The University of New South Wales
School of Economics and Actuarial Studies

The Eighth Annual Colloquium of Superannuation Researchers

Choice of fund: Implications for Employees, Funds and Industry

Douglas Connor, Research Officer
Association of Superannuation Funds of Australia

June 2000

Introduction

The government's Choice of Fund Bill was first introduced on 4 December, 1997. Their stated motivation is the belief that greater choice for employees will lead to greater competition amongst funds for superannuation savings which in turn will lead to greater efficiencies in the superannuation market, hence greater returns for employees. Returning "ownership" of superannuation to members was also identified as a priority for any choice of fund model to be introduced.

After nearly four years there has yet to be a final model proposed, and legislation still relies on agreement by the Democrats in the Senate. So where does this leave employees, employers, funds and the superannuation industry as whole? What started out as a high profile priority for the Government now appears to have been put out to pasture (or at least given a rest) while other legislative changes such as GST and Corporate Law Reform take precedence.

Choice of fund proposals have involved a degree of complexity and options for those involved in choice. The three methods originally proposed by the Government include the Four Fund Model, the Unlimited Choice Model and the Certified or Workplace Agreement Model. Press reports suggest that the Four Fund Method has since been dropped from consideration.

One problem cited by both superannuation providers and employers was the likely increase of administration costs for employers and funds in any choice model. These increases in costs must be borne by someone, and the market view is that increased fees and charges to members would be required to meet them or employers would have to pay. This conflicts with one of the main tenets of choice, to deliver retirement income at lower costs to the employee. Another factor in the choice environment is the no active choice scenario. If an employee doesn't make a choice, what happens to the superannuation contribution? With unlimited choice and the competitiveness between funds that results, obvious advantages lie with the default fund.

The education of employees to make an informed and considered choice appears on the surface to be the responsibility of the employee, given it is their retirement income at stake. With the line between education and advice a little blurry it may be dangerous, in terms of liability and ASIC licensing requirements, for employers to impartially educate employees/members with the information they require to make an informed choice. To this end a regulated set of terms and comparisons on issues such as cost, fees, charges and rates of return appear to be the only way to simplify the process. Employers too will have to educate themselves to find out more about their responsibilities under choice.

Whilst many funds have prepared structurally for life with choice they will also have to educate themselves for the legislative requirements of choice if and when it is implemented. So education is needed for all parties in the choice of fund environment. But who will pay for all this education? The onus could be said to lie with the government as they have proposed to legislate the changes, but it appears that all participants will have a role to play, particularly if the Government does not provide adequate funding.

The motivation for choice of fund in the superannuation industry appears clear, or at least clear for some participants in the market, however, the impacts are more wide reaching. From employers to funds to members, all must take a role in ensuring this process does not erode the retirement income of members nor bind the funds and employers in more red tape.

Employees

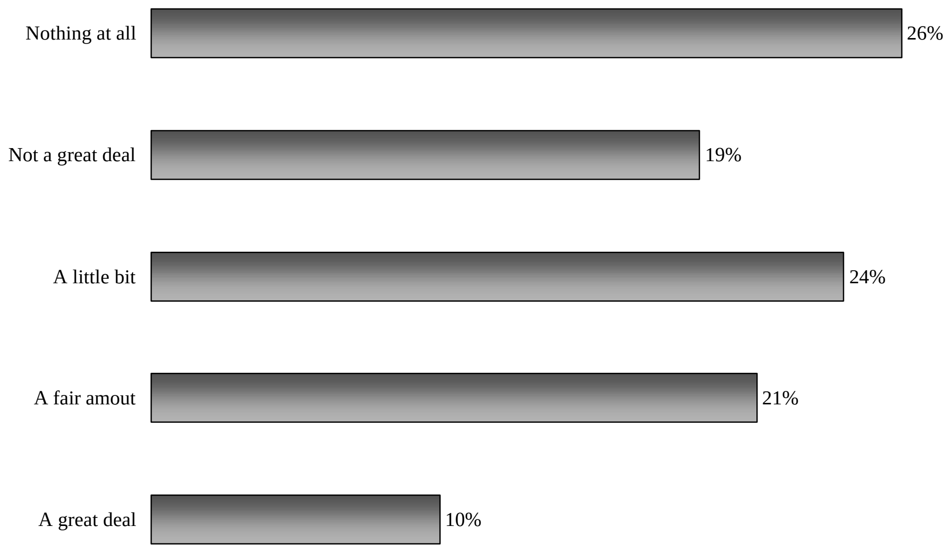
Education

One of the most important issues relating to choice of fund is the education of employees in both their rights under the legislation and their investment needs as members of superannuation funds. With 15% of all Australians being functionally illiterate and many having English as a second language, education is a vital part of the process of choice of fund. The question of who should fund this education appears to lie wholly with the government but in reality fund members will need to educate themselves with a focus on their investment needs.

With increased competitive behaviour between funds the line between what constitutes education and marketing becomes blurred and employees need to take more care when making decisions that have potentially big effects on retirement savings. The government has indicated that the ATO and ASIC will provide assistance to employees under choice of fund. In particular, the ATO will provide information through pamphlets, the internet and telephone help lines. However, this information is likely to be limited to assisting those enquiring in working out the mechanism for choice and will be of little or no assistance in actually exercising choice.

In a recent telephone survey ASSIRT found that 83% of investors thought the legislation was a good idea but the 69% knew a little, not a great deal or nothing at all about it.

Chart 1 – Knowledge of choice of Fund Legislation



Source: ASSIRT

At the December 1999 roundtable discussion on choice of fund organised by the Senate Select Committee on Superannuation and Financial Services many of the participants considered that the legislation should only proceed if there is an extensive education and awareness campaign to inform employees of the choices available to them. Employers necessarily will be footing part of the bill along with funds as each has a role to play in providing choice to the employee. Estimates of the total cost of education run up to $40 million or more per annum with this figure implying very modest expenditure of less then $10 per fund member.

