

Quality of Advice Review Secretariat
Financial System Division
The Treasury
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Quality of Advice Review – Issues Paper

Cbus welcomes the opportunity to comment on the Quality of Advice Review.

About Cbus

Cbus Super was established in 1984. Created by workers for workers. We are a proud industry super fund, representing those that help build Australia. Everything we do is to benefit our members, and only our members, so they can eventually enjoy the retirement they've worked hard for. We work hard to make sure that the super system is delivering for our members.

As one of Australia's largest super funds, we provide superannuation and income stream accounts to more than 775,000 members and we manage over \$68 billion of our members' money (as at 31 December 2021)¹.

Due to the nature of work in the building and construction industry, Cbus members typically have lower superannuation balances than the general population across all age groups. They are also less likely to own their own home outright, more likely to still have a mortgage at retirement age and more likely to have difficulty saving. The typical Cbus member is therefore not the target market of retail financial advisers and as a result have considerably lower rates of financial advice take up than the general population. This is also in part attributed to members' reluctance to seek advice from a retail financial adviser, due to past experience and negative publicity.

Cbus helps members make informed decisions about their retirement outcomes by providing access to factual information, general advice, retirement income estimates, intra-fund personal advice to members. Members who would benefit from comprehensive advice, are referred to an accredited Certified Financial Planner (CFP) via a referral program through the Financial Planning Association of Australia (FPA).

Summary of our submission

Our submission focuses on the below key areas:



- The value of general advice that super funds provide to existing members and its role in making advice accessible to more Australians.
- The value of intra-fund advice and the need for it to be expanded to cover retirement advice.
- The review should consider providing further clarity on how superannuation funds can provide guidance to existing members that is not subject to all of the current personal advice requirements, so that members can make better and more informed decisions.
- The expanded role of retirement income estimates and digital advice so that advice can be provided at scale.

¹ Media Super is now a division of Cbus, offering Media Super products. For more than 30 years Media Super has been the industry super fund for Print, Media, Entertainment and Arts, and broader creative industries. As at 31 December 2021 Media Super provided superannuation and retirement accounts to 72,000 members and managed \$7 billion.

The value of general advice that super funds provide to existing members



The Issues Paper states that *'it is not clear how useful general advice is'* and that the Review will consider *'general advice provided by product issuers in the course of selling or administering financial products.'* However, certain forms of general advice are very helpful to existing members and the variety of conduct that falls under general advice is much broader than selling or administering financial products.

Whilst Government and Regulators should rightfully be concerned by practices of providing personal advice using 'general advice' models to mis-sell superannuation products (a practice which should be banned and strenuously enforced) Cbus provides many services which currently help existing members that are being delivered under a genuine general advice model and do not relate to the selling of a superannuation product.

General Advice Type	General Advice example	Benefit
<p>One to one</p> 	<p>General advice to existing members on available investment options, investment markets and volatility</p>	<p>For example, access to advice can make a significant difference to a member considering switching their investment options to cash in times of volatility. This was further evidenced by the Retirement Income Review which highlighted fund research that <i>'found that 83 per cent of the self-directed group aged over 50 who switched to a more defensive option during the GFC, missed the rebound in markets and had not switched back by the end of June 2010. This suggests that members who switch during periods of market stress may not switch back without prompting, further emphasising the value in ready access to advice and guidance.'</i>²</p>
<p>Group</p> 	<p>Retirement webinars – Cbus provides educational sessions that members can attend. Retirement planning seminars are designed to help members understand their financial position at retirement, while providing information on a number of pre-retirement strategies.</p>	<p>In 2020-2021 our Seminars and Support Team engaged with 6,700 members through education sessions over the course of the year. We held 67 retirement planning webinars where we invited members approaching retirement to our series of sessions. The content, knowledge and quality of presenters along with the ability to interact in a session contributed to the positive satisfaction score of 8.5 out of 10 for Member Education and 9.0 out of 10 for Retirement sessions</p> <p><i>'Within the definition of financial education, advice involves providing consumers with counsel about generic financial issues and products so that they can make the best use of the financial information and instruction received, rather than offering recommendations regarding individual products and services'. The main advantage of advice is to guide workers in managing risks, estimating their retirement income needs and in taking decisions about their pensions'</i>³</p>

² Retirement Income Review (2020), pg 452. Available from <https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf>

³ OECD (2016), Pensions Outlook. Available from https://read.oecd-ilibrary.org/finance-and-investment/oecd-pensions-outlook-2016_pens_outlook-2016-en#page146

<p style="text-align: center;">Online</p> 	<p style="text-align: center;">Calculators</p>	<p>Cbus provides members access to a number of online calculators to help them plan their retirement. This includes contributions calculators, retirement spending planner, insurance needs calculator and retirement income calculator.</p> <p>The use of the calculators provides members with a greater understanding of how they are tracking for retirement and steps they can take to improve their retirement outcomes.</p>
<p style="text-align: center;">Paper/Online</p> 	<p style="text-align: center;">Fact sheets & newsletters</p>	<p>Cbus provides educational support to members through fact sheets and newsletters. Topics range from how binding death nominations work, changes to insurance and market volatility.</p> <p><i>“Exposure to financial education programs can positively influence the retirement planning and savings behaviour of individuals. Research indicates that seminars, written communications and website information are effective methods in communicating financial education.”⁴</i></p>

Case study one	Case study two
<p>A Cbus member contacted Cbus Advice Services in April 2020. The member was invested in the high growth option, was concerned about the market downturn and was considering switching to another option.</p> <p>A Cbus adviser provided the member with general advice about market volatility and the potential implications of switching. The member decided to remain in their current investment option, which allowed their account to recover its losses. The Cbus High Growth Option ended the financial year with a positive return of 0.63% and returned 25.95% the following financial year.</p>	<p>Another Cbus member, who didn't speak with Cbus Advice Services, changed their investment option to the Cash option on 25/3/20, which was right at the bottom of the market.</p> <p>As a result, their investment earnings for the financial year were negative \$32,000.</p>

Accessible Financial Advice

13. How should we measure demand for financial advice?

Demand for financial advice should be measured considering the full spectrum of assistance and advice that is needed to meet the needs of all Australians. For example, Citizens Advice in the United Kingdom analysed unmet consumer needs around financial advice and financial guidance and found that there were four advice gaps, this included the affordable advice gap, the free advice gap, the awareness and referral gap and the preventative advice gap⁵.

