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18 January 2019

Committee Secretary  
Senate Standing Committees on Economics  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Committee Secretary

**Re: Senate Standing Committees on Economics - Inquiry into *Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018***

Thank you for the opportunity to make a submission to the Economics Legislation Committee ("the Committee") review of the *Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018* ("the Bill").

Challenger Limited ("Challenger") is an ASX-listed investment management firm with \$81 billion in assets (at June 2018). Our vision is to provide our customers with financial security for retirement. In the saving phase of superannuation, our investment products help build wealth and in the retirement phase we help retirees convert their savings into reliable income.

The comments in this submission are exclusively in relation to Schedule 1 - Lifetime income streams ("the Schedule").

**Broadening product options for retirees**

The Bill forms one of several superannuation reforms aimed at enhancing outcomes for retirees while supporting fiscal sustainability. These reforms aim to help retirees manage consumption and longevity risks in retirement and ensure superannuation is used as it was intended: to provide income in retirement to replace or supplement the age pension. Overall, the intention is to deliver a higher standard of living for retirees, while improving fiscal outcomes.

New taxation rules have been in place since July 2017<sup>1</sup> to encourage the development and provision of a wider range of income stream products for Australian retirees, however there are currently no means test rules in place for these products, effectively negating the purpose of the new regulations. The intention to encourage a wider range of innovative retirement income stream products, including deferred products, investment-linked pensions and annuities, and group self-annuitised products, was announced in the 2016-17 Budget.<sup>2</sup>

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<sup>1</sup> Changes to the *Superannuation Industry Supervision Regulations 1994* were made via *Treasury Laws Amendment (2017 Measures No. 1) Regulations 2017*

<sup>2</sup> [https://www.budget.gov.au/2016-17/content/glossies/tax\\_super/downloads/FS-Super/10-SFS-Enhancing choice in retirement income products-161109.pdf](https://www.budget.gov.au/2016-17/content/glossies/tax_super/downloads/FS-Super/10-SFS-Enhancing choice in retirement income products-161109.pdf)

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Clarity of treatment under age pension means testing rules is required before new products can be used or understood by Australian retirees or their financial advisers. For many retirees age pension eligibility is a critical input into any retirement financial decision and without new means testing rules, retirees and their advisers are unable to assess the impact of new retirement income stream products on age pension eligibility. This is because the current means testing rules are unclear and may not apply to certain existing and potential new product types.

### **Impact of the provisions**

The changes proposed by the Bill have been the product of a thorough consultation process that was open to all interested parties. The Department of Social Services (“DSS”) ran two consultations, comprising a discussion paper released on 10 February 2017,<sup>3</sup> engagement sessions, a position paper released on 16 January 2018,<sup>4</sup> and final rules announced in the 2018-19 Budget.<sup>5</sup> Challenger participated in these processes in addition to follow up discussions with DSS in relation to comments we had made in our submissions.

One of the objectives highlighted during consultation was to achieve neutrality between different retirement product combinations. Neutrality is not easy to achieve, and no solution will be perfectly neutral for all people in all circumstances. Neutrality is also harder to achieve with a simple treatment, but the trade-off with simplicity is very important.

In our view, the provisions of the Bill have arrived at an appropriate trade-off between simplicity and neutrality. When considered over a retiree’s lifetime, on average, the new means testing rules are marginally less concessional for income stream products than the current arrangements. However, they are simple, clear, and provide a much-needed resolution to the current uncertainty regarding means test treatment of deferred lifetime products.

The Bill also provides new means testing treatment for investment-type life insurance products by applying a new asset test to them. Taken together with the new asset and income tests applying to income stream products, in our view, the Bill provides a robust set of rules capable of applying to a wide variety of new, innovative income stream products.

Importantly, the rules are simple to understand which is essential for retirees and pre-retirees seeking to understand the rules themselves, as well as financial advisers and their retiree clients.

### **Implications of this bill not passing**

The provisions in the Schedule commence from 1 July 2019, a full two years after the taxation barriers were removed. A significant amount of time has already passed during which new retirement income products have not been able to be brought to market.

A delay to the passage of the Bill during the current parliament is likely to result in a pushback of the start date, due to the need to reintroduce the Bill in the next parliamentary sitting.

Delaying the start date will result in confusion for retirees who are expecting the change, product providers and superannuation funds who are endeavouring to improve retirement outcomes for their members, and financial advisers who will require training on how products interact with the new rules.

Communication of changes to potential customers, their advisers and other industry stakeholders requires considerable time and detailed planning. Lead times for system changes, production of disclosure material, development of retiree and adviser education material, and changes involving external service providers exceed the six months remaining before the changes are due to start. For our business, this work has already commenced in good faith, in order to be ready for the 1 July 2019 commencement. A delay to the start date will cause significant confusion and rework across the industry.

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<sup>3</sup> <https://engage.dss.gov.au/social-security-means-testing-of-retirement-income-streams/>

<sup>4</sup> <https://engage.dss.gov.au/social-security-means-testing-of-lifetime-retirement-income-streams/>

<sup>5</sup> *More Choice for a Longer Life – Factsheet 3: Preparing financially for a longer and more secure life*  
<https://www.budget.gov.au/2018-19/content/factsheets/3-financially-prepared.html>

We ask that the Committee recommend the Bill be passed as a matter of priority.

Thank you again for the opportunity to provide input into this consultation process. If you have any questions about our submission or would like further information, please do not hesitate to contact me

Yours sincerely

Carla Hoorweg  
Head of Government & Industry Relations