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Encouraging superannuation income streams with tax-free earnings to be taken in a form that provides longevity insurance

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Abstract
Australia's superannuation system allows those entering retirement to take their benefits in the form of an income stream which benefits from tax-free earnings. Currently, very few income stream benefits are taken in the form of a lifetime annuity even though such an instrument provides an excellent form of longevity insurance. The Australian Government is currently implementing changes that expand the tax-free earnings net to include Deferred Life Annuities and Group Self-Annuitisation Schemes. This paper finds that this is a positive move that will potentially benefit many retirees. The government is also considering implementing some behavioural tools which include a regime under which superannuation trustees choose a pre-packaged bundle of income stream products that include annuities. Members entering retirement would actively choose to adopt these products. It is argued that such a regime would be a negative policy development that would result in many retirees annuitising to a non-optimal extent.

Key words: superannuation, annuities, retirement policy, income streams

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1. INTRODUCTION

Australia has had compulsory superannuation for more than 20 years. During that time, the system has changed substantially. As the population ages, rules that affect the operation of the superannuation system for those in retirement will become increasingly important.

Under the current law, retirees able to access their superannuation are given close to unfettered freedom as to how they receive their funds. They can take their superannuation in any combination of a lump sum or a superannuation income stream, with the income streams option benefitting from tax-free earnings.[2] For those who choose to take all of part of their funds in the form of an income stream, only a small minority do so in the form of a lifetime annuity.[3] This is surprising, given that lifetime annuities provide a return free from investment and longevity risk, and if appropriately indexed, from inflation risk as well.[4] A risk-free income stream can be appealing to many retirees at a time in their life when their ability to earn income from labour is often limited.

Recently, there has been policy discussion and legislative changes regarding superannuation income streams, some of which has concentrated on increasing the uptake of life annuities and similar instruments. Specifically, the government has started the process of legislating to broaden the range of life annuities that are covered by the superannuation system and so benefit from tax-free earnings. There has also been policy discussion about behavioural techniques that could increase the uptake of superannuation income streams, and in particular encourage partial annuitisation of superannuation funds. Proposed behavioural policies include presenting those about to enter retirement with a pre-arranged package of income streams that typically include partial annuitisation as well as mandating certain disclosures on superannuation benefit statements.

Part 2 of this article describes the relevant current law, with an emphasis on superannuation income streams. Part 3 then examines the reasons for the traditional unpopularity of annuities in Australia and in many overseas jurisdictions. Part 4 critically evaluates reforms made to expand the range of annuity-like instruments that qualify as superannuation income streams that can benefit from tax-free earnings. Part 5 describes and evaluates proposed behavioural tools to harness the behavioural biases which could, among other things, increase the uptake of annuities. Part 6 concludes this assessment.

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[2] *Income Tax Assessment Act 1997* (Cth) ss 295-385, 295-390, 295-395, *Income Tax Assessment Regulations 1997* (Cth) reg 995.1.01.

[3] David Murray, Kevin Davis, Craig Dunn, Carolyn Hewson and Brian McNamee, *Financial System Inquiry Final Report* (2014) 120 <http://fsi.gov.au/files/2014/12/FSI_Final_Report_Consolidated20141210.pdf>.

[4] 'Investment risk' refers to the risk of assets under-performing more than expected (which includes declining in value). 'Inflation risk' refers to the cumulative effect of inflation reducing the consumption ability of an income stream over time. 'Longevity risk' is the risk of outliving one's retirement savings. See Janemarie Mulvey and Patrick Purcell, 'Converting Retirement Savings into Income: Annuities and Periodic Withdrawals' 2–4 (R40008 Congressional Research Service Report for Congress, 2008).

2. CURRENT LAW REGARDING SUPERANNUATION TAXATION

Australia's superannuation system is characterised by individual accounts. In most cases, employers must make compulsory contributions to these accounts where the employee earns at least $450 a month.[5] Employers' mandated contributions are currently set at a rate of 9.5% of salary, although from 1 July 2021 this will start to increase incrementally to 12%.[6] Voluntary contributions can also be made by the account holders and their employers.[7] Account funds are invested, and in general can only be accessed for personal use in retirement.[8]

Superannuation is subject to highly concessional tax treatment. Specifically, it is potentially taxed at three points. The first is when funds are contributed to the superannuation account, the second is when the superannuation investments earn a return, and the third is when funds are withdrawn from the superannuation system.

