Are Consumers Satisfied with Superannuation and Financial Advice?

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In addition to working for financial clients, Norman was involved in the supply of analysis to the Financial System Inquiry (Wallis Report) and the first major study on financial literacy in Australia. He is quoted regularly in the press, has presented at financial services conferences, and undertaken surveys for the Banking Ombudsman.

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With the Labor Government's increased focus on most areas relating to the managed funds and superannuation industry, through a proliferation of inquiries and reports (including the Ripoll Report; the Super System Review – Cooper Inquiry; Henry Tax Review; and the Future of Financial Advice), Roy Morgan Research considered it timely to update its *Superannuation and Wealth Management in Australia* report to understand consumer behaviour in this area. The Cooper Inquiry's final report recognised that *'Superannuation must always be for the benefit of members'*[1] and yet very little of the work being done and written about in this area has involved consumers. The purpose of this paper is to address the issue.

OUR ANALYSIS

Roy Morgan Research is in a unique position to understand consumers in this complex area, as it has conducted more than 400,000 interviews since 1996 with Australians holding superannuation or retirement savings account products. From each of these interviews, we have collected a range of details, including:

- the specific types of products;
- the fund manager the product is with;
- the value of the investment; and
- how the investment was obtained.

We have been tracking the effect of Superannuation Choice (introduced in July 2005) on consumers, and this paper is based on the results of the twelfth in the series of such reports published since December 2005.

Whilst superannuation is still the major household financial product in Australia in terms of value, it should be understood and analysed in the context of all the other financial products, assets and debt that make up the true financial position of Australian households.

Major issues such as household debt, superannuation adequacy or financial planning cannot be understood comprehensively at the aggregated level but must be analysed at the individual household level. For example, retirement savings adequacy cannot be looked at simply in terms of superannuation when individuals have nearly as much in direct investments as they do in superannuation; and yet this is often ignored. Financial planning should also be considered more holistically and not restricted to advice on one product or even investments alone.

1 For the Cooper Review's final report on its *Review Into The Governance, Efficiency, Structure And Operation Of Australia's Superannuation System*, see: <http://www.supersystemreview.gov.au/content/content.aspx?doc=html/final_report.htm>, accessed 1 September 2010.

CONFUSION OVER FINANCIAL ADVISER 'INDEPENDENCE'

There has been a great deal of publicity recently about the role of financial advisers, and particularly the issue of remuneration levels and method of payment (commissions versus fee-for-service, trailing commissions, etc.). However, the issues go well beyond the payment methods — they also include access to financial planning, and consumer awareness of the independence of the advice received from financial advisers.

The role of professionals (i.e. financial advisers and accountants) in advising people on major financial investment decisions is a critical one, given the relatively low level of financial literacy; the complexity of superannuation; and regular rule changes. There is also the element of fiduciary responsibility. All of these factors have been explored in the Cooper Review.

Central to the fiduciary responsibility of advisers is that they are considered to be independent by their clients and not acting out of self-interest — such as having a greater focus on commissions, or recommendations limited to their own products. There is major confusion amongst consumers as to what 'independent' means in terms of financial advice, particularly if the brand is different to the owner, such as Financial Wisdom (62 per cent of its clients think it is independent); Godfrey Pembroke (58 per cent of clients think it is independent); and Garvan (58 per cent). Even when the adviser comes directly from a major fund manager, there is confusion over the issue of independence, e.g. 29 per cent using the AMP group think their advisers are independent (and this is even after they end up with AMP's products) and 33 per cent of AXA customers think their advisers are independent.

The fact that there are such major differences in understanding of the advisers' status amongst clients who use the same dealer group should be of major concern to the regulators and is in need of attention.

