

MEDIA RELEASE

Embargoed 12am 18 November 2013

License to invest needed says international expert

You need a license to drive a car and you should have one to drive your superannuation investments says visiting international superannuation expert, former World Bank economist and ARC Centre of Excellence in Population Ageing Research (CEPAR) Honorary Professor, Robert Holzmann.

“You can’t get a driving license based on a theory test alone – you need to be able to put that into practice on the road. It’s the same with financial capability. It’s not just about a person’s capacity to be literate in the marketplace, they also need to have practical skills to navigate as well,” Professor Robert Holzmann said.

“It’s no longer a case of financial literacy alone, providers and regulators need to ensure people have the skills as well as the understanding of how financial products and markets work.

“The Australian market and its regulators need to ensure that it secures the success of its financial literacy programs by implementing a system to evaluate existing financial capability and literacy measures.

“With the booming self-managed super fund (SMSF) market in Australia this is even more important,” Professor Holzmann said.

Professor Holzmann’s words echo concerns outlined in the final report of the Super System Review released in 2010.

That report states:

“Financial literacy is an important long term goal, but a compulsory superannuation system cannot depend on all its participants having the skills necessary to comprehend complex financial information or being investment experts.”

Super System Review, Final Report: Part 1, p4, 2010

According to statistics presented at a recent CEPAR conference, the SMSF sector accounts for:

- Nearly 80% of voluntary contributions in Australia;
- Average balances per member are approximately \$500,000;
- One third of superannuation funds assets in Australia are held in SMSFs;
- SMSF trustees are generally self-employed, small business owners, professionals, executives and retirees;
- 27.1 % of trustees have only completed a trade or Diploma qualification and 13.7% have only completed high school.

“There are big numbers accumulating in SMSF funds and people don’t have licenses to drive their financial cars. Governments and regulators need to ensure that the system provides an option for those who can’t get their license to catch the bus – via default choice mechanisms.”

“An effective financial capability system puts measures in place to ensure that the money invested in financial education is actually working. An evaluation system is paramount in building an strong and effective financial capability system.

Professor Holzmann is visiting Australia as a guest of CEPAR and the UNSW’s Australian School of Business.

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