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Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Lodged online at <https://consult.treasury.gov.au/retirement-income-policy-division/comprehensive-income-products-for-retirement/consultation/intro/>

Dear Ms Wilkinson,

Re: Consultation on the Discussion Paper on the *Development of the framework for Comprehensive Income Products for Retirement*

The Association of Superannuation Funds of Australia (ASFA) would like to lodge this submission in response to the consultation on the Discussion Paper on the *Development of the framework for Comprehensive Income Products for Retirement* (Discussion Paper).

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system so people can live in retirement with increasing prosperity. We focus on the issues that affect the entire Australian superannuation system. Our membership, which includes corporate, public sector, industry and retail superannuation funds, plus self-managed superannuation funds and small APRA funds through our service provider membership, represents over 90 per cent of the 14.8 million Australians with superannuation.

A. General observation

ASFA welcomes the release for public consultation of the Discussion Paper on the *Development of the framework for Comprehensive Income Products for Retirement* (Discussion Paper).

ASFA welcomes any initiatives, which encourage and support the development and take-up of income stream products in retirement and which can assist consumers to manage issues such as longevity risk; investment risk; liquidity; inflation and sequencing risk.

Having said that, our overarching observation about the proposed CIPR framework is that - as currently designed - it is neither necessary nor sufficient to achieve its stated objectives. There is the risk that a CIPRs framework will be designed that, rather than maximising member benefit, will see little take-up and fail to achieve the necessary scale or desired consumer outcomes.

B. Background / context - why super income streams - other than account based - are not prevalent

In this context it is important to note that funds have been able to offer income stream products in retirement since the inception of superannuation.

What has mitigated against the offering of attractive income stream products in superannuation has not been the absence of a CIPR framework but instead has been attributable to:

- restrictions on product design imposed by the pension standards in the *Superannuation Industry (Supervision) Regulations 1994* (SIS regulations);
- the social security treatment of superannuation income streams and lump sums with respect to the Age Pension assets and income tests;
- the lack of any differential in the tax treatment for income streams and lump sums paid to members, which may otherwise have acted as an incentive to take an income stream. The 2007 ‘Simpler-Better Super’ changes:
 - abolished Reasonable Benefit Limits (where pension RBLs were twice lump sum RBLs, thereby providing an incentive to affected members to take at least 50% of their superannuation entitlement as an income stream); and
 - rendered both superannuation pensions and lump sums tax free after 60.

This effectively marked the end of the potential for effective tax incentives for consumers to take a superannuation income stream (other than high net worth individuals who may benefit from the zero (or less than zero) effective tax rate on fund earnings supporting a superannuation income stream);

- issues with respect to the regulatory standards for the retention of capital/reserving required for some income streams with a longevity or market risk component;
- the relative immaturity of the superannuation system, with relatively low average account balances at retirement
- finally – but by no means least – there are the not insignificant behavioural considerations. Historically there has been a lack of consumer take-up of income stream products by Australians. This is due to a range of cultural and behavioural reasons, including
 - a lump sum mentality
 - a reluctance to restrict access to capital
 - a desire to leave a bequest
 - a concern about counter party risk, especially over the long term, and
 - for many members - a desire to retain control over investments

and accordingly there is a perception that there is a considerable risk that there will continue to be subdued consumer demand for (non account based) income stream products.

C. General considerations in designing a CIPRs framework

1. *The need for scale to be achieved*

The ability to achieve scale will be an important consideration. This is particularly an issue given that it is proposed to be a demand driven, 'opt-in', regime.

Obtaining scale clearly will be an issue, as the likely low volume of take-up will render the provision of a CIPR product unviable for many funds.

ASFA understands from discussions with Treasury that the CIPR framework is intended primarily to cater for a limited sub-set of retirees, generally part pensioners. Industry data suggests this will only be a relatively small proportion of the retiree customer market, at least in the short-term. Coupled with 'opt-in' this may result in a relatively low take-up of CIPR products and make scale difficult to achieve.

ASFA considers that there is a considerable risk that, without sufficient incentive for members to acquire a CIPR, scale may be difficult to achieve.

Accordingly, this will necessitate care in the design of the framework, including the possibility of removing impediments to product consolidation (such as the absence of permanent CGT relief) to mitigate risk of creating more legacy products. The possibility to 'white label' products and, possibly (subject to issues with respect to advice being resolved) referring members to a jointly provided solution, may serve to ameliorate issues of scale.

2. *The need to mitigate the risk of legacy products*

The need for scale to be achieved - and the possibility that it may not – exacerbates the risk of creating legacy products, which are products, which have been closed to new members but must be maintained for a gradually decreasing number of existing members.

3. *The need to remove barriers to exit*

The historical cultural and behavioural issues referred to above have contributed towards the creation of a number of legacy products. Removal or reduction of some of the barriers to rationalising existing legacy products would assist in the achievement of scale.

4. *The need to mitigate disclosure / mis-selling risk*

Care will need to be taken to ensure that disclosure with respect to CIPR products is not misleading, given the difficulties involved in describing, and comparing, longevity risk products. Similarly, with a 'mass customised' product, coupled with a gap in the provider's knowledge about the circumstances of the member, there is a risk that, unless advice is received, a CIPR product may be sold to consumers for whom it is not suitable.

