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The Treasury
Retirement Income and Adequacy Unit
Via online portal: consult.treasury.gov.au

Treasury - Best practice principles for superannuation retirement income solutions

Executive summary

The Super Members Council (SMC) welcomes the opportunity to provide input into this consultation. SMC advocates for the collective interests of over 12 million everyday Australians with retirement savings in profit-to-member super funds. We support policy that is member focussed, promotes high-quality retirement outcomes and empowers members in their retirement decision-making.

With an estimated 2.5 million Australians entering the retirement phase over the next decade, well designed best practice principles will serve as an important resource for superannuation trustees to strengthen the design of retirement income solutions and pathways for their members to make the most of their super in retirement.

Retirement can be a complex and overwhelming experience for many members as they are confronted with many questions and choices they may not be well equipped for. The challenge is how to support members with timely information, guidance and advice and identify simple and well-designed retirement pathways that are right for them.

The right solutions are needed to respond to the range of circumstances members confront now and in the future. This includes differing levels of financial literacy, debt on entry to retirement, the diversity of their own super balances coupled with varying Age Pension eligibility, the potential for ongoing workforce engagement, and rational motives for precautionary savings in the face of uncertainty about health or future aged care needs in later life.

Factors like longevity, investment returns, and lifestyle choices introduce significant uncertainty in how long savings need to last and how much income retirees will require at different stages. This variability necessitates carefully designed information, guidance and advice (including digital tools) that is responsive to individual needs and increases confidence in decision making. It underscores the importance of trustees knowing their members and providing well designed retirement pathways and solutions tailored for their unique cohorts rather than rigid principles. This should be coupled with regulators maintaining active, risk-based oversight and supplementing voluntary standards with clear, enforceable regulatory requirements where needed.

Sequencing and aligning the principles more closely with reforms aimed at increasing access to affordable financial advice and retirement calculators could help trustees better support members. Calculators that include Age Pension eligibility considerations can help individuals understand how government support interacts with their super savings, enabling more informed decisions about drawdowns, savings, and spending. This integration would promote greater transparency and better retirement planning by reflecting members real retirement income outlook, acknowledging the role of both private savings and government benefits as interconnected parts of retirement income provision.

SMC is due to release a major report late next month that will include extensive evidence and new modelling on retirement income dynamics across member cohorts segmented by balance which will support Treasury to further refine the best practice principles.

Recommendations

SMC recommends Treasury:

1. Recognise the Age Pension as a critical component of retirement income for many Australians, especially those with limited super savings, and integrate its role into planning tools and principles.

2. Adopt a more balanced approach in the emphasis placed on longevity products within the principles, recognising that these solutions are not suitable for all member cohorts.

3. Support a flexible, scalable approach to member segmentation that does not recommend a minimum number of cohorts, enabling trustees to better capture the diversity and unique needs of their membership.

4. Encourage data-driven strategies that enable member characteristics to be properly accommodated in cohort groupings, with trustees using real-time granular data to respond to individual member needs and preferences using tailored solutions where appropriate.

5. Align the principles with reforms that increase access to affordable, simple, and timely information, guidance, tools and advice that integrate with Age Pension eligibility.

6. Recognise that most retirees draw down their super at rates above the regulatory minimum and that lump-sum withdrawals play an important role; principles should accommodate this observed behaviour.

7. In the absence of necessary policy reform include acknowledgment of the choice by some members to retain accumulation accounts for flexibility, additional contributions, or to keep precautionary savings in retirement.

8. Promote tailored, member-preference-based engagement strategies to enhance trust, ongoing communication, and member satisfaction.

9. Support smaller funds with frameworks such as resources, scalability options, or collaboration to adopt best practices without disproportionate costs to members or capability burdens.

About the Super Members Council

We are a strong voice advocating for the interests of more than 12 million Australians with over $1.6 trillion in retirement savings managed by profit-to-member superannuation funds. Our purpose is to protect and advance the interests of super fund members throughout their lives, advocating on their behalf to ensure superannuation policy is stable, effective, and equitable. We produce rigorous research and analysis and work with Parliamentarians and policy makers across the full breadth of Parliament.

Purpose of the principles

SMC broadly supports the intent of the principles as outlined in Treasury's consultation paper. SMC recognises the importance of giving trustees a robust framework to design and deliver high-quality retirement income solutions responsive to the varying needs of members entering or already in retirement. The principles focus on understanding member characteristics, using data-driven segmentation, and fostering proactive engagement. These tools align strongly with SMC's purpose to advocate for member-centred super system settings. SMC appreciates these principles complement existing legal obligations under the RIC and promote ongoing review and enhancement of retirement income offerings.

