



Gold Coast Retirees Inc

69 Townson Ave, Palm Beach, 4221
Email: robgrover@hotmail.com
Ph: President, Rob Grover, 0417 732 242

Incorporation
Number
IA57102

Retirement Income Covenant.

Response to Position Statement 3rd August, 2021

Director,
Retirement, Advice and Investment Division
Treasury
Langton Cres,
Parkes ACT 2600

Following is a response to Treasury's Retirement Income Covenant Position Paper dated 19 July, 2021. It has been prepared on behalf of the Gold Coast Retirees Inc., an association whose 230 members comprise self-funded and partially self-funded retirees.

In essence, Treasury's Position Paper encourages superannuation funds to develop strategies that will assist retired members to withdraw and spend money currently held in their super funds.

The proposed covenant will place a key obligation on trustees to formulate, regularly review and give effect to a retiree income strategy outlining how they plan to assist members to balance key retirement income objectives. A high proportion of our members maintain their own self-managed superannuation funds.

We do not support the requirement for SMSF Trustees to provide advice and to create a lifetime income product for their members.

As trustees of SMSF funds are predominantly family members, we believe the majority of SMSF trustees would not have the skills nor the wherewithal to comply with the proposed covenant. We believe the covenant should apply only to Large Institutional and Industry Superannuation funds and Small APRA Funds. These funds should be encouraged to offer a lifetime income product to SMSF Trustees that their members could choose to purchase if they so desired.

We do not agree with the Retirement Income Review's premise that retirees deliberately restrict their retirement income and expenditure so as to maximise the estate to be left to their beneficiaries.

Anecdotal evidence from our members indicates that they do not retain their retirement funds predominantly for inter-generational wealth transfer as suggested by the RIR. In fact, several members have already transferred a portion of their wealth to beneficiaries, thereby enabling them to retain sufficient to accommodate their older age financial requirements.

Members' major long-term concern is the risk of running out of money during their lifetime. Predominantly this can be caused by living longer than expected (longevity risk) or incurring aged care or medical related expenses greater than previously anticipated. The reason our members try to retain a reasonable balance in their superannuation is to guard against longevity risk and the potential for increased cost of aged care and medical requirements.

We agree that the age pension provides some certainty of a modest level of lifetime pension. However, in most cases it would provide a much lower and arguably insufficient income should lifestyle or investment risk cause a catastrophic decline in a member's superannuation. For many, making provision for an acceptable standard of aged care accommodation as they or their family members approach end of life is an inherent part of planned allocation of funds held within self-managed superannuation funds.

We note also that the statistics relied upon by the Retirement Income Review have been seriously called into question, including the Australian Treasury Report, which indicates the majority of Australians aged over 70 have no superannuation at all. Furthermore, ATO data indicates that current superannuation balances for those over 70 are, in most cases, quite modest. It would be quite imprudent to encourage these superannuation fund members to increase their draw down rate.

Nevertheless, there are aspects of the proposed covenant that we welcome, albeit for different reasons than those espoused in the RIR.

Inclusion of a third wedge (ie: a lifetime income product) in the current retirement income system

A third 'wedge' in the retirement income system that provides an additional guaranteed lifetime income would go some way to reducing retirees' perception of the risks associated with longevity and future healthcare costs. A combination of aged pension (already exists), accessible superannuation (already exists) and a guaranteed lifetime income (proposed), would significantly enhance the current retirement income system.

The inclusion of a third wedge (ie: a lifetime income product) in the current retirement income system may provide sufficient confidence for retirees that their longer-term concerns have been reduced. They may then be more comfortable in lifting their current retirement drawdowns and thus, raise their retirement lifestyle expenditure. This would be a good outcome for retirees (which is our major objective) while encouraging a quicker reduction in superannuation balances (which is not our objective, but is the Government's objective.)

Specifically, the items we support in the covenant are:

- The requirement for superannuation fund trustees to provide a lifetime income type of product to help retirees safeguard against longevity risk and increased older age expenses.
- The requirement for superannuation fund trustees to provide advice, education and information to retirees to enable them to consider and understand lifetime income products.
- The decision by members as to whether or not to purchase a lifetime income product should be optional and not mandatory.
- The requirement that existing superannuation remains fully accessible for retirees.

NOTE: We believe some form of licensing should be required for advisers to ensure they are knowledgeable and required to put the interests of clients above their own interest.



Rob Grover, President



Charles Dickson, Chair, GCR Advocacy Committee