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AFTS Secretariat
The Treasury
Langton Crescent
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Dear Dr Henry

Please find attached a copy of AMP's further submission to the review of retirement incomes.

This latest submission builds on our previous submission and includes the most recent retirement incomes adequacy data from our retirement incomes modelling. The most recent analysis indicates that the retirement incomes index has fallen to the lowest level since our series commenced and notes that some 4.3 million people will have an inadequate income in retirement.

In light of this, the submission argues strongly that the existing concessional treatment of superannuation should not be changed; indeed it should be further enhanced.

The submission also argues that now is not the time to make fundamental structural changes to the retirement income system given the uncertainties following the global financial crisis, substantial reductions in superannuation account balances and the cost pressures placed on businesses if substantial policy changes are introduced.

Should you have any queries, please do not hesitate to contact me on 0412 437 315.

Yours sincerely

Alastair Kinloch

AMP's response to Australia's Future Tax System – Retirement Income Consultation Paper

27 February 2009

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EXECUTIVE SUMMARY / RECOMMENDATIONS

The Australian superannuation and pensions framework works extremely well and is regarded as one of the leading models around the world. As a consequence, there is no need to fundamentally change the three-pillar approach, a model that has stood the test of time.

The task is now to build on this foundation to further enhance Australia's retirement income adequacy for all Australians. This is particularly important at the current time given the significant fall in adequacy levels over the last 12 months as a result of the Global Financial Crisis, with some 4 million workers not being on track for an adequate retirement income (see Section 3). Further, there is a need to restore the confidence of Australians in the superannuation system, especially to allow people to be able to plan for retirement with certainty.

Our recommendations are based on working within the current superannuation and pensions system to both address the issues outlined above and to minimise the impact on other elements of the financial system, recognising the linkages across the broader system. AMP recommends that:

1. A target of 65% of pre-retirement income from age 65 be adopted for assessing adequacy of retirement income and act as a guiding principle for policy decisions.
2. Efforts be made to increase superannuation savings and restore individuals' confidence in superannuation.
3. No fundamental changes are made to the existing superannuation framework – including current incentives to save in superannuation – to restore consumer confidence.
4. Consumers are able to claim the cost of the upfront financial planning advice as a tax deduction.
5. Soft compulsion be introduced to increase levels of voluntary contributions.
6. The current transitional arrangements whereby individuals over age 50 have an increased limit of $100,000 for concessional components should be made an ongoing feature of the system.
7. The Government Co-Contribution system should be extended and/or tax incentives used to provide additional targeted support for groups who are relatively disadvantaged with respect to retirement income adequacy.
8. The ability to provide life and disability insurance within superannuation funds should be retained.
9. The current Transition To Retirement facility should be retained.
10. The work test rules for individuals over age 65 should be simplified to reflect the irregular work patterns experienced by this age group.
11. Incentives to encourage retirees to take some of their retirement savings as an annuity should be introduced.
12. A review of legislation/regulation hampering development of innovative retirement products should be undertaken.

1. INTRODUCTION

AMP welcomes the Government's decision to commission a comprehensive review into Australia's future tax system, including consideration of the retirement income system. Such a review is timely and provides an opportunity to improve retirement incomes adequacy for current and future generations.

This submission is based on issues relating to superannuation, as superannuation is the primary savings vehicle of most Australian workers. This focus on superannuation for retirement savings is appropriate given the protection this provides workers as these savings are within a regulated environment.

AMP is making a separate submission on the particular issues relating to Transition to Retirement (TTR) and the importance this mechanism has in encouraging continued participation in the workforce by workers over age 55.

Many of the recommendations contained in this submission flow directly from research work specifically commissioned by AMP and undertaken by Access Economics. The key finding of the Access Economics research is that even using relatively optimistic assumptions in relation to retirement incomes adequacy (AMP's measure includes pensions, superannuation and other savings), there remains a substantial shortfall in retirement savings. Access Economics estimates that 4.3 million workers are not currently on track to have adequate savings for their retirement.

