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Retirement Income Review Secretariat
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3rd February 2020

Dear Secretariat,

Submission to Treasury's Review into Retirement Incomes 2020

For a full and proper examination of Australia's Retirement Income system, it is necessary to assess its adequacy against its stated objective. In this regard, we note that the Superannuation Industry (Supervision) Act 1993 requires this as follows:

> "To provide for members in their retirement, or on earlier death or disability."

This is reaffirmed in Treasury's Consultation paper issued for this review.

In this light, it is essential to set a benchmark against which this objective is tested. To do so without an agreed and independent measure is akin to looking at half of the balance sheet – or only one side of the coin.

Specifically, our proposal would be as follows:

- To set a *retirement objective* for each member,
- To calculate the *value of accrued benefits* relative to this objective, and
- To disclose these in each member's annual statement (individually) and also in the **notes** to the financial statements for each superannuation fund as a discretionary liability (in total).

These steps would effectively complete the missing piece to the otherwise open-ended question of, "how much is enough?" In other words, the *value of accrued benefits* is a measure of the fund's obligation - or the fund's discretionary liability – with which to meet its members' retirement objectives.

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Furthermore, the determination of the *value of accrued benefits* is a relatively straight-forward exercise as there is a substantial body of accounting and actuarial standards already in place.

These steps would greatly increase the alignment of the objectives of each fund and its members with the Australian Superannuation system by way of the following:

- It would clearly indicate whether each superannuation fund is on target toward meeting its member's retirement objectives over time.
- Any changes in the retirement objectives of the fund and its members could be explicitly measured and allocated to those individuals.
- It would provide a greater incentive for individuals to engage with their retirement objectives and could be used by financial planners as a benchmark to provide further advice.
- It would be cost neutral to Government and may even provide savings in the longer term given greater engagement by members.
- Each fund's investment strategy could be cross referenced with the particular retirement objectives of each member.
- Each fund's investment returns could be benchmarked against the assumptions behind its *accrued benefit values*.
- The steps to implementation would be straightforward as the principles of valuing *accrued benefits* is well established in both international accounting and actuarial standards. [Ref: 2,3,4]
- By including the *value of accrued benefits* as a liability in the notes the financial statements, they would remain outside the balance sheet and would allow for a regular test of adequacy.

In support of Treasury's review into Retirement Incomes, we attach our response and proposal in the following sections:

1. Who We Are
2. Setting Retirement Objectives
3. Improving the Sole Purpose Test
4. Disclosures and Dashboards
5. Use Existing Reporting Framework
6. Improving Industry Data
7. Illustrative Schedules – Accrued Benefits

8. Disclosure of Investment Returns and Fees
9. Responses to Consultation Paper
10. References Used

Attachments – Illustrative Accrued Benefit Values
by Gender and Age

Finally, we hope that this response assists Treasury with its current review and, if required, remain available to provide further information via our contact details below.

Yours sincerely

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1. Who We Are

We are an independently owned actuarial firm who provides advice to accountants, lawyers, superannuation trustees and asset managers. In making this submission, we hope to assist Government and Treasury to improve the level of disclosure and outcomes to all individuals within the Australian Superannuation system. In doing this, it is hoped to achieve better interactions between the three pillars of this review – being the Age Pension, Compulsory Superannuation and Voluntary Savings.

2. Retirement Objectives

Every superannuation fund is required to be established for the primary purpose of providing retirement benefits (and some ancillary benefits). In this regard, each fund must have a stated investment strategy as a means to achieve this outcome for its members. However, an investment strategy alone is open-ended and does not bring closure to the intended benefits on retirement. It therefore follows that each fund should also have stated retirement objectives for its membership. The introduction of this would be bring the following advantages:

- It would strengthen the intent of the fund to its membership, and to Government and Regulators, with clear and precise benchmarks applicable to each member.
- It would allow for the introduction of a *value of accrued benefits* to be calculated and reported as clear benchmark against which each member's benefits could be assessed regularly.

For example, a sample *retirement objective* for the individuals in a Self Managed Super Fund (SMSF) could be:

Sample Retirement Objective:

On reaching retirement, to provide a retirement income payable for life on obtaining the age of 65 years or on later death to pay a reversionary income to the surviving spouse, where the income shall be at the rate of $70,000 p.a. after retirement or $55,000 p.a. on reversion. This shall be guaranteed for 5 years upon retirement and indexed to the Consumer Price Index from the date of setting this Objective.

On death prior to retirement, to provide an income of $55,000 p.a. to any surviving adult dependent subject to a full or partial commutation of a maximum of 100% to discharge any debt obligations, or in the case of any surviving minor dependents only in accordance with the estate.

On total and permanent disability (TPD), to provide an income of $70,000 p.a. subject to a full or partial commutation of a maximum of 40% to discharge any current debt obligations and associated medical expenses.

On temporary disability or redundancy, to pay a temporary income of $70,000 p.a. and to cease this upon the sooner of any of the aforementioned events.

This would form a very useful framework for defining the stated objectives of each member together with providing a firm basis upon which to calculate each member's *accrued benefit value* on a regular and consistent basis. Furthermore, any changes made to this objective - to say the member's stated retirement age or change in marital status - could be reassessed in this estimate.

