

Retirement income covenant consultation paper - Comments

The success of any retirement income covenant is very much dependent on **TRUST**. This trust is required in both government and superannuation funds. Without this trust in both entities, retirees will continue to display the risk averse approach to spending / committing their accumulated superannuation funds. A lack of trust in government will also inhibit the development of innovative retirement income products. The current government's hesitancy to have the Royal Commission into banking and its delay in implementing all of the Royal Commission's recommendations reduces the level of trust in government.

The financial services sector (ie financial planners) have demonstrated that as a group they put their interests first and second, with clients' interests a distant third. Recent reforms have added to the cost of obtaining advice and impacted on the availability of financial advisers. For many people, the cost of obtaining good financial advice does not result in a net benefit ie the return they get does not outweigh the cost (through no fault of the financial adviser).

Any retirement income covenant must also include and bind the government. Retirement is a long term investment. As such, there should be little change to the legislative framework for superannuation without a significant reason for change and then only with the complete agreement of the industry and employee and retiree representative bodies. The changes to superannuation over the last 15 years have not engendered any faith in governments to put the interests of superannuation fund members first. For example, recent changes in reporting will add to the cost of administering superannuation funds without any financial benefit to members, thus detracting from members' long term balances.

The key retirement strategy for most people is how to obtain at least the minimum amount of aged pension, so as to qualify for the associated health benefits. The cost of obtaining medical and pharmaceutical services is significant in retirement for many. A few dollars additional income and / or assets can make a significant difference to a person's financial well being.

There are those who see superannuation as a bequest to their dependants. I suspect that they are largely those who have superannuation in excess of the superannuation contribution cap. The remainder, I would suggest, are those who struggle to plan for their superannuation to last for as long as they need it. That is, they do not trust the system to look after them once they have exhausted their superannuation.

The statement "Multiple studies have shown that retirees die with around 90 per cent of the assets they had at retirement"ⁱ needs to be dissected. For those who own their own home, the home will probably make up 90% of their assets. The more relevant statistic is the projected payout figure from the superannuation system ("1 in every 3 dollars")ⁱⁱ in terms of being part of a bequest. However, rather than the proportion of the amount paid out, a more interesting statistic would be proportion of members where their superannuation balance at death is a significant proportion of their superannuation balance at retirement.

I believe that FOMO (the fear of missing out) is a key emotional driver of people not adopting retirement products such as annuities. That is, if they die early in their retirement, they don't get the benefits and their beneficiaries will miss out on their hard earned investment. For many, knowing that if they die early in retirement they will be contributing to the well being of others in the annuity pool is of no comfort or consequence.

The proposed Retirement Income Covenant, no matter the merits of flaws, will not succeed unless the issues of trust and FOMO are explicitly addressed. Developing a system that is easily understood and fair will go a long way to addressing these issues. This includes addressing the elephant in the room. Statements from governments that the current aged pension system is not affordable merely increases the belief that any future system will be absolutely governed by budgetary considerations rather than needs based (eg the current NDIS comments from government) and adds to the level of mistrust.

Gerard Lillicrap FCPA, FIIA (Aust), GAICD

2nd August 2021

ⁱ Retirement income covenant Position Paper 19 July 2021 p4

ⁱⁱ Retirement income covenant Position Paper 19 July 2021 p4