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Superannuation literacy and planning for under 40s

Financial literacy and superannuation

5.1 Many submissions to this inquiry suggested that one of the key reasons that many under 40s do not voluntarily contribute to their superannuation is a lack of understanding, both about how the system works (tax incentives etc.) and about the benefit of contributing early.

5.2 As the Trustee Corporations Association of Australia (TCAA) noted:

> Improving the level of financial literacy of the general public is a crucial first step in achieving … heightened awareness [about superannuation][1]

5.3 Poor financial and superannuation literacy appears to be more prevelant among women. The Office for Women stated in evidence that 'research has shown that women experience lower levels of financial literacy than men'.[2] This trend is particularly concerning given that women are more likely to have broken work patterns and thus less opportunity to contribute to superannuation.[3]

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1 TCAA, *Submission no. 11,* p. 2.

2 Ms K Flanagan, Office for Women, *Transcript,* 10 February 2005, p. 4.

3 Womens' issues are discussed in more detail in Chapter 6, *Superannuation issues for certain groups.*

5.4 Apart from women, there are also a number of other groups with generally lower financial literacy. The Department of Family and Community Services told the Committee that:

> Levels of financial literacy are comparatively low amongst certain sectors of the population including … those on low incomes, with lower educational attainment, the young and the very old.[4]

5.5 From the perspective of this inquiry it is clear that financial literacy is a problem for many people under age 40—particularly women, those with lower levels of education and those with lower incomes.

The Financial Literacy Foundation

5.6 In terms of improving Australians' general financial literacy, several submissions[5] welcomed the government's introduction of the Financial Literacy Foundation. The Australian Consumers' Association (ACA) summarised the importance of the foundation, stating:

> The Commonwealth government's Financial Literacy Foundation is a significant and welcome measure designed to address consumers' ability to protect their own interests in relation to financial matters.[6]

5.7 Key aspects of the foundation's approach are:

- an Australia-wide information and awareness-raising campaign;
- financial literacy programmes in schools and workplaces;
- a one-stop website to serve as a portal for financial literacy education and information resources; and
- original research to build understanding of influences on community attitudes to financial literacy and best practice approaches to extending and measuring literacy.[7]

5.8 Although still in its infancy, the foundation has already undertaken a number of measures aimed at improving financial literacy, some of which have targeted under 40s. They include:

- developing a National Curriculum Framework for Consumer and Financial Literacy for years 3, 5, 7 and 9;

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4 Department of Family and Community Services, *Submission no.* 38, p. 2.

5 See submissions 11, 13, 18, 26, 28, 34.

6 ACA, *Submission no. 34*, p. 3.

7 The Treasury, *Submission no. 47*, p. 34.

- holding Financial Literacy Forums, which were attended by over 80 business, community, government and education sector leaders;
- conducting a pilot with the Master Builders Association (MBA) that will see 200 apprentices and cadets receive training in money management; and
- developing a Financial Literacy Educators and Trainers Network.[8]

5.9 With respect to the foundation's role in improving superannuation literacy, Treasury's submission noted that:

> Improved financial literacy should result in better engagement with superannuation by those under age 40, through recognising that the decisions they make now will affect their retirement income and lifestyle.[9]

Financial literacy at school

5.10 A number of submissions[10] focussed on the importance of teaching financial literacy throughout primary and secondary schooling. These views can be summarised by the comments of Senator Judith Adams, who stated:

> If superannuation and other financial management issues were addressed at a middle or high school level, it is anticipated that school leavers would graduate with at least a basic level of awareness about savings and retirement income.[11]

5.11 While there was agreement that financial literacy in schools is important, the same can not be said for exactly when financial education should occur, or what form it should take.

5.12 The Financial Literacy Foundation has an important role in determining how and when financial literacy education in schools should occur. As mentioned above, the foundation has already been involved in developing a framework for consumer and financial literacy for years 3, 5, 7 and 9.

