

## Chapter Thirteen

### Government and Superannuation Fund Assistance

#### Introduction

13.1 This chapter examines the financial advice and assistance available to pre-retirees and retirees from the government and from superannuation funds. The government provides a number of financial advisory services free of charge through a variety of mechanisms and from various institutions. In addition, an increasing number of superannuation funds provide financial advice, education and retirement products. The chapter also examines the proposal for forecasting superannuation savings using government stipulated guidelines.

#### Government provided financial advice

13.2 The Committee notes that the government provides a number of independent financial planning advisory services. The Committee summarises these services below.

##### FaCS' Financial Information Service

13.3 In its written submission, FaCS noted that it provides a Financial Information Service (FIS) to pre-retirees and retirees. FaCS indicated that between 1 July 2002 and 20 March 2003, FIS Officers (there are approx 120 throughout Australia) took 142,027 calls and conducted 53,082 interviews throughout Australia. Over the same period, 1,442 FIS seminars were held, attended by 52,820 people.<sup>1</sup>

##### FaCS Portfolio Retirement Planning Information

13.4 FaCS also noted in its written submission that it produces, in association with Centrelink, a number of publications to assist pre-retirees and retirees:

- *Investing Money – Your Choices*, which provides information on the basics of financial planning and on different types of financial products, including the taxation and social security treatment of those products. This is a joint FaCS/NICRI publication.
- *Home and Residence – Choices for Older People*, which aims to assist older people and their families with important lifestyle and housing decisions. Information is also provided on how older people can get the care they need, whether in their own home or in residential care.

---

1 *Submission 38, FaCS, pp. 13-14.*

- *Australian Retiree – Your Choices*, which is a resource to help self-funded retirees become aware of the products, services, concessions and organisations available to assist them to maximise their choices and lifestyle through retirement.
- *Moving House – Your Choices*, which aims to assist people to improve their lifestyle in retirement by making informed choices about their housing. It provides a practical guide to selling, buying, financing, renovating and moving. It also provides information on helpful organisations and how different decisions may affect entitlement to payments.
- *Understanding Retirement Income Streams*, which explains retirement income streams and how they might be used in retirement planning. It is a joint publication that was developed with the former Australian Retirement Income Streams Association Limited.

13.5 FaCS also noted in its written submission that Centrelink produces a number of publications, including:

- *Age Pension News for Seniors*, a quarterly magazine distributed to all people on the age pension, the Veterans' Affairs service pension or holding a CSHC. It keeps readers informed about issues of interest and changes that may affect retirees.
- *Are you planning for or needing help in retirement*, a booklet that provides information about payments and services people may be able to access if they are planning for or needing help in retirement.<sup>2</sup>

13.6 In addition, FaCS is currently producing, in association with IFSA, a third edition of *Understanding Retirement Income Streams*.

13.7 The Committee notes evidence during hearings praising the assistance made available to retirees by Centrelink. The Committee notes in particular the comments of Dr Olsberg cited earlier, and also the following comments by Mr Potticary, who appeared before the Committee on 9 May 2003:

With regard to some of the information people were talking about this morning, I think Centrelink are the best ones to provide that. I have been to a lot of their seminars and they have such a high and wide range of products. I cannot really fault them. They are impartial as well.<sup>3</sup>

#### The National Information Centre on Retirement Investments

13.8 NICRI is a FaCS funded advisory service available to pre-retirees and retirees in Australia. It does not accept financial assistance from the industry (so as to guarantee its independence), and its services are provided free of charge.

---

2 *Submission 38*, FaCS, pp. 14-15.

3 *Committee Hansard*, 9 May 2003, p. 239.

- 13.9 In its written submission, NICRI indicated that it delivers three main services:
- a) Freecall telephone services: NICRI's freecall telephone service is available to consumers Australia wide. In the 2001/02 financial year, NICRI assisted 6,917 callers.
  - b) Publications: NICRI researches, writes and publishes a range of leaflets and technical papers relating to general information about the investment industry, investment products and the financial planning process. In 2000/01, NICRI distributed approximately 200,000 leaflets. NICRI has also worked closely with FaCS and Centrelink in the co-production of several publications, notably *Investing Money: Your Choices*.
  - c) Seminars: NICRI participates in seminars run by the FIS. In the previous 12 months, talks and training sessions were also presented to 19 non-government organisations including pensioner/older person's organisations, financial counseling groups and education institutions such as TAFEs.

