SUPER MEMBERS COUNCIL

October 2025

Retirement revolution: Simpler smarter retirement

Executive summary

Over the coming decade, 2.8 million more Australians will reach retirement.

This ‘silver tsunami’ will double the number of Australians newly retiring each year – with the influx growing to 300,000 new retirees each year, up from 150,000 a decade ago.

And the amount of money these retirees have in super by the age of 60 will almost double, too, rising from $750 billion-$800 billion over the past decade, to almost $1.5 trillion over the next.

Australia’s super system needs to be ready to meet them.

Simplicity is needed urgently

Yet navigating retirement today is more complex than in the past. Australians now live longer and healthier lives, retire with higher levels of debt, and often need to work out how best to combine some income from both their super and the Age Pension to optimise their living standards in retirement.

Many are trying to do so without access to enough simple information, guidance and advice to help make the very most of their retirement. Urgent reforms to financial advice are an important part of the answer, but there is more to do.

Without new solutions, our current retirement system will continue to impose too much complexity on retirees, which is overwhelming for all but the most financially confident.

New analysis by the Super Members Council, set out in this report, reveals how this current complexity prevents many of Australia’s retirees from truly making the most of their super – and means many are paying more tax than they need to.

From complexity to simplicity

Australians expect and deserve a much simpler transition to retirement. This is crucial given the universal and compulsory nature of Australia’s super system.

As the nation’s super system reaches this inflection point, there is an important task for both policymakers and the system to make retirement simpler, smarter and more intuitive.

A more integrated approach to retirement income

For many pre-retirees, it is still too hard to get a sense of how much income you could have to live on in retirement by combining income from your super with the Age Pension.

One of the biggest barriers to having clear and simple information is a current lack of integration between the super and pension systems.

This highlights the urgent need to better integrate these two key pieces of information, to give a simple snapshot to every pre-retiree to help them retire with confidence.

This report also finds very low take-up levels of other potentially helpful sources of income in retirement – such as lifetime income products and home equity schemes, mainly due to lack of understanding and trust. This further highlights the many ‘complexity barriers’ for retirees.

Against this backdrop, the Super Members Council wants to make Australia’s retirement income system much simpler and easier for all retirees to navigate.

Smarter and more intuitive paths to retirement

A key idea outlined in this report is a proposed new system of ‘smart retirement pathways’ for retirees.

Managed and administered by their super funds, these pathways would significantly simplify the journey into retirement for most retirees and lessen the need for complex decision-making.

This system of smart retirement pathways would be complemented by the ongoing availability of quality personal financial advice for those who want it, and a larger-scale simple advice regime through DBFO reforms for retirees who only need some basic guidance and advice at key moments.

Our modelling finds these smart pathways could boost retirement income by up to $136,000 (16.5%) for a typical retiree household[1].

[1] See Figure 28 (page 42) Scenario 5 and Appendix 3 section 2.5 (page 59)

Slashing red tape for retirees

Another urgent reform is tackling the current barriers from moving into a tax-free retirement account.

SMC has long advocated to fix a law that currently forces many retirees to have two super accounts – and pay two sets of fees – if they retire but still want to do some paid work every now and again.

This rule creates more tax, red tape and paperwork for Australia's retirees.

At the same time, the general complexity of retirement is causing decision paralysis, especially for poorer retirees, leading many to leave all their money in a taxed accumulation account even when retired.

A roadmap for retirement reform

Drawing on powerful new data insights on how millions of retirees are navigating their retirement now, this report outlines some urgent short-term reform directions:

1) Expand access to simple, affordable advice

- Introduce Delivering Better Financial Outcomes legislation to Parliament before the end of 2025.
- Let super funds help their members with Age Pension applications, streamlining the process and improving uptake for eligible retirees.
- Remove restrictions that stop funds from offering accurate, tailored online retirement calculators.

2) Enable safe and effective data sharing and integration of income sources

- Fast track a process to enhance data sharing between Government agencies and super funds. This would enable funds to provide a real time retirement income dashboard to members with super and any age pension and how they can be optimised.

3) Support smart retirement pathways and suggested retirement income products

- Encourage the development of simple, well-designed 'smart retirement pathways' and suggested products for disengaged members, while ensuring flexibility and avoiding mandatory lifetime income products.

4) Preserve flexibility and member choice

- Ensure retirees retain control over how they use their savings, amid individual circumstances and preferences.
- Avoid mandating lifetime income products or standardised solutions that may not suit all retirees, especially those with low balances or specific needs.

5) Fix issues that lead to dual accounts

- Let retirees make super 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 – with safeguards to preserve integrity and necessary insurance.

6) Encourage best practice and continuous improvement

- Implement retirement best practice principles to guide service quality and stronger retirements.
- Enable trials of new approaches, including behavioural nudges, tailored guidance tools, and hybrid product offerings.

This report also proposes several bolder directions for reform. SMC will work closely with profit-to-member super funds in a process of careful design and consultation to further develop these ideas.

1. Simplifying the transition to tax-free income

Issue: Some Australians—particularly if they have less super—struggle to transition from accumulation to retirement accounts due to limited financial advice, complex decision-making, or lack of awareness.

Potential reform directions for further exploration:

- Consider key engagement approaches to members in accumulation over 65.
- Consider eligible accounts to automatically transition to the retirement phase upon meeting an unrestricted condition of release.
- Designing special simplified pathways for low-balance members to move into the tax-free retirement phase without needing to navigate complex processes.
- Exploring other models such as guided transitions supported by digital tools.
- Ensuring insurance needed by members is not lost.

2. Rethinking minimum drawdown requirements for low balances

Issue: Australians with modest super balances may be discouraged from entering the retirement phase due to mandatory drawdown rules, which may not align with their financial needs.

Potential reform directions for exploration:

- Review and adjust minimum drawdown requirements for members with low account balances, and explore strategies to encourage drawdowns above the minimum across varying balance levels
- Applying exemptions to a defined portion of a member's balance, regardless of total holdings.
- Ensuring a system-wide view of member accounts to prevent rule circumvention across multiple funds.

3. Consumer protections via a quality filter for retirement products

Issue: Super fund members making the move into retirement are vulnerable to being sold poor retirement products that operate outside the strong safeguards of the APRA-regulated system.

Potential issues for exploration:

- What should be the key components in a 'quality filter' on all retirement products – including investment performance, fees, digital tools, member service and design innovation?
- Assessments would likely align with key objectives: maximising retirement income, managing associated risks, and enabling flexible access for retirees. Thorough research and analysis is needed to ensure it delivers sustained benefits over the long term.

Working together, we can simplify the retirement system, reduce inefficiencies, and bring to life the full promise of the Retirement Income Covenant and super's legislative objective.

We want every Australian to have a simpler, smarter retirement.

Content

About the Super Members Council

We're a strong voice advocating for the interests of 12 million Australians with over $1.6 trillion in retirement savings in profit-to-member super funds. Our purpose is to protect and advance the interests of super fund members throughout their lives, advocating on their behalf to ensure super 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.

Introduction

This is the second report in SMC's groundbreaking *Retirement Revolution* series.

Our first report set out a powerful new snapshot of Australia's evolving retirement system. It found today's new retirees typically have more super than earlier waves of retirees, and higher retirement incomes.

This is great news, but it has also made decision-making more complex for Australians as they retire.

This report analyses how Australians today are managing their incomes after retirement – and especially how they invest and draw down income from their super. It finds that, for many Australians, planning for retirement is overly complex and confusing.

This is due to complexity in super system laws and regulations, a bewildering array of product choices, complexities in Age Pension means-testing, and uncertainty about both how long they will live and the cost of their future aged care needs.

With almost 3 million Australians expected to reach retirement age over the next decade, and with super balances at retirement projected to continue rising in the years ahead, helping retirees manage their income effectively is a pressing public policy issue.

Simplifying the super system and making it even safer and smarter for Australia's retirees is an urgent task. Well-designed retirement solutions are needed to help people confidently spend their savings, manage risks, and enjoy a more secure and dignified retirement.

While one part of the answer to this challenge is expanding access to quality financial advice, there is also an important task for the super system – notably through product and system design changes – particularly given the universal and compulsory nature of the super system.

