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Federal Government Ministers are debating whether or not superannuation funds should be forced to disclose their fees and charges to consumers. What has the industry got to hide?

### Program Transcript

**Terry Lane:** When Mr Keating came up the idea of a compulsory national superannuation scheme, it was said to have two functions: one was to force us to save for our old age and the other was to create a pool of capital available for investment in Australian companies. What may or may not have been envisaged at the time was that the sight of all that money lying around would be an irresistible temptation to those who make a living playing with other people's money until it's all gone. There are two superannuation industry bodies and one of them wants to tell us what it charges to look after our super and the other one doesn't. And members of the government are divided on the battler's right to know. According to the ABC's Finance Editor, Alan Kohler, the Parliamentary Secretary, Ross Cameron, thinks that we do have the right to know; that is, funds should be compelled to reveal fees and charges. And the Assistant Treasurer, who seems to be in charge of all this, Helen Coonan, thinks that it's best we don't know. So what's going on? What is being hidden? With me now is Catherine Wolthuizen, the Senior Financial Services Officer with the Australian Consumers Association. Catherine, good afternoon.

**Catherine Wolthuizen:** Good afternoon.

**Terry Lane:** Now Alan's article appeared in the Fairfax papers a few days ago. What's the situation now on enforcing fee disclosure?

**Catherine Wolthuizen:** Well at the moment, we're still hoping there'll be some resolution between the two industry groups that you named. Unfortunately late on Friday afternoon, IFSA, that is the organisation which represents the retail or for-profit super funds which tend to be run by large life insurance companies or banks, effectively threw up its hands and said, 'We will go no further in discussions on disclosure' and at this stage, things seem to be at a bit of an impasse. Now we have until pretty much the 10th April, that's the deadline set by the parliamentary secretary, Ross Cameron, for those two organisations to come to some agreement. Perhaps it's a little bit of last-minute manoeuvring and a little bit of hardball. We'd understand why that might be the case given what's at stake here.

**Terry Lane:** What's the difference between the two industry bodies? One as I understand it, represents commercial interests and the other are those super funds which are like public service superannuation funds, industry funds and so on.

**Catherine Wolthuizen:** That's right. When superannuation was first set up over a decade ago it came in through the award process and the initial funds, now known as the industry funds, cover industries as a whole. So you'll have the just super fund, which covers journalists and media workers, or you might have another one which covers those working in the financial services industry. Now since then, the larger financial institutions, the banks in particular, who operate their own managed investment funds, have moved into the superannuation area and they operate on a for-profit basis. So the structure of the funds tend to be quite different and particularly the costs of those funds tend to be quite different and representing those two are ASFA, on behalf of the industry funds, and IFSA on behalf of the retail or for-profit funds.

**Terry Lane:** And what do the IFSA members not want us to know?

**Catherine Wolthuizen:** Well unsurprisingly, given that they are run to generate a profit for the institutions that own them, these funds tend to cost more. Now they'll often also have a range of different additional features built in to the structure of the superannuation fund. But they are considerably more costly than many of the not-for-profit funds out there with which they're effectively already competing. So moving to a situation of greater transparency may place them in a position of some competitive disadvantage to the cheaper funds because all of a sudden it will become abundantly clear to Australian superannuation fund members that there are these funds that charge fees that are much, much less, in some cases thousands and thousands of dollars less, than the ones being run for a profit.

**Terry Lane:** Well one of the industry funds, to which I belong, charges a fixed fee which it's quite a small fee and it's not related to either your capital or to any growth that they achieve, it's just a fixed amount which it appears they arrive at by dividing the total cost of running the fund amongst all of the members. I'm happy with that. There's another one that I belong to where the fee is based on the capital in the fund but they don't tell you that, they say something like 'There is a two per cent management fee', and you think 'Oh well, that's two per cent of the growth income' but in fact it's two per cent of your capital.

