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Retirement Income Policy Division
The Treasury
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By email: superannuation@treasury.gov.au

Development of the framework for Comprehensive Income Products for Retirement

The Financial Services Council (FSC) welcomes the opportunity to provide a submission on the consultation paper into comprehensive income products for retirement. The FSC supports the implementation of the Government's policy for retirement income products and welcomes the deliberative and measured approach Treasury, the Department of Social Services and the Australian Government Actuary have taken towards industry consultation.

The FSC has over 100 members representing Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks and licensed trustee companies. The industry is responsible for investing more than \$2.7 trillion on behalf of 14 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world.

Please contact me with any questions in relation to this submission on (02) 9299 3022.

Yours sincerely,



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Introduction

The Financial Services Council (FSC) supports the Government's decision to implement the recommendation of the Financial System Inquiry to remove tax, social security and regulatory barriers to facilitate the introduction of retirement income products.

The FSC has welcomed significant steps to realise this objective, with the recent passage of important tax changes through parliament that were originally announced in the 2016 Budget.

The FSC has also welcomed detailed consultation undertaken by the Department of Social Services. The FSC submission to that consultation outlined a suitable, product neutral framework that would achieve the Government's policy objectives.

The Treasury discussion paper on the Comprehensive Income Products for Retirement (CIPR) framework is the next step in the delivery of the Government's policy.

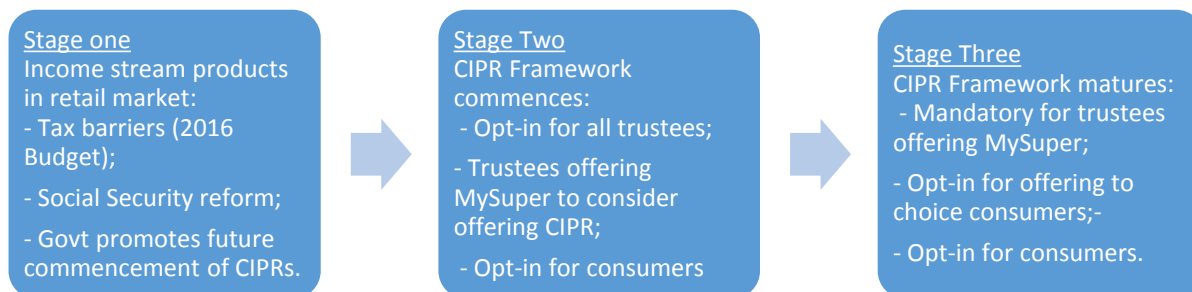
The FSC submits that it is necessary to settle the social security treatment of retirement income products before finalising the CIPR framework to provide superannuation trustees, life companies and other suppliers with certainty around the regulatory framework for product development.

The FSC's key recommendations include:

- The CIPR framework should be flexible, in order to allow incremental adoption by trustees and product innovation over time;
- A trustee should not be obligated to offer a CIPR;
- The regulatory framework should be relatively light touch, with trustees deciding whether or not to offer a CIPR, and then determining the characteristics of any CIPR(s) offered;
- APRA should have an ongoing regulatory oversight to ensure that trustees have policies for managing their CIPRs, however not an approval power before a CIPR is brought to market;
- An independent actuary be required to provide sign off that a trustee's CIPR complies with the minimum product requirements;
- Consumer decisions at retirement will be anchored by a trustee simply making a CIPR available, if one is offered. Provided that the actuarial sign off is achieved, and the trustee is continuing to operate within APRA's guidelines, a safe harbour may not be required if a trustee simply makes a CIPR available to consumers;
- Where a trustee is required to 'nudge' a consumer towards a CIPR this requires a trustee to take into account a consumers personal circumstances and make representations in relation to the product. This requires an exemption from FoFA rules;
 - In such instance a nudge should be along the lines of "The Government has required us to offer a CIPR that has the following characteristics..." Any messaging should be consumer tested before being finalised.
- The CIPR framework should not have a regulatory impact on the choice environment.

Staged implementation

The FSC supports a staged approach, illustrated in Graphic 1, to effectively deliver an open and innovative retirement income market.



The tax and social security changes, when implemented, will open the retail market for retirement income products and is considered Stage 1.

Stage 2 would implement the CIPR framework, once it has been finalised, but enable trustees to opt-in to the framework based on whether offering a CIPR would suit their consumers. Key features:

- Trustees that offer a MySuper product will consider offering a CIPR, but have no obligation;
- Consumers would opt-in to CIPRs whilst product familiarity is increasing, with the existence of CIPRs acting as an anchor for consumer decision-making.
- Facilitates a smooth transition to the CIPR framework.
- A trustee would opt-in to 'nudging' consumers towards a CIPR.

