



TECHNICAL PAPER

Choice Heatmap

16 December 2021

Disclaimer Text

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Introduction

APRA has published heatmaps for MySuper products since 2019, and this year, the extension of APRA's heatmap to the choice sector provides a significant first step towards transparency on the performance of choice investment options.

This first Choice Heatmap (the Heatmap) provides comparable information on areas of superannuation that are central to delivering outcomes for members: investment returns, fees and costs and the sustainability of member outcomes. The Heatmap enables benchmarking of choice investment options on multiple dimensions, including against peers, to identify areas for improving outcomes delivered to members.

There is a substantial increase in complexity in moving from comparing the 75 default MySuper products to comparing choice investment options. This Heatmap, therefore, does not cover all choice investment options, rather focuses on 727 multi-sector investment options, an important subgroup of the choice sector.

Historically, APRA has not required RSE licensees to report detailed information to APRA on choice investment options, and has therefore sourced data for the initial Choice Heatmap from SuperRatings. SuperRatings was selected through a competitive tender process based on the breadth of coverage of their data and their ability to meet APRA's rigorous data quality standards. Commencing in 2022, it is intended that all APRA heatmaps will use data provided to APRA under the expanded data collections of the APRA Superannuation Data Transformation project, which were implemented in late 2021.

This paper illustrates the key findings from the Heatmap across investment returns (Chapter 2), and fees and costs (Chapter 3), to highlight drivers of poor performance. APRA has also published Technical Paper – *MySuper Heatmap* to accompany this paper.



APRA expectation

RSE licensees should use the information in the Heatmap to consider whether their choice investment options deliver good financial outcomes to members and to take prompt actions to:

- investigate drivers of performance; and
- address poor performance, including the simplification of product and service offerings and reduction of excessive fees.



APRA expectation

RSE licensees must ensure that data reported to APRA under the new reporting standards developed in the Superannuation Data Transformation project is accurate, reliable and of high quality. This data will be used:

- to expand the coverage of future Choice Heatmaps to other segments of the choice sector;
- to implement the Government's annual performance test for trustee-directed products; and
- in new publications covering the expanded collection, which APRA will consult on in early 2022.

The expanded data collection will provide significant benefits to the industry and other stakeholders in understanding and scrutinising the retirement outcomes delivered by RSE licensees. The Heatmap, therefore, is an opportunity for RSE licensees to identify issues with their data and rectify them as a matter of priority.

Chapter 1 - Choice sector and Heatmap coverage

1.1 Choice sector

The choice sector is an important part of the superannuation system, representing \$985 billion in member benefits at 30 June 2021. In this paper, APRA has adopted the legislative definition of choice products: Products offered by RSE licensees that are not MySuper products and not defined benefit products.¹

Unlike MySuper products, which offer a single investment option and are designed to be simple, low cost products, choice products are heterogeneous and complex.² APRA recently published an Information Paper on the choice sector which outlines APRA's approach to segmenting the choice sector in order to create categories to facilitate comparison.³

In the choice sector, an RSE licensee may offer multiple products within their RSE(s). Choice products are those in which members have made an active decision to invest and are aimed at members seeking greater flexibility through:

- **a wide range of investment options**, including multi-sector (such as balanced, growth or conservative), single sector (such as Australian equities or cash) and direct investments (such as shares or term deposits)⁴; and
- **additional features and services**, including additional online website functionality and member reporting, and other member tools.

Greater flexibility provided by choice products enables members to select investment options based on their risk profile, goals and personal circumstances. It is common for choice members to be assisted by a financial adviser.

¹ Refer to section 10 of *Superannuation Industry (Supervision) Act 1993*.

² MySuper products may offer a single, diversified investment strategy or a lifecycle investment strategy, which adjusts its asset allocation based on factors including age, as their investment option.

³ [Information Paper Choice sector performance: improving outcomes for superannuation members](#)

⁴ Refer Appendix A for definitions of segments in the choice sector.

1.2 Choice Heatmap coverage

Coverage of the Heatmap is illustrated in *Figure 1* and includes:

- 79 RSEs (or funds);
- 120 accumulation choice products; and
- 727 multi-sector investment options.⁵

The majority of products in the Heatmap have more than one investment option in the Heatmap (with one product having 26 options).

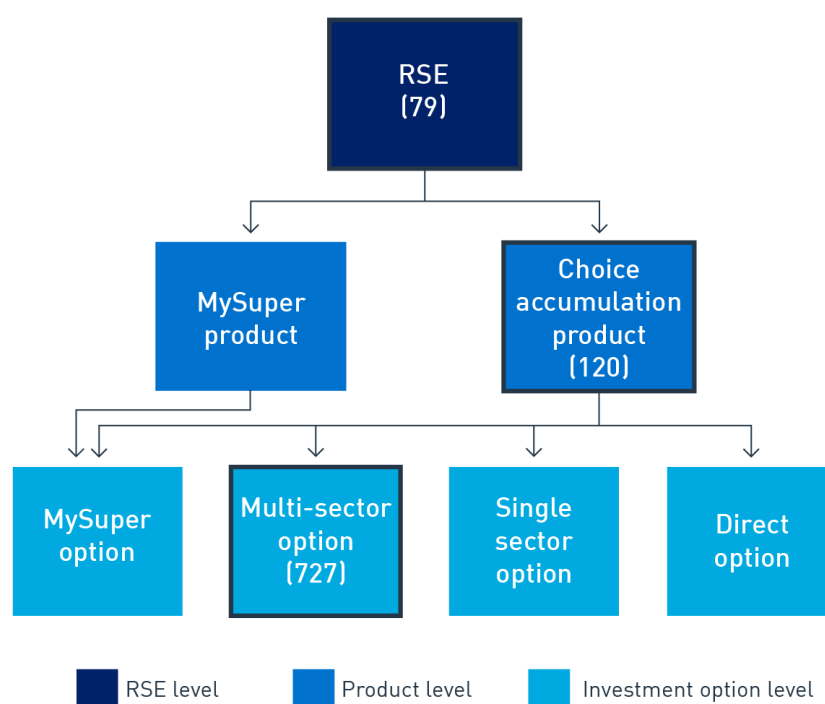
Although 727 options may seem a small proportion of the 9,000 distinct investment options in the choice sector⁶, these multi-sector investment options:

- make up a significant proportion of member benefits in the choice sector (estimated to be \$394 billion or 40% of the choice sector); and
- are similar to MySuper products, enabling APRA to generate calculations based on metrics used in the MySuper Heatmap and facilitate comparison between outcomes delivered by MySuper products and choice options.

⁵ Multi-sector investments are held in more than one distinct security, belonging to two or more asset sectors.

⁶ Based on research performed by Chant West, which APRA has referenced in [Information Paper Choice sector performance: improving outcomes for superannuation members](#).

Figure 1. Choice Heatmap coverage



Investment returns

The investment return earned by members is based on the investment options they have selected. Chapter 2 of this paper therefore considers investment returns and investment fees and costs at the **investment option level**.

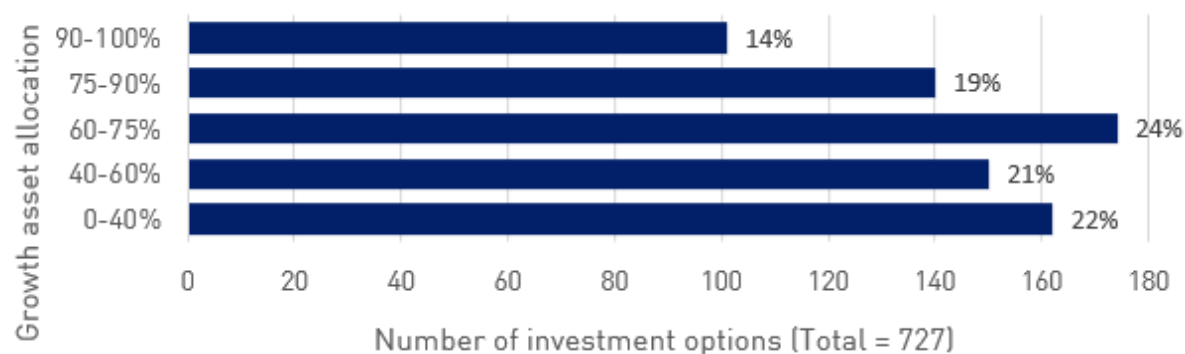
A summary of the number of investment options with investment data across the 3, 5 and 7 year time horizons is as follows:

- 531 options (73%) have 3-year investment data;
- 481 options (66%) have 5-year investment data; and
- 398 options (55%) have 7-year investment data.

Where data is not available to calculate the metrics over 3 years for an investment option, the Heatmap does not include investment return metrics for that option.

The 727 multi-sector investment options in the Heatmap reflect a wide variation of risk profiles. To enable identification of comparable options, APRA has classified investment options into five categories based on their total exposure to growth assets at 30 June 2021 (*Figure 2*). These categories use similar growth asset allocation bands to industry practice for high-growth, growth, balanced, conservative and capital stable investment options.

Figure 2. Breakdown of investment options by strategic growth asset allocation



Fees and costs

The fees and costs insights in Chapter 3 of this paper are focused on administration fees assessed at the **product level** for the 120 accumulation choice products. Administration fees reflect the cost of providing product features and services to members in the product.

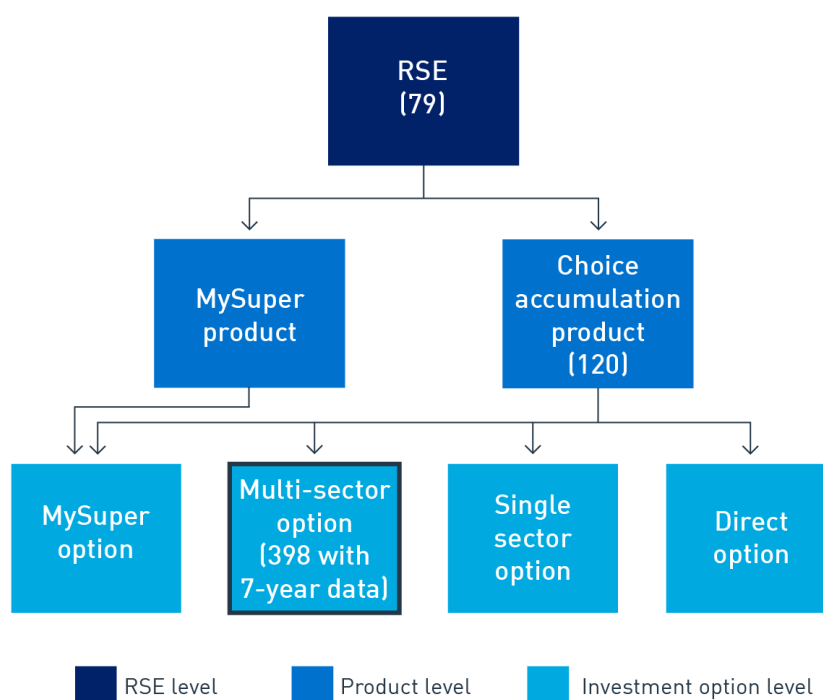
When a member invests in multiple investment options within a choice product, members are only charged administration fees once. As such, it is appropriate to consider administration fees at the product, rather than investment option level. To facilitate use of the data, APRA has applied the same administration fee to all investment options within a choice product.