5.13 The TCAA discussed the importance of the foundation's role in developing school curriculum, stating:

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8 Financial Literacy Foundation, *Latest News*, viewed 31 March 2006, <http://www.understandingmoney.gov.au/news.asp#Education>

9 The Treasury, *Submission no. 47*, p. 34.

10 See submissions 3, 10, 11, 12, 13, 17, 22, 33, 36, & 41.

11 Senator J Adams, *Submission no. 33*, p. 3.

> The Foundation's efforts should be to encourage more attention being given at the school level to basic financial understanding, irrespective of the career path that a student maybe following.[12]

Superannuation funds and improving superannuation literacy

5.14 Superannuation funds also have an important role to play in improving under 40s superannuation literacy—particularly those not of school age. This role specifically involves the information that they provide to their members by way of mailed annual statements and brochures, seminars, websites and customer service teams.

5.15 Generally speaking, it seems that a large amount of information is provided by, and available from, superannuation funds. A glance over various superannuation websites confirms this assertion.[13]

5.16 The problem is that a lot of members simply do not read the information available to them. As the submission of Guided Decisions noted:

> An industry fund research study assessing member opinion of information and educational material show most (53%) read less than half of what is sent to them, let alone understand and then act on the information.[14]

5.17 This statement is aided by research conducted on the attitudes to superannuation of Generation X and Y, in which one participant stated: 'They send me statements and brochures, but it doesn't mean much to me.'[15]

5.18 On the whole, it seems the attitude of under 40s to information provided by their super fund is that 'they want … access to relevant and understandable information.'[16]

Superannuation investment options

5.19 Investment options determine the strategy a person will take with the investment of their superannuation. Each option has a specific investment strategy and is categorised by the risk involved in that particular strategy. These range from defensive through to high growth.

12 TCAA, *Submission no. 11,* p. 2.

13 See, for example, www.rest.com.au; www.pss.gov.au; www.hesta.com.au; www.ing.com.au. There are, of course, numerous other relevant sites with equally good information.

14 Guided Decisions, *Submission no. 46*, p. 2.

15 McCrindle Research, *Submission no. 2,* p. 10.

16 McCrindle Research, *Submission no. 2,* p. 10.

5.20 Fund members are generally able to design their own investment stategies by investing in one or more of the options offered by the fund. Members of self-managed funds have greater control over their investment, with the ability to place their money in particular companies, for example, rather than simply structured options.

5.21 Fund members can base their strategy on their own needs and principles. However, as was noted by Guided Decisions:

> Young people of 20, 25, 30 years of age going into [the default] balanced portfolios when they could go into growth portfolios.[17]

5.22 While a high-growth portfolio may not suit every young person, it seems that it is an option that most are not even considering. As one submission noted:

> Whilst some individuals will be aware of some investment fundamentals, many others will need to be educated about principles of risk, return and diversification.[18]

Conclusions

5.23 The committee is concerned that financial literacy is lowest among those groups who are most likely to have a low level of retirement savings; women and low income earners, many of whom are under 40 and have broken work patterns. These are groups who need to understand the superannuation system, and who need to be making the most voluntary contributions.

5.24 The committee acknowledges that the proposed changes to superannuation, outlined in the government's 2006–07 budget, would go a long way to simplifying the superannuation system. While this simplification is certainly very welcome, it does not preclude the need for Australians to have improved financial literacy.

5.25 The committee believes that improved superannuation literacy should be the joint responsibility of governments, both state and federal, and superannuation funds. However, for any financial literacy programs to be successful, there also needs to be a willingness to learn on the part of the individual. The committee acknowledges that achieving superannuation literacy across all, or even a majority, of this age group is an inherently difficult task.

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17 Mr A Stewart, Guided Decisions, *Transcript*, 3 February 2006, p. 33.

18 Tower Australia, *Submission no. 26*, p. 13.

5.26 The committee agrees with the numerous submissions that espoused the benefits of promoting financial literacy from a young age. It is incumbent on state governments to provide a greater focus on financial literacy in their schools' curriculum. From a federal perspective, the Financial Literacy Foundation can assist the state and territory governments in developing curriculum, as it already has in the circumstances outlined above.

5.27 For those under 40s not of school age, the improvement of financial and superannuation literacy must occur outside the classroom. In this regard, the committee acknowledges the federal government's establishment of the Financial Literacy Foundation and some of the early work the foundation has conducted with under 40s. The committee urges the foundation to continue and extend their efforts.

