

Media Report

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Make your choice count

By Susan Hely

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COVER STORY - SUPERANNUATION CHOICE

HOW THE TOP PERFORMERS RATE Investment returns at 30/04/05	1 year (%)	3 years (% pa)	5 years (% pa)
Top quartile	12.0	6.9	6.1
SuperRatings balanced option index	11.1	6.1	5.3
Bottom quartile	10.1	5.0	4.1
Average	11.1	6.1	5.3
Standard deviation#	1.4	1.4	1.6

#This is not percentage result, rather it is a measure of variation of percentage returns.

Source: www.superratings.com.au

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Your superannuation fund is most likely your second biggest asset outside of the home. With choice of super, you have more power than ever over your future.

Being in the right superannuation fund is important for your long-term wealth, but until now the decision about which fund you were in was out of your hands. Instead, this choice was dictated by your employer or your union - but not any more. From now on, you have the power to choose a superannuation fund from the hundreds that are on offer.

Over the next few weeks, about 654,000 employers will tell five million Australians that they are eligible to choose their own superannuation fund. Employers must send out a standard choice form to their employees by July 28. What this means is if you are less than happy with the performance or the fees charged by your superannuation fund, now you can move to a better fund. Or if you have always dreamed of running your own superannuation fund, and you have a high account balance, it could be time to establish a self-managed superannuation fund.

The good news about being able to choose our own superannuation fund freely is that we all stand to be the winners as competition heats up between funds vying for our retirement savings. You will reap benefits such as lower fees, better insurance deals, and improved communication and administration.

One of the positive consequences of choice of superannuation fund is a new regime of disclosure that makes the true costs taken out of your fund much more transparent. This can be a revelation, and allows you to look more closely at your own superannuation fund and compare it to other funds to see if you are getting a good deal.

The new fee disclosure regulations have already prompted a number of financial institutions to trim their fees, including ING, AMP and lately BT, which slashed up to 32% off the cost of 52 of its funds. Funds are also sharpening up their insurance deals to members. The public offer superannuation fund VicSuper, with \$3 billion under management, is one of many funds that

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reviewed their insurance. It is offering higher levels of coverage for an extra 10¢ a week, and greater flexibility for income protection insurance.

There is certainly no better time to come to grips with your own superannuation fund because the information is clearer than ever before. Your superannuation is likely to be the biggest asset you will own outside of your home, and will be needed to fund a long retirement. Certainly superannuation is a complex buying decision that is for the long term, not the short term, and you need to weigh up lots of different information about funds.

One of the arguments against introducing choice of superannuation fund is that Australians know little about their superannuation. Research by Roberts Research Group found that 57% of Australians feel that they have inadequate knowledge about their superannuation fund. It also found that 59% cannot distinguish between accurate and inaccurate information when it comes to super, 63% believe financial planners give information based on their own self-interest and only 30% would be comfortable with making a choice about their superannuation fund.

Principal of Roberts Research Ken Roberts says he found that 53% of fund members read less than half of what is sent to them by their superannuation fund, including what is sent by e-mail. Roberts says Australians are going to base their decisions on inadequate knowledge. For example, 63% of employed adults claimed that their choice would be based on the performance of the fund in the past 12 months. Another 74% said they would choose a fund that offered "free" financial advice, illustrating the attractiveness of no-cost financial recommendations.

If you are not up to speed with your superannuation fund, there is no need to rush into super choice, explains Michael Davison, a superannuation adviser with accounting body CPA Australia. Choice is not compulsory and you do not need to act, he says - it is best to remain in your existing fund and improve your understanding first. "Employees should first familiarise themselves with their existing fund to decide if it suits their needs or to ensure they can properly compare it with other funds," Davison says.

You may wish to consult a financial planner or, if you like to research your own investments or if you do not have a large balance, there are other ways to find out about your fund. Over the past couple of years, finding information about your own superannuation fund and others has got much easier. Choice has encouraged an increasing number of super funds to supply information to the research houses that have popped up to compare different superannuation funds. Look at the fund information and ratings from SuperRatings (www.superratings.com.au), SelectingSuper (www.selectingsuper.com.au) and Chant West (www.chantwest.com.au).