Stage 3 envisages a point, three to five years after the commencement of the regime, at which all trustees that offer MySuper products have the expertise and resources to develop one or more CIPRs for their members. Stage 3 would be implemented after a review of the implementation and effectiveness of the CIPR regime.

- Introduce an *obligation* on a trustee that offers a MySuper product to also offer a CIPR, with APRA responsible for overseeing the decision-making of trustees when they design their CIPR.
- Consumers would continue to opt-in to a CIPR.
- A requirement to 'nudge' a MySuper consumer towards a CIPR would be introduced.

The FSC also submits that Stage 3 should not be implemented until two preconditions are met:

1. The consumer response to existing CIPRs is understood and any necessary adjustments to the framework are considered; and
2. The impact of new social security rules on CIPR take-up are understood.

The Treasury discussion paper also envisaged a point in time where consumers are required to opt-out of CIPRs. The FSC submits that no timeframe should be set around achieving this objective, but that further consideration of this option should occur during the review after 3-5 years of operation of the CIPR regime.

CIPR Label

The FSC supports relabelling a CIPR to something that can be better understood by consumers.

'MyRetirement' may not be appropriate as the product does not reflect the totality of someone's retirement.

The FSC does not have a strong view on the label used, however any label should be consumer tested to ensure the meaning ascribed to it by the industry and Government aligns with consumer expectation. The FSC suggests that the name chosen should;

1. Establish a thematic link to the MySuper framework;
2. Accurately describes the income stream that someone will receive;
3. Be distinct from the Government Age Pension.

Whatever 'label' is chosen should align with consumer expectations as to its role in the retirement framework. This should particularly be the case if the Government intends to legislate a special status for the CIPR regime and consumers are to be nudged into this regime.

The FSC agrees that, in order to be labelled a 'CIPR' the product must meet the following requirements that should be prescribed in legislation:

1. Inclusion of a longevity component to a CIPR, which meets the minimum, to provide a retiree with income throughout their retirement in the manner outlined in this submission in response to the AGA paper; and
2. The longevity component meets the minimum test outlined for retirement income products agreed during consultation on innovative retirement products.

Trustee obligations

The FSC supports all superannuation trustees that offer a MySuper product to consider offering a CIPR from the commencement of the regime, but does not believe there should be an obligation to offer a CIPR. The implementation of the CIPR regime itself will result in trustees reviewing their retirement products, and the capacity of their fund developing a CIPR compliant product.

The FSC does not support an obligation on a trustee to offer a CIPR as there are a range of trustees who either lack the expertise to implement the CIPR framework, or whose funds do not have sufficient scale to offer a competitive CIPR product.

Whilst there is not an obligation to offer a CIPR, the FSC expects that APRA would have an active role in discussing with trustees their approach to the CIPR framework once it is implemented. For example, APRA may ask the following questions of trustees:

- If a CIPR has been offered: What process was followed and why offering a CIPR was suitable? What was taken into account when designing the CIPR? If multiple CIPRs are offered, why is this appropriate?
- If a CIPR has not been offered: APRA could examine the basis for not offering a CIPR and the process? Whether the trustee has the requisite skills to design and offer a CIPR? Or whether the absence of a CIPR is a reflection of inadequate scale or poor fund governance.

When designing a CIPR a trustee should be able to take into account information about their consumers they have available without any issues of financial advice arising. The FSC does not believe this would be inconsistent with the existing FoFA regime. The CIPR regime should not create issues in relation to meeting the best interest requirements if not all of the information about a consumer is known to a trustee.

The FSC is of the view that a 'safe harbour' may not be necessary for trustees in relation to designing a CIPR, but would welcome further consultation on this issue.

'Offering' and 'nudging' and a safe harbour

The FSC supports trustees offering a CIPR, to anchor consumer decision-making in retirement, but also the Government nudging consumers through their superannuation provider, towards a CIPR at retirement when certain preconditions are met.

The offering of a CIPR would not likely require a safe harbour for trustees, however the FSC may support a safe harbour being created when a trustee nudges a consumer towards a CIPR, provided certain conditions are met before the safe harbour applies.

In practice, the FSC questions the delineation between an anchored decision and a nudge, as an anchored decision is, in effect, a soft form of a nudge. The Government should carefully consider whether any form of nudge is suitable for this framework for committing to this reform and we recognise the value of the BETA research in this context.