Just like an investment strategy, this could reside outside the fund's Trust Deed and be duly noted and minuted by the trustees and thus kept outside any strict legal obligations – merely serving as a framework for an estimate of the *accrued benefits*.

Also, given the lack of financial advice being sought by the Australian population, the very process of setting a *retirement objective* via their superannuation fund, and having it documented, would be a useful exercise in of itself.

Finally, the creation of a set of retirement objectives, bookended by an existing investment strategy, would materially lessen the prevailing criticism that the superannuation system is biased towards those whose priority is estate planning and wealth accumulation.

Investment Strategy

Retirement Objectives

3. Improving the Sole Purpose Test

Anecdotally, there exists a degree of confusion in the current system with the application of the sole purpose test in superannuation. Currently, the sole purpose test clearly defines **when** benefits can be received and for **what** purpose but does not define **how** or **how much** in benefits can be received. So while the governance documents of most superannuation funds will cover **when** benefits can be received, they will also detail in **what form** and **how much** in benefits can be received. Unfortunately, the *sole purpose test* merely refers to "benefits" without further clarification. Not withstanding, in both this and previous inquiries, there is an emphasis on the primary need of superannuation to be to provide an income in retirement.

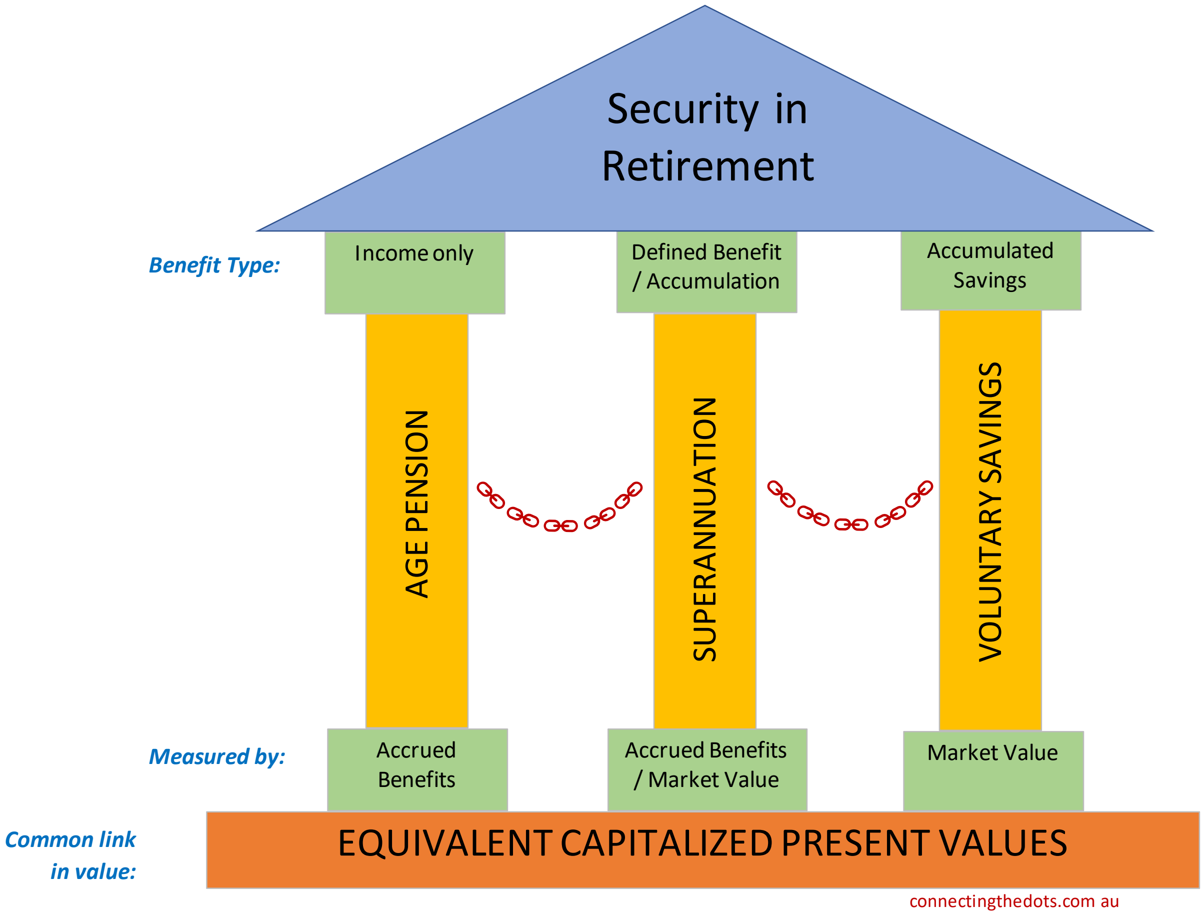
Accordingly, the sole purpose test could be expanded to define the **form** that benefits can take. Against this, a stated *retirement objective* could then be used to determine **how much** is considered adequate. In line with our earlier retirement objectives, a possible definition for "benefits" for this purpose could be as follows:

Definition of Benefits for Sole Purpose Test:

- On retirement, a regular income comprising both interest and capital repayments over the beneficiary's expected lifetime with a reasonable guaranteed period applying and the option of indexation. There shall remain an option for a full or partial commutation to meet any Aged Care costs.
- On death, a reversionary income consistent with a retirement benefit or a full or partial commutation (inclusive of any insured benefits) required to discharge any pre-existing debt obligations and any associated funeral expenses, or in accordance with the estate.
- On total and permanent disability (TPD), a regular income payable immediately and to cease on reaching retirement age with a partial commutation to discharge any pre-existing debt obligations and any associated medical expenses.
- On temporary disability or redundancy, a temporary income payable immediately consistent with TPD benefits but ceasing upon the earlier of either retirement, death, TPD or gaining full-time employment.

