COMMITTEE FOR SUSTAINABLE RETIREMENT INCOMES

CSRI Sustainable Retirement Income Integrated Reform Programme

Outcome of CSRI Holistic Review

Policy Engagement 2015 - 2016

Consultation Draft

Contents

Foreword

In 2015, the CSRI led a consultation process with major stakeholder groups culminating in agreement at the National Reform Summit in August 2015 on a set of principles to guide reform of the retirement income system.[1] This built on the agreement reached earlier with key stakeholder groups at the inaugural CSRI Leadership Forum in June 2015.[2]

Since then, and consistent with the agreed principles, the CSRI has progressed a collaborative policy development process with the aim of building consensus on sustainable retirement incomes policies that go beyond the current budget or electoral cycles.

In doing so, the CSRI sought the input, and commissioned research, from a broad range of prominent industry, consumer and academic experts in developing policies to tackle the challenges. This research was presented and debated at a series of Policy Roundtables convened by CSRI, ASSA and StatePlus in April 2016.

Based on the research and discussions at theses roundtables and subsequent consultations with stakeholder groups, the CSRI subsequently developed four position papers:

Pursuing Adequate Retirement Income for All Australians

Encouraging Sustainability and Self Provision in Retirement

Making Income the Goal - Developing the Post Retirement System

Retirement Income System Review - Overview and Summary

The CSRI Second Leadership Forum on 12-13 October 2016 brought together leaders in public policy, industry and academia to debate how to secure a sustainable retirement incomes system for Australia and to explore alternative policy proposals. The above CSRI's policy positions were scrutinized and debated there and the broad conclusions of the Forum are summarised in a fifth document "*Securing Sustainable Retirement Incomes*" October 2016.

The purpose of the current document is to draw together the outcomes of the CSRI policy development and engagement processes over 2016 and 2017 with a view to stimulating discussion on directions for reform.

I would welcome any comments and suggestions on the policy conclusions contained in this document and the way forward.

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[1] Convened by the Australian Financial Review and the Australian Newspaper, with CSRI, ACTU, ACOSS, ACCI, AiG, BCA, Council of the Aging (COTA), and National Seniors.

[2] Academy of the Social Sciences, Australian Council of Social Service (ACOSS), Council of the Aging, Industry Super Australia and National Seniors Australia.

Policy Context

Issues to Be Addressed

Despite the strengths of Australia's retirement income system, there are deep challenges that have the potential to compromise its effectiveness and sustainability. Issues include:

- Many older people will live precariously, especially those without their own homes or who, for health or other reasons, are unable to keep working till age pension age.
- A quarter of a century since the introduction of compulsory super, serious weaknesses remain in translating accumulated funds into secure income streams that last a lifetime.
- Difficulties faced by people with interrupted careers, casual and part-time employees and the gender pay gap means women end their working lives with about half the savings of men on average and many face long years on very low incomes.
- The system shifts significant risk to individuals ill-equipped to manage it. The superannuation framework requires individuals to confront a complex set of financial decisions at and after retirement.
- With rising longevity, increasing years in retirement and low financial literacy, confusion about how much to save and how to manage it is rife.
- The sheer complexity of the system, together with the frequency of policy changes, contributes to high transaction costs and undermines confidence.
- The concept of retirement needs to be rethought in the modern age, which will have implications for the retirement income system.
- Increasing cost of the system to government and taxpayers.
- Rising longevity raises the problem of financing increased aged care costs.

There is an urgent need for a systems-wide perspective in shaping retirement income policies. Policy formulation that ignores broader implications and flow-on effects may result in unintended adverse consequences. Of particular relevance has been the tendency to consider public pension, taxation and superannuation regulatory reforms in separate domains, resulting in poor system integration, excessive complexity and often a failure to achieve their objectives because of countervailing effects in the other domains.

Constant piecemeal change and continued speculation around superannuation rules and age pension eligibility create great uncertainty for Australians in and near retirement. Member disengagement provides the opportunity for the system to be politicised and this in turn undermines community support for the system.

