Your Superannuation Is Abbott's Next Battleground

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The next battleground for the financial sector - and the Abbott Government - is your superannuation, and your capacity to control it. Ian McAuley explains.

Just last week Clive Palmer told the Abbott Government what they could do with their proposals to wind back the previous Government's Future of Financial Advice (FOFA) reforms.

They could "stick it up their arse", as far as he was concerned.

We don't know what caused his about-face, when on Tuesday he waved through the Government's proposals with a few ineffective amendments.

Does Palmer fear being sidelined, as the Government finds it easier to deal with Labor, as it has done with the Qantas Sale Act?

Has Mathias Cormann made an agreement with him on some other issue?

What we do know is that hasty deal-making, as we have seen in this and in the carbon tax drafts, results in sloppy legislation and a great deal of uncertainty.

Our institutions of governance, including the public service, are set up for an executive government with strong parliamentary control – the textbook "Westminister" system, rather than a multi-party democracy as is common in mainland Europe.

While the Gillard Government dealt with this situation reasonably well – certainly much better than the Coalition – both main parties still see "minority" government as an aberration rather than a permanent aspect of our political landscape.

We also know specifically that Palmer's deal with Cormann "removes the major consumer protections that were established under the existing FOFA regime", to quote Michael O'Neill of National Seniors.

About the only group supporting these changes, originally proposed by Arthur Sinodinos before ICAC caught him out, and now vigorously pursued by Mathias Cormann, is the Australian Bankers' Association.

What independent commentators, and even the Government's own interim report on the financial system, see as "high fees" and "conflicted remuneration", the banks see as a source of easy profit.

National Seniors, the Council on the Ageing, Choice and others are correct in seeing the demolition of FOFA reforms as a consumer protection issue.

As pointed out by actuaries Rice Warner, the FOFA reforms, in making it harder for financial "advisers" (in reality commission salespeople) to take commissions, would have saved the average consumer about $900 (four years of the impost of the carbon tax on electricity bills).

More importantly, they would have provided some protection against the Storm, Timbercorp, and West Point type schemes which have seen small investors lose their entire life savings.

The wider issue is the increasing burden of the financial sector on our whole economy, and of the way that sector is taking over many functions once handled by government.

The industry sector classified by the Bureau of Statistics as "finance and insurance" has grown from five per cent of GDP in 1990 to eight per cent of GDP in 2013.

It is a $130 billion dollar bureaucracy, now significantly larger than the $80 billion public service and defence sector ("public administration and safety").

That is in spite of huge advances in information technology which should have seen this industry's costs reduce.

That $130 billion is around $13, 000 a household, some of which shows up as bank fees and interest charges, some of which is hidden in commissions on superannuation and insurance products (the essence of the FOFA reforms), and the bulk of which is incurred by businesses and passed on in the form of prices for consumer products.

The finance sector has been highly favoured by successive governments. Labor governments have given the sector compulsory superannuation. All superannuation contributions, other than those which are in genuinely self-managed funds (many "self managed" funds are actually contracted to financial specialists), pass through the finance sector, which takes a significant share of contributions and returns.

To their credit, Labor governments have encouraged the growth of low-cost industry superannuation funds.

The Coalition's support for the finance sector has been most noticeable in its generous subsidies for private health insurance, a $2 billion overhead imposed on the health sector.

And, as illustrated in its strong opposition to the FOFA reforms, it is always ready to protect the sector from anything that may weaken its revenue sources. In the current Budget, for example, is a $120 million cut in the appropriation for the Australian Securities and Investment Commission, on the basis that "the Government thinks that there is scope for the financial services industry ... to self-regulate more".

More recently, it has strongly opposed the recommendations of a Senate Committee to have a commission of inquiry to investigate fraud, forgery and allegations of a cover-up in the Commonwealth Bank's financial planning arm.

The Coalition, or at least the Liberal Party, obviously has friends in the finance sector.

At least with the scuttling of the FOFA reforms consumers are under no compulsion to use commission agents. They would be well-advised to be suspicious of the banks and of spruikers offering "free" financial advice.

Those who are more savvy have the option of seeking fee-for-service financial advice, and of setting up their own superannuation funds, but Tuesday's interim report on the financial system has a proposal which would see superannuants forced into total dependence on the financial sector without any opt-out choice.

At present most superannuants choose what are known as "account-based" pensions, which allow them to shape their drawings in line with their changing needs, for example, by giving priority to paying off a residual mortgage, or to helping their children's education.

In the report are suggestions, mainly emanating from the finance sector, that superannuants should be required to place their savings in annuities paying a fixed income over beneficiaries' remaining lives.

Such annuities are necessarily administered by the financial sector, and have proven to be very expensive products, because the providers hedge themselves generously to cover "longevity risk" (the possibility that we may all live to 120) and to compensate for volatility in financial returns.

Their returns are low and their fees are high.

There are indeed problems with some people spending down their lump sums and calling on the public pension, but these can be overcome by draw-down limits, or by taxes on drawings, rather than by paternalistically forcing people into dependence on the high-cost financial sector.

Compulsory annuities are shaping up as the next political battle with the financial sector.

If we had a traditional "right" government, it would stand up for individual choice, but this is not a traditional "right" government. Rather, it is one which is committed to privileging the finance sector.

Its rhetoric may be about getting the government off people's back, but it has no hesitation about imposing the burden of the more onerous and less accountable financial sector on people's back.

If you thought Cormann's case for abolishing FOFA protections was weak, watch out for his arguments justifying compulsory annuities.