The conclusion is that while the Australian retirement income system may be admirable by international standards, there are still large sections of the community with inadequate retirement incomes – even some workers who will be retiring after a full working life with Superannuation Guarantee (SG) contributions at 9 per cent will not be able to maintain their lifestyle in retirement. Policy change is needed to rectify this situation so that the overwhelming majority of Australians can be in the position to have adequate retirement incomes.

In addition to ensuring that Australians save enough during their working life, greater attention needs to be placed on assisting Australians to manage their finances in retirement and deal with the risks associated with longevity, investment and inflation.

AMP considers that appropriate changes to the taxation and age pension system would assist in addressing these inadequacies and improve the incentive for people to save and provide for their future, and be in a better position to manage their finances during their retirement. This, in turn, will provide higher levels of retirement incomes, helping to ameliorate some of the longer-term fiscal pressures on the Commonwealth Budget from the ageing of the Australian population.

Further, one of the benefits of the current superannuation arrangements is the contribution to Australia's macro-economic performance. For example, many Australian companies in recent months have sought to raise capital in light of the Global Financial Crisis and these raisings have been completed, facilitated by monies available from superannuation funds. The illustrates the appropriateness of the current framework and the wider benefits it provides.

2. RETIREMENT INCOMES ADEQUACY TARGET

The need for a target

First and foremost, a goal or target needs to be established in relation to adequacy. An agreed target would provide a consistent basis for retirement incomes policy decisions.

Further, a common target would allow individuals to assess in a meaningful way whether their strategies were appropriate or needed to be adjusted in some manner.

Proposed target

The generally accepted target, which AMP endorses, is "65 at 65" – a retirement income from age 65 which is 65% of pre-retirement income. We note that Senator Sherry, Minister for Superannuation, has previously proposed this target[1].

While the target could be further refined for different groups to recognise that situations for individuals can vary, AMP suggests that a relatively simple measure that can be applied to all individuals is appropriate and can aid in gaining community recognition and acceptance.

The target of "65%" recognises that lower income is needed in retirement to maintain lifestyle as the individual no longer has to save for retirement or incur work related expenses.

There are different interpretations of exactly how "pre-retirement income" is defined. AMP suggests that it be defined it as 65% of pre-retirement consumption, where consumption is defined as pre-retirement gross income, less tax and savings. Post retirement income should include income from pensions, superannuation and other savings.

Recommendation 1:

A target of 65% of pre-retirement income from age 65 be adopted for assessing adequacy of retirement income and act as a guiding principle for policy decisions.

[1] Policy Paper - "Superannuation – a Higher Retirement Income in a Simpler and Safer System": Nick Sherry, Shadow Minister for Superannuation and Intergenerational Finance, Banking and Financial Services, 10 April 2006.

3. CURRENT STATE OF RETIREMENT INCOME ADEQUACY

AMP Superannuation Adequacy Index

In order to determine the overall level of retirement incomes adequacy, AMP commissioned Access Economics to develop a retirement incomes adequacy index which is released twice a year.

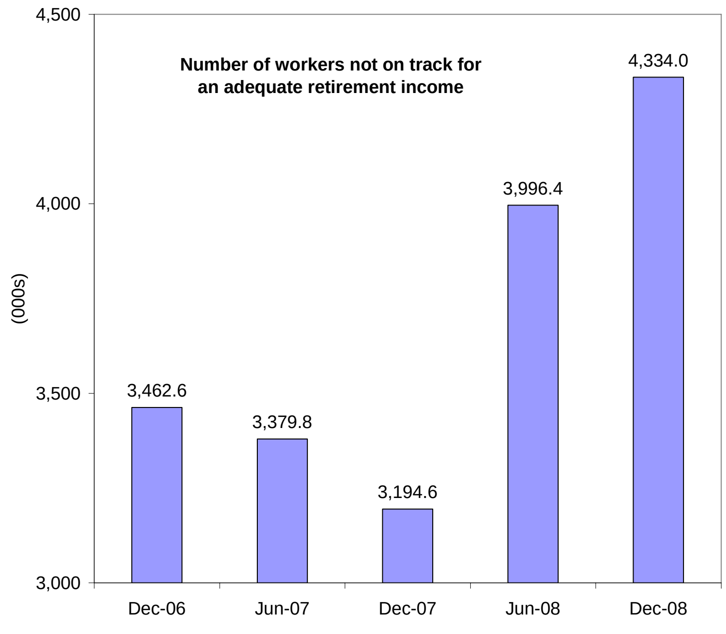
The Access Economics modelling uses data provided by AMP – without individual identifying information – from 320,000 of its customers. The AMP Superannuation Adequacy Index (SAI) is one of the most reliable estimates on retirement savings because it uniquely marries detailed contribution data and account balances with incomes to provide the best overview of the current Australian situation. The superannuation data is supplemented with estimates of the age pension (for those who qualify) and 'other investments' (excluding the family home) to illustrate whether Australians are on track for an adequate retirement.

