What are the CANSTAR Account-Based Pensions Star Ratings?

CANSTAR *Account-Based Pensions Star Ratings* use a unique ratings methodology that compares both cost and features across account-based pension products. CANSTAR star ratings represent a shortlist of products, enabling consumers to narrow their search to products that have been assessed and ranked.

There are many pension funds in the market which are classified as personal pension, corporate pension, SMSF products, public sector pension, wrap/platform accounts, industry funds, retail funds, master trusts etc. Many of these funds are not available directly to the average person. You may have to be employed by a particular government department or a large corporation or you may have to see a financial planner first.

Eligibility requirements for the Account-Based Pensions Star Ratings

In order to be considered for rating, a product must meet the following requirements:

- It must be directly available to individuals without the use of an intermediary, such as a financial planner
- Open to all, i.e. available to the average person, so corporate and closed products are excluded
- Not a wrap-only product
- The provider must have funds under management of at least $100 million (superannuation and pensions combined)
- Must not be an annuity
- Must not be a Term Allocated Pension (TAP). These can only be commenced with the proceeds of another TAP or complying pension/income stream originally started prior to 20 September 2007.

CANSTAR *Account-Based Pensions Star Ratings* is a transparent analysis comparing all products considered eligible for the star rating. Ratings range from five to one star. Five-star rated products have been assessed as offering outstanding value to consumers.

Five Star Funds

The needs and financial strategies employed during retirement will vary from person to person depending on his or her financial position. Recognising this fact, CANSTAR Account-Based Pensions Star Ratings are conducted based on three investor profiles which are the Low, Medium and High Balance Profiles. The value proposition for each of these profiles is arrived at by using different weightings for price and features depending on the profile. Funds that offered outstanding value are awarded a CANSTAR 5-STAR rating.

Account Based Pensions

Profile descriptions

For our analysis we have used 3 profiles based on account balance, as follows:

Low balance ($100,000)

Medium balance ($400,000)
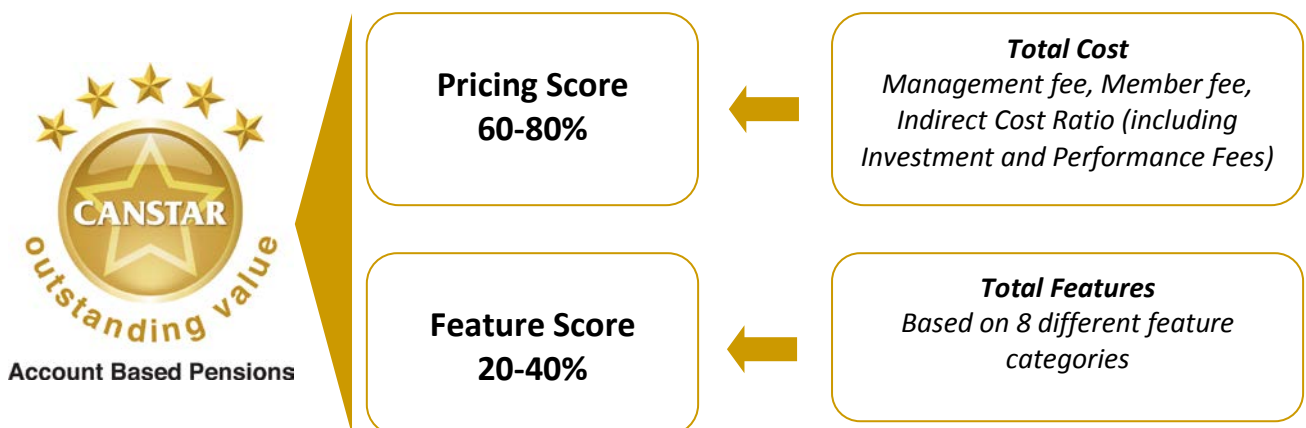
High balance ($750,000)

CANSTAR Star Ratings

Each account-based pension product reviewed for the *CANSTAR Account-Based Pension Star Ratings* is awarded points for its comparative pricing and for the array of positive features attached to the product. Points are aggregated to achieve a 'Pricing' score and a 'Feature' score.

