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Wealth/Super

Don't dump your super fund – yet

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By Michael Laurence

There's a big chance that your super fund return is going to look pretty sick this year. But don't panic. Here are six tips to help you decide whether you should stick with your fund.

Numerous members of big super funds will respond to the inevitably negative returns for 2007-08 of balanced and growth portfolios by dumping their existing funds and setting up DIY funds.

Mark Johnston, principal of investment researcher Investment Trends, says whenever markets turn negative for at least a 12-month period, many members of large funds reach the view that they can do better themselves with a DIY fund.

Johnston last observed this phenomena occurring when many of the balanced and growth investment options of the big funds produced negative returns for 2001-02 and 2002-03. (Ironically, the sharemarket was well into its breathtaking recovery by the time fund members received their annual reports showing negative or barely positive returns for 2002-03.)

However, members who change from a big fund to a DIY fund solely on the strength of one or two years of negative returns are highly likely to be acting illogically in my opinion, and should first consider consulting a quality financial adviser.

As Jeff Bresnahan, managing director of super fund researcher SuperRatings, says: "In reality, it's the markets that have generated the underperformance in a lot of cases, not the funds themselves."

Bresnahan believes the panicky response to a negative annual return is to quickly jump into an all-cash portfolio or to move to an alternative fund, which may well be a DIY fund.

He urges fund members to try to understand why their funds have produced negative returns before switching to another fund.

Here are six tips to dealing in a rational way with negative returns in your super fund:

ONE. Check comparative performance:

See how your fund has performed against funds with similar asset allocations.

"If you don't do this before changing funds, you are making a very uneducated, knee-jerk decision that is probably going to cost you more down the track," Bresnahan warns.

Most members of large super funds are in their funds' balanced or growth investment options. (A balanced portfolio – defined by SuperRatings – is one with 60% to 76% of its investments in growth assets with the remainder in defensive assets. It is by far the most popular. And a growth portfolio – again defined by SuperRatings – has 77% to 90% of its investments in growth assets. Beware that definitions of what comprises a growth or balanced portfolio differ.)

You can easily check how your fund's balanced and growth investment options have performed against those of other funds and against median fund returns. Check the websites of fund researchers SuperRatings and SelectingSuper.

The median return of the 50 largest balanced investment options surveyed by SuperRatings was -2.9% in the financial year to 30 April, the latest figure available at the time of writing. And the funds with highest performing balanced options surveyed for this period were: MTAA Super – Growth, 3.5%; OSF Super – Mix 70, 0.2%; MTAA Super – Balanced, 0%; Cbus – Moderate Growth, 0%; and Vision SS – Balanced Growth, -0.2%.

TWO. Compare five-year performance:

Don't overly-focus on 12-month returns. "Look at the five-year returns," Bresnahan suggests. "Over five years, you have given the funds enough of a chance. They have gone through different market cycles of boom and bust."

He believes members should consider swapping funds if their returns have underperformed the market median year-in and year-out over the past five years.

The rolling median return of the 50 largest balanced portfolios surveyed by SuperRatings was 11.1% for the five years to 30 April. And the highest performing balanced funds surveyed for this period were: MTAA Super – Growth, 15.9%; MTAA Super – Balanced, 14.8%; BUSS (Q) – Balanced Growth,12.5%; Westscheme – Trustee's Selection, 12.5%; and Cbus – Core Strategy, 12.4%.

THREE. Look at fees:

If your fund is consistently underperforming the median, chances are it is being weighed down by heavy annual fees – which for the big funds range from 2.5% of a member's super savings down to 0.5%.

Andrew Keevers, assistant research director for SelectingSuper, says that whenever their super returns fall, members suddenly pay much more attention to the fees they are paying. And high fees sometimes acted as a trigger for members to change funds.

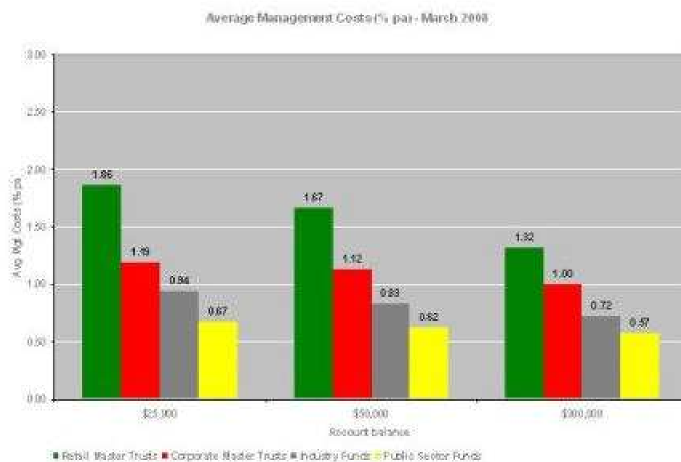
"Fees are a really easy measure for fund members to check," Bresnahan says. "If you have less than $100,000 in super savings, you shouldn't be paying more than 1.5% [of your assets] a year in fees," he says. "And if you have more than $100,000 in super, you should be paying less than 1%.

"If you are paying more than that, you are paying over the odds."

Super fund researcher Chant West released a report recently that once again confirms that the average management fees charged by retail superannuation master trusts are markedly higher than corporate master trusts, industry funds and public-sector funds – even when the in-built financial adviser fees that apply to many members of retail master trusts are not included.

"It is standard industry practice not to rebate [to a member] the in-built adviser commission where the member invests direct in a [retail] fund," points out Chant West principal Warren Chant.

Public-sector funds are the least expensive of the big super funds with industry funds the second least expensive.



Source: Chant West Financial Services. In-built adviser fees that can often apply to retail funds are not included in the Chant West figures.

FOUR. What members with big balances should watch:

Members of large funds who have particularly high balances should really keep a close watch on fees. The impact of high fees on their net returns can be extremely hard-hitting – unless their funds offer some kind of discounting for high balances.

Andrew Keevers of SelectingSuper says many corporate master trusts provide special fee deals to super members with balances over set amounts of, for instance, $400,000 or $1 million.

Keevers says few industry funds apply some sort of fee cap for members with high balances. Among the exceptions is industry fund VicSuper. (This public-offer industry fund has $1500 cap on the majority of its fees once a member's super savings reach $300,000.)

FIVE. Understand fee structures of DIY funds:

One attraction of self-managed funds for members with above-average balances is that a fixed-dollar fee can be calculated for their administration fees – no matter the size of the balances.

For instance, DIY fund administration service Heffron Consulting in NSW generally charges $2000 to $3000 a year to administer a fund – a charge that includes auditor and regulator fees. (The charge does not include any investment management, investment transaction or financial planning costs that a fund might incur.)

Martin Heffron, a co-principal of Heffron Consulting, says the highest administration fees (towards $3000) are charged to funds in the pension-paying phase that are more complicated to administer. "And we reserve the rights to charge more than the standard fee if a fund has a particularly high number of investment transactions," he says.

Graeme Colley, superannuation strategy manager for DIY fund administrator Super Concepts, says the average administration fee charged by his firm to a fund with $900,000 to $1 million in assets is about $1900 a year compared to about $2700 for a fund with more than $7 million in assets. The difference in the charges would be explained by the fact that bigger funds tend to have the most investment transactions.

SIX. Understand what is involved with a DIY fund:

Anyone who is contemplating a DIY fund should first consult a quality financial planner, in my opinion, to really understand what's involved with setting a compulsory fund investment strategy, setting the fund's asset allocation, selecting investments and understanding the strict rules controlling these funds.

Running a DIY fund without expert advice can be tough work.

Read more about DIY super