Challenger Pre-Budget Submission 2022/2023

Submission to:

Treasury

28 January 2022

SUMMARY

Challenger operates three core businesses dedicated to providing our customers with financial security for a better retirement. We are the country's leading and most recognised provider of retirement income to Australian retirees. Challenger's leading market position comes from our guaranteed income products (annuities), our retirement focused retail bank, and our funds management business, which is a leader in actively managed income and growth strategies.

Like the rest of the world, Australia has experienced highs and lows throughout the COVID-19 pandemic. The Government has sought to anticipate and respond to the economic impacts that the pandemic has had, or will have, on all Australians, but particularly Australian retirees. Retirees are acutely vulnerable to market sequencing risks – where markets suffer a shock while retirees are drawing down on their capital – and it is right that the Government should look to implement temporary changes to policy to mitigate this risk when it occurs on a large scale. It is also appropriate that those changed policy settings return to normal once the economic environment has stabilised and retirees are no longer at significant risk.

Other policy initiatives recommended or put forward by eminent reviews should also be brought back onto the agenda and given priority as the country moves into the economic recovery phase. As increasing numbers of Australians retire,[1] the Government should continue to look at ways in which retirees can be given the confidence to spend their superannuation savings as intended. Confidence to spend their savings will improve their quality of life in retirement and enable them to make a greater contribution to the broader economy.

Australia's financial services industry is well placed to provide the products and services that Australian investors, including retirees, want and need. However, it is also in a unique position to play a greater role in the Asia region, by exporting its funds management and other services expertise to Asia's rapidly expanding middle class. The Government has passed legislation to establish the Asia Region Funds Passport (ARFP) and will shortly enact a new Corporate Collective Investment Vehicle Framework. These initiatives are designed to ensure that Australia is in the best position to take advantage of the many opportunities in the Asia region, and we suggest that further measures to support the success of these initiatives should be prioritised.

In order to achieve these outcomes, Challenger recommends that the following three policy proposals be included and where necessary funded as part of the 2022/2023 Federal Budget:

a. Superannuation minimum drawdown rates for Australian retirees be returned to pre-pandemic levels.

b. The Non-Resident Withholding Tax (NRWT) framework on equity and bond funds and CCIVs offered to offshore investors be reviewed by an independent expert/s from an international competitiveness perspective.

[1] By 2030, more than $1.3 trillion of super savings will have moved into the retirement phase.

c. Review the superannuation and other relevant laws and remove any impediments to both the offer and take-up of tailored retirement income and other solutions that respond to the cost of aged care.

1. Superannuation minimum drawdown rates should return to normal

According to APRA data, the average pension account in an APRA-regulated fund was over $360,000 as at June 2021. It was only $291,000 at June 2019, before the Covid pandemic began. Average SMSF retiree balances are substantially higher. Growth of nearly 25% while the lower drawdown amount was in place has extended the capability of retirees to meet their spending needs in retirement.

The Retirement Income Review found that retirees are not drawing enough from their super in retirement. Without change the Review expected one-third of all payments from super to be death benefits by 2059.[2] This is why the Retirement Income Covenant will require funds to have a strategy that maximises income over the period of retirement for their members. With the Retirement Income Covenant due to commence and super funds recovered from their 2020 market correction, it is appropriate for the minimum drawdown rates to return to normal from 1 July 2022.

2. The Non-Resident Withholding Tax framework (NRWHT) on equity and bond funds and CCIVs offered to offshore investors should be reviewed by an independent expert/s from an international competitiveness perspective.

Challenger strongly supports the passage of the Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 (Cth) (the Bill). The Corporate Collective Investment Vehicle Framework (CCIV) is a necessary complement to the ARFP, which was legislated by the current Government in 2018.

The underlying policy rationale for the CCIV is to increase the appeal of Australian funds to foreign investors, making Australia's financial services sector more competitive in the region and globally, and in turn bolstering the demand for associated professional services. The CCIV is critical to the success of the ARFP because the new structure will provide for efficient tax treatment for offshore investors, utilising a corporate structure that is more familiar to them.

Another critical element to the success of the CCIV and the ARFP in achieving the stated policy intent is the competitiveness of the tax settings for offshore investors into Australian equity and bond funds and CCIVs. The NRWHT framework needs to be economical in the context of the Australian market, vis-à-vis other passport economies and their markets. Otherwise, Australia will be at risk of losing both foreign investment and skilled labour force participants to other jurisdictions. It is also important that the application of NRWHT is clear and straightforward, so as to minimise uncertainty and to promote confidence to invest.

If the Bill passes the Parliament and is implemented as expected from 1 July 2022, we recommend the Government appoint an independent expert, or panel of experts, to review

[2] Retirement Income Review final report, Page 435

Australia's NRWHT framework for Australian equity and bond funds and CCIVs, within the first year of the CCIV coming into effect. To ensure the ARFP achieves its full potential, the review should assess the current NRWHT framework from a global (and specifically, regional) competitiveness perspective, rather than a cost to the Budget perspective (in respect of equity and bond, not real property, strategies). A review is justified on the basis that if Australia's NRWHT remains complex and uncompetitive in the region, offshore investors will simply choose to invest somewhere else and the ARFP will fail to achieve the full economic benefits that it is designed to achieve.

3. Review the superannuation and other relevant laws and remove any impediments to both the offer and take-up of tailored retirement income and other solutions that respond to the cost of aged care.

The Retirement Income Review found that most Australian retirees limit the amount they draw down on their retirement savings, leaving the bulk of their superannuation wealth intact when they die. This means that tax advantaged superannuation savings, built up over an individual's working life, are generally not being expended in retirement as intended but rather passed to future generations as a bequest. The review found that retirees lacked the confidence to spend their superannuation savings for several reasons, including future health and aged care costs and concerns around outliving savings.[3]

As the population ages and more and more superannuation members move from the accumulation phase into the retirement phase, the focus of the system must shift to the efficient use of retirement savings, so as to improve the quality of life of Australian retirees and to optimise the broader economic conditions for all Australians.

The final report of the Aged Care Royal Commission made several recommendations about the cost of aged care and what measures could be implemented to make the cost more certain for older Australians. With that certainty, and the tools available to address that potential outcome, Australian retirees would be in a better position to plan for their retirement. Retirees who are able to anticipate with a reasonable degree of certainty the income and assets they will need to maintain a sufficient quality of life later in retirement will have the confidence to spend their retirement savings, as intended.

In response to the Aged Care Royal Commission and in the context of the Retirement Income Review and the Government's intention to legislate the Retirement Income Covenant, we recommend the Government review the superannuation and other relevant laws with a view to removing any impediments to both the offer and take-up of tailored retirement income and other solutions that could respond to the cost of aged care. The removal of these impediments is likely to stimulate a deeper market in retirement solutions, that in conjunction with increased price stability and certainty in aged care, will give retirees the ability to better plan for their needs in retirement.

[3] Retirement Income Review final report, page 19.