

## Retirement income review consultation paper – an overview and some initial observations.

The Retirement Income Review commissioned by the Government issued a consultation paper on 22 November 2019<sup>1</sup>, and called for submissions by 3 February 2020. This article provides an overview of that consultation paper and makes some observations on the positive developments that are possible from the ‘fact base’ being established by the Review consultation paper.

### Overview of consultation paper

In keeping with its terms of reference the consultation paper presents a discussion framework based around the “three pillars” of Australia’s retirement income system:

- a publicly funded and means tested safety net in the form of the Age Pension;
- compulsory savings through the superannuation guarantee (SG); and
- voluntary savings through additional superannuation contributions and other financial or non-financial assets.

The paper:

- outlines the purpose of the retirement income system and the role of each of the “pillars”.
- notes the impact of demographic, labour market, and home ownership trends on the operation of the retirement income system

Four principles that are proposed by the Panel to assess the performance of Australia’s retirement income system:

- Adequacy – whether the system allows for Australians to achieve an adequate standard of living in retirement.
- Equity – whether the system produces fair outcomes for different groups of Australians.
- Sustainability – whether the system is able to continue to meet its objectives into the future and maintain broad community support.
- Cohesion – whether the incentives across the system reinforce or conflict with the system’s objectives both before and during retirement.

The Panel has been tasked with establishing a fact base to help improve understanding of how the Australian retirement income system is operating and how it will respond to an ageing society and is seeking comment on both the “pillars” and the proposed assessment principles.

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<sup>1</sup> <https://www.treasury.gov.au/consultation/c2019-36292>

## Initial observations

Gyrostat believes that the Panel's work has the potential to further improve the development of retirement income products, a critical element of the second and third pillars. Three key outcomes would be to:

- Further develop the *risk adjusted returns disclosure* arrangements criteria to assist retirees in understanding the risks inherent in retirement income products.
- *Encourage the development and commercialisation of a variety of risk management approaches* with the objective of improving risk adjusted returns for retirees. (Comprehensive Income Product in Retirement "CIPR" providers may form relationships with external providers as a component of the overall retirement solution.)
- Develop guidelines for '*alternative – conservative*' and '*alternative – growth*' asset classifications, based upon the risk level rating and in particular the products ability to address sequencing risk.

These outcomes are further outlined in the Gyrostat article of 18 October 2019.

<https://www.gyrostat.com.au/news/feature-article-positive-developments-likely-from-the/>

The need for these developments is emphasised in the forward to the consultation paper in which the Panel states:-

"In helping to improve understanding of the retirement income system, the Panel will take note of the large range of research papers and reports that have been published on this topic, focusing on identifying the basis for some of the very different conclusions made in those papers and reports. The Panel will draw on the findings of the Productivity Commission report *Superannuation: Assessing Efficiency and Competitiveness*, which assessed the fees, investment returns, overall efficiency of the superannuation system, and how these factors affect retirement outcomes."

Gyrostat notes that the Productivity Commission concluded:

"The system offers products that meet most members' needs, but members lack simple and salient information and impartial advice to help them find the best products."

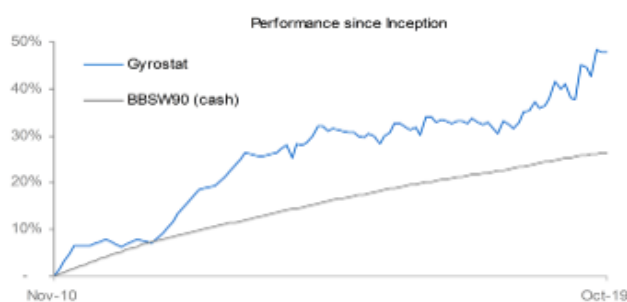
For a detailed summary of retirement income review policy and developments in Australia since 2010 see the Gyrostat article of 18 November 2019.

<https://www.gyrostat.com.au/news/feature-article-4/>

## About Gyrostat

The Gyrostat Absolute Return Income Equity Fund is designed for retiree income with protection, and to address sequencing risk. The distinctive features are 'hard' protection always in place and a track record of returns increasing with market volatility.

Gyrostat has operated for 35 consecutive quarters within a 'hard' pre-defined risk parameter (no more than 3% capital at risk with our maximum draw-down 2.2% in any circumstances) always in place, delivering regular income by passing through ASX-20 dividends, and meeting returns guidance based upon market conditions (demonstrating increasing returns with market volatility). The Fund buys and holds ASX-20 shares with lowest cost protection always in place with upside. It is an 'alternative - defensive' conservative asset allocation.



**Returns:** 8.4 % pa (12M); cumulative 51% (>8 years)

**Income:** Minimum 4.2% pa (BBSW90 + 3%)

**Protection:** No quarterly draw-downs exceed 3%

Also includes 'tail hedge' for gains on large market falls

<https://www.gyrostat.com.au/news/presentation-gyrostat-absolute-return-income-equity-fund/>

### **Target market**

We complement existing growth' asset allocations with a track record of our returns increasing with volatility (tail hedge always in place for gains on large market falls. Ie: addresses sequencing risk).

- All investors, particularly retirees, want a solution to two key issues:
  - Conservative assets lack of return (historically low interest rates)
  - Growth assets 'late cycle' exposure to market falls (sequencing risk)
- Australian Government Reviews (Financial System Inquiry, Treasury proposed risk disclosure requirements) has highlighted the lack of product addressing these issues
- Our solution is for retiree investors to simply add an 'alternative – defensive' asset allocation which provides regular equity income (minimum BBSW90 + 3%) by passing through ASX-20 dividends with 'hard' protection always in place, including tail hedge for gains on large market falls.