The absence of a clear overarching objective for the retirement income system that can support a consistent set of policies across the different parts of the system has been identified as a significant impediment to the development of good public policy.

In agreeing to legislate an objective for superannuation as providing income in retirement, the federal government has made the vital first step towards building a more sustainable system though an objective for the retirement income system as a whole would have been preferable.

The government has also developed a package of super tax measures to better target tax concessions to those who most need them consistent with the objective and lessening the call on the public purse. However, the paring back of inequitable tax concessions should be just the start of reforms that improve the adequacy and sustainability of retirement income for all Australians.

Policy Principles

Further reform is now important and should be pursued through constructive discussion of the inevitable trade-offs involved in designing a reform package if it is to deliver adequate and sustainable retirement incomes for all Australians.

To this end, following the agreement reached at the inaugural CSRI Leadership Forum 2015[3], the CSRI led a consultation process with major stakeholder groups culminating in agreement at the National Reform Summit 2015[4] on a set of principles to guide reform of the system. The agreed principles were as follows:

- Improving the safety net to the aged with unavoidably high housing costs and those below age pension age who are unable to secure paid employment and save for their retirement.
- Better targeting of social security payments in a way that retains incentives to work and save and does not distort the manner in which assets are held or used.
- Supporting the ability of older Australians to remain in the workforce and build adequate retirement savings, while recognizing some are unable to secure paid work while others contribute substantially to society through unpaid work.
- Facilitating transition to retirement while encouraging people to maintain sufficient savings for their retirement incomes.
- Setting the level of mandated contributions so that, together with the tax concessions, any age pension entitlement and any other government contributions, they deliver adequate retirement incomes for Australians while not imposing excessive costs elsewhere.
- Ensuring the design of the super tax concessions are consistent with the objective of the retirement income system in a way that preserves the integrity and progressivity of the personal income tax system.
- Balancing the need for flexibility in the way people use their superannuation savings with sufficient structure to ensure they are used for genuine retirement income purposes and mitigate market and longevity risks to retirement incomes and living standards.

System Objectives

CSRI considers that an appropriate overarching objective for the retirement income system is:

"*to provide adequate income through all the years of retirement for all Australians in a sustainable way"*.
This captures in one succinct statement the necessary elements of the system's objective in terms that may be understood widely.

- it focuses squarely on "*incomes*" in retirement rather than wealth accumulation per se;
- "*all the years of retirement"* emphasizes the importance of effective longevity risk management for financial security;
- *"for all Australians"* acknowledges the importance of equity*;*
- while recognising the need for an efficient retirement income system to be sustainable.

The following supporting principles are endorsed: that the system

[3] Academy of the Social Sciences, Australian Council of Social Service (ACOSS), Council of the Aging, Industry Super Australia and National Seniors Australia.

[4] Convened by the Australian Financial Review and the Australian Newspaper, with ACTU, ACOSS, ACCI, AiG, BCA, COTA, and National Seniors.

- Is fair, equitable and sustainable
- Helps individuals to manage financial risks
- Provides a sufficient degree of certainty with necessary safeguards

The need to clarify the purpose of superannuation is also recognised. The government's proposed objective *"to provide income in retirement to substitute or supplement the Age Pension"* is appropriate for that more limited purpose. This articulation however leaves open the question of what would constitute an adequate total retirement income. The development of adequacy measures together with definitions and measures for other aspects of the objective and principles, including sustainability and equity, is an important part of the process for implementing the agreed objective.

Policy Directions

The Committee for Sustainable Retirement Incomes (CSRI) held its second Leadership Forum on 12-13 October 2016. The Forum focused on three detailed papers which were prepared following a series of roundtables of experts and commissioned papers. The Forum identified wide agreement on a menu of further reforms to realise the full potential of Australia's still-maturing retirement incomes system: adequate, secure and sustainable retirement incomes for all.

The challenge is to convince politicians that the reform journey is not over given the passage of the 2016 superannuation tax package. This will require demonstrating extensive agreement among stakeholders, identifying a pathway of incremental steps that may gain bipartisan support, and being consistent with short and long-term budgetary imperatives.

