

RETIREMENT INCOME STREAMS REVIEW

May 2016

© Commonwealth of Australia 2016

ISBN 978-1-925220-19-3

This publication is available for your use under a Creative Commons BY Attribution 3.0 Australia licence, with the exception of the Commonwealth Coat of Arms, the Treasury logo, photographs, images, signatures and where otherwise stated. The full licence terms are available from <http://creativecommons.org/licenses/by/3.0/au/legalcode>.



Use of Treasury material under a Creative Commons BY Attribution 3.0 Australia licence requires you to attribute the work (but not in any way that suggests that the Treasury endorses you or your use of the work).

Treasury material used 'as supplied'.

Provided you have not modified or transformed Treasury material in any way including, for example, by changing the Treasury text; calculating percentage changes; graphing or charting data; or deriving new statistics from published Treasury statistics — then Treasury prefers the following attribution:

Source: The Australian Government the Treasury.

Derivative material

If you have modified or transformed Treasury material, or derived new material from those of the Treasury in any way, then Treasury prefers the following attribution:

Based on The Australian Government the Treasury data.

Use of the Coat of Arms

The terms under which the Coat of Arms can be used are set out on the It's an Honour website (see www.itsanhonour.gov.au).

Other Uses

Inquiries regarding this licence and any other use of this document are welcome at:

Manager
Communications
The Treasury
Langton Crescent Parkes ACT 2600
Email: medialiaison@treasury.gov.au

Contents

Retirement income streams review	1
Background to the review	1
Recommendations.....	2
Minimum drawdown requirement for account-based pensions	3
Current drawdown requirements.....	3
Issues considered by the review	4
Findings.....	6
Regulatory barriers to retirement income stream products	9
The existing regulatory framework.....	9
Impediments to innovative income stream products	10
Proposed approach for removing impediments.....	10
Other issues raised during consultation	13
Findings.....	15
Attachment A: List of non-confidential submissions	17

Retirement income streams review

Key points

- Consistent with the objective of the superannuation system to provide income in retirement, the minimum drawdown rules work well for account-based pensions and the current minimum drawdown rates are about right.
- However, to ensure the minimum drawdown requirements continue to remain appropriate in future, they should be regularly reviewed by the Australian Government Actuary.
- The existing regulatory framework for retirement income stream products is, however, a barrier to the development of other annuity-style products that could help individuals better manage the risk of outliving their retirement savings.
- Existing barriers could be addressed through the introduction of an additional alternative set of rules that would require diminishing access to capital underpinning the product, either via commutation or death benefit.
- The alternative product rules should be designed to accommodate purchase via multiple premiums, but additions to existing income stream products should continue to be prohibited.
- A coordinated administrative process across various government agencies would assist product providers seeking to launch new products.

Background to the review

In its superannuation policy for the 2013 election, the Government stated that it would review both the minimum withdrawal amounts for account-based pensions and the regulatory barriers currently restricting 'the availability of relevant and appropriate income stream products in the Australian market'.

The then Acting Assistant Treasurer released a discussion paper, *Review of retirement income stream regulation*, for consultation on 21 July 2014. There were 47 submissions from individuals, industry associations, superannuation funds and professional services firms (see Attachment A).

Treasury met with a range of industry stakeholders on a number of occasions to discuss issues raised by the discussion paper.

Treasury subsequently developed proposals to address issues raised during consultation for the Government's consideration. These proposals were circulated in February 2015 to those stakeholders who had made a submission in response to the original discussion paper. Treasury received a further 22 submissions and conducted further consultation to refine the proposals.

Further targeted consultation on the detailed design of the proposed approach was conducted in May and August 2015. A further 13 submissions were received.

Recommendations

The review makes the following recommendations.

In regard to the existing minimum drawdown rules:

1. The current annual minimum drawdown requirements are consistent with the objective of the superannuation system to provide income in retirement and should be maintained.
2. The Australian Government Actuary should be asked to undertake a review of the annual minimum drawdown rates every five years and advise the Government to ensure that they remain appropriate in light of any increases in life expectancy.
3. Any other changes to the minimum drawdown amounts should only be considered in the event of significant economic shocks and based on further advice from the Australian Government Actuary.