Chapter 2 - Investment returns

2.1 Investment returns metrics

The Heatmap assesses investment returns at the investment option level (as illustrated in *Figure 3*) across multiple dimensions, including four benchmarks over different time horizons (3, 5 and 7 years) to provide insights into drivers and trends in investment returns.

Figure 3. *Investment returns assessed at option level*



Of the 727 investment options covered in the Heatmap, 398 options have 7-year investment return metrics. This chapter focuses on those options with 7-year returns, which mirrors the longest time horizon in the MySuper heatmap to enable comparison with MySuper products. As APRA's data collection expands, the Heatmap will include longer time horizons (e.g. 8-year and 10-year) for assessing investment returns.

The investment returns metrics in the Heatmap are⁷:

Returns relative to benchmark portfolios

⁷ Refer to [Methodology Paper – Choice Heatmap](#) for more information on the investment metrics.

- **Strategic Asset Allocation (SAA) benchmark portfolio** measures how well the RSE licensee has implemented its investment strategy; and
- **Simple Reference Portfolio (SRP)** identifies the value added, including the RSE licensee's strategic asset allocation decisions, against a simple portfolio of low-cost investments with a similar risk profile.

Returns relative to peers (adjusted for risk)

- **Peer-relative net investment return (NIR)** which identifies the investment returns net of investment fees⁸; and
- **Peer-relative net return**, which identifies the investment returns net of all fees (i.e. administration fees as well as investment fees) for a \$50,000 representative member.⁹

To enable comparison, APRA has calculated an average of the relative investment returns of each investment option against the four benchmarks outlined above (heatmap performance).¹⁰ Poor heatmap performance (below 0% or, more significantly, -0.50% or below p.a.) indicates that an RSE licensee is not delivering good investment returns across a range of measures.

2.2 Investment returns by risk profile

For investment options with similar risk profiles (measured by allocation to growth assets), the median net investment return for choice investment options is similar to MySuper products, as illustrated in *Figure 4*.¹¹

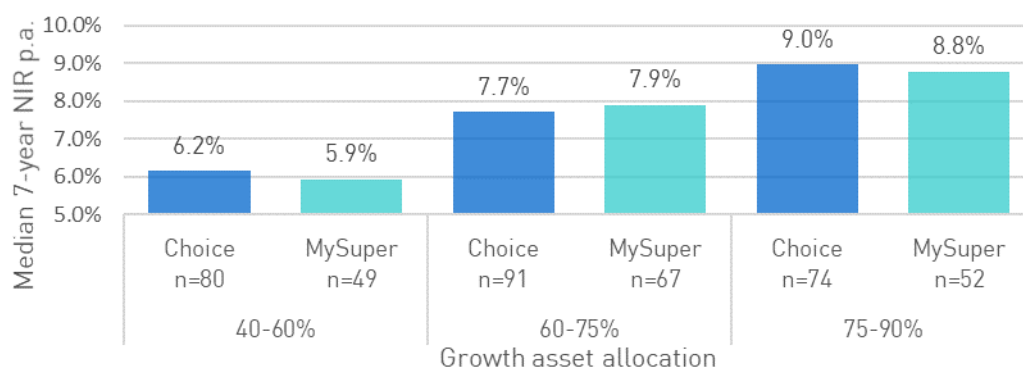
⁸ Using the investment return metric of NIR relative to the NIR / Growth asset allocation trend line.

⁹ Using the investment return metric of Net Return ("NR") relative to the NR / Growth asset allocation trend line.

¹⁰ See Appendix B (Note 1) for details of the calculation of heatmap performance.

¹¹ The majority of MySuper products have a growth exposure between 40% and 90% hence only comparison of growth asset categories in this range are included in *Figure 4*. Each MySuper lifecycle stage is treated separately.

Figure 4. Median 7-year Net Investment Return for choice options and MySuper products at 30 June 2021



While good outcomes are being provided to many choice members, poor returns are evident across all growth asset categories. There is significant variation (approximately +/- 2% per annum from the median) in net investment returns delivered by choice investment options within different growth asset categories, with 7-year net investment returns ranging from:

- 4.6% to 8.3% for 40 to 60% growth category;
- 5.4% to 9.5% for 60 to 75% growth category; and
- 7.2% to 11.3% for 75% to 90% growth category.

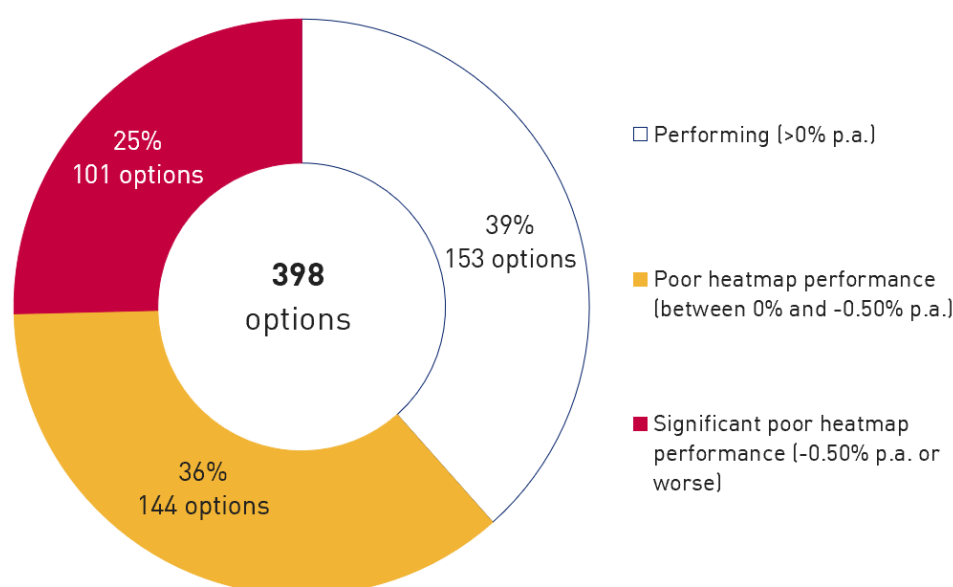
2.3 Benchmarking investment returns

More than 60% of investment options in the Choice Heatmap had returns less than APRA's heatmap benchmarks, with 25% of options delivering significantly poor returns.

Figure 5 illustrates that, of the 398 options with 7-year returns history in the Heatmap:

- 39% (153 options) were performing (7-year heatmap performance greater than 0% p.a.), indicating that RSE licensees delivered good outcomes to members over this timeframe by outperforming peers and/or adding value through their investment strategy; and
- 61% (245 options) returned below the APRA heatmap benchmarks over the last 7 years, meaning that across the four 7-year investment metrics on the Heatmap, these products, on average, returned below benchmarks and peers.

Figure 5. 7-year investment returns of choice options relative to heatmap benchmarks



Of the 245 poor performing options (amber and red sections combined), 144 options have 7-year heatmap performance of between 0% and -0.50% p.a.

The extent of poor investment returns is greater in the choice sector compared to MySuper for products with 7-year returns history:

- 245 choice investment options (61%) had heatmap performance below 0% p.a., compared to 31 MySuper products (45%); and
- 101 choice investment options (25%) had heatmap performance of -0.50%p.a. or worse, compared to 11 MySuper products (16%).

Two-thirds of options returned less than the heatmap benchmark portfolio return.

The heatmap benchmark portfolios – Simple Reference Portfolio (SRP) and SAA benchmark portfolio – provide insights into the value generated by choice investment options as a result of RSE licensees' investment governance. APRA recognises that investment strategies are formulated to achieve the investment objectives of the option. However, APRA considers that the heatmap benchmarks provide an objective metric against which returns can be compared and poor investment returns can be identified.

Figure 6. Effectiveness of RSE licensee's investment strategy to deliver investment returns

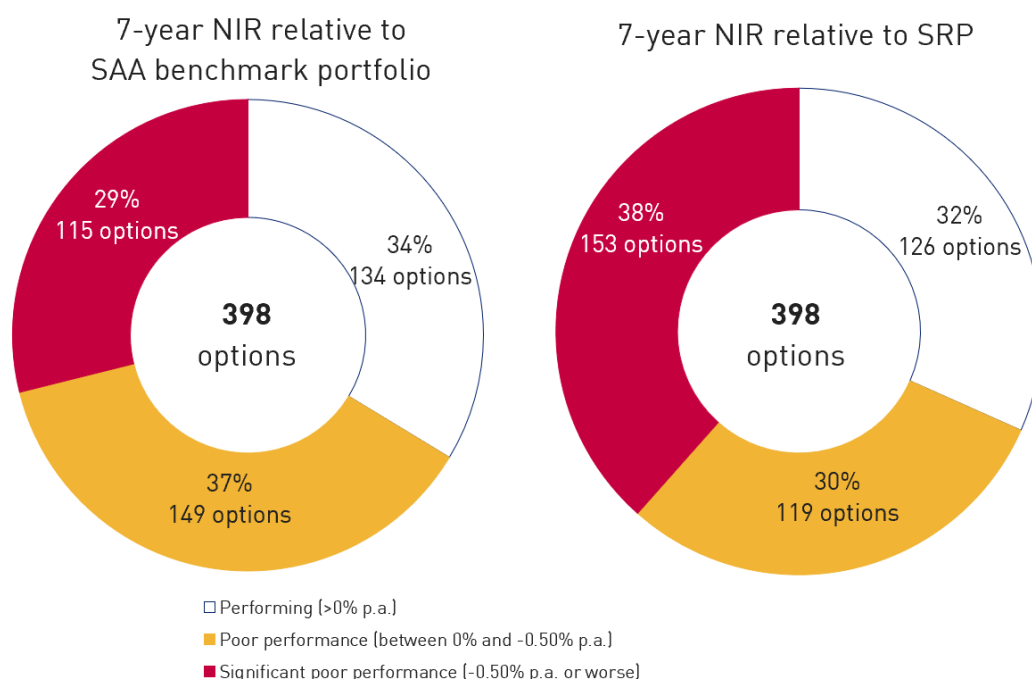


Figure 6 illustrates the investment returns of choice investment options against the benchmark portfolios.

