15 April 2019

Manager, Retirement Income Framework
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Submitted via email to – superannuation@treasury.gov.au

Dear Sir/Madam

**Retirement Income Disclosure Consultation Paper – Stage Two of the Retirement Income Framework**

Thank you for the opportunity to contribute to the above consultation process.

As you would be aware Chartered Accountants Australia and New Zealand (CA ANZ) has participated in previous consultation rounds in relation to reforms of retirement income policy legislation and regulation including the Retirement Income Covenant concept.

This submission does not address all the draft proposals contained in the above Treasury consultation paper. CA ANZ is a professional accounting body and many of our members are involved in the retirement income sector in many different roles including trustee/operational, product development, administration, finance, management reporting, audit and assurance and financial advisory.

# Retirement Income Framework

We believe retirement income products cannot be built in isolation to all the other issues consumers consider when planning their retirement. It is our view that the following are important to most retirees:

1. Access to government provided benefits – for example, age pension, subsidized health care and medicines and utility expense discounts
2. How any investment might impact access to government provided benefits noted above and whether or not collectively these investments deliver appropriate additional income
3. Housing
4. Access to capital – for a range of expenses such as replacing household items or motor vehicles, holidays, gifts or early bequests and major health expenditures not available in a suitable timeframe from the public health care system
5. Care options once infirm such as retirement villages or nursing homes
6. Bequests

Each retiree will have their own ranking on the importance of each item in this list.

Our key point is that retirees do not select retirement income products in isolation. The reality is how these products are selected and used is often a complex juggling exercise depending on how such selections impact other aspects of a retiree's life.

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Consequently, we do not believe government policies in relation to retirees, including retirement income policy, should be developed in isolation to other aspects of people's lives.

We are perplexed that governments – Federal, State and Territory – force retirees to work through a complex maze of rules (which the various governments have largely created and enforced) without any government assistance or apparent sympathy for the difficulties that have been created for retirees that they must solve privately. In addition, many of these rules are constantly being changed which generates more complexity and imposes constant adjustment costs.

We implore the government to cease making piecemeal changes to rules involving retirees until a full independent impact assessment of each change can be determined.

# Productivity Commission findings

We note Treasury's reference to the Productivity Commission's draft report which stated that "consumer-led competition in the superannuation market is weak due to a combination of the compulsory nature of superannuation contributions, disengaged members, complexity of the underlying decisions, and the lack of simple, relevant information to assist members".

We also note the Productivity Commission's final report says in Finding 4.4 that it had grave reservations about the Retirement Income Covenant and Comprehensive Income Retirement Products: "In the retirement phase, risk-pooled lifetime income products may meet some members' preferences for a predictable income stream and for managing longevity risk. However, the proposed Retirement Income Covenant may nudge many others into products ill-suited to their long-term needs, may not achieve its desired goal of increasing retirement consumption, and fails to take sufficient account of the diversity in household preferences, incomes and other assets.

"The requirement that all funds must offer a 'flagship' 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 standardized 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."[1]

And in Recommendation 10, the Productivity Commission stated the following:

> ***The Australian Government should reassess the benefits, costs and detailed design of the Retirement Income Covenant — including the roles of information, guidance and financial advice — and only introduce the Covenant if design imperfections (including equity impacts) can be sufficiently remediated.*** *In conjunction with this reassessment, the Australian Government should also:*
>
> - *consider cost-effective options … to provide retirees with access to a one-off, impartial information session to help them navigate complex retirement income decisions*
> - *explore the business case for investing in digital technology that assists people's financial decision making.[2] (our emphasis)*

[1] Productivity Commission 2018, Superannuation: Assessing Efficiency and Competitiveness, Report no. 91, Canberra, p.236
[2] Ibid, p. 598



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We acknowledge that the government has yet to officially respond to the Productivity Commission's final report. However we fully concur with the above finding and recommendation by the Commission and encourage the government to thoroughly revisit the Retirement Income Covenant, Comprehensive Income Products for Retirement and by implication this proposed disclosure document.

# Simplified, Standardised Product Disclosure

Chartered Accountants ANZ agrees with Treasury's view that the overall disclosure regime for financial services products is not optimal because it is typically focused on "discharging the product issuer's legal requirements".

