

18th February 2014

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

Dear Sir/Madam,

### **FoFA Matters and Related My Super Matters**

I would like to congratulate the Government on its initiative to cut the red tape and simplify matters without reducing member protection.

My business provides onsite education along with insurance and financial planning advice to thousands of retail Corporate Super members. Many of those members are not otherwise able to access financial planning advice and greatly appreciate the involvement in their financial wellbeing my staff and I provide. Removing general advice from conflicted remuneration and making scaled advice easier will ensure these members will still have access to these services, albeit with a fee.

In addition to more than 700 hours per annum spent in various workplaces around the country and dedicated support staff fielding member enquiries we provide the following services in the workplace:

- Superannuation Fund Services
  - Fee comparisons
  - Investment profiling and selection
  - Transaction analysis and advice re excessive contributions
  - Insurance costs and product analysis
  - Insurance definition comparisons
  - Product flexibility
  - Retirement savings options
  - Accessibility via online, print, mobile etc.
  - Claims management and financial counselling to benefit claimants
  
- Education
  - How to plan for financial security
  - How to budget
  - How to read a Member Statement
  - Where to access information
  - Why it's important to have a valid Beneficiary Nomination

- Investment and economic trends
- Investment risks
- Interaction between markets and Superannuation
- What a Trustee does
- What a Fund Manager does
- What happens to your money in the event of death or disablement
- How to salary sacrifice
- Retirement planning strategies
- Estate planning and asset security
- Personal goal setting and planning to achieve them
- Managing debt and achieving financial soundness

In addition to these member focused education sessions, we work with the Human Resources and Payroll departments to ensure:

- Compliance with the Law
- Assisting with remittance reconciliations
- Assisting with error tracking and remediation
- Assistance with online reporting tools
- Online transactions
- Admin systems for user education

**The removal of funds under advice commission is regrettable, the ability to receive intra fund advice fees is useful but not enough for many employer superannuation fund members who consume more education and assistance services than a small \$80 annual fee can provide.**

We also provide each employer with:

- 6 monthly policy committee meetings
- Comprehensive insurance claims services
- Negotiation services regarding non-standard terms and discounts with Fund Administrators
- Negotiation services regarding insurance terms including:
  - Rates
  - Auto acceptance levels
  - Definitions

At claim time we support the claimant through the whole claims process to minimise their concern and confusion. We manage the assessment process and ensure all requirements are met to ensure the claim is paid. Where claims are declined we mediate between the claimant and insurer and assist with developing alternative financial solutions, including attempting to arrange ex-gratia claim payments.

Personal advice on all aspects of financial services is provided to fund members; this advice is paid for by the member, however we do so at a discount reflecting the ongoing service fees from the corporate arrangements.

The removal of trail commission on funds has meant that where all these member services have been offered in the past without a fee, we now have to charge a nominal fee to help offset the cost of delivering education in the work place.

Any further reduction in revenue from corporate superannuation would see these services stop in the workplace. As a business, we simply can't afford to invest hundreds of hours delivering education, general financial advice and support without being remunerated. Whilst it's true that those who appreciate the cost of advice will pay for it, the people upon whom we have the greatest impact are those who can't afford advice.

In many instances our advice would not be covered by intra-fund advice but has saved members from financial hardship, foreclosure on their mortgages and in some instances bankruptcy.

The nominal fee we now need to charge has already seen a reduction in take up of these extra services. These are a direct result of the removal of adviser commissions on Funds Under Advice.

We need to be able to continue to deliver workplace education to ensure our fund members are in the best possible position as they head towards retirement. However, it is too late to start planning for retirement at 60, planning needs to start in your 20's. Small changes today - a few extra cents a day will, over 40 years, deliver exponential results.

This is not about superior investment returns. It's about teaching people about financial soundness and helping them develop strategies that take them on the journey to retirement.

The vast majority of employers are already under duress to meet profit targets, having them fully fund the cost of delivery would be nice, but for most it is unrealistic and simply will not happen.

A few simple solutions:

### **Intra Fund Advice**

- Needs to be transparent and reported separately to other fees on the member's statement
- Each member's contribution to marketing, promotion, sponsorship should also be clearly displayed
- Intra Fund Advice is not personal financial planning advice that would continue to be paid on a user-pays basis.
- A Scalable, employer specific Intra Fund Advice Fee, as each employer group represents unique requirements which include:
  - Adviser input
  - Number of sites
  - Number of site visits
  - Geographic location of those sites
  - Frequency of education sessions etc.
  - Member demographic

The Intra Fund Advice Fee should be scalable and determined through consultation with the policy committee on a case by case basis. This PER MEMBER fee should be transparent and agreed to, on a fixed-term review cycle. If the service is not used then no fee should be charged. But delivery costs are based on delivery to the group, as a seminar costs the same to deliver to 20 people as it does to 200.

Fund demographics also tend to heavily influence engagement. Firms with older average ages require more input and more visits than firms with lower average ages.

In summary:

- A generic one size fits all approach will in fact fit no-one and ultimately impede effective member education
- Complete transparency is the only way to instil consumer confidence
- The ability to tailor service packages and match intra fund advice fees to each group is the best way to ensure financial literacy for Australian workers can continue.



