



# MLC MASTERKEY SUPER AND PENSION FUNDAMENTALS (MLC MKSPF) / MLC MASTERKEY TERM ALLOCATED PENSION (MLC MKTAP) 2020 Annual Outcomes Assessment

MLC MasterKey Super and Pension Fundamentals ('MLC MKSPF') and MLC MasterKey Term Allocated Pension ('MLC MKTAP') are super and pension products that give members access to a moderate range of investment options to choose from to invest their superannuation savings, according to their own personal circumstances and needs. MLC MKSPF also offers members access to optional life and disability insurance with standard terms and conditions and the option for members aged 50 years and older, to protect all or part of their superannuation savings from negative investment returns. Furthermore, MLC MasterKey Super and Pension Fundamentals and MLC MasterKey Term Allocated Pension products provide access to website reporting, tools and calculators to help them manage and keep track of their superannuation benefits.

MLC MKSPF and MLC MKTAP form part of the MLC Super Fund, of which NULIS Nominees (Australia) Limited ('NULIS') is the Trustee. NULIS is responsible for all fiduciary, legal and regulatory obligations in relation to running the superannuation fund.

Each year, NULIS is required to conduct an Outcomes Assessment which determines whether it has 'promoted the financial interests' of the members of MLC MKSPF and MLC MKTAP.

The Outcomes Assessment is performed by MLC Wealth Limited (MLC) on behalf of NULIS using industry benchmarking, comparative data, in-house data and reviews performed by research houses. The Outcomes Assessment helps us to understand how we are performing on a range of measures. This benefits members since it helps us identify ways to improve the features and services we provide to them.

The Outcomes Assessment for the 2020 calendar year concluded that overall, **the MLC MasterKey Super and Pension Fundamentals and MLC MasterKey Term Allocated Pension products are promoting the financial interests of members.**

This document provides a summary of the seven factors that were assessed in reaching this conclusion, including what we are doing well, areas identified as requiring improvement and how we intend to enhance the outcomes of members in future.

It should be noted that this document reflects an assessment of product performance based on data collected during the 2020 calendar year. Given the highly competitive nature of the superannuation industry, members can expect the performance of the products, in absolute and relative terms, to vary from year to year. Our members receive yearly updates about the performance of their own superannuation investment, as well as

details about any product changes, in their annual statements and other communications.

Additional information about the MLC MKSPF and MLC MKTAP, as well as economic, financial and market updates, can be found on [mlc.com.au](http://mlc.com.au)

MLC MKSPF and MLC MKTAP were assessed together since they provide access to the same investment menu and member services and share the same fee structure. MLC MKTAP differs in that it is a complying income stream that allows access to higher social security entitlements, not otherwise available under other pension products (it is no longer available to new members). MLC MKTAP doesn't offer insurance or MLC Investment Protection.

Note: in a number of places throughout this document, relative rankings are expressed in terms of 'quartiles'. Quartiles divide a group of peers into quarters, with 1st or top quartile typically referring to the best performing quarter. Similarly for 2nd, 3rd and 4th or bottom quartile.

## Product Assessment

### Options, benefits and facilities

Options, benefits and facilities include member communications, call centres, intra-fund advice, education, online account information and tools, and reporting services. They are paid for by the administration fees that we charge to members. These benefit the financial interests of members by supporting members in understanding and engaging with their superannuation, which in our view supports improved member outcomes over time.

Research consulting firm Chant West benchmarked our services against those of 60 distinct products offered by the different providers that they rate. It ranked our overall service proposition as being 1st quartile. This was based on:

- Our online education services, which offer educational information, case studies, calculators, and online chat was ranked amongst the best in the industry
- Our secure member online services were rated favourably based on the availability of key functionality, and good navigation and responsiveness.
- Our member communications were found to provide comprehensive and well-presented information and were ranked above median. It was noted that our communications could be enhanced through tailoring and a greater focus on retirement adequacy

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- Our advice service for MLC MasterKey members (noting that this doesn't relate to the advice services provided to members by their financial advisers) was rated lower because we presently only offer general telephone based advice and not scaled financial advice services to members. Scaled financial advice is personal advice that is limited in scope (i.e., to a limited range of issues or member needs). We are currently working to develop a scaled advice proposition for members

Some other member services, such as our call centre and transaction processing were separately assessed and found to offer a quality service. However, an over reliance on older technology and manual processing was identified which creates challenges in times of significant and unexpected volumes of member enquiries and requests. Despite this, when unusually high volumes of withdrawal requests were made by members under the COVID-19 Early Release of Super scheme in 2020, our processes were sufficiently resilient to enable the vast majority of members to withdraw their funds within five days.

