

To:

The AFTS Secretariat

The Treasury

Langton Crescent

PARKES ACT 2600

Dear Sir/Madam

Re: Responseto the Tax Review Consultation Paper - Retirement Income System

I am an independent retiree.

I depend on income from retail pension funds. Generally I have very limited confidence in the performance of these organisations.

My comments are attached for your consideration.

Yours faithfully

[Removed for privacy reasons]

Norman Hodgkinson

## RETIREMENT INCOMESYSTEM

Question 4.2 'role of individuals- the role of government to address shortcomings.

Question 6.3'impact of financial intermediation'

*COMMENTS REFER PARTICULARLY TO RETAIL PENSION FUNDS*

## GENERAL

An older person may come to the condition that they are not able to check on the dealings they have with companies providing financial services. In the case of investments in retail pension funds it is therefore paramount that the funds deal in a totally honest manner with the pensioner so that the pensioner can have absolute trust in the fund knowing that the money invested in the fund will be returned to them -or their beneficiaries where applicable- with interest at minimum cost.'

- Financial Advice

It appears to be mandatory that one must undergo some analysis of one's finances by a financial consultant before being accepted to invest in a retail pension fund.

In this process one is asked "How much would you like to receive in your pension from the fund?" The options available to achieve the desired income are then outlined by the consultant. Often the amount desired exceeds the amount which could be provided in a conservative investment so the investor is likely to be persuaded to invest in more risky options.

This is not a good start to ensuring an enduring income.

I think the adviser should just state the income available from a conservative investment and not tempt the investor into risky options.

How many retirees have suffered tragic losses recently as a result of the advice and decision to invest in growth or high yielding investments.

I think the government should regulate that the money should be invested in what are generally classified as 'Conservative' or 'Balanced' options. These include a maximum to be invested in the categories of shares and property.

- Fund Duration

The Account Based Pension is designed to last only up to the average age of death.

What is supposed to happen to the pensioner if they carry on living beyond the average life span?

A reasonable rational responsible plan provides for a life up to the maximum say 105 years.

- Retail Fund Durability

When planning for income in forty years one has to consider which organisation is likely to be around at the end of the period. The choice is very limited and has to include a high risk.

The days of the durable mutual insurance companies have passed. Any company is likely to be taken over or merge and be unrecognisable in forty years.

Many companies are foreign owned and could leave the country or collapse leaving no assets in Australia.

There is scope for a lot more regulation of the retail pension funds to provide answers to this problem.

- Annual Reports

The retail pension funds both commercial and industry carry on as though they are doing a favour.

In the past a pension following the superannuation provided by the employer was a reward by the employer for years of service by the pensioner. The pensioner had no rights to the pension. If the employee offended the employer the superannuation and pension could be cancelled.

Now all has changed. The money in the superannuation belongs to the employee by law.

But the superannuation funds and retail pension funds have not changed.

The annual reports I have seen show only basic financial information. For example IRIS and Unisuper. In the reports the financial information may be wrong and misleading. The last report from IRIS showed a figure for 'Investment Revenue' as positive whereas it was a loss. This could only be seen when the sums were checked. When I telephoned the company no one could provide an explanation. The representatives simply said 'it was not their area but the Trustees. The information was provided to the fund by the trustees and the Trustees could not be contacted'. My letter of complaint to the fund CEO has not evinced a reply.

- Trustees

The trustees have complete power over the money invested in the fund subject to the deed. As indicated in the item above in the IRIS fund the Trustees cannot be contacted.

When I asked for a copy of the trustee deed the fund representatives did not have one available and it was two weeks before they supplied one.

In my opinion when one invests in a retail pension fund it is an investment just as if you were buying shares in a company. It is even more important because one tends to have much more invested in a pension fund.

- Governance

Governance should be transparent.

The trustees should be known to the investors and their performance and fees subject to scrutiny by the investors. The Annual Report should be similar to that of a public listed company and at least as shown in the UniSuper 2008 Report to Members. It included a report on the board member's attendance, remuneration and other directorships.

The retail pension fund accounts should be audited and the auditor's report included in the annual report.

- Assets

Ideally on the death of the pensioner, the assets remaining in the pensioner's account in an account based pension fund should be transferred automatically to the estate of the deceased in the same way that any other investments would be- unless the pensioner selected the investment to be non reversionary.

Until this is mandated the next best condition is for the retail pension fund to be compelled to obtain advice from the pensioner of the nominated beneficiary on his/her death. This advice should be permanent.

Currently where a nominated beneficiary advice is obtained, it is usually stipulated that it is to be renewed every 3 years. Why should this be required?

We do not have to make a new will every 3 years. What if the pensioner loses competence and the advice lapses. Why should the power of distribution revert to the trustees?

- Financial Advice

Some retail pension funds like to include financial advice in the contract for the pension.

They usually like to charge for this service by a trailing fee which is a percentage of the funds remaining in the account.

This service is pressed in the interviews leading up to the signing of the contract , treated as the norm.

This practice is expensive and should be made illegal or subject to a maximum charge with specific conditions.