

CHAPTER 4

PRECONDITIONS FOR THE INTRODUCTION OF CHOICE – DISCLOSURE AND EDUCATION

Introduction

4.1 In order for consumers to be in a position to make ‘informed choices’, witnesses at the roundtable emphasised with considerable vigour the sorts of pre-conditions which should exist prior to the introduction of any option for choice of superannuation fund. These pre-conditions included the need for an appropriate and standardised disclosure regime in the industry and an extensive awareness and education campaign (for both industry and consumers).

4.2 These issues are discussed in turn below.

Disclosure

4.3 Disclosure is one of the most important elements of ‘informed choice’. During the previous Committee’s discussion of this issue in 1998, it emerged that there was general support for a disclosure regime under which consumers could make informed choices based on full details of the costs, fees and charges and the like being standardised in a way which enabled comparison between funds. The previous Committee commented on the need for a standardised approach to disclosure issues within Key Features Statements (KFSs) issued by various funds. Since then, although there has been consultation between industry and the Government, the standards for KFSs have not yet been finalised.

4.4 During the 1999 roundtable, most participants agreed that disclosure was the key to an efficient, prudent and reliable choice environment, and that industry, regulators and government had already been working strenuously to achieve reforms in this area. It was also noted that any changes to the disclosure regime were likely to be an outcome of the Government’s proposed Corporate Law Economic Reform Program (CLERP) as the CLERP 6 reforms in particular would be directed to reforming the disclosure regime for financial services generally. The draft bill to implement CLERP 6 is expected to be introduced in 2000. There was widespread support for the CLERP 6 reforms expressed by a majority of participants to the roundtable.

Industry views

4.5 Despite differing views on the options for choice, and the suggestion that CLERP 6 was the key focus, industry groups and their representatives generally supported disclosure, with, for example, the peak representative body for industry, the Association of Superannuation Funds of Australia (ASFA), expressing the view that,

for it to be effective, standardised terms and comparisons should be required to allow comparison of ‘all fees and charges (including commission costs); risks; and performance.’¹ However, ASFA also pointed out that, notwithstanding that comparability and transparency are ‘ideals that we all want to get to (w)e shouldn’t ... underestimate some of the difficulties of achieving that.’² These difficulties relate to the costs involved and complexities of the issues.

4.6 While not supporting the choice option itself, the Australian Institute of Superannuation Trustees (AIST) nevertheless indicated its view, that should a choice regime be introduced through legislation, ‘there should be specific disclosure requirements about superannuation funds/products, covering particular fees and charges that include standard calculations, which demonstrates the impact of fees and charges.’³ The Institute further advised the Committee that ‘disclosure rules should be out in the public forum many months, if not years, before the introduction of choice.’⁴

4.7 Support for upgrading the disclosure requirements was also expressed by the Australian Retirement Income Streams Association Ltd (ARISA),⁵ and the Industry Funds Forum (IFF).⁶

Service provider views

4.8 Service providers also generally supported a more effective disclosure regime, with those who commented on the issue endorsing the concept that a common form was required which enabled comparisons to be made.⁷ The Australian Bankers’ Association emphasised that the two key words associated with any disclosure regime were ‘comparability and transparency.’⁸

4.9 In its submission to the roundtable, which emphasised the need for not only appropriate but also standardised disclosure, the Institute of Actuaries of Australia (IAA) commented that the minimum disclosure regime required to introduce choice should be as follows:

- a) All fees, costs and charges to be disclosed in plain English in one place on any sale or offer document;
- b) All investment returns to be measured on a time weighted basis rather than a money weighted basis; and

¹ Submission No. 15, p. 13.

² Hansard, p. 46.

³ Submission No. 5, p. 2.

⁴ Hansard, p. 40.

⁵ Submission No. 6, p. 1.

⁶ Submission No. 1, p. 2.

⁷ Submission No. 2, p. 3 and Submission No. 10, p. 5.

⁸ Hansard, p. 46.

c) All returns to be measured over a common time frame (based on periods ending 30 June).⁹

4.10 The IAA went on to say that ‘without all of the above measures it will not be possible for consumers to assess the comparative performance of different funds, and to effectively measure and evaluate the effects of costs measures against returns.’ An appropriate disclosure regime, it advised, would ‘empower consumers, offer them protection and introduce genuine competition into the market.’¹⁰ The Institute also advised the Committee that:

If you are able to compare clearly and accurately all the fees, costs and charges, and the returns being offered, then you are an informed consumer who will actually make the marketplace work.

...

