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Review of Fees of the NSWTG  
Independent Pricing and Regulatory Tribunal

30 September 2014

Dear Sir/Madam

**Review of Fees of the NSW Trustee & Guardian (NSWTG)  
Comments on IPART Draft Report**

I am the private financial manager for a family member.

Private Management: Simplicity of fees

I find IPART's proposed fee structure for private management to be easily understandable. I also believe that it would be understandable by an average private manager.

NSWTG will need to publicise the new fee structure when it is introduced.

Private Management: Income Fee

According to the Draft Report, NSWTG is seeking retention of the 4% rate and an increase in the income fee cap from \$2,000 to \$3,000. However, according to page 19 of NSWTG's interim submission uploaded to the IPART website on 29 September, NSWTG is no longer requesting any income fee.

I submit that there should be no income fee, i.e. I agree with the recommendation in the Draft Report that there should be no income fee. This is because, as shown in Figure 4.5 on page 74 of IPART's Draft Report, the cost of supervising a private manager is not related to the income of the client.

My family member has higher than average income but simple financial affairs. The income fee has meant that NSWTG has been grossly over-recovering its costs of supervising me. By "grossly over-recovering", I mean that the fee must have been many times larger than either the efficient costs or the actual costs.

### Private Management: Establishment Fee

I agree with the concept of having an establishment fee.

I think that \$500 is a high estimate of the efficient establishment costs.

Please refer to the discussion of the zero or small negative establishment fees in the analogous area of SMSF audits later in this submission.

### Direct Management and Private Management: Establishment Fee

When a client moves internally between direct management and private management (in either direction), I submit that the establishment fee be reduced or waived entirely. This reflects the lower cost to NSW TG of an internal movement of an existing client compared to taking on a totally new client.

### Private Management: Administration Fee

I agree that having a fixed administration fee is much more cost-reflective than having an income fee.

I agree that \$10 per month is a reasonable estimate of efficient administration costs.

In practice this fee could be invoiced as \$120 at the time of the annual invoice rather than monthly.

### Direct Management and Private Management: Investment management fee

As can be seen in Section 2.9 of IPART's Draft Report, the Common Fund is comprised of investments in many different asset classes, ranging from short-term fixed interest to local and international shares. Different asset classes have different efficient administration costs. However, NSW TG's investment management fee has historically been uniform across all asset classes. According to a statement made by Mr Farrell of the NSW TG at the 23 September roundtable, IPART's rationale in previous enquiries has been that a uniform fee allegedly removes the incentive for NSW TG to recommend inappropriate asset classes which maximise revenue to NSW TG rather than placing the client's interests first.

IPART is proposing that the fee uniformity over asset classes should continue. IPART does not state why this is desirable. Presumably it is for the same historical reason that it allegedly removes the incentive for NSW TG to recommend inappropriate asset classes which maximise revenue to NSW TG rather than putting the client's interests first. I believe that this argument is flawed, because:

- it implies that NSW TG Financial Planners are unprofessional, and I do not believe that this is the case
- NSW TG Financial Planners do not receive commissions
- if the fees charged for each asset class actually did reflect the actual costs, there would be no profit incentive for the NSW TG to place clients in any particular asset class

- contrary to the intention of having a uniform fee structure, the uniform fee creates an incentive for the NSWTG to place clients in asset classes with low costs to NSWTG, and this may not be an advisable allocation for a particular client.

I therefore submit that the investment fees should vary by asset class.

Regarding the actual level of the efficient cost(s), it should be noted that NSWTG investments are managed passively in index funds rather than actively-managed. Index funds have far lower costs than actively-managed funds. Here are a few examples of market fees for indexed exchange-traded funds (ETFs). Presumably the actual costs are lower than the fees charged. Brokerage needs to be added to these fees to obtain the total cost to the client.

Asset: Cash

BetaShares Australian High Interest Cash ETF (AAA)

<http://www.betashares.com.au/products/name/australian-high-interest-cash-etf/#each-keyFacts>

Annual Fee: 0.18%

Asset: Fixed interest

Vanguard Australian Fixed Interest Index ETF (VAF)

<https://www.vanguardinvestments.com.au/retail/ret/investments/etfdetailVAFIIE.jsp>

Annual Fee: 0.20%

Asset: Australian Shares

Vanguard Australian Shares Index ETF (VAS)

<https://www.vanguardinvestments.com.au/retail/ret/investments/etfdetailVASIFE.jsp>

Annual Fee: 0.15%

Asset: US Shares

Vanguard US Total Market Shares Index ETF (VTS)

<https://www.vanguardinvestments.com.au/retail/ret/investments/etfdetailVTS.jsp>

Annual Fee: 0.05%

#### Private Management: Investment management fee

I submit that the investment management fee for an asset class should be the same for privately managed clients (in the case where a privately managed client has funds invested with NSWTG) as for directly managed clients because:

- clients may switch in either direction between private management and direct management, and it would be confusing if the Common Fund fee were to change
- it may be difficult for NSWTG to implement different fees for different categories of clients in the same fund
- private managers are typically family members and not necessarily financially sophisticated.