TABLE 1: PERCEPTION OF FINANCIAL ADVISER BRAND INDEPENDENCE FOR SUPERANNUATION PRODUCTS

% of Products through each Financial Adviser Brand Perceived as...		Perceived Type of Financial Adviser or Accountant: Tied	Independent	Accountant
Big 6 Financial Planning Groups				
AMP Group	AMP	68	29	4
	Hillross	48	50	2
NAB/MLC Group	NAB	80	12	8
	MLC	61	35	4
	Garvan	36	58	6
	Godfrey Pembroke	38	58	4
	Apogee	32	53	16
	AdvantEdge*	23	35	42
CBA Group	Commonwealth	70	16	14
	Colonial FS	60	34	6
	Financial Wisdom	35	62	3
AXA Group	AXA	65	33	3
	Charter FP*	33	34	33
ANZ Group	ANZ	65	17	19
	RetireInvest	50	47	3
Westpac Group	Westpac	76	16	8
Non-Big 6 Financial Planners				
ABN AMRO Morgans		47	34	19
Count Wealth		12	23	65
Macquarie		50	27	23
Suncorp		69	23	7
St George		65	22	12

(Data period: January 2006–December 2009, sample n = 18,045 work-based or personal superannuation products obtained through a financial adviser or accountant)
*Due to small sample size, figures should be treated as indicative only.

FINANCIAL ADVISER PREFERENCE FOR OWN FUNDS IS AN ISSUE

One of the key indicators as to whether financial advisers are likely to be acting in the best interests of their clients is to look at the proportion of sales that go to their own products. For example, each of the big six financial planning groups from Table 1 is also associated with a major funds management group.

Table 2 shows the proportion of superannuation products obtained through financial planning groups where the fund manager was from the same group of companies as the financial adviser. Over the 2006–09 calendar years, these financial planning groups have consistently allocated over 70 per cent of sales to their own products, and in the 2009 calendar year this figure is 73 per cent.

AMP has consistently had the highest proportion of its advisers' sales going to its own funds (currently 82 per cent). Over the 2006-09 calendar years, the ANZ/ING planning group has been the least likely to direct clients to its own products. In the 12 months to December 2009, only 47 per cent of ANZ/ING clients ended up with ANZ/ING products.

This issue has attracted a lot of interest from the press — particularly when we have released previous editions of the *Superannuation and Wealth Management in Australia* report — and, with increased Government focus on the fiduciary responsibility of advisers, it is likely to remain a key issue in financial reform.

It is worth noting that none of the advisers (from the big six financial planning groups or otherwise) is very likely to direct switchers towards Industry Funds, when compared to funds switched through other channels.

In fact, only 5 per cent of switched super products going through advisers from the big six dealer groups were directed to Industry Funds. Other financial advisers scored a higher level — directing 10 per cent of switchers to Industry Funds. These results are in contrast to the 34 per cent of switched products going through channels other than financial advisers that ended up with Industry Funds.

We have seen that Industry Fund clients generally have a higher level of customer satisfaction with the financial performance of their funds, compared with most of the major retail funds. This raises the possibility of fees and commissions playing a major role in fund selection.

SATISFACTION WITH SUPER BY BRAND AND PURCHASE CHANNEL — A CRITICAL MEASURE

A lot has been written lately about fee levels, particularly with regard to:

- super fund performance and whether it should be measured net of fees and tax;
- how to compare funds; and
- whether past performance should be used as a guide to choice.

The approach used in this survey was to compare the satisfaction levels (based on satisfaction with financial performance) of super fund members across all purchase channels.

In terms of fund manager performance, Industry Funds have consistently outperformed retail funds.

TABLE 2: PROPORTION OF SUPERANNUATION PRODUCTS OBTAINED THROUGH FINANCIAL ADVISERS ALSO WITH SAME FUND MANAGER

Big 6 Financial Planning Groups	January 2006 - December 2009	12 months to Dec 2007	12 months to Dec 2008	12 Months to Dec 2009	Difference: Dec 2008 to Dec 2009
AMP	82	84	82	82	0
ANZ/ING	44	43	44	47	3
AXA	77	76	82	75	-7
CBA/CFS	72	66	74	74	1
NAB/MLC	68	71	66	68	2
Westpac/BT	71	71	78	73	-5
Total Big 6	**73**	**74**	**74**	**73**	**-1**

(Data period: January 2006–December 2009, sample n = 5,697 work-based or personal superannuation products obtained through 6 major planning groups)