5.28 The committee also believes that superannuation funds have an important role in improving superannuation literacy. Currently, they provide large amounts of superannuation information to their members. It is clear, however, that many under 40s simply do not read the information provided—largely because it is, or it is seen to be, too complicated. Superannuation funds must recognise this fact and work to provide easy-to-understand information to their members. In light of the changes proposed by the 2006 budget this task should be made considerably easier.

5.29 It terms of developing strategies to generate interest in superannuation, the committee believes that incentives (tax breaks, co-contribution etc.) are among the most effective tools. However, it is clear that incentives are best understood by those who already have a detailed knowledge of the super system, not those who have low literacy and interest.

5.30 The committee therefore considers that if incentives are to act as a stimulus for interest, knowledge and participation, their benefits must always be conveyed in a straightforward manner. This, in turn, should encourage people to seek further information about the incentives, and then the superannuation system as a whole.

5.31 Another way to expand interest in superannuation is through the improvement of more general financial literacy. The committee believes that if people are well equipped to manage their day-to-day financial affairs, it is logical that they are more likely to understand the benefit of contributing to superannuation.

5.32 The committee also is of the view that giving people access to long-term superannuation projections (discussed in more detail below in the section *Regulated savings targets and projections)* would stimulate interest in superannuation. Doing so would provide a 'real' view to the relatively distant subject of retirement.

Recommendation 3

5.33 **The committee recommends that the Financial Literacy Foundation work directly with superannuation funds on a combined strategy to improve Australians' interest in, and knowledge of, their superannuation. Some of the approaches that could be considered by this partnership include:**

- **providing more assistance to state and territory governments to promote financial literacy in secondary school curriculum, with a particular focus on superannuation education;**
- **developing a strategy to improve the general financial literacy of the adult population with a particular focus on improving superannuation literacy; and**
- **providing all superannuation information, including the promotion of benefits and incentives, in the most straightforward manner.**

Regulated savings targets and projections

Superannuation savings targets

5.34 The Senate Select Committee on Superannuation, in their 2002 report *Superannuation and Standards of Living in Retirement,* noted:

> The high degree of consensus expressed by witnesses … that the desirable target for a person on average earnings is a replacement rate of 70–80 per cent … (which equates to approximately 60–65 per cent of gross pre-retirement income).[19]

5.35 This consensus, however, was not supported by the Federal Government, who preferred that people set their own savings goals depending upon their circumstances and that:

19 Senate Select Committee on Superannuation, 2002, *Superannuation and Standards of Living in Retirement,* Canberra, December 2002, p. xv.

> Retirement income policy should encourage people to achieve a higher standard of living in retirement than would be possible from the age pension alone, while ensuring that all Australians have security and dignity in retirement.[20]

5.36 In line with the Senate committee's findings, the committee heard on numerous occasions[21] that having a broadly defined savings target, which is agreed to by government and the superannuation industry, would allow people to plan for retirement with greater certainty. For example, Rice Walker Actuaries asserted that 'before we can encourage anyone to save for retirement, we need to set them a realistic target'.[22]

5.37 One aspect of greater certainty involves those people who are only contributing the nine per cent Superannuation Guarantee (SG). For many people—particularly low income earners and people with broken work patterns across their life time—the SG alone may provide less retirement income than they desire or expect. As CPA Australia noted:

> Some of the anecdotal evidence we have had from our members is that people see the compulsory SG level set at nine per cent and assume that that must be enough, because that is the amount the government has set for them—especially young people.[23]

Regulated superannuation projections

5.38 A number of groups[24] have proposed that individualised long-term superannuation projections be included in members' annual statements. Each group suggested that projections must only be based on government-regulated assumptions to be used by all industry participants. Such projections could enable a fund member to see their forward financial position in terms of a lump sum and an income stream.

5.39 Currently, individualised superannuation projections are not provided by funds to their members. The Association of Superannuation Funds of Australia (ASFA) told the committee that the Australian Securities and Investments Commission (ASIC) discourages this behaviour given super funds may over inflate projected returns:

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20 Government Response to the Senate Select Committee on Superannuation's report *Superannuation and Standards of Living in Retirement*, Canberra, 14 February 2005, p. 1.

