1 June 2017

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Dear Jenny,

Development of the framework for Comprehensive Income Products for Retirement

On 15 December 2016, the Government released a discussion paper that explores the key issues in developing the framework for Comprehensive Income Products for Retirement (CIPR), or MyRetirement products. We support any effort to change the underlying narrative in the superannuation industry from a focus on the accumulated lump sum benefit at the time of retirement to providing an income throughout the retirement years. As such, we believe the CIPR initiative will make an important contribution towards this.

Our comments on the discussion paper and the 40 questions posed are attached in the Appendix. However, we believe that we should first provide our views on the current superannuation and retirement incomes environment to provide some context.

All superannuation funds will have members who will reach their preservation age and subsequently cease working and/or making contributions to the fund. Consequently, every superannuation fund should have a plan regarding how they are going to deal with these members, noting the legislative requirement for trustees to act in the best interests of their members. **As a result, we recommend that every superannuation fund (including SMSFs) be required to have a Retirement Income Governance Framework (RIGF) in the same way that they have a framework for investments and insurance.**

The RIGF would set out how the trustee intends to guide their members toward and through retirement and how they are taking their members' interests into account, including for example social security implications for low account balance members and members in poor health. Importantly, APRA's regulatory responsibilities would include ensuring that trustees of APRA-regulated funds have prepared an RIGF, and have appropriately considered and documented their responsibilities to their members in this regard. Similar to the investment and insurance framework, we expect that APRA would release prudential standards and guidance in relation to the RIGF, and would take action with trustees that it considered were not meeting their responsibilities.

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It is envisaged that most, but not all, trustees of superannuation funds would create and offer their own CIPR. Some trustees instead might choose to construct their CIPR by offering an Account Based Pension (ABP) themselves and identify and guide their members to retirement income products (such as pooled longevity products) offered by other providers that will be suitable for part of their total retirement income solution. Others might choose to have their entire CIPR offered by other providers. In exceptional circumstances trustees of some funds, for example exempt public sector schemes not subject to the SIS Act, may elect not to offer a CIPR at all, or indeed any retirement products for that matter as they may take the view that there is an efficient market for these products outside their own fund and members are best guided elsewhere.

Selecting and guiding members to a third-party product can be as efficient as, and potentially more efficient than, the fund providing the product itself within the fund, especially in relation to a pooled longevity product. It may have the added advantage that the third-party product will attain the required scale faster, especially if there are a relatively small number of third parties providing pooled longevity products. Fewer funds may decide to invest in the development of their own pooled longevity product at least in the shorter term, further improving the efficiency of the system.

Nonetheless, each fund's RIGF should be specifically required to address the stated aims for the CIPR framework and be required to address why certain longevity protection products would or wouldn't be suitable for the majority of its members (i.e. on an "if not why not" basis).

The discussion paper states that the CIPRs framework is intended to:

- enable individuals to ***increase their standard of living in retirement*** through ***increased availability and take-up of products*** that more efficiently manage longevity risk, and in doing so ***increase the efficiency of the superannuation system*** and better align the system with its objective; and
- enable trustees to provide individuals with an ***easier transition into retirement*** through the offering of a standardised retirement income product.

Further, it goes on to say that it appears to be the case that behavioral biases and/or the fear of running out of money leads the majority of individuals to draw down their account-based pension at or near the government-prescribed minimum drawdown rates, which means they face a lower standard of living than if their pension assets were in a product that more efficiently manages longevity risk.

So, it would seem that the CIPR framework will achieve its stated aims if there is an increased take-up of pooled longevity products enabling more members to draw down their ABP at a rate faster than the government-prescribed minimum drawdown rates. The requirement to have an RIGF and the "if not why not" approach in relation to longevity protection products should achieve these aims. Over the next few years, if these results aren't being achieved at the pace the Government desires, then further modifications to the system can be considered at that time.

The new regulations that will allow and encourage greater product innovation in retirement income products do not commence until 1 July 2017 and we have also not yet seen the proposed means test treatment of any potential new products such as deferred annuities. As a result, we are yet to see what new products will be launched and how they will be accepted by members and their advisers.

We look forward to receiving more information and clarity on the proposed means testing and certification requirements.

