

# **Administration and Investment Cost Survey Report**

**Ross Clare and Douglas Connor  
ASFA Research Centre  
March 2000**

Federal Secretariat

Level 19  
Piccadilly Tower  
133 Castlereagh St  
Sydney NSW 2000

PO Box 1485  
Sydney NSW 1005  
Tel: (02) 9264 9300  
Fax: (02) 9264 8824

This document contains summary results of a survey of administration and investment costs of certain ASFA members. It is not intended to be used as a substitute for professional advice. The Association of Superannuation Funds of Australia Limited expressly disclaims all liability and responsibility to any person who relies, or partially relies, upon anything done or omitted to be done by this document.

The survey was conducted in June to August 1999 and preliminary results were released in Superfunds in November 1999.

This document was first released in March 2000.

---

# CONTENTS

1	Introduction	1
1.1	Background	1
1.2	Purpose of the survey	1
2	Method	2
2.1	Development of the questionnaire	2
2.2	Development of the survey instrument	2
2.3	Sample and subjects	3
3	Profile Of Respondents	4
3.1	Type and size of funds responding	4
3.2	Inactive members and exits and entrants	5
4	Administration Costs	6
5	Main Categories Of Administration And Investment Costs	8
5.1	Administration costs	8
5.2	Investment costs	9
6	Developments In Administration And Investment Costs	14
6.1	Aggregate costs compared to previous years	14
6.2	Factors impacting on movement in costs	14
6.3	Consequences for administration costs flowing from the Surcharge	15
6.4	Electronic commerce	15
7	Aggregate administration and investment costs	17
7.1	Aggregate administration costs	17
7.2	Aggregate investment costs	18
7.3	Aggregate administration and investment costs	19
	Appendix	20

# FOREWORD

There has been a high level of interest in ASFA surveys of administration and investment costs, both by ASFA members and more generally. The survey results have been used by individual funds to benchmark their own administration and investment costs. They have also been used by analysts in research on the aggregate administration and investment costs for the superannuation system.

Accordingly the ASFA Research Centre was asked to conduct a further administration and investment cost survey relating to the 1997-98 financial year, which for most funds ended on 30 June 1998 but for some funds involves dates up to and including 31 December 1998. Future surveys will follow every two years, with the next administration costs survey to be undertaken in the first half of 2001, in regard to the 1999-2000 financial year.

This publication makes available the main findings of the survey. It also includes some additional material prepared by the ASFA Research Centre on the aggregate costs of the superannuation system.

I believe the results of the survey will assist trustees in assessing how their funds compare with other funds of a similar type and nature. It will also be a valuable tool in the assessment of the competitiveness of individual funds in the superannuation market more generally.

I would like to take this opportunity to thank the ASFA members who took the time to participate in the survey and trust that you find this information both relevant and beneficial to your Fund.

If you have any queries in relation to information contained in this report, please address them to Ross Clare or Douglas Connor in the ASFA Research Centre.

Dr Michaela Anderson  
**Director Policy and Research**

---

# 1 INTRODUCTION

## 1.1 Background

ASFA, in conjunction with Ernst & Young, conducted Fund Administration Cost Surveys in 1990, 1991 and 1993. The results of these surveys attracted considerable attention and a number of ASFA's members suggested that ASFA undertake a similar survey in 1997, particularly given the changes that had taken place in the industry. The results of that survey were published as ASFA Best Practice Paper No 4, which was released in July 1998.

These various surveys have provided useful benchmarks for considering the impact of tax and regulatory changes on the costs of superannuation funds. It also enables some estimates to be made of the impact of changes in the average size of funds and of the movement in average investment costs for funds. As well, very recently there has been considerable interest in the impact of the adoption of electronic commerce standards and processes on fund administration costs.

The survey was designed and undertaken by the ASFA Research Centre. Previous work by the ASFA Best Practice Committee, which was responsible for 1997 survey, greatly assisted this task. Wherever possible identical or similar questions to those used in the 1997 survey were used in the 1999 survey in order to assist with the comparability of results.

## 1.2 Purpose of the survey

The objectives of the 1999 ASFA Administration and Investment Cost Survey were to provide:

- General information to ASFA members on the cost of fund administration and investment costs.
- Specific information which would help trustees compare their superannuation fund to like funds in terms of administration and investment costs.
- Comparative data on the costs of administration and investment for different types of funds (size, design, type).
- Identification of factors affecting administration and investment costs.
- Estimation of the possible impact of electronic commerce initiatives.
- Estimation of the ongoing impact on costs of the operation of the contributions surcharge.
- A tool to assist trustees in assessing the competitiveness of their fund and to examine whether the practices that are currently employed are in accord with industry standards.

---

## 2 METHOD

### 2.1 Development of the questionnaire

The questionnaire was developed by the ASFA Research Centre based on the previous survey instrument. A number of modifications were made to the previous survey instrument in order to reduce the burden on respondents and/or to remove ambiguities. In particular questions relating to the provision of member services were deleted from this edition of the survey (it is possible that such information may be sought in future ASFA surveys dealing with fund costs or other matters). As well, information on the costs of insurance and self insurance was not sought given the respondent burden involved and the apparent high levels of misreporting on non-reporting of such costs in the last survey.