21 See, for example, *Transcript* from 28 July 2005 & 10 February 2006; and Submission nos. 18, 28 & 64.

22 Rice Walker Actuaries, *Submission no. 64*, p. 5.

23 Mr M Davison, CPA Australia, *Transcript*, 10 February 2006, p. 7.

24 See ASFA, *Transcript,* 28 July 2005, pp. 2–17; ASFA, *Submission no. 16*; CPA Australia, *Transcript,* 10 February 2006, pp. 14–29; and Guided Decisions, *Submission no. 46.*

> It is most probably more of a general fear. ASIC has certainly made it clear in a number of the policy statements and other materials that it has released that it is very uncomfortable with projections. There has also been a history of life insurance companies not using real projections but future dollars, using high earnings rates.[25]

5.40 CPA Australia commented on the potential importance of projections, stating:

> The issue that people have, particularly when they are younger or even all the way through, until they are staring retirement in the face, is that nobody really has an appreciation of what they need to have saved to be able to get the income they want. I suppose it would be nice to say, 'Yes, people, go and get your projections on a regular basis,' but the reality is that if you make it too hard, and there is not a rule of thumb that they can use to estimate what they are aiming for or whatever, they will just ignore it, particularly when they are younger, because it is too hard.[26]

5.41 ASIC advised the committee that there is no direct restriction on superannuation funds providing individualised projections. However, in order to provide projections superannuation funds must be licensed to provide financial product advice under Chapter 7 of the *Corporations Act 2001.* While some superannuation funds are currently licensed under this Act, many are not. Presently there are no funds that provide annual projections to their members.

5.42 Interestingly, all superannuation funds have relief from the requirements of the *Corporations Act* so that they can provide generic superannuation calculators on their websites. According to ASIC, while relief has been given, there are a number of conditions in place which protect against funds misleading consumers.[27] This relief, however, does not enable superannuation funds to provide specific product advice to members—i.e. long-term projections.

5.43 A number of European countries allow funds to provide fund members with savings projections. These countries, including the United Kingdom, have strong regulation in terms of the assumptions used to generate the projections. In relation to the United Kingdom, ASFA stated:

> There is actually an obligation on funds to provide such projections to members on an annual basis. From 6 April 2003, an

25 Mr R Clare, ASFA, *Transcr*ipt, 28 July 2005, p. 6.

26 Ms N Kelleher, CPA Australia, *Transcript*, 10 February 2006, p. 16.

27 ASIC, *ASIC Releases Policy on Calculators,* media release, 20 December 2005.

> annual illustration … must be given to scheme members of most approved pension schemes … The main principle behind the legislation is to help individuals plan for their retirement and to encourage long term savings.[28]

5.44 Personalised projections are also utilised in the United States. Guided Decisions told the committee that:

> In the US, personalised projections are one of the most commonly used guidance tools. One of the most popular guidance and advice providers recently stated that they give … members a personalised statement showing the member's account status and how a particular action such as a higher contribution, would impact take-home pay and future retirement savings. "We don't want to kill people off with reams of data," they stated. "We want to do a simple gap analysis. At the very least, it gets people to question: Am I on track?"[29]

5.45 In addition, evidence from the United States' experience shows the effectiveness of projections in generating interest and participation:

> A study of 48 different company plans encompassing over 300,000 employees measured the effectiveness of the different communication, education and guidance programs on both participation in the Plans … as well as contribution rates from existing Plan members. This study found that those Plans that offered High Communication programs (ie. integrated education, personalised projections, internet guidance tools) facilitated a 35% higher participation rate and a 49%higher contribution rate than those Plans that offered basic Plan information to their members.[30]

5.46 Overall, the argument for personalised projections is summarised by ASFA, who stated:

> Super funds should provide benefit projections to individual members on a standardised basis and as part of their annual reporting to members. We see this as a way of providing clearer targets to people. It is something tangible in terms of where they are on their own savings track.[31]

28 ASFA, *Submission no.* 16, p. 24.

29 Guided Decisions, *Submission no. 46,* p. 5.

30 Guided Decisions, *Submission no. 46,* p. 6.

31 Ms P Smith, ASFA, *Transcript*, 28 July 2005, p. 5.

Conclusions

5.47 The committee believes that savings targets would allow people to know sooner whether or not their expectations will be met with SG alone, and thus, if necessary, allow them to increase their savings according to their desired retirement.