The current market and legislative rules for retirement products are immature and so the policy approach should be reviewed as the product landscape develops.

We do not believe it should be compulsory to offer any particular type of retirement income product until we have had a chance to observe how this development progresses.

In this context, we also consider that there needs to be greater clarity of the language used to describe products. For example, a group self-annuitisation product is defined in the glossary of the discussion paper as covering a broad range of non-guaranteed longevity pooling products. This is despite the term having originated in academic literature to describe a specific type of non-guaranteed longevity pooling product. It also can cause confusion because the use of the term “annuitisation” may be interpreted to mean that it is an annuity and is therefore offered by a life insurer and subject to the prudential regime that governs life insurance.

We propose that the term “annuity” should be reserved for products that are offered by life insurers. These could take several forms:

- Life time annuity;
- Term Certain annuity; or
- Pooled annuity – that is a pooled product, offered by a life insurer, that has limited or no guarantees.

A pooled product with no guarantees, offer by an entity other than a life insurer, could be termed a pooled pension.

In all cases, products could be either immediately payable or deferred.

So, in summary:

- We are recommending that the appropriate approach should be to start with a framework and then let this drive the products, rather than start with a product, which is a CIPR.
- The framework would be required to address the government’s stated aims for a CIPR, member needs and interests, product availability and be required to address why certain longevity protection products would or wouldn’t be suitable for the majority of its members (i.e. on an “if not why not” basis).
- Effectively, this means that trustees would need to “opt out” of offering a CIPR, although an individual member’s purchase of a CIPR should remain “opt-in”.
- The framework would then drive what product is offered, how the product will be offered and what guidance is provided to members.

We believe that changes need to be gradual for the following reasons:

- The current market and legislative rules for retirement products are immature due to many factors including lower historical account balances at the point of retirement and legislative barriers. By comparison, the market for accumulation funds was quite mature when the MySuper changes were introduced.
- There are significant risks involved, including sub-scale products, legacy products and product failures given the immaturity of the offerings and also the significant longevity risk that goes with many of these products. Mis-selling and disclosure risks are also high. These risks need to be thoughtfully considered and mitigated at the outset wherever possible.
- There is a significant public interest in ensuring that the system changes being introduced now meet member needs in retirement, as failure could seriously impact confidence in the sector and the reputation of the government.
- In addition, the industry is expected to undergo significant change over the next 5-10 years, including likely further consolidation of the superannuation industry. We expect many of the current 110 MySuper funds will merge over the next decade. Thus, the portability of these retirement products also needs to be considered and addressed.

Later, when the market is more mature, it will be appropriate to consider whether greater encouragement / compulsion is then required.

If you have any questions or comments in relation to our response, we would be pleased to discuss them with you.

Yours sincerely

J. A. Lyon

Jenny Lyon
President

The key principles informing our response are:

1. The Retirement Income Governance Framework should apply to all superannuation funds (including SMSFs).
2. Income streams which draw down on capital gradually should form the basis of the system, with benefit projections provided during the pre-retirement period expressed in terms of annual retirement income, will support a change in the underlying narrative from a focus on lump sums. Such projections should show the impact of Age Pension payments as a majority of Australians will receive these for some or all of their retirement years. Projections should include either a range of possible outcomes which may arise in the event of adverse investment and longevity experience or, if only a single projection is provided, show what could be expected to be achieve with a high degree of confidence.
3. The superannuation system should have sufficient flexibility so that CIPRs and retirement products more generally can be tailored to individual member needs.
4. The design of CIPRs and retirement products needs to take into account social security means testing rules and these rules need to be sufficiently attractive for trustees to meet the best interest test and for members to take up these products.
5. The regulatory framework applying to CIPRs and retirement products should be product and tax neutral in respect of longevity products (i.e. between annuities and pooled pensions). In respect of neutrality between different product types (i.e. longevity versus non-longevity), slight favoring of longevity products is desirable to overcome behavioural bias to encourage their take-up by members.
6. There should be an "If not why not" regime in place for the provision of longevity products, rather than compulsion. After a suitable transition period, consideration could be given to more encouragement/compulsion.
7. The "if not why not" regime should apply to the offering of CIPRs by superannuation funds. CIPRs should remain opt-in products for members.
8. The CIPR product should be certified as meeting specific minimum requirements by a suitably qualified professional and we believe actuaries operating in accordance with objective professional standards are well placed for this role, and this could improve public acceptance.
9. The current market and legislative rules for retirement products are immature and so the policy approach should be reviewed as the product landscape develops.

