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Retirement Income Covenant – Exposure Draft and Explanatory Materials

Cbus welcomes the opportunity to comment on the Retirement Income Covenant Exposure Draft and Explanatory Materials.

About Cbus

Cbus has the proud history of being one of Australia’s first industry super funds. Cbus was formed in 1984, when building and construction workers won the right to superannuation. Today, we have grown into a leading industry super fund, open to all while maintaining a focus on the industries that build Australia. We work hard to make sure that the super system is delivering for our members. Our members include workers and retirees, their families and employers.

Cbus, with more than 779,000 members, is one of the best performing funds, with investment performance for our Growth (Cbus MySuper) option of 9.25% per annum since inception in 1984 to 30 June 2021. The Growth (Cbus MySuper) option has returned 19.34% for one year to June 30, 2021 the highest returns in the fund’s 37 year history.

Summary of our submission

Cbus:

- Supports the introduction of a covenant requiring funds to develop a Retirement Income Strategy that addresses member needs and preferences for maximising income, income stability and flexibility throughout all stages of retirement.
- Supports the removal of mandatory requirements to develop and offer a CIPR product and the adoption of a more flexible approach.
- Welcomes the recognition in the exposure draft Explanatory Materials that for some cohorts of members, the Age Pension provides adequate longevity protection.
- Reiterates that in many cases funds do not hold the information necessary to properly assist members to achieve optimal retirement outcomes.
- Recommends that Government agencies share relevant information with funds, with member consent.
- Reiterates that regulatory change is required to facilitate the provision of assistance to members, including moving away from giving members information about their retirement savings balance to providing information about the amount of income the member will receive; changes to facilitate the expanded use of retirement income estimates; and changes to the regulation of intra fund advice.

Flexibility

Cbus members' experience of work and their path to retirement is unique. Compared to the general population, a typical Cbus member is more likely to experience non-payment or underpayment of superannuation, as well as insecure work.

Compared with the general population of the same age, older Cbus members are typically more likely to retire early (and often unplanned) due to health issues, struggle to keep up with the physical demands of manual work and struggle to find suitable work opportunities/hours.

These differences have a number of potential impacts on their retirement including a higher incidence of health care needs as pre-retirees, denial or uncertainty about working prospects as they transition to retirement, and increased vulnerability to financial hardship due to the gap between preservation and age pension eligibility age. These factors combined leave a typical Cbus member with lower average retirement savings than the general population throughout their working life and retirement.

Given the unique characteristics of Cbus members, Cbus welcomes the decision to provide Cbus with discretion in the development of the fund's Retirement Income Strategy, including how the fund collects information about members, the design of retirement income products and the provision of assistance to members.

Role of Age Pension

Cbus also welcomes the recognition in the exposure draft materials that for some cohorts of members, the Age Pension provides adequate longevity protection. The Age Pension plays a critical role in the provision of retirement income to Cbus members, contributing 40% of retirement income for a typical Cbus member.

Data

Members needs in retirement are not straightforward and are diverse, their needs depend on a number of personal preferences and personal characteristics. Government agencies including Centrelink and the ATO collect and hold a significant amount of information directly relevant to members' employment, income and retirement.

Members would benefit from the introduction of a simple, efficient way to share their data with their fund. Government agencies should, where members consent, share relevant information directly with a member's fund. This would enable funds to give members better guidance, pre-populate forms for members, and support members to achieve a better understanding of their financial position before and in retirement.

For example, a range of factors determine a member's Age Pension entitlement, most of which are not visible to trustees. Whilst averages and publicly available data may help with the development of a Retirement Income Strategy, members need assistance based on their own circumstances.

The ATO has already introduced this approach for income tax returns which are prepopulated with individual taxpayer data from a range of sources.

In addition, aggregate de-identified member data could be provided by Government agencies to superannuation funds to help inform cohort analysis. This would be more objective, comprehensive, accurate and detailed than reliance on member surveys.

Assistance

Retirement income products are inherently complex, and members need assistance to understand that they will improve their retirement outcome. Our experience is that take up of retirement income products is significantly increased by the provision of assistance at the individual member level. Cbus' analysis of member outcomes found that members who received assistance were 11 times more likely to commence an income stream.

Intra-fund advice

It is unrealistic to expect that a superannuation fund can deliver comprehensive financial advice to each member efficiently or cost effectively.

The ability to provide intra-fund advice is vital in providing cost efficient, limited advice to more members about their retirement at scale. Given the compulsory nature of superannuation, and the cost of holistic personal advice, intra-fund advice provides significant benefit to members who otherwise would not get advice.

Due to their typically lower than average balances, Cbus members are not a target market of retail financial advisers and therefore have considerably lower rates of financial advice take up than the general population.

Cbus members tend to think of their financial situation in terms of their and their spouse's assets. This is particularly pertinent at retirement because eligibility for the Age Pension is determined at a household level. However current intra-fund advice cannot include advice about this.

Intra-fund advice should be expanded to better allow superannuation funds to provide retirement advice. We suggest that this should be expanded to include:

- Advice about how a member can maximise their Centrelink entitlements including the use of longevity products where appropriate
- Retirement advice for a member's spouse.

