

This Agenda Paper discusses the merits of requiring a superannuation plan or approved deposit fund to disclose a management expense ratio for the entity as a whole.

Background

1. At its May 2008 meeting, the Board agreed that staff should prepare an issues paper considering the merits of a superannuation plan or approved deposit fund (ADF) disclosing a management expense ratio (MER) for the entity as a whole.
2. An MER of a superannuation plan or ADF is calculated by dividing the total expenses incurred by the entity during a reporting period, including investment, management and trustee expenses, by the entity's average net assets for the reporting period or net assets at the end of the reporting period.

Arguments for disclosure of an MER

3. There are a number of arguments in favour of requiring a superannuation plan or ADF to disclose a MER for the entity as a whole. In particular, a MER for an entity as a whole would provide information that could facilitate:
 - (a) a high-level comparison of the performance of the trustees of different superannuation entities and assist users to evaluate the trustees' respective capacities to manage the resources entrusted to them. A MER provides an indication of a trustee's capacity to exploit economies of scale and minimise costs. Economies of scale are an important feature of the superannuation industry and have been a significant driver in many mergers of superannuation plans;
 - (b) a better understanding of how the costs incurred by a superannuation plan or ADF are allocated among different categories of members. As discussed below, the MER for a superannuation plan may be different from the MER charged to an individual member because the total costs incurred by a superannuation plan may not be allocated to members' accounts on a pro-rata basis. By comparing an entity's MER with the costs attributable to different categories of members, a user would be able to assess, for instance, whether the features of a particular membership category (for instance, insurance and investment choice arrangements) represent 'value for money' in comparison to the features of other membership categories;
 - (c) it would provide information that could facilitate a high-level comparison of superannuation entities with other investment-type vehicles, thereby assisting users to evaluate superannuation and non-superannuation investment opportunities. Although the vast majority of contributions made to superannuation plans are compulsory in nature, members are permitted to make voluntary contributions in addition to their compulsory contributions. Before deciding to make voluntary contributions to a superannuation plan, a member might wish to compare superannuation and non-superannuation investment opportunities; and
 - (d) an assessment of the level of fees that might be charged to members in the future. For instance, if the MER for a reporting period is significantly higher than the MERs charged to most members' accounts during the period, it might be reasonable to assume that the level of member fees and charges will increase in the future.

Arguments against disclosure of an MER

4. There are a number of arguments against requiring a superannuation plan or ADF to disclose a MER for the entity as a whole. In particular, a MER for an entity as a whole:
- (a) may be regarded as misleading in some circumstances. For instance, an entity's MER:
 - (i) may bear little or no relationship to the level of fees and charges allocated to individual member's accounts because:
 - different membership categories attract different levels of fees and charges. For instance, members that exercise investment choice are generally charged a higher level of fees than members with the default investment option; and
 - a superannuation plan or ADF that applies the 'member protection' rules prescribed in the *Superannuation Industry (Supervision) Regulations 1994* is generally required to allocate expenses to members' accounts on a basis other than a pro-rata basis; and
 - (ii) may not be a useful guide to understanding the level of expenses that might be allocated to a member's account in the future. A MER is determined on the basis of historical information, which may not be representative of the long-term expected trend in a superannuation plan's expenditures. In contrast, the investment and management fees disclosed in a superannuation plan's or ADF's Product Disclosure Statement (PDS) are generally determined on the basis of projections of expenditures into the future; and
 - (b) it would impose additional preparation and auditing costs on a superannuation plan or ADF with arguably little or no additional benefits to users because:
 - (i) members are generally more concerned with the level of fees and charges that will be charged to their accounts than the expenses incurred by a superannuation entity as a whole. As superannuation entities are currently required to disclose member fees and charges in their PDSs and other periodic statements, a MER for the entity as a whole is arguably not essential for decision making in a superannuation context; and
 - (ii) the disclosure principles the Board has already agreed to would facilitate the provision of sufficient information to allow a user to calculate a superannuation plan's or ADF's MER. For instance, at its June 2008 meeting the Board decided that a superannuation or ADF should disclose information that provides users with a basis for understanding the nature and amount of expense items incurred by the entity.

Staff view

On balance, staff consider that a superannuation plan or ADF should not be required to disclose a MER for the entity as a whole.