



SelectingSuper MEDIA Release

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The myths of fund consolidation

Forcing super fund to consolidate is misguided and naive

KEY POINTS

1. Poor super fund returns due to the Global Financial Crisis have cost super fund members tens of billions of dollars in lost retirement savings. These lost savings will be clawed back through better investment strategy, not by marginal and quick-fix administration adjustments.
2. Top performing super funds average twice as many trustees as the average super fund, so the evidence implies that the real problem may be poor performing funds having too few trustees willing to think creatively.
3. Rather than worry whether Australia has too many super funds, we should instead worry about the investment strategy they are adopting and whether their investment managers and consultants are earning their keep.

Australia might have an inefficient super fund system but blaming the problems on the nation having too many super funds or too many trustees is naïve.

This week, several industry experts called for a reduction in the number of super funds to promote efficiency. But Alex Dunnin, director of research at Rainmaker Information, said this is the wrong approach and bad policy.

“Super funds went backwards an average 20 per cent in 2008 and simplistic administration quick-fixes are hardly likely to help members claw back the tens of billions in retirement savings they have lost since the start of the Global Financial Crisis.”

“And when we talk about Australia having too many super funds, why do we always seem to focus only on not-for-profit government and industry super funds? No one seems to be arguing we have too many banks, wealth management companies, investment managers, financial advisers or fund administrators,” he said.

Highlighting how focusing on Australia’s super fund trustees is the wrong idea at the wrong time, Dunnin said, “Super funds average five trustees. Sure some funds have up to 16 trustees but that is because of the diversity of their membership. It’s what makes these funds special and so successful.”

Dunnin said that Rainmaker’s analysis has found that the top performing super funds average about nine trustees - almost double the industry average. If anything, the evidence is saying that some funds have too few trustees, leading to an inability of their boards to think outside the square - contributing to low investment returns.”

Reinforcing this, Dunnin said, “Even the funds that have the most trustees are achieving investment returns no worse than the industry average.”

Trustee boards should of course consider consolidating if it genuinely improves what they can offer their members, but with the main game for super funds being long term investment returns, changes to a fund’s administration systems or smaller trustee boards are hardly likely to have that much impact.

Dunnin said, “Last year super funds lost the equivalent of ten years worth of fees due to bad investment performance. No amount of marginal improvements in administration is going to make up this shortfall.

“Instead the focus should be on what investment strategy these boards are assembling for their members, are they using too many investment managers, are their investment advisers earning their keep and are they providing too many options for their members that they don’t actually use.

“Fix the important things, then worry about the cosmetic issues,” said Dunnin.

For more information:

Alex Dunnin

Director of research, Rainmaker Information

Phone 0408 200 488

Email alex.dunnin@rainmaker.com.au

**RAINMAKER
INFORMATION**

INDUSTRY INTELLIGENCE

SelectingSuper is a Rainmaker Information company
Rainmaker Information Pty Ltd
Level 2, 151 Clarence St, Sydney NSW 2000
Ph 02 8234 7500 Fax 02 8234 7599
www.rainmaker.com.au