

# SUBMISSION FOR RETIREMENT INCOME DISCLOSURE CONSULTATION PAPER

## RETIREMENT INCOME FRAMEWORK STAGE TWO DECEMBER 2018

### Behavioural Economics Team of the Australian Government (BETA) Study 2017.

I agree with the new retirement income fact sheet proposal, using standard easy-to-understand metrics. In addition to the factors referred to in the consultation paper for standard metrics, the following additional factors are suggested for further consideration:

1. **Asset class investment choice** – the ability to easily switch from defensive low-risk conservative investments to more aggressive investments and others in between. However, potential investors for each asset class will need an explanation of the associated level of risk of negative returns over typical three (3), five (5), ten (10) and twenty (20)-year periods and the accompanying risk rating in terms of very low, low, moderate, high and very or extremely high.
2. **An explanation regarding how often and how to switch investment choices each year.** For example, the super fund we are with offers up to four (4) investment switch options each year and the switches can be arranged on line. Customers should be given the choice of at least one (1) investment choice switch every year and as much flexibility to arrange this as possible.
3. **In addition to assessing expected annual income based on a \$100,000 investment, it is recommended that the amounts of \$250,000, \$500,000 and \$1M also be added.** This will then be of greater relevance to many people and provide greater emphasis on the importance of the income risk measure(s) adopted.
4. **The fact sheet should include amended details for revised drawdown rates for Account Based Pensions.** An example is provided below for further consideration:

### Proposed New Minimum Drawdown Rates for Product Providers of Account Based Pensions

Age	Annual payment as a % of account balance
55-66	4%
67-80	5%
81-90	6%
91-95	7%
96-100	8%
100+	9%

When the proposed fact sheet is developed, an appropriate web site such as Money Smart should be considered in addition to any other site or sites under consideration for publicly displaying the information. In addition, superannuation fund providers should issue this to their clients three (3) to five (5) or if possible, seven (7) and ten (10) years prior to retirement.

Ownership of the fact sheet should remain with the Federal Government to ensure product neutrality and as stated, the final metrics should be a combination text and graphics and in plain English. The fact sheet should include as many different income products and as many scenarios/case studies as possible.

It is also recommended that that fact sheet is updated every three (3) to five (5) years with public consultation, including industry and the AGA.

### **Standardised Metrics - Income**

I substantially agree with what is proposed in the discussion paper. It has been stated that “reporting average income over a fixed period ensures product providers have incentives to design products that provide higher incomes over a longer period of time.” For products that have drawdown flexibility such as Account Based Pensions (ABPs), the following is recommended:

- That the current drawdown rates be reduced from the current drawdown percentages that currently apply for ABPs. This has the following advantages:
  1. More money remains in the retirement income product for longer
  2. More money remains with the product provider to be used elsewhere for such situations as emergent circumstances.

Further information is provided on Page One of this submission paper. Should the recommended amended drawdown rates for ABP’s be adopted, this will potentially mean less reliance on aged pension payments for many retirees.

### **Proposed Approach: Expected Retirement Income**

The proposed approach recommends that “for all retirement income products, expected retirement income should be presented numerically and with an income graph using real annual income from a \$100,000 investment, over the period from retirement (currently age 67) to age 97. Income presented should be net of fees and taxes.”

I agree with this proposal with the following clarifications:

- The term “expected net income from the product” should be used. This enables people to understand that the product is net of any fees and is therefore disposable income.
- Presenting income on a fortnightly basis enables people to more easily consider the products proposed. This is because many people are paid fortnightly during much or all of their working lives. Aged pensions are also paid fortnightly during the retirement phase to eligible people as well. The “take-home pay” approach is preferred, with details provided for fortnightly, monthly and yearly time frames used.

## Variation in Expected Income

I agree with the metric proposed in the discussion paper. As mentioned, the metric used “could be adapted to calculate risks to total income (including Age Pension and other investments)”. While consumers can indeed seek personal advice regarding this, the following is recommended for consideration:

- That incomes are calculated using the final agreed risk metric for expected incomes without any Age Pension payments;
- That incomes are calculated using the final agreed risk metric for expected incomes with part Age Pension payments (e.g. half the full Age Pension), and;
- That incomes are calculated using the final agreed risk metric for expected incomes with full Age Pension payments.

