Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021

Submission to:
Senate Economics Legislation Committee
7 January 2022

SUBMISSION

Challenger operates three core businesses dedicated to providing our customers with financial security for a better retirement. We are the country's leading and most recognised provider of retirement income to Australian retirees. Challenger's leading market position comes from our guaranteed income products (annuities), our retirement focused retail bank, and our funds management business, which is a leader in actively managed income and growth strategies.

We strongly support the passage of the *Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021* (the Bill). If passed, the Bill will implement the Corporate Collective Investment Vehicle Framework (CCIV) and the Retirement Income Covenant (RIC), both critical pieces of reform that were first recommended in 2009 - *Australia as a financial centre: Building on our strengths* (the Johnson Report), and in 2014 - *Financial System Inquiry* (the Murray Inquiry), respectively.

Retirement Income Covenant

Despite grappling with the broader economic impacts of an ageing population, Australia has a world class pensions system that is broadly adequate, sustainable and well governed.[1] At $3.4 trillion, Australia has the fifth largest pool of pension funds in the world. Overall, superannuation members in Australia, particularly in the accumulation phase, enjoy strong net-of-fees returns and adequate protection from risks to their source of income or from premature death.

Members entering the retirement phase of the system do not fare as well as their counterparts in accumulation. There are limited products to choose from, and the main product available – the account-based pension - encourages an inadequate drawdown strategy and leaves the unique risks faced by retirees, such as inflation, market sequencing and longevity, exposed and unmitigated.

The Government's 2020 Retirement Income Review (RIR) stated that "superannuation savings supported by tax concessions are for the purpose of retirement income ... yet most retirees leave the bulk of the wealth they had at retirement as a bequest."[2]. The RIR concluded that policy measures such as the RIC could address this by giving retirees the confidence to spend their superannuation savings over the course of their retirement, as intended.

Retirees who have the confidence to spend more of their savings will enjoy a higher standard of living in retirement, and this in turn will be good for the broader economy. If all the current retirees in APRA funds drew down only an extra 1.5% of their super balance each year, this would equate to an aggregate extra $7.3 billion in spending, which would have a multiplier effect in the economy of 1.2 in the first two years. Not only is this in the best interests of retirees, this sort of boost to the economy could be critical in a post-pandemic recovery[3].

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[1] Mercer CFA Institute Global Pension Index 2021, page 28.

[2] Retirement Income Review Final Report July 2020, page 18.

[3] Jeremy Cooper and David Knox, 'Retirees should splash on themselves, and save the economy,' *Australian Financial Review*, 4 May 2021 (in print).

Since the Murray Report recommended a solution along the lines of the RIC, and the Government accepted the recommendation, more than 2 million Australian's have retired without the benefits that the RIC should deliver.[4] These include:

- new and innovative retirement income products that address or mitigate the unique risks that members face in the retirement phase;
- tailored approaches to communicating with members about their retirement needs and objectives; and
- assisting members into retirement strategies that will give them the confidence to spend.

By 2030, more than $1.3 trillion of super savings will have moved into the retirement phase as increasing numbers of Australians retire. Super is moving from supplementing the age pension to substituting it for an increasing proportion of retirees, with only 42% of over-65s currently on a full pension.

For those reasons, it is essential that Australia's superannuation system works as well for members in the retirement phase as it does for those in accumulation. The RIC is a significant step towards assuring that outcome. It is supported across the superannuation industry, reflecting broad recognition of the importance of this legislation. It should be supported by both sides of Parliament and passed into law without delay for the benefit of all Australians.

Corporate Collective Investment Vehicle framework

The Johnson Report recommended the establishment of the Asia Region Funds Passport (ARFP) to facilitate cross-border trade in funds management in the Asia region, along with the establishment of a new corporate collective investment vehicle. The Government legislated the ARFP in 2018 and the regime commenced in 2019, when two other passport jurisdictions enacted their passport regimes.

The CCIV framework is a critical complement to the ARFP because the new structure will provide efficient tax treatment for offshore investors. The corporate structure of the vehicle is also universally recognisable, as compared with Australia's existing managed investment schemes, which adopt a trust structure that is unfamiliar to offshore investors.

The CCIV regime will be a gamechanger for Australian funds management in the Asia region. We expect it will increase the size of the Australian financial services sector by attracting overseas capital. Australia has the potential to be a regional leader in investment management, given the strength of our funds management industry and our enviable social, legal and governance environment. The CCIV regime will support and grow the Australian funds management industry in the rapidly expanding Asia region, creating local jobs and boosting the economy.

The review that led to the Johnson Report was established by the then Labor government in 2008, to examine the barriers to increasing Australian exports of financial services. The current Government accepted the recommendation and in the 2016-17 Budget, as part of the Ten-

[4] https://www.abs.gov.au/statistics/people/population/national-state-and-territory-population/jun-2021

Year Enterprise Tax Plan, announced it would legislate a framework for two new types of collective investment vehicles - the CCIV and a limited partnership collective investment vehicle. The current Government then reconfirmed its commitment to the CCIV regime in the 2021-22 Budget, announcing a commencement date of 1 July 2022 for the new regime.

Like the RIC, the CCIV reforms are long overdue, are broadly supported across the industry and will boost the Australian economy at this critical time. As with the RIC, the CCIV reforms should be supported by both sides of Parliament and passed into law without delay for the benefit of all Australians.

Challenger looks forward to continuing to work with the Government, wider industry and regulators to support these critical reforms, which are in the best interests of both Australian retirees and the broader economy.