5.48 In addition, and as was outlined above in *Financial literacy and superannuation*, many people under age 40 do not understand superannuation and have little interest in it. The committee considers that savings targets may provide an impetus to take more interest in superannuation planning from an early age.

5.49 The committee has found that, as the Senate Select Committee on Superannuation did in 2002, an industry consensus centres around replacement spending rates of 70–80 per cent—approximately 60–65 per cent of gross pre-retirement income.

5.50 Overall, the committee found that a savings target, determined jointly by the government and superannuation industry, would be a useful tool for people to broadly determine their retirement goals.

5.51 The committee is also in favour of superannuation funds providing long-term projections to their members in annual statements, on the strict proviso that the projections are based on regulated investment assumptions. The committee is encouraged by the seemingly successful experience of projections in both the United Kingdom and the United States.

5.52 The benefits of providing projections, in the committee's view, are potentially large. It would allow people to have a rough idea about their future financial position, which is currently very difficult. If combined with a defined saving goal, projections would allow a much higher degree of retirement certainty than is currently available.

5.53 Currently superannuation funds must be licensed to provide specific financial product advice if they wish to provide their members with projections. Essentially, under the current arrangements it would be an onerous task for super funds to provide long-term projections. The committee believes that ASIC and super funds should work together, as they have done in the case of superannuation calculators, to find a solution that is easily administered by funds, but also has sufficient safeguards in place to protect consumers against being misled.

5.54 The committee also notes that the government demonstrated the benefits of its proposed superannuation changes by using projections.[32] Given that the government is prepared to utilise projections in these circumstances, the committee feels it would be equally useful for similar projections to be allowed for individuals' real-life situations.

5.55 The committee believes that if projections are allowed, superannuation funds should also provide their members with alternate projections for increased and decreased contributions. This may encourage people to seek a higher retirement income through increased contributions, or, alternatively, allow people to know that their current level of contribution will be adequate.

Recommendation 4

5.56 **The committee recommends that:**

1. **the government develop a benchmark savings target to encourage savings goals and retirement planning, and a retirement saving matrix to show the level of savings required to achieve various retirement incomes and lifestyles.**
2. **ASIC and the superannuation industry work together so that all superannuation funds can provide individualised long-term projections to their members in annual statements. This process should include, among other things, the development of standardised investment assumptions to ensure consumer protection.**
3. **the government require all superannuation funds to provide individualised superannuation projections to their members in annual statements. These projections *must* utilise ASIC-regulated investment assumptions and should also show future outcomes for higher and lower levels of contribution.**

32 The Treasury, *A Plan to Simplify and Streamline Superannuation*, Canberra, May 2006, p. 55.

Financial advice

5.57 On average only around ten per cent of the population seeks advice from financial planning services.[33] Several submissions[34] argued that this trend is particularly true of under 40s for two general reasons: lack of interest in financial matters and the cost of advice.

Financial advice and under 40s' interest in superannuation

5.58 As discussed above in *Financial literacy and superannuation*, many under 40s lack an understanding of, and interest in, the superannuation system, as well as their financial matters more generally.

5.59 Furthering this point, the 2003 ANZ survey of *Adult Financial Literacy in Australia* found that:

- about 16 per cent of the adult population spend all their income as soon as they get it and do not plan for the future;
- only 5 per cent claimed to have no difficulty managing their finances;
- only 67 per cent of adults claimed to understand the term 'compound interest' either 'very well' or 'fairly well'[35]; and
- only 37 percent of respondents having thought about planning for their retirement.[36]

5.60 A number of submissions suggested that professional financial advice was one way to improve the evident deficiencies in under 40s' superannuation interest and knowledge. For example, the submission of AMP Financial Services (AMP) cited evidence from the United Kingdom, which asserted that 'there is a direct causal link between the availability of advice and saving levels; more advice means more saving'.[37]

5.61 Rice Walker Actuaries summarised both the benefit and detriment of financial planning, asserting:

33 Rice Walker Actuaries, *Submission no. 64,* p. 17.
34 See submissions 12, 18, 26, 28, 34, 39, 46, 48, 64.
35 The Treasury, *Submission no. 47,* p. 31.
36 AMP Financial Services (AMP), *Submission no. 48,* p. 10.
37 AMP, *Submission no. 48,* p. 10.

