



6 August 2021

Director  
Retirement, Advice and Investment Division  
Treasury

By email: [superannuation@treasury.gov.au](mailto:superannuation@treasury.gov.au)

## Consultation on the Retirement Income Covenant

Thank you for the opportunity to provide a response to the retirement income covenant position paper.

Rest is a major profit-to-member industry superannuation fund with around 1.8 million members – or around one-in-seven working Australians – that manages assets of more than \$66 billion (as at 30 June 2021), and is passionate about improving the retirement outcomes of our members.

Rest supports the principle that superannuation funds should consider the retirement outcomes of their members, as part of an objective of helping members to achieve their best possible retirement. To the extent that this can be supported by superannuation funds, superannuation funds should turn their minds to these long-term goals. We welcome the shift away from a prescriptive model as previously proposed, and towards a principles-based approach that can be responsive to the needs of our members.

The retirement income covenant paper provides valuable insights into the expectations by Government of superannuation funds in considering the retirement outcomes of their members. In the attached appendix, this submission provides comments on these expectations and the proposed retirement income covenant.

To discuss any aspect of this submission, I invite you to contact Sarah O'Brien, Head of Regulatory Affairs directly on 0400 399 330 or via email on [sarah.o'brien@rest.com.au](mailto:sarah.o'brien@rest.com.au).

Yours sincerely,

A handwritten signature in black ink that reads "V. Doyle".

**Vicki Doyle**  
CEO

## Appendix – Comments on the retirement income covenant position paper

### The membership profile of a fund should be key

The profile of Rest members gives us the opportunity to understand and provide a perspective on the superannuation and retirement experiences of casual, part-time and lower-income workers, women and those in regional Australia. Typically, Rest members have lower account balances than the average, with all members approaching retirement<sup>1</sup> having an average balance of around \$97,000, and women in that group an average balance around \$87,000.

We also note that over time, the use of average balances in superannuation to model policy has not been particularly useful. The use of averages in this context distorts the image of many Australian's lived experience of superannuation savings and planning for retirement. As the final report of the Retirement Income Review notes<sup>2</sup>, the number of superannuation balances significantly above the \$1.6 million transfer balance cap continues to grow. This means that consistently in superannuation the median balances in superannuation are below what is represented by averages, and significant numbers of Australians, especially those with insecure or variable work patterns, have balances much lower than the average. We therefore recommend that the obligations under the retirement income covenant incorporate consideration of retirement savings at lower balances.

For many Rest members, as we demonstrated in our submission to the Retirement Income Review consultation paper<sup>3</sup> in February 2020, patterns of casual, part-time and lower-income work result in lower, below average, balances, meaning that superannuation and other savings will be insufficient to provide long-term income in retirement. The Age Pension will therefore continue to play a vital role in ensuring financial security in retirement.

When coupled with the Age Pension, compulsory superannuation makes a significant difference to the lives of many Australians in retirement. With the Age Pension, even a low balance at retirement can be used to pay down debt, provide a lump sum for necessities, or an additional income stream for a period of time, that can make a significant difference to financial security and quality of life.

Strategies for retirement income for these members will therefore be different from what may be relevant for others in the Australian context, and expectations on funds to develop complex or aspirational strategies should be balanced against what is practical for the profile of members that form the membership base of the fund, or significant cohorts within that fund. For example, longevity products may not be appropriate for members with low balances, and account-based pensions may be more appropriate in these circumstances.

The development of strategies for retirement income should acknowledge that different solutions have different value and risk profiles, and that there is a 'risk transfer' element in pursuing annuity-style products in retirement, that is, the reduction in longevity risk comes with an increased cost over simpler account-based pension products, for example. Therefore, decisions on these products as part of a retirement income strategy should incorporate understanding of those costs, and therefore in what financial profile they may be appropriate.

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<sup>1</sup> Rest data as at 30 June 2021, balances for members aged 60-64

<sup>2</sup> Retirement Income Review, Final Report, November 2020, <https://treasury.gov.au/publication/p2020-100554>, pp. 242-244

<sup>3</sup> Rest submission to the Retirement Income Review, <https://treasury.gov.au/sites/default/files/2020-02/rest030220.pdf>

## Matters related to data availability

The retirement income covenant position paper indicates that strategies that a fund develops should have consideration of members' financial position outside the superannuation balance held in the fund, including house ownership, other assets, debt and social security position. Generally, this is not data held by superannuation funds for its members or may only be available on a small sample size. Furthermore, an exercise to collect and assess a significant amount of relevant data may be complex and costly for funds and may generally not be provided unless the member is obtaining comprehensive financial advice. These constraints should be considered when assessing the ability of funds to develop detailed strategies for retirement income.

Rest believes there is a challenge in the development of strategies that are appropriate to cohorts of members. Data collection on the basis of groups of members for the creation of strategies does not account for the diversity of experiences and situations that affect retirement and the decisions that need to be made. Differences in living arrangements, home ownership, the household context, health and other considerations mean that broad strategies may not take important factors into account, and data collection may not be the sole driver of the creation of appropriate strategies for many members. These limitations mean that the role of advice in retirement planning is vital.

Furthermore, significant factors in the experiences of retirement are health and aged care, and the costs of both. These factors, as noted by the Retirement Income Review<sup>4</sup> add to the complexity of planning and further drive the need for appropriate advice. Collection of the data anticipated by the position paper does not address the complexities of the interactions of retirement income and the aged care and health care sectors.

## The importance of affordable, appropriate advice

As noted above, the role of advice in supporting Australians to plan for retirement has the potential to add considerable value. Affordable, appropriate advice over a lifetime, not just at the time of planning for retirement, will help superannuation fund members to maximise their retirement income potential, but also inform attitudes and behaviours towards using their retirement savings effectively, rather than developing behaviours around conserving savings. Similarly, the framing of the retirement income covenant could support the superannuation industry to initiate a conceptual shift away from superannuation as a 'nest egg' to 'income support' or similar. These longer-term objectives will drive the success of supporting Australians to access the optimal strategies for their own circumstances.

Simple intra-fund advice makes a real difference to those with relatively lower superannuation balances and income to maximise their retirement outcomes when coupled with the Age Pension. It also provides valuable guidance to members on managing their superannuation. However, the restrictions on the scope of intra-fund advice mean that the full value of access to knowledge and information may not be realised. In particular, the extension of intra-fund advice scope to include advice on the primary financial decisions related to transitioning to retirement would be of value. Options to include, for example, the considerations of a spouse's superannuation, fund consolidation, and downsizing contributions into superannuation as part of low-cost intra-fund advice, could have a considerable benefit to fund members.

We therefore recommend that the forthcoming Quality of Advice review specifically considers these issues in relation to the retirement income covenant, to provide superannuation funds with the scope to improve access to affordable advice and assisting members with planning for retirement. The review should be brought forward to inform the commencement of the retirement income covenant.

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<sup>4</sup> Retirement Income Review, Final Report, November 2020, <https://treasury.gov.au/publication/p2020-100554>, p 17

In addition, superannuation funds will require guidance in relation to the retirement income covenant and the provision of advice, as well as managing anti-hawking obligations. The position paper indicates that the strategies that superannuation funds develop will be based on information about our members, and that trustees will have an 'obligation to assist', not merely that trustees have services and guidance available to members. We therefore recommend that Government consider the guidance that trustees will need in order to manage and balance these obligations.