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Retirement Income Covenant Position Paper

Cbus welcomes the opportunity to comment on the Retirement Income Covenant Position Paper.

About Cbus

Cbus has the proud history of being one of Australia's first industry super funds. Cbus was formed in 1984, when building and construction workers won the right to superannuation. Today, we have grown into a leading industry super fund, open to all while maintaining a focus on the industries that build Australia. We work hard to make sure that the super system is delivering for our members. Our members include workers and retirees, their families and employers.

Cbus, with more than 779,000 members, is one of the best performing funds, with investment performance for our Growth (Cbus MySuper) option of 9.25% per annum since inception in 1984 to 30 June 2021. The Growth (Cbus MySuper) option has returned 19.34% for one year to June 30, 2021 the highest returns in the fund's 37 year history.

Summary of our submission

Cbus supports the intent of the proposals and in particular the removal of mandatory requirements to develop and offer a CIPR product (which was a feature of Treasury's previous consultations) and the adoption of a more flexible approach. Cbus supports measures that seek to generate the best possible retirement outcomes for members. It is important that funds develop a Retirement Income Strategy that addresses member needs and preferences for certainty, income stability and flexibility throughout all stages of retirement. Trustees are in the best position to determine the most optimum retirement arrangements for their membership.

Cbus members' experience of work and their path to retirement is unique. Compared to the general population of the same age, older Cbus members are more likely to retire early (and often unplanned) due to health issues, struggle to keep up with the physical demands of manual work and struggle to find suitable work opportunities/hours. This has a number of potential impacts on their retirement including a higher incidence of health care needs as pre-retirees, denial or uncertainty about working prospects as they transition to retirement and increased vulnerability to financial hardship due to the gap between preservation and age pension eligibility age. These factors combined leave our members with lower average retirement savings and are therefore more likely to rely on full or part Age Pension in retirement.

Cbus members typically also have lower financial literacy than the general population. Many members find retirement complex and therefore financial advice and guidance provided by Cbus is critical to helping them achieve the best possible retirement outcomes. It is important that the regulatory framework provides sufficient flexibility to allow superannuation funds to provide such assistance at the time it is needed.

Our submission focuses on three key themes:

1. Advice and guidance – expanding intra-fund advice and retirement income estimates regulations to better enable superannuation funds to provide retirement advice and guidance.
2. Data – expanding the provision of data to superannuation funds to better enable them to tailor assistance to an individual’s needs in an efficient and scalable manner.
3. Member protection – ensure that strong consumer protections are in place so that members are not left worse off in retirement or stuck in poor performing legacy products.

Assistance

The Position Paper states that a retirement income strategy should “outline how the trustee intends to assist their members meet and balance the retirement income objectives of maximising retirement income, managing key risks and having some flexible access to savings during retirement.” and lists a number of actions that a trustee may take.

We support the need for trustees to assist their members as they approach retirement and the view of the Position Paper that how this assistance is provided to members should be at a trustee’s discretion and informed by the needs of their membership. We are however concerned that some of the actions suggested in the Position Paper will be difficult to achieve at scale and efficiently in the current regulatory environment.

Cbus currently assists members to make informed decisions about their retirement outcomes by providing access to factual information, general advice and intra-fund personal advice. Members who would benefit from comprehensive advice, are referred to an accredited Certified Financial Planner (CFP) via a referral program through the Financial Planning Association of Australia (FPA).

There are a variety of ways in which super funds can provide assistance to members, all which have different regulatory frameworks. Whether assistance is provided to members in the form of general advice, personal advice, guidance, retirement income estimates or any other channel, the form in which it is provided should be based on what members need and want. Consumers and Cbus members more specifically are agnostic as to the legal classification of the assistance they are provided with. Typically, Cbus members are experts in their vocation and consider that Cbus is the expert in super and expect us to concisely deliver what is the right option for them and those they care about (loved ones).

