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Dr Ken Henry AC
Chair
Australia's Future Tax System Review
The Treasury
Langton Crescent
Parkes ACT 2600

Dear Dr Henry

Australia's future tax system Retirement Income Consultation Paper

AXA welcomes the Government's review of Australia's future tax system and the consultation paper on retirement incomes. The issues raised in the Consultation Paper are some of the most significant long term issues facing Australia, and AXA is pleased to make a submission in response to the consultation paper.

AXA hopes this submission assists the Government in its consideration of the issues and looks forward to the Government's response to the consultation.

In addition to preparing this submission, AXA has participated in the development of the submission made by the Investment and Financial Services Association, and is broadly supportive of the proposals contained therein.

If you have any queries in relation to the attached submission paper or would like to discuss any of the comments raised, please contact Greg Mullins, Compliance Manager, Superannuation and Insurance on 03 8688 3083 or Raelene Ellerton, Group Compliance Manager, on 03 8688 4403.

Yours sincerely

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Submission to Australia's Future Tax System Review
in response to the
Retirement Income Consultation Paper

Introduction

AXA welcomes the Government's review of Australia's future tax system and the consultation paper on retirement incomes. The issues raised in the Consultation Paper are some of the most significant long term issues facing Australia, and AXA is pleased to make a submission in response to the consultation paper.

AXA would also like to take this opportunity to make some general comments about retirement savings in Australia.

The genesis of the current financial crisis has been well documented and central banks and governments globally are grappling with policy initiatives to deal with this crisis.

Given the current highly volatile investment markets that we are experiencing it is easy to lose sight of the long term. The superannuation system is a key pillar in Australia's retirement income system and not only does it help individuals save towards an adequate and fUlfilling retirement but importantly it provides a much needed investment capital pool for the Australian market.

This contribution to the investment capital pool is crucial to Australia's economy. As superannuation savings flow through the share market and fixed income market into Australian industries they provide an important driver of economic growth and employment for the Australian economy.

We have a world leading superannuation system, however as this crisis has shown it is important that regulation and policy focus not just on the asset side of an individual's balance sheet but on the liabilities side as well. In this regard AXA congratulates the Government on moves to increase the regulation of the provision of credit.

Australia needs to return to the more traditional concept of savings and living within our means. Unfortunately despite the enormous amount of product development, innovation, industry restructuring, policy initiatives and regulatory changes including compulsory superannuation, the average Australian's superannuation today is significantly offset by their personal debt.

The regulation of credit provision is essential if this is to be addressed. If Australia is to keep pace with the demographic changes, retirement income cannot be seen in isolation. Retirement income policy must be part of a broader framework which interacts with both the tax and social security system as well as an individual's savings needs over their entire life.

This is why quality financial advice is essential in assisting Australians not only in relation to their retirement savings but also their long term financial and risk protection requirements and Ultimately, to align their lifestyle expectations with their financial resources. This is why AXA believes financial advice is so important and is the single most important aspect of the financial services industry. To ensure that advice is available and accessible on an equitable basis it needs to be affordable. This will be helped by measures to simplify the complexity of the superannuation system.

In the following pages AXA has addressed the specific questions raised in the consultation paper. Because of the inter-related nature of many of the questions the submission does not directly follow the structure of the consultation paper. The paper addresses the key themes of the consultation: goals for Retirement Income Policy; the role of mandatory measures and incentives; addressing longevity risk; and simplification.

Standards of living in retirement

The review of Australia's three pillar retirement income system and the adequacy of retirement incomes needs to be seen in the broader context of providing an adequate standard of living at all stages of retirement. An individual's standard of liVing is affected not only by their income but also the availability of other supporting infrastructure and services, especially health care. (The role of these other elements is recognised in Appendix C of the Consultation Paper.)

AXA believes the Government should seek to encourage individuals to provide for their own retirement to the greatest extent possible. This will enable Government to focus public expenditure on the provision of other infrastructure and services which enhance retirees' standard of living.