- Two-thirds of choice investment options (264 options) did not meet the SAA benchmark portfolio return. Of the 264 options, 115 options (29%) returned less than -0.50% p.a. relative to the SAA benchmark portfolio. Poor returns against this benchmark is likely due to actively managed investments, asset allocation tilts (e.g. short-term deviations from the long-term SAA target) and investment fees incurred not delivering value for members.
- Just over two-thirds of choice investment options (272 options) did not meet the SRP benchmark. Of the 272 options, 153 options (38%) returned less than -0.50% p.a. against the SRP, which raises concerns about whether the RSE licensee's investment process, including strategic asset allocation decisions, generated value for members.



APRA expectation

RSE licensees must understand the drivers of the investment returns of choice investment options and, where appropriate, take action to improve investment performance going forward.

Where an RSE licensee utilises active management and illiquid assets or complex assets in its investment strategy, members are expected to be compensated through higher risk adjusted returns (after fees, costs and taxes) from these activities over time.

Poor performing choice products are concentrated in the hands of a few RSE licensees.

In addition to considering the investment returns of individual choice investment options, it is useful to look at the investment returns across options offered within a product. Multiple poor return investment options may indicate broader issues with the RSE licensee's approach to investments and their product offerings.

The sample of 398 choice investment options represents 73 choice products offered by 56 RSE licensees.

Of the 73 choice products, *Figure 7* shows the 20 products (offered by 15 RSE licensees) with more than one significantly poor return investment option and the proportion of each product's options in the Choice Heatmap that have significantly poor 7-year returns. The size of the circles indicates the total number of options in the product that have been included in the Choice Heatmap (i.e. a larger circle indicates there are more in-scope options in the product).

Figure 7. Products with multiple multi-sector options with poor returns

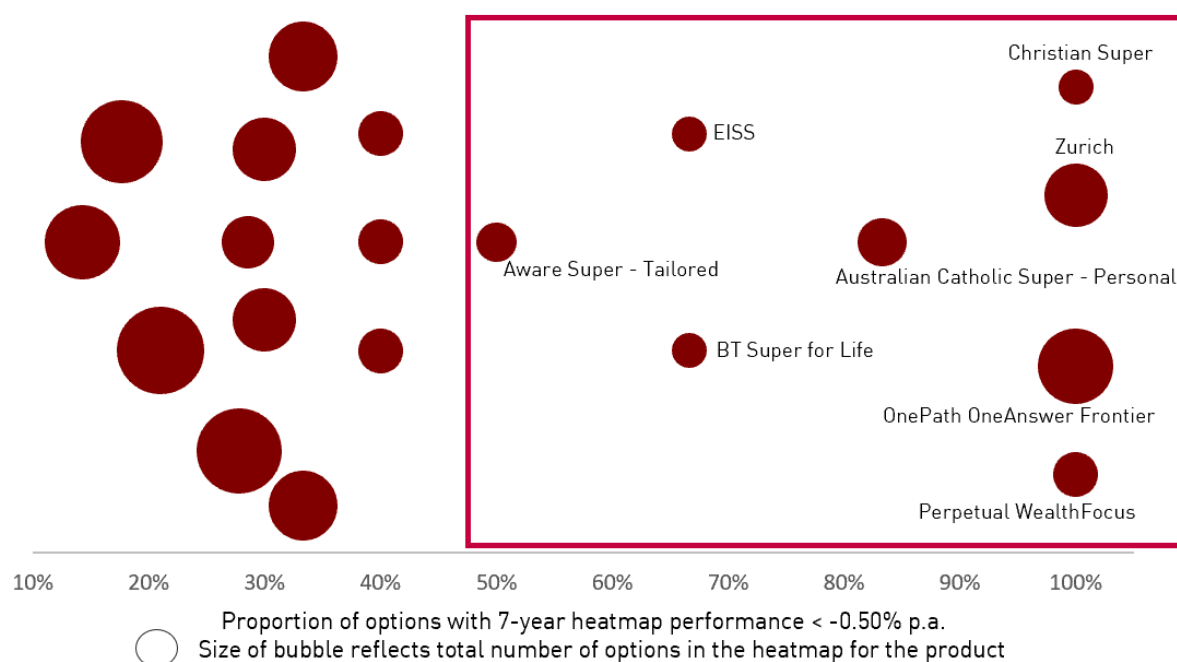


Figure 7 illustrates that there are eight products (highlighted in the red box) with 50% or more of options in the Heatmap identified as delivering significantly poor returns. Of these eight choice products, three of them are offered by an RSE licensee that had a MySuper product that failed the performance test (Christian Super, EISS and Australian Catholic Super).

Refer to Appendix B (Note 2) for products with multiple poor return options.



APRA expectation

RSE licensees must identify the drivers behind adverse performance, particularly where there is poor investment returns across multiple options and products, and take action to improve performance going forward.

RSE licensees must also consider any planned actions in the context of their investment governance framework, consistent with Prudential Standard SPS 530 Investment Governance. RSE licensees must ensure that they can clearly demonstrate how they are managing their investments in the best financial interests of members.

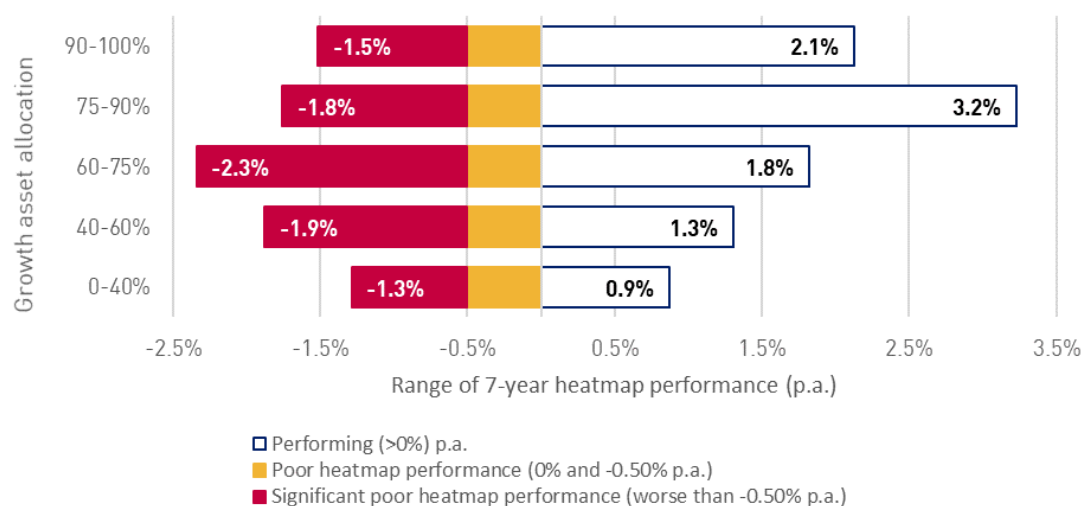
2.4 Performance variability

Performance in choice products varies considerably more than MySuper products.

APRA's analysis of the poorest performing choice options indicates that there is a very long tail of poor performing options in all growth categories:

- The lowest return relative to heatmap benchmarks is -2.3% p.a. over a 7-year period (*Figure 8*), compared to MySuper products, where the lowest return relative to heatmap benchmarks was -1.1% p.a. over 7 years
- There are 28 choice investment options (or 7% of all choice investment options with 7-year returns) with heatmap performance worse than this -1.1% p.a. level seen in MySuper products.

Figure 8. Wide range of returns relative to heatmap benchmarks (7 years)



2.5 Investment fees and costs

More than 25% of choice options have high investment fees but below median returns.

Choice investment options charge a wide range of investment fees and costs, which can be up to 2.2% per annum (\$1,100 on a \$50,000 balance).¹² This reflects the varied investment approaches across choice investment options, which include options that utilise active management and have high exposures to asset classes that incur high investment fees and costs, such as alternatives and private equity.

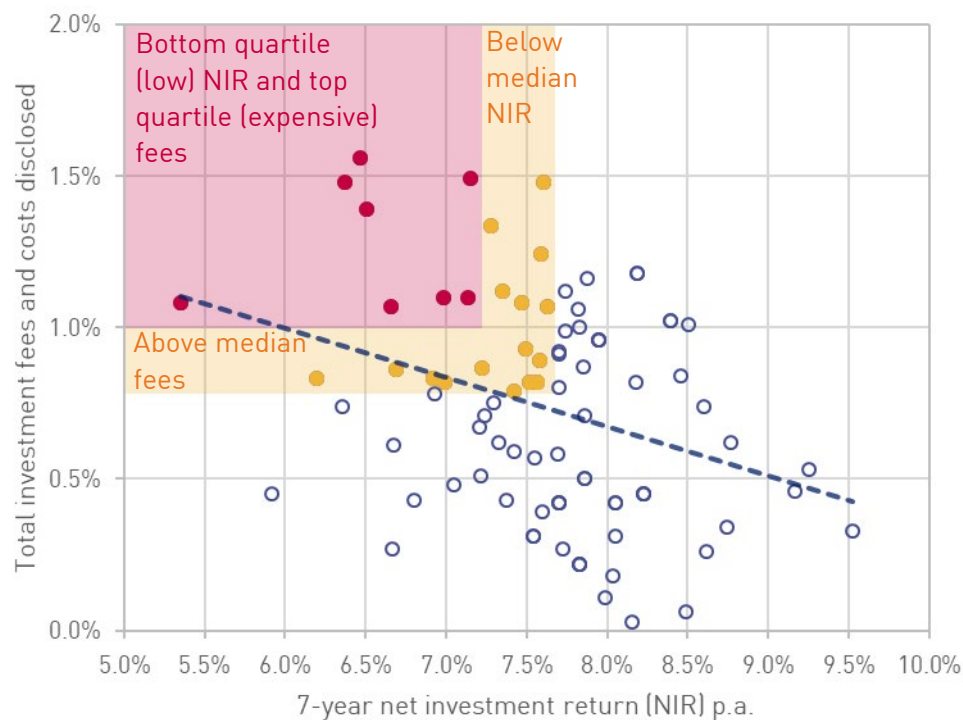
APRA has assessed the relationship between 7-year NIR and investment fees and costs to determine whether higher fees translate into higher investment returns. APRA's analysis indicates that there is generally a negative correlation between net investment returns and investment fees and costs – some members who have incurred higher investment fees and costs, may have received poorer investment returns.

Figure 9 illustrates that, for options in the 60-75% growth category, 26 out of 101 options delivered below-median net investment return to members with above-median investment fees and costs, as highlighted by the red and orange shaded areas. The results are similar for most of the other growth asset allocation categories.¹³

¹² Investment fees, investment costs or investment fees and costs are the total investment fees and costs including indirect cost ratios (ICR), which are provided to APRA by SuperRatings.

¹³ Refer to Appendix B (Note 3) for the list of options with low net investment return and high investment fees for each growth categories.

