CORPORATE SUPER SPECIALIST ALLIANCE

23rd December 2011

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

Dear Sir/Madam,

Superannuation Legislation Amendment (MySuper Core Provisions) Bill 2011

The Corporate Superannuation Specialist Alliance (CSSA) appreciates the opportunity to submit to the Parliamentary Joint Committee. Our submission is attached.

We do not believe that the MySuper legislation can be viewed in isolation as there is significant crossover between FoFA and MySuper legislation. As such, we believe that the impact of the proposed MySuper changes needs to be considered along with FoFA.

Any queries can be directed to:

Gareth Hall, Treasurer:

Douglas Latto, President:

Yours Faithfully,

Douglas Latto
President CSSA

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Corporate Superannuation

Corporate superannuation plans represent about $90 Billion of assets in the Australian Superannuation System.

Specialist Corporate Super advice firms, such as members of the CSSA, provide advice and support services to a large number of employers, thus reaching hundreds of thousands of working Australians. Such services are designed to help employees understand and engage with their super, and to better prepare them for a financially secure retirement.

Research

CoreData conducted Corporate Superannuation research in April 2011. A copy of this research is provided as 'appendix A', however some of the findings of interest include:

- Almost all employer respondents (96.8%) say their fund utilises the services of a financial adviser(s) to provide services to their corporate super fund.
- More than half of corporate super fund members (52.4%) have used the services of an adviser associated with their corporate super fund. Of those who have not, almost three in four (73.9%) expressed at least some interest in utilising these services.
- The large majority of those who use the services offered through their corporate super fund find them valuable to some extent (89.2%), including over one third (35.4%) who perceive the services to be 'very valuable' and a further 9.0% who find them 'extremely valuable'.
- Overall 98.9% of employers perceive the advice services offered to their fund as valuable to them as an employer, including more than half that find the services 'very valuable' (53.3%) and one quarter (27.8%) who find the services 'extremely valuable'.
- Some 71.1% of employers say the advice services offered are either 'very' or 'extremely' valuable for members. Members highlight tailored information and one-on-one sessions as the greatest value received from their corporate super fund adviser along with the ability to contact their adviser for information and advice and the access to unbiased guidance.
- Only 3.3% of employers say the relationship they have with their corporate super fund adviser is not really valuable and none say it is not valuable at all.
- Employers cite the convenience for members in accessing independent, personalised professional advice, education and information as being the greatest value to members of corporate super advice services.

We have provided a number of testimonials from clients of CSSA member firms as 'appendixes B and C'. We ask that these references are not published on the PJC website, to protect the privacy of the individuals and companies concerned.

Propensity To Use & Pay

- More than two fifths of those who have used the services of a corporate super adviser say they would not be likely to use an adviser if the service wasn't provided through their super fund (44.1%). This suggests that a large proportion of members would be left without access to professional advice if the service was taken away.

- Furthermore, the majority of members who have used a corporate super adviser would not be likely to pay upfront fees for financial advice if it was not part of their corporate super fund offer (56.0%).
- Employer perceptions are in line with members' attitudes towards seeking advice outside their corporate super fund.
- The overriding perception of employers is that members would not be likely to use an adviser if the service was not provided through the corporate super fund (63.3%). A further quarter (27.8%) say members would be only 'somewhat likely' to do so.
- An overwhelming majority of employers do not think members would be willing to pay upfront fees for financial advice if it was not part of the corporate super fund offer (85.5%), with only one in ten employers (10.0%) saying members would be likely to do so.

Superannuation Fee Analysis was conducted by Rice Warner research in 2008, on behalf of the Financial Services Council. Their report found that the total fees of Corporate Super Master Trusts (large), were 0.79% of their assets in the year to 30 June 2008 compared to, for example, 1.07% for Industry superannuation funds; making these Corporate Super Master Trusts amongst the lowest cost option for their member's retirement savings. We have provided an excerpt from this research as 'appendix D'.

We are concerned that fees may increase and that service levels may decrease for many people under MySuper.

Intra-Fund Advice

The CSSA believes that Intra-Fund advice as described in MySuper legislation needs to be transparent. We believe that the description of Intra-Fund advice needs to be clear, and that it should only relate to general advice on a superannuation fund and its features. Personal advice should be paid for by an individual, not cross-subsidised by other members of their superannuation fund. The current proposal for Intra-Fund advice is inconsistent with the Opt-in arrangement proposed for personal financial advice and is inconsistent with the "user pays" system for personal financial advice. We do not see the logic of having a principle-based argument that Opt-in should apply to clients of financial planners when trustees of Superannuation funds are then allowed to provide cross-subsidised personal advice under a collective fee structure such as Intra-Fund.