Provided the final agreed income risk metric sufficiently addresses downside risks to income, this should enable retirees to better plan for steady or near-steady retirement income streams for longer time periods. The annual income benchmarking approach recommended by the AGA potentially provides a useful approach for retirees, although it is acknowledged that extensive further consultation is required prior to introduction. **If required I am happy to participate in this consultation process.**

**However, it is acknowledged that the above recommendations could be difficult or cumbersome to calculate, as Aged Pension payments apply to people who are single or part of a couple. Also, different rates apply for homeowners and non-homeowners as well.**

## Proposed Approach: Calculating Income Variation

I agree with the proposed risk measure scale of one (1) to seven (7) for inclusion on the proposed fact sheet referencing “income security”. For each Product Rating, information should be provided, in the same format as that listed on Page 7 of the discussion paper. The Potential Income Shape will also need to be included for each Product Rating.

**For each Product Risk Rating, advice should be provided as follows:**

1. Whether or not additional capital can be added to the income product and if so, how often each year
2. The circumstances under which additional capital can be invested (e.g. sale of an investment asset, inheritance, to replace significant, necessary and urgent withdrawals).

**This information could perhaps be included in the fact sheet. It is recognised that at the present time, there are several retirement stream product types in existence. Also, new products will be developed, and the flexibility of these products will vary, as occurs now. However, it will assist people to know what options are available for each type of retirement income product.**

At the present time, it is very difficult to invest additional capital into some retirement income products, such as annuities and ABP’s. However, allowing some injection of additional capital under what are deemed “acceptable circumstances” potentially reflects the wishes of some retirees who wish to ensure their retirement income lasts as long as possible.

## **Access to Underlying Capital**

I agree with the preferred approach of focussing on the commutable value or the maximum purchase price amount that a consumer could cash out as a lump sum at any period during the life of the product.

In addition to what is proposed in the discussion paper, the following is recommended for inclusion in the fact sheet:

1. When and under what circumstances partial withdrawals can be made;
2. The impact on income and any potential future capital withdrawals, and;
3. The circumstances under which and how often additional capital can be injected and for which types of retirement income products.

For the above, overall account values of \$100K, \$250K, 500K and \$1M are recommended.

## **Access to Capital**

I agree with the proposed approach including the use of both charts and tables.

## **Death benefits and reversionary benefits**

I agree with the proposed approach.

## **Future Considerations – Lifetime Engagement**

- I agree that funds should be required to engage with their members in the period prior to retirement. This should be at least for five (5) to ten (10) years prior to retirement if possible. The more information that can be provided regarding income retirement product options and the income risk metrics used, the better. Also, calculations regarding projected annual incomes (without pensions, and with part or full age pension payments) will also be helpful.
- Something for funds to perhaps consider is consultation with their members, industry and the AGA to develop new products as well.

## **Advice Framework**

I agree with what is proposed.

## **Post Purchase Engagement**

I agree with what is proposed.

## **Reporting Requirements**

I agree with what is proposed, especially sufficient information being made publicly available to support the development of a comparison tool to enable consumers to compare products across the industry in one location.

It is also recommended that consideration perhaps be given to seeking public consultation to develop the comparison tool, along with consumer testing during the development phase. Industry and the AGA should also be involved in the development phase as well.

## **Intra-Fund Product Comparisons**

I agree with what is proposed, with the following qualification:

- As different funds will offer different retirement income products, the fact sheet will need to be continually updated to include the different options available. However, this can be addressed every time the fact sheet is updated and therefore extensive consultation with industry, consumers and the AGA is recommended every time the fact sheet is updated.
- As the fact sheet will always need to include Government legislative changes, the latest version of this document should be posted on the Money Smart web site as well as other essential public domains as well.

## **Income Variation Risk Measure Consultation**

If the proposed method of calculating risk is adopted (which hopefully it will be), I agree with what is proposed.

## **Next Steps**

### **Consumer Testing**

**It is noted that following the consultation process on the proposed metrics, Treasury will undertake consumer testing. As my wife and I are relatively recent fully self-funded retirees, I'll be happy to volunteer for consumer testing if required.**

It is very commendable that the aim of this work will be to improve economic and financial decision-making by consumers in relation to their retirement income. This is something that is long overdue and potentially will provide much more certainty and comfort for retirees regarding retirement incomes.