

Archives

- [Textarchive](#)
- [Picturearchive](#)
- [PDF pages](#)
- [Cross Search](#)
- [Agency Text](#)
- [Wire Pictures](#)
- [Nomad](#)



Your search found 85 records.
[Modify search](#) [New search](#) [Refresh](#)

fulltext=sally patten and fees and super , sortorder=dclata_PUBDATE desc, Pubdate =lastyear

Pub: Australlan Financial Review	Section: Perspective	Classification:	Geographic area:
Pubdate: Saturday 29th of August 2009	Subsection:	Economy/Investment/Personal	Australia
Edition: First	Page: 19	Industry/Financial Services	
Copyright:	Wordcount: 2379	Economy/Trusts	
		Industry/Insurance/Superannuation	

System Overview

[Show](#)

Feas are eating your super

Story Sally Patten

Links

- [World book Encyclopedia](#)
- [Encyclopedia Britannica](#)
- [Fairfax Library Catalogue](#)
- [Who's Who](#)

If you don't understand the percentage game you won't know how **super** funds are making a fortune out of your fortune.

Financial planners can blame the global credit crunch. Before November 2007 no one really cared that they got fat and comfortable selling products on commission and grabbing a percentage of the assets under management. Everyone was too busy counting their gains. Then the market turned savagely down and the ink ran red. Suddenly the sheer size of the financial planner's "take" was on crude display.

What is now obvious is that their method of charging by percentages rather than a fee for service enriches the planner at the expense of the investor.

Now there are loud calls - the latest from market regulator the Australian Securities and Investments Commission - for an end to all commissions and fees based on funds under management.

The planning industry faces decimation if the government accepts ASIC's advice. They have made a fortune for decades from playing the percentage game. They steered investors into some investments (think Westpoint, Centro, etc) that flicked back to the financial adviser a commission that was calculated as a percentage of the size of the investment. But financial planners are just the tip of a giant iceberg - the whole retirement industry runs its business by paying itself in percentages. Funds managers, investment managers and investment platforms are all riding royally on the river of gold that is Australian superannuation.

Think of the trip this way: day in and day out the government forces wage and salary earners to devote 9 per cent of their pay packet to the financial services industry.

It must go into superannuation. Far from having to sell its wares to a sceptical customer, the **super** industry just sits back and waits for the money to roll in. It's now a trillion dollar industry. No other business endeavour is so blessed.

Further, the government not only forces money into this sector, it provides special seductions so that savers will invest more. Great tax temptations are legislated via transition-to-retirement and salary sacrifice schemes, which keep the rivers running even faster.

Hardly surprising that as investors see their savings dwindle, the government is looking more closely at industry charges.

Financial Services Minister Chris Bowen has put the industry on notice that it should cut fees, saying he doubts whether the \$1 trillion sector has done enough to reduce costs in the past two decades.

Given the gigantic sums of money sloshing around it would seem axiomatic that competition in this sector would be cut-throat.

Er, well not really. Because they play the percentage game. They charge on the basis of the size of the asset they are "managing".

Of course what sounds reassuringly small - just 1 per cent, sometimes more, sometimes less - actually compounds over time in a way few investors appreciate. Those tiny numbers surge into a sizeable stream as the years go by. Just imagine that, like plenty of others, you just heave your money into a **super** fund and then just set and forget.

What you never really see is the scale of the diversion of your superannuation riches, for it is never spelt out in its full glory - only in those reassuring percentages that seem so small.

Yet the fact is that in a 20-year period, the fees you have paid could end up worth almost half of what you eventually take home (see breakout).

The funds grow rich on those percentages they snip from each member. Imagine creaming a percentage off \$1 trillion of assets, which grows by about \$50 billion annually thanks to the 9 per cent **super** guarantee.

When sharemarkets rose, the \$1 trillion grew even faster and the percentage system ensured the funds got paid even more although they weren't actually having to work any harder.

What has your retirement fund done to earn this huge amount of money? It usually divides your money up and farms it out to different specialist fund managers, who invest in a variety of asset classes, including Australian and overseas shares, bonds, property and cash.

As most people probably rarely even exercise the "choice" available to them to change asset classes, this leaves fund managers completely undisturbed for that 20 years, giving them a pretty easy ride up the compounding percentage elevator.

Good money if you can get it.

Sure, there is a difference in the percentages charged, but not one specialist manager has bucked the system and just charged a flat fee, although as you or the **super** fund invests more, the percentage charged will usually fall.

