



Australian Government

The Treasury

# Retirement Income Covenant

Regulation Impact Statement  
Treasury

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# 1. What is the problem you are trying to solve?

The Retirement Income Review (the Review) suggested an objective of the retirement income system be designed around the goal *'to deliver adequate standards of living in retirement in an equitable, sustainable and cohesive way.'*<sup>1</sup> It noted that *'providing income in retirement is the fundamental role of compulsory superannuation.'*<sup>2</sup> However, 29 years after the introduction of compulsory superannuation, the retirement phase of superannuation remains under-developed. There is substantial room for improvement in how the superannuation system delivers adequate standards of living in retirement for all Australians, both now and into the future.

That Review found that Australians are projected to accumulate increasingly significant superannuation assets by retirement. The median superannuation balances of men and women approaching retirement (aged 60-64) in 2019 were around \$179,000 and \$137,000 respectively.<sup>3</sup> By 2060, the median earner is projected to accumulate over \$450,000 by retirement in real terms.<sup>4</sup> With the robust design of the accumulation phase of superannuation after years of reform, Australians are well placed to have enough funds to provide for an adequate retirement.

But most retirees are not currently supported to effectively manage their superannuation when they retire. Retirement involves multiple decisions and difficult trade-offs, such as:

- when to retire;
- whether to keep their money in superannuation;
- how to invest their savings, both in and outside of superannuation;
- how to draw down their savings, both in and outside of superannuation; and
- their future expenditure and capital needs.

The long-term implications of these decisions, and their complex interactions with other systems like tax, social security, aged care, and housing; make it challenging for many retirees to determine an optimal retirement income strategy without professional support. Yet currently most people do not seek financial advice<sup>5</sup> or professional support at retirement to help navigate this complexity. Rather, in the face of this complexity, evidence shows that Australians currently follow others, disengage, or fall back on rules of thumb and defaults that are not necessarily fit-for-purpose.<sup>6</sup>

Broadly, evidence suggests that the major worry among retirees and pre-retirees is exhausting their assets in retirement.<sup>7</sup> In particular, retirees are concerned about possible future health and aged care costs and concerns about outliving savings. The unknown impact of COVID-19 pandemic is also a source of uncertainty for retirees.<sup>8</sup> Retirees are particularly worried about outliving their savings, and this is exacerbated by the uncertainty of how long a retiree will live.<sup>9</sup> As a consequence of these factors retirees seek to maintain a financial buffer, saving their money in response to the uncertainties.

The 'nest egg' framing of superannuation compounds the complexities around deciding how to manage their superannuation in retirement. Partly because the accumulation phase of superannuation primes people to save as large a lump sum as possible, many retirees struggle to transition to the concept that superannuation is to be consumed to fund their retirement.

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<sup>1</sup> Retirement Income Review (2020), p. 17.

<sup>2</sup> Retirement Income Review (2020), p. 100.

<sup>3</sup> ATO TaxStats 2018-19, Table 5, Chart 12 (2021).

<sup>4</sup> Retirement Income Review (2020), p. 520.

<sup>5</sup> Retirement Income Review (2020), p. 449.

<sup>6</sup> Retirement Income Review (2020), p. 447.

<sup>7</sup> Financial System Inquiry (2014), p. 120.

<sup>8</sup> Retirement Income Review (2020), p. 19.

<sup>9</sup> Financial System Inquiry (2014), p. 120.

Some stakeholders have raised contrary concerns that people draw down their superannuation assets too quickly by taking large lump sums once they reach retirement. However, this is not supported by evidence as being a widespread problem. When the Productivity Commission researched this issue in 2015, it found that less than 30 per cent of superannuation assets are taken as lump sums and when lump sums are taken, they have a median value of around \$20 000.<sup>10</sup> Lump sums are more prevalent among those with very low superannuation balances. Those with comparatively more superannuation savings tend to take lump sums that comprise a relatively small proportion of their superannuation assets. Where lump sums are taken, they are used to retire debt or purchase goods and services that can be used throughout retirement, such as making home improvements and purchasing consumer durables. The Productivity Commission also found that lump sums are likely to decline in importance as the superannuation system matures.

Because retirees find it difficult to develop effective retirement income strategies without professional support, much of the savings accrued through the superannuation system are not currently used to provide retirement income. Multiple studies have shown that current retirees die with substantial proportions of the assets they had at retirement, and that the retirees overwhelmingly spend their retirement savings very slowly.<sup>11</sup>

As Australians increasingly retire with larger superannuation balances, these issues will become more prevalent. Without a change in behaviour, it is expected that bequests from superannuation will grow. By 2060, it is projected that 1 in every 3 dollars paid out of the superannuation system will be a part of a bequest.<sup>12</sup> This outcome is not in line with the purpose of the retirement income system to provide an adequate standard of living in retirement. Despite this, bequests do not appear to be a high priority for retirees and is actually one of the least important retirement savings objectives for people.<sup>13</sup> Although the system should accommodate those who wish to leave bequests, it should not do so to the detriment of retirement incomes.

Low consumption of superannuation also lowers living standards. People could have a higher standard of living in retirement if they had greater confidence to spend their superannuation. The Review noted that *'whether retirees draw down at minimum rates or effectively use their superannuation is critical'* to determining whether they have an adequate retirement income.<sup>14</sup> Treasury estimates that using more efficient drawdown patterns from existing superannuation assets could increase the median person's income in retirement by over \$100,000, compared to how people typically draw down their superannuation now.<sup>15</sup> How retirees draw down on their superannuation can also be more important than whether they make additional contributions to superannuation in working life, in impacting their living standards in retirement.<sup>16</sup>

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<sup>10</sup> Productivity Commission (2015), *Superannuation Policy for Post-Retirement*, p. 75.

<sup>11</sup> Retirement Income Review (2020), p. 432.

<sup>12</sup> Retirement Income Review (2020), p. 435.

<sup>13</sup> Retirement Income Review (2020), p. 436.

<sup>14</sup> Retirement Income Review (2020), p. 181.

<sup>15</sup> Frydenberg, J., 2021. *Address to the COTA Australia National Policy Forum on Retirement Income*.

<sup>16</sup> Retirement Income Review (2020), p. 19.

## 2. Why is Government action needed?

The Commonwealth Government has policy responsibility for the tax and regulatory settings that govern Australia's superannuation system. Government action is needed to ensure that those settings deliver appropriate outcomes for all Australians, including delivering an adequate standard of living in retirement (in conjunction with the Age Pension, other government supports and voluntary savings).

