AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

1 December 2017

Australian Securities and Investments Commission

Email: submission@financialliteracy.gov.au

Dear Sir/Madam,

Re: National Financial Literacy Strategy – Consultation

Thank you for the opportunity to provide input on the National Strategy for 2018.

We recognise the importance that financial literacy plays in equipping individuals with the necessary skills to make good financial decisions. Financial literacy skills can improve an individual's ability to make financial decisions that are in their best interests, both now and into the future. However, we believe that the deficient regulatory framework within Australia is hampering the ability of individuals to make appropriate financial decisions. The current framework allows market participants to develop and sell products and services that are inappropriate for consumers and leave them worse off at retirement, or are simply incapable of being compared with other products and services. In order for the Strategy to be effective in improving financial outcomes for Australians issues such as these must be addressed.

Young people entering the workforce in 2018 will face serious challenges at retirement

Young people entering the workforce in 2018 will retire in 2065. Many of these young people will face economic insecurity or poverty at retirement for a variety of reasons, including:

- The housing affordability crisis which, according to the Committee for Economic Development of Australia will continue for the next four decades unless governments intervene. In particular, it is now widely recognised that people who do not own their own home are at significant risk of poverty in retirement.
- The movement of large numbers of workers into the gig economy. According to the Australian Industry Group, in 2016 4.1 million Australians, or 32 percent of the workforce, had freelanced during 2014 and 2015. Many of these workers experience interruptions in their Superannuation Guarantee payments as they move between temporary jobs, or are employed as independent contractors and receive no superannuation.

Ground Floor, 215 Spring St
Melbourne VIC 3000

T +61 3 8677 3800
F +61 3 8677 3801

info@aist.asn.au
www.aist.asn.au

- The ageing population. The Federal Government has already increased the Age Pension eligibility age to 67. According to the Australian Institute of Health and Welfare, Australia's older generation continues to grow and is projected to more than double by 2057. This will continue to put pressure on the Age Pension and in turn Australian taxpayers that contribute to the system.

Financial literacy and member decisions

AIST's member superannuation funds dedicate significant resources to member education services designed to increase both member engagement with super and the financial literacy of individuals. Funds are using increasingly sophisticated technology to better understand and segment their members in order to tailor educational activities and resources to different member cohorts.

While these efforts meet members' immediate needs for information, and provide a foundation to build increased member financial capability over time, it must be recognised that increasing members' financial capability is a long-term project and that many members, particularly younger members, are likely to remain disengaged from long term financial decisions such as superannuation.

Further, many members who do engage with and make active decisions about superannuation often make bad decisions that could see them worse off in retirement. This is most evident by comparing the investment returns achieved by members in default super funds, compared to those who have invested their super in the choice products offered by banks and insurance companies. SuperRatings research commissioned by AIST in March 2017 revealed that choice investment options in the 'for-profit' super funds (offered by banks and insurance companies) are often nearly three times more expensive than profit-to-member funds and provide lower investment returns on average. In other words, members who exercise the choice to switch from a default MySuper product to a choice product are typically worse off at retirement. This negatively impacts not only on individuals, but also on the efficiency of the super system as a whole, with the choice sector inefficiently managing a very significant $830 billion dollars of superannuation assets compared to $600 billion in the higher performing default sector.

Research by RiceWarner for Industry Super Australia in September 2017 estimated the aggregated net impact of switching funds was a net decrease in retirement savings of $284 million per year.

First Australians

AIST is committed to improving retirement outcomes for all Australians, including First Australians. AIST has a Reconciliation Action Plan that sets out the actions we will take during 2017-2018 in order to promote reconciliation with First Australians and move towards improving their superannuation outcomes.

Due to the disadvantage experienced by First Australians we believe it is essential for the 2018 National Strategy initiative to continue to prioritise First Australians.

Financial literacy and money management programs for First Australians are essential in building capability and help them plan for their retirement. However, the National Strategy must be complemented by a strong consumer protection framework as detailed below.

