Just Group plc
Vale House, Roebuck Close
Bancroft Road, Reigate
Surrey RH2 7RU
United Kingdom

www.justgroupplc.co.uk

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

superannuation@treasury.gov.au

RETIREMENT INCOME COVENANT

ABOUT JUST GROUP

Just Group plc ("Just") is a FTSE-listed specialist UK financial services company created by the merger of Just Retirement and Partnership Assurance. The combined Group boasts leadership positions in its chosen markets:

- Individually underwritten Guaranteed Income for Life Solutions
- Long Term Care Plans
- Medically underwritten Defined Benefit De-risking Solutions
- Equity release lifetime mortgages

Just has helped over 500,000 customers to achieve a more secure retirement, has been trusted to manage around £18 billion of customers' retirement savings and has helped homeowners release over £6.6 billion of equity from their properties. Just provides a wide range of products, advice and professional services to individual customers, financial intermediaries, corporate clients and pension scheme trustees.

INTRODUCTION

Just has welcomed the opportunity to engage with Treasury officials on the forward development of Australian retirement income policy, and we hope the further analysis in this document will be useful to your work. Changes in both the Australian and UK pensions and retirement markets make this a timely point to compare the relevant factors shaping these markets and identify scope for improvements in both countries.

We do not yet participate in the Australian market but we have senior executives on our Board that have run businesses in Australia, New Zealand and in the Asia region. The Australian market reforms are of great interest – we support the direction of the reforms and hope our insights will be useful in shaping policy development relating to CIPRs.

THE RETIREMENT INCOME COVENANT

We recognise the Superannuation system underpins the Australian retirement savings system. Throughout the saving journey, consumers are able to rely on trustees to provide pathways that offer sensible solutions to most customers, along with the option to personally tailor these solutions. However, the retirement income is a challenging one for consumers, who face a level of complexity that is difficult to navigate. The result is a status quo where a large number of individuals draw down assets from an account-based pension at the minimum rates and tend to pass on the substantial portions remaining at death. Accepting there is a status quo bias, as mentioned in earlier Treasury consultations, we see CIPRs as a way of creating better options than are currently available which also improve consumers' engagement with retirement income decisions.

We have been supportive of the CIPR concept, and continue to be supportive of the covenant, implementation timeline and pathway to future development of the framework. There is a concern however that policymaking is taken forward in such a way that makes 'the best is the enemy of good'. While providers have identified issues with the framework, these issues should not impede the substantial improvements that could follow from the implementation of an effective CIPR policy.

Defaults and governance

Within the framework, we feel it is important that customers are able to be provided with similar pathways in retirement along with the need to individually tailor solutions, should they wish to. For this reason, we suggest there would be merit in a strengthening the approach from the 'offer of a CIPR', to a clearly articulated default option that customers may elect or opt out. By way of example, customers could elect to use a CIPR in the years leading up to retirement, prompting earlier consideration of their own personal needs.

In the UK, Financial Conduct Authority (FCA) regulations set out in Policy Statement 17/12 were recently introduced requiring providers to show customers how their product rates compare with the best on the market. While this intent is welcome, there are no signs that this measure has led to any significant change in customer behaviour, suggesting customers appear to favour simpler interaction over financial benefits – should they engage with retirement decisions at all. The FCA's investigations have shown inertia, disengagement and status quo bias are among the powerful factors that stymie attempts to improve consumer decision making and in turn stimulate demand-side competition, which in the UK is very weak among non-advised consumers. If the Treasury's objective is for a new status quo of customers taking up CIPRs at retirement, a simple interaction, including no interaction, of acceptance would support this objective.

Given the focus of trustees on any product offered as a default arrangement, it is positive that retirement income products have the opportunity to gain the same level of governance as defaults in the saving phase. These products and processes should draw upon the available data and evidence towards the objective of better consumer outcomes, and monitored closely.

Attractiveness of the market for some longevity products

A statutory framework that encourages innovation and competition among retirement income products that manage longevity risk would be a substantial step forward. At the same time, there are broader regulatory considerations that would need to be addressed.

One known issue to address it the tendency for consumers to interpret guidance as regulated advice. The greater ground that guidance is able to cover, the more financial advice needs to provide value to customers.

Second, cost of capital poses an obstacle to market growth. Prudential Standards for life insurers in Australia require 2.5 to 3.0 times the capital requirements required in other jurisdictions. This is a barrier to existing players and new entrants adding to the competitive environment.

Data accessibility

Building on the Australian Government's open data policy, allowing customers to easily access and authorise third party access to their data would be of substantial benefit to trustees looking to improve engagement with schemes and the end consumer.

Trustees offering products that address longevity risk are likely to benefit from information that is broader and more accurate than internal data. Attaining information is often reliant on customers and third parties willingly providing data that enables providers to offer tailored and better value products. This is important for underwriting and to prevent customers being subscribed to unsuitable products. In many cases, customers are happy for providers to access data, however, the mechanisms available are not yet equipped to meet demand on an industrial scale. Examples of government-stored data that would be of use to trustees include:

- Certifications through Births, Deaths and Marriages in each state, to enable providers to know when to alter payments for an individual. Without access to this data, providers of longevity products are reliant on families of customers to manage changes or cessation of products. This often results in overpayment and costs borne by other customers within a pool.
- As health records have considerable integrity, enabling the Department of Human Services to respond to a high volumes of requests as CIPRs become commonplace will benefit customers. Information from health records has wide application for insurers and would reduce oversight of factors that might exclude a CIPR being an appropriate option for some customers.

As CIPRs become commonplace, enabling government departments to provide data to industry at high volumes will benefit customers and prevent necessary requests inundating departments.

Means-testing for the Age Pension

We see Age Pension means-testing as an important interaction with the Retirement Income Covenant. Within means-testing, distinction between products that provide retirement income and those that offer additional features, such as the ability to leave a bequest, will reduce the risk that products are used to gain advantage from the system.

Links with Aged Care

A framework that helps individuals to improve their retirement income will also help the same individuals should they require aged care in the future. For this reason, we would encourage you to recognise the significant value of products that offer improved outcomes for customers looking to manage retirement income through later life. Recognising the intent to review and add to the retirement income covenant, this may be a component to reserve for a later stage.

CONCLUSIONS

We support the proposal and welcome the opportunity to engage with Treasury on the forward development of Australian retirement income policy.