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Department of Social Services  
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## **Means Test Rules for Lifetime Retirement Income Streams**

Cbus welcomes the opportunity to provide some brief comments on the position paper.

### **About Cbus**

Established in 1984, Cbus is the industry superannuation fund for the construction, building and allied industries. Cbus is run only to benefit members and recently received recognition for its 11 years as a platinum rated fund by independent ratings agency *SuperRatings\**, along with the 2016 Smart Investor Blue Ribbon Award for Best Balanced Super Fund.

Cbus also invests back into the construction and building industry, which not only provides strong long-term investment returns, but helps boost our economy and create jobs within the industry.

Cbus has over:

- 755,000 members
- 131,000 employers
- \$43 billion in funds under management
- 8,800 members in the retirement phase

### **Comments**

For Cbus members (and Industry Super Fund members more broadly) the key retirement income stream will be full, or in part, the Age Pension. Their primary concern is adequacy of immediate retirement income let alone protecting income at later stages of retirement.

Our Retirement Readiness Modelling of Cbus Active members indicates only 26% of members age 55 to 67 might be on track for an adequate retirement,<sup>1</sup> which translates to a high reliance on the age pension for those both above and below the benchmark.

Australians have generally had an aversion to Lifetime Retirement Income Streams and the perception of potential loss of capital should they die early. Historically this

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<sup>1</sup> Cbus adequate retirement target of \$28k pa is set at 60% of mid-point between ASFA modest and comfortable targets assuming that members' partners will also contribute to income needs. The calculation includes an age pension entitlement.

has meant that the key driver for purchase has been driven by increased social security entitlements when investing in a lifetime annuity.

To fully understand the likely impacts of this policy change, which will have implications for both the individual and government expenditure, Treasury must commission a consumer testing programme to understand:

- sentiment towards the key risks and benefits of Lifetime Retirement Income Products ('Lifetime Income Products');
- acceptable trade-offs between Age Pension and new products;
- the quantum of incentive necessary to encourage consumers to protect against longevity; and
- possible take up rates to assist forecasting increased Age Pension entitlements.

The Australian market for lifetime income streams is limited, with only two providers offering lifetime annuity products and some non-guaranteed products launched by providers and super funds. However, we understand that none of these have had significant take-up by consumers.

We understand the proposed rules seek to ensure the means test is fair and appropriate for all Lifetime Income products and aims to be sustainable over the long term. For those with significant savings in superannuation we believe the proposal is the right type of structure; however, our own assessment of the assets and income test suggests it may not achieve its objectives.

The small additional age pension income available under the proposal is unlikely to be enough to warrant a consumer switching to a Lifetime Income Products, and the consequential loss of control and capital that such a decision would make. This is particularly true for many Australians with modest levels of retirement savings, a cohort in which many of our members fall.

Please do not hesitate to contact Jon Sedawie on (03) 9910 0291 if you have any queries in relation to our submission.

Yours sincerely,

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Group Executive  
Brand, Advocacy, Marketing & Product