

Chapter 2

Views on the bill

2.1 Due to the nature of amendments contained in the bill, this chapter explores stakeholder views on each schedule separately.

Lifetime retirement income streams

2.2 The majority of stakeholder comments on the bill were directed at the proposed reforms to means testing for lifetime retirement income streams.

2.3 Most of these submissions welcomed the changes proposed by this schedule.¹ For example, Council of the Ageing (COTA) Australia strongly supported the changes to encourage the development and take-up of lifetime retirement income products:

COTA's view is that there is a real need to improve the range and variety of retirement income products available to retirees that will generate appropriate and sustainable income streams designed to ensure that retirees' needs are optimally provided for within the limits of their retirement resources, taking into account their retirement goals and need to plan for probable needs (such as aged care).

Such products will not be optimal or appropriate for everyone, but they provide an important option for significant numbers of people now and that proportion will increase into the future as the numbers and proportions of retirees with significant superannuation balances, and often other assets, increases.²

2.4 Mercer considered that the changes would improve the attractiveness of lifetime income 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.³

2.5 Mercer also supported the flexibility provisions to allow for forms of longevity products that have not yet developed:

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.⁴

1 See also Financial Services Council, *Submission 9*, [p. 1].

2 COTA Australia, *Submission 2*, p. 3.

3 Mercer, *Submission 3*, [p. 3].

4 Mercer, *Submission 3*, [p. 3].

2.6 COTA Australia gave strong priority to the means test rules being relatively simple in formulation and easy to understand.⁵

2.7 Mercer agreed with that sentiment:

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.⁶

2.8 The Association of Superannuation Funds of Australia (ASFA) also considered that:

...the new means testing rules have arrived at an appropriate trade-off between simplicity and neutrality in application to different types of retirement income products.⁷

2.9 Similarly, Challenger endorsed the simplicity approach:

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.⁸

2.10 However, not all submissions supported the timing of the proposed changes.

2.11 Industry Super Australia warned that the new means testing rules may encourage the sale of new and complex retirement income products before an appropriate disclosure and regulatory framework has been put in place to protect consumers:

In short, the proposed rules are intended to promote the sale of complex retirement income products before implementing measures that would help to protect consumers from buying products that may not be in their best interests.

In particular, many of the products that will be sold from July 2019 are likely to comprise annuities that purchasers may not be able to exit from should they later conclude (perhaps when a disclosure regime is in place) that a different product is better.⁹

2.12 While the Australian Institute of Superannuation Trustees took the view that:

Whilst we are aware that the industry requires certainty in relation to the new rules, we believe that these are being implemented in the wrong order,

5 COTA Australia, *Submission 2*, p. 4.

6 Mercer, *Submission 3*, [p. 1].

7 Association of Superannuation Funds of Australia, *Submission 4*, [p. 2].

8 Challenger, *Submission 8*, [p. 2].

9 Industry Super Australia, *Submission 6*, [p. 3].

and the unintended consequences of incentivising Australians to potentially choose the wrong retirement income product at this early stage are too great.¹⁰

2.13 AustralianSuper was concerned that the Comprehensive Income Products for Retirement (CIPR) framework is still being developed and, as such, creates uncertainty in the future application of means testing rules to products not yet developed:

AustralianSuper suggests that it is not the right time to impose means test treatment on limited types of retirement income products based on current products in the market. Future 'innovative' products have not been developed, pending the retirement incomes framework being fully developed by Government.¹¹

2.14 AustralianSuper argued for the removal of this schedule of the bill so that it can be more fully considered after the CIPR framework has been legislated and implemented:

Given the lack of clarity on key aspects of the CIPR framework, we recommend that the retirement income framework and CIPRs design be progressed first, agnostic of social security treatment, and that the means testing approach be later designed and applied to retirement products on a holistic basis.¹²

2.15 That said, ASFA noted that changes to the means testing rules are required before new products can come to market:

Current means testing rules are unclear in regard to their application to a range of innovative products with certain existing and potential new product types appearing to fall outside the scope of current means test rules.¹³

2.16 Industry Super Australia called for a considered review of the retirement income system to determine:

...what regulatory regimes need to be in place *before* government uses new means testing rules to incentivise the sale of products that may not be in the best interests of retirees.¹⁴ [italics in original]

2.17 Similar sentiments for a holistic review of retirement income policy were echoed by the Australian Institute of Superannuation Trustees.¹⁵

10 Australian Institute of Superannuation Trustees, *Submission 7*, p. 4.

11 AustralianSuper, *Submission 1*, p. 2.

12 AustralianSuper, *Submission 1*, p. 2.

13 Association of Superannuation Funds of Australia, *Submission 4*, [p. 2].

14 Industry Super Australia, *Submission 6*, [p. 5].

15 Australian Institute of Superannuation Trustees, *Submission 7*, p. 4.

Pension Loans Scheme

2.18 Most submissions on this schedule supported the proposed changes to the Pension Loans Scheme. ASFA indicated that it would provide greater flexibility in the availability of benefits for retirees,¹⁶ while COTA Australia emphasised that the changes would substantially broaden eligibility and increase the pension or allowance payable.¹⁷