13.10 NICRI also launched a website in 2000 to inform consumers of its services and to answer questions via email.<sup>4</sup>

13.11 During the Committee's hearing on 15 May 2003, Mr La Brooy and Ms Schilg from NICRI appeared before the Committee. Mr La Brooy indicated that although NICRI only assisted 7,000 odd people over the phone in 2001/2002, which is a very small percentage of all retirees in 2001/02, its budget was only \$450,000 (2½ people are employed to answer the phones). Mr La Brooy also indicated that since its establishment 13 years ago, NICRI has assisted approximately 82,000 consumers and has distributed 3.5 million publications.<sup>5</sup>

13.12 In relation to the source of inquiries to NICRI, Mr La Brooy indicated that the bulk of inquiries are prompted by presentations made by NICRI to the Council of the Ageing and the AIR. In addition, an increasing number of inquiries are being initiated from the internet.<sup>6</sup>

13.13 The Committee also notes the evidence of Mr La Brooy that up to 30 per cent of calls to NICRI are from people who have been sold inappropriate products relative to their age and income status. In many cases, those people have been placed in products which did not suit their risk profile and have been exposed to the downturn in the stock market.<sup>7</sup>

---

4 *Submission 34*, NICRI, p. 3.

5 *Committee Hansard*, 15 May 2003, pp. 258, 260, 262.

6 *Committee Hansard*, 15 May 2003, p. 262.

7 *Committee Hansard*, 15 May 2003, p. 261.

13.14 The Committee notes that a number of parties to the inquiry praised the assistance available to pre-retirees and retirees offered by NICRI and recommended that it receive additional funding.

13.15 For example, the AIR expressed great concern at the present lack of genuinely independent advice for pre-retirees and retirees and accordingly recommended a major expansion in the funding and capability of NICRI.<sup>8</sup> This was reiterated by Mr Goodacre from the AIR in the hearing on 5 May 2003. Mr Goodacre argued that NICRI has been of considerable value to AIR members in the provision of financial assistance and noted in particular the value of their various simple and useful pamphlets.<sup>9</sup>

13.16 Similarly, the COTA National Seniors Partnership also recommended in its written submission that organisations such as NICRI be given more funding to provide financial and investment information, training, advice and support to older people.<sup>10</sup> In evidence to the Committee in the hearing on 8 May 2003, Ms Reeve from the COTA National Seniors Partnership stated:

We do think that there needs to be quite a range of advice available, and that certainly the work of NICRI ought to be advanced. Apart from their general work in putting out leaflets, we have used them on occasions in seminars with people, and they find that one level of education useful.<sup>11</sup>

### ASIC Publications

13.17 At the hearing on 8 May 2003, Mrs Longo from ASIC noted that ASIC also has a number of consumer publications available to the public, including:

- *Super decisions*, which covers basic questions about superannuation that consumers should consider when assessing their superannuation savings.
- *Don't kiss your money goodbye*, which is designed to assist consumers to choose a financial planner who is likely to be able to meet their needs.
- *You can complain*, which is a guide to assist people in learning how to complain and where to complain.

13.18 In addition, Mrs Longo noted that ASIC also releases specific alerts from time to time dealing with particular scams. Alerts relating to scams were released in January, February and March of this year.<sup>12</sup>

---

8 *Submission 16*, AIR, pp. 5-6.

9 *Committee Hansard*, 5 May 2003, pp. 70-71.

10 *Submission 31*, COTA National Seniors Partnership, pp. 28-29.

11 *Committee Hansard*, 8 May 2003, p. 177.

12 *Committee Hansard*, 5 May 2003, p. 101.

---

### The Pre-Retirement Association in the UK

13.19 In its written submission, the COTA National Seniors Partnership noted the work of the Pre-Retirement Association in the UK in pioneering a range of innovative services for people in mid-life. It was set up in the 1960s and undertakes a range of activities including:

- Professional training;
- Business services;
- Research; and
- Advocacy.

13.20 The COTA National Seniors Partnership argued that the work of the Pre-Retirement Association has lessons for Australia at a number of levels:

- a) It has established the study of mid-life and pre-retirement as serious academic disciplines at British universities;
- b) The association offers courses to individuals encompassing a very wide range of issues including health, finance, work, leisure and caring, courses which are generally unavailable in Australia;
- c) The association has established pre-retirement and mid-life planning as a profession in its own right in the UK, with a set of professional standards, codes of conduct and commitment to best practice; and
- d) The association works with business to obtain best practice for mature age workers.

13.21 Given these considerations, the COTA National Seniors Partnership recommended that the Australian Government fund the establishment and recurrent costs of an organisations similar to the UK's Pre-Retirement Association in Australia.<sup>13</sup>

### **Assistance provided by superannuation funds**

13.22 The Committee notes that many superannuation funds also provide direct advice and assistance, including the provision of retirement products, to their members.