In regard to the development of other annuity-style retirement income stream products:

4. An additional set of income stream rules should be developed which would allow lifetime products to qualify for the earnings tax exemption provided they meet a declining capital access schedule.
5. The alternative product rules should be designed to accommodate purchase via multiple premiums but additions to existing income stream products should continue to be prohibited.
6. Self-Managed Superannuation Funds (SMSFs) and small Australian Prudential Regulation Authority (APRA) funds should not be eligible to offer products in the new category.
7. A coordinated process should be implemented to streamline administrative dealings with multiple government agencies.

Minimum drawdown requirement for account-based pensions

Current drawdown requirements

The annual minimum drawdown requirement is the key regulatory requirement for account-based pensions. It aims to ensure that account-based pensions are used to provide income in retirement.

The annual minimum drawdown amount is determined by multiplying the value of the pension account balance at 1 July by an age-based rate that increases from 4 per cent for those aged under 65 to 14 per cent for those aged 95 or more (see table below).

Age	Minimum payment percentage
Under 65	4
65-74	5
75-79	6
80-84	7
85-89	9
90-94	11
95 or more	14

These rates aim to ensure that funds are withdrawn from the tax-free environment over time. Earnings on assets supporting superannuation pensions are tax free, as is the pension income for people aged 60 or over.

In any year, a retiree can withdraw an amount higher than the minimum. There are no restrictions on the use of withdrawn amounts, that is, it may either be consumed or reinvested outside the superannuation system.¹

The previous Government halved the minimum payment rates for account-based pensions for the 2008-09, 2009-10 and 2010-11 financial years and reduced them by 25 per cent for 2011-12 and 2012-13, in recognition of the impact of the global financial crisis (GFC) on equity markets.

Lower drawdowns are of most benefit for those who are less reliant on the income from their pension, that is, those with large account balances or with investments outside of superannuation who may wish to provide significant bequests. For those with lower balances, drawing down at the minimum rate will provide little retirement income in absolute terms. For example, a 64 year old with an account balance of \$150,000 who draws down at the minimum receives only \$6,000 of annual income.

1 Transition to retirement income streams are an exception as they have a maximum drawdown rule.

Issues considered by the review

The review was prompted by increasing life expectancies, the impact of the current low interest rate environment on investment returns, and the changes made in response to the GFC.

The review considered whether, in light of these factors, the current drawdown rates are still appropriate and whether concerns about ad hoc changes or retirees running out of money in retirement could be addressed through changes to the existing drawdown requirements. Options considered included measures to create flexibility around the drawdown requirements, as well as across-the-board changes to the rates.

Is the level of the current drawdown rates appropriate?

The Australian Government Actuary (AGA) provided Treasury with advice on the impact of the current minimum drawdown factors in light of increasing life expectancies. Treasury's analysis also took into account the appropriateness of the current rates in the event of low long-term real returns.

The current minimum drawdown factors are based on conservative assumptions about real interest rates, such that if investment earnings average 2 to 3 per cent more than inflation over the course of a person's retirement, then the current rates ensure that retirement income can be broadly maintained in real terms over a fairly long retirement.

While investment volatility is likely in the short term, for the purpose of minimum drawdown a long-run view is appropriate. Historical experience suggests that an expectation of 2 to 3 per cent per annum in real earnings is realistic and, if anything, conservative. For example, analysis of the last 20 years (which includes the GFC) of investment return data suggests an average real return above the rate of inflation of 4.7 per cent per annum for balanced superannuation funds.

Other research suggests that retirees who have invested their superannuation in a diversified conservative investment option have experienced a median return of 8.9 per cent per annum over the last three years.

The AGA advised that, even on somewhat conservative assumptions about investment, the current minimum drawdown factors lead to an expected average balance on death of around 25 per cent of the purchase price in net present value terms.

Given that the objective of the drawdown rates is to ensure that superannuation balances are used primarily to provide retirement income and that the amount of money left over on death is not inappropriately high, we have concluded that although life expectancies are increasing, there is not a strong case for reducing the minimum drawdown factors at this time.