“You know how to do your job, you don’t know how to do pensions, you’ve got to get people who are professionals. This is one lever over which the government has complete control and simplifying this process should be a priority.” Cbus Member

Regulatory requirements should not be the driver of what form members receive assistance in but should simply ensure consumers are protected. Superannuation funds understand their members and are required to act in their best interests. Given the flexibility in the Position Paper we believe that there should also be more flexibility in how and when assistance is provided to members to improve retirement outcomes.

Intra-fund advice

“You’ve got to get advice, you can’t do it yourself.” Cbus member

The retirement phase is significantly more complex than the accumulation phase and members are quickly intimidated by complexity and details. Members often require more than just information, many members require limited advice on what they should do.

“You can go to a number of websites, but it’s a generalization of retirement. It doesn’t look at everybody and not everybody fits in the same criteria.” Cbus member

The ability of superannuation funds to provide intra-fund advice that is collectively charged is vital in providing cost efficient, limited advice to more members about their retirement at scale. Given the compulsory nature of superannuation, and how expensive limited personal advice can be, intra-fund advice provides significant benefit to members who otherwise would not be able to receive advice about their compulsory superannuation savings or may not be willing to pay a high price for advice.

Due to the nature of work in the building and construction industry, Cbus members typically have lower superannuation balances than the general population across all age groups and are therefore not the target market of retail financial advisers and therefore have considerably lower rates of financial advice take up than the general population. It is also unlikely that a superannuation fund can deliver comprehensive financial advice to each member efficiently or cost effectively.

Intra-fund advice and guidance is therefore vital as our members approach retirement and superannuation funds are well placed to assist members to navigate the complexity and optimise their decisions so that they can have the best retirement outcome available. Cbus’ analysis of member outcomes found that members who received advice were 11 times more likely to convert their savings into an income stream. Cbus members have a high level of trust in Cbus and this is the key reason why members choose Cbus as their primary source of advice.

Retirement Income Review, pg. 455

“Superannuation funds are well placed to provide both guidance and financial advice at retirement (or prompt people to seek financial advice) because members have to contact their fund to transfer their assets into the tax-free retirement phase and to start accessing their savings.”

“I’ve got a much better idea of how it all works now but there’s so many twists and turns unless you do it for a living. I had no idea the income stream was as beneficial as it is, I’ve got a lot of idea now.” Cbus member

Cbus members tend to think of their financial situation in terms of their and their spouse’s assets, this is particularly pertinent at retirement because eligibility for the Age Pension is determined at a household level. However current intra-fund advice prohibitions make it hard for members to access this highly relevant and sought-after household advice.

We believe that there is scope to adjust the regulatory settings to improve access to affordable advice about age pension eligibility and retirement income products. Intra-fund advice should be expanded to better allow superannuation funds to provide retirement advice. We suggest that this should be expanded to include:

- Advice about how a member can maximise their Centrelink entitlements including the use of longevity products where appropriate
- Retirement advice for a member’s spouse.

Retirement income estimates

Cbus works hard to improve member engagement with their retirement savings. One of the main ways we do this is by giving eligible members a Retirement Income Estimate (RIE) with their annual member statement. This is in line with ASIC Class Order [CO 11/1227], Relief for providers of retirement estimates (Class Order).

Since 2016, for many Cbus members, this has also been communicated in a personalised digital video that accompanies the annual statement. Member feedback about these videos has been strong, with results from our 2019 program survey overwhelmingly positive about the video received. Three out of four members said the video helped them understand the actions they needed to improve their financial position in retirement. A further one out of three members said they preferred watching the video to reading their annual statement.

