

The National Information Centre on Retirement Investments (NICRI) Inc

NICRI was established in 1990 by the Federal Government under its Retirement Incomes Policy as a project of the Australian Financial Counselling and Credit Reform Association.

NICRI is a free, independent, confidential service which aims to improve the level and quality of investment information provided to people with modest savings who are investing for their retirement or facing redundancy. Its role is to help provide up to date independent information to assist people make the best possible investment decisions they can.

NICRI does not give nor imply financial advice, recommend financial products or advice providers and does not undertake case work. We do, however, seek to empower people to make their own decisions about choice of investments and selecting a financial advice provider.

To assist consumers understand the various investments and strategies, NICRI publishes a range of leaflets that fall into five broad categories. The **General Information** leaflets introduce the service, explain complaint resolution, estate planning, investment fees, and risk.

The process of **Financial Planning** is explained through a booklet which is supplemented with an Income and Expenditure sheet to encourage the development of a personal budget.

The series on **Superannuation** explain the nature of superannuation, taxation, transfers within the superannuation environment and a checklist to assist choosing a superannuation fund.

Three leaflets on **Income Streams** compare the various products available and explain in broad terms the main products that can be purchased using superannuation and non-superannuation assets.

The **Investment Products** series explain the main products and asset classes in which people invest.

All publications are written in plain English and avoid the use of jargon. They are regularly updated to reflect changes in industry conditions, taxation and Government Income Support implications.

NICRI also offers a toll-free telephone information service which is available from 9:00am to 5:00pm Monday to Friday. The telephone number is 1800 020 110. The service is available to all consumers who want to understand how investment products and strategies work or want to clarify their understanding

of issues which may have been raised by their professional advisers or product providers that affect them personally.

While not presently offering a seminar program directly, NICRI participates in seminars and consumer group meetings by providing guest speakers on requested topics.

The benefit of having this independent confidential service has been particularly evident to us over the last two years of market volatility and difficulty where people who have become anxious about their investments and circumstances have been able to discuss and understand the options and implications of different courses of action available to them.

NICRI's objectives are:

- To provide an accessible independent source of information concerning financial and investment products of importance to consumers.
- To research and publish items on consumer issues relevant to the financial welfare of consumers.
- 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.

In fulfilling its role NICRI identified the need to have an independent information service to assist consumers understand Reverse Mortgages and other products that enable older people to access the equity tied up in their home. The Equity Release Reverse Mortgage Information Service was funded initially for 6 months by the Department of Families, Housing, Community Services and Indigenous Affairs and during that time the service had in excess of 3000 inquiries. Following this success, and recognition of the continuing need for the service, funding has been granted for the extension of the project for a further 2 years.

In addition, NICRI has obtained funding from the department for a Redundancy Information Service in light of the recent economic circumstances and the anticipated continued increase in the number of redundancies. This project is also for a period of two years to 30 June 2011.

Comments on terms of reference

In making comment on the terms of reference we have chosen not to make comment on items 4, 5, 8 and 9 as they are not in our sphere of experience.

1. The role of financial advisers.

Financial advice providers have a major role to play in assisting the consumer decide where to place investments and in the on-going management of their investment portfolios. Unfortunately many consumers are hesitant to use the services of the industry because they feel the cost is excessive for the service received and, particularly in times of poor performance or negative return, they (the consumer) still carry a significant cost. There often is confusion with respect to costs as much of the disclosed information is communicated in language that is not readily understood by a layman. Secondly, the fees charged by the product provider are often incorrectly seen as fees being paid to the advice provider.

2. The general regulatory environment for financial services products and services.

As a general rule we believe consumers do not understand the regulatory framework well and the provision of some information in this regard could be of assistance. For example, it is a requirement that product disclosure statements be lodged with the Australian Securities and Investments Commission (ASIC). Often many consumers assume, incorrectly, that this means the document, the investment and the organisation has been vetted by ASIC. Perhaps the statement in the PDS could be expanded to say that while lodged, the investment or organisation has not been vetted by ASIC.

3. The role played by commission arrangements relating to product sales and advice.

Ideally, a financial adviser would be looking for a long-term relationship with their client and this is what the client should be looking for with their adviser. The methods of paying for initial and on-going service can vary and this cost would usually be dependent on the level of service required. There is considerable debate as to whether a fee based on the value of the portfolio or one based on an hourly rate is more appropriate. Where the fee is based on the size of the portfolio the consumer may tend to use the adviser to a greater degree than if they had to pay them at an hourly rate. It is now rare to find an adviser who is paid by commission only. A problem with this is that the cost of obtaining advice for a person with a relatively small amount of capital could be prohibitive.

6. The appropriateness of information and advice provided to consumers considering investing in those products and services, and how the interests of consumers can best be served.

The appropriateness of advice and information provided to consumers varies greatly. Often, depending on the consumer's socio-economic background, much of the information available is not read, or if it is, is not comprehended. This usually is because of the language used and also the sheer volume of information. NICRI seeks to alleviate this problem through the use of our 1 page leaflets written in simple English.

We have further anecdotal evidence, for example, where an adviser told a client that they could not transfer some assets that were held in the payment phase of their superannuation fund back to the accumulation phase of the same superannuation fund because it was not allowed for taxation reason. NICRI confirmed with the Taxation Office that this was not so and then the client was told that it could not be done because of fund rules. This resulted in the consumer suffering a significant financial loss. NICRI has explained the dispute resolution scheme to the client who has taken the matter up with the product provider.

7. Consumer education and understanding of these products and services.

As mentioned in our response to point 6, NICRI provides information to consumers in an easy to understand format on the majority of investment products. We also developed an on-line product, moneymap, to enable consumers to prepare a balance sheet, income and expenditure sheet and use a risk profiler. This tool enables consumers to understand how their attitudes to risk can affect possible recommendations made and the exposure these products may have to more volatile assets. We also developed a hardcopy document called a Risk Meter, (copy enclosed) to enable the understanding of suitable time frames for the different asset classes.

NICRI established in several surveys of consumers who used the service that there is significant value placed on information being provided by an organisation that is independent of industry and government and is provided free of charge.

While NICRI does provide information and education, it does not have sufficient funds to satisfactorily promote the service through advertising or to expand the service further. In a recent evaluation of NICRI's services it was reported that the service was working at capacity, in view of its funding and a significantly increased budget would be required to expand the service further.