



Why are Aussies so disconnected from their superannuation?

THE STATE OF OUR 'WORLD-CLASS' SYSTEM TODAY

About Certainty Advice Group

Certainty Advice Group is a nationwide alliance of professional financial advisers whose only remuneration from clients is from fees charged for the advice provided, not product-related fees. We know there is an alternative model for professional financial advice that exists today. For decades we have made our network of financial advisory firms successful without any product bias.

We want to elevate the profession and empower people to expect more from their financial advisers. We are optimistic that with systemic change and by prioritising client value, we can improve the financial services industry for all Australians.



In 2018, the total superannuation savings of all Australians combined reached \$2.7 trillion. This makes Australia the fourth-largest holder of retirement fund assets in the world.

At Certainty Advice Group, we are concerned that many Australians are not realising the original promise of this ‘world class’ superannuation system.

With governments constantly changing the rules, and with rivalry and point-scoring between different superannuation product providers, it’s become clear that short-term thinking has eroded consumer trust in superannuation. Even worse, it has left most Australians apathetic about their superannuation. Most consumers have no confidence that their decades of contributions will actually be enough to see them enjoy their retirement.

As observed by Justice Hayne, head of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industries, could this ‘short-term-ism’ simply be the result of greed? Or are there more complicated, systemic reasons why Australians are so disengaged with one of the best retirement funds in the world?

This white paper seeks to address some of these issues, and to identify ways to create a better superannuation system for all Australians.

TALKING POINTS

1. Ongoing political tinkering with the system has damaged the original aims of the superannuation system in Australia.
2. There is open and widespread lack of trust in the banking and financial industries.
3. With multiple funds vying for a share of this growing savings pool, superannuation is far too complex for far too many people.
4. From the ‘experts’ to advisers and across Australia, there is general lack of financial literacy about superannuation. How can we promote more engagement in one of our largest investments?



The origins of superannuation

In the early 1990s, the promise from superannuation's founders – Hawke, Keating and Kelty – was to encourage all Australians to accumulate funds to create an income stream when they retire. Recognising the major demographic shift of an ageing population, our current superannuation system was part of a wider reform package designed to address Australia's retirement income dilemma.

However, what has happened historically (and politically) over the years has altered its course. The minimum employer contribution rates, starting at 1% in the early-90s, have increased much more slowly than originally envisaged, and have become a political bargaining tool. The Superannuation Guarantee rate has been 9.5% since 2014 and is planned to increase gradually to 12% by 2025, rather than the 20% originally planned. The reality is, anyone relying solely on these minimum employer contributions won't have enough superannuation savings to support them in their retirement.

We asked Certainty Advisers across Australia where our superannuation system stands today, and what are some of the biggest issues that must be addressed if we are to realise the promises made decades ago.

Annette Pulbrook, FinBiz Advisers, Warners Bay, NSW

"I don't think there's anything wrong with the superannuation system, I think the government just keeps changing the rules. So, there's a lack of trust and certainty with the system going forward. People are reluctant to use that as a long-term investment tool, knowing that the government's always tinkering with it."

Travis Martin, Monument Advisory, West Perth, WA

"Many think there are two different types of funds, retail and industry. The fact that there's this definition adds to the confusion and adds to the distrust. And it's distracting people from how beneficial the correct use of superannuation can be to them."

Martin Harkness, Infocus Nedlands, Perth, WA

"I don't think it's just the retail super fund, the industry super fund, the trustees or the banks. There's a bigger picture. If we're going to have \$9 trillion in 20 years, we need to ask what the system is for: what is its purpose? Can we measure it? Because right now, there doesn't seem to be any measurement."

Scott Farmer, Bravium, Canberra, ACT

"Education will absolutely play a role. But 'how do you get Australians more interested in superannuation?' is probably the million-dollar question."

Michael Rees-Evans, EFS Strategic, Lane Cove, NSW

"Governments making a lot of short-term changes makes it really hard for clients and their advisers to plan with any certainty. What most clients want to do is confidently invest with a reasonable probability of a certain outcome. I think people are increasingly frustrated with an ever-moving target."

So what does this mean for us today?

In the media, headlines like ‘\$2.7 trillion in superannuation’ may sound impressive. But the lack of trust and increasing complexity about the rules means that when it comes to their superannuation, many Australians are not on the best possible path to achieving their retirement dreams.

Are we really talking about better choices...or too much choice?

With the ever-increasing range of confusing investment options, staying focused on the long-term nature of superannuation can be difficult.

