



15 October 2021

Director
Tax and Transfers Branch
Retirement, Advice and Investment Division
The Treasury
Langton Cres
PARKES ACT 2600

Email: superannuation@treasury.gov.au

Dear Sir/Madam

Consultation: Retirement Income Covenant Exposure Draft Legislation

The Actuaries Institute welcomes the opportunity to comment on exposure draft (ED) legislation released on 27 September 2021 that will introduce a retirement income covenant (Covenant) for superannuation trustees.

The Institute is the sole professional body for actuaries in Australia. Our members have had significant involvement in the development and management of superannuation and retirement income products within Australia.

1 Strong support for principles-based Covenant

We strongly support the Government proceeding to introduce the Covenant into the Superannuation Industry (Supervision) Act 1993 (SIS Act) outlining an obligation for trustees to formulate, review and give effect to a retirement income strategy.

We support it being principles-based, and grounding retirement income strategy on assisting members achieve and balance the potentially conflicting aims of maximising retirement income, managing risks and income stability, and having some flexible access to savings.

We are pleased to see the Covenant now includes those defined benefit members who can commute their defined benefit, and that it recognises the importance of inflation risk when considering retirement income.

2 Timing of Covenant

We support the Government's intention to legislate for the Covenant prior to 1 July 2022. However, the legislation should recognise that trustees need sufficient time to prepare for introduction of the Covenant before the legislation applies. This points to the Covenant not commencing until, say, 1 July 2023.

We recognise the substantial information provided in the Explanatory Materials (EM) accompanying the ED but believe there is also a place for an Australian Prudential Regulation Authority (APRA) Superannuation Prudential Standard or Prudential Practice Guide, consistent with the other SIS Act covenants. We recommend that APRA issue guidance to trustees to facilitate trustees meeting the Covenant before it takes effect.

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3 Data limitations

It is difficult for trustees to build meaningful membership cohorts for the purpose of structuring retirement income strategy without access to substantially more information about typical members' situations. The EM lists many data sources available to trustees. However, each trustee conducting its own analysis using generalised data sources is highly inefficient, and we recommend that Treasury be asked to co-ordinate summarised information data sets to assist trustees with application of the Covenant.

Further, it should be made easier for trustees to source specific information about its members (with their consent) to tailor application of their retirement income strategy in a meaningful way for members. This would allow trustees to develop more detailed cohorts as they build more data about their membership (e.g. where members have provided their partner status).

4 Period of retirement

The ED and EM refer to the need to define the period of retirement for the purposes of the Covenant. The definition of period of retirement can greatly influence retirement income, and lead to either too conservative or too rapid spending. We would have expected greater prescription to ensure trustees consider and justify the period of retirement. This would include consideration of the likely distribution of life expectancy of their members and of their members' spouses.

5 Focus on retirement income in real terms

The ED and EM include inflation risk as impacting the sustainability and stability of retirement income. We believe the Covenant should go further and require consideration of real rather than nominal retirement income, and income considered in the context of recognised community living standards.

6 Guidance and advice to members

We welcome the EM recognising the importance of guidance and advice as pre-retirees and retirees navigate the complexities and trade-offs when considering their own retirement income. However, the concerns regarding the current laws and regulations governing guidance and advice are real, and these are exacerbated by the anti-hawking provisions. The EM stating that collecting information about beneficiaries does not of itself lead to the provision of personal advice does not solve the problems trustees face when providing affordable guidance and advice to pre-retirees and retirees. Further, the EM consideration of anti-hawking leaves open issues of follow-up communication sent to members.

Fear of falling foul of the regulations governing financial advice and anti-hawking will be a major obstacle to effective application of the Covenant. Consistent with our submission to Treasury on the Retirement Income Position Paper¹, we recommend a "Safe Harbour" structure be used to protect trustees who are looking to guide their member with making an informed

¹ <https://www.actuaries.asn.au/Library/Submissions/2021/6Aug.pdf>



choice of retirement solution. Under this safe harbour structure, trustees should be permitted to more easily offer a menu of carefully designed support services.

7 Income projections, calculators and tools

The ED and EM make no reference to income projections whereas Treasury's Retirement Income Position Paper lists income projections as an avenue to assist members balance their retirement income objectives. We strongly support provision of income projections by trustees to assist pre-retirees and recommend that the EM and regulator guidance include reference to retirement income projections.

The models used for income projections must be fit for purpose - they should have a minimum requirement of communicating the implication of key risks including investment, longevity and inflation risks to members' retirement outcomes. This would allow members to understand the trade-offs they are facing to guide them to the appropriate retirement solution. At present, many calculators, including the Australian Securities & Investments Commission (ASIC) MoneySmart calculator, only provide deterministic projections of the expected outcomes without considering the potential range of those outcomes that a member may experience. We recommend that standards for good retirement income projection tools be updated by ASIC in line with the Covenant.

8 Further information

We would be pleased to discuss this submission or to provide further information. Please contact our CEO, Elayne Grace at elayne.grace@actuaries.asn.au if you wish to clarify any aspects of this submission.

Yours sincerely

Jefferson Gibbs
President