The overall conclusion from the papers and the discussion at the Forum is that the top priority now should be on converting people's increasing superannuation balances into appropriate and secure income streams.

Adequacy

Based on this analysis, the CSRI concludes that the basic rates of age pension provide adequate poverty protection for home owners, but not for renters. Elderly people who are renting privately face significant financial hardship compared with home owners and those living in public housing. There is also concern about the adequacy of payments for older unemployed people who don't have disabilities but are unlikely to find work before they reach pension age. These concerns are difficult to address at present unless new offsetting budgetary savings can be identified.

'Adequacy' for income maintenance purposes, as opposed to protection against poverty, is less easy to benchmark. Modelling conducted for CSRI suggests that a 12% mandatory superannuation contribute rate will eventually deliver between 60% and 70% net income replacement (IRR) for men and couples on median earnings.[5] It will deliver higher than 60-70% IRR for women and those on lower incomes but only because their average working incomes are lower. Using 70% IRR as an adequacy benchmark therefore means most people can achieve 'adequate' retirement incomes with modest levels of voluntary savings above the mandated amounts.

Based on this work, the CSRI view is that the case for increasing the mandatory superannuation contributions above 12% is weak, noting this would reduce net incomes of many lower income families when they need the money more. The CSRI is also not persuaded that the mandated contribution should be lower than 12%, noting access to other savings to fund retirement incomes is likely to diminish, not increase, as mandated superannuation savings increase.

Superannuation balances are much lower for those with interrupted employment histories, particularly

[5] Phil Gallagher from Industry Superannuation Australia and formerly the head of Treasury's Retirement Incomes Modelling unit.

women, than for those with continuous lifetime careers. The gender gap is driven by differences in employment and wages, and these are compounded by the employment based nature of compulsory superannuation. Addressing the gap is therefore primarily an issue for employment-related policies, but the superannuation system could go further than the measures in the 2016 superannuation package (again, however, at some budgetary and economic cost). Consideration will need to be given to increasing the preservation age, and to further increasing the age pension age, with a view to improving adequacy and to find budgetary savings to direct towards remaining gaps in adequacy.

Policy Proposals: Adequacy

Safety net

1. The level of the basic age pension does not need to be further increased beyond earnings-related indexation.
2. Rent assistance does need to be increased for those in private rental accommodation;
3. Disability support pension should be kept in alignment with the age pension, recognizing its role for those unable to work to age pension age.
4. All payments (including Newstart) should be indexed on the same basis to maintain relativities with community incomes.
5. Consideration should be given to increasing the level of Newstart relative to the disability support and age pension.

Superannuation

6. The legislated increase in the mandated contribution rate should proceed, but only as real incomes increase and subject to total labour costs increasing no faster than national productivity.
7. The system should facilitate those on middle and higher incomes, and those with interrupted employment, to make additional contributions to accumulate sufficient savings for adequate retirement incomes within contribution caps.
8. Continued effort should be made to improve efficiencies within superannuation funds. This should also include educating individuals and making it easier to consolidate accounts.
9. Consideration should be given to applying mandated contributions to maternity benefits, carer payments, parenting payments and parental leave; to make it easier to split contributions between couples.
10. Consideration should also be given to further relaxing superannuation contribution caps for older workers with interrupted employment histories.
11. The translation of superannuation balances into secure retirement incomes needs to be greatly improved (see Post Retirement below).
12. In view of the difficulties that annual contribution caps, and rolling five year limits, place on people with interrupted work patterns, consideration should be given to developing a fairer system of lifetime contribution limits. Those approaching retirement within the next twenty years or so, whose mandated savings will be considerably less than 12% over their working lives, should also be encouraged to make voluntary superannuation savings.
13. Individuals should be encouraged to work and to contribute for longer to help fund adequate retirement incomes, suggesting a case for increasing the superannuation preservation age to move in line with increases in the age pension age. This would need to be accompanied by efforts to reduce employment barriers and improve employability of seniors.

