SUPER
MEMBERS
COUNCIL

Retirement phase of superannuation

Submission to the Treasury consultation on superannuation in retirement

February 2024

About the Super Members Council

We are the collective voice for more than 10 million Australians who have over $1.45 trillion in retirement savings managed by profit-to-member superannuation funds. Our purpose is to protect and advance their interests throughout their lives, advocating on their behalf to ensure superannuation policy is stable, effective, and equitable.

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Executive Summary

Australia's world class superannuation system has given millions of Australians flexibility and financial independence in retirement that they would not have otherwise had.

In aggregate terms, super's paid-out benefits at retirement are now almost double that of the Age Pension annually. [1]

The transformative impact of super has not just been on individuals, it has also played a role in changing the nature of retirement itself.

For example, for an increasing number of retirees, super – in combination with the Age Pension – allows them to set their retirement date and provides a level of financial security and comfort that was out of reach before compulsory super.

In contrast, retirement is also forced on many Australians due to ill-health, caring duties, or lack of work opportunities.

SMC's research confirms that retirement is no longer a single point in time; rather it's become non-linear, with many members moving in and out of the workforce, either choosing to carry on working in some capacity or being forced to do so due to lower levels of retirement savings.

It follows that the retirement experiences of different cohorts of Australians will vary, with different needs and expectations.

Australia's retirement system is still maturing. Most retirees have not benefitted from a full working life of compulsory super, meaning savings levels for many are still relatively modest.

With 2.5 million Australians retiring in the next decade and with increasing super balances, we can expect further seismic shifts in retirees' needs and consumption patterns.

The Age Pension will continue to play a crucial role in our retirement system, especially in guarding against longevity risk.

Modernising the super system so it accommodates retirees' differing needs and divergent expectations is an urgent imperative and SMC welcomes the chance to contribute to this important debate.

However, any changes should be based on evidence that paints a clear picture of the nature of retirement, and which protects the financial flexibility and independence retirees have gained after decades of compulsory saving.

To date, some public debate has been poorly evidenced with commentary either focused on a small group of members who own substantial super assets or based on outdated research.

This submission draws upon the latest data sources and member surveys to both correct misconceptions about Australia's retirees and their consumption and make recommendations.

[1] Portfolio Budget Statements, Department of Social Services, 2022-23 - Age Pension expenditure $54bn. APRA Annual Superannuation Bulletin, 2023 - super pension $64bn and retirement lump sum benefits $39bn.

What SMC research shows about the retirement experiences of Australians

- While most Australians approaching retirement expect to retire at 67 (at which point they are eligible for the Age Pension), one third have actually accessed their super by 63 and one in four are still working in their early 70s. This reflects considerable diversity in retirement experiences.
- Australia's median retirement balance is about $200,000 ($175,000 for women and $240,000 for men), meaning most Australians also rely to some degree on the Age Pension.
- While superannuation balances are increasing, so is debt in retirement. For example, more than 40 per cent of retirees are retiring with mortgage debt (up from 16 per cent 20 years ago). Of these, more than 40 per cent of single-person households and 33 per cent of couple households would exhaust their entire superannuation balance paying off this debt.
- Lump sum withdrawals are more commonly accessed by younger retirees and those drawing down at minimum rates with lower balances. The most common reason for taking a lump sum is to buy or improve a home or pay off a mortgage.
- More than half of the retirees who leave portions of super in the accumulation phase do so deliberately, to be used as a financial backstop or because they have other sources of income rather than due to a lack of engagement. They also have lower balances on average.
- Australians are making the most of their super with fund data revealing two thirds draw down more than the minimum – on average 40 per cent more than they are required to, even before considering lump sum withdrawals. ABS data reveals 90 per cent of women and 80 per cent of males have no super left as they approach life-expectancy age. There is significant diversity across funds when it comes to the proportion of members approaching retirement age, ranging from 6 per cent to 33 per cent of members among SMC superannuation funds.
- Members have a limited understanding about how to get the most out of super in retirement with less than half confident they understand account-based pensions and annuities.
- Australians approaching retirement want more information and advice: 73 per cent of members would trust advice from their super funds if it were specifically tailored to their circumstances.

The themes underpinning SMC's recommendations

- **Simplicity** to ease the transition to retirement. No one knows how long their super will need to last. Navigating that inherent uncertainty is compounded by the complexity of the super system itself.
- Planning for retirement should be made simpler. It should be easy for all Australians to get the information they need to plan wisely for retirement. Australians should be assisted in their transition to retirement through the provision of simple, affordable, and accessible advice, tools, and other information.
- Robust **protection** should be provided for individuals through legal structures, consumer safeguards and obligations on super funds, while maintaining the ability of engaged members to choose the retirement solution that best meets their needs.
- The system should provide **flexibility,** to accommodate choices individuals make about how to use their savings to make the most of their retirement, considering individual circumstances and preferences.
- Where interdependences exist between systems, **integration** should be the aim. For example, information about the Age Pension and other government benefits should be shared with super funds, recognising that most Australians will access the Age Pension during their retirement for the foreseeable future.

SMC Recommendations

A) Supporting members to navigate retirement income

1. Given changes to financial advice will help Australians manage their transition to retirement, SMC recommends the Government expedite its advice changes based on the Quality of Advice Review. [2]
2. Government should develop guidelines that help funds assist consumers navigate the retirement phase.
3. Government should improve the sharing of information on Age Pension and other government support payments with superannuation funds.
4. Unnecessary restrictions should be lifted to allow funds to provide useful and accurate online retirement calculators.

B) Supporting funds to deliver better retirement income strategies

5. Retirees should be allowed to make contributions into their existing 'account-based pensions' in line with existing contribution rules, i.e. remove the current requirement to open a separate accumulation account, including members over the age of 75.

[2] Final Government Response to the Quality of Advice Review, 2023

6. Government should develop a quality filter for retirement products, to provide confidence to members who are making the transition to retirement or are in retirement. This quality filter should consider the objectives of the Retirement Income Covenant (RIC), i.e. maximise expected retirement income; manage expected longevity, investment and inflation risks to the sustainability and stability of retirement income; and provide flexible access to funds during retirement. The filter should assess product quality based on member cohort, how effectively it's being managed, and the quality of guidance being offered to members.
7. The government should fund a data-sharing framework for agencies and superannuation funds to support enhanced implementation of the retirement income framework.

C) Making lifetime income products more accessible

8. Lifetime income products should not be mandatory (including as a standard component of a retirement income solution) for any retired member or cohort of retired members. This includes a standardised product including both annuity and account-based pension components.

Structure of this submission

- The first chapter of this submission sets the scene by looking at the evidence about the circumstances of Australians in or approaching retirement.
- The subsequent chapters use this evidence base and other references to make observations and recommendations about the retirement phase. Each of these subsequent chapters follows the format of the chapters in the Treasury discussion paper.
- Each chapter contains key points, recommendations, an overview, and responses to consultation questions. Responding to the issues and consultation questions has required some duplication, but we have tried to keep this to a minimum.

Introduction

Setting the scene

The primary purpose of the superannuation system is to provide retirement income to Australians. The Australian superannuation system is recognised as one of the best in the world and has made a material difference to the retirements of millions of Australians providing additional financial resources in addition to the Age Pension. Despite the system not yet reaching maturity, total retirement benefit payments (including lump-sums and income streams) currently sit at around one and a half to 2 times total cost of the Age Pension.

However, these system level outcomes don't necessarily translate to the individual level where current cohorts of retirees might not have received any super contributions for one quarter of their working life and have received average contributions much less than the current level of 11 per cent. The outcomes of a mature system won't begin to be evident for another 15-20 years. Nevertheless, now is an appropriate time to be exploring the system settings needed to support members through their retirement.

To date the public debate hasn't necessarily been well evidenced with much of the commentary focused on a small group of members with substantial super assets or citing outdated data that in some instances is nearly 20 years old.

Consequently, the starting point of improved policy settings is to properly understand the circumstances of Australians approaching or in retirement, including what are often rational behaviours in the face of system complexities and individual uncertainties.

Data sources

In this submission SMC has drawn upon the following information:

- Detailed demographic, balance, and drawdown data of around 220,000 pre-retirees and retirees from 6 SMC member funds for the year to June 2023.
- A qualitative and quantitative survey of 1562 pre-retirees and retirees aged 55 to 74 (Susan Bell) undertaken in September 2023.
- ABS data including the 2019-20 and earlier Survey of Income and Housing (SIH CURF).
- The Household Income and Labour Dynamics (HILDA) survey waves one to 21.

Due to the recent release of the latest wave of HILDA in January, SMC is likely to make a supplementary submission on consumption and expenditure behaviour as well as further modelling on age pension interactions with income streams.

Evidence base

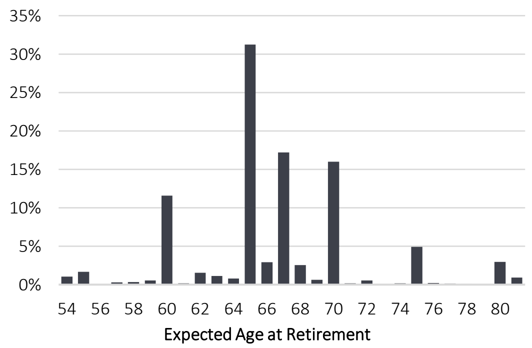
When Australians retire

Although Australians expect to retire around age 67 (Age Pension eligibility age) the timing of when they cease or scale back work and access their super is not predictable or clear cut. It can differ significantly with poor health, caring responsibilities and unemployment seeing one third of Australians having to access their super by age 63, two thirds accessing it by 67, but one in four continue to work into their early 70's.

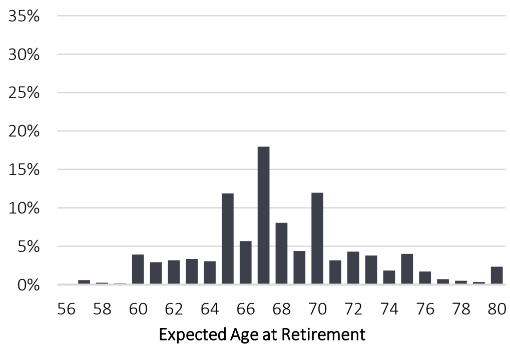
Most people expect to retire around age 67, the qualifying age for the Age Pension. They also often nominate milestone birthdays for when they would like to retire. Chart 1a and 1b provide distributional representations of the expected age of retirement from two different surveys. They both indicate spikes in frequency for past and present Age Pension qualifying ages (65 and 67), or milestone birthdays (55, 60, 70, 75 or even 80).

Chart 1: Distribution of expected age of retirement

HILDA



Susan Bell

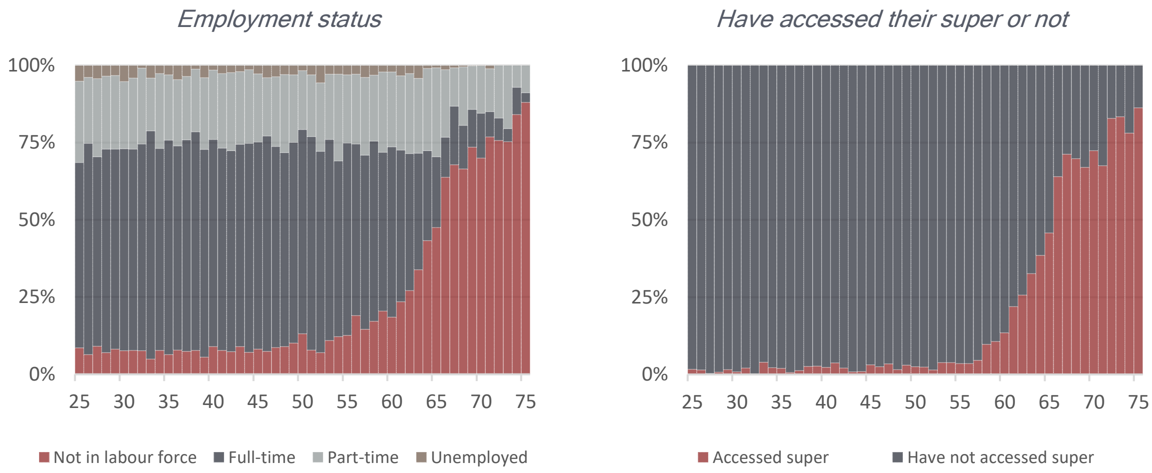


Source: HILDA Survey Waves 19 - 22 (left), Susan Bell research commissioned by SMC, 2023 (right)

However, in practice, many retire earlier than this (see chart 2). Analysis of the 2019-20 Survey of Income and Housing shows:

- By age 63, 34 per cent of people with super are no longer in the labour force and 33 per cent have accessed super benefits.
- By age 67, 68 per cent are no longer in the labour force and 71 per cent have accessed their super.
- By age 72, 76 per cent are no longer in the labour force and 83 per cent have accessed their super. Older individuals still in the workforce tend to work part-time.

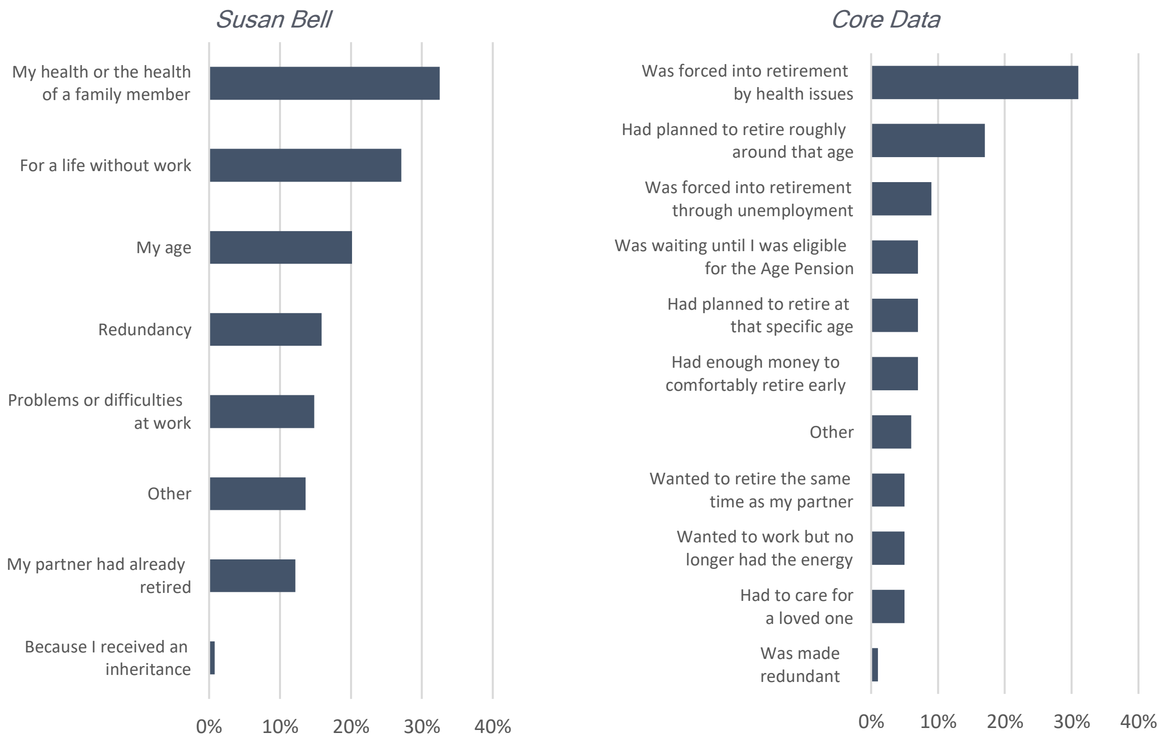
Chart 2: Employment status for those with super and if they have accessed it or not



Source: ABS 2019-20 Survey of Income and Housing.