Nudging, depending on the strength of the nudge, takes on characteristics of financial advice, particularly if a trustee considers information about the consumer when deciding whether or not to nudge them towards a CIPR. As such, there should be an obligation on a trustee to endeavour to identify answers to a prescribed list of questions, based on which a trustee can decide whether or not to nudge the consumer.

The FSC submits that a trustee would only be obligated not to offer a CIPR where they already hold information that would indicate that the CIPR is not appropriate for the consumer in question. This may include information relating to the health of the consumer, as well as other demographic traits.

The information that can be taken into account by a trustee should be tightly specified for the purposes of the financial advice rules.

This arrangement will protect trustees from later claims either that they should have been aware of certain information or alternately that they had failed to meet their obligations under FoFA as a result of erroneous information.

Implications for financial advice

In the context of inconsistent interpretations of FoFA rules, a nudge of any sort would potentially constitute personal financial advice. This is because a decision to nudge a consumer into a CIPR would be based on information relating to an individual consumer, and as a result the consumer may reasonably expect that a trustee has taken into account all of their personal information when deciding whether or not to nudge them.

As a result, for the CIPR framework to be able to distinguish between categories of consumers it is necessary for the financial advice implications, and the regulator's interpretation of what constitutes personal financial advice, to be carefully considered.

The issues in relation to preparing a member for retirement are:

1. Are there other superannuation funds that the member wants to consolidate into the fund offering the CIPR; and
2. Mortgage or other significant debt, will the CIPR starting balance be the residual of the superannuation balance after paying down debt.

The FSC is concerned that these matters would trigger significant advice requirements under FoFA.

The questions a trustee should seek to answer to assist making an offer of a CIPR include:

1. Health status, whether a pooled longevity product is appropriate;
2. Is the CIPR to provide retirement income for an individual or couple;
3. Gender(s) for pricing pooled longevity components;
4. The retirement income goals of the consumer(s); and
5. Age(s) for pricing pooled longevity components.

A trustee should be entitled to nudge a consumer without FoFA implications even where they have incomplete information available to them about their consumers.

Nature of the nudge

The FSC understands the PMO Beta unit is undertaking research on nudges in the context of superannuation.

The FSC's preliminary view is that a nudge should be gentle for the early stages of the CIPR regime, until such time as the impact of the regime is better understood.

The FSC recommends that, where a trustee has decided to nudge a consumer, the nudge could constitute a letter that is sent to the consumer as they approach retirement age. For example, the letter may note the consumer may be considering their retirement, and advise that "... the Government has developed a framework to encourage consumers to take a regular income stream at retirement. The trustee has subsequently designed a mass customised retirement income product for our customers that meets the Government's legislated requirements..." with the remainder of the letter providing factual information about CIPR design.

The FSC does not recommend, at this stage, the nudge going so far as to make comparisons with the behaviour of others in similar circumstances, or using language that could be construed as a recommendation. Nudging risks activating general or personal advice, which in product acquisition circumstances such as this can prove to be problematic.

Where a trustee has determined to nudge consumers, they should also suggest the consumer seek personal advice. However, consumers may have low balances and/or wish to self-serve and so CIPR product providers should have arrangements to cater for these consumers.

Multiple CIPRs

The FSC submits that for public offer superannuation funds the decision on whether or not to offer a CIPR will be influenced by the degree to which a trustee can offer multiple CIPRs to accommodate the diverse needs of a fund's consumer base.

Any individual consumer, however, should only be offered one CIPR, and not be offered a suite of CIPRs from which they can select. This should not preclude, however, a trustee allowing a consumer to choose a variation from the proposed CIPR or a different CIPR.

For a fund that develops multiple CIPRs each of these mass-customised CIPRs will be taken to fulfil the trustee's best interest duty, but will only be expected to be suitable for a group or segment of the fund's membership, not a majority of fund members.

The reason for developing a regime that provides for multiple CIPRs is that there is scope for varying the design components of a CIPR based on the demographic and financial characteristics of consumers:

- The allocation of savings to either the account-based pension component or the longevity component;
- The asset allocation and investment strategy of each of the components;
- The decision of whether to build the CIPR around a GSA or annuity, or both, in addition to an ABP; and
- The length of any deferral period of the longevity component.

This is not an exhaustive list, and the FSC expects that the design features of CIPRs may change over time as trustees learn from the behaviour of their consumers once the framework has been implemented.

AGA Response

The Australian Government Actuary released a discussion paper on the Actuarial Certification test for Comprehensive Income Products for Retirement on 29 May 2017. The paper details a certification test that has been designed to test two of the three minimum requirements for CIPRs:

- a *minimum level of income* that would (subject to consideration of guarantees) generally exceed an equivalent amount invested fully in an account-based pension that is drawn down at minimum rates; and
- provide, in expectation, a *stream of broadly constant real income for life*.