TABLE 3: SATISFACTION WITH FINANCIAL PERFORMANCE OF SUPERANNUATION BY FUND MANAGER

Fund Managers	% "Satisfied"	
	Jan 08–Dec 08	Jan 09–Dec 09
AMP Group	52.5	41.8
AXA Group	49.3	38.5
CBA Group	56.9	48.0
ANZ Group	51.2	42.8
NAB Group	53.6	43.6
St George Group	57.2	42.9
Suncorp Group	54.3	45.6
Westpac Group	50.8	44.9
Industry Funds	59.3	50.8
Public Sector Funds	64.5	57.2
Self-Managed Funds	74.7	68.5
Total Work-Based or Personal Super Products	**57.8**	**49.1**

(Data period: January 2008–December 2009, average 12 months sample n = 35,469 work-based or personal superannuation products).

Table 3 shows that, in 2009, Industry Funds had a satisfaction level of 50.8 per cent overall, compared to the retail funds measured — which were in the range 38.5 per cent to 48.0 per cent.

Self-Managed Super Funds (SMSFs), as might be expected, have clearly the highest satisfaction level (68.5 per cent) which probably explains their rapid growth.

Do those purchasing their superannuation through financial advisers achieve a better result than those who do not? This should be a central issue in discussion on the value of financial advisers.

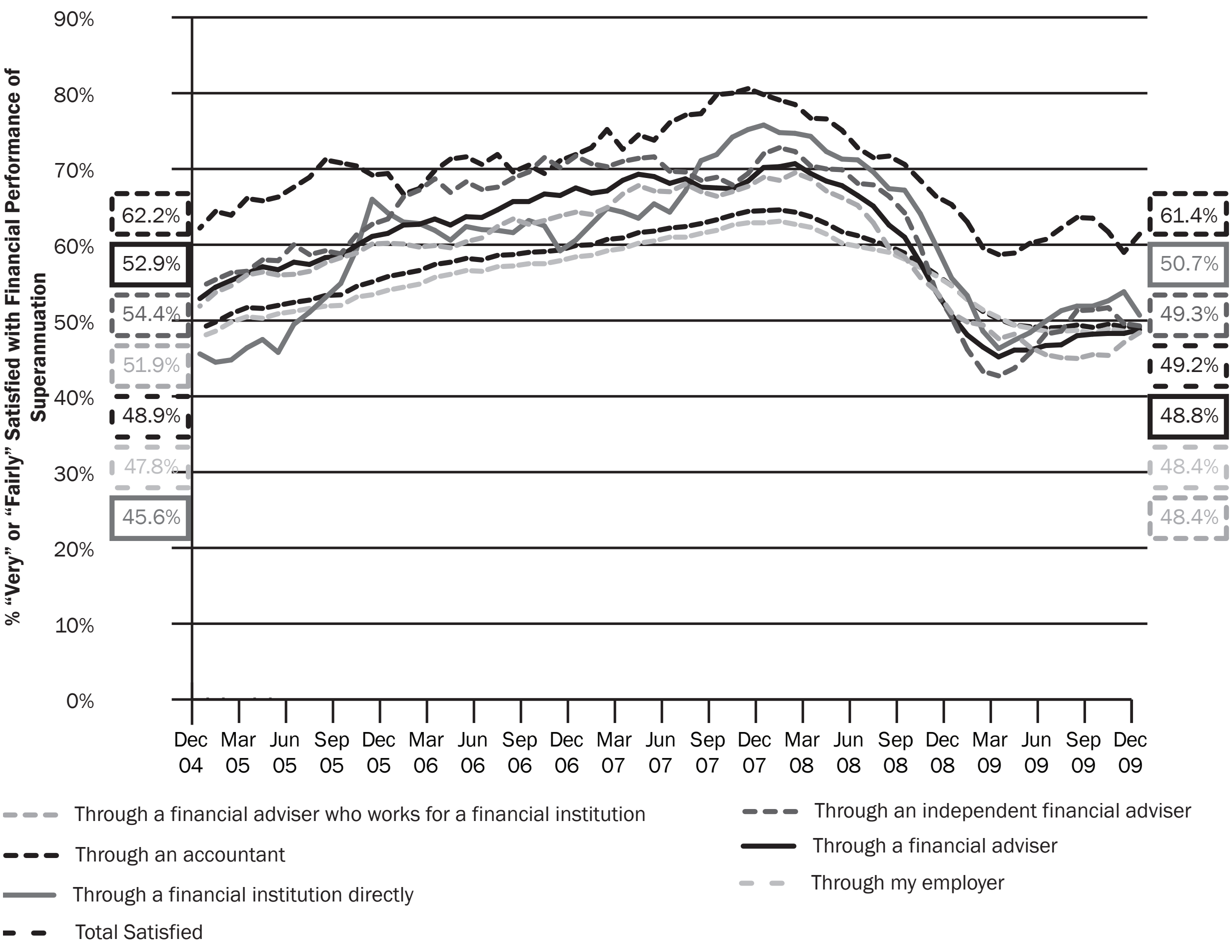
Satisfaction with the financial performance of all types of superannuation fell dramatically during 2008 and early 2009, as a result of the Global Financial Crisis (GFC). Figure 1 shows that satisfaction with superannuation obtained through financial advisers is now 48.8 per cent, putting it below the industry average of 49.2 per cent. This means that those who used financial advisers are likely to question whether the performance of their superannuation investments justifies the additional cost, compared to using default employer schemes.

