



**Press Release
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The Super Iceberg: the hidden costs

Sydney:

With superannuation members facing negative fund returns for the first time in recent memory, many may be considering a change of superannuation fund. Ernst & Young research has found that while choice-of-fund is a boon for employees, it is an administrative nightmare for employers and superannuation funds.

SuperChoice, a leading provider of e-commerce services for the superannuation industry, commissioned the research, which examines the impact of choice-of-fund on all stakeholders – employees, employers, superannuation funds and their administrators. A key finding is that all stakeholders are plagued with the inefficiencies of the system and that costs are substantial and increasing rapidly.

The resulting paper, *The Super Iceberg: What's beneath the surface of choice?* has been released today to quantify the impact of superannuation choice-of-fund and to stimulate industry debate on the costs of superannuation administration. It comes at an opportune time given the pending release of the Australian Government's discussion paper on superannuation.

Ernst & Young Partner, Graeme McKenzie, says that while some of the consumer benefits of choice-of-fund are being realised, the administration of choice is made costly and difficult by ad-hoc and time consuming manual processes.

"These are the hidden costs. Employees are overwhelmed by the complexity of information about their super fund, while employers are struggling to keep on top of their regulatory responsibilities and the varied administrative requirements of different funds," he says.

"Then we see funds challenged by manual transactions, incomplete or incorrect information from members and employers, and manually processing cheques."

The research estimates that the current cost to participants of administering choice-of-fund is in excess of \$130 million – for the 10% of the working population who have exercised choice. It is estimated that up to 35% of working Australians may exercise choice by 2013, which could see administration costs grow to an estimated \$450 million.

According to SuperChoice CEO, Peter Phillip, it is likely that the rate of employees exercising choice over the next five years will increase as they change employers, better understand their super and scrutinise fund performance.



"This will increase pressure on a system that is hampered by inefficiencies, add to the administrative burden for small employers and contribute to lost investment performance for employees," he says.

"This problem isn't going to fix itself – we need to tackle the areas that undermine the efficiency of our superannuation system to ensure that Australia's retirement savings industry is competitive with world's best-practice and delivers the best results for employees."

"Now is the time for the industry to come together to debate how present costly manual and paper-based processes can be eliminated with a common goal of reducing the cost of administering Australia's retirement savings."

Some useful research findings

- ▶ Choice-of-fund has been exercised by more than 10% of the working population contributing to superannuation and is currently growing at a rate of 3-4% per annum.
- ▶ It has primarily been driven by employees changing employers and retaining existing superannuation funds. Given the mobility of the Australian workforce this is likely to significantly increase over time, with our modelling estimating take up being anywhere from 15% - 35% by the year 2013.
- ▶ Large employers appear to be coping reasonably well with choice-of-fund, but small and medium-sized employers are struggling with their legal and administrative requirements.
- ▶ Choice-of-fund has changed some fundamental structures in the superannuation industry and has increased the importance of funds engaging more closely with members.
- ▶ Funds and their administrators are incurring costs in administering superannuation contributions that exceed \$400m per annum and, for some funds, the cost of managing choice-of-fund transactions represents up to 25% of their overall administration cost.
- ▶ Choice-of-fund is only one of a myriad of administration issues facing the industry and cannot be "fixed" in isolation. Funds need to take a broad-based approach to increasing efficiency of administration processes.
- ▶ There is considerable opportunity to enhance the effectiveness and efficiency of superannuation fund administration through the use of readily available electronic commerce systems for contributions, member transactions and the movement of cash.

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