Financial Services

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Super fees indefensible: industry funds

Paddy Manning

Financial planners earned more than $860 million in sales commissions on compulsory superannuation last year, new research shows.

The government is preparing to launch a sweeping review of the system to cut fees and charges.

Total upfront and continuing, or "trail", commission income paid to financial planners from super contributions rose 25 per cent to $2.4 billion last year, but commission income on compulsory or super guarantee (SG) contributions fell 5 per cent, according to Rainmaker research.

Commissions on non-SG super rose 55 per cent due to a sharp spike in voluntary contributions before the Better Super reforms, which came into effect in July 2007.

In a report commissioned by Industry Super Network, Rainmaker's head of research, Alex Dunnin, wrote: "The implication (is) that SG-based commissions could be reduced or abandoned without excessive industry damage, particularly given the move to fee-for-service advice."

Industry Super Network represents industry super funds that do not pay sales commissions to financial planners.

Last week, the Minister for Superannuation and Corporate Law, Nick Sherry, revealed plans to carry out a review of the super system to reduce fees and charges from Treasury's estimate of an annual 1.25 per cent of assets under management.

The government is believed to be seeking to reduce that cost to less than 1 per cent, in parallel with Treasury secretary Ken Henry's review of the adequacy of the present SG contribution of 9 per cent a year.

Industry wants the level of contributions raised to 12 per cent but the government wants first to ensure the super system is efficient and that possible conflicts of interest – including in the commission-based remuneration of financial planners – are adequately managed or removed.

"You've got closing in on $1 billion a year being paid in commission on compulsory super and that's indefensible," Industry Super Network executive manager David Whiteley said. "Any debate about retirement savings adequacy must take into account the effect of sales commissions and fees. It's about more than how much workers contribute. It's also about the efficiency of the super system."

The government is preparing to implement fundamental reforms to the compulsory super system, which was established under the Hawke government in the late 1980s.

Industry funds, which are run on a not-for-profit basis and have consistently outperformed their retail peers in recent times, are jointly run by unions and employer groups and are likely to be beneficiaries under the new Labor government.

Last Thursday night in Sydney, Labor luminaries celebrated the 30-year anniversary of the launch of Australia's first industry super fund, the Labour Union Co-operative Retirement Fund (LUCRF). The event was attended by Senator Sherry, Treasurer Wayne Swan, former prime minister Bob Hawke, and former ACTU secretary Bill Kelty.

Mr Dunnin said he believed the government was proud of the compulsory superannuation system but there was "unfinished business" which it was determined to fix, rather than "keep talking about it till the cows come home".

"Do we think that people should really be paying commission on compulsory super?" he asked.

Senator Sherry, who chaired the Senate Select Committee on Superannuation under the Hawke and Keating governments, took a strong line in opposition on commissions being paid for financial advice, and argued against permitting commission-based sales on compulsory super products.

In an interview last week, Senator Sherry said: "We are in the 20th year of the compulsory system and we are going to see, for this last financial year, deep and wide negative returns. I don't suggest that is driven by commissions [but] I do think it's an appropriate time to have a long, hard look at the operation, structures and cost of our compulsory super system."

That examination, over the next six to 12 months, will include a review of the fees and charges paid to financial advisers and "the way in which fees are paid, whether it's a fee or a commission".

Senator Sherry called on the funds management industry and consumer groups to provide alternative models of financial planner remuneration.

Mr Dunnin said yesterday that Treasury's 1.25 per cent figure for the total system cost seemed "incredibly low" but if the figure was correct, then financial advice represented a fifth of the total fees paid out of the superannuation pool.

