

Ms Shibani Iyer
Director, Superannuation Efficiency and Performance Unit
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: yfys@treasury.gov.au

24 April 2024

Dear Ms Iyer,

Annual Superannuation Performance Test – design options

The Council of Australian Life Insurers (CALI) is the trusted voice of life insurance in Australia. We support Australians to make informed choices about their future and help them live in a healthy, confident, and secure way. This includes advocating for national policy settings that expand their access to the life insurance protection that suits them when they need it most over their lifetime.

Our mission is to ensure Australians view life insurance and the industry as accessible, understandable, and trusted. We do this by supporting our members to deliver the protection and certainty Australians need on their best and worst days.

The consultation paper on the *Annual Superannuation Performance Test – design options* addresses crucial aspects of the superannuation system, including how to ensure people can get information about secure and sustainable retirement income solutions as Australians live longer and spend more time in retirement.

With five million people currently in or preparing to retire it is clear there is a significant demographic change and longevity risk facing our nation. Life insurers can play an important role by providing longevity risk protection products to manage longevity risk and other risks in retirement. Life insurers in Australia are already working in partnership with superannuation trustees to provide longevity protection to superannuation members, and this has been increasing since the introduction of the Retirement Income Covenant.

CALI continues to advocate for more Australians to have access to quality advice, information and comparison tools that support them to make informed financial decisions during their working life and manage their finances in retirement. We note the Government is examining this issue through the separate consultation on the Retirement Phase of Superannuation and has announced reforms to make it easier for superannuation trustees and other financial service providers to provide simple financial advice to Australians.

CALI's position

Specific responses to the questions in the consultation paper relating to extending the performance test to the retirement phase of superannuation are included in Attachment A. In summary, in relation to the proposal to extend the performance test to the retirement phase of superannuation, CALI's views are:

- We support Australians having access to more information about retirement products in superannuation, which would support informed decision making;

- The *Delivering Better Financial Outcomes* reforms should be implemented in full as a way to immediately support retiring Australians access more, better information. This should happen as a priority before developing any performance test for the retirement phase of superannuation;
- Developing an appropriate performance test for the retirement phase of superannuation that takes into account the different products and options that are available will be complex;
- However, life insurers support the Government developing a clearer disclosure framework for retirement products to provide targeted, consistent information to enable informed choices; and
- Life insurers would be pleased to work with Treasury to develop standard approaches such as a checklist. This would help provide Australians with information, advice and guidance about retirement products.

Given differences in the design and objective of retirement income products and the varying needs of members in retirement, it is more challenging to provide simple comparison and performance tools like those that exist in the accumulation phase of superannuation. In retirement, outcomes depend on more than good investment returns. The pattern of returns and stability of the retirement income provided can be more important than the average level. The bundling of products, where Australians may use more than one retirement income product to meet different needs, also increases the complexity of comparison.

However, effective and relatively simple comparison tools that Australians can use will be a critical source of information for people and help drive choice and competition in the market. Developing educational tools to assess retirement outcomes comprehensively is essential to helping address risks, particularly those associated with longevity. There is a clear imperative for precision in risk assessment. CALI is supportive of the development of a Government-led comparison tool to provide superannuation members with reliable guidance, for example, calculators provided on ASIC's MoneySmart website.

This disclosure framework for retirement products would need to cover a variety of facets including characteristics of retirement products, performance indicators, and ongoing assessments of how funds fulfill their covenant obligations. CALI is supportive of a high-level standardised disclosure framework to be applied to different retirement products. Over time as the market develops, consideration could be given to whether more detailed frameworks are required for different types of products in the market.

Thank you for the opportunity to contribute to this consultation. I look forward to continued engagement as the Government progresses this important reform. Please contact Olivia Pascoe, Associate Director of Policy at olivia.pascoe@cali.org.au.

Yours sincerely,



Christine Cupitt
Chief Executive Officer
Council of Australian Life Insurers

Attachment A – Response to consultation questions

29. What are the most important considerations for performance of retirement products?

While investment performance and fees are still important in the retirement phase, there are a range of other important considerations for the performance of retirement products. This includes assessing the extent to which particular products protect against factors such as:

- Longevity risk (especially the age that income will expire);
- Inflation risk;
- Sequencing risk and liquidity risk;
- The stability of the income provided;
- Whether it aligns with an individual retiree's income needs over time;
- Whether a product has reliability of income payments; and
- Factors that affect eligibility requirements for Government income support payments, such as the Age Pension.