The goal: self-funded retirees

The long term goal of the Government's Retirement Income Policy should be for every individual with 35 to 40 years' participation in the workforce to be able to fund their own retirement, without any reliance on the Age Pension. AXA believes that this goal can best be achieved through a combination of mandatory measures and incentives aimed at increasing voluntary retirement savings.

While it is anticipated that in the future most people will have a working life of more than 40 years, this number provides a 'buffer', allowing individuals whose working life is broken (for example to care for a child or another relative, or for study) to make adequate provision for their retirement.

AXA recognises that in the short to medium term, many individuals with a full working life will continue to need to rely on the Age Pension to supplement their retirement income, and that even in the longer term there will be some individuals who will need to rely on the Age Pension. Nonetheless, AXA believes that adopting this goal will best serve Australia's long term interests.

The benchmark for an adequate retirement income

Determining an appropriate benchmark for an adequate retirement income is essential to the development of an effective future Retirement Incomes Policy. One measurement of adequacy is a percentage of pre-retirement income. However a single benchmark, while desirable, may not be equitable.

AXA recognises that for lower income workers, with less disposable income, the percentage of pre-retirement income required to achieve an adequate retirement income may be higher than is the case for higher paid workers. In fact additional targeted measures may be necessary to assist lower income workers to achieve the goal of self-funded retirement.

A quality adviser when taking into account the financial circumstances of a client will be able to calculate what level of contributions is required to provide the necessary level of retirement income for that individual, based on the individual's needs, assumptions about longevity, rates of earnings, a 35 to 40 year working life, etc. Appropriate measures can then be put in place to enable an individual to accrue the necessary level of retirement savings. This further highlights the need for affordable accessible quality advice.

Role of the Age Pension
The Age Pension should exist as a 'safety net' for those who cannot achieve the goal of fully self-funded retirement; for example those who are unable to work, have significantly broken work patterns, or migrate to Australia relatively late in life. The Age Pension should be specified as a percentage of Average Weekly Ordinary Time Earnings (AWOTE), or another suitable index.

Home ownership- the fourth pillar
AXA is aware of the current issue relating to housing affordability, and the measures taken by the Government to address this issue, such as the introduction of the First Home Saver Accounts and the extension of first home buyers grants.

AXA believes that home ownership significantly enhances the standard of living of retirees, and reduces the level of income required in retirement to meet living expenses. The importance of home ownership to a secure retirement is also recognised in the World Bank multi-pillar approach outlined in Appendix C of the Consultation Paper. Measures to increase the level of home ownership and/or to improve affordability, such as the existing First Home Saver Account, should be encouraged, and the link between these measures and retirement incomes policy should be acknowledged and considered in future policy development.

Other policy measures, such as negative gearing, have the potential to distort the housing market in a manner which detracts from housing affordability. These measures need to be considered as part of the broader review of tax arrangements.

Mandatory contributions

Increase in Superannuation Guarantee
AXA supports the Superannuation Guarantee. It should be extended to the self-employed, requiring them to make a contribution on their own behalf.

AXA believes that in order to achieve Australia's desired objectives in relation to self funded retirement, an increase in the Superannuation Guarantee is required. The timing of any increase will need to take in to account the economic climate, to avoid a negative impact on economic activity and employment levels.

Contributions tax
The co-contribution scheme has been successful, but has not benefited the very lowest paid individuals, who do not have the necessary disposable income to make the required voluntary contribution. The contributions tax rate of 15% may be a 'concessional' rate of tax when compared to the marginal tax rate paid by most employees, but this is not true of the lowest paid workers. From 1/7/09 an employee earning less than $35,000 per annum will have a marginal tax rate of 15% or less. For this group, the contributions tax on their employer's contributions (not to mention the tax on their superannuation account's investment earnings) is not concessional. To ensure equity between different income groups this is an issue that should be addressed.

While differentially taxing earnings is impractical, AXA proposes that the Government refund the contributions tax deducted from the employer contributions made for employees with a marginal tax rate of 15% or less. This could be achieved relatively simply by adapting the existing co-contribution system, which already compares individuals' income levels with their contributions. Such a measure would directly increase the retirement savings of low income workers, in turn reducing their dependence on the Age Pension. The Government

expenditure associated with this measure would be offset by savings in future Age Pension expenditure.