They provide fund information, but if you want more in-depth material, some research houses sell detailed research to the public. SuperRatings charges \$19.95 for a two-page "What's What" summary of a superannuation fund, or \$39.95 for a five-page "Fundamentals" review. It is offering discounts for multiple purchases. If you want to compare two superannuation funds, SelectingSuper will put together a side-by-side comparative report card for \$169.

More than 450,000 Australians are expected to switch superannuation funds, according to research by the Association of Superannuation Funds of Australia (Asfa). What sort of people will change funds? Those with high account balances, those keen to set up their own self-managed superannuation fund, and young people are expected to move to another fund, according to research from **FuturePlus** Financial Services. It found that 47% of Australians aged between 25 and 34 are most likely to switch funds while only 17% of Australians aged over 55 will change funds.

But although there are many positives with super choice, there are also pitfalls, Davison says. The key to making an informed choice is doing your homework, similar to when you take out a mortgage. "What you decide today could make a huge difference to your future," he says.

The advertising blitz is already under way as financial institutions and superannuation funds reinforce their brands and services. But expect much more, particularly when newcomer Virgin enters the superannuation market with a \$30-million advertising budget for its fund.

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What do you need to know when it comes to your superannuation? As a minimum, you need to understand what money is going into your superannuation fund, such as contributions and income, says Jeff Bresnahan, managing director of SuperRatings. You also need to know what money is taken out of your fund, such as adviser commissions, administration fees, insurance premiums and investment management costs. "Such monitoring at least provides the basis of understanding and hopefully improved retirement conditions," Bresnahan says.

On the Australian Securities & Investments Commission's web site, the regulator recommends what to find out about each fund. It also has a super fund comparison worksheet (www.asic.gov.au and click on the "Fido" consumer web site link). Asfa has a super guru that answers common questions about choice (www.superannuation.asn.au) and the Federal Government's own super choice web site can be found at www.superchoice.gov.au.

But before you leap, consider your own fund. There are some great employer funds that are hard to beat, with low fees, top investment performance, low cost insurance and a range of services such as financial planning, member benefits, allocated pensions with minimal fees and financial education. Employer funds also employ highly qualified asset consultants who visit and evaluate investment managers and advise on the selection of investments. If you still want to switch, here is what to watch out for:

Performance: Look at the long-term performance over three, five and 10 years as well as the short-term performance. SuperRatings has provided the figures on the returns of the top 55 superannuation funds over one, three and five years for balanced options that invest between 60-76% in growth assets (see table on page 38). Bresnahan says about 80% of all superannuation fund members have their superannuation in these balanced funds. There are big variations in performance. For example, over five years until the end of April this year, the best performing fund is the industry fund REST. Its core strategy had an average return of 8.8% a year, while the BT Lifetime Balanced Return Fund earned only 1.9% and ranked 44th.

Over three years, the industry fund MTAA's balanced option returned an average of 10.3% a year, while the Axa Super Directions Balanced fund, in 53rd place, earned only 3.7% a year - a difference of 6.6% a year.

Over one year, the top fund, again the MTAA balanced, returned 15.9% for the year, and the poorest performing, Axa Super Directions in 55th place, earned 8.4%, a difference of 7.5%. Fees can have an effect on fund performance.

Insurance: The insurance arrangements can vary from fund to fund, so make sure that the costs and benefits of a new fund measure up with the old fund. A recent survey of 52 superannuation funds by Chant West found that insurance costs can differ markedly, and changing funds could cost people considerably more. For example, a 40-year-old male could pay \$55 for \$100,000 worth of death and total and permanent disablement (TPD) cover with one superannuation fund. He could pay \$367, or seven times more, with another fund. In some cases the cost of retail insurance is cheaper because retail funds distinguish between occupation, gender, and smokers and non-smokers, whereas other funds that offer automatic insurance cover, such as industry funds, do not. Industry funds cross-subsidise other fund members, while retail funds typically do not. Fiona Halsey, from legal firm Halsey & Associates, says people's health typically deteriorates as they age, and although they get good automatic insurance when they are 20, the insurance criteria changes as they age. For example, if they are diabetic, they could have trouble getting a good insurance deal.

