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## **MEDIA RELEASE: Industrial awards system leaves superannuation consumers worse off**

The Fair Work Commission’s default superannuation fund process has resulted in as much as \$94 billion being trapped in subscale funds leaving up to 1.7 million members potentially hundreds of thousands of dollars worse off in retirement.

New analysis of APRA and modern awards data by the Financial Services Council (FSC) shows that there are 33 funds listed under modern awards that manage less than \$10 billion in funds.<sup>1</sup>

**Collectively, these funds manage \$94 billion for up to 1.7 million member accounts. Subscale funds make up 153 modern award superannuation listings, or 30.2% of all the award listings.**

The average performance of the 33 subscale default funds over 10 years is just 4.50% per annum:

- 0.80% lower than the average 5.30% performance of all ‘Growth’ options in the market, including both industry and retail funds; and
- 1.4% per annum lower than the performance of the best performing MySuper products.

The scope of underperformance is magnified when analysis focuses on the worst performing funds.

**The weakest performing fund returned only 2.7% per annum over 10 years and, whilst it manages less than \$1 billion, it is listed in two modern awards.**

The performance gap between subscale funds and the best performing funds shows that a consumer could be over \$170,000 worse off by retirement as a result of the current industrial system.

FSC CEO Sally Loane said: “If this many Australian workers were enabled by law to languish in poorly paying jobs with working conditions way below their peers, for as long as 40 years, there’d be outrage across the entire community.

“So we shouldn’t tolerate a system which leaves people in superannuation funds delivering significantly poor returns, for years and years. Many can’t change funds because of the current industrial laws governing default super, and many are chronically disengaged and disinterested. Either way, the system needs to change if the policy is going to work for all Australians.”

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<sup>1</sup> \$10 billion is the level that industry researcher Chant West has used to demonstrate that, on average, smaller not-for-profit funds charge higher fees and produce lower returns than larger not-for-profit funds.

The Government is moving to strengthen consumer rights when it comes to super, cracking down on employers who short-change their staff on their super entitlements; modernising payroll reporting, and giving APRA sweeping powers to legally ensure fund trustees are making members' financial interests paramount.

New measures announced by the Minister for Revenue and Financial Services will make super more accountable by ensuring funds hold AGMs and publish information about fees and the way funds spend members' money.

The Productivity Commission is well into the final stages of redesigning the massive \$9 billion default system into something fit for the future, making it more efficient and effective and ensuring it will deliver better outcomes for consumers.

"The prevalence of subscale funds in the default system is a major public policy issue which needs to be addressed given they have such a negative impact on consumers' financial outcomes," Ms Loane said.

In its submission to the third stage of the Productivity Commission's inquiry into the competitiveness and efficiency of the superannuation system, the FSC said the Commission should recommend a model that allows consumers to exit underperforming, subscale funds and switch to a fund, regardless of whether it is a retail or an industry fund, which will deliver stronger returns and a more comfortable retirement.

## **ENDS**

For further information please contact FSC Media Manager Mark Smith on 0434 566 764 or [msmith@fsc.org.au](mailto:msmith@fsc.org.au).

### **About the Financial Services Council**

The Financial Services Council (FSC) has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 13 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.