There is a need for simple and safe products that help retirees to maximise their income while managing key risks, such as longevity and rising living costs.

Despite a proliferation of new and 'innovative' retirement products, many today are complex, there's varying value, and they don't smoothly integrate income sources like super and the Age Pension.

Fixing these issues needs a balanced approach– recognising different groups will need different design features. But reforms to smooth the pathway to retirement should aim to reduce complexity experienced by all retirees, regardless of their financial literacy and confidence.

Together, the evidence and insights in this report lay the groundwork for the thoughtful policy roadmap presented in chapters 6, 7 and 8. It sets out actionable policy reforms to make Australia's retirement income system even fairer, simpler, and smarter as it enters a new phase of maturity.

These insights can help governments to make good policy decisions and prioritise changes that will benefit retirees. These insights can also help super funds as they continue to refine their retirement income strategies and develop the mix of information, guidance, advice and products best suited to their members.

What's in this report?

This report sets out detailed new evidence and analysis of how Australians are now managing their incomes in retirement, drawing on fund-level data, behavioural insights, and modelling. It comprehensively updates Australia's evidence base on retiree incomes.

The report illuminates the diverse experiences of retirees and pre-retirees today, the evolving role of super in their retirement income, and looks at how we can improve system settings for the growing number of Australians entering retirement.

The report is structured in eight parts:

1. **Why reform is needed** – which quantifies the pipeline of retirees entering the system over the next decade, and some of their general characteristics, and outlines some of the complexities these retirees face, laying out a compelling case for change.
2. **Is every retirement unique?** – publishes new modelling by SMC to support funds to better understand member characteristics and that they can be reliably segmented into broad groups, a precursor to taking a more proactive approach to solve their retirement challenges at scale.

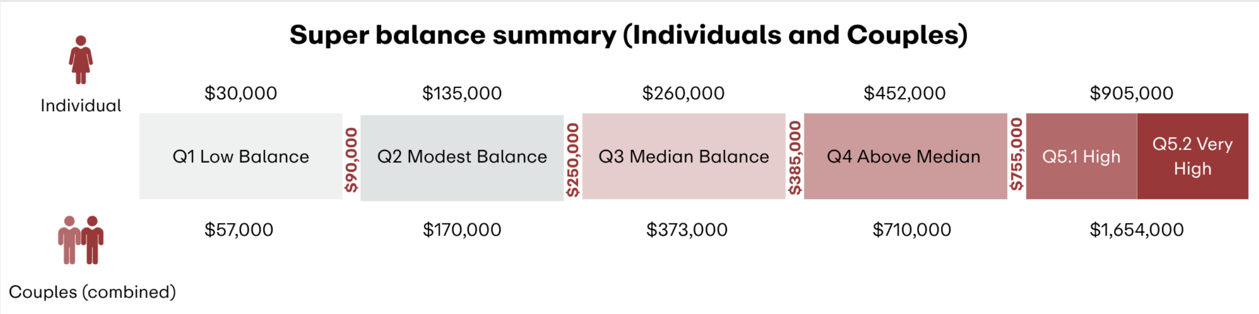
3. **Patterns of behaviour, key issues and myths** – new SMC modelling analyses key behaviours of pre-retirees caused by overcomplexity in the system, which costs retirees both time and money. This chapter also sets out compelling new evidence that busts a key myth about retirement – an often-repeated assertion that many retirees are underspending their super. This evidence shows clearly that today's retirees are, in fact, drawing down more than the minimums.
4. **Other parts of the system we need to consider** – looks at critical role of the Age Pension, and the potential contribution of lifetime income products and home equity - income solutions that are under-utilised, a further manifestation of complexities in the system.
5. **How the Government and funds have responded so far** – sets out an abridged history of reforms to improve the retirement experiences of retirees. It draws a clear conclusion – system reform has been heading in the right direction to smooth and simplify paths, but much more needs to be done.
6. **A vision and principles for reform** – sets out SMC's high-level vision for the future of retirement and a set of principles to guide reform.
7. **Smart retirement pathways** – outlines SMC's proposal for the creation of a system of smart retirement pathways, a proactive approach that can lessen complicated decision making for the vast majority of retirees. This section draws on our new PRISM analysis to identify elements that could be considered in the design of such a system.
8. **From vision to reality – next steps** – which sets out the full summary of potential changes identified through the report that could help realise this vision of simpler, smarter retirements for the coming "silver tsunami" of Australian retirees, including quick wins and reform directions that require further systematic work to fully solve.

Two notes on terminology

1. Throughout this report, we refer to 'taxed accumulation accounts' and 'tax-free retirement accounts'. The former refers to super accounts during the working phase of our lives, otherwise known as 'accumulation accounts' or 'accumulation-phase accounts'. The latter refers to super accounts during the retirement phase of our lives, otherwise known as 'retirement accounts', 'retirement-phase accounts', 'pension accounts' or 'account-based pension accounts'.

2. This report also refers to 'balance quintiles' – slicing the data on retiree super balances into five equal 20% groupings to identify key characteristics and trends. The balance quintiles are defined using superannuation balances from HILDA Wave 22 for households aged 60-69 that hold superannuation, have at least one member in the labour force, and are not currently drawing on super income. All values are expressed in 2025 dollars.

   The graphic below shows these quintiles, including the mid-point in each quintile for both couples and individuals, and the quintile boundaries.



1. Why reform is needed

Australia's super system is fast approaching a major inflection point, with greater numbers of retirees reaching retirement with super and needing to convert it into income.

The time is now to ensure the super system's settings are as effective and user-friendly in retirement as they are across our working lives.

- By 2030, retirement-phase assets and retiree numbers will dominate super funds' liquidity management.[2]
- By 2030-2031, Baby Boomer retirements will have peaked.[3]
- By 2035, it is estimated benefit payments will exceed new contributions - systemwide.[4]

But as the system matures, planning for retirement gets much more complicated.

The key retirement system trends

Growing numbers of retirees

Over the past decade, about 1.9 million Australians turned 65 and met a general condition of release with their super. This is expected to swell over the coming decade to 2.8 million people – a 50% uplift – with the number of Australians newly retiring climbing from around 150,000 a year to over 300,000 a year.

The value of super balances meeting a general condition of release will nearly double in nominal terms, rising from $750 billion-$800 billion over the past 10 years to almost $1.5 trillion over the next 10 years. Even after adjusting for wages, this represents a 30% real increase, underscoring the maturing of the super system.

Larger super balances in retirement

Future retirees will enter retirement with larger super balances thanks to Australia's maturing super system. By the mid-2040s, typical new retirees will have had super coverage across their entire working lives. This will further lift retirement incomes and reduce reliance on the Age Pension.

SMC's modelling shows that the number of retirees with super balances above $250,000 is increasing rapidly, with the median balance for new retirees projected to exceed this level by 2030. By 2035, most new retirees will rely primarily on super and the Age Pension, requiring efficient income conversion and risk management.

With these changes, more people will face the complexity of managing their own retirement savings. With many becoming part-Pensioners, they will need to navigate the interaction between super and government supports.

Longer and healthier lives in retirement

Longer and healthier lives mean super savings will have to stretch for decades. Australians currently aged 65 can expect to live for another 20 years if they are male and almost 23 years if they are female. While they can typically expect more years of good health, they are also likely to face extended periods of poor health and cognitive decline later in life. This will affect their ability to make financial decisions and may place some at higher risk of financial abuse.

These trends are likely to shape how much super people have at retirement, when and how they need to start accessing their super, and how long it will last. They also mean retirees will face increasingly complex decisions about how they combine different income sources, especially for couple households where one partner remains in the paid workforce longer than the other or lives longer.

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[2] APRA 2019, Superannuation in Australia: planning for change, sustainability and resilience, APRA Insight Issue Two, December 2019.

[3] PBO 2019, Australia's Ageing Population – Understanding the fiscal impacts over the next decade, Report no.02 - 2019.

[4] SMC Cashflow Model – benefit payments include income streams and all benefit payments for members in accumulation and retirement phases. Retirement drawdowns (excluding lump sums) are estimated to exceed contributions system wide by 2062-63 (IGR 2023 Chart 7.18 p 166).