Our proposed solution is to make the fee for the general advice and services provided to a MySuper fund an explicit, transparent fee. This fee can be negotiated at a workplace level in response to the amount of services required by the members of the MySuper fund. Personal advice should continue to be paid for by the individual receiving the advice.

MySuper products for large employers

The proposed legislation allows for plans of large employers and their associates to be tailored if they contribute on behalf of 500 or more members. We believe this is inconsistent with the current superannuation environment which allows tailoring of superannuation plans at any level that is commercially viable, and we question why 500 members was chosen as a benchmark for a large employer. A 50 member fund of executives could conceivably have greater assets than a 500 member fund made up of blue collar workers, with a lot less administration required, so why should members of that fund be prohibited from negotiating a distinct product to suit the particular needs of their workplace? Different workplaces will have very different requirements.

Our proposed solution is to allow tailoring of MySuper funds for any employer. If a limit must be imposed we would suggest this be employers who contribute on behalf of greater than 50 members, as this is consistent with the requirement of having a Policy Committee to represent the needs of the employees within that workplace.

Provision of education, general advice and services (financial literacy).

The removal of commission from MySuper products, and the inability for Corporate Superannuation Specialists to charge a plan based fee for services they provide will doubtlessly lead to them having to withdraw their services from workplaces, as there is no way for them to continue to be paid for their services. This will result in the removal of any proactive financial education from workplaces and runs contrary to the Federal Governments stated goal of improving access to financial advice (and therefore of improving financial literacy).

Paragraph 4.12 of the MySuper explanatory memorandum further limits educational opportunities as it suggests education must be made available to every member of a MySuper fund, and cannot be, for example, workplace specific. This suggests that employees of any number of employers must all be invited to each educational seminar regardless of their location in Australian and regardless of the fact that they may be industry competitors. This will make the provision of education in a workplace basically impossible, and will only serve to reduce financial literacy and the provision of education in the workplace.

Our proposed solution is to allow an explicit fee within a MySuper fund to enable the ongoing provision of education and services to members of the fund. This fee could be negotiated at a workplace level to reflect the needs of the workplace, and education specific to the requirements of a particular workplace can then continue to be delivered proactively.

Insurance Service Fee

The FoFA Exposure Draft and Memorandum states that commission on insurance within superannuation would only be paid within Choice funds/products but group insurance would be excluded. We discussed this in our FoFA PJC submission.

The removal of commissions for group insurances inside superannuation effectively prohibits payments to advisors for the services they provide to employers and their employees. These services include

- Negotiating with insurers on an ongoing basis for reduced premiums and better features (such as higher levels of automatic cover, this requires less evidence of health from members). The savings we negotiate are often greater than the remuneration we receive.
- Ensuring the accuracy of the insurance data (an area of frequent errors)
- Ensuring members receive their full formula entitlement and are not restricted to automatic acceptance levels.
- Assisting members with all aspects of applications and claims.

Ultimately group insurance is just a solution that is more beneficial (with lower costs and tailored features) than a series of individual contracts and it makes no sense that payment can only be made from the least efficient solution. Removal of commissions will create an unlevel playing field and could result in advice to a consumer that sees them using a less appropriate insurance solution.

There is also a distortion in the market with commission being paid on group insurance outside of super but not inside. This could lead to inappropriate solutions being offered to clients.

Commissions on group insurance are currently paid on an ongoing basis and generally range between 0 and 20% per annum. There is no upfront commission payment made. The CSSA recognises that it is inappropriate that commissions should be included in the premium when no service is being delivered.

Our proposed solution is to allow an Insurance Service Fee on a "dial up" basis where Insurance Services are provided to a MySuper employer group. We suggest that an explicit Insurance Service Fee, which defaults to zero, can be charged to all members at an agreed percentage with the consent of the client at the workplace level (the group client being represented by the Policy Committee or the Employer). This is specifically relevant when a tailored default insurance strategy is selected by an employer (rather that the standard default strategy) and we suggest that tailoring should be allowed at a workplace level as this will ensure appropriate benefits are provided to staff. Effectively the Insurance Service Fee would operate within group insurance in a similar manner that asset-based fees operate within investment and superannuation (i.e. a premium-based fee). This should ensure that only those receiving Insurance Services are paying this fee.

