

Competition within Australian superannuation

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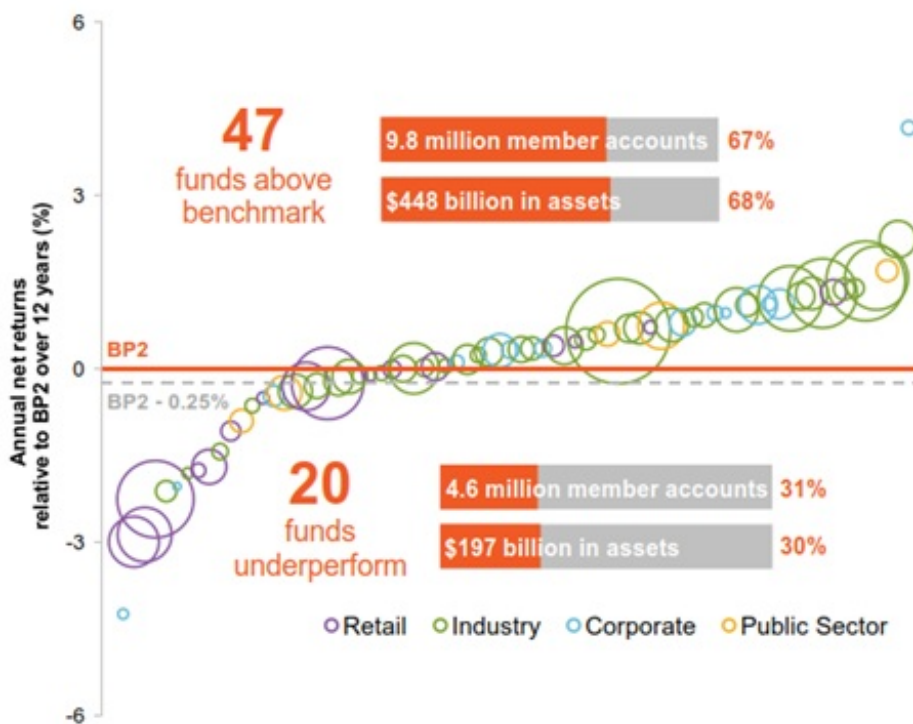
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By guest contributor **Jake Jodlowski**, **Atchison Consultants**

A draft report from the Productivity Commission (PC) with the title “Assessing Efficiency and Competitiveness” has highlighted the need for efficiency and competitiveness within the superannuation industry. Of major interest to the Federal Government is the process used to allocate members’ contributions to superannuation funds when a choice has not been explicitly made.

Not only is there \$2 trillion worth of assets within the superannuation sector, superannuation contributions are compulsory. With these two factors in mind, the Federal Government says it hopes the PC can find ways to improve outcomes for all members by increasing the efficiency and competitiveness of the overall superannuation system.

One aspect to come out of the PC’s initial enquiries is the effect of member choice on eventual retirement balances. Of 14.6 million accounts in the dataset used by the PC, about two-thirds are in funds which performed above their benchmark. Almost all of the remaining accounts, or nearly five million, are in funds which fell short of their fund-specific benchmark portfolio.



Source: Superannuation: Assessing Efficiency and Competitiveness (April 2018 draft report)

Falling short was defined as underperforming by at least 0.25% over the relevant time period. While this amount may not appear to be significant, a difference of this magnitude would reduce a member's retirement balance by around 6%.

□ A related issue concerns additional costs borne by members when they hold multiple accounts. Over a third of all superannuation accounts are "unintended multiples". These accounts are created when a member changes jobs and/or industries and the member does not close their old account or transfer their existing balances to the new account. Unintended multiple accounts incur costs which would normally be avoided; insurance premiums and administration fees may be duplicated or even incurred multiple times.

Of course, knowledgeable members are more likely to avoid such pitfalls. Education and disclosure can reduce the prospect of being a member of an underperforming fund or being a member of multiple funds. Ensuring members have been presented with clear, concise information and education may assist in increasing final member account balances.

So far the PC has come up with 22 recommendations. Further public hearings are being held in June but so far no date has been set for the final report.