The third minimum requirement, to 'provide *flexibility* to access a lump sum and/or leave a bequest' is not a part of the certification test.

Income efficiency

The overall methodology of the proposed test provides a reasonable basis to assess the income efficiency of a CIPR. While the methodology requires some complicated steps, the basis of ensuring that the income payments are significantly higher than the common practice of minimum drawdowns from an account-based pension should ensure an increase in income efficiency for the retirement phase of superannuation.

The FSC’s primary concern is that there should be a simplified set of tests that are clearer to all market participants. That is we should be focussing on the expected outcomes which can be understood by all stakeholders.

The mismatch between the prescribed R* and guaranteed returns that are available in the market will cause material distortions in the assessment of the income efficiency of a CIPR. While the assumed investment returns of the non-guaranteed component and the pricing of any guaranteed component would reflect then existing market conditions, the prescribed R* seeks to represent a “long term” view of real rates of return. The rate of 3.3% real is well above what is available in the bond market now or in the last decade. The historical average is close, but distorted by the 1980s and 90s when real interest rates were held high in order to drive inflation down.



While the high benchmark rate would not, at present, prevent a CIPR with a guaranteed component from passing the test, future market conditions could exist that would either make it impossible to provide a guaranteed product or would require the guaranteed component to be reduced to sub-optimal levels. This would not be driven by any objective assessment of the value of the guaranteed product, but rather by the use of a parameter that does not reflect current market conditions but is rather set as some arbitrary average historic rate. Work by US academics such as Robert Shiller questions whether the expected return is achievable under such market conditions even for non-guaranteed product.

It would be more appropriate to link the discount rate for any guaranteed option to the real government bond yield. These currently range from 0.25%p.a. for a 5-year bond to 0.94% p.a. for a 33-year bond. The discount for a guaranteed product proposed in the discussion paper does not address this issue. What the suggested 5% discount to the hurdle solves for is the need to attribute value to the guarantee provided which removes the risk of adverse outcomes to the retiree.

Constant real income for life

The proposals in the discussion paper fail to deliver a test that meets the constant real income requirement. The difficulty comes in the use of the actuarial term “in expectation” in assessing risks.

The problem is highlighted by the title of the first stage: “Test that Constant Real Income in Expectation will be achieved”.

The test focuses on the actuarial best estimate of real income levels, meaning that all risks are ignored. In contrast, the last phrase “will be achieved” would imply a much stronger probability that the 50% implicit in the best estimate. This will also be the expectation of the average member and trustee in relation to retirement income. The discussion paper does not fully deal with the reality that long-term average expected investment returns are not delivered consistently and reliably, but are subject to volatility.

While the discussion paper clearly states that “the test is not intended to test for volatility of outcomes around the best estimate”, there is some suggestion that it is intended that the payments are able to be achieved for an extended period of life, say to age 105. This was mentioned in the discussion following the presentation by the Australian Government Actuary and Treasury in Sydney on June 19. If that is the intention, then it would be better to clearly state the requirement for steady income until an age very late in life. Such an approach would go some way towards achieving the aim of providing risk management in retirement.

A potential alternative approach

The FSC does not have a settled view on what alternate approach should be taken, however we have welcomed the consultative approach of the AGA and Treasury and, in that context, wish to suggest a possible alternative to inform industry discussion and debate.

An alternative measure would be to require that an assessment be made at a higher percentile for success. For example, it might consider the outcome for markets at a 25th percentile for someone living to the 75th percentile of life expectancy. This would provide a constant level of real income to a high probability, although there would still be circumstances where adverse markets and/or high longevity could result in constant real income not being payable through the entire life.

A regular assessment of any non-guaranteed component of the CIPR could adjust drawdowns over time to avoid sudden drops in income.

APRA Standards

The FSC is of the view that there does not need to be a CIPR specific APRA standard, as CIPR products will be built upon existing products that are broadly covered by existing standards. There may, however, need to be amendments to some existing standards, particularly in relation to ensuring trustees have appropriate processes in place as they develop and offer a CIPR to their consumers.

It may also be the case that APRA will have to develop new standards for products that are new to the market. The FSC does not make any submission on whether this is the case, or what those standards may contain.

