

Director
Retirement, Advice and Investment Division
The Treasury
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6th August 2021

To the Director,

Submission to Treasury Review - Retirement Income Covenant 2021

We believe that Treasury's latest position paper on a Retirement Income Covenant makes a useful and constructive contribution to the ongoing reforms for superannuation funds.

Our position, as consulting actuaries, was previously outlined in our submission to the Retirement Income Review in 2020 and has not substantially changed since then (ref. <https://treasury.gov.au/sites/default/files/2020-02/connectingthedots030220.pdf>).

In response to this latest review, we would only add the following items for consideration:

- That there exists a clear opportunity to apply the *sole purpose test* consistently across both *Accumulation* and *Defined Benefit* Schemes through the *Retirement Income Covenant*, and
- There also exists the means to achieve this by the introduction of a **consistent and objective** measure as determined by the Retirement Income Covenant adopted by each fund in conjunction with the *sole purpose test*.

Specifically, this would be achieved as follows:

- By having every superannuation fund create a stated Retirement Income Covenant for its members as suggested by Treasury. By way of example, we enclose a draft minute for use by superannuation trustees to this effect in Attachment One, and
- By having every superannuation fund annually measure and disclose its *accrued*

benefit liabilities relative to its stated Retirement Income Covenant, such as those illustrated in Attachment Two.

Thus by adopting a defined target such as *accrued benefit liabilities* for every superannuation fund, it would be possible to demonstrate:

- that an objective target has been set for each and every fund as a clear demonstration of its commitment to meeting the *sole purpose test*, and
- whether each fund is progressing towards meeting this objective for its members over time

We also note that Treasury has indicated that Defined Benefit funds are already complying with this by their very nature as follows:

“It would not be appropriate to require trustees of [defined benefit] funds to do this because [these] already reflect an implicit retirement income strategy.”

Treasury’s Position Paper of 19th July 2021
– [Retirement Income Covenant, p6](#)

We believe that applying these suggestions across **all** superannuation funds **consistently** would greatly increase the effectiveness of the current system by helping members engage with their retirement objectives.

Finally, we hope that this response assists Treasury with its latest review and, if required, remain available to provide further information via our contact details below.

Yours sincerely



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Attachment One -

Draft Trustee Minute -

Retirement Income Covenant

MINUTES OF THE MEETING OF THE TRUSTEES OF
..... **(Name of Fund)**
HELD ON **(Date)**
AT
..... **(Address)**

Present: (Names of Trustees Present)
.....
.....
.....

Business: It was resolved to adopt and accept the following Retirement Income Covenant:

Superannuation Fund - Retirement Objective:

1. To provide a retirement income payable for the life of each member of \$70,000 p.a. on obtaining the age of 65 years or on later death to pay a reversionary income to any surviving spouse of \$55,000 p.a. This shall be guaranteed for 5 years after retirement and be indexed to the Consumer Price Index from the date of this objective.
2. On death prior to retirement, to provide an income of \$55,000 p.a. to any surviving spouse subject to a full or partial commutation to discharge any debt obligations, or in the case of any surviving minor dependents in accordance with the estate.
3. On total and permanent disability (TPD), to provide an income of \$70,000 p.a. subject to a partial commutation of up to 40% to discharge any current debt obligations and associated medical expenses.
4. On temporary disability or redundancy, to pay a temporary income of \$70,000 p.a. and to cease this upon the soonest of retirement, death, TPD or resumption of employment.

Closure: There being no further business, the meeting was closed.

Signed: (Trustees / Chairperson)
.....
.....
.....