Retirement age is rising

Between 2018 and 2022, the average age of retirement in Australia was 62.3 years, up from 58.3 years for people who retired between 2003 and 2007[5]. Men retired at an average age of 63.6 years, while women retired at 61.1 years. Workforce participation among older Australians has also risen significantly, with 33% of people aged 65–69 still working in 2022, compared to 24% in 2012[6].

These figures reflect both policy shifts, such as the shift in Age Pension eligibility age to 67, and behavioural changes, including improved health, flexible work arrangements, and evolving financial expectations.

The move into retirement is increasingly complex

The old notion of the sudden hard stop 'capital R' retirement is now much less common.

Retirement is increasingly understood as a phased transition rather than a discrete event. Today, many Australians reduce their working hours or change roles before fully exiting the workforce. Re-entry into paid employment post-retirement is also common, with around 20% of retirees[7] returning to work due to financial necessity or personal choice.

Insights from consumer research commissioned by SMC[8], combined with insights from HILDA data, highlight a range of factors that influence retirement decisions. Financial readiness remains a primary determinant, with super balance adequacy strongly correlated with retirement timing. People with higher super balances tend to retire earlier, while those with lower balances often delay retirement or rely more heavily on the Age Pension.

Health and cognitive capacity also play a significant role. While longer lifespans mean more years of good health, they may also bring extended periods of poor health and cognitive decline, which can affect financial decision-making and increase vulnerability to financial abuse.

Employment conditions are another key factor. Flexible work arrangements allow older Australians to delay full retirement. Involuntary retirement due to redundancy, age discrimination, or caregiving responsibilities remains prevalent.

Gendered life events further shape retirement pathways. Women's decisions are more likely to be influenced by caregiving roles, relationship breakdowns, and housing insecurity.

Transition into retirement is far from uniform

Each year, over 150,000 Australians reach the general condition of release for their super, and this number is projected to double to more than 300,000 annually by the mid-2030s. While many expect to retire at Age Pension age (67), one-third access their super by age 63, and one in four continue working into their 70s. These patterns reflect a complex mix of personal circumstances, financial readiness, and system design features that shape decisions about when to start a retirement income stream and access the tax advantages of the tax-free retirement account phase in super.

Retirement confusion reigns

Behavioural insights from a consumer survey[9] commissioned by SMC reveals that confusion and knowledge gaps are widespread among Australians approaching and living in retirement. While most people have at least heard of the main retirement income options, only a minority feel they truly understand how these products and systems work.

The survey shows key areas of confusion include:

- **Tax rules and aged care costs**: Only 16% of pre-retirees say it is easy to understand tax rules in retirement, and just 17% find it easy to understand potential aged care costs. More than half (54% and 48% respectively) say these areas are difficult to understand.

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[5] ABS 6238.0 Table 14.1 Retirement and Intentions (May 2024)

[6] ABS 6291.0.55.001-LM9 (Sep 2025 release), table 1

[7] ABS 6238.0 - Table 12.1 (2022-23)

[8] 2025 Pyxis Polling and Insights: Attitudes, expectations & concerns for retirement – Quantitative research

[9] 2025 Pyxis Polling and Insights: Attitudes, expectations & concerns for retirement – Quantitative research

- **Retirement products**: 75% of pre-retirees say they find the range of retirement products confusing, and even among retirees, 55% report confusion. Women and people with lower-value assets are especially likely to admit confusion.
- **Super withdrawal rules**: 41% of pre-retirees find the rules around taking money out of super difficult to understand.
- **Age Pension and government systems**: 35% of pre-retirees say it is difficult to understand Age Pension rules, and 35% find it difficult to work out how much Age Pension they could be entitled to receive.
- **Retirement income products**: 44% of pre-retirees find retirement income products difficult to understand, and only 11% say they know a lot about tax-free retirement accounts, with even fewer (7%) understanding annuities or lifetime income products.

Advice and information is difficult to access

Australians approaching and living in retirement often struggle to find clear, accessible advice. Survey results show that while many want guidance from their super fund, confusion about where to seek help and how to assess information remains a significant barrier to confident decision-making.

- **Advice channels**: 81% of pre-retirees and 77% of retirees say they would be likely to use basic guidance or financial advice from their super fund if it were free of charge. However, only 50% of pre-retirees and 49% of retirees would be likely to pay for more detailed, personalised advice.
- **Online tools**: 75% of pre-retirees and 61% of retirees would be likely to use online retirement planning tools such as calculators.
- **Barriers to advice**: Many pre-retirees (33%) find it difficult to know how to find a suitable financial adviser, and 23% are unsure whether consulting a financial adviser would be useful for them.

These findings highlight that complexity is driven in large part by different income sources, and their interaction with government means testing and systems, especially the Age Pension and aged care. Super funds play a vital role in giving their members clear information, guidance, and simple product pathways, but cannot fully compensate for the complexity of government rules.

There is strong demand for accessible, trustworthy guidance, but also a clear need for government to simplify the system and regulatory requirements and make it easier for people to understand their options and entitlements. While most would welcome more guidance from their super fund, the current rules mean they can't get answers to simple questions, and the complexity of the system itself remains a major barrier to confident decision-making.

We need a better way to help retirees manage their income confidently and sustainably.

2. Is every retirement unique?

While one part of the solution to the looming retirement challenge of dramatically greater scale is boosting the availability of quality financial advice, there is also an important role to be played by proactive measures at a macro level. This includes retirement product and system design features, such as Australia has, operating in the accumulation phase of the system. This approach might start from the proposition that retirees can readily be segmented into broad groups based on their financial and personal characteristics.

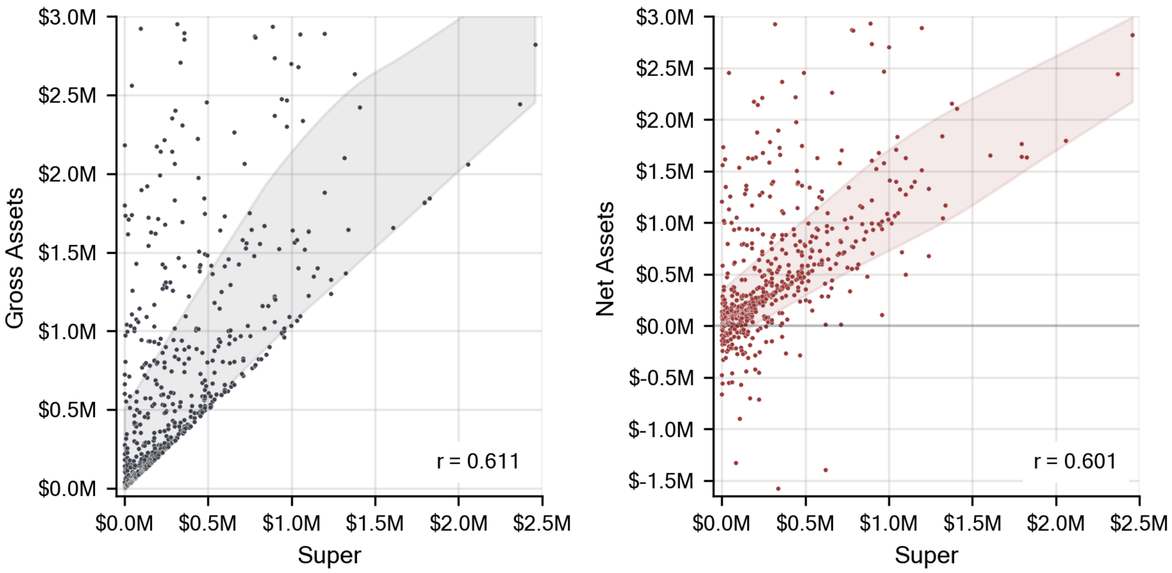
New analysis by SMC – outlined in this chapter - confirms this observation. Most Australians do have a simple financial profile, while acknowledging some variability and complexity based on other factors. For those with more complex financial circumstances, it's possible to identify where they are more likely to be found. This analysis is an important starting point to enable funds to target more active interventions as workers transition to retirement, noting advice and tailored pathways will always remain as options for retirees who want and need it.

