



**Submission to the
Retirement Income
Covenant Position Paper
consultation**

June 2018

About National Seniors Australia

National Seniors Australia is a not-for-profit organisation that gives voice to issues that affect Australians aged 50 years and over. It is the largest membership organisation of its type in Australia with more than 130,000 members and is the fourth largest in the world.

We give our members a voice – we listen and represent our members' views to governments, business and the community on the issues of concern to the over 50s.

We keep our members informed – by providing news and information to our members through our Australia-wide branch network, comprehensive website, forums and meetings, quarterly lifestyle magazine and weekly e-newsletter.

We provide a world of opportunity – we offer members the chance to use their expertise, skills and life experience to make a difference by volunteering and making a difference to the lives of others.

We help our members save – we offer member rewards with discounts from thousands of businesses across Australia. We also offer exclusive travel discounts and more tours designed for the over 50s and provide our members with affordable, quality insurance to suit their needs.

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Overview

National Seniors appreciates the opportunity to provide feedback on the Treasury Position Paper on developing a Retirement Income Covenant.

We are supportive of policies to ease transition into retirement, help retirees better manage risks and improve income adequacy.

There is considerable merit in increasing the availability and take-up of products that manage longevity risk and improve income objectives for fund members.

National Seniors own research has shown that there is positive consumer sentiment towards improving options to manage longevity risk.

According to a recent National Seniors survey of over 5000 seniors, more than half supported the inclusion of an insurance option for longevity and would consider paying 10 percent of savings to receive income for life¹.

It is important that all fund members, regardless of their circumstance, have confidence in the retirement income framework such that they can choose appropriate retirement income products that meet their needs.

National Seniors is concerned that members with limited superannuation assets and financial literacy may not be best served under the proposed principles.

We are concerned that the proposed “soft default” approach may imply that Comprehensive Income Products for Retirement (CIPRs) are in the best interests of members with low balances or limited financial literacy when they may not.

Stronger exceptions are required to ensure that members with low balances are not unintentionally encouraged to accept a flagship CIPR when it is clear they are not in their best interests in the first place.

Alternatively, low balance members should not be forced to pay for costly financial advice to consider alternative products that are better suited to their needs.

There is a need to ensure strong protections for consumers as well as adequate and appropriate information about the rights of members and the responsibilities of trustees.

Members should be provided with adequate guidance from trustees to enable them to make informed choices. Monitoring and oversight of guidance and advice tools is also required to ensure adequate consumer protection.

The Australian Securities and Investment Commission (ASIC) should have adequate resources and powers to ensure members receive appropriate guidance outside of the financial advice framework.

National Seniors does not support the inclusion of a safe harbour defence and believes stronger exceptions would avoid the need for such provisions.

¹ McCallum, J., Maccora, J., & Rees, K. 2018. *Hope for the best, plan for the worst? Insights into our planning for longer life*. Brisbane: National Seniors.

Covenant Principles

1. Retirement income strategy

National Seniors supports the inclusion of a principal that focus trustees on supporting fund members to meet their individual retirement income objectives.

We support principles that focus trustees on delivering outcomes which are important to fund members, such as maximising income, managing longevity risk, improving income stability over time and maintaining access to capital.

In developing this strategy, it should be made clear to members that a trustee cannot necessarily address the best interests of individual members without complete and accurate information about individual circumstances.

We are concerned that the focus on the collective needs of members is at odds with best interest obligations which are imposed on advisors providing personal advice.

Best interest obligations require that an advisor warn a client if advice is based on incomplete or inaccurate information.

Mass customised retirement income products that take into consideration the collective needs of members are by their definition based on incomplete or inaccurate information.

2. Engagement

National Seniors supports the focus on engagement in the proposed principles.

As choice increases, fund members will need to have greater guidance and support to make decisions about which retirement income products best serve their unique circumstances in retirement.

The onus, rightly, should be on the fund to provide this guidance.

Governance bodies, such as ASIC, will also need to play an important role monitoring and evaluating this guidance to ensure it is in the best interests of members and not just used as a marketing tool.

National Seniors believes that trustees should provide members with comparisons between alternative product offerings to illustrate broadly which are more suitable for people in different circumstances.

We are mindful that products offered by other trustees may be more suitable and may provide better outcomes.

It will be critical that retirement income products are readily comparable across the entire market.

3. Definition of a Comprehensive Income Product for Retirement

National Seniors supports the definition of a CIPR in the position paper.

Setting out what a CIPR is designed to do will provide members with a broad understanding of the costs and benefits of a CIPR in relation to their own personal retirement income objectives.

It will be important that trustees communicate broadly to members what alternative retirement products are designed to do to assist members in weighing up broadly the costs and benefits of competing retirement income products.

4. Offering a flagship CIPR

National Seniors questions the principle that all trustees be required to offer a flagship CIPR to members, subject to exemptions.

It is unclear what offering a flagship CIPR “as the starting point for members” will mean in practice.

We agree that it is important that members consider the full range of options open to them.

Offering a member a flagship CIPR as a starting point will undoubtedly raise awareness about these products.

However, we are concerned that “nudging” members in this way may be misinterpreted by some members as endorsement.

We are concerned that the “soft default” approach may insinuate that a CIPR product is the best option for all members regardless of their circumstance.

Careful consideration would have to be given to the wording of statements to members detailing the implications of accepting a flagship CIPR, including the rights of members and the responsibilities of trustees.

We are particularly concerned that “nudging” members towards a flagship CIPR product has the potential to work against the best interests of fund members with low balances and limited financial literacy.

Members with limited financial literacy may view a default offering as being in their best interests when this may not be the case.

Alternatively, it is not acceptable to keep members in existing products when a CIPR is available and switching is in the best interest of the member.

