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

Mr Chris Clausen
Chief Executive Officer
Health Super
Locked Bag 2900
Collins Street West VIC 8007

28 September 2006

By email: corporations.joint@aph.gov.au

Dear Sir

Re: Inquiry into the structure and operation of the superannuation industry

I refer to the submission dated 21 August 2006 by Mr Steve Blizard of Roxburgh Securities Pty Ltd and a subsequent article that appeared in a recent edition of IFA magazine[1](attached).

Both the submission and the article contained a number of inaccuracies regarding the fee structure of Health Super's Allocated Pension product and its relationship to Health Super Financial Planning. In the interests of our members and the industry as a whole, I would like to set the record straight.

1. **Relationship of Health Super Financial Planning to Health Super**
   Health Super Financial Planning (HSFP) was established in 2001and offers members and their families a complete financial solution in addition to their superannuation.

   HSFP is a wholly owned subsidiary of Health Super Pty Ltd ("Health Super") and is licensed[2] to provide members with both general and personal advice on a range of financial products. HSFP represents a private equity investment of the Health Super Fund ("the Fund"). This means that any profits generated by HSFP are returned to the Fund for the benefit of <u>all</u> members.

2. **Quality of advice**
   In his submission to the inquiry, Mr Blizard questions "how qualified and unbiased" the advice offered by HSFP is and suggests that HSFP financial

[1] Industry funds pay commissions – "IFA" Sept 18 – 24, 2006, Issue 331, p. 6
[2] HSFP AFS Licence No 240019

advisers are "probably only authorised to discuss Health Super products and very little else". Nothing could be further from the truth.

HSFP is a full service financial planning business and its advisers are authorised to discuss and recommend both Health Super products and non Health Super products. HSFP advisers are remunerated on a salary basis only and receive no direct commission for the placement of clients' assets in particular investment vehicles.

All recommendations that HSFP makes to its clients are done in the clients' best interests and take into account their individual objectives, financial situation or needs. Indeed, one of the primary reasons that HSFP was established was to ensure that members of the Health Super Fund obtained unbiased and quality financial planning advice – a need that was not being met in the market as a whole.

3. **Fee structure of the Health Super Allocated Pension product**
   Health Super charges a flat 1% annual administration fee (capped at $4,000) on all Allocated Pensions.

   Whilst Health Super chooses to pay HSFP a 0.5% service fee on all Allocated Pension products, it should be noted that this fee is not charged in addition to, but rather represents one half of, the total 1% administration fee charged.

   Far from being a 'hidden cost', this service fee is clearly identified in the Product Disclosure Statement and entitles all members that take out the product to an annual review (as requested) of their personal financial situation at no extra cost.

   Health Super firmly believes that the pricing structure delivers real value to its members over and above that offered by similar products in the market place.

We trust this information clarifies Health Super's position with respect to the fee structure of its allocated pension products and its relationship with HSFP. We would welcome any further enquiries you may have and would be keen to appear before the Committee if required.

Yours sincerely

Chris Clausen
Chief Executive Officer

Planners feel besieged by industry funds

Victoria Young

Two in three financial planners feel their business is under siege from industry super funds' advertising, new research has revealed.

A brandmanagement survey found advisers feared the "Compare the pair" television advertisements represented a threat to future fund flows, plus they believed the FPA national print and television advertising campaign had been unsuccessful.

According to 69 per cent of respondents, the $3 million advertising blitz, featuring Dazza and his dubious financial advice, that ran in October and then again in April failed to bring in new clients.

Only 4 per cent said it created new leads.

Similarly, only 5 per cent said the Dazza advertisement helped manage their clients and two-thirds of financial planners said it did not.

"The results show that two out of three planners feel under siege from the industry super funds campaign in terms of posing a threat to their business," brandmanagement head of market intelligence Craig Phillips said.

FPA chief executive officer Jo-Anne Bloch said she was unsurprised by the results.

