14 June 2018

Ms Rebecca McCallum
Manager, CIPRs
Retirement Income Policy Division
The Treasury
Langdon Crescent
Parkes ACT 2600

By email: superannuation@treasury.gov.au

Dear Ms McCallum

Retirement Income Covenant Paper

ClearView Wealth Limited (ClearView) appreciates the opportunity to provide comments in relation to the Retirement Income Covenant Position Paper.

We believe this is an important and timely inquiry, as more Australians are entering retirement and then living longer once in retirement (6238.0 Retirement and Retirement Intentions, Australia, July 2016 to June 2017). The need to improve retirement income, manage longevity risk, and increase standards of living needs to be addressed now so that Australia is well positioned into the future.

About ClearView

ClearView is an ASX-listed financial services company providing quality financial advice and life insurance, investment and superannuation products and services. It includes a registered life insurer, funds management business, superannuation trustee and two financial advice (AFS) licensees. ClearView advisers advise on $9.3 billion in funds under advice and $247 million of life insurance premiums under advice. As a product provider, ClearView has $2.7 billion of funds under management and $210 million of annual premiums inforce.

ClearView generally supports the need for more flexible, sustainable and transparent retirement income policy. With that said, ClearView has identifies a number of concerns related to the proposals within the Retirement Income Covenant Position Paper.

1. A Focus on an Income for Life

ClearView has concerns regarding the retirement income projections during the accumulation phase. There will need to be very specific guidelines to ensure the illustrations provided to members neither discourage the use of retirement income streams nor overly inflate projected incomes to entice members to stay with a particular fund.

2. Risk Only Superannuation Fund

ClearView believes that risk only superannuation accounts should not be required to comply with the provisions of offering CIPRs as these funds do not have investment accounts that are designed for retirement planning, instead they provide death cover and possible ancillary benefits (such as TPD and income protection).

3. Aged Care for Older Members

With more Australians entering retirement, the need for CIPRs to consider flexibility associated with Aged Care costs must be considered. The potential cost to members in later years associated with Aged Care, both from income requirements and capital requirements may pose significant financial burdens to members. In later years, where members need access to capital to pay for Aged Care costs and fees, the deferred lifetime annuity may not permit individuals to access (or commute) this amount.

4. Comparison Tools

- ClearView requests "safe harbour" provisions that protect trustees who provide tools, calculators, or guidance to members regarding CIPRs.
- ClearView requests more guidance regarding what is deemed to be information versus advice in regards to CIPR products, in particular when a market downturn occurs which adversely affects members' income in retirement, how does a trustee communicate this to a member so they may make informed decisions (at the bottom of the 2.5% range for extended period of time)?
- ClearView recommends that the side-by-side comparisons recommended in The Position Paper include: CIPRs, Account Based Pensions (ABP); and Lifetime Annuities.

5. Reversionary Beneficiary

ClearView would like additional guidance regarding reversionary beneficiaries. The trustees will need to calculate life expectancy on CIPRs with reversionary beneficiaries based upon the longest life expectancy of the either the member or the reversionary. ClearView would like to know if the trustee is responsible for informing the member of the potential reduction in retirement income for the member while they are alive (if the reversionary has a longer life expectancy)?

6. <u>Flagship CIPR</u>

Where a member's circumstances changes significantly (ie – inheritance), it appears that they will neither be able to modify existing investment strategy nor delay the commencement of the deferred lifetime annuity (DLA). This seems to defeat the intention of the Retirement Income Covenant. ClearView recommends that in circumstances where a member does not require the income generated from the CIPR, they should have the ability to modify the terms.

7. <u>Offering product that is non-flagship CIPR</u>

The provision that the trustee must ensure that any alternative product offered by the trustee (ABP, fixed term annuity, etc) must meet the member's best interest, whether or not advice is provided by an independent financial adviser, appears to be very onerous for the trustee. This provision all but eliminates any other product except CIPRs, unless the trustee is willing to take responsibility for the appropriateness of the product for individual member's circumstances. This provision should be amended.

8. <u>Alternatives to Current CIPR Proposals</u>

With the modelling that has been provided, there is no conclusive evidence that CIPRs will provide better long term retirement outcomes for members in comparison to a combination of account based pensions and lifetime annuities (or lifetime pensions). The cash drag on the investment portfolio to fund deferred lifetime annuities cannot be offset from the lost growth and dividend yields that would come from the combination of account based pensions and lifetime annuities (of lifetime pensions).

Existing modelling has found that the majority of Australian pensioners are not spendthrifts, but rather are living well within their means and pose little risk of outliving their retirement savings (Jeff Gebler, Milliman Retirement ESP, 14 February 2018).

Prior to 1 July 2007, there were incentives for pensioners to commence lifetime income streams. The "50% rule" encouraged pensioners to take at least half of their accumulated superannuation benefit as a pension where the accumulated balance was above the Lump Sum Reasonable Benefit Limit (RBL). The Pension Reasonable Benefit Limit was twice the value of the Lump Sum RBL. Using the existing Transfer Balance Cap limits of $1.6 million, if a pensioner has more than $800,000 in either superannuation and/or pension (at any time), then they will be required to take at least half of the balance as lifetime income stream. Where pensioners do not take at least half as lifetime income streams (lifetime pensions or lifetime annuities), then additional superannuation levies will apply (ie – tax or surcharge).

In conjunction with this proposal, it is recommended that the Department of Social Services "New Means Test Rules for Pooled Lifetime Retirement Income Streams" be modified to encourage more pensioners to consider lifetime income streams. This would need to be reduced from the existing 60% of all payments to be counted under the Income Test, to a more realistic 20% of all payments (or nil) would be deemed to be income, as a large proportion of the payments are in fact return of capital from the original investment (especially if the pooled lifetime retirement income product is invested in cash and fixed interest investments). This would need to be reduced from the existing 60% of all payments to be counted for the first 5 years and 30% thereafter under the Assets Test, to a more realistic 20% of all payments (or nil) would be deemed to be assets, as this money will be used for consumption purposes once it is withdrawn from the fund.

This letter provides our high level input on the issues addressed. There will be significant, and important, issues of detail to be resolved. We would be pleased to provide further input on these issues and their sensible implementation.

Please to not hesitate to contact the undersigned if further information is required.

Yours sincerely,

Simon Swanson

Managing Director