This is even more critical given Australia's superannuation system is compulsory. Almost all Australian employees are required to have 10 per cent of their salary (increasing to 12 per cent by 1 July 2025) placed into superannuation, for the purposes of providing income in retirement. The decision of successive Australian Governments to maintain a compulsory superannuation system implies an obligation on the Government to ensure that the system delivers its intended outcomes. While it is possible that increased familiarity with the superannuation system could lead individuals to achieve better retirement outcomes, increased familiarity with the superannuation system is unlikely to occur without intervention. As outlined above, the superannuation system is complex and retirement involves a number of difficult decisions that retirees are not well-equipped to navigate without support. Government action is necessary to equip individuals with greater knowledge and awareness in this complex environment to allow outcomes to improve.

Superannuation funds are managed by trustees, who are required to act in the best financial interests of members with the sole purpose of providing retirement benefits. Covenants in the *Superannuation Industry (Supervision) Act 1993* place additional obligations on superannuation fund trustees, which sit alongside this overarching best financial interests duty and sole purpose test. These covenants are encoded in legislation and enforced by Government regulators. Existing covenants in the *Superannuation Industry (Supervision) Act 1993* include obligations to formulate, review regularly and give effect to investment, risk management and insurance strategies. There is no obligation for trustees to have a strategy as to how they support their members manage their superannuation to provide income in retirement.

The Government has taken previous action to improve the retirement phase of superannuation, and the supports provided to retirees to help them make the most of their accumulated savings.

- The Government has legislated to remove barriers to the development of innovative retirement income products through changes to the tax treatment and the social security means test. These changes pave the way for retirement income products that deliver higher, and more sustainable, incomes in retirement.
- The Government has acted on the recommendations of the Final Report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, and implemented reforms to how advice and guidance are provided both within and outside superannuation. These reforms have affected when and how superannuation funds offer guidance and advice to their members.
- The Government has also legislated for providers of retirement income products to meet design and distribution obligations from 5 October 2021, as per the *Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019*.<sup>17</sup> These will ensure retirement income products are offered in a more targeted manner to retirees for whom they are suitable.

While the Government has a clear role to play in ensuring the superannuation system delivers an adequate standard of living in retirement, other parties also have responsibility for achieving this outcome. Superannuation fund trustees, financial advisors, the media and peak body organisations, and individuals themselves all play a role in informing how superannuation

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<sup>17</sup> The design and distribution obligations were originally scheduled to commence on 5 April 2021. Due to the Coronavirus pandemic, ASIC provided a temporary exemption from the obligations for six months.

is used in retirement to deliver adequate incomes. This shared responsibility is inherent in the design of Australia's retirement income system.<sup>18</sup>

## 3. What policy options are you considering?

All options considered would apply to large and small APRA-regulated funds. As at June 2021 there are 156 large APRA funds and 1,486 small APRA funds in the superannuation industry.<sup>19</sup> Small APRA funds are serviced by three professional trustees.<sup>20</sup>

### 3.1 Option 1 – Status Quo

This option would involve no change to policy settings.

### 3.2 Option 2 – Introduce a retirement income covenant requiring trustees to produce a retirement income strategy for their members

This option would require all superannuation fund trustees to formulate, review regularly, and give effect to a retirement income strategy for the retired members of their fund, and the members of their fund approaching retirement. The strategy could be formulated either for all members in generality, or cohorts of members in generality as identified by the trustee. The strategy would outline how the trustee intends to assist their members to balance and achieve three key retirement objectives of maximising their retirement income, managing risks to the sustainability and stability of their income, and having some flexible access to savings.

In effect, the strategy would be a governance document developed by the trustee that:

- identifies and recognises the broad retirement income needs of the members of the fund; and
- presents a plan to build the fund's capacity and capability to service those needs.

The strategy would not be financial advice, or represent a plan tailored to the needs of individual members of the fund.

In formulating a retirement income strategy, the trustee would identify and recognise the retirement income needs of members of the fund. To do this, they would need to collect certain information about their members, however the policy would not require trustees to collect any specific information.

In formulating the strategy, the trustee would identify how they will assist their members to balance and achieve the three key objectives. The trustee would have discretion in how to balance the objectives, and the balance may vary between funds or cohorts.

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<sup>18</sup> Retirement Income Review (2020), p. 96.

<sup>19</sup> APRA Quarterly Superannuation Performance Statistics June 2021.

<sup>20</sup> APRA list of RSES and RSE Licensees and MySuper Authorised products and ERFs 25 October 2021.

The trustee would have to make their strategy publicly available, for example, by making a summary of their strategy document(s) available on their website.

In implementing the strategy, the trustee would undertake the activities they have outlined in their strategy which would assist their members to achieve and balance the retirement income objectives. There would be no requirement for trustees to take any particular course of action in implementing their strategy, and beneficiaries would not be required to consider or take-up any particular assistance offered by their fund under their strategy. Trustees would not be precluded from assisting members to meet individual needs through tailored advice, in addition to their retirement income strategy.

At a minimum, then, trustees would be required to identify and recognise the retirement needs of members of their fund, identify how they will assist their members to balance the three key objectives, and publish this in a publicly available document. In line with existing covenants, non-compliance would attract a civil penalty.

Any assistance provided by the trustee to give effect to their retirement income strategy would need to comply with existing requirements under the *Superannuation Industry (Supervision) Act 1993*, the *Superannuation Industry (Supervision) Regulations 1994*, Design and Distribution Obligations and financial advice rules. Assistance must also meet the sole purpose test and be in members' best financial interests.

## Administrative arrangements

This option would require changes to primary and subordinate legislation. APRA and ASIC would be expected to provide the necessary regulatory guidance to support trustees in developing effective retirement income strategies.

# 3.3 Option 3 – Require trustees to offer personal advice to all members

This option would require superannuation fund trustees to offer personal advice to every member individually at the point of retirement, which the member could then choose to take up to assist them in determining a tailored retirement income strategy.

Trustees would be required to inform members of the financial advice offerings they have available. They would be required to have a personal advice offering for their members, whether provided in-house (e.g. through advisors employed by the fund) or through an external provider. Where appropriate, trustees may be able to provide this advice through an intra-fund advice model.<sup>21</sup> The advice model used, and thus the costs of the advice offered to members, would be at the discretion of the trustee.

The provision of personal advice under this policy would need to comply with existing requirements under financial advice regulations.

Depending on the member's circumstances, they could also be advised through general advice that does not take into account individual circumstances. However, funds would be required to offer personal advice as an option, and a decision to instead take up general advice would be at a member's discretion.

## Administrative arrangements

This option would require changes to primary and subordinate legislation. APRA and ASIC would be expected to provide the necessary regulatory guidance to support trustees in ensuring members were offered personal advice, and the regulation of that advice.

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<sup>21</sup> 'Intra-fund advice' refers to the types of advice that a superannuation trustee can provide to members where the cost of the advice is borne by all members of the fund. (Source: ASIC)



## 3.4 Option 4 – Require trustees to provide a ‘soft-default’ retirement product to their members

This option would require superannuation fund trustees to offer their member a ‘soft-default’ retirement income product at the point of retirement, which they could then choose to take up, seek an alternative product, or receive personal financial advice.