Super as a proxy for wealth

Super balances are strongly correlated with overall household net wealth, making them a practical proxy for broader financial means. For most, modest super balances reliably indicate limited other assets, supporting the use of super balances for cohorting and default strategy design.

However, at higher balances, there is greater diversity in asset holdings, suggesting that more individualised consideration may be required for this group. Figure 1 below illustrates the relationship between assets (gross on the left, and net on the right), and super balances, confirming that - generally speaking - super is a reliable proxy for wealth. This has important implications for the role of the Age Pension in members' retirement and other design features and strategies.

Figure 1: Relationship between household super and household wealth



Notes: Analysis has been limited to households with gross assets less than $3 million. Shaded region represents approximately 80% of households for a given super balance group.
Source: ABS Survey of Income and Housing, 2019-20.

This can also be illustrated based on balance quintiles, with Figure 2 below also indicating that, generally speaking, super balance is a reliable proxy for wealth, for both men and women. (See 'Notes on terminology' on page 9 for more about balance quintiles).

Figure 2: Relationship between individual super balances and household net wealth (pre-retirees)

Males

Household equivalised net wealth quintiles	No Super	1	2	3	4	5
5	16%	11%	12%	10%	18%	59%
4	7%	11%	14%	14%	31%	32%
3	11%	10%	14%	34%	38%	6%
2	38%	23%	38%	27%	8%	2%
1	28%	46%	23%	15%	5%	1%

Personal superannuation quintile

Females

Household equivalised net wealth quintiles	No Super	1	2	3	4	5
5	12%	8%	12%	15%	22%	59%
4	14%	9%	15%	19%	35%	34%
3	26%	14%	18%	22%	32%	4%
2	28%	24%	37%	30%	6%	1%
1	21%	44%	18%	14%	5%	1%

Personal superannuation quintile

Notes: Analysis is for income units where both members are aged 60-69, at least one member is employed, the income unit has superannuation and that superannuation remains in the accumulation phase.
Source: ABS Survey of Income and Housing, 2017-18 + 2019-20. Similar results are found using the HILDA Survey.

Higher balance members also tend to have higher engagement and financial literacy

There is also a clear relationship between member engagement with their super balances, which often correlates with varying levels of financial literacy and confidence. An SMC Pyxis survey found that the average engagement score among respondents with above-median balances is more than 40% higher than that of those with below-median balances. To ensure all Australians can make informed decisions in retirement, the system must offer a range of solutions that cater to different needs. This includes thoughtful retirement product design, timely behavioural nudges, accessible guidance, and affordable, trustworthy advice.

A one-size-fits-all approach is unlikely to be effective. Instead, the system should be designed to support people across the full spectrum of financial understanding—ensuring everyone has the tools and support they need to achieve a secure and dignified retirement.

Housing status is a clear marker of financial circumstances

Outright home ownership is much more common among people in the top wealth quintile, while those in lower quintiles are more likely to be renting or carrying a larger mortgage relative to their super savings at retirement. Super balance cohorts show similar, though less sharply defined, trends. Capturing housing status alongside super balances is an essential consideration in cohort segmentation and gives direct insight into likely retirement income needs.

Indebtedness is now a common feature of the retirement landscape

More than 40% of households approaching retirement now have a mortgage, and over half have either a mortgage or personal debt. For people with low super balances, debt poses a significant risk to retirement adequacy, with many exhausting their super savings when they pay off their mortgage. Debt is also prevalent among higher-balance members, underscoring the need to consider debt status in cohorting and retirement planning.

Figure 3: Changes in household indebtedness overtime

	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.

Higher super balances and wealth are associated with better reported mental health and lifespans

While having a higher super balance and wealth is associated with better mental health, the link with physical health is less clear, partly due to selection effects in the data. Financial security and retirement readiness appear to support mental wellbeing, while their relationship to physical health may require further exploration. Nevertheless, many studies (including studies in Australia) find wealthier households live longer than poorer households, with a difference in life expectancy of up to 6.8 years from the bottom to the top.[10]

Ultimately, most Australians have a simple financial profile

Most Australians aged 60–69 who are still working have relatively straightforward financial profiles: their wealth is typically concentrated in super and bank accounts, with limited material exposure to other investments or business holdings until much higher up the wealth distribution. Up to the 4th balance quintile, most households have simple portfolios dominated by super and bank accounts. Ownership of property, shares, and business assets becomes more concentrated at the top of the distribution. Debt and mortgages remain features across all wealth levels, underscoring that indebtedness is not confined to lower-wealth households.

Differences between funds

Super funds may serve distinct cohorts of members, often shaped by particular industries or sectors. This means some funds are more likely to have members concentrated in areas like education, healthcare, or the public service, while others draw from a broader mix of workers across the economy. As a result, the profile of members can vary significantly from fund to fund, including differences in average balances, income levels, and gender representation.

These factors shape how each fund approaches their retirement strategy, member cohorting, engagement strategies and product pathways and design. Funds with proportionately more lower-balance members are more likely to focus on building engagement and supporting and guiding members about the age pension and their super as they prepare for retirement, while those with more engaged higher-balance members may give greater attention to providing tailored guidance and advice, integrating their super with other income sources, and potential benefits of lifetime income products.

[10] See: Timonin et al, 2025, Victoria University Health Tracker 2016, Clarke and Leigh 2011

3. Patterns of behaviour – key issues and myths

To design effective retirement policy and products, it is essential to understand how retirees are behaving within the current system. This section turns to this question, drawing on the latest fund-level data and behavioural insights to analyse how retirees today are accessing and managing their super. Its focus includes how people draw down their savings, and the propensity for many retirees to leave their super in a taxed accumulation account. These insights set out a clear evidence base for reforms grounded in real-world experience to deliver stronger and more confident retirements.

Balance size and financial confidence matter

Members with low super balances often keep their funds in taxed accumulation accounts or withdraw as lump sums only as they need money, citing uncertainty about what to do, precautionary saving motives, or expectations of returning to work. Many of these members are not confident in their understanding of retirement products, and complexity in the system can reinforce decisions to delay or avoid establishing a tax-free retirement account. The combination of these factors is leading to an effective tax penalty for Australians with lower super balances at retirement.

SMC Cameo analysis shows the value of even modest balances in retirement. A full-rate Age Pensioner with $50,000 in super, drawn down at 10% annually, lifts disposable income by about $2,200 per year - around 7.4% higher than the Age Pension alone - adding $56,000 over retirement.

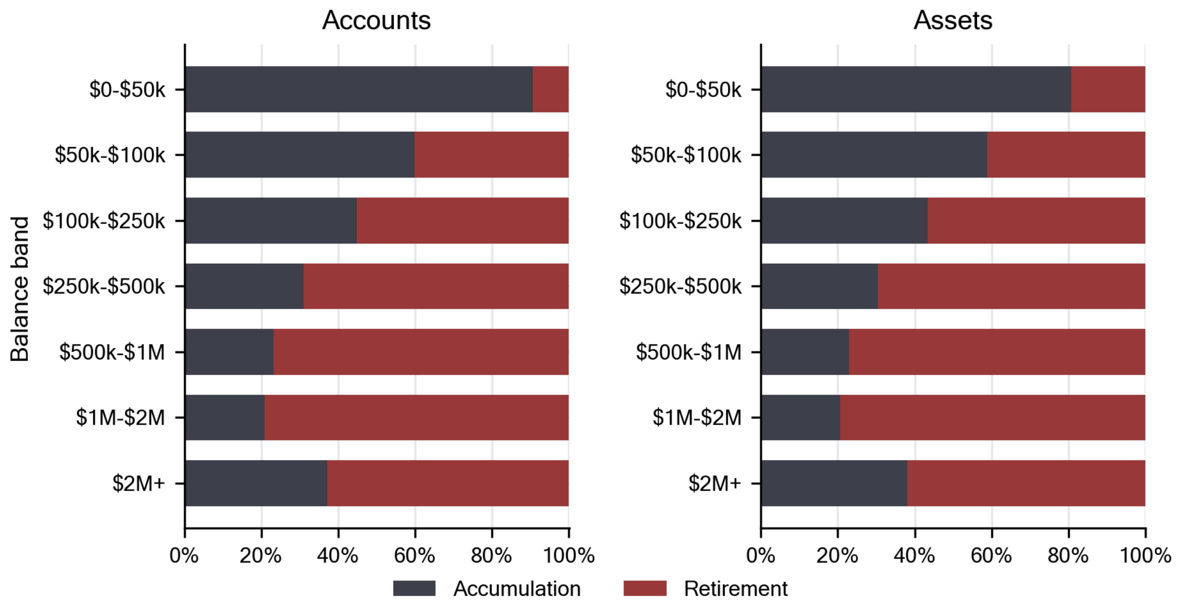
With $100,000 of super at retirement, the income gain doubles to more than $4,400 a year and $115,000 across retirement, underscoring how small balances can materially improve living standards.