Housing

The chance of retirees having an adequate income in retirement depends not only on their ability to make sufficient contributions to superannuation, but also their ability to finance a home purchase over their working lives. Home ownership is a significant determinant of adequacy and retirees derive considerable benefit from owning their own home.

While many retirees, particularly older women, have not had the benefit of contributing to super throughout their working lives, they may nonetheless have significant equity tied up in their homes. If such asset-rich, income-poor retirees could access this equity to supplement their retirement incomes, they would be able to live with greater security and well-being.

The CSRI highlights the home as the fourth pillar of the retirement incomes system, and suggests it could play a larger role. Few people currently take advantage of the home to increase their retirement consumption. Greater use of equity release products without jeopardising security of tenure or the capacity to access residential aged care if needed could help the asset-rich, income-poor group of the elderly. Government policy to facilitate the development of equity release should eliminate market impediments to these products educate the public about the benefits of accessing home equity and ensure appropriate regulations are in place to protect retirees from financial abuse.

While about 85% of retirees currently own their own homes, that proportion is likely to fall in future generations as housing affordability declines. From at least the mid-1980s there has been a discernible decline in home ownership rates and that decline has been most pronounced among younger age cohorts. In the 25 years since 1988-89, home ownership rates for households aged 25-34 years had fallen by 21 percentage points to below 39 percent. This decline in homeownership also needs to be accommodated in retirement incomes policy settings.

Home ownership is a fundamental determinant of living standards in retirement and declining homeownership is a matter of significant policy concern. Allowing super to be withdrawn for home deposits might improve young people's engagement with super, while encouraging better planning for retirement and helping to keep super funds competitive. However, in the absence of other measures, it has the potential to exacerbate the problem of housing affordability by further fuelling house price growth. The ability to direct some accumulated superannuation savings to pay off mortgages after reaching preservation age allows retirees to mix the way they draw on their savings in retirement and could offset some of the impending decline in home ownership by extending the period over which mortgages are repaid.

Policy Proposals: Housing

14. Housing should be regarded as a fourth pillar in the retirement income system, even if it is not expected to be directly drawn down during retirement.
15. Market-based options for people to increase their retirement incomes by accessing their home assets should be made easier and promoted by wider education. Principles based regulation could ensure security of tenure, appropriate disclosure, independent advice and consumer safeguards; government should also look to educate retirees about equity release products.
16. State governments should reduce stamp duty to make downsizing more attractive, and local government should review planning arrangements to facilitate the availability of housing priced and designed for local older residents interested in downsizing.
17. The Pension Loan Scheme should not be widened unless the family home is included in the pension means test; in that case, an extension to protect the income streams of those directly affected should be considered as a transitional measure pending the maturing of market-based equity release products.
18. Within limits, the opportunity should remain for accumulated superannuation to be directed to paying off outstanding mortgages after preservation age, but more general redirection of superannuation into housing should not be allowed.

Sustainability and Self Provision

The government's 2016 superannuation changes will go a long way towards better targeting tax concessions to those who most need them and improving the fairness of the system. Modelling commissioned by the CSRI reveals that the new tax regime has a remarkably similar impact at all income levels to the more orthodox approach to taxing retirement savings by exempting contributions and earnings in funds but taxing in full final benefits. That orthodox approach reflects the basic purpose of facilitating the spreading of lifetime earnings. While it would be impractical to apply the orthodox approach directly (given the tax structure pursued in Australia over the last 25 years), that the new regime broadly replicates it suggests that it provides a reasonable compromise solution.

The long-term fiscal challenge remains given the size of public debt and the ongoing pressures on the budget. Against that background, there may be a further argument for formulating proposals *now* to avoid the need for more significant and possibility ill-conceived responses in the future to meet a short-term fiscal or political objectives.

The policies outlined above for the post retirement system will set up the right environment for improving adequacy and sustainability of retirement incomes.

