Money Editor **ANTHONY KEANE** examines the ongoing battle between industry and retail superannuation funds.

Choose the right home for your nest egg

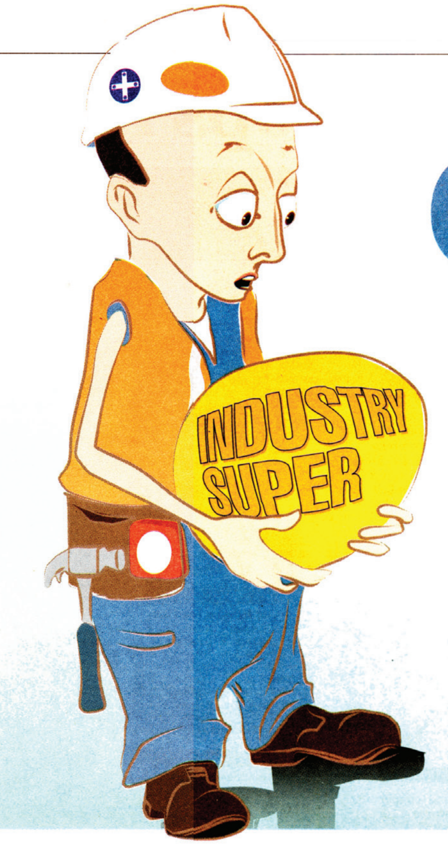

Illustration: RAY HIRST

Compare the pair. Anyone who has watched commercial television in the past three years must be familiar with this slogan.

Launched by not-for-profit industry superannuation funds in 2005, the advertising campaign has taken a big swipe at retail super funds and the commissions they pay to financial advisers. The advertisements' long-term projections for people's superannuation savings always illustrate that they are better off financially with their nest egg in an industry fund that is "run only to profit members".

There have been complaints, copycat campaigns that sparked legal action, and public attacks from both sides. "It's a very interesting debate within the industry and one that needs to be resolved – it seems to be getting more personal," said Jeff Bresnahan, managing director of research group SuperRatings.

His company monitors more than 400 super products and 1000 different fund options each month, and is behind the projections included in the industry funds advertising.

"They came to us and asked us to crunch the numbers for the Compare the Pair campaign," Mr Bresnahan said. "ASIC (the Australian Securities and Investments Commission) has been through the assumptions and we haven't had any negative feedback at all from them."

For several years, industry funds such as REST Superannuation, AustralianSuper and Adelaide-based Statewide have been delivering slightly higher investment returns than retail funds that are run by companies such as AMP, MLC, BT, Colonial and ING.

"For whatever reason, they have always been up there and they stay there," Mr Bresnahan said.

But few financial planners recommend clients put their money in industry funds.

The industry funds say this is because the planners do not receive upfront payments and ongoing commissions, while planners say industry funds are not transparent enough and not flexible enough with their insurance and investment options.

Financial services firm PKF does not recommend industry funds to clients.

"We might have them on our recommended list if we could find out where they invest," PKF manager financial services Tanya Bradley said. "We just can't find out. My biggest bone to pick is the advertising – I don't think it's all true and correct. Where does all this money come for this advertising?"

Ms Bradley said industry super funds might be appropriate for people with smaller balances who did not need strategic advice in areas such as tax structures and transition-to-retirement strategies.

Marinis Financial Group financial strategist Theo Marinis said there was a place for industry funds.

"When you have less than $80,000-$100,000 it's a good place to start," he said.

"But once you get over that level, the insurance cover might not be as good as you can organise externally, the investment choices are not as transparent, the product may not be appropriate to your circumstances.

"We don't use industry funds because they're not transparent enough.

"You can't see what the underlying investments are, so you are sort of guessing what you are investing in. It's a one-size-fits-all approach, but it works for some people."

Mr Marinis said industry and retail super funds could co-exist, but he questioned the aggressive advertising campaign. "They say they're there for members only, but if they are spending all their money on advertising, where's that coming from?" he said.

