



# SUPERANNUATION

## Superannuation ratings

There are more than 350 super funds in the market that are classified as personal super, corporate super, SMSF products, public sector super, wrap/platform accounts, industry funds, retail funds, master trusts, etc. Many of these funds are not available directly to the average person. The customer may be required to be employed by a particular government department or large corporation, or it may be necessary to see a financial planner first.

We have therefore limited our superannuation star ratings to funds that are available to the average person, i.e. anyone can apply directly to the fund.

- We have analysed 74 super funds that are available for personal super investment – available to everyone
- Funds that are directly available for individuals to purchase without an intermediary (e.g. a financial planner)
- We have excluded any SMSF/corporate super accounts
- Minimum funds under management \$100 million (superannuation and pensions)

We have focused on the accumulation stage, when funds are being contributed to superannuation, not the drawdown stage following retirement. We have not credit rated the super fund managers.

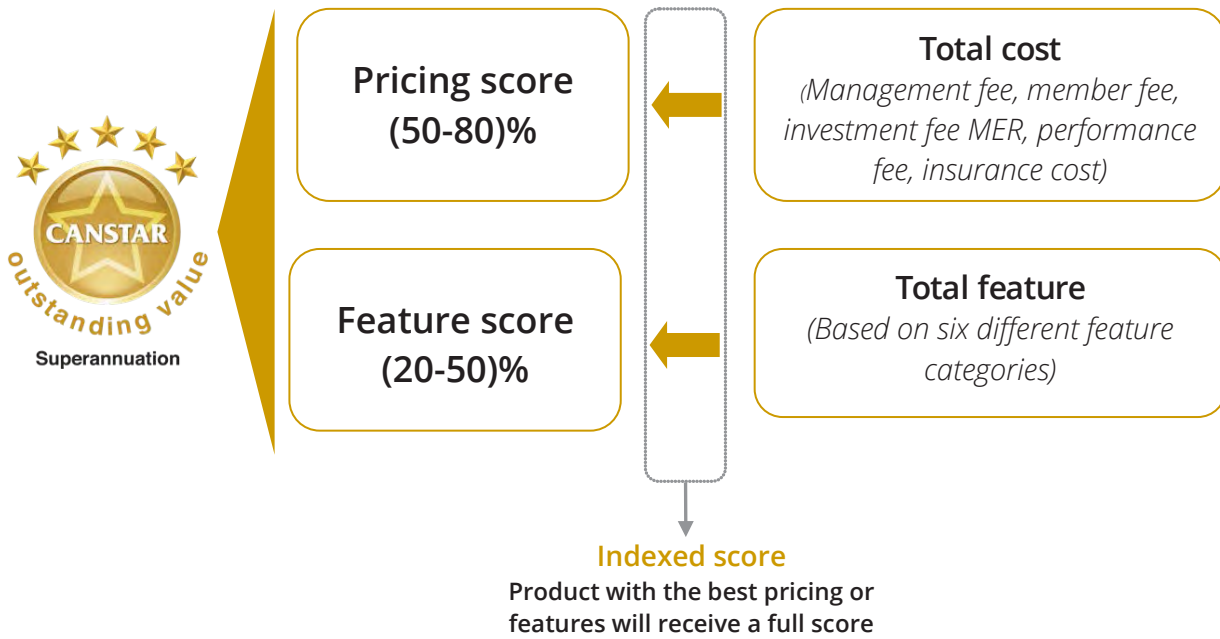
## Profile descriptions

For our analysis we have used four profiles that reflect the usual superannuation saving stages and have calculated the value of the superannuation funds to each profile.

Profile	Life events	Investment life stage and lifestyle issues
<b>1</b> Starter	<ul style="list-style-type: none"> <li>• Early working years</li> <li>• Starting out in career</li> <li>• Building a deposit for first property</li> </ul>	<ul style="list-style-type: none"> <li>• Typically have a low super balance</li> <li>• Not too concerned about too many investment options</li> <li>• Low fees are important</li> </ul>
<b>2</b> Builder	<ul style="list-style-type: none"> <li>• Developing career</li> <li>• First home and mortgage</li> </ul>	<ul style="list-style-type: none"> <li>• Start to have a decent super balance</li> <li>• Minimal contributions to super</li> <li>• Looking for long-term growth</li> </ul>
<b>3</b> Wealth Accumulator	<ul style="list-style-type: none"> <li>• Focusing on repaying mortgage</li> <li>• Home renovation or considering buying investment property</li> <li>• Holidays and family memories</li> </ul>	<ul style="list-style-type: none"> <li>• Have accumulated large amount of super</li> <li>• Looking for more advanced investment options to accelerate growth</li> <li>• Long-term plan for wealth accumulation including super and non-super investments</li> </ul>
<b>4</b> Pre-Retiree	<ul style="list-style-type: none"> <li>• Finishing work, or working less</li> <li>• Downsizing home</li> <li>• Minimal debt</li> </ul>	<ul style="list-style-type: none"> <li>• Have a larger super balance</li> <li>• Typically have a more conservative approach towards retirement investments</li> <li>• Considering how super will be used to achieve retirement plans</li> </ul>

## CANSTAR star ratings

The results are reflected in a consumer-friendly five-star concept, with five stars denoting products that offer outstanding value.

