



AFM Advisers

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**General Manager
Retail Investor Division
The Treasury
Langton Crescent
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ACT 2600**

Exposure Draft – FOFA Amendments Submission

Dear Sir,

We are a financial planning firm based in Sydney who employ 5 advisers and 7 support staff and manage some 270 million dollars of clients funds in superannuation, pension and investment products. The two principles own 100% of the business and we have been providing financial advice for over 20 years.

We welcome the Government initiative to review FOFA which we feel has become very onerous and confusing particularly when viewed alongside the introduction of MySuper and Intra Fund advice. The constantly changing regulatory landscape has made it difficult for businesses such as ours to plan for the future and provide advice to our clients. Some finality as to the rules that we are to operate under will be appreciated.

Our simple wish is to provide financial advice and services to people and in return be fairly paid for such advice in a transparent manner.

For your understanding of our business we provide the following services:

Corporate Superannuation – we provide a range of services to some 50 companies that employ some 3000 employees. We have formal service plans in place with management or a Policy Committee where we provide workplace education – via seminars, briefings and face to face meetings at their office or factory locations across Australia. We have developed a range of services to help improve both employers and employees financial literacy with particular emphasis on the benefits of super and retirement adequacy. We manage group insurance plans and support employees in the event of insurance claims.

Private Clients – We have some 1000 individuals that we provide both general and personal financial advice to. This could be strategic advice with no product attached or connected to a super, pension or investment product or insurance

policy. We have operated under a fee for service remuneration program for all new clients since 2012.

Comments of FOFA Amendments/MySuper

1. Opt In Requirements

We firmly believe that opt-in requirements are of no value to our clients as fees are transparent and fully disclosed at the commencement of the relationship through the provision of a Statement of Advice. They are discussed at review time and listed on their annual statement from the product provider and available to see online at any time via the product provider's web site.

The opt in is simply another layer of unnecessary bureaucracy with no value to the client or the adviser.

2. Intra Fund Advice

We need to find a mechanism to be able to continue to provide services to employees in corporate super funds. Under current rules we are no longer able to provide services to members and charge a collective fee over the total company plan. Such a fee is generally called a Plan Service Fee and is agreed with the employer or Policy Committee and disclosed to members on an annual basis.

We have always seen this to be a fair system to charge a small fee for every fund member and provide educational services and access to an adviser in the workplace whenever the member needs support. This is no longer available and thus our only channel to be remunerated for such services which our clients say they wish to continue to receive is via intra fund advice.

In our view intra fund advice should only be defined as general advice (personal financial advice falls under FOFA legislation). However intra fund advice should have the flexibility to be able to be negotiated with the employer based on their needs which could be around number of employees, geographic locations, number of sites, employee age etc. We suggest a fully transparent flat dollar fee be negotiated to be charged to the members account for those in the company default fund where an agreed service plan is in place for which the adviser is accountable.

Such an arrangement allows for our financial education and literacy services to continue at workplace level and members can continue to access low cost

general advice in the vicinity of between \$70 to \$90 pa. It is not in the Governments best interest to remove these services as it will only exacerbate the problem of superannuation disengagement leading to retirement funding inadequacy and an under insurance problem.

3. Group Insurance Commission

We currently work with employers to tailor an insurance plan suitable for their workforce and in some cases the employer may subsidise the premium cost or the member may pay for premiums from their fund balance. The amount of cover provided rarely is the required amount needed but in many cases it is a base sum and most helpful in the event of an insurance incident. A great starting point if you like.

In the event of a claim we assist the employer get relevant paperwork to the employee and assist them with the claim process until completion. Depending on the type of claim this can be a very time consuming activity. However as we used to be paid remuneration via a flat 20% commission on total plan premiums this was all part of the agreed service plan and a highly valued service from both the employer and employees point of view – at a time of high distress and emotion.

Additionally when in the workplace and meeting with employees one to one we often find that individuals are underinsured (maybe with the base default cover only in place). We do assist them calculate what appropriate cover should be for their circumstances and often due to cashflow reasons the primary request is to have premiums paid for from their super fund. Such activity is considered personal advice and we are required to collect client information, make a recommendation, provide a quotation and summarise all this in a Statement of Advice.

Under the new rules we are not able to be remunerated if the insurance cover is placed through a superannuation fund. We do not believe that this rule is in the best interest of the client. Where they choose to pay their premiums from should be their decision. The reality is that when clients have to pay upfront insurance costs from their pay packet they will often defer putting cover in place or reduce the required cover to reduce the cost. Not the ideal situation.