The soft-default product would need to be developed by the trustee or offered by the trustee and developed by a third-party product developer.

While these products would be able to be tailored to fund memberships to some extent, they would need to comply with prescribed minimum standards set by the Government or by regulators to ensure they would deliver appropriate outcomes for retirees, and balance competing retirement objectives appropriately. While the minimum standards for this product would not be highly prescriptive, it is likely they would include a requirement that the product seek to achieve an appropriate balance of the key retirement income objectives of maximising retirement income, managing risks to the sustainability and stability of income, and having some flexible access to savings. As such, it would likely be necessary that these products include some form of longevity protection.

In developing and offering the product, trustees would need to comply with existing financial advice laws, including licensing and disclosure requirements.

### Administrative arrangements

This option would require changes to primary and subordinate legislation. APRA and ASIC would be expected to provide the necessary regulatory guidance to support trustees in developing and promoting their soft-default retirement products.

# 4. What is the likely net benefit of each option?

## 4.1 Option 1 – Status Quo

### Overview

Option 1 maintains the status quo. The problems identified in Section 1 would continue to persist. Some superannuation trustees would, of their own accord, put in place measures to improve the outcomes of the members of their funds in retirement. However, not all funds would do this, and those that do may put in place differing levels of support. There would be no additional standardised requirements across all superannuation funds to have structures in place to support members to make the most of their retirement savings.

Option 1 places no additional requirements on the system and therefore has no compliance cost, but means many retirees would have a lower standard of living than might be available to them. This option has been used as the benchmark for considering the costs and benefits of the other options.

### Regulatory burden estimate (RBE) table

Average annual regulatory costs				
Change in costs (\$ million)	Individuals	Business	Community organisations	Total change in cost
Total, by sector	\$-	\$-	\$-	\$-

## 4.2 Option 2 – Introduce a retirement income covenant requiring trustees to produce a retirement income strategy for their members

### Impacts for superannuation Funds

This option would require all superannuation fund trustees to formulate, review regularly, and give effect to a retirement income strategy for the retired members of their fund, and the members of their fund approaching retirement. As with the other covenants already legislated in the *Superannuation Industry (Supervision) Act 1993*, there may be a cost for trustees to formulate, review regularly and give effect to a retirement income strategy. Administratively this would require trustees to analyse information related to their membership, along with formulating, reviewing, and giving effect to the strategy. This includes publishing the strategy on the website of the fund.

The retirement income covenant would allow for significant discretion for trustees to tailor their retirement income strategy to the specifics of their membership. This includes discretion around aspects of how the strategy is formulated, and the scope and type of assistance provided by the trustee in implementing their strategy. However, the minimum requirements would ensure all funds do give consideration to how they will assist their members in achieving a balance of key retirement

objectives. While there are risks that funds may take minimal actions, funds will need to justify to their members why this option is in their best interests.

Trustees should already have some information on their members from existing regulatory requirements such as member outcomes assessments and the day-to-day operation of their fund. Further data collection could include outsourcing to a third party to conduct surveys of members, or trustees undertaking additional data collection internally. Additionally, trustees could analyse existing data sources, such as:

- the Australian Bureau of Statistics;
- the Australian Government Actuary;
- the Australian Prudential Regulatory Authority;
- the Australian Taxation Office;
- the Department of Social Services; and
- the Household Income and Labour Dynamics of Australia survey

It is anticipated that a requirement to develop a retirement income strategy would result in many trustees evaluating the products and guidance they offer to their members and investigating whether their product offerings can be improved to better meet the needs of their members. The covenant would provide discretion for trustees to provide assistance they thought was best suited for their fund. Assistance could include actions such as:

- developing and/or offering specific retirement income products;
- developing specific drawdown patterns that provide higher incomes throughout retirement;
- providing tools such as expenditure calculators to identify income and capital needs over time;
- providing factual information about key retirement topics, such as eligibility for the Age Pension, the concept of drawing down capital as a form of income, or the different types of income streams available; and
- providing guidance to beneficiaries early in accumulation about potential income in retirement through superannuation calculators or retirement estimates.

Trustees would also have the option of engaging a third-party to help them provide assistance to their members. For example, a trustee could choose not to develop a new retirement income product, but rather offer members one developed by a third-party.

## Impacts for Individuals

A retirement income covenant could provide retirees and those approaching retirement a higher and more stable income than the status quo. Where trustee assistance gives retirees the confidence to spend their superannuation, and gives them tools to do so effectively, incomes in retirement would increase. Analysis from the Review estimates that using superannuation effectively through improved drawdown patterns could increase the median person's income in retirement by over \$100,000, compared to how people typically draw down their superannuation now.<sup>22</sup> The Review highlighted the implementation of a retirement income covenant to guide members into effective retirement strategies, focusing retirement planning on income streams rather than balances, and future improvements to better quality advice and guidance as potential improvements that could encourage more efficient drawdown behaviour.<sup>23</sup>

To the extent that trustees provide additional assistance, a retirement income covenant could increase individuals' engagement with their retirement savings and their peace of mind in retirement. For example, the provision of retirement income projections has shown to increase pre-retirement member engagement, while better guidance and advice has been shown to improve confidence and peace of mind.<sup>24</sup>

A retirement income covenant would not impede retiree choice, or unduly nudge retirees to unsuitable outcomes. Retirees would continue to have choice as to how they manage their affairs in retirement, including how they draw down on their savings and the costs associated with various options. Importantly, by giving trustees discretion to tailor their retirement

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<sup>22</sup> Frydenberg, J., 2021. *Address to the COTA Australia National Policy Forum on Retirement Income*.

<sup>23</sup> Retirement Income Review, p. 29.

<sup>24</sup> Retirement Income Review, p. 447 - 451

income strategies to their memberships, the potential for inappropriate products or poor-value guidance to be offered to members is reduced.

This discretion may lead to a wide range of solutions being available to retirees and variation between funds. It is intended that strategies would vary between funds, as they would be tailored to the membership of each fund. However, to the extent funds choose to take actions such as developing new products to give effect to their strategy, variation between retirement income products may cause difficulty for individuals seeking to compare product offerings. As part of the broader Retirement Income Framework, the Government announced an intent to also formulate a new approach to retirement income product disclosure rules that will require providers to report simplified, standardised information on retirement income.<sup>25</sup> This future potential reform would minimise risks of members being unable to compare between funds and products.

