

# Member Outcomes Assessment

## For the year ending 30 June 2020.



### INTRODUCTION

At First Super, we put members first. That means delivering real value, real service, and real returns.

Under a new requirement from the Australian Prudential Regulation Authority (APRA), all super funds must complete an annual member outcomes assessment to determine whether they're promoting the best financial interests of members.

We assessed the following factors using publicly available data from APRA, research house SuperRatings, and other superannuation funds' websites and disclosure documents.

- Fees
- Investment risk & strategy
- Insurance strategy & costs
- Options & member benefits
- Scale & efficiency

Here's how we compare.

### FEES

Our fees are aimed at delivering value for money to members. That means focusing on net returns (the money left over after taking fees and costs away from investment returns) and putting fees to use for members by prioritising personalised and timely service.

We offer five investment accumulation products and five pension products, including the default Balanced option (referred to throughout this document as the MySuper product), and four choice products: Cash, Conservative Balanced, Growth and Shares Plus. Pension members are offered the same five investment products. Differences in returns between accumulation and pension products are largely due to tax, as investment returns are not taxed in the retirement phase.

To determine whether First Super's MySuper and choice products promote the best financial interests of members, we compared our MySuper product against all other MySuper products (as well as look-alike products with similar strategic growth allocations), and our choice products against peer group choice products.

Using a "representative member" with \$50,000 in super, we calculated that the total fee charged for the MySuper product was \$577 per annum, comprising \$217 administration fees, \$340 investment fees and \$20 indirect costs. While our administration fee is on the higher end compared with the median fee of other MySuper products, a First Super member's total fee is competitively priced. This holds true for choice members too, and for members invested in the Fund's pension options.

We also assessed our fee structure for all products, options and member types, and concluded the basis for setting fees is appropriate, the structure is reasonable, and the fees charged are typical.

First Super is currently taking steps to review member fees.

## INVESTMENT RISK & STRATEGY

First Super maintains cost-effectiveness by appointing external fund managers, who are subject to ongoing due diligence. Our approach to investing is to protect and steadily grow members' money for the future, avoiding extreme volatility.

When assessing the investment strategy for each product, we asked: has the product achieved its investment objectives over the relevant period? Except for one-year returns, which were weakened by COVID-19 related falls, all targets were achieved for 3-, 5- and 10-year timeframes, proving that long-term performance for members has been consistently strong.

When assessing return targets, all First Super's investment products (other than the MySuper option) were lower than the median, relative to the likelihood of negative returns. However, First Super's actual performance was above the median when compared with those same peer groups.

On this basis, we are confident members' best interests are being promoted, and that the Fund's investment strategy, including its risk versus return trade-off, is appropriate.

## INSURANCE STRATEGY & COSTS

First Super's objective is to offer quality insurance to all members irrespective of age, account balance or account activity status. The Board reviews the strategy and product offering annually to ensure it remains appropriate for members.

Default insurance cover of four units of Death and Total and Permanent Disablement (TPD) is provided automatically for eligible members or those who have opted in. The standard cost is \$11.20 per week, with the level of cover varying based on age. Lower risk or professional rates are also available for eligible members. Income Protection cover must be applied for.

First Super has a "rate guarantee" until 2023, so while our default cover levels of Death and TPD are lower than the industry average, our overall offering will become more competitive as other funds continue increasing premiums. (There are already examples of this occurring following the period covered by this report.)

First Super's TPD offering is comprehensive compared with other funds, emphasising our focus on quality, and giving members a wider range of circumstances under which their claims may be paid out.

First Super has implemented a variable scale for Death and TPD to ensure premiums do not inappropriately erode the retirement income of members. We also offer no-direct-cost access to financial advice to help members choose the appropriate cover for their needs.

## OPTIONS & MEMBER BENEFITS

To ensure the options, benefits and facilities being offered by First Super are appropriate for members, we assessed member take-up and our ratings according to SuperRatings.

We have a "Gold" rating from SuperRatings for our MySuper, choice and pension products, with most products rated as "Good" and our financial advice services as "Excellent".

Compared with peer group funds, our contact centre wait times were low (even during the height of the pandemic), members benefited from not having to pay for statements of advice at the intra-fund level (unlike many other funds), and our arrears process for recovering

unpaid super guarantee payments was robust. We also maintain a dedicated program of support to help members and employers through redundancy processes.

While SuperRatings gives funds a higher rating for greater investment choice, after reviewing the spread of members across our five options, First Super has determined the existing arrangement is appropriate. The greatest proportion of super members are in the MySuper option (for pension, members are mostly split across the Balanced and Conservative Balanced options), and the cost for offering these options is marginal. Members wanting to manage their investment risk in a more hands-on way have the choice of spreading their investment across multiple options.

## SCALE & EFFICIENCY

First Super manages around \$3 billion in super savings for more than 46,000 members. Our benefits and facilities are comprehensive and often superior to those offered by funds with greater scale.

Our assessment shows that, relative to peers, there is little correlation between the size of a super fund and its net return over longer timeframes. This indicates that other aspects of investing, such as strategy and asset allocation, have a more significant impact on member outcomes. Moreover, limiting investment choice to five products is an important factor in controlling investment and administration costs.

First Super closely monitors the costs incurred in its ongoing operation and management. While our per-member costs are higher than our peers', we are satisfied they do not inappropriately erode the retirement outcomes of members, who continue to benefit from competitive net returns. First Super is actively reviewing member administration fees.

There is a broad universe of investment managers to choose from, and First Super's size does not disadvantage members when it comes to developing investment strategy, accessing experts, or negotiating manager fees.

As noted under "Insurance strategy & costs", the Fund is comfortable our scale does not materially disadvantage members in terms of insurance costs or product offering. In fact, the terms and conditions of our TPD cover are more favourable than many competitor funds.

While membership growth is a goal for the Fund, and would likely lead to reduced administration fees, overall performance remains strong, and APRA has assessed First Super's business model as being "sustainable" relative to other funds.

## DETERMINATION

Following its assessment of member outcomes for the year ending 30 June 2020, First Super has concluded that the best financial interests of members are being promoted in relation to each product offered.