Actuaries Institute supports *MyRetirement* framework

Warn against 'one size fits all' approach

- **Reduces retirees' concerns they will out-live their savings.**
- **Many retirees will benefit from increased living standards.**
- **Government must resolve how products are treated under the assets test.**
- **Failure to get the framework right could impact future retirees' standard of living.**

5 June 2017

The Actuaries Institute, in its submission to Treasury's *MyRetirement* review, said it supports any effort to change the current retirement framework from a focus on lump sum payments to providing an income in retirement.

But it also said the government must resolve the treatment of income products under the assets test, and allow funds to offer flexible products that meet retirees' individual needs. It urged caution, warning a prescriptive approach could allow sub-scale, unsustainable products to proliferate.

"The right approach is to start with a framework and then let this drive the products. The framework must meet the government's stated aims and address members' needs and interests, including whether longevity protection products meet individual fund members' requirements," said President of the Actuaries Institute, Jenny Lyon.

"There should be scope for the policy approach to be reviewed as the product landscape evolves. It should not be compulsory to offer a particular type of retirement income product until we see how the market develops. Instead, an "if not why not" regime could be introduced, at least initially, where funds are required to justify the appropriateness of their retirement income products for its members."

The Federal Government announced in December last year it wanted industry input on the development of post-retirement products or a framework that would encourage comprehensive income for retirement products (CIPRs). This followed recommendations made during the Murray Inquiry (the Financial System Inquiry). Submissions close 9 June.

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The Institute's submission states that every superannuation fund should be required to have a retirement income governance framework, in the same way funds have guidance for investment and insurance. That framework must set out how trustees intend to guide their members at retirement, including the social security implications for members with low account balances and members in poor health.

Some funds may develop their own longevity protection products, but others may offer their own account based pension and guide members to longevity protection products from third parties.

"There are benefits in allowing a less prescriptive approach because the current market and legislative rules around post-retirement products are immature," Ms. Lyon said. "We also look forward to seeing clarity around how these products will be means tested."

She said a good framework would achieve its aims if more people took up pooled longevity protection products enabling them to drawdown funds at a faster rate than the government's prescribed minimum drawdown rates.

"Many people face a lower standard of living during retirement because they fear outliving their savings. There is a need for products that more efficiently manage longevity risk, providing retirees with better standards of living in retirement."

But offering longevity protection products brings with it complexity including guarantees, scale, managing products efficiently, and the risk of product failures, which may mean the best outcome is through a fund selecting or guiding members to a third party.

"There is significant public interest in ensuring that the changes introduced meet members' income needs in retirement, including by taking into account their eligibility for a part or full Age Pension over time. A poorly designed retirement income framework could seriously impact confidence in the sector and the reputation of the government," Ms Lyon said.

Key features of a framework must include:

- it should apply to all superannuation funds;
- the system should have flexibility to ensure retirement income products can be tailored to meet members' needs;

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- benefit projections should be provided to pre-retirees and expressed as an income to help retirees better plan for their retirement and transition away from lump sum payouts;
- the regulatory framework should be product neutral for longevity protection products;
- an "if not, why not" regime should be in place rather than compulsion;
- products must meet minimum requirements; and
- portability of post-retirement products must be considered.

"Members need guidance to make choices," Ms Lyon said. "But there are also risks to giving advice or setting defaults. There are also issues around flexibility, the possibility a member may need to access a lump sum, which must be weighed against the benefits of pooling."

Other issues include how longevity pooling affects those with a lower life expectancy and whether penalties apply if a member withdraws their funds.

A copy of the Actuaries Institute submission is available here.

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About the Actuaries Institute

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.

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