Some new questions were included, principally related to the impact of electronic commerce. Questions were also asked about the cost impact of the surcharge and in regard to more general factors impacting on costs. Greater details were also sought for some cost items. A copy of the questionnaire is available on request.

- Questions one to four were used to collect **General Fund Information**:
  - Type, design and size of funds
  - Type of benefits
  - Number of members
  - Assets of fund

Question 5 collected data on the impact of the contributions surcharge on fund administration costs. Information was also sought on the administration costs attributable to the collection and processing of contributions and on the likely impact on costs of electronic transfer of contributions information from employers.

The remaining detailed questions sought information on both abnormal and regular costs for funds. Information was requested for a comprehensive range of internal and external costs related to both administration and investment management. Funds were also asked to identify the five most important factors influencing the increase/decrease of administration costs in recent years.

### 2.2 Development of the survey instrument

The survey instrument was developed as an electronic form. This form was emailed or sent by disk to ASFA members able to receive such forms. The instrument also was printed out, with some respondents completing it by hand. Where possible the electronic form was fed directly into a facility for compiling results. Other responses were entered manually. All responses were subject to checking for apparent errors, with a number of amendments made after matters were clarified with a number of respondents.

---

## 2.3 Sample and subjects

An email was sent to 300 Ordinary ASFA members with email access and a disk sent to 100 Ordinary ASFA members inviting them to participate in the survey. All funds which participated in the 1997 survey were contacted where possible. ASFA members include Corporate (company) Funds, Public Sector Funds, Industry Funds and organisations that offer Master Trust/Retail funds.

Of the 400 funds which received the questionnaire, 62 completed survey forms were returned, an overall response rate of 10% of ASFA members. The 62 respondents were asked to complete the questionnaire for one or more funds for which they were responsible. The survey covered funds responsible for \$33 billion in assets, about 8% of the overall assets of the superannuation system. The survey did not attempt to gather information on the costs of self managed funds, or for superannuation products which are supported by the statutory funds of life insurance companies.

Coverage by asset level was at around the 15% level for each of corporate, public sector and industry funds. This level of coverage is sufficient to provide a reasonable degree of statistical validity to the results.

Funds were divided into four fund categories: Corporate, Industry, Public Sector and Master Trust/Retail funds.

For analysis purposes, the fund categories were further broken down by size of membership:

- Fewer than 1,000 members
- Between 1,001 and 10,000 members
- Between 10,001 and 30,000 members
- Between 30,001 and 100,000 members
- Over 100,001 members

## 3 PROFILE OF RESPONDENTS

### 3.1 Type and size of funds responding

The most responses were obtained from corporate funds, which form the largest numerical group of superannuation funds (apart from the very numerous self managed funds). Reflecting ASFA's membership, the corporate funds that responded tended to be drawn from the larger corporate funds, although there was a wide range of fund assets and member numbers.

Given the relative large size of most of the industry and public sector funds responding and the lower number of funds in these categories, adequate statistical coverage of these sectors was provided by the sample (Tables 3.1 and 3.2).

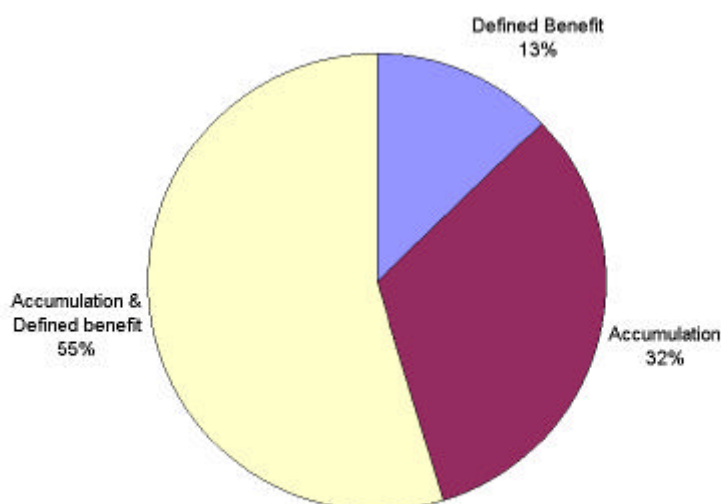
**Table 3.1: No. of Respondents by Fund Type**

Fund Type	Count
Corporate/Enterprise Fund	37
Industry Fund	14
Public Sector Fund	10
Master Trust/Retail Fund	1

**Table 3.2: Fund Membership by Fund Type**

	Minimum	Maximum	Average	Total
Corporate/Enterprise Fund	35	72,163	6,933	256,504
Industry Fund	750	75,000	15,685	219,596
Public Sector Fund	965	350,500	88,029	880,288

#### 3.1.1 Figure 3.2: Type of benefit offered by fund





In total, 32% of respondents offered Accumulation Benefits, 13% offered a Defined Benefit Scheme and 55% offered a combination of an Accumulation and Defined Benefits. The incidence of defined benefit funds in the sample is similar to the overall population of superannuation funds. However, the sample had a greater representation of hybrid schemes (both accumulation and defined benefits) than is the case generally. This is unlikely to have had any marked impact on the results.

### 3.2 Inactive members and exits and entrants

There are significant differences between categories of funds in the proportion of inactive members and in the rate of exits and entrants (Table 3.3).