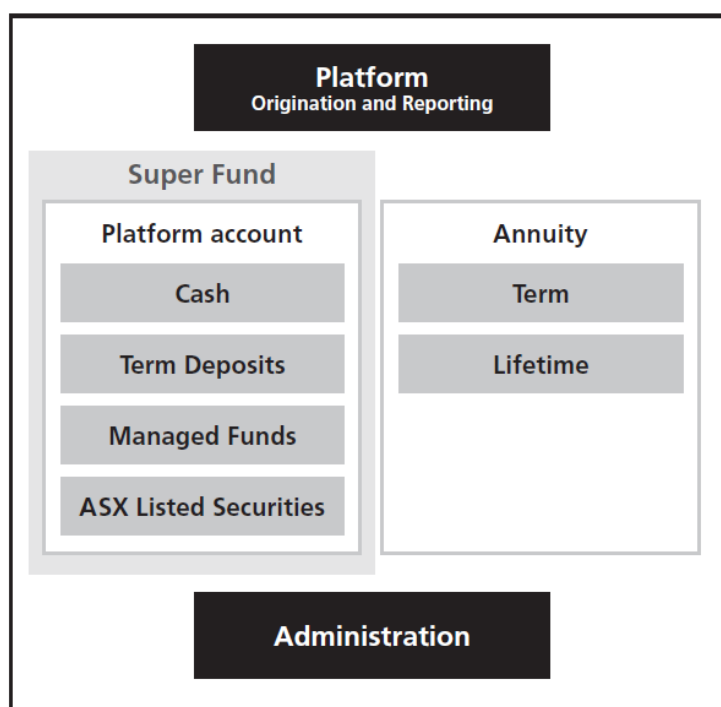
CIPR Structure

The Treasury paper proposes that where a fund does not have the capabilities or scale to provide a pooled longevity product it should partner with a third party which would provide that component to the fund. The fund trustee would be responsible for the CIPR, with the CIPR being classified as a single financial product under the *Corporations Act 2001*, providing individuals with recourse to the trustee instead of third parties so that the CIPR can be seen by the member as a single source product.

Suitable platform arrangements to combine account based pensions and guaranteed longevity protection provided by third parties are already in place, or are in the process of being implemented. These have three main structures which facilitate the provision of third party provided guaranteed longevity protection on superannuation funds' existing platforms.

Structure 1 – Product bolt-on (Annuity)

This option brings a non-unitised annuity product onto a platform. The product is distributed by the platform operator and administered within the platform as can be seen in the diagram below. The PDS discloses the life office as the annuity provider and the platform operator as administrator. The annuity does not sit in the fund and the life company has direct ongoing responsibility for the annuity to the member. This structure has been implemented for retail funds.



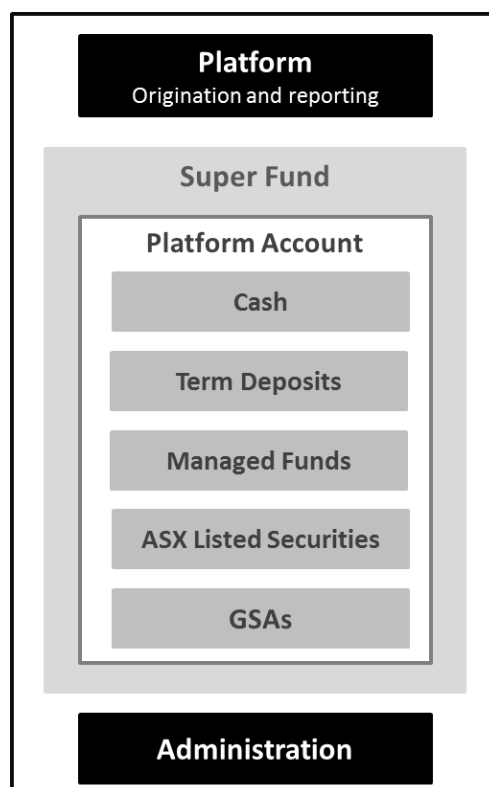
This functionality can be added to most existing platforms with additions to the 'front-end' and 'back-end' of the platform to allow annuities to be transacted and reported.

Structure 2 –GSA on platform

GSAs are distributed by the platform operator in an identical fashion to the other investments they offer, as can be seen in the diagram below. Unlike an annuity the GSA is offered by a fund manager or provider. The GSA sits in the fund and all investment processes are managed via the normal custodian and fund manager channels. This structure has been implemented for retail funds and superannuation funds.

The GSA could represent a pool of lives within the fund, or a pool of lives from many funds.