It now appears that it makes very little difference to satisfaction levels as to which purchase channel is used, except for those using accountants who have much higher satisfaction, most likely as a result of SMSFs.

SOME DOUBT ON ETHICAL STANDING OF FINANCIAL ADVISERS

Each year Roy Morgan Research conducts a poll to compare how the population rates occupations for 'ethics' and 'honesty'. It is obviously going to be critical that people trust those who are advising on financial matters, but on a comparative basis financial advisers are ranked low, with only 25 per cent of the population rating them as "very high" or "high" for ethics and honesty. This is an unsatisfactory rating compared to other professionals who people approach for advice e.g. pharmacists (85 per cent), doctors (79 per cent), dentists (68 per cent), accountants (50 per cent), bank managers (33 per cent) and lawyers (32 per cent). The low level of trust is probably one of the reasons that only a small proportion of consumers (around 25 per cent) use financial advisers when switching their super fund.

FIGURE 1: SATISFACTION* WITH FINANCIAL PERFORMANCE OF SUPERANNUATION — BY CHANNEL USED TO OBTAIN SUPER PRODUCTS



Base: Australian Pop'n 14+, Work-Based or Personal Superannuation products, 6 months moving average, Average sample n = 18,174

* Proportion "very" or "fairly" satisfied with the financial performance of work-based or personal superannuation on a five point scale that also includes "neither satisfied nor dissatisfied", "fairly dissatisfied" and "very dissatisfied".

SIGNIFICANT GAPS BETWEEN THOSE WHO SEEK PROFESSIONAL ADVICE AND WHO DO NOT

The use of financial advisers/accountants to purchase managed investments is mainly linked to the amount involved, with the top two wealth management quintiles accounting for 72 per cent of the products obtained from advisers/accountants. The lower value groups either do not seek advice because they are either unaware of this option, the cost is too great to service them, or they just accept what their employer offers them.

TABLE 4: COMPARISON OF WEALTH MANAGEMENT CUSTOMERS — BY PURCHASE CHANNEL

	Obtained Managed Invt (incl. Super) through a Financial Adviser or Accountant	Obtained Managed Invt (incl. Super) through other channels (apart from a Financial Adviser or Accountant)
% Men	57.6	51.3
% Women	42.4	48.7
Average Age:	54.9	40.8
Median Age :	54.6	39.6
% Degree or Diploma	43.2	42.0
% Full-Time Employed	46.1	57.3
% Part-Time Employed	17.6	25.0
Avg. Personal Income ($000s)	56.6	48.7
Median Personal Income ($000s	41.0	41.3
Avg. Household Income ($000s)	101.2	97.9
Median Household Income ($000s)	84.5	85.6
Average Value in Wealth Management ($000s)	238.2	82.8
% First WM Quintile (Lowest)	5.0	23.8
% Second WM Quintile	8.1	22.8
% Third WM Quintile	14.9	21.3
% Fourth WM Quintile	26.4	18.4
% Fifth WM Quintile (Highest)	45.7	13.7

(Data period: January 2009–December 2009, n = 34,290 Australians having Wealth Management Products, of which 6,959 obtained the products from a financial adviser or accountant).

