



Senate Standing Committees on Economics

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Senate Standing Committee on Economics Inquiry into Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021

Cbus welcomes the opportunity to comment on the Retirement Income Covenant provisions contained in the Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021.

About Cbus

Cbus has the proud history of being one of Australia's first industry super funds. Cbus was formed in 1984, when building and construction workers won the right to superannuation. Today, we have grown into a leading industry super fund, open to all while maintaining a focus on the industries that build Australia. We work hard to make sure that the super system is delivering for our members. Our members include workers and retirees, their families and employers. Cbus, with more than 779,000 members, is one of the best performing funds, with investment performance for our Growth (Cbus MySuper) option of 9.25% per annum since inception in 1984 to 30 June 2021. The Growth (Cbus MySuper) option has returned 19.34% for one year to June 30, 2021 the highest returns in the fund's 37 year history.

Summary of our submission

Cbus:

- Supports the introduction of a new Retirement Income Covenant
- Supports the removal of mandatory requirements to develop and offer a CIPR product
- Welcomes the recognition that the Age Pension provides sufficient longevity protection for some members
- Recommends that Government agencies share member information with funds, with member consent, to enable funds to implement retirement income strategies
- Recommends that the introduction of the Retirement Income Covenant occur in conjunction with changes to superannuation policy and regulatory settings that are required to protect members and enable funds to implement retirement income strategies. In particular, change is required to:
 - Support members to move from viewing superannuation as the accumulation of a retirement savings balance to being about providing retirement income
 - Facilitate expansion and innovation in the use of retirement income estimates
 - Facilitate access to intra fund advice about retirement income products
 - Introduce a performance test for retirement income products
 - Refine the recently introduced anti-hawking regime which will hamper funds' ability to implement retirement income strategies

These issues are interdependent and must be addressed holistically.

Cbus members

Cbus members' experience of work and their path to retirement is unique. Compared to the general population, a typical Cbus member is more likely to experience non-payment or underpayment of superannuation, as well as insecure work. Compared with the general population of the same age, older Cbus members are typically more likely to experience an early and unplanned retirement due to health issues, difficulty managing the physical demands of manual work and struggle to find suitable work opportunities/hours.

These differences have several potential impacts on their retirement including a higher incidence of health care needs as pre-retirees, denial or uncertainty about working prospects as they transition to retirement, and increased vulnerability to financial hardship due to the gap between retirement, preservation age and age pension eligibility age.

These factors combined leave a typical Cbus member with lower average retirement savings than the general population throughout their working life and retirement.

Given the unique characteristics of Cbus members, Cbus welcomes the decision to provide Cbus with discretion in the development of the fund's retirement income strategy, including how the fund collects information about members, the design of retirement income products and the provision of assistance to members.

Need for a holistic approach

The introduction of the Retirement Income Covenant is occurring alongside other significant developments in the policy and regulatory settings for the superannuation system:

- The introduction of the member outcomes regime, which covers retirement income products, in 2020 (and thus any new products or offerings introduced as part of refreshed strategies)
- The introduction of product design and distribution obligations, which apply to funds when offering retirement income products, in 2021
- The introduction of a new and significantly expanded anti hawking regime, which applies to funds that offer retirement income products, also in 2021
- ASIC is currently reviewing the policy and regulatory settings for retirement income estimates for the first time in over a decade
- Treasury is establishing the terms of reference for a review of the policy and regulatory settings for financial advice, a significant category of which is retirement advice
- The Government has proposed that Treasury will commence a consultation on whether to introduce performance testing for retirement income products in 2022

However, each of these developments has occurred without adequate consideration of the broader context. There is a need to consider how these developments will impact funds' ability to implement retirement income strategies in order to improve retirement outcomes for their members. This is discussed in detail below.

Role of Age Pension for many Cbus members

Cbus also welcomes the recognition in the Explanatory Memorandum that for some cohorts of members, the Age Pension provides adequate longevity protection. The Age Pension plays a critical role in the provision of retirement income to Cbus members, contributing 40% of retirement income for a typical Cbus member. However dependence on age pension is likely to be even higher considering that

many low balance members made a full cash withdrawal during the early release scheme, and will be increasingly likely to be fully reliant on the Age Pension.

Given this recognition it is disappointing that ASIC has recently proposed removing the ability of funds to include Age Pension entitlements in some retirement income estimates. This is addressed below.

Working together to bridge the data gap

Members' needs in retirement depend on a number of personal preferences and personal characteristics. Government agencies including Centrelink and the ATO collect and hold a significant amount of information directly relevant to members' employment, income and retirement. Government agencies should, with members consent, share relevant information directly with a member's fund. This would enable funds to pre-populate online forms and tools for members, which would support members to better understand their financial position before and in retirement. It would also enable funds to support members with more personalised guidance. For example, a range of factors determine a member's Age Pension entitlement, most of which are not visible to trustees. Whilst averages and publicly available data may help with the development of a retirement income strategy, members need assistance based on their own circumstances. The ATO has already introduced this approach for income tax returns which are prepopulated with individual taxpayer data from a range of sources.

Aggregate de-identified member data could also be provided by Government agencies to superannuation funds to help inform cohort analysis. This would be more objective, comprehensive, accurate and detailed than reliance on member surveys.

