Budget 2016

JOBS & GROWTH

Superannuation Reform:

Enhancing choice in retirement income products

The Government will remove barriers to innovation in retirement income stream products by extending the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self annuitisation products. This will enhance choice and flexibility for Australian retirees looking to better manage the risk of outliving their retirement savings.

The issue

Current rules restrict the ability of retirement income providers to develop and bring to market new retirement income stream products.

Most Australians receive income in retirement by drawing down regular amounts of superannuation from an account based pension. In doing so they ensure that earnings on these savings are not subject to tax.

Other more tailored products could be made available to help individuals manage their income throughout their retirement years. These products do not currently receive the same tax treatment as account based pensions. This limits the ability of providers to competitively offer this wider range of products.

This issue was highlighted in both the Financial System Inquiry and Retirement Income Streams Review which recommended that barriers to new product development be removed.

The details

From 1 July 2017, the Government will extend the tax exemption on earnings in the retirement phase to products such as deferred lifetime annuities and group self-annuitisation products. These products seek to provide individuals with income throughout their retirement regardless of how long they live.

This will allow providers to offer a wider range of retirement income products which will provide more flexibility and choice for Australian retirees, and help them to better manage consumption and risk in retirement, particularly longevity risk, wherein people outlive their savings.

The details of the treatment of these products for the transfer balance cap are in Superannuation Fact Sheet 2.

In addition, the Government will consult on how these new products are treated under the Age Pension means test.

Budget impact

This measure has no impact on the Budget.

Cameo

Emma is a 65 year old retiree who currently draws down her account-based superannuation pension at the minimum rates to ensure her superannuation savings do not run out.

Emma is energetic and healthy and would like to have the confidence that her superannuation savings will last throughout her retirement. However, as deferred and pooled income stream products do not qualify for the retirement phase earnings tax exemption these products are not widely offered in the market.

Extending the retirement phase tax exemption on earnings to a wider range of products will provide Emma with more choice and flexibility. This will allow her to maintain a higher standard of living in retirement and give her peace of mind knowing she will always have a guaranteed income stream.