Pay less, earn less, say critics

Cheap funds not so super

THE simple low-cost MySuper plan has come under fire from critics who say it will lose workers money, not boost their savings.

Karina Barrymore
personal finance editor

Cheap, simple, hands-off management also meant lower investment returns, which would wipe out any savings from the cut to management fees, some researchers say.

"MySuper would most likely result in workers receiving lower superannuation payouts, not higher," Warren Chant, principal of independent super analyst Chant West, said yesterday.

"With super, as with most things in life, you get what you pay for. Sometimes it's better to pay a little more if that means the product performs better and lasts longer — and that's exactly what you want from super," Mr Chant said.

The review of the super system by Jeremy Cooper recommended setting up low-cost MySuper fund options as default funds for workers.

The recommendation, which has been accepted by the Labor Government, forecast management fee savings of $33,000 for the average person over their working life.

However, Chant West estimated yesterday that these savings would be more than wiped out by a corresponding loss in returns.

"We believe that the pressure on MySuper providers to be seen to be low-cost will push them towards investment strategies that will result in significantly lower returns," Mr Chant said.

'With super, as with most things in life, you get what you pay for'

– WARREN CHANT

SuperRatings managing director Jeff Bresnahan agreed. "The danger with MySuper is it will encourage the use of index funds, which is obviously not in people's best interest," Mr Bresnahan said.

However, Industry Super Network chief executive David Whiteley said it was wrong to assume the MySuper guidelines would force managers to become passive.

"I agree in principle that a balanced portfolio, such as most industry funds currently have, should outperform a solely passive investment," Mr Whiteley said yesterday.

"I don't agree with the premise that MySuper will force funds into only offering passively managed portfolios, which could reduce returns," he added.

Vanguard Investments principal Robin Bowerman said the emphasis should be on low fees, "regardless of the style of management". Passive management could also outperform more active investment management, he said.

"According to Standard & Poors research released today, in four out of five categories the majority of active managers have failed to outperform the benchmark (index) over a five-year period," Mr Bowerman said.

Australian Institute of Superannuation Trustees chief executive Fiona Reynolds also said: "Not-for-profit funds already run a tight ship, and have consistently demonstrated that high fees don't necessary deliver higher net returns."

BusinessDaily, Page 67