Even if the safe harbour defence were to extend as far as misleading disclosure (presumably not deceptive), and at least some instances of ‘mis-selling’, nevertheless there could be systemic instances of a significant failure to meet stakeholder/member expectations, which could serve to erode consumer confidence in the broader superannuation system.

5. *The need to mitigate risk of product failure*

There are considerable challenges in managing, and pricing, an annuity product over an extended number of years, especially if there were a systemic change, such as a significant medical breakthrough resulting in materially increased life expectancies or a marked diminution in consumer demand/decrease in take-up rates (particularly in a reasonably small overall market such as Australia). Similarly, there can be issues with disclosure and managing members’ expectations with respect to longevity products generally.

D. Guiding principles

In ASFA’s view there are some guiding principles which should be adopted in the design of the CIPR framework.

1. *Member consent required / ‘opt-in’ to a CIPR product*

As per the Discussion Paper, the CIPR framework should be ‘opt-in’, with consumers/members consciously choosing to apply for and acquire a CIPR product.

2. *Providers should not be mandated to offer a CIPR product*

The Discussion Paper has developed a framework where - initially at least - there will not be a requirement for a fund to offer a CIPR product.

E. Possible alternative approach - ‘retirement income stream framework’ & ‘if not, why not’ re CIPR

Taking the guiding principles into consideration, ASFA submits that an alternative approach to that proposed in the Discussion Paper could be adopted, whereby, as a minimum, all funds with a MySuper product must develop a retirement income streams framework.

The alternative may be to develop a regime whereby – after an initial transition period after the commencement of the CIPR framework (say three to five years) - trustees of funds with a MySuper product would have an obligation to

- develop a retirement income stream framework
- consider whether or not to offer a CIPR product; and
- if not - provide reasons to APRA to justify their decision not to offer a CIPR product.

F. Other factor which need to be considered / necessary pre-condition – the need for incentives

In order for the CIPR regime to be successful, the creation of incentives, such as favourable social security treatment for the longevity component, will need to occur prior to the CIPRs framework being introduced.

Given the framework will be driven by consumer demand, it is essential that CIPR products can be made sufficiently attractive to consumers, coupled with the creation of incentives, to encourage sufficient consumer demand to acquire CIPR products.

It is essential that the social security treatment of superannuation, for the purposes of the Age Pension asset and income test, recognise CIPR products in some way in order to provide a ‘nudge’ to members.

As there is no tax payable on payments after age 60 or earnings on assets supporting an income stream there is little scope for tax to act as an incentive. The only (outside) possibility may be to make changes to the income stream tax offset, but this would only be of value to relatively high income individuals.

G. Discussion Paper – overall approach / specific issues

1. *Overall approach*

The Discussion Paper appears to be taking the approach whereby the CIPRs framework effectively will ‘mirror’ (in reverse) the MySuper framework.

There are, however, three material differences, which render this premise questionable and lead to some anomalous outcomes:

1. the accumulation phase is materially differ to the retirement phase
 - in the accumulation phase there is a common objective of maximising savings for a reasonable/appropriate level of risk;
 - in retirement
 - the circumstances, needs and objectives of individuals, which determine drawdown needs, will vary greatly
 - the effect of drawdowns is substantially different from that of contributions;
 - there is a greater range, and uncertainty, regarding the likely time periods over which drawdowns will occur
2. unlike MySuper - where the consequences of being in an unsuitable product are reduced net returns, which can be remediated by rolling-over to another product - the consequence of being in an unsuitable CIPR can include the loss of access to capital / reduced death benefits and may be difficult, or impossible, to remediate
3. unlike MySuper, CIPR products will be an ‘opt-in’ regime, where members apply for a product, as opposed to a ‘default’ regime.

2. *Specific issues*

2.1 *Safe harbour defence*

Given that funds have always been, and will continue to be, able to offer income streams other than a CIPR, the defining feature of the framework would appear to be the availability of a statutory ‘safe harbour’ defence (as well as possibly an implicit benefit of being able to ‘label’ a product as a CIPR).

As the CIPR framework is ‘opt-in’ - whereby the consumer, after receiving disclosure material about the product (generally a Product Disclosure Statement or PDS), has to apply to receive the income stream - the scope, and application, of a safe harbour defence is questionable. It is unclear as to what type of legal action could be taken in which the safe harbour defence could be made available. Presumably it would not extend to potential liability for a defective, deficient or misleading PDS, or for the consequences of a failure to provide advice in accordance with the regulatory obligations / requirements.

Furthermore, there appears to be a direct tension between the safe harbour defence and the proposed ‘suitability’ regime, which would impose obligations on providers to ensure that products are designed and distributed to consumers for whom they are suitable.

Apart from the proposed existence of the safe harbour defence (and social security considerations) it is not clear why a trustee could not offer an ‘CIPR-like’ income stream (of sorts) today – which may, or may not, meet the proposed minimum requirements – prior to the proposed CIPR framework being in place.

We question the extent to which the safe harbour defence will be of value to trustees or act as an incentive for them to offer a CIPR product.

2.2 *Stated benefits of CIPR products - income methodology*

There is an element of unrealistic expectation about some of the claims made in the Discussion Paper with respect to CIPR products, for example, that an individual will receive an efficient retirement income stream product that provides:

- peace of mind, through *security of income for life; and*
- higher income (compared to investing fully in an account-based pension *drawn down at minimum rates*) and/or a *guaranteed level of income*.