Figure 9. Impact of investment fees on returns of options in 60-75% growth category



APRA expectation

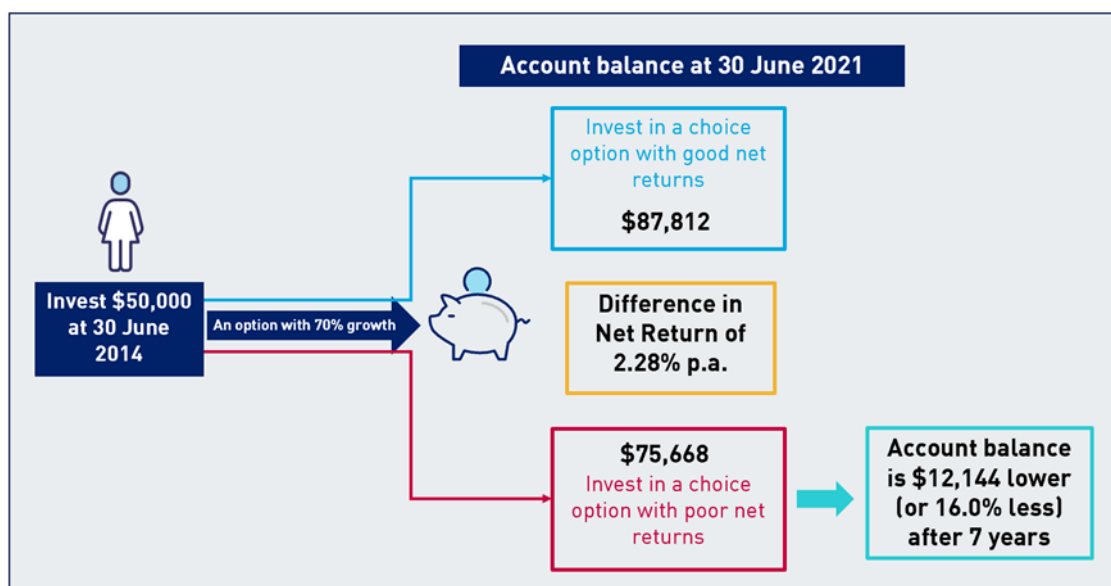
RSE licensees are expected to ensure that members are appropriately compensated for fees and costs incurred, and achieve the right balance between costs and return over the long term, after adjusting for risk. RSE licensees must also demonstrate how these poor performing options with high fees are promoting the financial interests of beneficiaries in its annual outcomes assessment and business performance review.

2.6 Impact of poor returns on outcomes for members

Investing in poor return options will have a significant impact on a member's account balance.

To illustrate the impact to members of investing in an option delivering poor net returns, APRA has compared the difference between investing in a choice option with good net returns and a choice option with poor net returns over the last 7 years. A member with \$50,000 invested in a poor returning option with 70% growth assets in 2014 would have approximately \$12,000 less in account balance (or 16% less) after 7 years compared to being invested in an option that delivers good investment returns (as illustrated in *Figure 10* below).¹⁴

Figure 10. *Significant difference in investing in an option with good net returns and an option with poor net returns*



¹⁴ This analysis focuses on options in the 60-75% growth category only. Refer to Appendix B (Note 4) for further details on the estimated impact of poor returns on account balances.

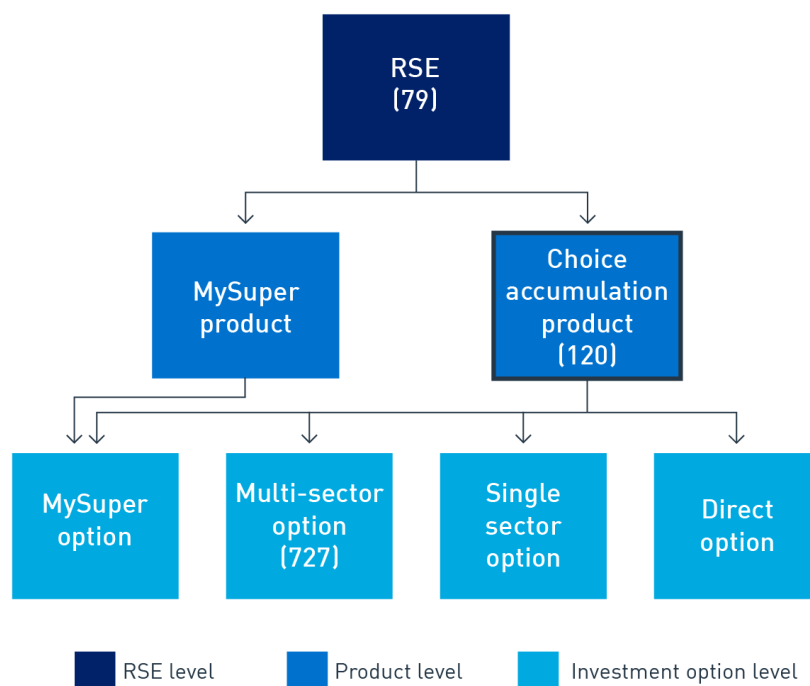
Chapter 3 - Fees and costs

3.1 Fees and cost metrics

The Heatmap presents the administration fees, and total fees and costs for different account balances (\$10,000, \$25,000, \$50,000, \$100,000 and \$250,000) based on data as at 30 June 2021.¹⁵ This Chapter focuses on administration fees as a major driver of high total fees in the choice sector.

As discussed above, the Heatmap assesses administration fees charged to members at the product level (highlighted in *Figure 11*), as they are generally consistent across the choice investment options offered under a particular choice product. There are 120 choice products in the sample.

Figure 11. *Administration fees assessed at product level*



¹⁵ Fees and costs in the Choice Heatmap are based on PDS data collected by SuperRatings as at 30 June 2021. Total fees and costs include administration fees, investment fees and indirect cost ratio. For products that are disclosing fees and costs under new [RG 97](#) requirements, the Heatmap's 'administration fees' metrics uses 'administration fees and costs', and the Heatmap's 'total fees and costs' metrics uses the 'administration fees and costs', and 'investment fees and costs'.

Choice fee structures are varied and complex, and often include some form of tiering arrangement¹⁶, rebate or cap, in addition to the fixed dollar and asset-based components found in the simpler MySuper offering. This makes fee comparisons more challenging to conduct, and difficult for members to understand.

To allow comparisons to MySuper products, the fees and costs analysis was conducted on a \$50,000 account balance as at 30 June 2021. The insights in this section are broadly consistent when similar analysis is performed on the other account balances.¹⁷

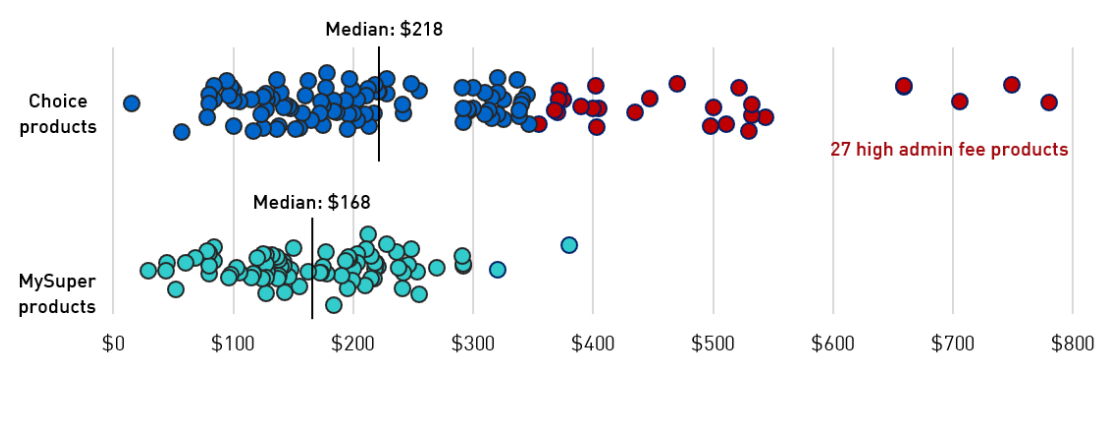
3.2 Administration fees

Fees and costs in choice products are considerably higher than MySuper products, without obvious benefit in financial outcomes to members.

Choice products with high administration fees are often differentiated by tailored features and services. Common features include additional account flexibility from accessing a wider range of investment options, additional online website functionality and member reporting, and other member tools.

Figure 12 illustrates the distribution of total administration fees for two samples: the 120 choice products in the heatmap in the top half of the chart, and the 80 MySuper products in the bottom half of the chart. In short, total administration fees of choice products can be more than double that of MySuper products.

Figure 12. Choice and MySuper total administration fees disclosed at \$50,000 account balance at 30 June 2021



¹⁶ Products with tiered fee structures charge a varying percentage of members' total account balance, typically with lower percentages applied on higher balances.

¹⁷ Refer to Appendix C (note 1) for supplementary analysis across account balances.

Figure 12 illustrates that:

- 27 products (or 23% of products in the Heatmap) are 'crimson rated' for a \$50,000 account balance¹⁸ and have significantly high total administration fees compared to other choice products;
- Choice products have higher total administration fees, as indicated by the median administration of \$218 p.a. for a \$50,000 account balance (which is 30% higher than the median fee of \$168 p.a. for a \$50,000 account balance in a MySuper product). Looked at another way, 68% of choice products (or 82 choice products) have an administration fee for a \$50,000 account balance that exceeds the median administration fee (\$168 p.a.) for a MySuper product with the same balance; and
- There is significant variability in total administration fees charged by choice products:
 - The highest total administration fee charged by a choice product (\$780) is 3.6 times higher than the median choice product (or \$563 more); and
 - The MySuper sector has less variability in administration fees, with the highest total administration fee charged by a MySuper product (\$380) is 2.3 times higher than the median MySuper product (or \$213 more).

Refer to Appendix C (note 2) for products with high total administration fees for the \$50,000 account balance.



APRA expectation

RSE licensees must be able to demonstrate the value of their product offerings (including services and features), and the fees charged to members are in the best financial interests of members. This includes understanding the use of premium services by its membership and demonstrating how these services contribute to improved financial outcomes. Where fees are excessive and do not contribute to improved financial outcomes for members, APRA expects RSE licensees to reduce their fees.

¹⁸ 'Crimson' -rated total administration fees in this section refer to high administration fees that significantly deviate from the sample median by more than 1.5 times in absolute terms (i.e. 1.5 times the median absolute deviations away from the sample median).

High asset-based administration fees in choice products are driving high total administration fees.

To understand the drivers of total administration fees in choice products, APRA has also assessed the components of total administration fees; in particular asset-based administration fees, which have a significant impact on members as member's retirement savings grow.

