

**PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS
AND FINANCIAL SERVICES**

**INQUIRY INTO THE STRUCTURE AND OPERATION OF
THE SUPERANNUATION INDUSTRY**

SUBMISSION BY DEAN MOUNTFORD CFP® Dip FP

In making my submission to this august body, I could state how the increased legislative and regulatory environment is creating unnecessary imposts on the superannuation industry and ultimately the individual members of the public.

I could but I won't. Well not like that anyway. There will be numerous submissions from learned colleagues far more clever than I, who will painstakingly raise these matters with you.

I do not even intend to deal directly with the points as set out by this enquiry undertaken by your good selves.

I do intend to express my confusion with regards many of the issues raised and this I believe will address the spirit of this enquiry, albeit in broad terms.

Ironically, to address this issue in a broad perspective, I must do so by dealing with specific real cases and the concerns they raise.

I hasten to point out that any names will be changed to protect the innocent. I will use my own name and those of my family as a substitute. The people, however, are real.

Fear not, it is also not my intention to bore you with endless details but to merely paint some pictures and pose some questions...questions I am either unable to ask – as I consider they should be posed to ASIC and then if I am honest, I am fearful of asking them.

Firstly, I wish to state that I am philosophically supportive of the intent of the FSR regime. I understand and support the spirit of the legislation, particularly with the changes to the subsequent paper trail with the advent of the Statement of Additional Advice (SOAA) and the Record of Advice (ROA). There is nothing wrong with a client having a clear paper trail of our dealings with them over time.

I also wish to declare that I am stating my own opinions and not those of my Licensee.

As a simple bloke who lives in a regional centre of some 50,000 people (80,000 catchment area), I am confused by what benefits have been gained for some of my clients, in relation to Superannuation within the FSR environment. I speak primarily of those clients at the less affluent end of the spectrum.

I am the adviser for several large corporate superannuation plans...not large by National standards but for a regional area, sizeable. I also have a reasonably large client base. It is an eclectic mix, typical of any country town. The corporate funds are blue collar and generally unsophisticated in terms of their investment experience. The default portfolio is a cash based option.

So once upon a time... the employer would enrol new employees into the fund. I would be notified and on a very regular and pre- arranged basis, I would go the work site and the employer would send me each new employee. This was done in work time. I had a fifteen/twenty minute window of opportunity to follow a simple process, with lots of colourful charts, designed to get the member out of the cash based portfolio into something more appropriate. Then I could help them choose where their money should go. Many of the members would also ask if they could rollover their funds into their work super. Many had tried to do so themselves but found the process too hard. I would get them to sign a Letter of Authority and we would track down their funds and on my next visit, I'd get them to sign the paperwork to rollover their funds into one. I would tell them there would be a rollover fee and they were happy to pay for the service. We are talking about small account balances here.

If they left the employer, they would normally call and ask us to sort out their superannuation. After all we had taken the time to clean up their multiple superannuation plans. The departing employer's Superannuation fund didn't make the transfer out too hard...one piece of paper. The disclosure paperwork was five or six pages that they wouldn't read. It would take me about ten minutes to do and so, in most cases, I would waive the rollover fee. The hard work of combining their funds had already been done and paid for previously.

Please stay with me here; there is a point to this.

So what happens under the current regulations?

As this learned body would be aware, any advice or perception of advice requires a fully completed Financial Fact Find (FFF), assessment of the individual's circumstances (because we can't limit the advice) and a Statement of Advice (SOA).

So when I first started to see the members under FSR, I began to see several members at a time to reduce the likelihood of providing personal advice as I was aware that the advice had to general in nature. I would tell them I couldn't provide advice and would go over the charts and hope they could make a selection from the information provided. Inevitably, I am asked which portfolio they should choose. Sorry people no can do! For your protection I can no longer help you.

Wow! Work that one out!

The added bonus is that given any uncertainty, a member will elect to take the paperwork home. Yep! Going to have a read and let me know. So I now have Superannuation plans with increasing numbers in the default fund. I don't see the members as often now and I avoid assisting them with their rollovers.

I hate having to do that. They might as well be in an Industry fund where the fees are lower. But I'll come back to that!