Overreliance on principles as the benchmark

While the principles are voluntary, trustees remain responsible for demonstrating how their retirement income strategies serve member interests. If treated as a fixed benchmark, the principles may unintentionally discourage innovation and limit responsiveness to evolving member needs. To support better retirement planning initiatives, the principles should be positioned as a flexible foundation — encouraging trustees to adapt and innovate in line with their fund's demographics and member profiles. Regulatory settings should reinforce this flexibility to ensure the sector remains dynamic and member focused.

Additional areas relevant to the construction and offering of quality retirement income solutions that should be included in the principles

The principles must better recognise the importance of the Age Pension remaining a key mechanism for Australians to manage longevity risk and ensure a basic standard of living in retirement, especially for Australians without substantial super or private income streams. A significant proportion of Australians rely on the Age Pension to help manage longevity risk in retirement, with estimates indicating that more than 60% of people aged over 65 receive either a full or part Age Pension.[1] The Age Pension is important for those with limited retirement savings, acting as a safety net to address the risk of outliving personal resources. Although super and other savings will play a growing role as the system matures, many current and future retirees will have a substantial component of their total income delivered by the Age Pension (particularly in their later retirement) which delivers a wage indexed guaranteed income highly efficiently.

Barriers to trustees implementing the principles

Trustees need robust data infrastructure to effectively segment their membership into meaningful cohorts, understand diverse member characteristics, predict needs, and monitor outcomes. Data quality, integration, and advanced analytics may vary between funds, limiting capacity to implement the principles. Implementing these principles comprehensively may require more advanced capabilities which are relatively resource intensive.

The resources that might be prudently allocated to this task will vary by fund based on its member demographics and size. Information sharing and collective projects will be important for ensuring this work can occur cost effectively. Seeking to implement tailored products and settings, combined with enhanced member engagement and regular strategy reviews, increases operational and compliance complexity. While the principles aim to enhance member outcomes, it is important to acknowledge that their implementation may carry cost implications passed through to members.

Changes to the principles that would better support trustees to deliver higher quality outcomes to members

SMC recommends that the principles acknowledge that the focus for trustees should be on delivering simple and efficient retirement income solutions with options for personalisation, so members can have confidence the pathways and associated products and services are right for them. While the principles emphasise welcomed engagement and access to guidance, they should also acknowledge the importance of structured and sustained financial education initiatives.

[1] Nexia, The Age Pension and your retirement plans, 17 October 2024

Financial education in the form of campaigns, webinars, guidance and tools will help increase members' confidence and help them make informed decisions, strengthen financial literacy and assist members to be resilient against scams and misinformation. The principles could also be enhanced with scalability options, resources, or collaborative frameworks so smaller super funds can adopt best practices without disproportionate cost or capability burdens.

Understanding members' retirement income needs

SMC agrees that the principles aim to promote a systematic, and evidence-based approach to understanding the diverse and evolving needs of members in or near retirement. Regular research and the use of data to inform behavioural insights will assist trustees to maintain an up-to-date understanding of their unique membership base.

Retirement is no longer a single point in time; rather it's become nonlinear, 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. Effective retirement planning needs to adapt to individual needs, priorities and the changing stages of life. That is why SMC supports an approach to the principles that prioritises member outcomes first.

A minimum of three cohorts

The principles specify that trustees must develop at least three cohorts that reflect the composition of the membership at or approaching retirement. There is no evidence that three is an optimal number for all funds; rather, the appropriate number of cohorts should be determined by the specific characteristics, data, and makeup of each fund's members. Super funds are best placed to define their cohorts. Allowing each fund to define its own cohorts enables tailored, relevant strategies that suit the size, diversity, and complexity of their membership base.

Creating a fixed minimum number of cohorts may risk oversimplifying the diverse and complex financial situations of members and the importance of trustees knowing their own members. Some members might not fit neatly into any of the defined cohorts, leading to suboptimal product offerings and services that do not fully meet their unique circumstances. A limited number of cohorts may unintentionally exclude or marginalise smaller or more vulnerable member groups whose needs differ significantly. This could particularly impact members with lower balances, irregular work histories, or those with special circumstances such as carers or those affected by disability. Rigid cohort structures might constrain trustees' ability to offer truly personalised advice, products, or engagement strategies.

