AUSTRALIAN INVESTORS' ASSOCIATION

7 De Havilland Avenue
Benowa QLD 4217
Tel: (07) 5527 9283
Fax: (07) 5597 7892
Email: silvana.eccles@investors.asn.au
Website: www.investors.asn.au

Investors Helping Investors

08 March 2010

MEDIA RELEASE - FOR IMMEDIATE RELEASE

Hidden payments to advisers jeopardise retirement income

The Australian Investors Association (AIA) has joined the debate on the cost of superannuation and argued for changes to the remuneration of financial planners. The investment industry has a high cost structure that can't be explained by genuine costs or overheads. These costs are a function of remuneration to financial planners and they cost investors dearly in lower returns.

"It's a form of structural corruption," said Jolyon Forsyth, President of the AIA. "Fees are built into products by fund managers and are often not fully disclosed to investors."

In terms of performance, the top superannuation funds are industry funds which typically charge between 0.8 per cent and 1.2 per cent of a member's balance. Retail commercial superannuation funds charge up to 2 per cent pa which comprises an ongoing commission to the adviser, investment costs, administration, and profit and the result is a significantly less retirement benefit for the client.

"You expect to pay a fee to consult a doctor. You don't expect a drug company to pay a fee to the doctor for prescribing a certain brand of drug," said Mr Forsyth. "And many investors are paying commissions to financial planners without receiving any advice."

"The way that financial advisers are remunerated must be transparent so that impartial advice that is truly in the interests of the client is given," he added. "The quality of an investment must be questioned if it could not be sold unless it paid a commission on the financial product to the adviser."

It's not just the financial advisers that have to change but also the way the products are packaged and then recommended to clients by the financial advisers.

"We're concerned that the Cooper Review will stop short of banning payments to product advisers and that it will allow existing trailing commissions to remain in place for an extended period," said Mr Forsyth.

The AIA recommends that advisers charge investors for the advice given – then the advice becomes the focus.

"Investors need good advice and a satisfied client will be willing to pay a reasonable fee when they believe they are receiving good advice and service," said Mr Forsyth.

Financial advisers are capable of serving their clients' interests in a more professional manner. They can reject the products that have poor returns to their clients and those that could not survive without enticing advisers to recommend them because of the commissions. If the profession took a stand then investment companies would offer products that could win market share based on their intrinsic quality.

"Self-funded retirements lessen the burden on government and society, and these hidden fees slice into invertors' ability to save for retirement," Mr Forsyth said.

The AIA encourages its members to seek advisers who charge on a fee for service basis and reject those who are remunerated by commissions. Some advisers have started operating on a fee-for-service model but it isn't common in the industry.

The AIA advises its 2,000 members that there are alternatives to commission-driven wholesale managed funds that bring an equivalent diversification:

- Listed investment companies such as Argo or Milton with low investment and management costs and no trailing commissions to advisers
- Exchange traded funds which also don't have trailing commissions
- Index funds, which don't necessarily incur trailing commissions; and

- Individual company shares.

Media contact:	Scott McKenzie, Vice-President, Australian Investors’ Association,
Phone:	07 3335 6604 (BH)
Mob:	0418 742 301
Email:	scottmck@tpg.com.au

END MEDIA RELEASE