If you do not have clear disclosure ... you will get a UK pension mis-selling scandal.¹¹

4.11 Although groups such as the Financial Services Consumer Policy Centre considered that an appropriate level of disclosure could be achieved within the proposed framework as set up in CLERP 6,¹² the Investment and Financial Services Association Ltd (IFSA) pointed out that it was already using performance standards for its members in relation to the calculation and disclosure of performance figures and management expense ratios.¹³ The Institute of Chartered Accountants supported IFSA’s initiative, but indicated that it saw a need for the standards to be strengthened by regulation rather than a voluntary code.¹⁴

Consumer groups

4.12 Consumer groups and unions also emphasised that disclosure was a vital precondition for the implementation of choice. The Australian Consumers Association (ACA) advised the Committee that disclosure was taken as ‘a given.’¹⁵ The ACA further submitted that the absence of standards and cautionary measures could place consumers at risk.¹⁶ The Australian Council of Trade Unions (ACTU) advised the Committee that it supported a disclosure system ‘that is accessible, understood by everybody and that allows funds to be compared.’ Otherwise, the ACTU pointed out,

⁹ Submission No. 4, p. 2.

¹⁰ Submission No. 4, p. 3.

¹¹ Hansard, p. 38.

¹² Hansard, p. 74.

¹³ Submission No. 9a, p. 4.

¹⁴ Submission No. 7, p. 2.

¹⁵ Hansard, p. 77.

¹⁶ Submission No. 12a, p. 1.

‘there is a risk that people will be seduced by false advertising, in effect, to take up options that are not in their interests.’¹⁷ During the roundtable, the ACTU advised the Committee that:

I do not think it would be underestimating things to say that the kinds of people we represent would have problems with complex financial information, particularly when they have language or literacy problems, or are not used to looking at that kind of stuff.¹⁸

Timing on disclosure

4.13 The general view of the participants at the roundtable was that whatever was ultimately determined, disclosure (and education) should come well before the commencement date for choice. Others, such as the Institute of Actuaries of Australia, presented the argument that the two issues did not have to be linked and that ‘there may be merit in uncoupling choice from disclosure.’¹⁹

4.14 ASFA recommended that, after the introduction of adequate disclosure arrangements (to allow informed choice), adequate time and resources be provided for education programs.²⁰ This is discussed below.

Education and awareness

4.15 One of the most vital parts of any introduction of choice of superannuation fund will be the education campaign needed to ensure that Australian employees and employers are aware of what is involved.

4.16 An education campaign is particularly important when it is acknowledged that 15 per cent of Australians are functionally illiterate, with many having English as their second language.²¹ According to a recent ABS survey, 46 per cent of Australians have unsatisfactorily low levels of literacy.²² There is little evidence that levels of functional illiteracy have improved over a number of years. The implication of this, according to AMP Financial Services, is that there is going to be a percentage of the population who will never understand the concepts involved.²³

4.17 When the previous Committee considered this issue in 1998, it was clear that both employees and employers would require education about the choice of fund. That Committee noted that employers, particularly small employers, would need to be

¹⁷ Hansard, p. 75.

¹⁸ Hansard, p. 47.

¹⁹ Submission No. 4, p. 3.

²⁰ Submission No. 15, p. 14.

²¹ Hansard, p. 67.

²² Hansard, p. 70.

²³ Hansard, p. 68.

advised about their obligations, responsibilities and options. Employees would require information about their rights and how to make a sensible choice. Many witnesses to the 1998 inquiry also expressed concern about the cost of an education campaign to employees and employers.

4.18 During the 1999 roundtable, there was also considerable support expressed for the need to have an education campaign. In addition to debate on the nature of the campaign, there was also significant debate on the source and level of funding which should be applied and the timing of the campaign. These issues are discussed below.

Nature of information

4.19 The Committee heard many points of view about the nature of the information which should be available as part of an overall approach to raising awareness, as well as more specific education for employers and employees.

4.20 At the broadest level of education and awareness raising, some, like the Australian Institute of Superannuation Trustees (AIST), indicated that raising awareness about super should begin in secondary schools. The Committee noted with interest the work currently being done in schools in Victoria where AIST has developed educational material which are currently being used to teach about the history and rationale of super.²⁴

4.21 Others identified the need for an education campaign to address the needs of both employers and employees. For both groups, these campaigns would also have more than one level. For example, in its submission to the Committee, ASFA emphasised that there is a difference between providing information to employees about their rights to make a choice of fund and the process to achieve this (forms to be completed, time limits for informing the employer etc) and the provision of education to assist the employee to choose a fund which meets their investment needs. ASFA explained that:

The latter aims to make them more competent to assess and compare the features of funds, including design and options offered, risks and likely returns associated with investment strategies, ongoing performance evaluation, fees and charges.²⁵

4.22 For employers, there would also have to be different levels of education if choice were introduced. The Australian Chamber of Commerce and Industry advised the Committee that education would be needed to not only acquaint employers with their obligations under a choice regime, but that employers would also need assistance to deal with the new regime generally.²⁶

²⁴ Hansard, p. 69.

