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Director
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Re: Retirement Income Covenant – September 2021, Exposure Draft Legislation

Introduction:
I am researching retirement income policy for my PhD, while working part-time as a University Lecturer, and as a Client Engagement Specialist for an Industry Super fund. Prior to moving into academia in 2007, I was a Certified Financial Planner, and had enjoyed a 25 year career in finance (banking and financial planning). My interest in superannuation commenced when assisting my parents (now deceased) with their retirement in the early 1990s, and has evolved as my career has changed and the system has matured. The views presented in this submission are entirely my own and do not represent any organisation or stakeholder group.

Key points:

1. The requirement for trustees to develop a retirement income strategy for beneficiaries (members) who are retired or approaching retirement will add an additional level of unnecessary complexity.
2. There is insufficient research evidence to support suitability of the three objectives proposed.
3. The requirement for trustees to have a strategy that assists beneficiaries (members) to achieve and balance the three objectives proposed is problematic, relative to the existing mandated superannuation arrangements, and the associated demographic base.
4. If legislation is to be introduced, it needs to also apply to trustees of self-managed superannuation funds, to ensure consistency and fairness. Exclusion could lead to 'gaming' the rules.
5. Prior to the amendment of SIS legislation, disclosure requirements for products developed – especially lifetime income products, should be subject to parliamentary scrutiny. Clear consideration of implications to changes of asset mix and associated risk impact needs to be detailed, particularly for those receiving Australian Age pensions.
6. Suitable consideration needs to be given to cognitive engagement, in terms of assessing 'willingness to choose' a lifetime product – as framing can seriously impact on choice outcomes.
7. To address the gap of superannuation trustees having a legal obligation for beneficiaries (members) in retirement, it is argued that simplifying retirement choice options could assist in improving retirement outcomes.

8. In addition, it is argued that financial advice services should be freely accessible for those of modest means, to ensure retirement choice options are appropriately explained and matched with client needs.
9. The ability for trustees of an RSE to gather information to inform strategy development will be limited, and potentially misdirected.
10. The feature of the proposed new law - that maximizing expected retirement income as an objective for beneficiaries, is unfounded – there is insufficient research evidence to support this.
11. Existing account-based pension funds, combined with Government Age Pensions – where applicable, provide sufficient options to manage risks for sustainability and stability of retirement income, as well as providing flexibility for access.
12. Introducing the legislation in its current form will potentially introduce a myopic, cumbersome, divisive, and harmful level of complexity that is unnecessary.

Discussion:

In the Governments *Retirement Income Review Final Report July 2020*, a fact base was provided. Key points have been selected:

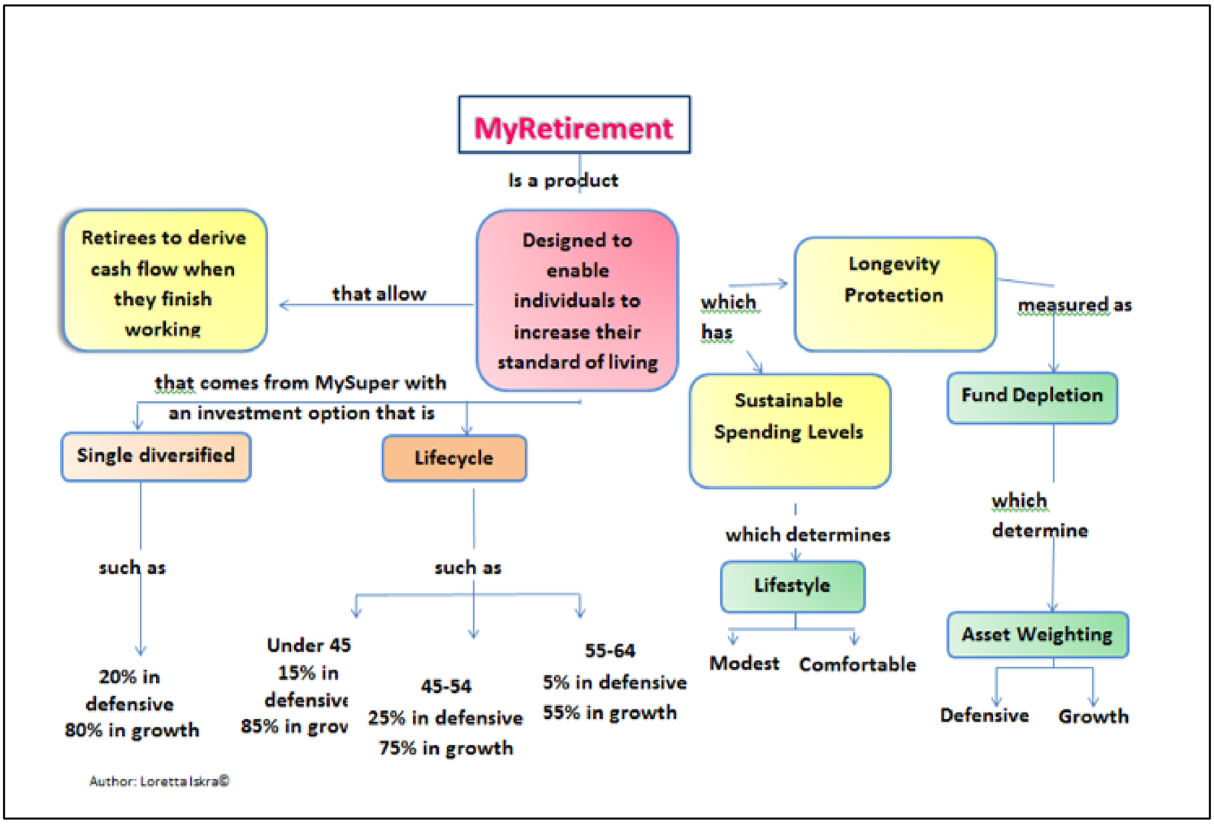
1. The retirement income system is complex.
2. Adding to the complexity is the interaction with other systems, such as the aged care and taxation systems.
3. People need better information, guidance and good, quality, affordable advice tailored to their needs.
4. There are competing interests in the system – it is a highly contested environment.
5. A significant number of older Australians who are renting in the private market need additional assistance.
6. Renters and involuntary retirees experience higher levels of financial stress and poverty than the working-age population.
7. The cost of the earnings tax exemption in retirement … provides the greatest boost… [for] higher-income earners.
8. There are diverse ways to retirement – occupation age limit, age pension age, gradual, etc.;
9. The age of retirement is individually based – mostly between 50 and 80 years;
10. Sources of retirement income vary, and are not solely related to superannuation;
11. There is no current objective for the retirement income system;
12. Few people purchase longevity products – cameo modelling excluded age pension as proxy;

Within the exposure draft legislation, superannuation trustees will need to formulate a strategy to consider how to balance three key objectives proposed:

- maximizing expected retirement income;
- managing expected risks to the sustainability and stability of their expected retirement income; and
- having flexible access to expected funds during retirement.

In the paper *Superannuation in the Post-Retirement Phase*, Ralston and Maddock discusses the diversity of retirees and assesses retirement income products. A critical observation is the *exceptions*: a *retiree at risk of economic hardship* and those who *faced a large, unexpected health cost*, *needed the flexibility of an ABP [*Account Based Pension] (2015, p54).

Prior to any change to law, it is recommended that consideration be given to asset mix arrangements. In the illustration below, the previously proposed *MyRetirement* default product is revealed through the associated asset mix elements in the accumulation and drawdown phases.



In the figure above, the *MySuper* investment arrangements - a single-diversified or lifecycle approach, have an asset mix for the accumulation phase - either a set mix, or age-based mix. Introducing a *MyRetirement* product that caters for longevity protection and sustainable spending levels - legislating the Retirement Income Covenant, will require adjustment to the underlying asset mix. The re-balance is likely to require more funds to be reserved in defensive (cash-based) investments, to accommodate the transfer of funds out of available portfolio funds, in exchange for a lifetime income stream - an annuity. This could in turn lead to overall lower outcomes, with higher potential for sequencing risk and earlier depletion of available capital.

The UK dismantled their mandated annuity-based pension system in 2014. Collinson, 2019, explains that the plans benefited the providers rather than retirees. A captured market enabled less competition.

For trustees to act in the members best interests, they may need to act with caution. Using a nudge framework for Age pensioners to exchange their savings for a lifetime income stream, could be seen as abrogating responsibility.

Final comments:

In my experience, retirement poses a liminality stage in life – it is a disorienting threshold that moves a worker from a known social reality, to an unknown state of being, and then to a new reality. Greater access to education and advice options can help retirees engage within the decision-making process and find a way to match their individual aspirations with those of their retirement lifestyle, rather than simply focusing on maximising their expected retirement income. For many it is less about maximising income, and more about well-being – having a sense of control.

Thank you for the opportunity to provide feedback on the Exposure Draft Legislation.

Loretta Iskra