Questions:

1. *How can trustees design CIPRs to deliver the best outcomes for their members? What are the trade-offs of different design approaches and features?*

The trade-offs can be illustrated below:

TRADE-OFF	AT ONE END	INTERMEDIATE	AT THE OTHER END
UNDERLYING INVESTMENTS	Cash and guaranteed bonds / annuities	Balanced, variable annuities with guarantees, or life-stage products becoming less risky over time.	Growth assets such as equities
CASH FLOW TO MEMBER	Entirely flexible – ABP or outside super	Declining after a decade or so for reduced mobility & reduced expenditure needs; Increases later in life to cover long term care.	Level – guaranteed annuity integrated with Age Pension means tests.
ADVICE	Nil, rely on appropriate design by Trustee	Allow for different levels of member input and different forms of advice.	Holistic
POOLING	100% ABP – upon death, dependents receive remaining assets	Various mixtures of products including annuities, pooled pensions and DAs which include some death / surrender benefits and / or reversion to spouse	100% pure lifetime annuity or 100% pure pooled pension – upon death, assets remain in the pool for the benefit of surviving members
CHARGING	Flexible	Capped, subject to external review	Guaranteed
PRICING	One gender neutral price	Incorporating one or more rating factor	Based on gender, habits, socio-economic status and health

ABP – Account based pension
DA – Deferred annuity

Most trustees have until recently offered only one retirement income option, an ABP, while giving members a range of investment options. These options are like those available in superannuation pre-retirement. The new innovative income stream regulations will permit many more investment and product combinations for retirement incomes, enhancing choice significantly.

A superannuation fund's RIGF should include the provision of longevity products on an "if not why not" basis. However, the offering of longevity products brings with it complexity including the provision of any guarantees, achieving sufficient scale, managing products efficiently and the risk of product failures. As a result, the best outcomes for members may be achieved through the fund selecting and guiding members to a third-party product, rather than offering the product itself.

Members need guidance to make these choices. However, there are significant misgivings over the risks that arise from giving any guidance, let alone setting defaults, that will certainly *ex post* be seen to have led to losses. The issue is illustrated in the 2015 Annual Report of the Financial Ombudsman Scheme[1], which gives two examples of the 1,104 investment related complaints that were made. The first complaint arose from reckless advice given by a financial adviser, and was clearly justified. The other arose from losses suffered in the Global Financial Crisis and was found not to be justified. The problem is that the complaint was even considered.

As well as protecting members, it is imperative to protect the workings and reputation of the industry, its institutions and regulation in the event of systematic and unavoidable losses.

This underlines the importance on the one hand of careful product development, informed by a deep understanding of members' needs, and on the other of active supervision, to ensure trustees act responsibly and that fund members are fully aware, through appropriate disclosure, of the risks that they face.

We suggest that the differences in needs between members within a fund, is often much greater than differences between funds. Trustees should be able to create multiple CIPRs (including advice), each being suitable for a group of members within the fund with similar needs.

[1] http://fos.org.au/publications/flipbooks/annual-review/2015-2016/index.html#page=88

2. *Are there any lessons from defined benefit schemes that can be applied to the CIPRs framework?*

We note research that suggests that defined pension schemes provide security and peace of mind that enhance well-being in retirement.[2] A CIPR that gives a good level of assurance around longevity and investment risk, at an acceptable price, would therefore be welcomed.

Defined (lump sum) benefits have the same problems as defined accumulations, in terms of converting to pensions, unless there are conversion terms incorporated. A number of reasons are given why defined benefit funds have been replaced, but the costs of greater longevity are likely to have played a role. This makes it important to permit products that share investment and longevity risk (as long as the risks or lack of promise / guarantee are adequately communicated to members) while not creating unnecessary long-term burdens for employers, government or insurers.