Disclosure

To help employees make an informed choice they must also be able to compare the prices of services and rates of return offered by funds. If this information is not homogenous then employees will have a hard time trying to make a choice between any two funds let alone between many. This comparison is required on issues such as:

- All fees and charges (including commission costs)
- Risks
- Performance

Because superannuation is a mandated form of retirement saving which forms part of the Government's retirement income policy, disclosure needs to focus on the provision of simple, easy to understand information that encourages both reader interest and involvement. Both the employee, as the member and beneficiary of the fund, and the employer, who may select the default fund and may be the sole contributor, can be viewed as clients of superannuation funds so providing information on costs applies equally to employers as well as employees. The Commonwealth has tied in some areas of disclosure in its Financial Services Reform Bill. However, not all industry participants agree with the disclosure arrangements from this draft legislation.

Consistency, comparability and ease of understanding should be the guiding principles for the development of disclosure standards. From an employee perspective it is important that the costs can be quantified with the impact of entry/exit fees and other charges all taken into account. Obtaining information about funds via disclosure will be the first part of the education process for employees when deciding on a fund.

Portability

This can refer to the ability of the employee to:

- transfer a benefit from one fund to another; or
- continue making contributions to the fund in relation to a new or separate period of employment with a different employer(s).

In this way benefits from different periods of employment (or different employers during one period) can be consolidated into one fund with the effect of reducing the impact of administrative and management fees and generally assisting employees to simplify superannuation arrangements.

Choice of fund deals only with allowing the employee to choose the fund into which existing contributions will be made. That is, the legislation is prospective and past contributions will be preserved in existing funds until the employee leaves that workplace. It seems logical that many people would wish to consolidate their existing balances into one fund to make the most of higher account balances.

An example of portability issues exists in Chile where unlimited choice of fund led to 50% of members changing funds in 1996 and 1997. With no cost to utilising portability and the commission based selling structure, it caused such a crisis that the government had to put barriers in place to slow down transfers. With transfers between funds allowed once every twelve months in the current Australian legislation, the Chilean "churning" experience should be avoided.

One consequence of increased portability by employees could be an increase in entry and exit fees by funds to curb members from transferring their funds too often. This would seem to be in conflict with the Government's aim to decrease fees and charges as a result of increased competition in the superannuation market. This has recently been raised by the Federal Opposition who want to see a cap on fees and penalties to prevent an artificial barrier against members changing funds.

Default Fund

It seems likely that many employees, although being free to make a choice won't either through:

- low levels of literacy or numeracy; or
- a lack of interest in making a choice.

The decision as to who chooses the default fund range from

- The existing fund for current employees
- The award fund for new employees, and
- Where no award exits, the one the majority of employees are in.

In May 1999, and October 1999 ASFA commissioned Wirthlin Worldwide Australasia to conduct independent focus and quantitative research for a better insight into community attitudes to superannuation and government policies related to superannuation.

Part of this research found that when it came to super people did not want to be 'investment gurus'. Many saw themselves as "novices" in the new financial world and many doubt their ability to invest wisely. The necessity to simplify super was a much higher priority. The research concluded that from a consumer / personal perspective:

"the desire for simplicity equalled peace of mind and security in decision. In the case of super this outweighed the desire for freedom of choice".

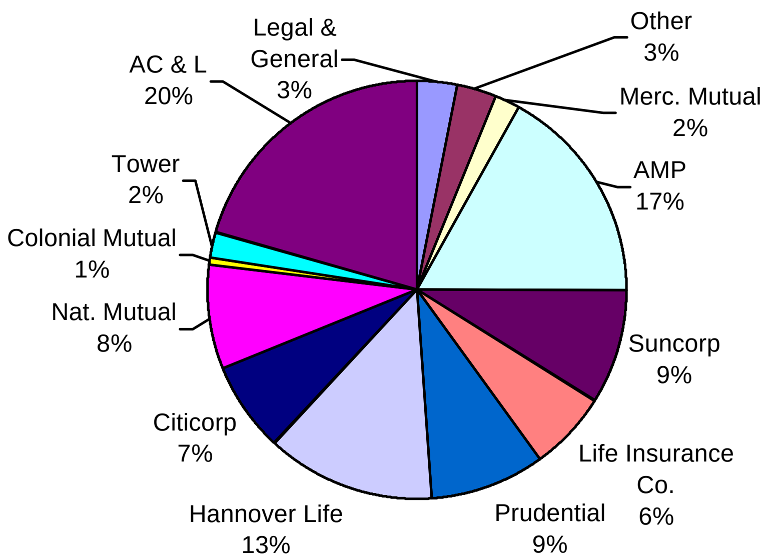
This would bolster the view that with unlimited choice available to them, many employees, possibly 50 to 70% or even more, will not wish to make an active choice. It is simpler to not make a choice than to make one so the protection of retirement incomes must be the main priority when selecting the default fund.

Insurance

A basic level of insurance cover whilst a member of a fund is one of the most important aspects of superannuation for employees. This becomes a very important issue under choice with increased portability and competition. Continuity of basic insurance for employees whilst on the cusp between changing funds is very important for those employees in high risk occupations. Some insurance cover has a continuation option when the member leaves the fund and it will be even more important to disclose the rules for this and/or for new transfer protocols to be developed when choice is introduced.