For Anne-Marie Humphries of Huon Financial Planning in Albury NSW, comparisons of investment performance are encouraging people to lose sight of those long-term goals. “There is a conflict between encouraging people to provide for their own long-term retirement security and also presenting them with too much investment choice. It’s actually exacerbating some of the worst types of investment behaviours, including chasing short-term returns. The usual media circus every year about ‘this year’s best performing super fund’ only makes this kind of thinking even worse.”

Is this ‘next big thing’ approach hurting us all?

The mentality that affects quick investment decision-making is leading some to become paralysed with choice. “There’s a school of thought that says the pendulum has swung too far,” says Travis Martin. “The old, pre-compulsory retirement savings, was company pensions; working for a number of years, you’d then get a set or indexed pension as a result. It’s still what a lot of the rest of the world uses. But to give people more choice, you can invest it how you want, use it how you want, spend it how you want. Maybe those extra options have added to the confusion as opposed to adding to the benefit of superannuation.”

With longer retirements comes more strain on the system

For Anne-Marie, the public policy implications of this ‘short-termism’ is massive. “I see it as a recipe for disaster. If people continually make poor investment decisions based on what last year’s best returning fund is, that will make a huge difference to what they end up retiring on. The implications of that flows through to the public system and their future reliance on government age pension. When you combine that with an aging population... the trillion-dollar balance doesn’t look that impressive.”



At Certainty Advice Group, we ensure our clients are on their best possible financial path. We believe that with education, common sense and experience, it's possible to change the way people think about their superannuation. We also seek to identify ways that the superannuation system can work better for all Australians in the future – not just the clients we work with.

1. Education is imperative

Whether educated from the early years in school, a course at university or intelligent guidance one-to-one with an adviser, Certainty Advisers are united in their belief that financial literacy must be a major driver of superannuation reform.

For David Murdoch of Paxton Bridge Financial in Windsor, VIC, it's not complicated. "It needs to be brought in at a school level as one of the pillars of education. In setting up an account, even a little kid can learn about compounding. If they start early, it just becomes an automatic habit for them that a percentage of whatever they make goes into a single fund."

Reine Clemow of Acqira Wealth Partners in Gold Coast, QLD first paints a picture for his clients to address any myths or misunderstandings. "You paint a picture. Using a simple whiteboard illustration, you explain that money in the super bucket has maximum tax rate of 15% and when you retire, this money can move to the pension bucket, which is taxed at 0% forever.

"It's not that hard for people to understand when you explain it simply and relate it to their situation. If you put a plan together with them and hold them accountable with a contributions strategy, then, over time, they can start to see it working for them."

2. Create more incentives and opportunities to contribute

With the shortfall in contributions, more opportunities must be available for people to contribute. Reine puts forward a mandatory salary sacrifice, which he admits would 'not be popular'. "I would instigate a mandatory 10% personal contribution, in addition to the current superannuation guarantee. This money could go into superannuation tax free and allow the member a tax deduction to provide incentive. It wouldn't benefit the government, but it would force people to pay extra attention as it's 'their' money rather than just what goes through an employer."

3. Set plain benchmarks...

More structured guidelines will help clarify the great discrepancies between different funds – from how they report fees and classify assets to setting clear expectations about future returns. Anne-Marie Humphries sees this creating much more clarity for clients to easily see how their money is invested, and what level of risk is involved. "There also needs to be oversight of adherence to those rules, because when there's no accountability, the potential damage done to people's retirement savings from inappropriate investments can have a huge impact over the long term."

Without clear benchmarks and standards, we're more susceptible to what Travis Martin refers to as the 'foxes in the henhouse' approach. "Without these, all Australians risk being misled by about what their superannuation is, the risks attached to it, and what it can actually do for them. It's probably going to have to be mandated because the concept of taking away choice, even if it's for your own benefit, doesn't sit well with most people. Maybe we need to be more prescriptive about what superannuation is going to be, and how it's used."

4. ...in a language we can all understand.

The crucial part of these guidelines is writing them in a language that everyone can grasp. "Phrases like 'balanced' and 'default', for example," says David Murdoch. "When someone reads that, there is almost a generic definition and understanding of it. The definition is the definition. And it should ultimately make it much easier for people to see what they're going to get."

The reality is, superannuation is just one part of the retirement savings puzzle. When considering the broader picture, shouldn't we be asking: What kind of Australia do we all want?

"We shouldn't just isolate superannuation as this big tax relief for retirees," says Martin Harkness. "It must be part of a total conversation around tax and savings, the relationship between elderly and young people, and what type of a society we want to live in. How are we going to fund these things? And if we have two or four or nine trillion in total superannuation assets in this country, what's the objective of that?"

"I think it's OK to educate people about saving more of their overall income to have a better quality of life in the future. The problem is, as a nation we don't yet have a proper conversation."