The AMP SAI is aimed at comparing current levels of saving in superannuation with the living standards that Australians can reasonably expect to aim for in their retirement years. The benchmark target used for "adequate retirement" is 65% of individuals' own pre-retirement living standards, ie in line with the target recommend in Section 2 of this paper.

The AMP SAI was initially conducted as at 31 December 2006, and has been conducted every 6 months since, allowing changes in adequacy levels of Australian workers to be tracked over time.

Current adequacy levels

The next issue of the AMP SAI is being prepared as at December 2008, and will be published in March 2009. However, some key results of the analysis are available. The number of workers who are estimated to **not** be on track for an adequate retirement over the last 2 years has changed as follows:



At the end of 2007, the position had been buoyed by strong investment returns and by increased voluntary superannuation contributions over 2007 in response to the Better Super changes. However, the chart above illustrates the significant turnaround in the space of 12 months – an additional 1.1 million workers are now not forecast to be on track for an adequate retirement.

To further illustrate the situation at the end of 2008 and changes over 2008:

	December 2007	**December 2008**
% of workers **not** on track for adequate retirement	30.5%	40.5%
Average total contributions in prior 6 months (including voluntary contributions)	12.9% of salary	12.5% of salary
Projected % of retirement income to be provided by age pension for workers currently aged 25-29	28.5%	31.8%

The position is likely to have further deteriorated since the end of 2008, with continuing poor financial markets and possibly further reductions in voluntary contributions as consumer sentiment continues to be low in light of the Global Financial Crisis.

The current adequacy levels are a major cause for concern for the Australian economy. This shortfall will intensify the pressure on public resources, especially social security payments in future decades as the Australian population ages.

Recommendation 2:

Efforts be made to increase superannuation savings and restore individuals' confidence in superannuation.

4. AUSTRALIA'S SUPERANNUATION SYSTEM – THE NEED FOR STABILITY

Current framework is fundamentally sound

The general concessional nature of the tax treatment of superannuation contributions, earnings and end benefits has contributed to the widespread acceptance of the compulsory Superannuation Guarantee (SG) system. The framework provides a balance between providing incentives to save for retirement and limits on tax advantages, such as limits on concessional contributions. It needs to be retained as a base to be built upon.

In light of this, AMP considers that any calls to reduce the current level of concession are misplaced and would be counterproductive. The national superannuation arrangements also contributed to the strong macro-economic performance of the Australian economy over the past 15 years.

The Better Super changes introduced with effect from 1 July 2007 simplified many aspects of the superannuation system. The benefits of Better Super were widely recognised, as evidenced by the bipartisan support to the changes.

Further, AMP applauds the Government's commitment to retain the tax-free superannuation benefits from taxed superannuation funds for those members who are over 60 years of age. As well as simplifying the superannuation taxation arrangements considerably, the provision of a tax-free income stream in retirement has significantly increased the incentive to save for retirement.

AMP also supports the Labor Party's previous announcements to maintain fundamentals of the current system including support for providing incentives for all Australians to make additional contributions and pledges not to reintroduce the contributions surcharge.

Individuals need stability to be able to plan

The Australian superannuation system has undergone continual legislative change since 1983.

Previous changes have built on and improved the superannuation system. While the community's attitude to superannuation improved following the introduction of the Better Super measures in 2007, many individuals still view superannuation with some scepticism given the strong perception that future change is inevitable, based on the level of change over recent decades.

AMP, via its financial planners, conducted hundreds of client seminars on the Better Super changes. While audiences understood the benefits of the changes, the most commonly asked question related to future change.

