



Healthy Finances

ABN 64 091 874 314
AFSL No. 240026

19 Wandella Avenue
Roseville
NSW 2069
02 9008 7698

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

19 February 2014

Dear sir,

Re: FOFA Amendments Submission

My wife and I run a small independently owned financial planning practice which

- (a) Assists individual clients with their financial planning
- (b) Provides advice to small to medium sized corporations that would like to help their members accumulate enough money for their retirement
- (c) Provides educational seminars, general advice and personal advice to members of these companies

We have been in business since 2000, and applied for an AFSL in 2003. We wanted to provide advice that was truly independent and not conflicted by being authorised representatives of a large institution. I would like to make some comments about the FOFA and My Super reforms from the perspective of our business and our clients.

Removal of Opt in

This is an excellent amendment which saves unnecessary time and costs. Our clients have already agreed and signed off on a mutually acceptable fee structure which they can cancel at any time.

Annual Fee Disclosure

We support the amendment to apply this to new clients only, and agree with the reasons stated in the government's media release.

Scaled Advice

We see Scaled Advice and Best Interests Duty as two separate issues. Our ability to deliver scaled advice is restricted by the need to write a Statement of Advice which takes considerable time to create. Many Australians are prevented from receiving basic advice on cash flow, debt management, insurance and superannuation because any questions about the client's personal and financial circumstances immediately classify our advice as 'personal' not 'general'. Personal advice requires a Statement of Advice.

Best Interests Duty

Our company always acts in the client's best interest and there is no conflict because we are an independently-owned practice. We question how an employee of a financial institution can ever act solely in the client's best interests. Furthermore, the legal definition of 'independence' appears more to do with whether commissions are received than which licensee the adviser is affiliated with. It is a nonsense that a salaried employee of a bank is independent whereas an employee of an independently owned business is not if they receive some insurance commission.

Conflicted Remuneration

Our corporate super business is founded on the mutual benefits received by employers, employees, corporate super providers and ourselves. A crucial element of this mutual benefit has been the willingness of corporate super providers to pay commission on member balances and insurance policies. We have used this commission to subsidise the costs of providing educational seminars, general advice and personal advice.

Our ten corporate super funds cover 720 members with a combined balance of \$30m. The average balance is \$41,666, so each member 'pays' about \$167 a year for the opportunity to attend an annual educational seminar and receive newsletters.

These ten funds also incorporate Death, TPD and SC insurance which we negotiated with a range of corporate super providers. Our 2013 financial year revenue from these ten funds was \$39,000. About \$54 per member.

We do not want to get something for nothing. We wish to be fairly remunerated for the services we deliver. Whilst members can authorise adviser service fees to be deducted from their account balance to cover personal advice on their super, who pays for the costs of general advice via educational seminars and member enquiries?

Corporate Super providers are prepared to pay us 'intra fund advice fees' but these fees are inadequate and have a flawed basis:

- The maximum per member is only \$80 and is intended to cover super and insurance. This is about one third of what we are receiving now.
- These fees are determined by the product provider not the employer or the member
- They are subject to a range of restrictions imposed on us by the product provider. We have to sign an agreement that we will not give personal advice to employers or members.
- They are not disclosed to employers or members.
- Legally, they are considered 'conflicted remuneration' if personal advice is given to employers or employees.

Insurance commission

Members of the corporate super funds that I look after have comprehensive death and disability insurances at preferential rates which we have negotiated for them. I receive 10% commission on insurances where a member has money invested in non My Super investment options. This is a relatively small amount of money that every member 'pays' annually which we use to subsidise the considerable cost in time and money to help the unfortunate few that need to make a claim. If we adopted a user pays system, we would have to charge grieving widows thousands of dollars or leave them to fend for themselves.

Furthermore, under your proposed amendment, we are being penalised because we negotiated more comprehensive default insurance for members. Advisers that limit the default to the basic low level life cover will be able to receive commissions on any amounts

over that. For most Australians, the basic My Super insurance is way too little considering the debt levels and cost of living expenses of the average Australian household

Grand-fathering of trail commissions

Grand-fathering of commissions for existing business is crucial for our livelihood. Practically all our clients have been with us for ten years or more. Our business is structured using a combination of trail commissions, adviser service fees and invoiced amounts which is mutually agreed with these clients. We need time to adjust our revenue. According to the 2013 Macquarie Adviser Benchmarking Survey, the average practice costs \$700,731 to run, with more than half the expenses being fixed overheads. Banning commissions without grand-fathering would consign most financial planning businesses into bankruptcy.

Rick Cosier
Principal
Healthy Finances