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13 April 2017

Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations 2017

Dear Sir or Madam

Industry Super Australia (ISA) welcomes the opportunity to comment on the exposure draft of the regulations pertaining to innovative superannuation income streams.

ISA supports the transitioning of our superannuation system from one focused on accumulation to one focused on retirement income. We welcome the intent of the draft regulations as constituting a step in this direction.

ISA has been working with Rice Warner and others to explore the viability and likely performance of Collective Defined Contribution (CDC) schemes in an Australian context. Based on this work we believe that compared to other existing and likely future retirement income products, CDCs have the potential to be the most efficient means of converting member contributions over time into a retirement income stream that is:

- Reasonably predictable as a member approaches retirement;
- Sufficiently stable for a member to rely upon, notwithstanding financial volatility and inflation;
- Payable for life.

We note the acknowledgement in the exposure draft that the valuation of a CDC differs from typical purchased retirement income products. CDCs therefore warrant a specific valuation methodology, which in turn requires a definition of a CDC scheme to specify the income stream product to which the valuation methodology will apply.

To this end we recommend the following definition of a CDC scheme to be included in the regulations:

A ***collective defined contribution scheme income stream*** is a superannuation income stream supported by an individual's superannuation interest if:
(a) the interest is in a superannuation fund; and
(b) once payments of the income stream start, the income stream is to continue for the remainder of the individual's life; and
(c) the amounts paid under the income stream depend on the rules of the scheme, including in respect of how benefits are determined and adjusted by reference to:
    (i) the age, life expectancy, occupation, or other factors relevant to mortality to the extent considered by the scheme for each member and the membership of the scheme as a whole; and
    (ii) the assets available in the scheme for the provisions of benefits.

Our recommended definition recognises that the rules of the scheme are the primary driver for amounts paid to CDC members under the scheme, and how benefits are adjusted based on the experience of that scheme. This adjustment could reasonably be expected to include mortality, investment and inflation.

For the purposes of valuing an individual's superannuation interest that supports a CDC income stream, we believe it would be appropriate to adopt a consistent approach to valuation during the accumulation phase, at retirement and during any period of deferral.

For purposes of the valuation matters relevant to the exposure draft, we suggest that the valuation of a CDC should be based on the total amount of superannuation interests that would become payable if the individual voluntarily ceased the interest at that time.

This approach to valuation would best reflect the experience of the member who has the option to withdraw. This is appropriate in a context where the valuation approach in the exposure draft relates to specific ITAA provisions relating to member-level tax treatments.

We do not think an actuarial certificate of this valuation would be necessary for this purpose because consistency with the scheme's rules is intrinsic to the withdrawal valuation method. For prudential and other purposes, a scheme would have actuarial assessment of its rules and methods of valuation, but an actuarial certification might not be provided for any specific application of a withdrawal calculation.

Finally, we wish to stress that the valuation for purposes of the member-level tax matters referenced in the exposure draft may or may not be appropriate for other purposes, such as means testing purposes, as the policy objectives of the valuation methods differ. However, it would be welcome if public policy-driven valuations reflect the actual amounts that a scheme member could receive, either due to voluntarily ceasing the interest, or receiving the retirement income stream benefit.

ISA acknowledges and appreciates Treasury's constructive dialogue on these issues. There is every chance that these regulations may need refinement over time as concepts for innovative retirement income products move closer to reality, and look forward to further engagement.

If you have any questions about the matters discussed in this letter please do not hesitate to contact Michael Fisher on 03 9657 4350 or me on 03 9657 4369.

Yours faithfully,

Zachary May
Director of Policy