

Super Switching or Replacement? – Tips and Traps

Part of a financial planner's role is to devise financial planning strategies for clients. This can sometimes involve recommending replacing one product with another.

There is still much confusion and discussion about the difference between product replacement and 'super switching'. Traditionally super switching has been the term used by planners to refer to changes to investment options within a master trust or platform. However the regulator has appropriated this term and used it for product replacement.

Changing investment options in a master trust or platform rarely involves any additional cost to the client and is not particularly contentious.

However replacing one superannuation product or platform with another can have disadvantages for the client and, like lifting a heavy load, advisers need to Handle With Care!

- When should you recommend that a client replace one superannuation fund with another?
- How do you demonstrate that the advice will be beneficial for the client?

What is Super Replacement?

'Super replacement is advice about:

- Transferring all or part of an existing superannuation account from one fund to another;
- Consolidating several funds into one; and/or
- Directing future superannuation contributions (superannuation guarantee, salary sacrifice or any personal contributions) away from one fund into another.

If your advice contains any of these recommendations then you should consider the following which identify a number of tips and common traps which many financial planners fall into when providing super replacement advice:

Do

- Research the client's existing funds in order to determine whether replacing funds is appropriate. Ensure that the new super product is at least as good as the existing product. If it is not, you may need to advise the client to stay where they are or not advise at all.
- If necessary, involve the client in the research process by obtaining statements and fund information from them. Also obtain a written authority from the client to enable you to seek further information from superannuation fund administrators where required.
- Look at all the fees and charges applicable to the client's current fund and compare these to the costs of the fund you are proposing. Also compare any ancillary benefits to which the client may be entitled and any insurance which the client holds in their superannuation fund.
- Ensure that there is a specific need or an obvious advantage to the client before recommending replacing one fund with another. If you recommend consolidating funds, ensure that you can justify your recommendation of the fund which the client will retain.
- Include sufficient information in the SoA to demonstrate that the benefits of the new product outweigh the benefits of the old. In particular, if the cost of the new product is more than the old product, you must be able to clearly justify that the other benefits the client will receive will outweigh the additional costs and that the product will be more suitable to achieve the client's financial objectives.

- Check that the recommended fund meets the client's goals and objectives. Ensure that your SoA clearly documents the reasons for the recommendation and how it will assist the client to meet their goals and objectives. There should be a clear link between the recommendations made and how they meet the client's goals and objectives. This helps to demonstrate that you have a reasonable basis for the advice you have provided.
- Disclose remuneration you will receive from the product provider of the recommended fund, in particular make sure that volume bonuses are disclosed as these can give rise to a conflict of interest.
- Keep copies of all research and alternative strategies in the client file. You never know when you will need to demonstrate how you came up with the advice and why it is the most suitable advice for the client.

Don't

- Move a client out of their existing fund and into your newly badged product or a product on your approved product list unless it is appropriate to do so.
- Put the client into a product because it reduces your administration burden. On its own, this is not a reasonable basis for advice to switch. The client comes first and your advice should always be based on their personal circumstances and meeting their goals and objectives.
- Advise a client to replace into a more expensive product unless you can clearly justify that the benefits the client will receive will outweigh the costs and that the product is more suitable to achieve the client's objectives.
- Move a client who has insurance attached to their super fund to another fund without ensuring that either replacement cover will be accepted in the new fund or the client no longer requires that insurance cover.

Not all superannuation products are suitable for every client, so be careful. Consider the client's personal circumstances, their time to retirement, any investment preferences, their superannuation balance and their risk profile and investment strategy.

And finally, remember – that the 'know your client' and 'reasonable basis for advice' rules apply to super replacement advice in the same way as for all other personal advice. Following these rules ensures that you are providing appropriate advice to your client.

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