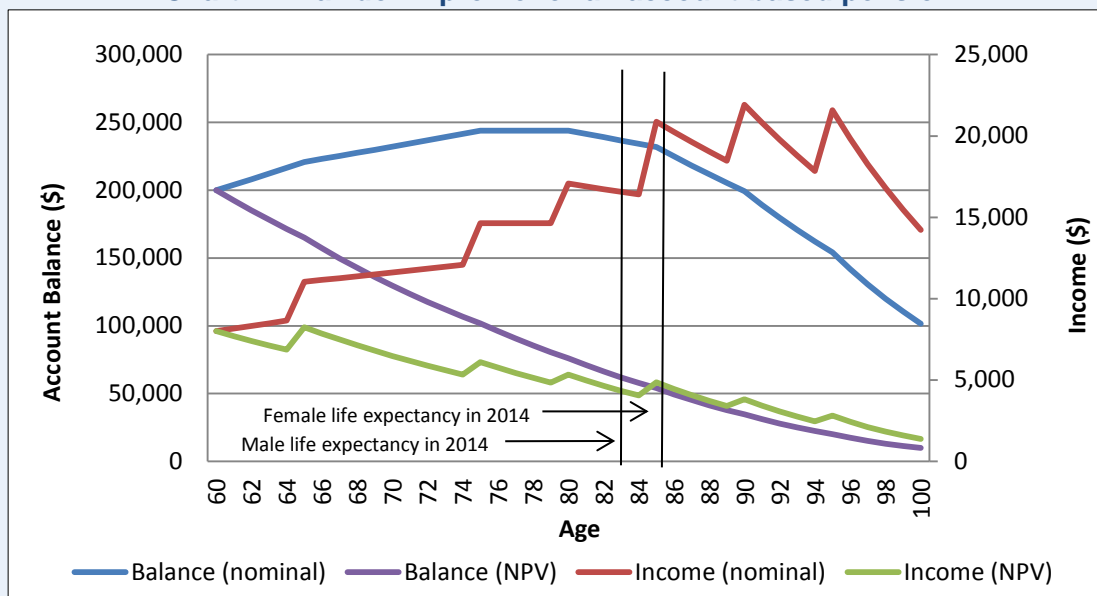
Stakeholders also generally thought the current minimum drawdown rates were appropriate although there were a few (conflicting) proposals for amendments. A common suggestion was to review the minimums regularly to ensure they continue to be appropriate.

Box 1: Minimum drawdowns in practice

Chart 1 (below) illustrates a drawdown scenario for male and female retirees commencing an account-based pension with a balance of \$200,000 at age 60 and drawing down at the minimum payment amounts with investment returns of 6 per cent per annum. The chart shows the account balance at various ages and the income drawn down each year in both nominal and net present value (NPV) terms.

An account-based pension drawn down only at the minimum rates can be expected to last beyond average life expectancy, although the NPV of the annual income will generally gradually diminish. In the below example, the net present value of the account balance at life expectancy is around 25 per cent of the initial opening account balance. The net present value of income from the pension declines steadily over time, but 'ratcheting-up' occurs when the regulated percentages increase, resulting in a somewhat variable income stream in nominal terms.

Chart 1: Drawdown profile for an account-based pension



Note: The analysis assumes an average nominal investment return of 6 per cent. This is also the discount rate for net present value.

Is more flexibility in the drawdown requirements required?

The review considered several possible mechanisms that could introduce more flexibility to the minimum drawdown rates to address concerns around outliving retirement savings in the face of market shocks. These included:

- linking the minimum drawdowns to prevailing market conditions so that rates could change if a 'shock' occurred ('automatic adjustment');
- allowing individuals to draw down less than the prescribed minimum in a given year, provided they 'caught up' within a certain number of years. This would allow flexibility to cope with a 'bad year' ('carry-forward mechanism'); and
- introducing more age bands into the current schedule, with some adjustments to the percentages to help deliver a 'smoother' income stream.

The discussion paper asked whether there should be an automatic mechanism for adjusting the drawdown rates in response to changing financial market conditions. Stakeholders generally thought there was little rationale for such a mechanism and that it would be complex to implement.

Subsequent consultation on the alternative options of introducing flexibility through a carry-forward mechanism and more age bands into the schedule also received little support on this basis. Most stakeholders thought that these options would increase complexity and compliance costs for little additional benefit.