"If we didn't add value for the clients, why would they keep coming back and paying us?"

Adelaide-based Barker Wealth Management is one of the minority of financial planning firms that has a significant proportion of clients invested in industry super funds.

Barker director and senior adviser Will Henwood said at least 40 per cent of the firm's clients had an industry fund. "If it's an existing arrangement, we don't like to upset the arrangement if it's benefiting the client. It's a case-by-case situation," he said.

Mr Henwood said some clients were interested in holding direct shares in their superannuation or specific asset classes which could not always be done through an industry fund. "Most clients respect and understand the need to pay for advice, and some prefer to have it taken out of investment earnings of their fund," he said.

Financial planners get paid through a range of fees such as upfront entry fees, plan fees, ongoing service charges and commissions paid by the products they recommend, although growing numbers of planners are rebating their product commissions.

These extra costs paid to planners can easily eclipse 2 per cent a year, although the basic investment fee average is more expensive in industry funds, according to research group Chant West. It says the typical master trust will charge 0.83 per cent a year on a person's portfolio, while an industry super fund charges an average 0.93 per cent, higher because it invests more heavily in unlisted and alternative investments that are generally more expensive to operate.

"But industry fund members should have no cause to complain, because their higher fees have been more than justified by superior performance," Chant West says in a recent report.

Statewide chief executive Frances Magill said because of the not-for-profit nature of industry funds, overheads, management and administration costs were kept as low as possible. And with 168,000 members, she said, her fund had the purchasing power to negotiate reduced fees from investment providers and cheaper insurance premiums: "Statewide does not charge entry or exit fees, contribution fees or withdrawal fees and keeps its administration charges to a minimum."

Ms Magill does not subscribe to the financial planners' view that industry funds are only for people with less than $100,000 in super. "Industry funds such as Statewide are the best option for all people – low fees and no commission means greater flexibility and retirement savings," she said.

Financial planners are still not convinced and it is doubtful if or when they ever will be. Bourke Shaw Financial Services principal Lawrence Orlando says he does not recommend industry funds, "given that I am governed like most financial advisers by the approved products list our Australian Financial Services licensees provide".

"There is also the question of whether industry fund advisers are restricted to recommending industry funds," he said. "Industry funds are mainly focused on super and not on your overall financial strategy, such as salary sacrifice or estate planning. While industry funds pound our television screens with all the reasons why you shouldn't pay commissions or fees to financial advisers, it is extremely important for investors to seek professional investment advice from an authorised adviser who can understand their goals and objectives and place an appropriate strategy specifically designed to their needs."

Some industry funds are now matching many of the services of financial planning firms.

Statewide's Ms Magill said her fund had recently increased its financial planners to five, and also offered a master trust platform – Auswide – that gave members access to 30 investment options run by companies such as AMP and Colonial, which is owned by the Commonwealth Bank.

She said Statewide's financial planners were not forced to only recommend Statewide products.

"If somebody came to us from a very good performing fund with low fees, and it was in the best interest of the member, we would give them the advice to stay where they are."

Super fund aims vague

KARINA BARRYMORE

MOST people are in the dark about the promises their superannuation fund makes because only one in four uses clear and specific words to describe their investment objectives.

At a time when people are learning the hard way that their super can lose money, a report has found the investment aims of most funds are not clearly stated.

The wording and descriptions of more than 300 fund options was too vague, meaningless, confusing and used selective truth, the research said.

Jargon skirted around stating specific objectives and investment targets, which meant people could not hold the fund manager to account for under-performance, research firm SuperRatings said.

"Consumers have a right to be able to clearly understand and measure the performance of their investment options and that such measurements should be consistent across funds," said managing director Jeff Bresnahan.

SuperRatings wants the entire industry to use standard wording, such as performance against the consumer price index.

Lobby group National Seniors Australia said the findings supported the feedback it has been getting. "It is a very, very difficult industry to understand, they seem to always be talking another language," chief executive Michael O'Neill said.