A CIPR may not be in the best interests of some members, particularly those with low balances who are heavily reliant on the Age Pension for income and rely on the pension to manage longevity risks.

National Seniors is also aware of analysis that questions the assumption that CIPR will increase the income of fund members compared to an Account Based Pensions (ABP).

Analysis by Rice Warner has suggested that increased income within a CIPR is likely to be minimal compared to an ABP².

There is also the issue of access to capital throughout retirement.

It is likely that members with low balances particularly, will not see a CIPR as being in their best interests if access to capital for emergencies or bequests is limited.

Retaining the ability to meet emergency cost, such as health or aged care costs, or even to leave a bequest are rational and legitimate courses of action for many retirees.

Trustees will have an important responsibility to provide adequate information to fund members to enable them to make decisions about whether to adopt a flagship CIPR.

Given there is no obligation to receive individual financial advice when considering a default flagship CIPR, trustees will need to provide a range of information to fund members.

5. Third party products

National Seniors supports the inclusion of a direct reference to third parties as providing a means of fulfilling a trustee's obligations to avoid any doubt.

It is vital that trustees have the flexibility to use third parties to develop CIPRs rather than develop these in-house, as this may be the most cost-effective approach and in the best interests of members.

6. Consent

National Seniors supports the inclusion of the principle of consent.

It is important that members actively choose to adopt a CIPR and are not compelled to adopt a CIPR if this is not in their best interests.

Fund members should be able to make informed choices when assessing what is in their best interests.

ASIC should develop a suitable monitoring and oversight regime to ensure that members have been provided with appropriate guidance, including being made fully aware of their right to accept or reject a CIPR.

7. Offering an alternative retirement income product through advice

National Seniors is concerned the position paper makes explicit the need for a trustee to have reliable information about a person's circumstance to be able to offer an alternative CIPR or an alternative retirement income product beyond a flagship CIPR.

² Rice Warner 2017. *Development of the framework for Comprehensive Income Products for Retirement (CIPRs)* Submission to Department of Treasury 12 July 2017

We are concerned that the advice obligations associated with a flagship CIPR are different to those associated with individual financial advice.

As noted earlier, it is problematic that a flagship CIPR does not consider the best interests of members as individuals in a similar way that financial advice does.

It is important that the general costs and benefits of a flagship CIPR are readily comparable with the general costs and benefits of other CIPRs and other alternative retirement income products without the need for personal financial advice.

Our concern is that a flagship CIPR may be perceived by a member as being in their best interests regardless of individual circumstance in the absence of financial advice.

If a member can only be offered an alternative to the flagship CIPR when the trustee has ensured they have reliable information about the member, this reinforces the need for an individual to receive costly financial advice.

It is critical that exceptions from being offered a flagship CIPR exist for members who will not gain benefit from a flagship CIPR and to ensure they are not inadvertently forced to pay for financial advice to obtain an alternative retirement income product if it is clear these are generally better suited to their needs.

8. Exception for individuals for whom CIPRs are unsuitable

National Seniors supports moves to provide exceptions for individuals.

We are concerned that a fund member may not have adequate knowledge and skills to make informed decisions without individual financial advice but at the same time are unlikely to see the value of engaging such advice if they have limited assets.

Requiring members to consider longevity risks when members have limited assets and when they will be largely dependent on the Age Pension for income throughout their retirement appears unrealistic.

The proposed \$50,000 asset threshold put forward in the position paper appears low and without any basis.

According to Rice Warner “Members with small balances are likely to receive a full Age Pension and will hold little superannuation at the time of their death, so it is not important to convert this group into CIPRs.”³

Rice Warner have suggested that a CIPR that allocates a proportion of members fund balance to a CIPR with limited return on death is not appropriate for those with balances of less than \$250,000⁴.

National Seniors would support a much higher threshold for exceptions on this basis.

³ Rice Warner 2017. *Op cit.*

⁴ Rice Warner 2017. *Op cit.*

We are also concerned that the threshold regarding life-threatening or terminal illness is limiting.

Future Considerations

Lifetime engagement

National Seniors supports encouraging trustees to engage with members about retirement early and to continue to engage on an ongoing basis.

Trustees should be expected to assist members to be prepared for retirement and to be informed about the different product options available.

Given that CIPRs are likely to lock in retirement plans more rigidly, it is vital that the emphasis is on building members understanding before the retirement phase begins.

Legacy products

National Seniors is extremely mindful of the need to deal appropriately with legacy products.

Should existing products be wound up or rolled into other funds, this will likely cause significant distress to members subscribed to these products.

Safe harbour

National Seniors continues to oppose the inclusion of a safe harbor provision.

We do not feel that it is in the interests of members to provide safe harbour provisions as they are at odds with the interests of members.

A trustee should be able to satisfy best interest obligations in offering CIPRs in the same way as trustee must meet its duties for offering a MySuper product.

Removing the requirement to “nudge” members into CIPRs would remove the need to include a safe harbor defence.

Summary

National Seniors is supportive of policies to ease transition into retirement, help retirees better manage risks and improve income adequacy.

National Seniors is broadly supportive of Retirement Income Covenant concept, however we are concerned that the proposed principles may result in unintended consequences for members, particularly those with limited superannuation assets or limited financial literacy.

The proposed “soft default” approach may imply that a CIPR is in the best interests of members with low balances and financial literacy when this may not be the case.

Stronger exceptions are required to ensure members with low balances are not encouraged to accept a flagship CIPR when they are clearly not in their best interests. It has been suggested that members with balances of less than \$250,000 will not benefit from CIPRs.

There is a need to ensure strong oversight and protections for consumers, including adequate information as well as monitoring and oversight of guidance and advice tools.

National Seniors does not support the inclusion of a safe harbour defence and believes that stronger exceptions would avoid the need for such provisions.