2.1 Superannuation contributions

Superannuation contributions paid by the employer, as well as tax-deductible payments made by individuals to their own superannuation accounts (both termed concessional contributions)[9] are taxed at the rate of 15% in the hands of the fund.[10] As of 1 July 2017 most individuals are able to make such tax-deductible concessional contributions to their own superannuation accounts.[11] Superannuation contributions paid out of post-tax income or7.9;ati(viduabut)6.0.9508 f0.13.98i2 Tw[(em)income o137.28 484.8203 T6(a)1uabut uals ar

If a taxpayer withdraws funds in the form of an income stream, all or a portion of their accumulations account is converted into an income stream account. Such accounts cannot receive further deposits once created.[16] There are two main forms of income stream accounts: account-based pensions and annuities.[17] In reality, the overwhelming number of retirees choose an account-based pension.[18] In the case of an account-based pension, the funds are invested and the holder is allowed to make withdrawals at will.[19] However, account-based pensions are subject to age-based minimum withdrawal limits.[20] There are no maximum withdrawal limits. In other words, the operation of an account-based pension is in many ways similar to a superannuation account in accumulations mode, except for the minimum withdrawals and the account's inability to receive deposits.

The other income stream option is an annuity. Here the taxpayer uses a lump sum portion of their superannuation balance to purchase a regular annuity income stream.[21] Such annuities can be either term or life annuities.[22] A retiree with a life annuity will receive an income stream for the rest of their lives, meaning that their income is free from investment and longevity risk, and if indexed, from inflation risk as well.[23] The annuity payments are usually received regularly, and until 1 July 2017 had to be paid at least annually.[24] Annuity income streams can be either fixed or indexed to a set percentage, the Consumer Price Index (CPI), or to Average Weekly Earnings (AWE). If the income stream is linked to CPI or AWE, the indexation factor can be capped by the annuity contract.[25]

Earnings of accounts supporting a superannuation income stream (whether that be an account-based pension or annuity) are tax-free.[26] In contrast, earnings of an accumulations superannuation account are taxed at the rate of 15%.[27] This is still highly

2.3 Withdrawal of superannuation benefits

Although the earnings of superannuation income streams are tax-free, receipt of the income stream withdrawals in the hands of the retiree is potentially subject to tax. In the case of an account-based pension this will be the amount withdrawn, and in the case of an annuity this will be the annuity payments. To the extent that an income stream receipt can be traced back to non-concessional contributions, it will not be subject to tax;[30] this is referred to as 'the tax-free component'.[31] The rest of the income stream receipt will include portions traceable to the concessional contributions and earnings; this is referred to in the legislation as 'the taxable component'.[32] In general, taxable components received by those at least 60 years of age are tax-free,[33] while those received by those who have reached preserva

based pensions.[42] This is due to the fact that a phased withdrawal product such as an account-based pension presents the retiree with a trade-off between under-consuming and thus self-insuring against the risk of living materially longer than their actuarially expected age, and not under-consuming but facing the real risk of running out of funds if one does live longer than actuarially expected.[43] A lifetime annuity, on the other hand, sidesteps this problem by in effect basing annuity payments on expected longevity, with those living longer than expected benefiting at the cost of those living shorter than expected.[44]

3.2 Reasons for lack of popularity

There are a number of reasons why life annuities are unpopular. Some of these reasons relate to the inherent nature of such annuities. These reasons include a desire to bequeath wealth,[45] wanting to maintain liquidity for unforeseen expenditure,[46] and the availability of other investment opportunities.[47] Further, a bequest motive need not in many cases rule out partial annuitisation of retirement funds, given that retirees do, to some degree, trade-off wealth to be used by themselves and for their heirs.[48] Also, the ability of many to receive the age pension further discourages annutisation as pre-existing annuities (such as the age pension) dampen annuity demand.[49] While it could be argued that the government could theoretically change this by drastically reducing entitlements to the age pension, the reality is that this is highly unlikely to occur, meaning that this could be considered a largely unchangeable reason for limited annuity demand.