The Discussion Paper utilises figures from the Financial System Inquiry which claim that a CIPR could offer up to 30% more income in retirement when compared with investing fully in an account-based pension drawn down at minimum rates. We question some of the underlying assumptions, and the basis, of the calculations and consider that these figures should be viewed with caution. In particular, the assumption of a benchmark for comparison of an account based pension drawn down at minimum rates, and the exclusion of income from the Age Pension, may mean the 30% result is overstated.

In particular, the income efficiency is dependent upon the restriction of access to capital, both during the member's life and upon death, however, it is this forgoing of capital, which may render a CIPR less attractive to members and serve to inhibit the take-up rate. Members can be reluctant to agree to (potentially) forfeit capital without some form of incentive (such as favourable social security treatment) to do so.

2.3 'Mass customisation'

There is significant concern about the concept of 'mass-customised' products in retirement phase, how this will be defined and what it will mean in practice.

In the accumulation phase the target is to maximise returns for a level of risk reasonably appropriate for the members.

By way of contrast, in retirement

- the circumstances and objectives of individuals, which will determine drawdown needs, will vary greatly
- the effect of drawdowns is different to that of contributions
- there is a greater range and uncertainty over likely time periods over which drawdown will occur.

Accordingly, in retirement, every member's financial circumstances, needs and objectives will vary significantly. Furthermore – and importantly - these largely will be unknown to the provider.

Providers will face considerable difficulty in designing an appropriate single, 'mass customised', retirement product – especially given restrictions on access to capital – that will meet the proposed Australian Government Actuary income efficiency tests and be suitable for their members.

It is unclear how a provider could determine that a CIPR would be appropriate for most members, in particular where there are a number of significant – unknown – personal circumstances which affect this, including assets/income; debts/liabilities; health and family longevity; social security entitlements and dependants.

- Design – we query whether it will be possible for a trustee to 'mass customise' an appropriate income stream product without knowledge of their members' financial and personal circumstances? In retirement - by way of contrast to accumulation - one size most definitely does not fit all.
- Distribution – we query whether it is possible for a trustee to 'nudge' certain members into a 'mass customised' retirement income stream product without knowledge of those members' financial and personal circumstances.

There will be a risk that the provider may recommend a product to some retirees that may be unsuitable for them in their circumstances. Notwithstanding that it is proposed to be an 'opt-in' regime with a 'free look' period, the retiree may not realise that the product is not suitable for them, especially if they place undue reliance on the trustee's 'nudge' without appreciating the basis / assumptions on which the CIPR has been designed.

Accordingly, given the diverse financial circumstances, needs and objectives of retirees, some market segmentation of CIPRs and/or the receipt of personal financial advice are likely to be necessary.

We consider that mass customisation may be difficult to achieve, especially if regard is to be had to considerations of suitability / appropriateness in design and distribution.

2.4 Single versus multiple CIPR products

The Discussion Paper appears to have a marked preference for a single CIPR income stream product, which appears to be on the basis of facilitating ease of comparison between each fund's 'CIPR'.

While this may have been more appropriate in an 'opt-out' regime (like MySuper), we query the need for this, arguably unnecessary, restriction in an 'opt-in' regime.

It is important to recognise that retirement income streams are even less of a 'one size fits all' exercise than is the design of superannuation in the accumulation phase. Given this, it is critical that funds have a degree of flexibility to design a range of CIPRs to suit different members – it may be appropriate for funds to offer multiple CIPR products to their members.

It is important to note that the CIPR framework is an 'opt-in' regime – in contrast with MySuper which is, by definition, a 'default' framework. Accordingly, we submit that, in applying for a CIPR product, consumers should be able to select from among different underlying components/types of income streams.

This could be thought of as a type of 'bucket model', whereby the trustee offers a menu of underlying 'base' products and the member can select to allocate different proportions of their superannuation benefit to the various underlying products on the menu (including zero) depending on what is appropriate for their circumstances, needs and objectives.

ASFA submits that providers should be able to offer multiple CIPR products and, ideally, members should be able to 'dial up and down' the different underlying components.

2.5 Lack of clarity as to meaning of 'offering' a CIPR, 'soft default' and 'nudge'

There is a considerable lack of clarity about what is meant by 'offering' a CIPR product (over and above the usual meaning), 'soft defaults' and 'nudges' and how will this differ from the 'offering' of an income stream product today.

It will be critical to determine precisely what it means to ‘offer’, ‘nudge’ or to provide a ‘soft default’, as these concepts appear to lie at the heart of the CIPR framework and differentiate it from the ‘offering’ of other types of income stream products. In an ‘opt-in’ regime it is especially unclear as to what a ‘soft default’ could be referring, given there is no ‘defaulting’ but instead a proactive member decision to acquire a product.

A superannuation fund trustee can already ‘offer’ one or more superannuation income streams, or a combination of them, to an existing member or a new member. The CIPR framework appears to be contemplating something different to this but it is unclear as to what will be the difference.

We consider that providing a ‘nudge’ to members towards taking at least part of their benefit as an income stream is a worthwhile exercise, however, it is unclear as to what form any trustee ‘nudge’ could assume, over and above what occurs today, without potentially having regard to factors which may be regarded as the provision of personal advice. While a nudge towards an income stream generally may be valuable, for some members at least a nudge towards a CIPR may not be appropriate.

