To Whom It May Concern

Inquiry Joint Committee Financial Planning and Services

My husband has written a submission outlining his thoughts about the FP&S industry as it has impacted on our investment decisions re Superannuation management.

Although I am very aware of all our dealings in both the accumulation, lump sum decision-making and subsequent management of our fund and then allocated pension, I must stress that there were (for me especially) times of huge stress and fear about what to do. We always wanted a hands on role so handing over financial decisions to a fund manager was not on the cards BUT taking that stance was not easy. We have been lucky to have an accountant who had started to discover clients who wanted to manage their own retirement income and it became a joint learning experience with the ATO as the arbiter on early issues. I well remember the session with one accountant who played the 3 Phase Strategy referred to in my husband's submission. I came away terrified that we were going to be in penury for the rest of our days if we didn't go along with his advice. My husband, who by this time had been tinkering with small sum products for a number of years cannot even remember the occasion which he had dismissed as hard sell.

Listening to Geraldine Doogue explaining her difficulties in getting advice (during a recent interview) and the anguish she felt at the decision-making needed , I fully empathised with her predicament and predicament it is. In the years prior to leaving the work force, the stories from retired neighbours, ex-colleagues, newspaper articles indicated that setting up an income stream in retirement was no easy task and beset by poor financial decision-making. Like many others I didn't want to have a bar of this, preferring to avoid rather than approach the issue head on. Luckily for me, as it has transpired, my husband was made of stronger stuff and gradually acquired a knowledge base from which he felt capable of taking on the setting up and management of our fund and now our income stream.

We were in, what I assume, was an industry fund and the planner we could have dealt with was not providing truly independent/impartial advice within the definition. We were not aware of this at the time and avoided the particular person for personal reasons. However, coming from a background of permanent public service employment, in my case with not many years of superannuation contributions, the awareness that there were sharks around after our money was a concern. Never having had access to such a large amount the fear of making inappropriate decisions was (and is) ever present. We, too, did not know the premise ,"if the interest rate looks too good it most probably is", but were lucky to recover the capital of one our investments and learn a much needed lesson. A lesson we **had** absorbed before making investments was to diversify within asset classes so not all our lump went into that scheme. The notion that investments can "lose" worth was also a learning experience as we invested in the stock market. Neither of us worked in economics, maths, accounting or business at any time so we came from a very low base other than interest.

I assumed that the aim of compulsory superannuation contributions was to provide investment funds for the country and then extra income for individuals in the hope that eventually fewer people would rely on a Govt pension in retirement. The outcome of people losing lump sums to the unscrupulous is more the result of sloppy regulation rather than the fault of naive investors. So, “Yes, the Government could” demand that all retirees buy into an annuity type investment to provide an income stream but why? Provision of a proper regulatory system of financial advice and services would allow retirees to chose the full range of ways to manage their retirement income with less (no way of saying “no”) chance of falling into the hands of unscrupulous marketeers/schemes. Those of us who do not wish to have a regular fortnightly income for a set number of years request that our children have the same opportunity within the Superannuation framework as we have to tailor a system to their own requirements.

I.M. KILKENNY

TO WHOM IT MAY CONCERN

Financial Planning &Services Inquiry/ Joint Committee

My wife and I have had 13 years of experience post salaried, public service employment and wish to offer some observations regarding the Australian superannuation system from the perspective of self-funded retirees.

The concept of compulsory superannuation contributions aimed at reducing retiree dependence on Government welfare by increasing individual self-reliance in whole or in part is very welcome to us in principle. People with whom we have had contact in Australia and overseas, find Govt aged pensions to be skimpy at best and therefore financially restrictive, lifestyle limiting and psychologically demeaning. “I sit at home and watch the grass grow” is a memorable lament from one pensioner.

A brief reference to the Superannuation accumulation phase is relevant. We found advice of an independent nature very difficult to access. Career, home building, and family raising years mean that time to assess best procedures is limited. Financial advisors have sometimes provided sound advice but this has been the mixed with deception, (particularly over fees and conflicts of interest) and poor judgements (XYZ scheme recommendations which have proved disastrous).

The Financial advisory industry is very expensive compared to client income, deliberately confusing, (“You need me to help you through the maze”) sometimes bullying and arrogant. There have been useful sessions but ,as Warren Buffet refers to the “rabbit turd and raisin mix”, it is difficult to sort them. We found it was essential to combine the financial adviser service with our informal colleagues and community networks, accountants, lawyers, Australian taxation Office help lines and rulings and extensive searches of the media and publications. The planning side of the accumulation phase is a complex but vital task which merits time and effort. It is too late to plan when accumulating years have passed and many people appear to put little time and effort during this phase of life and are under-prepared for the next. We do not have another opportunity when we hit retirement and we found very little KISS principle help among the aforementioned range of resources we have used and we regret the absence of a useful Government agency exclusively addressing the issues.

Our best source of assistance in managing our income and assets is ourselves. My wife understands as much as I and “can do” when in all probability I exit first. There has been much emphasis in the media of women in regard to superannuation and retirement and life as a surviving partner. We consider it important that both members of a partnership can be informed and able. Our progeny will assist as we age further although it must be acknowledged that they are not necessarily going to provide threat free help, any more than the industry.

