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Retirement Income Covenant – Position paper consultation

TelstraSuper is a long-standing, award-winning superannuation fund for 86,000 members with over $24 billion in assets. Our Fund is over 31 years old and began with the privatisation of Telstra Corporation and the movement of Telstra Corporation staff at the time from Commonwealth super schemes to a new fund as a corporate superannuation arrangement. The Fund contains defined benefit, accumulation and pension styles of benefit.

Our Fund is also open to the staff of Foxtel and Sensis along with other Telstra Corporation group companies. The Fund also has many members who are former Telstra group employees and also their family members.

In its capacity as Trustee of TelstraSuper, Telstra Super Pty Ltd also owns and operates Telstra Super Financial Planning Pty Ltd (TSFP). TSFP holds an Australian Financial Service licence and is a registered tax (financial) adviser under the Tax Agents Services Act 2009 (Cth).

Through TSFP, TelstraSuper is one of a small number of profit-for-member funds that has long experience in providing limited and comprehensive personal advice to members. Since 2002, TSFP has helped many thousands of TelstraSuper members plan for a more comfortable financial future and reach their financial goals.

It is within this context that we provide this submission to the consultation process for the Retirement income covenant position paper ("the Paper").

TelstraSuper supports the implementation of a Retirement Income Covenant obliging Superannuation Trustees to develop and maintain a retirement income strategy for their members. The proposed Retirement Income Covenant has the potential to strengthen the retirement incomes system by affording better outcomes for Australian retirees to manage longevity and other risks that become heightened in the decumulation phase. The covenant has the potential to be an important element in providing strong governance of trustees in the system and will help ensure that they appropriately consider the retirement needs of their members.

However, we believe further guidance and/or additional detail on the following items is essential for trustees when setting a Retirement income strategy:

In defining retirement and members, the Paper implies that the trustee focus on members at the point of retirement or in early retirement. However, based on average life expectancies, a member's retirement journey in the fund is likely to last two decades. A member's income sources, retirement needs and risk appetite throughout a potentially lengthy retirement will likely change and unexpected events in members' lives could necessitate a change in the retirement income strategy. The trustee's retirement income strategy should consider all members at various stages of their retirement journey. For instance, the Paper is silent on assisting members with the potential problem of cognitive decline in later retirement. Consideration needs to be given to the ability of members to make choices later in retirement when the effects of cognitive decline are taking place.

This should include:

- How information is communicated or displayed to members
- The types of decisions that are required to be made at various stages throughout retirement; and
- Whether the retirement income strategy should aim at requiring fewer or less complex financial decisions for retirees to make at older ages.

We note the Paper includes factors that trustees would need to consider when determining their retirement income strategy and agree with the items set out. We consider that the following factors could be extended upon or added:

- The membership demographic groupings and any other segmentation considered relevant by the trustee.
- The financial literacy, capability, and behavioural biases of members considered relevant by the trustee.

Managing risks to the stability and sustainability of income – What risks do trustees need to consider?

The Paper recognises that longevity is not the only risk in retirement and cites investment risk and sequencing risk as risks to be addressed by trustees in their considerations. However, it is important to view stability and sustainability of income in real rather than just nominal terms. Therefore, we suggest that trustees should also address Inflation Risk, the risk that inflation grows at a faster rate than the income stream, thereby reducing purchasing power of the retiree.

Assisting Members to balance the retirement income objectives

While the Paper is clear that the retirement income strategy is not considered financial advice, it would be helpful to trustees providing assistance to members both in accumulation and decumulation phases if the scope of intra-fund advice is extended to allow for basic 'guidance', which would help members to identify their basic needs and point to either further advice or a simple solution. This approach could assist trustees in providing better advice, through multiple channels (including through member education and member communications), to less engaged members and assist in lowering costs of providing such advice to all members.

TelstraSuper supports the idea that trustees should provide guidance to their members, including through the use of a range of technologies and tools. However, the scope and sophistication of guidance that is expected to be provided by trustees needs more clarity. Otherwise, many trustees could act on the side of caution and not provide the required assistance in the event their assistance and/or guidance is construed to be personal financial advice. Trustees would be hesitant in providing personal advice and/or guidance, without an appropriate safe harbour due to the concern that members will assume that the trustee has taken their needs and preferences into account and therefore have provided them with personal advice.

Calculators, tools, and retirement estimates including periodic statements, through the relief provided in ASIC's RG 229 and Class Order 11/1227, allow for Trustees to assist accumulation members in understanding their potential balance at retirement, without requiring the information be considered personal financial advice. RG 229 limits retirement estimates provided to members through periodic statements, as retirement at age 67 and within the accumulation phase at the time of estimate. TelstraSuper believes extending this type of relief to members already receiving superannuation income streams (regardless of age) may assist Trustees in improving member outcomes and support members utilising their superannuation balances more efficiently. Such calculators, tools and estimates could then be included within the retirement income strategy for appropriate member cohorts.

What does a retirement strategy look like?

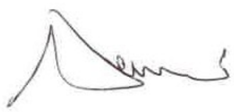
The Paper notes that trustees should consider member assets (including home ownership) that are separate to superannuation. Trustees however require further clarity on limitations or flexibility for the inclusion of non-superannuation options to assist in strategy setting and flow into appropriate retirement product or solution development for differing cohorts of members.

TelstraSuper considers that there may be potential benefit for members to have solutions outside of the superannuation environment that provide income during a member's retirement. There are existing product solutions outside of Superannuation (including products such as non-superannuation purchased annuity products, direct access Notes and Bonds and reverse mortgages) which may in appropriate circumstances, assist cohorts of members in funding their retirement income needs. While these solutions are not appropriate in all circumstances, allowing Trustees to consider options outside of the superannuation environment would help in meeting the needs of retirement member cohorts.

Reviewing the strategy

Longevity and Investment risk management (including market and sequencing risk) within retirement products generally support investments with lower volatility characteristics. It is then appropriate for Trustees to incorporate volatility benchmarks within the review of a fund's performance. The use of volatility benchmarks in reviewing the retirement strategy is likely to conflict, should the performance requirements incorporated within the changes for Treasury Laws Amendment (Your Future, Your Super) Act 2021, also be mandated for products offered to members who are in retirement phase. Should the performance requirements be applied to retirement income products, a volatility measure must be also incorporated into those benchmarks.

We thank you for taking this response into consideration.



Chris Davies
Chief Executive Officer

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