



AUSTRALIAN INSTITUTE of
SUPERANNUATION TRUSTEES

29 March 2019

The Manager
Retirement Income Framework
The Treasury
Langton Crescent
PARKES ACT 2600

Email: superannuation@treasury.gov.au

Dear Sir/Madam,

Re: Retirement Income Disclosure Consultation Paper

In brief:

AIST does not support the requirement to mandate CIPRs as a default retirement income product to members. AIST supports effective disclosure and continuing efforts to simplify and improve disclosure for members, and supports the initiative of Government to ensure that this extends to retirement income products. AIST explains that the use of retirement income fact sheets must not form a replacement for choice product dashboards and takes this opportunity to call for a proper evaluation of the effectiveness of simplified standardised disclosure.

AIST wishes to thank Treasury for the opportunity to respond to this discussion paper. As the peak body for Australia's profit to member superannuation sector, we are committed to ensuring that superannuation funds are better catering for their members with retirement. We support the need for superannuation funds to develop retirement income strategies, currently under development which better explain how trustees approach members' needs in retirement.

We do not, however support a requirement for trustees to use a specific type of retirement income product as a default for their members. AIST makes it clear that the needs of superannuation fund members are best assessed by their fund trustees, and it should be up to them to develop, as part of their bespoke retirement income strategy, as to whether they develop a default retirement income product. Such products should be developed in the interests of their members, and should be designed with their needs in mind, however nothing should prevent trustees declining to provide such a product where they believe that that no single product is suitable for their members.

We additionally point to the recommendations made by the Productivity Commission's recent report, where, at Finding 4.4, they identified that a requirement for a standardised risk-pooled product would:

...oblige any fund without a capacity to create such a product to purchase it from a third party — where there are few choices currently on the market. The requirement for a standardised risk-pooled product may conflict with trustees' obligations to act in members' best interests, and many funds do not want to offer them. Their complexity, limited scope for reversibility and major deficiencies in the credibility, independence and affordability of financial advice for retirement products leaves significant scope for member detriment arising from the requirement to supply risk-pooled products.

Consequently, the Commission recommended against the proposed retirement income covenant in its current form (at Recommendation 10), unless the design imperfections and equity impacts can be sufficiently remediated. AIST agrees with this recommendation.

The introduction of mandatory default standardised risk-pooled products for trustees to offer to members, in the form of Comprehensive Income Products for Retirement (CIPRs), will see products many orders of magnitude more complex than the relatively simple account-based income streams which presently dominate the market. They will require better explanation as part of their use, and it will be up to trustees to ensure that members are provided with the necessary assistance, including guidance, information, appropriate disclosure and advice, to select the right product for them.

The retirement income disclosure consultation paper (the “Paper”) developed by Treasury has been developed to assist members in choosing a retirement income stream product at retirement. It is part of the retirement income framework and focuses on the provision of disclosure through the use of standardised, simplified product disclosure.

The Paper introduces the concept of a retirement income fact sheet. This document, utilising standardised metrics, is to provide a meaningful way to convey information about the retirement income product, including income amounts, income shortfall likelihood, the degree of protection against running out of money, and how accessible the capital is for lump sum withdrawals.

The fact sheet is not designed to replace existing PDS disclosure.

AIST supports simple disclosure, and supports the initiative of Government to ensure that retirement income products are subject to this level of disclosure. We provide this submission in the hope that this measure can be improved. Our comments in relation to this submission will remain at a policy level.

The importance of projections

In research undertaken for AIST by Dr Sacha Vidler in 2014, it was noted that¹:

Projections have an important role to play in stimulating engagement and empowering members. Participants recognised that although projections could never be entirely accurate, they could still help inform members about future retirement income. Trials have indicated strong membership support, quite good comprehension and an increase in engagement, particularly if prompted with follow-up communication. Regulatory support to facilitate their wider use of projections is therefore certainly worthwhile.

Vidler noted at the time, that where Class Order relief to facilitate projections existed, trustees generally preferred a prescribed approach. This was due to concerns that the Class Order relief approach allowed a wide variety of projection methodologies to proliferate, leading to substantial variations between projections.

Notably, Vidler also noted that there was a preference for convergence between statements, online calculators and projections. With advances in the ability of trustees to provide simple automated financial advice tools to members, these could be added to that list.