David Murdoch sees that these uncertain times can have a positive effect, and can encourage more regulatory oversight to keep all parties accountable. "While people have been taken advantage of, the regulators have not been able to support people, and businesses holding our superannuation have been able to get away with far too much for far too long, that instability can be a good thing. Because you can then turn around and have a really genuine, meaningful conversation with people about the need for change."

The trillion-dollar super conversation

When sitting down with your financial adviser, it's vital that people come prepared. Our Certainty Advisers have created some talking points that anyone can use to engage their adviser or fund provider about their superannuation.

1. First, accept your part

From the start, make sure you're clear about how important superannuation will be in your future financial life. If it's not the best retirement savings vehicle for you, you must be clear on what is. Be prepared to take some responsibility for your greatest financial asset. Are you prepared to take advice to ensure you make the most effective use of superannuation to support your future retirement security?

2. Then ask about the fee structure

Make sure you know what you are paying for your superannuation (including the total dollar amount every year) and compare this against other options available to you. Watch out for any hidden costs affecting your superannuation, including investment and indirect costs. Then assess if you are getting real value for that money you are paying.

3. Hold them accountable

Understand how your money in superannuation is invested and who is responsible for the ongoing decision-making about this. Are there any conflicts of interest when it comes to how your money is being invested? If your adviser uses words that are not 100% clear to you, always ask them to explain and to provide practical examples of what they mean. Make sure they explain how they will deliver value to you against very clear benchmarks and hold them accountable to this.

4. Ensure it will be 'enough'

Work with your adviser to understand if your superannuation will be enough to provide for a comfortable lifestyle in retirement. If not, find out what you need to do to change this picture. Ensure your adviser is being realistic in their planning and ask them to compare current spending to a detailed model of your planned future spending.

5. Focus on what you can control

Ask what role you must play to contribute to the success of your superannuation. What must you control regarding your superannuation and what habits or actions are required?

6. Above all, you need to talk about your purpose

As well as thinking about what you want to do in retirement, you need to consider why this is important to you. Retirement means very different things to different people, so make sure you give careful thought to the question: What does retirement really mean for you?

For many people, superannuation is their second largest asset after their home. Despite this fact, many Australians are still in the dark about how the system can work from them.

It's time to start talking about it.

At Certainty Advice group, we believe our superannuation system is world-class. But it needs to be so much better for every Australian.

Our changing times dictate that we need to step back and take a fresh, more consumer-focused look at superannuation.

If we want to realise the value of this world-class savings system, we need to remind ourselves about its original promise: to reduce the reliance on government income support in retirement and ensure that we take individual responsibility wherever we can to provide for our own financial security in retirement.

In a country that prides itself on a 'fair go' for all, this should allow future governments to look after those Australians who will still need some form of financial support in retirement.

We also need to remind ourselves that wealth is just a tool that we use to live our lives. What will that pot of money actually do for us as individuals and as members of society? With more engagement in our own superannuation system, we may even get back on the path to self-reliance. So, for those of us who are in a position to, we need to get ourselves to the stage where we can self-fund and control our own retirement, without government or institutional interference.

We hope this and our other financial advice white papers help more people find truly valuable financial advice; to relieve wealth inequality and reduce wealth corruption.

For more information, visit www.certaintyadvicegroup.com and send us your feedback. For more of these financial questions and solutions, visit our blog or our Facebook page. We'd love to hear from you. Let's keep talking.

Jim Stackpool

Certainty Advice Group
www.seekingcertainty.com

 facebook.com/CertaintyAdviceGroup

About Certainty Advice Group

Contributing Certainty Advisers

Reine Clemow, Acquire Wealth Partners
reine@acquirawp.com.au

Scott Farmer, Bravium
scott@bravium.com.au

Martin Harkness, Infocus Nedlands
martin.harkness@infocus.com.au

Anne-Marie Humphries, Huon Financial Planning
anne-marie@huonfinancial.com.au

Travis Martin, Monument Advisory
travis@monumentadvisory.com.au

David Murdoch, Paxton Bridge Financial
david@paxtonbridge.com

Annette Pulbrook, FinBiz Advisers
annette@finbiz.com.au

Michael Rees-Evans, EFS Strategic
michael@efsstrategic.com.au

Jim Stackpool, Certainty Advice Group
jim.stackpool@certaintyadvicegroup.com

Everything we do at Certainty Advice Group starts with a focus on serving the **greater client good**. To this end, our brand of financial advice – Certainty Advice – provided by our accredited advisers, delivers on a common promise for a growing number of Australians:

“To maximise the probability of achieving their aspirations, to manage life’s transitions and complexities, without any real or perceived conflict, by ensuring they remain on their best forward path.”

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