Members who have insurance and who make an insurance claim are allocated a dedicated claims assessor to help them through the claims process. There is also a dedicated team of rehabilitation consultants that work with the member and their doctor to assist members on their path to recovery and help them to get safely back to work.

These claims services are complemented by additional health focussed services that are provided by the Insurer, MLC Limited, for members and their immediate family including:

- *Best Doctor Service* which provides access to more than 50,000 leading medical specialists from Australia and around the world, for a second medical opinion at no additional cost
- *Mental Health Navigator* which provides a review and second opinion on diagnosis and a treatment plan for mental health conditions

Overall, the options, benefits and facilities offered to members has been assessed as being appropriate.

## Investment Strategy

This section assesses investments that are managed according to two types of arrangements:

- 'Directly managed' investments are those for which the investments are managed by NULIS. They are sometimes referred to as 'internally managed' or 'Trustee directed'
- 'Externally managed' investments are those for which the investments are managed by a third party

Our investment advisers JANA Investment Advisers Pty Ltd assessed the appropriateness of the investment strategy of each of our directly managed multi-asset class investment options by conducting forward-looking modelling of their probability of meeting their investment objective over the stated investment horizon.

The assessment found that all options met the required threshold of a 60% probability of meeting PDS objectives except for three investment options, which achieved modelled probability outcomes of 58%. Given that the three options that did not achieve the targeted modelled probability rate were only fractionally below the 60% benchmark, we believe they do not unduly impact the overall assessment as it applies to the investment menu as a whole.

Additionally, two directly managed single asset class investment options were identified as having not met their stated investment objective and having underperformed relative to peers. These options will be examined more closely as part of an ongoing review of the investment menu.

Separately, our investment adviser ThreeSixty Research, performed an assessment of the performance of each of the externally managed investment options, relative to their stated investment objective and timeframe. This analysis was supported by additional quantitative and qualitative research to identify the drivers of any underperformance.

Of the 23 external investment options examined, all but two were identified as performing in line with expectations. Where underperformance has occurred, it was identified as being largely driven by the impact of COVID-19 upon the 'value' style sector of the equities market, which notably has fared significantly worse than 'growth' style investments. For example, capital intensive industries such as airlines, tourism, hospitality and energy companies have seen greater negative impacts from government-imposed shutdowns than online and technology platform industries such as Zoom, Netflix and Amazon and Xero. These options are 'on-watch', with an assessment of qualitative factors supporting NULIS' view that they are appropriate to remain on the menu.

Overall, we believe that the investment menu is suitable for the varied needs of members and that it is reasonable to conclude that most of the investment options offered to members will likely deliver upon their stated objectives in the longer term.

Accordingly, we have formed the view that the overall investment strategy for MLC MKSPF and MLC MKTAP, taking into consideration the investment strategies of each investment option, is appropriate.

## Insurance Strategy

To evaluate the appropriateness of the insurance strategy for MLC MKSPF, we assessed the suitability of the optional insurance offering and the impact of insurance premiums upon retirement benefits. This assessment relied on analysis provided by consulting firm, The Heron Partnership ('Heron').

MLC Lifestage insurance is a combination of Death and Total and Permanent Disablement (TPD) insurance that is higher when the member is younger and more likely to have a high

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mortgage or children at home, and lower when they're older and more likely to be financially secure. The insurance is optional and members can choose from three different insurance levels. Income Protection (IP) is also offered which provides ongoing income and financial support to members who become temporarily unable to work due to an illness or injury.