We believe that the previous arrangement where our remuneration was paid for from the super fund was the ideal (and member preferred) process that provided clear benefits to both employers and employees and advisers should be remunerated for their advice in respect of group insurance for their work on plan design, review and claims management.

4. Product Selection Services – Corporate

Since the introduction of 'Fund Choice' in 2005, employers have seen a progressive increase in superannuation administration costs due to many more employees choosing to contribute to a fund other than the default company fund.

In our experience this has led to employers reviewing their default fund and trying to make it as attractive to new employees as possible. In the past the more members that join the company fund the more chance there has been for the adviser to negotiate with the fund provider a better arrangement on member fees and insurance rates. This is a benefit for all concerned particularly the fund member because they can access lower fees and group insurance rates if they join the company plan.

In the event an employer wishes to review their fund - the new rules now separate the tender process (product selection services) to providing fund members with educational support services (ongoing services). We as advisers are no longer allowed to offer both services. However this is impractical as very few employers will try to analyse super fund options themselves (far too difficult, confusing and time consuming) and in most cases they will not pay for an actuarial firm (such as Rice Warner) to do a detailed analysis for them which can be quite expensive.

In most cases they rely usually on a specialist corporate super adviser to provide that expertise and provide a written report and summary incorporating the tender documents from each provider invited to participate. In conjunction with the adviser, the employer can then select a program that they feel best suits their employees. Often this decision is reviewed by the Policy Committee which has representation from both employers and employees.

We do not see any conflict of interest in having an adviser provide the role of facilitator in the tender process and then having decided on the new company fund provide on-going services. The adviser does not get paid by the super fund provider to submit their product to the employer in such tenders and in terms of on-going fees there should be no conflict if there is a service agreement in place which in effect has nothing to do with which fund has been selected.

We see a big problem looming should the limitation on companies choosing a super fund under Modern Awards be lifted. Employers may take that opportunity to review and request adviser practices that work in this space to assist but under current rules this they may find very few advisers able to participate given the separation of duties.

MySuper

Our view on MySuper so far is that there has been little interest from members other than a level of confusion on what they are supposed to do having received correspondence from their fund provider.

We are getting feedback from some of our corporate clients that the level of insurance cover offered to new employees that are going directly into MySuper because it is now the default is lower than what they receive under the previous plan formula. Additionally in some of our larger corporate plans the fees for a MySuper investment are higher than what they are currently paying. Hence MySuper in certain scenarios reduces benefits to the member.

We are also confused as are our clients that in legislating a compulsory default fund called MySuper for the disengaged or disinterested fund member you are almost guaranteeing such members receive the lowest retirement benefit. This is because you remove any motivation for the member to engage or seek out advice that can help them improve their situation. The member believes that it is all taken care of by the fund provider – and they are unaware of what needs to be done to achieve financial independence in retirement.

We provide workplace education to provide that knowledge and it is often the first time fund members are introduced to such concepts and strategies as;

- Salary Sacrifice
- Govt Co Contribution
- Spouse Contribution
- Higher Caps
- Contribution Splitting
- Investment Risk and Performance
- Asset Allocation

All these concepts need explanation and individually or collectively can make an enormous positive difference to a members final balance. Such programs are now not available to members in a MySuper investment because there is no provision for the adviser to receive remuneration under a collective arrangement to provide such services.

As a first step the solution would be to allow the fund member on joining a plan to opt-in to such an investment rather than be directed to be in an MySuper investment.

Members that have exited a Corporate Super Plan

As a follow on to the MySuper legislation we cannot understand the rationale around the requirement for super funds to move all super fund members that roll out of a corporate plan when they terminated employment from their employer (and thus now in a Personal Super Fund) to be moved to a MySuper investment at some time prior to July 1 2017.

When that member terminates employment they are set up in a Personal Fund under their own name. They receive from the super fund provider a new Product Disclosure Statement, and usually still have access to the same benefits of the corporate plan (they may lose access to the large plan rebate as they are now in a Personal Plan). So they are now fully aware of their fund, where they are invested and what insurance is in place as these details are listed in their Welcome Pack.

Why then having made the choice to maintain this fund with such knowledge that they then will be effectively forced to transfer to the MySuper investment option?.

This requirement we believe should be eliminated as it serves no beneficial purpose to the member. Let them opt in to such an arrangement if they felt that a MySuper investment option better suited their circumstances.

Thank you for the opportunity to comment on your Exposure Draft Amendments.

For the record I confirm with you that I am a member of the Financial Planning Association (FPA) and of the Corporate Super Specialist Alliance (CSSA).

Yours sincerely,

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Managing Director