

Choice of fund opens up dangers for unwary

Not everyone will have access to choice of super fund. And those that do need to be wary of the risk of getting it wrong.

Report Alison Kahler

It's been heralded as freedom of choice for all Australians but, in reality, only 40 per cent of the workforce is likely to benefit from new laws allowing employees to choose their own superannuation fund.

So-called superannuation choice laws will let 4.5 million eligible workers switch to a new fund from July 1 next year.

This means workers can swap from a company fund to an industry fund, a retail fund run by a big-name financial institution or set up a do-it-yourself fund.

If you already use an industry fund, you will be free to switch to another scheme.

It sounds enticing but underneath the rhetoric promising consumer empowerment lies a complicated series of rules governing the new system.

You will not qualify for super choice if:

■ You are a government employee in a so-called unfunded superannuation scheme.

■ You are employed under a state industrial award which says you must use a particular fund.

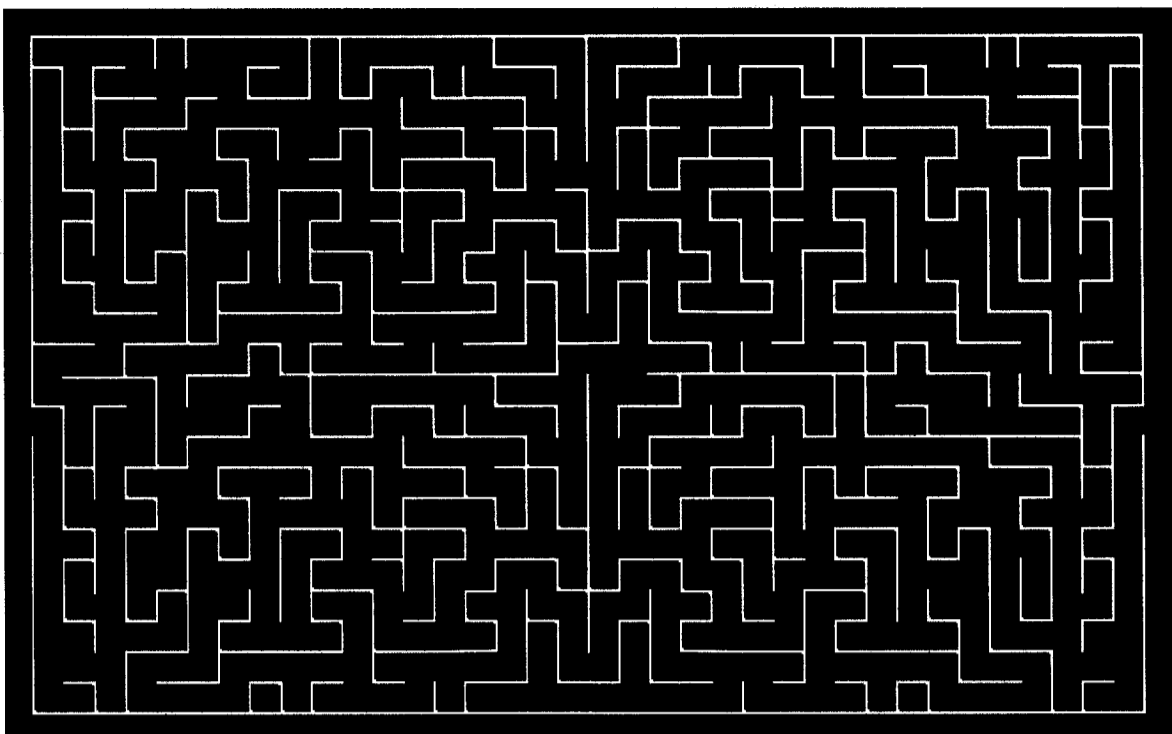
■ You are employed under an Australian workplace agreement or a federal certified agreement which says you must use a particular fund.

If you are unsure whether you fall into one of the categories, ask your employer or human resources department.

If you do qualify for super choice, your employer must provide you with a form to fill in by July 29, 2005.

You are free to choose any fund you want – your company cannot limit the number of products available to you as long as the fund you choose meets required laws.

If you don't nominate a new fund on the form, your super contributions will go to a default fund chosen by your employer.



