



Retirement Income Framework

Australians will be able to enjoy higher standards of living in retirement under the Government's new framework for retirement income. The retirement phase of the superannuation system is currently under-developed. There is limited availability and take-up of products that manage the risks people face in retirement, in particular the risk of outliving their savings. As a result, most people invest their superannuation savings in an account based pension and withdraw only legislated minimum amounts, without being aware of all the choices.

Boosting retirement income choices

The Government is developing a retirement income framework to increase flexibility and choice for retirees and help boost living standards. The framework will ensure retirees have more retirement income products to choose from and the information they need to make a choice. New Age Pension means testing rules for pooled lifetime income streams will also support innovation in retirement income products.

These steps build on changes made in the 2016-17 Budget to extend the tax exemption on superannuation earnings in the retirement phase to a wider variety of retirement income products.

Retirement income covenant

Currently there are no obligations on superannuation fund trustees to consider the retirement income needs of their members.

The Government will introduce a retirement income covenant in the Superannuation Industry (Supervision) Act 1993, requiring trustees to develop a strategy that would help members achieve their retirement income objectives. This will focus the industry on providing a higher standard of living for retirees.

The covenant will require trustees to offer Comprehensive Income Products for Retirement (CIPRs): products that provide individuals income for life, no matter how long they live.

The Government is releasing a position paper for consultation shortly, outlining its proposed approach to the covenant.

A new approach to product disclosure

The Government will also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income products.

Means testing for lifetime products

From 1 July 2019, new Age Pension means testing rules will be introduced for pooled lifetime income streams. The rules will assess a fixed 60 per cent of all pooled lifetime product payments as income, and 60 per cent of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30 per cent for the rest of the person's life.

These new rules will provide industry with the confidence and stability to develop innovative products that can help retirees manage the risk of outliving their income, while ensuring a fair and consistent means test treatment of all retirement income products. These changes also pave the way for the development of CIPRs.

Retirees will have more choice and flexibility in retirement income products to meet a wider variety of needs and to help boost their living standards.

The means testing for lifetime products measure is estimated to have a cost of \$20.2 million over the forward estimates. The retirement income covenant and product disclosure framework measures have no impact on expenditure.

More Choices for a Longer Life Package

Making Ying's super work harder in retirement

Ying is 65 and approaching retirement. Ying has \$350,000 in her superannuation fund, BestSuper.

Status quo

Under the current rules, the trustee of BestSuper is most likely to recommend that Ying put her savings into an account-based pension. This is an investment account, which Ying can draw down throughout retirement. Ying doesn't know how long she will live and is worried she'll have to rely on the Age Pension if she runs out of money, so she only withdraws the minimum amount from her account each year, forgoing certain expenditure for fear of running out of money.

With planned reforms

Under the retirement income covenant, the trustee of BestSuper will be required to formulate a retirement income strategy for their members and develop a product that will provide income for life, no matter how long their members live.

Taking into account the new means testing rules, BestSuper creates a new product that would allow Ying to allocate 75 per cent of her savings (that is, \$262,500) into an account-based pension, and place the remaining 25 per cent into a deferred lifetime annuity. The combination of these products will provide Ying with higher income compared to drawing down the minimum amount and also give her confidence that she won't run out of money. By keeping 75 per cent of her funds in a flexible account, Ying is free to draw on her capital to pay for expenses like a new car, holiday or health care.

Ying receives information from BestSuper about the products they offer that enables her to easily compare them and choose the one that suits her situation.

Questions and answers

Q. Are these reforms starting now?

The new means testing rules will take effect from 1 July 2019.

The Government is releasing a position paper on the retirement income covenant for public consultation shortly. Once the covenant is legislated and the regulations finalised, the Government will ensure the industry has sufficient time to adjust before the legislation commences.

The Government will consult on new disclosure requirements prior to implementation.

Q. What will the retirement income covenant mean for industry?

Superannuation funds will be required to develop a retirement income strategy to assist members to meet their retirement income objectives

The retirement income covenant will operate alongside existing covenants in the SIS Act, such as investment and insurance covenants. Offering a CIPR would be a core part of how trustees implement the retirement income strategy they have developed for their members.

Q. Will people be forced to take up a CIPR at retirement?

No. People will not be required to take up a CIPR upon reaching retirement. The introduction of CIPRs will simply increase the choice of retirement products available and improve access to retirement products that efficiently manage longevity risk to meet a wider variety of retiree needs.

Q. Will the new Age Pension rules affect people with existing pooled lifetime retirement income products?

No. Pooled lifetime income streams purchased before 1 July 2019 will be grandfathered. This is fair to people who bought the products based on the current rules and reduces business risks for product providers.