

Take care with super choice



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One of this year's big decisions for Australian workers is where to put their superannuation. Until now, they had no say in the matter. Employers simply paid compulsory contributions into the company scheme or another fund of their choice. Now, after years of lobbying, legislation will allow employees to decide who manages their super from 1 July this year.

It is a welcome decision and should have positive effects on the national superannuation system. More competition between funds should reduce fees and force closer scrutiny of investment decisions and relative returns. Lazy fund managers will almost certainly find it harder to earn their commissions. But there will be traps for the ill-informed. A greater say brings with it the usual dilemmas of choice: how much do I know about what is available? Who can I believe? Which option best suits my circumstances? Employees will need to take much more interest in superannuation and employers will face greater administrative costs and complexity.

Choice will particularly appeal to part-time workers and to people with several jobs. They will be able to direct all their superannuation contributions into one fund. This will reduce the incidence of 'lost' superannuation accounts and avoid multiple fees and charges, potentially improving superannuation balances. People who have substantial amounts in super can establish a self-managed fund and also take advantage of the changes to direct employer contributions into it. Not all employees, however, will have superannuation choice. Missing out are most public sector employees, those employed under awards or agreements that stipulate a particular fund and some people covered by defined benefit schemes which pay set benefits regardless of fund performance.

Employers must provide their employees with a 'standard choice form' before 29 July 2005. It provides employees with information about eligible funds they may choose; the date by which they must make a choice; the name of the fund into which the employer will pay superannuation contributions if the employee fails to make a choice; and any other issues specified under regulations. Employers will also be required to provide employees who commence work after 1 July 2005 with a standard choice form within 28 days of their starting date. If an employee fails to choose a fund within 28 days, or if s/he chooses a fund that does not accept contributions

from the employer, then the employer can select the eligible choice fund into which they direct superannuation contributions.

While most employees will welcome superannuation choice, it is important to be aware of the implications of choosing a new fund. Over the next few months fund managers will begin promoting the features and benefits of their various superannuation products. It is vital for employees to carefully consider their options. At times, it may be beneficial to remain with the existing fund. A bad choice can have a terrible effect on retirement savings. For example, using the ASIC superannuation calculator found at <http://www.fido.asic.gov.au>, it is quickly apparent that an employee who switches into a fund that has lower returns or higher fees than their current scheme can cause dramatic difference in the amount s/he will have to retire on. Take the case of someone aged 35 with an annual salary of \$60 000 and a superannuation balance of \$50 000. She decides to switch funds under the new choice of funds legislation. When she is ready to retire at 65, she discovers that the original fund returned an average of 8.5 per cent net per annum over the past 30 years, while her chosen fund only returned 7.5 per cent. This means she has \$351 000 to cover her retirement. If she had not switched funds, she would have had \$426 000. That is a difference of \$75 000, or more than twenty per cent. Even bigger disparities can arise if one fund charges higher fees than the other, even where investment returns are otherwise similar. \$100 000 invested at ten per cent for twenty years with annual fees of 0.5 per cent will generate a final balance of more than \$672 000. If fees are two per cent per year, the return will be less than \$470 000.

This illustrates how important it is for members to make an educated choice if they are considering switching funds. The government is introducing an education campaign that should help. And there will be legislated consumer protection to prevent superannuation funds from offering inducements to employers on the condition that employees join their fund. Perhaps most importantly, sensible people will make sure they are fully aware of their choices and their risks by seeking competent financial advice.

Full details of superannuation choice requirements for both employers and their staff can be found at <http://alia.org.au/members-only/employment/superannuation.html>.

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