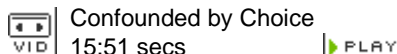


[Close Window](#)**October 30, 2003****Confounded by Choice**

Right now, millions of Australians are receiving their annual superannuation statements. It's a fair bet that most of us are simply putting them in the drawer, thinking there's nothing we need to do. Superannuation is, after all, compulsory. Well, think again. Almost unnoticed, superannuation choice has arrived in Australia. But exercising it isn't easy. Economics correspondent Peter Martin reports with help from humorist James O'Loughlin.

**REPORTER: Peter Martin**

JAMES O'LOGHLIN, HUMORIST: There's nothing to fear about superannuation. It's simple, and to ensure we understand exactly what they're doing, the fund sends us heaps of helpful information, all really easy to understand. For example, here, the funds investment manager may use derivatives to, among other things, adjust asset exposure within the strategy parameters. It's as clear as day.

ALEX DUNNIN, RAINMAKER INFORMATION: It's in here implicitly.

Superannuation is confusing even the experts. The statements arriving in the mail this past week even more so.

ALEX DUNNIN: It's sort of buried in the information there, absolutely agree on that.

Alex Dunnin can't tell at first glance whether this super fund earned anything at all.

ALEX DUNNIN: It provides information on the fourth page of the statement, that's fine.

On the front page, it says the money in the account is growing. But that's misleading, because the account is likely to grow each year anyway, as an extra 9% of the member's wages are directed into the fund. The money already invested needn't be earning a thing. And if the earnings are hard to find in the statements, the fees taken out to obtain those earnings can be impossible to find.

IAN RAMSAY, MELBOURNE LAW SCHOOL: Some member statements are quite good at providing helpful information, but it would also be true to say that a very large number provide actually no information concerning fees and charges.

REPORTER: You can't find out your fee? You can't find out what you've paid?

IAN RAMSAY: Effectively you can't find out your fees, and as I say in my report, I view that matter - I view that with significant concern.

For most people, the amount they're left to retire on depends on both the fund's earnings and the fees taken out. And the size of those fees can make an enormous difference.

ALEX DUNNIN: Now, I might be paying 1% more in fees each year than you. You might retire with \$900,000. Because I'm paying just 1% a year more in fees, I'm probably going to retire with only about \$600,000. So that 1% difference in fees over my lifetime has basically cost me \$300,000.

TV AD: There are super funds and there are industry super funds.

Typically, the non-profit industry funds of the type promoted by former Reserve Bank governor Bernie Fraser charge as little as 0.5% to manage money. Commercial funds like those

promoted by comedian Billy Conolly charge as much as 2%, sometimes 3%. But higher fees don't necessarily buy better performance. As it happens, the best performing funds in the past few years have been the low-fee, non-profit ones. They've made money for their members while the commercial funds have lost it. They've done it by responding quickly and being bolder in their investment decisions.

GARRY WEAVEN, INDUSTRY FUND SERVICES: The industry funds have been leaders in alternative asset classes, in particular into private equity, into infrastructure investments, into direct property holdings.

ALEX DUNNIN: All the evidence we have seen from 11 years of looking at the investment superannuation industry tells us that there is no demonstrable relationship between the amount of fees I pay and investment return I get.

REPORTER: Zero relationship? There is no relationship?

ALEX DUNNIN: Zero, or close to it, and that is reinforced by commentary and studies provided by other research groups as well.

It makes it very hard to know how to choose between the funds.

JAMES O'LOGHLIN: Most bills, you know exactly what you're up for. Here's an energy bill, it says the amount you have to pay here. Here's a phone bill, it says the amount you have to pay here. And here's a 6-page superannuation statement and it says the amount you've paid...where? Here, right at the back, bottom of page 6 - 'entry fee'. "Entry fees are included in the unit price of the portfolio in which you invested. If you used an adviser, a percentage of these fees may have been paid to them." Clear as day.

Understanding the fees and performance in order to make a choice has suddenly become important.

PETER COSTELLO, BUDGET SPEECH 1997: From 1 July 1998, employees will be given choice as to the fund or retirement savings account their superannuation contributions are paid to. They can make their savings work harder for them. It will give employees the power to protect their savings.

It's been six years since the Coalition promised that all Australian workers would have some choice about where to invest their super. The legislation has been held up in the Senate ever since. But a growing number of employers have now begun to take matters into their own hands. They're offering their workers choice anyway.

ALEX DUNNIN: We believe that about a third of Australians are working for employers where they actually can choose which fund they wish to be in. Complete choice.

And most other employers are offering substantial choice. Coca-Cola Amatil offers its 3,000 Australian workers a choice of different investment strategies within the one fund.

JIM BIRD, COCA COLA AMATIL: They have five choices, and they can mix and match. And the choices range from very conservative cash to very top-of-the-range risk factors of 98% in equities and 2% in cash.

Other employers out-source their super to big investment firms, whose so-called master trusts offer hundreds of choices.

ALEX DUNNIN: All the way down to individual fund managers, and some of them even let me choose individual stocks in my portfolio.

Only 2 out of every 10 Australian workers now have no choice whatsoever. And they're overwhelmingly government employees in generous schemes. Private employers have made the move in part because of a new and growing fear - one more compelling than any legislative requirement.

ALEX DUNNIN: Now, my understanding from talking to a range of lawyers who advise super funds and also a few super funds and other administrators is that there have already been a few out-of-court

settlements over the last few years about aggrieved members who feel that their employer has chosen the wrong fund or the fund didn't perform appropriately.

REPORTER: Some members, your belief is, have already sued their employer, not the funds, but their employer, for putting them into a fund that turned out to be bad?