3. *Do you agree with the proposed three minimum product requirements of a CIPR? (Flexibility, (longevity and investment) risk management and income.) What are the alternatives?*

Given the relatively low level of understanding of the different needs of retirees, we suggest that it is premature to set minimum product requirements in these areas. We think it should be sufficient initially to require trustees to have an RIGF which sets out how the trustee intends to guide their members at retirement and how they are taking their members' interests into account. This would be required to address the stated aims if the CIPR framework including the provision of longevity products on an "if not why not" basis.

4. *How important is achieving a minimum additional level of increased income to the introduction of the CIPRs framework?*

It is clearly an important item for a trustee to consider in framing their RIGF, but lower levels of guaranteed income may be more appropriate in certain circumstances.

The current market and legislative rules for post-retirement products are immature, and it will take time for the retirement income product landscape to develop. Like the response above, the setting of a legislated minimum level of increased income would seem premature until the market develops further.

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[2] Research confirmd that members of DB schemes report higher well-being in retirement:
Panis, C.W., 2004. Annuities and retirement well-being. *Pension design and structure: New lessons from behavioural finance*, pp.259-74.
Bender, K.A., 2012. An analysis of well-being in retirement: The role of pensions, health, and 'voluntariness' of retirement. *The Journal of Socio-Economics*, *41*(4), pp.424-433.

5. *How should income efficiency be defined?*

The paper's approach is sensible, but trustees might also use discounted present values or utility measures[3] to measure efficiency. Discounted present values can use different interest rates to be able to compare guaranteed and non-guaranteed incomes.

6. *What minimum level of increased income should be required; that is, what should be the minimum level of income efficiency? How should guaranteed products be accounted for?*

The superannuation system should have sufficient flexibility so that CIPRs and post retirement products more generally can be tailored to member needs. This includes the provision of longevity products on an "if not why not" basis. The provision of pooling arrangements should increase income efficiency through the reduction in funds leaving the system through bequests. However, the setting of a minimum level of increase seems arbitrary and potentially restricts a trustee's ability to meet member needs. After a suitable transition period, when the means testing treatment has been determined and the market has had the opportunity to develop, consideration can be given to further encouragement / compulsion to increase income efficiency.

Guaranteed products would be automatically comparable using a utility function, or incomes can by discounted using risk free rates and compared with appropriately risk-adjusted rates for other products including minimum payments from a non-guaranteed product.

7. *Which indexation option best achieves the goal of increasing standards of living in retirement?*

We note all the research shows retirees spend less as they grow older.[4] A CPI index will increase initial consumption (relative to wage related indices) and so is probably more appropriate.

8. *Are there comparability benefits from specifying which indexation option would be required of a CIPR?*

We expect that there will be a variety of approaches to the design of CIPRs, depending on a range of factors including the different characteristics of a particular fund's members. Trustees should have the flexibility to determine a design that best suits their members and prescribing particular product features such as indexation serves to limit the trustee's ability to offer the most suitable product for their members. Further, the range of products which may be offered means that there are numerous elements which could have a material

[3] https://investmentmagazine.com.au/2017/03/mine-wealth-wellbeing-cio-launches-cipr-assessment-tool/

[4] Internationally: Brancati, C.U., Beach, B., Franklin, B. and Jones, M., 2015. Understanding Retirement Journeys: Expectations vs. Reality. *London: International Longevity Centre UK.* Locally, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2850245

impact on comparability, so the benefit of focusing on indexation alone would have only a marginal impact on comparability.

Ultimately, comparisons of CIPRs are likely to be undertaken by private organisations to assist members.

9. *What elements/types of flexibility are most valued by individuals in retirement, and does flexibility need to be provided for through a CIPR?*

Justifications for precautionary savings include providing for large purchases (car, trips, renovations, whitegoods etc.) medical costs, and helping family members – although the latter needs protection against elder abuse. It can be noted that the popular view that out of pocket medical costs increase with age is based on US evidence, and is not borne out in countries with more complete medical insurance.[5] More research is needed to understand the needs of different groups of retirees.

It is reasonable that a CIPR should have some flexibility, although there is a trade-off between flexibility and the benefits of pooling. Assets outside the superannuation system may be available to meet larger cash needs.

10. *To what extent should savings outside superannuation be used to meet unexpected costs in retirement?*

This is a decision for members who would have to decide their desired level of liquid savings. We note that precautionary buffers inside superannuation may be difficult to replenish. See also our responses to question 9 above.