Corporate funds tend to have few inactive members, and a significant proportion of exits and entrants each year. Industry funds have a large number of inactive members. This can reduce transaction costs for such funds when expressed on a per member basis, but many of the account balances of inactive members are low and there still would be ongoing administration costs associated with such accounts. Public sector funds also have a significant number of inactive members, reflecting the fact that for many such schemes it is not possible or detrimental for a member to rollover a benefit.

**Table 3.3: Movements in fund membership**

	<b>Member type</b>				
	<b>Current</b>	<b>Inactive</b>	<b>Pensioners</b>	<b>Exits</b>	<b>Entrants</b>
Industry Fund	219 596	126 498	230	38 313	69 081
Corporate/Enterprise Fund	256 504	11 472	3 157	32 156	56 282
Public Sector Fund	880 288	314 582	24 643	123 034	159 585

---

## 4 ADMINISTRATION COSTS

The survey data indicate that administration costs per account are strongly related to fund size, but the story is more complicated in regard to investment costs. In regard to the latter, average account balance, aggregate fund size and method of investment are important as well.

In terms of the overall distribution of administration costs, funds with over 100,000 members all had costs per member of less than \$2 per week, with corporate funds in the 1,000 to 10,000 member range typically having costs in the \$4 to \$6 per member per week range (Table 4.1). Most funds surveyed with less than 1,000 members had administration costs of at least \$6 per member per week. For the funds surveyed the minimum aggregate administration cost was around \$90,000, so the fewer the members the higher average administration costs were.

**Table 4.1: Cost per member per week by number of members**

No. of members in Fund	Cost per member per week		
	Minimum	Maximum	Average
Less than 1,000	\$2.88	\$52.15	\$6.64
Between 1,001 and 10,000	\$1.02	\$10.08	\$3.36
Between 10,001 and 30,000	\$0.94	\$3.71	\$2.07
Between 30,001 and 100,000	\$0.80	\$4.62	\$1.56
More than 100,000	\$0.73	\$1.91	\$1.01
<b>Average administration cost per member per week</b>			<b>\$1.66</b>

Some small funds achieved relatively low administration costs per member. One of the corporate funds surveyed with less than 1,000 members had administration costs of just under \$3 per member per week, which was comparable or lower than the costs for some relatively large funds.

The lowest administration cost per member was recorded by a very large public sector fund at only around 75 cents per member per week, but there also were examples of large industry and corporate funds with similar cost levels (Table 4.2). On the other hand, the most expensive administration costs were recorded by small, corporate, defined benefit funds.

One small, defined benefit fund had costs of \$52 per week for the 35 members of the fund. However, it was the employer rather than the members who was paying the costs, and the members were doing very well with average assets per fund member of nearly \$250,000. These administration costs need to be considered in the context of both the costs of alternatives, including retail and self managed fund options, and the expectations of the fund members. A small, defined benefit fund may be more costly to administer, but it will often provide tailored and valuable services and benefits for its members.

---

**Table 4.2: Cost per member per week by type of fund**

<b>Type of Fund</b>	<b>Cost per member per week</b>		
	<b>Minimum</b>	<b>Maximum</b>	<b>Average</b>
Corporate/Enterprise Fund	\$0.94	\$52.15	\$2.40
Industry Fund	\$0.80	\$6.92	\$1.65
Public Sector Fund	\$0.73	\$6.75	\$1.41
<b>Average administration cost per member per week</b>			<b>\$1.66</b>

---

## 5 MAIN CATEGORIES OF ADMINISTRATION AND INVESTMENT COSTS

### 5.1 Administration costs

Fund administration is labour intensive. For most funds surveyed labour and labour related costs in their various forms amounted to at least 50% of administration costs (Tables 5.1 to 5.6). Funds can and do choose to contract out administration, but any such contracting out has a large proportion of labour costs contained in it.

Computer costs ranged between 5% and 15% of the total costs of funds that self administered. In the case of externally administered funds such costs are included in the overall fee charged for administration. Rental and occupancy costs tended to fall within a range of 5% to 10% of total costs for self administered funds. In essence much of superannuation fund administration is about transaction processing with large inputs of both labour and computer systems and some professional advice and review.

Professional fees, particularly actuarial and superannuation consulting fees, can be significant for some superannuation funds. For corporate schemes they can be 10% or more of total scheme administration costs, but for public sector schemes they amount to only about 1% of administration costs. There are likely to be economies of scale for large public sector funds in seeking actuarial and other advice.

Communication with members is also another major expense item. For both industry funds and corporate funds the average costs was around 5% of total administration costs. The public sector funds surveyed spent somewhat less on communications with only around 2% of administration costs attributed to this.

For some funds communication costs will be heavily influenced by printing and mailing costs, while for others electronic distribution and internal mail may assist in containing costs. A single employer corporate fund or public sector fund may well have a different relationship with its members in terms of access compared to multi-employer industry fund. The appropriate level of funding for communication and the best ways of communicating with members are ongoing issues for funds.

Debt collection associated with arrears of contributions is a significant item for some funds, but not surprisingly corporate funds reported no expenditure on this. However, one scheme which identified as a public sector fund reported debt collection expenditure. Some public sector funds, particularly in the utilities sector, now have a range of private sector employer sponsors as well as their traditional public sector sponsor. Industry funds devoted around 0.5% of administration costs to debt and arrears collection, reflecting the diverse nature of the employers they deal with and the payment practices of some employers.