10 QUESTIONS TO ASK BEFORE SWITCHING FUNDS

- Am I comfortable with the organisation and people running the fund?
- How many investment options do I really need?
- How has the fund performed in the past?
- Do I need to buy income protection or trauma insurance from a fund?
- Does the insurance offered by the fund suit me or is it too basic?
- Is the insurance offered by the fund a reasonable price?
- Do I need extra benefits from my super fund?
- Do I understand how the fund works?
- What are the fees charged by a fund?
- Do the fees offer value for money relative to the benefits it offers?

Source: Rainmaker information

trigger point might be that returns are bad or that you have a perception that you're being ripped off," Dunnin says.

Jeff Bresnahan from industry analyst SuperRatings warns investors not to be cajoled into switching funds by financial advisers chasing commissions from big-name institutions.

"It's a huge decision to swap super funds. There are some really good advisers but there are also some who have pure self-interest at heart," Bresnahan says.

Financial planners can get paid

of professional asset consultants?" The next big question is how to choose a new fund if you decide to swap.

You are likely to have four options: a retail fund, a do-it-yourself fund, an industry fund or a company fund.

The pros and cons of each are in the accompanying table.

Dunnin says the key issue when choosing funds is not cost but instead how much flexibility an investor wants.

He says investors who want a lot of flexibility should probably look at a master trust or wrap account, despite the higher fees on these products.

"If you're the sort of person who just wants to chuck your super into a fund and forget about it, you should probably, as a start, look at an industry fund."

But, he says, if you want to invest in a fund that lets you invest in assets such as small company stocks or hedge funds, you might have to look at a broader range of super schemes to get what you want.

"It comes down to what you're actually paying for. Every super fund gives you access to the markets, the difference is that some funds give you more access than others."

However, don't be sold a product with flash features unless you really need them.

If you are one of the 80 per cent of people who have chosen not to switch investment options within your existing super funds, it's unlikely you will make use of the extra flexibility offered by expensive retirement schemes.

YOUR OPTIONS FROM JULY NEXT YEAR

INDUSTRY FUNDS

Union-backed superannuation schemes set up for workers in a common industry. Many now accept money from the general public.

Pros

■ Lower fees than other funds.
■ Balanced portfolios are a good "set and forget" superannuation strategy.

Cons

■ Less investment options than commercial rivals.
■ Less insurance options than commercial rivals.

RETAIL FUNDS

Funds, including master trusts, run by big-name financial institutions for individual investors.

Pros

■ Good for people who want specialist investments or to select their own fund managers.
■ Extensive insurance options.

Cons

■ High fees.
■ Commissions paid to financial planners.

CORPORATE FUNDS

Super schemes run by companies for their employees. Company super funds are declining in number and that trend is expected to continue after the introduction of super choice.

Pros

■ You don't have to make any decisions about your super.
■ Employers can negotiate fee discounts.

Cons

■ Lack of control.
■ Investors tend to forget to monitor accounts.

DO-IT-YOURSELF SUPER

A fund you can set up and manage yourself. All investment decisions are yours – for example, you can invest in direct shares.

Pros

■ Control over your own investments.
■ Gives investors more options for managing assets after retirement.

Cons

■ High cost of running a fund, although costs fall when assets reach \$500,000.
■ You need at least \$150,000 to make running a fund worthwhile.

'It comes down to what you're paying for. Every super fund gives you access to the markets, the difference is that some funds give you more access than others.'

The default fund could be your employer's existing company fund or any other fund it chooses to use.

If you are employed under a West Australian industrial award, you are already free to switch funds. Employees under some Victorian funds also have the right to change retirement schemes, according to the director of policy and research at The Association of Superannuation Funds of Australia, Michaela Anderson.

So why would you want to swap funds? Alex Dunnin from independent researcher Rainmaker Information says it's pretty simple.

"Why do you change your bank – because you're pissed off. The

a commission of up to 5 per cent of your capital when you first invest with a fund manager. Most also get paid an annual commission of up to 0.6 per cent for each year you keep the investment with the manager.

"The reality is that commercial super funds will ramp up their marketing and that a lot of the industry funds will struggle to allocate money to their marketing," Bresnahan says.

He says investors who don't have the energy or knowledge to monitor a super fund should not switch funds without first receiving sound financial advice.

"Why would you move out of a fund where the trustees manage it, day in and day out, with the help