For members with higher balances or other income sources, leaving some funds in taxed accumulation accounts may be a conscious precautionary strategy — maintaining a buffer for future contingencies, or spreading retirement income across multiple accounts.

A high proportion of low balance retirees with taxed accumulation accounts

Under current policy settings, when members enter retirement, in the absence of an active decision being made, their super remains invested in a taxed accumulation account. 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 locking in their super balance into a regular payment immediately upon retirement.

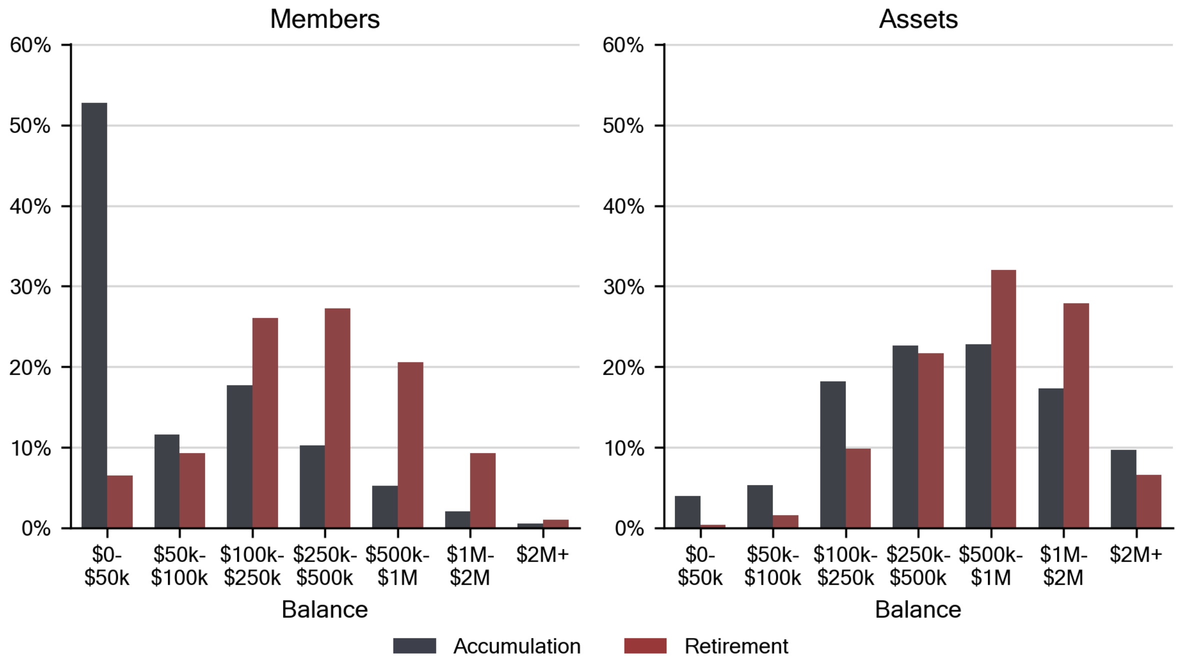
Figure 4: Distribution of member accounts and assets shares by balance range



Source: SMC fund survey data analysis

Too many members are remaining in the taxed accumulation phase and, although some members with higher balances have taxed accounts, the vast majority (over 60%) have balances under $100,000.

Figure 5: Distribution of members' taxed accumulation and tax-free retirement accounts across balance range (members and assets, aged 65+, 2024-25)

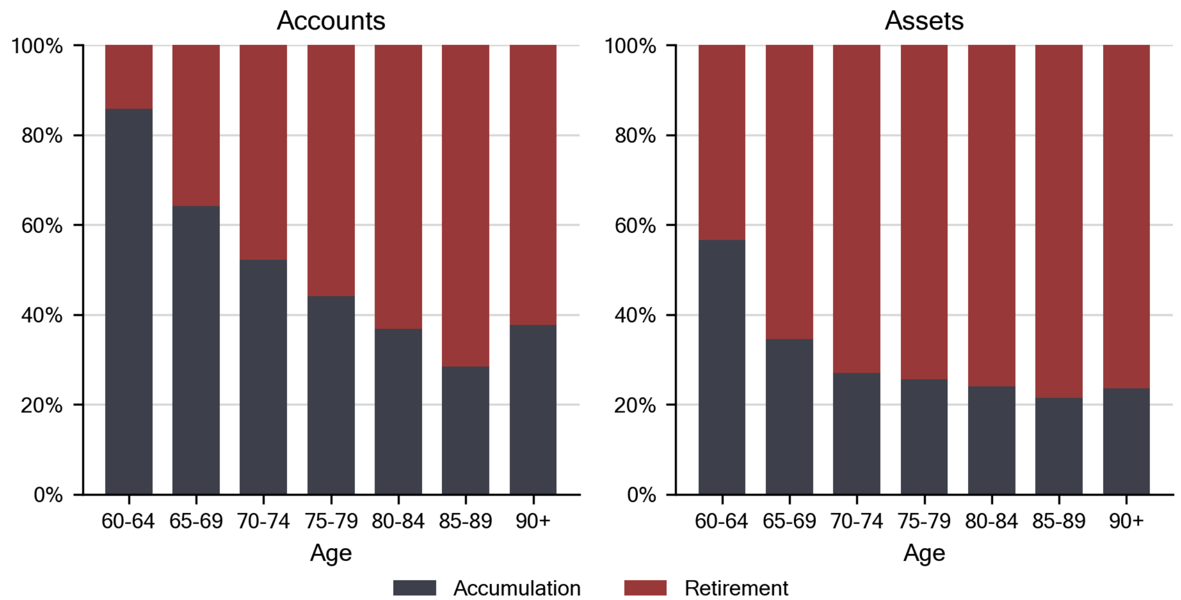


Source: SMC fund survey data analysis

The persistence of taxed accumulation accounts more likely in early retirement

For people over 65, the likelihood of remaining in a taxed accumulation account declines with age – although this is likely a survivorship issue as low balance taxed accounts are drawn down over time.

Figure 6: Phase share of accounts and assets by age (2024-25)



Source: SMC fund survey data analysis

Taxed accumulation accounts make up over 80% of super accounts held by people aged in their early 60s (but only 57% of assets, consistent with tax-free retirement accounts tending towards higher balances). For those in their late 60s, nearly two thirds of accounts are in the taxed accumulation phase. Tax-free retirement accounts become the main account type for individuals after their early 70s.