---

## 5.2 Investment costs

As noted above, average account balance, aggregate fund size and method of investment are important in determining the absolute level of investment costs and the cost per account. In particular there will be differences between funds in their ability to specifically report on investment costs. For some categories of investments used by funds, such as group life policies, investment charges are imbedded in the overall return that is received and it may not be possible to provide from the accounts of the fund an estimate of these charges. As well, apart from the inherent difficulties of analysing investment costs, the survey only provides limited information on investment costs.

However, the survey data indicate that reported investment costs are very reasonable relative to the funds under management. Investment costs, based on the responses to the survey of specific costs, were on average 18 basis points for public sector funds, 25 basis points for industry funds and 37 points for corporate funds. As with administration costs, there are economies of scale with investment costs. These investment costs are low relative to those typically paid by investors at the retail level.

However, it should be noted that other sources of information on investment costs show higher levels of costs in basis points terms, although the pattern of costs between different types of funds is similar. It is likely that there is a level of under-reporting of investment costs in the survey responses. This is not surprising given that some investment costs are included in the net return from investments, and/or are difficult to report on in surveys of the type conducted. Section 7 uses secondary sources of information on investment costs to calculate aggregate investment costs for the various industry sectors and for superannuation funds in aggregate. Nevertheless, the survey responses are useful in providing a breakdown of investment costs that is not available from aggregate basis points estimates.

The survey responses indicate that the vast bulk of investment costs involve salaries of investment staff and investment management fees. Less than 10% of investment costs were attributed to computers and rental and occupancy. Small funds generally are not in a position to have their own investment staff, and investment expenses for such funds relate solely to investment management fees. For large funds there is also considerable reliance on investment managers, but some funds employ their own investment staff in addition to or instead of contracted investment managers.

Investment costs exceeded administration costs for the corporate funds surveyed by a factor of nearly 2 to 1, but for public sector and industry funds admin costs were a little higher in aggregate terms than investment costs. This would be partly explained by corporate funds having relatively high average account balances compared to industry funds, but relatively low aggregate investment mandates compared to public sector funds. However, in an increasingly competitive investment management market it is likely that corporate funds will be able to bring down their investment costs.

**Table 5.1: Major categories of costs by type of fund**

	<b>Public Sector Funds</b>	<b>Industry Fund</b>	<b>Corporate/Enterprise Schemes</b>
Admin Staff Salaries	24.2%	14.2%	11.8%
External Admin fee	15.6%	21.0%	5.8%
Computers & Rent	11.6%	3.1%	3.7%
Consulting, Comm & Other	10.9%	21.9%	12.1%
<b>Total Admin Costs</b>	<b>62.2%</b>	<b>60.3%</b>	<b>33.4%</b>
Investment	27.1%	33.3%	60.4%
Rent, Computer & Other	10.8%	6.4%	6.3%
<b>Total Investment Costs</b>	<b>37.8%</b>	<b>39.7%</b>	<b>66.6%</b>

**Table 5.2: Costs per member per week for all funds (\$)**

Scheme Costs	No. of members in Fund				
	Less than 1000	1001 to 10,000	10,001 to 30,000	30,001 to 100,000	More than 100,000
Admin Staff Salaries	2.77	1.07	0.56	0.74	0.32
External Administrators Fee	1.17	0.68	0.52	0.11	0.49
Computer	0.08	0.16	0.21	0.27	0.06
Rental and Occupancy	0.06	0.09	0.11	0.07	0.04
Professional fees	0.47	0.05	0.00	0.01	0.03
Actuarial/Superannuation Consulting	0.70	0.36	0.10	0.01	0.00
Audit	0.27	0.10	0.03	0.03	0.01
Legal	0.12	0.08	0.05	0.01	0.00
Other accounting/taxation fees	0.12	0.05	0.04	0.01	0.00
Other consulting advice	0.00	0.07	0.06	0.01	0.01
Debt and arrears collection	0.00	0.00	0.01	0.00	0.00
Communication	0.15	0.15	0.13	0.07	0.01
Training and Development (Trustees and Staff)	0.05	0.03	0.01	0.02	0.00
Travel and Accommodation (Trustees and Staff)	0.12	0.07	0.03	0.01	0.01
Other expenses	0.55	0.39	0.21	0.20	0.02
<b>Total Administration Costs</b>	<b>5.81</b>	<b>3.24</b>	<b>2.06</b>	<b>1.56</b>	<b>1.01</b>
Investment Staff (Including on costs)	0.00	0.26	0.15	0.05	0.00
Computer Hardware/Software/Depreciation	0.00	0.01	0.02	0.01	0.00
Rental and Occupancy	0.00	0.03	0.01	0.00	0.00
Investment Managers Fees	4.83	3.00	3.83	0.95	0.23
Custodian Fees	0.01	0.27	0.26	0.13	0.02
Professional fees	0.03	0.22	0.08	0.05	0.06
Other expenses	0.00	0.11	0.27	0.03	0.00
<b>Total Investment costs</b>	<b>4.86</b>	<b>3.75</b>	<b>4.55</b>	<b>1.21</b>	<b>0.33</b>
<b>Total Scheme costs(a)</b>	<b>18.61</b>	<b>7.12</b>	<b>6.62</b>	<b>2.78</b>	<b>2.05</b>

(a) Totals do not add from sub totals due to some respondents answering for totals but not the components.