13.23 In its written submission, ASFA cited details from a recent survey of its members in regard to the incidence of different services and retirement products which help workers plan for their retirement. This is cited in Table 13.1 below:

---

13 *Submission 31, COTA National Seniors Partnership, pp. 29-30.*

**Table 13.1: Services offered by funds which assist members to plan for retirement, June 2002**

	<b>Financial advice</b>	<b>Allocated pension</b>	<b>Member education</b>	<b>Online information /enquiries/ websites</b>
<b>Corporate</b>				
% of funds	28%	33%	50%	33%
% of membership	32%	68%	91%	46%
<b>Industry</b>				
% of funds	57%	57%	83%	67%
% of membership	68%	77%	95%	90%
<b>Public Sector</b>				
% of funds	43%	50%	79%	93%
% of membership	61%	50%	90%	81%

Source: Surveys conducted by *Superfunds* magazine of funds in each sector.

13.24 The Committee addresses below the issues raised in Table 13.1: member education, financial advice and the availability of allocated pensions.

#### Member education

13.25 The Committee notes the evidence from Table 13.1 above that 91 per cent of corporate fund members, 95 per cent of industry fund members and 90 per cent of public fund members have access to education services from their fund.

13.26 In the hearing on 5 May 2003, the Committee reiterated its belief to Mr Clare from ASFA that superannuation funds have a social responsibility to provide educational advice to their members.<sup>14</sup>

13.27 In response, Mr Clare acknowledged that funds can and should provide a wide range of educational material for their members, and that such information is often likely to be unbiased and better than information available from other sources.<sup>15</sup>

#### Financial Advice

13.28 The Committee notes the evidence from Table 13.1 above that only 32 per cent of corporate fund members, 68 per cent of industry fund members and 61 per cent of public fund members have financial advice services available to them from their fund.

13.29 During the inquiry, a number of parties argued that superannuation funds should provide a financial advice service to their members. For example, the ABA argued in its written submission that most, if not all, superannuation fund managers

14 *Committee Hansard*, 5 May 2003, p. 46.

15 *Committee Hansard*, 5 May 2003, p. 46.

and administrators have the capability to provide fund members not only with a range of generic information, but also with useful personal financial information which would help educate the wider superannuated population and encourage them to seek higher level financial advice when required.<sup>16</sup>

13.30 This was also reiterated by Mr Goodacre from AIR in the hearing on 5 May 2003. He argued that superannuation funds have a responsibility to enter into not only the education process, but to ensure that superannuants have access to independent financial advice (and not finance industry advisers as sometimes happens) at least five years in advance of their retirement.<sup>17</sup>

13.31 In response to this issue, Mr Clare from ASFA noted in the hearing on 5 May 2003 that there are regulatory issues under the new ASIC licensing regime in relation to what is general advice and what is specific financial advice requiring licensed individuals to be involved.<sup>18</sup>

13.32 The Committee acknowledges this issue but notes the evidence of the Committee Chair that some funds have addressed this problem by setting up an independent organisation that provides advice on behalf of the fund. An example is the Catholic Teachers' Superannuation Fund.<sup>19</sup>

#### The availability of allocated pensions

13.33 The Committee notes the evidence from Table 13.1 that 68 per cent of corporate fund members, 77 per cent of industry fund members and only 50 per cent of public fund members can take an allocated pension from their fund.

13.34 In the hearing on 5 May 2003, the Committee raised with Mr Clare from ASFA the fact that many funds do not offer a range of pension annuity products for their members to select from in retirement. As a result, members are forced to move their accumulated superannuation upon retirement to a separate income product provider, with associated costs, and the risk of receiving poor advice. As stated by Senator Sherry:

... as a basic service, it should be a requirement of all funds—and from your statistics it appears many are not doing it—to provide as an option a pension annuity and a number of different products for a person to select from if they so wish.<sup>20</sup>

13.35 In response, Mr Clare noted that some small funds may not be in a position to offer superannuation type products, and that their basic role is the accumulation of

---

16 *Submission 41, ABA, pp. 15-16.*

17 *Committee Hansard, 5 May 2003, p. 71.*

18 *Committee Hansard, 5 May 2003, p. 46.*

19 *Committee Hansard, 5 May 2003, p. 46.*

20 *Committee Hansard, 5 May 2003, p. 44.*

superannuation. Furthermore, Mr Clare noted that many pension annuity products can be purchased in the market place from a range of funds, including relatively low-cost options that are available from public offer funds.<sup>21</sup>

13.36 The Committee believes, however, that the case study cited below offers a good example of a fund which has been able to offer its members financial advice and a range of pension annuity products.