- A 'carry-forward mechanism' would be complex for funds and the Australian Taxation Office (ATO) to administer and monitor. Each account could have a number of possible minimum drawdown requirements per year as opposed to one currently. It would increase the risk of breaches of the requirement, which can lead to the fund's tax exemption being withdrawn for the year in which the breach occurred. It would also increase compliance costs for members and funds as there would be a need to track and monitor whether and by how much an account had triggered the carry forward requirement and ensuring the difference was made up in later years.
- 'Smoothing' would entail one-off compliance costs to make system changes and amend promotional material. The effect on the risk of non-compliance is ambiguous. On the one hand, more frequent changes to the minimums could increase the risk of breaches; on the other hand, it may encourage closer engagement with superannuation on an annual basis. Nonetheless, because most of the volatility in the minimum income from an account-based pension depends on variation in investment returns, it is unlikely that smoothing the minimum percentages would have a significant beneficial impact.

Most stakeholders thought the current drawdown system works well and, in general, did not support the options listed above. Most stakeholders preferred discretionary intervention by government to reduce the minimums in unique or extraordinary circumstances.

- It appears that much of the concern with the previous Government's approach related to the last-minute nature of announcements. This created uncertainty for account-based pension providers about whether or not, and when, to update their systems and inform their members of changes.
- This suggests that when considering making any adjustments in future, it will be important to communicate decisions to the industry and members in a timely manner. Further, it would be desirable that any such adjustments be made on advice from the Australian Government Actuary.

Findings

Based on our analysis and taking into account views provided during consultation and the advice of the AGA, the review made the following findings:

A: The level of the current minimum drawdown rates is appropriate

Reductions in the drawdown rates are not supported on the basis that they would:

- be contrary to the objective of ensuring that superannuation money is used for retirement income and transferred out of the concessional tax super system over time;

- apply to everyone, whether or not they were affected by low returns; and
- further extend concessional tax treatment for those who do not rely on their superannuation pension for retirement income.

The advice of the AGA supports the appropriateness of the current minimum drawdown rates.

B: Additional flexibility in the drawdown requirements is not required

The current drawdown requirement for account-based pensions is achieving its objectives. There is no strong case for introducing additional flexibility.

- The minimum drawdown requirement is already flexible since it automatically reduces the minimum drawdown in line with falls in the value of the account balance. Furthermore, there is no requirement to spend the money drawn down and individuals are free to withdraw more than the minimum if they need to.
- The review agrees with stakeholders that the proposals for change would introduce complexity and compliance cost for little material benefit.

C: A regular review would help ensure the minimum drawdown requirements continue to remain appropriate in future

Many stakeholders have suggested the minimum drawdown rates should be reviewed regularly to ensure they remain appropriate, especially as life expectancy is projected to increase.

This is a reasonable proposal that would be consistent with broader calls to stabilise the manner in which potential superannuation changes are considered. The Australian Government Actuary would be well placed to provide this advice.

Recommendations

1. The current annual minimum drawdown requirements are consistent with the objective of the superannuation system to provide income in retirement and should be maintained.
2. The Australian Government Actuary should be asked to undertake a review of the annual minimum drawdown rates every five years and advise the Government to ensure that they remain appropriate in light of any increases in life expectancy.
3. Any other changes to the minimum drawdown amounts should only be considered in the event of significant economic shocks and based on further advice from the Australian Government Actuary.

Regulatory barriers to retirement income stream products

The existing regulatory framework

To qualify for the tax exemption on the earnings derived from assets supporting a superannuation income stream (the earnings tax exemption), a superannuation income stream product must meet a set of standards contained in the *Superannuation Industry (Supervision) Regulations 1994* (SIS Regulations), the ‘annuity and pension rules’.

The main part of the annuity and pension rules is basically the annual minimum drawdown requirements discussed previously. As discussed, the objective of these rules is to ensure that, in return for the earnings tax exemption, the superannuation savings are used up over time in order to:

- provide income over the course of a person’s retirement; and
- prevent large amounts of concessional tax superannuation savings being passed on as bequests.

The current rules achieve this objective by requiring income to be regularly paid from products in such a way that the superannuation savings are used up over time. The rules require that products make a minimum annual payment and prohibit non-account based products (that is, annuities) from paying an income that varies from year to year other than in line with CPI, average weekly earnings, or a constant percentage factor.