"Dazza is targeted at consumers," said Bloch.

"It has been extremely successful. Planners don't like it because they have issues with the Dazza character, but consumers do like him.

"It was never intended as a member campaign; it's a consumer campaign. [These survey results] don't surprise me at all."

Bloch said she valued planners' feedback on the industry super fund advertisements, which she said devalued advice and were "frustrating and misleading".

She said the FPA would not take action because it was "competitive pressure".

The snapshot survey also found only 10 per cent of respondents believed the FPA was helping their business, while half said it did not.

Almost half of planners said the FPA did not do a good job of managing public perception of financial planners and the same amount said the industry body was not an effective voice.

In response, Bloch said the FPA would look closely at member segmentation strategies so the industry body could better understand its communities of members.

The FPA uses its own member surveys to influence decision-making.

"There's a gap between perception and reality," Bloch said.

"We do a lot work behind the scenes and it's our fault that we're not communicating that to our members more effectively."

During times of crisis, like the Westpoint fallout, only 14 per cent of planners surveyed agreed the FPA was the place to go for help, while 46 per cent said it was not.

Notably, when asked if the FPA should represent planners only, not other industry groups such as fund managers and dealer principals, 53 per cent were in favour and 20 per cent were not.

Australian market intelligence and research consultancy brandmanagement surveyed its database of planners, which represents 80 per cent of the market, while compiling its quarterly index report. It received more than 450 responses. □

Industry funds pay commissions: inquiry submission

Catherine James

Despite the TV commercials that pit industry funds against financial advisers who receive commissions, industry funds do pay commissions, according to a submission to the latest parliamentary inquiry into the superannuation industry.

Health Super paid a trailing commission to its advisers for its allocated pension, the submission said.

The submission, from Roxburgh Securities adviser Steve Blizard, questioned the industry fund sector's blatant advertisements that claimed it did not charge commissions, when some funds did pay them or used structures similar to commissions.

Health Super has confirmed it pays a 0.5 per cent trailing commission on its allocated pensions to the two advisers licensed under Health Super Financial Planning only.

"All of the money, in this way, stays within the company for the benefit of the members," general manager of marketing Steve Jenkins said.

"[The advisers] do do fee-for-service for Health Super members for other financial products. There is no commission for recommending the super fund."

Jenkins said the commission fee was justified in the case of the allocated pension product as certain services came with the pension. Such services include ongoing financial planning whenever the member requires it.

"Commissions on pension funds are different to commissions on super funds; they're quite a different product. Super is in the accumulation phase and pension is in the drawdown phase," he said.

"There are various costs involved in providing the pension, and the amount of work around that does depend on the size of the account. [As a percentage-based fee], it decreases as the pension is drawn down."

The 0.5 per cent fee to advisers is taken from the 1 per cent administration fee paid to Health Super, according to the allocated pension product disclosure statement (PDS).

"The trailing commission paid to Health Super Financial Planning is not negotiable or rebatable," the PDS said.

The 200,000-member Health Super is not one of the 17 funds that make up the Industry Fund Services (IFS) network, which earlier this year ran a direct campaign against commission-paying funds. In the "Compare the pair" advertisements, IFS suggested commissions would decrease returns in the long run.

IFS chief executive Gary Weaven was not concerned consumers regarded all industry funds as subscribers to the IFS no-commission stance, and that Health Super might be leveraging off this understanding.

"We're quite happy for it to be taken as a broad-brush understanding of these funds because if there were one or two exceptions, it doesn't change the main message [of the advertisements]," Weaven said.

Financial advisers have dominated submissions to the parliamentary inquiry into the structure and operation of the superannuation industry.

Of the 150 submissions received by the parliamentary committee to date, over 100 are template letters from financial advisers, and another 50 more detailed submissions are from advisers and other super-related entities.

Senator Grant Chapman, who is chairing the committee, said more weight was given to the more detailed submissions.

Submissions close at the end of this month. □