Voluntary contributions

Universal access to salary sacrifice

Salary sacrifice is a popular and tax effective means for individuals to make voluntary retirement savings. AXA supports salary sacrifice and looks forward to the Government implementing the proposal it made while in opposition to make salary sacrifice universally available. The provision of the proposed free clearing house facility can assist small employers with the administrative costs of this measure.

The Government should also act to ensure that salary sacrifice arrangements cannot be used by an employer to meet its Super Guarantee obligations.

Soft compulsion

AXA supports the introduction of soft compulsion in the form of a salary sacrifice contribution. Soft compulsion could initially be introduced upon the commencement of new employment or as a broader measure for all employees if/when further cuts in income tax rates are made.

The introduction of such a measure would need to take into account the potential impact on consumer spending and the broader economy; it is unlikely to be suitable in the current economic climate.

Concessional contribution cap

Different contribution caps currently apply to concessional and non concessional contributions, and to different age groups. The ability of individuals to make concessional and non-concessional contributions varies, depending on their employment status (employed, self-employed, unemployed) and other circumstances

There is currently a cap of $50,000 per annum on concessional contributions. For employees the contributions that are subject to this cap are the contributions made by their employer. In most cases, the employer contributions fall well short of this cap. As a means to encourage voluntary savings, an employee could be entitled to make a tax deductible contribution to the value of any unused portion of their concessional contribution cap.

Transitional concessional contribution cap

There is currently a transitional arrangement to allow members aged 50 or over to make concessional contributions of up to $100,000 per annum. This arrangement applies only until 30 June 2012. It needs to be recognised that people will inevitably give superannuation a higher priority as they approach retirement age. Not only is retirement becoming a more pressing issue, but people in their 50's are generally better placed financially to be making additional contributions to superannuation. There is also a large portion of Australia's working population for whom super has only been a significant factor in a limited part of their working life. This group goes well beyond individuals who turn 50 before 2012, to include individuals who are currently in their 30's and 40's. It also includes individuals who have only spent a part of their working lives in Australia.

Recognising this, AXA proposes that the existing transitional arrangement should be made permanent, and should be indexed in line with the other contribution caps. Consideration should also be given to lowering the eligibility age to 45, particularly for individuals with limited superannuation savings.

Co-contributions
The co-contribution scheme has been embraced by the Australian community and is making a significant contribution to the retirement savings of lower income Australians. Eligibility for a co-contribution is limited, however, to individuals who are employed or self-employed. One measure to assist individuals with broken work patterns would be to extend eligibility for co-contributions to individuals who are not in the workforce.

Government expenditure on incentives for voluntary contributions
The concessional tax treatment of superannuation and other incentives to encourage voluntary superannuation contributions are treated as Government expenditure in the Federal Budget. These expenditures are justified if they are targeted to reducing future reliance on the Age Pension, and have two benefits.

The first is that the measures reduce future expenditure - a form of future cost avoidance. The second advantage is that they reduce the intergenerational impact of funding future retirement incomes. The cost to the Federal Budget of providing the concessions and incentives is borne by current tax-payers, who are the individuals who will benefit from these measures when they reach retirement. The alternative is higher expenditure on the Age Pension, to be borne by future tax-payers.

Concessions and incentives need to be directed to enabling individuals to achieve an adequate retirement income, and should not be used by wealthy individuals to accumulate unreasonably large amounts of concessionally taxed assets or income. AXA supports the existence of existing contribution caps as an appropriate means of achieving this outcome.

Longevity Risk

As the consultation paper has identified, longevity risk is a key issue. There are a number of changes that can be made to help address this risk. The key here is a change of focus in retirement incomes policy. In the past it has focused on preventing individuals using superannuation to accumulate concessionally taxed wealth to transfer to their children as an inheritance. To this end the policy has driven the spending of retirement savings in retirement. AXA believes that the focus needs to shift to assisting individuals to conserve their retirement savings, thus ensuring that they do not outlive their retirement income.

