

30th July 2014

**The Manager
Financial System Inquiry
GPO Box 89
Sydney NSW 2001**

Re: Submission Regarding Fees and Charges of Superannuation Funds

Dear Sir/Madam

I would like to make the following contribution to the financial services inquiry regarding the Section 4 observation made in the interim report:

There is little evidence of strong fee-based competition in the superannuation sector, and operating costs and fees appear high by international standards. This indicates there is scope for greater efficiencies in the superannuation system.

Who am I?

I am a 59 year old semi retired individual who is about to move from accumulation phase to pension phase when I turn 60 later this year.

I have 75% of my super in Australian Super.

This submission is not a complaint about Australian Super as my concerns would apply to most superannuation funds.

Fees and Charges

In assessing the mechanism Australian Super uses to determine their fees and charges, they apply some fixed charges and variable charges.

The variable charges are predominately based upon the percentage of the account balance of the member. The percentage varies depending upon the investment option(s) selected by the member.

The approach of fees being a percentage of the balance of a members account appears to be common across much of the superannuation industry.

In my opinion, the percentage of account balance approach for fees is unjustified, does not reflect the actual administration involved in managing the

investment option and applies a major cost penalty to members with larger account balances.

For example, a member with an account balance of \$100,000 invested in a hypothetical investment option is charged 0.5% of the account balance. \$500 per year.

Another member with an account balance of \$500,000 invested in the same investment option is charged 0.5% of the account balance. \$2500 per year.

My fundamental contention is the amount of administration required to manage this hypothetical investment option would be very similar regardless of the account balance and most certainly would not require five times the administration effort for the higher balance member in the example above.

Given employers and employees are required to compulsorily contribute to their retirement savings, why is the superannuation, finance and banking industry allowed to unreasonably charge fees that do not reflect the costs of running superannuation funds?

I note the graph 4.2 in the interim report.

My conclusion is that the superannuation industry is unreasonably profiting from fees paid by members and is not acting in the interests of members. Charging fees on the basis of members account balance does not reflect the actual costs of administration and suggests those running the super funds are rewarding themselves at the expense of members.

Fund Transparency

In looking at Australian Super it appears there is no standard public financial statements that reflect actual expenditures. (i.e. a normal profit and loss, balance sheet found in public companies)

Why is there no detailed and transparent statement of costs covering overheads, investment activity, remuneration, bonuses and so forth so that members can see where fees and charges are spent?

In particular, Australian Super appears to undertake significant advertising. How is advertising benefiting members?

It is hard not to conclude that the superannuation industry is opportunistically taking financial advantage of their members, feeding off the retirement savings of members and reducing significantly the funds available at retirement. Members who by law have to use these services.

It is not surprising to me that many people are moving to their own self managed super funds however this further disadvantages the majority of people who do not have the capability to go down this path.

The finance industry (banks, superannuation etc) are profiting unreasonably from a position of privilege granted by government on a for profit basis. Superannuation funds claiming to be not for profit don't provide the information necessary to analyze their not for profit claims.

Alternative Approach to Fees

The finance industry decries any attempt at government regulation with unconvincing nonsense about constraining investment and so forth.

If superannuation was not compulsory then there may be an argument for less government regulation but it is compulsory and therefore protection from profiteering, protection from excess risk taking and transparent reporting of the costs of running funds is essential.

As a general alternative, my view is that superannuation funds should apply capped fixed charges based upon the costs to run a particular investment option plus a capped variable charge based upon the earnings of the investment option.

Charges should be reviewed annually and adjusted accordingly.

I fully understand that such a system would be challenging to design and would attract significant resistance from the industry who would sooner operate behind a cloak of secrecy and complexity.

Your enquiry is critical to turning the tables on financial institutions, in particular superannuation funds, so that member retirement incomes are maximized and fees for services are minimized.