

Director
Retirement, Advice, and Investment Division
The Treasury

Via email: superannuation@treasury.gov.au

6 August 2021

Retirement Income Covenant

Thank you for the opportunity to comment on the Retirement Income Covenant position paper.

QSuper strongly believes it is the role of superannuation funds to be a provider of retirement incomes to and through retirement. To that end, earlier this year we launched an innovative Lifetime Pension product, the first of its kind in the Australian market.

Our ability to provide innovative retirement income solutions that meet our members' retirement income needs is enabled by clarity of purpose and a governance culture that requires a robust strategy to be set and reviewed.

QSuper is supportive of the core obligation and objectives of the Retirement Income Covenant as outlined in the position paper. QSuper agrees that trustees should develop a retirement income strategy for their members that seeks to improve retirement outcomes for all retirees and promote retiree engagement. The three key retirement income objectives discussed in the position paper resonate with our purpose. Supporting members to maximise their retirement income, and managing the risks associated with this income, are a primary focus of QSuper's strategy. Giving our retirees flexible access to their funds, as well as the confidence to spend in their retirement is critical to achieving quality of life in retirement.

QSuper's position and broad comments on the various recommendations are discussed below:

The core obligation

QSuper supports the core obligation that trustees formulate and periodically review their retirement income strategy for members. We find the three key retirement income objectives to be reasonable and in line with our best financial interest duty. To this end, QSuper supports the paper's proposed level of discretion that trustees can exercise in delivering retirement objectives that are relevant to their memberships.

Maximising members' retirement income

This is an important component of retirement planning and is one of the main drivers of QSuper's development and recent launch of the Lifetime Pension. QSuper believes that by giving members access to both a QSuper Retirement Income account and a Lifetime Pension, our members will have flexible access to their super while continuing to receive higher and sustainable income for the rest of their life. This is one way of 'maximising' their income in totality while still giving them the confidence to spend with the provision of lifetime income. We continue to support members with education through various seminars and online resources where we educate members on various ways to structure their retirement income. We also provide a range of resources including retirement calculators on our public website.

Managing risk and balancing objectives

At QSuper, we understand that risks associated with the decumulation phase are different to those of accumulation. We also recognise that individual members have varying retirement needs which include consumption, capital access, and discretionary spending.

This is given due consideration in our development of investment options and defaults. The investment strategy behind the default investment option for the Retirement Income account (the Balanced option) has produced strong “true to label” returns with less risk over the last 10 years (lowest volatility of comparable Balanced options in the super industry).

The Balanced investment option is also used for investing the Lifetime Pension pool. Further, QSuper offers intra-fund advice covering a range of topics including options within QSuper’s retirement products.

On longevity risk, our members have access to the QSuper Lifetime Pension, which provides them with income for life, as well as many are eligible for the Age Pension. While we do not advertise this product as a longevity solution, it provides members access to a lifetime income giving them the confidence to spend when they need it most – in early retirement – without the fear of running out of funds. For those who live longer, the Lifetime Pension is designed to pay income for life, even when payment received exceeds initial purchase price. There is also the option for payments to continue to a spouse if the member passes away.

We therefore believe our retirement income strategy for QSuper members is a practical application of the direction set out by the Retirement Income covenant with demonstrably strong results.

Reviewing the strategy

QSuper is comfortable with the timelines proposed in the position paper to review the retirement strategy at least every three years, with annual performance reviews. We also support trustees having discretion to review their strategy more frequently if they find necessary. Our ability to provide innovative retirement income solutions is enabled by a governance culture that requires a robust strategy to be set and reviewed, ensuring we are meeting our members’ retirement income needs.

Flexibility in enactment is essential

While we welcome the role of the regulators (ASIC, APRA and the ATO) to monitor and review retirement income products, we are concerned that being prescriptive in the performance measurement of retirement products may be problematic given potential fundamental difference in products. Products need to be tailored to the demographic of the fund, and tools (such as calculators) which assist in providing members with further information on the products may need tailoring.

For example, our development of Lifetime Pension faced several legislative hurdles, one being the Capital Access Schedule (CAS), although well intended, restricts us from offering this product to our members in advanced ages, as a breach of CAS will render the Lifetime Pension non-compliant with tax consequences for the fund.

The position paper proposes using members’ personal non-superannuation data as an input to determine appropriate cohorts when formulating a strategy to meet the diverse needs of their membership. As noted in the paper, some of the data required for this to be effectively supported is not held by superannuation funds and issues such as privacy and confidentiality may prove challenging for funds to collect, store and use such data. It will be important for any constraints on funds being able to utilise non-superannuation personal data to also be addressed to ensure a seamless implementation of this proposed covenant. The position paper appears to acknowledge this and proposes that in the absence of accessing data funds may have to rely on making informed assumptions about their members to progress their retirement strategies.

We have communicated to the Minister regarding potential technical amendments relating to ATO considerations for innovative income streams, which we believe will support super funds to develop appropriate retirement income products for their member.

I trust this submission is of assistance. As always, QSuper would welcome the opportunity to engage further with Treasury during the process of developing and finalising the Retirement Income Covenant.

Thank you for your consideration, if you would like to discuss this or any other matter, please contact Chris Ramsay, Senior Manager – External Affairs and Policy via 07 3029 9666 or christopher.ramsay@qsuper.qld.gov.au.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M Pennisi', is positioned above the typed name and title.

Michael Pennisi
Chief Executive Officer
QSuper