SUBMISSION 13

NATIONAL INFORMATION CENTRE ON RETIREMENT INVESTMENTS INC (NICRI)

SUBMISSION TO

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION

INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

NICRI
PO Box 893, Woden ACT 2606
Ph: 02 - 6281 5744 Fax: 02 – 6285 3787
Web address: www.nicri.org.au
E-mail address: nicri@nicri.org.au

Purpose of this submission

To inform The House of Representatives Committee members of the existence of the National Information Centre on Retirement Investments Inc (NICRI), an independent body whose objectives are:

- To provide an accessible, independent source of information concerning financial and investment products of importance to investors;
- To research and publish items on consumer issues relevant to the financial welfare of investors;
- To promote community awareness, particularly amongst retirees, of consumer investment issues;
- To examine any unfairness in the market between consumers and providers of investment services;
- To have a role in government policy making in respect of investment issues;
- To liaise with relevant consumer, retiree, academic and industry groups, as well as government departments, for the purpose of furthering these objectives;

and to provide NICRI's input into the inquiry into improving the superannuation savings of people under age 40 covering

- Barriers and/or disincentives to contribute to superannuation;
- Current incentives in place to encourage voluntary superannuation contributions; and
- Improving their awareness of the importance of saving early for their retirement.

In the context of the House of Representatives Standing Committee on Economics, Finance and Public Administration's Inquiry into improving the superannuation savings of people under age 40, NICRI's area of service delivery demonstrates a user friendly source of information to Australian consumers to help them prepare their finances for their retirement years.

The majority of our consumer contact is with the over 55 year bracket and while we do not deliberately target any particular age bracket, we feel we have an understanding of the superannuation savings environment on a broad level.

Following is a broad background describing NICRI's work and how we provide our service to Australian consumers and our comments on the three issues put forward by the Standing Committee.

BACKGROUND

The National Information Centre on Retirement Investments Inc (NICRI) (formerly the National Clearing House on Pensioner Investments) was established in 1989 and formally launched in March 1990. The Centre was set up to provide consumers with independent information on investment products. The aim was to make consumers aware of the advantages of wisely investing their retirement savings, rather than relying on the social security system. For example, NICRI has played a substantial role in information dissemination regarding deeming. A recently released study from Department of Family and Community Services shows a decline in the number of retirees claiming a full age pension. The government should be congratulated for continuing to fund NICRI for its input into the achievement of this outcome.

NICRI was set up to be an independent information agency, operating at arms length from government and industry. NICRI does not accept any financial assistance from industry so as not to compromise its independence. We continue to provide our service free of charge to the public and ensure that any information given to our information officers is kept entirely confidential. Results of evaluations carried out over the years point to these three things – independence, cost free and confidentiality – to be of prime importance to consumers.

NICRI is currently staffed by a Director, Office Manager, Community Education Officer, Research Officer and a Media/Publications Officer.

OUR CLIENTS

Since NICRI's inception some 15 years ago, the financial advice being offered to consumers has changed considerably. The range of investment products has expanded and the way these products are marketed and sold has changed. Consumers are becoming far more aware of investment products and have started to take a greater interest in saving and investing for their retirement. The possibility of being fully or partly self sufficient in retirement is becoming increasingly important for the majority of Australians.

As a result of this interest in saving and investing we have become aware over the past few years that the questions being asked of our information officers have become far more sophisticated and complex. Consumers have lived through the 'great scams' and are starting to take more responsibility for keeping their money safe. They are no longer just accepting the word of their financial advisor. There is also a greater realisation that once their money has been lost it is difficult if not impossible to replace, especially in the case of retirees.

This awareness, along with the complexity of new investment products forever being introduced to the market, has impacted heavily on NICRI's workload. In addition to using investment products provided by the financial services industry we have observed a growing interest by many consumers to manage their own investments through a Self Managed Superannuation Fund (SMSF). While our number of calls has experienced only a steady rise, the length of the calls has risen considerably. It is now not unusual for a consumer to be on the telephone to an information officer for 1 to 1.5 hours.

SERVICE DELIVERY

NICRI's service delivery concentrates on three main areas –

- freecall telephone service
- a range of publications
- seminar participation.

Our freecall telephone service is available to consumers Australia wide. In the 2004/2005 financial year we assisted 6,759 callers with concerns and questions about investment products, financial plans and/or planners, social security and taxation issues. We are finding as time goes on that consumers are becoming far more sophisticated and interested in how to make the most of their savings. It follows that each contact requires more time to explain consequences and options of individual's investments. NICRI launched an internet site in 2000 to inform consumers of our services and to answer questions via e-mail. This move has had a significant impact on our workload in terms of the complexity of questions requiring answers and the ease of the sender being able to re-contact if further information is required. During this last reporting period we have received 27,663 hits to our website.

