



The Retirement Income Covenant – A Trustee Checklist

The Retirement Income Covenant encapsulates a decade of thought around the topic of income in retirement. The Covenant aims to provide funds with flexibility to design and tailor their retirement income strategy to meet the needs of their specific membership now and in the future. It sets out some key requirements and opportunities for trustees to consider.

The Retirement Income Covenant requires trustees to formulate, review regularly and give effect to a retirement income strategy for beneficiaries who are retired or approaching retirement. The **retirement income strategy needs to help members achieve and balance three objectives:**

1. Maximising their expected retirement income
2. Managing expected risks to the sustainability and stability of their expected retirement income and
3. Having flexible access to expected funds during their retirement.

Retirement Income Strategy – A Balancing Act



The Strategy

The strategy outlines a trustee's plan to assist beneficiaries covered by the strategy, in generality.

It is expected that trustees will consider the broad needs of the beneficiaries covered by the strategy to determine what assistance may best meet those needs. This does not preclude the trustee from assisting their members to meet their needs through tailored guidance or advice. Trustees must, however, operate within the existing financial advice framework. The covenant states that trustees can create effective retirement income strategies without providing personal advice.

The covenant suggests that **the strategy could include a range of assistance** such as:

- Developing and/or offering specific retirement income products
- Developing specific drawdown patterns that provide higher income throughout retirement
- Providing tools such as expenditure calculators to identify income and capital needs over time

- Provision of factual information about key retirement topics such as eligibility for the Age Pension, the concept of drawing down capital as a form of income, or the different types of income streams available
- Provision of guidance to beneficiaries early in accumulation about potential income in retirement through superannuation calculators or retirement estimates.

The strategy formation includes the trustee obligation to:

- Take reasonable steps to gather the information necessary to inform the formation and review of the strategy
- Record the strategy in writing
- Record a range of matters as part of the strategy, formulating an internal governance document
- Make a summary of the strategy publicly available, even if the strategy is under review.

Retirement Income Strategy Checklist

Trustees of registrable superannuation entities are required under subsection 52(8) of the Superannuation Industry (Supervision) Act 1993 to formulate, review regularly, and give effect to a retirement income strategy that meets the requirements in section 52AA.

The following checklist aims to support trustees in formulating their retirement income strategy. Trustees should consider whether:

- The strategy has been formulated for the benefit of beneficiaries of the entity who are retired or approaching retirement
- The trustee has determined for the purposes of the strategy, the meaning of 'retirement income' and the 'period of retirement'
- The trustee has considered and defined as part of the strategy, how they will assist beneficiaries to achieve and balance the three covenant objectives
- The trustee has taken reasonable steps to gather the information necessary to determine the beneficiary sub-classes with similar characteristics that exist for the purposes of formulating a distinct retirement income strategy for each sub-class
- The retirement income strategy considers the broad needs of members covered by the strategy to determine what assistance the trustee will deliver to meet those needs
- The type and scope of assistance deemed appropriate as part of the strategy is in the beneficiaries' best interest, meets the sole purpose test and can be delivered within the current financial advice regulations
- Each determination and decision made by the trustee in the formulation of the strategy is recorded in writing as part of the strategy. The reasons for those determinations and decisions are documented
- Each step taken to gather information used in the formulation of the strategy, and the reasons for taking those steps, is documented in writing as part of the strategy
- The retirement income strategy exists in two forms – a written detailed internal strategy document and a published strategy summary which is freely available and easily accessible on the entity's website at all times, even if the strategy is currently under review
- The trustee has documented as part of its strategy its intention to review both the outcomes from the strategy, and the strategy itself, at regular intervals. Treasury expects similar review frequencies to the investment covenant, where reviews of the outcomes from the strategy are annual and reviews of the strategy itself occur every three years.

The above checklist has been developed using the Retirement Income Covenant Exposure Draft and Explanatory Materials (September 2021).

Find out more



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