**Retirement Income Covenant Position Paper May 2018.**

**Submission Responses**

**Covenant Principle 1 – retirement income strategy – no further information submitted.**

**Covenant Principle 2 – engagement – no further information submitted.**

**Supporting Principle 3 – definition of a comprehensive income product for retirement – please refer to submission response below.**

For Account-based pensions (including retirees’ superannuation income accounts), retirees must adhere to the minimum drawdown rates provided in the table below:

**Table 1**

|  |  |
| --- | --- |
| **Age** | **Annual payment as a % of account balance** |
| 55-64 | 4% |
| 65-74 | 5% |
| 75-79 | 6% |
| 80-84 | 7% |
| 85-89 | 9% |
| 90-94 | 11% |
| 95+ | 14% |

Last year an annual superannuation investment update seminar which I attended, income accounts were described as “designed to spend” accounts. This of course is the option that many retirees choose to exercise over varying periods of time, and then receive part or full pension payments upon reaching pension age and satisfying the requirements of the assets and income tests.

While this is understandable, considering the number of years that people spend in the workforce saving and investing toward their retirement nest eggs and the enjoyment of retirement, until now, products such as CIPR’s have not existed to encourage retirees to more actively focus on ensuring their money lasts.

Even for many thrifty retirees the money can run out quickly, depending upon rates of investment returns and the overall account balances.

To encourage and incentivise retirees to more actively seek longer-term durations for their retirement nest eggs to last, it is recommended that different minimum drawdown rates be considered from those listed in Table 1 above. Table 2 below provides suggested minimum alternative drawdown options:

**Table 2 – Proposed New Minimum Drawdown Rates for Trustees to Follow**

|  |  |
| --- | --- |
| **Age** | **Annual payment as a % of account balance** |
| 55-64 | 4% |
| 65-80 | 5% |
| 81-95 | 6% |
| 96-105 | 7% |
| 106-120 | 8% |

This change will potentially achieve the following benefits:

* Enabling retirees’ retirement money to potentially last longer, and;
* Reduce some retirees’ dependency upon aged pension payments.

Another consideration for Trustees could be the requirement as much as possible to ensure that annual CIPR income payments to at least equal and preferably exceed the following:

* The Pensioner and Beneficiary Living Cost Index annually.

**Supporting Principle 4 – Offering a Flagship CIPR.**

It is recommended that Trustees be able to offer up to seven (7) flagship CIPR’s. This will enable Trustees to provide more relevant options to superannuation fund members. More flagship CIPR’s will enable Trustees to more accurately address different risk profiles of fund members and more accurately address all three (3) key objectives of CIPR’s (maximising income, ensuring income is provided for life and providing flexibility to access capital).

More flagship CIPR’s also provides more opportunity to consider and perhaps provide alternative and innovative investment options. It is recognised that Product Disclosure Statements will need to fully detail what these investment options are and the potential risks as well as returns. All PDS’s will need to ensure that fund members are aware of the complexity of the products offered and the need to seek appropriate financial advice.

**Supporting Principle 5 – third party products.**

Superannuation fund trustees should be provided with the option of providing these under the following circumstances:

* The range and complexity of products already in-house may be too limited
* Providing members with the opportunity to access more innovative and advanced products (with appropriate information regarding obtaining independent professional financial advice first).
* **Supporting Principle 6– consent – no further information submitted.**
* **Supporting Principle 7 – offering an alternative income product through advice – please refer to the response above for Supporting Principle 5 – third party products.**
* **Supporting Principle 8 – exception for individuals for whom CIPR’s are unsuitable – no further information submitted.**

**Future Considerations**

**Lifetime Engagement**

Annual benefit statements issued by superannuation funds should provide the following to all members following the end of each financial year:

* Annual retirement income projections for the various CIPR options that the superannuation funds have available. While it is recognised that new superannuation fund members (especially those who are young and new to the workforce) will consider these income projections of little or no relevance to them, it will indicate the options and annual income projections available and enable everyone to make informed decisions and consider appropriate financial advice at appropriate times.
* The annual income projections and options available need to include details for various account balances (e.g.) $100K, 250K, 500K, 750K, 1M and perhaps even higher as well).
* Advice regarding how the CIPR’s address the three key CIPR objectives of:

1. Maximising income
2. Ensuring income is provided for life, and;
3. Providing flexibility to access capital.