Future of Financial Advice

Submission

Exposure Draft – FOFA Amendments

February 2014

Allan Rickerby

Contents

Items Covered

Executive Summary

Super Advice Services are Australia's leading Employee Benefits advisory group who specialise in providing advice support and education to many of Australia's leading companies and their staff on Superannuation, Group Insurance and other employee benefits. Our clients include global icons such as Brookfield, Jones Lang LaSalle and Citic Pacific Mining. Approximately 75% of our business relates to group superannuation and insurance.

The recent release of draft amendments by the Hon Senator Sinodinos was a welcome change from the initial legislation drafted by the Labor Party which did not consider feedback from industry on its impact on consumers or the advice industry. In most cases the amendments announced on the 20th of December protect retirement savings while also enabling more Australians access to advice.

The continuing ban on the payment of insurance commissions under MySuper arrangements will have a material, detrimental impact on consumers and the advice industry. Corporate advisors like Super Advice provide a host of services to the members of our corporate plans but foremost among them is negotiating on their behalf with their provider. Neither employers nor members have the necessary understanding or expertise to structure appropriate arrangements or negotiate with product providers and insurers to achieve a fair price structure – they need professional assistance.

Our clients pay less, in the five most recent examples where we have negotiated default MySuper arrangements for new clients, we have been able to reduce default insurance premiums by 52.3%, 32.6%, 44.8%, 17% and 38%. These changes drastically improved the benefits and costs for the 2,828 Australians who participate in these five default arrangements saving them hundreds of thousands of dollars every year.

If advisors are not able to receive remuneration from group insurance arrangements associated with MySuper default funds, consumers will pay significantly more for their insurance cover. Default members need to be protected from profiteering both by product providers and advisors.

As a result we recommend the gov't lifts this ban but implements a cap to limit the amount advisors can be paid on default arrangements to 0% upfront and no more than 20% ongoing. This approach will strike a balance between protecting members' interests while also ensuring professional advisors can represent members to advise on an appropriate structure and negotiate benefits on their behalf

Introduction to Super Advice

Super Advice Services are Australia's leading Employee Benefits advisory group, we specialise in providing advice support and education to many of Australia's leading companies and their staff on Superannuation, Group Insurance's and other employee benefits. With a history of over 25 years we advise on assets in excess of $800million and assist over 50,000 employees and their families in varied businesses Australia-wide. We are not owned, licensed or influenced by any superannuation or insurance provider, as a result we provide an unbiased service to ensure our clients' entire company has access to the best possible Superannuation and Group Risk solutions.

Our staff consists of 25 employees of whom 13 are licensed financial advisors who provide support and guidance to employers and their staff on financial affairs. We also provide administration support, assistance with insurance claims and underwriting, a call centre facility, negotiate benefits on behalf of employers and their staff and provide educational services for our members.

Typically our clients pay a total MER under 1%. For the vast majority of our clients the MySuper default pricing structures were higher than the pricing structure in place beforehand. This includes the remuneration we receive which averages 0.2% across our asset base. For our clients the advent of MySuper means there will be no improvement in their existing pricing structure but there will be a reduction in service. The default provider will now retain some or all of the advisor payments previously received by Super Advice without providing the services these payments supported.

These services include running Policy Committee Meetings with equal representation from members and employers ensuring staff have a conduit to the trustee and the fund performance, benefits offered, administration and costs are openly and transparently assessed on a regular basis.

A key service we offer is around insurance, we assist employers to tailor Insurances for their Employees. We achieve extremely low insurance rates and the cover is tailored to ensure the median member has life & TPD cover at approximately the level of the average mortgage value = $298,900 at October 2012. Additionally, in group schemes where there is a mixture of ages and incomes, we most commonly recommend the default sum insured should be determined based on formula related to members' age (duration to retirement) and salary. Cover structured in this way is more aligned to the average members needs and is cost effective especially for older staff. As part of our service we also offer financial advice to beneficiaries in the event of a claim. These services are paid for through a small brokerage on the insurance policies (typically around 10%) which pay no up-front rates and ongoing rates are a fraction of those paid in a retail advice situation.

