



Senate Economics Legislation Committee
PO Box 6100
Parliament House
Canberra ACT 2600

18 January 2019

Subject: **Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018**

Dear Sir/Madam

Thank you for the opportunity to comment on the Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018 (the Bill).

Our comments relate to the proposed amendments in Schedule 1 of the Bill which are to establish new means test rules to accommodate the development of new innovative lifetime income streams. Clarity about how products such as deferred annuities and group self annuitisation products will be treated under the Age Pension means tests is essential to enabling retirees and their advisers to evaluate the suitability of these products for their personal circumstances.

Our strong support for the Bill

Mercer strongly supports the general direction of the proposed amendments as we believe these changes will improve the attractiveness of longevity products which is in line with the Government's overall intentions in respect of retirement incomes. In particular, they represent a natural development from the recommendations contained in the Final Report of the Financial System Inquiry and should assist in the development of a sustainable and improved retirement income system within Australia.

That is, through the encouragement of a greater range of longevity (or lifetime income) products:

- Retirees will have greater confidence to enjoy a higher level of living standards, knowing that their income will not run out; and
- Age pension payments to older retirees are expected to reduce as their income is higher than it would otherwise be.

We also note that the proposed rules are simpler to understand than the current arrangements for annuities and are also product neutral, thereby encouraging a greater range of longevity products.

We are also pleased to note some improvements from the draft legislation in line with our earlier comments, following the private consultation period.



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Some further comments

Is the Bill too complex?

The current Bill appears complex because it needs to cover a range of personal situations, including family law splits, investments made over several years and products both within and beyond the superannuation system. However, we believe that it is likely that for the vast majority of retirees with superannuation money, the proposed arrangements can be explained very simply, as follows:

- Income test: The income counted is 60% of the annual payments received
- Assets test:
 - Before age 84: the assets test counts 60% of the investment made into the lifetime income product by the retiree
 - After age 84: the assets test counts 30% of the investment made into the lifetime income product by the retiree

Whilst we acknowledge that the Bill needs to cover a range of situations, we believe that for most retirees the rules will be very straightforward and simple to understand.

Is it fair for all retirement products?

The most popular retirement product among Australian retirees is, by far, the account-based pension which provides considerable flexibility in terms of both the level of income withdrawn (providing the minimum drawdown rules are met) and the availability of capital. As the deeming rules apply, retirees are able to withdraw some or all of their capital, without it forming part of their income for means test purposes.

The annual payments received from longevity (lifetime income) products normally comprise a combination of capital and interest/investment earnings. Therefore, it would be unreasonable for 100 per cent of the payments received from longevity products to be treated as income for means test purposes. Over the longer term, we believe that 60 per cent of annual payments, as proposed in the Bill, represents a reasonable balance.

Another advantage of account-based pensions is that all the capital is readily available to the investors at any time. This is clearly not the case for lifetime income stream products. This lack of access, which is a necessity for pooled longevity products to work, should be recognised in the means test treatment of these products. Again, we believe that the 60 percent and 30 percent measures proposed in the Bill for the purpose of the assets test are reasonable and do not disadvantage other retirement products.



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What about future products?

We expect the proposed legislation will lead to an expansion in the number and types of longevity products in the market place which will lead to greater choice for retirees and an increased awareness of the benefits of longevity products amongst financial advisors. These represent positive outcomes in the ongoing development and maturing of Australia's retirement income system.

However, we also note that it is impossible for the Bill to allow for all the possible forms of future longevity products. Hence, we support the flexibility in the proposed section 9E which defines ***an asset-tested income stream (lifetime)***. The ability for the Secretary to make a legislative instrument in respect of this definition will enable future lifetime products (which have not yet been developed) to be treated in a manner consistent with existing products. These products could include collective defined contribution arrangements; variable annuities; pooled products incorporating investments and longevity risk in innovative arrangements; etc.

It is important that this flexibility be retained as we cannot predict the products that could be developed in the future. Furthermore, we should not hold up this Bill until there is greater clarity as developments will inevitably continue.

Who is Mercer?

Mercer is one of the world's leading firms for superannuation, investments, health and human resources consulting and products. Across the Pacific, leading organisations look to Mercer for global insights, thought leadership and product innovation to help transform and grow their businesses. Supported by our global team of 22,000, we help our clients challenge conventional thinking to create solutions that drive business results and make a difference in the lives of millions of people every day.

Mercer Australia provides customised administration, technology and total benefits outsourcing solutions to a large number of employer clients and superannuation funds (including industry funds, master trusts and employer sponsored superannuation funds). We have over \$150 billion in funds under administration locally and provide services to over 2.4 million superannuation members and 15,000 private clients. Our own master trust in Australia, the Mercer Super Trust, has around 230 participating employers, 239,000 members and more than \$22 billion in assets under management.

As part of our offerings to retirees, Mercer offers both an account-based pension and Mercer LifetimePlus, which is a pooled longevity product where the income received by each retiree will depend on the investment markets and the mortality experience of the individuals within the pool of investors.



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Please contact me on [01223 333033](tel:01223333033) or by email if you would like to discuss this submission.

Yours sincerely

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