Did you know that a relatively small difference in fees could reduce your super balance by 70%?

I realise that most people pay very little attention to their superannuation. But please, can I ask for a few minutes of your time to communicate this simple message which will probably save you over well over $100,000. And let's not forget that 9.5% of your income is going into super, which is a lot of money, so it deserves a few minutes of your time.

At the end of the blog we are going to make it really easy for you to take action because we are going to do all the work for you. We will look inside your super fund and tell you exactly what fees you are paying. This is even more important if you are young as fixing it now will make a huge difference. More details at the end of the article but first…

The cost of ignorance

Three friends aged 35 all have $100,000 to invest in super. The three invest their money into 3 different super funds but are lucky enough to all benefit from the same gross investment return of 8% p.a. At age 65 they get together to compare their super balances. They didn't realise, like many people, how fees have such a big financial impact.

- David invested in a retail fund (like MLC, Colonial, etc.) and paid 2% p.a. in fees. His balance was **$574,349**
- Mark invested in an industry super fund and paid 0.90% p.a. in fees. His super balance was **$782,860**
- Sophie invested in a passive (index) investment option and paid fees of just 0.20% p.a. Her balance was **$951,838.**

The same investment amount, the same returns and **Sophie has nearly 70% more in retirement savings** than David! Half a percent here and there doesn't sound like much but fees definitely do add up (compound) and that's why you need to be super-focused on them.

You have three to five options

There might seem like a myriad of super fund options available but you can typically classify them into three to five options:

- **Retail funds** – these are funds that are often sold by financial advisors. The fund providers are typically owned by the banks and are operated to make a profit. The largest retail fund providers are AMP, Colonial (CBA), BT (Westpac), MLC (nab) and OnePath (ANZ). On average, retail funds tend to charge fees in the range of 1.30% to 1.90% p.a. (or more) depending on your investments.
- **Industry funds** – these funds are operated as not-for-profit entities and you may have seen them advised on the TV. The larger industry funds are AustralianSuper, UniSuper, REST,

Sunsuper, HESTA, CBus, etc. Industry super funds typically charge fees in the range of 0.70% to 0.90% p.a.

- **Self-managed super funds** – this is the fastest growing selector of the market – not really for any good reason in my opinion. Fees to run a SMSF can range from $1,000 to $5,000 p.a., depending on the complexity of the investments.
- **Employer funds** – your employer may run its own fund – the largest being Telstra Super Scheme. Fees for these funds tend to be somewhere in the middle of what are charged by retail and industry super funds, depending on the fund's size. Most people can elect to not use the employer's super fund but there may be benefits from doing so (e.g. free insurance). Employer super funds typically charge fees in the range of 1.00% to 1.20% p.a.
- **Public sector funds** – If you work for the government, you might be able to join a public fund such as Commonwealth Superannuation Scheme, Public Sector Superannuation Scheme, Qsuper, First State Super and so on. Fees charged by public sector funds typically charge fees in the range of 0.60% to 0.70% p.a.

And you can lower the cost even further

There are two types of investment methodologies, being active and passive. Active fund managers tend to charge fees at least four times higher than passive fund managers i.e. an active manager will tend to charge a fee of 0.80% or significantly more whereas passive funds can charge fees as low as 0.20% p.a.

More importantly, historically, 96% of active fund managers fail to outperform (in terms of investment returns) passive fund managers in any 10 year period. Therefore, if you invest in an active fund manager and pay the higher fees for the privileged, you only have a 4% chance of making more money than a lower-cost passive (index) fund over the long term (i.e. > 10 years). Active versus passive investing will be the subject of my blog next month, so I'll get into more detail then.

Case study: Matthew will save over $274,000 in fees

Matthew is 40 years old and his super is currently invested with a retail provider. He has a balance of $250,000 invested in a pre-mixed growth option. His super fund charges 1.66% p.a. in fees. Between now (age 40) and retirement (age 60), Matthew plans to make annual contributions of $15,000 into super.

If Matthew stays with his existing retail super fund provider I estimate his super balance will be $1,145,644 and he would have paid $208,843 in fees by the time he is 60.

However, if Matthew rolls his super into a low cost fund and invests his super in index funds (with investment fees of 0.20% p.a.) and assuming the same rate of return (of 7% p.a.**), his balance will be $1,421,872 and he would have only paid $28,928 in fees by the time he is 60.

Therefore, based on these calculations, I estimate that **Matthew will be $276,228 better off by age 60** simply by spending a small amount of time optimising his super.

To give you an actual real life example, the most recent comparison I did for some financial planning client's, I calculated they would be **better off by over $600,000 over 20 years** simply through switching their super to a lower fee environment. How could anyone question the value of quality financial advice with those findings?

You are not wrong to focus on fees

A small difference in fees adds up over time. Of course, fees are only one element. We need to look at returns too – and next month I will provide you with strong evidence that a passive (index) investment approach will almost always produce higher returns over the long run. But for now, the purpose of this blog is to get you focused on fees. Remember, it's your money you are paying out each year so if you are not convinced you will get value from the people investing your money (and I wouldn't be if you invest in active funds) then it stands to reason that you should pay as little in fees as possible.

You get what you tolerate

If you tolerate high superannuation fees, that's what you will get! If you are not going to tolerate high fees anymore, you need to take action. However, I must remind you that I have not given you any specific advice in this article because it would be irresponsible to do so. You need to get personal advice on what's right for you because there are many things to consider including any existing insurance, benefits with existing fund (particularly if it's an employer fund), exit costs, other investments and so on. I don't know every readers situation so the information in this blog is general in nature. Tread carefully and get advice before you take any action.

We can check what fees you are paying if you like?

As an existing client of ProSolution, we want to look after you so we are happy to check your Super Fund for at no cost to you and we will tell you what it's costing you. We'll sort through all the fees and calculate how much extra in fees you might be paying (now and into the future like we did in the case study above). If possible, we'll look at returns and give you some comparisons. And we will summarize this in a simple two-page report**. If you would like us to do this, simply email Kristy Dishon today and she will get started with helping you make some smart superannuation decisions.**

If it looks like we can save you money and you are interested, we can prepare more detailed advice as part of a new financial advice services we are launching – but before we get that far, allow us the opportunity to demonstrate value first. It costs you nothing to take a closer look.

---

* The fee example used at the beginning of this blog has been adapted from Tony Robbins' book, Money Master the Game.
** A significant amount of historic research demonstrates that there is a 96% chance that long-term gross investment returns will be higher with a passive investment mythology, despite fees being dramatically lower. I'll tell you above this research in next month's blog.
*** Super fund "type" fee estimates obtained from research published by Chant West in May 2008