There are, however, reasons for not annuitising which could to some extent be abated by government policies. One of these concerns the price of annuities,[50] given that the evidence indicates that the expected income stream of annuities exceeds their price.[51] This itself is attributable to several factors. The first is that annuity issuers have costs, and also need to make a profit. The second concerns what is known as the ‘adverse selection’ effect, which is a phenomenon resulting from asymmetrical access to

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[42] Jeffrey R Brown, ‘Rational and Behavioral Perspectives on the Role of Annuities in Retirement’ (Working Paper No. 13537, National Bureau of Economic Research, October 2007) 4–6, 35.
[43] Ibid.
[44] Ibid.
[45] Jeffrey R Brown, Jeffrey R Kling, Sendhil Mullainathan and Marian V Wrobel, ‘Why Don’t People

information in certain markets such as annuity markets.[52] Specifically, in the annuity market, annuity purchasers are skewed towards those who believe they will have high longevity, which leads to higher annuity prices due to longer payout periods, which then leads to a spiral of ever-higher annuity prices and the purchaser base being increasingly skewed towards those perceiving themselves as likely to have high longevity.[53] These two factors are interlinked, in that higher annuity prices due to costs and need to make a profit can increase the adverse selection effect.[54]

Another reason for low annuity demand that could be abated is that of incomplete annuity markets.[55] Specifically, in some cases there is an insufficient range of annuity products to reflect the needs of some retirees.[56] Examples include the fact that traditional annuity products do not give the holder access to the equity premium available on share investments, and that they only offer the holder a limited ability to liquidate the annuity in case of a consumption shock such as long-term nursing home care.[57] Further, there is some equivocal evidence that another potentially rectifiable issue negatively affecting annuity demand is that consumers lack education concerning how they operate.[58] There is also evidence that supply side constraints have limited the annuity market due to factors such as the limited ability of annuity issuers to insure against some of their risks.[59]

Behavioural reasons also contribute to low annuity demand, which also could in theory be abated to some degree by government policy. Specifically, research has indicated that people are loss-averse, and so disvalue a dollar lost more than they value a dollar gained.[60] This means that as far as annuities are concerned, people will be more averse to the risk of dying shortly after purchasing their life annuities, compared with the potential upside of outliving their predicted life expectancy and receiving more annuity payments than expected.[61] Further, an interrelated but separate factor is the human tendency to overweigh small risks,[62] meaning that people will perceive the risk of an early death to be higher than is actually the case.[63] Another interrelated behavioural factor is that buying annuities from large institutions is potentially viewed by a retiree as an unfair bet with that institution.[64]

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[52] George A Akerlof, 'The Market for "Lemons": Quality Uncertainty and the Market Mechanism' (1970) 84 *Quarterly Journal of Economics* 488.

[53] Amy Finkelstein and James Poterba, 'Selection Effects in the United Kingdom Individual Annuities Market' (2002) 112 *The Economic Journal* 28, 29–30.

[54] William Gentry and Casey Rothschild, 'Enhancing Retirement Security Through the Tax Code: The Efficacy of Tax-Based Subsidies in Life Annuity Markets' (2010) 9 *Journal of Pension Economics & Finance* 185, 190.

[55] Brown, above n 37, 15–17.

[56] Ibid.

[57] Ibid.

[58] Ibid 20–22.

[59] Hazel Bateman and John Piggot, 'Too Much Risk to Insure? The Australian Non-market for Annuities' in Olivia S Mitchell, John Piggott and Noriyuki Takayama (eds), *Securing Lifelong Retirement Income: Global Annuity Markets and Policy* (Oxford University Press, 2011) 81, 101.

[60] Daniel Kahneman and Amos Tversky, 'Prospect Theory: An Analysis of Decision Under Risk' (1979) 47 *Econometrica* 263, 279.

[61] Wei-Yin Hu and Jason S Scott, 'Behavioral Obstacles in the Annuity Market' (2007) 63(6) *Financial Analysts Journal* 71, 76.

[62] Kahneman and Tversky, above n 60, 280–84.

[63] Hu and Scott, above n 61, 76.

[64] Rami Hanegbi, 'Security in Uncertain Times: Policies for Increasing the Popularity of Life Annuities Among Retirees' (2013) 20 *Virginia Journal of Social Policy & the Law*, 473, 489–90.