Existing pension rules exacerbate longevity risk
The Australian Bureau of Statistics Household Expenditure Survey 2003-04 reported a decline in the expenditure of Age Pensioners and self-funded retirees as they become older.

Despite this, current superannuation pension rules require an increasing proportion of account based pensions to be taken as the pensioner ages. The rationale for this appears to be to ensure that the pension is used throughout the individual's retirement rather than a significant proportion reverting to the person's estate on death.

One adverse consequence of these rules for retirees who live to a relatively old age is that they are required to exhaust their pension more quickly, even as their actual expenditure falls.

Following the introduction of contribution caps, there are now restrictions on the amount that can be accumulated in superannuation, limiting the ability of individuals to 'exploit' the tax concessions provided to transfer concessionally taxed wealth to the next generation. Retirement Incomes Policy needs to be redirected to helping retirees conserve their retirement incomes to mitigate the risk that they will outlive their available resources.

AXA submits that the pension rules should be amended to provide a flat minimum percentage of the account balance that must be withdrawn in anyone year, regardless of age. This minimum should be applied to all account based pensions regardless of when they commenced, and set at a level that adequately addresses longevity risk.

Consideration could be given to limiting the type and size of superannuation payments that can be made before Age Pension age. This could include limiting the amount that can be taken as a lump sum and requiring all or part of the benefit to be taken as an income stream. The amount of income available in a year should be sUbject to a maximum cap, in a manner similar to the transition to retirement income streams that currently exist. This will help to mitigate the longevity risk for individuals who retire at a (relatively) early age.

Taxation of lump sums and pensions

Lump sum payments and pensions are currently tax free after age 60. While it is acknowledged that the Government has indicated its commitment to retaining the tax free status of superannuation benefits after age 60, the long term sustainability of these measures has to be questioned. There is some merit in gradually raising the age at which superannuation benefits are tax free to align it with the Age Pension age. Consideration should also be given to treating pension income and lump sums over a minimum threshold as taxable income. This will become increasingly important with the average size of superannuation savings increasing as the superannuation system matures.

Earnings in the pension phase are tax free but earnings in the superannuation phase are taxed at 15%. These current tax arrangements have an adverse impact in relation to the management of longevity risk. The tax free status of earnings in the pension phase actually gives individuals an incentive to retire and commence a pension, rather than an incentive to defer their retirement to a later age and keep their savings in superannuation.

AXA recommends that the superannuation earnings of members who are aged 60 or above should have the same tax free status as pension earnings. This will allow members who are over 60 but not yet ready to retire to retain their funds in superannuation without the earnings being taxed at a higher rate than is applied to the earnings on retirees' income streams. It would also significantly simplify retirement incomes as it would no longer be necessary to specify rules for pensions; the distinction between superannuation and retirement income would cease, and a person could draw down their superannuation assets to fund their retirement in any manner they choose, SUbject to some basic rules designed to manage longevity risk.

Age Pension means testing

This initiative would be further supported by applying the same Age Pension means tests to the superannuation and pension accounts of individuals. Once again, the income and assets tests could be structured in a manner that provides support for a gradual and measured withdrawal of superannuation assets as income. (The means test already uses a measure of life expectancy to determine the 'exempt' portion of a superannuation pension.)

Incentives to defer retirement

The Age Pension age is now 65 for Australians who are currently under the age of 60. The superannuation preservation age is currently 55, rising to 60 for those Australians who are currently under the age of 44.

The most effective means for individuals to reduce the longevity risk associated with retirement is to defer their retirement. (This can include working reduced hours in a transitional phase.) While there are some existing measures to encourage individuals to defer retirement, such as the Pension Bonus Scheme and the Mature Age Worker Tax Offset, further measures to improve the retention of older employees and to provide more

flexible and part time work need to be considered. A key issue is to improve the parity between the tax free status of pension income received after age 60, and the tax paid on income earned by individuals over age 60.

