Say goodbye to the duds

Industrial agreements that restrict choice of fund will soon be a thing of the past

Super members are regularly encouraged to check their fund's performance and ensure their hard-earned savings are being maximised.

If it turns out the fund is a dud, the advice is to switch to a better fund. But for 1 million employees that's not an option at present. They are locked into a fund chosen by their employer and union as part of an enterprise agreement.

This is not the case for all enterprise agreements and industrial awards. Most employees have the right to choose their own fund. If they don't exercise that choice, their contributions go into their employer's default fund. The employee is free to remain with it or switch to another fund.

Last year the Fair Work Commission threw out Kmart's union deal, in part because it forced employees to use the retail industry fund Rest, ruling such restrictions left workers worse off.

Xavier O'Halloran, head of campaigns and advocacy at Super Consumers Australia, says barring employees from picking their own fund has no place in a modern super system.

"Rest is an okay fund but there are funds that have performed better out there and [the deal] denied people the ability to choose. I can't see any situation where that kind of trade-off and hard rule makes any sense. Consumers need to be given that choice," says O'Halloran.

He says denial of choice has left members accumulating multiple super accounts, multiple fees and multiple insurance premiums. It also undermines competition.

The Productivity Commission inquiry into the efficiency and competitiveness of the super system calculated a cost to the system as a whole: a third of MySuper default accounts, about 10 million, are unintended multiple accounts that collectively erode members' balances by $2.26 billion a year in unnecessary fees and insurance.

"Holding multiple accounts can reduce a typical worker's balance by about 6%, or $51,000, and an underperforming MySuper product can reduce a typical member's balance by 45% or $502,000 by the time they retire," the commission reported.

O'Halloran says it's not known on what basis employers and unions have mandated a particular fund. "It's not clear that it is necessarily based on merit," he says. "In some cases it has led to good outcomes but in others it hasn't. Basically, it has denied members choosing a far superior fund."

"Good super funds haven't sought to deny their members choice, or the choice to leave. They've fought to keep that membership on side and that's a good discipline all funds should have. They shouldn't be getting them through force."

Thanks to legislative changes called Your Super, Your Choice, this restrictive practice is about to end. From January 1, 2021, all employees covered by new enterprise agreements will have the ability to choose their own super fund.

"If you already have choice of fund, then that will continue. If you don't have choice then the law change only applies to new workplace determinations and enterprise agreements made on or after January 1," says O'Halloran. That means existing arrangements may take a few years to work their way out of the system.

However, there's no point in jumping ship just because you can, he says. Some restricted funds perform consistently well.

"Employees may well be in one of the better funds already. So it's not necessary to switch if you're in a good fund already."

The federal Budget released in October also introduces the proposal that, from July 2021, if an employee does not nominate an account at the time they start a new job, employers will pay their superannuation contributions to their existing fund.

Super Consumers Australia estimates about 200,000 people have been defaulted into poor performers and it is a problem the default system could do much more to prevent.

"If you are checking your fund, a good starting point is usually fee costs. The average across the industry is around 1%. There are funds that are lower than that and are probably on the better side," says O'Halloran.

To do comparisons, look at the different funds' MySuper dashboard. It provides an invaluable snapshot of how the fund is performing, plus other key information. Funds are obliged by law to provide it.

It's a different matter for choice of investment options. "There are higher-risk options which may mean the returns are more volatile over time," says O'Halloran. "If that's something that affects you, and you might be calling on some of those funds in the near future, or you are near retirement, you need to weigh up whether a higher-risk, higher-return trade-off is right for you."

CHECK YOUR INSURANCE BEFORE YOU SWITCH FUNDS

If you are not joining by default, your super fund may require you to go through medical tests to underwrite you for a new insurance product, says Xavier O'Halloran, head of campaigns and advocacy at Super Consumers Australia.

"You need to ask about that before switching funds," he says. Otherwise you risk losing your old insurance only to find you are not eligible for the same type of insurance in the new fund.

"The alternative way to do it is to set up a new fund elsewhere and basically maintain two funds: one for the insurance and the other for investments. That's an option if you can't get insurance with the new fund."

Once people are out of their 30s, underwriting becomes common, he says. "It's definitely one to look out for older people."

Roy Agranat, co-founder of Fairbridge Financial Services and a risk specialist, has drawn up this checklist to assist fund members to navigate the traps when switching funds.

New fund

- Check the cost of cover of the new fund and what definitions apply to disability cover.
- Your health could have changed since cover was originally taken out, resulting in possible exclusions, loadings or even a decline in cover.
- Do not cancel cover under the old fund until satisfactorily accepted into the new fund.
- There may be no automatic acceptance limit under the new cover, leaving you with less cover than before and requiring you to be underwritten for the additional cover.
- Update the beneficiary nomination as it does not carry across when changing funds.

Existing fund

- When members decide to switch funds and retain the old fund for insurance purposes, unless they elect in writing to retain the cover, or make a contribution within 16 consecutive months, their cover will automatically be cancelled. It is good practice to make the election in writing.
- Check if the old fund will allow you to remain insured if you no longer receive contributions.
- Ensure there is enough money in the old fund to pay the premiums.
- Some funds automatically cancel cover when the balance drops below a certain level. This will occur even if you elect to keep the insurance, as it is a rule of that fund.

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