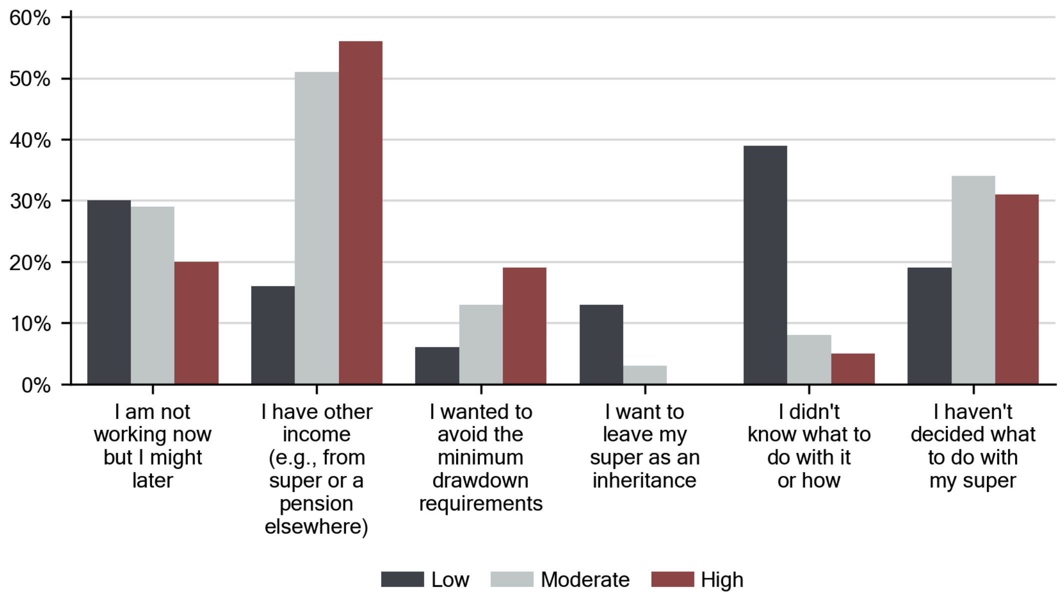
What other factors explain why members remain in taxed accumulation accounts, and what can be done about it?

New SMC analysis shows around 700,000 Australians over 65 who aren't working full-time still have a taxed accumulation account. This raises questions about why they are remaining in taxed accumulation accounts when they would pay less tax ($650 less a year on average) and lift their incomes if they transitioned to tax-free retirement accounts. The reasons are complex.

Some retirees make an active choice to remain in the accumulation phase 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 tax-free retirement accounts.
- It allows them to retain insurance cover that is only available through the accumulation account.
- Some retirees use taxed accumulation accounts as a precautionary savings buffer for unexpected expenses or future contingencies, while drawing income from another tax-free retirement 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 tax-free retirement account, taxed 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 currently do once in tax-free retirement account phase.
- It reflects the practical consequence of the Transfer Balance Cap – which requires super savings in excess of the cap to be held in an accumulation account.

Figure 7: 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.

Current policy settings also create the risk that some people remain in a taxed accumulation account through inertia or because they are confused by the complex rules and are unsure what to do. The concentration of members with low balances in taxed accumulation accounts suggests the complexity of decisions around the transition and desire to have some precautionary savings is a key barrier.

The use of taxed accumulation products in retirement will also persist until government allows tax-free retirement accounts to receive contributions (subject to safeguards to prevent recontribution strategies).

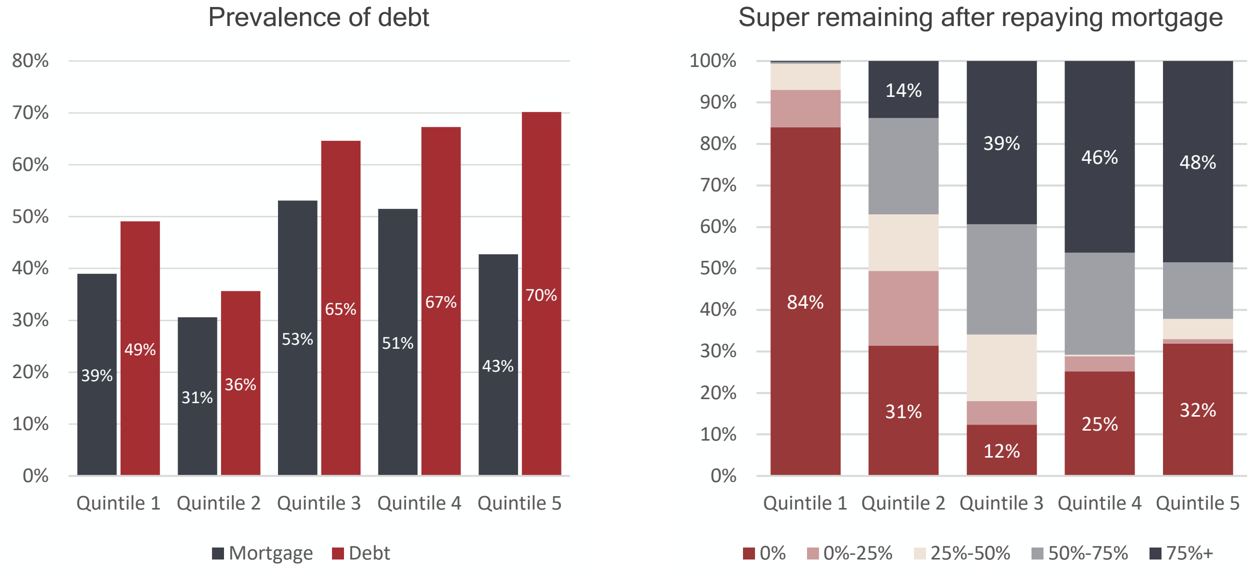
Debt also plays a central role in shaping decisions

More than 40% of households approaching retirement today carry a mortgage, and many use their super to extinguish debt at or near retirement. For these members, the decision to convert balances into tax-free retirement accounts may be delayed or reduced by the need to meet outstanding liabilities.

Debt is now a pervasive feature of the Australian retirement landscape - and has significant implications for retirement adequacy and retirement planning. ABS data shows that more than 40% of households aged 60–69 still carry a mortgage, up from 16% two decades ago. When personal loans such as vehicle finance and credit card debt are included, over half of households have some form of debt. This trend reflects broader shifts in housing affordability, delayed home ownership, and changing financial behaviours over the life course.

Debt is not confined to lower-wealth households. Even among the wealthiest quintile, around one-third still hold a mortgage, and personal debt remains common across the wealth distribution. This underscores that debt is now a structural feature of retirement, not merely a transitional one.

Figure 8: Debt approaching retirement

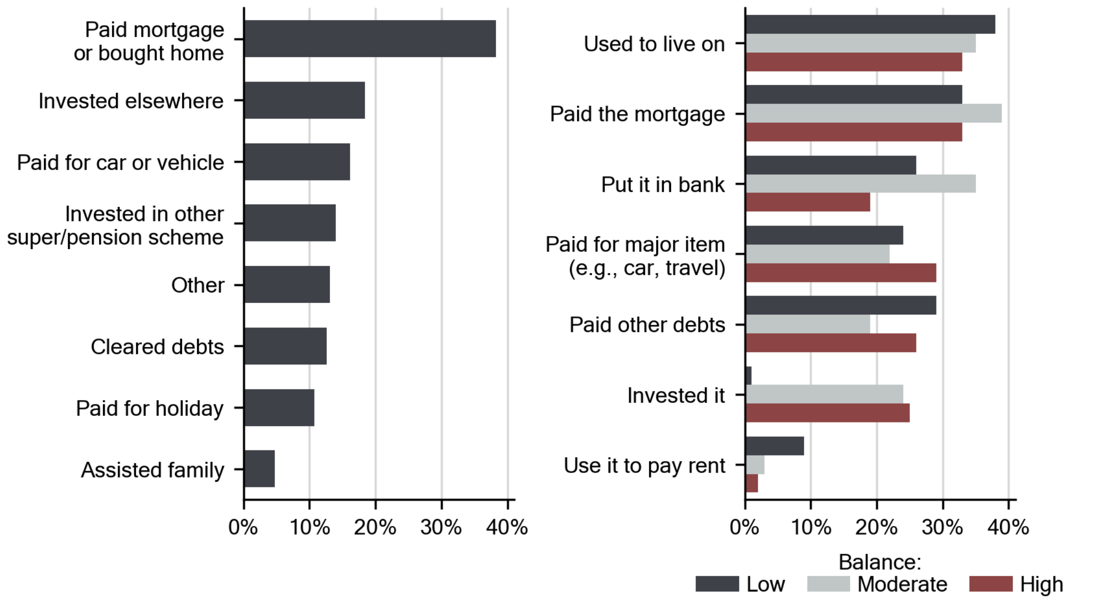


Notes: Analysis is for income units where both members are aged 60-69, at least one member is employed, the income unit has superannuation and that superannuation remains in the accumulation phase. Income units have been grouped by equivalised net wealth quintiles.
Source: ABS Survey of Income and Housing, 2019-20.