²⁵ Submission No. 15, p. 18.

²⁶ Hansard, p. 71.

4.23 However, as choice of superannuation fund is primarily for the benefit of employees, the Australian Consumers' Association recommended to the Committee that:

At a minimum, the education campaign should inform consumers: why choice may be important for retirement income; whether they have a choice; how and when they can exercise choice; what happens if they don't choose; that they don't have to move from where they currently are; the serious implications of shifting out of defined benefit funds; where to go for further advice or information; where to go if they have complaints or problems.²⁷

4.24 The Committee noted that in Western Australia, the Westcheme Superannuation Fund had undertaken a number of processes to educate both employers and employees, but that the Fund found the process to be somewhat frustrating as 'people do not really have time for all this.'²⁸

4.25 When describing the nature of information which is currently available, IFSA pointed out that while some might view fund pamphlets as being 'disguised marketing', in fact the material contained a lot of basic information about investing and the like.²⁹ The importance of distinguishing between education and propaganda (in the form of disguised marketing), was noted by the Committee.

4.26 The Committee also noted the need for educational materials to be in a simple and accessible form to meet the needs of Australians, particularly those who do not have a great deal of understanding of the financial and superannuation industries.

Source and level of funding for education campaign

4.27 The majority of participants who commented on the issue, expressed the view that the education campaign should largely, if not wholly, be funded by government, but that there should be some joint cooperation between government and industry.³⁰

4.28 The peak representative body for industry, ASFA, advised the Committee that, with over 8 million super contributions (and 20 million super accounts) it estimated that an education budget of approximately \$40 million would be required. ASFA's view was that at least half of this should be paid by government to meet its responsibilities and retirement objectives. The other would by necessity be carried by individual funds or corporations (and implicitly in many cases by their members). ASFA advised that it would be willing to be an active participant in the development

²⁷ Submission No. 12, p. 3.

²⁸ Hansard, p. 65.

²⁹ Hansard, p. 66.

³⁰ For example, see Hansard, p. 69; Submission No. 4, p. 2 and Submission No. 15 p. 18.

and promotion of generic materials about investing and the criteria for fund choice (but that it would require some government funding to assist them with this).³¹

4.29 The Institute of Actuaries of Australia proposed to the Committee that the education program should be coordinated by the Australian Securities and Investment Commission (ASIC), developed in consultation with industry and funded by government.³²

4.30 The peak consumer representative body, the ACA, recommended to the Committee that resources available for education and information programs be substantially increased.³³

4.31 The Committee is aware that the Australian Taxation Office is currently considering the issue of an education campaign, but that the Government's position on this is not yet finalised. According to a recent article in the media, the ATO may have budgeted \$2 million for initial work in this area.³⁴ The commentator observed that this is well short of the \$40 million recommended by ASFA.

Timing of the education campaign

4.32 As discussed above in the section on disclosure, the general view of the participants at the roundtable was that whatever was ultimately determined, education (and disclosure) should come well before the commencement date for choice. While some, like the IFF, suggested a long lead time of two years prior to the introduction of choice,³⁵ others considered that it was more important to conduct the campaign closer to the commencement date.

4.33 For example, IFSA indicated that education and awareness campaigns were clearly needed; that it was keen to assist in the development of the campaigns; but it considered that the education campaign should ideally be embarked upon close to the introduction of choice (possibly around six-months prior) as this would let consumers know that this is an issue with which they will soon be dealing.³⁶ IFSA advised the Committee:

I think you will not really get people's attention and focus unless that advertising and education is relatively close to the actual commencement date when choice might operate. Otherwise you risk people basically dismissing all of that because it is not relevant.³⁷

³¹ Submission No. 15, p. 18.

³² Submission No. 4, p. 2.

³³ Submission No. 12, p. 2.

³⁴ *Australian Financial Review*, 25 January 2000, p. 32.

³⁵ Submission No. 1, p. 2.

³⁶ Submission No. 9a, p. 5.

³⁷ Hansard, p. 50.

4.34 Others, like AMP Financial Services, advised the Committee that the education program should start as soon as possible, and that if the experience in the US is a guide, it would take in the order of 10 to 15 years for the population to reach a stage of financial literacy.³⁸ This view was endorsed by the Australian Retirement Income Streams Association.³⁹

Summary

4.35 Overall, most witnesses to the roundtable agreed that for consumers to be able to make an informed choice, an appropriate and standardised disclosure regime and extensive awareness and education campaign were necessary preconditions for the implementation of choice.

4.36 Witnesses agreed that disclosure should come well before the commencement date for choice. However, different views were expressed on the timing of the education campaign.

³⁸ Hansard, p. 68.

³⁹ Hansard, p. 68.