**Table 5.3: Costs per member per week for corporate schemes**

Scheme Costs	No. of members in Fund			
	Less than 1000	1001 to 10,000	10,001 to 30,000	30,001 to 100,000
Admin Staff Salaries	\$2.81	\$1.19	\$0.51	\$0.81
External Administrators Fee	\$1.24	\$0.65	\$0.50	\$0.00
Computer	\$0.08	\$0.22	\$0.14	\$0.15
Rental and Occupancy	\$0.05	\$0.09	\$0.11	\$0.10
Professional fees	\$0.31	\$0.07	\$0.00	\$0.00
Actuarial/Superannuation Consulting	\$0.68	\$0.41	\$0.14	\$0.03
Audit	\$0.31	\$0.11	\$0.03	\$0.04
Legal	\$0.14	\$0.08	\$0.06	\$0.02
Other accounting/taxation fees	\$0.10	\$0.06	\$0.06	\$0.02
Other consulting advice	\$0.00	\$0.03	\$0.08	\$0.00
Debt and arrears collection	\$0.00	\$0.00	\$0.00	\$0.00
Communication	\$0.14	\$0.14	\$0.15	\$0.08
Training and Development (Trustees and Staff)	\$0.02	\$0.02	\$0.01	\$0.02
Travel and Accommodation (Trustees and Staff)	\$0.06	\$0.05	\$0.04	\$0.01
Other expenses	\$0.63	\$0.29	\$0.23	\$0.22
<b>Total Administration Costs</b>	<b>\$5.95</b>	<b>\$3.34</b>	<b>\$2.04</b>	<b>\$1.51</b>
Investment Staff (Including on costs)	\$0.00	\$0.24	\$0.11	\$0.17
Computer Hardware/Software/Depreciation	\$0.00	\$0.01	\$0.01	\$0.04
Rental and Occupancy	\$0.00	\$0.03	\$0.00	\$0.01
Investment Managers Fees	\$6.42	\$3.26	\$5.28	\$3.32
Custodian Fees	\$0.01	\$0.37	\$0.24	\$0.42
Professional fees	\$0.04	\$0.20	\$0.11	\$0.01
Other expenses	\$0.00	\$0.05	\$0.01	\$0.01
<b>Total Investment costs</b>	<b>\$6.47</b>	<b>\$4.06</b>	<b>\$5.73</b>	<b>\$3.98</b>
<b>Total Scheme costs (a)</b>	<b>\$12.22</b>	<b>\$7.40</b>	<b>\$7.77</b>	<b>\$5.49</b>

*(a) Totals do not add from sub totals due to some respondents answering for totals but not the components.*

**Table 5.4: Costs per member per week for industry funds**

Scheme Costs	No. of members in fund			
	Less than 1000	1001 to 10,000	10,001 to 30,000	30,001 to 100,000
Admin Staff Salaries	\$1.08	\$0.85	\$0.13	\$0.28
External Administrators Fee	\$2.21	\$0.72	\$1.23	\$0.33
Computer	\$0.00	\$0.06	\$0.02	\$0.04
Rental and Occupancy	\$0.00	\$0.10	\$0.03	\$0.03
Professional fees	\$2.21	\$0.03	\$0.00	\$0.00
Actuarial/Superannuation Consulting	\$0.97	\$0.29	\$0.02	\$0.00
Audit	\$0.05	\$0.07	\$0.02	\$0.01
Legal	\$0.05	\$0.07	\$0.02	\$0.00
Other accounting/taxation fees	\$0.00	\$0.03	\$0.02	\$0.00
Other consulting advice	\$0.00	\$0.15	\$0.01	\$0.01
Debt and arrears collection	\$0.00	\$0.00	\$0.04	\$0.00
Communication	\$0.18	\$0.16	\$0.12	\$0.06
Training and Development (Trustees and Staff)	\$0.03	\$0.04	\$0.01	\$0.00
Travel and Accommodation (Trustees and Staff)	\$0.00	\$0.07	\$0.02	\$0.01
Other expenses	\$0.15	\$0.55	\$0.34	\$0.15
<b>Total Administration Costs</b>	<b>\$3.64</b>	<b>\$3.00</b>	<b>\$1.97</b>	<b>\$0.93</b>
Investment Staff (Including on costs)	\$0.00	\$0.33	\$0.05	\$0.00
Computer Hardware/Software/Depreciation	\$0.00	\$0.02	\$0.00	\$0.00
Rental and Occupancy	\$0.00	\$0.02	\$0.00	\$0.00
Investment Managers Fees	\$0.00	\$1.73	\$2.26	\$0.08
Custodian Fees	\$0.00	\$0.16	\$0.00	\$0.03
Professional fees	\$0.00	\$0.23	\$0.07	\$0.01
Other expenses	\$0.00	\$0.22	\$0.01	\$0.00
<b>Total Investment costs</b>	<b>\$0.00</b>	<b>\$2.70</b>	<b>\$2.40</b>	<b>\$0.12</b>
<b>Total Scheme costs (a)</b>	<b>\$0.00</b>	<b>\$5.80</b>	<b>\$4.42</b>	<b>\$1.05</b>

*(a) Totals do not add from sub totals due to some respondents answering for totals but not the components.*