⁴Australasian Accounting, Business and Finance Journal (2011), The Role of Financial Education in Retirement Planning. Available from <https://ro.uow.edu.au/cgi/viewcontent.cgi?article=1166&context=aabfj#:~:text=Exposure%20to%20financial%20education%20programs,methods%20in%20communicating%20financial%20education>.

⁵Citizens Advice UK, The Four Advice Gaps (2015). Available from <https://www.citizensadvice.org.uk/Global/CitizensAdvice/Debt%20and%20Money%20Publications/Fouradvicegaps.pdf>

16. How could advice be more accessible?

The issues of accessibility and affordability are key issues for individuals with low retirement balances and less complex circumstances. Cbus members typically have lower superannuation balances across all age groups and therefore are typically not the target market of retail financial advisers. As a result, Cbus members have considerably lower rates of financial advice take up than the general population.

Due to the cost of comprehensive personal financial advice and limited number of financial advisers (that continue to decline), it is not sustainable or scalable at an individual or system level to rely on every single individual member obtaining comprehensive personal advice to make an optimal financial decision, likely to improve their long-term financial outcomes, including retirement. Arguably, for most members their needs can also be addressed through the general strategic guidance they receive in the form of general advice.

Superannuation funds, such as Cbus are some of the largest providers of general advice to Australians. General advice also makes up a significant proportion of the advice accessed by members of superannuation funds. ASIC research in 2019 identified that *'across all funds, general advice made up 75% of advice accessed by members from their fund'*⁶.

As such any amendment to the general advice definition, naming convention and requirements should consider how this will impact super fund members.

When considering making advice more accessible, the full spectrum of guidance and advice must be considered, including general advice and limited advice (intra-fund) provided by superannuation funds to existing members.

Regulatory Framework

20. Is there a practical difference between financial advice and financial product advice and should they be treated in the same way by the regulatory framework?

Yes, we believe there is a difference between financial advice and financial product advice that is narrowly focused on a product recommendation. In the context of superannuation, financial product advice to rollover superannuation funds is different to a superannuation fund providing advice to an existing member. We see a place for product agnostic strategy advice that could be treated differently to financial product advice.

This approach would reduce the cost of entry, create a staged approach to advice – strategy advice first, prior to financial product advice to implement if required. A lack of clarity or fear around the current regulatory framework is preventing this from occurring now. This was found by ASIC during the consultation on CP332 Promoting access to affordable advice for consumers which identified a large number of respondents highlighted that *'uncertainty about legal requirements leading to concern about providing compliant strategic advice'*.⁷ For example, some licensees mandate that an analysis of the existing product's suitability should be undertaken before any strategic advice can be provided⁸.

⁶ Australian Securities and Investment Commission, Report 639: Financial advice by superannuation funds (2019). Available from <https://download.asic.gov.au/media/5395538/rep639-published-3-december-2019.pdf>

⁷ ASIC, Summary of the response to CP332 (2021). Available from: <https://download.asic.gov.au/media/eradomas/infographic-summary-of-the-response-to-cp332.pdf>

⁸ Industry Fund Services, Assessing the limits and regulatory definitions of financial advice (2020). Available from <https://ifs.net.au/assets/Uploads/Assessing-limits-and-regulatory-definitions-of-financial-advice.pdf>

22. What types of financial advice should be regulated and to what extent?

It is important that definitions about what types of financial advice are regulated is clear and comprehensive to avoid gaps in consumer protection. Ambiguity in definitions in given situations can:

- Result in a reluctance to provide certain types of advice,
- Risks of cherry-picking the type of advice provided by unscrupulous providers to avoid more stringent regulatory requirements,
- Consumer confusion about what protections and standards are applicable to the advice received.

Poor advice can have a substantial negative impact on a member's retirement outcome and therefore all advice should be regulated – however the extent of the regulation should depend on:

- The type of advice provided and who is providing it (e.g. personal advice, general advice, product recommendations, strategy only advice, advice provided by superannuation funds) and
- The risks of inappropriate advice to members, including distinguishing between guidance and advice to existing members and product sales.

The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services identified cases of banks using a 'general advice' model as a distribution tool, to mis-sell superannuation in bank branches. This resulted in the strengthening of anti-hawking prohibitions. In addition, the *Westpac Securities Administration Ltd v ASIC* [2021] case also highlighted the bank contacting existing members to encourage them to roll over superannuation held with other providers to their Westpac accounts. These cases are forms of hawking and have since been determined to have provided personal advice and not general advice. These isolated examples should not be considered as indicative of general advice models nor of evidence that general advice is unworkable. As indicated throughout our submission, we believe there is significant value in genuine general advice to assist existing members that is not product distribution.

*"In summary, Westpac's attempts to have customers transfer funds from their external accounts with other superannuation funds into their BT accounts were carefully calculated to bring about this desired result by giving no more than general advice. It was marketing by telephone selling."*⁹ Chief Justice Allsop

Current financial advice regulations and supporting guidance are all written with comprehensive advice providers in mind, with limited consideration of how superannuation funds provide advice to their members. Superannuation funds are a growing source of advice for the average Australian, however funds often have to spend significant time and resources interpreting/retro-fitting regulations for a superannuation environment – where there are often conflicting/duplicating requirements.