The main reason for early retirement is due to health issues, including health issues of a spouse or family member (see chart 3), with more than 1 in 3 citing this.

Chart 3: Main reasons for retirement



Source: Susan Bell research commissioned by SMC, 2023 (left). Core Data, Best Possible Retirement commissioned by a large SMC super fund, 2023 (right).

Retirement balances

Significant numbers of members are currently retiring with low to moderate levels of super consistent with the pension forming the predominant income source through retirement.

Superannuation coverage has increased from 30 per cent of employees in the mid-1970s to over 90 per cent now, most notably with the introduction of the Superannuation Guarantee (SG) in 1992.

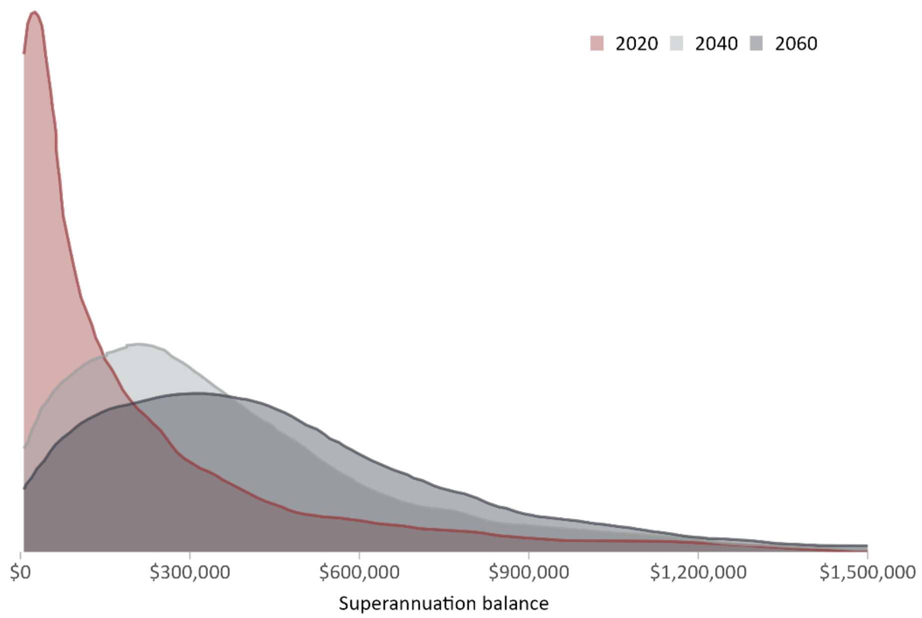
However, significant numbers of people are currently retiring with low to moderate levels of super, reflecting that the system has not yet reached full maturity. This is consistent with the Age Pension forming the main income source through retirement with super providing supplementary income.

Around one in 5 individuals aged 55-64 and one in 4 individuals aged 60-64 have no superannuation savings.[3] Of those aged 60-64 who have superannuation, 10 per cent have balances under $18,500 and a quarter have balances under $82,000. The median superannuation balance for someone approaching retirement (those aged 60-64 years) is $205,000 ($175,000 for women and $240,000 for men).[4]

The distribution of superannuation balances displays a pronounced positive skewness, characterised by a prominent right tail of higher balances. This is evident in the substantial disparity between the average and median superannuation balances. This gap between the average and median remains consistently wide across various age groups and genders.

Treasury project that median superannuation balances for those at retirement will increase from $205,000 currently to an estimate of $412,000 by 2060 (in today's dollars) and become more equitable between the genders. However, there will remain a long right tail of higher balances (see chart 4).

Chart 4: Current and projected distribution of superannuation balances at retirement



Source: Retirement Income Review, 2020, p246.

[3] ABS Survey of Income and Housing, 2019-20.
[4] ATO 2% sample file, 2020-21.

Debt at retirement

Although balances are growing as the system matures, so too is household indebtedness approaching retirement

The trend of households entering retirement with debt has continued to increase. More than 40 per cent of households approaching retirement in 2019-20 had a mortgage, up from 16 per cent 20 years ago, and more than half had either a mortgage or personal debt such as a vehicle loan, personal loan, or credit card debt (see table 1).

The average mortgage for households approaching retirement was around $250,000 in 2019-20. Of those with a mortgage, more than 40 per cent of single households and a third of couple households would exhaust their entire superannuation balance paying off this debt, while around half of households would deplete more than 50 per cent of their superannuation balance (see table 2).

Table 1: Trends in indebtedness of households approaching retirement

	1999-00	2009-10	2019-20
Mortgage debt			
single households	11%	19%	36%
couple households	18%	22%	44%
all households	16%	21%	41%
Mortgage / personal debt (excl. credit card debt)			
single households	-	28%	46%
couple households	-	31%	48%
all households	-	30%	48%

Notes: Analysis is for single income-unit households with a reference person aged 60-69 and still employed. Personal debt includes vehicle loans, personal loans.
Source: ABS Survey of Income and Housing, 1999-00, 2009-10 and 2019-20.

Table 2: Debt at retirement and super remaining after repayment

	Mortgage only			Mortgage or personal debt		
	Single households	Couple households	All households	Single households	Couple households	All households
Have mortgage / personal debt	36%	44%	41%	46%	48%	48%
Debt levels						
median	$110,000	$182,644	$169,775	$80,220	$169,775	$139,133
mean	$192,746	$272,568	$250,269	$156,813	$257,688	$226,310
Of those with debt and superannuation, percentage of super left after repayment of debt						
none	43%	33%	35%	35%	31%	32%
less than 25%	48%	43%	45%	40%	41%	41%
less than 50%	55%	51%	52%	45%	48%	47%
less than 75%	74%	64%	66%	60%	60%	60%

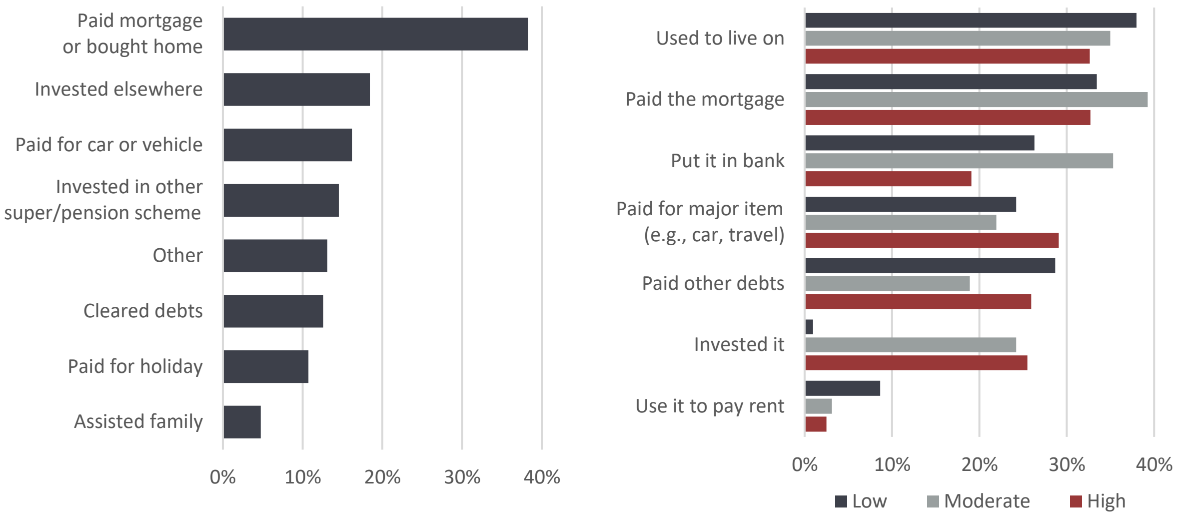
Notes: Analysis is for single income-unit households with a reference person aged 60-69 and still employed. Personal debt includes vehicle loans, personal loans and credit card debt in excess of bank accounts to exclude individuals that are primarily using credit cards for transacting purposes.
Source: ABS Survey of Income and Housing, 2019-20.

Lump-sum withdrawals are an important source of income for members at or shortly after they retire and are used to set themselves up for retirement. The most common use of lump sum payments is to pay off a mortgage or buy a new house, while clearing other debts or purchasing a major item such as a car are also important (see chart 5). Research by a large SMC member fund found that 60 per cent of accumulation members who were approaching retirement owned their own home, of which 54 per cent had a mortgage, whereas 90 per cent of allocated pension members owned their own home, of which only 10 per cent still had a mortgage.

Chart 5: How retirees spent lump sums

Retirees 60 and over in 2020-21 who withdrew lump sums at any time

How individuals with low, moderate and high balances spent lump sums as they entered retirement



Notes: Response “Undecided, I don’t know” is not displayed on left. Question on right asks what actions were taken with funds taken out of super as they entered retirement. Responses “Something else” and “I don’t know” have been excluded. More than one option can be selected for both charts. Super balance range: low balances (less than $100k), moderate balances (between $100k and $400k) and high balances ($400k or greater).
Source: ABS Retirement and Retirement Intentions, Australia, 2020-21 (left). Susan Bell research commissioned by SMC, 2023 (right).

Therefore, although superannuation coverage and balances are increasing, a significant proportion of households will continue to retire with modest levels of superannuation after debts have been repaid.

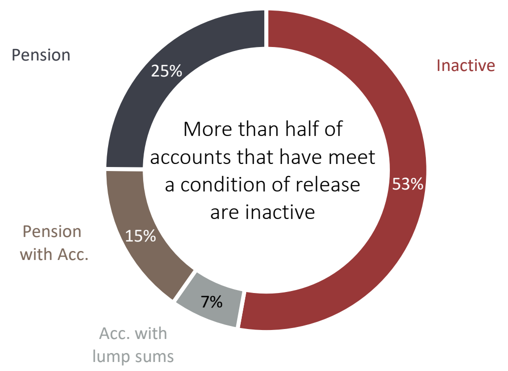
Inactive accounts

Many members of preservation age have inactive (accumulation) accounts, citing motivations such as precautionary behaviour or indecision

Members with low balances at the point of retirement typically either withdraw funds from the superannuation system without rolling over into an allocated pension or leave inactive in the accumulation phase.

For members aged 60 and above who are not actively contributing to their account, just over half of accounts remain inactive in the accumulation phase (see chart 6). These accounts tend to have small balances, with 16 per cent of balances under $1,000 and half under $25,000 (see chart 7a). For those who chose to withdraw their superannuation completely, two-thirds had balances of less than $25,000 and 84 per cent had balances under $100,000 (see chart 7b).[5] Around 4 per cent of withdrawals from the system had balances of $500,000 or more.

Chart 6: Members aged 60+ who are not actively contributing to their account



Source: Data provided by six SMC member funds, 2022-23.

Chart 7: Balance distribution of inactive accounts and withdrawals without rollovers (members 60+)

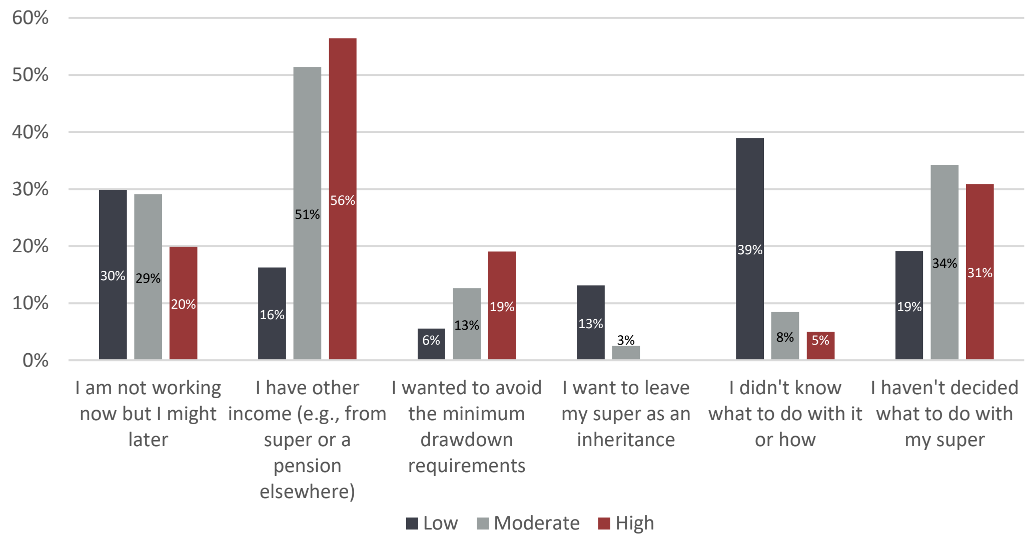
Source: Data provided by six SMC member funds, 2022-23.

[5] Data provided by six SMC member funds, 2022-23.

While a number of the inactive accounts would belong to members who are still working and contributing to other accounts (24 per cent of people aged 61 to 65 and 14 per cent of those aged 66 and over have multiple accounts)[6], a number of members make active decisions to leave funds in the accumulation phase. These decisions vary by balance size.

For members with medium and large balances, the main reason for leaving funds in the accumulation phase is that they have income from other sources, for example from another pension account, or because they are yet to decide what to do with it (see chart 8). There is likely to be a precautionary savings motivation here, that is, these members are drawing income from one account and preserving another for future contingencies. For members with low balances, the main reason for leaving in the accumulation phase is because they don't know what to do with it or how (39 per cent). For just under a third of low- and middle-balance members, the prospect of returning to work later is a motivating factor for keeping funds in the accumulation phase.

Chart 8: Reasons for inactive accounts for retirees with low, moderate, and high balances



Notes: Question asks why individuals have left their super in accumulation and are not contributing to it. More than one reason can be selected. Reasons 'Something else' and 'I don't know' have been excluded. Super balance range: low balances (less than $100k), moderate balances (between $100k and $400k) and high balances ($400k or greater).

Source: Susan Bell research commissioned by SMC, 2023.

