Carving out profit-generating administration fees from new super laws reeks of bowing to vested interests

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Dud for-profit super funds can go on charging up to four times the median fees if a crucial government performance test is not strengthened, which could cost Australians up to $160,000 from their final retirement figure.

The government's *Your Future, Your Super* legislation does not include administration fees and other non-investment charges in its performance benchmarks. This gives poor performing retail products a leg up, which on average have administration fees 75% higher than the median MySuper member. Administrative fees which gouge a staggering 1.02% from member balances could fly under the radar.

Even a small difference in administration fees cost can be significant to a member's final balance. In the MySuper sector - assuming the same returns – the fund with the lowest administration fees would deliver a full-time worker in their 30s almost $160,000 more than a fund with the highest.

This package aims to weed out underperformers and eliminate multiple accounts is laudable, but it has been hijacked by vested interests – inside and outside Parliament - to allow dud retail products to continue creaming $10 billion a year in profit from their members without ever having to explain their lousy returns.

Carving out profit-generating administration fees in the performance test is one of the more egregious examples of how the package fails to protect members and tilts the scales towards retail products.

The benchmarks must be based on net-returns – which includes all fees and charges and not just investment fees – just like the Productivity Commission recommended and there should be no carve outs.

New analysis of the latest APRA's MySuper[1] heatmap returns shows using net returns benchmarking sees almost 75% of the retail sector's MySuper assets classified as underperforming – up from 60% on the net investment return measure. Just 2.6% of retail MySuper funds outperform the net return benchmark.

Members will only be notified if they are in an underperforming product if returns drop below 50 basis points of the benchmark. Excluding the effect of administrative fees may mean they are never notified they are in a dud fund. Consecutive underperformance results in funds being barred from accepting new members so funds with high admin fees may be able to continue to operate without consequence.

The Productivity Commission, ASIC, APRA, the Cooper Review, and even Superannuation Minister Jane Hume have all said net returns after fees and taxes is the most relevant fund performance measurement for members. Including all fees will also put pressure on funds to lower all their charges, not perform accounting tricks to try to dupe members.

Comments attributable to Industry Super Australia deputy chief executive Matthew Linden:

"When it comes to workers' retirement savings, measuring the performance of super funds should be a matter of one in all in- every super fund and every fee."

"The government's plan to shield the worst performing retail funds from proper scrutiny could mean millions of workers get stuck in a dud fund for life."

"Workers can only be protected if every fund and every fee is included in the tests. Anything less than that reeks of vested interests inappropriately influencing the benchmarks and the government running a protection racket for dud profit generating funds - and that could leave workers worse off."

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1. The reported outcomes under APRA's six-year heatmap to June 2020 may not be fully representative of the proposed performance test that will use a longer seven to eight year period and recent MySuper product changes.