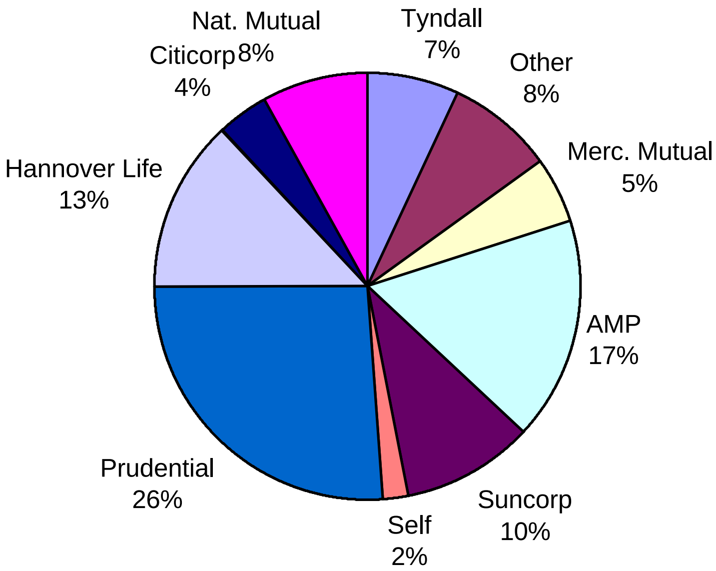
Even without choice of fund, the concentration of the insurance market poses a danger of rising costs to the larger industry and public offer funds. In the group insurance market, five major players merged into two recently - AC&L and National Mutual have merged their group business and Prudential and Legal and General have merged with Colonial. While a competitive market of some six insurers still exists for medium and smaller superannuation funds, the competition has lessened for larger funds where there are only two major players. The following charts show changes in market share for industry fund insurance in 1997 and 1998.

Chart 2 - Industry Fund Insurers 1997



Source: Superfunds Magazine

Chart 3 - Industry Fund Insurers 1998



Source: SuperfundsMagazine

In a choice environment, more emphasis will need to be placed on disclosure of the Death and Total or Partial Disability options (and the rules relating to the offering) in all initial, ongoing and exit fund documents. This will assist members in ensuring they have cover when they change funds. This consolidation in insurers has both potential advantages and disadvantages. The principal disadvantage is that less competition will shift the balance of bargaining power to insurers, with possible development of more onerous qualifying conditions for insurance cover. The potential advantage is that fewer players may mean that a member covered by insurance cover with one fund may encounter that same insurer in the next fund. This could possibly simplify the transfer of cover.

Dispute Mechanisms

To maintain confidence in the superannuation system an effective dispute resolution system is required. Under choice this will become an even more crucial issue as the industry becomes much more market driven and employees could well face difficulties ensuring super is right for them and that they have adequate levels of insurance. The Superannuation Complaints Tribunal (SCT) and the Australian Industrial Relations Commission (AIRC) both have a part to play in giving employees avenues to resolve disputes concerning superannuation. In regard to the latter, a recent AIRC decision confirms its role in making awards which specify a super fund for both union and non union employees. However choice may place added strain on these resources to deal with what could become a minefield of financial mis-advice and/or selection of a fund which later proves to be unsuitable. Noone wants to repeat the UK experience which resulted from members the option to opt out of existing funds. Life companies and their agents sold many inappropriate pension plans. Again uncertainty on the processes of choice by employees and the roles and interactions they have when dealing with funds and employers will only create more need for adequate dispute resolution systems.

Funds

Structural Issues

To gain and keep new members, funds need to create an environment that members will feel happy and confident to be a part of. With choice of fund this environment becomes increasingly unpredictable with members able to chop and change their funds as they see fit based on criteria such as returns, costs and insurance or other perceived or actual factors that are marketed to members and potential members. It becomes a marketing and structural issue for funds who wish to keep members from going elsewhere. Regular performance updates and their communication to members can be expected to become more commonplace. Members of poorly performing funds are likely to be the target of marketing by both retail and industry funds. Smaller funds are likely to merge with larger ones in order to gain competitive features and also to undertake the level of marketing that will be required..

For those funds that outsource investment management to other companies it will pay to have a degree of recognition in the market not only for the fund itself but also with those companies that it utilises such as insurers and investment managers, enabling potential members a means of brand identification. Identity in the market will become crucial for many funds in order to maintain membership.

In this way the marketing of the fund and communication with members will create increased costs for the fund, and as with other costs to funds, these will generally be passed onto members as higher fees and charges. Some funds have already started positioning themselves with many using advertising and offering non-superannuation financial products to maintain their existing membership base and entice new members.

To this extent some funds are becoming (or at least planning to become) powerful financial groups capable of offering all sorts of services outside the realm usually associated with superannuation, like home loans, banking services, discount cards and holidays. However too many gimmicks may undermine funds abilities to deliver their core business of maximum retirement income benefits, so a balance between the two is required. The “sole purpose” test is also a constraint for funds, but the use of shareholdings in other entities supplying services, and alliances with other financial services providers have helped funds deals with this.

Education

Just as is the case for employees, funds too will have to educate themselves in the changes that choice will bring. Not only the processes involved in administering choice but also in the implications of disclosure and how to attract new members without running foul of any new SIS regulations being mooted to help the introduction of choice. The role that funds will take in educating employees will be crucial but could become a grey area with information, through disclosure, being sought by members viewed more as promotion than education. But in an unlimited choice environment this would not be unexpected with funds competing for members who are looking for the consistent good returns for the lowest management cost as well as appropriate insurance coverage. A neutral position will be hard to maintain.

Not only will they need to communicate more with members but also with employers. This could become a promotional activity rather than simply an educational one, particularly when employers have a say in selecting default funds for their workplace and funds wish to market themselves to these employers. Ascertaining the employers wishes will take market research on the part of funds and may include presentations and ongoing communications in order to maintain a link with the employer. The education process will be an ongoing one which will require care by all those involved not to add more complexity to the superannuation system.

Costs

The 1999 ASFA Administration Costs survey of corporate, public sector, and industry funds indicated that administrative costs in these sectors have been reduced in recent years. The lack of response by the retail sector may be the result of commercial sensitivity or it may reflect the difficulty many retail fund providers have in segregating costs into particular functions.

The ASFA Research Centre benchmarking survey revealed that the average administration cost per member of corporate, industry and public sector funds was $85 a year or $1.66 a week. Aggregate administration costs fell by around 12% compared to the previous year.

