Means Test Rules for Lifetime Retirement Income Streams
DSS Position Paper released 16 January 2018 and revised 7 February 2018

COTA AUSTRALIA SUMMARY RESPONSE

COTA Australia has consulted extensively on this paper across current and potential providers of lifetime retirement income stream products, peak bodies and academic experts. While opinion is not unanimous it is overwhelmingly similar.

COTA is not a technical expert in relation to the matters discussed in the paper and therefore relies on the views of those who are. COTA does have substantial interest and experience in retirement income policy.

We are concerned that the Position Paper contains no real discussion of alternate approaches to means testing of such products, or alternate levels within this approach, and why these were rejected. The paper has the appearance of having been written to support a conclusion arrived at through considerations that are not transparent.

Importantly the paper also contains little discussion of government policy objectives in the retirement income space, over time, and how these relate to policy objectives in other areas such as aged care financing. In COTA's view there are sound public policy rationale for the supporting the introduction and take-up of new retirement income products. Therefore the new regulatory framework for CIPRs being developed in Treasury and the means testing treatment of such products need to be considered in terms of whether they encourage or discourage the take-up of such products.

In addition, as the ASFA Submission points out: "If the policy intent is that people should spend their savings during retirement (for the benefit of the economy as well as supporting a better standard of living) rather than using it as a tax concessional bequest, then it is important to make sure that the products providing people with the confidence to spend are not impeded by policy. Indeed they may even need to be slightly favoured to encourage their use given the risks involved (for example, receiving relatively few benefits and no return of capital if the product holder passes away before average life expectancy)." [i]

The responses COTA has received on the Position Paper indicate (in brief only):

- broad agreement with the principles and the structure of the approach, particularly need for simplicity. However significant concerns in the application in relation to the below matters, and especially issues re asset testing products without capital access or surrender value, and products taken at later ages;
- that the proposed treatment of new products will be harsher than the current treatment;
- that the paper does not place any weight on the value people place on access to capital (refer to ASFA website for an approach to this);
- the paper is more concerned about the advantages for people who live longer than average life expectancy than the issue that half of people will live less than the average. Some will know that they have lower life expectancy and will not choose pooled products, but most people do not know when they will die;
- the assets test treatment of products the conditions of which mean that the person does not have access at any stage to the capital, including in their estate, is of concern. It appears

clear that the proposed assets test treatment will dissuade people from taking up such products;

- a significant number of potential providers have indicated that under the arrangements proposed in this paper they will not be introducing new and innovative products. A number have told COTA that the proposal in the paper will kill off the deferred product market;
- the proposals in the paper are all based on people taking a product at age 65, whereas we have indications from our discussions with consumers, advisors and the industry that products may not be considered until further into retirement. As ASFA says: “Even if the factors proposed were appropriate for a person aged 65, they may not be appropriate for a product purchaser aged 75 or more who of course has a shorter life expectancy on average. It would be desirable if modelling was undertaken on the impact of the proposed means test settings when a retirement product is purchased at age 75 or older.” [ii]
- the modelling in the paper assumes ABIS drawdown at the minimum required rates. Modelling should also be done at other rates. The fact that most retirees currently draw down at the minimum rate is not necessarily a predictor of future behaviour, especially as retirement balances rise;
- it is indicated on p12 of the Updated paper that “Pooled lifetime products can be held as an investment *inside* an account-based income stream. Where this occurs, the value of the lifetime product would continue to be assessed as account balance.” It is not clear if this will give preferential treatment to a specific CIPR design, and why this would be so.

COTA could not attend the DSS consultation sessions due to the short notice and conflict with other government commitments, but we received feedback from both sessions. We are concerned by the reported assumption by the department that retirees with balances of around $300,000 would not and perhaps should not be using other than ABIS. COTA believes there can be significant value in using deferred and pooled products for many people with relatively low balances, including balances below those affected by the Age Pension Assets Test.

ASFA Submission

We have quoted from the ASFA response in several sections above. We have discussed our response with ASFA and taken note of ASFA’s consultations with its membership and other stakeholders. COTA Australia indicates its strong support for the ASFA response. However please see the endnote below.

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[i] We have quoted from the ASFA response in several sections above. COTA Australia indicates its strong support for the ASFA response. However please note that we are quoting from the penultimate version of ASFA’s paper and the passages quoted may vary in their final submission. For that reason we are also not referencing page numbers.
[ii] ASFA Ibid