

Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021

Retirement Income Covenant - January 2022

HESTA welcomes the opportunity to make a short submission on the Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021. Our comments are restricted to Schedule 9 of the Bill that will introduce a Retirement Income Covenant for superannuation trustees.

HESTA endorses this Schedule. We have made some brief comments in relation to the provision of data and the interaction between these measures and the design and distribution obligations.

Background

HESTA holds \$66 billion of assets on behalf of over 900,000 members in the health and community services sector, 80% of who are women. The performance of those assets and our members' financial wellbeing can be materially impacted by even small changes to the retirement system. Our members rely on us to ensure that their retirement story is told, and that their working life is considered in complex policy deliberations.

Our typical member is a 43-year-old female. She works in health or community services where she earns on average 15.9% less than her male counterpart doing the same job with the same skills¹. She spends considerable time caring for others in an unpaid capacity which adds enormous economic benefit to the country. Because of all this, at 43, she has less than \$30,000 in superannuation and will not be financially secure in retirement. The way in which HESTA operates and invests matters to our members because they participate in a system that doesn't yet adequately provide them with economic security. Unfortunately, only 33.7% of our members are currently on track to be retirement ready² due to their low incomes, the gender pay gap and broken work patterns.

¹ <https://www.wgea.gov.au/data/wgea-research/australias-gender-equality-scorecard/health-care-and-social-assistance>

² Based on our proprietary retirement readiness score on 1 October 2021

Comments on the Retirement Income Covenant

HESTA supports the retirement income covenant in the Bill and endorses the principles-based approach to the covenant which should allow HESTA to build a retirement income approach that suits the needs of our membership base.

We note that the start date of 1 July 2022 remains unchanged from the draft legislation³; however, we welcome the change that trustees will not be required to give effect to all components of their strategy by 1 July 2022 as implementation of the strategy will be an ongoing process. HESTA also appreciates the useful clarification and guidance regarding allocation of members to sub-classes/cohorts. We note that this is expected to occur at a strategic level and where sub-classes are determined, trustees do not need to assign each individual beneficiary to a particular sub-class.

We welcome the clarification that:

“Trustees are not required to meet any objective quantitative measure of ‘maximised’ expected retirement income due to the requirement to balance this with the other objectives of the strategy. The objective of maximising expected retirement income reflects the role of superannuation in providing income in retirement and that trustees should assist beneficiaries to drawdown superannuation balances.”⁴

Interaction with the design and distribution obligations

Consideration should be given to minimising the overlapping regulatory requirements for funds to comply with the covenant and the design and distribution obligations that commenced on 5 October 2021.

There are potentially significant similarities between a fund’s target market determination that is required for retirement income products under the design and distribution obligations, and the upcoming retirement income strategy under the covenant. This may result in an increased regulatory burden for funds without any additional benefit to members.

These parallel processes should not result in duplication. Regulatory guidance to streamline compliance with these dual obligations and reduce the associated regulatory burden and cost to members is needed.

³ <https://treasury.gov.au/consultation/c2021-209553>

⁴ Para 17.44 - Explanatory Memorandum - *Corporate Collective Investment Vehicle Framework and Other Measures Bill 2021*.

Provision of data

Funds will be expected to take reasonable steps to gather information about their members to inform the formulation and review of their strategy. HESTA has superannuation-related data on our membership; however, it can be limited or outdated given the voluntary nature of information provision from members and the limited information required to be provided by employers. Super funds do not automatically receive enough information to develop a retirement income strategy for beneficiaries who are retired or who are approaching retirement, to the extent that this includes non-superannuation income, e.g. information related to externally held investments or Centrelink eligibility.

We continue to encourage the Government to explore measures to support the provision of data to trustees on a de-identified basis (from agencies such as the ATO). This would help to ensure the types of assistance offered are appropriate and beneficial. This data, in addition to publicly available data and information collected from surveys, would assist funds to appropriately determine classes of members for the purposes of the strategy.