To arrive at the total score, CANSTAR applies a weight (w) against the Pricing and Feature scores. The weights for each profile vary from 60 to 80% for pricing and 20 to 40% for features, with the weights reflecting the relative importance of either costs or features in determining the outstanding account-based pension products. This method can be summarised as:

TOTAL STAR RATINGS SCORE (T) = w_1PRICING SCORE (P) + w_2FEATURES SCORE (F)

The methodology is as follows:
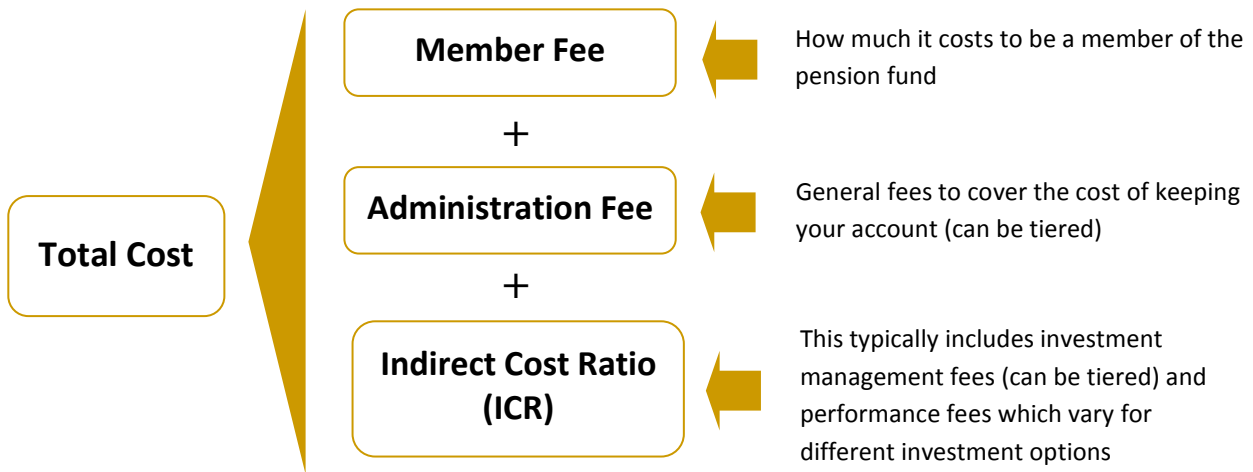
Pricing Score 60-80% ← **Total Cost** *Management fee, Member fee, Indirect Cost Ratio (including Investment and Performance Fees)*

Feature Score 20-40% ← **Total Features** *Based on 8 different feature categories*

Account Based Pensions

Profile	Price weighting	Feature weighting
Low Balance	80%	20%
Medium Balance	70%	30%
High Balance	60%	40%

Pricing score

The total cost is calculated based on the average super balance (taking into account member fee, administration fee and indirect cost ratio), and using 500 scenarios per profile built around a normal distribution.

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                    ┌─────────────────────┐         How much it costs to be a member of the
                    │     Member Fee      │  ◀───    pension fund
                    └─────────────────────┘
                              +
┌──────────────┐    ┌─────────────────────┐         General fees to cover the cost of keeping
│  Total Cost  │ ◀  │ Administration Fee  │  ◀───    your account (can be tiered)
└──────────────┘    └─────────────────────┘
                              +
                    ┌─────────────────────┐         This typically includes investment
                    │ Indirect Cost Ratio │         management fees (can be tiered) and
                    │        (ICR)        │  ◀───    performance fees which vary for
                    └─────────────────────┘         different investment options
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In calculating the Pricing Score, an option with a 70% growth / 30% defensive asset allocation (or as close as possible) is used to ensure a like for like comparison can be obtained across all account-based pension products. Contribution fees are not included in our calculations.

The lowest priced product within each profile is allocated the maximum pricing score, with all remaining products scored against it.

Feature score

The feature score is calculated by dividing the features into five categories, with each category carrying a point allocation and weighting. The product with the highest features score is allocated the maximum score, with all remaining products within the profile scored against it. The features categories and subcategories are:

Category/Sub-Category	Low balance	Medium balance	High balance
Account Set-Up	5%	5%	5%
Accessibility	15%	10%	10%
Online Access	65%	65%	65%
Phone Access	35%	35%	35%
Income payment options	10%	5%	5%
Investment Options	20%	30%	30%
Managed Funds	70%	70%	70%
Listed Securities	20%	20%	20%
Term Deposits	10%	10%	10%
Fees/Charges	5%	5%	5%
Financial Advice & Strategy	15%	25%	25%
Member Benefits	10%	5%	5%
Beneficiary Options & Death Benefit	10%	10%	10%
Member Education	10%	5%	5%
TOTAL:	100%	100%	100%

Additional rules applied to Star Ratings:

Investment Performance

While the performance of individual investment options has not been included in our rating, we have reviewed the fund performance as published by APRA to look for persistent good performance or underperformance. The APRA-published Rate of Returns measures the combined earnings of a superannuation fund's assets across all its products and investment options.