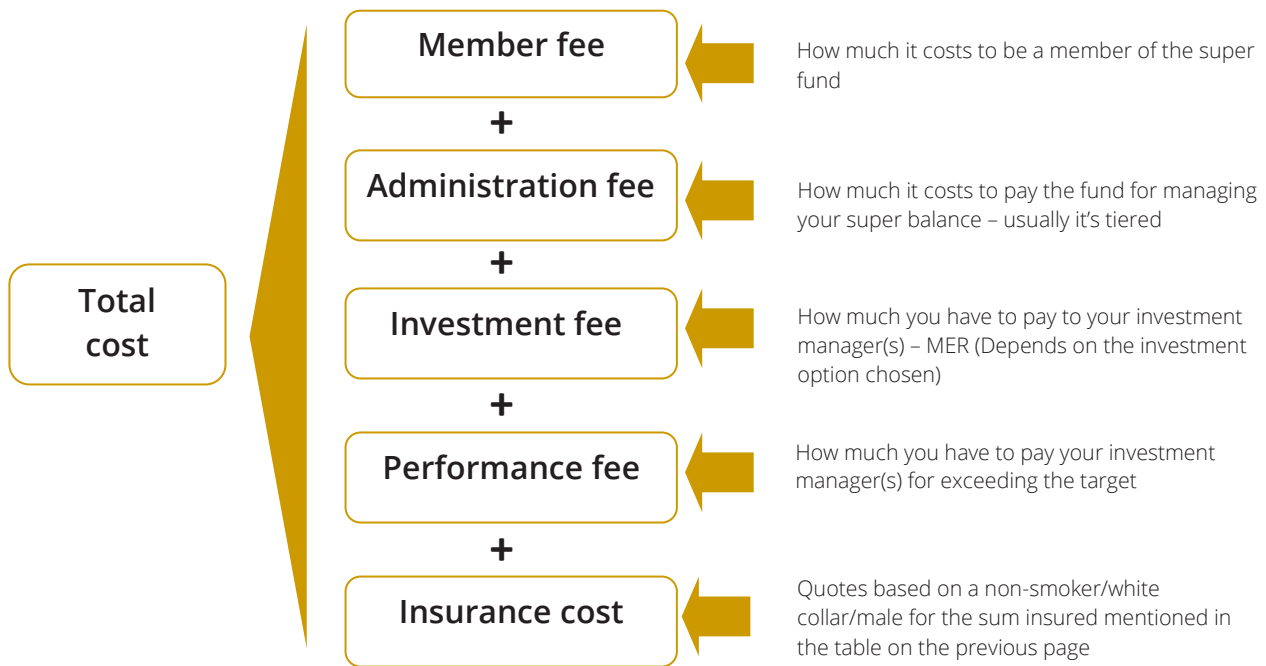


Profile	Price	Feature
Starter	80%	20%
Builder	70%	30%
Wealth Accumulator	60%	40%
Pre-Retiree	50%	50%

## Pricing score

Based on the average super balance (taking into account administration/management fee, member fee, investment fee/MER, performance fee and insurance costs), 500 scenarios per profile were built around a normal distribution and a total cost to the consumer calculated. We have not included contribution fees in our calculations. If purchasing directly, the consumer should enquire if the fund will waive or reduce these fees prior to joining.

Profile name	Insurance cover (Death &TPD)	Average super balance	Super balance	
			Low	High
Starter	\$50,000	\$25,000	\$10,000	\$40,000
Builder	\$200,000	\$80,000	\$60,000	\$100,000
Wealth accumulator	\$200,000	\$140,000	\$120,000	\$160,000
Pre-retiree	\$100,000	\$160,000	\$140,000	\$180,000



## Feature score

Each individual feature is categorised into six different sections and is allocated points. The total points received in each category are then weighted against the weights provided in the table below. The weighted scores are summed to arrive at the total feature score, which is indexed against the highest feature score in each profile to arrive at the feature score for each product.

Category	Starter	Builder	Wealth Accumulator	Pre-Retiree
<b>Member access</b>	<b>10%</b>	<b>5%</b>	<b>5%</b>	<b>5%</b>
<i>Account set-up</i>	15%	15%	15%	15%
<i>Contribution method</i>	15%	15%	15%	15%
<i>Online access</i>	40%	40%	40%	40%
<i>Phone access</i>	30%	30%	30%	30%
<b>Fees and charges</b>	<b>10%</b>	<b>5%</b>	<b>10%</b>	<b>15%</b>
<b>Investment options</b>	<b>25%</b>	<b>25%</b>	<b>25%</b>	<b>20%</b>
<i>Managed funds</i>	70%	70%	70%	70%
<i>Listed securities</i>	20%	20%	20%	20%
<i>Term deposits</i>	10%	10%	10%	10%
<b>Insurance</b>	<b>25%</b>	<b>30%</b>	<b>15%</b>	<b>10%</b>
<b>Financial advice &amp; strategy</b>	<b>20%</b>	<b>25%</b>	<b>35%</b>	<b>40%</b>
<b>Additional features/ benefits</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>	<b>10%</b>
<i>Other features</i>	10%	20%	20%	20%
<i>Tools/education</i>	90%	80%	80%	80%

## Additional rules applied to star ratings

### Investment strategy

During a credit crunch, funds that hold a large proportion of investments in illiquid assets (assets not readily converted to cash) tend to come under pressure to meet member redemptions. Some funds had to suspend withdrawals and have subsequently closed particular investment options to new members. This highlighted the risks associated with having a significant percentage of funds invested in illiquid assets.

