



Together towards tomorrow

21 June 2018

The Treasury
Langton Crescent
PARKES ACT 2600

Rest response – Retirement Income Covenant Position Paper – stage one of the Retirement Income Framework

Dear Sir or Madam,

Thank you for providing Rest with the opportunity to make a submission in response to proposed principles in the *Retirement Income Covenant Position Paper – stage one of the Retirement Income Framework*.

Rest is a leading profit-to-member superannuation fund with almost 2 million members and over \$50 billion in funds under management. Around one in six working Australians are members of Rest and for a majority of our members retirement is many years into their future. Around 62% of members are women and many members work in part-time, casual and low income earning jobs. Around 32% of Rest members are under 25 years of age and many Rest members have relatively low balances.

Rest is passionate about improving the retirement outcomes of Australians. While we generally support the Treasury's proposed Comprehensive Income Products for Retirement (CIPR) framework and principles, we recognise that the Australia's super system is not yet mature and concerns remain around the annuity market. This submission adds to our previous submission.

Rest supports the Retirement Income Covenant Principles 1 and 2. However, based on the CIPR framework outlined in the Supporting Principles and the experience and understanding of our member needs and preferences, we are not confident that the proposed CIPR product will achieve the member uptake required for long term product viability and may become a future legacy product.

Our submission has focussed on 4 specific principles contained in the *Retirement Income Covenant Position Paper*. Rest reaffirms the points made in previous submissions to Treasury on the consultation paper on the development of the framework for CIPR's and notes that this document should be read in conjunction with these.

Thank you again for the opportunity to make this submission to Treasury. Please do not hesitate to contact me directly on (02) 9086 6386 or via email on Edward.salloum@rest.com.au should you require any further input from Rest about this submission.

Yours sincerely

Edward Salloum

Head of Product

Rest

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1. Key recommendations and requested clarifications

- Recommendation 1:** Rest does not believe that an obligation expressed in the Retirement Covenant should be imposed on superannuation trustees to improve the members standard of living in retirement – rather it should be an objective or commitment undertaken by the superannuation trustee.
- Recommendation 2:** Delay the legislation of the Retirement Income Strategy covenant to 1 July 2020 and commencement to 1 July 2021.
- Recommendation 3:** Remove the impediments for funds to offer intra-fund advice on CIPR's and other retirement products such as when Age Pension is required as part of the advice.
- Recommendation 4:** Either: (a) allow the trustee discretion to carve out which members are required to be offered a CIPR comparison if it has reasonable grounds that this is in members' best interest; or (b) increase the minimum balance from \$50,000 to \$150,000.
- Clarification 1:** Whether it is a Retirement Income Strategy requirement that trustees have a product service or offering to deal with members with cognitive decline decisions.
- Clarification 2:** Whether the reference to “another retirement income product” refers to a non-CIPR product such as an ABP.

Covenant Principles

2. Covenant Principle 1: Retirement Income Strategy - Trustees should assist members to meet their retirement income objectives throughout retirement by developing a retirement income strategy for members.

2.1. “Requiring all superannuation trustees to develop a retirement income strategy will help to ensure appropriate, high-quality products are developed and offered to retirees. This should expand individuals’ choice of retirement income products and improve their standard of living in retirement”.

Key points

- Rest agrees that a retirement strategy is likely to expand the choice of retirement income products as retirement needs greatly differ over most funds and to meet these different needs a range of retirement products is required.
- One of the influences on the standard of living in retirement is the retirement income received by the member. Any retirement income from a CIPR that combines an account-based pension (ABP) with a longevity solution will be subject to the retirement income level requested by the member from the ABP. This is at the members discretion within legislative limits. Rest agrees the trustee may be able to influence this, such as with provision of a longevity solution, but the trustee cannot control retirement outcome to ensure the member’s standard of living is improved.
- In the case of superannuation, the government has codified the objective of superannuation as ‘to provide income in retirement to substitute or supplement the Age Pension’. This is different to the purpose of the Retirement Covenant which will codify the requirements and **obligations** (being the operative word) for superannuation trustees to improve retirement outcomes for individuals.

Recommendation 1: Rest does not believe that an **obligation** expressed in the Retirement Covenant should be imposed on superannuation trustees to improve the members standard of living in retirement – rather it should be an objective or commitment undertaken by the superannuation trustee.

2.2. “The Government proposes to legislate the covenant by 1 July 2019 but to delay commencement until 1 July 2020”.