The structures we put in place and the services we provide are attractive to members, we know this because participation rates in the default funds we manage average around 85% even though all our clients have Fund Choice.

This legislation proposed will impact approximately 75% of the revenue Super Advice receives; consequently we expect our staffing numbers and the service and support we provide to drop by 75%.

A Sample of our clients

Response to the amendments

The recent raft of amendments to the FOFA legislation announced by the Hon Arthur Sinodinos in December are overwhelmingly positive and predominately strike a sound balance between protecting Australian's retirement savings, minimising compliance costs and allowing more Australians access to the advice industry.

Protecting default super fund members from profiteering and unnecessary percentage based fees on their account value is an absolute necessity, particularly given the asset values within Superannuation are expected to grow to approximately $6 trillion by around 2025 (source Deloitte Actuaries & Consultants 2009). The FOFA and MySuper arrangements provide significant protection for default fund members which prevent profiteering and percentage based advice fees from eroding account balances unnecessarily. As average account balances grow, allowing percentage based advice fees on default MySuper balances would see a dramatic, and mostly undeserved, increase in remuneration to advisors at the expense of the consumer. This issue however needs to be considered separately from the issue of percentage based fees paid on group insurances such as Life, TPD and Income Protection held within default MySuper arrangements.

Unlike asset based fees insurance premiums will not be affected by the increase in the SG contribution rate to 12% in coming years. Insurance rates will also not be affected by the impact of compound interest, the amount of personal contributions a member makes or any other aspect of a members account balance which is projected to grow enormously in the next decade. If reasonable percentage based insurance payments to advisors are not allowed in default arrangements under MySuper the government will be enabling profiteering and removing a level of protection from consumers which they currently enjoy.

As payments to advisors from insurances under default MySuper arrangements are removed, advisors will necessarily cease to provide advice, support and negotiate on behalf of default fund members. This will have 3 impacts to the end consumer, it will:

1. Increase the cost of default insurances.
2. Reduce the appropriateness of default insurance arrangements.
3. Reduce the services and support provided around insurances.

Increasing the Cost of Cover

Where Super Advice or other specialist advisors are engaged to review default superannuation arrangements on behalf of clients we are able to reduce the price they pay for their insurance cover. In many cases it is not necessary to change providers to achieve a material reduction in insurance pricing. In our experience if an appropriately experienced corporate advisor is not involved the product provider will charge more than is necessary as they are not exposed to informed scrutiny or a competitive process.

To quote specific results in five recent corporate cases covering 2,828 members all reviewed in the past 12 months we have been able to achieve the following reductions in the rate per 000 for insurance cover under default MySuper arrangements.

Case Reference	D&TPD rate per 000 Pre Super Advice	D & TPD rate per 000 Post Super Advice	% Reduction
1	$4.40	$2.10	**-52.3%**
2	$0.92	$0.62	**-32.6%**
3	$1.54	$0.85	**-44.8%**
4	$0.94	$0.78	**-17.0%**
5	$0.79	$0.49	**-38.0%**

Case Reference	IP rate per 000 Pre Super Advice	IP rate per 000 Post Super Advice	% Reduction
1	$10.64	$6.80	**-36.1%**
2	$3.89	$2.70	**-30.6%**
3	$5.95	$5.31	**-10.8%**
4	$6.00	$4.37	**-27.2%**
5	$3.94	$3.05	**-22.6%**

The rates per 000 above vary significantly from one business to another based on the occupational profile, demographics, claims history and risk profile of the different businesses. This makes it very difficult for a lay person, such as an employer who is choosing a default super provider for their staff, to determine if they are paying an appropriate market based price for their insurance cover. In many cases (refer case 1 above) a change in rates was achieved through negotiation with the existing provider and no change in product was necessary. Banning percentage based payments will prevent super advice or other specialist advisory practices from conducting this type of work and will enable Insurers to profiteer.

Market forces will not prevent this type of profiteering as insurance pricing is often unclear; varies between age groups; and is not readily comparable. The complexity of the insurance industry reduces transparency particularly when dealing with large numbers of employees.