Table 1 – Administration costs - 1999

Type of Fund	Admin Cost per member per week
Corporate/Enterprise Fund	$2.40
Industry Fund	$1.65
Public Sector Fund	$1.41

Source: ASFA, Admin Costs report

- For most funds surveyed labour costs amounted to around 50% of administration costs. Computer costs ranged between 5% and 15% of the total costs of funds that self-administered. In the case of externally administered funds such costs are included in the overall fee charged for administration.

- Professional fees, particularly actuarial and superannuation consulting fees, are another relatively big-ticket item for superannuation funds. For corporate schemes, fees can be 10% or more of total scheme administration costs, but for public-sector schemes they amount to only about 1% of administration costs. There are likely to be economies of scale for large public-sector funds in seeking actuarial and other advice.

- Communication with members is another major expense item. For industry funds and corporate funds the average cost was about 5% of total administration costs. The public-sector funds surveyed spent less on communications, with about 2% of administration costs attributed to this.

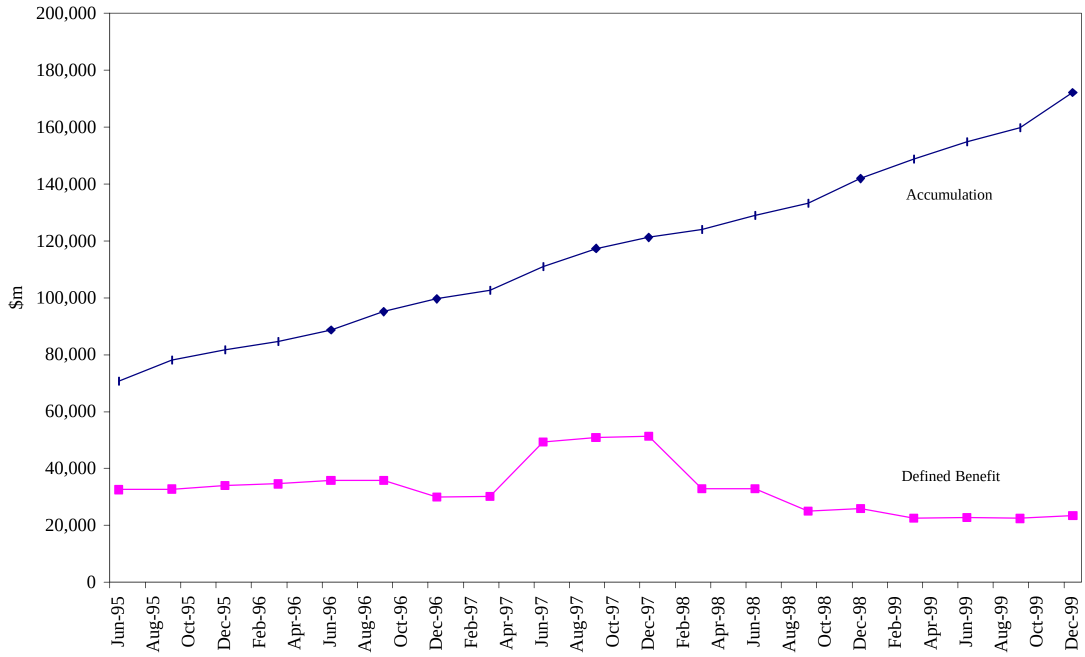
For some funds communication costs will be heavily influenced by printing and mailing costs, while for others electronic distribution and internal mail may assist in containing costs. The appropriate level of funding for communication and the best ways of communicating with members are ongoing issues for funds. With increased communication resulting from increased marketing, funds will experience an increase in costs under choice environment.

To provide members and potential members with information and promotion, funds generally will need to increase communication via print (currently used by all funds), face-to-face contact (used by 48% of funds) and electronic (used by 19% of funds) means. To lure members from other funds an increase in advertising for the funds and affiliated service providers is inevitable, and for a number of funds have already started. Both will increase costs to funds and create more rationalisation of funds in order to create or maintain economies of scale.

Industry

The freeing of the superannuation market through choice of fund will change the structure of the industry. Employers may find it increasingly difficult to maintain their corporate funds and may look for alternatives given disclosure, licensing, marketing and other requirements. As well, a move away from defined benefits into accumulation style accounts has already started to occur as Chart 4 illustrates.

Chart 4 – Superannuation Assets by Type of Fund



Source: APRA quarterly Statistics

The market performance of different sectors

Charts 6 to 8, which are based on APRA data, provide some indications of what factors have been responsible for growth in assets of the various types of funds.

Each of the charts show that fluctuations in the growth in assets is largely related to fluctuations in net earnings growth, particularly in the case of corporate funds. There is some seasonality in the pattern of contributions, with a bunching of contributions in the June quarter. However, for corporate funds there is little or no seasonality, with the greatest bunching of contributions occurring for retail funds. This is not surprising given that retail funds would tend to be used by many small businesses where the proprietor has control over the amount of employer contributions that are made.

The charts show steady growth in the employer contributions for both retail and industry funds, and particularly strong growth in member contributions for retail funds. However, member contributions have over the last year increased from a low base for industry funds. In contrast, both member and employer contributions have shown little growth for corporate funds.

Who has been winning the battle for contributions? Chart 5 indicates that the larger funds have become even larger, with the number of funds with assets over $500 million more than doubling in the last four years. This has been the result of both fund mergers and the growth of individual funds through gaining more members and contributions.

Chart 10 shows that both retail and industry funds have achieved considerable growth in the level of contributions.   In terms of employer contributions, industry funds and the retail sector started from a similar base in the mid-1990s, but retail funds have pulled ahead a little. "Discretionary" employer contributions made in or around the June quarter and annual payments made to meet SG requirements appear in part responsible.

Both industry funds and retail funds have benefited from growth in nominal wages and in the rate of the Superannuation Guarantee. Even in the absence of choice legislation, the retail sector appears to have increased its market share, although not necessarily in the market segment which is dominated by industry funds. However, the most marked difference between industry funds and retail funds is in regard to member contributions.

