8 April 2019

Manager, Retirement Income Framework
Retirement Income Policy Division
The Treasury
Via email: superannuation@treasury.gov.au

Dear Sir/Madam,

TAL Life Limited (TAL) is pleased to respond to the Retirement Income Disclosure Consultation Paper dated December 2018 (Consultation Paper).

About TAL

TAL is Australia's largest specialist life insurer. Last year, we protected over four million Australians and paid out over $1.6 billion in claims. Helping provide financial security to our customers in the most difficult of times, when they need us most, is a responsibility we take very seriously. TAL is owned by the Dai-ichi Life Insurance Company (**Dai-ichi**) in Japan. Dai-ichi is one of the world's leading providers of retirement income products. Depending on the outcome of this consultation, including the legislative framework introduced, TAL intends to participate in the retirement income market in Australia, working both with superannuation funds and directly with retail customers.

TAL Submission

We welcome the opportunity to participate in this consultation in relation to the proposed disclosure fact sheet for retirement income products. One key element of the success of retirement incomes policy (and the take up of innovative retirement income products) will be the ease of understanding of retirement income products, which would in turn facilitate the engagement of members.

Overall, we broadly support the introduction of a fact sheet. However, there are certain areas where we believe particular focus and refinement is required. TAL has provided its views with respect to these areas below, for further consideration.

1. Presentation format: Income

We believe greater clarity is required with respect to the presentation of expected income from a product. Currently the proposed presentation ignores the potential income that would continue to be paid under a product with a reversionary spouse benefit. Including such a benefit would tend to reduce the income stream generated, because a portion of the purchase price must be held aside by the superannuation fund to fund the reversionary benefit, (leaving less capital to fund the income stream generated). It could potentially be misleading to compare the expected income across two products, one which has included a spouse benefit and another which has excluded it.

While we acknowledge that the reversionary benefit is presented elsewhere in the proposed fact sheet alongside other benefits on death, we recommend that the main income presentations include the income that would be expected to be available to the spouse on the death of the primary retiree, rather than showing this in a separate section.

2. Presentation format: Access to capital

The proposed presentation of the access to capital shows a member the amount of assets they would receive on ceasing the product based on the current minimum drawdown rules and maximum commutation values in the capital access schedule.

2.1 Income used to project capital access

Where the CIPR includes an account based pension, there is a mismatch between the presentation of expected income and the presentation of capital. The expected income from the account based pension component is not limited to the minimum drawdown amount and in most cases will be significantly higher. Meanwhile the future maximum capital available is determined by deducting the minimum drawdown amount from the account balance. This may be misleading for a retiree who would interpret the access to capital representation in the fact sheet as a projection of the amount he or she can expect to have available, rather than a theoretical maximum amount.

As a hypothetical example, consider a CIPR including an account based pension with a deferred annuity designed such that the account based pension is exhausted when the annuity income payments commence. This CIPR may have an expected income of $40,000 which in the first year of the product is deducted entirely from the account based pension component. However the minimum drawdown from the account based pension component (which would be factored into the access to capital representation in the fact sheet) would be much lower, for example only $20,000.

In this circumstance, the actual balance of the account based pension can be expected to fall by $40,000 plus or minus net investment returns in the first year. However the expected capital after the first year, as presented in the fact sheet, would be the original balance less the minimum drawdown amount of $20,000 (which would be a significantly higher figure).

To address the above, we recommend Treasury consider:

- changing the access to capital representation in the fact sheet to reflect the expected capital amount available assuming that income is delivered in a way consistent with the expected income section of the disclosure; or
- retaining the proposed approach, but enhancing the information provided by drawing greater attention to the assumptions used and clearly articulating the difference between the assumptions used in the access to capital section and the expected income section of the fact sheet.

2.2 Information disclosed on underlying products

Where a CIPR is a bundled product (e.g. an account based pension combined with a deferred annuity) the capital available is made up of the remaining account balance of the ABP plus the commutation value of the deferred annuity. Showing the capital as a single value can potentially lead to customer misunderstanding of the nature of the capital availability, given the different rules for accessing capital for the different product components. We believe that greater detail must be provided to separate the capital withdrawal components across the underlying products to avoid members being misled by the fact sheet representations.

3. Frequency of updates

Upon reviewing the Consultation Paper, we formed the view that there is an element of procedural uncertainty and complexity involved in product providers producing the fact sheet. It is unclear how frequently the fact sheet is expected to be updated.

For example a Product Disclosure Statement is intended only to be current for new members, without updates unless there are material changes or significant events. However changes in the expected income level from a CIPR could be frequent, being dependent on pricing factors such as expected investment returns or current bond yields which would fluctuate over time.

We therefore recommend that Treasury clarify its expectations of when a fact sheet should be produced, and how frequently it should be updated – and then, whether updated fact sheets ought to be provided to existing investors (this might be confusing but might have informational value). We note that a requirement for frequent updates may be unduly onerous for Trustees and product providers to comply with.

4. Choice of language

As we noted in our previous consultation response to the Retirement Income Covenant Position paper, we suggest that Treasury ensures that terminology associated with "Flagship CIPRs" is simple and facilitates consumer understanding. For example, this may include using terms such as "Primary" (rather than "Flagship") and "MyRetirement" (rather than "CIPR").

In the context of CIPRs, we note that the term "income" represents a payment to the retiree which incorporates both a return of capital and accumulated investment income. However, the term "income" can be construed to mean the return of investment income only. Alternative phrases such as "your payment" could be considered to avoid misunderstanding.

The Consultation Paper uses the term "insurance payments" on page 8 to refer to lump sum death benefits included as part of the product, as distinct from a return of capital value on death. We suggest careful use of this term to avoid creating the impression that the returns from the product are guaranteed or insured in any way.

Overall, we support the concept of a standardised approach to the disclosure of risks associated with CIPRs to facilitate retirees' understanding of these products and assist them in selecting a suitable product. We acknowledge the inherent difficulties in distilling a complex issue into a short message, especially one involving financial risks that are complex and poorly understood. We believe that both retirement income product providers and superannuation trustees have a shared responsibility in developing clear, concise and effective disclosure methods for CIPRs. We look forward to working together with Treasury and our superannuation fund partners to achieve this outcome.

Contact information

If you have any questions regarding TAL's submission, please do not hesitate to contact Darren Wickham (General Manager, Group Life Product & Pricing, Investments and Retirement) on [redacted] or Ashton Jones (Head of Investments, Retirement and New Propositions) on [redacted]