While the RIEs have proven to be incredibly valuable in their current form, there is room for improvement. The calculation and assumptions basis stipulated within the Class Order, alongside the intended target audience and delivery restrictions, do present limitations and could be improved upon so that superannuation funds can provide better guidance to members especially as they approach/are in retirement. We recommend that:

- **Funds should be able to provide retirement income estimates more regularly to members.** Currently RIEs can only be provided as part of member statements, significantly impacting usability and timelessness. We have seen a significant increase in members who are registered for online access and mobile app access, yet we are not able to provide a demonstration of their likely income within these important channels. Decoupling RIEs from member statements and allowing funds to use them more regularly (at appropriate decision points or milestones, and when desired by a member) is likely to result in enhanced use and ultimately, improved retirement outcomes. For example, Cbus would like to make this functionality available to members through our new online portal secure area, allowing members to see a pre-populated projection that can demonstrate the impact of additional contributions, premium costs, investment choices, etc.
- **Funds should be able to provide retirement income estimates to decumulation members.** Funds can only provide retirement income estimates when a when a member is under 67 years and remains in the accumulation stage. Providing decumulation members with ongoing guidance on the expected trajectory and duration of their income source can be key in:
 - Encouraging members to avoid an under-consumption of their income, by assisting them to see the likely duration of their income stream, and thus may help to correct cognitive biases
 - Supporting retirees to attain a healthy 'financial' wellbeing, by taking away member anxiety regarding how long their money will last.
 - Uplifting the decumulation member experience, which will be a critical enabler of funds' achieving adequate uptake of new retirement products.

Retirement Income Review, pg. 415

"Expressing superannuation balances in terms of retirement income, in a similar way to working life income, may encourage people to draw down from their savings in retirement"

Retirement Income Review, pg. 307

"Projections or estimates of a person's retirement income, which focus on future income streams rather than lump sums, can help people plan for their retirement. Specifically, they may help people to think about superannuation in terms of income, rather than an asset"

- **RIEs could provide a more personalised view and assist more informed decision making at retirement.** RIEs have the potential to provide an affordable solution to the growing need for retirement guidance. This guidance could include a more personalised view of how different retirement decisions could impact their income in retirement, such as the decision to commence an income stream product or withdrawing superannuation monies to hold in a bank account. This could be presented as a ‘sliding doors’ scenario so a member can better understand different outcomes. In addition, RIEs could be presented to better reflect a more personal view of a member’s future (considering their expected retirement age, spouse, savings outside super and their own investment choice) as opposed to generic assumptions that are not often applicable to Cbus members. For example, the Class Order currently assumes that each member will retire at age 67, and require their savings to last for another 25 years (until age 92). However, in practice this does not represent the experience of many workers, particularly those working in the building and construction industry. Cbus members are more likely to retire significantly earlier than the average Australian worker, often forced into early retirement.
- **RIEs should not be limited to an account-based pension and only provide an estimate of the first year’s age pension.** As noted in the Position Paper, retirement is complex, however the current RIE projection requirements only use an account-based pension and is based on the first year’s Age Pension entitlement. Only using the first year’s Age Pension entitlement can be misleading given how this is expected to change as members drawn down on their savings. In addition, the Position Paper states that trustees should be evaluating the product offerings however limiting the product that can be shown in a retirement income estimate can significantly under value the potential outcomes for some members.

“Make it personal to me. Information needs to be relevant to my situation.” Cbus member on retirement calculators

Hawking & general advice

We strongly supported the implementation of the Royal Commission recommendation to ban the hawking of superannuation introduced in the Financial System Reform (Hayne Royal Commission Response) Act 2020. The unsolicited sale of superannuation under a ‘general advice’ model does not allow members to make an informed decision on the implications of changing superannuation products and does not require advice to be in the best interests of the member, leaving members at risk of being switched to a fund that will leave them significantly worse off through inadequate insurance and/or underperformance.

We do however highlight that its current application to retirement phase products may make it more difficult to proactively encourage existing members to convert their accumulation interest in a retirement income product, given that funds will be prohibited from unsolicited offers, request or invitation to their members to convert accumulation interest into a retirement product. Whilst personal advice is exempt from these requirements, these restrictions may make it more difficult for a fund to contact their members to proactively provide guidance and nudge members to optimise their retirement outcomes through product selection.

