

CORPORATE SUPER ASSOCIATION

The Manager
Retirement Income and General Rules Unit
The Treasury
Langton Crescent
CANBERRA ACT 2600

By e-mail to superannuation@treasury.gov.au

7 December 2004

Dear Sir

TRANSITION TO RETIREMENT

We refer to the Treasury Consultation Paper on the above topic issued for public comment on 3 November 2004. We have set out below our comments on the questions raised in the Paper.

As a general comment, we welcome and support the policy and proposals set out in the Paper.

1. What characteristics should the non-commutable income stream have?

We would like to see the policy implemented within the framework of existing products (subject to the proposed modification to the allocated pension suggested by Treasury and discussed below). We would not wish to see the introduction of completely new pension or annuity products for the purpose.

We support the view that the term should, at a minimum, be based on the recipient's life expectancy at the time of commencement.

We agree that complying income streams commenced under the Transition to Retirement policy should remain non-commutable except in the event of the existing exceptions. However, whilst complying income streams can currently be commuted within the first six months of commencement, we believe that any such commutation under the Transition to Retirement Policy should be restricted to roll back to accumulation phase. This would prevent premature access to lump sums.

We would support the introduction of a variant of an allocated pension/ annuity for Transition to Retirement which would restrict commutation until the satisfaction of a condition of release under the current preservation rules. The main impact of this would be to prevent lump sum withdrawals until genuine retirement or age 65. We would also support roll back to accumulation phase (but not cash commutation) of an allocated pension or annuity where the non-commutable Transition to Retirement variant has commenced and the recipient subsequently returns to full-time work.

CORPORATE SUPERANNUATION ASSOCIATION Inc. ABN 467 615 800 25
Level 16, 90 Collins Street, Melbourne, Victoria 3000, Australia
P O Box 18126 Collins St East, Melbourne VIC 8003, Australia
Telephone: 03 9650 9371 Fax: 03 9650 9284 Email: corsuper@netspace.net.au

2. Should a limit be set to the benefits accessible under the Transition to Retirement policy?

We support the view that the amount of benefits accessible under the Transition to Retirement Policy should not be limited. We agree that the design features of the various complying pensions/ annuities and the allocated pension/ annuity should be sufficient to ensure that the benefits are not dissipated prematurely. This would not therefore be a reason for limiting the proportion of benefits accessed. In addition, if part-time work enabled access to only a proportion of the benefits, this could result in a disincentive to continue working part-time.

We do not support the introduction of separate restricted drawdown rules for allocated pensions under the Transition to Retirement arrangements. To do so would be to add a disincentive and also add unnecessary complexity. In addition, any concern at the rate of draw down is partly offset by the continued accumulation of superannuation due to on going employment.

3. Should only those working part-time be allowed to access their benefits under the Transition to Retirement arrangements?

We would not support the introduction of a work test for this purpose. The concession should also be open to full-time workers, given that some, rather than moving to part time work, accept lower paid less demanding work at a late stage in their careers. We agree that the introduction of a work test would increase complexity. It would also be difficult to design a test flexible enough to accommodate the many circumstances where people are reducing, but not ceasing, their work force participation. We agree that where a person remains in the work force full time, they are less likely to wish to access a retirement income stream.

4. Should it be compulsory for funds to offer Transition to Retirement arrangements to their members?

This question really involves the consideration of two separate issues:

- a) Should all funds be required to release benefits when an older worker wishes to access benefits under the Transition to Retirement arrangements?
- b) Should all funds offer or facilitate the provision of a non-commutable income stream to workers under the Transition to Retirement arrangements?

Should all funds be required to release benefits when an older worker wishes to access benefits under the Transition to Retirement arrangements?

From the perspective of corporate employer-sponsored superannuation, we believe that the introduction of a facility to provide Transition to Retirement benefits to part-time older workers may not always be consistent with the fund benefit structure. We see difficulties arising for defined benefit funds where the benefits depend on years worked, salary and age at retirement. If the person has not yet retired, the continued accrual of benefits would cause complexity unless an arrangement was made to cease accrual of defined benefits. In some situations, this could be contrary to the trust deed or to contractual arrangements.

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In particular, difficulties could arise where a workplace agreement or an award specified a fund which could not practically release benefits early while continuing to provide support. Under such circumstances we do not believe it would be practicable to mandate the release of benefits under Transition to Retirement arrangements.

Given the complexity of the issues associated with such early release, we do not believe that any fund should be compelled to release benefits earlier than the release dates provided in the deed. Having said this, we believe that a number of defined benefit funds will be happy to offer access to benefits under the Transition to Retirement Policy.

Members of funds where there is no practical obstacle to access benefits will effectively be able to access the Transition to Retirement arrangements, even if the fund does not facilitate the process. A combination of Fund Choice arrangements (where not barred because of contractual arrangements, award requirements or other exemptions) and portability requirements could effectively require a fund to permit release of accrued benefits from accumulation funds within six months of a member ceasing active membership as a result of exercise of Choice. The situation would be less straightforward for defined benefit members. For many defined benefit funds, the Fund Choice provisions would permit a person to choose a new fund and require future support (from their changed responsibilities or part-time work) to be provided in that other fund. However, access to accrued benefits (including rollover to another fund offering Transition to Retirement pensions) would then depend on the terms of the trust deed and may be deferred. Compulsory portability would not apply to defined benefits.

If as a result of portability arrangements the benefits could be transferred to another fund, the member could then seek a non-commutable income stream from the new fund, if available.

Should all funds offer or facilitate the provision of a non-commutable income stream to workers under the Transition to Retirement arrangements?

We note that many funds are not equipped to provide pensions and hence would not be in a position to provide income streams of the type contemplated above, other than purchased income streams. However, subject to portability arrangements, the member would be able to achieve the desired outcome by rolling over to a provider offering the required pension or annuity product.

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Please contact John Cann if you wish to discuss this submission with us further.

Yours faithfully

John Cann
Corporate Superannuation Association

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