# Actuaries Institute welcomes legislative changes that will help Australians in retirement

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The Actuaries Institute has welcomed the federal Government's changes to Australia's post-retirement superannuation system that it hopes will lead to improved living standards for retirees.

The legislation passed through Parliament on February 14. The raft of measures deal with the risks for retirees that they outlive their savings; it will give older Australians more financial options in retirement by making changes to the means test rules that will encourage the development of new financial products for retirees, as well as an expanded Pension Loans Scheme and an increase in the Pension Work Bonus.

**Background**
On 6 December, the government's Bill, which changes how the value of longevity products are calculated for the asset and income tests for the Age Pension, was referred to the Senate Economics Legislation Committee.

"The legislation will help stimulate the development of products that will underpin the government's objective that superannuation provide income in retirement that supplements or substitutes the Age Pension," said Andrew Boal, Convenor of the Actuaries Institute's Retirement Strategy Group.

"We support the changes, and also support the principle of requiring superannuation funds to offer a retirement income product to members," Mr Boal said.

Australians enjoy among the longest life expectancy in the world, a trend likely to continue. However, retirees are currently offered slim guidance or choice when they take their retirement savings out of the superannuation system. Many worry that they will outlive their money.

"Since the early 1970s, the life expectancy of the average 65 year old has increased from around 12 years to 20 years for men and about 22 years for women. But longevity is not uniform, it varies considerably from person to person, so some form of longevity protection will be helpful for many Australians," Mr Boal said.

Treasury developed a framework called *MyRetirement*, or comprehensive income products in retirement (CIPRs), to help retirees overcome their fears around longevity. Federal Treasury released a discussion paper in December 2016 and called for submissions from the industry, to help develop a more robust sector for Australians who are about to retire.

In submissions, industry urged greater clarity from the government around the treatment of pooled lifetime retirement income stream products and the Age Pension means tests.

Versions of these products are already offered in Australia. But take-up is limited and the market relatively under-developed compared with other nations like the Netherlands and Denmark, which are ranked one and two respectively, in the recently-published Melbourne Mercer Global Pension Index. They offer annuity-style payments for the lifetime of the investor, helping ease retirees' fears they may outlive their retirement savings.

Among other changes announced late last year:

- An increase in the threshold superannuation balance, to $100,000 from $50,000, before a superannuation fund must offer a CIPR to its members.

- A two-year delay to the implementation of the proposed CIPR rules, allowing funds to better prepare for the *MyRetirement* environment from 1 July 2022.

Mr Boal said the Actuaries Institute has been concerned for some time that the retirement phase of the superannuation system was underdeveloped.

"We support the progress that has been made to remove barriers to the introduction of pooled lifetime income products, and we welcome the clarification of the treatment of CIPRs under the new Age Pension means test rules," he said.

"We also support the government's plans to prioritise the development of a retirement income covenant, and that all superannuation funds should develop a retirement income strategy for members."

Mr Boal said income needs and spending patterns in retirement can and do vary significantly and there is no one-size-fits-all solution. "We strongly support the notion that trustees should consider eligibility for the Age Pension when considering a member's income in retirement, and also how cognitive decline may affect outcomes."

On the increase in balances, Mr Boal said: "Most retirees with superannuation balances above $50,000 by a reasonable margin will still be receiving a full Age Pension, which is indexed and guaranteed by the government.

"At this level, members are likely to already have longevity protection for at least 80% of their retirement income."

In the meantime, superannuation funds must develop a retirement income strategy for members by 1 July 2020.

Changes to the SIS Act will add a Retirement Income Covenant, which will codify the requirements and obligations for superannuation trustees to consider the retirement income needs of their members, expanding individuals' choice of retirement income products and improving standards of living in retirement.

The extension of the Pension Loan Scheme will also allow retirees with low superannuation balances access to wealth held in their home, providing further comfort in retirement.

**Andrew Boal is available for interview**

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