In ASFA’s view the only potentially truly effective ‘nudge’ is likely to take the form of an incentive such as favourable social security (or possibly even tax) treatment, especially with respect to the longevity component.

An effective ‘nudge’ will be crucial to the success of the regime.

2.6 Line between ‘nudging’, or providing a ‘soft default’, and providing personal financial advice

As referred to above, of particular concern is how the regulatory framework with respect to the provision of personal financial advice would intersect with the CIPR arrangements and trustees ‘nudging’ members towards a CIPR. Depending on what it means to ‘nudge’ a member, or to providing a ‘soft default’, it is difficult to visualise a scenario where the trustee did not have regard to at least one of the members’ financial circumstances, needs or objectives.

2.7 Personal financial advice

Given the diverse financial circumstances, needs and objectives of retirees – and the nature of the decision to acquire a CIPR - the receipt of personal financial advice is likely to be necessary. In acquiring a CIPR members will be making personal trade-offs between flexibility, income and protection which, after the expiration of any ‘free-look’ period, will be irrevocable, and so need to be aware of, and understand the implication of, any decision.

If providers are to ‘nudge’ proactively a sub-set of members into a CIPR product the role of financial advice - and the definition/scope of personal advice – will need to be re-examined. The role of advice will need to be reconsidered in the context of the CIPRs framework to ensure that, in offering/providing a ‘nudge’ to particular members, trustees are not considered to be providing personal financial advice. One possibility may be to create a new form of advice as an extension of ‘intra-fund’ advice.

2.8 Portability

In order to promote competition and to provide for changed member circumstances the provision of portability is an important consideration.

Portability is not always readily achievable or viable in pooled products, as:

- they are invested with a long term time horizon
- they are reliant on the pooling mechanism to provide benefits
- the viability of the product – or even the provider – may be adversely affected by portability.

Accordingly, portability could be available for account-based components but not for any longevity component.

This may see members compelled to be members of two funds – the original provider (for the longevity component) and a second provider (for the account based income stream) – but this may be a worthwhile trade-off for – partial – portability. This would only come about as a result of a decision made by the consumer, who may consider the additional expense worth the benefit.

If the longevity component is sourced from an external, third party provider there may be scope to transfer ‘ownership’ of the longevity component/product from the trustee of the first fund to the trustee of the second fund or even to the member personally/individually.

ASFA considers that portability of the account-based component of a CIPR product should be a feature of the CIPRs framework, in order to encourage competition and provide choice and options to members.

2.9 Necessary preconditions

The Discussion Paper only makes passing references to the necessary changes required with respect to

- *social security treatment* - the government currently is reviewing the social security means testing of retirement income streams. Differing / favourable social security treatment for amounts in superannuation income stream products, other than account based income streams, will be necessary to provide an incentive / compensate a member for committing an amount of their capital to a product, which will restrict access to it. There will be a need to make a CIPR product more attractive than current account based income stream products
- *(possibly) tax treatment* – once a member reaches the age of 60 both lump sums and income stream payments are tax-free. When it comes to tax on earnings while in superannuation, earnings on assets supporting complying pensions in retirement phase are not taxed, whereas earnings on all other superannuation, in accumulation phase, is taxed at 15%. This means that
 - there may be no, or little, tax incentive to take an income stream, as opposed to a lump sum; and
 - there is no tax incentive to take a different type of income stream (with restrictions on access to capital) over an account based income stream.

It is changes to the social security treatment of superannuation income streams, and possibly the introduction of a tax incentive, which will facilitate innovation in the design, offering and take-up of innovative superannuation income stream products. This is not contingent on there being a CIPR framework in place but could be achieved independently.

2.10 *Income efficiency requirement - requirements/assumptions re minimum income*

We caution against the likelihood of undue reliance being placed on a substantial income efficiency dividend being achieved from CIPRs. There is considerable uncertainty as to how realistic is it to expect members – in an ‘opt-in regime’ – to forgo access to material amounts of their capital, including potentially significantly reduced death benefits, which does not occur with account based income streams, unless incentives are provided to do so.

This is especially the case given that the Australian superannuation system is largely defined contribution during the accumulation phase, which serves to reinforce the psychological perception of an amount which ‘belongs’ to the member and which forms an entitlement to be left as a legacy.

2.11 *Behavioural economics*

We note the release of the report of the Behavioural Economics Team of the Australian Government into *Supporting retirees in retirement income planning* on 15 May 2017. While there has not been sufficient time to perform a comprehensive analysis of the report, we have some preliminary observations.

We note that the scope of the report was confined to examining alternate ways to help inform people about CIPR products and not a broader examination of some of the aspects of behavioural economics which could be taken into consideration in the design of the CIPR framework.

Of particular concern, however, is that

- given only one comparative scenario is provided – it appears to be based on an underlying assumption of living to 100, as opposed to life expectancy at age 65
- the scenarios exclude income that the person may be entitled to under the age pension.

There is an argument to be made that - if a financial services provider were disclose a financial product on this basis – ASIC would consider such disclosure to be misleading and deceptive.

H. Actuarial Certification Test for Comprehensive Income Products for Retirement

We note the release of the Actuarial Certification Test for Comprehensive Income Products for Retirement by the Australian Government Actuary on 29 May 2017.

Concern has been raised about the overall approach of certifying a composite, mass customised, product to ‘outpay’ an account based income stream for all members over an extended period of time.