Members who already receive financial advice can still benefit from a retirement income covenant. Trustees increasing their capacity to meet the needs of their members through providing new information, strategies or products will provide members with more choice and new options on how to draw down on their savings. For advised members, having these choices provided by their fund will prompt discussion with their adviser or fund on their retirement needs, potentially leading to better outcomes. Also, as different funds come to market with different retirement income strategies, advisers will have more funds and products to compare and find options that best meet the needs of their clients. Both of these outcomes would promote more efficient drawdown strategies for retirees already receiving financial advice.

The retirement income covenant is not intended to create competitive distortions in adjacent markets for financial advice.

## Regulatory burden estimate (RBE) table

This option would have an average annual regulatory cost of 20.167 million each year for a 10-year period. This cost is relatively small in comparison to the existing administrative costs of Australia's superannuation system.

During consultation on the Retirement Income Covenant position paper, a wide range of stakeholders provided feedback on policy design and implementation. This included stakeholders Treasury met with to discuss how the proposed covenant would impact their fund. Stakeholders did not raise significant concerns about the regulatory imposition a retirement covenant would have on their business operations or the costs that would be passed on to members. Further details of consultation Treasury undertook is outlined in section 5.

Importantly, this option gives funds significant discretion in the approach they choose to take to complying with the covenant. Funds will need to ensure the business decisions they make and costs they incur in developing a retirement income strategy are in the best financial interests of their members.

There is significant variability between funds in their internal characteristic that will drive how funds comply with their obligation to have a retirement income strategy under the covenant. Accordingly, there will be significant variability in regulatory burden for each fund. This will depend upon:

- the size and structure of the fund;
- the trustee's existing approach to meeting the covenants in the SIS Act and other related compliance obligations (e.g. member outcomes assessments), and the extent to which they can be leveraged to meet the retirement income covenant;
- the data available to the trustee to understand their membership, and the trustee's capacity to analyse that data and continue to evolve the data used for this assessment;
- the scope of assistance provided to members by the trustee in response to the retirement income covenant;
- the type of assistance provided to members by the trustee in response to the retirement income covenant, and the cost associated with various types of assistance; and
- the extent to which trustees choose to develop assistance in-house, or outsource it to a third-party.

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<sup>25</sup> 2018 Budget Factsheet 3.4: "Retirement Income Framework"

The quantification of costs is based upon the assumption that the development of a retirement income strategy would require the following steps:

- Data collection and analysis of a fund’s membership
- Formulating a retirement income strategy
- Publication of the strategy
- Implementation of the retirement income strategy across a fund’s operations
- An annual and three yearly review of the fund’s retirement income strategy.

Trustees should be able to build on existing frameworks and resourcing to implement this covenant, as they are already complying with other covenants in the SIS Act such as the investment and insurance covenants, and broader governance obligations such as member outcomes assessments and the design and distribution obligations. Compliance with a retirement income covenant would fit within this existing and familiar regulatory structure. The time and cost taken to understand the requirements of compliance, and integrate them within the fund’s existing processes, is therefore relatively low.

For most funds, it is expected that a response to the retirement income covenant would largely involve scaling up existing assistance, as opposed to developing wholly new systems. For example, in response to the retirement income covenant, a trustee could choose to update and expand the factual information provided on their website. Leveraging existing assistance would result in a lower regulatory cost.

The regulatory cost for superannuation funds is front-loaded in the first years of implementation. After this initial period, the ongoing compliance with the covenant can be absorbed into the regular workings of the fund in meeting its broad range of obligations under superannuation law, which include regularly reviewing fund performance against a range of measures.

There would be a small unquantifiable regulatory save for individuals as a result of a retirement income covenant. Individuals would likely spend a similar amount of time preparing for retirement, and engaging with services and products associated with retirement, as they currently do. Those that don’t consider these factors in retirement would continue to not consider them in future. This option would give individuals additional resources to assist them in preparing for retirement, and engaging with services that are better facilitated and supported. The ease of access to high quality professional information and economies of scale seen across the industry would therefore reduce the time spent for those that prepare for retirement.

Further, more informed individuals are less likely to need help with retirement choices as they age, given the information they would receive from funds once the covenant is implemented. Individuals will also have a clear place to go to access information about their fund’s retirement income strategy and assist them in preparing for retirement.

Average annual regulatory costs				
Change in costs (\$ million)	Individuals	Business	Community organisations	Total change in cost
Total, by sector	\$-	\$20.167m	\$-	\$20.167m

## 4.3 Option 3 – Require trustees to offer personal advice to all members

### Impacts for superannuation funds

This option would require superannuation fund trustees to offer personal advice to every member individually at the point of retirement. Within the superannuation industry, according to 2019 data, around 85 per cent of funds offer access to at least

scaled financial advice, and around 50 per cent offer access to comprehensive advice in-house, with others outsourcing to related or contracted parties.<sup>26</sup>

Under this option, the 15 per cent of funds that do not offer access to financial advice would have to either offer advice, or alternatively establish a business partnership and outsource the advice.

Many trustees would already have capabilities in place to deliver some kinds of advice, such as general advice charged as intra-fund advice, should a member elect to receive that type of advice. For those trustees who currently provide personal advice, they should be able to scale their business model to meet the needs of the members who are retired.

A large increase in the uptake of intra-fund advice will increase costs to the fund of providing this advice, which is likely to be reflected in a need to increase administration fees for members. If the advice is paid out of the superannuation fund through the intra-fund advice model, the trustee would need to ensure this complies with the sole purpose test and best financial interests duty. Alternatively, if the fund opts to provide personal advice outside of the intra-fund charging method, the cost of providing this advice will be charged directly to the individual receiving the advice.

## Impacts for financial advice industry

Under this option, demand for financial advisors may increase. While the uptake of advice under this option is not clear, if demand for advice increases significantly it is possible that the supply of advisers will not keep up in the short term and price rises may result. A longer implementation timeframe could address any potential cost increases by allowing the industry time to adjust to greater demand.

## Impacts for Individuals

Broadly, most people do not seek financial advice at retirement. Around 26 per cent of those aged 55–64 seek financial advice at retirement.<sup>27</sup> The main barriers to seeking advice include that advice is seen as too expensive, finances are too limited to add value, or retirees prefer to manage their own finances and have a lack of trust in the advice industry.<sup>28</sup>

To the extent that this option encourages people approaching retirement to take up financial advice, it may help some retirees effectively navigate the complex decisions around retirement products and investment strategies and may lead to individuals utilising more appropriate drawdown strategies than anchoring the minimum drawdown rates. This may improve their outcomes in retirement. However, the provision of advice may not always lead to changes in behaviour, as both advisors and individuals may still hold behavioural biases such as anchoring to minimum drawdown rates and conservatism. In addition, without further innovation in retirement income products and strategies offered by funds or other providers in the market, advisors will continue to have limited options in the products or strategies they may recommend to individuals, particularly regarding managing complex risks such as longevity risk.

