The Australia Institute

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Media release

Retirees worse off due to excessive super fees

Up to a quarter of the retirement savings of some Australian workers are being eroded by excessive fees, according to a new study by The Australia Institute.

Fees and commissions on superannuation cost the country more than $14 billion per year – or around half the total cost of paying the age pension. These enormous administration costs will inevitably place a greater burden on taxpayers as more retirees come to rely on the pension because of insufficient savings.

The case for a universal default superannuation fund reveals how a shake-up of the superannuation system could lead to some wage-earners being up to $100,000 better off upon retirement.

"There has never been a proper debate in this country about the issue of superannuation fees and how to minimise them. This paper is designed to help open up that debate," said Research Fellow Dr David Ingles.

"Evidence clearly shows that most people simply accept the default option offered by their employer. Many don't even realise how much of their money is eaten away by fees."

Administrative costs of 1.35 per cent can reduce final super fund balances by up to 27 percent, or over $130,000 for a worker on the average wage. By contrast, a low-cost passive management fund could slash administrative fees by half or more, increasing final payouts considerably.

The Institute's proposal is to provide a safety net for those workers who are not currently protected by an adequate default fund through their industrial agreement. At present, between six and 16 per cent of the workforce are at risk of being placed in a high-cost account if they do not make an active choice about their super.

The universal default fund would be open to any worker who wanted to opt into it and take advantage of the very low fees it would charge.

It could also be used to address the problem of 'lost' and multiple accounts. Policy-makers have failed to provide a permanent fix to the multiple accounts issue, even while commercial super funds profit enormously from fees on inactive super accounts.

The paper also proposes that super funds who want to charge fees of more than one per cent be required to seek permission to do so from each member affected.

"This would ensure that high fees are being charged only with the informed consent of fund members," concluded report co-author Josh Fear.

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