SMC recommends that the principles adopt an approach to segmentation and service delivery that allows flexibility to properly account for differing characteristics within cohorts over a minimum number of static fixed groupings. Key elements of such an approach could include:

- Ensuring trustees can define cohorts based on real-time, granular data analysis reflecting evolving member characteristics, preferences, and financial situations.
- Enabling segmentation frameworks that are responsive to each fund's unique membership profile rather than a prescriptive minimum number.
- Supporting a range of cohort sizes and types, including where justified micro-cohorts or clusters to better capture diverse needs.
- Shifting towards risk-adjusted, outcomes-focused strategies that evaluate impact at an individual level, with cohorts serving as a broad guide but not limiting innovation.

Using a combination of factors, relevant to each individual super fund and its membership, allows funds to create meaningful, nuanced segments and improve the relevance and impact of their retirement income strategies and member engagement.

Designing the elements of a quality income solution; and Constructing retirement income solutions that meet members needs

SMC is responding to principles 5 to 11 (best practice for designing the products and product settings and constructing retirement income solutions that meet members' needs). These sections of the principles emphasise three areas of retirement planning:

- A lifetime income product that is not the Age Pension.
- An account-based pension.
- A pathway for drawdown rates in excess of the minimum.

The discussion paper is underpinned by the premise that most members draw down the minimum. SMC research disputes this finding and shows that most Australians in retirement draw down their super at rates above the regulatory minimum with surveyed fund members withdrawing, on average, around twice the level required—even before accounting for lump-sum withdrawals. Even with increased spending, many members choose to retain parts of their super or leave balances in accumulation phase as a financial backstop, planning for contingencies in later life, such as health or aged care costs.

Prevalence of above-minimum withdrawals: In the 2023–24 year, 63% of sampled retirees from three large funds withdrew above the age-based minimum rates through regular pension drawdowns. Among those withdrawing above the minimum in retirement age, the average drawdown for those aged 65–69 was around 11% of their balance compared to a minimum drawdown requirement of 5%.

Age and balance factors: Members with lower balances tended to withdraw a higher proportion of their super balance, and younger retirees were especially likely to draw more than the minimum or take further lump-sum withdrawals. However, drawdowns above minimum were highly prevalent across all balance and age groups, including over half of those with balances over $500,000.

Lump sums matter: Lump-sum payments are a significant part of retirement expectations and behaviour. Around half of total super benefits paid are in lump sums. About 17% of fund members aged 60 or over in both the retirement phase and the accumulation phase (for accounts where the member was no longer contributing) took a lump sum in 2023–24, most often to clear debts, buy or improve homes, or for large purchases. Members taking only the minimum regular pension withdrawals were more likely to take additional lump sum withdrawals if they had lower balances.

Combined withdrawals: When combining regular pension payments with lump sums, two thirds of income stream recipients withdrew at rates above the minimum. Lump sum withdrawals were most prevalent among those with low balances and younger retirees (who have lower minimums to begin with). The average withdrawal for retirement phase members aged 65-69 withdrawing above the minimum was around 15% of their balance.

In SMC's submission to Treasury's consultation on the Retirement Framework, we also state that a drawdown pathway higher than the legislated minimum may not be the desired option for members in certain cohorts such as those with lower balances. It is important that the principles recognise that funds can offer drawdown pathways above the minimum, but individual circumstances and choice will always play a role in uptake.

The role of longevity products in retirement income strategies

<u>Suitability and system context</u>

Longevity products can play a valuable role in managing the risk of outliving retirement savings. However, their suitability varies significantly across member cohorts and funds (based on their own demographics) and will change over time as the system matures further. Many Australian retirees draw income from a mix of sources including the Age Pension, superannuation income streams, home equity, part-time or casual employment, personal savings, and non-super investments. This diversification can help manage risk and provide flexibility, but it also introduces complexity, particularly when navigating means-testing rules and individual preferences.

It also creates compounding complexity for some members as these income sources combined with means-testing rules and individual preferences, make retirement income planning intricate and difficult to optimise without tailored analysis and modeling.

That is why it is critical for super funds to offer multiple ways to support their members in planning for retirement. Offering a variety of resources (such as clear educational materials, interactive retirement calculators, access to financial advice, personalised planning tools, and ongoing member engagement) helps members better understand their options and make informed decisions.

Balancing the role of longevity products

While longevity products can help manage longevity risk, the current policy principles place disproportionate emphasis on them as a primary solution.

A more balanced approach would recognise that these products are not universally appropriate and should be considered as part of a broader toolkit. Members should be supported to assess their personal circumstances and determine whether such products align with their needs.