These are important as we will see below: Workers currently reaching retirement have been used to seeing their retirement savings expressed as a balance in their statements. There is naturally a friction where such members suddenly need to adjust to seeing their retirement savings expressed as an income amount instead.

The research paper is available from the hyperlink in the footnotes.

Doubts about simplified disclosure

In recent years, a lot has been written about the need for better disclosure in retail financial services. The Financial Services Reform series of measures in 2003 was aimed at ensuring that a standardised series of disclosure was provided across financial products and services. The previous point of sale brochures – Key Features Statements, Customer Information Brochures and Prospectuses were replaced with Product Disclosure Statements (PDS) across retail financial services products, with additional changes made to advice and services disclosure documentation.

¹ Vidler, S. (2014). *Superannuation projections: A discussion paper*. Project report: Australian Institute of Superannuation Trustees (AIST), December 2014. [online] Melbourne: Australian Institute of Superannuation Trustees, p.iv. Available at: <https://tinyurl.com/he6tmxl> [Accessed 28 Mar. 2019].

PDSs were required to ensure that certain elements were provided in a standardised format. This included fees and charges, warning statements and details about the Australian Financial Services Licensee offering the product. The shorter PDS regime, which commenced in June 2012 introduced the concept of information incorporated by reference.

In December 2013, the MySuper product dashboard requirements were introduced, with the intended date of introduction of product dashboards for choice products to be introduced in July 2015. However, to date, choice product dashboards are yet to be introduced, due to the necessary regulations having not yet been made to enable them.

Product dashboards provide a limited set of key information in relation to MySuper products including

- The return target;
- The returns for previous financial years;
- A comparison between the return target and the returns for previous financial years;
- The level of investment risk; and
- A statement of fees and other costs.

The intention is to provide members with a reduced information set which allows them to better understand the product in which they are invested, or plan to invest. We note that this essentially what is being intended by this consultation.

AIST supports the implementation of choice product dashboards, and notes that it is presently only the case that members can compare the dashboards of MySuper products with other MySuper products. As choice product dashboard requirements have not yet been developed, Australians are currently unable to compare MySuper products with similar (or even dissimilar) choice products. However, we also note that there has not been a review of the effectiveness of the MySuper product dashboards themselves. Specifically, reviews of the effectiveness of dashboard-style disclosure to evaluate the effectiveness of the regime has not been conducted.

Retirement income products are a subset of choice superannuation products, and should be subject to the choice product dashboard requirements.

Given the time that has elapsed since the commencement of the MySuper product dashboard regime, all four levels of the Kirkpatrick evaluation framework need to be tested in relation to the effectiveness of product dashboard users:

- Level 1: Do members feel that they are getting any subjective benefit from product dashboards?
- Level 2: Can we obtain evidence that members are getting objective benefits from product dashboards?

- Level 3: Have members changed their behaviour due to the introduction of product dashboards? And
- Level 4: Has the introduction of product dashboards resulted in an increase in objective metrics which reflect the original intentions of product dashboards, including its use to new and existing members, and the ability to compare products and thus provide the ability to make informed choices²?

This is vitally important, given recommendations made by the Productivity Commission in their final report noting that about 30 per cent of Australians have low financial literacy, and a quarter do not understand basic financial concepts³.

We note that ASIC has previously tested level 1 effectiveness, with some examination of level 2 when these were in development⁴. The limited testing was assessed as successful by the entity undertaking the testing, however did not sufficiently explore the degree to which real benefits were obtained by dashboard users.

We would add that the current scope of comparison – between competing MySuper products – is unrealistically narrow, however would still support an assessment of whether dashboards are meeting their objective even within this narrow scope. Such assessment would alleviate the doubts that exist in the industry regarding the effectiveness of product dashboards, and provide valuable evidence, not only for a restarted process of introducing choice product dashboards, but also for the effectiveness of simplified and standardised retirement income disclosure.

A supplement to product dashboards, not a substitute

AIST is concerned that the retirement income fact sheets being proposed as part of this consultation are being viewed as replacements for choice product dashboards. The metrics to be used – income amounts, variability, longevity protection and accessible capital are extremely important for a retirement income product. However there is still a need to ensure that the metrics aren't themselves capable of being gamed by product providers.

² From Explanatory Memorandum, Superannuation Legislation Amendment (Further MySuper and Transparency Measures) Bill 2012, paragraph 3.40.