Comparison of MySuper funds on a "like for like" basis.

We understand that an objective of the standardisation of fees within MySuper plans is to allow for easy comparison of funds. If fees for the provision of services are agreed at a workplace level these fees should not be included in the standard published fees for a MySuper fund to ensure there is no confusion when comparing funds. Service fees would need to be communicated to members on a regular basis, and this could be done with each member statement.

Member disengagement

Paragraph 1.4 of the MySuper explanatory memorandum suggests that 60% of members do not make an investment decision within their superannuation fund and therefore end up invested in their default investment option, suggesting that this is a result of member disengagement. Funds that are advised by CSSA members choose a default investment strategy that suits the bulk of the fund's membership, so therefore the resulting high level of default investors makes sense and is not necessarily a sign of disengagement. Membership within MySuper funds promises to be much broader and therefore a single default investment strategy is most likely to be inappropriate for a lot larger percentage of the members than would currently be the case. Paragraph 1.8 suggests that My Super will improve the experience of those members that accept the default option by placing them in a product that is appropriate and ensures their financial interest are protected. We believe that this will not be the result experienced by the majority of members of MySuper funds.

Our proposed solution is to allow tailoring of MySuper funds for any employer that contributes on behalf of greater than 50 members and to allow an explicit fee within a MySuper fund to enable the ongoing provision of education and services to members of the fund. The tailoring of the fund and the education on fund features and benefits, plus general financial education, will assist fund members to be more engaged with their superannuation and their overall financial position. If members are more engaged and better educated they will be more likely to ensure that their retirement savings will be sufficient to fund their retirement income needs. This will help to ensure they are aware of their own financial interests and how to protect them. It will also help to reduce dependency on social security in the future and therefore the burden on future generations of taxpayers.

Transition to MySuper

Paragraph 1.16 of the MySuper explanatory memorandum suggests that transition from existing accounts to MySuper is yet to be outlined. Our belief is that this transfer should not be automated and should only occur with the consent of the superannuation account holder. Automatic transitioning could cause significant issues, such as unadvised changes to an investment strategy or the unintended cancellation of insurance benefits. Many superannuation fund members retain accounts only to provide insurance benefits, as insurance is generally significantly less expensive within a group superannuation insurance policy. Transitioning these accounts could impact the members by cancelling their insurance cover. In many cases the insurance cover may not be able to be obtained again on such favourable terms, or at all.

Our proposed solution is to recommend that current superannuation accounts are only transitioned to MySuper with the consent of the owner of the account.

We welcome the opportunity to present in front of the committee if there are any questions or if clarification is required.

About the CSSA

The CSSA was formed in 2009 to represent corporate superannuation specialist advisory businesses. CSSA members provide financial advisory services to thousands of corporate superannuation funds across metropolitan and regional Australia and play an essential role in managing Australia's large and growing superannuation savings pool. CSSA members work with Australian companies and their employees to provide them with improved life insurance and superannuation outcomes via their superannuation member accounts. CSSA members provide a broad range of services to corporate super plans at four levels, – the employer level; the policy committee (representative body) level; the individual super fund member level and to super fund members collectively. These services help employers and policy committees ensure that members are getting competitive benefits and features, at a competitive price, and that members have access to general advice and information to help them improve their decisions about their retirement savings and life insurance choices.

We believe that the proactive provision of services, general advice and ultimately financial planning advice in the workplace is critical to achieving the Government's goals of improving access to financial advice and maximising retirement incomes for members.

CSSA members conduct thousands of group seminars and "one on one" meetings with members of our employer funds each and every year, taking information and advice to their workplaces to improve financial literacy.

According to research conducted in 2008 by Rice Warner Actuaries, large Corporate Super Master Trusts charge members an average fee of 0.79% per annum compared to Industry Super funds at 1.07%. We believe that this is, in part, due to our advocacy on behalf of our clients and their employees, our constant reviewing of our client's funds, and our negotiation of lower fees with Master Trust providers. The insurance experience is the same, with group insurance inside Corporate Superannuation being significantly less expensive than retail insurance. This is again, in part, due to negotiations with insurers on behalf of employers and their employees.