MTAA SUPER – MEMBER OUTCOMES ASSESSMENT FOR YEAR ENDED 30 JUNE 2020

Introduction

We're pleased to present a summary of our Member Outcomes Assessment for the year ending 30 June 2020.

The Member Outcomes Assessment looks at our performance across the business in the following areas:

1. investment performance
2. costs and fees
3. insurance
4. scale
5. options, benefits and facilities
6. operating costs

At the Board meeting on 25 February 2021, our Trustee Board considered the Assessment and determined that it shows MTAA Super has continued to provide products that promote our members' financial interests.

Specifically, the Trustee determined that we promote our members' financial interests by having strong investment performance that is above the median, competitive operating costs and fees, the scale to continue to operate, an insurance strategy that has been achieved, and options, benefits and facilities that continue to meet the needs of our members.

Details of the assessment are outlined below.

We're merging with Tasplan on 1 April 2021 to become Spirit Super. Through the merger we will continue to improve on each of the assessment areas and promote the financial interests of our members.

HIGHLIGHTS OF OUR PERFORMANCE

When measured against APRA and SuperRatings data, our My AutoSuper (default) investment option was at median for 3-year performance and outperformed the median of all super funds offering a MySuper default investment option for 5-year performance. We also had strong returns for our choice investment options.

Our fees and costs remained highly competitive in the relevant period, and were well below median (the middle range) of all super funds for a member with a $50,000 account. This is consistent with our operating costs being lower than the median fees charged by other super funds, giving us adequate scale to offer our members a range of strong performing investment options with competitive lower fees and costs.

We maintained our SuperRatings Platinum status for FY20 with Administration and Governance categories receiving "Well Above Benchmark" ratings and all other categories receiving "Above Benchmark" ratings.

While the COVID-pandemic had a significant impact on investment performance during the year, we continued to provide quality member services with our team pivoting effectively to digital channels to assist our members and employers.

In addition, the MTAA Super team worked with the Tasplan Super team throughout the year to progress our merger. When we become Spirit Super on 1 April 2021, we will have over $23 billion in funds under management and over 300,000 members (as at 31 December 2020).

We are pleased to advise that following the merger, our flat-rate administration fee will reduce to $1.30 per week for all members and there will be enhanced member service offerings. Our unassailable drive to provide our members with strong long term returns and competitive fees will remain a key focus.

Fees and Costs

For the year ended 30 June 2020, we offered competitive administration and investment fees charged on a cost recovery basis. This meant our members continued to receive appropriate services while growing their account balance. In addition, we focused on ensuring that our fees were structured in a way that meant no inappropriate outcomes or cross-subsidisation between members. For the year ended 30 June 2020, the Trustee determined that:

- Our total fee of $513 per annum on a $50,000 My AutoSuper account balance was lower than the median total fee of $555 per annum.
- Our total fee for a representative member with a $50,000 account balance was 0.89% of the account balance, lower than the median of 1.06%.
- On a representative account balance of $50,000, administration fees (included in the total fee above) were 0.31% of the account balance, significantly lower than the median administration fee of 0.44% of the account balance.

Overall, we charge lower fees than the median in both total fees and administration fees and it was determined that we have a competitive fee structure compared to other super funds, and cross-subsidisation or other inappropriate outcomes are limited.

Returns, Investment Strategy and Level of Investment Risk
Our objectives are to:

- maintain an investment product suite appropriate to the membership profile of the Fund
- ensure alignment within the member demographic profile, member demand and lifecycle needs, and
- maintain best practice investment governance.

The results for the year ended 30 June 2020 demonstrated that our investment strategy was strong, generating returns above median and mostly exceeding the investment objectives set. Even when accounting for the effect of risk (since funds take different levels of risk), we performed at median or better. We provide strong risk-adjusted net returns to help our members achieve retirement adequacy and risk protection. To do this, we need to provide competitive returns (net of investment fees).

For the year ended 30 June 2020, the Trustee determined that:

- For members invested in My AutoSuper, the risk-adjusted measure (over a 3-year period) was above the industry median. This demonstrated that, adjusting for different risk profiles across different funds to allow for appropriate comparison, the Fund generates strong returns.
- Across a period of 3 and 5 years, the My AutoSuper returns performed at or above the median benchmark, being 5.0% p.a. and 6.1% p.a. respectively (median of 5.0% and 5.7% respectively). The 1-year performance was below median at -1.3% compared with -0.8% as the Fund's investments were impacted by COVID-19.
- For most of our choice investment options, the Fund achieved the set investment objectives and out-performed the median as measured by SuperRatings.

As part of our merger with Tasplan Super, there has been a review of our investment strategy. This detailed investment strategy review aims to ensure our members continue to receive competitive returns and that we achieve the objective set while taking an appropriate level of investment risk. As part of this review, consideration has been given to the asset allocation of our options and whether the return and risk objectives remain appropriate, based on performance achieved in previous years and forecasted outlook. Some changes have been made for the merged fund to better align the investment strategy with the size of the fund and needs of the membership.

Despite negative returns for the 1-year measure, MTAA Super generated strong returns over the longer term, while maintaining costs at a low level and continuing to provide a range of services to members (as detailed below).