Every insurance industry in every country around the globe use intermediaries to broker arrangements on their behalf. This is not a coincidence, market forces and commercial organisations know if they are to achieve cover structured in the most appropriate way at the best price they rely on the advice and support of experts in this area. If we remove the payment mechanism we will remove the ability for these benefits to be provided, the result will be inappropriate levels of cover at an unnecessarily high price.

As MySuper takes effect there is very little variation in the cost of the investment component of default superannuation arrangements, this convergence of price means industry funds and retail funds are now very similar in pricing terms. This convergence of price does not apply to insurance pricing.

In three recent tenders we conducted on behalf of clients we found the range between the most expensive and least expensive provider was 10.4% in relation to their investment and administration fees but 48% on their insurance pricing. This highlights the vast disparity in the cost of cover from one insurer to another based on exactly the same demographics and information.

Reduce the appropriateness of default cover

For most Australians the most appropriate place to hold Life, TPD and to a lesser extent income protection cover is through their superannuation fund. There are a number of reasons for this but the most important are holding cover under superannuation is relatively tax efficient, consumers can get cover at standard rates without having to provide medical evidence and they are able to achieve lower costs as a result of buying as part of a large group.

Legislation does specify a minimum level of Life & TPD cover which must be in place for any default MySuper arrangement. The cover levels and structure of the minimum is a long way below what is appropriate or necessary for the vast majority of Australians. When you consider the average mortgage is around 6 times greater than the legislated minimum you get a sense of how low the legislated minimum is.

Where involved, Super Advice Services will provide advice and support on how to structure default insurance cover arrangements to achieve an appropriate balance between members' needs and the associated cost of the cover. In most cases we recommend the median sum insured in a default Death and TPD arrangement should equal the median mortgage value. The median mortgage in Australia as at May 2012 was $293,600, however this varies state by state (in NSW it was $331,900).

In group schemes where there is a mixture of ages and incomes we most commonly recommend the default sum insured should be determined based on formula related to members' age (duration to retirement) and salary. Cover structured in this way is more aligned to the average members needs and is cost effective especially for older staff where the cost of cover per 000 is far higher. Naturally we need to balance this guideline with the specific needs of the client and the cost of providing the cover. Where the cost of cover is much higher (eg hazardous occupations) we will lower the sum insured to make sure premiums do not erode account balances.

If advisors are no longer able to be paid on group insurance arrangements under MySuper defaults the question needs to be asked as to who will provide advice on appropriately structuring default superannuation arrangements? Employers do not have the necessary expertise, insurers will not provide advice on arrangements specific to the needs of employee groups and trustees will not provide guidance or advice on default arrangements which meet the needs of specific employee groups.

If the ability to pay for this advice is removed the result will be default insurance arrangements will become less relevant and will not meet the needs of the vast majority of Australians who are part of these default arrangements. Ultimately the gap in appropriate cover levels will need to be borne by social security.

Reducing Service & Support

As we have moved from the previous environment to the new MySuper environment we have seen the ban on insurance brokerage under default arrangements take effect. These payments previously supported a raft of services to members, in our case the services we provide for this payment include:

- Negotiating cost structures with insurers
- Structural advice and support
- Claims assistance
- Assistance with underwriting
- Educational sessions to staff
- Dedicated client websites providing information specific to their company arrangements
- A number of online calculators and supporting tools
- Support and assistance to beneficiaries on how to maximise the proceeds of their claim
- Administrative support and assistance
- General advice and factual information
- One-on-one meetings with staff to help them understand their insurances and the associated costs.

As MySuper commences providers have removed the supporting payments for MySuper members but have not refunded the entirety of this reduction to members. In many cases insurers/providers have increased the administration fees they charge internally between their internal insurer and the superannuation provider (for example Comminsure and Colonial) in many cases these charges are % based.

The services specialist advisors provide ensure there is a level of awareness among default members that they have a basic level of cover in place, interested parties are able to engage and tailor their arrangements, they know who to come to for support, assistance and advice in the event of a claim and they have access to an expert who understands the business they work in, the cover they hold and what options they have available to them.

Approximately 75% of the revenue of Super Advice comes from the brokerage we earn on insurances under default superannuation funds. As MySuper becomes embedded and these payments diminish we will cease to operate in our current form and will begin the process of making employees redundant as a consequence.

