AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

SHAPING PROFIT-TO-MEMBER SUPER

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Super's next decade – where would you rather be?

Research shows members not in MySuper could be up to $50,000 worse off.

Australian workers who invest their super in funds outside the high performing MySuper sector could be as much as $52.5 billion worse off in a decade's time, according to new research from Rice Warner.

The Rice Warner research – commissioned by the **Australian Institute of Superannuation Trustees (AIST)** – points to significant differences in future retirement outcomes between members of MySuper funds compared to other products in the so-called "Choice" sector.

The research – which uses past performance data – also provides forecasts for individual outcomes and suggests that individual members who remain in underperforming Choice products could be as much as $50,000 worse off at retirement compared with those who invest their super in a MySuper fund.

AIST CEO Eva Scheerlinck said the research findings were timely given the damning evidence out of the Royal Commission about bank and insurance super funds, where most members are in poorly performing funds outside of the more highly-regulated MySuper sector.

"The time has come for every Australian to carefully examine their super and consider the long-term benefits of investing in a good value, high performing, not-for-profit MySuper fund," Ms Scheerlinck said. "While investing in more defensive assets might be a valid reason to choose product other than MySuper, the Royal Commission has shown us that many people who choose their super fund end up in poor performing bank-owned super funds because of conflicted financial advice."

Rice Warner CEO Michael Rice said the results suggested those who made a choice to invest their super outside of the MySuper sector were likely to experience a worse outcome.

"There is a general view that members who choose to invest their super outside MySuper products should achieve a better outcome as they are tailoring their investment decisions to their personal circumstances and financial goals," Mr Rice said. "However, our research shows that well managed MySuper products with low fees are likely to deliver better outcomes for members over the long run."

The Rice Warner report notes that $52.5 billion equates to 3 per cent of GDP and is more than an entire year of Age Pension Outlays.

"High fees and poor performing Choice products are a drag on the efficiency of our super system, which ultimately is a cost to all Australians in the form of higher Age Pension costs," Ms Scheerlinck said.

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AIST is advocating for greater disclosure of fees and costs in the Choice sector and for for-profit retail funds to be banned from the MySuper sector.

"AIST believes there is no place for retail funds in MySuper where members in a compulsory super system have the right to expect the highest level of protection," Ms Scheerlinck said.

Key findings of the Rice Warner research

- Collectively, Choice members could be as much as $52.5 billion worse off in ten years' time compared to MySuper members.
- If all members of APRA-regulated funds had fees and returns consistent with the average MySuper product, super assets would be $52.5 billion high in (today's dollars) in a decade's time.
- Modelling for singles and couples with different income levels and also for those who take a five year career break, shows that in every scenario individuals are worse off in the Choice sector.
- For low income people ($30,000) the difference in retirement balance is around $17,000; for medium income ($60,000) the difference is $30,000 and for high income ($100,000) the difference is about $50,000. At all income levels, this difference in percentage terms is about 10%.
- While the Choice sector has a higher proportion of older members invested in defensive assets, high fees – notably in retail Choice funds – are also key factors behind the underperformance.
- The average total fee (excluding advice fees) in the Choice sector is 0.83%, compared to 0.78% in MySuper.

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AIST is the peak body for the $1.2 trillion profit-to-member superannuation sector which includes industry, corporate and public-sector funds.

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