NICRI researches, writes and publishes a range of leaflets and technical papers relating to general information about the investment industry, investment products and the financial planning process. They are basic, easy to understand publications that explain the subject, set out advantages and disadvantages, taxation and social security implications. We have had 3 evaluations into NICRI's service and have been delighted with the positive response from consumers about our publications. In 2004/2005 we distributed approximately 206,000 leaflets. NICRI's information publications are on our website at www.nicri.org.au.

As part of our funding contract with the Department of Family and Community Services (FaCS), NICRI participates in seminars run by the Financial Information Service (FIS) of Centrelink. In the previous twelve month period our Community Education Officer presented talks at 94 FIS seminars. We also undertake training modules for new and backup Financial Information Service Officers. Talks and training sessions were also presented to 16 non government organisations i.e. pensioner/older person's organisations and clubs, financial counselling groups, educational institutions such as TAFEs, etc. Seminar participation has remained fairly steady over the past three years due to restrictions on funding and we believe there is an unmet demand for additional seminars/presentations by NICRI. This service obviously is the more expensive of the information dissemination processes.

NICRI works closely with Department of Family & Community Services and Centrelink in several areas, most notably in the co-production of the *Investing Money:Your Choices* booklet distributed by the Department originally in 1997/98. NICRI worked once again with the Department to update the publication during 2001. We have also provided input into other FaCS publications i.e. *Understanding Retirement Income Streams* (a joint publication with ARISA), *Home and Resident's Choices*, and the Department's explanatory leaflet on Deeming.

MEDIA

NICRI supplies articles about investment products, financial planning issues, redundancy, social security and taxation implications etc to newspapers and retiree journals on a regular basis. We have been quoted in financial sections of major newspapers on various topics and have been suggested as a major contact for consumers through *Choice*, the magazine of the Australian Consumers Association, *Money Magazine* and *Personal Investor*.

EVALUATIONS/FEEDBACK

Since NICRI's inception, three evaluations of the service have taken place. The first in 1991 sought to determine the effectiveness of the publications. Consultants ran a focus group of older people with varying degrees of understanding of investment products. The outcome of the study was very positive and supported the direction NICRI was taking in terms of content and providing information in an easy to understand manner.

The second evaluation was conducted by Ageing Agendas & the Australian Pensioners'& Superannuants' Federation in March 1998 and investigated the overall effectiveness of the NICRI service including publications and distribution. Again, the feedback received was very positive with respondents suggesting that NICRI needed to be more accessible so as to help more consumers, particularly in regional and rural areas. This evaluation also covered our participation in FIS and other organisation's seminars and training. It proved that our participation was appreciated and very effective.

Our third evaluation was carried out in September 2000 by NICRI itself. We sought to ascertain the effectiveness of our freecall telephone service. Consumers that had contacted us via our freecall line were asked to respond to a written questionnaire. Key findings included the value of our independent status, the clarity and conciseness of information received, our confidentiality, and the courteous and professional manner in which consumers are treated.

Additionally, ongoing evaluation is provided to FaCS through regular reports on our service delivery. These reports are required under our contract and set out statistics relating to all aspects of NICRI's service delivery.

Copies of NICRI's evaluations can be made available if required.

SERVICE DELIVERY DEMAND

For many reasons there have been considerable pressures on NICRI's service delivery including:

- NICRI is the only independent investment information source of its kind;
- there has been an increase in the average savings Australians are retiring with;
- further increases in retirement savings can be expected to flow from the maturity of the compulsory superannuation guarantee system;
- there is a greater need for independent information, so that the best use can be made of retiree's increased financial resources;
- as retirees become more educated in investment products, they are buying into more sophisticated investments. For example, retirees are realising that they don't need to restrict themselves to placing their retirement savings into basic bank accounts. There has also been an increase in share ownership by consumers generally;
- there have been significant increases in the range and complexity of the retail investment product market;
- there is considerable pressure in an ever changing market place to update and expand NICRI publications to keep consumers properly informed;
- with the increase in the use of the internet, NICRI needs to update regularly the information appearing on the website;
- NICRI has been approached to deliver more services to regional and rural areas;
- there is increased concern regarding cases of fraud and mismanagement of funds and a general declining confidence in the financial planning industry; and
- the spate of recent corporate collapses has created uncertainty in the minds of older Australians about investing generally.

OUTCOMES FOR GOVERNMENT AND EVALUATION OF BENEFITS

Benefits to Government of continuation of support for NICRI include:

- less pressure on social security system. For example, greater provision of preventative function ensuring assets are invested wisely and safely. Greater maximization of retiree income through better investment choices. Consumers are less susceptible to fraud and loss;
- ensures older population is provided with point of reference for sound management of their financial affairs;
- complements the Financial Information Service of Centrelink.

Inquiry Comments

Barriers and/or disincentives to contribute to superannuation

As mentioned, NICRI's clientele consists mainly of people over 55 facing retirement or redundancy, and those that are realising the need to begin planning for the financial part of their retirement. Our experience shows that most people do not consider issues about retirement whether it be financial or lifestyle, until they are close to retirement age. It is interesting to note that NICRI does not target any particular age group but the majority of our contact is with consumers over 55. It is our understanding that most people aged under 40 years do not consider saving for retirement as important at that stage in their life.

