FINANCIAL PLANNING
ASSOCIATION *of* AUSTRALIA

Committee Secretary
Senate Standing Committees on Community Affairs
PO Box 6100
Parliament House
Canberra ACT 2600

By email: community.affairs.sen@aph.gov.au

9th December 2013

Dear Sir/Madam

RE: Social Services and Other Legislation Amendment Bill 2013

The Financial Planning Association (FPA) is concerned about the implications of the *Social Services and Other Legislation Amendment Bill 2013*, especially for consumers of financial advice. In particular, Schedule 11 of the Bill changes the way that account based pensions are assessed under social security law, and forms a disincentive to the responsible management of retirees' superannuation assets. We urge the Committee to consider the impact which these deeming provisions will have on financial and social outcomes for retirees.

Account based pensions are highly effective financial products. They are structured in a way that encourages and rewards retirees for withdrawing the minimum allowable from their balance, while still retaining flexibility and control to the beneficiary. With the help of a financial planner, these products can help pensioners minimise reliance on the Aged Pension.

Deeming these pensions to be financial investments under the *Social Security Act* and financial assets under the *Veterans' Entitlements Act* will be a disincentive for those approaching retirement from structuring their retirement savings into a prudent, managed stipend. This approach may encourage irresponsible spending, or a deleteriously risk-averse attitude to retirement savings, and in either case retirees will continue to rely on the Age Pension – perhaps to an even greater extent than they would on an account based pension.

The Bill also disproportionately affects Australians with modest means, and therefore have a greater reliance on the age pension. We note the comments of the Hon. Jenny Macklin MP in the House of Representatives on 5 December, when she said;

> "It is only fair, and it has long been accepted, that income people receive from financial assets should count towards the pension income test. But the current rules treat income from these account based income stream products differently from how they treat income from investments such as shares or term deposits. The rules are highly concessional for those who can afford to make minimum withdrawals, but penalise those who need to draw down more from their superannuation savings. This means that, under the current rules, people with similar levels of assets can receive different pension rates."

We strongly disagree with this analysis. The following table compares the aged pension outcomes for a 65 year old single woman who purchases either a $200,000 or a $500,000 account based pension and has no other assets. As the *Social Security Act* will apply either the income or the asset test depending on which provides the lower aged pension benefit; those who are asset tested will be unaffected by the deeming provisions for the income test. On a $200,000 account based pension, the retiree will expect to receive $62.40 less per fortnight from the Age Pension.

Date of ABP Commencement	31/12/2014	01/01/2015	31/12/2014	01/01/2015
Amount Invested	$200,000		$500,000	
Minimum AP Payment	$10,000	$10,000	$25,000	$25,000
Deductible amount	$9,250	N/A	$23,130	N/A
Deemed Income	N/A	$7,301	N/A	$19,301
ABP Income Tested Amount p.a.	$750	$7,301	$1,870	$19,301
Age pension reduction (income test)	Nil	$62.40 p.f. reduction	Nil	$293.17 p.f. reduction
Age Pension reduction (asset test)	$4.88 p.f. reduction	$4.88 p.f. reduction	$454.87 p.f. reduction	$454.87 p.f. reduction
Effect of Change	**Pension is reduced by $62.40 per fortnight.**		**No effect as client is still assets tested.**	

The FPA's view is that the deeming rules will target those with a smaller superannuation balance. Furthermore, under the new rules, retirees who rely on their investment for an income stream are also exposed to the compounded risk of receiving lower returns due to investment conditions while also receiving a reduced pension as a result of deeming. Rather than facing a reduced income support payment as well as exposure to the market, retirees may choose to spend their savings and rely on the Age Pension.

The Bill also has the presumably unintended consequence of reducing competition between financial products and product providers by offering preferential social security treatment to pension schemes which are not asset-backed. If the value of the underlying asset is used to deem the income derived from the financial product, then financial products without an underlying asset (such as Defined Benefits Scheme Pensions or annuity products) may have a lower income than the deemed income of an account based pension. We do not form a value judgment by comparing these products, but stress that product recommendations made by financial planners should be influenced by the circumstances and goals of the client, and not arbitrary distinctions in the social security law.

Furthermore, the way that the grandfathering provisions are structured in the Bill may influence retirees to feel locked in to an existing account based pension arrangement solely because of how these arrangements are assessed against income support payments. Given that account based pensions can be designed to last for decades, we feel that this is counterproductive to retirees receiving the best financial advice for their situation. Retirees will also be exposed to greater counterparty risk, as they may decide to either stay with their present provider for the rest of their lives

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with sub-optimal results, or move to a different product where the retiree retains little or no control over their investment. Australians should feel confident and in control of their financial future at every stage of their lives as a basic tenet of financial citizenship and inclusion. This Bill would undermine the usefulness of a financial product which does offer this level of control to retirees, especially when paired with personal financial advice.

The FPA does not believe that the Bill as it stands will deliver the $161.7 million saving to the Federal budget which is expected. Instead, we believe that deeming account based pensions as a financial investment would undermine the usefulness of these financial products, which will encourage retirees to pursue other investments which will not be deemed. Alternatively, the Bill will increase reliance on the Age Pension through the encouragement of spending their superannuation balance to increase their pension entitlements, rather than being rewarded for a prudent approach to managing their retirement income. In either case, the Bill will negatively impact the retirement outcomes and investment decisions of Australian pensioners. It also has the potential to disturb qualitative social outcomes, such as participation in society and dignity in retirement.

Yours sincerely,

Dante De Gori
General Manager Policy and Government Relations
Financial Planning Association of Australia[1]

[1] The Financial Planning Association (FPA) represents more than 10,000 members and affiliates of whom 7,500 are practising financial planners and 5,500 CFP professionals. The FPA has taken a leadership role in the financial planning profession in Australia and globally:

- Our first “policy pillar” is to act in the public interest at all times.
- We banned commissions and conflicted remuneration on investments and superannuation for our members in 2009 – years ahead of FOFA.
- We have an independent conduct review panel, Chaired by Professor Dimity Kingsford Smith, dealing with investigations and complaints against our members for breaches of our professional rules.
- The first financial planning professional body in the world to have a full suite of professional regulations incorporating a set of ethical principles, practice standards and professional conduct rules that explain and underpin professional financial planning practices. This is being exported to 24 member countries and the 150,000 CFP practitioners that make up the FPSB globally.
- We have built a curriculum with 17 Australian Universities for degrees in financial planning. As at the 1st July 2013 all new members of the FPA will be required to hold, as a minimum, an approved undergraduate degree.
- CFP certification is the pre-eminent certification in financial planning globally. The educational requirements and standards to attain CFP standing are equal to other professional bodies, eg CPA Australia.
- We are recognised as a professional body by the Tax Practitioners Board.