Attachment Two -

Sample Superannuation Targets using Accrued Benefit Liabilities

for Australian Superannuants by Age and Gender

Superannuation Targets – Retirement Income Covenant

Retirement Income Objectives:

Age Joining Workforce	18 years
Target Retirement Income	65,000 p.a.
Income Type	Payable for life - Individual
Target Retirement Age	65 years
Reversion to Spouse	No

Current Age	Value of Accrued Benefits by Age and Gender			
	Indexed to CPI		Not Indexed to CPI	
	Male	Female	Male	Female
18	0	0	0	0
19	4,779	5,192	4,170	4,484
20	9,837	10,687	8,583	9,230
21	15,185	16,497	13,250	14,248
22	20,837	22,637	18,181	19,550
23	26,804	29,120	23,388	25,149
24	33,102	35,962	28,883	31,058
25	39,744	43,178	34,679	37,290
26	46,745	50,784	40,787	43,858
27	54,119	58,796	47,222	50,778
28	61,884	67,231	53,997	58,063
29	70,055	76,108	61,127	65,729
30	78,650	85,445	68,626	73,793
31	87,685	95,262	76,510	82,271
32	97,181	105,578	84,795	91,180
33	107,155	116,414	93,498	100,539
34	117,628	127,792	102,636	110,365
35	128,620	139,733	112,227	120,678
36	140,152	152,262	122,290	131,498
37	152,247	165,402	132,844	142,846
38	164,928	179,179	143,908	154,744
39	178,218	193,618	155,505	167,214

Current Age	Value of Accrued Benefits by Age and Gender			
	Indexed to CPI		Not Indexed to CPI	
	Male	Female	Male	Female
40	192,143	208,745	167,655	180,279
41	206,728	224,590	180,381	193,963
42	221,999	241,181	193,706	208,291
43	237,984	258,547	207,654	223,289
44	254,712	276,721	222,250	238,985
45	272,213	295,734	237,520	255,405
46	290,517	315,620	253,492	272,579
47	309,657	336,413	270,192	290,536
48	329,665	358,150	287,650	309,309
49	350,575	380,867	305,895	328,928
50	372,425	404,604	324,960	349,428
51	395,249	429,401	344,876	370,844
52	419,087	455,299	365,676	393,210
53	443,979	482,341	387,395	416,564
54	469,965	510,573	410,069	440,946
55	497,088	540,039	433,735	466,394
56	525,392	570,789	458,432	492,951
57	554,924	602,873	484,200	520,659
58	585,730	636,341	511,080	549,563
59	617,860	671,247	539,115	579,709
60	651,365	707,646	568,350	611,145
61	686,297	745,597	598,830	643,920
62	722,711	785,158	630,603	678,086
63	760,665	826,391	663,720	713,696
64	800,216	869,359	698,230	750,805

Current Age	Value of Accrued Benefits by Age and Gender			
	Indexed to CPI		Not Indexed to CPI	
	Male	Female	Male	Female
65	841,426	914,130	734,188	789,470
66	819,900	893,016	718,008	774,087
67	797,858	871,303	701,267	758,091
68	775,323	849,010	683,979	741,488
69	752,328	826,156	666,161	724,285
70	728,911	802,776	647,839	706,500
71	705,116	778,883	629,042	688,136
72	680,991	754,511	609,804	669,211
73	656,583	729,651	590,161	649,708
74	631,940	704,368	570,148	629,673
75	607,106	678,710	549,799	609,142
76	582,119	652,648	529,143	588,077
77	557,021	626,201	508,210	566,487
78	531,873	599,500	487,054	544,479
79	506,765	572,589	465,752	522,088
80	481,802	545,604	444,399	499,429
81	457,105	518,593	423,106	476,544
82	432,799	491,730	401,989	453,588
83	409,011	465,097	381,171	430,636
84	385,868	438,829	360,776	407,815
85	363,490	413,059	340,924	385,252
86	341,994	387,953	321,734	363,105
87	321,492	363,618	303,322	341,486
88	302,095	340,224	285,806	320,564
89	283,918	317,849	269,310	300,423
90	267,074	296,651	253,955	281,229
91	251,613	276,812	239,808	263,171
92	237,529	258,235	226,882	246,173
93	224,403	241,345	214,790	230,662
94	212,165	225,784	203,477	216,316
95	200,754	211,452	192,894	203,059

For other retirement objectives such as alternate income , guaranteed periods or reversionary components, try using our website calculator [here](https://www.connectingthedots.com.au)

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