Not all members will access personal financial advice, many would prefer assistance to help them make the right decision at retirement. Whilst ASIC should rightfully be concerned by practices of using general advice models to switch superannuation funds however Cbus provides many other services which currently help members that are being delivered under a general advice model. This includes seminars, calculators and call centre help.

Both the new hawking requirements and FASEA Code of Ethics may make it more difficult to provide proactive general advice to members at retirement. This is a significant lost opportunity. Our experience is that many members receive significant benefit from general advice around concepts that don't involve a product recommendation.

"I need reassurance from a trusted source." Cbus member

The Retirement Income Review supports the need for members to receive more guidance and important role that superannuation should play in providing this to members.

Retirement Income Review pg. 454

"The complexity of retirement means people often need assistance that may not include a recommendation relating to a financial product. Nevertheless, any legal uncertainty about whether guidance of this nature would require providers to comply with financial advice obligations would increase the costs of providing guidance. In the absence of certainty, providers are likely to comply with the obligations to avoid any risk of breaching the law"

Minimum drawdown rates

The majority of retired Cbus members currently drawdown their account-based pension at the minimum legislated rate. This is because the minimum drawdown operates as a behavioural anchor and also because members fear outliving their savings. We have estimated most members doing this are likely to leave a substantial balance behind as a result.

Members would benefit from guidance or advice on what the most efficient rate of drawdown could be in retirement based on their circumstances and instead of a one-size fits all rate. This increased confidence may lead to higher living standards in retirement for many members.

Lower minimum drawdowns are of the most benefit for members with large balances or investments outside of superannuation that do not rely on the income from their account-based pension and may also wish to provide large bequests.

As the retirement phase matures and more members are able to access retirement advice and guidance, the Government should consider reviewing the current minimum drawdown rates to ensure they remain appropriate.

Data

As noted by the Position Paper, there a range of factors that determine a member's Age Pension entitlement, most of which are not visible to trustees. Whilst averages and publicly available data may help, members would benefit from guidance based on their own circumstances otherwise this may result in poor outcomes for some members.

Productivity Commission,
Superannuation: Assessing Efficiency
and Competitiveness, pg. 226

"Regulated minimal withdrawal rates from ABPs may affect the capacity for people to achieve predictable income flows because they appear to serve incidentally as a behavioural anchor for many people"

Members needs in retirement are not straightforward and diverse, depending on a number of personal preferences and personal characteristics. Members would benefit from an easier way to share their data with their super fund and limit duplication. Government agencies including Centrelink and the ATO collect and hold a significant amount of information directly relevant to members' employment, income and retirement. Government should, where members consent, share relevant information directly with a member's superannuation fund. This would enable funds to give members better guidance, pre-populate forms for members, and support members to achieve a better understanding of their financial position before and in retirement. In addition, aggregate de-identified member data could be provided by Government agencies to superannuation funds to help inform cohort analysis.

Member protection

Complexity

It is widely recognized that Australia's retirement income system is extremely complex. This causes several significant costs and risks for members. This includes the risk of making poor decisions and the costs of poor decisions to members' retirement outcomes. Many members are worse off than they need to be, simply because they find the system too complex to navigate.

There has already been a proliferation of little used and complex products in the Choice segment – equating to tens of thousands of products. The proliferation of products makes effective decision making much more difficult for members, comes at the expense of comparability and has left a generation of members languishing in legacy products. A number of member protection mechanisms apply to members in the accumulation phase only, such as defaults and performance benchmarking. Consideration must be given to how member protection will be provided to members in retirement phase to avoid a proliferation of products.

Portability and legacy products

The 2021/2022 budget promised to simplify the retirement system by allowing legacy product conversions. These members have been locked into these products that often have higher fees and lower returns. We encourage Treasury to consider portability and measures to prevent and deal with existing legacy products in the development of the Retirement Income Covenant, given that some of the innovative retirement income products that trustees may develop are complex and may vary considerably.