



**Abacus**  
Australian Mutuals

Association of Building Societies and Credit Unions

7 March 2008

Mr John Lonsdale  
General Manager  
Personal and Retirement Income Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600  
By e-mail: [homesaver@treasury.gov.au](mailto:homesaver@treasury.gov.au)

Dear Mr Lonsdale,

Thank you for the opportunity to comment on Treasury's paper *First Home Saver Accounts – Outline of proposed arrangements*.

*Abacus – Australian Mutuals* is the industry body for credit unions and mutual building societies.

Abacus represents the largest and most diverse group of ADIs in the banking sector: 145 credit unions and mutual building societies with 4.5 million members across Australia and more than \$65 billion in total assets.

Collectively, credit unions and mutual building societies rank at number two in the Australian household deposits market, second only to CBA. As customer-owned institutions, credit unions and building societies strongly outperform major banks in customer satisfaction surveys.

Credit unions and mutual building societies provide important competition and choice in the home lending market and have an outstanding track record as responsible lenders.

At the core of our sector's long tradition of serving working Australians is a commitment to encouraging saving. Deposits in ADIs are the simplest, safest and most accessible savings vehicle. We welcome the FHSA initiative as an important contribution to promoting savings and housing affordability.

## **FHSA regulatory framework**

We seek a regulatory framework for FHSAs that maximises competition and choice for savers, particularly risk-averse savers, and minimises entry barriers to providers.

Optimising the FHSA initiative will require FHSA products that are attractive to, and understood by, young people.

Each additional layer of complexity in the regulatory framework will reduce returns to savers, dampen competition and choice, and slow the arrival of FHSA products to market.

Ultimately, FHSA holders will bear the costs of FHSA licensing, disclosure, staff training, reporting, record-keeping and portability obligations.

Some mutual ADIs may offer or distribute market-linked FHSAs but this submission is mainly concerned with deposit FHSAs.

The FHSA regulatory framework will need to reflect the distinction between deposit products offered by ADIs and market linked FHSA products.

While FHSAs are similar to superannuation in taxation treatment and in restrictions on withdrawals, FHSAs do not have the purpose of providing retirement income and are not intended to be a long term investment vehicle.

The FHSA regulatory framework should be proportionate to the complexity and risk of different FHSA products.

Many first home buyers are young people and according to research by the Australian Government's Financial Literacy Foundation, 77 per cent of young people "would not consider risk when choosing an investment."<sup>1</sup>

As previously submitted to Treasury, a market-linked FHSA offered by a non-ADI should not be equated with a savings account with an ADI.

"It would be unfortunate if the standing of the FHSA policy came to be tarnished by evidence that large numbers of young Australians had stumbled unwittingly into FHSA products that had gone backwards in capital value terms, exacerbating for them the very disadvantage that the FHSA policy was designed to address. It would be possibly equally unfortunate if the standing of the FHSA policy came to be tarnished by evidence that large numbers of young Australians were perplexed by having to expend significant amounts of time and money talking to appropriately licensed financial planners and/or reading lengthy and complex product disclosure statements before being able to sign up for an FHSA.

"The use of the two words 'Savings Account' in juxtaposition with one another in the title of an FHSA may cause problems for younger Australians, particularly those from less advantaged socioeconomic backgrounds, if they expect those words to connote a capital guaranteed product and they find they have signed up for an FHSA which is *not* capital guaranteed."<sup>2</sup>

Relying on disclosure documentation to protect savers is questionable given evidence that a large proportion of adult Australians do not understand such documents. According to the Australian Bureau of Statistics, 46 per cent of Australians aged 15 to 74 years do not have the minimum level of "prose literacy" that is "required for individuals to meet the complex demands of everyday life and work in the emerging knowledge-based economy."<sup>3</sup>

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<sup>1</sup> 'Financial Literacy – Australian Understanding Money' Financial Literacy Foundation, September 2007.

<sup>2</sup> *Abacus – Australian Mutuals* Budget Submission, 18 January 2008.

<sup>3</sup> ABS Adult Literacy and Life Skills Survey, Summary Results, Australia 2006 (Issued January 2008).

ASIC divides financial products into two categories, Tier 1 and Tier 2, for training policy purposes. Simple, well understood Tier 2 products (deposits, general insurance & consumer credit insurance) have lower staff training benchmarks than Tier 1 products.

If deposit FHSAs provided by ADIs are categorised as Tier 1, providers will have to spend time and resources re-training staff competent to advise on Tier 2 products to Tier 1 level. Alternatively, providers could adopt the "no-advice" approach to FHSAs.

There is a significant question about the cost-effectiveness of training staff to have Tier 1 financial planner skills to provide advice about a product that is restricted to a maximum annual contribution of \$10,000.