Figure 13. Choice and MySuper asset-based administration fee at \$50,000 account balance¹⁹

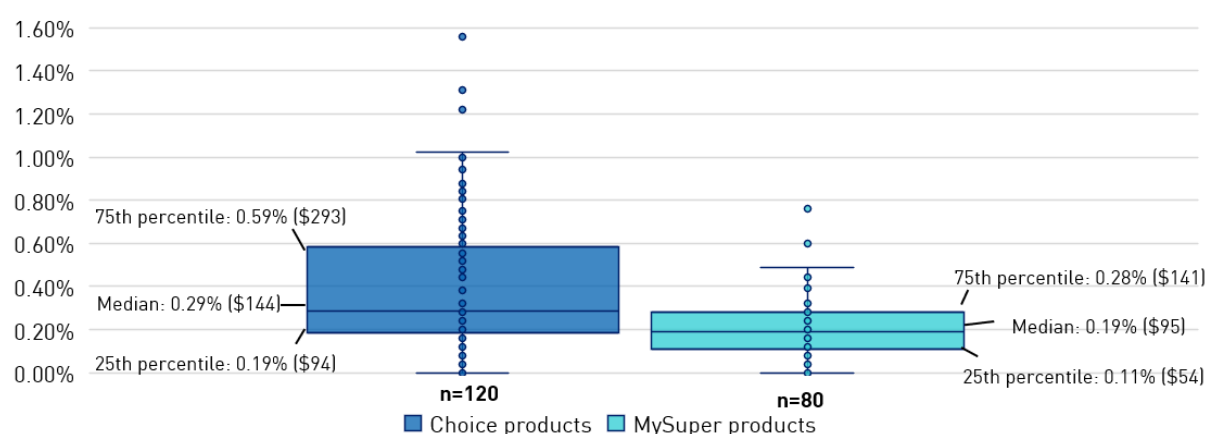


Figure 13 compares the asset-based administration fees of choice products to MySuper products, and illustrates that high asset-based administration fees are driving the long tail of total administration fees for choice products¹⁹:

- Choice products have higher asset-based administration fees than MySuper products, as indicated by the higher median (0.29% or \$144 on a \$50,000 balance, compared to 0.19% or \$95 on a \$50,000 balance for MySuper products);
- The tail for choice products is much longer than the MySuper product tail, as indicated by the higher 75th percentile (0.59% or \$293 compared to 0.28% or \$141 for MySuper products); and

¹⁹ Asset-based administration fees vary across different account balances due to fee tiering arrangements and fee caps.

- The highest asset-based administration fee for a choice product (1.56%) is just over double the highest asset-based administration fee charged for a MySuper product (0.76%).

83% of products with crimson-rated administration fees are offered by funds with less than \$10 billion net assets.

APRA's analysis of the choice heatmap data indicates that there are 30 products with 'crimson-rated' total administration fees on at least three or more account balances.²⁰ *Figure 14* illustrates the relationship between the size of the RSE that holds these crimson-rated choice products and the total administration fees charged on a \$50,000 balance for these products.

Figure 14. Choice products with crimson-rated total administration fees

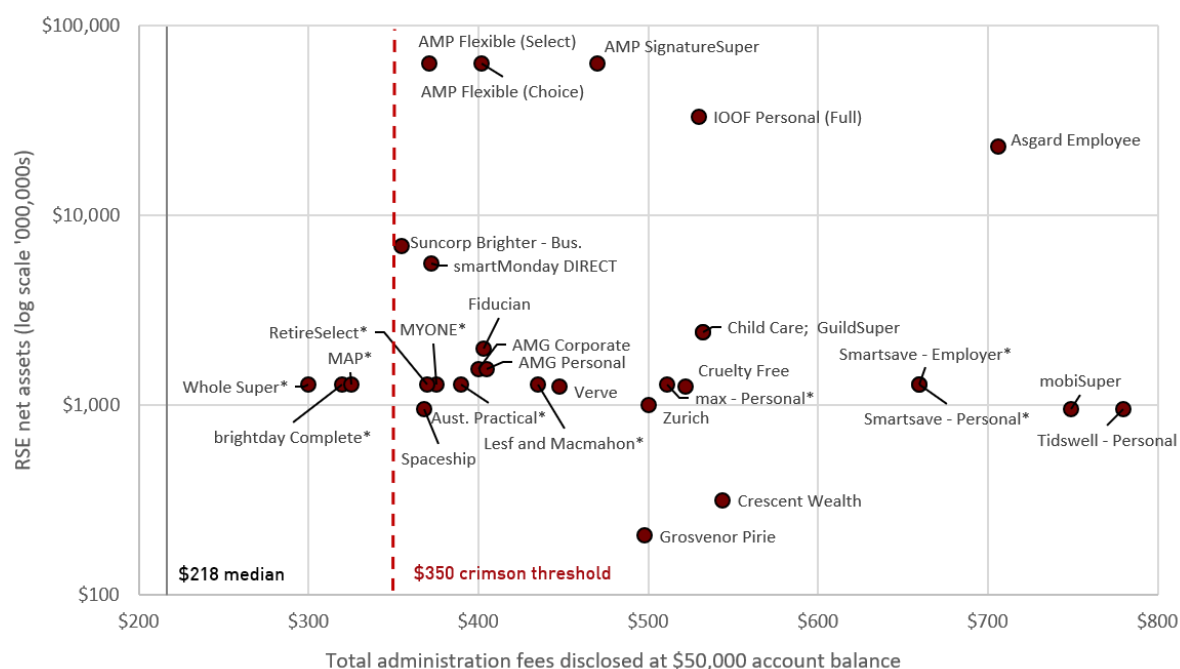


Figure 14 illustrates that:

- the majority of the products with crimson-rated total administration fees are operated by small funds: 25 (or 83% of crimson-rated products) are offered by funds with less than

²⁰ 'Crimson-rated' total administration fees in this section refer to high fees that significantly deviate from the sample choice median by more than 1.5 times in absolute terms (i.e. 1.5 x median absolute deviation), across at least three account balances. Refer to Appendix C (note 2) for the list of choice products with crimson-rated total administration fees.

\$10 billion net assets. RSE licensees with products with relatively high administration fees are expected to assess whether this is driven by a lack of scale or operational efficiency;

- five of the products with high total administration fees are offered by funds with greater than \$10 billion net assets; and
- Three RSEs (OneSuper, AMG Super and IOOF) offering 13 choice products (multiple OneSuper products marked with asterisks in *Figure 14*) with crimson-rated total administration fees also have MySuper products that charge high total administration fees relative to other MySuper products, indicating broader concerns with the level of fees charged to members across multiple offerings.

Large funds generally charge lower total administration fees.

Scale benefits in the form of improved negotiation power with service providers and realised cost efficiencies can reduce the total administration fees charged to members. APRA remains concerned that there are RSEs that lack sufficient scale to provide competitive financial outcomes to members in the long-term.²¹ RSE licensees must implement strategies to generate more scale or become more operationally efficient. For some RSE licensees, this includes considering merging with larger RSEs.

Figure 15 explores the relationship between RSE scale and administration fees of the 120 choice products, divided into four cohorts based on the net assets of the RSE holding the product:

- Cohort 1 consists of choice products that are in RSEs with less than \$2 billion in net assets;
- Cohort 2 consists of choice products that are in RSEs with between \$2 billion and \$10 billion in net assets;
- Cohort 3 consists of choice products that are in RSEs with between \$10 billion and \$50 billion in net assets; and
- Cohort 4 consists of choice products that are in RSEs greater than \$50 billion in net assets.

²¹ [APRA Executive Board Member, Margaret Cole - speech to the Financial Services Council webinar.](#)

For each cohort, the number of products is shown, together with the number of RSEs and RSE licensees captured in the cohort.

Figure 15. Choice product total administration fees disclosed for a \$50,000 account balance

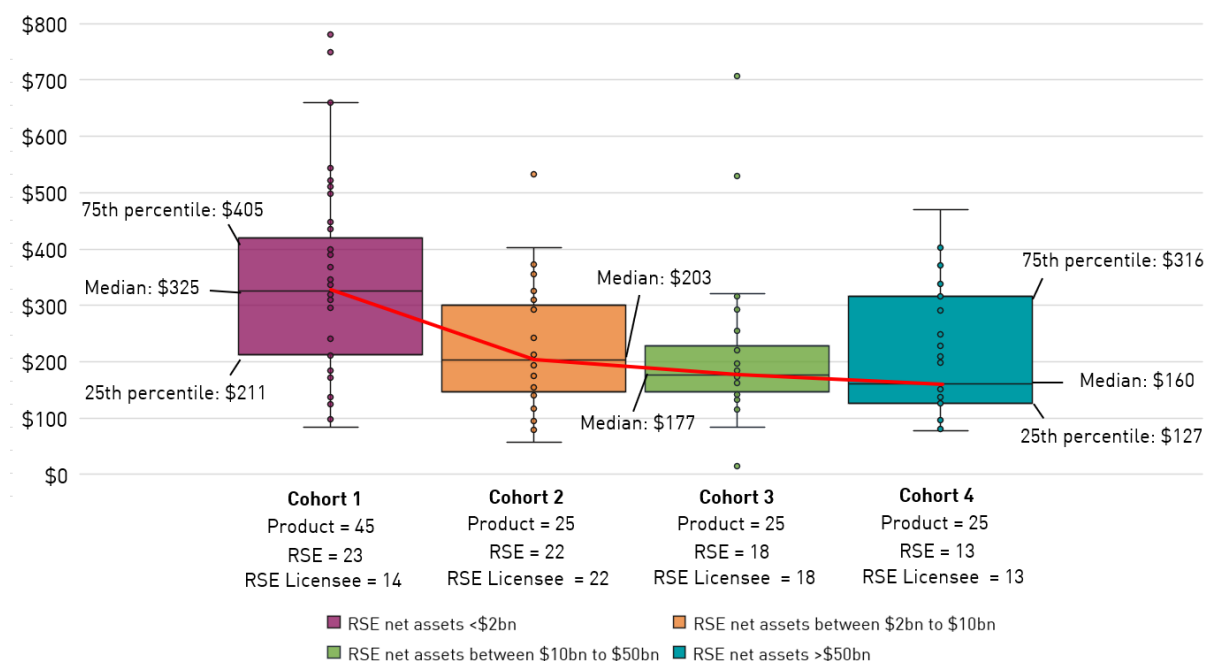


Figure 15 illustrates that larger RSEs tend to charge lower total administration fees than smaller funds (as indicated by the red curve):

- The median total administration fee for products in cohort 4 is \$160, which is lower than the median levels for all other cohorts.
- For products in cohort 1, the median total administration fee is \$325, which is higher than the median levels for all other cohorts. This is also double the median total administration fee of products in cohort 4 (\$160).
 - Of the 45 products that are in cohort 1, a significant proportion of these products are offered by four RSE licensees that operate multiple funds (35 products in 13 funds).

However, a number of large RSEs are charging very high administration fees, as indicated by the 75th percentile level of \$316 for products in cohort 4 (refer to *Figure 15*). This level is similar to the median administration fees charged by products in cohort 1.

Drivers for high administration fees in choice products may be attributed to higher operating costs arising multiple product offerings and legacy systems. APRA observes that RSE licensees are undertaking product consolidation and simplification programs. APRA expects this will result in cost savings that should ultimately be passed onto members through fee reductions.