This option would ensure members entering retirement would have an equal opportunity and access to get advice, regardless of the fund they are invested in or their prior awareness of their fund's financial advice offerings.

There is no complete and verifiable estimate of financial advice. The costs of advice will vary depending on the complexity of a person's circumstances and the advice required. One source suggests that in 2020, the median ongoing fee for comprehensive financial advice was \$3,256 with the average being \$4,000.<sup>29</sup> Another source indicates the cost of comprehensive personal advice is between \$2,600 and \$2,900, and \$1,500 for limited advice.<sup>30</sup> A recent industry paper that surveyed 11 large licensees suggested an average fee of \$5,334.64.<sup>31</sup>

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<sup>26</sup> Retirement Income Review, p.450

<sup>27</sup> Retirement Income Review, p.449

<sup>28</sup> Retirement Income Review, p.449

<sup>29</sup> 2020 Australian Advice Landscape, p. 19.

<sup>30</sup> ASIC Consultation Paper 332, p. 20.

<sup>31</sup> FSC White Paper on Financial Advice p. 5,9

Consumer surveys have shown that, on average, people are not willing to pay any more than \$500 for comprehensive personal advice.<sup>32</sup> Funds can also offer intra-fund advice to their members, which may be general advice or personal advice. Intra-fund advice still has costs, but these costs can be collectively charged to the membership of the fund. Given the complexities of retirement planning, an option where members are proactively offered advice could be expected to result in more members taking up this advice.

If this caused a large increase in the uptake of intra-fund advice, it would increase the administration fees of the fund. Depending on the fund and the way it charges fees, this could have significant impacts. Administration fees for all members are likely to increase, including those in the accumulation phase. As intra-fund advice costs are spread across the whole membership, younger and lower balance members who are less likely to access this advice could be subsidising the advice of older and wealthier members who do choose to access it.

Some retirees' financial situation is sufficiently limited for personal advice not to be worth the cost. These are predominantly low-wealth retirees, with no complex investments. A lower cost alternative to personal advice, such as accessing factual information or general advice, could achieve the same outcome. In addition, while this option would require trustees to offer personal advice to all members, members may still choose not to take up this advice. These members would not receive a benefit from this option.

The impacts across industry and for individuals assumes the same start date of the retirement income covenant, being 1 July 2022. If the implementation of this option was spread over a longer timeframe, it would allow greater lead in time for preparation and a potential aversion of costs passed on to members such as fees. It may also allow time for the industry to adjust to any sharp increase in demand for financial advisers specialising in retirement. However, a longer implementation timeframe would also delay the benefits of the option, and allow the problems identified in section 1 to persist for those retirees making key decisions during the extended implementation window.

## Regulatory burden estimate (RBE) table

As there is no firm definition in Australia of retirement, it is not possible to accurately determine the number of retirees. However, superannuation funds may identify an individual as retired when they choose to switch their account into the tax-free retirement phase. As of June 2020, there were approximately 1.42 million accounts either fully or partially in the retirement phase.<sup>33</sup> As established, already around 26% of those aged 55-64 receive advice. If the remaining 74% not already receiving financial advice were provided personal advice at an assumed cost of \$4000, this would have an industry-wide cost to the magnitude of \$4.2 billion. As there is no fixed retirement age, it is not possible to estimate the number of additional individuals who will choose to move their account into the retirement phase over ten years, however this would generate an additional ongoing cost as more individuals became part of this cohort.

Alternatively, superannuation funds may identify that advice is most useful as members are approaching or shortly after a common retirement age. If personal advice were provided to the 74% not already accessing financial advice from the 3.4 million accounts where the member is aged 55-64,<sup>34</sup> this would have an industry wide cost of approximately \$10.1 billion. Over ten years, advice would also need to be provided to the additional approximately 3.16 million accounts currently held by individuals aged 45-54 who would enter the 55-64 age bracket and not ordinarily receive financial advice in doing so, at an industry-wide cost of \$12.7 billion. This would result in a total cost of providing advice \$22.7 billion over ten years, to an average of approximately \$2.3 billion per year.

However, these estimates are unable to account for the likely high variability in the method by which funds choose to notify members of advice options or provide the advice itself. As the estimates present the cost of in fact providing the advice, they will also depend on the quantity of additional members who take up advice. While the cost of providing advice would be lower with a lower take-up, this would also reduce the effectiveness of this policy option.

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<sup>32</sup> Retirement Income Review, p.449

<sup>33</sup> APRA Annual Fund Level Superannuation Statistics June 2020

<sup>34</sup> APRA Annual Fund Level Superannuation Statistics June 2020

As the method of providing advice (such as the distinction between intra-fund advice charged collectively across the fund, and advice charged directly to each member) will have a significant impact on the allocation of costs between individuals and superannuation funds, it is also not possible to allocate this cost between groups. The relevant population for the provision of advice is also not able to be clearly defined.

As such, this option would have an unquantifiable regulatory cost on businesses and individuals. The regulatory burden for businesses and individuals would depend upon:

- the size and structure of the fund;
- how the trustee chooses to notify their members and offer advice (e.g. by mail or by e-mail);
- whether the trustee currently provides advice, and the manner in which they do so;
- the extent to which members take up financial advice, and which form of advice they take up;
- the extent to which trustees pass on the costs of intra-fund advice to their members, how these costs are distributed, and how this distribution impacts the willingness to take up the offer of advice; and
- the extent to which this option affects the supply and demand for advice and cost of advice.

However, as indicated by the estimated industry-wide cost of approximately \$2.3 billion annually averaged over ten years if this option were to be fully effective and provide advice to every individual not already receiving advice, the costs for this option are likely to be larger than those for Option 2. Where advice is provided through an intra-fund model, more of the costs for this option are likely to be passed on to individuals, either indirectly or directly. Where advice is charged directly to the member this would not constitute a regulatory cost (as it is entirely the choice of the members). Funds who do not currently offer personal advice will incur a start-up cost in establishing an advice offering for their members. To the extent this option may impact the supply and demand of financial advisers, the cost of accessing financial advice may increase. This may result in additional regulatory burden.

Average annual regulatory costs				
Change in costs (\$ million)	Individuals	Business	Community organisations	Total change in cost
Total, by sector	\$*	\$*	\$-	\$*

\* = Unquantifiable

## 4.4 Option 4 – Require trustees to provide a default retirement product to their members

### Impacts for superannuation funds

This option would require superannuation fund trustees to offer their member a ‘soft-default’ retirement income product at the point of retirement, within set parameters determined by the Government. For trustees, there is a start-up cost in developing the product, or alternatively a cost of outsourcing development to a third party. There will also be a year-on-year cost for maintaining and reviewing the product each year, ensuring compliance with the standards in the *Superannuation Industry (Supervision) Regulations 1994*. Depending on the specifications of the product the trustee chooses to develop, there may also be ongoing costs of maintaining capital.