Considerations and limitations

Several factors should be considered when assessing the appropriateness of longevity products:

- **Equity and value for money:** These products are generally priced using average life expectancy. However, individuals with higher socioeconomic status tend to live longer. When members with lower balances and shorter life expectancies pass away, their remaining capital is redistributed among the surviving members in the pool, who often have higher balances. For Australians facing lower-than-average life expectancy (such as those with chronic illness or socioeconomic disadvantage), annuities may deliver less value, and early death can result in unfair outcomes as remaining capital is redistributed to wealthier members.
- **Comprehension and decision-making**: Many retirees may not fully understand the features and trade-offs of longevity products, leading to unsuitable choices or "set and forget" planning that doesn't adapt to life changes or emerging needs.
- **Interaction with the Age Pension:** A retiree may decide to use part of their super savings to purchase a fixed-term annuity that delivers guaranteed income for a set number of years. Initially, only a portion of the amount spent on the annuity is counted in the Age Pension assets-test, which may increase their Age Pension eligibility early in retirement. However, once the annuity starts paying regular income, those payments are counted as income under the Age Pension income test. This means that over time, the Age Pension amount they receive could decrease. The combined effect is that the retiree might have higher total income initially from the Age Pension plus annuity but less later on, and in some cases the initial increase in eligibility could be outweighed by subsequent decreases in income. The overall financial benefit is complex to determine without detailed analysis for an individual due to the way the assets and income tests interact over time.[2]
- **Loss of flexibility:** Most longevity products lock away retirement savings, making it difficult to access funds for significant unexpected expenses, emergencies, or changes in individual circumstances.
- **Inflation and low returns**: Many annuities and similar products provide fixed income, which means payments may not keep up with inflation, reducing purchasing power over time, especially across lengthy retirements.
- **Lack of investment growth**: Locking funds into a longevity product can reduce opportunities to benefit from long-term exposure to growth assets, potentially lowering overall retirement wealth, particularly if markets outperform the returns embedded in the product.

Benefits for specific cohorts

Despite these limitations, longevity products can offer significant benefits for certain members. They may be particularly suitable for:

- **Members seeking income certainty:** Those who prioritise predictable, guaranteed income especially in later life may value the stability these products provide.
- **Members with declining cognitive capacity**: Longevity products can reduce the need for ongoing investment decisions and provide peace of mind.

[2] The Challenge of Maximising the Value of Retirement Income - Actuaries Digital - Actuaries Institute

- **Members with longer life expectancies:** For those in good health and with higher socioeconomic status, these products may offer better value and protection against outliving their savings.

The importance of cohorting in trustee decision-making

To ensure longevity products are used effectively and equitably, it is critical that trustees adopt robust cohorting approaches. This means identifying and segmenting members based on relevant characteristics (such as age, health status, account balance, income needs, and preferences) to determine where longevity products may be appropriate.

A well-designed cohorting strategy enables trustees to offer these products to members who are most likely to benefit, while avoiding blanket solutions that may disadvantage others. It also supports more targeted communication, better product design, and improved member outcomes by aligning offerings with the diverse needs and circumstances of the retirement population.

Market dynamics and consumer confidence

Australia's longevity product market remains small, with limited providers and low uptake. This presents several challenges:

- Solvency and concentration risk: A small number of providers increases the impact of any single failure.
- Competition and innovation: With few providers, there may be less pressure to innovate or reduce product costs, which can lead to less competitive products and fewer choices for retirees.
- Scale and diversification: Smaller providers may struggle to pool longevity risk effectively across a large and diverse group, which is essential for sustainable and stable income payments over long retirement periods. Prudent management and thoughtful product design help address these challenges.
- Consumer confidence: Limited availability and low market penetration of longevity products may result in lower consumer awareness and trust. This further slows adoption, which in turn constrains market growth.

Rather than focusing narrowly on product development, the principles should support a broader retirement strategy journey - emphasising guidance, education, and appropriate tailored support to help members navigate their options and make informed decisions.

Tax-free Retirement Accounts (Account-based pensions)

For most members account-based pensions provide excellent outcomes in retirement, characterised by the following attributes:

- Regular income which can be varied up or down by the member (subject to minimum drawdowns).
- Access to lump sums when required to meet unexpected or one-off expenses.
- The opportunity for continued capital growth and construction of diversified investment portfolios that perform well in varying market and economic environments. Well-structured portfolios can deliver higher and longer retirement incomes and if well designed, appropriately respond to inflation risks – maintaining the purchasing power of savings.
- They are relatively simple for members to understand and can be delivered at low cost.
- Avoid inherent inequities with many longevity products that are not appropriate for lower balance members, orthose shorter life expectancy.