While we are satisfied that the current rules are achieving the desired objective for account-based pensions, they do not allow access to the tax exemption for some types of product that could help individuals to better manage longevity risk. For example:

- products with longevity risk insurance features, such as deferred annuities, which do not pay income in every year; and
- pooled products, such as group self-annuitisation products and collective defined contribution schemes, where income payments vary from year to year depending on investment and mortality experience.

This has hindered the development of these products, as noted in the Financial System Inquiry (FSI) report. The ‘comprehensive income product for retirement’ (CIPR) that the FSI discusses would depend on these pooled annuity type products being developed.²

² Final Report of the Financial System Inquiry, page 117-120.

Impediments to innovative income stream products

Submissions to the income streams review discussion paper argued that the current regulations are a barrier to innovation since many products which would provide greater longevity insurance than account-based pensions do not currently qualify for the tax exemption.

The key regulatory impediments to the development of these types of retirement income products are:

- the requirement to pay an amount of income each year. This prohibits products that defer income until a particular time; and
- the requirement for non-account based products to provide payments that do not vary from year to year other than to increase in line with the same percentage factor, movements in consumer price index (CPI) or average wages. This can rule out products that involve risk sharing because that would usually involve payments that fluctuate in line with investment and mortality experience.

A principles-based approach

Consideration was given to replacing the current rules with a more 'principles-based' approach. Where a product was consistent with principles set out in legislation, it would qualify as a superannuation income stream and therefore for the earnings tax exemption.

The concept is appealing, but defining principles that could apply to the wide range of potential retirement income products would be difficult. For example, it is often suggested that a key principle is that an income stream should require an annual payment but also that this should not prevent a deferred income stream from being considered to be an income stream during the period of deferral.

While it is possible to identify the high-level policy objectives underpinning the existing rules, it would be difficult for these alone to function as legislated principles. More detailed rules would inevitably be established, either by regulators or by the courts, and this could be more costly, time consuming and uncertain than setting out more detailed rules in legislation.

As such, this approach is not supported.

Proposed approach for removing impediments

As part of the consultation process, Treasury developed an approach which would allow the concessional tax treatment to be extended to products such as deferred annuities and products that pool risk, provided that the value of any capital that can be taken out of the product declines over time.

Under this approach, products with more flexible payment structures would be able to qualify for the earnings tax concession provided they complied with a diminishing capital access schedule. The schedule would be in addition to and operate as an alternative to the existing minimum payment rules. That is, product providers could choose to continue to provide products that meet the existing minimum drawdown rules or develop new products that comply with the proposed capital depletion schedule.

Proposed capital access schedule

The proposed capital access schedule would impose a maximum cap on the value of any lump sum that could be returned to the product holder if they withdrew from the product (a 'commutation amount'). The maximum cap would be a percentage of the original purchase price and would decline in a straight line from purchase to life expectancy.

In the case of death benefits, however, it is proposed that 100 per cent return of the original purchase price would be allowed for half of the life expectancy period. After that, the maximum death benefit would be the same as the maximum commutation value.

There would be no restriction on the actual income stream from the product. The income stream may be deferred, it may be variable and it may go on beyond the point where the commutation value and death benefit have reduced to zero.

The more generous treatment for death benefits compared to commutation is proposed to address stakeholder feedback that an immediate reduction in the value of a death benefit would be likely to severely impede uptake. Stakeholders advised that consumers are typically very reluctant to purchase a product they are 'locked' into, like an annuity, if there is a risk of 'losing' their investment on early death.

It is important to note that the proposed capital access schedules are just maximums – the actual design of products may provide for commutation and death benefit schedules anywhere within these outer bounds.

Details of the proposed capital access schedule are set out in Box 2 below.

The overarching objective of the schedule is to provide as much flexibility as possible for the design of products to meet consumer preferences, while protecting the policy objective that the primary purpose of products should be to provide income throughout retirement, rather than substantial returns of capital later in retirement or death benefits. Consistent with the goal of encouraging the development of products that help individuals better manage the risk of outliving their retirement savings, it is proposed that the alternative rules apply only to lifetime products. This would also assist in protecting the integrity of the proposed capital access schedule.