Other interrelated behavioural reasons also contribute to diminished annuity demand. One of these is related to 'framing', in that people commonly perceive annuities as poor investments given that their discounted expected income stream exceeds their price.[65] In contrast, when people see annuities from a consumption perspective, they find them substantially more attractive because such annuities help maximise consumption, as they provide a form of longevity insurance, which alleviates the need for people to under-consume so as to self-insure against such a risk.[66] The importance of framing is reflected by international evidence that found that annuitisation rates are increased by retirement plan member benefit statements including predicted annuitised entitlements.[67] Another behavioural reason is that of 'mental accounting', in that a typical retiree upon purchasing an annuity will be giving up an entitlement to a lump sum in return for a series of comparatively low payments, which can instinctually seem like a bad deal.[68] This is related to another behavioural reason, that of the 'illusion of wealth', where at least up to a certain point, lump sums are subjectively perceived as more adequate for funding retirement than their annuitised equivalent.[69] Also worth mentioning is that one more behavioural reason for low annuity demand is the 'illusion of control', where some people have a bias towards overvaluing and overestimating the control that they have over a lump sum amount which leads to a reluctance to lose control of their funds through annuitisation.[70]

3.3 Reforms

In 2014 the government undertook an inquiry into the Australian financial system. Consequently, in mid-2014 the interim Financial System Inquiry Report ('Interim Report') was released,[71] followed by the release of the final Financial System Inquiry Report ('Final Report').[72] These reports included policy discussions regarding increasing the development and uptake of superannuation income streams.[73] Broadly, the Final Report's recommendations could be placed into two categories. The first type of policy recommendation involves expanding the range of annuity-like instruments constituting a superannuation income stream that can benefit from tax-free earnings.[74] The second type involves harnessing the power of behavioural tools. One of the behavioural tools suggested by the Final Report is to offer those about to enter

accumulated funds.[76] The government stated, in its response to the Final Report, that it would participate in reform relevant to superannuation income streams.[77]

More detailed discussion relating to expanding annuity-like instruments that constitute superannuation income streams was covered in a 2014 discussion paper, which invited submissions.[78] After consultation, a further paper was released in 2016, making several policy recommendations about widening instruments that constitute superannuation income streams which benefit from tax-free earnings.[79] The government has recently enacted legislation which begins the process of implementing these changes.[80]

In contrast, the reform process concerning CIPRs is only in the preliminary stage. Recently, the government has released a discussion paper relating to the development of CIPRs, and invited submissions.[81] Any possible legislative reform will necessarily take some time to eventuate, and would not commence before mid-2018.[82] There have

for this is related to the passing-on of systematic longevity risk to the annuity purchasers. In a traditional life annuity, the annuity issuer, because it must insure against such a risk, needs to hold a larger amount of extra capital than would otherwise be the case, and this inflates the annuity price.[94] Although ways to outsource such risk have been suggested,[95] ultimately each has its own problems,[96] and at best this approach would only abate the situation to a relatively minor extent.[97] On the other hand, in a pooled annuity this risk is borne by the annuity holders. Further, a pooled annuity arrangement is by its nature akin to an agreement with other retirees. This is likely to add to their appeal, as people are much more likely to annuitise if they see the purchase of an annuity as a mutual collective agreement rather than an unfair bet with an insurance company.[98]

Other advantages of GLA schemes flow from the fact that currently Australian prudential regulations allow only life insurance companies to directly offer life annuities.[99] In essence, this means that apart from cases where superannuation funds have registered as life insurance companies,[100] in most cases superannuation funds that offer life annuities are merely acting as resellers. If the relaxation of rules includes allowing superannuation companies to offer GSA schemes, it could potentially increase their popularity. This is because enabling superannuation funds to offer life annuities directly to their members would cut out the 'middleman', and thus potentially reduce costs, and also because many of the popular superannuation funds are industry funds and thus not-for-profit and likely to lead to even further downwards pressure on the price of the annuities.[101] Further, a proliferation of industry fund offerings, given their non-profit nature,[102] would be likely to further strengthen the perception of annuities issued directly by these funds as a collec

they are likely to see an annuity purchased directly from that fund as a continuation of their relationship.

Importantly, to the extent that GSA schemes do provide cheaper annuities, this is likely to create a 'virtuous cycle' in which any adverse selection effects are less apparent, which then leads to even cheaper annuities.[105]

Overall, there is good reason to extend the tax-free net to GSA schemes, given their comparative price advantage for those willing to trade-off some risk. Further, in net terms, they present a lower behavioural disi

4.3.2 Recent legislative changes for DLAs

The government has recently enacted legislation making widespread changes to the taxation of superannuation,[115] including implementation of the legislative measures necessary to bring DLAs into the tax-free earnings net as from 1 July 2017.[116]