The Pension Bonus Scheme

The Pension Bonus Scheme was introduced on 1 July 1998, to provide an incentive for older Australians to defer claiming Age Pension and remain in the workforce. The scheme pays a tax-free lump sum to eligible registered members when they claim and receive Age Pension.

The amount of Pension Bonus is based on the rate of Age Pension payable at the time the pension is granted, and the number of years a person is registered in the scheme. A person who is entitled to maximum pension and has deferred claiming pension for the maximum of five years can get a bonus of $34,344.30, or $28,686.50 for each member of a couple (based on January 2009 pension rates).

Simplifying the Pension Bonus Scheme and increasing the generosity of the Scheme would provide a genuine incentive for some individuals to remain in the workforce and defer claiming Age Pension.

Mandatory measures to delay retirement

While incentives to delay retirement are valuable (and preferable), mandatory measures such as further raising the Age Pension age and/or aligning the superannuation preservation age with the Age Pension age may be necessary. It needs to be recognised that there are many blue collar employees who are not physically capable of continuing employment beyond the current superannuation preservation age. Any measures to delay retirement should not disadvantage employees who are unable to continue working beyond a certain age, such as 55, or 60. It will need to ensure that individuals who are unable to continue working are able to access superannuation and social security benefits.

Improving public understanding

Australians generally have a poor understanding of longevity risk and its implications. For most of us, our focus is on getting to retirement, and enjoying it, as early as possible. We all know people who died shortly after retiring, and didn't get a chance to do the things they planned. This is a much stronger motivator of retirement planning than the friends and relatives we know who are alive in their 80's and 90's. Australians need to consider the standard of living they want in these later years, and how they are going to secure it.

Engagement with financial advice is critical to the process of improving Australians' understanding of longevity risk and their preparation for retirement. Research published by the Investment and Financial Services Association in November 2006 reported that individuals who used a financial adviser felt twice as confident about their level of retirement savings as those who had not seen a financial adviser.[1]

In the recent market downturn, there has been a strong focus on the short-term decline in equities. This focus on recent performance can detract from the long term value of equities in a superannuation investment portfolio. Financial advisers have a key role in ensuring that clients continue to focus on the need for long term growth in retirement savings while providing strategies to assist individuals to deal with short term fluctuations.

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1 IFSA 2006 Investor Sentiment Research, available at
http://www.ifsa.com.au/documents/2006_1130_Investor%20Sentiment%20Report%20FINAL.pdf

The Australian Government's Financial Literacy Foundation has undertaken research into Australian's confidence with different financial transactions.[2] Compared to budgeting and saving, fewer Australians are confident in their ability to invest (including in superannuation) and 70% recognise the importance of learning more about investing.

A number of findings in the research indicate a relative lack of confidence and expertise in investing. For example, only 34% of adults say they would consider both risk and return when making an investment decision, and only a small proportion would consider background information such as the reputation of the company (6%) and diversification (5%). This research indicates that Australians need help when making decisions about where, and how, their employer contributions should be invested.

The report notes that

> *A key consideration to emerge relates to the practicalities* of *building pathways to effective consumer engagement with money issues* - of *putting appropriate emphasis on motivation in design and delivery strategies by promoting the personal relevance* of *better money management, and the prospect* of *the greater choices and opportunities, security and other quality* of *life benefits that better money skills can provide.*
>
> *Simply providing comprehensive and well intentioned education resources will not be adequate. There is no shortage* of *quality resources available already to consumers with an active interest in building their money skills. The challenge is to promote engagement and motivation to those who, for reasons* of *disinterest in the issue, lack* of *perceived relevance, stress or the other obstacles identified in this survey, are not currently seeking to build their money skills.* *(Page xii)*

Advisers are ideally placed to promote engagement and motivation; developing a financial plan with a professional financial adviser provides a key opportunity for an individual to increase their money skills. While the initial engagement may be in relation to the investment of employer contributions, it provides an opportunity for the individual to consider their overall financial goals, including their retirement planning, and to consider the range of strategies that are available to assist them to achieve their goals.