**Catherine Wolthuizen:** And that's really the heart of this matter. What many people don't appreciate is that if they're a member of a fund that charges a percentage on the amount they have invested, that what sounds like a very small, benign amount, say one per cent, two per cent, three per cent, can actually represent an enormous amount of money over the course of an investment lifetime, and as you continue to contribute to the fund, as you continue to put your minimum nine per cent in, out of your salary, the amount that you're paying in fees of course gets proportionately larger as well. And the compounding effect over time can really erode any returns or earnings that your fund might make. Now you may want to be in a fund that gives you a greater

investment choice attached to that higher fee but the problem is at the moment most people wouldn't appreciate just how much those fees can actually cost in dollar terms.

**Terry Lane:** Well Catherine, if you're approaching retirement and you had a large capital sum tied up in your superannuation and it's in one of those schemes where you are charged a fee on the basis of your capital, you could be going backwards in the last two or three years of your working life, couldn't you? The fees theoretically could be greater than the contributions.

**Catherine Wolthuizen:** And unfortunately in some cases that's exactly what's happened over the past couple of years as returns from investments have been very low since September 11 when share market performance around the world has dipped. There have been people who've opened up their annual statement and despite the fact they're contributing on an ongoing basis, they're putting their nine per cent in, earnings - negative returns - and the effect of fees combined, have actually seen them going backwards. So it's a very material consideration, the cost of fees related to the particular fund you might be a member of, because it can actually affect whether you're going to have enough superannuation to live on in retirement.

**Terry Lane:** Part of the problem here it seems to me Catherine is that superannuation is one of the three great mysteries of life; you know, who can understand the mobile phone contract, who can understand a health insurance contract, and who can understand superannuation? Do the funds take advantage of the fact that most of us have got no idea what's going on?

**Catherine Wolthuizen:** Look I think the structure of the superannuation industry does reflect such a low level of engagement and such a low level of understanding amongst most superannuation members. We're required by law to make our contributions and be a member of at least one superannuation fund. For most people they're too busy worrying about the day-to-day financial issues such as meeting the mortgage repayments and paying their bills, to worry too much about their superannuation and that has generated very favourable conditions for some players in the superannuation industry. They've got their guaranteed money flowing in from that compulsory superannuation contribution, they've got consumers who don't really know or care too much about the details of how their superannuation fund is run and what is charged, and they've got a very long time frame before they have to be accountable. And it's about trying to push that, the development of that industry to make it more accountable. And also trying to raise awareness among consumers about the importance of taking a good, hard look at their superannuation affairs to try and get some greater transparency, get some greater accountability, and in particular drive some efficiency in that industry.

**Terry Lane:** There are now hundreds of billions of dollars in the national

superannuation account. How safe is it?

**Catherine Wolthuizen:** Well safety has been an issue over recent years and I think everybody wants to first ensure that superannuation is safe and there have been a couple of fund failures. And while the number of failures, or the proportion of failures is tiny in comparison to the superannuation industry as a whole, it's not tiny for those people who are directly affected. There have been changes introduced to boost the qualifications of trustees of superannuation funds, to ensure that there's more scrutiny and accountability of how superannuation funds are run and I think those improvements have tended to shore up the safety of Australian superannuation.

**Terry Lane:** This issue of disclosure in financial services is not only related to superannuation funds. The other area where it has become a question mark over the ethics of an entire industry is to do with these people who call themselves financial advisors or financial planners. Now in my limited experience, asking a financial advisor what his interests are in the advice that he has given, was that he just reacted offended - how dare I ask? But as I understand it, I'm entitled to ask whether he's getting a commission on the things he's recommending.

**Catherine Wolthuizen:** Well your financial planner now has to tell you quite clearly what commissions or factors are influencing the advice that he is providing you and that is a new requirement under legislation which came into full effect last month. So whether it's a direct payment received from a particular fund, whether it's a soft dollar commission that these bonus or incentive payments that some investment funds and superannuation funds will pay planners to recommend their products, all of this now has to be disclosed to a consumer. So not only should people be asking but they should be told upfront.