*Wealth Management includes managed funds (other than super), superannuation, pensions and annuities.

Over-represented compared to total wealth management customers.

Because of the link to value, those who obtain investments from an adviser/accountant are more likely to be older and male. It is important to note that the difference between those who use an adviser/accountant and those who do not, is unrelated to education level or income, as both groups have similar profiles on these criteria. The average value of managed investments (including super), however, is $238.2K for those getting their investment from an adviser compared to only $82.8K for those who do not.

An important time to seek professional advice is when consumers are switching super funds. However, only 63 per cent of people switching their super in the calendar year 2009 sought any advice. Table 5 shows that the highest proportion of people who sought advice switched to SMSFs (94 per cent), while the lowest switched to Public Funds (56 per cent) and Industry Funds (58 per cent).

TABLE 5: SOURCES OF ADVICE FOR SWITCHING SUPER FUNDS

% of those who Switched Super Fund Manager in the last 12 months who Sought Advice	All of those Switching in the last 12 months	Fund Managers Switched Superannuation To:								
		AMP	AXA*	CBA	ANZ*	NAB*	Westpac /BT*	Industry Fund	Public Funds	SMSF*
	63	60	80	79	75	77	70	58	56	94
% of those who Sought Advice from each Source of Advice	**All those Seeking Advice**	**AMP***	**AXA***	**CBA***	**ANZ***	**NAB***	**Westpac /BT***	**Industry Fund**	**Public Funds***	**SMSF***
Financial Adviser	34	39	71	67	45	56	44	18	18	54
Accountant	10	3	8	7	12	6	5	10	8	49
Financial Adviser or Accountant	42	41	79	73	55	60	46	27	25	89
Employer	39	36	13	19	32	31	26	47	48	0
Friend or Family	17	16	5	9	13	14	19	22	25	10
Financial Institution Directly	7	11	3	5	10	2	20	9	11	6

(Data period: January 2006–December 2009, n = 2,694 switchers aged 14+ and giving source of advice, of which n = 1,704 sought advice).

* Due to small sample size, figures should be treated as indicative only.

Amongst those who sought advice, the source of that advice varied greatly across different funds. The highest level of professional advice (a financial adviser or accountant) was for SMSFs (89% per cent). By contrast, those switching to Industry Funds had their employer as the main source of advice (47 per cent), with only 27 per cent of those who sought advice on Industry Funds receiving it from a financial adviser or accountant. The major source of advice for those switching to the major retail funds were financial advisers and accountants, where the range was from 41 per cent for AMP to 79 per cent for AXA.

From our work on financial literacy[2] we know that there are many gaps in consumer knowledge of superannuation, which makes it important that people seek professional advice (or know how to) when making decisions regarding changing their superannuation arrangements.

The profile of people who do receive advice varies considerably from those who do not. The former group is skewed towards those with more in wealth management (i.e. the highest quintile accounts for 38 per cent), higher personal and household incomes, and older age groups. Those people not receiving advice — although skewed towards lower personal incomes, lower superannuation balances, and younger age groups — also include many people with substantial funds (over 27 per cent of them are in the top two quintiles). Because a lot of this group are going to Industry Funds (58 per cent) it raises some concerns about what many people will be basing their decision on. There are some obvious dangers if people are making long-term decisions without adequate advice or knowledge.

Another issue is that financial advisers probably do not consider it worthwhile to offer advice (or market their services to) the lower value group, which means that on many occasions they are 'falling through the cracks'.

