

15 June 2018

The Treasury  
Manager, CIPRs  
Retirement Income Policy Division  
Langton Crescent  
PARKES ACT 2600  
Via email [superannuation@treasury.gov.au](mailto:superannuation@treasury.gov.au)

Dear Sir or Madam

Thank you for the opportunity to comment on the Retirement Income Covenant Position Paper.

UniSuper warmly welcomes the proposed introduction of a retirement income framework, noting that a retirement income covenant is only the first step in that framework.

We have long supported the idea of a framework, similar to the insurance management framework, and in September 2014, we argued that:

*... we do not believe that the Government needs to – or indeed should – endorse particular retirement schemes or products. Instead, we believe the outcome should be recommendations for a framework that would facilitate the development of a whole range of retirement products by giving the industry more flexibility. We feel this flexibility would encourage innovation in the industry and would be in all likelihood a better approach than getting government and policy makers to “pick winners”.*

*Ultimately, the responsibility for developing new products should rest with Trustees – acting under a best interests duty – to understand and respond to the changing needs of their membership. We support the introduction of a retirement income framework, similar to the Insurance Management Framework, that would put Trustees at the forefront of developing appropriate retirement income strategies and products for their membership rather than government-set defaults or the mandating of one form of retirement income product over others.<sup>1</sup>*

Our view has not changed. We do, however, strike a note of caution as the Position Paper still envisages a significant amount of product prescription e.g. up-to-three flagship CIPRs, compulsory longevity risk management component, access to capital, certification etc.

We have a strong preference for a flexible framework as opposed to certified “products”.

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<sup>1</sup> See endnote for full list of submissions made by UniSuper that relate to these developments

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A framework that considers what is in the best interest of members and makes available new products or combinations of products, rather than one that enforces the bundling and offering of “certified products”, is to our way of thinking, a far more flexible and responsible approach. Trustees continue to be best placed to understand and respond to the needs of their members, and any process to “commoditise” retirement income runs up against this fact.

Another note of caution is that the Position Paper makes a number of statements ruling out a CIPR that comprises 100% account-based pension. We suggest that this flies in the face of clear evidence of strong retiree demand for control over their savings. And we believe that a large number of retirees will continue to see the Age Pension (possibly augmented with additional “income” from an expanded Pension Loans Scheme) as their longevity protection. A CIPR framework or a CIPR product that fails to recognise the importance of the Age Pension to most retirees’ plans risks failure itself.

To that end, we believe that means testing of CIPRs will be a key influence on their success. In February this year, we made a submission to the Department of Social Services in which we argued:

*...that giving up access to capital should be a key trade-off to enable an income stream to receive concessional treatment.*

Further, in response to a proposed 30% assets and income test shelter we argued that:

*...the current means test rules for lifetime income streams are somewhat concessional, our analysis and that of others suggests that the rules proposed in this document are less concessional. The income test appears harsher in the early years and the assets test shelter is largely irrelevant given that the income test is generally the operative test.*

While a 40% income and assets-test shelter was announced in this year’s Budget, we remain yet to be convinced that this will be a significant spur to increased demand for pooled lifetime income streams.

We also note that a potential exception from having to offer a CIPR is in respect of members with less than \$50,000 in superannuation. We believe that this figure ought to be higher and potentially linked to the assets-test threshold for singles. This recognises the fact that those with lower formal retirement savings will, in one sense, have access to a CIPR via the Age Pension.

While we warmly welcome the Retirement Income Framework, we caution against too much prescription in requiring trustees to develop “certified” or standardised products; a trustee’s product offering, after all, should be based on identified needs of its members rather than fitting members to standardised products. We maintain that CIPRs should be considered *purely* as part of a framework, rather than seen as a standardised,

prescribed and certified product. Trustees themselves, after all, will develop their own retirement income framework and it is within that framework that they should develop a range of suitable products for their membership. In our view, retirement income product development should not be about standardisation or ease of development, but based on identified needs of members and a trustee committed to the principle of improving retirement outcomes for members.

Once again, thank you for the opportunity to provide comments on the Position Paper. Should you wish to discuss these comments, in the first instance, please speak to Benedict Davies, Public Policy Manager on 03 8861 6670.

Yours faithfully



Kevin O'Sullivan  
Chief Executive Officer

**Endnote – list of submissions made by UniSuper related to this process**

UniSuper Submission (31 March 2014) to the Financial System Inquiry “Positioning the financial system to meet Australia’s evolving needs: the need for new retirement income products”  
<http://fsi.gov.au/consultation/submissions20140520/>

UniSuper Submission (26 August 2014) Comments on the Financial System Inquiry’s Interim Report <http://fsi.gov.au/consultation/second-round-submissions/>

UniSuper Submission (31 July 2014) Review of retirement income stream regulation <https://treasury.gov.au/consultation/review-of-retirement-income-stream-regulation/>

UniSuper Submission (12 April 2017) Innovative income streams  
<https://treasury.gov.au/consultation/c2017-t166981/>

UniSuper Submission (7 July 2017) Development of the framework for CIPRs <https://consult.treasury.gov.au/retirement-income-policy-division/comprehensive-income-products-for-retirement/>

UniSuper Submission (16 February 2018) Means test rules for lifetime retirement income streams <https://engage.dss.gov.au/social-security-means-testing-of-lifetime-retirement-income-streams/>