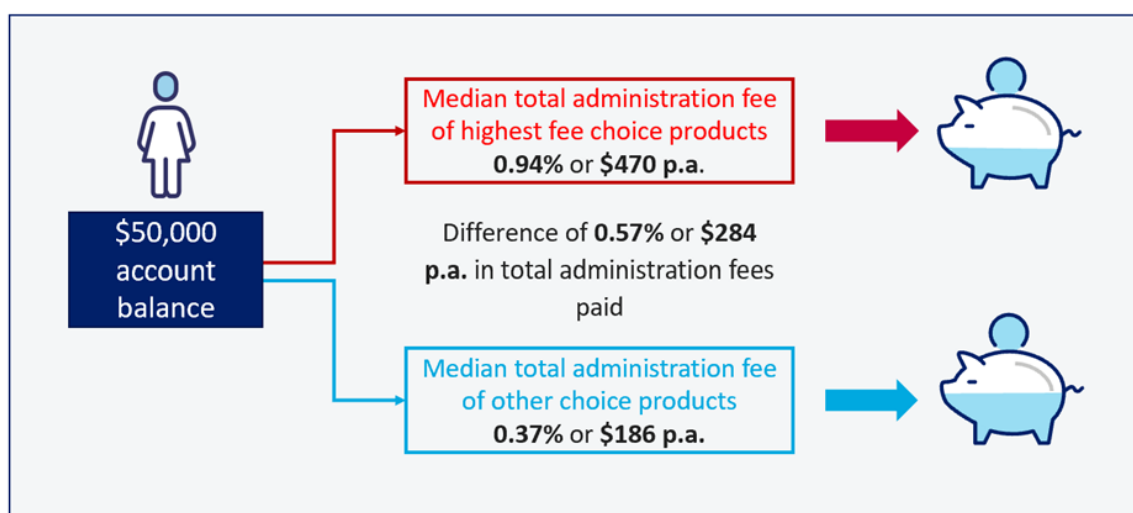
3.3 Impact of high fees on outcomes for members

High fees erode retirement outcomes.

Small differences in fees and costs in one year can have a substantial impact on a member's long-term returns. For example, total annual fees and costs of 2% of a member's account balance rather than 1% could reduce their final return by up to 20% over a 30-year period (for example, reduce it from \$100,000 to \$80,000).

Figure 16 shows the median total administration fees paid by a member with a \$50,000 account balance of the 27 highest fee choice products, compared to other choice products. This difference of \$284 per annum (or 2.5 times higher than other choice products), over time, compounds the erosion of members' retirement income.

Figure 16. *Total administration fees paid on \$50,000 account balance in highest fee choice products vs other choice products*



Appendix A – Segment definitions

Type	Definition
Accumulation product	Choice products in the accumulation phase with the same meaning as the growth phase in the <i>Superannuation Industry (Supervision) Act 1993</i> (SIS Act) and the <i>Superannuation Industry (Supervision) Regulations 1994</i> r. 1.03 AB. This includes retirement Savings Accounts (RSAs).
Direct investment option category	Means investment products or securities accessed directly by the member, often via an investment account, where the member directly transacts and determines their preferred exposure to the investment strategy of the underlying investment manager or the risk/return profile of the security or financial instrument. These options include shares, term deposits, and exchange traded funds.
Single-sector investment option category	Single-sector investments are held in more than one distinct security, all belonging to a single asset sector, for example Australian equities.
Multi-sector investment option category	Multi-sector investments are held in more than one distinct security, belonging to two or more asset sectors.

Appendix B – Investment return notes

Note 1: Calculating heatmap performance

Option level heatmap performance have been derived by taking the average of the investment return relative to four heatmap benchmarks (listed in the table below). For example, the following table shows the heatmap performance of an investment option over 7-years:

Net Investment Return relative to the trendline	Net investment return relative to Simple Reference Portfolio	Net investment return relative to Strategic Asset Allocation benchmark portfolio	Net Return relative to the trendline
-0.30% per annum	+0.18% per annum	+0.23% per annum	-0.51% per annum

The average heatmap performance over 7-years is calculated as $(-0.30\% + 0.18\% + 0.23\% - 0.51\%) / 4 = -0.10\%$ per annum.

Note 2: Products with multiple options with poor 7-year heatmap performance of -0.50%p.a. or worse

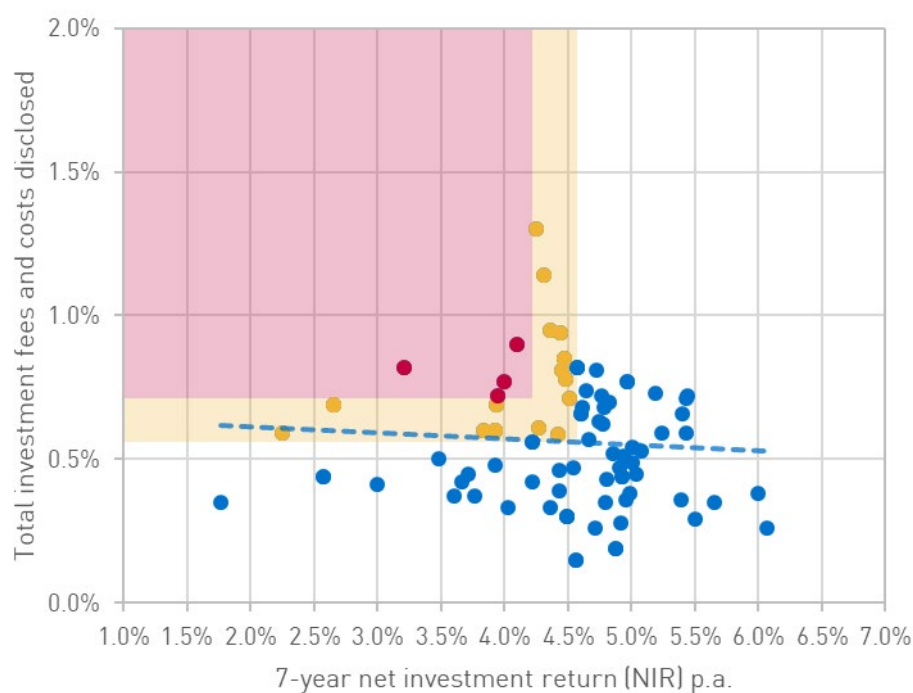
Product	Number of in-scope options	Number of options with 7-year heatmap performance -0.50%p.a. or worse	Proportion of in-scope options with 7-year heatmap performance -0.50%p.a. or worse
OnePath OneAnswer Frontier Personal Super	14	14	100%
Zurich Superannuation Plan	10	10	100%
Perpetual WealthFocus Super Plan	5	5	100%
Christian Super	3	3	100%
Australian Catholic Superannuation - Personal Plan	6	5	83%
BT Super for Life - Savings	3	2	67%
Energy Industries Superannuation Scheme Super	3	2	67%

Product	Number of in-scope options	Number of options with 7-year heatmap performance -0.50%p.a. or worse	Proportion of in-scope options with 7-year heatmap performance -0.50%p.a. or worse
Aware Super - Tailored Super Plan	4	2	50%
AMG Super - Corporate Super	5	2	40%
AMG Super - Personal	5	2	40%
Perpetual Select Superannuation Plan	5	2	40%
AMP SignatureSuper Select	12	4	33%
AMP SignatureSuper Select Personal Superannuation	12	4	33%
smartMonday DIRECT	10	3	30%
smartMonday PRIME	10	3	30%
legalsuper Personal	7	2	29%
AMP SignatureSuper	18	5	28%
AMP Flexible Super (Choice Package)	19	4	21%
Plum Super	17	3	18%
Colonial First State - FirstChoice Wholesale Personal Super	14	2	14%

Note 3: NIR vs total investment fees and costs analysis

The analysis on NIR vs total investment fees and costs for choice options in each growth asset allocation categories are provided below. A list of options in the red quadrant (bottom quartile NIR and top quartile fees) and orange quadrant (below median NIR and above median fees) are also provided.

a. 0-40% growth



Product	Options in the Red quadrant	Options in the Orange quadrant
AMG Super - Corporate Super	-	Conservative
AMP Flexible Super (Choice Package)	-	Future Directions Conservative
Australian Catholic Superannuation - Personal Plan	-	Capital Stable
Bendigo SmartStart Super - Personal Division	-	Defensive Wholesale Fund
BT Super for Life - Savings	Pendal Sustainable Conservative	-
Club Plus Personal	-	Conservative Balanced
Colonial First State - FirstChoice Wholesale Personal Super	FirstChoice Wsale Defensive	FirstChoice Wsale Conservative
Mercy Super - Super Account	-	Stable
Mine Super	-	Stable
MLC MasterKey Business Super	-	Horizon 2 - Capital Stable Portfolio

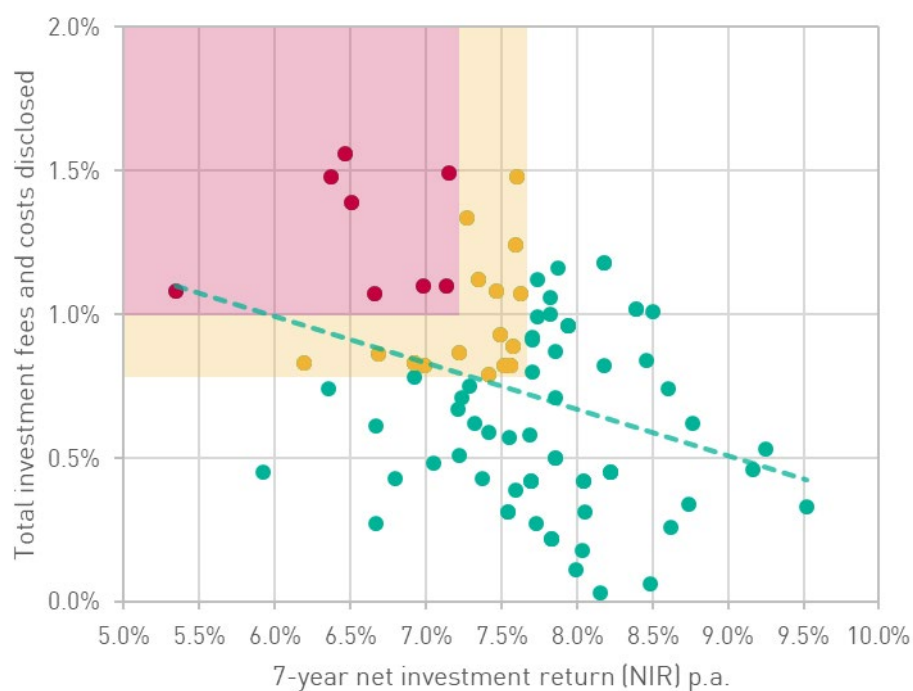
Product	Options in the Red quadrant	Options in the Orange quadrant
MLC MasterKey Super Fundamentals	-	Horizon 2 - Capital Stable Portfolio
OnePath OneAnswer Frontier Personal Super	-	MoneyForLife Index Conservative, OnePath Conservative, OptiMix Conservative
Perpetual WealthFocus Super Plan	-	Perpetual Conservative Growth Fund, Perpetual Diversified Income Fund
Plum Super	MLC Conservative, Pre-mixed Conservative	Active Conservative
smartMonday DIRECT	-	Defensive – Active
smartMonday PRIME	-	Defensive – Active