Conclusion

The recent changes made to FOFA and MySuper are by and large a very positive change for both consumers and for the advice industry. It is refreshing to have a government in place who follow due process and have engaged the industry in consultation before making changes which affect advisors and more importantly our clients.

Consumers in default arrangements must be protected from profiteering particularly as assets grow strongly over the next decade. Super Advice Services support and endorse this position however the current ban on monetary benefits paid to licensees, or representatives, in relation to MySuper Insurances will have a detrimental impact on Australians and their retirement balances.

One aspect which is clear is specialist advisors like Super Advice Services improve group insurance arrangements by:

- Reducing the cost of cover our clients pay
- Setting levels of Life, TPD and income protection cover which are appropriate to the employee group.
- have a much improved experience in the event of a claim
- are better able to engage and communicate these benefits to staff

Insurance rates are a key differentiator when it comes to comparing default superannuation arrangements with providers charging vastly different prices for very similar cover. It is clear that both consumers and employers lack the expertise & insight to adequately assess their default insurance structure, understand the associated pricing and make a determination about what an appropriate cover package looks like. This is true for small, medium and even large businesses with HR and finance professionals focusing in these areas.

Time and again we find businesses without a professional advisor are paying more than is necessary for their default arrangements, do not have appropriate structures in place, have a low level of engagement between employees & their financial affairs and do not understand their options.

Without an appropriate payment no-one will advise on default levels of cover which are appropriate and suitable for different groups of employees. Structures which suit full time permanent workers do not necessarily suit casuals within the same business. If the employer is left to make these decisions they will simply opt for default minimum levels of cover which are not necessarily appropriate or relevant for their employee group.

In his Plenary Address to the Association of Financial Advisers, National Conference, Gold Coast on the 13th of October 2013 the Hon Aurthur Sinodinos noted:

Recent experience in the UK indicates that banning commissions on risk insurance just doesn't work. In fact, the UK has since reversed its decision to ban such commissions. Such bans increase costs for consumers, limit their choices and leave many people worse off

This statement is absolutely accurate in relation to group insurances under default MySuper arrangements. The data Super Advice Services and other specialist advisors have collected over many years highlight this fact again and again. If professionals are not allowed to act on behalf of consumers the cost and appropriateness of their arrangements will suffer.

While we believe it is necessary to allow a level of brokerage to be paid from Group Insurance arrangements under MySuper consumers must be protected from excessive or unnecessary costs. In this regard we are fully supportive of the government implementing a limit on the amount which can be charged to default members under Group Insurance arrangements. Whether this limit is a dollar based amount or a specific percentage of the premium is irrelevant, what is important is that consumers can continue to benefit by having access to insurance professionals to intermediate on their behalf and prevent profiteering by fund managers and insurers.

MANAGING DIRECTOR

SUPER ADVICE SERVICES

Financial Services Guide (FSG)
PART 2

Allan **Rickerby**

Authorised Representative No. 252761
SUPER ADVICE CORPORATE SERVICES PTY LTD No. 245602

Allan has been involved in corporate financial services since 1990. After several years in senior positions, he established Super Advice Services in the belief that there was an opportunity to provide a quality service to employers and employees, with transparency and integrity whilst looking after staff.

CLIENTS WITH A RELATIONSHIP OVER 15 YEARS

SGS JWHGROUP CAPE CRUSHING & EARTHMOVING CONTRACTORS PTY LTD D'ORSOGNA SINCE 1949

A significant number of corporate clients have worked with Allan for over 15 years & the average time key staff have worked together is in excess of 15 years.

MANAGING DIRECTOR

Allan is responsible for negotiating the best possible outcomes with Financial Service providers ensuring the agreed services are delivered to clients, being both employer & employees.

Allan, is paid a salary and may be entitled to bonuses and/or other benefits. His is also a Shareholder of Super Advice Services and is entitled to distributions.

Allan believes in 4 base principles: Work hard; Look after clients (staff & suppliers); Make money; Have fun.

AUTHORISATION

Super Advice Services holds an AFSL No. 283049 and is responsible for the advice provided. Allan is authorised to advise and deal in the following financial products:

- Corporate Superannuation Products
- Personal Superannuation Products
- Retirement Products
- Business Insurance Products
- Personal Insurance Products
- Group Insurance Products
- Retail Investment Products
- Deposit & Payment Products

"We exist to serve our clients and our business must evolve as their needs evolve.

