

# Super choice can be costly

Alex Tilbury

THERE are two sides to every story.

Just as the falling Aussie dollar is a boon for local exporters, the importers are crying poor mouth.

The same can be said for superannuation choice.

As members face 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 bonus 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.

Ernst & Young partner Graeme McKenzie says 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.

## Super decisions

- 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%** a year

- Mostly it's employees changing jobs but wanting to keep existing superannuation funds

- Large employers appear to be coping reasonably well with choice-of-fund, but SMEs are struggling with legal and administrative requirements

Source: *The Super Iceberg: What's beneath the surface of choice?* E&Y

"These are the hidden costs," he says. "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."

"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 per cent of the working population who have exercised choice."

It is estimated that up to 35 per cent of working Australians may exercise choice by 2013, which could see administration costs grow to about \$450 million.

SuperChoice chief executive Peter Phillip says 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," Mr Phillip 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."



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Alex Tilbury

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Founded by IT guru Ken Wood, who received a first class honours degree in computer engineering from the University of Queensland, IT on Tap offers SMEs the same concept that big corporation use for their computer networks.

The 40-year-old Wood and his wife Karen Corban, who run two seminar businesses called Universal Events in Sydney and London, know what it's like to run an SME as the duo have started eight businesses between them.

Four years ago, Wood says he spent \$12,000 setting up his wife's established personal development seminar business with the right IT.

"I did the same thing as every other small business owner had to do when fitting out a business. I had to buy some servers, find consultants, get the software and there was lots of running

around," Wood says. "I was tearing my hair out and it cost \$12,000 by the end of it plus two weeks of my time."

He says IT on Tap was expensive to set up like most IT projects, as "it took three times as long to set up and cost three times as much".

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"If you want to outsource your IT generally in business you have to sign a 100-page document and sign up for seven years and every little change will cost you money," Wood says.

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## It's not the money, it's the ownership

SMALL business owners may not always earn the level of income they desire but freedom and control of their business still outweighs having less cash.

A Suncorp survey of 600 small business owners across Queensland and Western Australia shows 27 per cent would definitely earn more money as an employee.

Just 25 per cent said they would earn less as an employee, rather than as a business owner. But two out of three owners said they wanted to be their own boss, and the freedom of owning their own business was the main driver behind their decision.

Suncorp executive general manager small business Peter Larsen says: "As



a former small business owner, I know from first-hand experience the highs and the lows.

It can be very rewarding but also very challenging.

"The survey results showed that one of the most challenging aspects of being your own boss was work/life balance, with 19 per cent of respondents saying that they had difficulty with balancing business demands with their family and social lives.

"The downside of being your own boss can mean sleepless nights, long hours and wondering how the bills are going to be paid."

Alex Tilbury

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