Given the widely accepted importance of trust in financial advice, it is important that any changes to the regulatory environment do not remove consumer protections and ultimately compromise trust in financial advice that has taken many years to rebuild.

⁹ FEDERAL COURT OF AUSTRALIA, *Australian Securities and Investment Commission v Westpac Securities Administration Limited* [2019] FCAFC 187

23. Should there be different categories of financial advice and financial product advice and if so for what purpose? & 24. How should the different categories of advice be labelled?

Whether assistance provided to members is labelled as factual information, general advice, personal advice, strategic advice, product advice, guidance, retirement estimates or anything else, the form in which it is provided should be based on what members need and want.

Ambiguity and overlap in the types of advice that can be provided, often results in advice operating models built around internal segregation of resources to mitigate cost and risk, rather than models with the consumer at the centre. For example, a licensee may have separate teams to provide general advice, limited advice and comprehensive advice – whereby a member is passed from one team to another as they progress up the spectrum of advice. If we were to put the member at the centre of our models, we would end up with a different model.

Typically, Cbus members are experts in their vocation and consider that Cbus is the expert in super. They expect us to provide help, guidance, information and advice to support their decision making in order to determine what is the right option for them and those they care about. There should be flexibility in how assistance is provided to members to improve retirement outcomes as members are simply wanting to know what they should do.

The Royal Commission also identified cases of retail providers using a ‘general advice’ model to avoid more stringent regulatory requirements and to sell their products, when in fact they were providing personal advice. This type of distribution model is vastly different to the model used by Cbus which provides assistance and education to existing members.

Any relabelling of general advice should clearly distinguish between product sales and providing helpful education and guidance to existing members. The potential need for more than one label was highlighted by ASIC in their submission to the Productivity Commission in 2018:

“The broad nature of conduct that falls under the general advice definition may mean that there may not be one term to replace the term ‘general advice’ that is reflective of all conduct.” ASIC¹⁰

To ensure that members continue to have access to affordable and accessible guidance, education and assistance that is currently provided to existing members under a general advice model must continue to be allowed and not replaced with an ability to only provide information. This was recently noted by the ALRC which commented that replacing ‘general advice’ with ‘product sales information’ was inconsistent with the substance of the definition and instead commented the terms such as ‘non-personalised recommendation’ or ‘non-tailored recommendation’ would be more consistent¹¹.

As an example, New Zealand recently made substantial to their financial advice regime including new and amended definitions for financial advice, financial advice service and financial advice product. The Act provides a number of exclusions to the financial advice definition including *‘making a recommendation or giving an opinion about a kind of financial advice product in general rather than a particular financial advice product (for example, an opinion about shares generally rather than shares of a particular company),*¹²

Whilst labels are just one aspect, it is also important that how the different types of support available is explained to members. In the United Kingdom, based on consumer research, the Financial Advice

¹⁰ ASIC, Submission to the Productivity Commission Inquiry into competition in the Australian Financial System: Draft Report (2018). Available from https://www.pc.gov.au/data/assets/pdf_file/0008/226763/subdr123-financial-system.pdf

¹¹ Australian Law Reform Commission (ALRC), Interim Report A: Financial Services Legislation (2021). Available from <https://www.alrc.gov.au/wp-content/uploads/2021/11/ALRC-FSL-Interim-Report-A.pdf>

¹² Financial Services Legislation Amendment Act 2019

Working Group concluded that “providing clear, consumer-friendly explanations for ‘advice’ and ‘guidance’ will make the most difference to consumer understanding of the services, and that this far exceeds the benefit of changing the terms themselves.”¹³.

The consumer research recommended the explanations shown be used consistently across the industry.

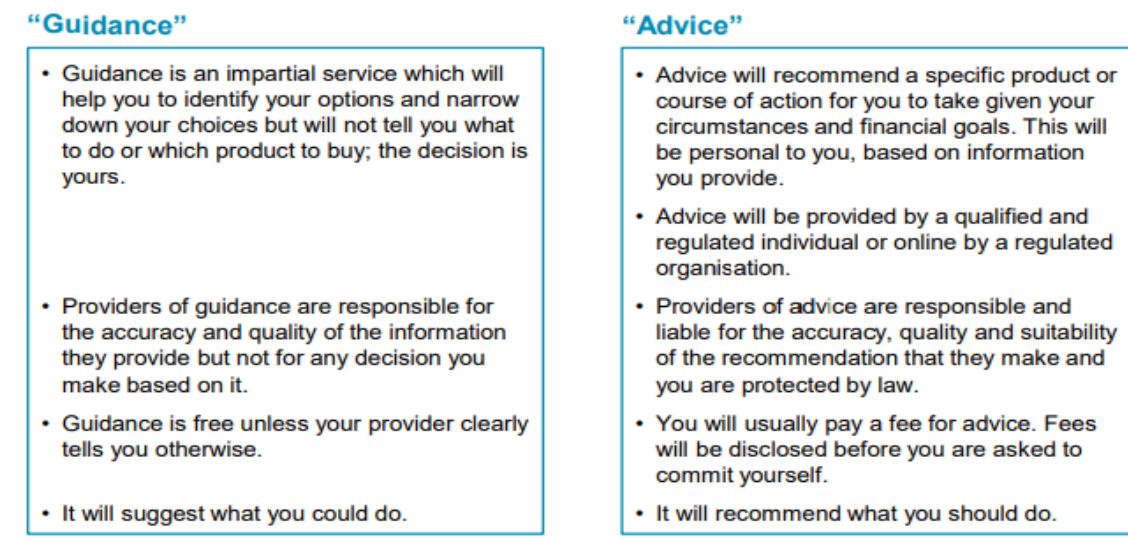


Figure 1: FAWG explanations for “guidance” and “advice” (developed through consumer research)

This approach is supported by recent independent consumer research commissioned by ASIC which identified there are other ways providers can clarify what is meant by ‘general advice’ such as contrasting the descriptions of general and personal advice¹⁴.

