A super win

The government has responded favourably to recommendations by Finsia in relation to superannuation savings and sustainable and responsible investment.

Finsia has successfully influenced the recommendations of two government committees in relation to superannuation savings of the under-40s and sustainable and responsible investments.

SAVING THE UNDER-40S

The House of Representatives Economics, Finance and Public Administration Committee handed down its final report regarding the inquiry into superannuation and the under-40s on 9 June 2006. In the Executive Summary, the Hon Bruce Baird MP directly referred to a voluntary contribution scheme of three per cent that had been advocated by Finsia. The Committee's report can be downloaded at: **www.aph.gov.au/house/ committee/ efpa/super/report.htm).**

The direct references to Finsia resulted from submissions and evidence (three submissions were lodged, private meetings held and public evidence given throughout late 2005 and early 2006) and included:

Report recommendation 1: Finsia advocated for voluntary 'opt out schemes'
Reference to Finsia: "The committee recommends that when a new employee commences work they are automatically placed in a 'voluntary' contribution arrangement which they could chose to opt-out of at any time, preferably operating through salary sacrifice. The starting point in savings contributions could be a default rate of three per cent with periodic adjustments."

Report recommendation 3: Finsia advocated for financial literacy campaigns on superannuation
Reference to Finsia: "The committee recommends that the Financial Literacy Foundation work directly with superannuation funds on a combined strategy to improve Australians' interest in, and knowledge of, their superannuation."

Report recommendation 8: Finsia highlighted key barriers facing women and advocated further focus should be paid to women and superannuation
Reference to Finsia: "That the Financial Literacy Foundation, in association with the Office for Women, target programs to improve the financial literacy of women under age 40 with respect to superannuation."

Report recommendation 11: Finsia advocated that a central super fund for casual employees be investigated
Reference to Finsia: "The committee recommends that government introduce a default superannuation fund for casual employees, so that when a casual employee does not wish to choose their superannuation fund, that employee is automatically placed in a government-determined default fund."

Report section 1.20
Reference to Finsia: "Any additional saving for retirement income would be beneficial for the public purse. However, what may be more pertinent is the desirability of being able to meet the retirement lifestyle expectations of people in the current under-40 age bracket or more closely align their expectations with reality. Evidence provided to the committee, including from a specific research study commissioned by the Institute of Securities, Banking and Finance, indicates that under-40s are expecting a more comfortable lifestyle than could be met by their current average level of retirement savings."

Report section 3.44
Reference to Finsia: "Much of the evidence the committee has received has suggested there is a gap between under-40s' retirement income expectations, and the reality of what they will have at retirement. For example, the Financial Services Institute of Australasia (Finsia) stated in evidence: For example, there is not a capacity to fully appreciate how current inadequate savings patterns will inhibit lifestyle in retirement, there is not a recognition of the reality that the under-40s will not simply be okay – that there is no magical pot of gold at the end for most – and there is an unwillingness to confront the pain of analysing realistic retirement savings."

Report section 3.58
Reference to Finsia: "Max Super and Finsia have both conducted recent research on the behaviour of under-40s in relation to superannuation and savings and have found them to be more concerned with their future financial stability than is generally portrayed."

Report section 3.59
Reference to Finsia: "Finsia stated: "Our research has found that, contrary to wide-held beliefs, the under-40s are not spendthrifts, they do not live for today only and they do not adopt cavalier attitudes towards saving for the future. Indeed, as a general statement, the conundrum is whether Australia's compulsory system has in fact stopped this generation of under-40s from thinking and emotionally engaging on retirement planning issues."

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Report section 3.92
Reference to Finsia: "Interestingly, Finsia's market research indicated that: Only 21 per cent of people polled strongly agreed with the statement: 'Superannuation has limited accessibility; I would rather have current access to my retirement savings in case of emergency'."