Drawdowns

Members typically draw down pensions at more than the minimum rates, and lump sum withdrawals are an important source of benefits

For the six SMC member funds surveyed, that collectively represent over 8 million members, around 40 per cent of their members aged 60 and over (and not actively contributing) had an account-based pension. Of these, around 40 per cent also have an accumulation account. Members with both a pension account and accumulation account tended to be fairly evenly distributed across the wealth distribution with around a third of members having total balances under $200,000, a third with total balances between $200,000 and $500,000, and a third with balances above $500,000. The mean

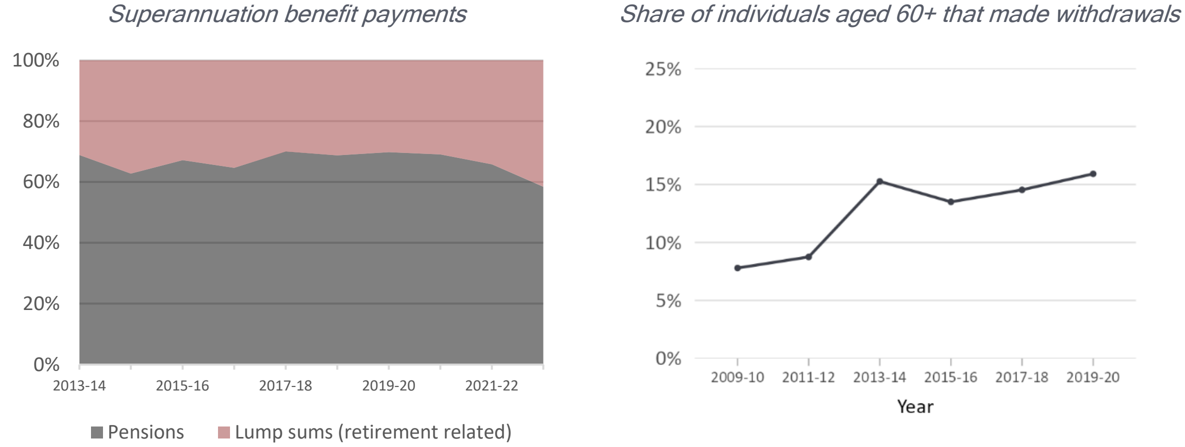
[6] ATO data on multiple accounts

balance remaining in the accumulation phase was around $120,000.

A number of previous studies have found that the majority of members choose to draw down on their account-based pensions at the age-based minimum drawdown rates.[7] These studies generally relate to periods where the normal age-based limits have been in place. In 2022-23, 68 per cent of the members of the six SMC member funds surveyed withdrew above the 2023-23 minimum rates[8]. These members tended to be younger (and thus subject to lower minimum drawdowns). The average drawdown for those age 65-74 above the minimum was 7.1 per cent when the temporary and ordinary age base minimum was 2.5 per cent and 5.0 per cent respectively. This represents an average drawdown rate 42 per cent above the ordinary age base minimum.

However, studies analysing drawdown rates for account-based pensions tend to overlook lump-sum withdrawals. Lump-sum payments remain an important source of income for retirees, with around 30 per cent to 40 per cent of superannuation benefits being paid as a lump sum (see chart 9a). The trend to withdraw lump sum payments has also increased in recent years – chart 9b estimates that the percentage of individuals aged 60 and over doubled since 2009-10 to about 16 per cent in 2019-20.

Chart 9: Trends in lump sum payments over the last decade



Notes: Chart 9a covers Entities with more than four/six members only; retirement related lump sums derived from proportion of the sum of retirement condition of release and attaining age 65 and preservation age condition of release, out of total lump sum benefit payments. In chart 9b, an individual's lump sum amount includes all lump sum withdrawals made in the preceding two years.
Source: APRA Superannuation Bulletin June 2015 to June 2023; APRA Superannuation Bulletin June 2004 to June 2019; and ABS Survey of Income and Housing, 2009-10 to 2019-20.

Chart 10 shows the distribution of lump sum withdrawals, and the increased rates at which individuals with less super withdraw their entire balance. In 2019-20, about 75 per cent of sums withdrawn in the previous two years amounted to $50,000 or less, with only 15 per cent between $50,000 and $100,000 (see chart 10a). In the same year, about half of individuals with $50,000 or less in super had withdrawn all their super, compared to only about 20 per cent of those with between $50,000 and $100,000 (see chart 10b).

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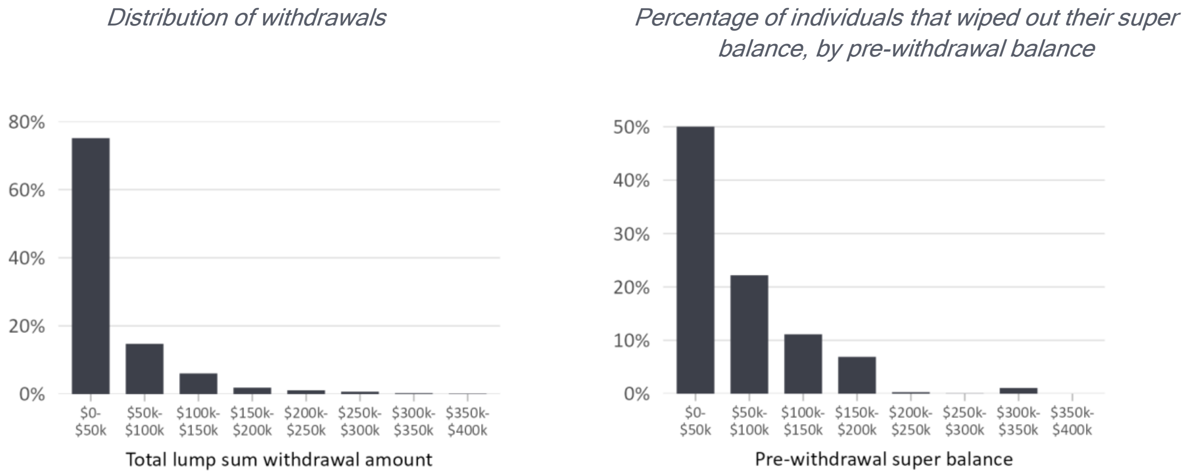
[7] Rothman et al., 2013. Retirement Income Decisions: Take Up and Use of Australian Lump Sums and Income Streams, *Colloquium of Superannuation Researchers, UNSW.*
[8] The halving of the age-based minimum drawdown rates were in place in 2022-23.

Chart 10: Distribution of lump sum withdrawals for individuals aged 60 and over in 2019-20

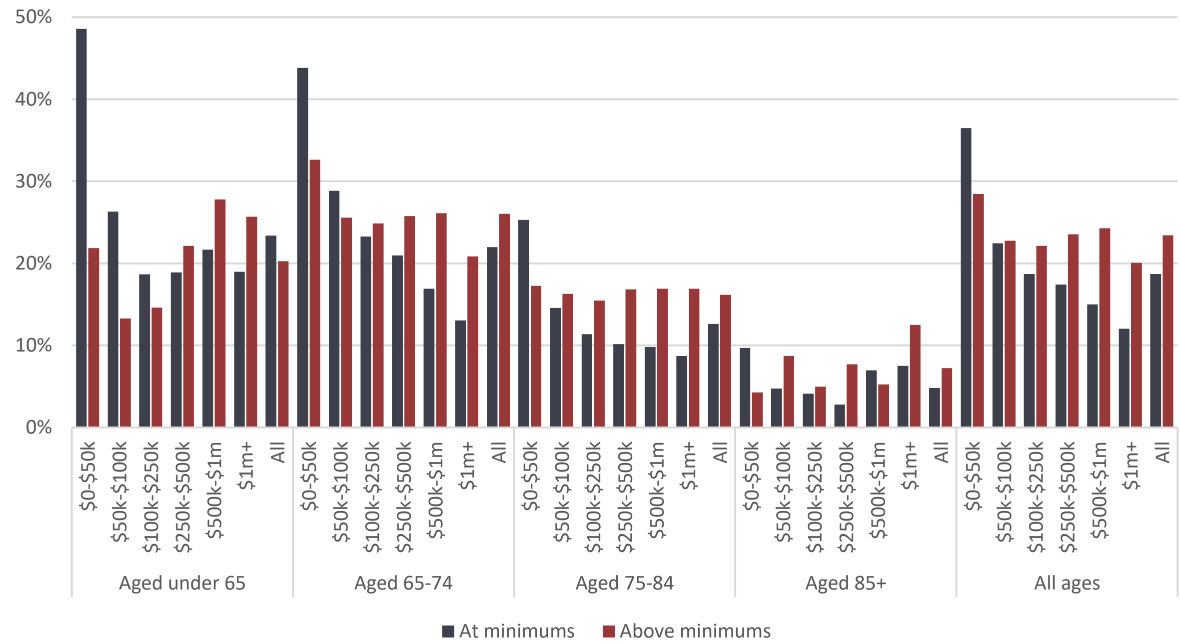


Notes: An individual's lump sum amount includes all lump sum withdrawals made in the preceding two years. Chart 10a excludes lump sums exceeding $400,000 (about 1.2 per cent of recipients). Chart 10b excludes individuals with pre-withdrawal balances over $400,000 (27 per cent of individuals, less than 0.5 per cent of whom exhausted their balance).
Source: ABS Survey of Income and Housing, 2019-20.

For the 6 SMC member funds surveyed, around one in 5 members in the retirement phase accessed a lump-sum payment in 2022-23 and further 7 per cent in the accumulation phase (of those not actively contributing). The median lump-sum was around $20,000.

Younger members are more likely to take additional lump-sums than older members, with members aged 65-74 the most likely to do so. This is true across the whole wealth distribution. Members drawing a pension at the age-based minimums are also more likely to take an additional lump sum when they have lower balances but are less likely when the have higher balances (see Chart 11).

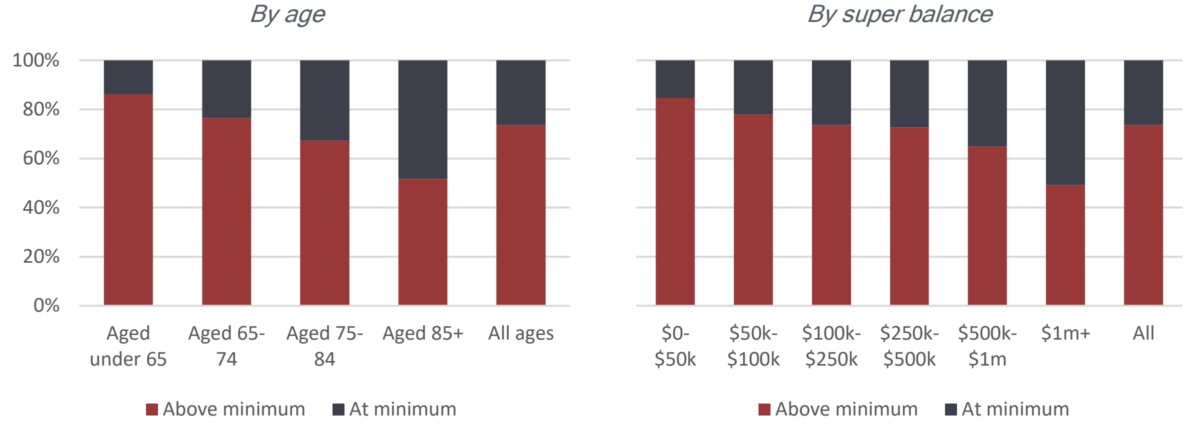
Chart 11: Propensity to take additional lump-sum payments in 2022-23



Source: Data provided by six SMC member funds, 2022-23.

According to data from the 6 SMC member funds surveyed, when considering lump-sum withdrawals alongside pension payments, around three quarters of those receiving super income drew on their super at rates above the minimums required (see Chart 12). Younger individuals with lower minimum rates were more likely to surpass the threshold, as were those with lower super balances for which smaller amounts are required to be withdrawn to reach the minimum rate.

Chart 12: Breakdown of at- and above-minimum drawdown rates after accounting for lump-sum payments in 2022-23



Notes: Individuals that drew on their super at the minimum rates but also received a lump-sum payment are classed as "Above minimum" in the chart.
Source: Data provided by six SMC member funds, 2022-23.

Bequests

There is little evidence that the typical Australian dies with around the same amount of financial wealth as when they retired

A broader narrative has emerged that retirees do not spend their superannuation savings. The Retirement Income Review (RIR) adopted this conclusion stating: "in general retirees do not consume their retirement savings" and "as a result, when retirees die, most leave the majority of the wealth they had at retirement as a bequest".[9] The RIR reaches this conclusion based on an analysis of papers by Asher et al (2017)[10], Daley et al (2018)[11] and Reeson et al (2016)[12].

SMC would urge caution in this interpretation. In particular:

1. Reeson et al (2016) did not specifically look at bequests. They analysed withdrawals for retirees in their 60s and 70s over a 11-year period and note that as superannuants continue to age, withdrawal rates must increase. Their data covers a time period in which there were many years with strong investment returns and conclude that "the observation of many (though far from all) retirees growing their superannuation balances is likely to be restricted to younger age groups and is dependent on strong investment returns. The observed growth is also in nominal, rather than real (i.e. inflation adjusted) terms."[13]

2. Asher et al (2017) examine the decumulation patterns of Age Pensioners over an 8-year period from 1999-2007. As is the case with the Reeson paper, this period coincides with strong investment returns and time effects appear important in their study. The paper's central finding, cited by the RIR and others that "at death, age pensioners leave around 90 per cent of the assessable assets they had at the point of retirement" is based on the median pensioner (see page 585).

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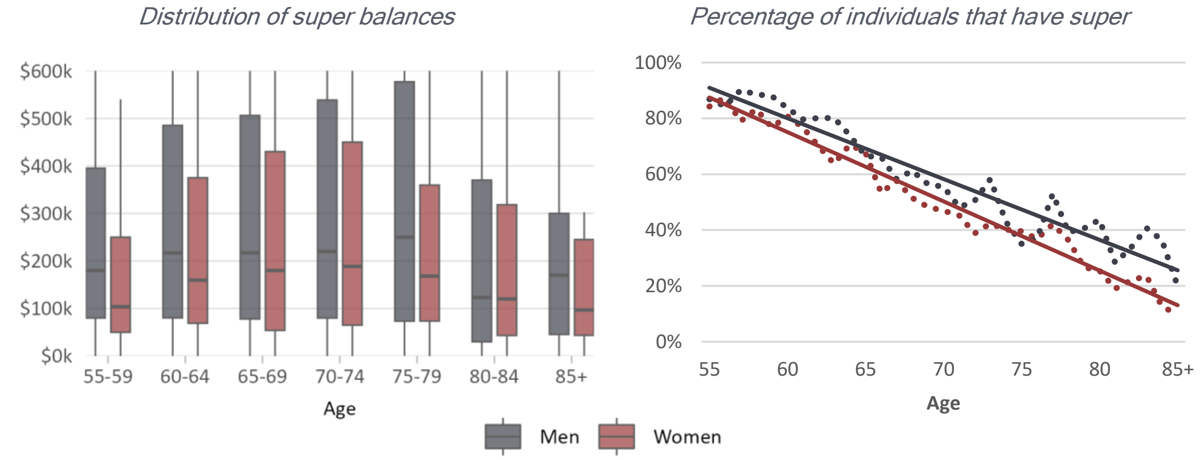
[9] Retirement Income Review, 2020, p432.
[10] Asher et al., 2017. Age Pensioner Decumulation: Responses to Incentives, Uncertainty and Family Need. *Australian Journal of Management,* 42(4), pp. 583-607.
[11] Daley et al., 2018. Money in retirement: More than enough. *Grattan Institute*.
[12] Reeson et al., 2016. Superannuation Drawdown Behaviour: An Analysis of Longitudinal Data. *Jassa*, Issue 2, pp. 42-53.
[13] Retirement Income Review, 2020, p24.