**Terry Lane:** A couple of years ago, ASIC, the Australian Securities and Investments Commission, tested some financial planners and found that most of them failed the test; that either their advice wasn't good or it was dishonest or it was incompetent.

**Catherine Wolthuizen:** That's right. That was a survey of financial planning advice conducted in conjunction with the Consumers' Association and we found, despite our expectations that there would have been an improvement on previous similar surveys, that the industry had actually gone backwards and that 51% were borderline or fail in terms of the quality of advice they provided to the consumers we sent along to get a comprehensive plan. And that was a real shake to the confidence that we had in the financial planning sector. I think for many financial planners it was a real wake-up call. There were some who continued to remain defensive about their role and the role of that industry but I think many others are realising that standards do need to be raised, confidence does need to be re-won and that ultimately that's probably going to have to mean some practices in that industry change quite fundamentally and we'd like to see

that start with how financial planners are paid.

**Terry Lane:** Now this gets back to this question of making ordinary people financially literate. Most people would assume if they were going to see a financial planner who had his office in the branch of a bank, that that person was being paid a salary by the bank to give completely disinterested advice to the inquirer. But apparently that's not so.

**Catherine Wolthuizen:** Well frankly, whether you walk into the branch of a bank and speak to a financial planner or whether you go down to your local high street and talk to a financial planner, in most cases to some degree that planner has links with the largest financial institutions, the banks, who now not only own a large proportion of the managed funds and superannuation funds that you might be sold or recommended into, they also own a lot of the financial planners or the way they pay them on commission means that they effectively are able to influence the advice that is provided to consumers. So providing better disclosure is a way of trying to counter that to at least alert consumers to the fact that there are very big vested interests sitting behind the advice that they receive and that when they go and see a financial planner in many cases what they're actually seeing is an investment broker, someone who's paid to sit there and recommend particular products from the institutions who pay him or her to do so.

**Terry Lane:** The critical point here is that most people - I'm guessing but I would imagine - most people who seek the advice of a financial planner do so when they're nearing retirement and what they want to know is how they can manage their money most effectively to give them an income stream from that money, and it struck me on the advice that I was given that the level of risk involved in following this advice would mean that at any moment my capital could be wiped out and I wouldn't have an income stream. Now what are the rules that govern advice in these circumstances, where a person is advising people near retirement how to prudently invest their saved capital?

**Catherine Wolthuizen:** Well under new changes to the Corporations Law that came in last month, financial planners are under quite strict guidelines about how they assess a consumer's needs and circumstances, particularly assess their risk profile, take into account a range of issues and financial needs that they might have and then provide advice that is appropriate to those needs and circumstances. Now when we conducted our survey last year that was ahead of those new requirements coming in to full effect but even so, we still found widespread problems with trying to fit the client to the risk profile, not fitting the advice to the client, and that often resulted in people being recommended into quite risky investment strategies, particularly being advised to borrow either to buy shares or by units in managed funds and in some cases a whole range of issues and needs that the consumer had set out to the financial planner simply not being addressed in the plan, there being a very clear focus on trying to flog products, as it's often referred to, selling people in to margin loans or managed

funds.

**Terry Lane:** And how do we protect ourselves from the unscrupulous salespeople?

**Catherine Wolthuizen:** Well I think while there's always going to be an onus on consumers to try and put the hard word on their financial planner and ask them relevant questions about conflicts of interest, ask them to justify the recommendations that they make and of course press them to make sure that they provide advice on areas that may not generate a commission for the planner, there's also obviously a very heavy onus on the professional body, the Financial Planning Association, and on the regulator, to hold financial planners accountable. While for example, ASIC has undertaken a number of actions against financial planners in instances of out-and-out fraud, there also needs to be quite high profile action in instances of inappropriate advice because as a consumer, if a financial planner directly pockets your savings and runs off with them, well that obviously has a devastating impact on your finances, but if they give you drastically inappropriate advice you lose your life savings that way, well you end up in the same situation too and people need protection from that as well.