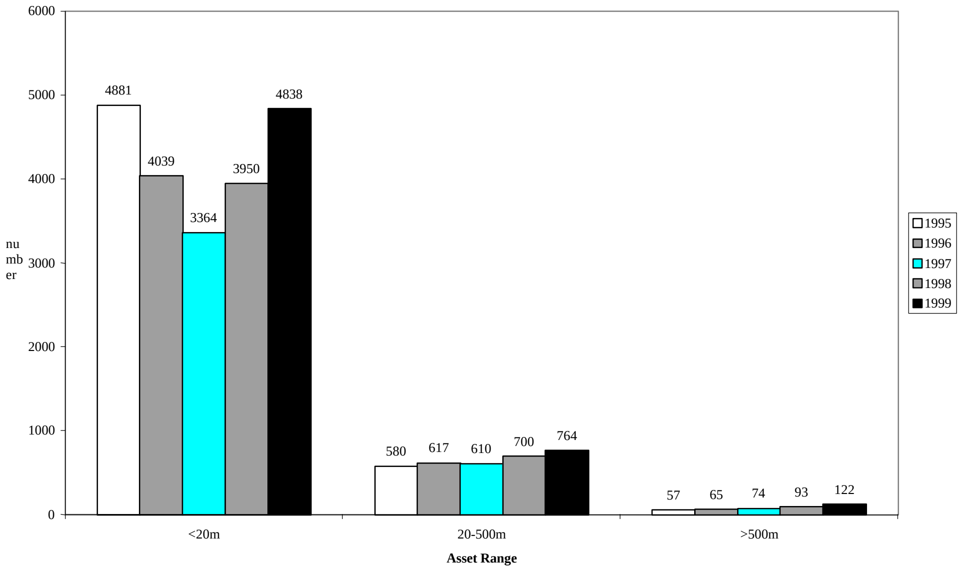
Member contributions are currently running at around twice the level of employer contributions for the retail sector as a whole. Given the tax treatment of member contributions and the benefit design of retail products, it is likely that most of these member contributions are one-off lump sum superannuation benefits and other capital items which are invested in order to generate retirement income streams. The retail sector has a well developed set of retirement income products, and financial planners tend almost universally to refer clients to retail providers and not to industry funds when they have lump sums to invest. Most individuals with a substantial lump sum would make use of the services of a financial planner.

The counterpart to the growth in retail and industry fund assets has been a squeezing of the share of assets accounted for by corporate funds. As indicated by Chart 8, employer and member contributions to corporate funds have been maintained in nominal terms in recent years, and have even shown some modest growth. However, this growth has been outstripped by overall growth in superannuation assets.

Chart 9 indicates that over the last 5 years or so the market share of retail, self managed, and industry funds has increased, while that of public sector and corporate funds has fallen. There has been a recent upswing in the share of public sector funds as a result of some State governments moving to greater funding of previously unfunded superannuation liabilities.

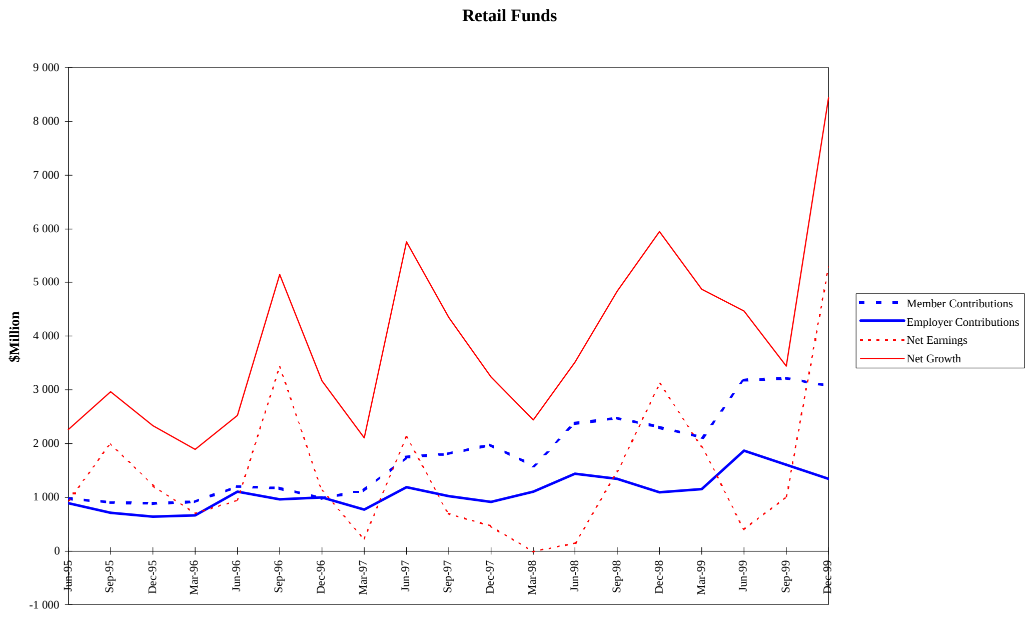
In summary, the absence of legislated choice has not stopped significant developments in market shares within the superannuation sector. These developments have been gradual, and have not required the winning over of the coverage of any one group of employees from one category of scheme to another.

