

# ASIA-PACIFIC REGULATORS' AND INDUSTRY DIALOGUE

## *Session 4*

### Protecting the Interests of Pension Users

**Mr Jeremy Cooper**

Deputy Chairman, Australian Securities and Investment Commission

## **SUMMARY PAPER**

### **Introduction**

ASIC is currently undertaking a broad review to examine the risks and obstacles that retail investors face in building long term wealth through investment through an internal unit called the Retail Investor Taskforce.

This presentation will share some of the issues that the Taskforce work has highlighted that need to be addressed to protect the interests of pension users. We are still in the scoping phase and do not necessarily have all the solutions to these issues.

People in the pension user phase of life face increasingly hard decisions – they have to process complex information and make difficult decisions. They want to ensure that their investments will generate sufficient income for them to have the lifestyle they are looking for in retirement, but do not want to risk losing that wealth. They might be asset rich and cash poor. They face issues about how to unlock the wealth in their assets while avoiding financial scams. They are also likely to need to consider how they will fund alternative retirement accommodation and increased health care services.

### **Balance between being 'protected' and looking after themselves**

Pension users are increasingly responsible for managing more financial risk and considerable risks have been shifted from other sectors (especially from banks and the government) to this sector.

In Australia, there is no bar to the products that retail investors can invest in as long as disclosure obligations are complied with by the issuer. The system relies on investors understanding disclosure and taking steps to inform themselves about the products. However, it is generally accepted that only around 20% of retail investors actually get financial advice and a report released in January by the Australian Bureau of Statistics on adult literacy indicates that 46% of Australians fell below the literacy levels needed to participate in a knowledge-based economy. It follows that such people would find it difficult to comprehend most financial disclosure documents.

Therefore, there is a gap between the financial knowledge required and that possessed for effective involvement in the financial system – this is a key challenge facing Australia.

## Protection of pension users

The Taskforce work has highlighted several issues that need to be addressed to help improve the experience of pension users:

1. Equipping them to make good decisions: Pension users generally adopt a more conservative asset allocation to protect their wealth, however many will still need to include growth assets in their portfolio as they often live as long as 20 years post retirement. One solution would be to encourage the development of products with a degree of automation that rebalance portfolios and adjust asset allocations automatically as the investor ages.
2. Encourage development of simple products that meet their needs: Increasingly, sophisticated products are being marketed to older people because they are seen to have more capital to invest. The annuity business is relatively undeveloped in Australia, but should be a growth area providing retirees with an income stream. We need to encourage the development of simple products that meet retiree's needs and ask whether we have got the incentive settings right if these products are not readily available.
3. Protecting them from financial scams: Financial scams are often targeted at people in this group because of their age and greater capital to invest.

In particular, ASIC has taken over 50 enforcement actions against illegal schemes purporting to allow early access to pensions. These scams encourage pension savers to rollover their pensions into a self managed fund for the purpose of investing in often unlicensed schemes or the promoter takes a large commission. The risk for investors is that there will generally be no compensation. Most people who participate in such scams do not use a financial adviser and so generally do not have a creditworthy party to claim against.

4. Giving them access to retirement income: A SEQUAL survey of 1,000 retirees over 60 in October 2007 found that 31% expect to rely on the family home to produce retirement income. 'Reverse mortgage' products have been useful to help pension users unlock the value in their homes, but they need to understand the risks. The SEQUAL study estimates that only 40% understand the basic premise of reverse mortgages.

ASIC released a report in November 2007 that found that people did not adequately balance their short-term needs for funds with the long-term needs. This left them open to having insufficient funds to move into retirement accommodation later or resulted in a reduced standard of living. The SEQUAL study indicates that only 45% of retirees understood the cost of retirement accommodation.

ASIC made recommendations to improve the information available to consumers, access to advice and encourage advisors to provide a tailored service in this area. ASIC has worked with industry to develop a code of practice and has taken action against misleading advertising in this area. Borrowers also need to review reverse mortgages in the current market to consider the impact of rising interest rates.