We note however that the idea behind the current design framework is that mandatory pre-disclosure to consumers would enable them to make informed and rationale choices about the best investment for them.

However the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry describes the provision of various disclosure documents – for example, product disclosure statements and financial services guides – as a "teetering edifice". We believe it would be hard to argue that the Royal Commissioner was stating that the disclosure regime is not broken and does not need significant reform.

Obviously the key to any changes made will be how to make the disclosure system more useful to consumers.

**It seems to Chartered Accountants ANZ premature to be considering an additional disclosure document in relation to retirement products given that clearly the whole disclosure regime needs comprehensive and urgent reform.**

# Standardised Metrics

## Income

We agree that an important consideration for retirees is the level of periodic income expected to be provided each year.

But an equally important consideration for retirees is the source of that income – what proportion of income received by the retiree is from income paid from underlying investments and what proportion of the income they receive comes from the capital invested by the investor.

In addition retirees need to know the following key pieces of data:

- how often does a product provider's investment team will turn-over a portfolio
- how much of the income paid by all underlying investments from year to year increased faster than the greater of consumer inflation or average wage increases
- a comparison between the income earned on underlying investments of a product and the total fees (investment management, administration, management and regulatory, taxation and financial advice)

We accept that our views expressed here are not commonly held by other people involved in the financial services industry. However our views are well founded and based on our research into the volatility of the price of capital assets compared to the level of income these investments may pay as well as the importance of that income increasing year on year.

Our analysis shows that income from investments is less volatile than the change in market value of those assets. This occurs because the market movement of assets is frequently altered by short and



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medium term market sentiment which may have nothing to do with the actual financial performance or fundamentals of an underlying investment.

### Income Variation and Proposed Factors

While we appreciate the desire to make product comparisons as simple as possible, we have concerns about how they have been developed. In our view greater analysis is required.

We do not agree that likely income paid should include assumptions about market movements. These are often only an issue if capital needs to be extracted from an underlying investment in order to make income payments. Therefore if a product involves this feature then this should be seen as a significant negative and disclosure should demonstrate this fact.

We do not believe that income paid can be reduced to a single number for any retirement income product.

### Access to Underlying Capital

We agree that this is an extremely important feature of product disclosure. However we have great concern about this aspect if the precise amount of capital available will fluctuate because of potential market movements. We are particularly concerned if the amount of capital available would be determined by using assumptions about market movements even if those assumptions have been developed using an actuarial analysis of historical market movements.

Given the wide movements in capital prices caused by market sentiments we believe low, mid and upper potential ranges, based on historical volatility, need to be displayed.

### Death benefits and reversionary benefits

We agree that who may receive death benefits from an income product and how these are paid are both important. However often times the validity of the information here depends on the wording of various documents, their currency and their legal authority. In most cases these points cannot be established using a few words which are designed to provide certainty when the situation may be anything but definite.

## Future Considerations

We note the range of items identified by Treasury that are also considered important. In broad terms we agree with this list and await with interest as to how Treasury intends to deal with each of these points.

In relation to “early engagement” we agree with the Productivity Commissions recommendation that “… the Government should prompt pre-retirees (when they reach age 55) to access online information to help them make decisions about their retirement. This can be done through websites run by ASIC and the Department of Human Services …”[3]

[3] Ibid, p. 598



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Should you wish to discuss the contents of this submission, please contact me on +612 8078 5404 or tony.negline@charteredaccountantsanz.com.

Yours faithfully,

**Tony Negline CA**
**Senior Consultant - Superannuation and Retirement Income**
**Advocacy, Professional Standing and International**



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# Appendix A

## Chartered Accountants Australia and New Zealand

CA ANZ is made up of over 120,000 diverse, talented and financially astute professionals who utilise their skills every day to make a difference for businesses the world over.
Members of CA ANZ are known for professional integrity, principled judgment and financial discipline, and a forward-looking approach to business.

We focus on the education and lifelong learning of members and engage in advocacy and thought leadership in areas that impact the economy and domestic and international capital markets.

We are represented on the Board of the International Federation of Accountants and are connected globally through the 800,000-strong Global Accounting Alliance, and Chartered Accountants Worldwide, which brings together leading Institutes in Australia, England and Wales, Ireland, New Zealand, Scotland and South Africa to support and promote over 320,000 Chartered Accountants in more than 180 countries.



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