**Table 5.5: Costs per member per week for public sector schemes**

Scheme Costs	No. of members in Fund				
	Less than 1000	1001 to 10,000	10,001 to 30,000	30,001 to 100,000	More than 100,000
Admin Staff Salaries	\$3.86	\$1.34	\$1.02	\$1.08	\$0.22
External Administrators Fee	\$0.00	\$0.76	\$0.00	\$0.00	\$0.33
Computer	\$0.13	\$0.12	\$0.53	\$0.58	\$0.04
Rental and Occupancy	\$0.18	\$0.15	\$0.16	\$0.10	\$0.02
Professional fees	\$0.00	\$0.00	\$0.02	\$0.01	\$0.02
Actuarial/Superannuation Consulting	\$0.58	\$0.41	\$0.07	\$0.01	\$0.00
Audit	\$0.23	\$0.16	\$0.03	\$0.04	\$0.01
Legal	\$0.03	\$0.09	\$0.07	\$0.01	\$0.00
Other accounting/taxation fees	\$0.32	\$0.01	\$0.03	\$0.02	\$0.00
Other consulting advice	\$0.00	\$0.00	\$0.04	\$0.03	\$0.00
Debt and arrears collection	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Communication	\$0.23	\$0.19	\$0.09	\$0.08	\$0.01
Training and Development (Trustees and Staff)	\$0.24	\$0.03	\$0.02	\$0.03	\$0.00
Travel and Accommodation (Trustees and Staff)	\$0.50	\$0.23	\$0.00	\$0.02	\$0.00
Other expenses	\$0.46	\$0.39	\$0.09	\$0.31	\$0.02
<b>Total Administration Costs</b>	<b>\$6.75</b>	<b>\$3.89</b>	<b>\$2.17</b>	<b>\$2.33</b>	<b>\$0.68</b>
Investment Staff (Including on costs)	\$0.00	\$0.00	\$0.33	\$0.04	\$0.00
Computer	\$0.00	\$0.00	\$0.04	\$0.00	\$0.00
Hardware/Software/Depreciation					
Rental and Occupancy	\$0.00	\$0.00	\$0.04	\$0.00	\$0.00
Investment Managers Fees	\$0.00	\$9.45	\$1.75	\$0.92	\$0.15
Custodian Fees	\$0.00	\$0.02	\$0.52	\$0.12	\$0.02
Professional fees	\$0.00	\$0.32	\$0.01	\$0.13	\$0.04
Other expenses	\$0.00	\$0.00	\$1.08	\$0.08	\$0.00
<b>Total Investment costs</b>	<b>\$0.00</b>	<b>\$8.02</b>	<b>\$3.58</b>	<b>\$1.29</b>	<b>\$0.22</b>
<b>Total Scheme costs (a)</b>	<b>\$6.75</b>	<b>\$13.67</b>	<b>\$5.75</b>	<b>\$3.62</b>	<b>\$1.37</b>

(a) Totals do not add from sub totals due to some respondents answering for totals but not the components.

---

## 6 DEVELOPMENTS IN ADMINISTRATION AND INVESTMENT COSTS

### 6.1 Aggregate costs compared to previous years

As well as providing detailed costs data for 1997-98, funds were asked to provide information on both aggregate administration costs and aggregate investment costs for each of the preceding 5 years.

The survey results suggest that aggregate administration costs of corporate and public sector funds decreased between 1996-97 and 1997-98, while aggregate costs for industry funds showed a steady increase (Table 6.1). One-off surcharge costs in 1996-97 for corporate and public sector funds may have had something to do with this.

In contrast, investment costs were up sharply in 1997-98 for the funds surveyed. Reported investment costs were up by 34% for industry funds, by 11% for corporate funds and by 16% for public sector funds. However, these increases are more reasonable when the increase in the level of assets managed is considered. The industry funds in the survey reported an 18% increase in assets, while the figures for corporate funds and public sector funds were 7% and 15% respectively.

Changes in reporting practices and changes in the usage of certain types of investments also would have had an impact. Some investment products, such as life policies, have investment charges built into them. While purchasers of such products are aware of such charges they may not be in a position to quantify them, or report them in a response to a survey. With improved levels of disclosure, and greater use of investment products for which specific management charges are made, reported investment costs might have risen more quickly than actual underlying investment costs.

**Table 6.1 Percentage change in costs between 1996-97 and 1997-98**

	<b>Administration</b>	<b>Investment</b>	<b>Total Costs</b>
Corporate/Enterprise	-4.6%	11.6%	5.4%
Industry	14.8%	15.6%	15.1%
Public Sector Fund	-21.7%	16.1%	-10.7%

### 6.2 Factors impacting on movement in costs

Respondents were asked to identify the factors influencing the level of administration costs incurred by their fund. A clear majority of respondents identified legislative and tax changes as the factors having the most important impact on costs. Communication with members and the need for specialist advice also were significant factors for many respondents (Table 6.2). Activities in these latter areas might also have been influenced by the legislative changes that had occurred.

Rationalisation of fund arrangements was significant for some funds, but it was a large factor for only a very few funds. Communications with members led to significant increases in administration costs for a substantial minority of funds, but was not a major factor for other funds.