Under the Labor Government's proposed *Future of Financial Advice* reforms, the then Minister for Superannuation and Financial Services, the Hon Chris Bowen MP released a paper where he stated, *"...financial advice should not be put out of reach of those who would benefit from it."*[3]

2 *ANZ Survey of Adult Financial Literacy in Australia Final Report*, Roy Morgan Research, May 2003, <http://www.thesmithfamily.com.au/webdata/resources/files/ANZreportMay03.pdf>, accessed 3 September 2010.

3 The Office of the Hon Chris Bowen MP, *The Future of Financial Advice Information Pack*, 26 April 2010, <http://ministers.treasury.gov.au/Ministers/ceba/Content/pressreleases/2010/attachments/036/Future_of_Financial_Advice_Information_Pack.pdf>, accessed 3 September 2010.

At the moment it appears that very little use is being made of financial advisers/accountants by the bottom 60 per cent of the wealth management market (first, second and third quintiles), as only 8 per cent of this group has obtained any type of managed fund (including super) from one of these professionals. Given the relatively poor state of financial literacy amongst this group, it is obvious that many people are not getting the advice that they should. The top two quintiles have a much higher level of usage of professional advisers (33 per cent have obtained a product via the engagement of professionals) but there are likely to be many more in this group who could benefit from such advice. It is difficult to see how the banning of commissions and trailing commissions on financial products will encourage the seeking of professional advice, particularly amongst the lower value clients who are unlikely to want to pay for it.

FINANCIAL ADVICE AND 'MYSUPER'

The 'MySuper' initiative proposed by the Labor Government's Super System Review (Cooper Inquiry) is intended as a simple and efficient option for those people not actively engaged in their superannuation.[4] The focus of this initiative is likely to be those with average account balances in super. The majority of those who are seen as the core demographic for MySuper are included in the first three wealth management quintiles set out in Table 6.

TABLE 6: PROFILE OF WEALTH MANAGEMENT* QUINTILES**

	Total WM	First Quintile (Lowest)	Second Quintile	Third Quintile	Fourth Quintile	Fifth Quintile (Highest)
% Men	52.6	45.4	46.9	46.8	57.7	66.5
% Women	47.4	54.6	53.1	53.2	42.3	33.5
Average Age:	43.6	32.0	35.3	44.0	49.9	56.9
Median Age :	42.6	28.0	32.3	42.4	48.5	56.4
% Degree or Diploma	42.2	31.1	39.8	40.8	46.6	52.7
% Full-Time Employed	55.0	39.4	56.8	61.7	63.2	54.2
% Part-Time Employed	23.4	37.8	26.2	21.5	16.8	14.7
% Retired	10.1	2.2	2.9	6.3	12.7	26.0
Avg. Personal Income ($000s)	50.2	30.0	41.4	50.2	59.0	70.6
Median Personal Income ($000s)	41.1	25.4	37.6	44.7	52.3	55.8
Avg. Household Income ($000s)	98.6	80.7	90.7	97.6	105.2	116.4
Median Household Income ($000s)	85.3	67.3	80.7	86.4	94.9	99.8
Average Value in Wealth Management ($000s)	113.2	3.4	18.1	47.0	105.6	392.5

(Data period: January 2009– December 2009, n = 34,290 Australians having Wealth Management Products).

* Wealth Management includes managed funds, superannuation, pension and annuities.
** Wealth Management Quintiles are based on the dollar value held by each individual in wealth management products.

Over-represented compared to population.

The target group for MySuper controls only 12.1 per cent of the wealth management funds (predominantly super) and yet comprises around 60 per cent of those with the products. It is heavily skewed towards women, younger age groups, those with lower personal incomes and lower education.

One of the important issues that needs to be considered with this group is how they are going to access advice when, currently, only 6 per cent have obtained their super from a financial adviser/accountant; and yet, according to our research, this group has a generally lower level of financial literacy.[5]

4 Full details of the MySuper proposal can be found at: <http://www.supersystemreview.gov.au/content/downloads/mysuper_paper/mysuper_second_phase_one_20100420.pdf>, accessed 3 September 2010.