Chart 5 – Fund Concentration



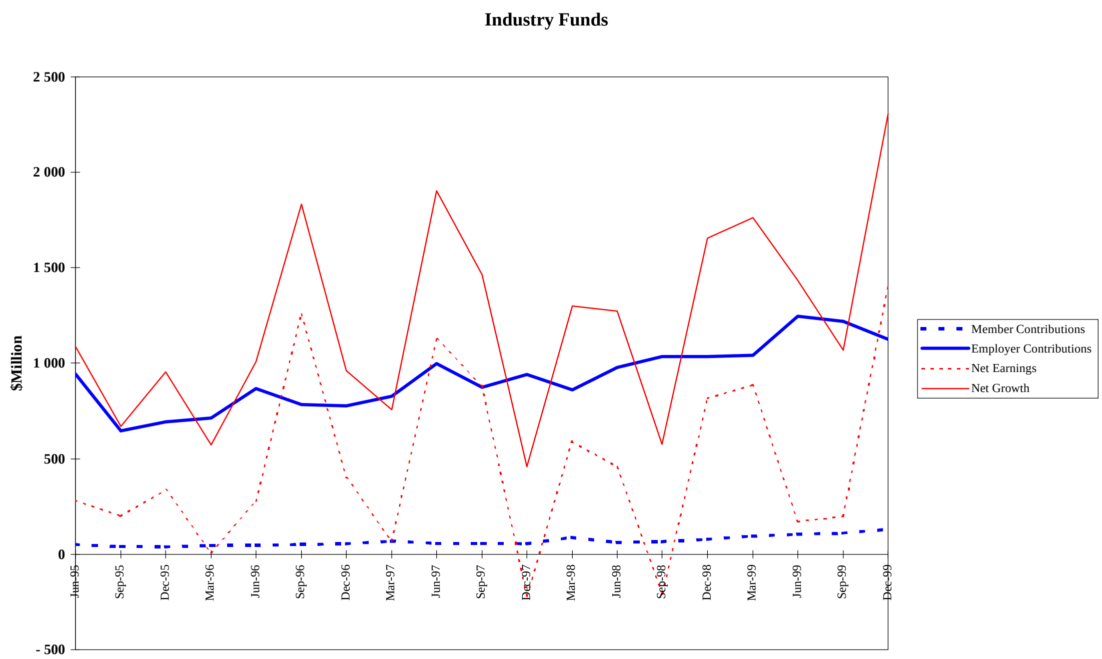
Source: APRA

Chart 6 – Retail Fund Contributions



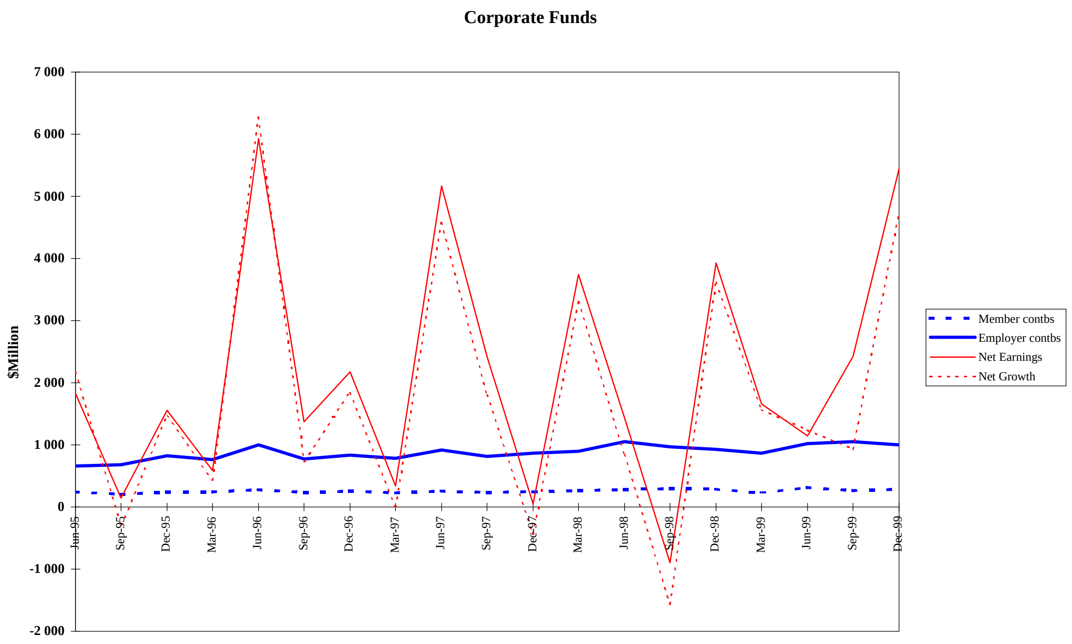
Source: APRA quarterly Statistics

Chart 7 – Industry Fund Contributions



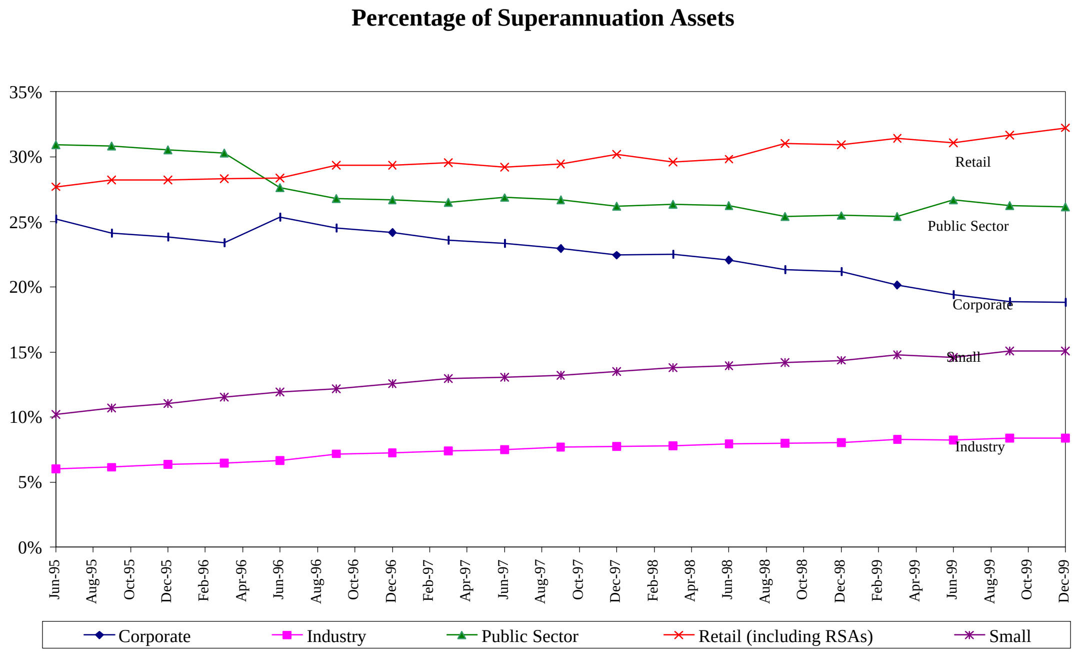
Source: APRA quarterly Statistics

Chart 8 – Corporate Fund Contributions



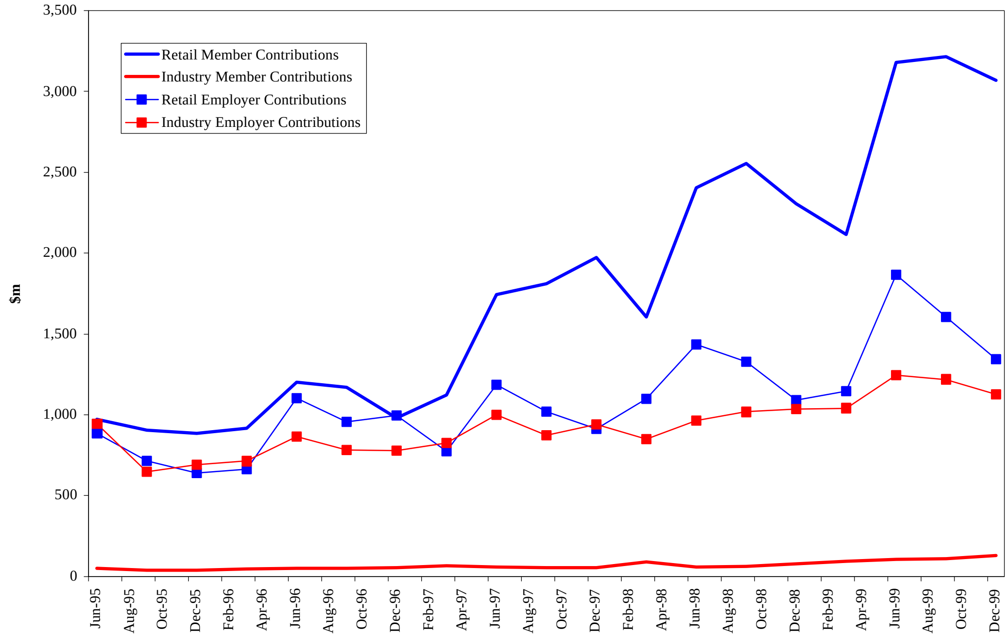
Source: APRA quarterly Statistics

Chart 9 – Percentage of Superannuation Assets by Type of Fund



Source: APRA quarterly Statistics

Chart 10 – Contributions – Retail and Industry



Source:APRA quarterly Statistics

Table 2 – Superannuation Assets by Type of fund

	1995			1996				1997				1998				1999			
	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June	Sept	Dec	Mar	June[d]	Sept	Dec
	$millions																		
Corporate	46,695	46,397	47,859	48,293	54,566	55,302	57,141	57,138	61,710	63,511	63,076	66,387	67,215	65,844	69,491	68,144	69,418	68,984	73,600
Industry	11,143	11,811	12,764	13,336	14,346	16,179	17,139	17,897	19,798	21,260	21,718	23,017	24,166	24,736	26,326	28,057	29,492	30,554	32,860
Public Sector	57,258	59,309	61,337	62,620	59,417	60,475	63,080	64,112	70,988	73,886	73,597	77,715	79,899	78,499	83,660	85,997	95,371	95,924	102,252
Retail (including RSAs)	51,319	54,285	56,616	58,503	61,033	66,183	69,346	71,455	77,203	81,561	84,811	87,270	90,806	95,754	101,577	106,398	111,040	115,585	126,012
Small	18,867	20,549	22,209	23,827	25,640	27,451	29,706	31,398	34,521	36,574	37,890	40,625	42,394	43,857	47,102	49,964	52,188	55,006	58,967
Sub-total	*185,282*	*192,351*	*200,786*	*206,579*	*215,002*	*225,590*	*236,412*	*242,000*	*264,221*	*276,792*	*281,092*	*295,013*	*304,480*	*308,690*	*328,155*	*338,561*	*357,508*	365,295	391,031
Balance of statutory funds [c]	42,329	44,171	45,297	44,201	44,834	46,837	46,704	53,151	55,129	56,905	57,169	54,259	56,863	55,222	49,212	49,337	51,135	51,047	47,702