Fees: Watch out for the fees that come out of your superannuation fund. Australia's superannuation fund members paid about \$8 billion in fees for services such as investment management, administration, compliance, trustee costs and insurance in 2003-2004, according to a report by the actuarial consulting and research group Rice Walker. This is more than 1% of total superannuation assets. If you pay less in fees, then there is more money in your retirement savings. If you pay high fees, you are sacrificing the future compounding of investment earnings. About 70% of Australians are paying low wholesale fees in their super fund and are getting a good fee deal. According to Rice Walker, the average fee for non-retail funds was 1.29% over 2003-2004, rising to 2.3% for retail funds.

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Industry funds do not seek to make a profit from superannuation, unlike the banks and other large financial services groups that need to make profits for shareholders. The average industry fund could pay out about 20% more than an average master trust over 20 years because it does not charge sales commissions and has lower fees than retail funds. SelectingSuper's top 20 table on page 36 shows that personal master trusts have markedly lower returns than industry funds over five years.

Take the Axa Super Directions fund, which charges a fee of 2-2.6%. It returned an average of 2.4% a year over five years, but industry fund REST, with a fee of 0.7%, earned an average of 8.5% a year over five years. Asgard Superannuation Account returned an average of 1.7% a year over five years after fees of 1.92% to 3.72%, while industry fund STA charged 0.65% and returned an average of 6.3% each year over five years.

Some investors assume that if they pay a higher fee, there is likely to be a higher performance, but there is no connection between performance and fees.

Watch out if you change employers but leave your money with your employer's wholesale corporate master trust. Your money will be moved to the retained benefits division, where fees such as administration and insurance will rise sharply.

Binding death nominations: If you die, who will inherit your superannuation? If you have nominated a beneficiary, you might be surprised to find out that not all nominated beneficiaries are binding. This means that your beneficiary may not receive all of your superannuation because your ex-wife, or children from other marriages, may contest the estate. Only a small number of superannuation funds offer binding death nominations.

Most allow the super fund trustee to determine who receives the death benefit. Halsey says a binding death nomination is like having a will. A non-binding nomination is akin to saying at the dinner table "I'd like Sarah to have my car". It is a nice indication of the deceased's wishes, but not binding on the trustee.

If the fund offers binding death nominations, and the member properly completes one of these within the relevant time period, then the death benefit will be paid as directed.

"I have seen cases where the 'beneficiaries' are very distressed, as they were under the impression that they will surely receive all of the death benefit due to the 'nomination', which has been completed by the member," Halsey says.

At a time when the potential beneficiaries are already distressed due to the death of the member, the fact that they will not automatically receive the money adds to this distress. There can also be considerable delay because in a case where there is no [binding death nomination], the trustee must make a decision." Halsey says that this means trustees will need to consider competing claims, and this can take several months.

"The issue is compounded if the member holds their life insurance through superannuation. This is because then the beneficiary (or beneficiaries) of the life insurance payment will also be determined by the trustee of the superannuation fund," she says.

The number of superannuation funds offering binding death nominations is rising. As well as retail superannuation funds, large employer funds such as STA and UniSuper have them.

High exit fees: Are you in a superannuation fund with high exit fees? As many as 555,000 Australians have an old-style fund bought from life insurance companies in the 1980s and 1990s as long-term savings products, according to a study by the Australian Securities & Investments Commission (Asic). These funds charge a huge fee if a member takes out their superannuation before retirement. Asic estimates if everyone left their superannuation fund, the total charge would be around \$950 million in exit fees, working out to an average of \$1700 per person.