Put simply, our focus is on you."

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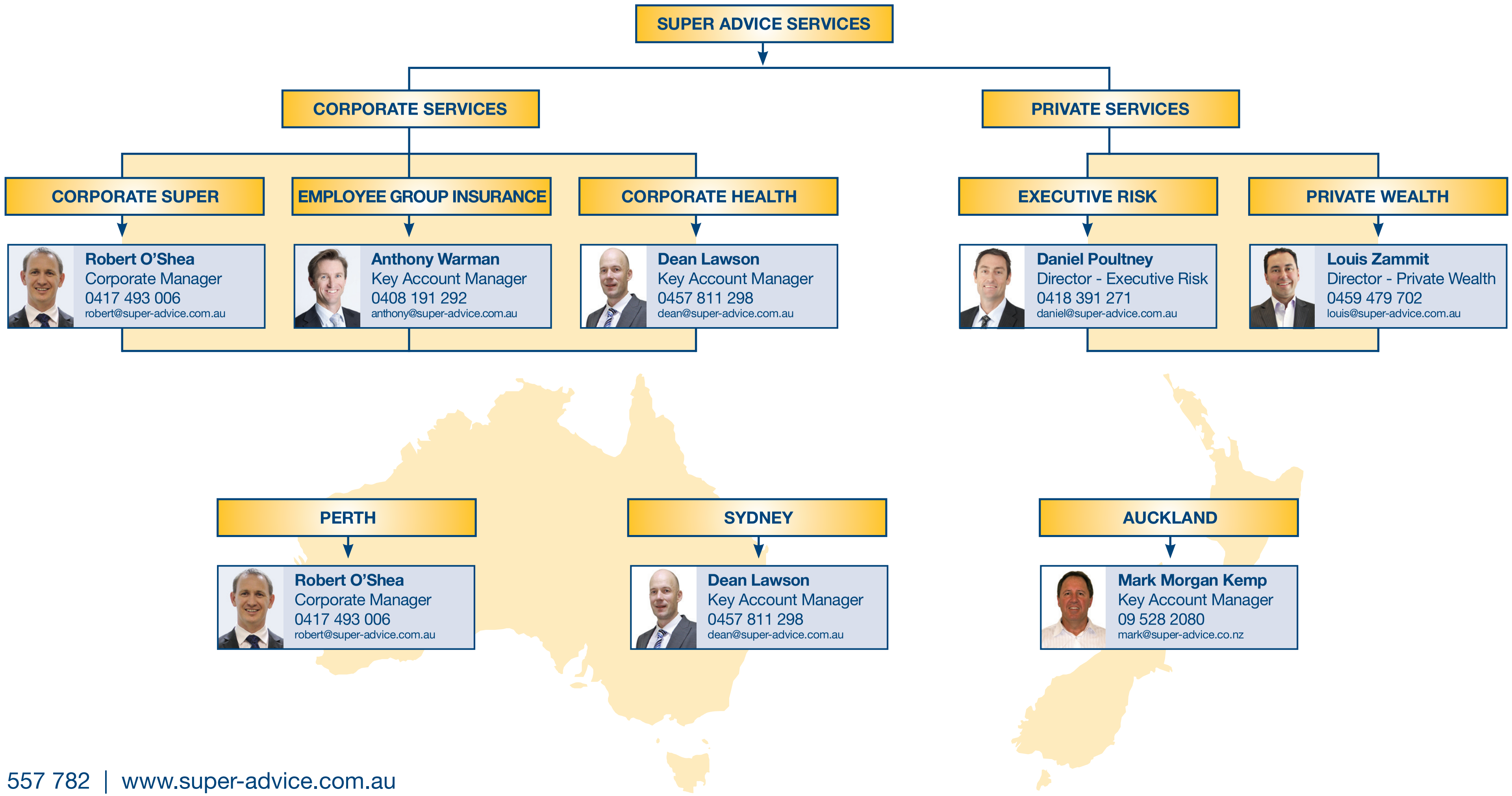
SUPERADVICE EMPLOYEE BENEFITS

Service Structure



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SUPERADVICE
CORPORATE SUPER

Life's complicated, we make super easy!