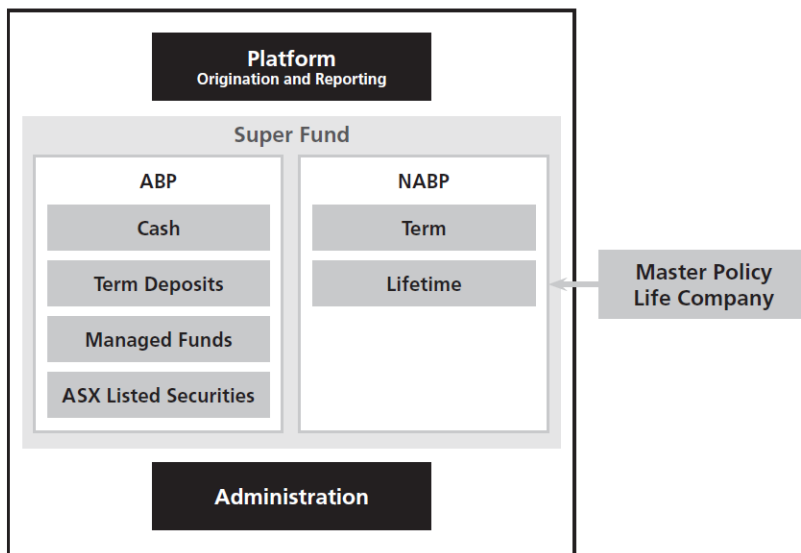
No additional platform functionality needs to be added for GSAs.



Structure 3 – Non Account Based Pension (NABP)

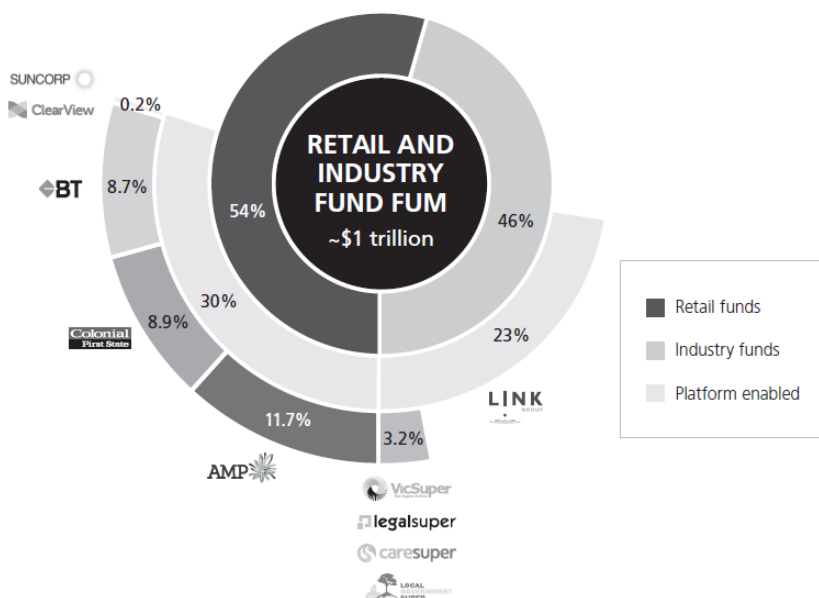
A NABP (Non Account Based Pension) is issued by the superannuation fund, which contains contractual promises backed by a master policy from a life company and administered on the fund’s platform. This structure has been implemented for industry funds.

This structure is not required for GSAs.



These platform arrangements already provide access to longevity products for more than half of both retail and industry fund superannuation FUM (funds under management). This coverage has been obtained in the last three years and is continuing to grow steadily. It is imperative that the CIPR structure accommodate these arrangements.

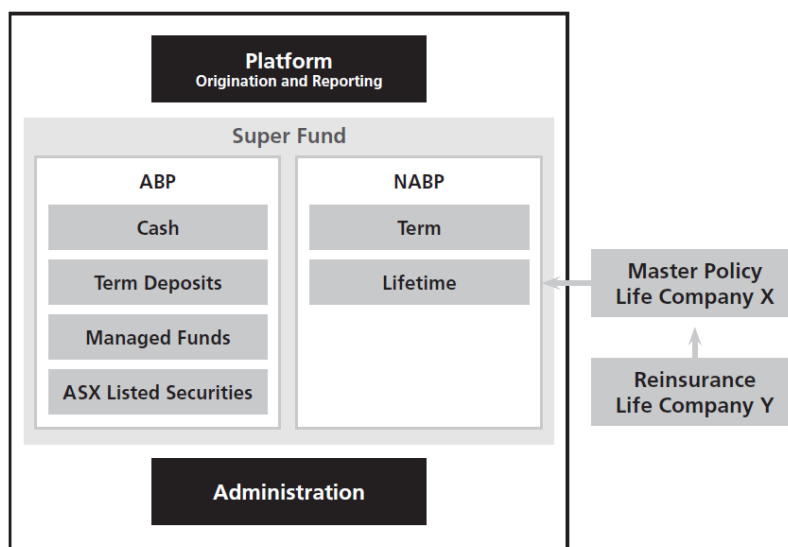
Current market coverage of platforms enabled to provide composite products