CALI notes the market for retirement products is still developing in Australia. To foster innovation and product evolution to meet diverse retiree needs it is essential to ensure performance testing frameworks do not only focus on returns and fees. It is important these frameworks encourage funds to offer members services and protections that support members in retirement. This approach is more closely aligned with the purpose of superannuation, to provide for income in retirement. This includes guidance and advice, tools and calculators, longevity risk protection and income guarantees, thereby enhancing the overall effectiveness and suitability of retirement products which will allow the market to continue to grow. A performance test which only applies to a particular category of product, such as account-based pensions, or considers only one dimension such as investment performance will not adequately assist people to compare across the range of retirement options.

As part of the design and implementation of any performance test for retirement phase, the Government will also need to consider the implications if a retirement product fails the test. The outcomes are much clearer in an accumulation product as members leave of their own choice or the product is merged. This would be challenging where there is a longevity component where there is typically less flexibility for lump sum withdrawals and transfers.

30. If the test were to expand to retirement products, would they require a different test to the accumulation phase? Would the test differ for different retirement products?

The existing performance test for superannuation in the accumulation phase is relatively straightforward. It focuses on investment returns and fees, with a view towards maximising retirement savings which is a goal shared by all superannuation members.

However, this would be unsuitable as a measure of retirement products. Considerations for people in the retirement phase are different and will vary significantly based on individual circumstances. In retirement, people often make use of a bundle of products compared with the investment phase where they will

choose one investment option. Different retirement products have unique characteristics including liquidity needs and risk management strategies, which make comparison challenging.

CALI believes it is difficult to design a performance test that would reflect these individual circumstances and enable easy comparison across the range of products that a person may choose to hold. A single metric cannot reflect the multitude of requirements for an individual's retirement.

31. How could longevity products be most appropriately assessed? How could the products be compared?

Longevity products come in various forms and can have a wide range of features and options. These are designed to cater to the wide range of different individual circumstances people will have in retirement. This means retirement planning can be complex and is why CALI believes it is critical to expand the availability of advice, information and guidance to people about retirement options. As noted above this makes comparison of performance significantly more challenging than the accumulation phase.

Options that will be relevant for people when considering the performance of longevity products include:

- **Deferred vs immediate income payments:** people can choose between products that pay an income now or may be deferred until a specific point in the future.
- **Withdrawal and access to capital:** longevity products will have different options for an early withdrawal or access to part of all of the capital;
- **Indexation, inflation protection and other income shaping:** people can typically choose to have the payments linked to the Consumer Price Index, market, or index performance. They can also choose whether they wish their income to grow or remain stable. In addition to these settings, there may be reasons to include a form of guarantee. Different settings chosen will affect the cost of a longevity product.
- **Reversionary settings:** whether payments will continue to someone else nominated by the product holder (usually their spouse) after their death and what level the reversionary percentage is set at.
- **Capital backing:** products provided by life insurers are required to meet minimum regulatory capital requirements. While this comes at a cost, it also guarantees that the product issuer will be able to meet the promised payments for the life of the product.
- **Starting incomes:** any assessment of retirement products needs to consider the starting incomes the product provides along with how the income may change over a person's lifetime. Income redistribution rates may make this assessment difficult, but it could be standardised. The assessment should also consider what options are available to the person to adjust their starting incomes i.e. via different income redistribution rates and/or through other options including different reversionary percentages, death benefit options, withdrawal options etc.
- **Pooled versus Guaranteed:** it is crucial for Australians to understand the differences in the risks and potential for future volatility between retirement income products, such as annuities, provided by life insurers which are backed by minimum regulatory capital requirements and other forms of pooled retirement income products.

All of these factors, many of which are qualitative, will affect the level of premium, fees and the return the product offers. CALI does not believe it is appropriate to design a performance test that does not attempt to take into account all these factors in retirement. The outcomes depend on more than good investment returns and the pattern of returns can be more important than the average level. The bundling of products, where Australians may use more than one retirement income product to meet different needs, also increases the complexity of comparison.