**Retirement Income Covenant Position Paper**

**You have to prove how it can work.**

**Submission by MAX LEWIS**

1. **The Writers Background**: 10 years in NSW Public Service, Land Titles, Companies Office, Attorney General's Department; 20 years in law practices; 33 years providing clients with financial advice and proud to have gone through life with some who have been my clients for more than 30 years (yes I am quite old).
2. The Attachments might be appreciated as demonstrating a 'not negotiable' commitment to what I consider has been my profession and involvement in the area of retirement planning and acting in the interests of retirees, irrespective of whether they were personal clients or otherwise.
3. For many, many years, I have always believed and encouraged peers and clients to have faith that Governments in this country, of either persuasion, would deal honestly with retirees and those who were prepared to embrace honestly the superannuation system. That means of course, that unintended consequences would be addressed and logically unfair consequences would be addressed. So it was, the result achieved, as evidenced by 'Attachment 1,' was quite significant at the time although it still took me four years to succeed with my submissions.
4. Sadly, that somewhat simplistic faith in the Government of the day was shattered with the deceptions involved in the Defined Benefit Legislation as evidenced in my submission ('Attachment 2') and the seeming continuing frivolous regard to treating ‘what might be a legitimate ‘return of capital’ as income for Centrelink purposes. .
5. So no longer can one deal with confidence with what the Government says. It is now clear that if it suits, a precedent has been set to enshrine something one day and the next day call it an ‘ANOMALY’. One must fear therefore that something, which on one day is not compulsory or not mandated, will become just that.
6. Having regard to all of the above, it is hoped that my decision to make comment in this instance, is not considered pretentious.

What we are presently talking about here, is no more than a variation on a theme, which I was already embracing in the 1990's, ie combining a Guaranteed Lifetime Annuity with Allocated Pensions. The Annuity gave a client certainty, particularly because the Guarantee was for 20 Years or Life Expectancy, whichever was the lesser, and the Allocated Pension provided flexibility and life style dignity. A major factor however in that arrangement was that you knew at inception, the amount of the annuity payment from which one could build cash flow projections. I have no difficulties, per se, with the idea of combining differing types of income streams.

My real concern however in what is being proposed, is the uncertainty and guesswork implicit in CIPRs and the task of embracing that in an arena where one spends their life attempting to and succeeding in, providing certainty and peace of mind.

I think this might be best demonstrated if the positions are changed and the proponents (Govt) become the party that recommends and I become the other side (compliance audit, or ASIC or Counsel Assisting ,as the case may be ).

Where are the 30 year cash flows and projections, based on the earning rate of not more than 5.5% which supports the overt and unqualified representation that by embracing this concept, the client will have an income for life some 15-30% higher than the current typical strategy. Pooled products could not come without additional cost and one wonders whether 5.5% would not become a ‘blue sky’ projection in any case.

In the absence of that, how do you demonstrate to a client that to embrace this almost nebulous proposition, you would have satisfied your best interest obligations and their better position status.

An Adviser is not able to make such an unsubstantiated representation - A serious breach with serious ramifications.

.On what basis could one represent to a client that if you do this, will have an income for life some 15-30% higher than an Account Based Pension because the Government Actuary has said so.

I note that you have offered Trustees a "safe harbour' status - but not Advisers, and in fact your expectation of what the Trustee can do - without it being seen for what it is - ie: financial advice, trivialised what professional Advisers do We, are, after all, the only people in the ‘chain’ who sit opposite clients in a boardroom, plan and strategise with them and show preparedness to travel through life with them.

I could put $200,000 in a fixed term deposit, continue to take the interest and roll the principal over and suggest that such an investor will have an income for life - what is the point. It is not going to address the client's income needs; in short, an expression "income for life," which does not address real income needs and objectives, achieves absolutely nothing apart from the risk of clients being misled by such an expression.

You have to believe before you can honestly persuade – coloured graphs will not suffice. So in order to believe, one needs to see the proof in the same manner as is required of Advisers. That is, as an example, 30 year—‘year by year’ cash flow, income and asset projections, based on an earning rate of 5.5%, for a 65 year old male with a 60 year old wife,( Life expectancy is still relevant) a super lump sum on retirement of $700,000 and an indexed income need of $40,000, which represents an income need at inception, expressed as a percentage of capital, of 5.714%.

**Other Concerns** : It might be my ignorance or one has not sufficiently absorbed the available material or it might be a ‘sleeper’ so to speak, but in a pooled system , what happens to my DLA set to commence at 85, if I die at 84.

I truly believe that a ‘fully informed’ prospective retiree in this country will not accept the risk of asset forfeiture.

In terms of your most recent paper and the two principal bullet points as set out on page 2 under ‘intentions’

In my view, there has not been anything to date, which would validate either of these assertions.

Far from simplification and ease to make retirement decisions, this proposal creates a significantly increased level of complexity without any ascertainable transparent or certain benefit.

You will no doubt receive many professional responses to your paper. Far more esoteric and no doubt pitched at a high industry level - arguably though, none with more passion, experience at the ‘coal face’ or objectivity than that of the writer.

Max Lewis

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0408 649 907

max@lewisfinancial.com.au