5 *ANZ Survey of Adult Financial Literacy in Australia Final Report,* Roy Morgan Research, May 2003, <http://www.thesmithfamily.com.au/webdata/resources/files/ANZreportMay03.pdf>, accessed 3 September 2010.

With a proposed ban on commissions, it is difficult to see how the bottom 60 per cent will receive any advice on their super — unless it is simple, single product advice which is likely to carry a very low fee. A full review or financial plan for this group is likely to be out of reach for the very people who are likely to need it (based on financial literacy levels).

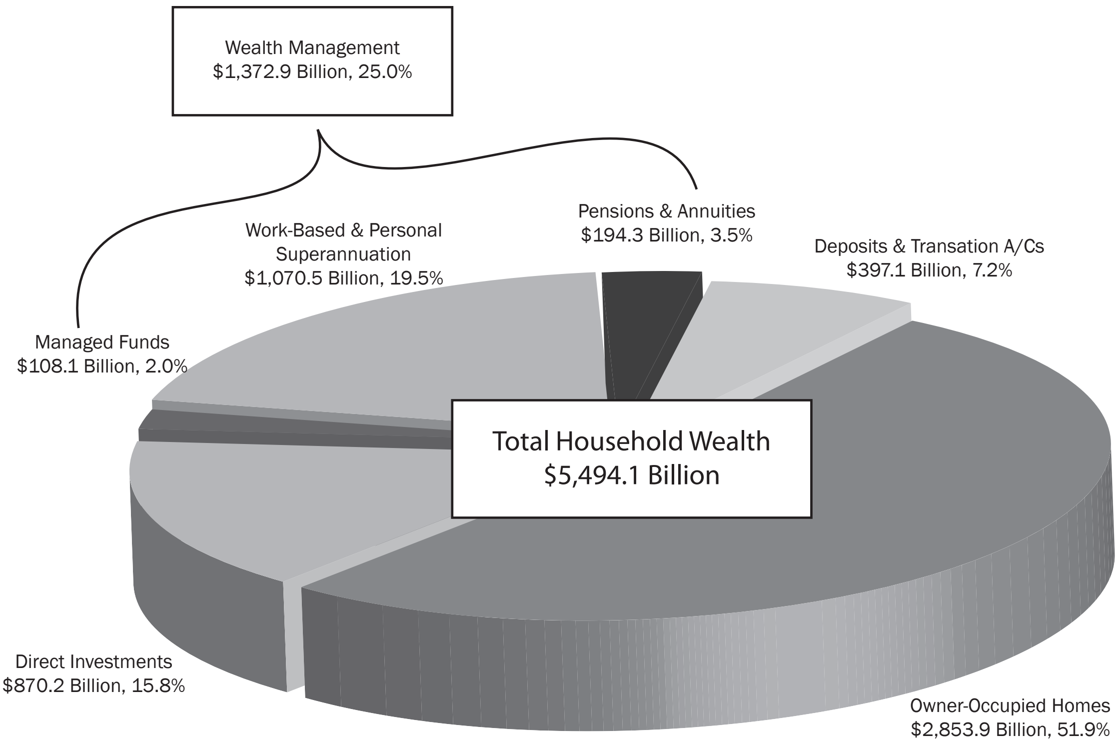
NEED FOR MORE EMPHASIS ON 'HOLISTIC' FINANCIAL ADVICE

In order to understand the wealth management market in Australia (superannuation and non-superannuation), it is first necessary to take a more holistic view of the position and significance that these funds hold in Australian households, rather than the traditional silo approach where each product is treated in isolation. The issues of household debt, superannuation adequacy, home ownership, direct investments etc. are all part of understanding the real financial position of households and therefore need to be treated as a whole.

The total gross wealth of Australian households (i.e. excluding debt) has reached five and a half trillion dollars, of which wealth management products (including superannuation, pension/annuities and managed funds) constitute 25 per cent of the total — or just over half (52 per cent) of the value if owner-occupied homes are excluded.

Figure 2 shows the major component of total wealth is owner-occupied homes, with 51.9 per cent of the total value. Superannuation is the second largest component of overall wealth (19.5 per cent). It is important to note that the adequacy of retirement income and assets should not be judged solely on the amount in super, but must consider the total wealth position.