The prospect of future change, even where it is in the best interest of the community, can undermine confidence in the superannuation system. Further, as highlighted earlier, confidence in investing – including in superannuation – has been significantly eroded by the Global Financial Crisis. The need to restore confidence is critical.

Before considering further changes to the superannuation system, community sentiment for stability must be considered. In this respect, AMP supports the Prime Minister's comments before the last election when the then Leader of the Opposition said the Labor Party "wants to make sure that there is certainty for people on superannuation for the future" and that "chopping and changing" was not helpful. Individuals should be able to plan for their retirement with certainty.

Implications of changes for superannuation providers

The capital expenditure and resources that were required by super fund trustees, administrators (and regulators) in the implementation of the Better Super changes were unprecedented in their size.

Senator Sherry has in several speeches during 2008 acknowledged the "administration overload" the superannuation industry was dealing with in relation to policy changes, such as Better Super and anti-money laundering, and stated that:

> "Hopefully further changes can be made that further simplify the administration, operation and decision making for the entire superannuation system."[2]

Any changes to the existing superannuation framework will impose additional costs to the superannuation industry that will be passed to the customer. This will further frustrate the industry's ability to shift to a lower cost superannuation environment.

Recommendation 3:

> No fundamental changes are made to the existing superannuation framework – including current incentives to save in superannuation – to restore consumer confidence.

[2] Address to ASFA, 10 April 2008 and speech to Conference of Major Superannuation Funds, 19 March 2008, Senator Nick Sherry, Minister for Superannuation.

5. THE ROLE OF FINANCIAL ADVICE

Most individuals find planning for retirement and creating an adequate income in retirement to be challenging.

All indications are that financial planners play a useful role in the community, particularly when the financial system is under stress. Furthermore, indicative research conducted by AMP shows that those people who have received financial advice have account balances that are higher than those without. While it is uncertain whether this is cause or effect, one thing that is certain is that planners encourage people to save more, and assist their clients in planning how this could be achieved.

Deductibility of financial planning fees

Consumers are paying for personal financial advice in varying ways that result in different taxation treatments for no apparent public benefit.

Currently, the cost of preparing an initial financial plan is not tax deductible, however the cost of reviewing an established plan is tax deductible. The lack of upfront deductibility for the initial plan preparation may act as a disincentive for individuals, particularly lower income earners, to seek financial advice from a financial planner.

Addressing this issue on lack of tax deductibility for financial advice would also mean that there would be consistency in the tax treatment of financial planning advice and tax advice from accountants.

AMP recommends that there should be incentives to encourage people to seek financial advice, and suggests that a tax deduction be allowed for advice.

Recommendation 4:

Consumers are able to claim the cost of the upfront financial planning advice as a tax deduction.

6. INCREASING SUPERANNUATION SAVINGS FOR RETIREMENT

Level of Superannuation Guarantee contributions

AMP's Superannuation Adequacy Index research shows that for many workers, the current 9 per cent level of SG contributions is insufficient to provide an adequate income in retirement (see Section 3).

AMP believes that the most effective approach to improve adequacy would be for SG contributions to be increased by 2 to 3 per cent, which when combined with the current average total contribution rate of 12.5 per cent (source: AMP's Superannuation Adequacy Index, December 2008) would result in a total contribution of close to 15 per cent – generally recognised as being the contribution levels required to save for an adequate retirement income. Any increase in SG contributions would obviously have to be done in an economically responsible fashion, and could be phased in at an appropriate rate.

While this is AMP's preferred approach, we note the Government has committed to not increasing the SG contributions required from employers during this term of Government.

Improving levels of voluntary contributions across the workforce

In order to improve adequacy levels, concerted efforts are required to improve levels of voluntary contributions – a challenging task at a time when voluntary contribution levels are falling in light of the Global Financial Crisis.

