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Association of
Financial Advisers

Response:

PJC – Proposed MySuper Reforms

Submission: Association of Financial Advisers Ltd

30 January, 2012

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Committee Secretary

Parliamentary Joint Committee on Corporations and Financial Services

PO Box 6100

Parliament House

Canberra ACT 2600

Australia

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Dear Mr Ripoll,

PJC Inquiry – Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011

The Association Of Financial Advisers Limited **("AFA")** has been serving the financial advising industry for over 65 years. Its aim is to provide members with a robust united voice, continually improve practices and focus firmly on the exciting, dynamic future of the financial advising industry. The AFA also holds the client to be at the centre of the advice relationship and thus support policies that are good for consumers and their wealth outcomes.

With over six and half decades of success behind it, the AFA's ongoing relevance is due to its philosophy of being an association of advisers run by advisers. This means advisers set the agenda, decide which issues to tackle and shape the organisation's strategic plan.

The AFA thanks the PJC for the opportunity to provide a submission on the Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011 ("MySuper Bill"). This submission has been prepared by the AFA on behalf of its members and in response to the MySuper Bill.

The Australian Superannuation system, with approximately $1.3 trillion in assets, is now a large industry, and in fact is the fourth largest private pension market in the world. The compulsory nature of the Superannuation Guarantee, the legislated increase in the SGC and the tax advantaged options with respect to member contributions, make the Australian Superannuation system a strong and robust industry. Changes to the system, as proposed by the MySuper Bill, have significant implications for the industry and the country, and therefore it is essential that these changes achieve the stated objectives.

Ensuring the right outcome for consumers is critical in this legislation. Superannuation is typically a person's second biggest asset behind their home. Achieving the right consumer outcomes will also be critical to the Australian economy, through achieving a reduction in the reliance on the government pension.

The AFA has the following key concerns with the MySuper proposal:

Policy Concerns

- Philosophically, the AFA disagrees with the government designing financial services products and intervening in such a substantial way in a market that is largely effective. History suggests that intervention of this type poses a significant risk of unintended consequences and suboptimal outcomes.
- The prescriptive detail around the MySuper product design is inappropriate. If the government sees a need to intervene in a commercial market place, then it should be at the level of principles, rather than prescriptive details.
- As with the FoFA changes, we are disappointed to see MySuper delivered as a set of tranches rather than a comprehensive package. This makes it very difficult to fully assess the overall direction or to allow for likely interdependencies between different elements of the legislation.
- Further to our point above about prescriptive detail, the AFA does not support the requirement that tailored plans can only be offered for employers with 500 employees. This seriously limits the number of eligible employers and would mean that many employees missed out on the potential benefits of a tailored plan. If the government feels the need to be prescriptive in this area, a number of 50 employees would be more appropriate.
- Further, the issue of employers staying above the 500 level would be problematic for employers close to that point. The risk of their plan being cancelled in the event of a reduction in member numbers would be unacceptable There would be notable negative impacts for members of a tailored employer fund falling below the 500 threshold, which should not be part of this framework. This issue needs to be reconsidered, but in the context of a much lower threshold.
- The AFA does not see the need for each tailored fund to be separately approved by APRA. High level principles should be set for these tailored funds, and MySuper authorized RSE licensees should be able to set them up without separate approval.
- In the context of the clear effort to avoid any form of cross-subsidization or differential pricing for members, it is also important to address the issue of crediting rates versus unit pricing. A crediting rate model can lead to inequitable distribution of investment earnings, as it assumes that everyone is invested consistently across the entire period. Daily unit pricing ensures that investment earnings are correctly applied. For a more equitable system across members, a unit pricing model should be mandatory.
- The determination to ensure precise equality across all members of a MySuper fund, fails to consider the implications of different ages, balances, needs, employers, locations, tax elements etc.
- The MySuper product structure does not appear to allow for any marketing or advertising spend by the RSE licensee. At present, there is extensive advertising conducted by certain RSE licensees and related groups, at what would no doubt involve great cost. How will this advertising be funded in the future, in the context of the MySuper cost model?
- Although it is not part of this tranche of MySuper, the AFA would also like to strongly oppose the proposal that existing members within a default fund be automatically transferred into a MySuper option. This poses a risk with respect to members, particularly in the context that they may have actively agreed to use the default option, and the features that come with this, such as insurance arrangements. We strongly oppose any forced transfer of members balances to a MySuper acount. The option should be available for members to move at a time of their choosing, not to be forced to move.

Consumer and Member Engagement Concerns

- The MySuper framework, whilst recognizing that some members are disengaged, will actually serve to promote disengagement, rather than encourage people to better understand their superannuation and to seek advice. This is a disadvantageous outcome that needs to be questioned. The AFA seeks improved engagement by consumers, not disengagement. We recommend that the government invests in a range of strategies that will promote member engagement.
- It should also be highlighted that the MySuper model assumes that people who have not responded in writing with respect to their superannuation fund are disengaged. We suggest that of those who do not respond in writing, some will have responded in other forms and a sizeable number will have reviewed the default option and have agreed that this is suitable for them. It is dangerous to simply assume that people are totally disengaged, just because they are invested in the default option.
- The proposal with respect to lifecycle investment options, points to an investment strategy that assumes that people closer to retirement should be more risk averse. In the context of people living for many years in retirement, this may not be in the best interests of members in the absence of advice. It is also important to note that the requirement that investment fees be applied consistently across all members, fails to address the different costs of investment management that apply for the different life stage options that exist within lifecycle investment products. This would result in a form of cross-subsidisation.

Advice and Adviser Concerns

- The AFA believes that the MySuper legislation, through the ban on commissions and the strong promotion of intra-fund advice will have a further detrimental impact upon financial advice businesses. When added to the implications and consequences of FoFA, this legislation suggests a further decline in the number of financial advisers and a reduction in personal financial advice.
- The AFA is very conscious of the impact of FoFA and MySuper on financial advisers who focus on corporate superannuation plans. It seems with these two pieces of legislation, that the government has removed access to any existing form of remuneration for these advisers. It is important to appreciate that corporate superannuation advisers can add great value to the members in the selection of a suitable superannuation fund, including insurance arrangements and ongoing support of members of that fund.
- The AFA strongly opposes the suggestion that intra-fund advice can be cross-subsidised across members of a MySuper fund. It seems that the overall intent of MySuper is to avoid any risk of inequality except for allowing cross subsidisation of advice. This will result in distorting the consumer appreciation for the true cost and value of advice. This is a dangerous position to take, if the government genuinely wants to support the financial advice industry. The cost of advice should be directly paid for by those who use the advice service.

Level Playing Field

- Whilst not addressed in this tranche of MySuper, the AFA would like to put forward some views with respect to transparency within superannuation funds, particularly in the context of the FoFA debate and the efforts to stamp out conflicted remuneration. RSE Licensees can receive payments from insurers and fund managers for the inclusion of their products within the RSE offer. These payments potentially pose a conflict of interest and should be fully disclosed, including whether the funds flow through to the benefit of members or not.
- Further, as has recently been proposed by a number of groups, the AFA supports full remuneration disclosure with respect to the directors and senior management of RSE licensees. We also strongly support a regime where reporting to members, includes full disclosure of all related party transactions. This is particularly important in the context of investment options and fees paid to service providers. Superannuation fund members have a right to understand how their money is being invested and how their fees are being spent.

Should you have any questions, please do not hesitate to contact me

Yours sincerely,

Richard Klipin

Chief Executive Officer
Association of Financial Advisers Ltd