## **Group Insurance**

For employees wishing to provide financial security for the families of employees who die prematurely there are very few ways to provide that benefit except through superannuation.

If a group policy of insurance is held outside of superannuation the employer will pay FBT on the premium. In the event of a claim the employee's estate is liable to pay ETP tax on the benefit received.

By putting this cover in Super the employer doesn't pay FBT and the benefit paid to a dependant is also tax free. It's a win-win situation.

Group Insurance benefits are negotiated on all of our plans, e.g.:

- Benefit design
- Rate discounts
- Free Cover Thresholds or Automatic Acceptance Levels

The work required to get the best deal for an employer and the members of the fund is intense and time consuming.

We are remunerated by way of level commission over the three years of the contract, there are no upfront commissions. The cost of time spent negotiating terms and design is amortised over year one. The cost of on-going administration and claims management support is amortised over year two and profit falls in year three.

Many superannuation fund administrators charge a 'handling fee' on Group Risk Premiums and provide no support to the employer or the member. As advisers we do all the work and need a mechanism for payment.

User-pays would be unrealistic, and unworkable. How do you recover the cost of time spent negotiating terms, structure, rates and claims when the member is dead?

The fund does not pay us to manage claims, complete forms or console grieving families. We need the ability to resource these services as we can't predict when and how frequently they are required.

Financial Advisers are also the last chance the Group Insurance Market has of surviving in its current form in the current climate. With the reinsurance market likely to lose one billion dollars this year, which has been driven by mega deals like those done with Australian Super, the rates for insurance are going to rise.

Financial Advisers simply don't have the clout to negotiate the best deal for a particular fund compared to the likes of Australian Super. We therefore cannot demand deals. We negotiate deals that are viable for the insurer but more complete than retail rates for the consumer/fund member.

Mega deals like the one concluded by Australian Super initially meant the members got better outcomes, but are these outcomes sustainable? No. We have already seen the underwriter of that deal have their re-insurer walk away and rate increases in the order of 125% in premiums over three years with more to come.

On current forecasts ALL of the increase in the Super Guarantee paid into Australian Super members' accounts could be consumed by increases to the insurance premiums within that fund.

It is already widely acknowledged that Australia has a massive underinsurance issue. This is Government's last chance to stop a wholesale slide in the levels of participation.

Financial Advisors structuring deals tailored to specific work places is the best way to ensure sustainable group risk rates in the Australian market.

### **Suggested Outcomes**

- For the employers paying group insurance premiums in addition to the Super Guarantee, sometimes known as Employer Voluntary Contribution, these should be specifically excluded from any ban on commission and not seen as conflicted remuneration, the employer is paying more than they are required to and in each case this is a result of advisor input and continuing engagement. Commission payments should continue
- A ban on commissions for legislated levels of cover, i.e. where there is a requirement for a fund to offer a basic level of cover, that level of cover should be free of commission.
- Commission should be payable and not treated as conflicted remuneration on all negotiated group insurance arrangements. Where an adviser has acted in establishing a group risk plan and providing an on-going service, they should be remunerated for their services. Commissions for group plans are not upfront and there is no risk of churn.
- The cost of services are therefore shared equally as even though a member may not claim, they benefit from superior benefit design and reduced premiums. All members of both My Super and Choice Members are represented by the adviser and remuneration should be distributed across both groups.

### **Product Selection Services**

As a member of the CSSA, I am committed to providing employers with open transparent advice. The employers I deal with are typically employing between 100 and 300 staff. These employers want to know they are providing the best solution for their employees' retirement savings. Should the Government allow employers to select any complying fund to satisfy their Award obligations which will dramatically reduce red tape and simplify compliance by having just one default fund per employer and not one default for each different award, the resulting flood of tenders will need to be dealt with as only larger employers can afford to pay actuaries.

Businesses like mine and my CSSA colleagues are perfectly positioned to provide these tender services.

If employers can't afford to pay for actuarial advice, they should be able to engage a firm like mine. The cost of these services can initially be met by the employer but on-going, scalable service fees should be payable across all My Super funds and set at employer level by the policy committee.

This solution provides flexibility and a pricing structure that can be tailored to suit each firm depending on geography as well as demographics.

### **Conclusion**

I support the reforms to Super and I only wish to be paid fairly for the services I provide in a transparent way.

Government can successfully simplify compliance, reduce costs and protect and promote the need for financial literacy and adequate Insurance for working Australians by allowing:

- Scaled Service Fees for Intra Fund Advice
- The retention of commission for Group Insurance in Super where the premium is paid by way of Voluntary Employer Contribution
- The retention of commission for Group Insurance for all adviser negotiated insurance programmes where the levels of cover are more than those specified in legislation.
- Ensure on-going advocacy and education where a Scaled Advice Fee for Intra Fund Advice can be paid to an Adviser from ALL compliant My Super Funds.

On behalf of my staff of 12 and myself, many specialising in Corporate Super, I thank you for taking the time to consider my proposals. I would be delighted to discuss any questions you might have. My office number is (07) 3223 6010.

Thank You.

Yours sincerely,



Lance Minnam  
Director  
CB Financial