**Willis Towers Watson**

**CIPRS – THE LANDSCAPE STARTS TO TAKE SHAPE**

The release in December 2016 of a government discussion paper on Comprehensive Income Products for Retirement (CIPRs) has kicked off the next phase of the ongoing debate on the design of Australia’s retirement income system.

The objective of the CIPR (proposed to be renamed “MyRetirement products’) proposal is not contentious. It has long been recognised that the Australian superannuation system, while comparing favourably to other retirement savings systems globally in the accumulation phase, is deficient in the decumulation phase. Lump sums have dominated and even the income streams provided by funds currently (i.e. account based pensions) do not provide longevity protection.

Some of the policy and implementation issues raised in the discussion paper are, however, likely to generate strong views from various parts of the industry and government.  These include:

* **Voluntary, incentivised or compulsory?** The discussion paper proposes that funds may, but will not be required to, offer a CIPR. It is open to question whether many funds will voluntarily undertake the complex and potentially costly task of designing and establishing CIPRs. Some combination of incentives (such as favourable tax or social security treatment) or compulsion (after an appropriate transition period) may be required if CIPRs are to launch successfully.
* **Low balance members:**  One school of thought argues that low account balance members ought not be offered a CIPR, as the age pension (which will provide the bulk of their retirement income) already provides sufficient longevity protection and that retaining full flexibility of the account balance is the appropriate strategy. The opposing view is that even a small income stream provides highly valuable additional income to a low balance retiree – for example, a $100,000 retirement account can generate around a $5,000 income stream. This would represent a material (22%) improvement in the standard of living for a retiree who would otherwise live on the single age pension only of around $23,000. It is a critical issue, as many funds will have a high proportion of low balance members reaching retirement for several years after CIPRs are launched.
* **The value of residual balances:**  Of the many considerations involved in designing a CIPR product, the question of what value, if any, should be placed on residual balances (i.e. bequests) is particularly important. The paper states that a motivation for introducing CIPRs is that income levels could be 15-30% higher under a CIPR design, which is based on an assumption that retirees forsake any residual benefit on death. To the extent that some bequest is built in to the product design, the improvement in income is reduced. This is a trade-off funds will need to grapple with in the CIPR design process.
* **Will CIPRs be portable?**  The current superannuation system generally allows individuals to shift their benefit from one fund to another with few constraints. This flexibility may need to be curtailed once CIPRs are introduced, as CIPR components such as annuities are not readily transferable between providers. Will this be acceptable for funds and their members? If not, a transfer protocol may need to be devised, but this would add further to the complexity of the system.

Submissions on the discussion paper close on 28 April. Willis Towers Watson will be making a submission.  Should you wish to discuss the government’s CIPR proposals, or your fund’s retirement strategy, please contact [Nick Callil](mailto:Nick.Callil@willistowerswatson.com?subject=CIPRs%20-%20the%20landscape%20starts%20to%20take%20shape).

**WHAT’S NEXT FOR RETIREMENT INCOME ESTIMATES?**

While the purpose of superannuation continues to be debated in industry and political circles, it is clear there is growing acceptance that ‘income in retirement’ is the intended form of the end benefit. This contrasts with the traditional approach of handing a retiree their superannuation as a lump sum on their final day at work.

Key to this shift in thinking has been the provision of retirement income estimates (RIEs) to an increasing number of fund members.

RIEs are now a significant part of many funds’ annual communication cycle, often being issued as part of, or in conjunction with, the annual benefit statement. Of course, they are not presented in isolation – funds will provide an explanation of the RIE, the assumptions used (generally, in line with ASIC Class Order requirements) and other relevant information. Some funds also provide ancillary information such as the gap between the member’s estimated retirement income and an ‘adequate’ income, or a comparison of the member’s estimated income to that of an age-based peer group.

In 2016, Willis Towers Watson continued to generate retirement income estimates for a large number of client funds, with calculations carried out for a total of 2.1 million accumulation members. As provision of RIEs become more commonplace in the industry, we expect more funds to shift in this direction during 2017.

With the increasing volume of RIEs being generated, together with the tight timing constraints required during an annual review process, we are investing further in our RIE offering with the development of the Willis Towers Watson web-based calculation engine that will allow clients to bulk produce retirement income estimates in real time.

As well as generating the estimates, we can also assist clients with:

* Ensuring that data extracted for RIEs includes all necessary items required to comply with the relevant ASIC Class Order
* Creating a pre-determined set of rules to identify cohorts of members for whom an RIE may be considered inappropriate or misleading, or for whom special messaging may be required
* Assisting in the preparation of member communications to ensure that the RIEs are understood and appreciated by members
* Reviewing the RIE statement template prepared by the fund to ensure that the generated RIE outputs are mapped onto the correct fields
* Providing sign-off that the RIEs generated by the Willis Towers Watson calculation engine are compliant with the ASIC Class Order.

If you’d like to discuss introducing RIEs for your fund, or expanding the information you provide, please contact [Nick Callil](mailto:Nick.Callil@willistowerswatson.com?subject=Retirement%20Income%20Estimates) or [Brad Jeffrey](mailto:Brad.Jeffrey@willistowerswatson.com?subject=Retirement%20Income%20Estimates).