Compliance with the capital access schedule would permit products to make payments that fluctuate with mortality and investment experience. For example, an annuity could guarantee to pay at least \$3,000 annually but with scope to increase payments if investment experience is favourable. It would also permit deferred annuities to qualify for the earnings tax concession during the deferral period when no payment is being made.

Stakeholders have expressed support for the proposed capital access schedule.

Implementing the proposed approach would require amendment to the SIS Regulations to expand the existing definitions of pension and annuity to include products which comply with the proposed capital access schedule. Consequential amendments to the Income Tax legislation would also be required.

Box 2: Proposed capital access schedule

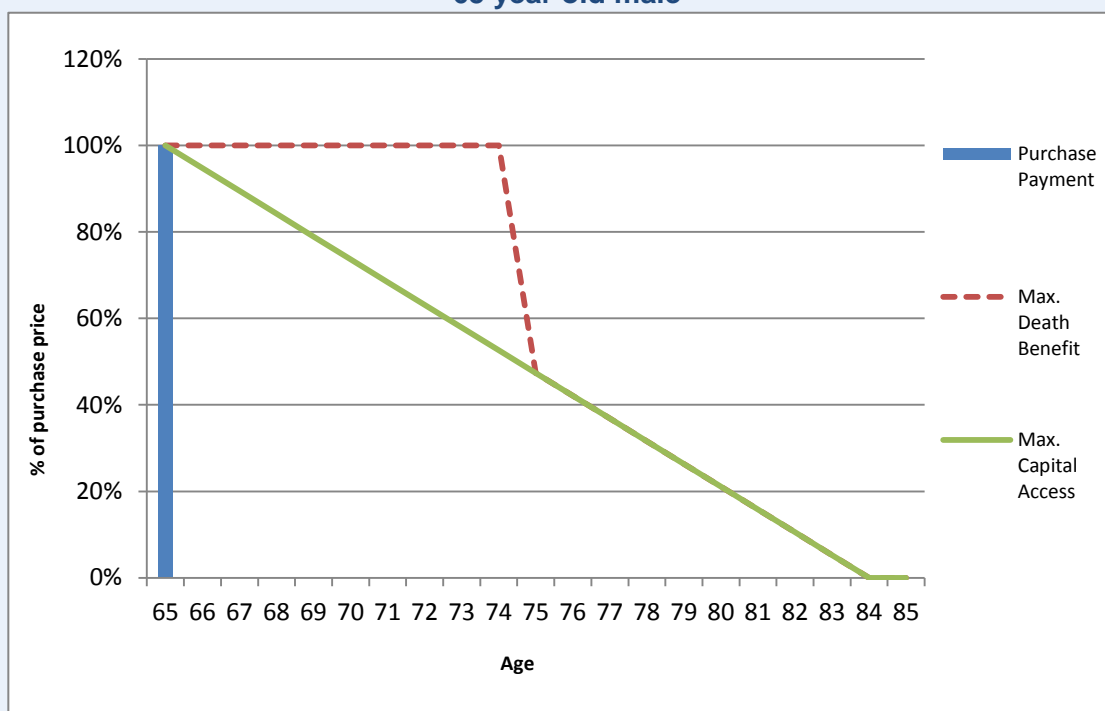
Under the proposed alternative income stream rules, products would qualify for the earnings tax exemption provided the maximum amount that could be returned to the product holder if they withdraw from the product at a later date declines in a straight line from commencement to life expectancy.

In addition, products would be able to offer a death benefit of up to 100 per cent of the nominal purchase price for half of this period, with the maximum death benefit limited to the capital access schedule thereafter.

For example, male life expectancy at age 65 is approximately 19 years. Under this proposal, a product sold to a 65 year old male could offer a declining commutation value such that the amount of the purchase price that could be returned on withdrawal would be zero by age 84, but a death benefit of 100 per cent could be offered for around 10 years (to age 75). Income payments would continue for life (see Chart 2).

In the case of deferred products, the schedule would commence at the same time as the product becomes eligible for the earnings tax exemption. For example, where an individual retires at age 65 and buys a deferred annuity that pays an income stream from age 80, the earnings tax exemption and the depreciation schedule would both commence from age 65, even though income payments would not commence until age 80.

