



13 October 2021

College of Business and Economics (Building 26C)
The Australian National University
CANBERRA, ACT, 2600

Attention:

Director - Tax and Transfers Branch
Retirement, Advice, and Investment Division
The Treasury, Langton Crescent, PARKES, ACT, 2600
superannuation@treasury.gov.au

Submission on the Retirement Income Covenant Draft Legislation

Dear Director,

I would like to make three comments on the Exposure Draft and Explanatory Materials that were issued with respect to the draft Retirement Income Covenant (RIC) legislation. These comments flow on from my earlier submission following the RIC Position Paper, and largely support the direction that is being taken.

1. I support the draft legislation and the way in which it establishes the core obligations and principles for trustees in developing retirement income strategies. The flexibility afforded by the approach should be beneficial.
2. The obvious consequence of a minimalist approach within the legislation itself is that regulatory standards and guidance will be doing the 'heavy lifting' in setting out the detailed requirements. The Explanatory Materials provide some solid direction in the regard, for which I am also broadly supportive and have no substantive comments with the exception of the matter raised under point 3. Given that the success of the retirement income framework will depend on the framing of the regulations, it is hoped that there will be wide consultation as they are formalised.
3. My earlier RIC submission recommended the creation of a mechanism to allow retiring members to request that the trustee of their fund recommends or assigns them to a suitable retirement strategy. The argument was that such 'fund-guided choice' might be a preferred decision mode while leading to potentially better outcomes for certain classes of retirees, specifically those with limited capability to make an effective choice yet being unwilling to pay for full financial advice. Page 11 (clauses 1.50 to 1.54) of the RIC Explanatory Materials discusses this broad area. However, it remains unclear whether there is any intent to build a pathway towards trustees being able to make a recommendation to members upon request, versus the alternative of trustees being restricted to presenting a series of options from which members may choose. I hope that this matter will be given further consideration as the retirement income framework develops, and perhaps addressed as part of the Quality of Advice review planned for 2022. I contend that some form of 'nudge' such as fund-guided choice would be an important component of the framework, as it would help overcome a number of potential issues including those arising from generally low financial literacy and various behavioural effects.

I would be pleased to provide more input or discuss my submission if that would be of assistance.

Yours sincerely,

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