Actuaries Institute welcomes 2018 Budget; new policy approach will protect super balances and boost retirees' income

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- Changes to means testing of longevity products can boost retirees' living standards.
- Focus on CIPRs will stimulate products to combat longevity risk.
- Life insurance changes to super require further member education.

The Actuaries Institute welcomed tonight's Federal Budget, noting initiatives to boost income for retirees and changes to the means test on CIPR retirement products. The measures should enhance retirees' living standards and allow retirees to better manage the risk that they might outlive their funds.

"The government continues to encourage Australians to prepare and save for their retirement," said Elayne Grace, CEO of the Actuaries Institute. "This steady approach will provide confidence where it matters most: for Australian retirees and those about to finish work."

Ms Grace said while Australians don't like governments tinkering with superannuation rules, the latest measures are a positive step. The initiatives to manage lost superannuation accounts and reduce fees will also increase super balances for younger workers.

"Superannuation trustees will need to formulate a strategy to provide members with a path to achieve their retirement income objectives," Ms Grace said. "Trustees will be required to offer Comprehensive Income Products for Retirement (CIPRs) that provide individuals income for life, no matter how long they live," she said.

The Institute welcomed the clarification of the Age Pension treatment of innovative income stream products after several years of consultation.

From July 2019, the means test will change to assess 60% of all pooled lifetime income products as income and 60% of the purchase price as assets until age 84 (or a minimum of five years), then 30% for the rest of life." Ms Grace said: "We are pleased to see the government has accepted the Institute's recommendation."

Recent retirees with total superannuation of less than $300,000 at retirement can now make voluntary superannuation contributions for a year after they cease work.

Ms Grace said that measures to remove default life insurance cover for young fund members (under age 25) will reduce their premiums and erosion of super benefits. However, the Institute acknowledged that young members could be exposed, in the event that they become disabled.

"The Institute believes that funds will need to educate their young members about the benefits and risks of not opting-in for insurance cover," Ms Grace said.

From July 2019, the government will expand the Pension Loans Scheme for older Australians, including self-funded retirees. This facilitates the release of equity from homes via a government reverse mortgage, at an interest rate of 5.25% (a rate that has been unchanged for 20 years).

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Ms Grace welcomed the move, which she said would encourage the private market to develop innovative schemes to unlock equity.

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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.