Under these legislative changes, an annuity instrument can constitute a superannuation income stream despite not making payments in a particular financial year.[117] This means that the earnings of investments supporting such instruments can be tax-free even if those earnings only support future annuity payments. These legislative changes introduced a rule so that the DLA earnings tax exemption will only apply where a taxpayer is otherwise able to access their superannuation.[118] For example, a taxpayer who has reached preservation age but continues to work typically cannot access their superannuation until they either cease employment,[119] or reach the age of 65.[120] This will mean, for instance, that someone who is 61 and working, and has purchased a DLA that will start making payments when they are 75, cannot benefit from its tax-free earnings status until they satisfy a superannuation condition of release, such as ceasing employment on reaching the age of 65.[121]

There have since been further regulatory modifications to the income tax[122] and superannuation regulations[123] to complete the changes that enable DLAs to benefit from tax-free earnings. These include introducing the term 'deferred superannuation income stream' into the regulations.[124]

Given the strong case of allowing DLAs to benefit from tax-free earnings, the legislative and regulatory amendments to facilitate this appear to be a positive policy move.

4.3.3 Recent changes regarding GSA schemes

Consistent with the government's earlier announcements, the Explanatory Memorandum for the amending legislation that has implemented the legislative changes relating to making DLA earnings tax free also made it clear that future laws would be changed so as to make GSA scheme earnings eligible for tax-free treatment.[125] However, this amending legislation did not in itself bring GSA schemes into the tax-free net.

A framework for the proposed laws enabling tax-free earnings from GSA schemes was originally spelt out in the 2016 final paper on Retirement Income Stream Regulation.[126]

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[115] *Treasury Laws Amendment (Fair and Sustainable Superannuation) Act 2016* (Cth).
[116] Ibid sch 8.
[117] *Income Tax Assessment Act 1997* (Cth) ss 307-75, 307-80, 995-1.
[118] Ibid 307-80(2)(c).
[119] *Superannuation Industry (Supervision) Regulations 1994*

The framework proposed in this paper utilised some simple rules to determine whether an annuity-like instrument should constitute a superannuation income stream. The main criterion was the maximum percentage that the holder of such an income stream could commute back to a lump sum.[127] This maximum percentage decreased with the period during which the instrument had made payments, and was proposed to be calculated on a 'straight line' basis, between the date of commencement of the annuity or annuity-like instrument and the holder's expected life expectancy.[128] Under this proposal, an eligible instrument that started payment to a retiree at age 75 where that retiree has a life expectancy of 85, could at most allow the retiree, when aged 80, to receive 50% of the price of the annuity as capital returned in exchange for giving up future payments. As these proposed guidelines only prescribed a maximum, it would be open for the annuity instrument to allow a smaller percentage to be commuted into a capital sum. An instrument which allowed no capital commutation would also fall within the guidelines.

The proposed guidelines were more relaxed in prescribing the maximum amount of capital that the annuity-like instrument can return to a nominated beneficiary upon the death of an annuity holder. Specifically, they allowed 100% capital return for half of the time between commencement of the instrument and the predicted life expectancy of [illegible]

other than increasing annuitisation,[147] there is evidence that certain income stream disclosures on benefit statements can increase annuitisation rates.[148]

5.1 Soft compulsion through CIPRs

The Final Report considered whether annutisation of superannuation funds should be mandatory, but recommended against it, stating that it would remove flexibility and result in poor outcomes for some individuals.[149] However, it did recommend a form of 'soft compulsion' (soft compulsion).[150] Specifically, it recommended that superannuation fund trustees preselect a set of income-stream products, and offer this set of products, referred to as a CIPR, to their members prior to them entering retirement.[151] For instance, a CIPR would have a combination of an account-based pension and an annuity or an annuity-type product.[152] The report argued that this would balance the flexibility of account-based pensions and the longevity and investment risk protection that annuities and annuity-type products have.[153] The annuity and annuity-type products could be immediate, deferred, or a combination of the two.[154] Upon retirement, the members could then either confirm that they wished to take their superannuation benefits in a form consistent with their preselected CIPR, or in the alternative take their benefits in another form that they choose.[155] Importantly, retirees would have to make an active choice upon retirement when electing to take the CIPR.[156]

The government stated, in its response to the Final Report, that it agrees to support the development of this regime of preselection of retirement income streams.[157] However, it made it clear that this policy was not ready to be implemented in legislation, and that when such a policy is implemented, it will take into account the future findings of current government inquiries.[158]

The Final Report's recommendations appear to be a radical change from the current law in its use of soft compulsion for income streams including annuities. This raises the issue of whether using this form of soft compulsion is a legitimate policy tool for increasing the uptake of annuities.