Among people with super balances in the lowest 20 percent, who also have debt, (39% have a mortgage) over eight in ten would exhaust their super balance if they used it to repay their mortgage (so overall, almost one in three people in the lowest quintile).

By contrast, people in higher quintiles are more likely to retain a portion of their super after repaying debt. The majority in the top quintiles preserve most of their super savings, though debt still plays a significant role in shaping their retirement decisions.

Figure 9: How retirees spent lump sums



Notes: (left) Retirees aged 60 and over in 2020-21 who withdrew lump sums at any time. Response "Undecided, I don't know" is not displayed. (right) Question 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. Super balance range: low balances (less than $100k), moderate balances (between $100k and $400k) and high balances ($400k or greater). More than one option can be selected for both charts.
Source: ABS Retirement and Retirement Intentions, 2020-21 (left). Susan Bell research commissioned by SMC, 2023 (right).

Retiree drawdown behaviours of different member groups

Despite the persistence of taxed accumulation accounts, new analysis of data from a group of major profit-to-member super funds shows that most retirees actively draw down their super, with the majority withdrawing above the regulatory minimum. Lump sum withdrawals are common among those with lower balances and younger retirees, often reflecting a precautionary approach to unexpected expenses or discretionary spending in early retirement. Tax-free retirement accounts are associated with higher balances and more regular income streams, while taxed accumulation accounts are most often held by Australians with lower balances or who have not yet met the unrestricted release age.

Tax-free retirement accounts have higher average balances and more regular drawdowns

High super balances and more regular drawdowns occur among tax-free retirement accounts. Taxed accumulation accounts are more common among those with lower balances or who are below the unrestricted release age (65), but a significant proportion of assets remain in accumulation phase, even for older members with higher balances.

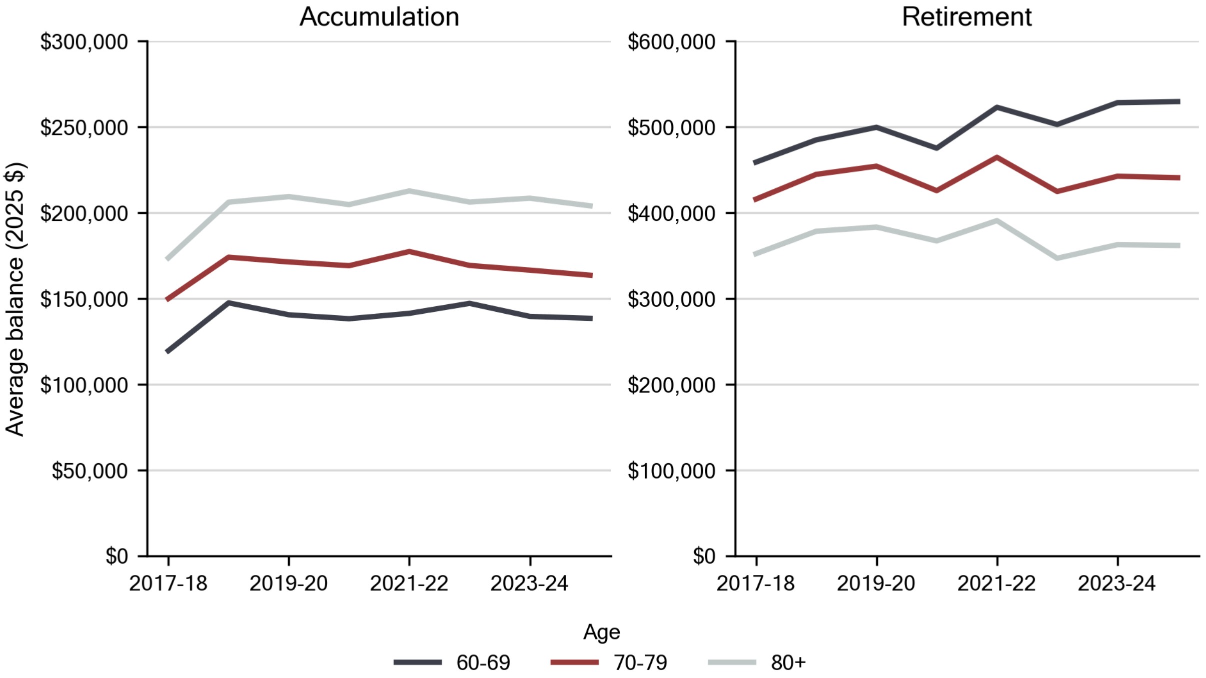
Lump sum withdrawals more prevalent for taxed accumulation accounts

Lump sum withdrawals are more common in taxed accumulation accounts, especially at lower balances. As super balances increase, tax-free retirement accounts become more prominent among lump sum withdrawers, but the amounts withdrawn as lump sums tend to be lower, supplementing regular income rather than replacing it.

Tax-free retirement accounts have higher balances and are growing

After adjusting for wage growth, average tax-free retirement account balances have grown modestly over the period from FY 2017-18 to 2024-25, with more substantial growth seen by younger account holders. Average accumulation account balances saw a large increase in FY 2018-19 and have remained relatively stable since.

Figure 10: Average balances over time by phase and age

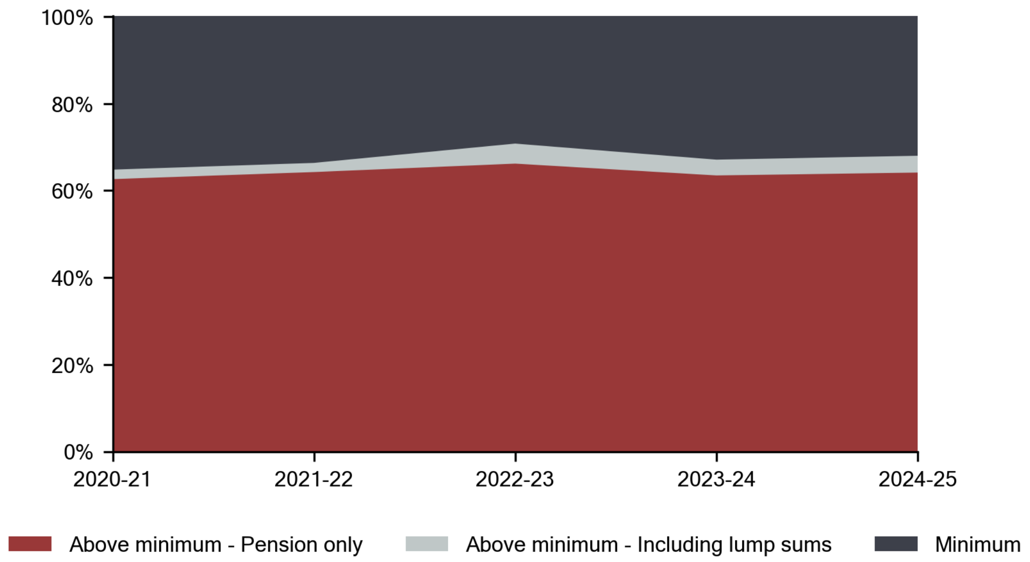


Source: SMC fund survey data analysis

The rate of super drawdowns are generally above the minimum

SMC's analysis of fund data reveals the proportion of tax free retirement members drawing down above the minimum is stable and slowly increasing over time (see Figure 11 below)

Figure 11: Proportion of pension drawdowns above minimum over time (all ages)