This makes sense if superannuation is regarded as the middle pillar that bridges the other two pillars of the Age Pension and Voluntary Savings. In other words, if the Age Pension is purely an income benefit and Voluntary Savings is purely accumulated savings then Superannuation is the middle pillar that forms the link from one to the other.

Thus the three pillars for this review could be summarised in the following diagram:



Finally, it was noted that in March 2019 the Australian Prudential Regulatory Authority (APRA) flagged a review of the sole purpose test with which we agree. [Ref:12] It is also understood that the Superannuation (Objective) Bill 2016 had proposed further steps in this direction. These are both positive steps towards introducing a "principles based" approach to which the setting of *retirement objectives* would be suited - like the approach used to set superannuation investment strategies.

4. Disclosures and Dashboards

The current superannuation system provides all members with annual member statements and access to a set of financial statements, either via their fund's administrator or trustees. Additionally, annual returns must be submitted to APRA by Regulated funds and to the Australian Taxation Office (ATO) for all funds.

It follows that all members currently have access to a **dashboard by proxy** being either their member statement or their fund's financial statements or both. Our is our experience that most individuals would read their member statement and it would make sense to utilize this to provide additional information to members to achieve better outcomes.

Unfortunately, there exists a two-tier system for superannuation in Australia subdivided between funds providing either accumulation benefits that focus on savings (akin to the Savings pillar) or defined benefit funds that focus on benefits (akin to the Age Pension pillar). Thus member statements can differ markedly depending on the type of fund in focus and consistency across the current system.

This situation seems incongruous with a retirement system whose purpose is governed by a **single** *sole purpose test*. Is this a sensible outcome for a single superannuation system which is essentially required to provide retirement benefits for all? This submission represents that it is not, and that as a first step, there could be an improved alignment between the three pillars by to measuring them using a consistent and established methodology.

As a step in this direction, all members could have their retirement benefits measured against a common benchmark and disclosed as a *value of accrued benefits* along the lines outlined in this submission. Such a measure already exists in both international accounting and actuarial standards and is commonly recognized in the balance sheets of corporations or private pension funds as a *value of accrued benefits*. This approach and methodology has a long history of implementation and is well established within international pension schemes. [Ref: 10]

By integration with accounting and actuarial standards, this measure could be included on each member's annual statement and also as a **note to the fund's financial statements** for all members in aggregate. As a minimum, all members would benefit from an impartial and consistent benchmark against which to assess the adequacy of their superannuation assets and whether these are adequate for their own retirement objectives. Similarly, it would improve industry disclosures as to the amount of fund assets required to support members in retirement.

Furthermore, disclosure could be further improved by requiring each fund to reproduce both the fund's investment strategy and each member's retirement objectives in their annual member statement. For self-managed superannuation funds this would provide a quick reference point whereby the fund's investment strategy could be assessed for consistency with the members' own stated retirement objectives. In the case of larger funds, it would indicate to each member on a regular basis whether that fund's particular investment strategy remained aligned with their own objectives or whether switching to another fund would be more suitable.

5. Use Existing Reporting Framework

The *value of accrued benefits* could be compiled each year as part of a fund's annual financial statements and then easily reported to Regulators and the ATO via the current mandatory reporting and audit process.

Such a process would be cost neutral to Government and may even reduce costs to the system through the Age Pension system by improving member engagement and the attention to the level of annual contributions and adopted investment strategies.

6. Improving Industry Data

The proposed use of *accrued benefits* as outlined in this submission could form a third measure to those already compiled by the ATO – being already the Transfer Balance Cap (TBC) and Total Superannuation Balance (TSB). This *accrued benefit value* could be similarly tracked over time and also consolidated across multiple funds for individuals. This could then be made available to members through the existing ATO portal (via the myGov website). Where individuals reside outside the ATO system or are without superannuation coverage then other Government agencies such as Centrelink or the ABS could fill the gaps.

Furthermore, these measures could then be aggregated across the entire adult Australian population by Government to give the first true measure of the needs of the Australian superannuation system on a fully sustainable basis. A measure of adequacy could also be constructed and extended to the whole Australian population. See our response to Question 10 following.

Such an approach would also make significant progress towards allowing Government to make informed decisions on matters of inter-generational equity and would allow the interactions of the three pillars to be better assessed at a macro level across the whole system.