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"The best option might well be to stay in the fund until the exit fees run out," says Jeffrey Lucy, chairman of Asic. Lucy says that about one third of people going into new superannuation products are choosing an exit fee rather than an entry fee.

The exit fees on newer products are lower than on old-style funds, and any exit fee is usually extinguished if the person has been contributing to the fund for between three and five years.

Retirement savings accounts: Have you been put into a retirement savings account by your employer? You may want to move, because these are like bank accounts and typically invest in cash and deliver low returns. They have no insurance either. Catherine Wolthuizen from the Australian Consumers' Association says the problem with retirement savings accounts is that fund members pay higher fees and end up without life insurance.

WHAT TO EXPECT FROM YOUR EMPLOYER

Of working Australians, 30% are already offered choice of fund by their employers and a further 30% are exempt from choice of fund through workplace agreements and state awards, or because they belong to some unfunded public sector superannuation funds or a defined benefit superannuation scheme. But about 40% of working Australians, estimated to be five million people, will be able to choose where their employer's superannuation guarantee (SG) contributions are paid from July 1.

If you are eligible to choose your own fund, expect a letter from your employer by July 28. First, your employer will choose a complying superannuation fund or a retirement savings account to contribute your 9% SG contributions into. This becomes the default fund, and in most instances it will be the same fund that the SG has been going into up to the June 30, 2005 (see page 40).

Second, they will send you a standard choice form that tells you which fund has been chosen and let you know that you can choose your own fund. Fund members can either do nothing, and stay in their employer's default fund, or choose an alternative eligible superannuation fund.

What is important to remember is if you choose another fund or decide to set up a self-managed superannuation fund, your employer is only obliged to pay the SG contributions into the alternate fund. Any additional contributions, such as the salary sacrifice payments, are paid into the employer's default fund.

Superannuation accumulated before July 1, 2005, is not affected by the choice of fund legislation, but it is covered by portability legislation that has recently removed the six-month restriction on moving superannuation, making it easier for members to

consolidate multiple accounts. If you want to choose a different superannuation fund, you must provide your employer with details about the new fund so that they can organise for your SG contributions to be sent to it. This can be done by completing a standard choice form. Once you have provided all the necessary information to your employer, your contributions must start going to your new fund within two months (although your employer can choose to start making contributions earlier).

WHAT SHOULD YOUR ADVISER BE FOCUSING ON?

Financial planners play a crucial role in helping people make superannuation fund choices. Superannuation funds that do not pay commissions to financial planners are concerned that planners will only recommend funds that pay them, and Australians may therefore lose part of their valuable retirement benefits. At the Conference of Major Superannuation Funds, the chief executive of the \$6.5-billion industry fund Hesta (with 500,000 members), Anne-Marie Corboy (pictured below), said: "My fear is that people will be placed in commission-based products."

At the same conference, SuperRatings' Jeff Bresnahan said that anyone who says that there is not going to be mis-selling is in a dream. According to Bresnahan, less than 20% of financial planners are independent, and planners will only advise clients to choose what is on their recommended list. Garry Weaven, executive chair of Industry Fund Services, said financial

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planners will not recommend products that do not pay commissions and will continue until a court case sorts out what is appropriate advice.

This is despite the fact that all commissions should be disclosed and compromised independence should be revealed. To discourage any financial advisers against mis-selling and unnecessary churning of funds to benefit from new up-front commission payments, Asic has set down obligations that planners must comply with.

Asic says financial planners must:

- * Compare your existing fund or funds with the recommended fund.
- * Specifically disclose the costs, loss of benefits and other important consequences of making a switch.
- * Planners should be mindful of the loss of pecuniary and non-pecuniary benefits, including those that may only be lost temporarily such as insurance cover, and benefits that may only be lost in the future, such as the right to a lifetime pension.
- * Ensure that any recommendation to change funds is appropriate for the client, taking into account their personal circumstances, and is not misleading.

Asic plans to keep a close eye on advice related to superannuation.

For More Information Contact:

John Livanas
General Manager Client Services
johnl@futureplus.com.au