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MANAGEMENT

31 August 2006

The 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,

Inquiry into Structure of Superannuation Industry

I wish to provide this submission to the Committee for its consideration on the issue of "the role of advice in superannuation".

As a professional financial planner I am concerned at the regulatory obstacles confronting the provision of affordable, high quality professional advice on superannuation. The ability for financial planners to provide advice in the area of superannuation has been rendered extremely difficult since the introduction of the FSRA reforms and Super Choice. The FSRA reforms have imposed a costly and detailed level of regulatory compliance on financial planners advising clients on superannuation and this has been further compounded by ASIC's ongoing denigration of advice and APRA's non recognition of independent planning advice in their Circular I.D.1 on super switching.

Provision of Advice for People with Small Balances in a number of Funds

To be able to provide advice to a person who has \$11,000 spread across 6 different superannuation (super) funds has become all but impossible due to the requirements set down in ASIC's "Guidance on giving super switching advice". Such a scenario is not uncommon given the number of jobs the average person has had over the last 5 years. Once the time is taken to ask and then re ask (more often than not several times) the from funds all the relevant information and then compile this information into a Statement of Advice (SOA), it is not unrealistic for 8 or 10 hours of time to have been consumed. A person on a lower salary cannot afford to pay for such advice and as such the people who this legislation is supposedly protecting are now in a position where planners are unable to give them advice as the value of their time is not being compensated.

Whilst I and many other financial planners do undertake pro bono work for a select number of clients, it is not possible to sustain a business if clients are not charged for the work done.

Lack of Information from Industry Funds

When seeking information from Industry Funds quite often the full extent of their fees are not shown. The actual management fees relating to the individual investments are not easily obtainable, and if we don't receive this information no advice can be given. Again the people who are being disadvantaged are those in the most need.

The Fees Debate

The constant advertising on TV and in print about how low the fees are in industry funds is not only misleading, is it adding to the level of under insurance in this country. What these ads do not point out is that often the insurance cover in these funds is extremely expensive compared to other funds. It does not also show, that the level of insurance available in these is also limited. Hence, a person may not be able to gain the full level of insurance cover needed.

How are these People effected by the Lack of Advice

- When a person leaves an employer, it is normal for any life insurance cover to lapse within the employer fund after 30 days from the last day of employment. Hence, not being able to consolidate funds into a single fund may leave a family without adequate life insurance. It is often the case that many clients cannot afford life insurance outside of super. By having the cover within their super fund, the premium is usually cheaper and the client does not need to use their after tax income to meet this expenses.
- Loss of wealth accumulation – if a person fails to seek advice because it's too expensive, they may miss out on being informed about the benefits of salary sacrificing, co-contribution and spouse contributions/rebates. All of these strategies can add significantly to a persons long term wealth, hence decreasing their reliance on the Age Pension and hence Government (Govt) expenditure.
- Loss of the benefits of estate planning – this relates back in part to the lack of insurance cover. But also covers the issues of leaving money to appropriate people and in the most useful manner. For example, lump sum payments versus an allocation pension. Many industry funds also do not have the ability to put a Binding Death Nomination in place, hence the persons wishes in relation to their estate may not be followed.

Value of Advice

The value of advice in relation to superannuation applies to the following areas:

Accumulation Phase

- Risk profile
- Asset allocation
- When is retirement likely to occur – at what age
- Life expectancy issues
- General goals of the client
- Income availability of the client – how much can they contribute
- What is the best way to contribute
- Estate planning
- How much needs to be accumulated
- Use of Govt incentives – co-contribute and spouse contributions/rebate

Retirement Phase

- Risk profile
- Asset allocation
- Life expectancy issues
- General goals of the client
- How much income is required
- What is the best way to take the income
- Estate planning
- Centrelink issues
- Maintenance of capital

If all these areas are not discussed in relation to a person's financial plan, then that person could be missing out valuable capital growth, income generation, security of investment and financial security of their family in relation to the injury or death of one party, this is to mention but a few consequences.

The provision of super advice is far more detailed than the examination of the fees payable in one fund versus those in another. Sometimes you get what you pay for.

The Future for Australia

Given the Nation's low level of financial literacy, financial advice is extremely important in helping Australians meet their retirement needs. If Australians continue to fail to plan for their financial future the Govt will have a greater and greater need to fund the retirement needs of Australians. As you are no doubt aware, the declining birth rate and aging population will mean that the Govt will be unable to meet this funding requirement.

Therefore, Australians need to be made aware of the value of seeking professional financial advice in relation to superannuation. The regulatory environment also needs to be such that the provision of this advice is affordable to the average Australian.

I would urge the Committee to recommend the reduction of overly complex regulation in order to promote the provision of appropriate scalable advice on superannuation to all sectors of the community.

Yours Sincerely



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