7. Illustrative Schedules – Accrued Benefits

For the purpose of this submission, illustrative schedules have been compiled setting out tables for the *value of accrued benefits* by gender and age based on the following scenarios for individuals:

Illustrative Case No.	Retirement Age - Years	Retirement Income - p.a. - Net	Age Joined Workforce - Years	Accumulation / Retirement Phase	Indexation Applicable	Reversion Component - of Retirement Income
1	65	55,000	18	Growth	None or CPI	None
2	65	45,000	21	Growth	None or CPI	70%
3	65	55,000	n/a	Retired	None or CPI	None
4	70	75,000	n/a	Retired	None or CPI	85%

Given a stated *retirement objective*, the basis for valuing *accrued benefits* under these scenarios is illustrated here using the principles of IAA Professional Standard 406 and the factors applicable under the Family Law (Superannuation) Regulations 2001, Schedule 2 – Method for Determining Gross Value of Defined Benefit Interest. [Ref: 7] By way of these examples, it is possible to demonstrate that these valuations are relatively straightforward and practical.

A significant advantage of this approach comes with the implied assumptions used to determine the *value of accrued benefits*. These include the following:

- Economic assumptions with respect to future investment returns (after fees),
- Rates of inflation (for benefit indexation), and
- Demographic assumptions related to life expectancy and other contingencies such as accident, sickness and death

The determination of these assumptions traditionally requires the use of independent experts such as actuaries who can bring a degree of independence and who are bound by their own Professional Standards. This independence is otherwise similar to that of trustees and their accountants and auditors.

Full schedules with these examples are included with this submission and are contained in the Attachments.

8. Disclosure of Investment Returns and Fees

While relative performance of investment returns is important, as are fees, this is of little value in times of broad-based market declines when the overall market performance is poor or negative. This is not assisted by the lack of consistency in some reporting and the mixing of definitions employed across the investment industry. This could be improved by introducing a fixed target or a "hurdle rate" that expressly quantifies the long term returns expected.

Now the advantage of using *accrued benefit values* becomes clear as the measurement of fund earnings can be compared to the assumptions underlying the *present value of accrued benefits*. In accounting terms, this is known as the "interest cost" and it measures the increase in the *value of accrued benefits* solely attributable to the unwinding of the discount assumption over time. [Ref: 4]

For example, the factors adopted in the Regulations applicable under Family Law imply future investment returns of 5% p.a. (net of fees). Using this as an example, any superannuation fund that can earn returns greater than 5% each year will see their member's assets grow by more than that required to meet their "interest cost" (and vice versa).

Furthermore the measurement and comparison of fees charged by investment managers can be included as an offset to the investment return assumption imbedded in the *value of accrued benefits*. The higher the fees, the lower the net returns with which to finance *accrued benefits*. Thus a superannuation fund or a member shifting to a manager charging higher fees may see their *accrued benefit value* adversely impacted by a lower assumption for future investment earnings in their next member and financial statements.

Implementation:

If *accrued benefit values* were adopted as an alternate basis of reporting, the assumptions applicable could be updated to include the latest Australian Life Tables and prevailing economic conditions together with professional advice from the relevant accounting and actuarial professional bodies (being the Australian Accounting Standards Board and the Actuaries Institute of Australia).

9. Responses to Consultation Questions

The retirement income system

1. Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?

Resp.: Most international environments for retirement savings retain a focus on providing an income in retirement. Australia's system has moved away from this primary objective towards a compliance based regime. While the Australian system retains a *sole purpose test*, it has become secondary to the compulsory nature of superannuation and the annual compliance required of most corporate, industry and self-managed superannuation funds in order to meet statutory obligations and maintain a favourable tax status.

Purpose of the system and role of the pillars

2. Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?

Resp.: Unfortunately as the Consultation paper indicates, there is not a lot of engagement by some sections of the Australian community where the perceived benefits are somewhat intangible particularly amongst those with the lowest incomes or periods of absence from the full-time workforce. The review by Treasury indicates that the primary purpose of the superannuation system is "to achieve an adequate income in retirement" and yet the sole purpose test does not state this but rather only refers to unspecified "benefits". Consideration should be given to making the sole purpose test more specific to a stated *retirement objective* both in terms of the form of benefits and the quantum of benefits.

3. In what areas of the retirement income system is there a need to improve understanding of its operation?

Resp.: In the current environment, and in the absence of seeking professional financial advice, the only measure provided to accumulation members is a transfer balance cap of $1.6M and a total superannuation balance (TSB) as administered by the Australian Taxation Office (ATO). For the majority of

Australians this provides little, if no, guidance as most members will not exceed this cap in real terms.

As a first step, each Australian adult should be presented with a benchmark against which to make their own assessment of their needs in retirement. In the context of this review, this would comprise a financial measure of their *accrued retirement benefits* required to meet their retirement objectives over time.

4. What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes?

Resp.: It remains the role of Government to set policy, create incentives, to manage tax redistribution and to ensure stability. Some countries also give Government a role in managing their nationwide pension schemes which encompass both working individuals and those retired. Such schemes are usually run on a fully funded basis (i.e. Singapore). The role for the Australian Government has evolved into managing the current Age Pension as a form of longevity and poverty insurance. This would seem appropriate given its unfunded status and Government's capacity to underwrite these types of system-wide risks.

The role of the private sector should remain the administration of public and privately funded superannuation and to offer competitive investment products and to offer life insurance on commercial and competitive terms. This should also include the continued use of professionals who are tasked with advising superannuation trustees of their legal, compliance and tax obligations, as well as financial planning.

Individuals should be left to ensure that their own best interests are met by being pro-active and taking responsibility for their retirement needs but who could expect to be assisted with this by Government via a favourable and predictable environment with the necessary tools in which to do so.