When evaluating the use of soft compulsion, it needs to be kept in mind that compulsion is a matter of degree. At its most extreme, in theory annutisation could be mandated for retirement savings, as has been the case in certain jurisdictions.[159] At reduced levels of compulsion, some degree of annuitisation might require the member to opt out of a default choice. In general, making something into a default choice that can be opted out of heavily influences behaviour for a range of decisions,[160] including retirement

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[147] Ibid.
[148] Benartzi, Previtero and Thaler, above n 67, 155–56.
[149] Murray et al., above n 3, 126.
[150] Ibid 117.
[151] Ibid.
[152] Ibid.
[153] Ibid 121–22.
[154] Ibid 127–30.
[155] Ibid 117.
[156] Ibid.
[157] Commonwealth of Australia, above n 77, 13.
[158] Ibid.
[159] Murray et al., above n 71, 4–19.
[160] See, for example, Riccardo Rebonato, 'A Critical Assessment of Libertarian Paternalism' 37 (2014) *Journal of Consumer Policy* 357, 360 where it is pointed out that the dramatic difference in organ donor

decisions.[161] Although there is a partial safeguard in that if a default is drastically against people's interests, then they will generally opt out of it,[162] there is some evidence that default annuitisation can lead to people making annuitisation decisions that are not necessarily in their interests.[163] A softer form of compulsion than utilising a default option would be to require members to make an active choice to annuitise part of their retirement.[164] The proposed CIPR regime is an example of such a relatively soft type of compulsion and so could not be considered as having the same impact on decision making as a default.

It could be argued that this degree of soft-level compulsion leaves the ultimate choice up to the retiree, and so could be argued to preserve self-agency.[165] However, on the other hand, it still utilises behavioural biases to influence retirees to act in a certain manner, and thus could still be seen to be a form of compulsion.[166] Specifically, even though the proposed use of soft compulsion is one of forcing an 'active decision', and this falls short of having default participation, there is evidence that it would nevertheless bias people's decision making, compared with not being forced to make a decision.[167] Ultimately, any form of compulsion is a balancing act. On the one hand, 1 .9(a)a income7.02 na

this was recommended primarily as a way to increase member engagement,[182] it has the potential to increase annuitisation rates, depending on the form of the disclosure. However, the Final Report's disclosure recommendation was made in the context of compliance with Australian Securities and Investments Commission (ASIC) regulations,[183] which are premised on funds being invested in an account-based pension rather than being annuitised.[184] Consequently, it does not follow that income stream benefits disclosed in such a manner would necessarily increase annuitisation rates.

If the CIPR regime is to be adopted, member statement forecasts could instead be based

'package' of account-based pensions and annuities as well as annuity-like products.[190] The annuity-like products includes DLAs and GSA schemes.[191] The paper suggested that there be minimum requirements, such as the CIPR providing a higher income than

another. It is unclear how the membership of one large superannuation fund will differ from another, and how this will justify the variations between CIPRs. The two inter-related issues of substantial uncertainty about the ideal amount of annuitisation and the likely marked differences in CIPRs on offer both reinforce the likelihood that the proposed regime in the CIPR Paper will result in suboptimal outcomes for many.

Further, the particular regime promoted in the CIPR Paper adds a twist to the related issue canvassed earlier regarding the dramatically different annuitisation needs on individual retirees. Specifically, the fact that each superannuation fund should

6. CONCLUSION

Lifetime annuities have the potential to provide retirees with a secure, low-risk income in their retirement. Such security can positively contribute to their financial and emotional wellbeing. The implemented laws aimed at increasing the breadth of annuity-like instruments that can benefit from the tax-free earnings regime from which traditional life annuities have been benefiting is a very positive move. They will assist retirees in obtaining cheaper, more flexible annuity-type instruments, and although this will in some instances be at the cost of increased risk, for various reasons such instruments will potentially appeal to many.

On the other hand, the proposed regime of offering CIRPs to those entering retirement is suboptimal policy. Such a proposal aims at using people's behavioural biases to point them towards the retirement decisions that are best suited for them. However, for a variety of reasons discussed in this article, such a regime is likely to result in a degree of annuitisation that is far from ideal for many. Further, depending on the instruments offered in a particular CIPR, there may be little chance for a retiree to reverse their decision to annuitise their retirement savings.

There is definitely much policy work to be done regarding the retirement phase of the superannuation system. It is hoped that any future changes will be based on common sense and evidence, given their potential impact on people's wellbeing.