1. Income tests

Some of our member funds have indicated that the proposed income tests are too complicated and should be made simpler, at least for the first iteration of the CIPR regime. In particular, while the 'minimum income' efficiency test seems reasonable, the 'real income' test appears to be overly prescriptive.

2. The real income test

There is concern that some products which may be reasonable for some retirees to manage their longevity risk would be likely to fail the real income test if the assets supporting the income stream were to be invested in relatively more defensive assets. This would cause products to move from being compliant to non-compliant and necessitate more frequent re-certification.

Depending on the prescribed value of the risk adjustment factor 'D', the current prescription of this test may render guaranteed products more likely to pass the test than similar, non-guaranteed, products pooled and managed by superannuation funds without capital or an explicit employer guarantee.

3. Guaranteed / non-guaranteed components

Members have indicated that the determination of guaranteed / non-guaranteed components is not clear and that this may necessitate further guidance from the Actuaries Institute. By way of example, if a GSA style product were to incorporate an element of reinsurance for longevity risk, it is not clear on what basis the guaranteed component could be determined.

Members have requested clarification as to how the test is to be applied where a composite CIPR includes an annuity component. They have observed that - if the test is to be applied at the CIPR (product) level - annuity pricing is affected at the member level.

By way of example - for a CIPR with a lifetime annuity component there could be a range of results to the test depending on the demographic mix of the membership of the fund. Annuity pricing changes to take into account a range of factors including markets and will differ between providers.

Accordingly, ASFA recommends further consultation is necessary as to how an actuary would assess an overall CIPR across different annuity offerings (e.g. age; gender; single life v joint life) and how frequently the test would need to be implemented.

I. Discussion paper – questions

Our responses to the questions in the Discussion Paper are addressed in the annexure.

We would like to thank you for the opportunity to provide comments on the Discussion Paper *Development of the framework for Comprehensive Income Products for Retirement*.

We would welcome the opportunity to discuss with Treasury the matters raised in this submission.

Should you have any questions on any of the matters raised in this submission please do not hesitate to contact me on (03) 9225 4021 or 0431 490 240 or via fgalbraith@superannuation.asn.au.

Yours sincerely

Fiona Galbraith
Director, Policy

ANNEXURE

List of discussion questions

Discussion Questions		ASFA preliminary position
A. Defining a CIPR		
1.	How can trustees design CIPRs to deliver the best outcomes for their members? What are the trade-offs of different design approaches and features?	<p>The most important consideration is that trustees are given sufficient flexibility to enable them to design one or more CIPR products to enable them to ensure that they provide outcomes which are appropriate/suitable for their members.</p> <p>One of the trade offs of flexibility in the approach to design and features is that it may be at the expense of comparability.</p> <p>Trustees will need to trade-off between the income, capital growth; liquidity; management of market risk/returns; security and flexibility needs of their members, through a combination of individual control and pooling, including various trade offs between the degree of exposure to market and longevity risk, including the provision of guarantees.</p>
2.	Are there any lessons from defined benefit schemes that can be applied to the CIPRs framework?	<p>A well-designed defined benefit pension fund provides protection against market, longevity, inflation and liquidity risk, which affords retirees with a level of security. It should be noted, however, that this generally is achieved through the continued support of funding from one or more employer sponsors who bear the market and inflation risks– something, which will not be a feature of CIPR products. Accordingly, the member will bear the cost through the price paid to acquire the CIPR product and reduced/foregone access to capital, including reduced or nil bequests.</p>

3.	Do you agree with the proposed three minimum requirements of a CIPR? What are the alternatives?	Members have raised some concerns with the proposed income tests, in particular the real income test, as outlined in our main submission.
4.	How important is achieving a minimum additional level of increased income to the introduction of the CIPRs framework?	It is unclear how increased income is going to be achieved alongside providing protection against longevity risk and giving flexibility. If this is to be achieved at the expense of restricting access to capital, in particular through the reduction of the value of death benefits, there will need to be an incentive provided to members in order for them to do this. In some circumstances it may be more appropriate to protect against longevity risk and/or provide a guaranteed or more stable level of income than a higher one.
5.	How should income efficiency be defined?	<p>Some members have queried whether income efficiency is the best measure to be utilised.</p> <p>If income efficiency were to be used it could be defined through measures such as</p> <ul style="list-style-type: none"> • the proportion of capital returned to members <ul style="list-style-type: none"> • by the time they reach their (age 65) life expectancy; and/or • by the time they die (on average) • discounted net present values • utility analysis.