5. The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?

Resp.: The Age Pension should remain the pillar of public funding while both Superannuation and Voluntary Saving should remain the pillars of private funding.

6. What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

Resp.: It is difficult to assess the degree of tradeoffs between these pillars while the pillar of the Age Pension is measured in income needs while Superannuation and Voluntary Savings are measured in terms of accumulated savings.

For the debate to progress it is necessary to compare these pillars on equal terms. In this regard, the example set by the Regulations under the Family Law Act demonstrates that superannuation interests can be included in the equitable distribution of assets in any settlement and that an equivalent "market value" can be determined using the methodology of valuing *accrued benefits* along the lines suggested here. Across the three pillars of the retirement system, this is analogous to placing a capitalized value on any superannuation benefit for equal comparison between different pillars.

Thus by employing this approach the values of any retirement income could be expressed as a present value and then compared to any accumulation Superannuation benefit or Voluntary Saving - across any demographic group. This would afford a way to see whether the current mix between each pillar is consistent with the intended outcomes of Government.

The changing Australian landscape

7. Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future. What are the main impacts of these trends? To what extent is the system responsive to these trends? Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?

Resp.: With respect to the question of home ownership, again it is necessary to take a wholistic value on the total assets available both in the accumulation and retirement phases. In this regard, home ownership has a ready market valuation which is already included in the income and asset tests for the Age Pension and other Centrelink entitlements. To facilitate a comparison with retirement objectives and incomes, or where insufficient Superannuation assets exists, reference could be made to the *value of accrued benefits* using the approach outlined in our response to Question 6.

Principles for assessing the system

8. Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included?

Resp.: For the superannuation system to exist in a modern society, it requires the primary principles to be adequate and sustainable. Without adequacy with respect to providing a reliable retirement income, it serves little purpose other than for accumulating savings. Without sustainability, it becomes unfunded and ultimately cannot be financed from public taxation revenue. Without upholding either of these principles, the system ceases to work.

On the remaining question of equity and cohesion, this ultimately rests with the taxation base available and the demands on social security. These would both appear to be at maximum capacity presently with both perceived as being in greater need.

Treasury could consider adding another criteria being that for **consistency**. This is because the timeframes involved in funding retirement incomes can last up to 50 years (and beyond) and are likely to span numerous Governments from both sides of politics. In order to foster greater engagement, there must be **consistency** in the superannuation framework - both actual and perceived.

9. How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings? What is the evidence to support whether the current balance is appropriate?

Resp.: Please see our response to Question 6.

Adequacy

10. What should the Panel consider when assessing the adequacy of the retirement income system?

Resp.: The setting of individual *retirement objectives* for each member and an associated valuation of their *accrued benefits*, would allow both individuals and Government to have a better assessment of their needs over time. Furthermore, the calculation of an adequacy index comprising the ratio of net assets (or TSB) to the *value of accrued benefits* for a fund (or any individual) would provide a regular and consistent measure of adequacy.

In actuarial literature this is otherwise known as an Accrued Benefit Index [Ref: 3]. Such a measure has been in longstanding use in the testing of adequacy for most traditional private pension schemes.

11. What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses?

Resp.: Both the Age Pension and measures relative to Average Ordinary Time Weekly Earnings are both useful benchmarks for determining the minimum needs in retirement. Meanwhile the studies by the Australian Council of Social Service also hold useful measures for higher standards and a more comfortable retirement.

12. What evidence is available to assess whether retirees have an adequate level of income?

Resp.: Unfortunately, without a stated set of retirement objectives and a common and consistent benchmark across the superannuation system it is not possible to assess matters of adequacy for this review at this time. Use of an accrued benefit value would facilitate the measurement of the level of income that could be funded presently by current superannuation balances.

Equity

13. What should the Panel consider when assessing the equity of the retirement income system?

Resp.: On terms of equity, the pillars of Superannuation and Voluntary Savings are most equitable when those contributing receive benefits consistent with a return on those same contributions. There should be no cross-subsidies within these two pillars when each is considered in isolation.

The pillar of the Age Pension is better suited to cross-subsidies to address matters of broader equity between generations and socio-economic groups.

14. What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals

with different characteristics and/or in different circumstances (e.g. women, renters, etc.)?

Resp.: The consultation paper asks whether the outcomes are fair and then outlines a number of reasons why this is currently not the case, for example career breaks, periods of unemployment, part-time work etc. These factors are most certainly reflected in an individual's accumulated savings or entitlements.

As a counter to this, the introduction of a *retirement objective* and an accrued benefit value would not be affected by these circumstances. Rather it would give a completely independent measure of the amount of assets required to fund each individual's retirement objective over the course of their adult life. This would form an independent and regular benchmark against which members could reflect on their own retirement (and savings goals) and Government could make informed and regular assessments about the adequacy of the overall retirement system.

15. Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?

Resp.: This is likely to be necessitated by need rather than by encouragement. This is where the need for adequacy is reinforced.

16. To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

Resp.: With respect to the retirement system, it is not and should not be a compensation scheme. The role of superannuation should remain specific to certain defined life events as outlined by the current *sole purpose test*.

The pillar of the Age Pension is a better mechanism for providing support in the presence of inequity. As well as the suggestions in the Consultation paper, there is also the risk of longevity, sickness, poverty or poor investment decisions to which this pillar is better suited. As such, it is and should remain a lender-of-last resort in the presence of inequity in relation to the life events already covered.

