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Inquiry into the Operation of the Superannuation Industry

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Prepared by Gavin Latz

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Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
Department of the Senate, PO Box 6100
Parliament House, Canberra ACT 2600

Dear Sir/Madam,

This submission is on the '**Value of (Financial) Advice**'. This is not a complicated example, and to put it quite simply, revolves around an employee who goes forth and seeks the advice of a Financial Planner on how to invest their superannuation benefits, and an employee who simply chooses to leave their super fund alone i.e. passes on the investment decision making to the Trustee of the super fund.

The basis of this theme was sparked by the public release of the 2006 annual results of the Retail Employee's Super Fund (REST), and in turn, how this release relates to the Industry Fund's marketing campaign and the advertisements that are currently on air, via the TV and radio.

Anyway, on July 12th 2006, the following figures were made public.

'The country's largest industry fund in terms of membership, REST, handed out its largest dollar distribution to members in the history of the fund after strong earnings for the 2006 financial year saw the fund grow from $2.1 billion to over $10.5 billion.

REST's core strategy, which 99 per cent of the fund's members are invested in, reported earnings of 13.4 per cent for FY06 and distributed $1.2 billion to members through its investment options. It has credited members 14.7 per cent over one year, 13.5 per cent over three years and 9.5 per cent over five years.

In spite of the strong growth, REST chief executive officer, Neil Cochrane, said the fund has taken a defensive approach to its asset allocation.

"We have maintained a conservative approach, accumulating cash and investing in hedge strategies in light of an increasingly volatile market. When the overdue market correction occurs, REST will be in an even stronger position with its defensive asset allocation and outstanding money managers," he said.

This is a perfect example of why the Industry Funds advertising campaigns frustrates the Financial Planning Community so much.

The release stated that **99% of RESTS members are in the 'Core Strategy Fund'.** This is the 'default' Fund. i.e. the investment option that employees are automatically invested in when they start a job. This is where a member's compulsory Superannuation Guarantee contributions are automatically invested by the Trustee of REST.

This figure appears to imply that only 1% of REST's members appear to have taken any action on how their superannuation dollars are actually invested. I realise that this is only an assumption, but realistically it seems a safe one.

Considering that the retail industry is primarily of a younger demographic, it would also appear that this default fund is not an appropriate option for them. We know that the Trustee is merely being prudent on their behalf, and of course we do not know the 'risk profile or tolerance' of each of REST's members, but from a 'wealth creation' perspective, this is certainly not the best way to invest over the long term to maximise the growth of one's retirement savings. Unless they become suddenly financially educated (the new 'Understanding Money' ads are a great start!) they will not know this until they seek advice. This is where the 'value' is added.

We could therefore make this further assumption that 99 out of 100 REST super fund members are **not** receiving financial advice, and have therefore only generated an annual return of 14.7% in 2005/2006, and 9.5%pa over a 5 year period.

The **critical point of this submission** is that clients of our firm who have been receiving financial advice from us have achieved returns far superior to the REST default option. Some of our clients have generated returns of up to 70% in geared share or emerging markets funds (where appropriate of course), and certainly a vast majority maybe averaging 20% plus over the 2005/2006 year, and15%pa over 5 years is not uncommon.

What is **misleading about the current Industry Fund advertising campaign** is that it implies that Industry Fund members will be better off in retirement by not paying commissions (i.e. not getting advice)? How can that be so given the above example?

Again, the adverts imply that the man/lady on the TV looking so smug because he/she is not paying commissions is going to be better off than the person who seeks advice (and has to pay for it via commissions). I don't know about you, but I'd prefer to be invested in a fund that earns 15%pa each year for 5 years (and pays 0.50% from this return to my adviser) than be invested in a fund that earns 9.50%pa each year over 5 years and does not pay commissions. It's simple maths.

Clearly there is value to be added in paying for financial advice. What the Industry Fund adverts do not say is that if fund members wish to receive advice, then surprise surprise, they have to pay for it via an aligned Industry Fund Financial Planner (regardless of how it is paid, commissions or fee for service).

We are talking a very large proportion of the Australian public of working age, (REST being the largest fund in Australia in terms of membership), that are being given the impression they will be better off in retirement by not seeing a Financial Adviser (and from what the article in question says, shows to be clearly false). How is this good for the country? Surely the Australian Government wants people not to have to rely on the Age Pension later on in life. In my opinion, sitting in an Industry Fund accepting the default investment return and not seeking professional advice will achieve just that – relying on Government assistance at some point in the future/in retirement. There are countless studies that show compulsory superannuation will not be enough for the average Australian to retire comfortably on.

Yes, the adviser receives a commission (gets paid) for the service and valued added.

Note that this submission only shows the value of advice based on actual fund performance, not the value of 'strategy' advice i.e. investing in the correct tax 'structure', cash flow management, etc. Again, this could be a basis of a whole lengthy submission in itself that has countless benefits and will add value in many more ways, but I am only focusing on actual returns here, and the Industry Funds apparent 'anti' advice campaign.

Thank you for listening.

Yours Faithfully,

Gavin Latz AFPA

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