

July 2022

Superannuation Annual Members' Meeting Notices

Public scrutiny of super fund spending is crucial to ensure the system is delivering for people. Transparency promotes good governance, reduces information imbalances, and creates an informed public discussion about the appropriateness of superannuation fund spending. The superannuation market lacks many of the characteristics that drive market efficiency, making it more important that fund members and the broader public are equipped with the right information to keep funds accountable.

Neither aggregate nor itemised expenditure disclosure alone will deliver adequate scrutiny. What is most important is that disclosure be coupled with quantifiable justifications of how the expenditure is directly benefiting members of the fund. For example, knowing the advertising spend for a single television advertisement helps members less than knowing the marketing spend on a particular campaign and how it directly and quantifiably benefited members.

Enshrining obligations to justify expenditure in the regulations will lead to a more efficient use of member money and a more grounded and informed public debate about superannuation fund expenditure

Annual Members' Meetings are one of the few ways members can exert pressure on their funds directly. In making regulations about super fund disclosure requirements, the Federal Government must ensure people are equipped with clear, concise and *effective* information; without this these meetings risk descending into pantomime.

Funds don't have a good track record in being able to justify expenditure. APRA's 2021 thematic review found a "lack of evidence of clear metrics to assess the benefits of marketing expenditure to their members.". Over time, we recommend APRA develop common metrics to measure the costs and benefits derived from these expenditure categories.

We also support a requirement on APRA to collate these public disclosures and justifications in a central report, to inform public debate and allow relevant comparisons between funds according to their size, level of expenditure and member benefits. APRA collects and will soon start publishing more data about fund expenses. We see significant benefits in detailed expense data being centrally published by APRA. We look forward to engaging with APRA's further consultation on this issue in the coming months.

The goal of Annual Member Meetings disclosures

The goal of the Annual Members' Meeting requirements is to provide members with simple and clear information that will empower them to effectively engage with trustees during the meeting and hold trustees accountable for member outcomes. Despite industry complaints of regulatory burden, we have not seen any concrete evidence to substantiate this notion. As part of this consultation we expect superannuation funds to provide credible evidence of the cost of disclosure. This will allow public scrutiny of the merits of moving to aggregated disclosure only. A proper balance needs to be struck between the cost of disclosure with the value this disclosure would deliver in scrutinising fund spending. We would also encourage the Federal government to consider low cost disclosure options, such as digital only notices, to reduce cost on superannuation funds while maintaining adequate disclosure.

The best financial interests of fund members need to be the driving purpose in weighing fund disclosure. The cost of unchecked spending has a significant impact on members and we need greater scrutiny of the justification of certain expenditure to drive better member outcomes.

The cost of unchecked spending

There has been a lack of transparency and accountability over fund spending. APRA's review of fund expenditure in October 2021 raised questions about how marketing and sponsorship expenditure benefits members. That review analysed the decision making of 12 funds in relation to \$87 million spent on marketing between 2018 and 2020.

APRA's view was that "given the YFYS reforms, some instances of expenditure examined did not have sufficient evidence to demonstrate that the expenditure would be in the best financial interests of members."¹ They found:

- a lack of evidence of clear metrics to assess the benefits of marketing expenditure to their members;
- limited evidence of ex-post review to demonstrate that the marketing expenditure has achieved its intended outcomes, again including the benefit to members; and
- an over-reliance on aggregate, or high level, considerations of marketing expenditure impact (e.g. changes in membership numbers) without demonstration of specific improved outcomes for members.²

Mere disclosure of expenditure (whether itemised or aggregate) will not, on its own, solve these problems. Funds need to improve their analysis and justification of expenditure. Requiring funds

¹ Findings from APRA's superannuation thematic reviews, p16, October 2021

² Findings from APRA's superannuation thematic reviews, p16, October 2021

to justify expenditure to members will ensure a higher degree of accountability. The Annual Members' Meeting notice is an appropriate mechanism via which this can occur.

Annual Member Meetings are not working to provide accountability about expenses

Some information about aggregate level expenses is already in the public domain, such as through annual reports. We have seen examples of members using this information at AMMs to ask questions about expenditure. Consistent with APRA's findings the example below highlights how a fund fails to answer a question from a member, instead relying on high level considerations rather than being able to demonstrate specific benefits to members.