**Table 6.2 Important factors influencing the increase or decrease in administration costs**

Factors	Rating of Importance (1 – the most important, 7-the least)						
	1	2	3	4	5	6	7
Legislative/Regulation Changes	35%	21%	23%	20%	4%	16%	0%
Need for Specialist advice	11%	28%	32%	9%	16%	5%	0%
Tax Regulations & Changes	22%	23%	25%	25%	18%	5%	0%
Communications with Members	18%	19%	12%	24%	22%	5%	17%
Computing Requirements	9%	9%	5%	18%	29%	32%	0%
Funds Rationalisations	2%	0%	0%	4%	9%	37%	67%
Other	4%	0%	4%	0%	2%	0%	17%

### 6.3 Consequences for administration costs flowing from the Surcharge

Previous ASFA survey work has identified the cost to funds of initial compliance with the contributions surcharge. This survey sought information about any ongoing increase in administration costs attributable to the surcharge.

Around 90% of respondents reported increased ongoing administration costs due to the surcharge. Most reported a cost increase between zero and 5%, but over one in ten respondents reported cost increases in excess of 10% due to the surcharge (Table 6.3).

**Table 6.3 Percentage of total respondents reporting increase in administration costs attributable to the Surcharge**

Cost increase	0-5%	5-10%	greater than 10%
Corporate/Enterprise Fund	35%	11%	8%
Industry Fund	13%	5%	0%
Public Sector Fund	13%	0%	2%

### 6.4 Electronic commerce

Information was sought from respondents on the potential impact of electronic commerce on fund administration costs and on the proportion of fund activities accounted for by transactions that might be assisted by certain forms of electronic commerce.

Specifically, funds were asked what proportion of their costs currently are attributable to collection and processing of contributions (Table 6.4). Many funds, particularly corporate funds, reported that the proportion was less than 5%, but for some funds, particularly industry funds, 20, 30 or even 50% of costs were attributed to such tasks.

Most respondents considered that electronic transfer of contributions information and funds from employers had the potential to decrease administration costs between zero and 5%, although around 20% of the respondents considered that cost reductions of more than 10% might be possible (Table 6.5).

Greater use of automated systems may assist with reducing costs in other areas, such as responding to member questions, payment of ETPs and associated regulatory reporting. In regard to the latter, the funds typically reported exits of members of 15% or more of fund membership each year. Payments also are rolled into most of the funds on a regular and substantial basis.

The electronic commerce program currently being supported by ASFA and IFSA is expected to cover standards for a range of activities: member and employer registration, contributions data, fund rollovers, employee ETP rollovers, financial EDI and transfers of information to regulators. Implementation of the full range of electronic solutions might considerably reduce costs. This will not of course happen overnight, but it is a longer term goal.

**Table 6.4 Proportion of the administration costs attributable to the collection and processing of contributions**

<b>Fund Type</b>	<b>Average (%)</b>
Corporate/Enterprise Fund	10.4
Industry Fund	29.0
Public Sector Fund	13.1

**Table 6.5 Estimated cost savings flowing from electronic transfer of contributions information**

<b>Fund Type</b>	<b>0-5%</b>	<b>5-10%</b>	<b>Greater than 10%</b>
Corporate/Enterprise Fund	59%	3%	16%
Industry Fund	43%	36%	14%
Public Sector Fund	80%	0%	10%

---

## 7 Aggregate administration and investment costs

### 7.1 Aggregate administration costs

Table 7.1 below uses data from the ASFA survey together with other available data and estimates to give an overall picture of administration costs in the superannuation sector. The data suggest that aggregate administration costs for superannuation in 1997-98 were of the order of \$2.1 billion. While this is a considerable sum it has to be seen in the context of the 18.4 million accounts in superannuation funds and the \$360 billion in assets in funds as at June 1998.

**Table 7.1 Aggregate administration costs by type of fund, June 1998**

Type of fund	Members at June 1998 (million)	Annual administration costs per member (\$)	Total administration costs (\$ million)
Industry	5.476	86	470
Corporate	1.292	125	160
Public sector	2.839	54	155
Retail (excluding RSAs and ERFs)	6.3	170(a)	1070
Retirement Savings Accounts	0.25	90(b)	25
Eligible Rollover Funds	1.6	13(c)	20
Excluded funds	0.334		220(d)
<b>Total</b>	<b>18.4</b>		<b>2120</b>

(a) estimated on the basis of June 1997 ISC estimates for master trusts

(b) estimated by ASFA Research Centre

(c) APRA Bulletin December quarter 1998

(d) Estimated by ASFA Research Centre

While retail funds of various types account for over half of the estimated administration costs of superannuation, this is largely a function of there being over 8 million retail accounts out of the total 18.4 million member accounts. The administration costs of Eligible Rollover Fund accounts are very low at around \$13 per account per year, but the average administration costs of other retail accounts are higher than the average for the sector as a whole.

The higher costs of the bulk of the retail sector do not necessarily reflect any inefficiency given that the administration in most instances is carried out by the same or similar organisations that provide administration services for other categories of superannuation funds. However, providers of retail products take their profit in part by a margin on administration costs, and there also are the costs of maintaining a sales network for a large part of the retail product range.

At an average cost per account of \$115 per year and given multiple account holdings, which are common in the current system, costs can mount up for individuals and society as a whole.

## 7.2 Aggregate investment costs

The cost of investment management (expressed in terms of a percentage of assets) generally decreases with the total assets of corporate, public sector and industry funds, although investment mix will also have an impact.