We review your Corporate Super arrangements and Employee Group Insurance Benefits to restructure or implement the best arrangements for you and your employees.

We turn your super obligation into a genuine employee benefit, with time saving and cost reduction solutions.

Our service package is unique and ranges across your business, the Super Fund Policy Committee and your employees.

Our Unique Service Solutions

Super Fund Review

Does your business offer the most appropriate super fund?

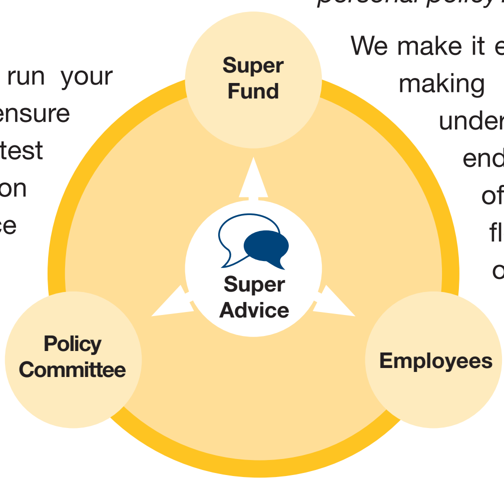
A good super fund is key to adding value to an employee's salary package. We conduct extensive fund reviews and a comparative analysis of your current super fund with others in the industry.

We asess fund design, fees and members services to ensure your current super fund is appropriate for your company's needs.

Policy Committee Meetings

How do we keep up to date with changing legislation?

We help establish, manage and run your policy committee meetings to ensure you are up to date with the latest legislation. We also offer advice on performance measures for service and investment returns.



Education Programs

How do we communicate the true value of the benefits?

Our customised education programs and seminars encourage members to take an interest in their super. We have Advisers to assist members with retirement planning, personal wealth development strategies, and tailored Gen Y communications to engage younger employees.

Group Insurance Employee Benefits

Did you know insurance through super or as a group policy outside of super is cheaper than through a personal policy?

We make it easy for you and your employees by making sophisticated insurance simple to understand and easy to deliver. In the end, your employees receive the benefit of no medical underwriting, with the flexibility to choose more insurance options.

That means quality cover for death, total and permanent disability and salary continuance.

Employee Support

At *Super Advice*, our work does not stop when the policy is drawn up. Our qualified Advisers work closely with employees to help maximise their super investments.

Private Advice

All of our key personnel are licensed to advise on super choice, insurance and investments. Employee members can personally tailor their fund, as well as attend one of our onsite member information sessions or use our interactive web services.

Processing Insurance Claims

Making an insurance claim can be stressful. Our insurance team is highly experienced and efficient at claims processing. They are well connected within the claims industry for swift processing and stress-free claims.

Administrative Assistance

We know the backend paperwork is often the most terrifying! That's why we provide professional administrative assistance, so that claimants can speak directly to experienced administrators who immediately follow up claims until they are settled or paid.

We also provide assistance to employees by reducing fees, finding their lost super and consolidating their different funds.

Our partners for over 15 years

We have a significant number of corporate clients that have aligned themselves with us for over 15 years; with our key staff having worked together in excess of this.

Services Package

Business benefits

- Full administrative and HR support
- Effective Policy Committee set up; ongoing education and operation
- Accurate and on-time reporting (business and employees)
- Effective Super Fund monitoring (administration and investment performance)
- Tailored Insurances within your Fund
- Tender Management of your Super Fund requirements, if needed
- Effective Survey facility available to understand your employees' needs
- Simple, uncomplicated and effective employee communications tailored to your company

Effective Policy Committee servicing

- Regular and fully catered meetings
- Regular review of the Fund structure and services
- Fund monitoring; administration delivery and investment performance
- Management of insurance matters; Claims, Underwriting and Pricing
- Management of employee education requirements

Employee benefits

- Effective Super Fund communication upon joining your company
- Timely and accurate member reports
- Group and individual education via internet, face to face and written
- Management of staff Insurance Underwriting and Claims requirements
- Assistance with consolidation of all previous Super Funds
- Telephone and email services facility

Our highly experienced and professional Key Account Managers will assist you to tailor your company's super arrangements.