We believe consumer protection regulation is vital, particularly in the context of protecting First Australian consumers that may be disproportionately affected by poor behaviour of third parties.

We acknowledge the positive work that ASIC does with First Australian communities through programs such as the Indigenous Outreach Program and projects such as the 2015 investigation of book up practices in community. It is essential that focused projects and programs such as these continue in order to better support First Australians to build their financial capability and to enable ASIC to address systemic issues that affect the social and economic status of First Australians.

A robust consumer protection framework is critical

Behavioural economics has identified a range of behavioural biases and cognitive limitations which explain why, once engaged, many members make poor long term financial decisions. It is extremely challenging for financial literacy to overcome these biases and limitations. Consumer protection regulation therefore plays a critical role in attempting to correct information asymmetries between fund members and funds offering choice products, and imposing obligations on trustees and intermediaries to act in the best interests of members.

Unfortunately however there are numerous exemptions, gaps and inconsistencies in the consumer protection framework for choice superannuation products and investment options, platforms and legacy products which hamper the ability of consumers to make good decisions about their super. A summary of these exemptions, gaps and inconsistencies can be found in ‘Appendix A’ titled *Overview of exemptions from superannuation consumer protection framework.*

Recently the Government introduced the *Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No 1) Bill 2017*. This Bill proposes to strengthen the obligation on superannuation trustees to consider the appropriateness of their MySuper product offerings on an annual basis. This obligation would not however apply to choice products. This is the latest example in a consistent pattern of exemptions from the consumer protection framework for choice products. This is indefensible in light of the clear evidence that many members who exercise choice are worse off as a result.

Digital strategy

The growth and prevalence of digital technologies are changing the way that companies and individuals interact. As the National Strategy will have a longer timeframe than previous strategies, we believe it is essential for ASIC to use digital technologies to help deliver the strategy and in other areas of their operations. Distribution of information through digital means and active engagement with consumers through various digital mechanisms may improve ASIC's ability to perform key actions under the Strategy.

The growth of digital technologies may also reduce a consumer's ability to learn essential money management skills. Electronic payment methods and use of credit and EFTPOS cards have become the preferred transaction method among consumers.[1]

While cash will continue to play an important role in our economy the move towards a cashless society may curtail peoples' abilities to learn essential money management skills and understand the nature of a transaction. It is difficult to understand the role of money if you cannot see it change hands – a child that sees a stack of coins increase in size as they save and get smaller as the spend is an important lesson that the digital world cannot easily replicate.

AIST recommends that the National Financial Literacy Strategy for 2018 address the fact that many young people entering the workforce in 2018 will face economic insecurity or poverty at retirement. It is essential for the Strategy to continue to prioritise First Australians and for work to continue in building a strong consumer protection framework to complement the strategy and the work of ASIC. The Strategy should also be flexible, to allow it to be adapted to suit the needs of future Australians and to capitalise on digital technologies as they develop.

[1] Reserve Bank of Australia (2016). *The Future of Cash.* [online] Available at: http://tinyurl.com/y92hfz46 [Accessed 22 Nov. 2017].

For further information regarding our submission, please contact Jake Sims, Research Officer on jsims@aist.asn.au or on (03) 8677 3855.

Yours sincerely,

Eva Scheerlinck
Chief Executive Officer

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $700 billion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

Appendix A – Overview of exemptions from superannuation consumer protection framework

Different treatment	Analysis	Impact on consumers
No explicit duties on trustees to promote the financial interests of beneficiaries, or apply a scale test for choice products/investment options.	The value of retirement savings in pre-retirement choice products /investment options is double the value in MySuper products. In 2014 SuperRatings found substantial differences between fees for MySuper and choice products, particularly within retail superannuation funds – even when the underlying asset allocations were almost identical. According to APRA there are 120 MySuper products but over 40,000 member investment choices.	The compounding effect of higher fees over the long term reduces retirement incomes for members of choice products. Choice overload baffles members. The choice sector of the superannuation system is not achieving efficiencies of scale.
The Government has repeatedly deferred the requirement for choice dashboards since 2014.	The Super System Review, Financial System Inquiry, and the Grattan Institute have all concluded that the level of fees paid by members is too high. SuperRatings has criticised the poor level of disclosure of fees, noting there is still a long way to go to achieve comparability of fees across MySuper and choice products/investment options.	Members of choice products/investment options do not have a dashboard and so cannot easily compare their returns, fees or costs with MySuper products.