Trustees should also explicitly consider how tax-free retirement accounts interact with the Age Pension to ensure recommended drawdown rates and investment portfolio construction optimise risk adjusted incomes. In the foreseeable future tax-free retirement accounts are likely to be the mainstay superannuation retirement solution for most members. Significant system level improvements can be achieved by ensuring more members can benefit from tax-free retirement accounts.

Taxed super accumulation accounts

Under current policy settings, when members enter retirement, in the absence of an active decision being made, the effective default results in them keeping their superannuation invested in the accumulation phase rather than switching entirely to an income stream product. Simultaneously, they are expected to access their savings by making periodic lump sum withdrawals. This reflects a model where retirees maintain their investment exposure while drawing down flexibly, rather than converting their entire balance into a regular pension payment immediately upon retirement. SMC recommends that the principles should acknowledge that some members may choose to retain an accumulation account, for very important reasons. However, the overarching objective should be that members are defaulted to tax free retirement accounts with greater flexibility that addresses current limitations in respect to drawdowns and contributions. SMC analysis shows that around 700,000 Australians over 65 who aren't working full-time still have an accumulation account. This means they could be paying an extra $650 in taxes each year on average.

Some retirees make an active choice to remain in the accumulation phase this because:

- It retains flexibility in managing their super, including being able to make additional contributions if still working or to avoid the minimum drawdown requirements that come with income streams like account-based pensions.
- Some retirees use accumulation accounts as a precautionary savings buffer for unexpected expenses or future contingencies, while drawing income from another pension account.
- It gives more control over lump-sum withdrawals without committing to a fixed income stream schedule.
- For members unsure about future income needs or who want to delay converting all funds into a pension, accumulation accounts offer a way to keep options open.
- Those who anticipate the possibility of returning to work may keep an accumulation account active to continue making voluntary contributions which they cannot do once in pension phase.
- The practical consequence of the Transfer Balance Cap – which require super savings in excess of the cap to be held in an accumulation account.

The use of accumulation products in retirement will persist until reforms are taken up by government to simplify the situation for members by allowing tax-free retirement accounts to receive contributions (subject to safeguards to prevent recontribution strategies) and also allowing members with very low balances to not be subject to minimum drawdown requirements.

Supporting member engagement with retirement income solutions

SMC supports this principle as responsive communication deepens trust between members and trustees, promoting confidence, engagement and higher member satisfaction.

SMC recommends that this principle reference trustees engaging with members according to their individual engagement preferences. Tailoring engagement approaches based on members' preferred communication channels and frequency improves the likelihood that members will receive, understand, and act on important information about their retirement options and income needs. Recognising and responding to individual engagement preferences also respects member choice.

SMC recognises the important role of the Delivering Better Financial Outcomes (DBFO) reforms and how they are expected to have a positive impact on the types of tools and calculators super funds can offer to help people plan for retirement. The reforms aim to enable trustees to better engage members through trustworthy and accurate tools like retirement calculators, which are currently limited by regulatory restrictions.

SMC reiterates the importance of the DBFO reforms being expedited and aligning with the implementation of these principles. The DFBO reforms will allow funds to offer more tailored, simple, and accessible calculators and planning tools that better reflect individual circumstances and help members make confident decisions about their retirement income.

SMC also recommends that retirement calculators be designed to facilitate clear and seamless links to relevant factors such as eligibility for the Age Pension. Given that most Australians rely on the Age Pension to some degree in retirement, integrating this information into retirement planning tools is essential to give an accurate and comprehensive view of a member's retirement income outlook. Super funds need to be able to enhance their capabilities to provide members with more frequent and personalised retirement income estimates. This should reflect members' current balances, investment performance, and drawdown behaviours, enabling individuals to see realistic projections tailored to their circumstances.

Moreover, funds must be able to extend these estimations to members already in the drawdown phase of their retirement journey, offering clear insights into how long their super savings are likely to last based on their current withdrawal rates.

Such proactive and customised communication will empower members to make more informed decisions, adjust their drawdown strategies as needed, and improve their retirement income sustainability.

Review and improve

SMC supports principles 18 and 19 to review and improve trustee-designed retirement income solutions and note that it is an existing obligation under Prudential Standard SPS 515 Strategic Planning and Member Outcomes (SPS 515). The principles promote active trustee accountability, continuous member-focused improvement, data-driven decision-making, and alignment with legal obligations-all essential for delivering better retirement outcomes to members.