25. Should advice provided to groups of consumers who share some common circumstances or characteristics of the cohort (such as targeted advertising) be regulated differently from advice provided only to an individual?

Information provided to groups of consumers who share common circumstances or characteristics is unlikely to be considered by the individual as personal advice and should not be regulated as such. It is not feasible to provide a statement of advice to each individual in this type of situation.

This is important to consider in the context of the recently legislated Retirement Income Covenant. The Retirement Income Covenant legislation acknowledges that trustees are best placed to know their members’ needs in retirement, and provides trustees with the discretion to consider the needs of their specific membership defined cohorts, with a different retirement strategy for different cohorts, and to develop assistance to support them.

Given the Retirement Income Covenant is intended to facilitate the provision of more sophisticated retirement products to help members manage the drawdown phase, it will become increasingly necessary to be able to offer cost-effective guidance to members that can support them to put in place better retirement strategies that have been designed for them by the trustee

Targeted advertising is very different to guidance to cohorts of existing members and must continue to be regulated to ensure that it isn’t misleading. and does not purport to be personal advice.

¹³ Financial Advice Working Group, Consumer explanations of “advice” and “guidance” (2017). Available from <https://www.fca.org.uk/publication/research/fawg-consumer-explanations-advice-guidance.pdf>

¹⁴ ASIC, Findings from consumer research on ‘general advice’ label (2021). Available from <https://asic.gov.au/about-asic/news-centre/news-items/findings-from-consumer-research-on-general-advice-label/>

27. How does applying and considering the distinction between general and personal advice add to the cost of providing advice?

Varying interpretations and uncertainty around the ground rules for providing general advice and a fear of straying into personal advice are causing many licensees to limit their services, avoiding the provision of general advice in a one-on-one situation. This uncertainty often results in them spending more time figuring out what they can and cannot do, rather than providing advice. This is a significant lost opportunity and inefficient use of resources. Our experience is that many members receive significant benefit from general advice around concepts that don't involve a product recommendation. However, again, it is important to recognise that some other providers seek to avoid regulatory requirements by providing personal advice as general advice and using this model as a product distribution model.

The issue of clarity on what constitutes personal advice and what is general advice has been identified and sought to be addressed by other countries around the world. For example:

- In the United Kingdom concerns have been raised about *“understanding the point at which more general forms of consumer support become regulated advice, suggesting that this limits their ability to help consumers by innovating. Some firms are reluctant to offer potentially less expensive support to consumers in the form of helpful guidance, for fear of straying into the provision of advice.”* As a result, the Financial Conduct Authority (FCA):
 - Amended the definition of regulated advice - distinguishing between regulated advice that is a personal recommendation and non-personalised advice.
 - Published guidance to help firms understand the boundary between these two forms of advice.
 - Published materials to highlight the differences between advice and guidance on investments.¹⁵

A recent report by the Social Market Foundation recommended that *‘at a minimum, the FCA should provide clearer information on its current definitions, including more concrete examples of what constitutes “guidance” and “advice”. This should include through provision of “gold standard” examples of guidance that is highly informative and actionable, without straying into advice territory. Ideally, the FCA should go further and adopt new definitions along the lines of those suggested by the Independent Review of Retirement Income. This would see two categories of information, guidance and advice: “personal recommendation” and “financial help”, with the latter replacing everything that is not full regulated fee-based advice where the adviser takes responsibility for a recommendation. Such an approach would give organisations more confidence to offer enhanced forms of guidance without falling foul of regulation.’*¹⁶

- In New Zealand the FMA acknowledged that *“our view of what can be delivered as class advice is too restrictive, the likely result is firms will not allow their staff to give class advice – or, any advice, resulting in New Zealanders not getting the help they need”*. The FMA updated its guidance so advisers can be more confident they are within the rules paying special attention to explaining class advice¹⁷, because as acknowledged by the FMA, much of what customers want and need to know about KiwiSaver is class advice.¹⁸

¹⁵ Financial Conduct Authority, Evaluation of the impact of the Retail Distribution Review and the Financial Advice Market Review (2020). Available from <https://www.fca.org.uk/publication/corporate/evaluation-of-the-impact-of-the-rdr-and-famr.pdf>

¹⁶ Social Market Foundation, A Guiding Hand: Improving access to pensions guidance and advice (2022). Available from [https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/views-and-insights/Guidance%20Gap/A%20Guiding%20Hand%20\(Feb%202022\).pdf](https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/views-and-insights/Guidance%20Gap/A%20Guiding%20Hand%20(Feb%202022).pdf)

¹⁷ Class advice is a recommendation or an opinion that is not personalised advice. It takes into account the pre-defined characteristics that come with a class of people (such as gender, age and risk profile), rather than information specific to a particular person (such as their financial situation or goals). New legislation in NZ has since removed the distinction between ‘class advice’ and personalised advice’ and the guidance not is yet to be updated.

¹⁸ Financial Markets Authority, Kiwisaver advice (2017). Available from <https://www.fma.govt.nz/assets/Guidance/170309-Guidance-note-KiwiSaver-sales-and-advice-v3.pdf>

The value of intra-fund advice that super funds provide to existing members and the case for it to be expanded

The Retirement Income Review found that system cohesion at retirement would be improved if people could consume more of their savings to support their standard of living in retirement, and that this would involve helping people to choose more optimal outcomes¹⁹.

