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15 December 2021

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

Subject: Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 [Provisions] – Schedule 9

Dear Senators

Thank you for the opportunity to comment on the provisions of the Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021 (Bill).

In this submission, we will comment only on Schedule 9 relating to the Retirement Income Covenant.

In brief, Mercer strongly supports the introduction of the Retirement Income Covenant effective from 1 July 2022, as provided for in Schedule 9, and urges the Australian Parliament to pass the required legislation to introduce the Covenant as soon as possible.

Who is Mercer?

Mercer is one of the world's leading firms for superannuation, investments, health and human resources consulting and products. Across the Pacific, leading organisations look to Mercer for global insights, thought leadership and product innovation to help transform and grow their businesses. Supported by our global team of 22,000, we help our clients challenge conventional thinking to create solutions that drive business results and make a difference in the lives of millions of people every day.

Mercer Australia provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have over \$280 billion in funds under administration locally and provide services to over 2.2 million

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superannuation members and 15,000 private clients, including the Mercer Super Trust, which has around 230 participating employers, around 200,000 members and more than \$29 billion in assets under management.

Schedule 9 - Retirement Income Covenant

Mercer strongly supports the introduction of the Retirement Income Covenant into the Superannuation Industry (Supervision) Act 1993.

The Australian superannuation industry has developed strongly since the introduction of the Superannuation Guarantee in 1992. It is well respected around the world and ranked sixth out of 43 retirement income systems in the 2021 Mercer CFA Institute Global Pension Index. Yet, the current legislation does not have a focus on the provision of retirement income. This shortcoming has been recognised by several reviews, from both within Australia and overseas.

For example, the recent Retirement Income Review noted:

“People lack an adequate framework to guide their decision-making in planning for retirement and when in retirement. ... The proposed Retirement Income Covenant envisages creating a legal obligation on superannuation funds to consider their members’ needs in retirement.” Page 415

“A range of measures could help people have the confidence to use their assets more effectively, including focusing retirement planning on income streams rather than balances, better quality and more accessible advice and guidance, and advancing the concept of the Retirement Income Covenant so funds guide members into effective retirement strategies.” Page 19

“Implementing the Retirement Income Covenant would provide a decision-making framework to assist people at retirement.” Page 462

Hence, although the Review was asked not to make recommendations, it clearly indicated that the Retirement Income Covenant would fulfil a very useful purpose in providing Australians with improved retirement outcomes.

A review of the Australian superannuation system in 2019 by international pension experts from the International Centre for Pension Management based in Toronto, Canada, wrote a report entitled *Outsider’s View on the Australian Pension System*. It commented that:

“The retirement system in its current form is also relatively young though, and as it is set up as a ‘savings machine’, the transition into a proper retirement income provision appears more and more of a quantum leap.”

“The boards of trustees of superannuation funds are facing important issues including the implementation of a trustworthy and effective decumulation phase with the proper derisking, member guidance and communication that goes with it.”

This international review recognised that the Australian superannuation system has to take a significant step forward in developing a greater focus on the decumulation (or retirement) stage.

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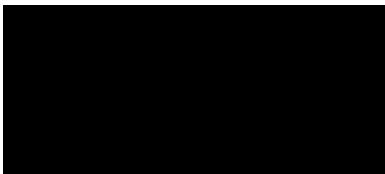
Finally, the Actuaries Institute in their paper of August 2021 entitled *Securing Adequate Retirement Incomes for an Ageing Australia*, advocated the following Policy Position:

“Introduce a Retirement Income Covenant: The Institute supports the introduction of a Retirement Income Covenant. Superannuation funds should be required to have an appropriately designed retirement strategy and make available to their retiring members a variety of retirement solutions appropriate to their circumstances.

In view of this strong and widespread support for a stronger focus on the development and provision of retirement income within the superannuation industry, Mercer urges the Australian Parliament to pass the required legislation to introduce a Retirement Income Covenant as soon as possible. It is noted that this would introduce the fourth covenant within Section 52 of the SIS Act, alongside the existing covenants relating to investment, insurance and risk management which are included in the operating rules of registrable superannuation entities.

We would be pleased to present to the Committee or discuss any aspect of this submission with you.

Yours sincerely,



Dr David Knox
Senior Partner