

16 December

MEDIA RELEASE – New research showing more competition in super needed, but an auction model ineffective

Two years after the Financial System Inquiry (FSI) it is clear Australia's mandatory superannuation system requires competition enhancing reforms if it is to deliver better outcomes for the next generation of consumers.

However, new research shows clearly that a government-run auction or tender system is not one of these.

New research by independent superannuation ratings agency Chant West released by the Financial Services Council today shows that one of the FSI recommendations, an auction system for default super, would be ineffective because MySuper, the simple low-cost product employers must offer as a default option, is already doing its job.

Chant West found that MySuper has brought down fees and bolstered net returns for Australian consumers more effectively than a comparable Government-run auction system has done in Chile.

The Chilean system was featured in the FSI as an option for consideration for Australia. The current Productivity Commission review into efficiency of the superannuation system is also considering an auction-style model.

Sally Loane, FSC CEO said: “We agree with Chant West’s findings that a tender system, while relevant for Chile, has little or no relevance for Australia given our different structures, and more sophisticated investments.

“MySuper has done exactly what it was designed to do – deliver lower fees and higher net returns for consumers. Calls for a radical overhaul of the Australian system to introduce a government run auction are wrong because they’d leave consumers worse off.

“The focus here should be on improving our system to allow consumers more choice and to open up the protected default system to competition.

Key findings:

- Using the OECD’s methodology for comparing fees, the average MySuper administration fee is 0.25% pa compared with the average Chilean pension fund administration fee of 0.62% pa.
- Whilst it is true that consumers of the Chilean fund that won the auction pay only 0.17% in administration fees, only 10% of all consumers benefit from this rate.
- Australian funds' investment decisions are superior to their Chilean counterparts. Whilst investment costs in MySuper products are higher than Chilean AFPs – 0.59% pa compared with 0.50% pa – the lower Chilean investment fee is because those funds invest almost solely in equities and bonds whilst Australian funds invest in higher returning alternative assets, like infrastructure.

The Chant West report makes it clear the major issue with the Australian system is the proliferation of sub scale, high fee funds. There are 39 sub scale funds under \$2 billion in size that collectively manage over \$31 billion in retirement savings across 1.2 million accounts.

Sub scale funds charge, on average, higher fees and provide lower standards of service to their consumers. Analysis by Rice Warner Actuaries shows that the average sub scale fund charges 141 basis points in fees, 28% higher than the average superannuation fund.

“Under our current default system, old fashioned industrial laws prevent the market being opened up to competition. These laws also mean many consumers are defaulted into funds that are both high fee, and underperforming, and yet they don’t have the choice to change funds,” Ms Loane said.

“As many as two million consumers have their right to choose their own fund removed by a union-negotiated enterprise agreement.

“Consumers will be best served by allowing everyone to choose their own fund, and by allowing all funds to compete on a level playing field.”

ENDS

For further information please contact FSC Media Manager Mark Smith on 0434 566 764 or msmith@fsc.org.au.

About the Financial Services Council

The Financial Services Council represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The Council has over 100 members who are responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia’s GDP and the capitalisation of the Australian Securities Exchange and is the third largest pool of managed funds in the world. The Financial Services Council promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.