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The Treasury

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Thank you for the opportunity to comment on the Retirement Income Covenant Position Paper.

I agree there is a need for the development of a retirement income framework and that as a first stage a retirement income covenant to codify the requirements and obligations for superannuation trustees should be incorporated into the Superannuation Industry (Supervision) Act 1993 (SIS Act).

* On retiring in 2015 it quickly became clear to me in a very practical sense that the focus of superannuation funds was on people in the accumulation phase of their superannuation journey.

I find it strange that with the ageing of the population the superannuation industry has not focussed more on developing retirement income strategies and in fact taken the lead rather than wait for government to intervene.

* Perhaps it is concerned that retirees and those approaching retirement age would likely focus more on returns and costs (often low and high respectively) than others, for whom retirement is something in the far future, do?

I note that there are superannuation funds that do offer investment strategies in the pension phase of their superannuation offerings that are similar to those in the accumulation phase, i.e. stable, growth, high growth, and so on. This is better than nothing but I suggest it is essentially a cop out – too easy and without any thought to issues such as life expectancy and the different financial objectives of those approaching or in retirement.

Some comments on the Position Paper:

1. It notes that “existing covenants in the SIS Act include obligations to formulate, review regularly and give effect to investment, risk management and insurance strategies; but not a retirement income strategy”, and that “Introducing a retirement income covenant will require trustees to consider the retirement income needs and preferences of their members”.
* The insurance provisions of superannuation products are opt-out provisions, i.e. unless someone undertakes the effort necessary to opt out of life insurance they are deemed to have opted in and fees to cover this insurance are automatically deducted from their superannuation balance. This must not be so for the prospective Comprehensive Income Products for Retirement (CIPRs)
1. The Paper notes that “introducing a retirement income covenant will require trustees to consider the retirement income needs and preferences of their members. It will ensure that Australian retirees have greater choice in how they take their superannuation benefits in retirement. This should allow retirees to more effectively choose a retirement product that aligns with their preferences”.
* There are a number of life stages during retirement, permeating them all are the inevitable changes to peoples’ intellectual capacities and competence as they age. Therefore there are different objectives and preferences during retirement and prospective CIPRs need to allow for that.
1. Consistent with the right of retirees to choose a retirement product that aligns with their preference it is of fundamental importance that people are not forced or coerced in any way to accept any CIPR offered by a superannuation fund.
* It must be up to the superannuation funds to develop CIPRs that are of a high enough quality such that retirees want to choose them.
* The suggested “A+Plus” CIPR with its provision of constant expected real income to members who retire at 65, $6,000 per year in income, for life, for every $100,000 invested in it, with provision for access to a lump sum of up to $15,000 at any time, should be the model for the basic CIPR offered.
1. Whether or not superannuation funds choose to exercise their CIPR obligations by using a third party, on no account should they have recourse to a “safe harbour”, as is currently proposed in the draft Position Paper.
* To provide access to such would constitute an invitation to them to behave badly, to the cost of retirees. Evidence being adduced almost daily by the current Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, shows the propensity of the financial services industry to misbehave without any more excuses being given to them.
* Any public support for a prospective Retirement Income Covenant would quickly dissolve were there to be “safe harbour” provisions offered to the trustees of superannuation funds.
1. The requirement that a CIPR should provide income for life is good. But the Paper needs to sharpen up its discussion of “broadly constant income”. For instance, the notion of “broadly constant income” is rendered meaningless when it allows for a “narrow band (perhaps +/- per cent) from the real or nominal income…” or allows income to be “broadly constant in real or nominal terms (or in between)”, or allows trustees to “choose whether or not to incorporate expected Age Pension income when determining “broadly constant income”.
* To estimate age pension income requires substantial intervention into a person’s finances (e.g. assets and income test), arguably something few people would want a superannuation fund to do and which a superannuation fund would likely be ill equipped to do.
* A combination of vague target incomes and the notion of a “safe harbour” would be irresistible navigation aids for a poorly performing superannuation fund.

Once again, many thanks for the opportunity to provide comment.

Sincerely

Graham Nicholls