AMP recommends that a system of "soft compulsion" be introduced as a means of boosting contributions from individuals, ie where employees automatically have a level of contributions deducted from their salary, with the ability for an employee to opt out of the automatic deduction. There are many alternatives for introducing soft compulsion, such as phasing in a default contribution of say 3%. The attractions of a soft compulsion approach include:

- making it easy for individuals to increase their superannuation contributions as the process happens automatically, but enabling them to opt out if does not suit their circumstances, and
- operating within the existing framework and processes – eg, employers already have mechanisms in place to deduct contributions from an employee's salary and pay this into the relevant super fund. The only change would be to force those employers who currently do not allow for salary sacrifice to make this available, which is consistent with Labor policy of increasing access to salary sacrifice.

Assisting groups relatively disadvantaged

It is clear from analysis – including from AMP's Superannuation Adequacy Index – that particular groups face problems in relation to retirement income adequacy. These groups should be provided with additional support to encourage and assist them in increasing their superannuation savings.

a) Low Income Earners

As well as having to live on modest means, low income earners are disadvantaged as they often have broken periods of employment, have earnings which are under the SGC threshholds or may face employer non-compliance with superannuation liabilities.

Those on low incomes also face low marginal tax rates, which means that they may derive small or even no advantage from tax concessions for superannuation contributions (as the marginal tax rate of 15% for those earning between $6,000 and $34,000 is the same as the rate of the contributions tax). This situation undermines the attraction of voluntary contributions to this group.

b) Women and others with broken work patterns

Many women in particular are disadvantaged on the basis of relative income across all age groups. This disadvantage arises from a combination of lower average remuneration across most vocations, broken work patterns and higher participation in part-time or casual employment. This income disadvantage flows through directly into a relative superannuation disadvantage for women as well.

The AMP Superannuation Adequacy Index has demonstrated that on average women have substantially lower account balances than men across all age groups. The relative disadvantage increases as age increases.

Average Superannuation Balance at June 2008

Age	Males	Females
20-24	$5,721	$4,491
25-29	$13,913	$12,394
30-34	$27,519	$23,337
35-39	$42,813	$31,618
40-44	$60,157	$34,133
45-49	$76,874	$39,576
50-54	$96,468	$48,112
55-59	$101,115	$59,290
60-64	$88,255	$59,679
65-69	$78,879	$46,413
Average	**$50,780**	**$29,894**

c) Contractors/Self Employed

For various reasons, the self-employed often have inadequate retirement savings:

- Often the self employed re-invest most of their earnings into their businesses for use as working capital – viewing their businesses as their “superannuation”, they concentrate on trying to grow the business, rather than setting aside specific superannuation savings.
- The tax concessions were historically such that, until recently, employees enjoyed a more generous set of income tax deductions for superannuation contributions made by an employer on their behalf than for contributions made by a self-employed person.
- SG obligations do not cover the self-employed - the SG charge imposes an obligation on employers to provide the nominated level of superannuation support to their employees. While the compulsory nature of SG massively increased the level of superannuation coverage for employees, an equivalent increase in superannuation coverage for the self-employed has not occurred.

d) Older Employees

Much of the inadequacy of retirement incomes savings occurs in older age groups. This has arisen largely because many in this group have spent much of their career with either no or inadequate superannuation coverage. Historically, governments have recognised the need for those close to retirement to be able to “top up” their superannuation by granting tax concessions for contributions significantly above the general level. These individuals are often better placed at this stage of their life to make additional contributions, with easing of financial commitments to family and mortgage costs.

As part of the Better Super package, which commenced in July 2007, a general cap on tax deductible contributions of $50,000 per year was introduced for all employees, with special transitional provisions for those aged over 50 at the time. However, those provisions will expire in 2012.

Targeted Government Co-Contribution

AMP considers that for some particularly disadvantaged groups more than just attractive taxation concessions will be required to help members successfully fund their retirement. A particularly useful tool to target particular groups is the Government Co-Contribution (GCC).

Currently the GCC is designed to address inadequacies based on income levels. However, AMP believes that there is merit in examining whether the current arrangements can be augmented to provide additional assistance, and therefore incentive for particular groups to increase their retirement savings effort.

Some ways in which the GCC could potentially be expanded and targeted to improve the position of groups that are particularly disadvantaged are:

- a higher rate of GCC could be available for low income earners, eg Commonwealth paying 200% of eligible contributions, and
- additional government co-contributions to be available to women who have left the workforce for family reasons while on maternity or carers leave, or alternatively additional contributions once they re-enter the job market.