Although certain occupational and health eligibility conditions apply, the insurance is generally easy to acquire since members are not subject to underwriting at the time they commence their MKSPF account. The standard premium rates for this insurance don't consider a member's occupation, medical history, lifestyle, and leisure activities. Members can obtain a tailored premium rate appropriate for their individual circumstances by application and subject to underwriting assessment by the Insurer. In addition, members can adjust or cancel their cover at any time. Any subsequent request to add or increase insurance will be subject to application by the member and underwriting and acceptance by the Insurer.

Heron concluded that there was no evidence to suggest that our insurance design is unreasonable or inadequate for the MLC MKSPF membership or that this design inappropriately erodes retirement benefits when considering the membership as a whole.

On this basis we have formed the view that overall, the insurance strategy is appropriate.

## Insurance fees

We compared the competitiveness of the insurance premiums charged to members against insurance plans with similar terms and conditions using comparative data provided by research provider, Chant West(1). The majority of members were found to be paying median rates or lower. Members with a heavy-duty occupation risk loading (less than 1% of members), were found to be paying rates significantly higher than the median.

Whilst the assessment identified opportunities to increase the competitiveness of insurance premiums for some members in high risk occupations, it was concluded that, on balance, the insurance fees being charged to members are appropriate.

## Scale

Scale is important because operating a large business supports the long-term sustainability of our products and our ability to deliver member outcomes.

NULIS operates four superannuation funds including one of the largest in Australia. Our total funds under management (FUM) was \$96 billion as of 30 June 2020 (#5 in the market), and we had 1.2 million members (#5).

We concluded that our large scale permits us to:

- Access a range of investment strategies for members that may not be available to members in smaller funds
- Effectively manage liquidity, for example being able to meet all member requests during periods of economic turbulence
- Reduce investment risk through investment pooling

With all these factors in mind, we have concluded that the scale of our business operations is appropriate.

## Operating costs

Operating costs refers to the costs to operate our superannuation business. Given the nature of our business we have assessed operating costs at an enterprise level and not specifically for the MLC MKSPF or MLC MKTAP products.

Our analysis identified that our costs per member and per funds under management, are high in comparison to peers, and that these costs have increased over time. The level of member costs is primarily due to the complexity of our business, including the number of products we offer and the number of technology systems we operate. The increase in costs in the last 3 years includes the impact of increased regulatory and product change, combined with a reduction of members due to inactive member accounts being transferred to the ATO. A number of peer superannuation funds have similarly been impacted.

In the last calendar year, we made significant progress in reducing the complexity of our superannuation business through product and system rationalisation, including moving members in legacy products to more contemporary products. Work continues to further reduce the complexity of our business with a particular focus on simplifying our investment structures and offers. These initiatives are expected to reduce our operating costs.

Dividend payments that were paid to our parent company, NAB, were made in accordance with NULIS' Capital and Dividend Policy, which requires that the amount and timing of any dividend is consistent with NULIS' fiduciary duties and members' best interests.

NULIS has concluded that the operating costs of our business are high and reducing them needs to remain a priority.

## Basis for setting fees

We examined the fee and cost structure of MLC MKSPF and MLC MKTAP products to assess whether it is appropriate. This included an assessment by our internal actuarial team of the split between flat and percentage based fees, the application of minimum and maximum fee thresholds, the timing of fee charges and fee discounts or rebates. The review considered the reasonableness of the fee structure relative to the provision of

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services, the relative treatment of members and whether cross-subsidisation occurs and if it is justifiable. It also examined whether the attribution of costs that were passed onto members is appropriate.

This assessment found that

- The flat dollar administration fee is appropriate to cover costs that are the same for every member, such as account statements, product maintenance and responding to regulatory change
- The percentage based administration fee is appropriate to cover costs related to the size of accounts, such as unit pricing and risk, with the tiered structure providing some allowance for scale benefits associated with larger accounts
- The Administration fee cap ensures members with relatively high balances are not paying disproportionately higher fees than other members, which can't be attributed to higher costs generated by their membership in the fund
- The Trustee levy which is utilised to explicitly recover trustee and regulatory related expenses, is appropriate and transparent
- Investment management fees apply to the proportion of a member's account balance held in each of the selected investment options, with fees reflective of the underlying costs of manufacture charged
- Other transaction based fees, and product option fees (e.g. optional insurance) are charged on a user-pay basis, and are applicable to the individual member's choice and circumstances
- No cross subsidisation exists between product categories – this is important because it means that fees paid by members holding one product are not used to pay for members holding a different product

It was also assessed that the timing for the deduction of each of the fees categories is appropriate on the basis that they align with the timing of expenditure.