A trustee developing a new retirement product would need to ensure that funding the development of this product was in the best financial interests of all members. This could be problematic if trustees expected a low take up of a new retirement income product. However, funds may be able to cost recover part of the development costs and the ongoing costs of maintaining new products through fees charged on the product itself.

The Australian market for innovative retirement income products remains nascent and undeveloped. Only a few trustees currently offer innovative retirement income streams to their members. Around 87 per cent of retirement assets in Australia



are currently allocated to account-based pensions.<sup>35</sup> Account-based pensions alone would likely not meet the requirements for a soft-default product, as they would not protect most members against longevity risk and thus would not be seen to be balancing the key retirement objectives. Most trustees would be required to change their product offering to meet the requirements of this option. Trustees developing new products to comply with this option would face long development costs and high regulatory costs to ensure they comply with the prescribed product rules. Due to the complexity of new retirement income products and their significant development timeframes, it is likely this option would require an extended implementation timeframe to allow suitable products to be developed. It is estimated that funds would require between one and two years to appropriately develop and market a new product.

Stakeholders have previously indicated in consultation that there are substantial barriers to developing new retirement income products. In addition, due to low take-up of these products, they are often not feasible for providers to develop and maintain and high fees may need to be charged, particularly if products become 'legacy products' with few remaining members. The difficulty in transitioning some types of retirement income products, particularly longevity products, may also act as a barrier to funds undertaking other activity such as mergers with other funds.

Setting parameters for a soft-default retirement product also limits innovation. Trustees may be wary of developing products outside of these parameters, even if they may benefit some retirees, as they would not be able to be sold as soft-default products. However, a requirement that trustees develop at least one soft-default retirement income product may also spur trustees to consider and further innovate in developing products in this space.

## Impacts for Individuals

Similar to Option 2, this option could provide retirees and those approaching retirement higher and more stable income than the default settings. Where a soft-default retirement income product gives retirees the confidence to spend their superannuation, and gives them tools to do so effectively, incomes in retirement would increase.

Defaults are powerful. Where defaults exist elsewhere in the retirement income system, they have proven to be strong drivers of behaviour.<sup>36</sup> It could be expected that, under this option, there would be a significant increase in the number of people taking up the soft-default product. However, as the product would only be a soft-default option, members may still choose to opt out of these newly developed products. Historically, the take-up of retirement income products in Australia offering products other than account-based pensions, has been low, with only 13 per cent of pension phase accounts were invested in these products.<sup>37</sup>

There are several potential barriers to taking up innovative retirement income stream products that may cause members to choose to opt out of a soft-default option. For many retirement income stream products involving the pooling of assets, if a member dies before reaching life expectancy, they are likely to lose the remainder of their investment in that product to the pool. Conversely, if they exceed life expectancy, they are likely to receive a greater benefit from the product over time than their initial investment. In some kinds of retirement income products, a member may be unable to exit a product after purchase or may only have a limited time in which to do so.

There can be significant variability in the specific settings between income stream products, and research suggests that while people may be interested in these products, they find the process of choosing between specific products too difficult.<sup>38</sup> While a soft default may overcome some of this choice difficulty, some members may continue to see features of the products themselves as barriers. In addition, not all members would benefit from a product focussed on a prescribed balance of key retirement income objectives. Retirement is not a one-size fits-all proposition, with varying needs and preferences in retirement that require varying approaches to utilising retirement savings. In particular, low-balance members, and members with lower life expectancies, may find poor value in a soft-default product that prioritises longevity protection over higher incomes.<sup>39</sup> To the extent that this option 'nudges' members into the soft-default product, some members may be worse off

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<sup>35</sup> APRA Annual Superannuation Bulletin June 2015-June 2020.

<sup>36</sup> Retirement Income Review, p. 445.

<sup>37</sup> APRA Annual Superannuation Bulletin June 2015-June 2020.

<sup>38</sup> Retirement Income Review, p. 459.

<sup>39</sup> Retirement Income Covenant 2018 and 2021 Position Paper Consultation

than if they had used an account-based pension, or they may choose to opt out of the soft-default product, thereby reducing take up. As the retirement phase is undeveloped currently with members retiring with lower balances, it is unclear that this option would result in benefits exceeding costs. Further maturing of the retirement phase of superannuation and the system as whole will affect the costs and benefits of this option.

This option also risks creating a large number of 'legacy products'. Legacy products emerge where members are locked into a product which later becomes unviable, or poor value for money. Protecting against longevity risk often requires pooling members' money together and limiting withdrawals from the product. Where products do not reach scale, there is the potential for high fees to be charged or the benefits of pooling approaches to be unrealised. These limitations, along with the prospect of a flood of new products entering the market to comply with the option, create the potential for members to be committed to poor value products for their whole retirement.

## Regulatory burden estimate (RBE) table

To comply with the requirements of this option, each superannuation fund would have to either develop, or commission the development of, at least one new retirement income product which meets the requirements of balancing the key retirement income objectives. The development of these products is likely to occur in four phases of collecting data to understand the needs of the fund's specific membership, designing the product and its specifications, consumer testing the product, and finalising, marketing and launching the product to the market.

The cost to each fund of developing a product is likely to be highly variable depending on a range of factors including the size and structure of the fund, the nature of their membership base, the type of product they choose to develop, and any existence expertise or experience in developing retirement income products. As an estimate for an average fund, in total, this initial cost of developing a product would amount to approximately \$3.6 million per fund, or \$564.9 million across the relevant funds in the superannuation industry. This aligns with comments made by superannuation industry figures previously that the cost of developing innovative retirement income products would involve spending "millions of dollars on product development".<sup>40</sup>

In addition to the development costs of a product, superannuation funds would face regulatory cost in ongoing maintenance of these products. However, it is not possible to provide a meaningful estimate of the cost of maintaining a product for a number of reasons:

- The lack of existing and long-running innovative retirement products in the market does not provide a base on which to estimate these costs in the Australian regulatory environment.
- The significant differences in specifications between products will have a substantial impact on their ongoing costs
- It is not possible to foretell the proportion of funds who would opt to design a product to a certain set of specifications. It is therefore meaningless to estimate an "average" product, as the market of products from which that average may be created is undefined.
- The ongoing costs of maintaining a product will be highly dependent on the number of members who choose to take up a product offered as a 'soft-default'.

As such, while an estimate can be made of an approximately \$564.9 million industry-wide regulatory burden in the start-up cost of developing a product, it is not possible to quantify a meaningful estimate of the average annual cost over ten years without the ongoing costs of maintaining a product.