Much has been done in Australia in the last decade to improve the quality of advice prOVided by financial advisers and there is now a large, expert and well regulated profession available to assist Australians to plan for retirement, to understand longevity risk, and to develop appropriate retirement strategies. The regulatory focus has now shifted to how to improve access to advice - especially how much it costs and how it is to be paid for.

Improving access to financial advice becomes increasingly important as Australians become more responsible for funding their own retirement and their exposure to market and investment risk increases correspondingly.

Alternative measures for access to, and payment for, financial advice need to be encouraged. One option is to allow an individual to claim a tax deduction for financial advice that is paid for directly by the individual. Such a measure could help to increase the proportion of financial advice clients paying for advice on a fee for service basis rather than through commissions drawn from their superannuation contributions and/or account balance.

At the same, it needs to be recognised that many individuals with limited discretionary income welcome the opportunity to pay for advice from their superannuation account

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2 Financial Literacy Foundation Financial Literacy Australians understanding Money September 2007

balance. For example, employees who are exercising choice in relation to the fund to which their employer's contributions are being paid can benefit significantly from professional advice but are less likely to obtain advice if they need to pay for it out of their own pocket.

Increasing the affordability of advice is important. More needs to be done to reduce the unnecessary regulation that imposes additional cost. There also needs to be greater and more open competition, driven by better and simpler disclosure.

The role of life insurance

The provision of life insurance through superannuation funds to pay benefits on death, permanent incapacity and temporary disablement is well established. While sometimes criticised for being a drain on member's superannuation account balances, insurance plays a key role in providing retirement incomes for individuals who are disabled, and in supporting the retirement of dependants such as spouses. Conversely there is a significant underinsurance risk in Australia, which has a direct impact on government expenditures, including through the provision of income support to dependants and those who are disabled.

While premiums for life insurance are tax deductible to a superannuation fund, premiums are not normally tax deductible to an individual. AXA proposes that insurance premiums for life insurance cover should be tax deductible to an individual where the life policy is held by the individual outside superannuation, subject to any life insurance benefit being used for retirement purposes. For example, tax deductibility could be limited to life policies where the benefit on death or disablement is paid as an income stream to support dependants, such as a spouse and/or children, rather than as a lump sum. The resulting income stream could be subject to the same taxation as the life insurance component of superannuation benefits. Such a measure would simplify the current taxation treatment of life insurance and financial planning considerations.

Determining an individual's insurance needs can be complex, and financial planning advice can be useful in ensuring that the appropriate insurance cover is selected. AXA recommends that a tax deduction be allowed for financial advice fees relating to life insurance cover. This measure will help to address underinsurance while ensuring that insurance cover is considered as part of an individual's overall financial and retirement planning.

Lifetime income streams

The Government needs to provide an environment in which individuals recognise, and are encouraged to provide for, the second and third decade of their retirement, and beyond. Retirement Income Stream products that deliver a guarantee of a retirement income for life are an essential component of this environment.

Traditional lifetime annuities offered by life companies and friendly societies have fallen out of favour with retirees. In part, this is an unintended consequence of the increased engagement of individuals with their superannuation. Having grown comfortable with a system that requires them to make decisions about where and how much to contribute to superannuation and how it should be invested, individuals are now less willing to cede the level of control over their retirement assets that the purchase of a lifetime annuity involves. The inability to gain access to lump sum benefits if circumstances change (eg. in the event of shortened life expectancy) or to return any unused portion of a retirement income stream to a retiree's estate upon their death. are also significant barriers to the purchase of lifetime annuities.

The closure of defined benefit superannuation schemes to new members over the last decade will accelerate the future decline in the proportion of retirees with life long retirement income streams, increasing the longevity risk for future generations of retiring Australians.

The regulatory environment in relation to lifelong retirement income products is tilted in favour of life companies issuing annuities. AXA recognises that any product that offers a guaranteed income for an individual's lifetime needs to able to deliver on that promise, and that such products deserve a higher level of regulatory oversight than non guaranteed products. Regulators need to be open, however, to new products, and to new investment structures to support the guarantee.

