
Submission to the Inquiry into Superannuation Efficiency & Competitiveness

To the Commissioners,

I have read with great interest your draft report (April 2018). In doing so I reflected on my own experiences as a user of Australia's Superannuation System prior to and following my recent retirement.

Over this period I have used the services of three large industry funds and a retail fund. My comments below are based on my real life experiences with these funds. These matters broadly relate to a set of "bad habits" which are common across all funds and the superannuation/retirement industry. As your draft report does not comment on them specifically, I take this opportunity to raise them with you.

A) Fees do not reflect underlying costs

All super funds have fees that scale linearly with the size of funds under management. Clearly the costs of managing funds do not scale in this way, and the high levels of automation in the finance industry mean that it costs no more to manage \$1,000,000 than it does to manage \$1,000. This means that accounts with larger balances are really subsidising accounts with smaller balances. (I believe that this is one of the reasons for the popularity of SMSF's, which can have lower fixed costs and more transparency of costs.)

Super funds should implement tiered fees. Other financial investments such as Term Deposits have done so for decades. Doing so would lead to the retention of more retirees as customers (along with their large balances).

B) Funds obfuscate when reporting on fees charged

All the funds that I have used have been extraordinarily slow to release the Annual Return for super accounts, typically taking around three months after the end of the financial year to send the document. When the Annual Return eventually arrives, it is necessary to read past the "gold plated" information on fund returns, to find buried in small print on page three the information on fees paid. Even when found, the confusing references to administration versus indirect costs make it difficult to understand how much the fund actually took.

Super funds should provide the Annual Return document (on-line) within 30 days of the end of the financial year, with fees/costs shown on page 1 in a format that is simple, accurate, and standardised across the industry.

C) The Financial Industry consistently publicises misleading comparisons

The Finance Industry is replete with tables purporting to show fund returns (“net of fees/costs/taxes”), generally restricting comparisons to “balanced funds”. A quick comparison of several funds will show that there is no consistency in the makeup of a “balanced” fund (versus “growth”, “capital stable”, etc.). I have made many attempts to compare the returns of my investments as reported in my annual statement, versus the returns stated in comparison tables ... they do not match!

It would help Australians if there was a single independent entity responsible for compiling real returns (both including and net of costs) of all the investment vehicles of all the public funds and making these available at no cost to the public. Today I can see the financial returns and costs of all publicly traded companies, but super funds shroud their actual returns and costs in mis-information.

D) Funds are too slow to respond to complaints.

I have had the experience of raising issues with several funds, demanding that they be treated as formal complaints (rather than mere feedback) in order to verify that the complaint had actually been considered. (In one case I had to direct my complaint to the CEO in order for it to be considered.) Invariably their responses point out that *“it is a legislative requirement that we provide you with a response within 90 days of receipt of your complaint”*, and they have then taken very nearly 90 days (3 months !) to respond.

Super funds have developed a sick culture intended to manage customer complaints so as to discourage and hide customer feedback, rather than as an opportunity to identify their failures and ways to improve. Their focus seems to be on reducing the number of formal complaints reported, rather than improving customer service. Reducing the “legislative requirement” for a response to be required within 30 days would be a positive start.

E) The Super industry promotes misleading statistics on the “Cost of Living” in retirement

The official representative of the Super Industry, ASFA, publishes quarterly reports purporting to detail the costs in retirement of Australians. These reports are used by analysts, bureaucrats, politicians, and Australians approaching retirement as a fair estimate of costs in retirement. They are not a fair estimate! Digging into the reports shows that the basket of goods and services used is out of date (last reviewed nine years ago), does not include major capital items (painting the house, replacing a car).

It also does not include the fees paid to Super funds to manage funds. As an example, a 1% fee on a \$1M balance means an annual cost of \$10,000; making it one of the biggest costs in retirement! Yet it is hidden from the customer and ignored by ASFA.

Australians approaching retirement are keenly interested in knowing whether they can actually afford to retire or not. The ASFA reports do not deserve to be relied on, and a

more accurate, complete and up-to-date report from an independent source (i.e. NOT ASFA) would help Australians and the public debate about superannuation.

F) Funds treat retirees as second class customers.

My experience in transitioning from the “accumulation” stage to the “pension” stage with my funds was not what I had anticipated. Not only are there separate computer systems for retirees, but also different fund choices with different fees (and returns). It has also become irritating that around 80% of matters discussed by the funds in their literature relate to those customers accumulating super balances, while those customers in pension mode (despite their much larger balances) are seldom considered.

An example is the recent introduction by the Government on caps to holdings in pension (income stream) funds. This is a major issue for customers in pension mode, but none of my funds have attempted to clarify the consequences for me (until I complained to them directly and demanded a response).

Perhaps it is indicative of a broader issue of “age-ism” in Australia, but the difference in treatment by funds as Australians retire is infuriating .. and unnecessary.

(Incidentally, I note that your draft report largely ignores Australians in pension mode with their super funds, as all your discussion relates to super (=accumulation phase) and not to those of us with income streams (=pension phase). This is a significant shortcoming in your inquiry!)

May I conclude by responding to the oft-stated complaint in Australia by politicians, bureaucrats and the finance industry, that Australians are not “engaged” with their Super. Such claims attempt to blame the customer/end user for the failings of the Super Industry and the associated legal/bureaucratic systems that created it.

As my examples have shown, the Super Industry consistently obfuscates on returns and fees, avoids feedback, and hides from real transparency. Compounding this has been all the recent interventions by Government/Politicians into Super (and Age Pensions, and Capital Gains, etc.) which adds to the confusion. For Australians to be sceptical of Super is thus very sensible indeed.

I wish you well with this much needed inquiry.

Colin Goodwin