Structure 4 – Reinsurance

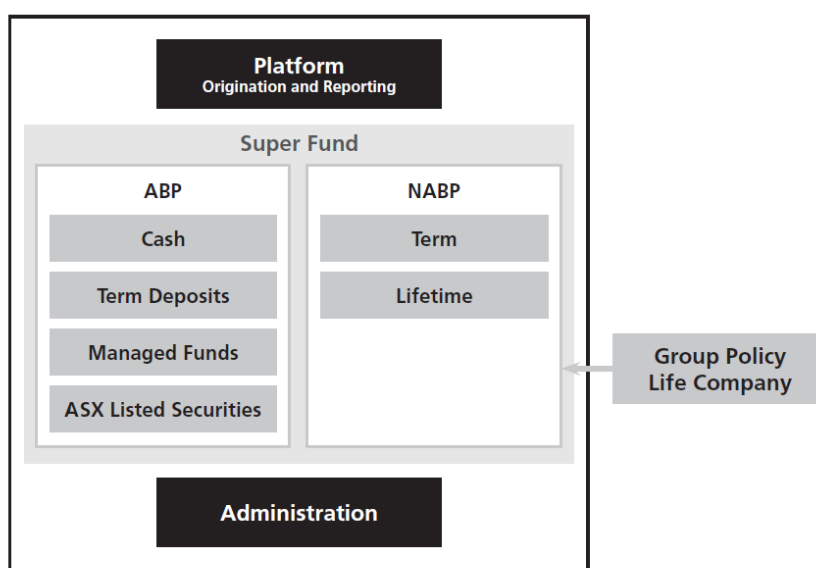
The superannuation fund issues its own longevity product with a life company providing a master policy which backs the individual pensions. Another life company reinsures the master policy. This arrangement will suit a life company with a business model that does not involve dealing directly with annuitants.

This structure is not required for GSAs



Structure 5 – Group Insurance

Superannuation funds have existing relationships with the life companies that provide their members with death, disability and salary continuance insurance on a group basis. If such a life company wished to enter the annuity market to provide the longevity insurance component of a CIPR they could do so by offering the fund a group policy.



The FSC supports provision being made for CIPR structures to accommodate these five sets of arrangements.

FSC Responses to questions in discussion paper

- 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 Treasury discussion paper correctly identifies the trade-offs inherent in designing a retirement income product.

The FSC proposes a framework that places responsibility on trustees to determine what type of CIPR, if any at all and subject to minimal actuarial requirements, effectively balances these trade-offs for their consumers.

The FSC also recommends that trustees have the capacity to offer multiple CIPRs when that it is in their best interests of cohorts of consumers to offer multiple CIPRs.

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

- Trading off flexibility and control for a guaranteed retirement outcome.
- Removing investment risk for members and providing guaranteed income for life; for a single person or couple.
- Linking retirement income with pre-retirement lifestyle and income.
- Setting expectations throughout the savings phase that the purpose of the fund is to provide retirement income (with options to access lump-sum if required).

- 3. Do you agree with the proposed three minimum product requirements of a CIPR? What are the alternatives?**

The FSC supports the objective of the three minimum requirements outlined in the Treasury paper, but submits that the approach can be simplified.

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

The FSC supports, on an actuarial basis, that a CIPR be required to provide a minimum additional level of increased income.

It is necessary, however, for this minimum additional level not be in any given year, but on average over a consumer's retirement, and that where a product (or portion of it) is not backed by capital that the distributed income can be revised to ensure the pool is not exhausted, noting that this creates a risk for consumers that should be fully disclosed, as currently occurs.

The FSC also has concerns with calculations that show a 30% uplift in retirement income. The FSC is of the view that these calculations are optimistic.

- 5. How should income efficiency be defined?**

See AGA Response section above.

- 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 AGA is yet to determine a final methodology and propose a specific minimum income threshold.

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

Prima facie this should reflect the tax treatment of balances so as to not cause divergence between post-tax savings and required income levels – so suggest CPI (post \$1.6M measure).

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

Yes – having the same indexation option would make comparing CIPRs easier for customers as they would be comparing like-for-like product features. However, if Trustees are required to have the same indexation option, this may constrain their ability to design a CIPR which meets the needs of their 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?

Flexibility is an important feature where consumers are expected to ‘choose’ a CIPR, even within a nudge environment.