2.19 In relation to the change from a 'guaranteed' amount to a 'nominated' amount, COTA Australia commented that:

We note that it is legally possible that the Commonwealth could recover funds owed it under this scheme from the "Nominated Amount". However after detailed discussion with the government we accept that this is very unlikely to occur in practice because of the conservative manner in which loan amounts will be calculated, and the government's control over all the variables, such as interest rate; and the provision in the Scheme that if advancing further sums would exceed the "age based table" limits in the Act, calculated fortnightly, then the borrower would be informed and the loan would not be allowed to further grow (unless the borrower then applied to change the terms, such as by reducing the Nominated Amount).¹⁸

2.20 National Seniors Australia supported the proposals to expand the Pension Loan Scheme and increase the amount that can be received:

It will enable retirees to maintain a significantly higher standard of living and make use of the productive wealth tied up in the family home.¹⁹

2.21 However, National Seniors Australia also contended that Centrelink's Financial Information Service officers will need to:

...have systems in place to support them in identifying applicants who may be at risk of elder abuse. This should include adequate training, so they are competent in identifying and reporting suspected cases of financial elder abuse.²⁰

2.22 Reverse Mortgage Finance Solutions questioned whether the potential demand for the revised Pension Loans Scheme would be greater than that forecast:

The Budget Papers estimates 6000 loans over the forward estimates. This forecast seems exceptionally low.

...

16 Association of Superannuation Funds of Australia, *Submission 4*, [p. 1].

17 COTA Australia, *Submission 2*, p. 5.

18 COTA Australia, *Submission 2*, p. 7.

19 National Seniors Australia, *Submission 10*, [p. 2].

20 National Seniors Australia, *Submission 10*, [p. 3].

If the take up is similar to the private reverse mortgage market, it would be 30,000 to 35,000 applications.²¹

2.23 Reverse Mortgage Finance Solutions also raised concerns regarding the application process and need for borrowers to understand the potential implications of participating in the Pension Loans Scheme on later life medical costs and aged care.²²

Work Bonus

2.24 COTA Australia supported the changes to the Work Bonus:

The proposed changes help to contribute to an improvement in older Australians' incomes by enabling them to retrain more of their income from the Age Pension or Service Pension when they receive other income from their work. The extension to other income earners is equitable and sensible in light of the many retirees who do operate as self-employed.²³

2.25 COTA Australia also considered that the Pension Work Bonus should be more frequently adjusted given that amount has not been increased since it was introduced.²⁴

2.26 ASFA supported the changes to the Pension Work Bonus which will open up additional opportunities for retirees and have no adverse impact on those who do not take it up.²⁵

2.27 National Seniors Australia noted that it has received consistent feedback from members and supporters calling for an increase to the Work Bonus limit. It also supports the move to expand eligibility to include those who are self-employed, contractors or consultants. Further, they agree that only gainful work should be eligible for the expanded Pension Work Bonus.²⁶

Committee view

2.28 The committee notes that the bill contains measures that will enhance the standard of living for older Australians by giving retirees greater choice and flexibility when it comes to managing their finances in retirement.

2.29 The committee acknowledges concerns about having an appropriate disclosure and regulatory framework for retirement income products in place before making changes to means testing rules. Without the new means testing rules, however, it is likely that innovative products, such as lifetime income streams, will not be readily developed and brought to market.

21 Reverse Mortgage Finance Solutions, *Submission 11*, [p. 1].

22 Reverse Mortgage Finance Solutions, *Submission 11*, [p. 3].

23 COTA Australia, *Submission 2*, p. 7.

24 COTA Australia, *Submission 2*, p. 7.

25 Association of Superannuation Funds of Australia, *Submission 4*, [p. 1].

26 National Seniors Australia, *Submission 10*, [pp. 1–2].

2.30 The committee welcomes the relative simplicity of the new means testing rules for lifetime income products which will be more readily understood by older Australians.

2.31 The changes to the Pension Loans Scheme will enable more Australians to access the equity in their home to support their standard of living in retirement. The committee notes that demand for the new Pension Loans Scheme may be higher than anticipated and, should that eventuate, the government should devote adequate resources to ensuring that older Australians are not unduly delayed in accessing it.

2.32 The reforms to the Pension Work Bonus limit will further encourage Age Pensioners to supplement their income through gainful employment and allow more older Australians to access the Age Pension.

2.33 The committee welcomes the support from groups representing older Australians for the proposed changes and considers that the bill should be passed.

Recommendation 1

2.34 The committee recommends that the bill be passed.

Senator Jane Hume

Chair