

14 October 2021

Director
Tax and Transfers Branch
Retirement, Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600

Dear Sir/Madam,

CONSULTATION RESPONSE: GIVING EFFECT TO THE RETIREMENT INCOME COVENANT

About Optimum Pensions

Optimum Pensions is committed to ensuring that Australians have access to a sustainable income in retirement. We have partnered with Generation Life to offer an investment-linked lifetime annuity with investment choice. Optimum's product design can be white labelled by Superannuation Funds and life insurers. We are in discussions with several major superannuation funds who are waiting for the passage of the proposed legislation.

Optimum Pensions supports the Government's introduction of legislation to implement the Retirement Income Covenant. As per the accumulation phase of superannuation, some prescription is needed for the retirement phase to overcome behavioural biases in finance.

We have limited this submission to a single aspect that we would encourage Treasury to be clearer about: the 'Period of Retirement'.

'Period of retirement'

While the beginning of retirement may be variable, in all cases **retirement ends when the member dies**, or if survived by a spouse, when they die.

If the legislation is not specific about this, trustees may determine an end date for their 'period of retirement' that is a mismatch with the actual lifespans of many members. Doing so would erode the confidence that is required for members to spend their superannuation at a sensible rate.

Given the draft legislation requires longevity risk to be a key consideration, it doesn't make sense to allow the period of retirement to end prior to the death of the member.

The current wording in 52AA(6) could be replaced with:

- (6) The trustee must determine the commencement date of the period of retirement for the purposes of the strategy. The period of retirement ends on the death of each individual beneficiary and may include a spouse.*

We note that while the current draft legislation refers to longevity risk, there is no explicit requirement for trustees to include longevity products in retirement strategies. Nevertheless, it is important that funds do focus on solutions that last for a member's life.

Allowing for a shorter period than the member's actual lifespan would not be in a member's best interests, and this is clearly a requirement for superannuation Trustees.

The Retirement Incomes Review and Financial System Inquiry made it very clear that for the retirement phase to work efficiently, individuals must all have confidence that their retirement strategies can cover them for life.

Allowing 'period of retirement' to not align with the death of each beneficiary and any spouse could result in strategies that only work for those people who live to average Life Expectancy or some other arbitrary period – after which they fall back on the Age Pension, with its consequent cost to Treasury and taxpayers.

Ensuring that 'period of retirement' continues for the lifespan of beneficiaries will help to facilitate retirement strategies that align with the government's objectives for the Retirement Covenant - to help Australians achieve a higher standard of living in retirement (and creating greater economic activity) by having greater confidence to spend their superannuation benefits.

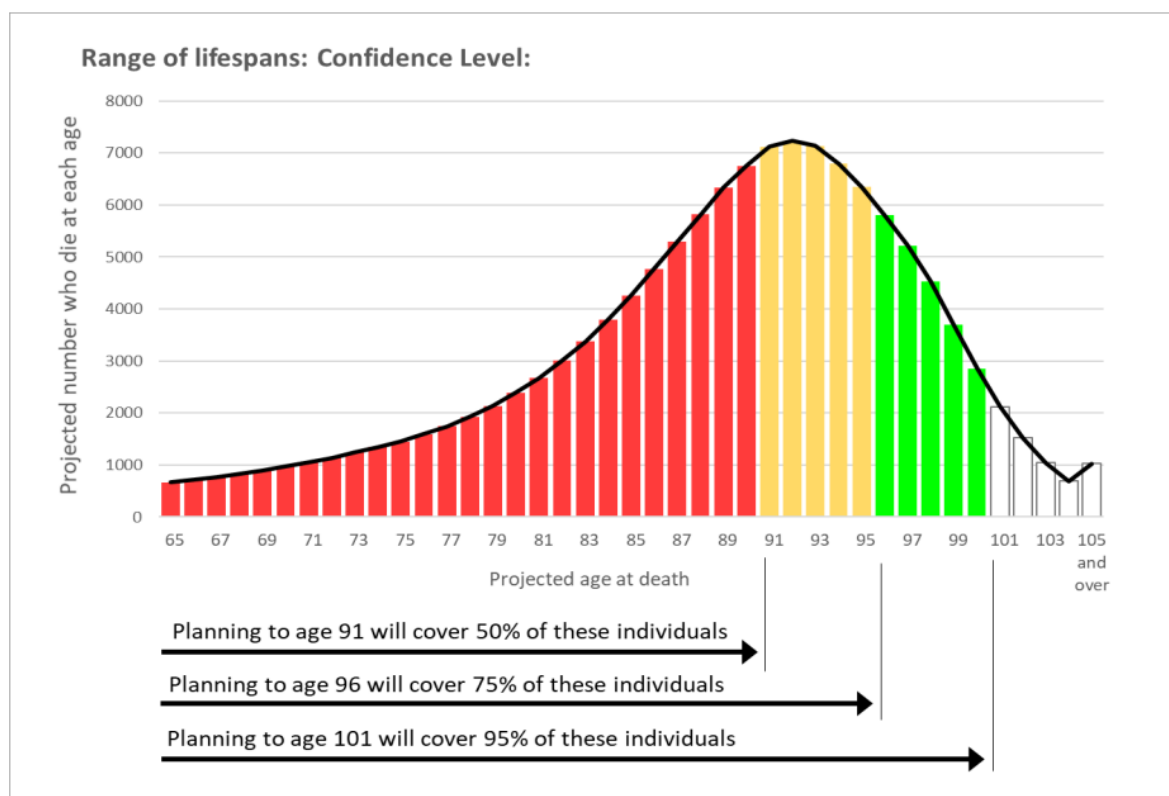
A fundamental issue in retirement is that each individual's lifespan ('period of retirement') ends at a different age. Age of death for each individual is unknown in advance.

Unless trustees can ensure that sustainable retirement incomes will last for the life of every member, it will continue to cause the uncertainty we have now about how long their money will need to last. A consequence of this uncertainty is that members then limit their spending and they do not get to enjoy the enhanced lifestyle that could have been possible from retirement savings.

Dealing with uncertain lifespans

There is a significant element of randomness to human lifespans. The following chart shows the range of actuarially projected lifespans for a large group of individuals entering retirement. This is produced using the Australian Life Tables. The chart demonstrates the extent of uncertainty for how long any individual within a group will live. Each individual doesn't know where they will land in this range, but all of them require confidence that their retirement strategy covers them.

Range of lifespans: Confidence Level¹



¹ Projections for 65 year old females using Australian Life Tables 2015-17, with 25-year improvement rates.

To provide Australians the confidence they need to spend their superannuation efficiently, retirement strategies need to be designed around this uncertainty². Average life expectancy is only a small part of the retirement picture.

The current 52AA(6) will, as a minimum, cause the industry confusion and, at worst, result in practices that only work for some retirees and are at odds with retiree needs and the objectives of the Retirement Incomes Framework and our country.

Please do not hesitate to contact me should you wish to discuss any part of this submission or to request further information.

Yours sincerely



General Manager

² The Retirement Incomes Review was specific about this need and, in response, assumed in their modelling that retirees all purchase longevity protection. P 522, 523 and 502.