

5 June, 2020

Retirement Income Review

Email: [retirementincomereview@treasury.gov.au](mailto:retirementincomereview@treasury.gov.au)

**RE: Supplementary submission - the need for a superannuation consumer advocate**

Dear Panel Members,

We are writing to express our concern about the future of consumer advocacy and superannuation advice, particularly during times of market instability. The current pandemic has exposed a number of problems with the superannuation and financial advice sectors. Some standout failures included insurance policies that failed to protect frontline workers at the time of the pandemic and a lack of independent advice which saw people given misleading information about the impact of early release of superannuation. Super Consumers Australia (Super Consumers) was able to provide a solution to these two problems, however this organisation will soon cease to exist without a long term funding solution.

**Background: Super Consumers Australia**

Super Consumers, formerly known as the Superannuation Consumers' Centre, is an independent, not-for-profit consumer organisation formed by consumer advocates in 2013. Super Consumers was first funded in 2018 via a Community Benefit Payment. This funding was made available via ASIC enforcement after CBA and ANZ mis-sold superannuation products.

We work to advance and protect the interests of people in the Australian superannuation system. In our short history we have championed pro-consumer reforms, like caps on fees, account auto-consolidation and improvements to default life insurance.

During its start up phase Super Consumers has partnered with CHOICE to deliver support services. CHOICE is the leading consumer advocate in Australia, established 60 years ago, it is an independent voice, ensuring consumers get a fair go.

**Super Consumers activity to protect people during the crisis**

As the global pandemic was declared Super Consumers used its data analytics capability to identify all superannuation funds with pandemic exclusions in their bundled life insurance policies. We released this research and called on super funds and insurers to waive these terms.<sup>1</sup> We were concerned that some of the worst impacted came from industry and public sector funds with members from the health care, teaching and logistics sectors. These were people who were required to risk their lives, but had been let down by their superannuation funds and insurers. Within days of Super Consumers releasing its research and calling for a waiver of these exclusions, all but one of the insurers had backed down.<sup>2</sup> The last hold-out,

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<sup>1</sup> Super Consumers Australia, 2020, '[Frontline workers face life insurance claims denials](#)', 26th March, 2020 ; AFR, 2020, '[Industry funds retain coronavirus exemption clauses in insurance](#)', 25th March, 2020

<sup>2</sup> SMH, 2020, '[TAL pledges to waive pandemic life insurer exclusions for super funds](#)', 27th March, 2020

57 Carrington Road Marrickville NSW 2204

Phone 02 9577 3333 | Fax 02 9577 3377 | Email [xohalloran@superconsumers.com.au](mailto:xohalloran@superconsumers.com.au)

ACN 163 636 566 ABN 34 163 636 566

QSuper changed its pandemic exclusion several weeks later.<sup>3</sup> These changes would not have been made without an independent consumer advocate highlighting the impact of these exclusions and applying public pressure to get them removed.

In the last few months people have been having to grapple with difficult decisions around early release of superannuation, the impacts on insurance and limiting losses caused by the market downturn. Again Super Consumers have been making sure people have quality, independent information on what to do with their superannuation at this time.

At the beginning of the pandemic we produced and promoted content to get information to people about what to do with their superannuation in the face of market fluctuations.<sup>4</sup> We followed up with tailored information for people nearing retirement, this time partnering with the Council of the Ageing.<sup>5</sup> We saw these as important interventions after some evidence from the Global Financial Crisis that people had made poorly timed decisions to switch to lower risk investments and crystallised their losses.<sup>6</sup>

### **The importance of independent and accurate modelling to support informed decisions**

During the pandemic people have also had to weigh whether to access superannuation early to cover shortfalls in their income due to loss of job or reduced hours. There are many sources of information and modelling on the retirement impacts of withdrawing super early, however many of them lacked independence, were of poor quality and in some cases misleading.

The Financial Planning Association (FPA) successfully lobbied for a reduction in consumer protections in order to give out cheap advice to people on early release quickly. Instead of having to provide a full 'Statement of Advice' (SOA), going into the reasons for a piece of financial advice, advisers were only required to submit a 'Record of Advice' (ROA), simply stating what advice they had given. The FPA, in an attempt to make this process easier for advisers, created a template of advice. This template includes modelling of the lost future earnings if people withdraw superannuation early.<sup>7</sup> However, the modelling is poor quality and is likely to mislead any consumers who view it.

The FPA template fails to account for the impact of inflation in its modelling, a critical error that goes against ASIC guidance for these types of models in superannuation.<sup>8</sup> The result is people will be led to believe the impact of withdrawing is far greater than reality. For younger people the FPA's projected losses are more than double what someone is likely to experience in real terms. It is unclear whether this modelling was done to discourage people from early release, thus keeping more assets under the management of the adviser, or was just of a poor quality. Either way it points to an ongoing problem with the quality and independence of the financial advice sector, which we raised in detail in our original submission.

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<sup>3</sup> Financial Standard, 2020, '[Fund pulls mandate, laters pandemic definition](#)', 20th May, 2020

<sup>4</sup> Super Consumers Australia, 2020, '[Could the COVID-19 coronavirus impact your superannuation](#)', 10 March, 2020

<sup>5</sup> Super Consumers Australia, 2020, '[COVID-19 and your super: what should retirees do?](#)', 24th March, 2020

<sup>6</sup> Productivity Commission, 2018, 'Superannuation: Assessing efficiency and competitiveness', pp.303-304

<sup>7</sup> FPA, 2020, '[Short form COVID-19 Super Access ROA Template](#)'

<sup>8</sup> ASIC, 2020, '[COVID-19 - Information for superannuation trustees](#)', last updated 26 May 2020

By contrast Super Consumers released and promoted its modelling and consumer advice weeks before people could make an early access request.<sup>9</sup> This information was balanced and helped people weigh the pros and cons of withdrawing early. Our modelling was used by at least one major superannuation fund<sup>10</sup> and cited in media reporting as a standard against which other more questionable modelling was compared.<sup>11</sup> It is important people have reliable and independent modelling on the retirement impacts of these types of decisions and it is a function we are set up to provide.

### **The need for ongoing funding for independent consumer advocacy**

Super Consumers Australia has been actively helping people with decisions around super and applying public pressure to super funds and insurers where they have failed to meet community expectations. This work has taken on new importance in the COVID-19 crisis. However, as it stands Super Consumers Australia will be unfunded from July 2021. Outside of the current global pandemic there is a strong need to fund an independent consumer advocate in superannuation.

The Federal Government launched an expression of interest process to explore funding a Superannuation Consumer Advocate in late 2019. The Government needs to urgently make a decision about ongoing funding to ensure that consumers have a voice in superannuation.

### **Recommendation**

That the Federal Government urgently fund a Superannuation Consumer Advocate.

We also request a meeting with panel members to further discuss the need for a Superannuation Consumer Advocate.

Yours sincerely,



Xavier O'Halloran  
**Director**  
**Super Consumers Australia**  
e. xohalloran@superconsumers.com.au  
m. 0415 823 607

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<sup>9</sup> Super Consumers Australia, 2020, '[Should you access your super early? Here's what to consider](#)', 6th April, 2020

<sup>10</sup> REST, 2020, '[Understanding early access to super](#)', updated 30 April 2020

<sup>11</sup> AFR, 2020, '[Industry Super to tweak online calculators after controversy](#)', 4th May, 2020