Of course, I could arrange an appointment with each and every one and do the task individually. After all, even a member with a small account balance deserves service too.

They do and for the money they have invested the limited advice they received previously was generally sufficient and at least we ensured that their money was working a bit more effectively.

Alternatively, I could also just go out of business dealing with these members with small account balances and multiple rollovers on the above stated individual basis.

So let's talk about Declan. He has left his employer.

He goes to his new employer and provides his previous employer's fund details. Freedom of choice and all that!

The trouble is that his money has been transferred to a holding account after his former employer notified the fund. This account can't receive any new contributions. Declan has \$5,000.

He phones us and because we feel a responsibility to him as a member of one of our corporate plans, he comes in for an appointment. We also want to provide a service and assist these members with smaller accounts to have an effective superannuation plan

As I mentioned above, the quirk is that before FSR, we would sort it out quickly and it wouldn't cost Declan a penny. The process was quick, the paperwork minimal and so I would waive the rollover fee. I would complete a quick FFF and knock out the six pages in no time at all and send him on his way.

Now, I need to do a detailed analysis and consider all options. I'm no longer deemed smart enough to limit the advice. Yep, young Declan – at the age of twenty years old – needs to be given the option of deciding whether he needs, for example, retirement planning advice.

I do confess to be confused by this issue. I understand that I am accountable for the advice I give. I accept that responsibility. I also believe that I am accountable for failing to give appropriate advice but to punish me for limiting the advice itself and when there has been no loss...somebody explain this to me?

I am certain that several of the members of this august body have family who are young. I am also sure you have experienced the disappointment/difficulty of trying to put an "old head on young shoulders". At twenty years old, we don't believe we will survive to...gasp...thirty! And yet, even in these circumstances, I can be penalised for "limiting" my advice irrespective of relevance or where there has been no loss or disadvantage...I just don't get it?

However, I digress...my apologies.

So having dutifully completed the FFF, I need to do the SOA which is now twenty six or thirty six pages. In my experience, Declan wouldn't read six pages but now it's twenty six or thirty six. And with the recent legislation on freedom of choice, it is now required that the disclosure regime on fees drives to portfolio level. This is incredibly time consuming.

The trouble with time is that it costs money. So guess what? Declan now pays a rollover fee.

I'm confused! Can someone explain to me why these clients who once paid, only once, for a service to rollover their funds, now pay a second time just for me to complete paperwork they won't read? There is limited value added here and I tell them that. They are paying for me to produce paper. I no longer have the capacity to cross subsidise the smaller accounts from the income generated by my more substantial clients because the increased time demands are too great to cover the cost.

I hate having to do that.

I now have realised that due the additional disclosures required as a result of freedom of choice, the rollover fee is often insufficient to cover the time required and I am going to have to charge a plan fee.

I hate having to do that.

Alternatively, I can duck and weave. I do whatever I can to avoid helping or providing service to these clients. It's an appalling option but it is also unfair and commercially stupid to devote large chunks of time to something increasingly unviable. My other clients also deserve value for money.

What makes it even more interesting is that Declan has a recent lady friend – nothing serious at this stage.

Anyway they decide to take a Sunday drive and end up looking at display homes. The market here continues to be buoyant.

The young person at the display centre, having recently – six months ago – completed the real estate course, chats to young Declan and friend. Using that time honoured technique of greed and fear – all the houses around here have doubled and tripled in value and the market is going to just keep booming for ever and ever and – drawing a quick breathe – if you don't buy now, then as prices keep going up without end, you will have to:

1. Rent forever.
2. Squat.
3. Live in a caravan park.
4. Live with mum and dad.

Declan and his young lady friend, leave the nice person with their income details so that they can be advised as to the level of borrowings they can afford.

By taking into account the first home buyers grant, extending the loan term and reducing the home plan (“hey, you’ll still make a bucket because at least you’re a player”) they sign up for a \$350,000 home and loan package.

At this point the nice young person knew little more than their names and gross income details.

Remember Declan’s rollover was for \$5,000. Have I missed something here?

So we come to the issue of fees.

There is this current fixation with fees. We now have to disclose fees to the nth degree, irrespective of the cost to do this and the account balance involved.

Industry funds want the debate to be about fees. They think they are cheap. They want disclosure of fees to the nth degree for that reason.