**Terry Lane:** When you look at the performance of superannuation funds and these sorts of managed funds over the past few years, how do they compare with the interest that you would get on fixed deposits in the bank?

**Catherine Wolthuizen:** Well it's very interesting. When we discuss around this new model of disclosure and the kinds of assumptions that you might want to make when making forward projections of the impact of fees on returns, the figure of return that's often bandied about is six per cent, and yet the industry seems very reluctant to ever put that down on paper as any kind of even potential target that someone could point to.

**Terry Lane:** Are they claiming that as the average growth rate or something?

**Catherine Wolthuizen:** Well it's a number that to a certain extent is sort of plucked out of the air as a kind of safe return figure to assume. There have been times over the past ten years where double that has been earned by some funds and times over the past three years where returns have been very much below that. But it's interesting that if you just wanted to put your money into an online savings account, one of these no fees online savings accounts, they offer between 5 per cent and 5.75 per cent return at the moment. So that level of return for many people is going to push them as to whether or not they'll have an adequate amount to retire on. It's certainly not a headline grabbing particularly exciting level of return and when you factor in fees around that of course you can see consumers being very much behind what they'd need to be earning off their super.

**Terry Lane:** Catherine as the country's greatest living expert on this subject, I'm bound to ask you where do you put your savings?

**Catherine Wolthuizen:** I'm at a stage in my life where savings are probably not the great priority for me that hopefully they will be later.

**Terry Lane:** Oh you're a reckless spendthrift are you?

**Catherine Wolthuizen:** I wish I could be a reckless spendthrift. No if I had savings I probably would put it into an online account to allow me to access it. While there are certainly advantages to putting money into superannuation, early access is not one of them. So at this stage of my life I like to have a little bit more flexibility if I did have savings. But to be serious, I did consolidate my superannuation and that's certainly something we advise people to do as well, to choose a fund with the features you need that's appropriate to you, make sure you have a good look at the fees that are being charged and make sure you're only paying fees on one fund.

**Terry Lane:** Is it the case now that you can nominate any superannuation fund as your preferred super fund?

**Catherine Wolthuizen:** No it won't be the case in every circumstance, although there is a much higher degree of portability where employers may give employees a selection of fees where the capacity to roll over your older funds and older accumulated investments into one fund does give people greater flexibility in the superannuation fund they choose. Super choice is still on the table and there's no doubt that it's something that the Assistant Treasurer, Helen Coonan would like to see implemented. At ACA at some point, we would like to see superannuation choice implemented but it's important to do it properly because overseas experience shows that where you don't have access to quality financial advice and where consumers are at risk of being churned into funds that charge high fees and don't deliver reasonable returns, then people do lose their life savings.

**Terry Lane:** So in other words if you're in a high fee fund you can't elect to move into one of the funds that for instance charges a fixed fee?

**Catherine Wolthuizen:** Not in every circumstance, no. And that is something obviously that we would like to see altered in coming years but unfortunately at present the more likely scenario in a super choice environment would be that people who are currently in low fee funds, in these more straightforward not-for-profit funds, would be targeted to churn their money out of those funds into the high fee ones because it's the high fee funds who pay the commissions to financial advisers and who provide the incentives to generate business and to generate an inflow of funds into their coffers and that in our view, is not going to

necessarily be in most consumers' interest.

**Terry Lane:** Why was the expression 'lambs to the slaughter' come to mind?  
Catherine, thank you very much for your time and thanks for coming in.

**Catherine Wolthuizen:** It's a pleasure. Thank you.

**Terry Lane:** Catherine Wolthuizen, who is the Senior Financial Services Officer with the Australian Consumers Association.