Broader based inequity and matters of compensation should remain the province of the legal system and common law.

17. What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

Resp.: All individuals could have a stated set of retirement objectives irrespective of their current, past or future SG contributions and current participation. Given a set of stated retirement objectives, it is possible to determine a *value of accrued benefits* for any adult Australian which could then serve as a proxy for the level of retirement assets they would otherwise require.

For the long term unemployed or other individuals who have never joined a superannuation fund, there could a legislated minimum *retirement objective* that could be integrated into the existing superannuation system through established agencies such as the ATO, APRA and Centrelink. They could then be benchmarked and included in the system of Government measures just like everyone who has superannuation coverage.

Sustainability

18. What should the Panel consider when assessing the sustainability of the retirement income system?

Resp.: Currently it is difficult for policymakers to make an assessment of the current system's adequacy without an underlying benchmark of the aggregate liabilities of the Australian population. Currently there exists a question of intergenerational sustainability whereby fewer adults of working age will be required to fund the retirement needs of recipients of the Age Pension in future. Given present trends, it is fair to say that the current system is unsustainable without long term levels of sustained immigration or increased taxation.

If however a *value of accrued benefits* were measured as part of each fund's regular compliance and reporting then it would be possible to aggregate these across the entire adult Australian population. Such an exercise already has a basis in TBAR reporting as administrated by the ATO and could be extended to include *accrued benefits* as a relatively practical addition for little cost. This would allow for a long-term test of sustainability as each generation could be benchmarked against their own capacity to fund their retirement without cross subsidy from the broader tax base, i.e. consolidated revenue.

19. What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?

Resp.: Greater emphasis should be given to assessing the capacity of each generation to fund its own retirement and to make the benchmarks necessary with which to do this available to them (as outlined in this response).

20. How can the overall level of public confidence be assessed? What evidence is available to demonstrate the level of confidence in the system?

Resp.: For this review, an extra pillar being consistency over time of the retirement framework would provide the greatest boost to confidence in the system.

Cohesion

21. What should the Panel consider in assessing whether the retirement income system is cohesive?

Resp.: With respect to cohesion, there remains a gap due to the subdivision of the three pillars between income style benefits and saving style benefits. This could be better addressed by use of a common benchmark and by valuing both in present value terms with the introduction of accrued benefit methodologies. This would allow for comparison on a like-for-like basis.

22. Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?

Resp.: It is commonly accepted that engagement by individuals varies across different income levels, differing ages and overall degrees of financial literacy. However, the level of engagement by individuals requires a long-term focus and constant regular engagement across the whole of one's lifetime.

Thus young adults should be more aware of starting to contribute and setting their retirement objectives, those mid-career should be reassessing their level of contributions and investment strategy and those in retirement should be reassessing their level of benefits and investment performance and mitigating their exposure to both investment and longevity risks.

The current system lacks a few key components and could be improved as outlined herein as follows:

- Improving engagement by younger adults by introducing a requirement to set a *retirement objective* and start contributing, and
- Improving information flows in the absence of commonly accepted benchmarks and having these regularly reported to members via their own member statement and each fund's financial statements in aggregate.

It is our view that the suggestions in this response address both of these gaps.

23. What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?

Resp.: We have no response.

24. What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?

Resp.: The declining long-term proportion of the Australian population in receipt of the Age Pension would indicate a positive outcome with respect to superannuation. Otherwise it is our view that the remit of Aged Care costs should otherwise be covered under retirement incomes.

25. What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?

Resp.: It is proposed here that the ATO has the systems and data to cross reference all individuals' TSB against a *value of accrued benefits* such as those included in the Attachments to this submission. It would then be possible construct an analysis of funding bands by level of adequacy such as these:

Measures of Adequacy
- Value of TSB relative to Accrued Benefit Values

EXCESSIVE OR OVER FUNDED	with a TSB more than 40% above the accrued benefit value
COMFORTABE OR EXCEEDING	with a TBS between 10%-40% above the accrued benefit value
MEETING ADEQUACY	with a TSB within 10% of the accrued benefit value
SLIGHTLY BELOW ADEQUATE	with a TSB between 10%-40% below the accrued benefit value
WELL BELOW ADEQUATE	with a TSB more than 40% below the accrued benefits

These measures could then be constructed across various demographic and income profiles as necessary. This could also be used to indicate to Government where the population most needs resources in terms of financial advice and possible further incentives to seek it. This may go some way to addressing the current perception that financial advice is being underutilized at present.

26. Is there sufficient integration between the Age Pension and the superannuation system?

Resp.: Use of the asset test and deeming rates for the income test on the Age Pension makes for a partial integration. This would seem appropriately balanced given individuals continue to make additional contributions towards their superannuation. However, if it were found that voluntary contributions were to reduce in future then this would suggest that the balance has tipped too far away from encouraging individuals to contribute towards their own retirement needs.

Anecdotally this does not appear to be the case with the exception of younger adults who perceive the benefits of saving for retirement as too intangible and secondary to other priorities such as saving for a primary residence. The setting of a formal *retirement objective* may assist this group with making the benefits of superannuation slightly more tangible to them.