Members who get assistance from their fund make better decisions

Retirement income products are inherently complex, and members need guidance and assistance to understand how they can maximise their retirement outcome. Our experience is that take up of retirement income products is significantly increased by the provision of assistance at the individual member level. Cbus' analysis of member outcomes found that members who received assistance were 11 times more likely to commence an income stream.

Intra-fund advice

The Retirement Income Review noted that funds are well placed to give members retirement advice. However, it is unrealistic to expect that a superannuation fund can deliver comprehensive financial advice to each member efficiently or cost effectively. The ability to provide intra-fund advice is vital in providing cost efficient, limited advice to more members about their retirement at scale. Given the compulsory nature of superannuation, and the cost of holistic personal advice, intra-fund advice provides significant benefit to members who otherwise would not get advice. Due to their typically lower than average balances, Cbus members have considerably lower rates of financial advice take up than the general population.

Cbus members tend to think of their financial situation in terms of their and their spouse's assets. This is particularly pertinent at retirement because eligibility for the Age Pension is determined at a household level. However current intra-fund advice cannot include advice about this. Intra-fund advice should be expanded to better allow superannuation funds to provide retirement advice, including:

- Advice about how a member can maximise their income – for instance, increasing Centrelink entitlements, including the use of longevity products where appropriate
- Retirement advice for a member's spouse.

Treasury has recently released draft terms of reference for a review of the quality of financial advice. Whilst the draft terms of reference state the review should have regard to the Retirement Income Covenant, given the compulsory nature of superannuation the review should explicitly consider how to provide retirement advice to more Australians and the role that superannuation funds have in providing this assistance to their members

Retirement advice is the most significant area of financial advice. The review of the policy and regulatory settings for advice should not be dealt with separately from the introduction of the Retirement Income Covenant.

Retirement income estimates

The Retirement Income Review noted that retirement income estimates can help people think about superannuation in terms of income rather than as an asset, and help people plan for retirement.

Since 2016, many Cbus members have received a personalised digital video retirement income estimate accompanying their annual statement. Member feedback about these videos has been strong, with results from our 2019 program survey overwhelmingly positive about the video received. Three out of four members said the video helped them understand the actions they needed to improve their financial position in retirement. A further one out of three members said they preferred watching the video to reading their annual statement.

While the RIEs have proven to be extremely valuable in their current form, there is room for improvement. The calculation and assumptions basis stipulated within ASIC Class Order 11/1227, alongside the intended target audience and delivery restrictions, limit the effectiveness of RIEs in providing guidance to members. We recommend that funds should be permitted to:

- Provide RIEs to members at more regular intervals and on demand, for example through our online portal secure area and when members reach preservation age.
- Provide RIEs that demonstrate the impact of additional contributions, premium costs, investment choices, difference retirement ages, etc on their estimated retirement income.
- Provide RIEs that are personalised to a member's actual situation, for example RIEs that use their actual investment option.
- Provide 'sliding doors' RIEs that compare the impact of different decisions at retirement, for example the impact of commencing an income stream versus withdrawing a lump sum and the impact of different retirement income products.
- Provide retirement income estimates to decumulation members, for example providing estimates to retired members on how long their superannuation income will last
- Provide RIEs that include an estimate of a member's age pension entitlement over time.

ASIC has proposed to address some of these issues in Consultation Paper 351: Superannuation forecasts. However, ASIC's proposals do not address all of these issues and has explicitly prohibited superannuation funds being able to promote their retirement products to members via calculators or retirement income estimates. Cbus intends to make a submission to the ASIC consultation and will provide a copy of our submission to this Committee.

The review of the policy and regulatory settings for retirement income estimates should not be dealt with separately from the introduction of the Retirement Income Covenant, or the review of the policy and regulatory settings for financial advice.

Refinements to anti hawking laws

In 2021 the Government introduced reforms to the anti-hawking regime. The objective of the regime is to prevent high pressure sales of financial products that are poor quality or inappropriate for the consumer. Cbus supports this objective.

However, the reforms hamper Cbus' ability to implement a retirement income strategy because it constrains our ability to communicate with existing members about our award winning pension product.

The member outcomes regime requires funds to undertake and publish an annual assessment of outcomes provided to members. APRA expects that this includes separate cohort analysis for members that hold each retirement income product a fund offers, and should assess product delivery against strategic objectives of maximising income, managing risk and providing capital flexibility. APRA expects the metrics for this analysis to include performance measures– net investment returns on an absolute basis and relative to risk/return targets over different time periods. For annuity products, APRA also expects funds to use metrics that measure the long term sustainability of the product, including trends in the pool of members that hold the products (APRA SPG 516, *Outcomes Assessment*).

The product design and distribution regime requires funds to prepare a target market determination for each retirement income product the fund offers and take reasonable steps to ensure that each product will be distributed to the target market identified by the fund.

The application of the anti-hawking regime should be refined in light of the introduction of the Retirement Income Covenant, the member outcomes regime, and the product design and distribution regime. Refinements to the anti-hawking regime are required to enable Cbus to communicate with existing members who are approaching retirement to help them to make well informed decisions that will maximise their retirement income.

If you have any questions about this submission please contact Zach Tung, Public Policy Adviser at

[REDACTED].

Yours Sincerely

Robbie Campo
Group Executive Brand, Engagement, Advocacy and Product