There are alternatives to the traditional products, and there are different ways that products can be used to address longevity risk. For example, on retirement an individual could allocate part of their superannuation benefit to an income stream that commences now and is flexible but does not provide a lifetime guarantee; and be provided with an incentive to allocate the remainder to a product that will pay a guaranteed income stream for life from a later age, such as their 80th birthday. If the individual died before age 80, his or her estate would be able to redeem all or part of the value of the investment.

It would also be possible to provide a guarantee on an account based pension so that a retirement income can be provided throughout a person's life, with the remaining account balance able to be returned to the individual's estate on their death. Such a product would be likely to find wide acceptance amongst retirees and would address the major drawback of existing account based pensions in relation to dealing with longevity risk.

The current rules for superannuation pensions and annuities do not facilitate the provision of such products. It is not commercially possible, for example, to provide a guarantee of a lifetime income stream on an account based pension while complying with the current requirement to significantly increase the minimum percentage of the account balance that is paid each year as the retiree ages. For a person under age 65, the annual percentage of the account balance required to be paid as a pension is 4 percent, rising steadily to 14 percent for a retiree who is aged over 95. This requirement to increase the minimum pension payment makes the provision of a guarantee impossible.

The Government's approach to lifelong income streams needs to be outcomes based, specifying the principles that need to be met rather than the prescriptive rules that currently exist for superannuation pensions and annuities in the Superannuation Industry (Supervision) Regulations. The rules in relation to pensions need to move away from a focus on requiring pensions to be exhausted before the retiree dies, and towards ensuring that the retirement income is able to be sustained throughout the individual's life.

Investment options

The primary longevity risks that need to be managed by companies providing lifetime income streams are equity market risk, inflation risk, and mortality risk.

Financial instruments that can transfer these risks to capital markets enable the creation of income streams without the disadvantages of lifetime annuities (conservative investments and reserving assumptions which lead to low rates of income), and account based pensions (no assurance the income will last).

Market risk can be hedged through financial instruments, such as equity index futures. While some suitable instruments exist the market is very limited. Any initiative by the Government to improve the depth and liquidity of this market, for example by issuing a greater number and range of inflation linked bonds, would assist the providers of retirement income streams to develop products that manage longevity risk.

A similar issue exists in relation to longevity bonds, where there are investment banks that can produce instruments for a specific purpose but there is no ready, liquid market in these instruments. AXA invites the Government to consider issuing longevity bonds and other similar instruments to address this problem.

Measures to improve simplicity

Allow contributions to be added to account based pensions
Account based pensions are currently the most popular type of retirement income stream. Any person under the age of 65, including a retiree, can make contributions to superannuation. A retiree cannot, however, make a contribution to their existing account based pension. Their only option is to make the contribution to a separate superannuation account. They can then retain it as a separate account, or commute the existing account based pension, roll it over to the superannuation account and commence a new pension.

AXA proposes that contributions should be able to be added to an existing account based pension, with the new contribution being taken into account when the minimum pension payment is calculated at the following 1 July.

Standardised definitions
There are various definitions of income and salary that are used across social security, taxation and superannuation guarantee legislation that relate to superannuation entitlements and benefits. A review of these definitions, with the aim of adopting common definitions wherever possible, would assist in reducing the complexity faced by superannuation providers, financial advisers and retirees.

Overseas transfers - alignment of the taxation and superannuation treatment
There are many individuals who migrate to Australia (as well as Australians who have worked overseas for long periods) who have amounts in overseas superannuation schemes. There are provisions in both the taxation legislation and superannuation legislation allowing these amounts to be transferred to an Australian superannuation fund. However, there are inconsistencies between the components of these amounts that are treated as counting towards the concessional cap for tax purposes and the amount that is treated as a 'fund capped contribution' under the SIS regulations. These inconsistencies unnecessarily limit the amount that can be transferred to Australian superannuation funds. Aligning the respective provisions in the taxation and superannuation law would remove this anomaly and simplify the transfer of these amounts to superannuation funds.