

Re: Retirement Income Covenant Position Paper Feedback

My feedback comes from the perspective of a financial planner and practice principal that has provided personal advice for the past 20 years. I have met all current and proposed education requirements and hold a relevant degree in Banking & Finance, recently completed a Graduate Diploma in Financial Planning, am a Certified Financial Planner, have previously completed a Diploma in Financial Planning and have two subjects remaining in a Master's in Financial Planning.

My comments have consideration towards client outcomes, the value of financial planning advice and a perspective of implementing positive changes that are sustainable, duplicatable and applicable long-term. Questions raised note concerns, solutions, risks and are to encourage further consideration to the matter noted and broaden consideration to areas that are known to be relevant to either client, adviser, or industry.

The outcome desired would encourage professional advice to support trustee product innovation, an informed decision and more optimal retirement outcome. Incentives such as tax deductibility of financial planning advice are referenced, to broaden this consideration within the context of professional advice, similar to accountants, into the future.

Commentaries made are in reference to specific sections noted in the proposal, as encountered whilst reading through the material and are as follows:

**In relation to** why do we need a retirement income covenant, the paper explains that *“evidence shows that Australians currently follow others, disengage, or fall back on rules of thumb and defaults that are not fit for purpose.” “The ‘nest egg’ framing of superannuation compounds the complexities around deciding how to manage their superannuation in retirement.” “Because retirees struggle to develop effective retirement income strategies on their own, much of the savings accrued by members through the superannuation system are not used to provide retirement income. Rather, they remain unspent and become part of the person’s bequest when they die.”*

- Superannuation trustees are not best placed to serve the complex needs to thousands of clients with varying needs. **Financial Planning advice should support final client decisions, and will this be a requirement**, or even endorsed as part of retiree making an informed decision when retiring?
- Is the outcome wanted from superannuation trustee’s **product innovation or better client outcomes in retirement?** Trustee’s will drive creative product outcomes, though if based on a multitude of assumptions and not specific client circumstances, they are being set up for failure.

**In relation to** Better Products, innovation is welcomed, however, how will this be reviewed initially and ongoing?

- Will there be **any standardisation between product offerings across the industry once they are developed**, or will trustees develop their own definitions, incentives, terminology, and complicate fair product comparisons? This is currently the case with reference to personal insurance policy offerings, which makes product replacement and comparison difficult for an average consumer to decide.

- Will **applicable fees** be quoted gross or net, be required to be disclosed as an administration or investment fee, or allowed to be hidden away as an indirect cost or borrowing cost?
- **Is better for the client or the product provider?** If products are developed with access restrictions to capital, this benefits the trustee / product provider long-term to charge an investment/management fee on retained capital. How is better going to be defined and how can a product provider define a “better” outcome to a consumer without fully understanding their personal priorities, retirement objectives and broader considerations for the future?

**In relation to** Appropriate guidance, how can this be **delivered consistently** without a firm understanding of a client position?

- I would have concern that a **product provider guidance** would always encourage their own product via the guise of information and general advice. Will this guidance be allowed to be communicated via email or progressively, as an existing superannuation account holder approaches retirement, bombarded with appropriate guidance?

**In relation to** what does a retirement income strategy look like, I fear this would create consumer bias at the product provider level.

- Why are the retirement income needs of members being determined by the fund, particularly if a varying approach can be taken for **specific cohorts** / members within the same fund? Will one offering be superior to another and members with larger asset values favoured at the expense of a lower economic category of members?
- How can these product offerings with consideration towards member benefit and appropriate guidance requirements NOT be considered **advice**? Would a consumer consider this information to be advice and encourage a particular course of action and implementation of a specific product recommendation? When would a **professional advice** be encouraged by the trustee?

**In relation to** Retirement Income, will trustee’s have access to external / secondary superannuation provider accounts for their member? Superannuation portability rules will not necessarily ensure only a single account is maintained into the future.

- How well can a trustee propose a product if only a **part of a client’s retirement assets** is maintained through them?
- Assessment towards a future age pension benefit if only considering superannuation assets will yield a flawed outcome. Will trustees be requesting **broader information** including contents, motor vehicle, share / investment assets as part of this projection? The outcome desired is understood, though the complexities of advice considerations should be supported with **professional advice**.
- Using broad demographic information is not sufficient and will basing outcomes on a series of information points, thought to be relevant, simply open trustees to **litigation**? How will legal claims and **compensation** be managed when client expected outcomes are not achieved?

**In relation to** *“assisting members to balance the retirement income objectives”, as “Any assistance provided by the trustee to give effect to their retirement income strategy needs to comply with the existing requirements under the Superannuation Industry Supervision Act 1993, the Superannuation Industry Supervision Regulations 1994, Design and Distribution Obligations and financial advice rules. Assistance must also meet the sole purpose test and be in members’ best financial interests.”*

- How will the assistance provided by the trustee be **supervised**, reviewed, and regulated?
- What processes will be in place to **protect consumers** and support these objectives?
- **Will external** audit be completed on staff, trustee providers, and what **consequences** for a breach in protocol’s be provided?
- Are the **financial advice rules** mentioned relative to Intrafund or personal advice requirements?
- Will **shadow shopping** activities be completed with trustees to ensure compliance with assistance provided expectations?

#### **General questions / comments**

- How **portable** will these products be between providers?
- Will **access to capital** be available, or mandatory, at a stage in life when health requirements shift towards possible aged care considerations?
- Asking a product provider to create a retirement income strategy is concerning, will this really occur, or will trustee research simply support the perspective and investment outcome deemed most beneficial to them?
- What **independent analysis will be used to review trustee proposals** across the entire superannuation industry, do the resources exist to review these arrangements or will they simply be approved without scrutiny, what **funding** is required to ensure suitability continues?
- There are a lot of **assumptions** that trustees are needing to make, without giving actual advice and with an expectation of offering appropriate product solutions over the course of an individual’s life expectancy. How will **smaller superannuation funds consistently apply these requirements**, will this simply force provider consolidation in the industry, is this a desired outcome?
- If financial planning and retirement advice is an important process to support long-term retirement objectives and improved client outcomes, when will financial planning advice, particularly retirement planning advice, become **tax deductible**?