Key points

- The covenant principle outlines several factors trustees would need to take into account when designing their Retirement income strategy. It is assumed these will be the minimum requirement for the trustee to claim any safe harbour. Rest recognises that safe harbour circumstances will be clarified at a later date.
 - Rest previous submission dated July 2017 indicated some gaps in member data. This data “challenge” seems to be faced by many funds as indicated in the recent productivity Commission draft report dated April 2018.
 - As member data is required (including cohort preferences for CIPR components), the formulation of a Retirement Income Strategy and commencement by the stated dates will be challenging. Especially given the trustee needs to be sure that the Strategy and
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CIPR offer should improve retirement incomes and be in members' best interests as a whole.

- “Trustees should also consider **how** the potential cognitive decline of members may influence the member’s ability to make optimal decisions regarding the drawdown of income during retirement”. Clarification is requested whether once the trustee has considered how the potential decline may influence members, whether it is also a requirement that trustees have a product service or offering to deal with this and assist these members further than the default trustee settings for default investment option, payment amounts and frequency. A further challenge is also recognised how the trustee would know if a member was in this situation so these additional services/settings could be offered. Without these services there seems little benefit in understanding how the potential cognitive decline may impact members.
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Recommendation 2: Delay the commencement of the Retirement income strategy to 1 July 2020 and the commencement to 1 July 2021.

Clarification 1: Whether it is a Retirement Income Strategy requirement that trustees have a product service or offering to deal with members with cognitive decline decisions.

Supporting Principles

3. Supporting Principle 3: Definition of Comprehensive Income Product for Retirement

3.1. “The expected income from a CIPR should be efficient and broadly constant. At the time of offer, the trustee should expect that with average investment returns and longevity outcomes, the annual income expected from a CIPR offer would be broadly constant. Recognising that it may be difficult to design a product that delivers absolutely constant expected income, a small buffer would be allowed for income to be considered *broadly constant*.”

“Importantly, in practice actual income may not be broadly constant due to variations in investment returns and longevity outcomes.”

Key points

- Rest agrees that the actual income may not be broadly consistent due to variations in investment returns and longevity outcomes. Rest also notes that actual returns may not be broadly consistent due to decisions of the member outside the trustee control such as changes in the level of pension payments from an ABP component of the CIPR or lump sum withdrawals. These decisions could vary the actual outcome greater than the stated narrow band of +/- 2.5%.
 - Rest also notes that the Position paper states “The method of certifying CIPRs (the requirements a product would need to meet to provide efficient, broadly constant income for life with some flexibility) would be determined at a later date. Any implications for ABP minimum drawdown rates would be considered at that time”. Rest assumes that further details of constant retirement income, including inclusion of member lump sum and change in pension payments will be provided at that time.
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4. **Supporting Principle 7:** Offering an alternative retirement income product through advice

4.1. “Trustees may offer an alternate CIPR or another retirement income product to a particular person or cohort of people through any form of personal financial advice, including scaled personal advice, intra-fund advice, or full financial planning.”

Key points

- Clarification is requested whether the above reference to “another retirement income product” refers to a non-CIPR product such as an ABP.
- If the above relates to an ABP, does this mean it is open to the trustee to reference a cohort of members, for example with balances \$50,000 to \$150,000 where a CIPR does not need to be offered if the trustee believes this is in members best interest.
- There are impediments on offering advice through intra-fund advice such as when Age Pension is incorporated into the advice. This is likely to impact members obtaining advice and commencing the product likely to be appropriate for them.

Recommendation 3: Remove the impediments for funds to offer advice on CIPR’s and other retirement products such as when Age Pension is required as part of the advice.

Clarification 2: Whether the reference to “another retirement income product” refers to a non-CIPR product such as an ABP.

5. **Supporting Principle 8:** Exception for individuals for whom CIPRs are unsuitable

5.1. The decision not to offer a CIPR in the following circumstances would not be considered to be personal financial advice:

- knowledge that the person has a life-threatening or terminal illness; or
- knowledge that the person has less than \$50,000 in superannuation assets in that fund.

Key points

- Rest considers the above exception for the trustee requirement to offer a CIPR if the person has less than \$50,000 in superannuation assets in the fund is too low.
- This is based on:
 - (a) The member is highly likely to receive part or full Age pension entitlement in the future
 - (b) the requirement for some of the balance to be locked into a longevity solution
 - (c) the remaining balance producing a regular income payment that would be too low to be practically meaningful.
- Analysis shows that the average balance for initial Rest ABP account commencement is above ██████████, well above the proposed \$50,000 balance.

Recommendation 4: Either: (a) allow the trustee discretion to carve out which members are required to be offered a CIPR comparison if it has reasonable grounds that this is in members best interest; or (b) increase the minimum balance from \$50,000 to \$150,000.