

Fee fears forget value debate

Some are concerned the Grattan report has missed the point

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TOM Garcia is one of several observers concerned the Grattan report places more emphasis on costs than on net returns.

"MySuper was designed to move the discussion away from fees and towards value — that is, net returns," he said, referring to the introduction in July last year of a low-cost, no-frills superannuation system for disengaged employees, the vast majority of whom do not actively choose their fund.

Mr Garcia is the Melbourne-based chief executive of the Australian Institute of Superannuation Trustees, whose often unpaid job is to secure the best retirement outcomes for their fund members.

For instance, net returns for the average superannuant for this financial year are expected to be more than 10 per cent overall, inclusive of the MySuper funds that to date have mostly been rebadged industry funds, according to unrelated superannuation consultants Chant West

This compares with estimated average fees per year of 1.23 per cent for all APRA-regulated funds in Australia.

And Mr Garcia believes the Grattan Institute is coming to a very early conclusion in claiming that MySuper will not drive fees down to any significant extent.

"It seems very early to make a call about My Super," he said.

"It officially started this year, so to say by Easter that it is not working seems a little premature."

When it introduced the Stronger Super reforms in 2011, the Labor government said it would reduce the average fees paid by super fund members by up to 40 per cent or about 0.5 of 1 per cent overall.

The Grattan report concluded that "even if the cost-reducing reforms do lead to annual savings as high as the most optimistic estimates and the funds fully pass on the reduction in fees, this will only reduce fees by about 0.1 per cent of funds under management per year".

Mr Garcia noted Australian superannuation was much more heavily weighted to risk assets



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Australian Institute of Super Trustees chief Tom Garcia. 'To say ... that it is not working seems a little premature'

than most other superannuation systems around the world. While the other systems rely much more on safe but comparatively low-returning fixed interest investments, equity investments tend to require closer and therefore more expensive scrutiny from managers.

"Part of the issue in Australia is that we are way out of whack with equities compared to other markets," he said.

He wasn't criticising, particularly since those equity-heavy portfolios produced some of the best performances in the developed world in the 2012-13 financial year, when the median growth super fund account in Australia managed a return of 15.6 per cent.

Growth assets, which represent between 61 per cent and 80 per cent of such accounts, consist of local and international shares, and real estate assets.

Mr Garcia also identified a perverse problem, albeit temporary, in that fees had gone up in Australia because of the introduction of new legislation such as the Future of Financial Advice and MySuper, both of which were designed to bring down the cost of superannuation in the long run and increase the number of members getting advice.

However, he was positive about the way superannuation funds were forced to compete for inclusion in the menu of default funds that new employees could be put into as part of a modern award system, despite the hostility of the retail funds that considered themselves disadvantaged by it.

He said that it was a "quasi

version" of the centralised default fund system proposed by the Grattan report, by which central managers of super schemes were able to auction the right to manage low-cost funds.

Pauline Vamos, chief executive of the Association of Superannuation Funds of Australia, agreed with Mr Garcia that the focus of any examination of Australia's super system ought to be on net returns and not merely costs.

And she indicated that Australian super was one of the best performers of its type in the world.

"When you compare the performance of the Australian superannuation system against other systems that have a similar asset-allocation policy, such as Mexico, Hong Kong and many of the US 401(k) models, Australia compares extremely well," she said.

Fee range in superannuation, 2013

