



Tuesday 2<sup>nd</sup> October 2012

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

PO Box 790  
Milsons Point  
NSW 1565  
Level 4  
30 Alfred St  
Milsons Point  
NSW 2061

By email: [corporations.joint@aph.gov.au](mailto:corporations.joint@aph.gov.au)

**T** (02) 9460 1333

**F** (02) 9460 1334

ABN: 019 078 467 893

## **Re: Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012**

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Dear Sir/Madam,

I operate a small financial advice business under our own Australian Financial Services Licence. We specialise in corporate superannuation and group insurance advice for employers and their workplaces. A few of our employer clients make some voluntary superannuation or insurance payments on behalf of employees however the overwhelming majority of our work is around the superannuation guarantee contributions made by employers.

The advice services we provide include:

- Employers
  - Tenders and reviews– assist employers review superannuation and group insurance arrangements to ensure they remain contemporary, relevant and attractive to employees.
  - Consulting services – benefit design including tailored insurances, regulatory issues.
  - Ongoing services – advice on processes around new entrants to plans, exits from plans, benefits claims (insurance, retirements, retrenchments etc.).
- Policy committees
  - Membership demographics – looking at members statistic to assist driving targeted communications and education to help members make the most of plan features (i.e. insurance benefits) and tax benefits (i.e. Government co-contributions)
  - Investments – advice on selection and performance of default investment options.
  - Regulatory – advice on upcoming regulatory changes and their impact on members and appropriate communications to members regarding changes.
- Members
  - Preparation of clear concise written materials including Fact Sheets, Benefit Guides, and Intranet Content to assist members make informed decisions regarding their participation in their employers default superannuation plan and other employer provided arrangements.
  - General advice – relevant targeted content delivered in a seminar or workshop format for groups of members or one on one in personal consultations. Members get the benefit speaking with an adviser and discussing the issues, learning both the benefits and disadvantages of the alternatives.



- Member services - assistance with all aspects of members participation in their employers default superannuation arrangements including follow up of outstanding insurance underwriting requirements to assist members obtain available insurance benefits to which they are entitled and assistance with preparation and lodgment of insurance claims.

The Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012 (the "Bill") sets out rules for the proposed default superannuation arrangements which are called MySuper. The primary objectives of MySuper appear to be to establish a system that will ensure that employers default superannuation arrangements will minimize fees and charges so as to increase retirement benefits for default members. While the objectives of the Bill are good the details of implementation are a big problem for a business such as ours.

The Bill mandates the transition of members account balances in the default investment option to a MySuper product by 1 July 2017. MySuper products are prohibited from paying commission to an adviser. This means that the remuneration arrangements currently in place and agreed with employers, policy committees and members will be overturned by the Bill.

In addition to the specific superannuation reforms proposed in the Bill there are also the broader reforms of the financial advice industry implemented through the Future of Financial Advice (FoFA) legislation. These reforms will fundamentally alter the way in which the industry operates, deals with clients and gets paid. Historically advisers received remuneration mostly by commissions and this is no longer possible with the FoFA rules. However while FoFA grandfathers existing contracted commission arrangement the Bill overturns them. It will have the effect of terminating my existing contracted rights and does not provide any compensation for this. The decisions around the timing of when members are transferred to MySuper are made by the trustees of the superannuation funds who have to comply with the provisions of the Bill.

For our business the outcome is that there will be a very substantial reduction in our businesses cashflow between now and 1 July 2017 as a result of the Bill. Our single largest expense by far is payroll. Up until recently we employed 6 people. 2 have already left as they could see the effect the Bill will have on our business. We have chosen not to replace them. Going forward I can see that we are likely to need to downsize further as the effects of the Bill bite into our cashflow. This will impact on our capacity to continue to deliver existing advice services to the workplaces we have looked after for many years.

This sweeping change is being imposed on us by the Bill. We have no control over the transition and receive no compensation for the loss of our existing contractual rights.

Along with the changes proposed in the Bill there are a wider range of reforms within Stronger Super. These reforms include:

- auto-consolidation of low-value accounts,
- the ability of superannuation providers to track accounts through the use of tax file numbers; and
- changes to processing requirements to make it easier for members to consolidate or transport their balances.

These reforms encourage or force superannuation members to reduce the number of superannuation accounts they maintain.

There is already a substantial degree of vertical integration in the superannuation and financial advice industries. It is my view that both the Bill and the FoFA reforms further entrench the benefits of and tendency towards vertical integration. This will make it increasingly difficult for small businesses like ours who do not manufacture products and are unable to subsidise the provision of advice to continue to compete against the advice firms who are part of vertically integrated financial services groups. Businesses such as ours have played an important role in driving down costs in the employer superannuation market by representing the interests of our clients in their negotiation with incumbent and potential suppliers of superannuation and group insurance. Employer superannuation and group insurance products are complex products that require significant expertise to understand and evaluate and few employers have this expertise in-house. The effective removal of non-aligned intermediaries resulting from the Bill and FoFA and the implicit endorsement of vertically aligned distribution will result in the banks using their considerable influence through the business and institutional banking channels to target businesses default superannuation arrangements. The Industry Superannuation funds will continue to do their best to lock up distribution through the awards system. Competition will tend towards brand building and image rather than the merits of the product for the particular workplace. Advice on alternative superannuation products based upon rational evaluation of relevant features, benefits, investments and costs by firms such as ours will be more difficult and expensive to obtain. I do not believe this will be of benefit to consumers in the long term.



I suggest that the inquiry recommend that the requirements within the Bill for Fund Trustees to move existing default members to a MySuper product be removed from the Bill. This is because it is unnecessary given the other reforms underway including the Stronger Super reforms referred to above and because it will have significant detrimental impact on businesses like ours with no compensation provided.

I can be contacted by email at [alan.mccredie@ascentfinancial.com.au](mailto:alan.mccredie@ascentfinancial.com.au) or by telephone on 02 8456 5155 if I can assist with further information.

Yours sincerely

**Alan McCredie**  
Principal Advisor