An alternative approach could be developed with the Government making a needs based contribution based on salary. Rather than, as at present, having a $57,000 cap for the GCC, all workers making a post tax salary contribution to super could be eligible for a co-contribution, with the level of Government support depending upon income.

While recognising that this approach may add additional complexity to the GCC system, AMP considers that it is a suitable way to use an existing mechanism to provide additional targeted support.

Tax incentives to support disadvantaged groups

A complementary or an alternative approach to targeting GCC for disadvantaged groups is to provide taxation incentives or the ability to make additional contributions, such as:

- for low income earners – where their marginal tax rates are low and accordingly there is little incentive for them to make additional contributions to superannuation, which has a contributions tax of 15%, provide special rebates of the contributions tax based on a means test to make voluntary additional contributions more attractive,
- for the Self Employed/Contractors – increasing the annual limit from $50,000 for concessional contributions, and
- allowing all individuals to claim tax deductions for personal superannuation contributions. This would assist self-employed people who are only eligible to claim a deduction for personal super contributions provided they have received less than 10% of their income from employment. The current rules are complex and provide uncertainty, and may impact on the nature of the work sought by self-employed people.

  Furthermore, it would also allow employees, whose employers do not allow salary sacrifice, to consider making additional personal contributions in the knowledge that they will obtain the same level of tax concessions as those employees who can avail themselves of salary sacrifice arrangements.

Underinsurance

Underinsurance remains a key challenge for the community and it is widely accepted that Australians are significantly underinsured across all segments of life insurance. IFSA research from June 2006 indicates that, while over 84% of people insure their cars, only 31% insure against the ability to earn an income and only 23% insure against critical illness or trauma. The issue is further compounded by the increased reliance on household debt within the community. The Reserve Bank of Australia estimates that household debt is nearly 160% of average disposable income.

The outworking is that a significant proportion of the community will need to rely on Government welfare in the event of near death or injury – a CommInsure Income Protection Study in 2005 suggested that 66% of people aged between 25 and 49 would need to rely on the Government.

AMP believes the primary contributor to the underinsurance challenge is an individual's perception that serious illness or death is unlikely to occur to them and thus insurance is not warranted. Additionally, for many Australians, life insurance can be an onerous and complicated process that increases their reluctance to insure themselves.

To successfully drive down the levels of underinsurance AMP considers there is a need for greater education regarding the benefits of insurance, supported by an efficient and customer friendly application process.

AMP believes the most efficient and cost effective means for Australians to secure life insurance is through their superannuation and we encourage Government commitment to this structure.

Recommendation 5:

Soft compulsion be introduced to increase levels of voluntary contributions.

Recommendation 6:

The current transitional arrangements whereby individuals over age 50 have an increased limit of $100,000 for concessional components should be made an ongoing feature of the system.

Recommendation 7:

The Government Co-Contribution system should be extended and/or tax incentives used to provide additional targeted support for groups who are relatively disadvantaged with respect to retirement income adequacy.

Recommendation 8:

The ability to provide life and disability insurance within superannuation funds should be retained.

7. TRANSITIONING TO RETIREMENT

Any review of retirement incomes adequacy needs to be cognisant of the change in how individuals approach retirement. Whereas previous generations would have approached retirement with a retirement date that would have clearly earmarked the change from working to retirement, the situation is now much different. Many individuals move from full time to part time as a way of easing into retirement, change from a permanent role to a consulting / contracting role or decide to re-enter the workforce after initially retiring.

These changing work patterns need to be recognised as part of the overall encouragement for older workers to continue to participate in the workforce.

Australia benefits from the retention of the skills of the older workers, as well as the taxation contribution that longer participation in the workforce brings and greater adequacy of that person's retirement income when they fully retire.

Importance of Transition To Retirement facility

Transition To Retirement (TTR), whereby individuals over preservation age can draw down from their superannuation while continuing to work, enhances labour force participation and particularly helps lower income earners.

The issues in relation to TTR are the subject of a separate submission from AMP – AMP strongly believes that this policy is working well and the arrangements should be retained.

