



6 August 2021

Ms Lynn Kelly
First Assistant Secretary
Retirement, Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600
By email: superannuation@treasury.gov.au

Dear Ms Kelly

Submission to the Retirement Income Covenant Consultation

Thank you for the opportunity to provide feedback to the Retirement Income Covenant (RIC) position paper of 19 July 2021.

As a member of the Financial Services Council, we have had the opportunity to provide input into their comprehensive draft submission and are supportive of its content and endorse its recommendations.

MLC Life Insurance believes that the retirement market in Australia is underdeveloped and supports the proposed RIC and the principles-based approach outlined in the position paper.

As one of the oldest and largest life insurance companies in Australia, we have significant experience providing support to Australians in retirement as part of our purpose, 'A promise for life'. In that context, we would like to highlight two areas for consideration:

1. Beyond the RIC, more needs to be done to address behavioural challenges which undermine the goal of superannuation in the retirement phase; and
2. Within the RIC, the retirement incomes strategy objectives must make specific reference to the management of investment and longevity risk.

Behavioural challenges

While regulation is necessary to create a framework and environment in which there can be innovation to better meet the unique needs of retirees, there are still behavioural challenges that need to be addressed to help shift behaviour at retirement and drive meaningful change.

The 'nest egg' framing of superannuation throughout accumulation needs to shift, to focus instead on the purpose of superannuation which is to provide income in retirement. This shift is required to help to address conflicting behavioural challenges, including:

- retirees continuing to access their superannuation savings at retirement as lump sum withdrawals instead of converting their savings to an income stream (where appropriate); and
- underspending throughout retirement, resulting in a lower quality of retirement and large balances being left as bequests

Engagement, education and guidance commencing during accumulation is needed to help shift behavioural biases in the lead up to retirement. The importance of addressing these behavioural challenges cannot be understated, with status quo inertia likely to impede the benefits that are sought to be obtained through the RIC and broader retirement income framework.

A comprehensive solution from policymakers, regulators and industry will be required to address the behavioural challenges outlined in the position paper, faced by retirees as they move from accumulation to the retirement phase of superannuation. The RIC and broader retirement income framework must enable this.

Investment and longevity risk

In considering the retirement income strategy, the legislation or guidelines should provide clarity on the meaning of 'sustainable and stable retirement income' and how this will be measured.

It is appropriate and necessary that the objective of sustainable and stable retirement income makes specific reference to the management of investment and longevity risk. This should be set out in the RIC objectives. It may also be appropriate for Government to consider the difficulties of achieving this objective in an environment where lump sum withdrawals are still common at retirement.

Inadequate management of investment and longevity presents a risk to achieving the overall objective of superannuation and the RIC. This further justifies the need to explicitly reference these particular risks in the principles.

We strongly believe that the retirement income strategy principles should include specific reference to investment and longevity risk, for example, by adding the underlined words to the objectives set out in Box 1 on page 6 of the position paper:

"The strategy should outline how the trustee intends to assist their members to achieve the following objectives:

- *maximise their retirement income;*
- *manage risks to the sustainability and stability of their income, particularly investment and longevity risks; and*
- *have some flexible access to savings during retirement"*

If you would like to discuss this submission or would like further information, please contact Mark Powell, Head of Government and Public Policy on 0477 706 922 or by email at Mark.Powell@mlcinsurance.com.au.

Yours sincerely



Michael Rogers
Chief Life Insurance Officer