06/02/2018

Retirement Income Streams
Department of Social Services
RetirementIncomeStreams@dss.gov.au

Dear Sir/Madam,

Re: AUSTRALIANSUPER SUBMISSION TO DSS – POSITION PAPER 'MEANS TEST RULES FOR LIFETIME RETIREMENT INCOME SOLUTIONS'

AustralianSuper welcomes the opportunity to respond to the abovenamed position paper.

About AustralianSuper

AustralianSuper is Australia's largest single superannuation fund and is run only to benefit members. We don't pay commissions to anyone to recommend us, nor do we pay dividends to shareholders. The fund has over 2.2 million members and manages over $130 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for members.

This submission focusses on a number of issues from the position paper and makes the following key points:

- AustralianSuper supports the principles underpinning the development of new means test rules, being neutrality, equity, resilience, integrity, fiscal sustainability and simplicity. We do not however, think that all the proposals contained in the position paper appropriately address the principles.
- AustralianSuper supports the proposal to allow for 70% of the income of longevity products to be counted towards the incomes test. We believe this position makes sense for longevity product development, including deferred products.
- AustralianSuper supports the income stream not being assessed under the Income test until the point where the income stream is being paid to the retiree.
- AustralianSuper supports the proposal to allow for 70% of the nominal purchase price of a longevity product to be included in the asset test, reduced to 35% at the point of reaching Life expectancy for annuities. We do not think this treatment is appropriate for deferred products.
- AustralianSuper supports the view of the Institute of Actuaries Retirement Strategy Group that deferred pensions/annuities should be fully asset test exempt during the period of deferral where:
    - the pensioner has already given up their rights to capital;

Level 33
50 Lonsdale Street
Melbourne VIC 3000
Australia
T 03 8648 3900
F 03 8648 3999
www.australiansuper.com

    - is not in receipt of any immediate benefit from holding a deferred annuity; and
    - Is unable to pass on proceeds of the product as a death benefit.
- Attachment A shows modelled examples of outcomes for different types of retirement products under the proposed new means test rules. These outcomes do not disclose any assumptions so cannot be adequately investigated by the reader. Further, they are modelled to 110 – an age that so significantly exceeds expected life expectancy that it may mislead the reader regarding product utility.

Treatment of deferred products

The position paper reasons for the inclusion of the Assets test for deferred pensions saying that:

'*Asset testing deferred products in the same manner as other lifetime income streams acknowledges that these products have a value during the deferral period and better recognises the overall resources that a person has available to plan for retirement*.'

We are unsure what value is being referred to here when the investor has given up their rights to capital in the product once they reach the non-commutation period. As a feature of such a product the investor will never realise any return from investing in that product during the deferral period, and indeed may not survive the end of the deferral period.

We do not understand what point in being made by the statement that the DSS is recognising a person's 'overall resources for retirement planning' as a reason to treat a product in a particular way – the reasoning behind this point is not transparent.

AustralianSuper contends that the proposed position on deferred products goes directly against DSS' first principle of '**Neutrality –** *The means test assessment should not disadvantage a particular type of product.'*

The treatment of deferred products under this proposed position makes a deferred annuity less attractive and more punitive to an individual and their dependents if they don't make it to average life expectancy, which is the completion of the deferral period for the product. Unlike with an annuity, the holder of a deferred annuity is not receiving an immediate benefit until they reach life expectancy, yet under this proposal will suffer a financial consequence during this period without any corresponding benefit.

AustralianSuper would suggest this aspect of the new proposed rules be revised and would welcome further consultation on this aspect.

If you have any questions of us or would like further information please do not hesitate to contact myself on 03 8648 3847 and lduprealba@australiansuper.com or Jeff Warner on 02 8088 0803 or jwarner@australiansuper.com.au.

Yours sincerely

[redacted]

Louise du Pre-Alba
Strategic Policy Advocate