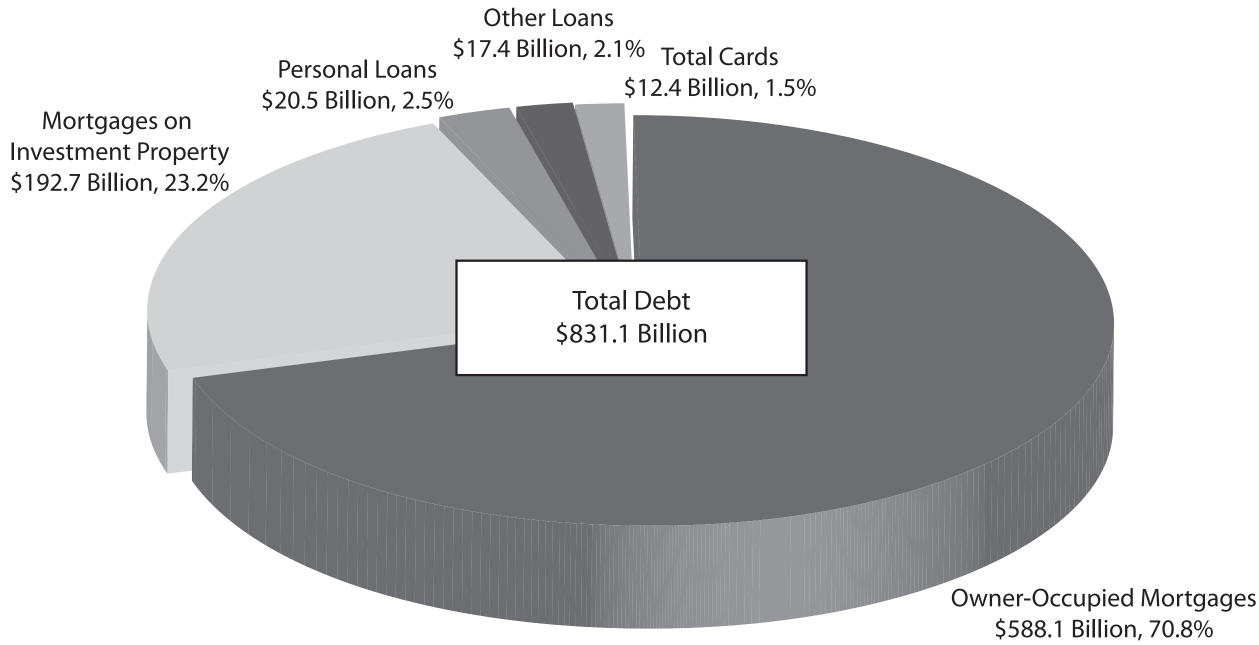
FIGURE 2: TOTAL GROSS HOUSEHOLD WEALTH (ASSETS) MARKET OVERVIEW



Base: Australian Population 14+
January 2009–December 2009
Sample: n = 51,874

To understand the true (or net) value of household wealth, we must obviously consider total debt held by households. Figure 3 shows that total debt of households is $831.1 billion, with the major component being owner-occupied mortgages which account for 70.8 per cent of total debt ($588.1 billion). Although this debt figure is of major significance, overall it is only equal to around 15 per cent of total household wealth.

FIGURE 3: TOTAL HOUSEHOLD DEBT OVERVIEW



Base: Australian Population 14+
January 2009–December 2009
Sample: n = 51,874

CONCLUSION

Considering the generally low level of financial literacy in the community, particularly as it relates to the more complex area of superannuation, it is imperative that consumers know where to access reliable advice, have the ability to pay for it, and realise that they need it. This paper shows that there is confusion amongst consumers in terms of where to go for unbiased and independent advice, and also that financial advisers have some ground to cover to improve their image.

There are major gaps between those who receive professional financial advice and those who do not, with advisers primarily focussed towards the higher value end of the scale. The challenge is how to service lower value clients economically and to get them engaged in the planning process.