6.	What minimum level of increased income should be required; that is, what should be the minimum level of income efficiency? How should guaranteed products be accounted for?	There should not be a prescribed minimum level of increased income efficiency, instead, trustees should have the flexibility to design a CIPR product which suits the need of their members. The capital access schedule, together with the use of pooled longevity products, should operate to ensure a minimum level of increased income efficiency. Guaranteed products should be accounted for in the same fashion as other products by adjusting the rates utilised for comparisons.
7.	Which indexation option best achieves the goal of increasing standards of living in retirement?	The method of indexation should be matter for the trustee to determine, having regard to the members of their fund. If there is to be prescription then indexation should be subject to a maximum of CPI or AWOTE (whichever is higher) with the determination of the appropriate indexation option being at the discretion of the trustee.
8.	Are there comparability benefits from specifying which indexation option would be required of a CIPR?	<p>The benefits re comparability may be outweighed by the restriction on flexibility imposed by specifying the indexation option which would be required of a CIPR product.</p> <p>Further consultation and analysis could be undertaken to consider the way information is provided to assist consumers, including ensuring consistency of disclosure, as well as how to help consumers understand the various risks, including level of inflation protection; income volatility; range of expected income and level of longevity protection.</p>

9.	What elements/types of flexibility are most valued by individuals in retirement, and does flexibility need to be provided for through a CIPR?	<p>The ability to access capital for significant/material expenditure, such as necessitated for access to residential aged care/relocation to a new home, major house repairs, replacing a motor vehicle or whitegoods and significant health care costs etc.</p> <p>The ability to leave a bequest to a dependant is also important to a number of members and, accordingly, period certain guarantees may be important to those with dependants. This could be achieved through the payment of a reversionary, or discretionary, income stream as opposed to payment of a lump sum.</p> <p>Given it is an 'opt-in' framework it will be important to provide for flexibility in CIPR products.</p>
10.	To what extent should savings outside superannuation be used to meet unexpected costs in retirement?	<p>Savings are held outside superannuation to meet unexpected costs in retirement may represent an inefficiency in the system as such amounts tend not to be invested as productively as amounts in superannuation (e.g. disproportionately high weighting to bank accounts / term deposits). It is for this reason that account-based income streams incorporate the flexibility of facilitating access to higher amounts of income or even lump sum amounts of capital.</p>
11.	Is the proposed structure of a CIPR appropriate?	<p>While the proposed structure appears to be appropriate, there needs to be flexibility as to the relative proportion of the component parts. We note the proposed structure will not suit the demographics of all funds, in particular where balances at retirement remain relatively low.</p>

12.	Are there any risks or issues with trustees partnering with third parties to enable them to offer certain underlying component products of a CIPR?	<p>The risks/issues of partnering with third parties include</p> <ul style="list-style-type: none"> • counter-party risks (risk of sub-optimal performance, impaired solvency or even failure) • lack of flexibility (difficulty or inability to change the product) • lack of portability (difficulty in changing providers).
13.	Should trustees be able to offer one or multiple CIPRs as the mass-customised retirement income product offering to members? Why/Why not?	<p>It is critical that funds should be able in retirement to offer multiple CIPRs as, in retirement, one size most definitely does not fit all. In retirement</p> <ul style="list-style-type: none"> • the circumstances, needs and objectives of individuals, which determine drawdown needs, will vary greatly • the effect of drawdowns is different to that of contributions; • there is a greater range, and uncertainty, regarding the likely time periods over which drawdowns will occur. <p>It should be borne in mind that this will be an ‘opt-in’ regime, as opposed to a ‘default’ and so members will be able to determine the particular variation of CIPR product, which is appropriate for them.</p>
14.	If funds were able to offer multiple CIPRs as the mass-customised retirement income product, on what basis would CIPRs differ?	<p>The CIPRs could be comprised of the same underlying components, with the relative proportion allocated to each component determined by the member on acquisition, ideally after receipt of personal financial product advice.</p>

B. The regulatory settings for trustees		
15.	<p>What are the key impediments currently preventing trustees from offering a mass-customised CIPR to their members?</p>	<p>What has mitigated against the offering of attractive income stream products in superannuation has been attributable to:</p> <ul style="list-style-type: none"> • restrictions on product design imposed by the pension standards in the <i>Superannuation Industry (Supervision) Regulations 1994</i> (SIS regulations); • issues with respect to the regulatory standards for the retention of capital/reserving required for some income streams with a longevity or market risk component; • a lack of consumer demand due to <ul style="list-style-type: none"> • the social security treatment of superannuation income streams and lump sums with respect to the social security Age Pension assets and income tests; • the lack of any differential in the tax treatment for income streams and lump sums paid to members, which may otherwise have acted as an incentive to take an income stream; • historical cultural and behavioural considerations - a lump sum mentality, a reluctance to restrict access to capital; a desire to leave a bequest, a concern about counter party risk/product viability, especially over the long term, and for some members a desire to retain control over investments • the relative immaturity of the superannuation system, with relatively low average account balances at retirement.

16.	Would a safe harbour for their best interest obligations remove a key impediment to trustees designing and offering CIPRs?	As the CIPR framework is 'opt-in' - whereby the consumer, after receiving disclosure material about the product (generally a Product Disclosure Statement or PDS), has to apply to receive the income stream - the extent, and value, of a safe harbour defence is questionable.
17.	Which trustees should consider offering a mass-customised CIPR to their members? Should the safe harbour be made available to all trustees or a certain population of trustees?	Trustees of funds with a MySuper product are the more likely trustees for whom the offering of one or more mass customised CIPRs to their members would be appropriate / relevant. The safe harbour defence, if introduced, should be made available to any trustee, which offers a CIPR product.
18.	After an appropriate transition period, should the Government consider whether there should be an express obligation on trustees to offer a CIPR? If so, what length of transition period would be appropriate?	Given the relative immaturity of the retirement income stream market, a three to five year - or longer - transition period after the commencement of the CIPR framework should be given before trustees of funds with a MySuper product would have an obligation to <ul style="list-style-type: none"> • develop a retirement income framework which identified the appropriate products and solutions according to membership demographics • consider whether or not to offer a CIPR product; and • if not - provide reasons to APRA to justify their decision not to offer a CIPR product.
C. Ensuring that products meet the minimum product requirements		
19.	What process should be used to ensure that a CIPR meets the minimum product requirements?	Third party certification – ideally by an actuary – would appear to strike an appropriate balance between an intense, regulator authorisation and a 'light touch' self-assessment.