Chart 2: Application of the schedule for a product purchased by a 65 year old male



Hybrid products

Where product providers develop ‘hybrid’ products that combine elements of both the current (account-based pension) rules and the proposed alternative (annuity-style product) rules, it would be necessary for providers to separately identify the two components with each separate component subject to the different rules.

For example, where an individual paid amounts from an account-based pension into a deferred income product, the amounts rolled over into the deferred product would not be counted towards the minimum drawdown rules but instead would count towards the value subject to the capital access schedule. Similarly, where income payments from a deferred income or pooled product are paid into a member’s account-based pension, those amounts would be required to be withdrawn within a set period and those withdrawals would not count towards the minimum drawdown requirements.

Other issues raised during consultation

In addition to issues discussed above, stakeholders also raised the following issues during consultation.

Social security means test

Stakeholders identified the social security means test treatment of retirement income stream products as key to the development of new products due to uncertainty in how they may be assessed.

A number of stakeholders proposed that products that pay a deferred income stream should not be means tested until they start to pay an income or that only the amount available to be commuted on exit should be included in the means test. Currently, deferred annuities are assessed the same as other financial investments, including account based income streams. That is, the market value of a deferred annuity would be included for the asset test and the market value would also be used to calculate deemed income for the income test.

Others emphasised the importance of ensuring that the treatment of different products is neutral under the social security means test and of clarifying the means test treatment of products that might be developed under the proposed new category.

The current social security means test rules were designed for standard annuity products that meet the current SIS Regulations. They do not accommodate products where the residual capital value varies over time. For new products to develop it will be important that their treatment under the social security means test is clarified and that the means test treatment of different products be:

- neutral — so that products are chosen on their merit rather than impact on the social security payments;
- equitable — so that income and assets are assessed in a way that ensures the horizontal and vertical equity of social security payments; and
- resilient — able to apply to a range of products, including new products, without diminishing neutrality or equity.

Administrative processes

Stakeholders supported a coordinated process to streamline the administrative arrangements for product providers.

Currently, when launching a new product, providers approach a number of government agencies including: the ATO to ensure that their product will meet the Income Tax Act definition of a superannuation income stream and therefore be eligible for the earnings tax exemption; the Department of Social Services to confirm how the product will be assessed under the social security means test; APRA to discuss how the product will be managed within the provider's business; and, the Australian Securities and Investment Commission to ensure they are comfortable from a licensing perspective.

The review supports a coordinated cross-agency process to streamline dealings with various government agencies. Specifically, product providers seeking to launch new products could meet with all the relevant agencies in a single forum to explain details of the proposed product and clarify any issues raised for each of the separate agencies. Each agency could then progress their assessment of the proposed product, relying on existing information sharing arrangements to ensure ongoing discussions whilst the product is being considered. Affected agencies support this proposal.

Adding to an existing income stream

A number of stakeholders supported allowing additions to an existing income stream product. Currently, to meet the definition of a pension or annuity the capital used to commence the pension or annuity cannot be added to by way of a contribution or rollover.

The prohibition on adding to an existing pension is designed to protect the integrity of the drawdown requirements and facilitate the calculation of the tax-free and taxable components of an income stream. Currently, the tax-free and taxable components are determined at the commencement of the income stream, with all benefits paid from the income stream retaining the same component proportions.

Allowing additions to the capital of the income stream via contribution or rollover would add considerable complexity, as each addition would require recalculation of the tax-free and taxable components of the future benefits and of the minimum payment amounts to protect the integrity of the current rules.

If drawdown amounts were not recalculated when additional amounts were contributed to an existing income stream product, an individual could circumvent the drawdown requirements through re-contribution strategies and there could also be a cost to revenue.

As such the review does not support allowing for additions to an existing income stream product.

Purchase options

A number of submissions suggested that an individual should be able to purchase a retirement income stream product by means of multiple premiums rather than a single lump sum.

Multiple premiums, to the extent that they spread the period over which products are purchased, would reduce the point-in-time interest rate risk that can arise with a single lump sum purchase. Submissions argued that a number of behavioural biases deter retirees from investing in products that insure against the risk that they will outlive their retirement savings. One is the tendency of individuals to over-value the potential lost consumption from a large single premium relative to the longevity risk being hedged away. Multiple premiums would help address any such bias.