³ Productivity Commission (2018). *Superannuation: Assessing Efficiency and Competitiveness*. Productivity Commission Inquiry Report, No. 91, 21 December 2018. [online] Canberra: Commonwealth of Australia, p.21. Available at: <http://tinyurl.com/y9ylxoll> [Accessed 28 Mar. 2019].

⁴ ASIC (2013). *Report 378: Consumer testing of the MySuper product dashboard*. December 2013. [online] Canberra: Australian Securities and Investments Commission. Available at: <http://tinyurl.com/y426tjab> [Accessed 28 Mar. 2019].

For example, we note that a 65 year old female retiring with \$100,000 would be able to source annual lifetime income from one annuity provider (indexed to CPI) of \$3,681, before fees. The annuity offers a death and withdrawal benefits in line with the declining capital access schedule.

We note that this is very close to annual payments made under their quoted rate for a 30 year term annuity of 2.85% p.a. indexed to CPI (\$3,944 before fees).

We have concerns that in isolation, focus on income payments may be used to take the focus away from low rates of return. AIST has long held that the focus of superannuation products should be on net returns, and whilst we recognise that there is a trade-off that needs to be made in relation to income stability and rates of return, this is a choice that should be left up to fund members. It goes without saying that they simply must be made aware of this trade-off.

We also note that income is to be displayed net of fees. Whilst we agree that this is the correct context for income to be shown, the importance of fees, insofar as it negatively affects (or is likely to affect) the investment return and, by extension, the rate of income from the investment is vitally important.

We seek assurances from Treasury as part of this submission that product dashboards will still be necessary for these products, and that retirement income fact sheets are not utilised as replacement disclosure.

Retirement income product indicators

AIST does not provide specific comment in relation to the retirement income indicators being proposed. However we do indicate our support for the following:

1. Support for the presentation of expected retirement income as both a number and with an income graph using average real income from a \$100,000 investment.
2. Qualified support for the income variation measure being based upon a scale of one to seven. Our support is contingent upon thorough user testing and comparison with other proposed models used as part of the testing.
3. Support for the access to capital measure.
4. Support for the death and reversionary benefits table.

We have some support for the presentation of income as both fortnightly and annual figures, however as many providers will not necessarily have an annual figure equating exactly to the fortnightly figure multiplied by 26 (or by 365/14), we wonder whether this may create confusion between members choosing annual payments, compared to members choosing fortnightly payments.

The graphical representation of income variation may benefit from the addition of a chart showing the effect of randomised fluctuations.

We believe that the access to capital measure would benefit from the addition of a statement showing whether the provider would respect members' consumer rights if a rollover was requested, or if lump sum withdrawals are the only option available. It is important for members to know, prior to going into products, if the only way they can exit is in the form of a full commutation out of the superannuation system. We add to our previous comments by explaining that members who have received their account statements which show account balances are likely to be more sensitive to the limitations posed by more recent innovative income streams, as well as annuity-based income streams.

AIST also supports the addition of Age Pension payments into forecasts. We note that for many Australians, including those with low balances, the Age Pension already provides an indexed hedge against longevity.

Data and systemic issues

We note as an aside that the choice sector has consistently underperformed the MySuper sector, as was illustrated to an alarming degree in the Productivity Commission's report. Data is needed to analyse the cause of this underperformance, and use of the data points gathered as part of the product dashboard regime – and indeed as part of retirement income fact sheets – will ensure that any systemic issues in relation to retirement income products are able to be identified more promptly by regulators. We note that a considerable number of issues that were identified during the Royal Commission could have been identified sooner, had there been a well thought through and comprehensive data reporting framework in place.

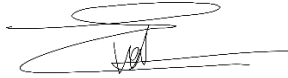
We additionally note the recommendations of the final report by the Productivity Commission, where Recommendation 27 in the Productivity Commission's final report included the establishment of a permanent superannuation data working group. AIST believes that this is a concept well worth considering in the quest for placing a focus on member outcomes, evaluating the value delivered to superannuation fund members, the Government, regulators and other stakeholders.

Recommendation 23 of the Productivity Commission's final report suggests that the Australian Government should set an explicit 'member outcomes' mandate for APRA in its regulation of superannuation. AIST highlights that this can only happen if a proper reporting framework is in place.

AIST looks forward to the next stages of this review.

For further information regarding our submission, please contact Richard Webb, Policy & Regulatory Analyst at [REDACTED] or at [REDACTED] .

Yours sincerely,



Eva Scheerlinck
Chief Executive Officer

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$1.3 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.