20.	Would it be appropriate for actuaries to provide third party certification? If so, what, if any, additional regulation of actuaries would be required?	Actuaries would appear to be the appropriate/relevant expertise, derived from a combination of qualifications and experience, to provide third party certification. As a self-regulating profession, with actuarial practice standards, there would not appear to be a need for additional regulation.
21.	Should there be ongoing re-authorisation/re-certification requirements for CIPRs? If so, how and how often should this be done?	Given that the CIPR framework is 'opt-in', and providers of annuities/guarantees are subject to specific prudential regulation, the need for ongoing re-certification could be relatively infrequent. Members have suggested that re-certification would be necessary at least every five years or if market conditions were to change significantly.
22.	What should the consequences be if a CIPR no longer met the minimum product requirements? Is it possible to avoid creating legacy products?	<p>Given the only distinguishing feature of a CIPR, as opposed to another type of retirement income stream, appears to be the availability of the safe harbour defence, potentially it may be appropriate that</p> <ul style="list-style-type: none"> • the safe harbour defence, if introduced, would no longer be available to the trustee • the product would no longer be able to be called a CIPR • a significant event notice would need to be sent to existing members. <p>To mitigate the risk of legacy products being created, consideration could be given to introducing a mechanism, which would facilitate the rationalisation of products and investment options, akin to 'successor fund transfers', and ensuring trustees are required to maintain competitively neutral pricing across product types, investment options and member classes. Given members are likely to be relatively 'locked in' to a CIPR product, there may be a need to ensure that trustees are not able to increase fees by too great an amount over any given period of time.</p>

D. Facilitating trustees to offer a CIPR		
23.	How can the framework facilitate trustees providing an easier transition into retirement for individuals, and what else can be done to meet this objective?	<p>It is unclear from the Discussion Paper how the offering of a CIPR would differ from the offering of any other income stream product.</p> <p>Enabling the provision of information and advice to members would appear to be the main things which could be done to meet this objective.</p>
24.	To which members would it be most appropriate for trustees to offer a CIPR? All members or only MySuper members?	<p>The lack of clarity as to the distinction between the current ‘offering’ of income streams to members and the proposed ‘nudge offering’ of a CIPR to members makes this question difficult to answer. This is likely to be driven by fund demographics and trustees should retain the discretion as to whom to offer the CIPR.</p> <p>Given the ‘opt-in’ nature of the framework and the difficulties in ‘mass customising’ a product in retirement (as opposed to in accumulation) it is critical that trustees are able to design and target CIPRs for different segments of their membership and be able to offer multiple CIPRs if warranted.</p> <p>In practice trustees may be more likely to ‘offer’ a CIPR product to MySuper members, as they are likely to be relatively more homogenous, but this is not to say that non MySuper members, such as a choice member or a member of an SMSF, would not be free to choose to acquire a CIPR product.</p>

25.	In what circumstances should trustees not offer a CIPR to certain members?	Given that the trustee will be ‘nudging’ members towards a CIPR product, and the pooled, longevity component of a CIPR product, a trustee should not offer a CIPR product to a member who they know to have a truncated life expectancy because they have lodged a claim either for a disability or terminal illness benefit. Any offering of a CIPR product would need to be accompanied by appropriate disclosure, which should include a warning that a CIPR product may not be appropriate for a member with a significantly shortened life expectancy. Given the CIPR framework is ‘opt-in’, there may be less risk in providing a product than there would be in a ‘default’ regime, however, we are concerned that there may be a risk that a trustee may ‘offer’ a CIPR to members for whom it is unsuitable without the trustee being aware of this.
26.	Should the safe harbour only apply to the offering of a CIPR to certain members?	It would be difficult to apply a safe harbour defence selectively – and somewhat defeat the purpose of such a defence.
Disclosure		
27.	What information about CIPRs should be conveyed to members by trustees during the pre-retirement phase and how often should this occur? Should this information, its form and frequency, be prescribed?	The information about CIPR products that should be conveyed to members during the pre retirement period and the frequency should be left up to the trustee to determine, having regard to the membership of the fund. The form and frequency should not be prescribed. The only form of disclosure where consideration could be given to prescription would be the provision of a projected retirement income stream on periodic statements, utilising standardised, prescribed assumptions.
28.	When should the pre-retirement engagement between a trustee and a member commence and how frequently should it occur? Should this timing be prescribed?	Again, the question as to when the pre-retirement engagement should commence, and how frequently it should occur, should be left up to the trustee to determine, having regard to the membership of the fund. It should not be prescribed.