Financial advice and guidance provided by superannuation funds to members is critical to achieving this. Cbus' analysis of member outcomes found that members who received advice were:

- 35 times more likely to open a pension account, and
- 5 times more likely to make a voluntary contribution.

Despite this, there continue to be regulatory constraints that make it difficult for Cbus to provide appropriate retirement advice through a collectively charged model, for which more and more Australians increasingly demand.

“When it comes to super, Australians with unmet advice needs increasingly say they would turn to their super fund for advice, with roughly 1.5 million members approaching their super fund representative for advice over the last 12 months alone. The Investment Trends 2020 Financial Advice Report found one in six Australians say they currently use intra-fund advice services offered by their main super fund. And 37% of those who don't, would like to do so.”²⁰

“You know how to do your job, you don't know how to do pensions, you've got to get people who are professionals.” Cbus member

28. Should the scope of intra-fund advice be expanded? If so, in what way?

Yes, the scope of intra-fund advice should be expanded so that more members can access this valuable service.

Cbus members tend to think of their financial situation in terms of their and their spouse's assets. This is particularly pertinent when it comes to retirement because eligibility for the Age Pension (which Cbus members are more likely to rely on than the general population) is determined on a household level.

Despite this, current intra-fund advice prohibitions make it hard for members to access this highly relevant and sought-after advice at a cost that is collectively charged.

To address this gap, we recommend that intra-fund advice should be expanded to include:

1. Advice which takes into account both superannuation and Centrelink entitlements. Including advice on transitioning into their fund's retirement product.
2. Advice on retirement strategies as a couple.

¹⁹ Retirement Income Review (2020). Available from <https://treasury.gov.au/sites/default/files/2021-02/p2020-100554-udcomplete-report.pdf>

²⁰ Investment Trends, 2020 Financial Advice Report. Available from <https://www.superguide.com.au/retirement-planning/financial-advice-super-funds>

1. Advice about how a member can maximise their Centrelink entitlements including advice on transitioning into their fund's retirement product.

The Age Pension plays a critical role in the provision of retirement income to Cbus members. Previous projections completed by Willis Towers Watson on our behalf forecast 98% of Cbus members receive some form of the Age Pension with almost 50% of members having 80% of their retirement income derived from the Age Pension. Given the critical role that the Age Pension plays in retirement income for Cbus members, it is important that the scope of intra-fund advice can take into account Age Pension entitlements and consider how a member may best to effectively structure their retirement savings.

Whilst there is no requirement to offer any particular product as part of the Retirement Income Covenant, funds must consider longevity when developing their retirement income strategies. However, the current regulatory environment makes it difficult to have a discussion with members around longevity products and to provide guidance to individual members on what is a household-based assessment to 'lock away' a portion of funds. This regulatory barrier push members to what is currently defined as comprehensive advice or to make a decision without advice which could them in a worse position. Furthermore, the development of scalable and cost-effective tools to assist members in retirement continue to be impeded because they fall into personal advice.

2. Ability to advise members on retirement strategies as a couple, when super is their only real asset.

Many aspects throughout life are considered as a couple, including aspects of tax which is based on joint income and eligibility for Government payments (including the Age Pension). Given that 77% of Cbus members over the age of 60 are living with a partner or married it is therefore vital that superannuation funds can provide intra-fund advice to members on retirement strategies as a couple.

A growing body of literature suggests that joint retirement among couples is relatively common and required given that social security entitlements are considered on a household basis. Warren, D (2013) explained that there is some evidence of couples coordinating their retirement and identified that among mature age couples who are not yet retired, at least one in five intend to retire at approximately the same time²¹. Reasons for joint retirement depends on a number of factors including, spending leisure time together in retirement, health and disability limiting ability to work, carer responsibilities and pension eligibility.

When considering the proposed expansion of intra-fund advice, it is important to understand that the rules regarding what type of advice can be collectively charged and what cannot be means that intra-fund advice is more akin to strategic advice and is not conflicted - given there is no product sale incentive. For example, the current rules set out in section 99F of the SIS Act make it clear that intra-fund advice cannot be provided to a person that is not a member of the fund, that advice cannot relate to a product other than their existing fund and cannot relate to consolidation of superannuation.

²¹ Warren, D, Retirement Decisions of Couples: The Impact of Spousal Characteristics and Preferences on the Timing of Retirement (2013). Available from https://melbourneinstitute.unimelb.edu.au/downloads/working_paper_series/wp2013n41.pdf

29. Should superannuation trustees be encouraged or required to provide intra-fund advice to members?

Superannuation funds are best placed to understand the needs of their members and therefore should be encouraged but not required to provide intra-fund advice.

Members need more than just information - The role of superannuation funds providing guidance to existing members

30. Are any other changes to the regulatory framework necessary to assist superannuation trustees to provide intra-fund advice or to more actively engage with their members particularly in relation to retirement issues?

Due to the complexity of issues which a member faces in navigating their retirement due to a lack of alignment in the Australian retirement income system, members may often find it difficult to locate relevant information and translate this information into appropriate actions to improve their retirement outcomes. As recommended by the Retirement Income Review, consideration must be given to providing further clarity on how superannuation funds can provide guidance to existing members that is considered through a different regulatory lens to traditional personal advice requirements and does not relate to a product recommendation. This guidance would still need to be tailored to some extent so that members can make better and more informed decisions.

Given the long-term relationship and trust members build with their superannuation fund, they are well placed to provide guidance and advice to members during their working lives and at retirement. As noted by the Retirement Income Review, given retirement income is the core purpose of superannuation, funds ultimately have a responsibility to provide this guidance to members.