With this in mind, CANSTAR analysed each of the funds' default investment strategies to ensure there were not large holdings in illiquid or unlisted assets, which might signal a potential liquidity risk. If a fund had more than 35% invested in direct or unlisted property, infrastructure, private equity or alternative assets we investigated further. We undertook the following steps to understand the investment strategy further:

- Reviewed the Product Disclosure Statement
- Examined the fund's annual report for details of the fund investments
- Made enquiries to fund call centres
- Reviewed utilisation of external fund managers and diversification of fund's management

If, after these enquiries, the research committee remained concerned at the liquidity of the fund's investments, it was penalised two stars.

### Investment performance

CANSTAR investment ratings are based on value delivered to the consumer, i.e. the features, functionality, flexibility and other benefits the investor receives, relative to the fees and other costs incurred.

In respect of superannuation there are some particular elements captured – range of investment options, access to advice and investment performance. Treatment of investment options and advice has already been outlined in this document and weightings are applied relative to the consumer profile.

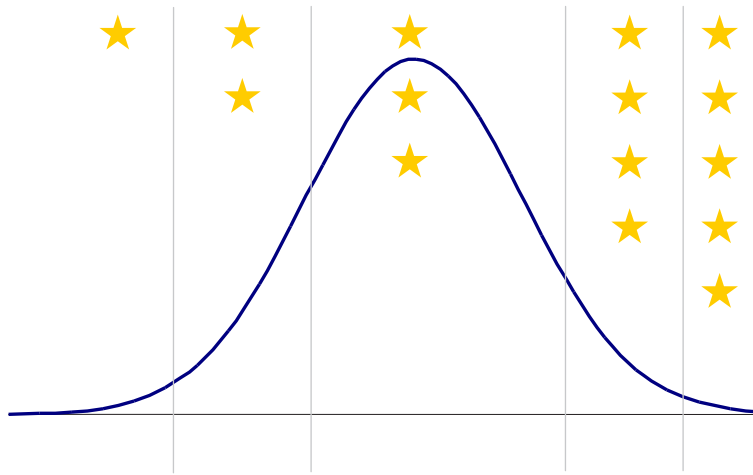
Investment performance is incorporated into the rating in order to identify and recognise funds that have either outperformed or underperformed consistently over a five-year period. It is treated as an adjustment at the end of the calculations. We do this, as in other respects we measure known elements of the value proposition, while we cannot assure an accurate prediction of future investment performance based on past performance. We want our rating to be dominated by clear "knowns" and the research reveals a lack of persistence of investment outperformance. We consider the year on year performance over a five-year period as reported by the Australian Prudential Regulation Authority (APRA). The APRA-published *Rate of Returns* measures the combined earnings of a superannuation fund's assets across all its products and investment options.

Funds that sit within the four-star rating band and also show reported top quartile investment performance for four out of the five years receive an additional star in their rating.

Conversely, funds that have fallen in the bottom quartile performance band in four out of the five-year period are only eligible to receive a maximum rating of three stars. This action is taken as persistent underperformance and can be an indicator of broader management or systematic issues, which may be affecting the investment performance.

### How are the stars awarded?

The total score received for each profile ranks the products. The stars are then awarded based on the distribution of the scores according to the following guidelines. As you can see, only the products that obtain a score in the top 10% of the score distribution receive a five-star rating.



The results are reflected in a consumer-friendly five-star concept, with five stars denoting an outstanding product.

### How often are products reviewed for star ratings purposes?

All ratings are fully recalculated every 12 months. CANSTAR also monitors changes on an ongoing basis.

### Does CANSTAR rate other product areas?

CANSTAR researches, compares and rates the suite of banking and insurance products listed below. These star ratings use similar methodologies to guarantee quality, consistency and transparency. Results are freely available to consumers who use the star ratings as a guide to product excellence. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANSTAR website at [www.canstar.com.au](http://www.canstar.com.au) if you would like to view the latest star ratings reports of interest.



- Account based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Landlord insurance
- Margin lending
- Package banking
- Reward programs
- Travel insurance
- Agribusiness
- Car insurance
- Direct life insurance
- Home & contents
- Life insurance
- Online banking
- Personal loans
- Superannuation
- Travel money cards
- Business banking
- Credit cards
- First home buyer
- Home loans
- Managed investments
- Online share trading
- Pet insurance
- Term deposits
- Youth banking

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