Means-testing the age pension ensures better sustainability of the retirement income system and concentrates taxpayer support on those in most need. A balance needs to be struck, however, between such concentration and ensuring reasonable incentives to work and to save. Despite the relatively high effective marginal tax rates involved, the case for relaxing the income test is not strong. There is little evidence of significant impact on employment amongst the aged and there are far more cost effective ways of improving employment including by increasing the preservation age, increasing the age pension age and investing more into the education and training of young people and the retraining of older workers. The most recent tightening of the assets test however is likely to have significant adverse impacts on savings behavior. The new taper above the thresholds reduce age pensions at the margin by more than what retirees can reasonably expect their savings to deliver, including from sensible drawing down of the savings over their retirement years. Those nearing retirement with expected savings around the wide taper range will be advised to limit further savings or to direct savings into their homes (which are exempt) in order to maximize living standards in retirement. There is a strong case for returning to the lower taper that operated before 2017 or, better still, to design a coherent merged means test where assets and incomes receive broadly equivalent treatment.

There is also a case on sustainability and equity grounds for including the family home in the age pension means test, so long as this can be done effectively. While traditionally seen as a political no-go zone, the idea of applying the age pension means test to the family home above a certain threshold received 50% support in a COTA survey of seniors. In saying this, the arrangements would need to be designed to ensure home owners have enough cash income remaining after accessing equity in their home so that they don't suffer a drop in income.

Consistent with the second principle agreed at the National Reform Summit, it would be possible to design a pension means test arrangement which included assets in the home above a high threshold without reducing access to adequate retirement incomes or upsetting security of tenure or access to aged care. If phased in by applying only to future retirees, such a test could be linked to phasing in a more coherent merged means test, and to addressing outstanding adequacy concerns, while further improving sustainability in the long term.

A more pernicious issue, however, is the combined impact of the superannuation, tax and social security systems on intergenerational equity. Despite higher overall levels of education, younger people now experience higher rates of unemployment, carry considerable student debt upon entering the workforce, and face interrupted careers in an increasingly casualised jobs market. Given those factors, they tend to enter the housing market later in life, if at all, and struggle to contribute continuously to superannuation. Further investigation is needed of the sustainability of the system considered against the test of intergenerational equity.

Policy Proposals: Sustainability and self provision:

Principles

19. There is a potential tension between the cost of incentives for the individual to encourage more self-provision and the net cost to the Budget. On the other hand, taxes or means tests which act as a disincentive to self-provision, should not be so high that their net impact on self-provision also comes at a net cost to the Budget. The aim therefore is to strike the right balance between the impact of incentives and disincentives on self-provision and their overall fiscal impact.
20. Given the likely pressure on the Budget for additional retirement income expenditures, it is especially beholden on policy makers to ensure the cost-effectiveness of all retirement income expenditures, including the tax expenditures.
21. Mandated superannuation contributions should remain an integral part of the superannuation system, although the level and timing of any further increase is subject to further consideration on adequacy grounds (see Adequacy above).
22. The Age Pension means test should not leave people worse off for having contributed to superannuation.

Superannuation Taxation Concessions

23. The superannuation tax regime to come into effect on 1 July 2017 will create a more sustainable and equitable superannuation system. There is little case for further change to the tax treatment of superannuation other than to look for opportunities to reduce its complexity. The challenge for government will be to resist pressure for further changes that would undermine the reform that has been made.

Age Pension Means Test

24. Income testing arrangements for the age pension work reasonably well and should not be substantially changed
25. The new assets test to come into effect from January 2017 effectively has too high a taper that discriminates against annuities, and is likely to encourage behaviour aimed at avoidance. Consideration should be given to introducing a merged means test that would encourage retirees to draw down their assets, and would support the adoption of Comprehensive Income Products in Retirement (CIPRs) and annuities. The improvements in self-provision would also lead to some long-term offsetting savings. The alternative would be to retain a separate assets test but modestly reduce the rate of reduction per fortnight for each extra $1000 of assets.