“Overall, giving funds the confidence to provide limited and targeted guidance to members without needing to comply with the legal obligations associated with financial advice would likely improve people’s retirement outcomes. The benefits associated with drawing down more retirement savings and higher standards of living in retirement, coupled with effective regulation, would likely outweigh any potential impact from conflicts of interest.”

Retirement Income Review, pg. 456

Other countries around the world are also seeking to address the issue of providing more guidance and advice to members on their retirement needs. This includes:

- New Zealand – recently introduced requirements that Default KiwiSaver providers will have to make sure they are talking to their members (with evidence of an advice conversation or equivalent digital advice experience) at certain key moments (including when a member joins KiwiSaver, after a member withdraws money for a first home, when a member is 10 years and one year out from reaching 65 and once a member has turned 65 to help them with decumulation decisions.

Guidance - This is advice or assistance provided to people that does not relate to a financial product recommendation. For example, guidance at retirement could include assistance on:

- The best age to retire
- Their Age Pension entitlements
- Their financial position and debts and assets
- How and when to pay down debt
- Their likely future living expenses
- Their retirement income needs

Retirement Income Review, pg. 451

- Chile – 2008 pension reform introduced pension advisors, whose main role is to guide and advise individuals through the retirement process.
- France – Since 2010 has provided a free face-face interview with a pension adviser for individuals aged 45 and over.
- United Kingdom – Free pension guidance is provided to members who are aged 50 or over. As a result of receiving guidance, customers are more knowledgeable and take more positive steps when accessing their pension funds²². Whilst satisfaction is high, reasons for dissatisfaction include not getting an answer to the specific questions they had, thinking the service or guidance is insufficiently personalised and information being confusing and not knowing what to do next²³. The Social Market Foundation suggest that these results *‘may also point to scope for an enhanced guidance offer in which individuals feel more empowered and informed to take action after receiving the guidance, and where the information provided is more tailored to an individual’s specific situation.’*²⁴

“Advice on how long my money will last based on my current and projected future draw-down amounts”. Cbus member when asked what help (if any) they would like from their main super fund

As outlined throughout our submission, the focus on affordability and accessibility is ultimately an issue for individuals with limited wealth who cannot currently afford comprehensive advice, and are unlikely to be able to afford to pay for this advice in the future. Guidance and expanded intra-fund advice should play a key role in addressing this advice gap as superannuation is often an individual’s only/or largest asset outside of their family home. This is particularly the case for Cbus members that often have modest financial assets outside of super.

The issue of a lack of access to guidance and advice at retirement is going to be exacerbated as the number of people reaching retirement age continues to increase over time. For example, in the 1990s Australia’s 65-and-over population increased by an average of around 40,000 per year. This number has risen sharply to 126,000 in 2021, and is estimated to peak at 137,000 in 2026.²⁵ At Cbus alone, we estimate that 11,000-12,000 members will be retiring each year.

When considering the expanded role that superannuation funds should play in providing guidance and advice to existing members, it is important to holistically consider other obligations that trustees have to their members and consumer protections available to members. Some of the key superannuation trustee regulatory requirements are shown in Figure 3.

²² 88% of customers said the guidance helped improve their understanding of pension options, 91% felt it helped them consider their options more thoroughly and 89% felt they had learned something new.

²³ Pension Wise, Pension Wise Service Evaluation: Experiences and outcomes of customers using Pension Wise in 2019/20. Available from <https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-report-2019-2020.pdf>

²⁴ Social Market Foundation, A Guiding Hand: Improving access to pensions guidance and advice (2022). Available from [https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/views-and-insights/Guidance%20Gap/A%20Guiding%20Hand%20\(Feb%202022\).pdf](https://www.thephoenixgroup.com/sites/phoenix-group/files/phoenix-group/views-and-insights/Guidance%20Gap/A%20Guiding%20Hand%20(Feb%202022).pdf)

²⁵ ASFA, The Demographics Group & Challenger, Rethinking retirement: The impact of demographic change and the pandemic on retirement planning in the 2020s (2021). Available from <https://www.superannuation.asn.au/ArticleDocuments/359/2102-Rethinking-retirement.pdf.aspx?Embed=Y>