We are unaware of any attitudinal studies on this subject. There are many variables with this group i.e. HECs debt, marital status, homeowners versus renters by choice, etc. All these variables would have major impact on understanding why people either save or not in preparation for retirement.

There are many reasons for people to make lifestyle choices before investment choices, mainly:

- According to recent statistics 89% of Australians earn under $75,000 per year. Given the costs in raising a family, very little of consumer's take home pay is available for saving and or investment, especially given that retirement in some cases is many years away. A family of 2 adults and 2 children living on one wage would find it difficult to allocate funds beyond their immediate expenditure needs.

- Despite low interest rates the housing affordability index reveals that home ownership is becoming increasingly difficult. This difficulty is primarily created by the increase of the amount advanced to purchase the property as well as the percentage of the income required to service the debt. This is further aggravated by the prices of properties, particularly in the capital cities and major regional centres. However, the great Australian dream of owning our own home is still alive and well and regarded as probably the most important purchase that a family undertakes. There is no indication that this dream will dissipate in the near future, therefore any incentives put forward by government to entice people to save will need to take this into consideration.

- We currently have the situation where people are no longer sure of secure long term employment so reducing debt is seen as a priority when balancing debt and saving for retirement. Our contacts reveal that even where consumers do have some savings put aside, there is a preference shown to non super investments because of inaccessibility of superannuation due to preservation rules.

- The imposition of the Higher Education Contribution Scheme has been a *significant* barrier to saving as disposable funds are consumed in repaying the debt over many years. In many cases, once this debt has been extinguished, the new raft of debt in providing for family is realised. There is pressure on consumers to continue further education/post graduate education therefore exacerbating the problem.

- There is a broad misconception that superannuation bears a threefold tax – on contribution, earnings and withdrawal. Significant education is required to overcome this misconception and make it clear that superannuation is indeed concessionally taxed. Much more work needs to be done to inform consumers of this most important fact.

- There is also a perception that performance of super has been unsatisfactory. It needs to be comprehended that it is market performance and investment management not superannuation that provides these returns. This perception was reinforced by many comments by media, government and industry in the run up to and the reasoning for Super Choice.

- People's plans, given recent world events, have become more short term based rather than planning for long term eventualities. Are we becoming uncomfortable investing in something that will not reap rewards for 20 – 40 years?

Current incentives in place to encourage voluntary superannuation contributions

- We consider the Co-contribution scheme to be positive but restrictive because it is only available to employees. Those that are unemployed or self employed are ineligible to take advantage of this scheme, therefore are effectively discriminated against.

- The fact that undeducted contributions are not subject to tax on entry into superannuation and are the basis of tax free income when converted into a superannuation income stream in retirement should be seen as an incentive for contributing after tax income.

- Tax deductions available to the self employed, investors and taxpayers without any employer superannuation support provides an incentive for people in this situation and combines the benefit of some of the contribution being from after tax dollars. Taxation on this deducted income is limited to a maximum of 15%.

- For employees who, because of their basis of employment are ineligible for a tax deduction for contributions to super, salary sacrifice gives rise to the equivalent of a tax deduction by reducing their marginal tax rate on income contributed to a maximum of 15%.

- The availability of spouse contributions to some degree addresses the issues associated with broken period of employment in terms of women and super. The tax offset to the contributing spouse provides a further incentive for such contributions to be made.

Improving awareness of the importance of saving early for retirement

- The establishment of the Consumer and Financial Literacy Foundation is an excellent opportunity for practical demonstration for education on savings and investment. It is crucial that information emanating from the foundation is both credible and relevant.

  It may be beneficial for the foundation to evaluate NICRI's success in providing financial information to consumers. Our success is only limited by our level of funding.

- Education must show that there is a need to balance lifestyle and provision for retirement. By working in with consumer organizations who, after all, are well versed in providing financial education to consumers, a much more effective result would be achieved.

- When given practical demonstrations during NICRI seminars, participants have realised the effect of regular saving and secure investing. These demonstrations seek to be basic but plausible, and feedback has shown that they are indeed effective. Such simple education should be available to all Australian consumers, through school curriculums, in the work place and through community organisations.

- Investment education needs to be targeted to differing levels of understanding, taking into account such issues as budgeting, savings regimes, taxation and self reliance.

- It may be worthwhile considering further enhancing the concessions for investment in products such as Insurance and Friendly Society Bonds to provide incentive for saving outside the superannuation environment for people under superannuation preservation age. This could take the form of a reduction in the rate of tax paid by the product provider from 30% to say 20% where the investment is held for 10 years and maintaining the 125% contribution rule. Where the investment is accessed prior to the completion of the 10 year period, the earnings are taxed in the hands of the investor at 30%, with a credit of 20% allowed for tax previously paid by the product provider. A further enhancement, to encourage the investment in growth assets, could include the application of imputation credits.