Government Affairs Unit
AMP Services Ltd
ABN 50 081 143 786

PO Box 3409
MANUKA ACT 2603

Suite 1G
65 Canberra Avenue
MANUKA ACT 2603

T +61 2 6295 2966
F +61 2 6295 2484

6 August 2021

Director Retirement, Advice, and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

superannuation@treasury.gov.au

Dear Sir,

Retirement Income Covenant Position Paper

AMP appreciates the opportunity to make a submission in relation to the Retirement Income Covenant Position Paper that was released on 19 July 2021.

AMP strongly supports the inclusion of a principles-based Retirement Income Covenant for trustees in the Superannuation Industry (Supervision) Act 1993, to codify the obligation for trustees to implement a Retirement Income Strategy (a Strategy) and improve retirement outcomes for members.

We have contributed to both the FSC and ASFA submissions in relation to this consultation. In addition to those submissions, AMP particularly wishes to highlight the following:

- Potential challenges with a cohort segmentation approach;
- A limitation on the objective to maximise income;
- The need to allow consistent guidance throughout a retirement lifecycle; and
- The need for sufficient time for regulatory guidance and implementation before commencement.

1. Challenges with cohort segmentation

The discretion for trustees to segment their retirees into cohorts for the purposes of the Strategy appears straightforward and common-sense. However, there are significant challenges with this approach as follows:

- Superannuation members are generally difficult to engage, as evidenced by widespread default-product retention and high rates of accumulation accounts held by members past preservation age. Even with best efforts, trustees are unlikely to gain adequate demographic data on many members to allocate them into cohorts (on important items such as home-ownership, couple status, age pension eligibility and amount of entitlement, other assets and income sources etc). Therefore, a Strategy may contemplate a range of cohorts, but there may be limited ability to operationally allocate members into such cohorts.

- Further, psychographic and other important data elements will be impossible to broadly ascertain (such as risk tolerance, lifestyle, health/longevity outlook, blended family status etc). These elements are just as (or even more) important as demographic data in determining an appropriate retirement strategy for an individual situation.
- Members will change cohorts leading up to and in retirement, as a result of events such as death, divorce, poor investments, inheritance and even legislative change (changing age-pension means testing for example). There is a danger that an overly prescriptive cohorting strategy leads to inappropriate member outcomes and guidance that borders on unsuitable personal advice.
- In general, trustees have a very limited ability to predict and plan an appropriate retirement strategy for individual retirees based on observable data, without providing personal advice following a more exhaustive fact-find process. However, trustees still have a very good opportunity to assist retirees to define an appropriate strategy with appropriate guidance, tools and products.

Therefore, the Strategy should focus on macro-segmentation without necessarily applying such segmentation at a member level where such an approach would be limited by the factors above.

2. Limit the objective to maximise income

AMP agrees with the Retirement Income Review's observation that 'providing income in retirement is the fundamental role of compulsory superannuation'.

AMP also strongly supports the proposed primary objective of the Strategy to maximise retirement income, noting that retirees can often increase income by at least one-third without totally depleting their capital through the use of retirement income stream products. However, this objective should be limited to maximising income up to a reasonable level of adequacy, relative to pre-retirement lifestyle and retiree expectations. Retirees with wealth that exceeds their needs should not be guided to simply maximise income with no upper limit. For example, it may be unsuitable for the Strategy to prescribe drawing down amounts in excess of the $1.7m transfer balance cap that are retained in an accumulation account.

3. Consistent guidance

In order for trustees to effectively implement a Strategy, they need to be able to provide consistent guidance throughout a member's retirement lifecycle. However, there is no current ability for trustees to guide members into retirement with consistent information across retirement projections, calculators, digital advice and other tools. This is already the case with account-based pensions, but the issue is exacerbated with the development of new retirement income stream products. For example:

- A trustee has no ability incorporate an innovative retirement income stream product in a retirement projection on an annual statement.
- ASIC allows relief for trustees to provide retirement projection calculators, but these must be generic and not refer to specific financial products. This restriction appears at odds with the intention for trustees to provide innovative retirement products and to assist retirees to acquire them.
- Some trustees are hesitant to provide retirement advice on an intra-fund basis due to the risks of contravening a range of related regulations.

We note the upcoming 2022 review of measures to improve the quality of financial advice and believe that this review should be broadened. In relation to advice for retirement, the 2022 review should also include guidance such as projections, calculators and other tools. The whole spectrum of member guidance needs to be completely re-evaluated to coincide with the Retirement Income Covenant in order to align to a principles-based approach. Trustees need discretion to align guidance to their available products and services, using reasonable and consistent assumptions where relevant and in the best interests of their members.

4. Sufficient time for regulatory guidance and implementation

The Retirement Income Covenant is proposed to commence from 1 July 2022. In addition to consultation and passage of draft legislation through Parliament, significant regulatory guidance is required to support the legislation and Retirement Income Covenant. This includes:

- New APRA Prudential Standards and Practice Guides related to the Retirement Income Covenant, and
- Revised ASIC guidance and legislative instruments for retirement projections, calculators, digital advice and guidance tools for members to ensure they provide sufficient flexibility to support trustees to develop appropriate retirement income strategies.

We encourage the Government to move quickly to draft legislation related to the Retirement Income Covenant, and request that the commencement date be at least six months after Royal Assent to enable sufficient time for:

- Drafting and appropriate industry consultation on related APRA and ASIC regulatory guidance, and
- Trustees to implement a Retirement Income Strategy for their members consistent with the legislation and regulatory guidance.

Should you have any queries, or wish to discuss further, please contact me on 0412 437 315 or Ben Hillier, General Manager Retirement Solutions on 0420 573 879.

Yours sincerely

Alastair Kinloch