29.	What is the best way to communicate the offer of a CIPR to members? Will warnings/pre-conditions when offering a CIPR be effective? If so, which warnings/pre-conditions are necessary? If not, what is the alternative?	<p>It should be up to the trustee to determine the best way to communicate the offer of a CIPR product to members, having regard to the membership of the fund. Warnings/pre-conditions may be of some effect. The proposed preconditions/warnings appear to cover a number of the relevant circumstances, which should be addressed.</p> <p>Information about trade off decisions should be clear, simple and provided pre-retirement. Potentially such information could be provided by government as well as by funds, as part of the generational change to reframe superannuation away from balances towards projected retirement income streams.</p>
30.	What is the most appropriate type of disclosure document to provide further information about a CIPR to consumers and intermediaries such as financial advisers?	<p>Given the current disclosure regime it would appear that a Product Disclosure Statement (PDS) would appear to be the most appropriate type of disclosure document.</p>
Competition		
31.	What is the best way to assist individuals to assess the pros and cons of a CIPR?	<p>Personal financial advice or scaled advice would be the best way to assist individuals to assess the pros and cons of a CIPR product and whether it would be appropriate for their financial circumstances, needs and objectives. Consistent disclosure, via means of a PDS or otherwise, would aid the identification of the key features of the product; the risks; suitability considerations and facilitate the making of comparisons between products.</p>
32.	What is the best way to foster competition in the CIPR market and broader retirement income product market?	<p>Providing appropriate incentives to create sufficient consumer demand is the best way to foster competition in the CIPR market.</p> <p>A mechanism which would facilitate the rationalisation of products and investment options could serve to mitigate the risk of legacy products being created, which may otherwise act as impediment to product innovation.</p>

33.	Should CIPRs be able to be provided via direct channels and financial advice?	Yes – CIPR products should be able to be provided via both financial advice and direct channels – with appropriate access to advice, guidance and support.
<i>Fees and pricing of CIPRs</i>		
34.	Is there a need for regulation of fees and pricing of CIPRs? What are the options?	<p>Given it is an ‘opt-in’ framework, as opposed to a default regime, there is no need for regulation of fees and pricing of CIPR products. Market forces should work to affect fees and pricing. Pricing in particular would prove especially difficult to regulate, especially as the fees for annuities are not known.</p> <p>The same principles of transparency and consistent disclosure of fees and costs and of product conditions would be required to support fair dealing and open competition among providers.</p>
E. Products outside the mass-customised CIPR framework		
35.	Should a retirement income product that meets the minimum product requirements of a CIPR be labelled as such?	<p>Given the lack of clarity about what it means to offer a CIPR product it is difficult to draw the distinction between products which meet the minimum product requirements of a CIPR that are offered as a mass-customised product and those that are not offered as a mass-customised product.</p> <p>If a CIPR product has to be certified then this certification should be the minimum criterion for the product to be labelled as a CIPR. If a product happens to meet the minimum requirements but is not certified as such then it should not be able to be labelled as a CIPR.</p>
F. Other matters		
36.	Is ‘MyRetirement’ a more appropriate label for a CIPR in both the product and framework sense?	MyRetirement would be a more appropriate and meaningful label than CIPR for both the framework and the product.

37.	<p>Would portability foster competition between CIPRs as well as other retirement income products? If so, how could portability be built into the design of a CIPR, should portability be mandatory or discretionary for trustees, and what would be the implications of this?</p>	<p>Portability would foster competition between retirement income products. More importantly it would provide members with a valuable ability to be able to exit a product which is underperforming - especially critical given the time horizon over which the member may be invested. Portability would be more readily achieved with the account based income stream component of a CIPR than any longevity component and, accordingly, portability of account based income streams should be mandatory.</p> <p>Portability of any longevity component (to extent possible) should be at the discretion of the trustee, clearly communicated to the member and ideally reflected in the price. Logistically, however, this will prove challenging and will in many cases will be impossible.</p> <p>In some circumstances it may be possible for the ownership of some longevity products to be transferred between funds. Consideration would need to be given as to how rules with respect to draw down and capital access would apply.</p>
38.	<p>Should it be mandatory or left to the discretion of trustees to decide whether to allow for period certain guarantees in the design of CIPRs? What would be the implications of this?</p>	<p>It should be left to the discretion of trustees to decide whether to allow for period certain guarantees in the design of their CIPR. The implications would need to be disclosed clearly to potential members.</p>
39.	<p>What should be the maximum and minimum cooling off periods?</p>	<p>The maximum period during which a member should be able to commute ('free look period') should be at the discretion of the trustee – potentially as long as two years – but should not be treated the same as the exercise of a right to cool-off – the member should bear the market risk during this period.</p> <p>The minimum, capital guaranteed, cooling off period should be 30 days, although the trustee should have the ability to offer a longer cooling-off period. A maximum cooling off period should not be prescribed.</p>

<p>40. Should the CIPRs framework accommodate (and if so, how):</p> <ul style="list-style-type: none"> a. joint CIPRs for couples? b. collective defined contribution schemes? c. aged care refundable accommodation deposits? 	<p>The CIPR framework should not accommodate joint CIPR products for couples, as the marginal benefits of such products (reduced administration fees) would be outweighed by the difficulties of administering such products. Of course, this is not to say that reversionary income streams could not continue to be offered.</p> <p>Collective defined contribution schemes are more a product of the accumulation phase, and it is difficult to see how they could be accommodated in a CIPR framework, although they should not be excluded. Significant consideration would need to be given to the effects of changing life circumstances, disclosure and the capacity to port benefits without loss.</p> <p>Rigorous analysis would need to be performed of the effect of allowing aged care refundable accommodation deposits as part of the CIPR framework.</p>
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