With the above findings in mind, we concluded that basis of setting fees and passing on costs to members of MLC MKSPF and MLC MKTAP products is appropriate.

## The basis of our conclusion

The following factors were found to be supporting NULIS' objective of promoting the financial interests of members:

- *Options, Benefits & Facilities:* members are provided with communication, online tools, and education services that overall compare favourably to peers
- *Investment Strategy:* the investment menu offers members a comprehensive choice of investments which have been assessed as being appropriate to meet their targeted investment objectives
- *Insurance Strategy:* overall, the insurance offering has appropriate terms and conditions and appropriately balances the need of members for protection from death and disability without causing unnecessary erosion of member balances
- *Insurance Fees:* On balance, the cost of the opt-in insurance offer is appropriate
- *Scale:* the scale of NULIS' business operations is substantial, which allows us to invest in assets that may not be available to members in smaller funds, hold sufficient liquidity in times of unexpected member drawdowns, and reduce risk through investment pooling
- *Basis of Setting Fees:* fees are charged and costs are attributed to members in an appropriate fashion

In terms of areas identified where NULIS could do better, we have identified that our operating costs are too high. We are working to rationalise our products and systems to reduce our operating costs in the longer term.

Having regard to all the factors we assessed in performing the Annual Outcomes Assessment for the 2020 calendar year, we have concluded that overall, **the MLC MasterKey Super and Pension Fundamentals and MLC MasterKey Term Allocated Pension products are promoting the financial interests of members.**



#### Important information

NULIS Nominees (Australia) Limited (ABN 80 008 515 633 AFSL 236465) (NULIS) is the Trustee of MLC Super Fund (ABN 70 732 426 024) (Fund). You should consider the Product Disclosure Statement (PDS) before making an investment decision in relation to this product. A copy of the PDS for MLC MasterKey Super and Pension Fundamentals is available at [mlc.com.au](http://mlc.com.au) or by calling 132 652. A copy of the PDS for MLC MasterKey Term Allocated Pension can be requested by calling 132 652. MLC Wealth Limited has conducted the Outcomes Assessment on behalf of NULIS. The Outcomes Assessment is based upon data collected in the 2020 calendar year. The relevant data and assessments reflected in the Outcomes Assessment may change from year to year. This document has been prepared for reporting purposes only and should not be used for the purpose of informing investment decisions. This information is of a general nature only and does not take your specific needs or circumstances into consideration. You should consider the appropriateness of the information having regard to your personal situation before making any financial decisions. Past performance is not a reliable indicator of future performance. The value of an investment may rise or fall with the changes in the market. Returns are not guaranteed and actual returns may vary from any target returns described in this communication. The final authority on any issue relating to members' interests in the Fund is the Fund's Trust Deed, and any relevant insurance policy, that govern members' rights and obligations.

MLC Limited is a different entity from MLC Wealth Limited. MLC Limited uses the MLC brand under licence. MLC Limited is part of the Nippon Life Insurance Group.

(1) Source: Chant West's Benchmarking Report (July 2020) & Chant West's Member Outcomes Dashboard (February 2021). Zenith CW Pty Ltd ABN 20 639 121 403 (Chant West), Authorised Representative of Zenith Investment Partners Pty Ltd ABN 27 103 132 672, AFSL 226872 under AFS Representative Number 1280401. Information provided is subject to copyright and is provided in good faith. No representation or warranty is provided in relation to its accuracy. Except for any liability which cannot be excluded, Chant West does not accept any liability whether direct or indirect, arising from use of this data. For more information, go to [www.chantwest.com.au](http://www.chantwest.com.au).