

4 February 2022

College of Business and Economics (Building 26C)  
The Australian National University  
Canberra, ACT, 2600

Attention:  
Advice and Investment Branch  
Retirement, Advice and Investment Division  
The Treasury, Langton Crescent  
PARKES ACT 2600  
[AdviceReview@treasury.gov.au](mailto:AdviceReview@treasury.gov.au)

## Submission on the Draft Terms of Reference for the Quality of Advice Review

Dear Treasury,

I welcome the opportunity to make a submission on the Terms of Reference (ToR) for the Quality of Advice Review. My recommendation is to expand the scope and provide more pointed direction under term 3.4, which currently refers to the “role of financial services entities” while mentioning only professional organisations. Below I suggest a recasting of this term, followed by an overview of the rationale for the change.

This submission largely draws on my expertise in superannuation and retirement, which I have been researching for well over a decade. My primary focus is the role that might be played by superannuation funds in assisting their members to identify an option that is suitable for their needs. I also recommend that the role to be played by public sector entities be explicitly addressed as part of the Review. The views offered are my own, and should not be taken as representing the official position of the Australian National University.

### Recommendation:

I recommend that term 3.4 be reframed as follows, or something similar:

- 3.4. The role of other entities, including:
  - 3.4.1 The conditions under which superannuation funds may recommend a retirement strategy to their members under the Retirement Income Covenant
  - 3.4.2 Involvement of public sector entities in providing advice or advice support
  - 3.4.3 Role of profession organisations

### Rationale

In my opinion, the Quality of Advice Review should be framed in a broad context where the key policy aim is to establish a framework under which all investors – including superannuation fund members – are *matched with suitable products and/or strategies*. Financial advice is an important component of this matching process. However, the framing of the ToR appears to envisage ‘advice’ in specific forms, including comprehensive personal advice provided by financial planners, general and intra-fund advice through superannuation funds, and potentially online providers. The ToR should be cast to invite an investigation of advice in other forms. In particular, some individuals who are unwilling to pay for advice yet are not well-positioned to make decisions for themselves may benefit from access to some advice at no direct cost from a source they might trust. The above reframing of term 3.4 is aimed at having the Review consider the possibility that superannuation funds and/or the public sector could provide such advice, most notably in retirement where it is badly needed.

I strongly recommend that the Review examines whether the advice framework should accommodate the scope for superannuation funds to *recommend retirement strategies to members upon request*. Essentially this would

amount to a form of advice where a retiring member asks their fund to make a choice on their behalf, rather than the fund's role is restricted to making available a range of options to choose from supplemented by information and providing a conduit to comprehensive advice for those who are willing to pay for it. This mechanism could operate as a complement to the Retirement Income Covenant, which requires funds to make retirement strategies available to their members but leaves open the question of how members are to be matched to those strategies. Under the existing advice rules there is no clear mechanism by which the fund itself may indicate to members which strategy may be most appropriate given their circumstances. The two options currently available are either paying for advice or deciding for themselves, neither of which may be effective for some members. This occurs against a background where a retiring member is *required* to make a decision upon reaching retirement, noting there is no default mechanism (unlike accumulation).


The rationale for the superannuation fund making a recommendation – which we denote ‘fund-guided choice’ – is detailed in a joint paper by David Bell from the Conexus Institute and myself.<sup>1</sup> Our basic argument is that this matching mechanism may be preferred and could lead to better outcomes for some (not all) members. We argue that the ability of comprehensive advice to cater for members is inhibited by cost and scalability. Those who choose for themselves can be exposed to the risk of poor decisions due to limited financial literacy, behavioural influences, vulnerability to exploitation under complexity and propensity to draw on uninformed input such as family, friends or online sources. A recommendation from their fund may not only provide a more effective matching mechanism for some members; but it also offers scope to embed beneficial nudges to deal with issues such as anchoring on minimum drawdown rules or investing too conservatively.

There are, of course, potential issues with superannuation funds being permitted to recommend a retirement strategy to their members. These include reduced exposure to competition, and conflicts that might arise from superannuation funds playing a joint role as product provider and advisor.<sup>2</sup> Nevertheless, fund-guided choice should be given due consideration by the Review as another form of advice that could fill a significant gap in the matching process for retirees, with a view to weighing up the potential benefits and risks.

I also suggest that the role of public sector entities be explicitly included in the ToR (term 3.4.2). There are at least two aspects that might be examined by the Review. The first is whether the public sector may itself be a provider of advice, for instance by expanding the functionality of ASIC's Moneysmart. David Bell from the Conexus Institute and Pamela Hanrahan from UNSW have written on this issue.<sup>3</sup> Second is whether member data should be made available to assist advice providers to better tailor to members or cohorts of members, specifically in retirement where the appropriate strategy can vary significantly with member attributes such as assets outside of superannuation, access to the Age Pension and partnered status. The Review might investigate the conditions under which selected information held by Services Australia and the ATO may be made more widely available, perhaps subject to permission from individuals.

I would be pleased to provide more input or discuss my submission if that would be of assistance. My email address and mobile number appear below.

Yours sincerely,



*Associate Professor Geoff Warren*

geoff.warren@anu.edu.au

+61 411 241 091

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<sup>1</sup> Bell, D and Warren, G. (2021). “Ensuring All Retirees Find a Suitable Retirement Solution”, *Conexus Institute*, July, <https://theconexusinstitute.org.au/wp-content/uploads/2021/07/Ensuring-all-retirees-find-a-suitable-retirement-solution-27-July-2021-Final.pdf>.

<sup>2</sup> There may be some wariness over ‘vertical integration’, the risks of which are illustrated by the collapse of Dixon Advisory. Rather than ruling out this option for this reason, it should be approached as another matter that the Review might consider.

<sup>3</sup> Bell, D. and Hanrahan, P. (2021). “Retirement transition support that is safe by design”, *Conexus Institute*, October, found at: <https://theconexusinstitute.org.au/category/research-and-submissions/>.