Maximum flexibility should be retained provided the actuarial minimum requirements are satisfied.

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

The incidence of savings outside of retirement vary considerably based on the financial circumstances of each individual and couple.

It would be inappropriate to require consumption of private savings in conjunction with the introduction of CIPRs, however there is merit to a trustee being able to take into account private savings, where this is known, when developing and nudging consumers towards CIPRs.

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

See CIPR Structure section above.

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

The FSC expects that trustees would commonly partner with third parties.

These arrangements should be subject to regulatory safeguards, including disclosure requirements, prudential oversight and, where a related party provider is used, a requirement for the trustee to have independent directors on their boards.

Consumer disclosure should also be strengthened so that consumers are aware of risks inherent in different product types, and use of third parties should not be allowed to reduce the disclosure.

- 13.** Should trustees be able to offer one or multiple CIPRs as the mass-customised retirement income product offering to members?

Yes. Multiple demographic segments within membership.

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

The segment-customised CIPRs could differ in the split between the proportion of account-based pension component and the longevity component, as well as the length of any deferral of the longevity component. They could also differ in the level of flexibility offered, as well as the investment strategy and asset allocation.

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

Removal of tax, social security and regulatory barriers to retirement income products to allow introduction to the retail market.

What is missing is a causal factor that will drive scale in the market, allowing mass-customised products with broad take up.

Other current impediments include:

- Legal uncertainty around the boundaries between general and personal advice;
- Unknown customer appetite;
- Unknown adviser appetite; and
- Concern about the creation of legacy products that will remain on providers' systems.

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

A safe harbour would likely not be required if the legislation prescribes what information can and should be taken into account when deciding whether or not to nudge a consumer into a CIPR.

- 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?

The focus of the CIPR regime should be on consumers that offer a MySuper product, and the FSC does not believe a safe harbour would be necessary in these circumstances.

- 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?

Yes. 3-5 years, to allow development of a product market and consumer comfort with the nudge.

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

Independent actuary certifies compliance.

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

Yes. Then ongoing APRA oversight of actuarial standards, governance, risk management and reporting.

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

No. Responsibility on trustee to monitor.

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

Requires product rationalisation framework for insurance products.

- 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?

Anchored decision making and nudges based on information about consumers collected by trustees.

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

Trustee discretion as to whom a CIPR should be offered. A requirement for at least MySuper members, however choice members should not be precluded.

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

The FSC submits that legislation should prescribe what information should be used to not offer a CIPR.

This would include ill-health, terminal illness, or a balance the trustee considers too low or too high to offer a CIPR.

Only those where the trustee knows certain things about a consumer, such as health issues or that they have a de minimus balance?

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

The FSC is of the view that a safe harbour is not necessary unless specific conditions are satisfied.

- 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?

There should be regular communication between a trustee and a consumer as they approach retirement, in addition to communication between the Government and consumers about the introduction of the CIPR regime.

- 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?

This should be a matter to be decided by the trustee.

- 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?

Disclosure through a fund website and PDS should be sufficient, and a trustee may elect to provide a consumer information on their CIPR(s) should they offer intrafund advice.

- 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?

The existing PDS regime is sufficient.

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

- A government comparison website and calculator;
- A clear CIPR framework;
- Transparency of benefits and features; and
- Transparency of cost.

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

Provide for some CIPR portability during retirement.

The CIPR offer provides a friction point at retirement which will promote advice.

Allow one trustee to recommend the CIPR of another trustee?

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

Yes.

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

The lesson from the MySuper regime is that the creation of a competitive market will create enduring price discipline.

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

Yes, if the product provider wishes to and has obtained independent actuarial certification the product meets the minimum CIPR requirements.

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

The FSC recommends the Government conduct consumer testing on options.

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?

Some portability will maintain competition in retirement, particularly for account based components. Portability of longevity components is necessarily more restricted or costly due to the requirement for pooling.

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?

Left to the trustee, but with robust disclosure of costs and risks.

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

Mandatory cooling off periods should be consistent with current Corporations Act requirements.

Longer cooling off periods should be at the trustee's discretion.

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

- a. Joint CIPRs for couples?
- b. Collective defined contribution schemes?

c. Aged care refundable accommodation deposits?

Reversionary benefits must be available within the CIPR regime to cater for the majority who enter retirement as a couple.

There is insufficient information available about Collective Defined Contribution schemes for the FSC to make any comment about them.

Aged care costs should be considered at a later stage, after the commencement of the CIPR regime. Refundable Accommodation Deposits are too large to be dealt with entirely within CIPRs.