> Financial planners provide a good service for those individuals who are able to pay the fees to get personal attention relative to their individual circumstances.[38]

Cost of financial advice

5.62 There is little doubt that the cost of seeking professional financial advice is prohibitive for many people—particularly those on low incomes. Therefore, many of the submissions that suggested under 40s should be seeking more financial advice also put forward proposals to reduce its cost.

5.63 One such suggestion was to make financial advice on superannuation tax deductible—either just for the under 40s age group, or for all. Currently, a tax deduction is allowable for normal investment advice, but not for superannuation advice. This fact was highlighted in the Australian Bankers' Association's submission, which asserted:

> Current taxation arrangements inhibit incentives for financial advice relating to superannuation, such as individuals being unable to obtain a tax deduction for advice on superannuation, while a deduction is available on non-superannuation investment advice.[39]

5.64 The Australian Taxation Office (ATO) describes an allowable tax deduction as 'money you spend to enable you to earn income'.[40] Therefore, the rationale behind the non-deductibility of superannuation advice is that, technically, 'a super fund does not generate assessable income for the client'.[41] In other words, superannuation advice is not money spent to earn an assessable income and therefore is not deductible.

5.65 Another suggestion put to the committee was to allow people access to their superannuation to pay for superannuation advice. This suggestion was discussed at a number of the committee's hearings but did not receive overwhelming support.[42]

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38 Rice Walker Actuaries, *Submission no. 64,* p. 17.

39 Australian Bankers' Association, *Submission no. 28,* p. 16.

40 ATO, *Definitions,* ATO, Canberra, viewed 11 April 2006, <http://www.ato.gov.au/corporate/content.asp?doc=/content/8153.htm&page=1&pc=&mnu=1236&mfp=001/002&st=&cy=>.

41 Imperator Financial, *Financial Plan Fees Upfront or Ongoing?,* Imperator Financial, Sydney, viewed 11 April 2006, <http://aol.imperator.com.au/informationoutline.asp?nocache=1&SubTopicDetailsID=1268>.

42 See *Transcript,* 28 July 2005; and *Transcript,* 3 February 2006.

Financial Services Reform Act 2001

5.66 A number of submissions align the high cost of financial advice to the *Financial Services Reform Act 2001* (FSRA). For example, Senator John Watson suggested that 'the cost of that advice is becoming prohibitively high because of the FSR[A] regime'.[43]

5.67 Furthering this point, CPA Australia's submission noted that with:

> The introduction of the Financial Services Reform Act, the complexity and cost of providing financial advice has increased considerably.[44]

5.68 While there is seemingly a consensus view that the FSRA has increased costs, there is also some agreement that its introduction was necessary. As Treasury's submission noted, the FSRA:

> Introduced a uniform licensing, conduct and disclosure regime for all financial service providers. The disclosure requirements of the FSRA help to ensure consumers have adequate information to make informed financial decisions. …
>
> The FSRA also provides a framework in which consumers can be assured that licensed financial advisors are competent and that the services they offer will be provided efficiently, honestly and fairly.[45]

5.69 The ACA agreed with the Treasury viewpoint, stating that 'the disclosure requirements of the FSR[A] regime are also generally welcome'.[46] Furthermore, AMP stated that they 'strongly support the principles underlying Financial Services Reform'.[47]

5.70 While not disagreeing with the FSRA regime's general principles, the Financial Planning Association of Australia (FPA) described some of the FSRA compliance costs as 'unnecessary' and urged the government to continue to refine the disclosure processes.[48] Despite their agreement with the principles of the FSRA, the ACA also stated that they 'would welcome a simplification of the FSR[A]'.[49]

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43 Senator J Watson, *Submission no. 31,* p. 3.
44 CPA Australia, *Submission no. 18,* p. 6.
45 The Treasury, *Submission no. 47*, p. 33.
46 ACA, *Submission no. 34*, p. 2.
47 AMP, *Submission no. 48,* p. 10.
48 Mr J Anning, FPA, *Transcript,* 18 October 2005, p. 35.
49 Mr N Coates, ACA, *Transcript,* 18 October 2005, p. 47.

