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ACA

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Committee Secretary
Standing Committee on Economics, Finance and Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2600

By email: efpa.reps@aph.gov.au

Dear Sir/Madam,

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

The Australian Consumers' Association welcomes the opportunity to contribute to the work of the committee on this subject.

We wish to comment on the following three matters:

1. The need to facilitate the ease with which people contributing to superannuation funds can combine their superannuation into one account should they wish to;

2. The need to ensure that employees and others have faith in the superannuation system; and

3. The need to consider the overall level of saving by people under age 40 rather than just a focus on saving for retirement, and the undesirability of increasing the level of *compulsory* superannuation in this context.

Decreasing the Proliferation of Superannuation Funds

There are currently 27 million superannuation funds for around 10 million Australians in the work force. There are reasons why some individuals may wish to hold, or be required to hold, more than one super account. There are also people currently not in the work force who hold a super account. Nevertheless there are clearly more accounts than is sensible or desirable. The proliferation of accounts has direct costs for consumers, and direct costs for industry in administering those accounts which are likely to be in large measure passed on to consumers.

These costs make super less attractive and may act as a disincentive to people increasing their superannuation savings.

There are clearly a number of barriers to people consolidating their accounts. We believe the committee could usefully identify those barriers and develop recommendations to be acted on by funds, trustees, advisers, employers, government and/or consumers to address those barriers. While the introduction of Superannuation Choice is likely to assist some employees avoid opening an additional account when they change jobs, it is not a panacea for this problem.

Increasing Employees Faith in the Superannuation System

We believe that many in the community have a sense that they are not being told the full story about superannuation. Many people believe they need advice about superannuation but do not believe there is a readily accessible and costs effective source of unbiased advice.

They are right to hold those beliefs. Superannuation is becoming increasingly complex, and the introduction of super choice provides both opportunities and risks for consumers. Yet it is very difficult for a consumer to find any source of cost effective unbiased and competent financial advice that addresses their personal circumstances. There are a number of problems areas.

First, there are significant conflicts of interest inherent in the business model of most financial advisers. Often they are owned by the vendors of financial products. Alternatively or as well they derive all or most of their income from sales volume related commissions. Work undertaken by ASIC and by ACA reveals significant levels of poor or biased financial advice which we believe is largely a product of these remuneration arrangements. The financial advice and investment industries will not be free of the taint of this 'structural corruption' until the question of remuneration of adviser is separated from the question of choice of strategy and product.

Second, for many consumers with a low level of superannuation assets and/or a low income, the cost of financial advice is likely to be disproportionate to the value of that advice. We suggest that this is addressed through increasing consumers' ability to understand financial products and make decisions about them, and through the provision of subsidised financial advice where necessary.

The disclosure requirements of the FSR regime are also generally welcome, although regulators must continually monitor the implementation of FSR in the market to ensure that information provided is concise, comprehensive and useful to consumers.

The Commonwealth government's Financial Literacy Foundation is a significant and welcome measure designed to address consumer's ability to protect their own interests in relation to financial matters. We await with interest to see the work to be undertaken by the Foundation.

The National Information Centre on Retirement Incomes (NICRI[1]) is also an important source of information about superannuation for consumers. It is disappointing that the government did not provide additional resources to NICRI in the run up to the introduction of Superannuation Choice on 1 July 2005. NICRI describes its role as to help provide up to date independent information to assist people to make the best possible investment decisions they can.' It is not currently part of NICRI's role to provide financial advice to particular consumers.

We urge the committee to consider providing greater access to financial advice for those where commercially available advice is either uneconomic or otherwise unsuitable to their needs. A model for such a service has been proposed in the UK and should be examined by the committee.

Other saving objectives and the level of compulsory superannuation contributions

It is difficult to discuss the superannuation savings of people under 40 without discussing other savings goals. It is important to note that people under 40 are more likely to need to save for purposes other than retirement compared to older workers. Most notably this involves saving for housing. Other activities or products that consumers will generally need to save for could include the purchase of vehicles, education, the establishment of businesses and expenses relating to children. We would note that this may involve both pre-saving (eg. putting money aside prior to purchase of a car) and post-saving (eg paying off a HECS debt).

From an economic perspective it is difficult to see why saving for retirement should be substantially privileged over these other activities in this age group. In particular, we do not see the rationale for increasing the current level of *compulsory* saving for younger people given the other equally legitimate savings goals and choices that younger people face. As an example, it is unclear what policy rationale could justify forcing people under 40 to save greater amounts for retirement if this came at the expense of saving for their children's education. ACA would vigorously oppose the imposition of greater compulsory superannuation upon consumers under the age of 40.

A one dimensional consideration of this issue may not adequately deal with the impact of increasing superannuation on the *net* savings of people under 40. If increasing the level of superannuation savings for people under 40 simply means they have to borrow more to fund other activities such as education or housing then the overall impact may be neutral or negative on net savings. Alternatively it may mean that their investment in these areas

[1] http://www.nicri.org.au/

may simply not occur, to their longer term economic detriment (eg inability to adequately fund tertiary level studies).

Given this point, it would be very worthwhile for the committee to consider not just the issue of the superannuation savings of people under 40, but the level of overall savings in this age group. That is, the inquiry could consider the barriers to saving more generally, rather than just in the superannuation arena.

About the ACA

The Australian Consumers' Association (ACA) is a non-profit, non-party-political organisation. We are completely independent. We are not a government department or agency and we receive no funding from any government. Neither do we receive subsidies from industry, manufacturers, unions or any other groups, and we don't take advertisements in any of our printed magazines or on our website. We get our income from the sale of *Choice* magazine, *Choice* Online and our other publications and products and currently have over 145,000 subscribers to our products.

We represent and act in consumers' interests. We lobby and campaign on behalf of consumers to promote their rights, to influence government policy, and to ensure consumer issues have a high profile in the public arena.

We are committed to providing information on a whole range of consumer issues including health, financial services, information technology & communications, travel, food & nutrition, computer technology and consumer policy.