11. *Is the proposed structure of a CIPR appropriate?*

As previously mentioned, the best outcomes for members may be achieved through the fund selecting and guiding members to a third-party longevity product, rather than offering the product itself. A mix of guaranteed annuity (immediate or deferred), pooled pension (immediate or deferred) and ABP should enable a reasonable benefit mix for a trustee to determine a CIPR, however we would expect that the retirement income product landscape will continue to develop with new products being introduced.

12. *Are there any risks or issues with trustees partnering with third parties to enable them to offer certain underlying component products of a CIPR?*

We cannot see that the risks are greater than currently exist, although we note that even regulated life insurers providing annuities face solvency risks. Suggestions are made from time to time that some underlying insurance scheme might be given.

Selecting and guiding members to a third-party product can be as efficient as, and potentially more efficient than, the fund providing the product itself within the fund, especially in relation to a pooled longevity product.

[5] Nakajima, M and Telyukova, I, 2013, *Housing in Retirement across Countries* Available at SSRN: https://ssrn.com/abstract=2148430

Guarantees need to be offered through Life Insurers if longevity is involved. Funds cannot undertake such a liability. Pooled pensions need careful management (preferably including actuarial), so probably an actuarial certification (or approved actuary regime as for defined benefit schemes) should be required.

There are complex design issues in developing pooled pensions:

- Confusing the pricing and valuation bases -
  - Capitalising changes to future assumptions. This creates unnecessary volatility.
  - Failing to allocate differences in experience fairly to different cohorts, so becoming vulnerable to anti-selection.
- Not reinsuring appropriately to maintain the viability of small books of business.
- Not protecting policyholders in legacy products by increased pricing or unfair transfers of business.
- Underestimating longevity when quoting income expectations.

ABPs can be offered by trustees as at present.

It is vital that fund members are fully aware, through appropriate disclosure, of the risks that they face.

13. *Should trustees be able to offer one or multiple CIPRs as the mass-customised retirement income product offering to members? Why/Why not?*

We would expect that most trustees would require multiple CIPRs to address the heterogeneity of their membership, which can arise from a range of factors including account balance, health status, marital status, dependents and requirements for precautionary savings. Trustees would then need to consider the use of appropriate advice models, decision trees etc. through which they can guide members to the CIPR that is appropriate for them.

Trustees should also have the flexibility to offer a single CIPR where they have a relatively homogeneous member base.

The needs of the fund and its members, and the best approach to meet those needs, may change over time.

14. *If funds were able to offer multiple CIPRs as the mass-customised retirement income product, on what basis would CIPRs differ?*

CIPRs could differ by the personal attributes such as account balance, health status, marital status, dependents and requirements for precautionary savings. The trustee could offer a scaled advice process such as an online (or advised) questionnaire, to incorporate the factors mentioned in the previous question, as well as investment preferences. There are already several robo advice options available to facilitate such customisation, although we note that members need to agree to actual investment allocation rules and not just subjective risk preferences.

15. *What are the key impediments currently preventing trustees from offering a mass-customised CIPR to their members?*

Key impediments to a current CIPR include tax restrictions, means testing issues and best advice considerations.

While the tax issues are being addressed in a way that will facilitate innovative products, it is critical that the means tests are changed in a manner that if possible encourages a more or less level income throughout life.

Major obstacles to offering a comprehensive product are the difficulties in obtaining information about household status and other assets. This information is already available to the ATO, and finding ways to incorporate these factors into decision making for the CIPR is important. The FSI suggested that the ATO should offer robo-advice on their site.

16. *Would a safe harbour for their best interest obligations remove a key impediment to trustees designing and offering CIPRs?*

In designing and offering a CIPR, trustees need to consider a range of factors including but not limited to:

- What penalties might apply if a member selects the CIPR and subsequently wishes to withdraw their funds?
- How does any longevity pooling arrangement impact those with lower life expectancies?
- What level of advice does the trustee provide in respect of a single CIPR or in deciding which of their selection of CIPRs is offered to a member?

Each of these factors exposes the trustee to the risk that a member may ultimately be dissatisfied with the CIPR and blame the trustee.