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Attachments -

Illustrative Accrued Benefit Values

for Australian Superannuants by Age and Gender

Case 1 – Member in Accumulation Phase after Joining Workforce at Age 18

Case 2 – Member in Accumulation Phase after Joining Workforce at Age 21

Case 3 – Member in Retirement Phase without Reversion

Case 4 – Member in Retirement Phase with an 85% Reversion

Australian Superannuation - Accrued Benefit Values

Case 1 in Accumulation Phase

Stated Retirement Income Objectives:

Age Joining Workforce	18 years
Target Retirement Income	65,000 p.a.
Income Type	Payable for life
Target Retirement Age	65 years
Reversion to Spouse	None

		Value of Accrued Benefits by Age and Gender			
Current Age	**Discount Factor**	**Indexed to CPI** Male	**Indexed to CPI** Female	**Not Indexed to CPI** Male	**Not Indexed to CPI** Female
18	0.3165	0	0	0	0
19	0.3245	5,495	6,288	4,455	4,978
20	0.3327	11,266	12,893	9,135	10,207
21	0.3411	17,325	19,826	14,048	15,696
22	0.3497	23,683	27,102	19,203	21,456
23	0.3586	30,357	34,739	24,615	27,503
24	0.3677	37,353	42,745	30,287	33,841
25	0.3771	44,692	51,144	36,238	40,490
26	0.3869	52,404	59,969	42,491	47,477
27	0.3971	60,509	69,244	49,063	54,820
28	0.4077	69,027	78,992	55,970	62,537
29	0.4186	77,960	89,214	63,213	70,629
30	0.4301	87,383	99,998	70,854	79,167
31	0.4419	97,263	111,303	78,864	88,117
32	0.4542	107,660	123,202	87,294	97,537
33	0.4669	118,575	135,693	96,145	107,426
34	0.4800	130,029	148,800	105,432	117,803
35	0.4935	142,041	162,546	115,172	128,686
36	0.5065	154,358	176,642	125,159	139,845
37	0.5197	167,180	191,314	135,556	151,461
38	0.5333	180,584	206,654	146,424	163,605
39	0.5471	194,520	222,601	157,724	176,230
40	0.5612	209,035	239,211	169,493	189,380
41	0.5755	224,105	256,457	181,713	203,033
42	0.5903	239,863	274,489	194,489	217,309
43	0.6053	256,206	293,192	207,741	232,116
44	0.6207	273,233	312,677	221,547	247,542
45	0.6364	290,919	332,916	235,888	263,565
46	0.6525	309,326	353,981	250,813	280,242
47	0.6689	328,426	375,838	266,300	297,545
48	0.6857	348,284	398,563	282,402	315,536
49	0.7029	368,921	422,179	299,135	334,233
50	0.7204	390,303	446,648	316,472	353,604
51	0.7384	412,557	472,114	334,516	373,766
52	0.7567	435,593	498,476	353,195	394,636
53	0.7755	459,545	525,885	372,616	416,336
54	0.7947	484,378	554,303	392,751	438,833
55	0.8143	510,111	583,751	413,616	462,147
56	0.8345	536,894	614,400	435,333	486,412
57	0.8551	564,625	646,134	457,818	511,535
58	0.8763	593,460	679,132	481,199	537,659
59	0.8981	623,429	713,427	505,499	564,810
60	0.9206	654,634	749,137	530,801	593,081
61	0.9316	678,229	776,138	549,933	614,458
62	0.9446	703,686	805,271	570,574	637,521
63	0.9599	731,336	836,912	592,994	662,571
64	0.9782	761,840	871,820	617,728	690,207
65	1.0000	795,750	910,624	645,223	720,928

Australian Superannuation - Accrued Benefit Values

Case 2 in Accumulation Phase

Stated Retirement Income Objectives:

Member	Single Australian Life
Age Joining Workforce	21 years
Target Retirement Income	45,000 p.a.
Income Type	Payable for life
Target Retirement Age	65 years
Reversion to Spouse	70%

