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New millennial superfunds deserve a better reception

Spaceship, under CEO and founder Paul Bennetts, is a high-growth fund openly targeted at young Australians. Picture: Hollie Adams

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One of the most interesting things to happen in our super system for a long time is the arrival on the scene of so-called millennial-focused robo-adviser companies such as Spaceship, Stockspot and Zuper.

These new, innovative companies trying to crack the close- knit community of superannuation should be celebrated. Instead they have been met with criticism, some of it quite scornful.

The argument against these companies runs something like this: millennials don't need to control their superannuation, these new entrants are putting up fees that are outrageously high, and finally that they don't know how to manage money!

This is totally wrong.

People want to control their super — why else do we have a self-managed super fund sector with more than $600 billion under management? There is every reason to believe that is true for every age group.

In fact, it's going to be all the more true for millennials because, unlike their parents, this generation is bound up in super obligations like none other. Remember superannuation will take 9.5 per cent of their income every year they work.

In fact, that number will go higher in the years ahead.

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As such, superannuation is going to be the biggest financial asset most millennials build. Given how much harder it is to buy a house now, it may well be their most important asset.

Michael Rice, a veteran of the financial services industry and CEO of Rice Warner, has criticised millennial super funds quite sharply. Rice said the funds were “heavily marketed to the young and gullible” and that the fees on many of the products were outrageous.

That comment regarding the gullibility of young Australians is almost offensive, especially given the myriad critiques levelled at the super industry to this date.

Of course, cost is important and, in an era where the surge towards passive low-cost investing seems unstoppable, we can understand why there is such a focus on fees today. But we would make three points on this.

• The first is that this fee obsession is borderline unhealthy: for the financial services industry and for investors. After all, in what other important area of our lives are we so fee-obsessed? Do we eat the cheapest food, send our kids to the lowest-cost school, or visit bargain basement healthcare professionals, just because they are the lowest cost? Of course not.

• Second, although the new super entrants are at the higher end of the cost scale, they are transparent about what they charge, as well as their intent to reduce fees as they scale.

Incumbents in the industry hardly have a great track record of delivering low-cost solutions. Australians today pay more than $30bn a year in superannuation fees, with research from the Grattan Institute indicating fees across the industry are roughly triple the OECD median.

• Third, we come to the issue of investment experience, and the management of client money. The new entrants have to play by the same rules as the incumbents. They are regulated by APRA; all the funds have a responsible entity, must issue a product disclosure statement and have a financial services licence.

Indeed, in the case of Grow Super, they are working with Dimensional Fund Advisors, which manages $600bn and have been in investment management since 1981.

Spaceship, a high-growth fund openly targeted at young Australians, has just over 90 per cent of its money in growth assets, with the rest in cash and fixed income.

Aggressive, but hardly out of whack with what might be deemed its peers. In fact, if you look at our biggest industry fund, Australian Super, the latest asset allocation for its high-growth fund had 91 per cent of its money in growth assets.

Critics of the new entrants also conveniently ignore the lacklustre returns generated by large industry and retail funds. The table (inset) highlights what Australians have got back for the $230bn in fees they have paid in the past decade.

These returns are before administration fees and adviser commissions. By way of reference, cash returned 4.1 per cent.

Consider the above from the viewpoint of a millennial. They’ve grown up in the aftermath of the GFC, witnessed volatile financial markets, and face record high levels of youth unemployment.

And when they look at the superannuation industry the government will force them to save in their whole working lives, they see largely indistinguishable service offerings, substandard user experiences, a lack of fee transparency, and poor returns that barely outperform cash and mimic the stockmarket.

Is it any wonder they are looking to shake up this industry?

Jordan Eliseo is chief economist at ABC Bullion.

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BEN WILMOT LOGISTICS

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