TITLE: **Super slick**

AUTHOR: **Josh Fear**

PUBLICATION: **ABC Unleashed**

PUBLICATION DATE: **16/10/09**

LINK:
https://www.tai.org.au/index.php?q=node%2F19&act=display&type=1&pubid=677

Most of us like to complain about the banks from time to time, but compared to some parts of the superannuation industry the banks seem like the good guys. That's because many commercial super funds are profiting enormously through excessive fees on the savings of ordinary workers.

Every year, Australians pay $14.3 billion in fees on their superannuation. Consumers pay less than half that much in bank fees, at $6.7 billion. Most of us would use some kind of banking service every week, but we don't expect nearly as much interaction with our superannuation funds.

Putting this another way, the fees we pay to those who administer our superannuation accounts are equivalent to half of what it costs the government to actually pay the age pension. That's not to administer the pension - that's to actually put money in the pocket of the two million age pensioners in Australia. But because the management of super assets is a private-sector concern, we have blithely accepted that the current level of fees is reasonable. If that is what the market has decided, the argument goes, we'd better pay up.

In fact, in all the arguments about superannuation over the years we have never had a proper debate about what level of fees are appropriate in a compulsory retirement savings system. Instead, we have focused on other dimensions of super policy, such as what the mandated rate of super contributions should be.

Fees across the superannuation sector are around 1.35 per cent of funds under management. That doesn't sound like much, but for a typical superannuation balance of $80,000 it equates to $90 per month. That's roughly the same as the average monthly electricity bill, and probably more than you would pay for high-speed internet access.

If our super funds sent every worker a bill for $90 each month, fees would come down quickly as everyone looked around for a better deal. Instead, they deduct them incrementally from fund balances while nobody notices.

Fees of one per cent reduce final payouts by around a quarter. Fees of two per cent, which are quite common among retail funds, can halve retirement benefits. For an average worker stuck in a fund charging a 2 per cent fee, that's $200,000 or more that they won't have when they retire.

The Coalition Government's choice of fund policy was expected to bring fees down by stimulating competition and encouraging people to take an active interest in their superannuation arrangements. Instead, just one in 25 workers switches funds each year, and half of this small amount of switching is due to job change rather than active choice.

The result is fees that are still too high, particularly in the for-profit sector. Much of what passes for competition in the superannuation industry is now structured around intermediaries such as financial advisers, rather than fund members. Most workers (as many as 90 per cent in some funds) don't even choose how their fund invests their money, so this decision is made by the trustee on their behalf.

Under the present system, fees for those who don't choose a fund can vary dramatically depending on which default fund they are placed into. That retirement payouts can differ so much simply by virtue of which employer someone happens to have is truly bizarre.

It is time that the superannuation system is changed to take account of real-world human behaviour, rather than theories about what 'rational' investors would do under ideal circumstances. The first step in this process is to overhaul the current system of defaults - that is, what happens when people do nothing about their super.

The Australia Institute has recently proposed that the government set up a low-cost default fund to provide a safety net for workers who are not currently protected by an adequate default fund. This universal default fund would invest 'passively': rather than trying to beat the market, it would invest across the Australian Stock Exchange, or a similar index of shares. This would remove all the expenses associated with paying fund managers to try and pick winners.

Fees for such a universal default fund would be less than half the current average, and less than a quarter of what a typical personal retail fund currently charges. This could increase final retirement payouts by $100,000 or more.

A universal default fund - or something similar - would also solve once and for all the problem of multiple accounts. There are around 10 million workers in Australia, but there are 32 million superannuation accounts, and fees are paid on each and every one.

Once an account becomes inactive - that is, once someone leaves their job - they can be 'flipped' into another 'plan' with much higher fees. This is one of the true scandals of the present superannuation system. A universal default fund would capture all of these inactive and 'lost' accounts, preventing commercial super funds from profiting from the disengagement of millions of Australian workers.

The Government has established the Cooper review to help reform super, and not before time. I hope the new minister for superannuation, Chris Bowen, grasps this opportunity to give average Australian workers an extra $100,000. All he has to do is take it off the super industry.