Options, Benefits and Facilities

Our objective is to know our members and the broader super industry. This allows us to provide a satisfactory level of products, services and facilities compared to our peers, ensuring our members receive appropriate services for fees paid. For the year in review, we note the following:

- The Fund employed 12 superannuation advisers, in line with 46% of not-for-profit funds who employ 11 or more staff, and more than 90% of MTAA Super's seminar presenters are qualified.

- We provided educational materials to our members addressing topics including insurance benefits, retirement strategies, estate planning and family law.

- We offered scaled advice on contributions, insurance, investment choice and transition to retirement, as well as comprehensive financial planning services.

We continue to attract new members, despite an overall reduction of 1% in account numbers during FY20. This was in line with the average of larger funds and above the industry median of 2.7% reduction in member accounts. During the year, we had 17,070 new member accounts, which was well above the industry median of 4,824 new member accounts.

Compared to the industry median of 109.3%, we had lower net cash outflows of 96.9% (for every $1 of contributions received, $0.969 was paid in benefits). This reflects our ability to attract and retain members based on the options and benefits provided. We believe we have met our objective to provide value-adding products, services and facilities to ensure our members receive appropriate services for the fees paid.

Insurance Strategy and Insurance Fees

Our objective is to maintain an appropriate insurance offering that:

- provides adequate and meaningful cover that is value for money; and
- has default insurance fees that do not inappropriately erode the retirement savings of our members.

To help meet this objective, we adopted the voluntary Insurance in Superannuation Code of Practice in FY18.

To ensure default insurance fees do not unnecessarily erode member balances, we maintain a target for insurance premiums of less than 0.5% of average salary for members who are under age 25, and less than 1.0% of average salary for members over age 25 years. In FY20, we achieved these targets.

Overall, it is our assessment that the strategic objective for our insurance offering has been achieved.

Scale

We aim to push beyond the traditional super industry base and position ourselves for future growth. By doing this, we aim to:

- Maintain sufficient investment and administrative scale to provide desired outcomes to members so that members continue to receive services at competitive rates;

- Drive organic growth through the refinement of marketing activities that support our customisation priorities and initiatives; and

- Actively pursue inorganic growth through the implementation of our merger strategy.

The Trustee believes that we are large enough to provide strong net returns to our members through improved investment returns and lower investment costs. This will be achieved by obtaining adequate levels of diversification of asset classes, negotiating competitive fee structures, adopting robust risk monitoring, management and reporting approach. We will also continue to increase our scale through our merger with Tasplan Super. As Spirit Super we will have over $23 billion in funds under management and more than 300,000 members (as measured on 31 December 2020).

During the year, we were required to make early release payments to eligible members in response to COVID-19, which saw net cash flows fall below target levels. However, cash flows remained positive and the Fund was still able to provide high quality service to members while keeping costs low.

At 30 June 2020, MTAA Super had a total membership of 201,861, with 87.9% being active members. Considering our current fund size, the merger with Tasplan Super and the potential impact of legislative changes, it is reasonable to believe that we have, and will continue to have, sufficient investment and administrative scale to deliver desired outcomes for our members.

Operating Costs

Our objective is to achieve cost efficiency that will underpin our competitive fee positioning and offer net benefit to our members. The aim is to have adequate scale to deliver a wide range of member benefits at relative low costs so that members receive value for money. For the year ended 30 June 2020, our assessment was:

- Operating expenses as a percentage of average net assets of 0.35% was well below the industry median of 0.39%. This was higher than the Fund's annual target of 0.33% due to the merger costs that have been incurred. Our result indicates that we can manage our costs relative to peer funds.
- We continue to manage our operating costs for members as reflected in the Fund's achievement of below target and industry average result for the non-investment expense ratio.
- We have adequate scale to deliver a range of benefits to members at competitively low cost so that the operating costs of the business do not inappropriately affect MTAA Super's members.

Our management team actively monitors costs against budget to manage costs as well as comparing our performance to a benchmark group on a monthly basis. This is for internal purposes to ensure we are managing our costs so that members' interests are not inappropriately affected by the costing decisions we make.

Conclusion

We recorded strong performance across most of our choice investment options as measured on 30 June 2020, taking into consideration the long-term nature of our investment time horizons (often between 5 and 10 years).

The Trustee remains focussed on member retention and organic growth through allied industries and small business. The successful completion of the merger with Tasplan will provide further inorganic opportunities through greater scale, technological capability and internal administration and servicing.

Our performance across most key assessment factors for the year was strong and we maintained our Platinum rating for FY20 with all categories being Above Benchmark as measured by SuperRatings and Administration and Governance receiving Well Above Benchmark ratings. As noted by SuperRatings, "MTAA Super has delivered high quality outcomes to members, as evidenced by a strong strategic planning process and competitive five-year net benefit outcomes while ensuring it maintains a position within the low operating cost quadrant".

As we become Spirit Super on 1 April 2021, we will continue to work in the best interests of our members and provide the best possible retirement outcomes. Our annual assessments will continue to provide you with visibility of our performance during the year.