

Who really wins if the \$450 monthly earnings threshold for superannuation is removed?

Analysis by Sydney Author and Chartered Accountant Wayne Wanders shows that unless regressive fees charged by superannuation funds like administration and exit fees are removed, it will be the superfund, not the low income earner who wins.

Mr Wanders said there has been a lot of talk lately about removing the \$450 monthly earnings threshold for superannuation.

“Fundamentally, there are a lot of reasons why it makes sense to remove this threshold and have all employees get paid superannuation irrespective of what they earn. But this change has to be made properly, or the only real winners from this change will be the superannuation funds themselves” said Mr Wanders.

Why? Mr Wanders said most superannuation funds, whether they are retail or industry funds, charge regressive administration and exit fees. These fees are the same whether you have \$500 or \$50,000 in superannuation.

“And what’s worse, these regressive fees eat away quickly at the superannuation balances of low income earners” said Mr Wanders.

To demonstrate this, Mr Wanders provided the example of three people who are just about to start working part time at a local pool teaching people to swim. They are Mike and Jenny, both 18 and just about to start their first year of university and want some party money, and Paula, a 35 year mother, wanting some part time work whilst her kids are at school.

So what happened to their super?

Table 1: Analysis of Jenny, Mike and Paula’s super accounts

Employee	Paula 1 Year After 1 Year	Jenny 3 Years After 3 Years	Mike 3 Years After 5 Years
Employer contributes to default fund for Employee transfers to another superfund			
Starting monthly income	\$400.00	\$400.00	\$400.00
9.5% Contributions (after 3% pay increase each year)	\$456.00	\$1,409.40	\$1,409.40
Contributions tax	-\$43.32	-\$133.92	-\$133.92
Low income superannuation tax offset (LISTO)	\$43.32	\$133.92	\$133.92
Fund Administration Fees	-\$67.50	-\$211.50	-\$337.50
Fund Exit Fees	-\$35.00	-\$35.00	-\$35.00
Fund Income at 5% return after investment fees	\$11.40	\$98.14	\$210.48
Balance Transferred	\$364.90	\$1,261.04	\$1,247.38
Super contributed	\$456.00	\$1,409.40	\$1,409.40
Super Transferred	\$364.90	\$1,261.04	\$1,247.38
Superannuation effectively "lost"	\$91.10	\$148.36	\$162.02
Amount of superannuation returned	80.02%	89.47%	88.50%
Effective admin / exit fee %	22.48%	17.49%	26.43%

“Notwithstanding the superfund reported a 5 per cent investment return, Jenny, Mike and Paula all lost money. That’s right, their super went backwards” said Mr Wanders.

Mr Wanders said that for every dollar that their employer contributed to super, Jenny, Mike and Paula got less than 90 cents back. And it was not government taxes, as these were refunded via the low income superannuation tax offset.

“Rather, the superfund pocketed more in administration and exit fees, than was credited in fund income”.

So a real killer for people with low superannuation balances is the regressive nature of fixed account fees such as administration fee and exit fees that most funds charge, said Mr Wanders. In the case of Jenny, Mike and Paula, the effective rate of these fees was in excess of 17% of the funds contributed.

Mr Wanders said that there is no way to describe this other than highway robbery. And Mr Wanders sees many industry and retail superannuation funds that charge these fees.

“So if we really have low income earners superannuation balances at heart, not only should we remove the \$450 minimum monthly earnings threshold for superannuation, but we should also remove the regressive fees such as administration and exit fees, charged by retail and industry super funds alike” said Mr Wanders.

About Wayne Wanders

Wayne Wanders, author of the book “Avoid the Poverty Trap”, and The Wealth Navigator believes that the concept of retirement is about to be “retired”. And because of this, most people are on the treadmill to work till they drop!

So Wayne made it his mission to help hard working Australians to improve the health of their wealth and get off the treadmill of working till they drop. All so that they have the time and /or money to make a difference to themselves and others.

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High res images and interviews available on request

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