In one fund's most recent Annual Members' Meeting, they were asked to explain their aggregate \$16.3 million expenditure on marketing and sponsorship.³ The member asked:

(The fund) spends enormous amounts of members' funds on sports sponsorship. These resources could be better used to update online systems and improving customer support. When will (the fund) management rebalance the use of members' resources? 13.3% or \$16.3m of Admin expenses relate to marketing and sponsorship. What is the cost of current sporting sponsorship and how many such contracts? What independent cost/benefit has been undertaken to justify and the dollar returned for dollar spent?

The entire response provided nothing concrete or measurable and did not answer the question. The fund's reply was:

At (our fund), our primary goal as trustee of the Superannuation Fund is to optimise member financial outcomes for retirement.

In order to achieve that paramount objective, (the fund) has in place a detailed set of documented strategic plans and objectives. Those plans and objectives are continually reviewed and optimised by our executive and Board over time to reflect changes in member needs, economic conditions and regulatory requirements.

As part of our strategic objectives, we recognise and act on the basis that one of the most effective and efficient ways to optimise member financial outcomes is to attract and retain members, which in turn increases funds under management and resultant scale of the Fund.

(The fund) has developed and analysed objective data which demonstrates that greater scale in the Fund, and the resultant improved economic efficiencies and financial resources, delivers tangible financial outcomes for our members in their retirement.

³ [Minutes and Q&As of the 2021 Annual Members' Meeting. p26. December 2021](#)

By way of example, increased scale allows us to invest in innovative product development and services, invest in proven asset classes such as unlisted infrastructure that are in the best financial interests of our members, whilst at the same time keeping our administration fees low. Together, these outcomes are designed to result in a higher net return to members.

Increased brand awareness and association is critical in achieving the above outcomes in the best financial interest of members. (The fund) operates in a highly concentrated and competitive superannuation market, where Australians are rightfully being encouraged to actively choose their preferred fund. By increasing our brand awareness, we are able to ensure that, when making that very important decision, the Fund offering — including our strong long-term performance and low fee model — is front of mind.

(The fund) has in place documented and rigorous governance processes to ensure our marketing program, including partnerships with sporting and other industry organisations, is appropriately adapted towards delivering tangible financial outcomes for our members.

Part of those governance procedures and protocols includes ensuring that any sporting partnerships that we enter into are carefully selected and regularly monitored to deliver a high level of positive brand exposure — particularly as compared to other mainstream media like TV and Radio.

Given the commercial-in-confidence nature relating to a number of these contracts and arrangements, and the competitive advantages and intellectual properties attached to the arrangements, (The fund) does not publicly disclose the exact amounts spent on sponsorships for sporting codes such as the AFL or specific teams.

Importantly, these costs are not derived from the Fund's investment returns and therefore does not reduce the net return delivered to members. Rather, all marketing and partnership costs are funded entirely from our low account-based administration fee.

As APRA's thematic report found, this type of response lacks any clear metrics that would allow a member to actually scrutinise the benefits of the expenditure. The considerations are so high level as to be useless. A fund should be in a position to inform members of exactly how the spending translated into member retention and new customer flows and how these changes in membership numbers materially benefited members. To enable this the Federal Government should amend the regulations to require a fund to quantify the benefits that flow to members under each of the proposed expenditure categories.



Super Consumers Australia's work

In February 2021, Super Consumers Australia identified a small number of funds that had an upcoming Annual Members' Meeting for the 2021 financial year. This group contained a portion of products which were deemed underperforming.⁴ We attempted to ask the following questions on expenditure to these funds:

- Do your staff attend industry superannuation conferences? How much does this cost and how do you justify it? What are the prices of these conferences compared to other industry conferences?
- Do you have evidence that any marketing spend you have is in the best financial interests of members? For example, can you demonstrate the average number of members you acquire per marketing dollar spend?
- Other funds have stated they have documented and rigorous governance processes to ensure their marketing program, including partnerships with sporting and other industry organisations, is appropriately adapted towards delivering tangible financial outcomes for members. Do you do this? Can you share that with members?
- It has been found that at least \$42 million a year of members' money is spent by super funds on major super lobby groups. Do you contribute to one of the main lobby groups and how do you consider this amount to be in the best financial interests of members?

None of the funds we wrote to provided a response to these questions at their meeting. These are reasonable questions that any fund should have turned its mind to and provide a response to its members. The fact that they all failed to respond speaks to the need to have strong regulations which require a fund to disclose this information. Without this fund members and consumer advocates are not in a position to apply adequate scrutiny to fund expenditure.