There would likely be no additional regulatory burden for individuals as a result of requiring trustees to provide a soft-default product to their members. Individuals would likely spend the same amount of time preparing for retirement, and engaging with services and products associated with retirement, as they currently do.

While this cost has an unquantifiable average annual regulatory burden on superannuation funds over ten years, it is apparent that this option would be costly. Considering only the initial start-up cost of developing a fund, this would amount to an annual average cost over ten years of \$56.5 million. While it is not possible to estimate ongoing costs of maintaining

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<sup>40</sup> "Business case for retirement needs to stack up", *Investment Magazine*, June 28 2021.

these products, it is clear this cost would not be zero. As such, the average annual regulatory cost of this option is likely to be greater than \$56.5 million, and therefore, higher than option 2.

Average annual regulatory costs				
Change in costs (\$ million)	Individuals	Business	Community organisations	Total change in cost
Total, by sector	\$-	\$*	\$-	\$*

\* = *Unquantifiable*

# 5. Who did you consult and how did you incorporate their feedback?

Consultation on improvements to the retirement phase of superannuation has occurred over many years. The learnings from this consultation have informed the options presented and analysed above.

## 2014 – Financial Systems Inquiry

The 2014 Financial System Inquiry (FSI) conducted an extensive consultation process on how to best position Australia's financial system to meet Australia's evolving needs and support economic growth. This included consulting on the superannuation and retirement income system.

The consultation included:<sup>41</sup>

- Over 280 stakeholder submissions on the Inquiry's terms of reference
- Over 6,500 submissions on the Inquiry's interim report. Around 5 per cent of submissions raised observations related to the underdevelopment of the retirement phase of superannuation.
- Four public forums
- 15 roundtables, including three specifically on superannuation or retirement incomes
- Several hundred meetings with stakeholders

The FSI's final report, drawing on this consultation, raised concerns about the lack of choice in products available in retirement. It found that, at the time, at least 94 per cent of retirees' superannuation accounts were in account-based pensions. It found that these products generally do not effectively manage the risk that a retiree will outlive their savings. The FSI also found that incomes from a more efficient product could be 15-30 per cent higher than those from the current typical strategy of drawing the minimum amount from an account-based pension.

The FSI noted that people tend to have diverse needs in retirement, and no given product or combination of products will be appropriate for everyone. Many submissions cautioned that default income streams could result in poor outcomes for some individuals and stifle innovation

The FSI also noted that high-quality advice may be useful to some individuals to help them manage their financial affairs in retirement.

The FSI recommended that superannuation trustees 'pre-select' a 'Comprehensive Income Product for Retirement' (CIPR) for members' retirement, to commence on the members' instruction.

The Government's FSI response in 2015 committed to develop legislation to allow trustees to provide CIPRs to guide members at retirement and improve outcomes for retirees.

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<sup>41</sup> Financial System Inquiry (2014) Appendix 4.

## 2016 – Development of the framework for Comprehensive Income Products for Retirement Discussion Paper

In December 2016, a CIPRs discussion paper was released for consultation. This process received 57 written submissions and involved meeting with more than 100 organisations. Feedback was received from across the superannuation and financial services industries, consumer groups, and advisory bodies.

This consultation process revealed broad agreement on the importance of the CIPRs policy intent to promote more efficient retirement income products that supported higher incomes in retirement, but divergent views on the best way to achieve the objectives. There was considerable agreement on the need for a framework to manage the transition from accumulation to retirement phase.

## 2018 – Retirement Income Covenant Position Paper

In 2018 the Government consulted a Position Paper on the proposed Retirement Income Covenant (RIC). As proposed, the RIC would establish a requirement for trustees to develop a retirement income strategy for members, offer a CIPR, and provide members with guidance to help them choose appropriate products. This consultation considered both Option 2 and Option 4.

The Position Paper was released for consultation on 17 May 2018 and closed on 15 June 2018. 59 submissions were received from organisations across the superannuation, financial advice and life insurance industries, advisory groups, and consumer groups.

The vast majority of stakeholders supported the introduction of a RIC (Option 2) and recognised the problem the policy sought to address. However, approximately half of responses raised various concerns as to the suitability of compulsory CIPRs (Option 4), and many responses preferred a principles-based approach.

Some specific concerns were raised regarding implementation timeframes, in particular highlighting that the development of innovative income streams (Option 4) takes a significant amount of time and resources.

## 2020 – Retirement Income Review

In November 2020, the Government released its Retirement Income Review. The Review presented an evidence base on the operation of the retirement income system with the aim to improve understanding of how the system operates and the outcomes it delivers. The Review utilised a consultative approach, receiving over 430 submissions and holding more than 100 meetings with stakeholders across academia, industry bodies, superannuation funds, and consumer groups.

The Review made a number of key observations, including that the retirement phase of superannuation is underdeveloped and that higher retirement incomes could be achieved through using superannuation assets more efficiently.

The Review noted that stakeholders raised a range of measures that could help people use their retirement savings, including:<sup>42</sup>

- Funds providing regular estimates of an individual's retirement savings being expressed in terms of an income stream rather than balance at retirement;
- Educating people that their health and aged care costs are heavily subsidised by the Government;
- Emphasising that the Age Pension provides a safety net for people who outlive their savings or when the value of their retirement savings falls significantly;
- Amending the minimum drawdown rates so that income is delivered when people are more likely to consume it, namely earlier in their retirement rather than the current drawdown rates, which are highest at ages 85-90; and
- At retirement, guiding people towards products that deliver an income stream and provide protection against market fluctuations and outliving saving.

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<sup>42</sup> Retirement Income Review (2020), p. 56

The Review also noted that most people do not seek advice about retirement income planning. Some submissions to the review considered financial advice to be critical to making better decisions and reducing worry and uncertainty in retirement. However, they noted people were deterred from accessing personal financial advice because of its high cost and unclear benefits, and their distrust of the financial advice industry. Some stakeholders suggested the type of financial advice people need has changed over time and demand for financial advice will increase in future. They argued the superannuation industry should play a greater role in providing financial advice.<sup>43</sup>

The Review highlighted the importance of the retirement income covenant in improving retirement outcomes and led to increased calls from stakeholders for the policy to progress and be implemented as soon as possible.

## 2021 – Retirement Income Covenant Position Paper

A Position Paper on an updated retirement income covenant, reflecting Option 2, was released for 3 weeks consultation from 19 July 2021 to 6 August 2021. A public consultation process was the most appropriate approach as the covenant has broad impacts on industry and its members.

Treasury received 69 submissions including written submissions and one-on-one consultation meetings, with responses from across superannuation funds, industry bodies, consumer groups, financial advice industry and individuals. 53 of 69 submissions supported the retirement income covenant and the need for action in this area. Stakeholders supported the principles-based approach and the removal of the requirement to offer a CIPR (Option 4), which had been a feature of the earlier consultation in 2018.