ALEX DUNNIN: Yeah, it's difficult to actually be definitive on this because people are a little bit coy about it. But we've been talking about this as a likely issue for a couple of years now. It's an issue with medical insurance and medical liability that anyone who's in the advising game and even implicit advice - if an employer chooses fund XYZ, does that mean they've implicitly provided advice to their worker, and you could sort of argue yes or no depending. But it is a question that's going to be raised and Australia is becoming an increasingly litigious society so it stands to reason that these questions are going to be raised more aggressively in future years.

It's already happening in the United States. There, workers reaching retirement age are suing employers who didn't offer them a choice, claiming for benefits lost as a result of being kept in badly performing plans. Employers are ducking for cover, according to an Australian at the top of one of the leading US institutional investment advisers, Meredith Brooks.

MEREDITH BROOKS, RUSSELL INSTITUTIONAL INVESTMENT: Certainly the fear of future liability drives a lot of the decisions, because the liability's open-ended. They are liable for something that happens in the plan in maybe 20 years time as a result of the decision they make today, even if they're no longer there.

Meredith Brooks finds the explosion of choice that has resulted in the US a frightening prospect for Australia. Because, she says, most of us aren't equipped to handle it.

MEREDITH BROOKS: Well, it sort of seems morally dubious to say choice is a bad thing because it seems to be totalitarian to say people shouldn't have choice, but all of the evidence is that the more choices people are given, the harder they find it to make a decision. And there's a classic story about an experiment in a supermarket with two exhibits of jam where one has only 6 types of jam and the other has 25 choices of jam and the crowd is drawn to the stand with lots of jam, but they don't sell any jam. The people actually buy jam if they're given a choice of six. And there were many cases of behavioural finance or just behavioural research that show the more choice people have the harder they find it to make a decision. It's just human nature.

Australians desperate for guidance through the maze of superannuation choices are turning to financial planners. But many of the planners work for firms owned by the banks and the money managers who make the superannuation products. Many more get paid in the form of commissions from those banks and superannuation managers. The non-profit industry funds don't pay commissions.

GARRY WEAXEN: The financial planners do not recommend funds that don't pay commissions. And the funds that don't pay the commissions are the best funds.

It's true that in recent years the industry funds have performed the best, but the planners insist they have other reasons for not usually recommending them. They're not on the list of researched superannuation providers.

CON HRISTODOULIDIS, FINANCIAL PLANNING ASSOCIATION: They can't recommend industry funds because it's not on the list.

REPORTER: Why aren't they on the list?

CON HRISTODOULIDIS: Because they haven't been through the due diligence process.

REPORTER: It's not because they don't pay commissions?

CON HRISTODOULIDIS: No, that's right, they haven't gone through the first hurdle.

It's beyond doubt that some financial planners have provided extraordinarily bad advice about superannuation in return for commissions.

JOHN BERRILL, MAURICE BLACKBURN CASHMAN: One case we have is an employer who ran a metal pressing shop invited a financial salesman to come in and have a word to the workers, which he did, and they were in an industry fund at the time and had been for many years and had been performing OK. And the adviser came in and said, "You guys need to take control of your superannuation, have your own investment strategies so I recommend you set up your own funds and I'll do it for you and here's all the forms to fill in." And they filled in the forms literally at their work benches. The money was transferred out of the fund they were in and into these new funds and the investment returns went bad and they lost a lot of money. The only person who made any money out of it was the salesman. He made lots in commissions.

Melbourne University's Ian Ramsey has an idea for helping Australians make their own decisions about where to place their super. He wants each fund to display its fees and performance data in a standard format on page 1 of its annual statement in much the same way as cafes display the price of a cup of coffee. The funds say it would add to their costs.

IAN RAMSAY: I do draw upon some evidence from the United States, where this has also been an issue, and that evidence has - does lead us to believe that the cost might be in the order of something like \$1 a member per year.

Australia's Treasury has rejected the recommendation, leaving some consumers continuing to hand over money without knowing how much they'll pay in fees.

ALEX DUNNIN: OK, this is our Selecting Super report card where we try and look at a super fund...

Alex Dunnin is attempting to fill the gap.

ALEX DUNNIN: This member has actually got a very good fee deal. They're only paying \$111 a year to be in the fund.

His organisation has just begun preparing report cards that re-interpret the information in individual superannuation statements in a way the fund members can understand.

ALEX DUNNIN: ...allocation, my fund should have earned about -3%. It actually earned about -1%. The report cards rate funds to give members the information they need to shop around. So far, the take-up has been low. Most of us know more about the prices in coffee shops than we do about the cost and performance of our superannuation. Yet the choice of where we put our super contributions is perhaps the most important financial decision we'll ever make.

JAMES O'LOGHLIN: So, will I go with their balanced plan or maybe their shares plus plan but what about their capital guarantee plan? But then there's also the diversified growth plan, the listed property do-it-yourself plan and the mixed options plan. But what about the multimanager diversified shares plan, the future goals plan, the multimanager conservative moderate plan, the life-time super personal plus plan, the multimanager growth future goals personal plus plan - I don't know what to do. It's as clear as day.

We remain bamboozled by super, the part of our pay the Government compels us to put away for our retirement. Now we're being compelled to make choices as well without the information needed to make those choices wisely.

JOHN BERRILL: Well, at the moment we've got choice by stealth which effectively means choice without protection. What is needed, and I think there's a general acceptance by most of the relevant players, is that with choice must come the proper protections for disclosure, for commissions, for documentation, etc, for being able to access the fees - what the fees and charges are in investment returns, etc. Well, that's not there at the moment and if you're gonna have choice, you need that regulatory framework in the background and that's not there at the moment.

JAMES O'LOUGHLIN: Afraid? Don't be. Superannuation's as clear as day. During an eclipse.