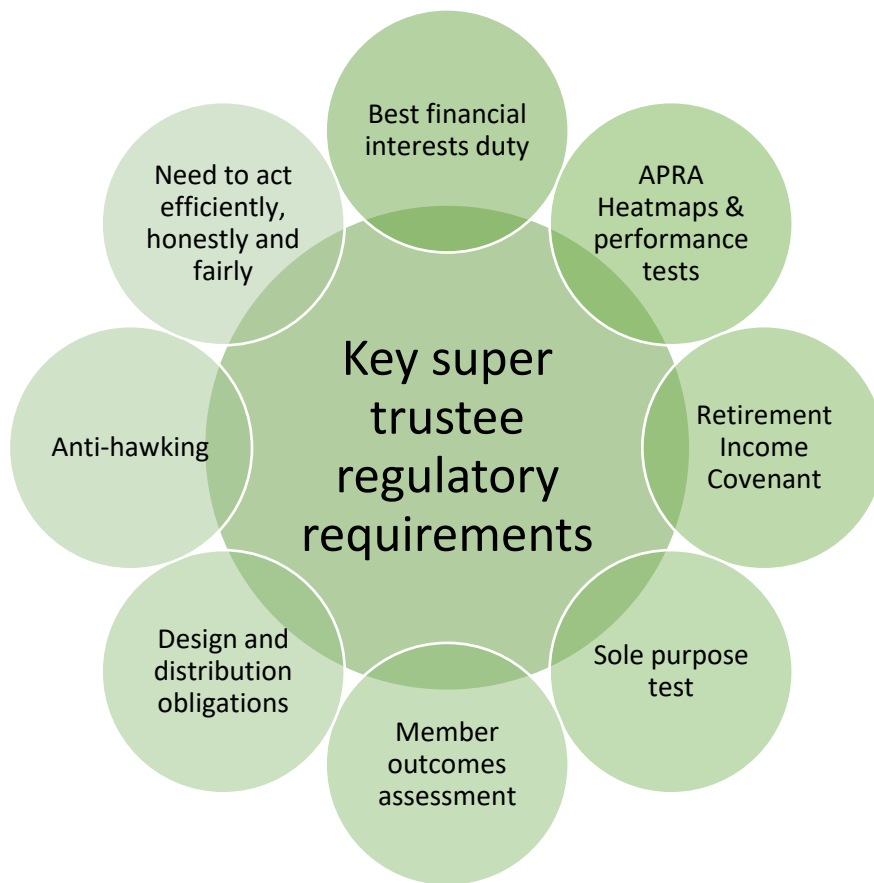


Figure 2: Some of the regulatory requirements and consumer protections in superannuation

Government agencies including Centrelink and the ATO collect and hold a significant amount of information directly relevant to members’ employment, income and retirement. Members would benefit from the introduction of a simple, efficient way to share their data with their fund. Government agencies should, where members consent, share relevant information directly with a member’s fund. This would enable funds to give members better guidance, pre-populate forms for members, and support members to achieve a better understanding of their financial position before and in retirement.

We understand the Consumer Data Right will be expanded to cover ‘Open Finance’ and that the Government will also consider where government-held datasets can be brought into the ecosystem to support Open Finance. We look forward to engaging with Treasury further on this issue and how access to this dataset will support superannuation funds to provide retirement guidance to existing members.

Rethinking the regulatory frameworks around enhanced tools would enable a member focused design of regulations and consumer protections. The building of better self service guidance tools is necessary to help build member capability at scale but requires the appropriate regulatory environment.

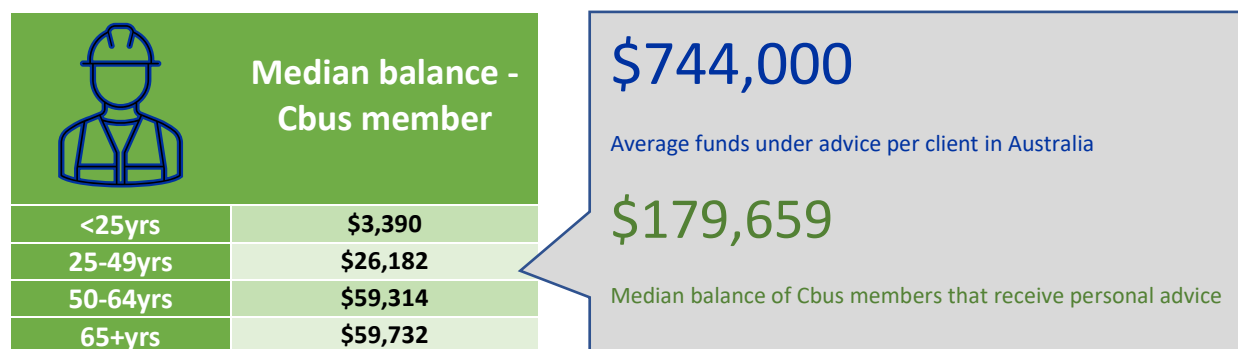
“You’ve got to get advice, you can’t do it yourself.” Cbus member

31. To what extent does the provision of intra-fund advice affect competition in the financial advice market?

All advice is not going to be full comprehensive advice and therefore it must co-exist with intra-fund advice provided by super funds. There is an unmet need for simple and timely advice – that super funds are well placed to deliver.

Due to the changing regulatory environment, many retail financial advisers have refined minimum investment criteria/target market to only include high net worth clients that usually have more complex financial circumstances. This is evidenced by recent research which shows that the average client investment balance has grown to \$744,000 and has a median advice fee of \$3,256 per annum²⁶. This is in stark contrast the retirement experience Cbus members.

Cbus members not the target market for retail advisers



Ultimately, intra-fund advice provided by superannuation funds is supporting different segments of the population and should not be seen as competition with the retail advice market that mostly focuses on the high-net-worth market. The median balance of Cbus members that receive personal advice is \$179,659 and \$131,646 for Cbus members that receive general advice.

In acknowledgement of this, Cbus members who would benefit from comprehensive advice, are referred to an accredited Certified Financial Planner (CFP) via a referral program through the Financial Planning Association of Australia (FPA). In 2021, 411 referrals were made through this program.

32. Do you think that limited scope advice can be valuable for consumers?

Beside cost, one of the other leading barriers to seeking financial advice is lack of trust and confidence in financial advisers. Limited scope advice (including intra-fund) can be a fantastic entry-level experience that allows members to get a greater understanding of the role and value of financial advice in an accessible way.

As a superannuation fund, Cbus has significant experience in providing limited advice (intra-fund advice) that is in the best interests of members. Cbus helps members make and implement informed financial decisions.

*"I trusted CBUS in the past and I still trust them with the free advice they provide."
Cbus member*

²⁶ Adviser Ratings (AR), 2020 Australian Financial Advice Landscape (2021). Available from https://intl.assets.vgdynamic.info/intl/australia/documents/resources/adviser/2020_australian_financial_advice_landscape.pdf

Cbus members that receive limited advice (intra-fund advice) find it incredibly valuable. Members who completed surveys provided a strong rating of 9 out of 10 for their overall experience when interacting with our Advice Team.

Satisfaction with intrafund advice was also found by the Productivity Commission Member survey which found 67% of those that received intrafund advice were either completely satisfied (37%) or somewhat satisfied (30%) in contrast to only 9% that stated they were either somewhat dissatisfied (7%) or completely dissatisfied (2%)²⁷.