Total Superannuation Assets	**227,611**	**236,522**	**246,083**	**250,780**	**259,835**	**272,427**	**283,116**	**295,151**	**319,350**	**333,697**	**338,261**	**349,272**	**361,343**	**363,912**	**377,367**	**387,898**	**408,643**	**416,342**	**438,734**

Source: APRA April 2000

[c] The Balance of Statutory Funds is the remaining superannuation assets residing in life office statutory funds after the assets explicitly known to reside in other fund types have been allocated. These assets include products (e.g. deferred annuities) which are regulated solely under the Life Act.

[d] During the June 1999 quarter, three Public Sector funds received $8.4 billion in exceptional employer contributions.

Investment Choice

As a precursor to fund choice, some industry funds have started offering investment choice to members as revealed in a recent survey by *Superfunds* magazine. The percentage of industry funds offering investment choice has increased to 60% (see Table 3) as a means of creating a differentiated product for members to choose from ahead of choice of fund. This figure is lower but rising for corporates as well. However it is interesting to note that in Western Australia, where choice of fund for employees under State awards commenced on 1 July 1998, Westscheme(a large industry fund) has found only 0.5% of members have moved funds under investment choice. Unfortunately no figures are yet available for those using choice of fund.

Table 3 – Investment choice

	1999	2000
Industry funds		
Member Investment Choice	22%	60%
Public Offer Status	22%	31%
Corporate Funds		
Member Investment Choice	32%	42%

Source: Superfunds Magazine

Extent of Choice

Analysis conducted by ASFA Research Centre suggests that when choice applies to both new and existing employees, out of 6.5 million or so employees with employer supported superannuation around 3.8 million will have choice in accordance with the arrangements proposed in the draft legislation.

