

6 August 2021

Lynn Kelly  
First Assistant Secretary  
Retirement, Advice and Investment Division  
The Treasury  
Langton Crescent  
Parkes ACT 2600

Email: [superannuation@treasury.gov.au](mailto:superannuation@treasury.gov.au)

Dear Lynn,

COTA Australia welcomes the opportunity to comment on the recently released *Retirement income Covenant Position Paper*. We warmly welcome the paper. As you know we have been strongly advocating for some time for the introduction of a Retirement Income Covenant in the Superannuation Industry (Supervision) Act 1993 and believe this is a first and very important step toward a more critical focus on retirement income within our superannuation system.

We also welcome and agree with the ‘principles-based’ approach for the new legislation as it will allow Trustees room to seek a competitive advantage through innovative approaches to implementing their primary focus on maximising members’ retirement incomes.

We look forward to the release soon of an Exposure Draft of the legislation, ensuring the legislative process can accommodate a 1 July 2022 commencement date. However, we strongly suggest that both APRA and ASIC also need to release draft Guidance before the end of 2021 so that funds have a fairly clear idea of what the regulatory approach will be to the implementation of the legislation. The proposed ‘principles based’ approach of the legislation makes the earliest release of draft guidance even more important for Trustees to have sufficient time to understand their formal obligations and the scope of their discretion.

In drafting the legislation, we strongly urge the Government to include a prescription of the purpose of the Superannuation Guarantee, as proposed in the Retirement Income Review, to make it unequivocally clear that “the purpose of superannuation is to provide income in retirement”<sup>1</sup>. This is an opportunity to make clear that the purpose of superannuation is, in conjunction with the Age Pension, to provide for optimum retirement incomes, and that the purpose of superannuation is predominantly to provide income in retirement. This can be done in advance of the Government legislating the purpose of the whole retirement income system, as recommended by the Retirement Income Review, which is a more complex task because it will require legislation to deal with defining ‘adequate’, ‘equitable’, ‘sustainable’ and ‘coherent’.<sup>2</sup>

---

<sup>1</sup> “Providing income in retirement is the fundamental role of compulsory superannuation”, Retirement Income Review, p100.

<sup>2</sup> “It is suggested that the objective for the system be developed around the goal: **‘to deliver adequate standards of living in retirement in an equitable, sustainable and cohesive way.’**

What constitutes an ‘adequate, equitable, sustainable and coherent’ retirement income system needs to be clear and preferably legislated. “, Retirement Income Review, p27.

## **The “Nest Egg” Paradox**

*“It’s a nest egg for old age, but when we get to our old age, we don’t use it because we might need it at a yet older age. Then we die and can’t use it anyway!”*

COTA’s long argued position is that the purpose of superannuation is to generate optimum retirement income, rather than ending up as bequests. The Discussion Paper notes that the popular understanding of superannuation remains that of a “Nest Egg” for old age.

There has been an implicit expectation that the ‘nest egg’ capital is not to be touched, but that one should live off its earnings. As the *Retirement Income Review* stated, this is an incorrect understanding of superannuation, but one that Superannuation Funds have consistently reinforced when communicating with their members by focusing exclusively on the amount of accumulation, not what it could generate in income. In nature, eggs transform into animals (birds, fish, monotremes, etc) but superannuation nest eggs are never portrayed as transforming into an income that can materially improve one’s living standard in retirement.

We believe that as part of the requirement to manage the sustainability of retirement income, Trustees must communicate clearly with their members that this entails the consumption of their capital, and that longevity risks are incorporated clearly and effectively in that same strategy. Changing attitudes to the use of superannuation will be a major cultural shift that will require action on a range of fronts to be successful. We look forward to cooperating in this endeavour.

## **Retirement Income Projections**

COTA has long argued that Superannuation Funds should be required to provide members with reports on both their accumulated funds and on their projected retirement income. Reporting on projected retirement income should be based on a standardised set of variables prescribed by APRA or ASIC with appropriate caveats. The report should also provide comparison estimates based on (say) two levels of additional voluntary pre-tax contributions, to demonstrate what extra savings could generate.

***We note that income projections are mentioned only as one option for Trustees to consider. We think that this is unacceptable. Reporting on estimated retirement incomes is fundamental to cultural change and should be a prescribed component of all Trustees strategies.***

## **General Information versus Personal Advice**

We strongly believe that the provision of high-quality financial advice is critical to the objective of this legislation. We recognise that there will be a major review of the quality of financial advice next year, and we will be providing further advice on the suggested scope and terms of reference of that review. However, the current financial advice landscape is broken and aspects of it need to be fixed quickly, without prejudice to a more comprehensive review.

The boundaries between ‘personal’ and ‘general’ advice need to be redrawn and the concept of ‘guidance’ introduced so that funds can provide timely and effective but general guidance to their members that is widely accepted as uncontroversial. APRA and ASIC should sanction such guidance.

Linked to this is the need to provide improved retirement planning tools such as those provided on the *MoneySmart* website. *MoneySmart* is a trusted brand, and the website needs to be more heavily promoted. However, the retirement planning tools available must be updated or revised to be more actuarially

accurate, rather than using the current Australian Life Tables which we are advised by the Actuaries Institute are not appropriate and result in misleading advice.

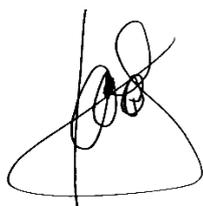
Recent research<sup>3</sup> indicates that a very large proportion of those Australians who are interested in their superannuation wellbeing, prefer to do their own research rather than depend on professional financial advisors. We consider it imperative that those individuals have access to better retirement planning tools than they have at present.

#### **Access to data for Trustees**

For Trustees to develop their approaches to the formation of suitable cohorts they will need good data. Unfortunately, most Superannuation Funds only have access to very limited data on their members – they lack objective data on their members marital states, home ownership, or multiple fund membership. They also lack important but subjective data such as their members intended date of retirement. The objective data is in fact largely and often held by the ATO and could be provided to Trustees on a de-identified and collectivised basis for each Fund by the ATO. This would assist funds in understanding their collective +members situations better, and in particular assist substantially in cohort analysis. Without good quality and comprehensive data it is highly unlikely that Trustees will feel equipped to develop different strategies for different cohorts. COTA believes strongly that access to such data is important and that this should be included in the forthcoming legislation.

We recognise this is a first step in a process that will take some time to come into full effect. It is important however that it not be overly cautious. This step should provide a robust nudge toward the preferred outcome. As essential as this legislation is, it's effectiveness must be complemented with a range of other steps, some of which might be in APRA and ASIC guidance, but others need direct government action.

Best regards,

A handwritten signature in black ink, appearing to be 'Ian Yates', written over a horizontal line.

Ian Yates AM  
**Chief Executive**

---

<sup>3</sup> Super Consumers Australia <https://superblog.netlify.app/2021/07/28/nationally-representative-retirement-survey-results/>