And then there is their clever little ad, in various forms, which show how one poor bugger is being ripped off because they have an adviser, almost stealing from the member when compared to the clever little vegemite in the Industry fund, making so much more money as a result.

Oh really!

What about the value of advice?

The value of advice is the difference between the outcomes of the current situation and the outcome of the proposed situation. Hence, the value we add is not linked just to investment returns, in fact in most scenarios, investment plays only a small part.

There are the intangibles to consider such as the value an adviser adds as:

COACH – Instil discipline and track goals

ADVISER – Interpreting complex issues, making the complex simple

MENTOR – Someone with whom a client can talk

PROJECT MANAGER – Make sure that it all happens

Where’s the ad showing that the poor bugger supposedly being stitched, had in reality been through the FFF process and is now in an Assertive portfolio because that is what is more appropriate? The ongoing review process will eventually lead to the poor bugger being moved to an Aggressive portfolio.

The clever vegemite saving on his fees in the Industry fund is sitting in a moderately conservative portfolio and will stay there as they can’t understand all the gumfp, with which they are bombarded on a regular basis.

And the difference in returns gobbles up the difference in fees. That makes Industry funds very expensive.

Where does that get disclosed? And where is the accountability in deterring members from seeking advice? Who will pay if as a result of this mischief, members end up with inadequate funds for retirement?

So still on fees...

What happens if a member dies? Dead, dead, dead!!!

So then there was Jason, a real case study from my practice.

Jason resigned from work.

The paperwork came through to our office. The form stated “Resignation” as the reason for Jason leaving the fund and was duly forwarded to the fund manager for processing.

The employer expanded the plant and so some two years later, I met Jason at the opening of the expansion. I was shocked at his appearance. Painfully thin; he explained that he had stomach cancer and as a result, his stomach had been removed.

I am perplexed as to why he didn’t phone us to make a claim on his insurance and he tells me he didn’t think about it.

I have all my funds packaged with death, disability and a sickness / accident policy. I also package the plans with much higher levels of cover than the standard provided by \$1 per week

I tell Jason and also his wife – Jenny - that we will arrange for a sickness claim to be made. Jason is 42 and has two very young children, aged five and two. They both speak positively about Jason’s recovery and how he will shortly return to work.

I order the paperwork which is sent to them. Jenny calls in to the office to finalise the paperwork so that it can be sent. Jenny tells me that Jason has had a slight relapse but things are still looking positive.

After she has gone, I read the claim form and it is clear that Jason is dying.

The problem is that Jason’s death cover has lapsed as he left the fund over two years ago. We can, however claim under Disability as this part of the policy was in force at the time of resignation. The resignation was caused by Jason’s illness. How many Industry fund members would receive that advice?

There is now a frantic level of activity as we need the Disability claim to be admitted before he dies. Paperwork is ordered. Doctors made aware of the importance of the need for speed.

The insurers are cajoled and the claim is finally admitted one Monday morning.

Jenny phones on the following Tuesday morning. She phones before I have had a chance to phone her with the news about the claim. Jason died Monday afternoon.

I know two things. One is that the money will enable Jenny to keep the family home as she will have sufficient to pay out the mortgage.

Second there is no way she would have been able to do that if Jason was with an Industry fund. They would have had to sell their home.

How do I disclose **that** on the product comparison table I have to complete when comparing funds? These tables only ask about the fees. And how are the Industry funds able to get away with the almost slander of advisers in those ads when I would wager that many, many members in those same Industry funds would have insufficient insurance and/or an inappropriate investment selection? How cheap is the Industry fund now?

I also have numerous stories of a similar nature. There is the sixty three old whose form said resignation due to “ill health”. We followed up with the employer who tells us things are not good. We contact the client and eventually alter the paperwork from resignation to Disability and the member receives an additional \$16,000.

Again, where is the comparison for **that** on a fee based table? Why doesn't the required disclosure table include frequency of reviews, adequacy of insurance cover and appropriateness of investment selection?

And where is the question about who completes the claim paperwork? When a member dies, we order the paperwork and within two/three weeks, I will meet with the surviving partner to complete the forms. I know they will need some money. I love what I do but I hate that particular task. It is gut-wrenching and raw but it is what I hope someone would do for my wife.