Current Age	Discount Factor	Value of Accrued Benefits by Age and Gender: Indexed to CPI: Male	Indexed to CPI: Female	Not Indexed to CPI: Male	Not Indexed to CPI: Female
21	0.3411	0	0	0	0
22	0.3497	5,070	5,308	3,953	4,140
23	0.3586	10,397	10,887	8,108	8,490
24	0.3677	15,992	16,744	12,470	13,058
25	0.3771	21,868	22,896	17,052	17,856
26	0.3869	28,045	29,364	21,869	22,901
27	0.3971	34,541	36,166	26,935	28,205
28	0.4077	41,373	43,320	32,263	33,784
29	0.4186	48,548	50,832	37,857	39,643
30	0.4301	56,117	58,757	43,759	45,824
31	0.4419	64,063	67,077	49,956	52,312
32	0.4542	72,431	75,838	56,481	59,145
33	0.4669	81,225	85,046	63,338	66,326
34	0.4800	90,462	94,718	70,541	73,869
35	0.4935	100,161	104,873	78,104	81,789
36	0.5065	110,142	115,324	85,888	89,939
37	0.5197	120,547	126,218	94,001	98,435
38	0.5333	131,433	137,616	102,490	107,324
39	0.5471	142,765	149,482	111,327	116,578
40	0.5612	154,580	161,853	120,540	126,226
41	0.5755	166,104	174,128	129,681	135,909
42	0.5903	178,078	186,897	139,187	146,010
43	0.6053	190,422	200,095	149,005	156,459
44	0.6207	203,202	213,787	159,200	167,303
45	0.6364	216,394	227,938	169,733	178,545
46	0.6525	230,039	242,613	180,648	190,199
47	0.6689	244,108	257,775	191,936	202,268
48	0.6857	258,644	273,458	203,608	214,766
49	0.7029	273,655	289,699	215,685	227,730
50	0.7204	289,109	306,454	228,142	241,107
51	0.7384	302,174	323,801	239,353	255,003
52	0.7567	315,333	341,694	250,757	269,328
53	0.7755	328,689	360,218	262,417	284,195
54	0.7947	342,171	379,320	274,294	299,562
55	0.8143	355,764	399,047	286,385	315,420
56	0.8345	375,312	420,973	302,121	332,751
57	0.8551	395,565	443,690	318,425	350,707
58	0.8763	416,632	467,320	335,383	369,386
59	0.8981	438,537	491,891	353,017	388,807
60	0.9206	461,353	517,483	371,384	409,036
61	0.9316	478,837	537,093	385,458	424,536
62	0.9446	497,657	558,203	400,607	441,222
63	0.9599	518,052	581,079	417,025	459,305
64	0.9782	540,498	606,256	435,094	479,205
65	1.0000	565,394	634,181	455,135	501,278

Australian Superannuation - Accrued Benefit Values

Case 3 in Retirement Phase

Stated Retirement Income Objectives:

Member	Single Australian Life
Income Type	Payable for life
Retirement Age	65 years
Current Retirement Income	55,000 p.a.
Reversion to Spouse	None

Liability for Accrued Benefits

	Value of Accrued Benefits by Age and Gender			
Current	Indexed to CPI		Not Indexed to CPI	
Age	Male	Female	Male	Female
65	673,327	770,528	545,958	610,016
66	653,153	750,321	532,598	597,564
67	632,940	729,773	519,041	584,689
68	612,728	708,906	505,302	571,401
69	592,532	687,737	491,403	557,700
70	572,369	666,287	477,345	543,598
71	552,250	644,584	463,139	529,100
72	532,169	622,644	448,778	514,206
73	512,122	600,479	434,253	498,927
74	492,107	578,138	419,551	483,285
75	472,153	555,698	404,701	467,330
76	452,359	533,236	389,774	451,127
77	432,839	510,879	374,886	434,775
78	413,721	488,736	360,124	418,363
79	395,093	466,928	345,587	402,001
80	377,042	445,533	331,359	385,754
81	359,640	424,562	317,510	369,639
82	342,953	404,008	304,095	353,650
83	327,030	383,878	291,187	337,810
84	311,916	364,243	278,823	322,179
85	297,660	345,213	267,069	306,851
86	284,306	326,909	255,981	291,957
87	271,909	309,502	245,614	277,657
88	260,546	293,167	236,049	264,127
89	250,300	278,014	227,398	251,482
90	241,269	264,094	219,758	239,795
91	233,547	251,389	213,235	229,075
92	226,892	239,817	207,642	219,274
93	220,776	229,202	202,516	210,249
94	214,797	219,357	197,489	201,839
95	208,841	210,150	192,473	193,952
96	202,961	201,542	187,506	186,544
97	197,054	193,457	182,501	179,575
98	191,059	185,818	177,414	172,975
99	184,965	178,525	172,227	166,661

Australian Superannuation - Accrued Benefit Values

Case 4 in Retirement Phase

Stated Retirement Income Objectives:

Member	Single Australian Life
Income Type	Payable for life
Retirement Age	70 years
Current Retirement Income	75,000 p.a.
Reversion to Spouse	85%

	Value of Accrued Benefits by Age and Gender			
Current	**Indexed to CPI**		**Not Indexed to CPI**	
Age	**Male**	**Female**	**Male**	**Female**
70	813,614	917,396	673,155	747,154
71	786,256	887,883	654,133	727,524
72	758,899	858,049	634,869	707,348
73	731,536	827,894	615,342	686,647
74	704,173	797,493	595,543	665,451
75	676,836	766,950	575,504	643,815
76	649,665	736,365	555,321	621,841
77	622,805	705,915	535,133	599,652
78	596,435	675,746	515,067	577,374
79	570,657	646,021	495,244	555,157
80	545,595	616,840	475,772	533,078
81	521,355	588,236	456,759	511,173
82	498,027	560,189	438,269	489,435
83	475,677	532,707	420,405	467,892
84	454,365	505,901	403,220	446,628
85	434,180	479,912	386,810	425,770
86	415,173	454,908	371,250	405,492
87	397,439	431,113	356,622	386,018
88	381,077	408,768	343,044	367,580
89	366,218	388,010	330,666	350,325
90	352,998	368,906	319,637	334,349
91	341,550	351,434	310,098	319,668
92	331,551	335,482	301,807	306,207
93	322,305	320,797	294,161	293,785
94	313,280	307,142	286,662	282,165
95	304,290	294,320	279,184	271,231
96	295,412	282,276	271,768	260,918
97	286,471	270,907	264,273	251,161
98	277,365	260,088	256,628	241,855
99	268,048	249,671	248,778	232,875