Report section 3.116
Reference to Finsia: "Finsia's research revealed many in their survey sample expected to retire independently despite '… only 32 per cent (less for women at 29 per cent) considered themselves "prepared" for retirement': When asked at what age they expect to retire and whether they expect to be fully-funded retirees, the mean age of retirement was an unprecedented 61.6 and 45% expected to be a fully self-funded retiree (ie. expected not to be reliant on the Government for a full, or part, pension."

Report section 3.117
Reference to Finsia: "Much of the committee's evidence has conflicted with Treasury's projections, suggesting that the current level of SG is too low to provide even a modest level of retirement income. This mostly stemmed from the view of self-sufficiency in retirement. Mr Brian Salter of Finsia stated in relation to the level of nine per cent: We know that, alone, it is inadequate. There has been sufficient modelling done to suggest that something north of 13 per cent of today's incomes would be required to reach a reasonable level of security in retirement."

Report section 3.118
Reference to Finsia: "Mr Salter suggested there was scope to increase the levy but that he felt compulsory increases were not the only way to achieve this: ... rather, let us find the combination of compulsion, incentive, education and encouragement to change the psychology and behaviour."

Report section 3.129
Reference to Finsia: "The opposing view is that this generation have been accustomed to, and have accepted, forced retirement savings habits. Finsia stated: 'I think it is more that it is gratefully accepted as something that was perhaps difficult to swallow when it was first introduced, but this generation we are talking about has known nothing different. This is part of the way they are accustomed to their work and budgetary habits.'"

Report section 3.164
Reference to Finsia: "The findings of Finsia's Crosby|Textor polling indicate that despite 82 per cent of people being aware they can make a personal contribution to their superannuation beyond the SG only 33 per cent currently do so."

Report section 3.164
Reference to Finsia: "Finsia has recently investigated the merits of KiwiSaver, following the merger which gave the former Institute of Securities a New Zealand focus. This, coupled with the results of Crosby|Textor polling has led Finsia to support a voluntary savings opt-out scheme as outlined in their supplementary submission."

Report section 6.68
Reference to Finsia: "Ms Kristen Foster of the Financial Services Institute of Australasia (Finsia) discussed these impediments at the October hearing in Sydney: In *Saving the future*, 60 per cent of women are either not employed or employed in part-time or casual positions. Only 25 per cent of women earn more than $50,000 per annum compared with men at 55 per cent. Crucially, 40 per cent of women as opposed to 19 per cent of men expect to be not employed for 12 months or more before retirement. Interestingly, of that number 56 per cent do not know how they will contribute to retirement savings during this period, and even more interesting is that only 22 per cent nominate their spouse as a fall-back plan."

PROMOTING SUSTAINABLE AND RESPONSIBLE INVESTING (SRI)

The Parliamentary Joint Committee on Corporations and Financial Services handed down its report, Corporate responsibility: Managing risk and creating value, on 21 June 2006.

Finsia provided a submission to the Inquiry on the role of Sustainable and Responsible Investments (SRI) in promoting better company reporting of non-financial risks and, more broadly, raising the profile of corporate social responsibility.

The submission is part of Finsia's broader SRI campaign, which also includes consumer research into awareness of, and attitudes towards, SRI, and the development of a consumer toolkit to raise the profile of SRI in financial planning.

Finsia welcomed the handing of the parliamentary report, in particular, the committee's:

Support for Finsia's research (conducted by ANOP) into investors' and consumers' understanding of, and attitudes towards, SRI;

Endorsement of Finsia's recommendation that the Australian Prudential Regulation Authority (APRA) should issue detailed guidelines in order to give superannuation trustees more confidence in allocating investments to SRI fund managers.

In making its recommendations to the Parliamentary Committee, Finsia called for a review of the legal and institutional impediments to consumer uptake of SRI. Finsia regards the task of raising company standards in the consideration and reporting of sustainability and non-financial risk information to be one of engagement and education.