There are significant differences between wholesale and retail management expense ratios. A large retail fund may have a considerable amount of assets in aggregate and is in a position to achieve relatively low investment costs through use of in-house or external investment managers. However, it is customary for investment charges deducted from account balances to be based on individual account balances or the group balance for an employer where a master trust arrangement is used.

Table 7.2 uses a range of available data and estimates to give an overall picture of investment management costs in the superannuation sector. The data suggest that aggregate investment management costs for superannuation in 1997-98 were of the order of \$2.5 billion.

**Table 7.2 Aggregate investment management costs by type of fund, June 1998**

Type of fund	Assets at June 1998 (\$ billion)	Costs per member per year in ASFA survey (\$)	Total investment costs (\$ million)
Industry	24.1	57	120(a)
Corporate	64.3	249	390(a)
Public sector	79.6	33	320(a)
Retail (excluding RSAs and ERFs)	89		1510(b)
Retirement Savings Accounts	0.5		5(c)
Eligible Rollover Funds	1.3		10(c)
Excluded funds	42.4		105(d)
<b>Total</b>	<b>358</b>		<b>2460</b>

(a) estimated using average MERs reported in 1998 *Superfunds* sectoral surveys. Assumed MER for industry funds is 50 basis points, for public sector funds it is 40 basis points, and for corporate funds 60 basis points.

(b) estimated on the basis of average investment costs of 1.7% per annum

(c) estimated by ASFA Research Centre

(d) estimated on the basis of average investment costs of 0.25% per annum. The average reflects excluded fund use of both direct asset holdings and relatively high cost retail investment products.

---

## 7.3 Aggregate administration and investment costs

On the basis of the preceding analysis aggregate investment and administration costs for superannuation funds were of the order of \$4.6 billion a year as at June 1998 (Table 7.3).

**Table 7.3 Aggregate administration and investment costs by type of fund, June 1998**

Type of fund	Members at June 1998 (million)	Assets at June 1998 (\$ billion)	Total costs (\$ million)
Industry	5.476	24.1	590
Corporate	1.292	64.3	550
Public sector	2.839	79.6	470
Retail (excluding RSAs and ERFs)	6.3	89	2 585
Retirement Savings Accounts	0.25	0.5	30
Eligible Rollover Funds	1.6	1.3	30
Excluded funds	0.334	42.4	325
<b>Total</b>	<b>18.4</b>	<b>358</b>	<b>4 580</b>

These aggregate figures are of a similar magnitude, but a little lower, that estimate prepared by Phillips Fox Actuaries showing aggregate current charges of \$4,989 million. If ASFA prepared an estimate for June 1999 it would need to reflect growth in asset values and the number of member accounts between June 1998 and June 1999, offset by any fall in investment charges over the period. The similarity in overall results is not surprising given that the same data sources were used for some items, with Phillips Fox using 1998 ASFA data for at least one item.

## Appendix: Funds Responding to survey

<b>Fund Name</b>
Alcoa Of Australia Retirement Plan Limited
Anglican Superannuation Australia
Australian Hardware & Timber Industries Super Plan
AvSuper
BHP Superannuation Fund
BOC Gases Superannuation Fund
Boral Employees Superannuation Trust
Building Unions Superannuation Scheme (QLD)
Bundaberg Sugar Ltd Superannuation Plan
Catholic Superannuation Fund
CCA Beverages Superannuation Plan
Christian Schools Superannuation Fund
Colonial Select Superannuation Plan
Combined Schools Superannuation Fund
Crane Group Retirement Fund
Crane Group Superannuation Scheme
CSR Employees' Retirement Fund
CSR Staff Superannuation Fund
CUE Super Plan
Email Group Superannuation Fund
Equisuper Pty Ltd (formerly VEI Super)
ETSA Contributory and Non-Contributory Superannuation Schemes
First State Superannuation Fund
Goodman Fielder Staff Fund
Goodman Fielder Superannuation Fund
Hannover Life Re of Australasia Ltd Superannuation Plan
Hospitals Superannuation Fund ( Health Super Fund from 1 January 1999)
Local Authorities Super Pty Ltd
Local Authorities Super Pty Ltd
LUCRF
Medical & Associated Professions Salaried Officers Super Fund
MIM Staff Superannuation Plan
Mobil Employee Retirement & Benefits Plan
National Australia Bank Group Superannuation Fund A78
National Mutual Staff Superannuation Plan
Nissan Exececutive Superannuation Trust
Pilkington (Australia) Superannuation Scheme
Professional Employees Superannuation Fund
Public Sector Superannuation Scheme (PSS)
QANTAS Superannuation Plan
QBE Group Staff Superannuation Plan
QCOS-Qld Coal & Oil Shale Mining Industry Super Fund
QSuper



---

Quadrant Superannuation
Queensland Alumina Management Staff Superannuation Fund
Queensland Alumina Wages Employees Superannuation Fund
Reckitt & Colman (West Ryde) Award Superannuation Fund
Stevedoring Employees Retirement Fund
Sydney Diocesan Superannuation Fund
Telstra Superannuation Scheme
The Victorian Independent Schools Superannuation Fund
Uniting Church in Australia Beneficiary Fund
Uniting Church Superannuation Plan
Western Australian Fire Brigades Superannuation Fund
Westscheme
Woodside Superannuation Fund