b. 40-60% growth



Product	Options in the Red quadrant	Options in the Orange quadrant
AMP FlexibleSuper (Choice package)	AMP Capital Multi-Asset	Future Directions Moderately Conservative
AMP SignatureSuper	AMP Capital Multi-Asset	-
AMP SignatureSuper Select	AMP Capital Multi-Asset	-
AMP SignatureSuper Select Personal Superannuation	AMP Capital Multi-Asset	-
Australian Catholic Superannuation - Personal Plan	-	Conservative
Aware Super - Tailored Super Plan	-	Balanced Fund
Bendigo SmartStart Super - Personal Division	-	Conservative Wholesale Fund
BUSSQ - Premium Choice	-	Defensive
Christian Super	-	Ethical Conservative Balanced
Colonial First State - FirstChoice Wholesale Personal Super	-	First Sentier Wsale Balanced
MyLife MySuper - Personal Plan	-	RetirePlus
OnePath OneAnswer Frontier Personal Super	OnePath Balanced, OptiMix Moderate	MoneyForLife Index Moderate
Perpetual Select Superannuation Plan	-	Conservative, Diversified
Perpetual WealthFocus Super Plan	-	Perpetual Diversified Growth Fund
Plum Super	-	MLC Cautious, Pre-mixed Cautious
Prime Super	-	Conservative
smartMonday DIRECT	-	Moderate – Active
smartMonday PRIME	-	Moderate - Active

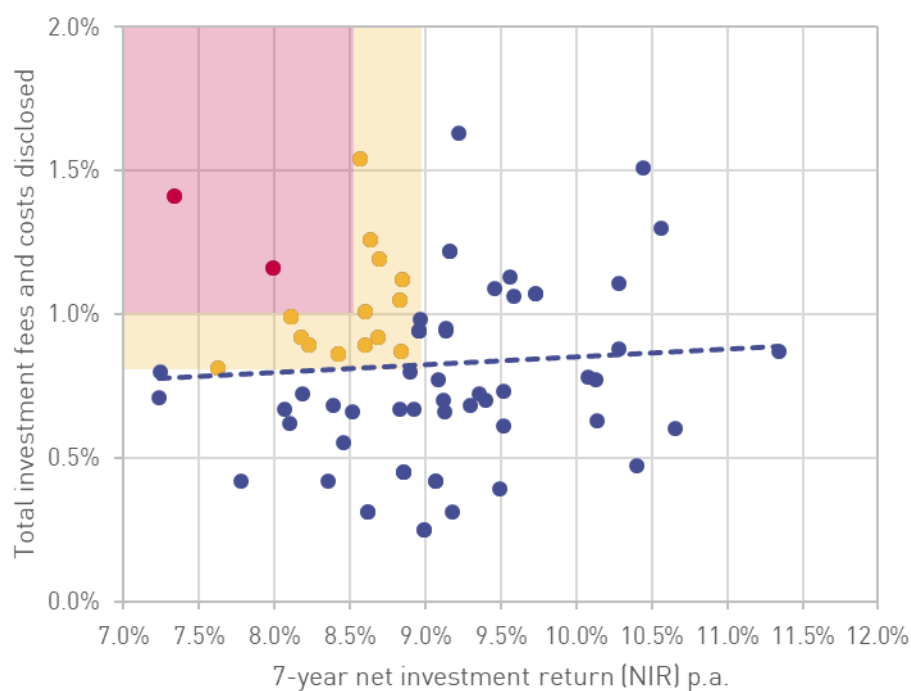
c. 60-75% growth



Product	Options in the Red quadrant	Options in the Orange quadrant
AMP FlexibleSuper (Choice package)	-	Capital Ethical Leaders Balanced
AMP SignatureSuper	-	Capital Ethical Leaders Balanced
Bendigo SmartStart Super - Personal Division	-	Balanced Wholesale Fund
BT Super for Life - Savings	-	Pendal Sustainable Balanced
Child Care Super – MyMix	-	Balanced
Colonial First State - FirstChoice Employer Super	-	FirstChoice Balanced Select
Colonial First State - FirstChoice Wholesale Personal Super	FirstChoice Wsale Moderate	FirstChoice Wsale Balanced
Fire and Emergency Services Superannuation Fund - Accumulation Account	-	Growth
Freedom of Choice - Personal Superannuation Service	-	Australian Unity Balanced Growth Portfolio
GuildSuper - MyMix	-	Balanced

Product	Options in the Red quadrant	Options in the Orange quadrant
legalsuper Personal	Balanced Socially Responsible	-
LGIAsuper - Accumulation Account	SR Balanced	-
Mercy Super - Super Account	-	Socially Responsible
MyLife MySuper - Personal Plan	-	Balanced Plus
OnePath OneAnswer Frontier Personal Super	OnePath Active Growth, OnePath Managed Growth, OnePath Tax Effective Income, OptiMix Balanced	-
Perpetual Select Superannuation Plan	-	Balanced
Perpetual WealthFocus Super Plan	-	Perpetual Balanced Growth Fund
Plum Super	-	MLC Moderate, Pre-mixed Moderate
smartMonday DIRECT	-	Balanced Growth – Active
smartMonday PRIME	-	Balanced Growth – Active
StatewideSuper Personal	Sustainable Diversified	-

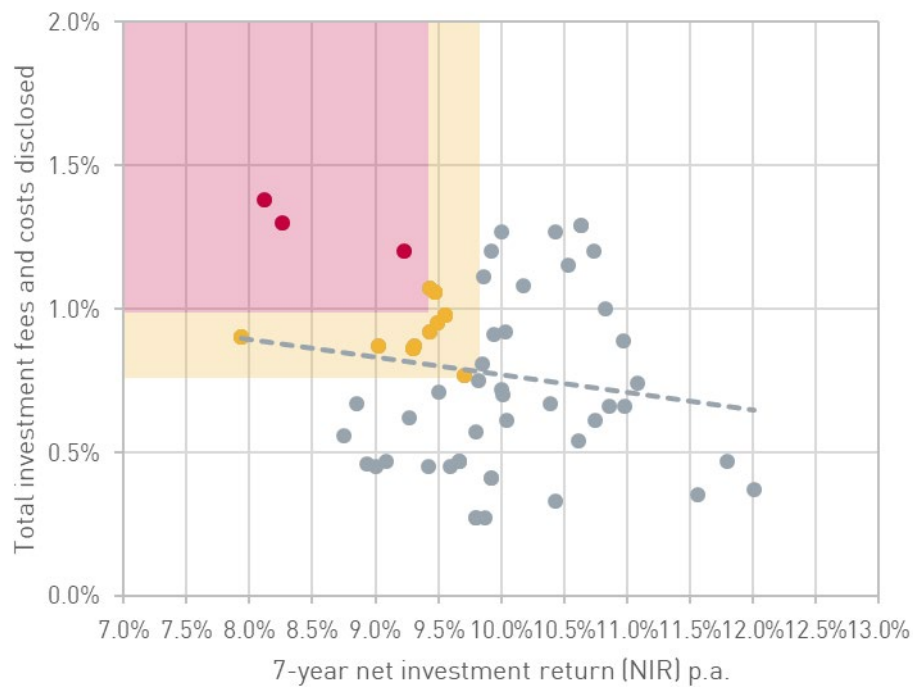
d. 75-90% growth



Product	Options in the Red quadrant	Options in the Orange quadrant
AMG Super - Corporate Super	-	High Growth
AMG Super - Personal	-	High Growth
AMP FlexibleSuper (Choice package)	-	AMP High Growth, Future Directions Growth
Bendigo SmartStart Super - Personal Division	-	Growth Wholesale Fund
Child Care Super - MyMix	-	Growth
Club Plus Personal	-	Growth
Colonial First State - FirstChoice Employer Super	-	FirstChoice Growth Select
Colonial First State - FirstChoice Wholesale Personal Super	FirstChoice Wsale Growth	-
GuildSuper - MyMix	-	Growth
OnePath OneAnswer Frontier Personal Super	OptiMix Growth	-
Perpetual Select Superannuation Plan	-	Growth

Product	Options in the Red quadrant	Options in the Orange quadrant
Plum Super	-	Active Assertive, MLC Assertive, Pre-mixed Assertive
smartMonday DIRECT	-	Growth – Active
smartMonday PRIME	-	Growth - Active
Sunsuper for Life - Super-savings Account	-	Socially Conscious Balanced

e. 90-100% growth



Product	Options in the Red quadrant	Options in the Orange quadrant
AMP Flexible Super (Choice Package)	-	AMP All Growth, Future Directions High Growth
AMP SignatureSuper	-	AMP All Growth, Future Directions High Growth
AMP SignatureSuper Select	-	AMP Capital Australian Equity Opportunities, Future Directions High Growth

Product	Options in the Red quadrant	Options in the Orange quadrant
AMP SignatureSuper Select Personal Superannuation	-	AMP Capital Australian Equity Opportunities, Future Directions High Growth
Child Care Super - MyMix	-	High Growth
Christian Super	-	Ethical High Growth
Colonial First State - FirstChoice Employer Super	-	FirstChoice High Growth Select
Colonial First State - FirstChoice Wholesale Personal Super	FirstChoice Wsale High Growth	-
GuildSuper - MyMix	-	High Growth
OnePath OneAnswer Frontier Personal Super	OnePath High Growth, OptiMix High Growth	-
smartMonday DIRECT	-	High Growth – Active
smartMonday PRIME	-	High Growth - Active
TWUSUPER - TransPersonal	-	Equity Plus

Note 4: Impact of poor investment returns on account balances

To illustrate the member impact of investing in choice options with poor investment returns (net of all fees, costs and taxes for a \$50,000 representative member), APRA has identified the ten products with the poorest return relative to the 7-year Net Return trendline (the Trendline) and the ten products with the highest return relative to the Trendline, for each growth asset category.

The average return relative to the Trendline is calculated for the ten products with the highest relative return and for the ten products with the lowest relative return, for each growth asset category.

To calculate the member impact on a risk-adjusted basis, a 70% growth allocation is used to compare the performance of the highest relative return and worst relative return groups in the 60-75% growth asset category. The net return of the highest relative return group is determined by adding the average by adding the average relative return to the assumed net return of a product with 70% growth asset allocation on the Trendline. The net return of the worst relative return group is similarly determined by subtracting the average relative return from the assumed net return level on the Trendline.

