Retirement Income Covenant

Request for Feed Back and Comment

We, as Members and Trustees of a long established (circa 1984) SMSF, have the pleasure of submitting our comments for the Minister's consideration. We are appreciative that a number of important issues are being addressed by this proposed Covenant.

Background: Being over the age of 70 years, we both are benefiting from our retirement income streams - defined benefits from Commonwealth Superannuation Corporation as well as the DPPS Superannuation Fund (our SMSF).

We see the proposed convent potentially addressing a significant issue we recently faced when planning for our medium to long term future retirement accommodation needs. We outline these retirement needs and our plans (jointly as Members and Trustees) at Attachment 1.

In summary, our plan called for obtaining bank loans for the immediate purchase of a residential property suitable for 'home care' at an appropriate location (close to major medical facilities) apart from being in close proximity to our daughter's family in Melbourne.

We considered bank loans rather than withdrawing in large part our funds in the SMSF for two reasons: (1) SMSF earning performance far exceeds the prevailing interest rates; and (2) as the Covenant states in its summary "have some flexible access to savings during retirement".

The issue we faced when discussing our request for bank loans, was the unfamiliarity of the institutions generally about the SMSFs (e.g., role of Trustees and the purpose of the member funds) - the exception being CommBank - Commonwealth Bank of Australia.

A particular difficulty was Lorraine's intention to make annual lump sum withdrawals from her Accumulation Account in order to meet the loan repayments requirements. (This Accumulation Account came into being as a result of "Just Before 1 July 2017" commutation of member pension (retirement) accounts to be within Transfer Balance Cap).

Banks would only consider the statutory minimum pension amount - which was halved as a COVID19 relief measure, and they lacked guidance on how to treat intended lump sum withdrawals from such an Accumulation Account. Specifically, the banks would only consider the minimum retirement payments from our SMSF as evidenced from the past audited Annual Returns (in our case, more than 12 months old).

This approach to doing business leaves Accumulation Accounts that resulted from "Just Before 1 July 2017" pension commutation, a 'non-responsive asset', unable to be utilised for continuing funding needs of members addressing a particular strategic scenario.

This situation led us to exclude all of the income from our SMSF from the banks' income assessment processes - basically, we asked the banks (several major ones) not to include any income from SMSF because doing so seems to delay or confuse the loan approval process. And, we asked the banks for a smaller amount of loans, and deployed our savings in hand, which was sub-optimal.

Considerations and Recommendations:

We believe adding few words to the Retirement Income Covenant would be appropriate:

- In the Summary, at paragraph 5 starting with "*Requiring trustees….*", please consider adding the words after "*to service those needs*, as well as develop strategies and plans for the release of member funds, at retirement stage, in order to meet their retirement objectives".

- In the body of the Covenant, particular attention should be paid to the utilisation of member funds in Accumulation Accounts that came into being as a result of "Just Before 1 July 2017" commutation of member pension (retirement) accounts to be within the Transfer Balance Cap.

  Our proposal is that the institutions of any kind (banks, retirement accommodation providers) should consider a percentage of the balance in such Accumulation Accounts as a valid annual income of a given member in retirement (for example, this percentage could be the same as the Statutory Minimum Pension Percentage);

  OR

  that the institutions accept the members' and trustees' determination on the future annual withdrawal of lump sums from such Accumulations Accounts as valid income in retirement; such determinations being made in order to meet member income needs in a particular strategic scenario and documented as such by the Trustees.

  (There should not be a need to check past SMSF Annual Returns for such lump sum withdrawals - the fact that the most recent past Annual Return of a Retired Member documents the magnitude of the Accumulation Account, should be sufficient).

  However, we do not recommend that a Statutory Minimum Annual Lump Withdrawal from such Accumulation Accounts be instituted (by SIS Legislations or Regulations).

We commend the above for Minister's consideration.

Thanking you for this opportunity to provide our Feed Back and Comments

With Warm Regards

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DPPS Superannuation Fund

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Attachment: Draft Income Strategy for the Utilisation of Funds in the SMSF towards the Retirement Needs of Members