The need for more scrutiny of fund expenses

As it stands, the best financial interest duty and record keeping requirements would require a fund to provide evidence to APRA on the value expenditure is delivering to members. It is up to the regulator to assess this evidence behind closed doors. Establishing an opaque system that requires the regulator to act alone in assessing member outcomes misses an opportunity for consumers and consumer advocates to hold funds accountable directly. We can see from the public transparency created by measures such as the Your Future, Your Super performance test, how important public scrutiny is to the proper functioning of the superannuation sector. The reputational risk of failing the test against an objective measurable test led to underperforming

⁴ These questions were submitted via the process set out by each fund in the month of February. This included through online portals and directly via email. The list includes Bendigo Super, AMP, Media Super, EISS, BT, Macquarie Superannuation Plan, MLC and UniSuper.



funds taking decisive action to remedy their failure. This type of public scrutiny supports the work of the regulator and helps deliver a healthier market.

By the same token, simply disclosing expenditure in either aggregate or itemised form is unlikely to drive significant improvement. Prior to the heatmaps and performance test we knew key information about a fund's performance, such as its fees and returns, but disclosure alone failed to see funds address chronic underperformance. This changed when they were required to compare themselves to an objective standard in the performance test and the metrics in the heatmaps. This is the type of scrutiny that needs to be applied to expenditure if we want to focus on member outcomes. Requiring funds to justify their expenditure, via a cost-benefit analysis, would provide this much needed scrutiny.

As part of the Annual Members' Meeting notice, funds should explain the measurable benefits members are expected to derive from aggregate expenditure decisions, justifying their rationale. For example, for marketing expenses, trustees could identify the expected benefits in terms of member growth or member retention. They should then quantify how this growth and retention leads to tangible benefits, such as cost savings due to scale. Failure to do this should be a red flag to regulators and members alike, the resulting scrutiny should drive improvements in the market.

Recommendation:

The Notice of an Annual Members' Meeting to members should outline the measurable benefits to members alongside the aggregate expenditure category.

Collating public disclosure in a central report

Annual Members' meetings are just one part of the transparency framework for superannuation. Funds are also subject to financial reporting obligations, product disclosure requirements and data reporting obligations to APRA. As part of the data reporting obligations, APRA will also be publishing more detailed expense data through their data transformation project. This information can be extremely valuable for members, consumer advocates and industry if it can be harnessed in a clear, concise and effective way.

We support a requirement for APRA to collate fund expenditure data and justifications in a central report, to inform public debate and allow relevant comparisons between funds according to size, level of expenditure and member benefits. For the AMM notice disclosure, this would ensure each fund's aggregate disclosure and justification can be compared across the market. This will bring a high level of understanding to fund expenditure and ensure there is greater accountability to keep spending in check.

Recommendation:

APRA collates fund expenditure data and justifications in a central report, to inform public debate and allow relevant comparisons between funds according to their size, level of expenditure and member benefits.

Include profit in the notice

The Annual Members' Meeting notice should also be strengthened by requiring funds to disclose information about profit extracted from the fund. This would increase funds' accountability for how they manage their duties to fund members and to recipients of those profits (e.g. shareholders).

When one bank was questioned at a Parliamentary Committee about the profits it received from its superannuation fund, it stated "Profits to (the bank) from these services that solely relate to superannuation funds are not easily determinable because the (bank) Group entities provide the same service to superannuation and non-superannuation customers and the historical information to split these businesses is not available as it has not been required by regulators."⁵ When another fund was questioned, they stated there was a yearly profit of \$240 million after tax.⁶ It is clear from the evidence that profit extracted is a significant and distinguishable category of expenditure. However without regulatory guidance the sector is unlikely to collect, disclose and explain how this expenditure benefits members.

This information should be displayed in a simple aggregated fashion so it can be compared to other fund expenditure. It may require capturing amounts such as dividends and looking through intra-group arrangements to determine the profit component.

Recommendation:

The Notice of an Annual Members' Meeting to members should include aggregate information relating to profits and justification of how these arrangements benefit members.

⁵ House of Representatives Standing Committee on Economics, Review of the four major banks and other financial institutions, WBC88QW

⁶ House of Representatives Standing Committee on Economics, Review of the four major banks and other financial institutions, CBA72QON