The median age of pensioners in their dataset was 74 years, the median asset holdings were $54,000 (excluding the family home), and around two-thirds of pensioners were receiving the maximum rate. It appears that max-rate pensioners with small asset holdings are driving the findings. In this light, the central finding cited by the RIR is unsurprising as older pensioners in particular want to preserve a buffer of financial assets for future contingencies such as health and aged care costs. It is worth noting that since the study utilises a pensioner dataset, the authors cannot view asset decumulation prior to qualifying for an Age Pension.

While both papers provide valuable insights on decumulation patterns of retirees (including that part age pensioners draw down at higher rates), there are limitations in extrapolating these findings to the broader retiree population and concluding that "most leave the majority of the wealth they had at retirement as a bequest". The length of these studies (8 years in the case of Asher et al and 11 years in the case of Reeson et al) also needs to be seen in the context of the conditional life-expectancy of a new retiree, which is around 25-30 years depending on the age and year of retirement (meaning also, that half of new retirees will spend longer than this in retirement).[14]

Chart 13 presents the distribution of superannuation balances and superannuation coverage for those aged 55 and above. A simple examination of average superannuation balances by age (chart 13a) might lead to the conclusion that balances are holding up and retirees are not consuming their savings. However, chart 13a needs to be interpreted in conjunction with chart 13b which shows the percentage of people with superannuation declines from around 85 per cent for 55-year-olds to less than 20 per cent for those aged 85 and over. That is, there is considerable survivorship bias and higher wealth individuals are holding up the averages as individuals draw down and exit the system. Given that compulsory superannuation for employees has been in place since 1992 and coverage rates were between 30 per cent and 50 per cent in the two decades prior,[15] these falling rates of superannuation coverage are explained by individuals drawing down on their superannuation rather than not having superannuation in the first place.

Chart 13: Superannuation coverage by age in 2019-20



Notes: Balances over $600,000 are not displayed in Chart 13A.
Source: ABS Survey of Income and Housing, 2019-20.

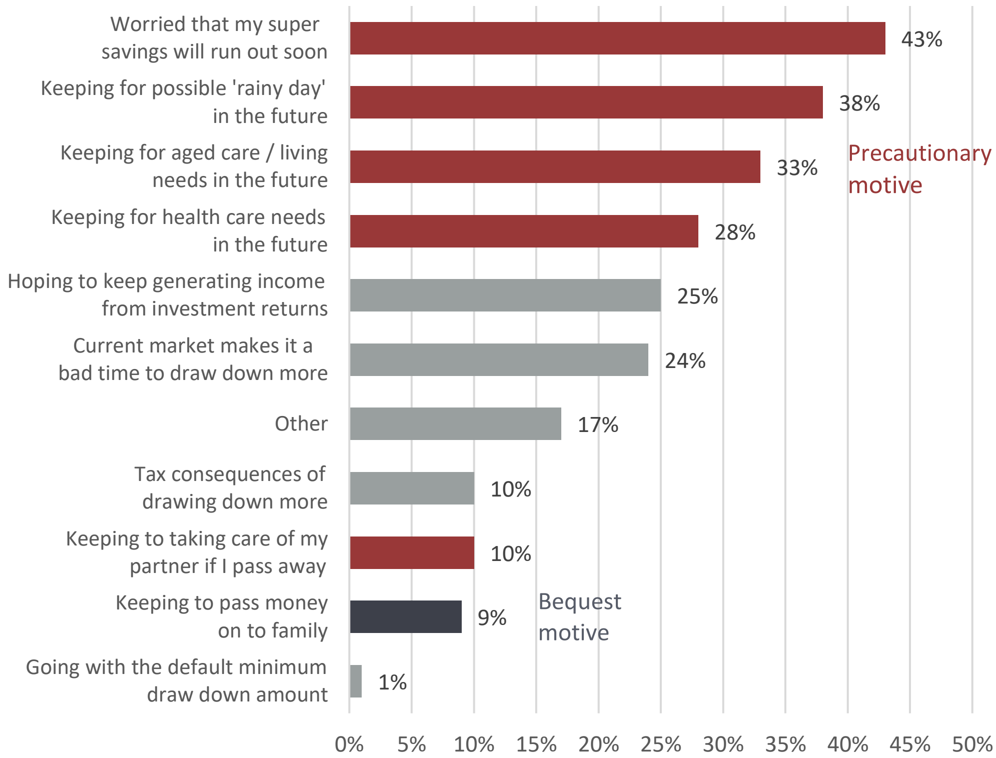
[14] The life expectancy of a person aged 65 today is 85 for male and 87.7 for female. This is projected to rise to 87.0 for male and 89.5 for female in 2062-63 (Intergenerational Report, 2023, p6). For retiring at 65, this gives a residual life expectancy of around 22 to 24.5 years. However, many individuals retire earlier than this (see earlier section).
[15] Retirement Income Review, 2020, p298-299.

Research by the Association of Superannuation Funds of Australia (ASFA), finds that:[16]

- According to HILDA data, 80 per cent of people aged 60 and over and 90 per cent of those aged 80 and over who died in the period 2014 to 2018 had no super in the period of up to four years prior to death; and for those individuals aged 80 and above, only 5 per cent had more than $110,000 in superannuation in the period of up to four years before their death.
- After adjusting superannuation death benefits to account for life insurance payouts and death benefits paid to those aged under 60 (who generally wouldn't be retired), around one in 18 dollars of total benefit payments paid by APRA regulated funds in 2019 were death benefits. This indicates that the superannuation system delivers benefits predominately for retirement and related purposes.

Research by Core Data on behalf of a large SMC member super fund found that only 9 per cent of respondents cited a bequest motive as holding them back from drawing down and spending more, while the desire for precautionary savings was the dominate factor in preserving assets (see chart 14). Bateman et al find that, with the exception of transfers to a surviving spouse, the bequest motive is not important for Australian retirees.[17]

Chart 14: Reasons holding members back from drawing down and spending more



Source: Core Data, Best Possible Retirement 2023.

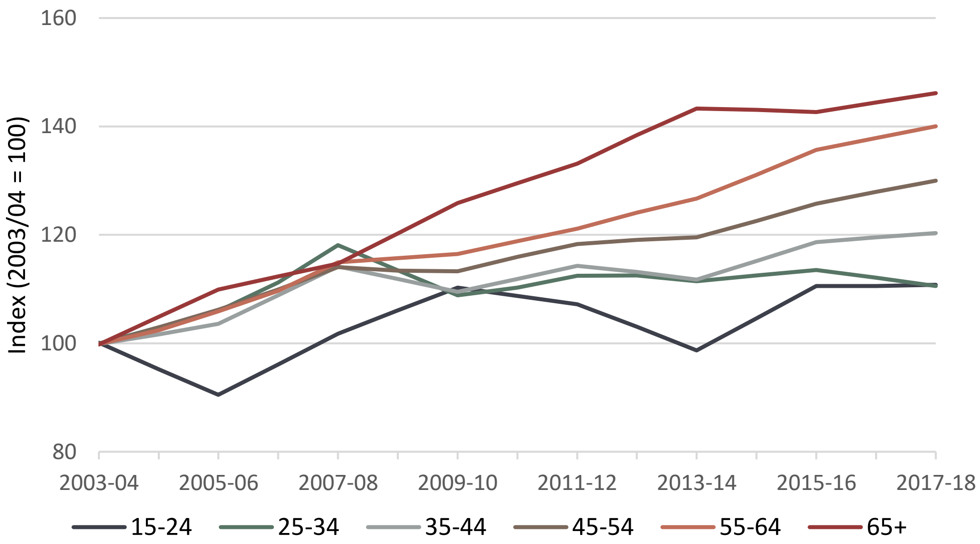
[16] ASFA, 2021. Superannuation balances prior to death: Superannuation balances of older Australians.
[17] Bateman et al., 2017. Default and naive diversification heuristics in annuity choice. *Australian Journal of Management*, 42(1), pp. 32-57.

Consumption

People do use their retirement savings – the more they have, the more they spend

Between 2003-04 and 2017-18, average consumption for households aged 65 and over grew faster than for any other age group, with the 55-to-64-year group following close behind (see chart 15). This is partly attributable to stronger income growth in older households compared with younger households. Households aged 65 and over in particular have experienced strong growth in non-labour income sources including financial income, rental income, and social assistance income.

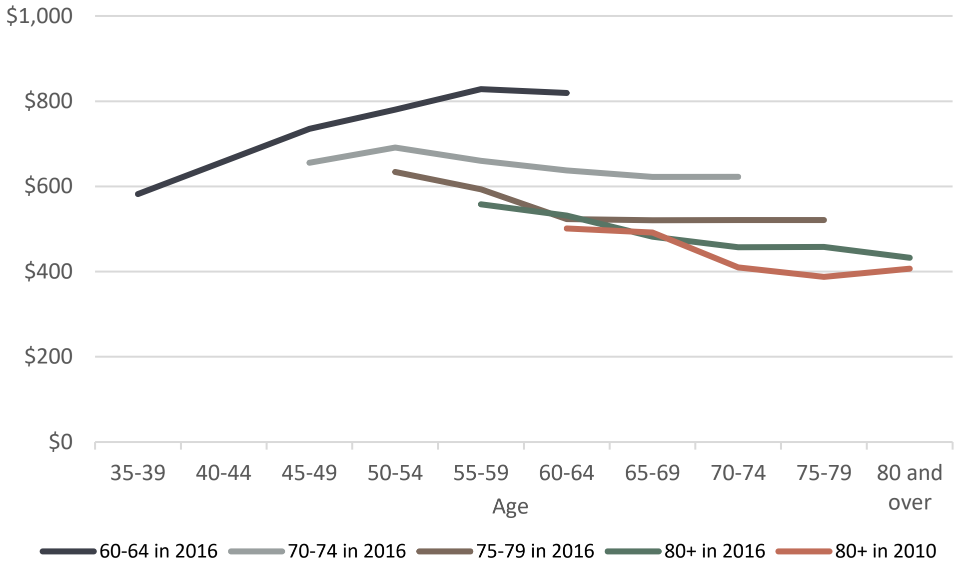
Chart 15: Real household consumption by age of reference person, 2003-04 to 2017-18



Source: RBA, [Demographic Trends, Household Finances and Spending].

Age cohort analysis shown in chart 16 shows the real expenditure of each successive cohort of retirees is increasing rapidly such that real spending of the most recent 60 to 64 year old cohort in 2016 is around 60 per cent higher (in real terms) than those 20 years prior. While this likely reflects access to increased financial resources (including super) it also likely points to behavioural changes in consumption. Despite the growth in consumption, the analysis also suggests that as retirees get older, their spending tends to moderate – although this appears to be less obvious with more recent retiree cohorts. This is driven by decreased spending on discretionary items, especially transport, clothing, and recreation. Spending on essential items tends to remain fairly constant and in some cases such medical and health related costs increases. SMC will provide further analysis on consumption after assessing the latest HILDA survey wave and the latest Household Expenditure Survey due to be released in coming months.

Chart 16: Median household weekly expenditure



Notes: Values are in 2018-19 dollars, indexed to CPI. Household expenditure is equivalised. Cohorts use five-year birth ranges based on the age of the household reference person. Household weekly expenditure excludes voluntary superannuation contributions and capital housing costs. The principal and interest components of mortgage repayments are included in weekly expenditure.

Source: Analysis of ABS Household Expenditure Survey Confidentialised Unit Record File, 1988-89 to 2015-16, cited in Retirement Income Review, 2020, p488.

Differences between funds/products

Key points

Funds and their memberships are not uniform

- **Funds vary in membership demographics**: The proportion of members over 60 varies widely between funds, reflecting their different employment sector bases.
- **Average balances in drawdown phase are higher**: The average balance for those who have converted their super to a tax-free drawdown phase is typically higher than the average balance for those in the accumulation phase in the period immediately pre-retirement age.
- **Large spread in fund investment performance:** There is a significant difference in the investment performance of different super funds in the retirement phase subject to the risk weighting of investment options (see chart 19).

Performance of existing market

APRA data on SMC's member funds shows that over-60s membership varies widely between funds from just 6 per cent to 33 per cent of members, reflecting their varying employment sector base. Not surprisingly, the lowest aged membership is in the funds that have high representation in the retail and hospitality sectors which overwhelmingly have a young workforce while the highest aged membership is in funds with large corporate or public sector representation.

The proportion of member accounts in the tax-free phase varies from one per cent to 26 per cent of members. The average balances that have been converted to tax free phase are typically higher than average balances for over-60s with balances still predominantly in accumulation phase, reflecting the tendency for lower balance members to access their savings as a lump sum rather than an income stream. It is also worth noting that while the data below is average balances, funds report that their median balances are much lower, reflecting the tendency for very high balances to skew the data. It is also important to note the average balance data below does not provide an accurate representation of how members are drawing down on their benefits due to survivorship bias.

Table 3: Fund-level breakdowns of proportion of members over 60, proportion of accounts in tax-free (drawdown) phase and average balances

	2022	Avg balance by age group (2022) - $'000					2023 data	
	Proportion of members over 60	60 to 64	65 to 69	70 to 74	75 to 84	85+	Proportion of member accounts in tax free phase	Average balance in tax free phase - $'000
Australian Retirement Trust	13%	232	253	253	256	160	2%	404
AustralianSuper	15%	196	219	237	252	226	3%	415
Aware Super	28%	195	207	213	192	124	9%	304
CareSuper	17%	157	179	178	189	138	2%	337
Cbus Super	14%	156	160	162	162	*	2%	344
Equip Super	26%	341	325	309	289	240	6%	453
FIRST Super	17%	131	128	129	110	180	2%	205
HESTA	17%	126	134	134	137	*	2%	266
Hostplus	9%	116	113	111	104	84	1%	339
legalsuper	18%	212	243	236	283	303	3%	415
MEISF	13%	126	141	141	*	*	2%	207
Mine Super	26%	271	265	253	192	102	9%	311
NESS Super	10%	159	126	166	*	*	1%	288
NGS Super	23%	214	214	208	191	110	3%	371
REI Super	14%	125	125	126	*	*	1%	233
Rest	6%	92	109	126	145	138	1%	251
Spirit Super	16%	127	133	133	146	141	2%	257
TelstraSuper	33%	398	382	342	285	322	14%	453
TWUSUPER	18%	105	96	93	*	*	1%	191
UniSuper	22%	370	374	358	375	249	8%	551
Vision Super	33%	210	226	191	150	38	26%	216

Source: APRA annual fund level superannuation statistics, 2022 and 2023. Profile data was omitted from the 2023 release pending its inclusion in a new yet to be released report.

