Creating a fairer superannuation balance

Creating performance league tables won't rectify the super mess.

Summary: The Productivity Commission will play a central role in the development of superannuation fund performance league tables.

Key take-out: The bigger issue is creating standard definitions for the different asset allocation terms being marketed.

The flaw in the superannuation system revealed by the Royal Commission is the fact that few people actually understand the complexities or issues of what we have.

And what we have is a mess which allows marketing spin and self-interest to distract long-term investors away from the sole purpose of superannuation – to provide funds for retirement.

The mess starts at the top. The very senior bureaucrats in Canberra who are advocating significant change to the industry are the people who invented the system we are suffering under. Now they are advocating new ways of looking after savings by appointing the Productivity Commission to a new oversight position.

Appointing the Productivity Commission to be the arbiter of the top performing funds 'hit parade', or league table, is mindbogglingly foolish.

For a start, there is an absolute conflict of interest for these public servants, who along with our politicians are entitled to a defined benefit pension in retirement, while the rest of us 'civilians' are left trying to decide which 'fund' performed best.

Instead of developing a league table, the Productivity Commission should be creating a clear understanding of superannuation terminology – and publishing that information. We need to compare apples with apples.

Industry funds, retail funds and self-managed super funds (SMSFs) are just tax structures which allow us to invest in the same underlying assets. Some structures cost more and some cost less – and some have different functionality – but that is a minor issue. The major issue is that Canberra senior bureaucrats should not be cheerleading for any structure, super fund or super sector.

What is vitally more important is for superannuation members to clearly understand how their money is allocated – but I haven't heard anything from the Commission or its proponents about this.

The Productivity Commission should actually set specifications for the various asset allocations labelled 'Defensive', 'Conservative', 'Moderate', 'Balanced', 'Growth', and 'High Growth' by (a) asset class and (b) their appropriate weightings to growth vs defensive assets allocations for each defined profile.

If the Productivity Commission is given these 'league table' ranking responsibilities, we will find ourselves wading through a new Royal Commission in the next decade as those who were burnt by the top 10 league chart put pressure on politicians to answer questions about why their investments underperformed.

There seems to be a collective ‘take-out’ from the Royal Commission that somehow industry super funds are ‘good’ and that retail super funds and SMSFs are ‘bad’.

Recent media reports state that industry funds are currently recipients of transfers from retail funds, which all plays well to a narrative that there is good and bad amongst the various methods of superannuation funding.

If we are to be black and white, industry funds are not the cheapest form of super fund available, they are not the most flexible, and they don’t have the best insurance options. But they are still good. The same can be said for retail funds and SMSFs.

What we need to consider is the make-up and investment approach all funds adopt and look across the same skyline.

In other words, use a mandated description of what constitutes a certain style of investing. We need appropriate benchmarks, so we can all really compare the performance of a particular fund to the right benchmark for a designated risk profile.

And we don’t need self-interested senior bureaucrats trying to pick the winning superannuation fund of the future!

No one can do that, least of all the senior bureaucrats and their masters in Canberra.

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