Notwithstanding the sliding scale, as your investment grows so does the take of the fund, although it may cost no

Selection

- [Select all](#)
- [Deselect all](#)

Functions

- [Add to Collection](#)
- [Create Collection](#)
- [Link to Media Xchange](#)
- [Macquarie Dictionary](#)
- [PDF Report](#)
- [Print preview](#)
- [Remove from Collect./Desk](#)
- [Send link by e-mail](#)
- [Suggest a correction](#)

more to manage your money. This practice of charging in percentage terms is ubiquitous.

And it is not just a one-off payment to one fund either.

Many administration services also charge on a percentage basis. This means that it is not uncommon for a saver to pay asset-based fees not once or twice but three times: to the planner, investment manager and administrative platform.

In today's world of integrated financial services companies, often it is the same organisation that will be clipping the ticket.

There has been little pressure from within the super jungle for change because so many of the players, including super funds themselves, specialist fund managers, asset consultants and administration service providers are intertwined.

If a super scheme was investing in a specialist fund run by a different division of the same company, why would it want to advocate a different fee structure?

But since the global financial crisis forced unhappy investors to contemplate their losses, and the government and regulatory bodies, are now focusing on how the industry charges.

If the current fee system goes unchecked, based on projections by actuarial firm Rice Warner for the growth of the super market in Australia between June 2008 and July 2023, the fee pool will grow from \$13 billion to \$37 billion.

Even if the average percentage the industry charges members falls from 1.2 per cent to the 1 per cent the government has indicated it would like, the fee pool is still on track to rise to \$31 billion in the next 14 years.

Ultimately, these fees are paid for by fund members. Little wonder that the federal government has commissioned a review of the super industry with a view to streamlining the sector and making sure that members get value for money.

The former deputy chairman of ASIC, Jeremy Cooper, who is heading the review, has confirmed that percentage-based fees will be scrutinised. "It [asset-based fees] is a debate that has to be had," Cooper says. "It is not about the amount, but the way these fees are charged. It is a discussion that trustees need to be having."

Bowen, who took over responsibility for super and corporate law in June, is also concerned that the huge growth in funds under management has not delivered enough efficiencies. "I think it's fair to say that with an industry that has grown as strongly and as well as super has over the past 20 years, you have to make sure that economies of scale have led to reduced fees, and I'm not sure that is the case," he said recently.

But even before Cooper is due to complete his review in the middle of next year, the fee model for specialist fund managers at least is already coming under pressure.

There are signs that some large super funds are trying to force change by demanding a different fee model that is based on the cost of actually providing the service, albeit augmented by a success fee.

The change of heart has come about because of the poor performance of many fund managers in the recent sharemarket crash and because super fund trustees are much more focused on costs than they were when the sharemarket was soaring.

"We need a wholesale review of fee structures," says the managing director of Frontier Investment Consulting, Fiona Trafford-Walker.

"So many funds didn't look after their clients' needs over the past 24 months."

Another investment consultant says there had been grumbles about fees this time two years ago. "But there wasn't a lot of necessity to act. We didn't see much action then. But now we are in a very, very different operating environment. Super funds are far more sceptical about the ability of fund managers to add value.

"The catalyst for change is the global financial crisis."

Even some in the asset management industry now concede in private that there is no reason why fund managers need to charge asset-based fees.

"We support breaking the current system," says Industry Funds Management chairman Garry Weaven, one of the architects of Australia's super regime. Although he says reform needs to occur on a global scale.

One senior fund manager says he is aware of at least two super funds trying to negotiate fixed-dollar fees, with provisions for performance fees.

"I have no doubt that if a super fund offered a lucrative mandate that was not based on assets under management, someone in the industry would do it," he says.

Sunsuper chief executive Tony Lally says super funds pay fees on a sliding scale to take into account the economies of scale for managers. Some managers may receive as little as 0.1 of a per cent against the industry norm of between 0.5 and 0.8 of a per cent for an Australian equities mandate. Nevertheless, the Queensland fund is talking to a couple of its specialist managers to think about changing the fee structure. "In principle, it [flat fees] is a good idea, but it is more complicated than it looks," says Lally. "We have spoken to a couple of funds and said: 'You think about the structure!'"

Macquarie Group recently launched two funds - a small companies fund and a so-called high-conviction fund that invests in a small universe of stocks that charge no management fees but do charge a performance fee.

This is not to say that heading down the performance-fee route is not without its own set of problems. For one, many individual fund managers have a knack of making sure the performance fees work in their favour rather than that of the super fund client by making the performance hurdles unseemingly low. There is also a danger of encouraging specialist managers to take on excessive risk.