It should be noted in this context that there are already components of the superannuation system where trustees are required to have frameworks that provide members with particular products, such as investment and insurance, which do not have safe harbour protection.

The risk is to some extent mitigated through the CIPR being an opt-in product for the member, so it is incumbent on the trustees to have adequate disclosure of the CIPR, its risks and costs, to allow the member to make an informed decision.

It is not clear at this point whether a safe harbour is required or not, and this will depend on the ultimate structure and framework set by Treasury.

17. *Which trustees should consider offering a mass-customised CIPR to their members? Should the safe harbour be made available to all trustees or a certain population of trustees?*

All trustees should be required to have an RIGF which will mean that they will need to apply their minds to the issue of whether and how to offer a CIPR. If a safe harbour is provided, it should be available to all trustees.

18. *After an appropriate transition period, should the Government consider whether there should be an express obligation on trustees to offer a CIPR? If so, what length of transition period would be appropriate?*

We recommend that the appropriate approach should be to start with a framework and then let this drive the products, rather than start with a product, which is a CIPR.

There should be an "If not why not" regime in place for the provision of longevity products, rather than compulsion. After a suitable transition period consideration could be given to more encouragement/compulsion.

Given the need for the market to develop, 3 to 5 years of transition might be appropriate.

19. *What process should be used to ensure that a CIPR meets the minimum product requirements?*

A process should apply to make sure that trustees are aware of their legal obligations and that they are met. The initial decision should be subject to review by APRA (for APRA-regulated funds). Subsequent APRA and ASIC supervision should ensure ongoing compliance as is done for MySuper.

20. *Would it be appropriate for actuaries to provide third party certification? If so, what, if any, additional regulation of actuaries would be required?*

If third party certification is used, actuaries are best placed to understand the interactions of investment and longevity risks, and the necessary qualifications that would indicate who the product is unlikely to be suitable for. Code of conduct requirements will apply and the Actuaries Institute should develop practice standards.

21. *Should there be ongoing re-authorisation/re-certification requirements for CIPRs? If so, how and how often should this be done?*

As part of their RIGF, trustees should have an on-going obligation to ensure that their CIPR remains appropriate. It would be expected that the CIPR would be designed so that it would be robust over time, with a number of flags being identified, such as material changes in economic conditions or to the demographics and features of its membership, which would trigger a review of the CIPR's on-going suitability. We suggest that a regular review process is implemented which is consistent with the requirements for other frameworks such as the Insurance Management Framework, for example. That is, an annual review of the RIGF for appropriateness, plus a comprehensive review every three years. Re-certification would be required as part of the comprehensive review.

The above relates to the review and re-certification of the design of the CIPR, including the suitability for members. Ongoing control of the funding position of existing products is a different matter, requiring more regular certification. Guaranteed annuities should have actuarial control within the Life Insurers, who should issue certification. Pooled pensions need ongoing actuarial control, probably annual certification.

22. *What should the consequences be if a CIPR no longer met the minimum product requirements? Is it possible to avoid creating legacy products?*

If a CIPR no longer meets requirements, it should not be available for new applicants (i.e. the offer document would be withdrawn). The underlying products may be succeeded by newer versions, and upgrading should be encouraged.

By providing for automatic upgrading of products, the risk of legacy products will be reduced, however it may not always be the case that a change in a product is an upgrade:

- A product change may remove certain features or increase charges.
- A product change may include multiple changes which may be considered both positive and negative, so it is unclear whether the totality of the changes is an upgrade in all circumstances.

Where it is not practical to move a member on to a newer version of the product, the product manufacturer must continue to meet the product rules. There should be limitations on any increases in charges, and possibly a requirement that charges should not be higher than those available to new customers to prevent companies creating legacy product series, with higher charges. There should also be provision for investment options to be closed and transferred to the most suitable open option.

Maintaining older versions could result in legacy products being created, which has a range of negative flow on effects. The introduction of a mechanism for rationalising legacy financial services products (subject to a non-disadvantage test or a net system benefit with no substantial individual disadvantage) will generate significant benefits for the economy, consumers and industry participants. Reforms of this nature will facilitate product rationalisation across all wealth management products and increased development of modern products, leading to better servicing of the population's insurance and investment needs, businesses cost and efficiency benefits for an overall reduction in compliance costs.