We were fortunate to enjoy some formative illustrations of the issues in the years prior to and as we commenced retirement.

e.g. The UK Channel 4 series "Mrs Cohen's Money" which drew attention to the option of buying shares in a financial institution rather than their products, after a determined Mrs Cohen had lost money in poor performing funds.

e.g. the exposure of the formulaic approach some financial advisers employed such as the 3 Part Strategy: Part 1 gets the client to imagine and articulate their dreams for retirement. *The wish list phase*. Part 2 is the regretful explanation that these dreams are unlikely to be met. *The demolition phase*. Part3 presents a solution which will at least provides partial satisfaction. *The sell and sign up phase*. We experienced the strategy at work first-hand at the lump sum management stage.

e.g. A fumbling session in the shed with a calculator, a primitive understanding of compound interest, a starting sum of $400,000 (made up of our superannuation savigs and a family inheritance), quoted entry and ongoing fees of 4% and 2% respectively (plus a vague suspicion that the quotation was not the whole story) led to the conclusion that we could do it ourselves and save a considerable amount of money at the outset, and multiples more over the notional life expectancy.

e.g. Broker and analyst opinions for shares vary enormously and a personal examination of success/failure rates of buy and sell recommendations showed a less than 50% accuracy.

e.g. The existence of the "churn" factor for share brokers as an income source whatever the outcomes of their recommendations

e.g. the deliberate promotion of stocks to sell or buy as brokers seek to increase or decrease their own holdings.

e.g. The fact that not all economists are wealthy.

e.g. The plethora of investment schemes which have failed, companies which have liquidated, fund managers who have scarpered etc etc etc

As the transition to retirement arrived the "lump sum" concept needed to be managed. It can be intimidating but overwhelmingly we have found it to be stimulating and empowering. People we know have engaged in a rich array of endeavours which can only happen with access to an amount of money that was never previously available except by taking the risk of borrowing. Although many retirees still opt for a pension/annuity income stream rather than an entrepreneurial approach, we feel that retaining choice in the sector is paramount.

We have found unexpected excitement and a surge in life style at this phase of our lives and we know many share this response to the Australian Superannuation Scheme. We are envied by connections overseas.

There are many risks in personal management of Superannuation. We are very well acquainted with "Greed and Fear" and try to manage their influence. We suspect our species is hard-wired with these responses and would not therefore feel any less vulnerable to them if other people were managing our affairs.

We have experienced some of the crises of recent years, none more alarming than the current global financial crisis. However we feel we are as likely to survive as financial industry professionals. We are pleased we didn't place our trust in the Mr Madoffs of this world.

All of the known knowns about risk in encouraging individual responsibility-taking can be addressed to enhance our capacity to manage. Our greatest fear is that the current review will be spooked into a retreat to an ultra-safe and cautious pension style enforcement. The issues for self managed retirement funds are not rocket science and they could be addressed clearly, concisely and independently of vested financial or political interest. Current information and advice sources are a minefield but could be rectified rather than abandoned. We (Australia) have made stunning progress towards an exciting retirement scene and we personally fear the baby being thrown out now with the bathwater.

The financial advocacy industry faces a tough challenge of credibility and trust and we hope this review will prompt change.

Our Accountant raises weary eyebrows to cheery enquiries about changes to superannuation laws which often seem to complicate rather than simplify.

We personally have experienced success and failure but are convinced it is better that both are the result of our own decisions. The concept of control is essential to the self-funding scheme. Our failures are minor when compared to collapsed investments schemes, fraudulent schemes, fraudulent operators and plain bad practice. We wonder if there are statistics which allow comparison of outcomes for self-funded retirees who control their own investment portfolio with those who rely on "the industry".

We recognise the learning curve involved for example in use of computers, internet banking, internet share trading, investment research, taxation and superannuation law, asset class options etc. These issues make our retirement a part-time occupation. However if this need for energy and attention is acknowledged and access to good services is improved, we consider the responsibility is much better when placed at the individual level (as with health, leisure, priorities etc) because:

- No other person or entity will be as vitally interested in our welfare as we are
- The importance of living well through our increased life expectancy is emphasised as a matter of self-interest and therefore worth the energy and attention.

In our case we have used a DIY fund to invest in shares, mortgages, real estate and cash with varying success. We are currently worth twice what we started with and our income has appreciated similarly. We do not place demands on the welfare system but we do enjoy imputed credits, favourable taxation treatment and the flexibility of withdrawals on the allocated pension scheme. What has been complicated at times could have been easier if we had invested in the shares of the top 20 Australian companies and taken a more passive position. This is pretty well our current strategy and would be a very simple starting point for retirees as a low workload option.

We do not feel smug but we do feel effective. We recognise that our current knowledge and skill mix resembles the Buffet mix. We benefit from our friends, our subscriptions to newsletters, our accountant, our media searches and financial advisers who are also subject to the Buffet mix. We regard this recognition, that there is no single infallible source, as a stage of enlightenment.

Our hopes from this inquiry are for an increase in availability, simplicity and independence of information for our generation as existing retirees and for our children and their children and their families as future retirees. We do need help to remain self-sufficient as we earnestly employ the sole purpose test to all our investments. Our hopes, **pre-eminently** are for no dilution to our capacity to take responsibility for ourselves. The Australian Superannuation Scheme has added purpose and value to our remaining years and we urge you to encourage and promote this.

A message that "Yes we can" manage our own retirement funds is badly needed to counteract the prevailing message that it is too hard for the ordinary person. Support us with the regulatory tools to manage and we will get on with it. Teach us how to fish.......

T M Kilkenny