“It's a great starting place at no cost. And if they can't answer my questions then I can be refereed on.” Cbus member when asked about advice services provided by Cbus

33. What legislative changes are necessary to facilitate the delivery of limited scope advice?

Rationalisation and alignment of multiple pieces of overlapping legislation. Currently providers are weaving through a maze of overlapping requirements to interpret how advice can be provided with the focus on minimising risk of non-compliance. This is further exacerbated for superannuation funds that offer financial advice. There are wide ranging views and levels of conservatism across the industry, making simplification and cost reduction very difficult.

²⁷ Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, Technical Supplement 1: Member surveys (2018). Available from <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment-final-supplement1.pdf>

The expanded role of retirement income estimates and digital advice

Cbus has been providing Retirement Income Estimates (RIEs) to eligible members since conducting an initial pilot to 20,000 members in 2013. This has now expanded to 462,520 eligible members in 2021, representing 62% of our membership. Internal and independent research supports the value in providing these estimates to members, with benefits including increased engagement with superannuation, added super contributions, building financial confidence, a greater understanding what income members might receive in retirement and reducing concern about income in retirement.

The purpose of providing a retirement estimate to our members is to:

- Reposition superannuation framing from 'nest egg' to retirement income.
- Promote engagement with members about their superannuation.
- Educate and provide members with meaningful information about their superannuation and what they could expect in retirement – including whether they are on track for a modest or a comfortable retirement.
- Show how the Age Pension interacts with their superannuation.
- Prompt changes in member attitudes and behaviour towards their super.
- Help start a conversation about retirement income. Demonstrating of how even modest amounts of super can improve outcomes, with the Age Pension, in retirement.
- Improve confidence in the superannuation system.
- Educating members on what actions will change their retirement outcomes.

"I like seeing how it is tracking, & I also like the way Cbus tell me how much I need for my retirement." Cbus member

Retirement estimates often provide enough information for members to go and do further research to inform their decision making. This is evidenced by our internal 2021 survey results which showed that as a result of receiving their Cbus super statement, 19.8% of members said they had already contacted Cbus Advice Services and 14.6% had already visited the Cbus retirement planning hub, whilst many more planned to do so over the next 12 months.

Digital advice

35. Do you agree that digital advice can make financial advice more accessible and affordable?

Yes, we agree that digital advice has the potential to make financial advice more accessible and affordable. There are two key areas that this may include:

1. **Direct to members (D2C).** This includes the role of retirement income estimates. As identified in the Issues Paper, ASIC already provides limited relief to the advice requirements for certain forms of digital advice (particularly calculators and superannuation forecasts) and this has been subject to ASIC consultation in 2021. Cbus made a submission to this consultation paper and advocate that Treasury consider the findings of this consultation in context of the review into financial advice. Our recommendations to ASIC included:
 - That superannuation funds should also be able to provide static retirement estimates to members on a more frequent basis.
 - That the provision of retirement estimates should be expanded to members in the decumulation phase.

- Did not support proposals to prohibit funds from including estimated Age Pension amounts in static retirement estimates.
- Did not support a default retirement age assumption of 67 for all members.
- That members need more than just information and superannuation funds should be able to:
 - Continue to provide alternative scenario retirement estimates.
 - Provide guidance to members on their retirement strategy options with retirement estimates, in line with what will be required as a result of the Retirement Income Covenant.
- That a holistic approach to improving retirement outcomes for members is needed.

In particular, Cbus has advocated that retirement income estimates could provide a more personalised view of how different retirement decisions could impact a member's retirement estimate, such as the impact of a decision to commence an income stream product or to withdraw superannuation monies to hold in a bank account.

Innovative technology, and a guided service is the only practical way to meet the increasing member need for objective advice and information to enable them to self-direct. This could be presented as a 'sliding doors' scenario so individuals can better understand how certain decisions lead to different outcomes. Regulatory relief from financial advice requirements should be provided to enable funds to provide members with a retirement simulator that can be personalised and provide members more personalised information to make a decision at retirement. This is in line with what was recommended by the Retirement Income Review.

"The same technology that facilitates digital advice could be modified to help funds offer guidance to members in a cost-effective way."

Retirement Income Review, pg. 454

2. **As an enabler to simplification for advisers.** Digital advice capabilities can also play an important role in assisting financial advisers so that they can instead spend more time with clients. This could range from helping with fact-finding, delivery of advice or improving the customer experience. This will reduce the chance of oversight and error as well as the ability to influence for personal gain. Increasing efficiencies so that advisers can spend more time with clients, is important in ensuring advice is accessible and affordable whilst also being consistent.

The need for digital financial decision-making tools was recommended the Productivity Commission which noted *'The accelerated development of digital financial decision-making tools has the potential to lower the costs and improve the credibility of targeted information services.'*²⁸

36. Are there any types of advice that might be better suited to digital advice than other types of advice, for example limited scope advice about specific topics?

It is likely that single issue and limited scope advice is better suited to digital advice. As a members' needs become more complex it is more likely they will need to interact with a human adviser. Given the legislation of the Retirement Income Covenant, we believe that there are a range of retirement

²⁸ Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness (2018). Available from <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf>

topics for which a digital tool would address the unmet advice need for many of our members. As highlighted earlier, regulatory barriers on a digital tool being defined as personal advice makes is prohibitive.

41. If technology is part of the solution to making advice more accessible, who should be responsible for the advice provided (for example, an AFS licensee)?

There should be dual responsibility on the Licensee (setting of rules) and Fintech provider (algorithms and resulting outcomes). Current regulatory requirements that place responsibility solely on the AFSL holder has impeded the willingness to invest/partner in this area. There is a tension between responsibility of AFSL to ensure advice is appropriate and the Fintech provider who designs and owns the algorithms that define the advice outcomes.