

Submission

Federal Treasury
Retirement Income Covenant

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Combined Pensioners & Superannuants Association of NSW Inc (CPSA)

Address: Level 3, 17-21 Macquarie Street, Parramatta NSW 2150 **ABN:** 11 244 559 772

Phone: (02) 8836 2100 **Country Callers:** 1800 451 488 **Facsimile:** (02) 9281 9716

Email: cpsa@cpsa.org.au **Website:** www.cpsa.org.au **Donations:** 1800 451 488

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents. CPSA receives funding support from the NSW Government Departments of Communities & Justice and Health and the Australian Government Department of Health.

Introduction

CPSA is a non-profit, non-party-political membership association founded in 1931 which serves pensioners of all ages, superannuants and low-income retirees. CPSA's aim is to improve the standard of living and well-being of its members and constituents. In relation to the NSW property tax proposal, CPSA represents Age Pensioners, Disability Support Pensioners, people on Carer Payment and older people effectively retired on JobSeeker Payment.

Retirement Income Covenant

As the position paper on the Retirement Income Covenant notes, the recent Retirement Income Review suggested that the retirement income system providing income in retirement is the fundamental role of compulsory superannuation, but that 30 years since its introduction “the retirement phase of superannuation remains under-developed”. There is, the position paper says, “substantial room for improvement in how the superannuation system delivers adequate incomes in retirement”.

The Government has been considering this issue for a number of years since the *Development of the framework for Comprehensive Income Products for Retirement, Discussion Paper* was published in December 2016.

The failure of the compulsory superannuation system to come up with retirement income products reflects the fact that compulsory superannuation was introduced with twin goals: (1) to boost national savings to support investment in Australia; and (2) to deliver adequate retirement income to fund members.

The focus of compulsory superannuation, or rather the focus of the financial service providers acting as fund trustees, has been on the accumulation of savings, building vast investment empires lucrative to the organisations and senior staff operating superannuation funds and beneficial to the general national economy, but leaving those retiring wondering what to do with their accumulated savings.

Given the length of time between the 2016 *Discussion paper* and the *Retirement income covenant, Position paper* published in July 2021 - and certainly between those two milestones and the creation of compulsory superannuation in 1993 -, it is fair to say that policy makers have been as disengaged with the ‘sole purpose’ of superannuation (provision of retirement income) as the populace in general. This a truly democratic outcome but a far from desirable outcome.

What is worrying is that the proposed retirement income framework constructed to make superannuation fulfill its primary purpose, providing income in retirement, will not, contrary to claims in the position paper, “support the retirements of Australians by increasing the availability of better retirement income products that provide higher retirement incomes while also providing flexibility and efficiently managing the risks faced by retirees”.

The reason for this is that the proposed requirement for superannuation fund trustees to develop a retirement income strategy lacks the element of compulsion, making it very easy for funds to avoid looking after their retired members and to continue retaining and expanding funds under management, in short, to keep looking after themselves first and foremost rather than after their members.

The retirement income strategy

The deficiency of the *Retirement Income Covenant position paper* is that it does not make it mandatory for superannuation funds to develop and offer financial products to their members. The irony of this is rich, because superannuation has a sole purpose: provide income in retirement, yet under the proposed retirement income strategy funds can get away with merely giving their members guidance as to how they should convert their savings into income or use otherwise. They are not required to provide tangible options in the form of financial products that address investment and longevity risk in retirement.

The best this position paper can come up with for superannuation fund members who largely and generally have been disengaged from superannuation during their working lives while compulsory employer contributions automatically made their way into their super accumulation accounts is that they should receive guidance as to how to go about formulating and executing their retirement income plan, never mind that generally their financial literacy to do so will prove to be inadequate. It's like asking an airline passenger to land the jet they are travelling on.

Superannuation funds should be required to back their own retirement income strategy and be obliged to create, or at least source and offer, the financial products and options required to give effect to the strategy. It is, or should be, part and parcel of the operation of a superannuation fund.

While the position paper outlines all the elements of a fund's retirement income strategy and all the elements of assistance needed to give effect to it, the one element missing is the *requirement* to offer retirement income products. Instead, funds have the *option* to offer retirement income products. However, they don't have to provide retirement income products if it doesn't suit them, and it is very likely that it won't suit them because if it did, they would be offering those products now. Few do.

The *Superannuation Industry (Supervision) Act 1993* should be amended to put it beyond doubt that trustees of regulated superannuation funds which do not offer retirement income products structured according to the principles of the retirement strategy set out in the position paper are in breach of section 62 of the *Superannuation Industry (Supervision) Act 1993*, which defines the sole purpose test.

Currently, the sole purpose test is applied all but exclusively to the accumulation and preservation of member benefits during their working lives, but of course the sole purpose test also applies, and in equal measure, to the phase in which member benefits must be drawn down.

Trustees of regulated superannuation funds should not be able to effectively argue that maximising member benefits and making them available to members on retirement is sufficient. Nor should it be sufficient for trustees to merely offer guidance to members. Section 62 requires “the provision of benefits”. In CPSA’s view, this already implies that a fully-fledged and adequate fund-administered benefits drawdown structure should be in place. However, to put this beyond doubt, the entrenched practice of effectively almost exclusively applying the sole purpose test to the accumulation of benefits should be eradicated by imposing an explicit legislative requirement on funds to provide and execute member pension plans. This is the prevailing model elsewhere in the OECD, where superannuation funds are called pension funds.

Retirement income products funded by superannuation benefits

The accumulation of superannuation benefits takes advantage of very generous tax concessions. These concessions are granted and maintained to facilitate retirement income funding with the Age Pension as a safety net for those retirees who do not have, or have run out of, retirement savings.

This concessional regime entitles the Government to insist superannuation benefits are used in retirement, and ideally fully used. This is a Government policy position of long standing, but the regulatory requirements it imposes to give effect to that position are inadequate. Minimum withdrawal rates are enforced, but these represent a crude mechanism and a mechanism that generally doesn’t achieve its purpose of ensuring that superannuation benefits are substantially used up in retirement. The recent *Retirement Income Review* noted that some 90 per cent of benefits in superannuation are still available when members die. Clearly, minimum withdrawal rates are not working well.

However, their existence *is* an expression of successive governments’ belief (since 1993) that tax concessions create a justification for insistence on, and enforcement of, superannuation benefits being compulsorily drawn down, if necessary in excess of individual members’ needs to ensure excess tax concessions do not accrue.

In view of the ineffectiveness of minimum drawdown rates, it is therefore reasonable for a requirement to replace or complement them and to be imposed (1) on trustees of regulated superannuation funds to provide retirement income products to their members and (2) for fund members to use one or more retirement income products on offer as part of a pension plan addressing investment and longevity risk and the full drawdown of member benefits.

The suite of retirement income products a fund offers should accommodate members’ needs for (1) a guaranteed level of income; (2) indexed annuity-type income; (3) a certain amount to be available for lump sum withdrawal.

Recommendations

- The *Superannuation Industry (Supervision) Act 1993* should be amended to rename superannuation funds of all types 'pension funds', reflecting the primary purpose of these funds, viz, to provide income in retirement.
- The *Superannuation Industry (Supervision) Act 1993* should be amended (1) to require trustees of regulated superannuation funds to provide retirement income products to their members in line with section 62 of that Act and (2) to require fund members to use one or more retirement income products on offer as part of a pension plan addressing investment and longevity risk and the expectation member benefits will be fully drawn down.
- The suite of retirement income products a fund offers should accommodate members' needs for (1) a guaranteed level of income; (2) indexed annuity-type income; (3) a certain amount to be available for lump sum withdrawal.