Housing and Pension Means Test

26. The value of the home is no different from any other asset, and in principle it should be included in the pension means test. Any proposal to include housing assets in the means test ought to be accompanied by action to enable the pensioner to tap the equity in their home to ensure their cash income is not reduced. (See Adequacy above.)
27. To effectively tap home equity, the exemption limit below which home equity would not be subject to the means test should be set sufficiently high to:
    - allow the pensioner to raise sufficient revenue from some form of reverse mortgage that they can compensate their future income for the loss of pension income, and
    - still have sufficient unencumbered housing equity to meet the requirements for accessing residential aged care in the future if that became necessary.
28. No existing age pensioner should be affected by a change to include housing in the pension means test, and nor should any person who becomes eligible in the next 7 years be affected. In addition, the exemption cap should be phased in by gradually lowering it after the first year of introduction, reaching its final level in say 10 or 15 years, with a lower exemption level taking longer to phase in.

Assets Test Treatment of Home Equity

29. There is a need to improve the incentives for pensioners to access this equity and improve their cash incomes through the following measures:
    - Exempt the proceeds of down-sizing from the means test up to some capped amount provided it is invested in an approved retirement income product.
    - The means test for accessing aged care should be based on the remaining home equity after deducting the amounts that are unencumbered by an equity release product or an aged care Refundable Accommodation Deposit.

Aged care and health care

A holistic view of adequacy and sustainability of retirement incomes policies requires consideration of the growing cost and increased need for residential aged care.

Government policy aims to shift more of the cost towards consumers, but many people lack an incentive to save for aged care. Planning ahead requires them to forgo current lifestyle consumption and benefits to provide for what is seen as both a contingency and a form of healthcare that should be paid by government. Even under a mature superannuation system, most people won't have saved enough to meet their aged care costs. With 50% of retirees expected to access residential aged care at some point, aged care can no longer be considered a contingent cost.

In the meantime, there is a power imbalance between aged care providers and prospective residents. While the legislation allows consumers to choose between using assets or income to pay for care, providers hold great power in influencing the residents' choices by withholding access to meet their own commercial interests.

There is the need to change people's attitude toward aged care from a form of healthcare to one of changed living arrangements. Greater visibility of the government's contribution is also important. Moreover, there needs to be better coordination of aged care policies with retirement income policies, most notably the treatment of housing in the means test and aged care.

Policy Proposals: Aged Care and Health Care

30. Aged care reform should continue towards a more consumer-oriented and market-based system, facilitating the development of products that make it easier to plan for any accommodation costs involved and to meet out-of-pocket care costs and offering more choice and improved quality with reduced supply side controls.
31. There needs to be better coordination of aged care policies with retirement income policies, most notably the treatment of housing in the means test and aged care.
32. Reform of the aged care means test to remove impediments to the development of non-superannuation products which use pooling of longevity risk to help finance health and aged care (see Position Paper 3).
33. Medicare should continue to provide affordable access to health care based on health needs, implying that out-of-pocket costs should be contained and waiting times kept to medically determined standards.
34. Public Health Insurance (PHI) reform remains a priority to contain premiums to growth in incomes and to limit out-of-pocket costs.

Post Retirement Incomes

The most direct way of improving outcomes in retirement is to efficiently convert superannuation balances into sustainable income streams. This means building on the strengths of the fully-funded defined contribution system with outcomes similar to a defined benefits system.

Australia has successfully established a robust system of accumulating savings, but has yet to design the pensions phase. In many respects, this is a far more complex task than designing and building the accumulation phase, for a number of reasons:

- people's circumstances vary more at, and through, retirement;
- the tax and pension means test arrangements are difficult to navigate;
- retirees do not have the option they had in the accumulation phase to increase work hours and therefore supplement their superannuation savings;
- some retirees face cognitive decline and many rely increasingly on others to advise them or to manage their affairs; and
- superannuation balances represent most retirees' second largest asset, and the one they are least familiar with managing.

