



January 2022

Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 [Provisions]

ABOUT US

Super Consumers Australia (Super Consumers), formerly known as the Superannuation Consumers' Centre, is an independent, not-for-profit consumer organisation formed in 2013. Super Consumers was first funded in 2018. We work to advance and protect the interests of low and middle income people in the Australian superannuation system.

During its start up phase Super Consumers has partnered with CHOICE to deliver support services. Set up by consumers for consumers, CHOICE is the leading consumer advocate that provides Australians with information and advice, free from commercial bias.



Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Schedule 9 - Retirement Income Covenant

The Retirement Income Covenant is an opportunity to make it easier for all Australians to plan for their retirement. This can only be achieved if all trustees of retirement savings have clear obligations which require them to best maximise their members retirement income, manage risks to sustainability and ensure flexible access to savings. This will mean funds must develop strategies that address the previous failures of the retirement system.

Ensuring fairness in the system

Super Consumers Australia supports passage of the Bill with amendment. The Bill finds the right balance between discretion and prescription with regards to collecting member information and will put a greater onus on funds to deliver for specific cohorts of their membership. However the carve-out of over a million people in self-managed super funds (SMSFs) runs counter to the Retirement Income Review's finding that there has been insufficient attention given to assisting people to optimise their retirement income.

SMSFs have a significant portion of the funds under management in the retirement phase, totalling \$334 billion of the \$750 billion retirement pool.¹ The SMSF sector is also responsible for \$35 billion in benefit payments per year.² The median age of an SMSF member is 60.6. With such a high percentage of SMSFs in the retirement phase, this proposal would see a large number of people in and close to retirement miss out on important planning and assistance. If the intention of the retirement income covenant is to ensure all people are maximizing their savings, it must not leave behind the one million members in SMSFs.

The Retirement Income Review identified an important system wide principle on which a sustainable retirement system should be founded. Namely, that people should be using their retirement savings for retirement income. This is especially the case given the significant tax concessions people are granted in order to 'self fund' retirement. The earlier draft of the Retirement Covenant rightly included all retirement savings and established basic principles, which would ultimately assist people to maximise their retirement income. Later amendments carved out SMSFs, where average balances are \$701,234³ compared to \$86,903 for the rest of

¹ SMSF Annual Overview data tables, 2018-19

² SMSF Annual Overview data tables, 2018-19

³ SMSF Quarterly Statistical Report September 2021, ATO



the system.⁴ This carve out risks creating a two tier system in which some of the wealthiest savers have no obligations to maximise their retirement income.

Improving outcomes for people in SMSFs

The Retirement Income Covenant is an opportunity to significantly improve the SMSF market. SMSFs are good for some, but aren't a 'whole-of-life' solution in the vast majority of cases. For years the peak industry body, the Self Managed Super Fund Association (SMSFA), has rightly made the case for SMSF trustees to consider relevant retirement strategies, such as cognitive decline, exit strategies and death nominations.⁵ Given the extra time this bill now has for consideration there is an opportunity to address these issues.

Recommendation

That the principles of the Retirement Income Covenant apply to SMSFs, and it requires SMSF trustees to consider key retirement objectives as well as an exit strategy, cognitive decline, enduring attorneys and death nominations.

The need for an independent guidance service

The Retirement Income Covenant is likely to lead to a large expansion of the range of retirement products available to people. The Retirement Income Review found that people battle significant complexity in retirement planning. This expansion of offerings is likely to increase complexity and without improved guidance is unlikely to translate into consumers taking up more appropriate offers.

At the moment it is very difficult to get independent strategic and product advice outside of paying for individual financial advice. Individual advice will remain an important resource for some consumers to navigate the complexity of retirement planning, but it is not the solution for all. Super Consumers Australia research found that about a quarter of pre-retirees looked to experts to help them with retirement planning. Around 37% preferred to take on the task themselves, primarily due to a lack of trust in advisers and super funds to give them unbiased information.⁶ MoneySmart and other government resources provide some good independent, albeit limited, strategic guidance for the rest of the population, but not product level

⁴ APRA Annual superannuation bulletin June 2020 - highlights

⁵ https://www.smsfassociation.com/news-articles/when-you-should-close-your-smsf?at_context=49448 ,
https://www.smsfassociation.com/media-release/elder-abuse-needs-national-approach?at_context=49448,
https://www.smsfassociation.com/wp-content/uploads/2018/03/SMSFA-submission-to-ALRC-elder-abuse-discussion-paper_FINAL.pdf

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recommendations. This leaves a significant gap for people looking for quality independent information to help them self-manage their retirement planning.

Super Consumers Australia is aware of some industry calls to broaden the scope of intra-fund advice. We'd encourage policy makers to proceed with caution with this approach as there is an inherent conflict in allowing funds to provide guidance on their own products. By way of a simple example, a fund in which the average member has a very low retirement balance may justify only providing an account based pension in the retirement phase on the grounds that this is the best solution for its members. This fund has no incentive to inform its customers about other types of products that may help them achieve their retirement goals. This would be a disservice to members in cohorts which the fund has decided aren't significant enough to develop specific strategies. Without independent guidance these groups of consumers may not look beyond the products their fund has on offer, which may be totally inappropriate for their needs.

We see a strong need for a new model to provide conflict free, affordable information and guidance at scale. Consideration should be given to the benefits of establishing a model in Australia similar to the UK Money and Pensions Service.

The Pension Wise service in the UK gives people access to free, impartial, specialised guidance - delivered face to face or over the phone - about their pension options. It also provides a free, online tool to help people choose how to access their pension money, including a product comparison tool. This model was a result of an industry wide consultation process determined necessary following the introduction of new 'pension freedoms' which provided people with more flexibility in accessing their pension pots.

Given we are about to start a new market of new retirement income products for people, Australians are going to be in the same position as UK consumers. Equally middle Australians could benefit from a service which provides access at scale to independent and conflict free guidance.

Recommendation

As we start a new market of new retirement income products, it must be complemented with a new model to provide conflict free, affordable information and guidance at scale.

One method to address this is to amend the Quality of Advice review draft terms of reference to examine how this could be achieved.