



Mercer Consulting (Australia) Pty Ltd
ABN 55 153 168 140
Collins Square
727 Collins Street Melbourne VIC 3008
GPO Box 9946 Melbourne VIC 3001
[REDACTED]
[REDACTED]
[REDACTED]
www.mercer.com.au

Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

5 February 2019

Subject: **Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018**

Dear Sir/Madam

I refer to our previous submission to the Committee dated 18 January 2019.

In the light of some other submissions made to the Committee, we wish to make the following points in relation to the proposed amendments in Schedule 1 of the Bill.

- The means tests for the age pension need to consider a range of possible investment and income products chosen by retirees.
- Under the current arrangements, only one longevity product is considered; namely immediate lifetime annuities. Such an arrangement has limited the development of innovative products. Indeed, many previous reports and commentators have lamented the lack of product development in Australia's post-retirement market.
- New products have been developed including Mercer's LifetimePlus pooled longevity product and Challenger's deferred annuities. However, these products are not catered for by the current means test rules, thereby limiting their attractiveness in the market.
- It should be noted that longevity products need special treatment (as currently occurs with immediate lifetime annuities) as the income streams represent a combination of capital repayments, investment income and mortality credits. That is, they are not a pure investment product.
- This need is recognised in the current means tests with special (and rather complex) treatment of annuities. The proposed amendments are much simpler and, for annuities, are in fact slightly less attractive for retirees than the current rules.
- Legislation to extend the superannuation investment earnings tax exemption to qualifying deferred annuities has already been passed with bipartisan support, thereby providing the opportunity for such products to be offered in the marketplace. However, the absence of appropriate means tests treatment for these products has limited their attractiveness.
- The introduction of the new means tests set out in the Bill would not mean that retirees would purchase such products without appropriate disclosure and advice. This does not happen today with immediate annuities and there is no reason to suggest that such activity will happen in the future.



Page 2
05 February 2019
Senate Economics Legislation Committees
Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018

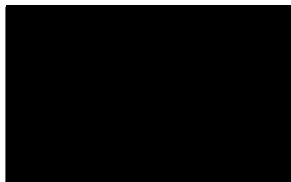
- Furthermore, we do not believe it is reasonable to suggest that passage of these adjustments to the current means tests would automatically lead to the implementation of any particular new framework for the offering of a CIPR product. There remains considerable work to be undertaken by the Government and industry in the development of a retirement income covenant for trustees and the framework for a CIPR product, after which any proposed changes to the legislative regime would be presented to Parliament for approval.

However, in developing this framework in future years, it is important that the taxation and social security treatments of possible products are known in advance. Otherwise product development will be severely hampered and the future discussion will have much less clarity and focus, to the detriment of future Australian retirees.

For the reasons set out above, Mercer strongly supports the proposed amendments to Schedule 1 of the Bill and urges the Committee to endorse the Bill as it currently stands.

Please contact me [REDACTED] if you would like to discuss this submission.

Yours sincerely



Dr David Knox
Senior Partner