

Absolutelysuper

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An article from your super fund

Reforms a win for transparency

The Minister for Superannuation, the Honourable Bill Shorten, has been negotiating with industry stakeholders regarding the remuneration of financial planners for superannuation and insurance advice. He is seeking to implement reforms in the area because more protection is needed for consumers who often do not understand the full price they pay for financial advice or the nature of certain investments recommended to them.

In his media release, "Future of Financial Advice Prioritises Consumers" (28/04/2011) Mr Shorten outlines the key elements of the proposed legislation which include: a requirement for financial advisers to obtain clients permission to "opt in" for financial planning advice every two years; a ban on all commissions on risk insurance inside superannuation and a ban on volume-based payments to financial planners. There is also a "best interests" duty which would require a planner to act in the client's best interest, rather than their own.

The "opt-in" provision is particularly significant because at present financial planners can include ongoing "trailing commissions" when they "sell" a financial product such as superannuation or insurance. This means that on a regular basis, fees are deducted from the buyer's account for the entire time the individual is invested in the product. No ongoing permission from the consumer is required and often the consumer is unaware of the commission being deducted. So if a financial planner moves a member into a retail pension product for example, there may be an annual trailing commission payable from the account until there is a zero account balance. Sadly, member apathy contributes to the depletion of their account.

The Industry Fund Forum and the Financial Planning Association stand at opposite ends of the spectrum on this issue for obvious reasons. The IFF has always contended that ongoing trailing commissions paid to financial planners should be banned as the super contributions are government mandated. In a study conducted by Rice Warner Actuaries commissioned by the Industry Super Network, five common advice scenarios were modelled and in each case the customer was better off paying a set or hourly fee as compared to paying ongoing asset based fees. David Whiteley, Industry Super Network CEO, stated, "The Government's reforms will ensure advice fees are transparent. The 'opt-in' measure will ensure that consumers are not paying for advice that they do not receive and this will make advice a lot more affordable and accessible for ordinary Australians."* In one example from the study the outcome for a member on a transition to retirement pension

who had obtained a genuine "fee for service", that is a set or hourly rate for advice, was \$80,000 better off than a member who paid for ongoing advice subject to asset based fees.

The Future of Financial Advice (FOFA) reforms are intended to strengthen the financial planning industry by adding transparency around fees and charges so that more people will use financial planners in relation to important monetary decisions. Following the collapse of Storm, Trio and Westpoint, Mr Shorten has stated that the FOFA reforms are intended to, "encourage those people who have doubts and concerns about the value of such advice"*** to take up financial planning advice on a fee for service model.

NGS Super and other industry funds now offer financial planning advice to members on a fee for service basis. There are no ongoing commissions paid to planners and members receive an upfront quote as to the cost of the plan based on the hourly rates of the financial planners.



Full disclosure of fees provides transparency and certainty of cost. Bookings for NGS Financial Planning can be arranged through the Helpline on: **1300 133 177**.

Informed financial planning advice is critical for superannuation fund members who lack the experience and expertise to deal with large sums of money at retirement and at certain points during their working lives. Check the adviser's credentials and consider the method of remuneration before accepting the advice from a financial planner, but remember that their expertise can help your standard of living in retirement.



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* Industry Super Network Media Release 30/05/2011

**The Hon Bill Shorten Media Release 28/04/2011

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