Asset-based fees are not limited to individual fund managers and financial planners.

Depending on a range of factors, such as the size of a member balance, the type of super plan and the size of the super fund itself, administration fees - which take into account transaction, communication and marketing costs - can be paid as a flat fee or as a percentage. Most not-for-profit industry funds charge flat administration fees, but this is not always the case with master trusts, which tend to be owned by the big banks and wealth companies.

That said, here too pressure for change is starting to emerge.

AMP charges savers in Its Flexible Lifetime **Super** scheme anywhere between 0.75 and 2.8 per cent for administration, plus a \$7.75 flat monthly fee for balances under \$10,000.

MLC's MasterKey **Super** Fundamentals scheme charges administration fees of between 0.66 and 0.88 per cent, plus a \$6.50 monthly account fee, although charges are rebated for balances of more than \$200,000.

However, a spokeswoman for AMP says that large corporate clients are increasingly asking for flat fees, or at least a reduction in the variable component.

MLC, owned by National Australia Bank, on the other hand, has experienced no such trend.

"There is always some discussion in the industry around different fee models and different organisations will choose to structure different combinations of fixed and variable fees," an MLC spokeswoman says. "At MLC we have not witnessed any meaningful trend to move towards flat, dollar-based admin fees."

Wholesale distributors also earn a nice slice of the total asset pie, as was made all too public recently when a lobbyist and former Labor staff member reportedly earned a 1 per cent success fee for securing a \$100 million mandate from a **super** fund for Queensland property fund manager Trinity.

It may have been highly unusual for a lobbyist to act as an intermediary between a fund manager and a **super** fund, and the usual fee to the intermediary may be based not on the size of the mandate but on the size of the management fee, but nevertheless asset-based fees are common.

Placement agent Apostle Asset Management, which acts as an intermediary between global specialist fund managers and **super** funds, charges "a cut of the management fee" on an ongoing basis. But managing director Karyn West points out that the company gets paid only if a deal is struck. She adds most managers in the US prefer this model. "They like to pay on a success-only basis," says West.

Fees are not the only element of the industry under scrutiny. The complexity of the industry is also due to be analysed as part of the Cooper review. It is just as well that Cooper has been given a year to untangle the intermeshed layers.

Weaven says the **super** industry is regulation upon regulation, most of which requires grandfathering to protect fairness. "But the sum total is that there is a lot of complexity and a lot of cost," he says.

Asset consultancy is one area the former ASIC deputy chair may consider. The role of an investment consultant is to advise a **super** scheme on its asset allocation. The consultant then conducts research and recommends specialist managers to the **super** schemes. Pure investment consultants are one of the few layers of the **super** jungle that are paid a flat fee. The problem is that many have not been able to survive and have branched out into so-called implemented consultancy, whereby they construct portfolios for corporate **super** funds.

Potentially this can lead to conflicts of interest. If the consultant finds a good fund manager, do they recommend it to the **super** client first, or add the manager to their own portfolio? To which side of the business are the brightest employees deployed?

Then there are companies that own **super** schemes as well as specialist fund managers, so there is the potential for the **super** scheme to favour inhouse managers rather than choose the best-performing managers.

Table:

Cumulative cost of fees*

	Self-managed fund with		Self-managed fund without	
	Retail (\$)	Industry (\$)	advice (\$)	advice (\$)
1	1,698	1,008	1,250	780
2	3,527	2,101	2,601	1,626
3	5,494	3,284	4,060	2,544
4	7,608	4,563	5,635	3,539
5	9,877	5,943	7,330	4,614
6	12,310	7,431	9,155	5,776
7	14,916	9,034	11,117	7,029
8	17,706	10,758	13,224	8,380
9	20,689	12,612	15,485	9,834
10	23,877	14,602	17,908	11,398
11	27,282	16,737	20,504	13,079
12	30,915	19,026	23,282	14,884
13	34,790	21,478	26,254	16,820
14	38,919	24,103	29,430	18,895
15	43,317	26,911	32,822	21,119
16	47,999	29,913	36,443	23,499
17	52,981	33,120	40,306	26,046
18	58,279	36,544	44,425	28,769
19	63,910	40,198	48,814	31,679
20	69,892	44,095	53,489	34,786

ASSUMPTIONS The following has been assumed in the calculations: • \$100,000 is invested over 10 years • The investments grow at a real rate of return of 5% gross of fees and tax (in reality the different market segments would have different rates of return) • Fees are as in the table above for the respective market segments • Tax on investment earnings is 6% after allowing for imputation credits and 10% capital gains concession available to **super** funds