Supporting members to navigate retirement income

Key points

Main challenges

- **Complexity:** The system is confusing and overwhelming for many people.
    - Overall, system settings should be simplified. Complexity is a major obstacle for many members and SMC advocates for simplicity and the promotion of tools and education services to assist members to navigate their transition.
- **Decision making**: The responsibility for making the best retirement income decisions should not rest solely with individual members. As far as possible, the structure and operation of the retirement income system, including regulatory settings, should also help to manage these risks and minimise individual requirements through legal structures, consumer protections and fulfillment of fiduciary obligations by superannuation fund trustees.
- **Disconnected Systems:** The timing and processes for commencing and managing superannuation pensions and the Age Pension should be simplified, streamlined, and integrated, including support and services for individuals and households.

Proposed Solutions:

- **More Support:** Government should progress sector-led initiatives that will allow super funds to provide advice to members on a simpler, more affordable, and accessible basis. This should be progressed as soon as possible while further developing improvements to the retirement income system. Super funds should be supported by government to be innovative by:
    - Removing barriers to the increased and improved use of digital solutions.
    - Regulatory settings that encourage the development of tools to maximise total retirement income. This includes optimising drawdown rates, better integrating government supports (such as the Age Pension) and providing tailored retirement income projections.
    - Regulatory changes should be made to allow funds to provide useful nudges, and use of retirement income estimates, without providing personal advice.
- **Simpler System**: Reduce complexity with clear language, user-friendly tools, and streamlined processes.
    - The path to retirement should be as simple and straightforward as possible for members and designed on the principle that it should require the smallest number of actions by a member.
    - Language to describe approaches and strategies in retirement need to be improved, such as focusing on ‘prompts/nudges’ and ‘suggested options/pathways.’ There should also be consistent use of language by funds and government and across products. This would include consistency in the definition of accounts, products, and options.

- **Integrated Approach:** Connect superannuation and government systems for smoother transitions and better support.
- **Data Sharing:** Use data from both funds and government to improve member outcomes and reduce friction points.
    - A two-way data-sharing arrangement between super funds and government agencies (e.g. Centrelink, Department of Veterans Affairs, ATO) should be introduced to improve member outcomes (e.g., advised when a member commences an Age Pension or other form of government support).
- **Flexible & Tailored Options:** Maintain flexibility while offering guidance on optimal drawdown rates and product choices.
    - Product and drawdown flexibility is a benefit of account-based pensions that should be maintained, but consideration should also be given to developing suggested drawdown rates and product configurations for specific classes of members.

SMC's research confirms that retirement is no longer a single point in time; rather it's become non-linear, with many members moving in and out of the workforce, either choosing to carry on working in some capacity or being forced to do so due to lower levels of retirement savings. Data sharing can help funds, government and most importantly, members, navigate the retirement income system and reduce friction points.

Recommendations

SMC recommends that:

- Given changes to financial advice will help Australians manage their transition to retirement, SMC recommends the Government expedite its advice changes based on the Quality of Advice Review. [18]
- Government should develop guidelines that help funds assist consumers navigate the retirement phase.
- Government should improve the sharing of information on Age Pension and other government support payments with superannuation funds.
- Unnecessary restrictions should be lifted to allow funds to provide useful and accurate online retirement calculators.

Overview

Australians face a number of challenges when presented with planning for retirement. Many members are disengaged from superannuation until closer to retirement age. This means that when members are making retirement decisions, they are doing so with potentially a low level understanding of the system at a time of heightened importance to get the answer right.

While average balances for members approaching retirement may have increased in alignment with

[18] Final Government Response to the Quality of Advice Review, 2023

system maturity, significant numbers of people are reaching retirement with modest super savings.

To understand the specific challenges facing Australians either in or approaching retirement age, SMC undertook research into superannuation trends. Some key points identified in this research include:

- The mean superannuation balance of those aged between 60 to 64 years is $390,000 while the median balance is $205,000.
- More than 40 per cent of households approaching retirement in 2019-20 have a mortgage, up from 16 per cent 20 years ago, while almost half of households had either a mortgage or personal debt such as a vehicle loan, or personal loan.[19]
- For half of those with debt, using their super to repay this debt would halve their balance.

Given that the median expected retirement age is 67 years old, but many members retire earlier than this, members must be supported to better navigate the retirement system when approaching retirement to improve post-retirement outcomes. This means providing members with access to advice in the context of individual circumstances – such as the consideration of debt or financial concerns. As such, the complexity of the retirement phase should be considered from a members' holistic experience.

Responses to consultation questions

Please provide comments on the issues facing members identified in this section.

Significant numbers of members are currently retiring with low to moderate levels of super consistent with the pension forming the predominant income source through retirement. As demonstrated in the Evidence base section, the distribution of superannuation balances is heavily skewed toward low and moderate levels of retirement savings.

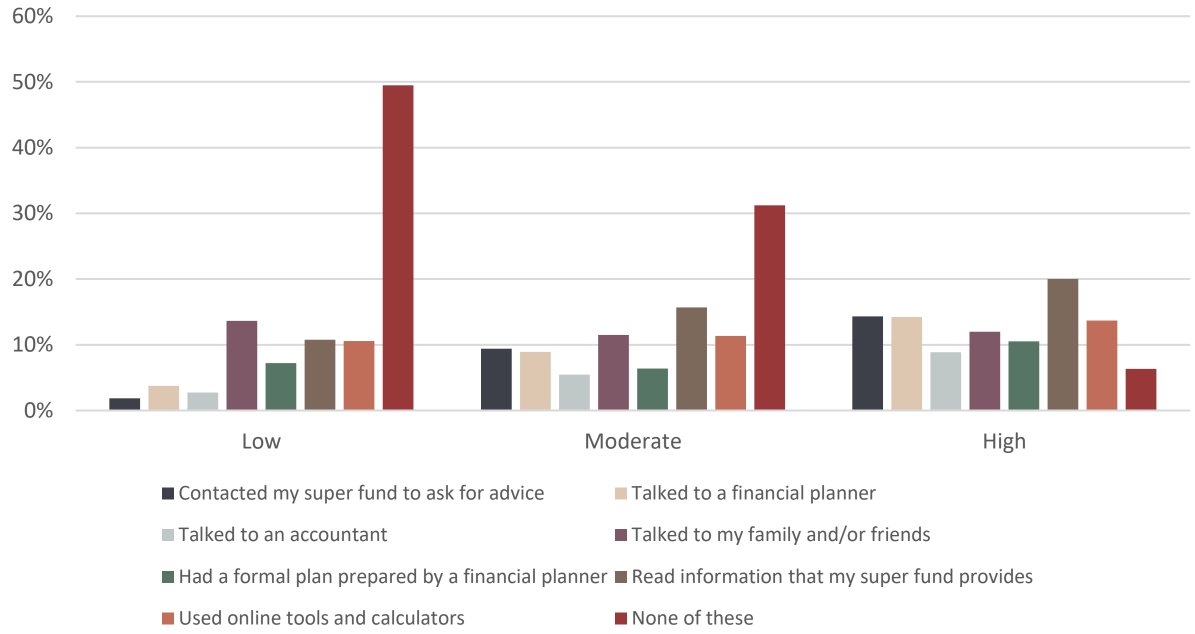
Those with lower balances are more likely to deplete their balance by taking a lump sum withdrawal (see chart 10). The most frequent way this lump sum was spent was paying off or improving a home or buying a new home (38 per cent of lump sum recipients aged 60+, see chart 5). This, along with investing elsewhere or paying off a car or other vehicle, were the main ways individuals reported spending lump sum payments. Those investing their payments tend to have moderate and high balances.

If a significant number of members with lower balances are making a lump sum withdrawal to manage debt, this should be a factor that is considered as a part of the retirement phase planning process as the monies available to support their retirement will be reduced.

There is a correlation between low superannuation balances pre-retirement and disengagement from the system. Research conducted by SMC and shown in chart 17 below, indicates that for those not yet retired, there is a correlation between lower superannuation balances and disengagement from the retirement system. For those with a low level of super balance, only 2 per cent have contacted their super fund to ask for advice in retirement, and 49 per cent have taken no action to plan for retirement. Based on a separate questionnaire, around 24 per cent of those with low balances indicated they were not at all interested in seeking advice about income in retirement.

[19] ABS Survey of Income and Housing, 1999-00, 2009-10 and 2019-20.

Chart 17: Actions take to help plan finances in retirement for those yet to retire

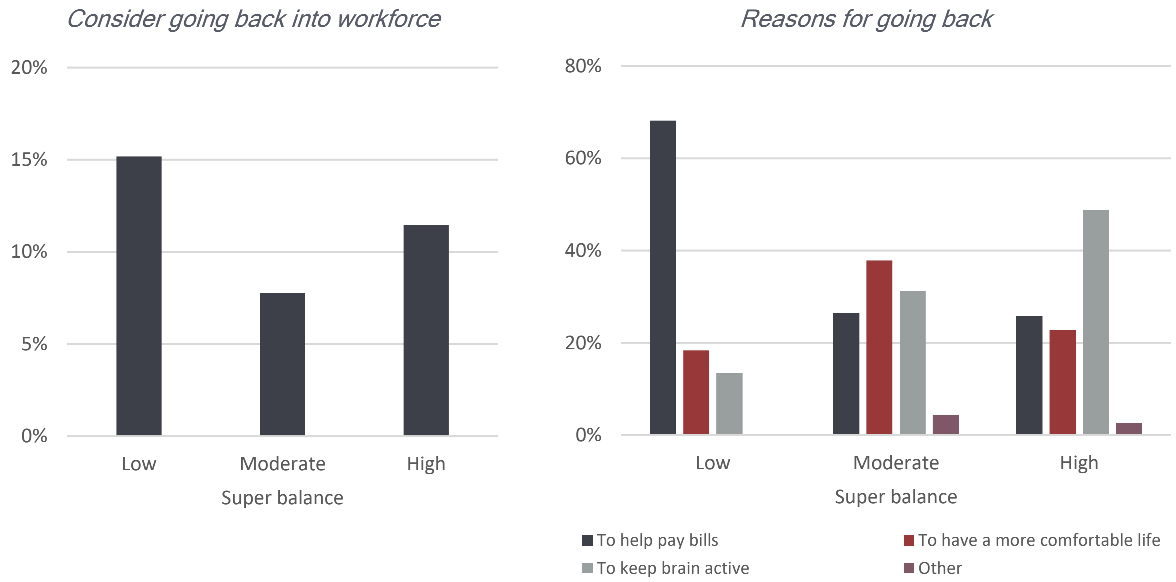


Notes: Super balance range: low balances (less than $100k), moderate balances (between $100k and $400k) and high balances ($400k or greater).
Source: Susan Bell research commissioned by SMC, 2023.

The level of interest in seeking advice only slightly increases for those already in retirement.

The transition to retirement is not linear. Research indicates that the transition to retirement is not a point in time. Those members with a lower balance are more likely to return to the workforce to meet daily living expenses. Chart 18 below sets out the reasons that certain cohorts return to work, evidencing that those with lower superannuation balances may return to work to pay off household debts.

Chart 18: Reasons for going back into workforce after deemed retired per superannuation balance



Notes: Super balance range: low balances (less than $100k), moderate balances (between $100k and $400k) and high balances ($400k or greater).
Source: Susan Bell research commissioned by SMC, 2023.

Results from SMC member funds qualitative research on this point also found that:

- 30 per cent of accumulation members who were approaching retirement were expecting to work part time in retirement. Of pension members, 9 per cent stated that they were currently working part time.
- 38 per cent of Australians with an accumulation account felt that they didn't really understand how super worked or if they were in the best option.
- Healthcare/unexpected medical cost was the number one financial concern for about 14 per cent of pre-retirees. This increased to around 23 per cent for post retirees.
- When thinking about finances, having a safety net to fall back on in the case of emergencies was highlighted as the top need across 10 per cent of pre-retirees. This decreased to around 4 per cent for post retirees.
- According to survey research reported in chart 18, those with low super balances were more likely to cite financial reasons for considering a return to the workforce. 68 per cent of individuals with low super balances were considering it to help pay the bills, while 49 per cent of high-balance individuals were considering it to stay mentally active.

There is an increasing necessity to recognise that more Australians are approaching preservation age with larger debts than previous generations, and anxiety about incurring further debt due to health-related issues. As a result, initiatives that consider planning for the retirement phase must acknowledge that many members may use their super balance to pay off existing debt. Although a member may have savings in their accumulation accounts, it may potentially be earmarked for either debt repayment, or saved as a nest-egg to pay off future debt.

What actions are industry or other participants in the community taking to address the issues identified in this section?

Many super funds have implemented fund level measurements to gauge member confidence with the retirement system.

This information is used to develop products and services that align with a super funds' particular membership needs. As such, products and services may look different between individual funds as they cater to their specific membership cohort. This is ideal to support those different cohorts and to provide competition in the sector to the benefit of members.

Super fund trustees are best placed to understand the needs of their membership and provide bespoke products and services that are targeted and nuanced to individual needs.

Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed?

A flexible regulatory framework will support innovation in the superannuation sector. As the composition of members will differ across funds, a one size fits all approach to retirement planning will not support individual members to achieve the best retirement outcome.

The RIC already places the duty on trustees to develop a retirement income strategy for their members that aims to improve the long-term financial outcomes for retirees. Trustees are expected to have an advanced ability to tailor the retirement income strategy to the diverse needs of their members, ensuring that the solutions and products developed align with the actual needs of the member.

By gathering qualitative data, funds understand members' preferences for flexibility in the way they access their savings and their risk appetites. Qualitative research provided by one SMC member fund indicates that:

- 44 per cent of members considered it was most important that they can access funds during the life of a retirement product.
- 31 per cent of members considered it was either the most important or very important that there was flexibility to specify the size of their payments.

A member who chooses to make a lump sum withdrawal may do so as it best suits their lifestyle. A member who is over 65 years of age and still within the accumulation phase may be still making contributions or plan not to retire.

It is a risk to assume that all members in either of these scenarios are not aware of their options. Super funds are best placed to understand the needs of those members and support them in their endeavours with advice and products that suit their needs. Super funds are also best placed to identify members that may need additional support to make the most suitable transition to retirement.

What other approaches, if any, should the Government consider?

There should also be consistent use of language by funds and government and across products. This would include consistency in the definition of accounts, products, and options

Further questions:

What does 'good' look like for how funds support and deliver products to their members in retirement?

The best outcome for Australians is to simplify the retirement system so that the path to retirement is as seamless as possible. This means producing a system that requires the member to exert the least effort to obtain the maximum benefit.

The responsibility for making the best retirement income decisions should not rest solely with individual members. The structure and operation of the retirement income system should manage these risks and minimise individual requirements through legal structures, consumer protections and fulfillment of fiduciary obligations by superannuation fund trustees.