Work test

Older Australians may only contribute to superannuation beyond age 65 once they have met the 'work test'. This test requires that before a contribution can be made in a financial year by an individual aged 65 to 74, that individual must be gainfully employed for at least 40 hours in a period of 30 consecutive days.

AMP accepts that this provides an incentive for older Australians to remain in the workforce if they wish to continue contributing to superannuation.

However, the requirement to have already worked at least 40 hours in no more than 30 days is not as flexible as it might be given the irregular work patterns experienced by this age group in casual or part-time employment. Nor is it easy to understand.

AMP recommends that the work test requirements for the over 65s be reviewed so as to make them simpler to understand and administer, and reflective of the irregular work patterns experienced by this age group.

Recommendation 9:

The current Transition To Retirement facility should be retained.

Recommendation 10:

The work test rules for individuals over age 65 should be simplified to reflect the irregular work patterns experienced by this age group.

8. MANAGING INCOME IN RETIREMENT

The final phase of the superannuation cycle is that of retirement.

AMP believes that the greatest risk to the financial wellbeing of retirees once they have retired is that they run out of capital thereby impacting negatively on their standard of living in retirement. It is difficult for most individuals to be able to deal with their savings, and in particular appreciate and manage the risks associated with investment, inflation and longevity, as well as deciding on an appropriate level of income.

It is also noteworthy that individuals have a high level of protection and encouragement to save and grow their wealth during their working life, eg benefit from SG contributions of 9 per cent being paid into a regulated superannuation fund. However, there is relatively low levels of protection and assistance for individuals when they reach retirement and are facing the task of managing probably the largest pool of monies they will deal with in their life.

Annuities

While there is popular support for the ability of retirees to access their benefits either as a lump sum or a flexible income stream, there are a number of Australians who desire certainty of income for the rest of their life. Further, as an increasing number of people retire from the workforce in coming decades with significant superannuation savings, the potential for many individuals to outlive their savings (and fall back on the age pension) or alternatively, live overly frugally, increases.

Annuities provide the solution for these issues. Annuities guarantee a certain level of income for the life of the retiree, thereby providing financial certainty especially when the person is most vulnerable ie at a very old age.

However following policy changes introduced by the former Government some years ago, annuities are no longer attractive. Prior to September 2004 annuities were fully exempt from the aged pension assets test, and from September 2007, the remaining part exemption was removed. This exemption was a key incentive to encourage annuities. When it was removed the annuities market contracted significantly to the point where few, if any are sold. In fact, the market reduced in size to such an extent that AMP has recently ceased to offer lifetime and guaranteed annuities.

Most foreign retirement incomes arrangements concentrate on providing *pension* benefits in retirement. Indeed, the Australian aged pension is an income stream payable for life for those that satisfy the eligibility criteria.

Accordingly, AMP considers that more incentives need to be introduced to encourage retirees to take at least some of their retirement savings in the form of an annuity.

The best way to encourage this is to alter the tax and social security arrangements so that annuities would become more attractive by possibly reinstating assets test exemption for annuities (with perhaps a review of the taper rates).

Limited ability for innovative retirement products

There is significant potential for innovation in retirement products to better help retirees manage their risks around investment returns and longevity, while reducing government expenditure on age pensions.

One inhibitor to innovation is the restrictive nature of current legislation and regulations, which assume particular product designs – innovations must either be fitted to these rules or not proceed. An example of inhibiting regulation is Schedule 7 of the SIS Regulations which assumes particular product designs in setting requirements for minimum payments. While sometimes clever structuring could be employed so that an innovative product fits the various rules, this adds to cost and complexity, which are themselves inhibitors to innovation.

A review should be undertaken, with assistance from the industry, of regulations and legislation that assumes a particular product construct. In addition, the Treasurer could (on the recommendation of APRA) be given powers to approve alternative particular product designs at the request of a product provider, or issue standards, subject to achieving an intent broadly consistent with the current legislation and regulations.

Recommendation 11:

Incentives to encourage retirees to take some of their retirement savings as an annuity should be introduced.

Recommendation 12:

A review of legislation/regulation hampering development of innovative retirement products should be undertaken.