Do I give you these examples because I think I'm a hero? No. Most advisers are working hard at providing quality service and support, particular to their client's needs. I tell you this to illustrate that it isn't always just about the cost but at the moment this is the limited basis upon which comparisons have to be made.

And how do I declare in a SOA as to why the member should be in the fund I recommend for reasons other than fees? It seems I can't. I wrote several clauses which I wanted to include in my SOAs. I was told they were too emotive and that the current viewpoint is that the disclosure of fees is to be used as the comparative benchmark.

Emotive? Of course, it's emotive. People dying with not enough insurance causing the family to have to sell their home, is emotive. Not having enough for one's retirement because of inappropriate investment selection is emotive.

So a member comes to see me. Again, the member has only a modest account balance. The new employer plan is a reasonable fund but not on my Approved List. So I have to duck and weave here. If I tell the member that the employer fund is okay and for them to use that, I have to complete a SOA. So I explain to the member that if I give advice, it will have to be paid for. I also acknowledge that the advice received is not going to be worth the cost. So I send the member back to the employer or suggest the Industry fund the employer is using, be contacted directly. The Industry fund also can't give advice. So where does the member go?

Why has something as simple as "Mate, the bosses fund looks ok, use that but make sure you rollover the money in the holding account so it's all in one" got so complicated? I need to complete a SOA for this "advice". It is even more ludicrous as I'm not even making any money from the advice.

So I duck and weave. I hate having to do that. Clients whom I used to be able to assist are now being denied help. Twenty six pages with a detailed analysis of the fees for a rollover of \$1,879.40? Sorry, I have clients to service.

Finally let's deal with the furphy that I should help these clients on a fee for service basis.

Remember, I am talking about the members with the smaller account balances here.

They are generally the people who live from week to week. They don't have any money. I have over the past several years, offered the choice of either paying on a fee for service basis or paying on a commission basis. I have not had a single member opt for fee for service.

So as I compare the Industry fund with the product I would use, I need to go through the process of the FFF. Once I have established the member's Risk profile, I will then recommend a more appropriate portfolio. And I will most certainly assess their individual insurance needs. Like many advisers, I try to package as much of their insurance into their superannuation as it is often cheaper but more importantly, the money doesn't have to come out of their household cash flow. It ensures the cover stays in force in tough times.

So modern fee focused theory seems to go like this:

If you can use the low fee based environment of the Industry fund and select a more suitable portfolio from the limited selection, then this is best for the client. Ditto for the insurances. Many Industry funds offer the ability to increase the cover levels and to include a sickness/accident benefit. The difference is that the member has to do all the work in the set up. So guess what it doesn't happen. In the case where I am reviewing the client, why then I can do the work for the client instead.

The client can pay me on a fee for service basis even if we disregard the Approved List issue. They get the great value of a cheap Industry fund and my advice. Perfect!

But the client doesn't have any money.

So I should be grateful, it seems, to work for nothing. Hmm. That seems fair.

And the Industry funds, because they don't like bloodsuckers like me, don't have an adviser payment option as part of their service offering. They do offer financial planning services which are free or fee for service – apparently. Just make sure you live in a Capital city. Good to see all the members getting similar value for money from their fees.

So if I then recommend a product option that allows the client to have the appropriate insurance package and decent investment advice and provides some payment for me and it's on my Approved List, this isn't necessarily considered as being in the client's best interest if has higher fees

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The theory seems to be that anything costing more can't be as good as something costing less.

So if a product is the difference enabling the member to receive advice because it contains a mechanism to pay for the said advice, why is this not a reasonable basis to change?

So really what the Industry funds want is for me to provide an advice service to their clients at no cost.

So I duck and weave and I hate having to do that.

I am saddened that I am increasingly unable to help “the little people” with their superannuation arrangements because of the time it takes and thus the cost involved. Having the process of dealing with a client who has \$300,000 the same for someone with \$5,000 seems excessive for the reasons outlined above. I also fear that this fee based phobia will continue to deprive a significant minority of people the opportunity to have their affairs dealt with in professional manner.

I thank you for your patience in reading my submission and appreciate the opportunity to express my concerns.

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