Trustees play an active role in helping members achieve good retirement outcomes, by providing them with guidance, tools and products that make retirement outcomes simpler and more tailored to their needs.

Language to describe approaches and strategies in retirement can be improved, such as focusing on 'prompts/nudges' and 'suggested options/pathways.' There should also be consistent use of language by funds and by government and across products. Consultation with industry on agreed definitions will provide consistency across the sector and increase member confidence when dealing with their superannuation. Consistency increases predictability, enabling users to transfer their knowledge to new contexts, thus enhancing learnability and reducing cognitive load. By applying consistency in terminology, user interfaces become more relevant, credible, and easier for users to understand and interact with, ultimately leading to enhanced member satisfaction.

As specified earlier in this submission, in 2019-2020 all cohorts from ages 55 to 74 have an increased rate of household debt as compared to people in 2003-2004. As such, funds should be able to provide advice in the context of individual circumstances including consideration of debt and other financial concerns.

How might funds utilise guidance, nudges, defaults and other actions to assist members into better solutions for their retirement income? What are the barriers to funds being more active in these ways?

In order to deliver the best retirement outcomes for members, super funds must operate in a regulatory environment that supports innovation at the product and service levels.

Due to the current regulatory climate, superannuation funds play only a limited role in informing and guiding people to achieve better retirement outcomes. The ability to provide ongoing information and regular guidance, as well as introducing more digital literacy and engagement tools, are ways to substantially improve retirement outcomes.

The use of digital technology can enhance the user experience and provide seamless access to information and services, ultimately improving members' digital literacy and engagement. Super funds should operate in a regulatory environment that enables them to understand what their members want and how they engage with digital platforms to ensure a seamless customer experience.

It is important that the regulatory settings around the use of guidance is not so restrictive as to impede progress and competition within the sector. The burden of compliance with unclear or excessive regulations can limit the potential for growth and advancement in product offerings and services to the detriment of the member.

Supporting funds to deliver better retirement income strategies

Key points

- Trustees have existing obligations which aim to ensure trustees offer good quality retirement products.
- In addition to RIC requirements, there are many existing, but relatively recent, obligations on trustees of super funds that apply to retirement products and services for retiring and retired members. These include the Best Financial Interests Duty; annual member outcomes assessments and business performance reviews; and the Design and Distribution obligations and the other relevant covenants in s.52 of the SIS Act.
- The Government and regulators should continue to give trustees time to assess, develop and improve their retirement income strategies and achieve consistency and coherence with all of these legislative requirements and obligations.
- Trustees are specifically required to assist retiring members to achieve and balance the objectives of maximising their expected 'retirement income'; managing expected risks (including longevity risks, investment risks and inflation risks) to the sustainability and stability of their expected retirement income; and have flexible access to expected funds during retirement.
- Super funds have been required to publish their retirement income strategies since July 2022, and these strategies are increasing focus on the retirement phase and supporting new and innovative retirement solutions.
- Notwithstanding trustee obligations, members deserve greater transparency in respect to the quality of retirement products with regard to value for money and maximising their retirement income taking into account management of longevity risk and flexible access to savings.
- There should be an evaluation of the operation of various retirement related obligations, their integration into a coherent framework, and the development of assessment criteria for a quality filter and associated measures of success that are useful for regulators, policy makers and members.

Recommendations

- Retirees should be allowed to make contributions into their existing 'account-based pensions' in line with existing contribution rules, i.e. remove the current requirement to open a separate accumulation account, including members over the age of 75.
- Government should develop a quality filter for retirement products, to provide confidence to members who are making the transition to retirement or are in retirement. This quality filter should consider the objectives of the Retirement Income Covenant (RIC), i.e. maximise expected retirement income; manage expected longevity, investment and inflation risks to the sustainability and stability of retirement income; and provide flexible access to funds during retirement. The filter should assess product quality based on member cohort, how effectively it's being managed, and the quality of guidance being offered to members.

- The government should fund a data-sharing framework for agencies and superannuation funds to support enhanced implementation of the retirement income framework

Overview

Funds assisting and defaulting members to better settings

The RIR found that retirees are not maximising the benefit of their superannuation and concluded that:

> *…carefully designed defaults, guidance from superannuation funds, as well as accessible and affordable advice at retirement, would help people get better outcomes in retirement.*[20]

Consistent with reducing the obligation on members to make sometimes complex choices, Trustees may formulate suggested or recommended pathways for groups of members that could operate on an opt-out basis but doing so should not be compulsory. Retirement can be a highly individualised life stage. Members retire with different amounts of accumulated wealth and debt, household dynamics, family budgets, financial literacy levels, retirement goals, healthcare needs, and longevity expectations.

Encouraging members to drawdown their super may be appropriate but also needs to recognise and respond to the differing needs of members.

For this reason, SMC does not support any mandated approach to default settings. Many of the arguments against defaults that arose in the context of the Government's consultations on Comprehensive Retirement Income Products (CIPRs) still apply.[21] System settings that are based on averages risk being inappropriate for people with circumstances and goals that do not correspond with the defined average.

Account-based pensions will continue to provide the most effective retirement income stream for most retirees for many years. The costs of developing and delivering new products including longevity solutions may not be in the best interests of lower balance members or those retiring with significant mortgages or consumer debt who may be better served by withdrawing some or all of their super to pay down debt or meet other personal requirements. This will depend on the demographics of particular superannuation funds.

It would be wrong to default retirees with lower account balances and possibly shorter longevity into products where they might subsidise the retirement of those with higher account balances and higher than average life expectancy.

Super funds know their members and are best placed to assist members into retirement. While there may be a role for carefully designed default retirement income products to cater for those members who, for a range of reasons, are unlikely to make an active choice about a retirement income product, this must reflect the needs of each fund's membership.

For instance, a fund with higher average balances and levels of financial literacy may choose to deliver products and services that best service their members with a personalised strategy and encourage active decision-making, while other funds may approach their product specifications based on cohorts.

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[20] Retirement Income Review, 2020, p58
[21] Development of the framework for Comprehensive Income Products for Retirement, 2023 - Australian Institute of Superannuation Trustees, Industry Super Australia

Funds and their memberships are not uniform

Per table 3, over-60s membership varies widely between funds. The strategies that these funds employ for their retiree members is likely to be different as a result. While many fund members may share similar characteristics that may appear to make single default products attractive, there also needs to be the flexibility to account for those who are not reflective of the bulk of a fund's membership or fall outside defined cohorts.

Members with higher levels of savings outside of the super system, little debt and lower levels of habitual discretionary spending may be less receptive to inducements to drawdown at higher rates than the mandated minimums (see section on drawdowns). Lower balance members or those with lower levels of financial literacy may be better incentivised to take up superannuation pension products that better integrate with the Age Pension. Product features such as longevity insurance may be particularly costly and not value for money for members with lower savings, health issues and shorter life expectancies.

Funds need a regulatory environment that allows them to balance these and other factors in their retirement income strategies and develop innovative solutions that are responsive to their members' needs.

Financial advice is one element of assisting members with retirement but cannot be relied on as a default strategy

Given changes to financial advice will help Australians manage their transition to retirement, SMC recommends the Government expedite its advice changes based on the Quality of Advice Review.

There is a role for financial advice in better connecting members into appropriate solutions but there will always be members who prefer to make their own choices, are resistant to paying for comprehensive personal advice or are wholly disengaged from their super savings. These members may be better served through the provision of nudges or prompts at key life stages (such as milestone birthdays approaching retirement) to provide them with information about their retirement options.

Better integration with the Age Pension could also allow funds to assist members at this life stage. This could include permitting funds to assist members with the Age Pension application process. This could make seeking advice and assistance more attractive to members who would not ordinarily seek it. This includes many members of lower economic means who are eligible for a full or part Age Pension.

Likewise, data sharing arrangements with social security agencies such as Centrelink and the Department of Veterans Affairs (DVA) could include a consent on the Age Pension application form per the Consumer Data Right to notify a retiree's super fund, allowing the fund to follow up with the member about their options for their super savings. Both Centrelink and superannuation information is available in MyGov and this can be better integrated to nudge consumer actions.

In addition, at a whole of fund level, deidentified data sharing between the ATO, Centrelink, DVA and funds would allow funds to supplement the information they have about individual members to develop a broader understanding of key member characteristics. This would allow funds to devise a range of retirement pathways for members based on these characteristics.

The Government should therefore prioritise its financial advice reforms, particularly those related to advice for retirement. The government should also consider and clarify the anti-hawking laws to ensure super funds can proactively contact existing members to provide guidance on their retirement options.

Tools for comparison and performance

Appropriately designed quality filters can improve trust and confidence in the system and enable individuals to assess performance, value for money and reliability of retirement income products and make more informed decisions relevant to their retirement objectives and circumstances, ultimately enhancing confidence in their decision making. They also enhance consumer protections and provide assurance that products meet minimum standards by weeding out substandard products from the market and enhance competitive tensions and system efficiency.

Existing quality frameworks

Funds are already subject to a range of fiduciary obligations that seek to improve quality and guide member-centric product design, distribution, disclosure, and assessment. These include:

- **Design and distribution obligations** including target market determinations, which require financial firms to design financial products to meet the needs of consumers and to distribute their products in a more targeted manner.
- **Member outcomes assessments** which require funds to regularly assess the outcomes provided to members and identify opportunities for improving these outcomes, with regard given to investment returns, fees that impact the return and the level of investment risk.
- **Retirement Income Covenant (RIC)** which requires funds to formulate a strategy for how they will assist members who are at, or approaching, retirement and balances the objectives of maximising income, managing risk, and permitting flexible access to funds over the period of retirement.

Both regulatory oversight and member visibility of performance outcomes has undertaken a step change through independent benchmarking as part of the Your Future Your Super (YFYS) performance test and APRA superannuation heatmaps which focus on investment products, fees and costs, and sustainability of member outcomes.

Appropriateness of existing performance testing

The Government has previously foreshadowed extending the YFYS performance test to all choice products, including retirement phase products. This is in line with the recommendations of the Productivity Commission to apply performance testing to all choice products including those in the retirement phase.[22]

At face value there are significant differences in net return outcomes across retirement investment options from low- to high-risk multi-asset class diversified pension options. The spread of median net returns across options varies from 2.7 per cent to 8.7 per cent and the spread of net returns *within* each class of investment options varies from 2.4 to 5.3 per cent (see chart 19 below).

[22] Superannuation: Assessing Efficiency and Competitiveness, 2019, *Productivity Commission*, Recommendation 4.

Chart 19: Distribution of 10-year returns by pension option type

Source: SuperRatings Pension Crediting Rate Survey, December 2023.

For some funds the underlying investment portfolios of the respective options may mirror those in accumulation with the exception of different tax treatment and fees. For other funds the investment options don't mirror those in the accumulation phase including exposure to different underlying assets (within asset classes) that have more stable, predictable returns.

In retirement there is a complex trade-off which trustees need to consider including:

- Heightened sensitivity to investment risk by members;
- Increased liquidity demands of retirees including lump sum payments and regular income streams; and
- Age pension interactions which might affect portfolio construction designed to optimise total income;

These factors are generally not present in the accumulation stage.

Simply transferring the accumulation test to retirement may not be fit for purpose and the underlying metrics of the test may need to be revisited to assess whether retirement products offer good outcomes for members potentially with shorter investment horizons and different characteristics that affect their risk tolerance.

The RIC[23] requires funds to:

[23] Superannuation Industry Supervision Act, 1993, Section 52AA

a) maximise expected retirement income;

b) manage expected longevity, investment and inflation risks, and other risks to the sustainability and stability of retirement income; and

c) provide flexible access to the benefit.

The YFYS performance test for accumulation products assesses investment performance and fees and does not consider the impact of risk and design features and how these have been weighted. These are important considerations in developing quality retirement products designed to deliver good outcomes for members.

A performance test for retirement products should therefore be combined with the development of a set of retirement-specific characteristics that are aligned to the features of retirement products, including adequately considering risk and its relationship to returns generated for members.

Measures of success

SMC recommends that a coherent quality assessment framework apply to retirement income products, including in relation to their performance; however further consultation is required with industry before the approach is finalised. This would ensure that the appropriate methodology and metrics to support assessment of retirement products are determined, reflecting the differing objectives of managing retirement incomes compared to accumulation, and ensuring that retired members can accurately assess the quality and value of their retirement investments.

In order to address these issues, a quality assessment framework for retirement income products should be developed as part of the next stage of consultations focused on improving the experience and outcome of members in the retirement phase.

Responses to consultation questions

Please provide comments on the need to support competition and product comparison across the services and products funds provide in retirement, or the need for greater consumer protection.

There is an important role for competition and product comparison, but it must be balanced with consumer protection.

While competition and product comparison play an important role, they are not a one-size-fits-all solution. People at, and in, retirement have different needs, circumstances, and risk tolerance. For example, volatility may be acceptable to one retiree but not to another.

Retirement products can also be complex and difficult to understand. Competition between products that are not well understood or opaque is not likely to serve members interests, and there needs to be consumer protection against mis-selling and predatory behaviour.

Ideally, active decision-making can be supported to enable people to make informed choices to make meet their needs, however, this may not always be possible.

Given that many consumers have low levels of financial literacy and are often considering retirement questions for the first time in their life, they might not necessarily make choices that are in their best interests: a good product is not necessarily right for everyone.

Product comparisons are supported, but nuances about the nature and suitability of retirement products need to be factored in. For example, the tax status of retirement products, interaction with employment (or retirement) plans, expenditure plans, and health and longevity expectations all need to be considered.

While funds will offer support and advice to their members approaching retirement, this does not mean that all consumers seeking retirement products and services are rational and informed investors with the capacity to actively self-select a product or strategy. Nor are all members willing to seek advice or are open to accepting 'nudges' to undertake certain decisions.

The ability to compare products through disclosure or comparison tools, while useful, does not necessarily lead to consumers making better decisions about their purchases or act on recommendations.

This does not mean that comparisons are impossible, just that it is hard to get right.

Comparisons and choices might be more straightforward for the majority of super fund members who can expect to receive a full or part pension but may be much more complicated for people who expect to be self-funded retirees, especially those who may be self-funded for the remainder of their lives.

The increasing number of people approaching retirement, often with more money in their superannuation than they have had to manage before, means that alongside improved education and assistance from super funds, consumer protections are vital to prevent exploitation, misrepresentation, and unfair practices for those who would seek to take advantage of retirees.

What role should industry or other groups in the community play to support consumer protections and competitive products and services in retirement? What actions are being undertaken already?

SMC repeats its call, most recently expressed in our pre-budget submission, to develop a data sharing framework between super funds and government agencies such as Centrelink/DVA, the ATO, APRA and other bodies. Access to de-identified data will allow funds to better understand their members, develop cohorts of members with similar characteristics and design products and services that meet specific needs. Access to personalised data such as details supplied through the Consumer Data Right when dealing with Centrelink will allow funds to target specific messages to members at key life stages.

Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should Government consider?

Priority should be given to the Government's financial advice reforms focussed on superannuation funds, particularly around the provision of low-cost, scale retirement advice.

To service retirement needs, funds need to be able to advise on the interactions between super and the Age Pension, including tax considerations, spousal status, and other household income.

Further, funds are currently conservative in their proactive outreach to members for fear of straying into personal advice.

Further questions:

What are the key characteristics or metrics for comparing retirement income products and services?

As acknowledged in the discussion paper

> *The complexity and individuality of retirement income approaches may make comparisons and assessments difficult, including in relation to retirement income strategies where there are a range of good approaches funds could be taking.*

Funds are currently developing a range of approaches to how they measure the success of their strategies and products. While the RIC requires a strategy to consider investment performance, risk and flexibility, the differing features of account-based pensions, annuities, longevity products, legacy defined benefit accounts and future innovative solutions will mean that developing a standard set of metrics is likely to be a challenge.

How funds approach their product design and success measures will in many cases include qualitative metrics such as confidence and satisfaction in addition to quantitative measures. The relative weighting given to any set metric is also likely to change and adapt as the retirement product market matures.

Development of a framework, potentially including a set of key characteristics, against which to benchmark retirement products should therefore be done in close consultation with industry and flexibly allow for solutions to come to market and their outcomes to be measured.

What approaches could make product disclosure useful for members? How might barriers such as complexity, or individuality of products, be overcome?

Per the above question, the differences in product features will make standardising product disclosure difficult. Standardising the form and content of disclosures in the accumulation space, such as through shortform PDSs, fee tables, product dashboards and so on, while intended to be consumer focused, has not led to clearer consumer-focused language. Instead, it has led to a proliferation of other guides, fact sheets and other materials that members must locate and read by reference to gain a deeper understanding of their products.

The challenges inherent in standardising disclosure frameworks for differently structured products can be seen in the ongoing reticence of ASIC to waive the interim relief exempting certain products from the regimes.

As with quality filtering, funds should be permitted to allow their solutions to come to market and mature. Approaches can then be reviewed in conjunction with industry for commonalities and overlaps that can be leveraged with a view to developing best practice principles at a later stage.

Treasury has previously canvassed views on product disclosure for retirement products[24] and many of the views raised by industry are still relevant to the current consultation.

What barriers are there for product switching in retirement and are there opportunities to make product switching easier?

Simplicity of use is currently limited by regulations that treat account-based pensions as discrete

[24] Retirement Income Disclosure Consultation Paper, 2019

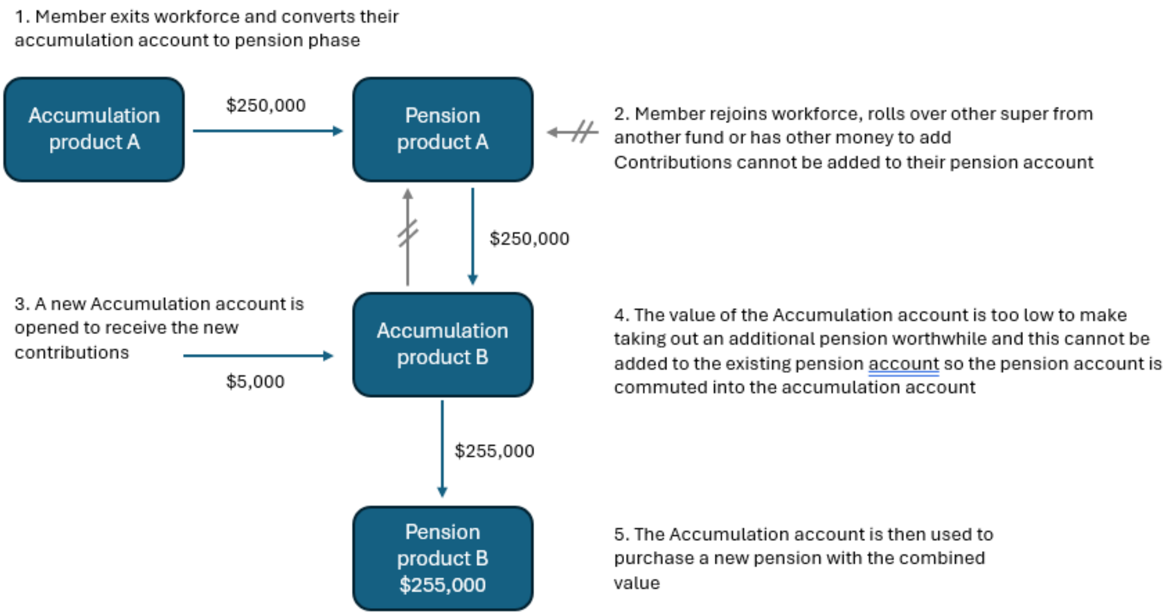
purchasable products.

While members can take flexible lump sum withdrawals when they need access to additional funds, the same flexibility does not exist in the opposite scenario, that is, they cannot made contributions or add lump sums to their account-based pension[25].

For many members, retirement may not be a set point in time. They may move in and out of the workforce, take up part-time work or consult on an occasional contract basis. Many out of the workforce may still be seeking work that requires an accumulation account and not realise that they have retired until much later than when they can start drawing down and benefiting from the tax-free status of super in retirement.

Many members who have permanently retired from the workforce may have additional funds they wish to add to their pension, such as following a bequest, downsizing property, or selling other assets. For such members to top up their allocation pension accounts, they would need to commute their existing pension back to accumulation, contribute the additional sum and then reapply for a new pension product, or take out a new additional pension that may have different payment dates, administrative settings, and additional paperwork (see chart 20).

Chart 20: Process for adding additional funds to an existing account-based pension



Likewise, a member choosing to move their allocated pension to a different superannuation fund, to for instance have access to novel products when they come to market, again needs to commute back to accumulation phase, open an accumulation account in the new fund, transfer the balance and then apply for the new product. This is so that the commuting fund can ensure all minimum payment requirements have been complied with prior to rolling the benefit over, and new tax components can be calculated in the new fund, but these are back-end processes that are largely meaningless to the

[25] Superannuation Industry Supervision Regulations, 2014, 1.06 Meaning of *pension* (Act s10) provides that a pension cannot be added to after it has commenced. Additional clauses in Part 1A - Annuities and Pensions set rules for the commutation of classes of pension products.

members who hold the accounts.

In many cases some or all of these steps must be done in writing on paper forms with wet signatures and certified copies of identity documents rather than via fast electronic methods with automatic receipt confirmations. This leads to inefficiencies and potential delays with postage, missing paperwork, follow-ups for incomplete details and internal fund processing standards.

Super should be able to be moved seamlessly between the accumulation and retirement phases as simply as switching money between bank accounts. Australians are increasingly comfortable with online applications and expectant of ecommerce-style systems with rapid digital transacting. The administrative effort for retirement products must therefore be reduced.

In order to resolve these issues, SMC recommends that the Government remove the existing prohibition on making new contributions to existing account-based pensions, subject to the transfer balance cap and other rules, in order to simplify the system, provide more flexibility and choice for retirees to manage their retirement income streams, and reduce the need for multiple superannuation accounts.

In addition to the above issues, the prohibition also imposes unnecessary costs and complexity on retirees who want to make new contributions to their existing account-based pensions and may discourage some people from starting an account-based pension in the first place.

The current limitation on additional contributions does not allow people to easily adjust their retirement income plans in response to changing circumstances, such as market shocks, health issues or changes in living arrangements.

Other barriers exist in members identifying themselves. Many older people do not have the most commonly accepted photographic identity documents. They may not renew their driver's licences or passports as they age, and some may have no current photo ID. In addition, some may have lost other documents such as birth and marriage certificates, hampering their ability to open new accounts and switch product providers. At a practical level, according to data released by Home Affairs, over 500,000 Australians over the age of 60 have state or territory issued a proof of age card.[26] Unlike passports or driver licences these documents are not verifiable via the electronic Document Verification System (DVS). This forces these individuals into a paper-based certification process which is cumbersome and slow. To resolve this, SMC recommends that proof of age cards be added to the DVS.

[26] Department of Home Affairs, 2021

Making lifetime income products more accessible

Key points

- It is critical that any policies relating to lifetime income products, or other key elements of the retirement system, reflect the diverse circumstances under which retired Australians live, such as savings in and out of super, debt, spending patterns and access to the Age Pension to ensure they deliver appropriate outcomes.
- The Age Pension provides, and will continue to provide, longevity risk protection for the bulk of the Australian population in retirement for the foreseeable future.
- The means testing of the Age Pension significantly reduces income and gender inequality for older Australians.
- It also provides and will continue to provide longevity risk protection for the bulk of the Australian population in retirement for the foreseeable future.
- The combination of the Age Pension and superannuation for low- and middle-income retirees will deliver income for a dignified retirement for most of these retirees and is the sign of a healthy retirement system. The means-tested Age Pension component protects Australians against longevity risk and alleviates poverty, while the superannuation component boosts income to a higher, more dignified level.
- The combination of superannuation income and the Age Pension will provide retirement income for the overwhelming majority of retiring Australians at some stage during their retirement and this will remain the case for at least the next 30 years, providing that retirees implement a drawdown strategy to optimise their income.[27]
- The interaction between superannuation and the Age Pension is not well understood by many retiring members, and urgent steps need to be taken to better integrate the first and second pillars of the retirement income system.
- While lifetime income products may be appropriate for some members, they should not be mandatory (including as a component of a retirement income solution) for any member or cohort of members.
- SMC supports retirement solutions that balance the risk of money running out, flexibility and sustainable income but this solution will vary between funds. Therefore, a standardised product that necessarily includes both annuity and account-based pension components, and that is required to be applied by all funds, is not supported. It may not be appropriate for many members, particularly low account balance members, and may be at odds with fund obligations to act in the best interests of members.

[27] Intergenerational Report, 2023, p.168

- The SMC view is that while the options in the discussion paper for Government facilitation of risk pooling in retirement products may have merit, the concept requires further consideration and consultation. Similarly, Government intervention in the pricing of retirement products through reinsurance or the selling of longevity bonds requires further consideration.

Recommendations

- Lifetime income products should not be mandatory (including as a standard component of a retirement income solution) for any retired member or cohort of retired members. This includes a standardised product including both annuity and account-based pension components.

Overview

The Age Pension provides longevity risk insurance for most Australians

Managing longevity risk and long-term planning are important considerations for the retirement income system and SMC supports the increased focus on managing these issues.

SMC agrees that retirement income strategies need to manage different risks but disagrees that the primary solution is to make lifetime income products more accessible. The confirmation bias towards lifetime income products in the discussion paper[28] should be replaced by a more balanced response to managing longevity issues.

The management of longevity risk includes consideration of financial advice (including digital), services and tools to assist members (including retirement income calculators), drawdown patterns for members that better suit their circumstances and longevity products (including the Age Pension). Our response to this section highlights ways in which longevity risk can be managed, other than necessarily requiring new longevity products.

The means testing of the Age Pension significantly reduces income and gender inequality for older Australians.[29] It also provides, and will continue to provide, longevity protection for the bulk of the Australian population in retirement.

However, the value of existing institutional settings that provide substantial longevity protection – especially the Age Pension - are understated in the discussion paper. This, and a lesser focus on the medium term (5-25 years), has also resulted in the discussion paper overstating the role of other longevity products.[30]

Treasury is explicitly testing the proposition that having better and more accessible lifetime income products will significantly address the management of longevity risk.

In doing this, the discussion paper echoes the views of the RIR final report that the current retirement

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[28] For example, throughout the discussion paper the expression ‘well-rounded’ retirement products is used as synonymous with lifetime income products.
[29] On average, women have far lower superannuation balances at retirement than men and live longer than men, so the Age Pension distributes more pension income to women than men.
[30] SMC supports the development of lifetime income products, but not at the expense of:
- undervaluing the Age Pension and account-based pensions; and
- addressing the needs of low- and middle-income retirees.

income system will not adequately address the longevity risk for many retirees in the long term, and there is a need for more innovation and diversity in the provision and use of lifetime income products.

Consequently, the report encouraged greater use of pooled longevity risk products to increase retirement incomes and suggested that superannuation trustees be required to pre-select a Comprehensive Income Product for Retirement (CIPRs) for members – as the Financial Services Inquiry also recommended a decade ago.

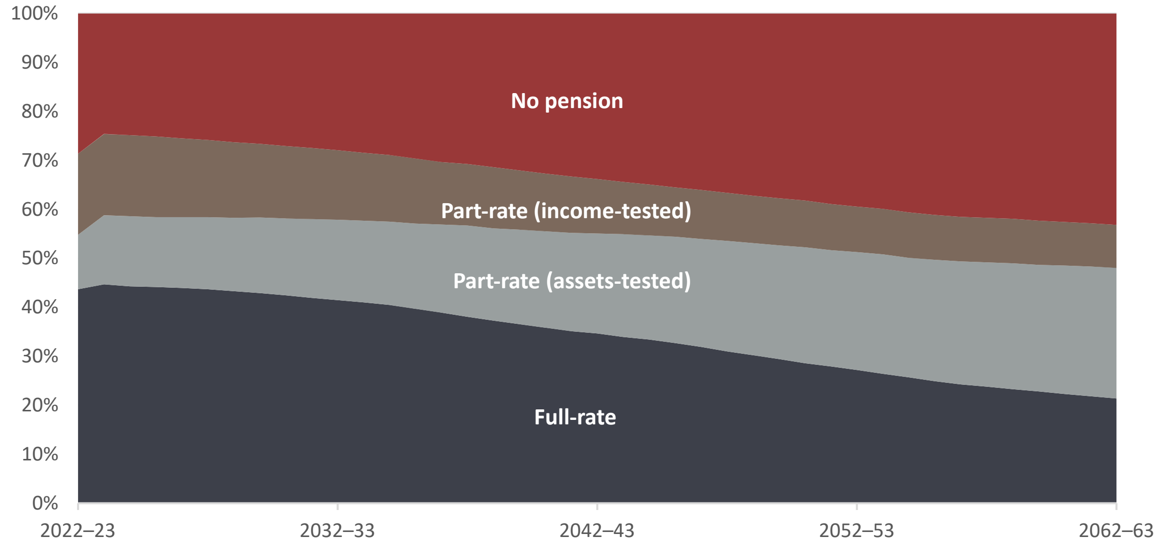
The combination of the Age Pension and superannuation for low- and middle-income retirees will deliver income for a dignified retirement for most of these retirees and is the sign of a healthy retirement system. The means-tested Age Pension component protects Australians against longevity risk and alleviates poverty, while the superannuation component boosts income to a higher, more dignified level.

The combination of superannuation income and the Age Pension will provide retirement income for the overwhelming majority of retiring Australians at some stage during their retirement and will remain the case for the foreseeable future, providing retirees implement a drawdown strategy to optimise their income.