#### Case study

13.37 The Committee notes the work of the trustees of the Seafarers' Retirement Fund (SRF) in offering financial planning advice and a range of pension annuity products to their members. This case study is discussed in Box 13.1 below.

#### **Box 13.1: 'Cradle to grave' superannuation and the Seafarers' Retirement Fund**

*The trustees of the SRF indicated in their written submission that during the late 1980s, the fund sought on many occasions to provide financial advice to its members under a 'whole of life' approach to superannuation. However, it was unable to do so. First, fund trustees were warned not to by its legal advisors, and secondly, the range of retirement products was restricted to life pensions, which were not popular with members because in the event of death, any unpaid amount is lost to their estate.<sup>22</sup>*

*Following the introduction of the allocated pension in 1991, the SRF was able to offer an allocated pension in June 1993 which:*

- *Enabled members to stay with the fund;*
- *Enabled members to draw a flexible pension to suit their needs (within the allocated pension minimum and maximum) and with the ability to index or commute;*
- *Enabled members to have a joint allocated pension with their spouse on a survival basis; and*
- *Ensured that the member's estate would receive the balance of capital in the event of the death of the member.*

*More recently, the fund has also introduced a number of new products, including approved deposit rollover accounts, fixed term annuities and life pensions.<sup>23</sup>*

21 *Committee Hansard*, 5 May 2003, pp. 44-45.

22 *Submission 30*, Seafarers' Retirement Fund, p. 2.

23 *Submission 30*, Seafarers' Retirement Fund, pp. 2-3



*In its submission, the trustees of the SRF noted however that the fund faced a number of impediments to offering post-retirement products:*

*a) Licensing requirements: The trustees noted that increasing complexity is forcing funds to the point of having to obtain a dealer's license in order to be able to provide general advice in relation to their own products. Most funds only obtain a license to give product or general advice – not personal advice. As a result, they cannot compete for funds being rolled into master trust or bank products or the like.*

*b) Financial planning industry: The trustees noted that financial planners who are generally remunerated on a commission basis do not recommend investment in the SRF.*

*In its submission, the trustees of SRF noted however that they have overcome these barriers through entering into arrangements with Industry Fund Services, which has a full financial planning license. The IFS works on a fee-for-service basis – there are no commission based products included. As a result, the SRF can be considered and compared with other products available in the marketplace.*

*The trustees of the SRF also noted that they are seeking to offer pre-retirement counselling to educate members on issues associated with retirement, financial planning and the like, by developing programs which can be conducted by licensed financial planners on the fund's behalf.<sup>24</sup>*

## **Forecasting superannuation savings using government guidelines**

13.38 In his written submission, Mr Wickham, a fellow of the IAA, argued that one very effective means of assisting workers to plan for their retirement would be for their superannuation fund to provide them with a statement of projected benefits at age 65. The projections could show the value of their lump sum benefit translated into an annual income.

13.39 Mr Wickham noted that in the UK, the regulator, the Financial Services Authority, requires that a benefit projection statement be provided annually for all accumulation style superannuation benefits. The Financial Services Authority, in conjunction with the Institute of Actuaries (UK), has set standard assumptions that allow actuaries and administrators to calculate these projected benefits.<sup>25</sup>

13.40 **Appendix Seven**, taken from Mr Wickham's submission, provides an example of what such a statement might look like in the Australian context.

13.41 In the hearing on 16 May 2003, the Committee placed on notice with APRA a request for additional details on benefit projections in the UK. In its response to questions on notice dated 3 June 2002, APRA indicated that the UK has both a state

<sup>24</sup> *Submission 30*, Seafarers' Retirement Fund, p. 4.

<sup>25</sup> *Submission 44*, Mr Wickham, pp. 1-2.

pension system and a private stakeholder pension system, both of which provide benefit projections to their members. Additional details are provided in Box 13.2 below.