Retirement income estimates

Since 2016, many Cbus members have received a personalised digital video retirement income estimate accompanying their annual statement.

Member feedback about these videos has been strong, with results from our 2019 program survey overwhelmingly positive about the video received. Three out of four members said the video helped them understand the actions they needed to improve their financial position in retirement. A further one out of three members said they preferred watching the video to reading their annual statement.

Retirement Income Review, pg. 455

"Superannuation funds are well placed to provide both guidance and financial advice at retirement (or prompt people to seek financial advice) because members have to contact their fund to transfer their assets into the tax-free retirement phase and to start accessing their savings."

Retirement Income Review, pg. 307

"Projections or estimates of a person's retirement income, which focus on future income streams rather than lump sums, can help people plan for their retirement. Specifically, they may help people to think about superannuation in terms of income, rather than an asset"

While the RIEs have proven to be incredibly valuable in their current form, there is room for improvement. The calculation and assumptions basis stipulated within ASIC Class Order 11/1227, alongside the intended target audience and delivery restrictions, limit the effectiveness of RIEs in providing guidance to members. We recommend that:

- **Funds should be able to provide more frequent retirement income estimates.** Currently RIEs can only be provided as part of member statements, significantly impacting usability and timelessness. Decoupling RIEs from member statements and allowing funds to use them more regularly (at appropriate decision points or milestones, and when desired by a member) will deliver better retirement outcomes. For example, Cbus would like to make this functionality available to members through our new online portal secure area, allowing members to see a pre-populated projection that can demonstrate the impact of additional contributions, premium costs, investment choices, etc.
- **Funds should be able to provide retirement income estimates to decumulation members.** Funds can only provide retirement income estimates when a member is under 67 years and remains in the accumulation stage. Providing decumulation members with ongoing guidance on the expected trajectory and duration of their income source can be key in:
 - Encouraging members to avoid an under-consumption of their income, by assisting them to see the likely duration of their income stream
 - Supporting retirees to attain a healthy ‘financial’ wellbeing, by taking away member anxiety regarding how long their money will last.
 - Uplifting the decumulation member experience, which will be a critical enabler of funds’ achieving adequate uptake of new retirement products.
- **RIEs could provide a more personalised view and assist more informed decision making at retirement.** RIEs have the potential to provide an affordable solution to the growing need for retirement guidance. This guidance could include a more personalised view of how different retirement decisions could impact their income in retirement, such as the decision to commence an income stream product, invest in a mix of products (e.g. account-based pension and longevity product) or withdrawing superannuation monies to hold in a bank account. This could be presented as a ‘sliding doors’ scenario so a member can better understand different outcomes. In addition, RIEs could be presented to better reflect a more personal view of a member’s future (considering their expected retirement age, spouse, savings outside super and their own investment choice) as opposed to generic assumptions that are not often applicable to Cbus members. For example, the Class Order currently assumes that each member will retire at age 67 and require their savings to last for another 25 years (until age 92). However, in practice this does not represent the experience of many workers, particularly those working in the building and construction industry.
- **RIEs should not be limited to an account-based pension and only provide an estimate of the first year’s age pension.** The current RIE projection requirements use an account-based pension and is based on the first year’s Age Pension entitlement. Only using the first year’s Age Pension entitlement can be misleading given how this is expected to change as members drawn down on their savings. In addition, limiting the product that can be shown in a retirement income estimate can significantly undervalue the potential retirement outcomes for some members. Whilst an account-based pension may be appropriate for some members, others would likely achieve a better retirement outcome if they were to invest in a longevity product or a mix of retirement products.

Retirement Income Review, pg. 415

“Expressing superannuation balances in terms of retirement income, in a similar way to working life income, may encourage people to draw down from their savings in retirement”

Income is the outcome – and should be the focus

Like many funds Cbus has seen members increasingly utilise the Cbus mobile app and member portal however they are currently only able to see their retirement saving balance and not an estimate of their estimated future retirement income through these tools. This is because funds under ASIC Class Order [CO 11/1227], funds are only able to provide this information to members within or accompanying a periodic statement. Only being able to show current account balances within a mobile app and member portal does not assist member engagement, nor does it provide members with the confidence to more efficiently consume their retirement savings.

To assist members to shift their thinking from ‘how big is my nest egg?’ to ‘how much income will I have?’, funds should be allowed more flexibility in the manner and timing they present information as estimated retirement income to members. The way in which members engage digitally has significantly changed since the Class Order relief was first provided in 2011 and additionally it is now widely accepted that there is a need to move focus from accumulation of assets to retirement income and accordingly the regulatory environment should reflect this.

Retirement Income Strategies must include strategies to link members with retirement income products that will improve their retirement outcomes. Government should prioritise regulatory change to facilitate the provision of assistance to members or there is the risk that funds will produce Retirement Income Strategies that comply with the new retirement income covenant but cannot be operationalised and will therefore not benefit members. A Retirement Income Strategy alone will do nothing to assist members to maximise their retirement outcomes, unless it is accompanied by adequate assistance to guide members into the appropriate retirement product for their needs.