

Herald Sun OpEd  
Superannuation fees

\*By John Brogden

In our compulsory superannuation system, it is right that the cost of managing peoples' savings is scrutinised and minimised.

The superannuation industry agrees with this.

The lower the fees paid for managing everyone's superannuation the more people will have in retirement.

The government knows this is important and has created the simplified MySuper products to ensure fees are as low as they can possibly be.

Whilst MySuper is only 15 months old, it has already seen a real reduction in fees. However we, believe fees can go lower.

Research conducted by Rice Warner Actuaries shows that MySuper has had an immediate and significant impact on fees in default superannuation.

Superannuation fees have shown a steady decline over the past decade driven by greater competition.

Whereas total fees declined from 1.37 per cent to 1.2 per cent between 2002 and 2011, a significant decline in its own right, the decline has accelerated in the past two years.

Overall fees declined a further 0.08 percentage points to 1.12 per cent in June 2013.

While all sectors have experienced a reduction in fees, MySuper default products have driven the majority of the decline.

Between 2011 and 2013 fees in MySuper default products declined from 0.92 per cent to 0.73 per cent.

Given that 80 per cent of Australians default, this means the vast majority of Australians are receiving the benefit of MySuper immediately.

At 0.73 per cent, MySuper products compare favourably to the other countries such as the United States 0.77 per cent, Canada 0.92 per cent, Norway at 74 per cent and Hong Kong 1.3 per cent.

MySuper has been a path-breaking change for millions of Australians who default in their superannuation.

And superannuation fees need to be given the opportunity to go even lower through reform in the way default superannuation funds are selected by the introduction of an open, competitive and transparent market.

Employers must have a default fund for employees who do not select a superannuation fund.

At present, award-reliant employees must have their default contributions paid to a limited set of MySuper default funds listed in Modern Awards chosen by the Fair Work Commission.

The FWC review of default super funds in Modern Awards is conflicted. Only unions and employers are entitled to make submissions to the second stage of the review, ensuring that industry funds, which they own, dominate award listings to the exclusion of retail funds.

The only way default superannuation will be truly competitive – the only way the 80 per cent of Australians who default will ever get the best price, product and returns available – will be when superannuation is removed from the conflicted industrial system and competition is allowed to drive down fees further.

Fees are only half of what makes a good pension system.

Investment returns to the fund are just as important.

If higher fees also result in better management and higher net returns, then the higher fees are justified.

The median return since the start of compulsory superannuation 22 years ago to June 2014 was 8 per cent per annum which is 5.4 per cent above inflation.

This is net of investment fees and tax and well above the typical return objective of CPI plus 3.5 per cent.

Research by Deloitte shows that Australia's Superannuation system is delivering high returns even though fees are among the lowest in the world.

The Deloitte Access Economics report also compared Australia's superannuation system against 12 other systems internationally and concludes:

Of the twelve jurisdictions included in the review, Australia has the third highest returns.

On any measure this is definitive evidence that Australia's superannuation system is working.

Superannuation is achieving its aim of delivering higher incomes in retirement for Australians and it is beating other pension systems in the world by delivering higher returns and lower fees.

The MySuper system needs to be given the freedom and the time to drive the fees in the default market even lower.

\*John Brogden is CEO of the Financial Services Council

11 September, 2014