The Government is developing a framework for the pensions phase, drawing on the work of the Financial System Inquiry 2014 to promote 'Comprehensive Income Products in Retirement' (CIPRs). CIPRs are intended to offer more security by managing risks more efficiently through pooling funds, thereby offering higher retirement incomes.

Most people at the Forum were looking for firmer guidance for retirees on CIPRs. This would involve a system of 'guided choices' where the CIPRs offered by superannuation funds are pre-selected according to broad categories of members, based for example on age, gender, marital status, accumulation balance, extent of likely reliance on the age pension, and ability to access other savings. Such guidance would preferably start from no later than age 50, involving iterative engagement with members as they consider when they intend to retire (or transition to retirement), and whether to vary their voluntary contributions to achieve their target retirement income. Most retirees would prefer not to rely upon expensive personal financial planning advice.

There are many challenges here, not only about product design but also about the obligations of trustees, and protections for trustees, the regulatory requirements for the product offers, and the degree of compulsion on funds to offer them. The process will only work well if tax and transfer settings in retirement complement the arrangements for superannuation in the accumulation phase, and are sufficiently stable for the purposes of planning and for decision-making at retirement.

The superannuation funds are the central players in this, but it is vital that the consumer voice is heard and is given first priority. The aim has to be to make our defined contributions based system look much more like a defined benefit scheme.

Policy Proposals: Post Retirement

Regulatory Architecture

35. CIPRs should be provided on an opt in (rather than a more passive opt out basis) to mitigate the risk of members being assigned a CIPR that is unsuitable for their needs.

36. The regulatory framework should facilitate the provision of multiple CIPRs based on member segmentation and support trustees in preselecting one CIPR for each member in two ways. First by specifying minimum design requirements of the CIPR product. Second by outlining the key process requirements for engaging members in the preselection of a CIPR. If trustees meet the conditions for both of these elements they would be assured of having met their legal responsibilities.

37. CIPR design features - the following design principles for CIPRs are proposed:

    - Regular and sustainable income streams.
    - Longevity risk protection – while CIPRs would not require guaranteed income for life, they would involve a portion of income being sourced from some form of mortality pooling arrangement.
    - Low cost commensurate with the benefits to the member.
    - Flexibility, particularly in relation to meeting members' needs over the course of retirement, is best addressed in the range of CIPRs offered and as part of the process for guiding members' choice of CIPRs, rather than as a minimum requirement for each CIPR product.

38. Mandatory restrictions on the use of super balances by retirees are not recommended given the difficulties it would present for meeting the diversity of retiree needs and circumstances.

<u>Retirement Income Products</u>

39. The treatment of new income stream products under the social security means test should be clarified to permit product development and allow competitive neutrality among products.
40. For those who can afford them, non-super products which use the pooling of longevity risk to help fund health and aged care will increase self-sufficiency and by doing so reduce fiscal pressures. These products need to be accommodated in health insurance and aged care legislation. Similarly, they also require clarity on their tax and means test treatment.
41. Regulatory authorities should facilitate product innovation by providing a central point of contact for new product development.
42. Aged Care – consideration should be given to facilitating the provision of a single premium aged care lifetime loan product.

<u>Financial Advice</u>

43. Current requirements and guidance in relation to scaled and intra-fund advice ought to be reviewed to determine whether modification or further guidance is needed to facilitate the provision of CIPRs.

44. Strategies to increase the role of financial advice in relation to retirees managing their superannuation balances include:
    - Ensuring training of advisers in relation to retirement related matters (such as annuities, age pension and aged care funding)
    - Setting standards for financial advisers who are advising on retirement matters to ensure competency across the complexity of retirement issues.

- Regulatory settings to facilitate the rapid evolution of digital advice in retirement matters.

Empowering Members

45. Requiring funds to inform members of their projected income in retirement in member statements is a significant policy development that will encourage members to focus on retirement incomes.
46. Government, industry and consumer should collaborate in:
    a. Developing disclosure requirements suitable for the decumulation phase where retirement income is the goal. Information architecture is needed to enable product comparisons across a range of features to be understood by members including the trade-offs among different products in relation to the strength of guarantees, as compared to a target, and the cost of guarantees.
    b. Providing product agnostic information to assist members in making decisions regarding their retirement benefits; and
47. Government, industry and consumer groups to work together to develop a plan for providing education on the benefits and operation of home equity release schemes.

