## SENATE SELECT COMMITTEE ON SUPERANNUATION

# Superannuation and standards of living in retirement

# Response to a request for additional information and a supplementary submission by Ross Christie 25 June 2002.

# Additional Information

Information Requested

Senator Sherry asked if I could get some numbers on the proportion of the Australian work force that are in what I outlined as low or lower fee products as distinct from the proportion of the work force who are in high-fee products. Senator Sherry said he was particularly thinking about the compulsory SG component.

Commentary

Most of the information generally available is provided on the basis of collective data which gives the size of the various sectors and the average total fee costs in that sector. Examples of these tables are taken from the ASFA research document; "Are administration and investment costs in the Australian superannuation industry too high" dated November 2001.

More precise data may well be available from APRA although I suspect that many small employers that make use of a retail product rather than an industry fund have not been captured in surveys conducted in the past or form part of the retail category.

**Table 2.3: APRA estimates of fund operating costs adjusted for external investment management costs, June 2001**

| Type of fund | Costs as a % of assets |
|---|---|
| Corporate | 0.7% |
| Industry | 1.0% |
| Public sector | 0.6% |
| Retail | 2.0% |
| Small funds | 1.8% |
| **Total** | **1.3%** |

Source: APRA estimates adjusted by ASFA Research Centre

**Table 3.3: Aggregate administration and investment costs by type of fund. June 2000**

| Type of fund | Assets at June 2000 $ billion | Av. account balance $ | Costs as a percentage of assets | Members million (a) |
|---|---|---|---|---|
| Industry | 36.6 | 5,590 | 1.35 | 6.545 |
| Corporate | 77.3 | 53,800 | 0.78 | 1.437 |
| Public sector | 110.4 | 40,550 | 0.49 | 2.722 |
| Retail | 133 | 18,350 | 2.4 | 8.3 |

Source: ASFA (a) from Table 3.1

I sought some advice from Mr Alex Dunnin of Rainmaker who said "I would think about the issue from the perspective that corporate master trusts have around 3 million accounts and manage around $50 billion in superannuation assets (this of course means master trusts that offer their services to companies, only a small proportion of which probably qualify for heavily discounted fees). But even if we assume only personal master trust and regular retail super managed fund members pay traditional retail fees of around 2% then we would still have 37% of super accounts across the market paying more than 2%."

In this context the ASFA estimate of only 3% facing fees of over 1% of assets is hard to reconcile particularly when it acknowledges that the average fee is 1.3%.

Alex Dunnin made another useful observation on the issue; "I would also caution against this "SG" fund focus anyway because with SG only accounting for half the $55 billion in super contributions each year I would say to only focus on SG is not the point as people are contributing extra into their super funds because they are already associated with that fund because of the SG. To look at SG in isolation again misses the point, especially as they are in danger of implying that we should not be concerned about fees on non-SG monies. And furthermore, their follow-up claims that people paying higher fees are those who have chosen to do so clearly ignores the compulsory nature of superannuation".

Even if one acknowledges that many are involved in a low cost fund in their workplace this only continues until that employment ceases. Should a member visit a vast majority of financial planners on changing employment during their working life they will be typically presented with a recommendation to roll their accumulated benefit to a retail fund rather than retain a preserved benefit in the not for profit fund. The former fund pays a commission to the financial advisor the latter does not. So the advisor wins and the client loses.

The number and average size of retail accounts suggests that these are not just the play thing of a few who are well off but represent a significant proportion of the superannuation savings of ordinary Australians. The fees in these products impact on the level of their retirement income and directly on the demands they will make on the Age Pension.

When considering this issue we should not ignore the large number of small employers who use retail products for their employees. These are products designed to attract SG business but are not low cost products. One example is a bank product that even quotes an administration fee of $1 a week (similar to most industry funds) but then has direct investment expenses which are at least 0.2% higher and also has an “administration asset fee” of :

1.25% on first $10,000
1.00% on the next $40,000
0.75% on the next $100,000
0.25% on the balance

I have seen a case where this product was promoted on the basis that “Ongoing fees for both funds [this fund and an industry fund] are the same”.

The dismissal of the 38% of members and 32% of assets that are present in the retail sector of the superannuation system as shown on page 18 of the ASFA research paper suggests these people are somehow outside the area of concern to the industry when addressing the issue of the impact of fees on adequacy – if the average fee is 2.4% not much of this money can be in “moderately priced funds”

The question put to me cannot be precisely answered with the publicly available data but the general data certainly does not invite the conclusion reached by ASFA. My experience would suggest to me that well over 10% of the workforce do not have access to low cost non-commission products for their present work based superannuation and that many are advised to move there money into high cost products when they change jobs. The numbers and amount of money in retail superannuation invites that conclusion.

# Supplementary Submission

During the proceedings of the Select Committee in Sydney I recall the Chair suggesting that many comments are made about the complexity of superannuation but few suggestions are made for simplification.

I just wish to reiterate what I submitted as major simplification issues:

> The tax structure proposed for contributions maintained government revenue, enhanced equity but in terms of simplification completely removed the surcharge collection and tax office monitoring system. This is currently an area of gross inefficiency.
>
> I also proposed the removal of the RBL mechanism and its replacement with a limit on the rebate available on income streams. This view was also put to the Committee by the CPA’s.

Ross Christie