenses across all SMSFs in that year (ATO, pers. comm., 31 August 2018).

Wind‑up rates are generally low, with approximately 1.9 per cent of SMSFs wound up in 2016 (ATO 2018a), though rates are around 10 per cent for small SMSFs (ATO 2018b). This implies that the impact of SMSFs being wound up on average expenses for all SMSFs in the smallest size bracket could be about 1­2 percentage points.

#### Age of SMSF trustees

Figure 5.6 shows the age distribution of SMSF trustee‑members, for all SMSFs (left panel) and newly established SMSFs by year of establishment (right panel). SMSFs established in each of the past seven years had a materially higher proportion of trustees aged under 45 (about two in five, compared with less than one in five), with the strongest growth in the 35­44 age bracket. There was also modest growth in the share aged under 35. By contrast, the number of new SMSF trustees aged over 60 has been declining. The combined effect of these trends is a median age of 47.2 for trustees of new SMSFs (as of 2016), compared with 58.9 years for all SMSFs (ATO 2018a).

| Figure 5.6 Age distribution of SMSF trusteesaMembers in age brackets as a proportion of members of all ages |
| --- |
|

| All SMSFs | By establishment year |
| --- | --- |
|  This figure shows the age distribution of SMSF trustees as at 2017 for all SMSFs. Most SMSF members are over 60 years of age. | This figure shows the age distribution of SMSF trustees as at 2017 separately for SMSFs established in each year. Most members of newly established SMSFs are younger than 60 years of age. |

 |
|

| **Sources** | ATO (2018a, and various back editions). |
| --- | --- |
| **Coverage** | The ATO data represent all SMSFs in the system. |
| **Survivor bias** | No | **Selection bias** | No |

 |
| a Figures for all SMSFs in 2017 and new SMSFs in 2012–2016 are drawn from annual data; figures for new SMSFs in 2017 and 2018 are the average of quarterly values. b Figures for 2018 are to end March. |
|  |
|  |

### References

APRA (Australian Prudential Regulation Authority) 2018a, *Quarterly MySuper Statistics June 2018 back series*, 28 August.

—— 2018b, *Annual Fund-level Superannuation Statistics back series 2017*.

ATO (Australian Taxation Office) 2018a, *Self-Managed Super Funds: A Statistical Overview 2015–2016*, www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/SMSF/Self-managed-superannuation-funds--A-statistical-overview-2015-2016/ (accessed 25 September 2018).

—— 2018b, *Self-managed super funds: SMSFs first lodged in 2012 FY: where are they five years on?*

Sy, W. 2009, *A Note on Investment Returns and Returns on Assets of Managed Funds*, Working Paper, Australian Prudential Regulation Authority, Sydney.