Even though the number of Australians of Age Pension age will double by 2062-63, the proportion of people receiving a full or part pension (or other Government income support payment) will only decrease by around 15 percentage points, and still be almost 60 per cent (albeit that the proportion of full rate pensioners will decrease over time) (see chart 21). This demonstrates both the increasing role of superannuation as a key source of retirement income and the enduring role of the Age Pension.[31]

[31] Ibid

Chart 21: Persons of Age Pension age and over, by pension category



Note: The increase in 2023-24 is due to the Age Pension eligibility age increasing from 66.5 to 67 years old which affects the measure of 'person of Age Pension age'.

Source: Intergenerational Report, 2023.

The importance of the interaction between the Age Pension and superannuation is emphasised by the Government's proposed objective of superannuation as

> '*to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way*.'

The Government states that in relation to the meaning of 'government support' in the objective:

> *The inclusion of Government support in the objective reflects the crucial link between superannuation policy and government support. Policy-makers need to consider this interaction in making policy decisions relating to superannuation.*[32]

While the Objective Bill is still before the parliament, it nonetheless represents the view of the current government and further confirms the criticality of the Age Pension's interaction with superannuation.

The assumptions (including indexation factors and optimal drawdown rates) embedded in ASIC's Money Smart calculator demonstrate that single retirees without other significant assets beyond the family home – even those whose Transfer Balance Cap is at the maximum level of $1.9 million - can expect to receive the Age Pension if they have average life expectancy.

[32] Explanatory Memorandum, Superannuation (Objective) Bill 2023, p8.

Table 4: Superannuation balance estimate at retirement, average income to age 92 and estimate of age at which the balance is sufficiently drawn down to support eligibility for the Age Pension

Super balance at 67 years retirement	Average annual income to age 92*	Age at which age pension eligibility is reached*
$0	$34,380	67
$50,000	$36,647	67
$100,000	$39,272	67
$150,000	$42,103	67
$158,806 female median 60-64**	$42,595	67
$200,000	$44,969	67
$211,996 Male median 60-64**	$45,650	67
$250,000	$47,834	67
$300,000	$50,533	67
$318,203 female mean 60-64**	$51,389	67
$350,000	$52,742	67
$400,000	$54,645	67
$402,838 male mean 60-64**	$54,738	67
$450,000	$56,353	67
$500,000	$57,952	67
$750,000	$65,269	70
$1,000,000	$73,992	74
$1,500,000	$95,860	80
$1,900,000	$115,883	84

Source: * ASIC Money Smart retirement calculator (using preset assumptions and projections). ** ATO, data as at June 2021.

While lifetime income products may be appropriate for some members, they should not be mandatory (including as a standard component of a retirement income solution) for any member or cohort of members.

Therefore, a standardised product that includes both annuity and account-based pension components to balance the risk of money running out, flexibility and high income, is not supported. It would not be appropriate for most members now and in the medium term and may be at odds with fund obligations to act in the best interests of members. Trustees are best placed to assist their members navigate their retirement journey.

Responses to consultation questions

Please provide any comment on the barriers in the supply and demand for lifetime income products.

There are understandable rational barriers to demand for lifetime income products, including:

- Complex products that are not easily understood, even by the financially literate, and a lack of standardisation that prevents the comparison with other lifetime income products. Understanding outcomes, fees, features and performance is difficult, and comparison with other products is even more difficult.
- Even if comparison is possible, it is likely to be complicated and involve consideration and balancing of purchasing power, longevity and sequencing risks – concepts with which many consumers would not be familiar.
- The reluctance of retirees to lock-up their retirement benefit in a product for the rest of their lives (if it does not offer flexibility or commutation).

- The cost of providing a lifetime income product may appear expensive and less attractive than other options, especially in a low-interest rate environment. It is difficult for a member to know if a product represents good value.
- The provision of lifetime income products by a life office, rather than a member's own super fund, may result in reluctance to change providers.
- The language often used in relation to lifetime income products, such as "the purchase of an annuity" may influence how a member views a product, its risks and benefits, and this may further discourage consideration of these products as an option.

What actions are industry or other participants in the community taking to assist retirees to better manage the risks for retirement income?

Governments and regulators (and the approach of this discussion paper and the assumption behind this question) should move away from the mindset that it is solely retirees' responsibility to manage all the risks for retirement.

As far as possible, the structure and operation of the retirement income system should manage major risks through legal structures, consumer protections and fulfillment of fiduciary obligations by superannuation fund trustees.

The implementation of MySuper default products in the Stronger Super reforms included additional legal and trustee obligations for members with a MySuper interest, and similar protections should be provided through the RIC of the SIS Act, and through implementation of super fund's retirement income strategies.

These protections for retirees are also buttressed by the Best Financial Interests Duty obligations; member outcomes assessments and business performance reviews undertaken by super funds; and fulfillment of Design and Distribution obligations for fund products. Each one of these requirements can, and should be, applied to retirement income products, and to fund relationships with members at and approaching retirement. With increased focus on the retirement phase, each of these obligations is likely to be further developed.

Providing more and better education and guidance to members about their options is desirable. Funds are well placed to provide support, advice, and education to members. However, system settings should not assume that all members will take up this support. Education and guidance are an important supplement but do not replace funds and the system acting to protect the interests of both engaged and disengaged members.

What policy approaches should be taken to support use of lifetime income products to address the risks to retirement income? What risks should be considered?

Commencing on the basis that policy settings should support the use of mandatory lifetime income products to address longevity risks is a not a premise supported by SMC.

Lifetime income products already receive beneficial treatment in relation to Age Pension eligibility.

For lifetime annuities commenced from 1 July 2019, only 60 per cent of the investment and the related income in a lifetime annuity is assessed for pension assets and income tests up until age 85 (or for a minimum of five years). Previously, the entire account balance and gross income (less any return of capital) were assessed.

While this has not markedly increased their take-up rate, it has increased their complexity and had the perverse effect of making it harder for retiring individuals to determine which mix of annuities (if any) is in their best financial interests.

These changes were introduced to remove inconsistencies in the treatment of different types of lifetime annuities, but these changes resulted in both winners and losers. More importantly however, they increased the complexity of determining the value of annuities for individuals, to the extent it is practically impossible for anyone who is not a qualified financial planner to make this assessment.

Further questions:

What product options (or strategies within current retirement products) could better manage risks to retirement income?

Lifetime income products are not a ‘magic bullet’ for managing risks to retirement income.

The question of managing risks to retirement income is best viewed from the perspective of appropriate retirement strategies rather than the perspective of products and product options. The needs of members in retirement are not static and change over time and in response to life events.

This requires a dynamic strategy at an individual level to provide income security and flexibility and is not just a matter of previously deciding on a product or product mix.

In part, this could be addressed by the development of suggested drawdown levels for different cohorts of members at different ages (as a supplement to the existing minimum drawdown levels).

This may be further supplemented by financial advice and online advice, information and education tools provided by funds, tailored to a member’s age and circumstances in life. Given the expected growth in the number of retirees, the large number with relatively modest balances, and the reluctance of many members to pay for advice, this might be most effectively delivered online or by the new class of financial advice provider to support an increase in the availability and affordability of simple personal advice.

Through the combination of these channels, retirees should be encouraged to adjust the level and timing of income withdrawals to reflect their changing needs and circumstances over time, and to optimise the trade-off between income and risk.

What is the role for a ‘suggested’ product in overcoming low take-up of lifetime income products?

The assumption behind this question is that increasing the uptake of lifetime income products is an outcome that should be supported. That assumption is not accepted by SMC, and this question is answered on the basis of the merits of suggesting a product as part of a retirement income strategy to promote members best interests.

A super fund’s retirement income strategy may recommend a product for specific membership cohorts, or otherwise encourage specific members to consider a specific product.

This is consistent with the purpose of a strategy in assisting members to achieve their financial goals, with any such recommendation following an assessment of member needs, preferences and circumstances. However, while a member may be in a specific member cohort, and may apparently be suited to a particular product, the fund may not know all information about the member to be certain about its suitability. Therefore, the basis upon which any recommendation or encouragement is made should be communicated to them in a clear and transparent manner.

It should also be made clear that a member may not accept the recommendation and adopt another course or do nothing.

In developing or reviewing their retirement income strategy, a fund may also come to the view that it is not appropriate to have a ‘suggested’ product for some or all member cohorts. For example, this view may result from the diversity of fund membership, or member preferences and behaviour.

A ‘suggested’ product might be an account-based pension or a lifetime income product or a deferred life annuity. However, in all instances, the suggestion must be assessed against the members best interest test and the requirements of the RIC for each membership cohort.

While lifetime income products may be suitable for some members with very high balances, this must be balanced against the greater wealth diversity of higher-net-worth individuals. That is, not only do they have greater wealth, their wealth is likely to be in a wider range of assets and in different investment vehicles.

The assets of higher net worth individuals will not generally be visible to a super fund unless the member is obtaining comprehensive financial advice through the fund. As such members are more likely to receive comprehensive financial advice, this may also result in a fund deciding not to recommend/suggest/encourage any particular product for this cohort.

The range and extent of assets of higher net worth individuals might also mean they do not want or need longevity products.

What action are funds taking to better manage longevity risk, and what role do funds see guaranteed income products (e.g. annuities, pooled products) playing in the future?

Retirement income calculators and other tools to help members recognise and address longevity risk are key to the management of longevity risk.

Super funds are actively taking steps to help members manage longevity risk and are providing and promoting retirement income projection tools as part of their members retirement income strategies, as well as considering the role longevity products such as the Age Pension and annuities might play.

Providing retirement income calculators to enable members to estimate and optimise their income in retirement, and compare different scenarios, options and products helps members manage longevity risk.

Calculators, projections, and other guidance can also help members understand when their superannuation is likely to run out, including in relation to their expected life expectancy – and appreciate that the Age Pension or a lifetime income product will not.

While this adds value in relation to a specific product or fund, this benefit is magnified if a member can compare different products, types of products and product providers on an accurate, transparent, and consistent basis.

Designing retirement income calculators and ensuring they have regard to available government supports, and are accurate, transparent, and consistent has been problematic. This is even more so in relation to the comparison of products.

Retirement income calculators based upon actual products and the assumptions of those product providers should be further developed, and ASIC should facilitate rules and guidance to allow and encourage their use. This could include options such as retirement income estimates based on personalised circumstances, show the impact of different drawdown options and provision of such estimates outside the annual member statement.

A review of retirement income projection tools by ASIC and the superannuation industry could be beneficial for improving the quality and usefulness of these tools for the users, and for ensuring that they are aligned with the objectives of the RIC.

A review could also identify the gaps and challenges in the current tools, such as the lack of integration, standardisation, and personalisation, and the difficulty of incorporating complex and uncertain factors, such as longevity risk, market risk, and behavioural biases.

However, a review should also address (and seek to resolve) the diversity and variability of user needs and preferences, the potential for confusion and inconsistency among different tools, and the risk of over-reliance or misuse of the tools by the users.

Super fund publications should identify the type of retirement products available, as well as the availability and role of the Age Pension. As well as identifying the performance, cost and features of the products, the fund could provide an overview of how each product may be suitable (or not) for each membership cohort, including in relation to eligibility for other benefits (e.g., the Age Pension) with a caveat about each member's needs, preferences and retirement being different.

Do the barriers to managing longevity risk in the Australian market necessitate Government action? What Government action could assist funds in offering appropriate longevity protection to members?

More than anything else, the Government should take active steps to better integrate the Age Pension and superannuation.

This should include educating the public about access and availability to the Age Pension, and rebutting myths such as "the Age Pension won't be there when I retire" or "I'm still working a few hours, so I won't be able to get the Age Pension".

This can be supplemented by information on superannuation fund websites about how superannuation works with the Age Pension.[33]

Better public understanding of the role of the Age Pension should include explaining how many Australians will receive both superannuation and Age Pension payments in retirement and will be able to enjoy a dignified retirement as a result.

The data sharing framework proposed elsewhere in this submission is another example of Government action that would assist funds in providing longevity protection to their members. For example, the use of de-identified data sets would provide a clearer stream of information that will assist trustees to determine the key characteristics of classes of their membership including in relation to longevity.

The enhancement of ASIC's retirement income projectors and the refinement of ASIC rules and guidance on super funds retirement calculators are other steps that can be taken by Government to help members understand their likely longevity.

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[33] For example, Super and The Government Age Pension, 2023, AustralianSuper

Members are best able to manage their longevity risk when their retirement income arrangements are simple and straightforward and can review and change these arrangements when their circumstances change, for example, if they receive a windfall amount such as a bequest.

Currently, a retiree under 75 years is not able to add to an existing account-based pension but must open a new retirement income account with any new contribution. SMC recommends that account-based pensions be able to accept additional non-concessional contributions, subject to the transfer balance cap and other rules governing contributions.

SMC also recommends that retirees aged over 75 be able to make employer SG contributions to their account-based pension.

Would an industry-standardised product(s) assist funds to develop and offer lifetime income products to their members? What features should a standardised product include? Should there be a path to more easily transition members to a standardised product? Should superannuation funds be required to offer a standardised retirement product, similar to MySuper for accumulation? How should a product vary for individual circumstances of the member?

The standardisation of terminology and labelling would provide consistency and aid comparability, especially if it provides a basis for comparing fees and performance.

Getting more members into an industry standardised lifetime income product is not a measure of success in itself, it must also be in members best interests, and provides the performance, value-for-money, and flexibility that members require.

Further, given that lifetime income products are more likely to be appropriate for members with large account balances, and that there is greater diversity amongst this cohort, there is a risk that a standardised product might not suit the diverse needs and preferences of these members, and may limit the innovation and competition of lifetime income products in the market.

Therefore, a standardised product that includes both annuity and account-based pension components to balance the risk of money running out, flexibility and high income, is not supported. It would not be appropriate for most members now and in the medium term and may be at odds with fund obligations to act in the best interests of members.

The analogy with MySuper may be superficially appealing, but it does not withstand scrutiny.

- MySuper products are simple, whereas lifetime income products tend to be complicated.
- MySuper products have a low, transparent cost with an average cost of 0.98 per cent that can be compared with other products on MySuper product dashboards, whereas lifetime income products have complicated, often opaque cost structures, that are significantly higher on average than account-based pensions (in part because of the cost of longevity risk insurance). The RIR suggested that the cost of lifetime income products could be reduced by increased supply and demand, improved product design and changes to the regulatory framework but did not provide any evidence to support this view.

- Unlike MySuper products, it is very difficult for consumers to understand the cost, features and performance of most individual lifetime products, let alone compare them with other products.
- While MySuper products are the default option of a super fund, any member can transfer to another investment option at any time and no cost, whereas it can be difficult, costly, or not possible to move from a lifetime income product.

Would a standardised product be cheaper to develop and offer (e.g. compared to a general mandate to offer a longevity product)?

A standardised product may not be cheaper to develop and offer, compared to a general mandate, and it may not necessarily provide better outcomes for retirees or be in the best interests of members of particular funds. In addition, it may reduce innovation of other products that may be suitable to a range of different members with differing needs.