According to a recent article in *Independent Financial Adviser* magazine, "[financial planners] are in the business of receiving remuneration for recommending products and a great many believe a client is only worth the business if they have investable assets over \$100,000."<sup>4</sup>

It would be a perverse outcome if the regulatory framework means advice on FHSAs is unavailable to young people and low income earners.

In this submission, Abacus also recommends:

- Extending the period for transferring accounts from 30 days to 90 days;
- Minimising reporting obligations to the ATO;
- Removing the four year minimum period for FHSAs;
- Increasing the \$50,000 cap on contributions to \$100,000; and
- A simpler taxation option for providers.

### **Portability of accounts**

A number of Abacus members have suggested that the 30 day period should be extended to 90 days. This would give providers more certainty about investing FHSA funds and therefore enable them to give better returns to account holders.

### **Opening and making contributions into an account & withdrawals.**

Abacus welcomes the provision by Government of standard forms to remove the onus of determining eligibility to open accounts, and to close accounts, from the account provider.

FHSA providers will have significant reporting obligations to the ATO in relation to account opening, transferring and closing accounts, and annual contributions. We seek an approach that minimises the compliance burden of these reporting obligations.

### **Four year period**

A number of Abacus members have urged removal, or reduction, of the four year minimum period before funds can be withdrawn from FHSAs.

There is an implicit incentive to contribute to a FHSA over a number of years so a minimum period is not only unnecessary in our view but would penalise savers who have the opportunity to buy a house within that period.

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<sup>4</sup> 'Red tape stranglehold', *Independent Financial Advisor* 11 February 2008.

For example, in some housing markets a FHSA holder saving \$10,000 in one year and adding the \$7,000 FHOG would be in a position to put down a 5 per cent deposit.

People who have been saving for some time and are close to being in a position to make a purchase would not necessarily want to lock up funds for four years.

Abacus suggests that the four year minimum period be removed or replaced with a two or three year minimum period.

Removing the four year period, and therefore also the requirement for a contribution of at least \$1,000 in each of at least four years, reduces complexity and compliance costs for providers.

The *Outline of proposed arrangements* says that a minimum \$1,000 upfront contribution will "reduce administrative inefficiencies for account providers." Providers should be left to set their own minimum amounts.

### **\$50,000 cap on contributions**

A number of Abacus members do not agree with the proposed overall contributions cap of \$50,000.

In some housing markets, \$50,000 is not a particularly large deposit.

Abacus suggests lifting the overall contributions cap to \$100,000, representing a savings period of at least 10 years given the annual cap on contributions of \$10,000.

### **Taxation treatment**

The *Outline of proposed arrangements* says at paragraph 5.2.2:

"Earnings accrued in an account will be included in the assessable income of the account provider and taxed at a statutory rate of 15 per cent (rather than an individual's marginal income tax rate), taking into account deductions, tax offsets such as refundable imputation credits, or a capital gains tax discount. These taxation arrangements are consistent with those for earnings within a superannuation fund or retirement savings account.

"For taxation purposes, First Home Saver Account activities will need to be segregated from the other activities of the account provider. Banks, building societies and credit unions will need to segregate First Home Saver Account activities from general banking business for taxation purposes."

Abacus suggests that a simpler option preferred by some providers is a withholding tax arrangement. Providers would withhold and send to the ATO 15% of FHSA earnings.

## **Other matters**

### **Statements**

The *Outline of proposed arrangements* says at paragraph 6.3.1:

"Account providers will also be required to provide account holders with an annual statement containing information such as the account balance, increase in contributions and return on investment, similar to an annual statement that is provided on an investor's superannuation account."

Abacus suggests that statements to ADI deposit FHSA holders should mirror deposit account statements rather than superannuation account statements.

### **No tax return**

The *Outline of proposed arrangements* says at paragraph 5.1.4:

"For individuals who are not required to lodge an income tax return, the ATO will develop separate administrative arrangements to facilitate payment of the Government contribution."

An Abacus member says it will be important to have clarity for people who do not lodge a tax return - for example, full-time tertiary students receiving FHSA contributions from parents.

### **Retirement Savings Accounts**


Withdrawals from FHSAs are to be used for buying a home or rolled into superannuation. Please make it clear that in this context 'superannuation' includes a Retirement Savings Account.

### **Authorised Deposit-taking Institutions**

FHSAs can be provided by Public-Offer Licensees, life insurers, banks, building societies and credit unions. Please make it clear that other types of Authorised Deposit-taking Institutions (ADIs) can provide FHSAs.

Please don't hesitate to contact me on 02 6232 6666 or 0418 213 025 to discuss an aspect of this submission.

Yours sincerely



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