In creating a new regulatory system which will drive new product developments, it is vital that these issues are addressed.

23. *How can the framework facilitate trustees providing an easier transition into retirement for individuals, and what else can be done to meet this objective?*

The CIPR will need to include a level of general advice to ensure that risks are adequately communicated.

Some thought could be given to permitting more collaboration between trustees to develop one or more industry wide standards. Alternatively, competition might be encouraged by giving enhanced intellectual property protection for innovation.

24. *To which members would it be most appropriate for trustees to offer a CIPR? All members or only MySuper members?*

A CIPR should be available to all members provided it is on an opt-in basis.

25. *In what circumstances should trustees not offer a CIPR to certain members?*

Trivially small balances can be exempt, and members should be warned that the product might not suit them if they have poor life expectancy.

26. *Should the safe harbour only apply to the offering of a CIPR to certain members?*

Any safe harbour should be available universally, so long as trustees have undertaken appropriate due diligence and met all specified requirements including appropriate disclosure requirements prior to a CIPR being taken out.

27. What information about CIPRs should be conveyed to members by trustees during the pre-retirement phase and how often should this occur? Should this information, its form and frequency, be prescribed?

Trustees should be required to apply their mind to this issue, given the purpose of superannuation. Regulatory guidance may be useful, but runs the risk of being used as an acceptable standard, when it should be a minimum.

Benefit projections should be expressed as annual retirement income to support a change in the underlying narrative from a focus on lump sums. The impact of the Age Pension should also be shown in these projections.

28. When should the pre-retirement engagement between a trustee and a member commence and how frequently should it occur? Should this timing be prescribed?

Age of commencement and frequency of engagement is likely to differ across different forms of communication. Communication of retirement benefits in income form, for instance, should occur over all ages.

There should be regular seminars, webinars, and scaled advice services that cover retirement considerations. Trustees know their member demographics and should be able to settle on frequency and timing, and include invitations to, say, members who have attained age 55.

29. What is the best way to communicate the offer of a CIPR to members? Will warnings/ pre-conditions when offering a CIPR be effective? If so, which warnings/ pre-conditions are necessary? If not, what is the alternative?

This is perhaps the most critical element of the process. Seminars to start the education process, with information pamphlets and availability of full PDSs for the underlying products would start the process. General advice, at least, should be provided on suitability of the CIPR. Innovative ways need to be found of ensuring members understand the product and the risks. Personal acceptance of the terms and conditions of the product in a suitable form (e.g. a signature or digital equivalent), in relation to an appropriately brief PDS, prior to accepting or rejecting the CIPR is a bare minimum.

30. What is the most appropriate type of disclosure document to provide further information about a CIPR to consumers and intermediaries such as financial advisers?

A brief offer document should be available which precisely describes the product terms and risks. Easy, but voluntary, access to further information as to risks and suitability considerations would also give access to full PDSs and policy documents for the underlying products. There needs to be a clear distinction and clarity about what are contractual terms, and what is marketing material. Clarity of communication will be paramount.

31. *What is the best way to assist individuals to assess the pros and cons of a CIPR?*

his needs to be researched. Framing is critical.[6] If uninformed members are given the impression that the management of longevity and investment risks is optional and that it is conceivably a good idea not to manage them, they will make very different decisions than if they are given a range of options of different income stream products that do manage these risks. Trustees should be required to justify the frame they are using to make the offer to, and informing, members. There would need to be a high standard of due diligence around this education process before safe harbor provisions apply.

32. *What is the best way to foster competition in the CIPR market and broader retirement income product market?*

In the next few years, competition would perhaps best be served by allowing the trustees of the various funds to develop the products and services that they feel will best meet the needs of their respective memberships.

An appropriate regime for rationalising legacy financial services products will also assist. Without such a regime, concerns about creating future legacy products could curb the introduction of innovative products.

33. *Should CIPRs be able to be provided via direct channels and financial advice?*

The trustee can drive the distribution for CIPRs. More simple products would suit direct distribution, but the trustees may recommend personal advice, particularly for more complex products.