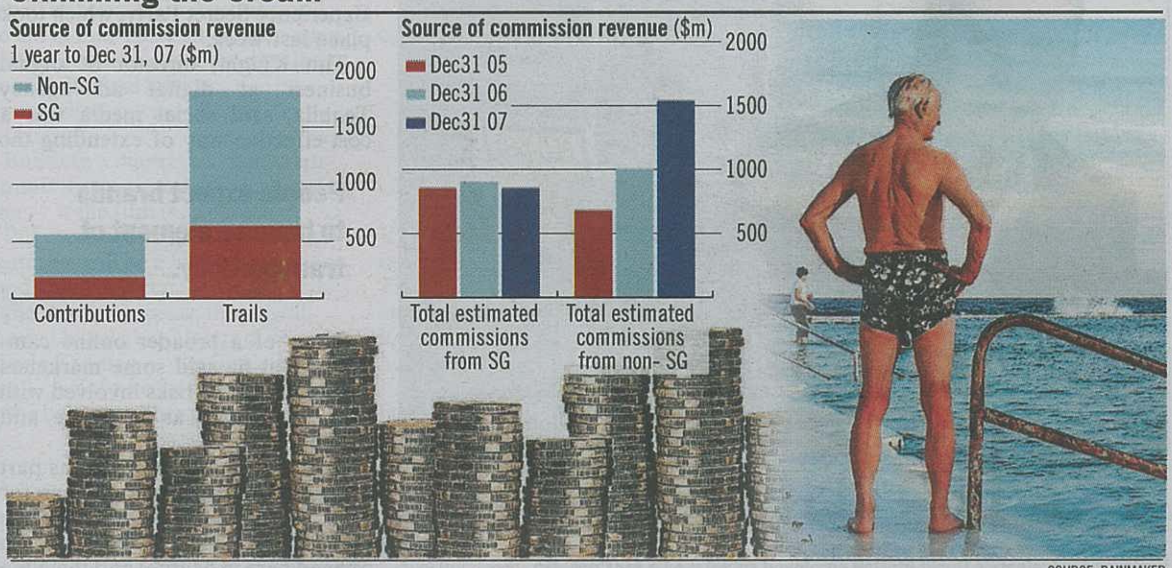
If overall fees were to be cut, the big question was "whether those commissions are justified".

Goldman Sachs JBWere financial services analyst Ryan Fisher said Senator Sherry was much more focused on distribution costs, such as commissions, than on administration or manufacturing costs, which was where the big wealth managers made almost all their margin.

"Even if only the front of the value chain suffers directly, the planners seem to have enough power to ensure that some of the pain will be shared by the rest of the chain," Mr Fisher wrote in a note to clients.

"Even if the 'official' end outcomes are relatively benign, the government's review ... will only serve to raise consumer awareness/paranoia about their fees."

Skimming the cream



SOURCE: RAINMAKER

Charges soak up $5.9bn in three years

Investors paid an estimated $5.9 billion in superannuation-related commissions in the past three years, with almost half of it paid in 2007 as investors rushed to take advantage of legislative reforms, according to research house Rainmaker.

Upfront commission revenue of $575 million in 2007 accounted for almost 25 per cent of annual commissions, while trail commission revenue provided the bulk, estimated at $1.8 billion.

A range of incentives, such as scrapping taxes on super withdrawals for retirees, resulted in super contributions rising 40 per cent to $120 billion last year, the research found.

But a sharp downturn in markets is expected to see investors refocus on the level of fees they pay, as the average super fund is expected to lose more than 5 per cent – after fees and taxes – this financial year.

Retail funds argue that they provide a superior level of service to industry funds, and that commissions are a fully disclosed, tax-effective way of paying for financial advice.

But several studies suggest investors are unable to judge the quality of financial advice and whether the fees they pay represent good value.

A recent survey by the Australian Bureau of Statistics found that 53 per cent of the population, or 7.9 million Australians, could complete only simple numerical tasks and understand only basic mathematical concepts.

Brendan Swift

Count urges standard rebate

Brendan Swift

Financial planning company Count Financial remains in talks with Colonial First State's FirstChoice investment platform to boost its fee rebates after recently negotiating new deals with BT Financial Group and Perpetual.

The financial planning industry relies on such fee rebates from popular investment platforms – which offer an array of managed funds – to boost profits, rather than charging customers the true cost of advice.

Count chief executive Marianne Perkovic said BT had increased its rebate to about 0.44 per cent from 0.40 per cent previously because Count planners had invested more than $5 billion of client funds through the BT Wrap platform.

Colonial's FirstChoice investment platform is still paying Count a rebate of about 0.37 per cent, while Perpetual and Skandia's investment platforms have moved from a similar level to about 0.40 per cent.

"We're trying to avoid any perceived conflict and have them all at the same rate," Ms Perkovic said.

Large financial planning dealer groups are able to negotiate investment platform fee rebates, which make up a substantial proportion of a typical platform administration fee of between 0.70 and 1.2 per cent. Investment management fees charged by fund managers and commissions charged by financial planners for advice cost extra.

AMP chief executive Craig Dunn recently said the investment platform had not become a commodity as some in the industry predicted. "What you've seen increasingly is that planner groups have shared in the economic rents of the overall pricing of the platform," he said.

"But I don't think that's different from most markets in the sense that access to the market is very important."

Investment platforms account for the majority of fund inflows across the industry because they make it easier for financial planners to produce client reports and track investments.

However, the Australian Securities Exchange is preparing to launch its own low-cost market service for managed funds, exchange-traded funds and structured products. The AQUA market will charge a small fund with less than $100 million under management $15,000 to list and 0.035 per cent.