### **Box 13.2: The UK pension system and forecasting of benefits on retirement**

#### ***State pensions***

*In the UK, state pensions are provided if a person has a full National Insurance contribution record and has reached retirement age. The Pension Service, part of the Department for Work and Pensions, provides pension forecasts that show in today's prices how much a person is likely to receive in retirement from a pension. A state pension forecast shows a person the state pension already earned (ie the national insurance contributions a person has already made or been credited with), and what they can expect to have earned by state pension age.*

#### ***Stakeholder pensions***

*The Financial Services Authority (UK) regulates the marketing and promotion of all stakeholder pension schemes. A stakeholder pension is a private pension, not a state pension, to which a member can contribute whether they are in employment, a fixed-contract worker, self-employed or even not working but able to afford contributions. Stakeholder pension accounts can be opened with a bank, building society, insurance company, investment company, or through a financial advisor. The Financial Services Authority aims to ensure that the information given about schemes is clear and not misleading.*

*According to a Financial Services Authority Factsheet 'Stakeholder pensions and decision trees', a firm that offers stakeholder pensions must give prospective pension holders a copy of their Key Features Document. This sets out basic information about the product, such as charges and investment choices available, and helps potential holders compare stakeholder pensions. The Key Features Document gives the reader the key information they need to decide whether or not to invest. Every company uses the same format, set by the Financial Services Authority, so the reader can easily compare one investment with another.*

*The Financial Services Authority requires that the Key Features Document gives the reader of a plan the following information:*

- *The name of the plan;*
- *The nature of the plan;*
- *An illustration of the plan;*
- *A description of the plan;*
- *The effect charges may have on the plan;*
- *How the growth of the plan might be reduced by charges over the life of the plan;*
- *How much the adviser or salesperson will be paid; and*
- *Additional information such as a detailed description of each charge, how to complain, who to contact for more information, and so on..*

*The Financial Services Authority, in conjunction with the Association of British Insurers, also provides a 'Pensions Calculator' on its website which gives the private pension holder an estimate of the amount of pension income they could attain when they retire, based on the level of regular contributions that they choose.*

*The assumptions underlying the Financial Services Authority's 'Pensions Calculator' are:*

- *Investment growth: The pension fund will grow by 7% a year until retirement;*
- *Inflation: The Retail Prices Index will rise by 2.5% a year until retirement;*
- *Pension fund charges: The company providing the pension will charge 1% of the person's fund each year;*
- *Income tax rebates: The Government will add a tax rebate to the contributions made at the basic rate (22%), so that every £1 that goes into the fund consists of 78p from pension holder and 22p from the Government;*
- *Annuity rates: Upon retirement, the pension fund is used to buy a pension income, called an annuity. The calculator has estimated what annuity rates might be on retirement; and*
- *Life expectancy: The average life expectancy is assumed..*

*The Pension Calculator estimates also assume that:*

- *The person keeps up regular monthly payments from now until retirement; and*
- *Each year the monthly payments made increase by a minimum of the estimated rate of inflation (at 2.5%).*

*The Financial Services Authority also encourages readers to compare stakeholder pension providers through comparative tables.*

13.42 The Committee raised with various industry representatives in hearings the proposal for forecasting of superannuation benefits based on government established guidelines:

- Mr Rice representing the ABA agreed that such forecasts could be useful in giving individuals a realistic expectation of their likely retirement savings, and possibly dispelling expectations that they can 'retire at 55 and play golf'.<sup>26</sup>
- Similarly, Mr Negline from the ICA supported the concept of forecasting retirement income saving 20 or 30 years in advance, but noted that any forecasting is subject to assumptions about investment markets, income levels, employment patterns and so on.<sup>27</sup>

<sup>26</sup> *Committee Hansard*, 5 May 2003, p. 35.

<sup>27</sup> *Committee Hansard*, 5 May 2003, pp. 94-95.

- Ms Johnston from Workingconnections enthusiastically supported forecasting of likely retirement incomes for individuals. She argued that the more information, and therefore power, that people have to make decisions the better.<sup>28</sup>
- Mr Brookes from the CSA noted that there is a gap at present in the forecasting of benefits in the future, but that the dangers of those forecasts are that they are extrapolations based on market outcomes and fees and charges and so forth.<sup>29</sup>
- Mr Hristodoulidis from the FPA argued that the concept has merit, but that the assumptions behind any forecasting are critical.<sup>30</sup>

13.43 The Committee also raised this issue with representatives of Treasury in the hearing on 15 May 2003. Mr Rosser from Treasury argued that projections are notoriously difficult and unreliable, and have the potential to be misleading. This is because they are heavily reliant on assumptions which can change quite rapidly.<sup>31</sup>

13.44 In response, the Committee noted that Treasury currently makes assumptions about long-term investment rates of returns, tax levels and so forth when preparing projections, as seen in the *Intergenerational Report*.<sup>32</sup>

---

28 *Committee Hansard*, 8 May 2003, p. 131.

29 *Committee Hansard*, 8 May 2003, p. 143.

30 *Committee Hansard*, 8 May 2003, p. 154.

31 *Committee Hansard*, 15 May 2003, p. 298.

32 *Committee Hansard*, 15 May 2003, p. 274.