Industry Funds
Facing the Need for Greater Transparency?

Most people would have seen the 'compare the pair' TV advertising campaign run by the Industry Super Funds Association and are familiar with Bernie Fraser's endorsement and comments as part of an extensive and ongoing membership campaign in favour of Industry Super.

Industry funds deploy substantial advertising expenditure in self promotion and whilst I believe that there is a case for complementary roles for Industry funds with other superannuation funding options, perhaps it is now time for a more balanced debate on the issues which Industry funds seek to promote.

The most common argument currently used in favour of Industry funds lies with the debate surrounding fees, including the payment of commissions to financial advisers.

The use of the term 'Retail' Superannuation by Industry fund advertising also ignores the availability of wholesale funding options accessed by many advice professionals. It also ignores the practice of fee and commission rebates.

In tandem with the fees debate, there has also been a tendency to highlight the more favourable investment returns achieved by Industry funds relative to the non industry superannuation sector. Some serious concerns are, however, emerging for future returns and these relate to the valuation bases used by Industry funds in relation to their considerable holdings in unlisted investment assets.

Unlisted assets are valued less frequently (and here I refer to direct property, private equity, infrastructure and hedge funds) and often in a less tangible manner than 'listed' investments, which are 'valued to market' via a unit pricing structure on a daily, or at least monthly, basis. Many of the unlisted assets (which are included in industry fund member crediting rates calculations) may not have been re-valued in the current financial year, or beyond.

Given the sharp falls in listed asset values as a result of the current Global Financial Crisis, it is inevitable that there will be a substantial impact on superannuation returns from the industry fund sector, as unlisted assets are re-valued to reflect vastly different prices. As a result, it is inevitable that returns from Industry funds (and the benefits of existing members) will be negatively affected as values fall in line with what has occurred in the real market.

In addition, those members who have left Industry funds will have benefited from previously overstated returns at the expense of existing members. Bearing in mind that in common with all superannuation funds, monies invested by industry superannuation funds are held in trust for their members, this lack of transparency in the asset valuation process presents a dilemma for trustees.

Looking longer term, the 'set and forget' investment strategy adopted by many participants in Industry funds simply does not take the need for strategy changes into account. For example, a young person at the start of a working career and in the early phase of superannuation accumulation could well opt to join an industry fund and this may be entirely appropriate.

What is often overlooked however, is that personal situations change – people marry, they divorce, children enter their lives and then grow up and leave the home, they lose their jobs, they get ill, inheritances occur – and inevitably – partners die. It is important that superannuation strategies are reviewed for appropriateness on an annual basis.

Despite industry fund advertising claims, the debate surrounding industry versus other non Industry funds is far from clear cut. There are wide ranging considerations, which should be examined on an individual basis in the context of not just superannuation, but taxation, social security and other investment and retirement strategies. Importantly, the ability to negotiate fee structures and the transparency of all costs and returns should not be overlooked.

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A choice to join an industry fund is, therefore, just one choice from a menu of options; it offers a 'one size fits all' approach. At some stage in their lifecycle, most superannuation investors will have a need for ongoing 'tailor made' advice and support.

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