Reliability of superannuation advice

5.71 The submission of the ACA stated that there is 'significant levels of poor or biased financial advice'.[50] A recent report of ASIC, *Shadow shopping survey on superannuation advice,* appears to confirm the ACA's assertion. The report states:

> The survey found the financial advice industry still has significant work to do before the quality of advice will be consistently at a level that ASIC and consumers would regard as acceptable.
>
> The survey identified several key problem areas:
>
> - 16% of advice was not reasonable, given the client's needs (as required by law) and a further 3% was probably not reasonable.
> - Where consumers were advised to switch funds, a third of this advice lacked credible reasons and risked leaving the consumer worse off.
> - Unreasonable advice was 3–6 times more common where the adviser had an actual conflict of interest over remuneration (e.g. commissions) or recommending associated products.
> - Consumers were rarely able to detect bad advice.
> - In 46% of cases, advisers failed to give a written Statement of Advice (SOA) where one was required. However in a fifth of these cases, the verbal advice was a reasonable, non-conflicted recommendation for the person to stay in their current fund.[51]

5.72 For those people who were advised to switch funds without 'credible reasons', the report calculated that, based on various assumptions, they each stood to lose an average of '$37,043' from their retirement income.[52]

5.73 In response to the report's findings, the FPA stated that the results:

> Reflect the significant improvements made by [advisers] in recent years … 88 per cent of clients were satisfied with the advice they received, 80 per cent of super advice had a reasonable basis and was compliant.[53]

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50 ACA, *Submission no. 34*, p. 2.

51 ASIC, *Shadow Shopping Survey on Superannuation Advice,* ASIC, Canberra, p. 2.

52 ASIC, *Shadow Shopping Survey on Superannuation Advice,* ASIC, Canberra, p. 37.

53 FPA in J Collett, 'Another bad report card for advisers', *The Sydney Morning Herald,* 12 April 2006, viewed 13 April 2006, <http://www.smh.com.au/news/superannuation/another-bad-report-card-for-advisers/2006/04/10/1144521273870.html>.

5.74 However, the ACA preferred to view the results as demonstrating that 'conflicts of interest are still undermining the quality of advice available to Australian consumers'.[54]

5.75 ASIC concluded that:

> While some progress has been made, the cultural changes mandated by the *Financial Services Reform Act* are not happening quickly enough. [55]

Conclusions

5.76 The committee can see the benefit for under 40s in seeking professional financial advice on their superannuation. However, the committee does not believe that the government should provide financial incentives to those who decide to seek advice.

5.77 The committee, therefore, does not support the proposal to allow a tax deduction for superannuation advice. The committee believes that a tax deduction would be of most benefit to the people who are already able to afford advice—high income earners on higher marginal tax rates—not low income earners who would actually need the assistance.

5.78 The committee is also not in favour of allowing access to superannuation for the purpose of superannuation advice. The committee believes that this would undermine the fundamental tenet of Australia's superannuation system—preservation.

5.79 The committee is supportive of the stringent requirements introduced by the FSRA. However, it is clear from the results of ASIC's recent survey of superannuation advice that the FSRA regime has not yet been embraced by all advice providers. The committee urges the government to ensure that all financial advisers are complying with the FSRA, and to impose penalties on those who are not.

5.80 The committee also urges the government, in line with the earlier recommendations, to remove any barriers the FSRA might impose on superannuation funds providing long-term projections.

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54 ACA in J Collett, 'Another bad report card for advisers', *The Sydney Morning Herald,* 12 April 2006, viewed 13 April 2006, <http://www.smh.com.au/news/superannuation/another-bad-report-card-for-advisers/2006/04/10/1144521273870.html>.

55 ASIC, *Shadow Shopping Survey on Superannuation Advice,* ASIC, Canberra, p. 2.