### Private Management: Account Checking Fee

I agree that the current scale of account checking fees from \$100 (standard complexity) to \$300 (high complexity) is appropriate and should continue.

### Private Management: General comment: Market fee rates for audits of an individual's financial statements

Unlike public companies, individuals do not require audits for their personal financial statements. Therefore there are no market fee rates for such audits directly available.

However, analogous market fee rates for audits of an individual's financial statements can be estimated from the known fee rates for the compulsory annual audits of self-managed super funds (SMSFs). Although private managers are not submitting superannuation accounts, SMSF finances do resemble an individual's finances. They both have an income and expenditure account, and a statement of assets and asset movements.

SMSF audits are undertaken by private firms on behalf of the ATO, which is the ultimate supervisor of SMSFs. The actual audit fees paid are reported to the ATO on each SMSF's annual return.

Although a SMSF's finances do resemble an individual's finances, the financial complexity of an SMSF's accounts is arguably greater than the complexity of a typical NSW TG client accounts, and the training and skills required to be authorised to audit an SMSF is greater than the training and skills required to audit a NSW TG client account. Therefore the efficient cost for NSW TG to supervise a private manager is less than the efficient cost to audit a SMSF.

Here are ATO statistics on private audit fees. The figures are taken from the 2012 SMSF returns (later figures are not available).

<https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Annual-reports/Self-managed-superannuation-funds--A-statistical-overview-2011-2012/?page=50>

Where the auditor is stand-alone, i.e. the auditor does not provide accounting or administration services, the median fee was \$450 and the average fee was \$530.

See also Table 3 in Section 1.4 in ASIC, Costs of Operating SMSFs, May 2013.

This report was prepared by Rice Warner Actuaries for ASIC.

[https://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/cp216-RiceWarner-cost-of-operating-smsfs.pdf/\\$file/cp216-RiceWarner-cost-of-operating-smsfs.pdf](https://www.asic.gov.au/asic/pdflib.nsf/LookupByFileName/cp216-RiceWarner-cost-of-operating-smsfs.pdf/$file/cp216-RiceWarner-cost-of-operating-smsfs.pdf)

The annual audit costs range from \$300 to \$500.

The ATO does not break down audit fees by complexity of the audit.

Here is an actual example of the current quoted audit fee rates for audits of different complexity by a private firm, DIYSuperAudit:

<http://diysuperaudit.com.au/smsf-audits/smsf-audit-fees/>

The quoted annual fee for a "simple" fund with no investment property and assets of less than \$2 million is \$395 plus GST. There is no establishment fee.

Normally SMSF auditors do not charge any establishment fee. On the contrary, they may slightly discount the initial annual audit fee in order to bring in new business, i.e. the implied establishment fee is slightly negative. This suggests that the actual efficient establishment costs are minimal.

There is no income fee for an SMSF audit. In practice, an SMSF auditor who started to charge an income fee would rapidly have no clients. The idea of being able to charge a 4% income fee for a SMSF audit would be beyond a private auditor's wildest dreams.

At 30 June 2013, there were 509,000 SMSFs in Australia.

[https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Annual-reports/Self-managed-superannuation-funds--A-statistical-overview-2011-2012/?page=3#Executive\\_summary](https://www.ato.gov.au/Super/Self-managed-super-funds/In-detail/Statistics/Annual-reports/Self-managed-superannuation-funds--A-statistical-overview-2011-2012/?page=3#Executive_summary)

There are also many auditors. The market for SMSF audits is highly competitive, and the actual fees charged cannot be very different from the efficient cost.

Noting the lesser complexity and training required for audit of private managers compared to audits of SMSFs, it can be concluded that the IPART recommended ongoing annual fee for NSW TG private client management supervision of \$220 (\$120 administration plus \$100 account checking for standard accounts) is approximately in line with market fees for this kind of service. Charging an establishment fee for audits is not in line with market practice.

#### All NSW TG services: General comment: Potential market for services to low income clients

It should not be assumed that the services which NSW TG provides to low income clients could not be provided by the private sector. If the CSO payments were made to the private sector, or provided to the client in the form of coupons, it is arguable that private sector administrators would be interested in this market. This is analogous to legal aid, which allows low income clients to engage private legal practitioners.

Yours sincerely



Alan Sauran