This does not mean that the remaining 2.7 million employees will not be able to exercise any choice. Many of those employees will have choice of fund determined through collective bargaining arrangements, others may have limited or unlimited choice of fund, State choice of fund legislation will apply awards in some States, and many employees might have choice of investment strategy and/or investment manager.

If the Superannuation Guarantee based choice of fund first applies only to new employees, then, given average staff turnover rates of around 20 per cent of the labour force, around 800,000 employees would have to be given a choice of fund in the first year of operation. Once choice applies to existing employees, then it is possible that between 10 and 20 per cent of the remaining 3 million employees subject to the choice regime would exercise choice in any given year.

The extent to which choice of fund will apply and/or be exercised by employees will depend on the sector in which an employee is employed and the nature of industrial relations arrangements governing employment. For instance all Federal Public servants will be given the opportunity to exercise choice of fund, while the ASFA estimates assume that only half of State and local government employees will be given choice. The prevalence of unfunded public sector schemes and differences in approach between State governments will limit the extent to which choice of fund and portability as envisaged by the Commonwealth is implemented. In the longer term it is likely that choice would become more common, particularly as States move towards greater use of funded defined contribution schemes. The number of workers subject to workplace agreements also might grow in the future in response to the choice of fund legislation and the desire of employers to simplify choice procedures.

Member Services

Competition is the name of the game for funds under choice and one way to achieve advantage through differentiation is to market improved services to members. As a result some funds have shifted into new areas of member services in anticipation of choice. A wide range of benefits such as member home loans, discount holidays, computer deals, discount legal services and discount shareholder cards are already being offered by funds as a means of member retention and recruitment. Large industry funds such as ARF, ASSET, Westscheme and C+BUS utilise these services as an extra benefit available to members. A list of services offered by some industry funds appears in Appendix 1. These types of services will become more common as larger funds try to tempt members away from other funds. This adds costs to the funds yet it will be market pressure in the face of increased competition that will determine how much of the extra costs will be passed onto to members as increased fees or charges. As the disclosure mechanism will include the publication of fund fees allowing competitors to view these fees(transparency works for funds as well as members), the extra services that funds offer will be become much more important in maintaining and/or increasing membership.

Despite the increase of accumulation style superannuation accounts over defined benefit the corporate funds which operate many of the defined benefit accounts in the industry are not disappearing quickly with the advent of choice. Strong earnings growth is keeping the corporate sector healthy. On the other hand Public Sector funds are rolling back accounts as redundancies increase in the labour market with many of the assets being transferred to the retail sector which looks set to continue to grow stronger. Industry funds will continue to grow as they move to offer more services to members in an effort to garner differentiation in the choice environment.

Employers will have to be careful not to cross the line into financial advice when helping employees when choice of fund is introduced. Not an easy task. They will also have to ask themselves whether it is worth running an employer sponsored fund in the face of more competition and increased costs associated with choice. Even though corporates will not disappear overnight, many are closing themselves to new members, which prevents sustained growth in the long run.

Conclusion

Choice of fund legislation proposes to increase the "ownership" of retirement income to members and to increase the retirement income available by giving employees more control of their retirement income management. Yet this additional control will bring added responsibilities to employees. They will find out about the complexities of Australia's superannuation system first hand.

Education is the key for them to fully utilise control of their super savings and government should play the primary role in ensuring this takes place before and after legislation is introduced.

Increased competition between funds is proposed to lower costs to members however many funds do not agree that this can be achieved as they must use more advertising and increase marketing costs in an effort to attract and hold members. This increase in costs is one of the important and unwanted side effects of the proposed legislation, for employees and funds alike. Another important issue is the ability of members to transfer between funds without incurring high exit or penalty fees.

To give members the ability to compare funds on an equal basis, disclosure documents at entry would allow a transparent view of performance and costs involved in fund choice. Employers will have to educate themselves for their role in choice and err on the side of caution when the line between advice to employees and education for employees becomes blurred as well as provide themselves with the information they require to administer choice to employees.

Some larger funds in the industry have already switched to public offer status and also begun offering member investment choice as a precursor to the introduction of choice. However the shift to more retail fund accounts and fewer corporate accounts may have little to do with the anticipation of choice by members who are by and large unaware of its implications or possible effects whilst funds are already utilising choice without the legislation in place. Choice could contribute to the 'connection' that individuals have to their superannuation savings and could provide a competitive pressure to reduce the costs associated with its administration.

Appendix 1 – Services offered by Industry Funds

Fund	**Services**
ARF	Super Member Home Loans
	Super Business Loans
	Computer deals
	Holiday and leisure discounts
	Financial planning and retirement planning seminars
	Coles Myer discount card
ASSET	Carnet-Car locating and buying service
	Super Member Home Loans
	Low cost health insurance
BUSSQ	Super Member Home Loans
	Super Business Loans
	Financial planning advisory services
	Low cost health insurance
C+BUS	Super Member Home Loans
	Super Business Loans
	Financial planning advisory services
HESTA	Super Member Home Loans
	Super Business Loans
	Financial planning advisory services
HOST PLUS	Super Member Home Loans
	Super Business Loans
FINSUPER	Super Member Home Loans
JUST SUPER	Super Member Home Loans
NGSSF	Super Member Home Loans
Print Super	Super Member Home Loans
REST	Carnet
	Leisure park/holiday discounts
SERF	Super Member Home Loans
	Computer Deals
STA	Super Member Home Loans
	Super Business Loans
	Financial planning advisory services
STATEWIDE	Super Member Home Loans
	Low cost health insurance
	Alliance with Credit union
SUNSUPER	Super Member Home Loans
	Alliance with Bank of Queensland
TWU	Super Member Home Loans
	Super Business Loans
WESTSCHEME	Car buying scheme
	Discounted legal services

Source: Superfunds Magazine