



15 June 2018

Manager, CIPRs
Retirement Income Policy Division
The Treasury
Langton Crescent
Parkes ACT 2600

Email: superannuation@treasury.gov.au

Dear Sir/Madam,

SMSF ASSOCIATION SUBMISSION ON A RETIREMENT INCOME COVENANT

The Self Managed Super Fund Association (SMSFA) welcomes the opportunity to make a submission on the Government's Retirement Income Covenant Position Paper. We believe the retirement phase of the superannuation system requires more focus, especially as Australia's population ages and the superannuation system develops.

We have addressed the Retirement Income Covenant Position Paper regarding its relevancy to SMSFs and their members and trustees.

The SMSFA supports the introduction of the retirement covenant for superannuation funds and the superannuation system. We believe that the superannuation system has been too accumulation phase focussed and the retirement covenant will serve as an important instrument to correct this. Furthermore, a retirement covenant will better align the construction of the superannuation system with the objective of superannuation, which is to provide income in retirement.

Focussing on retirement incomes will also ensure Australians have more choice and flexibility about how they want to structure their retirement income, which includes the take up of Comprehensive Income Products for Retirement (CIPRs) when appropriate. If members are required to consider their retirement needs and preferences it will help shift behaviours positively to address longevity risk and other financial risks in retirement.

We believe the proposed application of the retirement covenant for SMSFs, which only requires them to consider the first covenant principle of developing a retirement income strategy, is appropriate. This is appropriate as SMSF members operate as the trustees of their fund and this close connection between fund and member does not necessitate needs for enhanced engagement and developing CIPRs. The proposed application of the covenant to SMSFs will strengthen engagement and consideration of retirement income needs. However, we are supportive of the development of CIPRs as we believe over the medium to longer-term, SMSFs may be able to benefit from a deeper retirement income product market as retail investors.



Retirement income strategy - Trustees should assist members to meet their retirement income objectives throughout retirement by developing a retirement income strategy for members.

The SMSFA supports the introduction of a retirement income strategy for members that would require trustees to formulate, review regularly and give effect to a strategy that assists members meet their retirement income objectives.

Existing covenants in the *Superannuation Industry (Supervision) Act 1993* (SIS Act) already include obligations to formulate, review regularly and give effect to investment, risk management and insurance strategies. While these investment strategies do encompass certain retirement income matters, they do not fully encapsulate retirement income objectives. The requirement for SMSFs to devise a retirement income strategy should help focus members, trustees and their advisers on the drawdown phase. This should cover when retirement is likely to occur, the amount of income needed, form of benefit payments, life expectancy, exit strategies and integration with social security.

While we support SMSF trustees formulating a retirement income strategy, we do not believe that this activity should result in significantly increased compliance or financial costs to SMSF trustees. That is, we do not believe that this process should require formal financial advice under a statement of advice or actuarial advice on managing longevity risk but should be able to be undertaken independently by SMSF trustees.

Given that trustees must already formulate an investment strategy, the inclusion of retirement objectives can be easily augmented into this process. Any increase in compliance burden is overshadowed by the benefit of trustees specifically considering tailored retirement solutions.

We are supportive of the specific factors trustees must consider which are outlined in the Retirement Income Covenant Position Paper. We note that SMSFs have the capacity to develop tailored retirement income solutions for individual members, including internal SMSF strategies as well as purchasing retirement income products from third party providers, and this should be encouraged.

The legislation that supports a retirement income strategy should mirror that of the investment strategy. This involves SIS regulations to create operating standards that cover the specific factors outlined in the Paper. The factors need not be too specific to allow for trustees to develop their own flexible and appropriate strategies. We note that when the Covenant is drafted, the CIPRS element should not apply to SMSFs.

Additional recommendation – SMSF exit strategies

As the SIS Act is being amended for the inclusion of a retirement income strategy, the SMSFA also believes it is a good opportunity for the Government to consider the SMSFA's proposal to the Australian Legal Reform Commission (ALRC) that SIS Regulation 4.09 be amended to include that trustees of an SMSF should formulate and review regularly the consideration and planning of the loss of capacity and SMSF exit strategy as part of their investment strategy.



Noting that the consideration of cognitive decline and its effect on member's drawdown of income during retirement is listed as a proposed factor for trustees to consider, the retirement income strategy presents the opportunity to look further at relevant issues. This would include planning for exit strategies relevant to cognitive decline and death, as well as the use of enduring attorneys and the potential for elder abuse. In fact, this consideration may fit better under the retirement income strategy requirement than the investment strategy requirement which the ALRC recommended be amended for this purpose.

Recommendation 7-3 from the ALRC's report into Elder Abuse endorsed this proposal. They stated:

'A key part of this proposed operating standard is requiring trustees to consider whether the asset mix of the SMSF is consistent with proposed succession plans. That is, are the assets fungible on a trustee suffering a legal disability or will the assets require long term management by the trustee's enduring attorney. This brings 'front of mind' important questions as to the suitability of the chosen enduring attorney to manage the SMSF.

We believe it is appropriate that trustees should not only consider their asset mix, but also their retirement income needs when considering the loss of capacity and when approaching the end of life.

If you have any questions about our submission please do not hesitate in contacting us.

Yours sincerely,

A handwritten signature in black ink that reads 'John L. Maroney'. The signature is written in a cursive style with a large initial 'J'.

John Maroney
CEO
SMSF Association

ABOUT THE SMSF ASSOCIATION

The SMSF Association is the peak professional body representing SMSF sector which is comprised of over 1.1 million SMSF members who have \$712 billion of the funds under management and a diverse range of financial professionals servicing SMSFs. The SMSF Association continues to build integrity through professional and education standards for advisors and education standards for trustees. The SMSF Association consists of professional members, principally accountants, auditors, lawyers, financial planners and other professionals such as tax professionals and actuaries. Additionally, the SMSF Association represents SMSF trustee members and provides them access to independent education materials to assist them in the running of their SMSF.