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The Chairperson  
 Senate Select Committee on Superannuation  
 C/- Ms S Morton  
 Committee Secretary  
 Parliament House  
 Canberra ACT 2600

Dear Senator Watson,

### **Superannuation funds offering retirement income products**

We recently received a letter from your Committee's secretary dated 6 February 2003 to which was attached a copy of your media release of 4 February 2003 entitled "*Whole of life approach to superannuation needed*".

We were invited to provide to the Committee information as to the nature of retirement income products offered by Seafarers Retirement Fund (SRF) to its members and we are grateful for the opportunity to do so.

We believe the Committee may benefit from some commentary on the issue which you have raised as we are firm believers in the concept of a 'cradle to grave' approach.

### **Basis of our approach**

SRF is one of the oldest industry funds and offers a defined benefit based on a benchmark salary which was designed to provide a minimum benefit in an industry with wide wage disparity.

The fund is mature and members receive significant benefits on both termination of service by resignation or retirement, or as the result of a disablement payment.

The benefit structure is such that members are, relative to other industry funds and to a lesser extent some corporate funds, relatively high wealth individuals, and a typical retirement benefit could be in the order of \$200,000.

The Trustee has for many years been concerned at the issue of financial advice and on many occasions in the mid to late eighties sought ways of providing members with financial advice. This was driven largely by two factors. Firstly, that members were not able to leave their lump sum with the SRF following the accumulation phase, and secondly, by the knowledge that members were exiting into commissioned and fee laden products which eroded the value of their benefits with fees of 5% and more as opposed to the SRF's MER which was in the order of 90 to 100 basis points.

Two issues arose. Firstly, the trustee was warned against providing financial advice by its legal advisors, and secondly, the range of retirement products was restricted to life pensions which were not popular with members. This type of pension remains unpopular as most members are reticent to pay over a lump sum with the prospect that in the event of their death any unpaid amount is effectively lost to them and their estate

The introduction of the allocated pension by the Commonwealth Government in 1991 enabled the SRF to offer a product which

- enabled members to stay with the fund, a fund with which they were familiar and which they trusted;
- enabled members to draw a flexible pension to suit their needs (within the allocated pension minimum and maximum) and with the ability to index and or commute;
- enabled members to have a joint allocated pension with their spouse on a survivorship basis;
- ensured that the member's estate would receive the balance of the capital amount in the event of death of the member.

The fund introduced its allocated pension in June 1993. Currently we have 282 pensioners, with allocated pension assets account for some \$45.3 million or 8.8% of the fund.

Following further legislative changes the fund introduced an approved deposit facility which allowed members to leave their superannuation balance in the SRF whilst they were employed outside the industry. Ninety percent of rollovers requested by members are rolled into this facility. The fund now has 729 ADF members with accounts totalling \$78.9 million.

More recently the fund introduced a fixed term annuity, in response to financial planning issues which relate to the fact that fixed term annuities are not included in the assets test whilst allocated pensions are.

In summary, SRF offers the following products:

- Allocated Pension
- Approved Deposit Rollover account
- Fixed Term Annuity
- Life Pensions

Rather than describe each of these products I have enclosed our member information brochures for these products and can supply more if the Committee requires additional copies. These products, except for life pensions and fixed term annuities, have investment choice.

### **Barriers for funds in providing these products**

We believe the Committee should be aware of some of the more pressing issues facing funds such as the SRF in pursuing the post retirement product line.

### **Licensing requirements**

The licensing regime works against funds in a number of ways.

Increasing complexity is forcing funds to the point of having to obtain a dealers licence in order to be able to provide general advice in relation to their own products. This involves a training and compliance regime which is of course a cost burden borne by the membership.

Most funds will obtain a licence to give product or general advice and will not progress to the point of providing personal advice and herein lies the principle problem for funds when competing for funds which might otherwise roll out to master trusts or banks products and the like.

### **Financial Planning Industry**

Typically members will come into contact with a planner from one of the banks or other providers who are required to recommend only the products of the bank or the provider in question or, as recently reported by the ASIC and Choice survey, a series of commission based products under a "proper financial plan".

Independent financial planners were similarly exposed in the above mentioned report as essentially being commission driven.

Inevitably the retirement products of the SRF are not recommended (we don't pay commissions) and in any event the planner has no knowledge of, nor seeks to obtain knowledge of, the fund and its products. No proper comparison is therefore made by the planner, whilst the fund is prevented from doing so as this is personal advice which it is not licensed to provide.

**Conclusion**

The very system which sets out to protect consumers in fact limits their super funds from competing unless it determines that it will obtain a licence or forms an alliance with a planner organisation.


**Overcoming the barriers**

The SRF has a dealers licence to provide general advice, and has recently entered into arrangements with Industry Fund Services (IFS) which has a full financial planning licence. These arrangements ensure that the fund's products are considered and compared with other products available in the marketplace. The service is a fee for service basis and there are no commission based products included.

Furthermore, this fund is seeking to embark on a pre-retirement counselling program to educate members on issues associated with retirement, financial planning and the like by developing programmes which will be conducted by licensed financial planners under the above arrangements.

We trust this is instructive for the Committee.

Yours faithfully



**A C ASHTON**  
Chief Executive Officer

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