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Allan Rickerby
Super Advice Services

It's all about the MEMBER

Everything happening in super, including the Cooper Review, is rightly focusing on the fund member. ALLAN RICKERBY says any resulting legislation must ensure their interests remain at the forefront.

The super guarantee industry is now over 20 years old and there are layers of Legislation governing how we all operate. There are many stakeholders, all providing different services and of course there are multiple ways in which we all get paid. We have fees, commissions, consulting charges and so on. Call them what you like, it is simply service providers being paid for what they do.

The Cooper Review is certainly looking under every rock to make sure when it hands down its findings, that fund member retirement outcomes are improved and of course, possibly lessen the Government's pension liability in future.

So what should we be doing to continue to provide the best possible platform for services and education to our members and also support to employers? It is important that trustees, employers and policy committees are all in sync because, with the lack of support for fund choice, most members operate their super savings plan through the employer default funds.

EFFECTIVE EDUCATION

At a recent Financial Ombudsman Services Conference in Melbourne, Jeremy Cooper talked about "Swimming Between the Flags". I can't think of a better or more recognisable way to explain "risk" to our fund members.

How many of our members really understand basic superannuation concepts let alone what is happening to their money when they are invested in a capital stable or balanced investment portfolio?

The planned scaled down version of Product Disclosure Statement booklets should also have a single page focus with relevant comparable details to allow members to compare funds and features and importantly understand their options and position.

A common question we're asked is how much money will I have when I retire?

Again, our experience is that very few people know how much they will have or, just as importantly, how much should they be aiming to have. Without this focus, many people will still need to be subsidised by the pension in retirement.

WHAT IS THE VALUE OF INSURANCE?

Employer funds can provide very significant automatic cover. For example, a group of 500 employees will get up to $800,000 automatic cover for death and total permanent disability and up to $8,000 monthly benefit for income protection.

The premiums via an employer default fund are usually on a group basis providing discounted costs. Premiums are generally deducted from the 9 percent SG contribution, so the member does not need to find the money each month from their pockets and it is all paid for before tax.

Best of all, major fund managers allow the member to alter benefits to suit their own needs, without compulsion to retain cover if it is not required. Members already have the ability to sign out of this component of their super fund.

WHAT IS THE MEMBER PAYING FOR?

Under a corporate default super fund the member is paying for many more services than just "advice", unfortunately, the fee for this aspect has come in for most criticism through the media. It is pleasing to see that Cooper is reviewing exactly what is being paid for by our members, including all administration services, investment management, insurance requirements, compliance and reporting requirements.

Many fund members don't really need financial planning advice. They need education and service to help them understand where to go to get the tools and knowledge to take control of their retirement and family protection planning.

IS SCALABLE, RELEVANT ADVICE ACHIEVABLE?

Scalable advice is really only found in large corporate employer default funds and sub plans with assets over $5million.

As part of the corporate plan, members should immediately receive a low cost, reducing fee structure, automatic insurance cover specifically tailored for the particular employee group and an investment default portfolio either age based or utilising low cost index managers.

Corporate super specialist advisers provide services across the board, to the employer, the policy committee and most importantly, education and super advice services to the member as opposed to the typical financial planning offering which generally targets the individual.

There is no doubt that everyone needs to be paid for their service provision, and this can be achieved while still having an overall fee structure under the 1 percent total MER inclusive of a "Super Advice" fee of 0.2 percent.

The future of super should be and generally is through the employer default fund because size does matter.

Industry funds, public sector and corporate master trusts already provide fee discounting relative to the total assets within a fund as well as discounts at the member account level. The member is already benefitting from these structures.

The question around fees is one of the most critical elements currently being looked at by Cooper, with input invited from the industry, but more importantly we should be looking at the value delivered for any fees within super.

So if it's not all about the member, it certainly should be. They are the people paying, so they should know what value or service they are getting for the fees inside their super savings. SF

Allan Rickerby is Managing Director of Super Advice Services, a specialist Corporate Superannuation and Group Risk Advisory Group.