Educating both consumers and investors is important given the increased exposure and reliance of Australians on equity markets for their retirement. This continues to heighten the responsibility of the financial sector – from fund managers and their buy-side analysts, investment banks and client advisory divisions –

to identify and minimise risks to long-term returns.

Finsia believes that an industry-responsive, investor-driven approach, evidenced through the growing SRI funds under management, will provide the most positive and significant long-term impact on CSR.

The following references in the PJC report were the result of Finsia's submission to the inquiry (dated 19 May 2006) and are as follows:

Report section 5.40, pg 19

Reference to Finsia: "The Financial Services Institute of Australasia (Finsia) submitted that to clarify the position between the sole purpose test and SRI investments, the Australian Prudential Services Regulation (APRA) should issue detailed guidelines in order to give superannuation trustees more confidence in allocating investments to SRI fund managers."

Report recommendation 2

Reference to Finsia: "The committee recommends that the Australian Prudential Authority issue detailed guidelines on the sole purpose test to clarify for superannuation trustees their position in relation to allocating investments to sustainable responsible investment managers."

Report section 7.99, pg 71

Reference to Finsia: "Finsia submitted that under ASIC Policy Statement 175.110, licensees are advised to form their own view about how far section 945A (the 'know your client' rule) requires that inquiries be made into a client's attitude to environmental, social or ethical considerations. This was said to be at best a 'matter of good practice', but there are no requirements for advisers to broach these issues, and therefore SRI-style options with their clients."

Report section 7.100, pg 72

Reference to Finsia: "Finsia went on to suggest further research and engagement with the financial planning industry and consumer groups on the possibility of including environmental, social and governance considerations explicitly under section 945A."

Report section 8.5, Chp 8

Reference to Finsia: "The main reason that institutional investors have not had a stronger interest in non-financial risk management to date is due to a lack of comparable and robust information on these issues. As Finsia recognised, 'The responsibility for identifying and managing these risks does not, however, rest with corporations alone. The financial services industry – from fund managers and their buy-side analysts, investment banks and client advisory divisions – all have a responsibility to source, analyse and report to investors on all matters of risk that impact on company operations, both in the current reporting season and over a long-term horizon.'"

Minority (Labor) report

Report section 1.48

Reference to Finsia: "The main committee report refers to evidence of Finsia regarding the sole purpose test with respect to SRI, and makes Recommendation 2 with regard to APRA guidance on the scope of the sole purpose test … Evidence from Finsia to the inquiry was that the sole pupose test is broad enough to allow consideration of non-financial risk issues in investment decisions as long as the strategy is employed as means to maximise the retirement funds of members, and not pursued as an end in itself.

While the evidence form Finsia identifies that fund managers and trustees may consider SRI type investments as part of this strategy, it does not suggest that fund managers and trustees may only exercise this approach via SRI funds. As such the recommendation of the main committee, which focuses on only SRI funds, fails to grasp the issue relating to ESG-based investment decisions.

As such, linking the sole purpose test solely with the allocation of funds to SRIs represents a fundamental misunderstanding of the need for investment managers to consider sustainability factors in all investment decisions."

Report recommendation 5

Reference to Finsia: "The Labor committee members recommend that APRA issue detailed guidelines on the sole purpose test to clarify the ability of superannuation trustees and fund managers to value non-financial risk and return in all investment decisions."

Report section 1.114

Reference to Finsia: "Regarding progress in Australia, the Labor members wish to recognise the submission of Finsia to the Inquiry regarding the integration of Environmental, Social and Governance (ESG) considerations into investment decisions. This type of research fills an important gap in the policy making landscape in Australia on how to encourage and enable investors to actively assess non-financial risk. Extension of this research programme would provide a further constructive contribution to the development of non-financial reporting and analysis in Australia."

Report section 1.115

Reference to Finsia: "Labor believes that the National Sustainability Council referred to in earlier recommendations could successfully auspice further research or education activities and engage with industry groups such as Finsia as they perform their won further research. The necessary funding from government for such research is referred to the main committee report at Recommendation 23." J