Under the current pension and annuity rules, purchasing an income stream product via multiple premium payments is possible provided the income stream has not commenced. Where an income stream has commenced, adding to the product is not permitted under the existing rules.

Under the proposed alternative set of income stream rules, multiple rollovers from an existing superannuation product, such as an account-based pension, into another income stream product, such as a deferred annuity, would be permitted, provided that the new product had not commenced payment. Similarly, premium payments in accumulation would also be possible.

Should the proposed new rules be available to SMSFs and Small APRA Funds?

As SMSFs and small APRA funds do not have significant numbers of members, the advantages of pooling to provide greater longevity risk protection are not available. As such the review concluded that SMSFs and small APRA funds should not be eligible to offer products under the new rules.

Members would though still be able to purchase such products from other providers.

Findings

A. The existing regulatory framework for superannuation income streams is an impediment to the development of products that could provide better longevity risk management.

Restrictive payment structures imposed by the existing regulatory framework are hampering the development of products that could provide better longevity risk management than is provided by existing products.

The existing impediments could be addressed through the introduction of an additional set of income stream product rules. Under the proposed rules, products such as deferred annuities and pooled products, which are excluded by the current regulatory framework, would be able to qualify for the earnings tax exemption.

Under the proposed alternative rules, products would not have to meet the minimum drawdown requirements to qualify for the earnings tax exemption, but would have to comply with a diminishing capital access schedule.

Effective operation of the products under the alternative rules will require a credible pool size and for income payments to be determined at arm's length. Accordingly, it would not be

appropriate for products under the new rules to be offered directly by either SMSFs or small APRA funds.

B. Allowing for the purchase of income stream products in tranches could facilitate take-up of longevity risk products.

Facilitating the purchase of income stream products via multiple premiums could help encourage take up of longevity risk products by helping to overcome behavioural biases.

The ability to add to an existing income stream product would also be convenient for those who undertake further work in retirement. However, the additional complexity required to safeguard the integrity of the drawdown rules if additions were allowed is likely to outweigh the benefits.

C. For new products to develop it will be important that their treatment under the social security means test is clear

Product providers have noted the importance of the social security means test treatment to the development of new income stream products. There is a risk that the development of new products will be hindered unless the social security means test treatment of the types of products expected to develop under the proposed new category is made clear.

D. Streamlined government administrative processes would assist in the development of new income stream products

A coordinated administrative process across various government agencies would help reduce the administrative burden from having to deal with multiple agencies at different times and assist product providers seeking to launch new products.

Recommendations

1. An additional set of income stream rules should be developed which would allow lifetime products to qualify for the earnings tax exemption provided they meet a declining capital access schedule.
2. The alternative product rules should be designed to accommodate purchase via multiple premiums but additions to existing income stream products should continue to be prohibited.
3. SMSFs and small APRA funds should not be eligible to offer products under the new rules.
4. A coordinated process should be implemented to streamline administrative dealings with multiple government agencies.

Attachment A: List of non-confidential submissions

Treasury received 47 submissions in response to the initial discussion paper, *Review of retirement income stream regulation*. Of these submissions, seven were confidential. Further submissions from a number of the following were also received in response to subsequent targeted consultation.

Academy of the Social Sciences of Australia (ASSA)

Actuaries Institute

AMP

Association of Independent Retirees Limited (AIR)

The Association of Superannuation Funds of Australia (ASFA)

The Australia Institute

Australian Institute of Superannuation Trustees (AIST)

AustralianSuper

James Bonham

Challenger

CPA Australia (CPA)

Barry Crabtree

Charles Davies-Scourfield

Equip

ExelSuper

Financial Planning Association (FPA)

Financial Services Council (FSC)

Bruce Gregor

Homesafe Solutions

Income is the Goal (IITG)

Industry Super Australia (ISA)

Institute of Public Accountants (IPA)

Mercer

National Seniors Australia

David Orford

Eric Paul van Wijk

Alan Pierce

QSuper

Real Estate Institute of Australia

Bob Ruscoe

Maree Ryan

Campbell Simpson

Graham Slater

Luke Smith

SMSF Owners Alliance (SMSFOA)

TAL Dai-ichi Life Australia Pty Limited

Taxpayers Australia

Chris Turner

UniSuper

Dr Alexis Wadsley