34. *Is there a need for regulation of fees and pricing of CIPRs? What are the options?*

It would be counterproductive to regulate fees and prices (see PHIs). The efficiency measure should allow comparison, but there is the difficulty of not comparing like with like. The need to apply the same fees for existing members and new members creates some competitive pressures, but if a product is closed and a replacement started, there needs to be some control of the fees for the closed product.

35. *Should a retirement income product that meets the minimum product requirements of a CIPR be labelled as such?*

There should be no requirement to label a product as a CIPR just because it meets the minimum product requirements. A product manufacturer may have a suitable product but not wish to be obliged to maintain it as such at all times, or have other reasons (such as certification requirements) for not wishing it to be labelled a CIPR. We expect that in practice, however, marketing benefits will be achieved through identifying a product as satisfying the CIPR requirements so it is likely that most complying products would be labelled as a CIPR.

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[6] Bateman, H., Eckert, C., Iskhakov, F., Louviere, J., Satchell, S. and Thorp, S., 2016. Default and naive diversification heuristics in annuity choice. *Australian Journal of Management*,

36. *Is ‘MyRetirement’ a more appropriate label for a CIPR in both the product and framework sense?*

We do not have any comments in respect of the name.

37. *Would portability foster competition between CIPRs as well as other retirement income products? If so, how could portability be built into the design of a CIPR, should portability be mandatory or discretionary for trustees, and what would be the implications of this?*

Portability is desirable as a general principle but could have effects on income levels, and should be limited under CIPRs. If members want portability they can select their own 'choice' option. Guaranteed products may be transferable between trusts, but the insurer would need to stay the same. The CIPR version should not be commutable, to provide better income outcomes. Similarly, swapping between pooled pension pools would seem to give rise to anti-selection opportunities and therefore increased costs, unless accompanied by medical underwriting.

38. *Should it be mandatory or left to the discretion of trustees to decide whether to allow for period certain guarantees in the design of CIPRs? What would be the implications of this?*

Period certain guarantees could be at the discretion of the trustee in designing the CIPR, providing a level of certainty that the member/beneficiaries will receive some level of return on investment. It does have negative implications for the level of immediate income.

39. *What should be the maximum and minimum cooling off periods?*

The current law prescribes a cooling off period or “free look” of 14 days under section 1019B of the Corporations Act, in which a decision to purchase can be revoked without cost to the consumer. This is established commercial practice and is sufficient to apply in the case of a CIPR.

A revocation of a purchase decision at no cost to the consumer means that all initial funds are returned irrespective of changes in circumstances since the product was purchased. These changes could include changes in investment markets or, in the case of longevity products, health status. This effectively grants an option to the purchaser, the cost of which must be borne by the product and therefore the other users of the product who do not exercise the option. The value of the option increases as the cooling off period lengthens, so a longer minimum cooling off period than that which currently applies is undesirable.

As is currently the case for other products, it should be open to the product provider to determine if they wish to offer a longer cooling off period, which may be driven by other factors such as market positioning or the capital access schedule. There should not be any maximum cooling off period imposed as this would potentially restrict competition.

40. *Should the CIPRs framework accommodate (and if so, how):*

a) *joint CIPRs for couples?*

Joint CIPRs must be available. Guaranteed annuities and pooled pensions should be able to offer them. The relevance of power within the household is important. In the USA, introducing a reversionary annuity as a default increased the proportion of reversionary annuities from 48.1% to 63.9%, and mandating reversionary annuities without written spouse consent increased the percentage to over 70%.[7] This indicates a spouse may be at risk unless there is a level of direction to ensure the spouse is provided for.

b) *collective defined contribution schemes*

These products can commence early in life and they introduce other considerations such as changing funds before retirement.

These pose risks in terms of member longevity and health at retirement. They need the same careful management as pooled pensions with all parties needing clarity as to the risks they bear, and an assurance of the ongoing viability of the scheme.

c) *aged care refundable accommodation deposits?*

Funds should be able to design products that allow for commutation of benefits if beneficial, or to allow provision of a loan to be recovered from part of the benefit. CIPRs should also be permitted to include insurance benefits that also cover out of pocket medical and care costs. This may mean changes to PHI legislation that may appear to prevent such offerings.

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[7] Aura, S. (2005). Does the balance of power within a family matter? The case of the Retirement Equity Act. *Journal of Public Economics*, *89*(9), 1699-1717 – p1701.