The year-on-year performance for the past five years was examined.
- Funds that have made the top quartile performance of 4-star rated products for four out of the five years were awarded an additional star (i.e. awarded a 5-star rating).
- Funds with performance in the bottom quartile for four out of the five years achieve a rating of no more than 3-stars. We do this because persistent underperformance can be an indicator of broader management or systemic issues which may be impacting the investment performance.

Investment Strategy

During a Financial Crisis funds which hold a large proportion of investments in illiquid assets (assets not readily converted to cash) can tend to come under pressure to meet member redemptions. During the recent crisis 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 the investment strategies for each of the funds' investment options with a 70% growth/30% defensive asset allocation (or the closest to it) to ensure there are not large holdings in illiquid or unlisted assets which might signal a potential liquidity risk. If the 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 publicly available information for details on the fund investments
- Reviewed utilisation of external fund managers and diversification of fund's management

If, after these considerations, the research committee remained concerned at the liquidity of the fund's investments, the research committee could penalise the fund by up to 2 stars.

How many products and providers are analysed?

In order to calculate the ratings, CANSTAR analysed 66 account-based pension products from 59 providers in Australia.

Does CANSTAR rate all products available in the market?

We endeavour to include the majority of product providers in the market and to compare the product features most relevant to consumers in our ratings. However, this process is not always possible and it may be that not every product in the market is included in the rating nor every feature compared that is relevant to you.

### How often are CANSTAR Account-Based Pensions Star Ratings re-rated?

All ratings are fully recalculated every 12 months based on the latest pricing and features offered by each provider.

How are the stars awarded?

CANSTAR ranks account-based pension products based on value-for-money measures and then awards a star rating according to rank. The number of products awarded each of the one- to five-star ratings within each profile will ultimately depend on the dispersion of final scores.

Scores are awarded to each product on the basis of price (premiums) and features (benefits and options). The methodology is revised and parameters are updated on a regular basis to make sure that the products are analysed using the most up-to-date information capturing all industry developments.

The objective is to award the top 5-10% of products with the CANSTAR five-star rating.
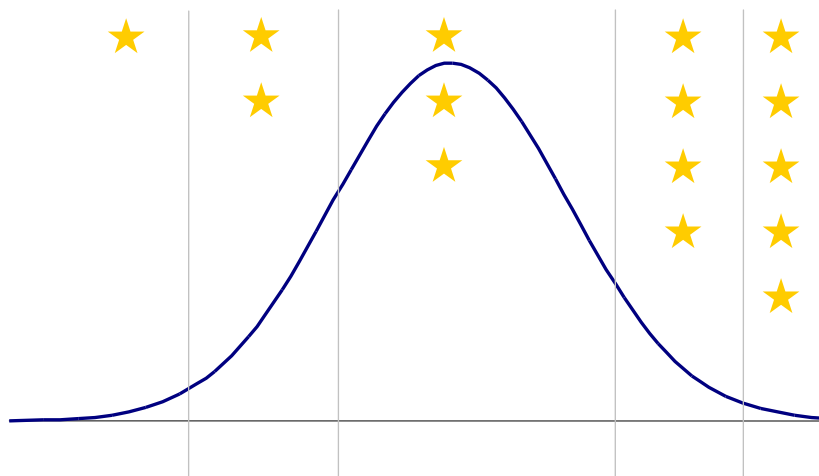
Does CANSTAR rate other product areas?

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 if you would like to view the latest star ratings reports of interest.

- Account-based pensions
- Business life insurance
- Deposit accounts
- Health insurance
- Life insurance
- Online banking
- Personal loans
- Term deposits
- Youth banking

- Agribusiness
- Car insurance
- Direct life insurance
- Home & Contents
- Managed investments
- Online share trading
- Reward programs
- Travel insurance

- Business banking
- Credit cards
- First home buyer
- Home loans
- Margin lending
- Package banking
- Superannuation
- Travel money cards