Different treatment	Analysis	Impact on consumers
APRA does not collect or publish statistics on choice products/investment options equivalent to the comprehensive statistical collection derived from the MySuper reporting standards.	APRA deferred collecting data for choice products/investment options for consideration during the development of the requirements for choice dashboards.	Members rely on APRA, employers, advisers, Government, researchers, commentators and trustees to analyse the characteristics and performance of choice products/investment options. Lack of data hampers this.
No requirement to ensure switching funds is in the best interests of the member when giving general advice or under no-advice business models.	There is evidence of an increase in cross-selling retail superannuation using general advice and no-advice business models.	Members are switched from a MySuper product to an inferior choice product/investment option, when it is not in the best interests of the member.
New fees and costs disclosure requirements do not apply to superannuation held via a platform.	According to Rainmaker, over 70 per cent of retail superannuation assets in Australia are held via platforms. According to Lane Clark Peacock, UK members may be paying up to 20 basis points per annum to access an active fund through a platform when compared with the cost of going direct to the fund manager. According to the UK Financial Conduct Authority, platforms add 20-90 basis points to costs.	Disclosure for superannuation held via a platform understates fees and costs paid by the member. ASIC admits it would be misleading to compare the fees and costs of platforms and non-platform superannuation funds. The compounding effect of higher costs over long term reduces retirement incomes for members.

Different treatment	**Analysis**	**Impact on consumers**
The (unimplemented) dashboard regime for choice products/investment options will not include platforms.	While the Government amended the regime to require dashboards for products/investments held via a platform, platforms themselves will be exempt.	Members who hold their superannuation via a platform will not have a dashboard for it, compounding an existing difficulty comparing their returns, fees or costs with MySuper products.
APRA does not collect or publish statistics on platforms equivalent to the comprehensive statistical collection derived from the MySuper reporting standards.	APRA deferred collecting data for choice products/investment options for consideration during the development of the requirements for choice dashboards.	Members rely on APRA, employers, advisers, Government, researchers, commentators and trustees to analyse the characteristics and performance of superannuation held via a platform. Lack of data hampers this.
No requirement to produce a shorter PDS for legacy products.	According to Rice Warner, around 30% of personal superannuation assets are held in legacy products.	This makes it difficult for members in legacy products to compare the performance, fees or costs of the product with a contemporary product, understand the exit costs and assess whether they would be better off switching to a contemporary product.

Different treatment	**Analysis**	**Impact on consumers**
The (unimplemented) dashboard regime for choice products/investment options will not include legacy products.	Rice Warner found fees and costs for legacy products are on average more than double those for contemporary products. UK Independent Project Board found £26 billion in legacy pension schemes had investment manager fees above 1%, with nearly £1 billion exposed to fees over 300 basis points per annum.	Members who hold legacy superannuation products will not have a dashboard, making it difficult to compare their returns, fees or costs with contemporary products.
APRA does not collect or publish statistics on legacy products equivalent to the comprehensive statistical collection derived from the MySuper reporting standards.	APRA deferred collecting data for choice products/investment options for consideration during the development of the requirements for choice dashboards.	Members rely on APRA, employers, advisers, Government, researchers, commentators and trustees to analyse the characteristics and performance of legacy products. Lack of data hampers this.
Conflicted remuneration is banned for most of the financial services industry, but there is an exemption for advice about retail life insurance.	In 2014 ASIC found more than one third of advice about retail life insurance reviewed did not comply with the law. 96% of non-compliant advice was given by advisers paid an upfront commission.	Consumers are at significant risk of being recommended a life insurance policy that is not in their best interests. Industry and Government proposals to address this do not include banning commissions.