13 April 2017

Jenny Wilkinson
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Dear Jenny,

## Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations 2017 21 March 2017 | Exposure Draft

Thank you for the opportunity to comment on the draft regulations. I attach our response to the exposure draft.

Should you wish to discuss any aspects of this submission or arrange a meeting with Institute representatives please contact Chief Executive Officer of the Actuaries Institute, David Bell on (02) 9239 6106 or by email david.bell@actuaries.asn.au.

Yours sincerely

J.A. Lyon

Jenny Lyon
President

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### Item 5

### 307-205.02C Deferred superannuation income streams—value and accumulation phase value of an interest

We suggest the following change for clarity:

"...of consideration paid for the interest in the income stream

in (1) (a) first line and again
in (2) first line

### 307-205.02D Collective defined contribution scheme income streams—value and accumulation phase value of an interest

The payouts from these funds depend in the first instance on both the historical experience of the fund, which includes investment returns, expenses and mortality and disability profits and losses. We include disability as we envisage benefits that are either reduced as beneficiaries are no longer able to spend discretionary income as in earlier retirement, or increase as beneficiaries require assistance or institutionalization.

Benefits will initially depend on anticipated experience – normally to plan for a level amount of benefit through the remaining lifetime. The rules of the scheme may require or permit these expectations of the future to be revised as actual experience differs from that anticipated. In general, it is poor practice to revise expectations as it leads to additional volatility in the payments if deviations from expected in one period are followed by deviations of the opposite sign, but there may be circumstances when it is more practical to do so.

For smaller collective schemes and mortality pools, funds could reasonably enter into short term re-insurance contracts to smooth experience – for mortality, investment and expense components.

We suggest that (3) be amended along the following lines (with c(iv) possibly an alternative for (d)):

(c) the amounts paid under the income stream depend on:

(i) the historical and/or anticipated mortality and/or disability experience of the group of individuals who have (or may because of a reversionary interest, in future have) that kind of superannuation interest in the fund; and

(ii) the historical and/or anticipated returns on a collective pool of assets in the fund; and

(iii) the historical and/or anticipated expenses incurred in respect of the above individuals or collective pool; and

(iv) any other relevant factors as specified in an actuary's certificate.

(d) for purposes of paragraph 3 (c):

(i) the items may be reasonably estimated or based on swaps or re-insurance contracts that smooth or guarantee experience over a period; and

(ii) the anticipated experience in (c) would normally be that at the inception of the income stream, but it may be adapted at various times subsequently.

## Item 18

## 1.06A Standards for certain innovative superannuation income streams

We suggest that (3) be amended along the same lines as set out for collective investment schemes.

In common parlance, a “commutation” refers to a beneficiary electing to cease the income stream and receive the commutation amount as compensation for that cessation. If the beneficiary dies, the income stream will often cease automatically and therefore the commutation value is zero. A death benefit would invariably be a lump sum.

(f) a death benefit is transferable to another person only on the death of the beneficiary (primary or reversionary, as applicable); and

## 1.06B Maximum commutation amount <u>or death benefit</u> for certain innovative superannuation income streams

(b) if the income stream is commuted within the first half of the life expectancy period for the income stream and paragraph (a) does not apply—the access amount for the income stream at the time of the death; or

(3) For purposes of 1.06A(3)(f), the death benefit should not exceed the maximum commutation amount.