Where to From Here

The emerging Australian retirement incomes system has many strengths, but it is still a long way short of maturity and of delivering on its promise to provide adequate, secure and sustainable retirement incomes for all. The reform journey, however, need not be politically too hard if presented coherently and pursued steadily and incrementally. Indeed, a clear vision is needed of what the system could be offering in terms of improved retirement incomes without adding to budgetary costs.

To do this, we must ensure there is broad community consensus on the need for change and the directions for reform. This would require an improvement on the prevailing situation, in which numerous well-resourced industry groups argue their own corner with little apparent interest in arriving at a common industry position.

While there are plenty of industry voices, there is no consumer body to represent superannuation members, this is despite the views of funds and their members not always being aligned. Given the complexity of the system and the information asymmetry between industry and consumers, this is a significant gap.

What is needed is both a mechanism for bringing together the various stakeholder interests (covering industry, consumer and seniors' groups) and formal structure for building consensus.

The CSRI to date has been the main forum for providing a holistic perspective on retirement income issues and for bringing together alternative perspectives in an effort to build common ground. We now need to develop a more formalised and funded structure for this process.

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CSRI Scope of Review Process

The Adequacy work stream explored:

- Alternative formulations of the objectives of the retirement income system including aged pension and superannuation systems;
- Measures and long term projections of retirement income adequacy in Australia based on current and alternative policy settings;
- The adequacy of the age pension and related payments (including indexation arrangements);
- Adequacy of income maintenance drawing from accumulated superannuation savings and any age pension entitlement;
- Whether those with different employment histories and varying personal circumstances have access to adequate retirement incomes;
- Interaction of retirement income system with other elements of the welfare system including health, aged care, rental housing and public housing.

The Sustainability work stream explored:

- Improving the efficiency of the safety net including the relationships between savings, age pension eligibility and home ownership.
- Evaluation of alternative approaches to improving the effectiveness of superannuation tax arrangements in promoting secure and adequate lifetime incomes in retirement including the level and fairness of the tax concessions.
- Implications of the regulatory treatment of housing for aged care and the aged pension and options for accessing home equity
- Importance of encouraging continued workforce participation and saving for retirement, while recognising different capacities to do so and
- different preferences regarding the transition from work to retirement including consideration of evidence of behavioural responses to policy frameworks

The Post Retirement work stream explored:

- Characteristics of a mature retirement income system, how Australia's system compares and the current experience of Australian retirees
- Challenges in ensuring adequate and sustainable incomes in retirement including investment and planning issues in developing solutions to meet the diverse needs and circumstances of retirees
- Lessons from behavioural finance in assisting members in making retirement income decisions
- State of current policy development and industry thinking around possible legislative frameworks to support the development to the post retirement market

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About CSRI

The Committee for Sustainable Retirement Income (**CSRI**) is an independent, non-partisan, non-profit think tank whose Mission is to progress the development and implementation of policies to further the goal of encouraging “adequate incomes through all the years of retirement for all Australians on a fair and fiscally sustainable basis”.

It pursues its Mission by acting as a catalyst for the development of evidence-based policy and engaging widely with stakeholder groups to reach common ground on policy positions in the community interest.

With a focus on the development of thought leadership and public policy, the CSRI brings together multi-disciplinary and diverse perspectives from a range of different parties (including academics, superannuation fund providers, investment managers, life companies, financial planners, federal government representativs and importantly consumer advocacy groups).

CSRI takes a holistic view of income and needs in retirement, including the aged pension, superannuation benefits, housing, health care and aged care.

Recognising that the effectiveness of the retirement income system is undermined by short-term policy thinking and lack of clarity about purpose, the CSRI injects an integrated and longer-term perspective in policy formulation and seeks to build consensus on a reform programme.

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