Through this consultation, Treasury met one-on-one with a large number of superannuation funds and industry bodies to discuss a wide range of topics relating to the covenant. Stakeholders did not raise any concerns with regulatory imposition posed by the retirement income covenant during these meetings, and the key groups of superannuation funds and their representative bodies indicated that having a strategy in place within the suggested implementation timeframe would be achievable. In contrast, stakeholders did raise that there are more significant barriers to developing new retirement income products.

Superannuation funds and their representative bodies particularly supported the principles-based approach as providing them the necessary flexibility to tailor their approach to their specific membership base.

Adjustments to the policy also occurred after consultation, such as expanding the identification of risks that trustees may wish to consider, and adjusting the policy to exclude some forms of superannuation interest where the strategy would not provide benefit.

Of those submissions who did not support the retirement income covenant, most disagreed with the inclusion of self-managed superannuation funds (SMSFs). The policy was subsequently amended to carve out SMSFs from Option 2. Stakeholders who did not support the SMSF carve out included peak representative bodies and a small business.

Option 3 was tested with subject matter experts but not specifically tested with industry during the position paper consultation.

## Informal consultation with regulators and industry

Alongside formal consultation processes, Treasury regularly consults with stakeholders about the effectiveness and appropriateness of retirement income policy settings. These consultations with industry stakeholders and ASIC, APRA and the ATO, as regulators of the superannuation industry, has informed policy development at all stages.

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<sup>43</sup> Retirement Income Review p. 417

## 6. What is the best option from those you have considered?

Option 2, introducing a retirement income covenant requiring trustees to produce a retirement income strategy for their members, is considered to be the preferred option due to having a low regulatory cost, while allowing for appropriate support to be provided in the retirement phase of superannuation.

Retirement is not a one-size fits-all proposition, and trustees are best placed to know their members' needs in retirement. A retirement income covenant and the discretion provided within the covenant incentivises trustees to consider the needs of their specific membership and develop assistance to support them. The covenant also allows trustees to balance the costs of providing assistance with the aim of having products available for members that are value for money. Although the costs for Options 3 and 4 were ultimately unquantifiable, Option 2's cost remains substantially lower than the estimates provided for Options 3 and 4 in the process of attempting to estimate regulatory burden.

For members, the retirement income covenant has the potential to improve the choices they are offered at retirement, and the support provided to help navigate those choices, at a relatively low cost. While there is some regulatory cost to superannuation funds, the benefit from increased superannuation drawdowns driven by funds having retirement income strategies (as noted above, more efficient draw down on superannuation assets is expected to increase a median person's income in retirement by over \$100,000) is expected to exceed any superannuation fund regulatory cost passed on to members as fees.

Option 1 does not fix the problems faced by today's retirees. If the status quo does not change, it is unlikely that these problems will be fixed for future retirees either. Where superannuation trustees do choose to take actions to improve retirement outcomes, this would not be equally accessible to all individuals.

Option 3, requiring trustees to offer personal advice to all members, is likely to improve the retirement outcomes of some members who take up the advice. However, it is likely to come at a significant regulatory cost for both funds and individuals, while only prompting minor changes in behaviour without further retirement income options entering the market. This option may also place additional burden on the financial advice sector. While the regulatory burden of this option is ultimately unquantifiable, estimates show that if take up of offered advice is high, it is likely to have the highest regulatory cost of any option. While these costs may be lower if take up of advice was low, the potential benefits would also not be realised.

Option 4, requiring trustees to provide a soft-default retirement product to their members, may also improve retirement outcomes. However, given the development of innovative retirement income streams is still in its infancy in Australia and consumers are generally reluctant to take up these products, mandating these products as a soft-default option is likely to come at significant cost, and risks creating many legacy products which have to be dealt with over the coming decades. Products may not be suitable for all members, and some members may elect not to take up new products, thereby reducing the effectiveness of this option. Although the inability to quantify ongoing costs of these products makes this option overall unquantifiable, the high development costs of products are likely to create a higher regulatory cost than Option 2, although less than Option 3.

# 7. How will you implement and evaluate your chosen option?

## Implementation

Implementing a retirement income covenant will require amendments to primary legislation. As with the other covenants in the *Superannuation Industry (Supervision) Act 1993*, APRA and ASIC will regulate trustees' compliance and are expected to provide necessary information on how trustees can comply with the new retirement income covenant. As outlined, trustees already have obligations under current prudential standards and APRA Reporting Standards to understand their membership base.

APRA and ASIC publish guidance and information on matters that trustees should take into account when seeking to meet their obligations under the covenants in the *Superannuation Industry (Supervision) Act 1993*, and ASIC publishes guidance and information on how trustees can meet their obligations under the *Corporations Act 2001*. Similar guidance and information may be published for the retirement income covenant if necessary. Explanatory materials developed as part of the legislative process will also provide context for superannuation trustees to the new covenant's operation.

Communication with superannuation industry bodies will ensure the key requirements of the policy are understood. Dialogue with the superannuation industry has been ongoing for a number of years on the covenant and will continue during implementation. Helping industry understand their key obligations will provide clarity on expectations for implementing the covenant. Further, communicating with broader retirement stakeholders, including seniors' advocacy groups will assist retirees to better understand and engage with their fund's offerings. Encouraging retiree confidence through broader stakeholder communication will assist in promoting the policy intent of the covenant.

## Evaluation

Through its usual stakeholder engagement processes, Treasury will encourage feedback on the operation of the retirement income covenant. This includes feedback from superannuation trustees, advocacy groups and retirees themselves through avenues such as ministerial correspondence.

APRA and ASIC will provide ongoing feedback to the Treasury on trustee compliance with the covenant. This feedback will help evaluate the current policy settings and identify any implementation issues.

Metrics for tracking policy success will rely on longer term data analysis from sources such as the ABS, ATO, APRA and HILDA. This data can be used to examine changes in retiree behaviour that could indicate the policy's progress. Qualitative analysis, including surveys of retirees and academic research, may also play a role in determining whether the covenant improves retirement outcomes and feelings of confidence amongst retirees.

No formal review of the policy is planned.



# Additional Information / Summary

## RIS status at each major decision point

### 2018-19 Budget

The Government announced in the 2018-19 Budget that it would amend the *Superannuation Industry (Supervision) Act 1993* to introduce a retirement covenant that will require superannuation trustees to formulate a retirement income strategy for superannuation fund members. An Interim RIS was developed for consideration ahead of that decision, with the RIS to be finalised following consultation with industry and key stakeholders.

### Final policy decisions and introduction of legislation

This final RIS has been prepared following extensive stakeholder consultation, ahead of the Minister for Superannuation, Financial Services and Financial Technology's final decisions regarding the legislation to implement a retirement income covenant.