The net returns of the highest relative return group and the worst relative return group are then applied to an initial balance of \$50,000 (with no additional contributions) to calculate the

account balance of a member in a high relative return product and a low relative return product after 7 years. A simple example is shown below.

Assumed return of a product with 70% growth asset allocation on the 7-year Net Return trendline.	6.0% p.a.
Average relative return of the 10 products with the highest return relative to the Net Return trendline	+1.5% p.a.
Average relative return of the 10 products with the lowest return relative to the Net Return trendline	-1.0% p.a.

Account balance from investing in an outperforming product over six years = $\$50,000 \times (1 + 6.0\% + 1.5\%)^7 = \$82,952$

Account balance from investing in an underperforming product over six years = $\$50,000 \times (1 + 6.0\% - 1.0\%)^7 = \$70,355$

The above calculation is also performed for the 0-40%, 40% - 60%, 80% -90% and 90 – 100% growth asset categories. The table below illustrates the account balance for a member investing \$50,000 at 1 July 2014 in the options with good investment returns and options with poor investment returns after 7-years, including the difference in accumulated value.

Growth exposure of investment options	Account balance after 7-year if investing in choice options with good returns	Account balance after 7-year if investing in choice options with poor returns	Difference in account balance
30%	\$69,766	\$62,479	\$7,287 (11.7%)
50%	\$78,192	\$67,361	\$10,831 (16.1%)
70%	\$87,812	\$75,668	\$12,144 (16.0%)
85%	\$97,910	\$82,167	\$15,743 (19.2%)
95%	\$102,329	\$85,663	\$16,667 (19.5%)

Appendix C – Fees and costs notes

Note 1: Analysis of fees and costs structures

The analysis on MySuper products in the 'Fees and costs' section was conducted using APRA's fees and costs data as at 30 June 2021.

The findings on dollar-based and asset-based administration fees are broadly consistent across other account balances.

There is no material difference in fixed dollar administration fees between choice and MySuper products. The higher dollar-based and lower asset-based administration fee for the \$10,000 and \$25,000 account balances compared to MySuper products is a result of fee tiering arrangements, which are typically in place for higher account balances (greater than \$50,000).

Figure 17. Dollar-based administration fee across account balances

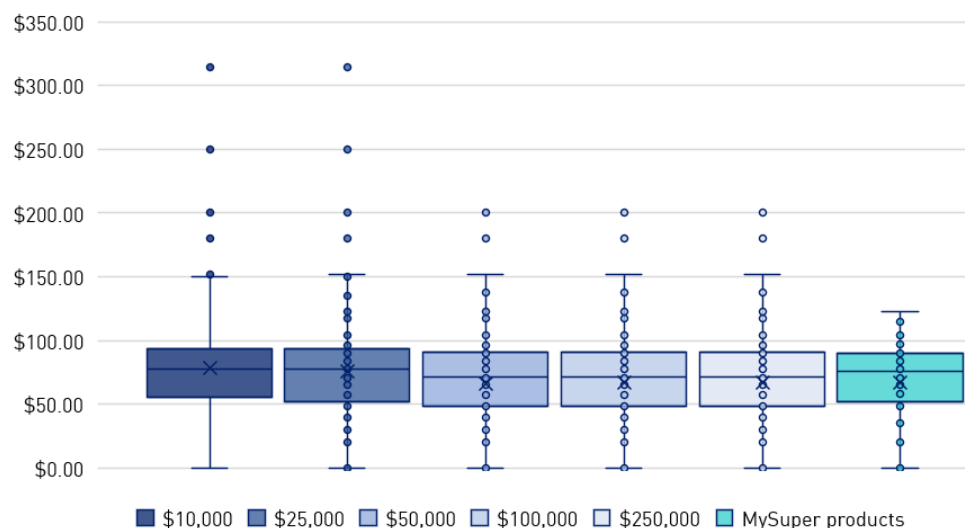
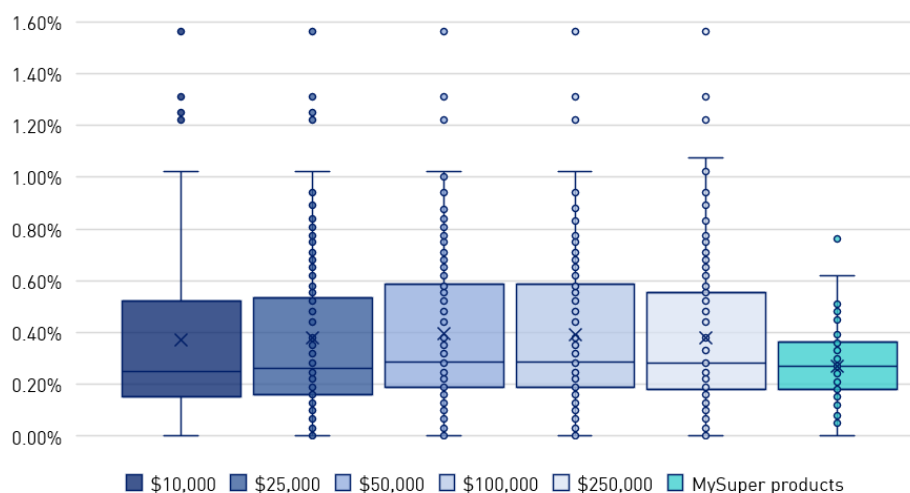


Figure 18. Asset-based administration fee across account balances



Note 2: The following choice products have crimson-rated total administration fees on the \$50,000 account balance:

Fund	Product	Total administration fee (\$)
Tidswell Master Superannuation Plan	Tidswell Superannuation Fund - Personal Super	780
Tidswell Master Superannuation Plan	mobiSuper	749
ASGARD Independence Plan Division Two	Asgard Employee Superannuation Account	706
OneSuper	Smartsave - Employer	659
OneSuper	Smartsave - Personal	659
Crescent Wealth Superannuation Fund	Crescent Wealth Super	544
Guild Retirement Fund	Child Care Super - MyMix	533
Guild Retirement Fund	GuildSuper - MyMix	533
I00F Portfolio Service Superannuation Fund	I00F Personal Super (Full Menu)	530
Future Super Fund	Cruelty Free Super	522
OneSuper	max Super Fund - Personal	511
Zurich Master Superannuation Fund	Zurich Superannuation Plan	500
Grosvenor Pirie Master Superannuation Fund Series 2	The Grosvenor Pirie Master Superannuation Fund - Series 2	498
Super Directions Fund	AMP SignatureSuper	470
Future Super Fund	Verve Super	448
OneSuper	Lesf and Macmahon Super	435
AMG Super	AMG Super - Personal	405
Fiducian Superannuation Fund	Fiducian Super	403
Super Directions Fund	AMP Flexible Super (Choice Package)	402
AMG Super Fund	AMG Super - Corporate Super	400
OneSuper	Australian Practical Superannuation	390
OneSuper	MYONESUPER	375
AON Master Trust	smartMonday DIRECT	372

Fund	Product	Total administration fee (\$)
Super Directions Fund	AMP Flexible Super (Select Package)	371
OneSuper	RetireSelect Super	370
Tidswell Master Superannuation Plan	Spaceship Super	368
Suncorp Master Trust	Suncorp Brighter Super - Business	355

Appendix D – Asset class benchmarks

The following indices were used when creating the reference and benchmark portfolios:

Asset Class	Index	Fee Assumption	Assumed effective tax rate	Bloomberg Ticker
Australian Equity	S&P/ASX 300	0.05%	0.00%	ASA52
International Equity (hedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (100% hedged to AUD)	0.11%	14.00%	DE725341
International Equity (unhedged)	MSCI All Country World Ex-Australia Equities Index with Special Tax (unhedged in AUD)	0.09%	14.00%	DN714533
Australian Listed Property	S&P/ASX 300 A-REIT Index	0.12%	14.00%	ASA6PROP
International Listed Property	FTSE EPRA Nareit Developed ex Aus Rental 100% Hedged to AUD Net Tax (Super) Index	0.22%	14.00%	RAHRSAH
Australian Listed Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH
International Listed Infrastructure	FTSE Developed Core Infrastructure 100% Hedged to AUD Net Tax (Super) Index	0.26%	14.00%	FDCIISAH
Australian Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
International Unlisted Property	MSCI/Mercer Australia Core Wholesale Monthly Property Fund Index – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
Australian Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A
International Unlisted Infrastructure	MSCI Australia Quarterly Private Infrastructure Fund Index (Unfrozen) – NAV-Weighted Post-Fee Total Return (All Funds)	0.00%	14.00%	N/A

Asset Class	Index	Fee Assumption	Assumed effective tax rate	Bloomberg Ticker
Australian Fixed Interest	Bloomberg Ausbond Composite 0+ Index	0.10%	15.00%	BACM0
International Fixed Interest	Bloomberg Global Aggregate Index (hedged in AUD)	0.10%	15.00%	LEGATRAH
Australian Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
International Cash	Bloomberg Ausbond Bank Bill Index	0.04%	15.00%	BAUBIL
Other (assets categorised as Other / Commodities)	25% International Equity (hedged), 25% International Equity (unhedged), 50% International Fixed Interest	As per the underlying asset classes		

The benchmarks chosen are considered to be representative of the investable market, for an Australian superannuation investor. Total return indices (that is, returns inclusive of dividends as well as capital gains) have been used.

Index Provider Acknowledgements

Source: “Bloomberg®”, Bloomberg Ausbond Bank Bill Index, Bloomberg Ausbond Composite 0+ Index and Bloomberg Global Aggregate Index (hedged in AUD) are service marks of Bloomberg Finance L.P. and its affiliates, including Bloomberg Index Services Limited (“BISL”), the administrator of the index (collectively, “Bloomberg”) and have been licensed for use for certain purposes by APRA. Bloomberg is not affiliated with APRA and Bloomberg does not approve, endorse, review, or recommend APRA’s heatmaps. Bloomberg does not guarantee the timeliness, accurateness, or completeness of any data or information relating to APRA’s heatmaps.

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Source: The blended returns are calculated by APRA using end of reporting period index level values licensed from MSCI ("MSCI Data"). For the avoidance of doubt, MSCI is not the benchmark "administrator" for, or a "contributor", "submitter" or "supervised contributor" to, the blended returns, and the MSCI Data is not considered a "contribution" or "submission" in relation to the blended returns, as those terms may be defined in any rules, laws, regulations, legislation or international standards. MSCI Data is provided "AS IS" without warranty or liability and no copying or distribution is permitted. MSCI does not make any representation regarding the advisability of any investment or strategy and does not sponsor, promote, issue, sell or otherwise recommend or endorse any investment or strategy, including any financial products or strategies based on, tracking or otherwise utilizing any MSCI Data, models, analytics or other materials or information



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