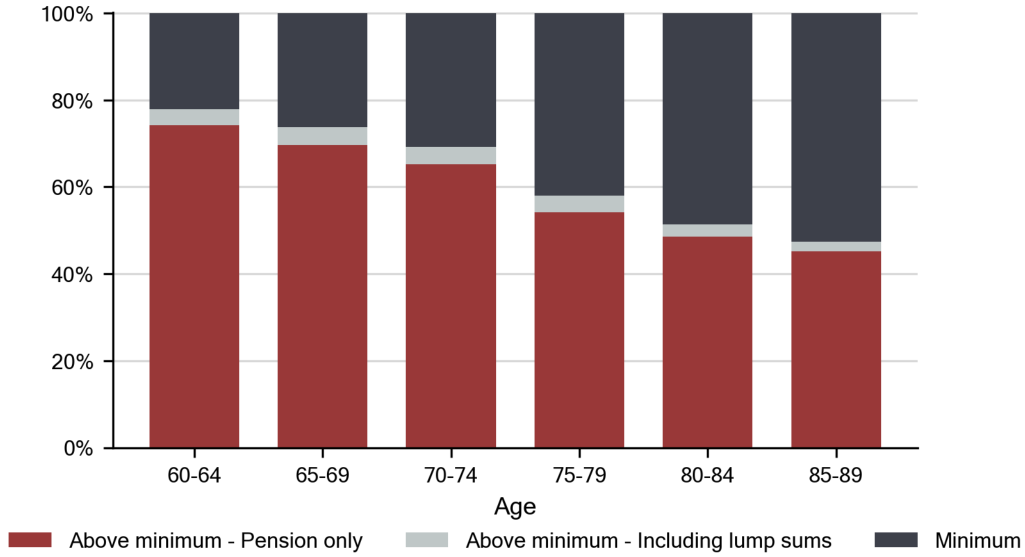
Source: SMC fund survey data analysis

Older retirees (subject to higher aged based minimum drawdown rates), or those with larger balances, are more likely to drawdown the minimum rate than younger retirees or those with smaller balances. The retirees more likely to drawdown more than the minimum are those aged under 65 or those with balances of less than $50,000.

Average drawdowns are substantially above the minimum required for all age cohorts, especially for younger retirees. This means most retirees are not just taking the minimum – they're drawing down more.

This pattern is particularly pronounced among younger retirees, who often have higher average balances and a greater desire to make the most of their early retirement years through discretionary spending - such as travel or home improvements - while their health is good. Adherence to minimum drawdowns increases as the minimums themselves increase (see Figure 12).

Figure 12: Proportion of pension drawdowns above minimum by age (2024-25)



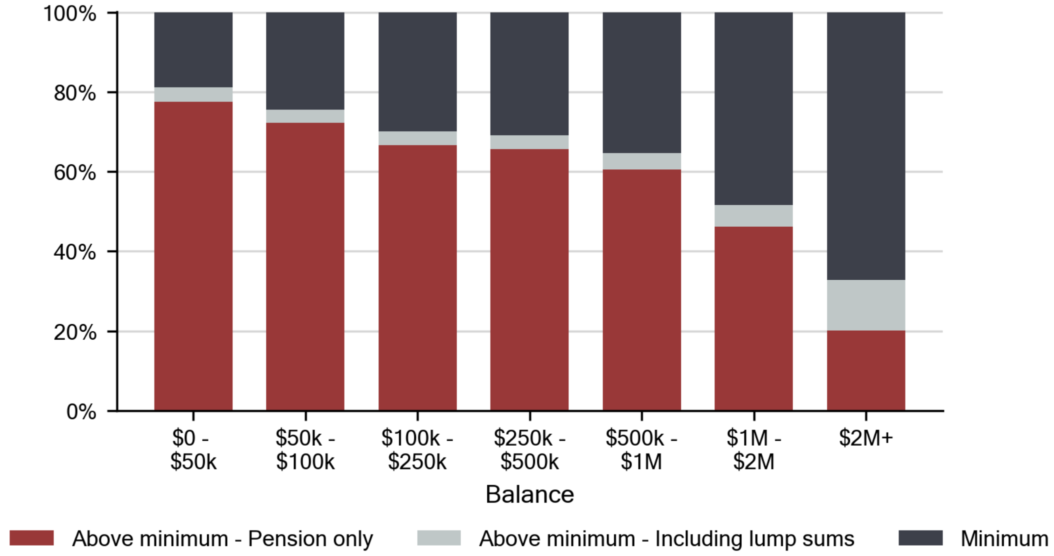
Source: SMC fund survey data analysis

The fact most retirees are drawing more than the minimum suggests a willingness to spend, but retirees with low super balances are withdrawing a much higher proportion, often as lump sums.

Above-minimum withdrawals more common for lower balance members

Most tax-free retirement account holders withdraw at rates above the regulatory minimum, especially those with lower balances. In 2024-25, around 64% of tax-free retirement account holders – or two in every three retirees - withdrew above the minimum, with the proportion for low balance accounts under $50,000 being 78% and the proportion for accounts over $100,000 being 62%. Regular drawdowns rise with age and balance

Figure 13: Proportion of pension drawdowns above minimum by balance (2024-25)



Source: SMC fund survey data analysis

Three quarters of tax-free retirement accountholders with balances under $50,000 withdraw more than the minimum required, even excluding lump sums. Similarly, the majority of those with balances under $1 million exceed the minimum, and even many with over $1 million do so, albeit at lower rates.

Still, a significant minority stick to minimums (even accounting for periodic lump sum withdrawals). For this group, there may be an opportunity to lift their income if they draw down even at a slightly higher rate. This is an important consideration for the design of retirement pathways going forward.

Drawdown rates are not uniform

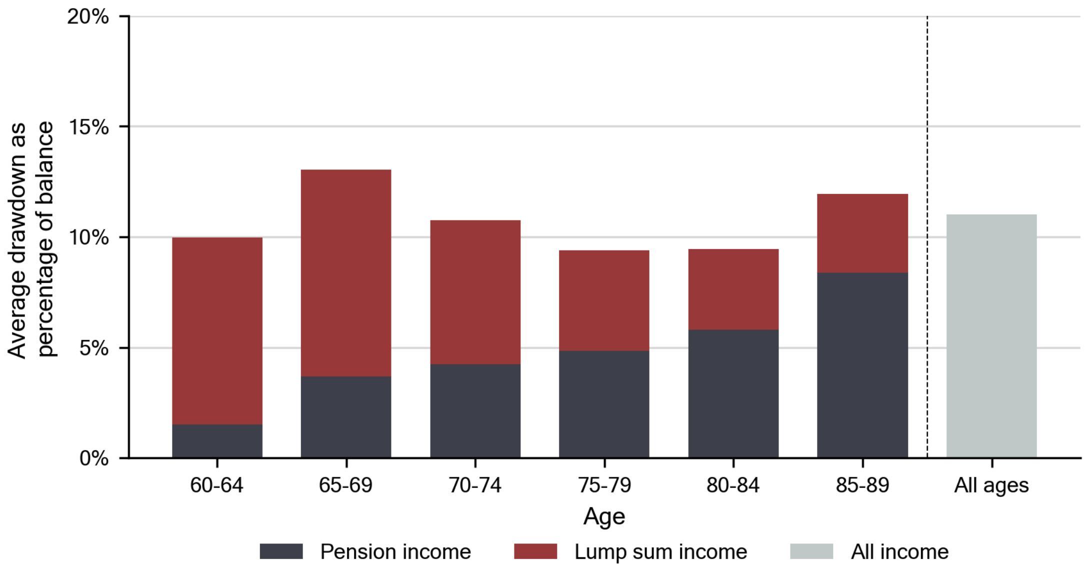
SMC analysis of member-level data shows drawdown rates are bi-modal: a significant cohort draws down at or just above the minimum, but a substantial minority withdraw at much higher rates, especially in the early years post-retirement.

Note: The minimum drawdown rates have been temporarily reduced in 11 of the past 20 years (e.g., during the GFC and COVID-19), distorting observed drawdown patterns and making it more difficult to draw simple conclusions from historical data. SMC's modelling adjusts for these policy changes, showing that, even when minimums are halved, many retirees continue to spend at levels above the (temporarily reduced) minimums, especially when markets recover or personal needs increase.

Overall drawdowns are higher in both the early and later stages of retirement

Drawdown rates are on average highest for those aged 65-69 across both taxed accumulation and tax-free retirement accounts. As retirees enter their 70s, withdrawal rates tend to fall, but they rise again in the 80s, likely driven by higher aged-based minimums and increased health and aged care costs. This U-shaped drawdown behaviour suggests that most retirees are willing to withdraw more than the minimum, adapting their withdrawals to changing needs and circumstances throughout retirement. Members clearly also flexibly use lump sum withdrawals in addition to minimum drawdowns increasing the overall level of income in retirement – especially in early retirement but also as they age.

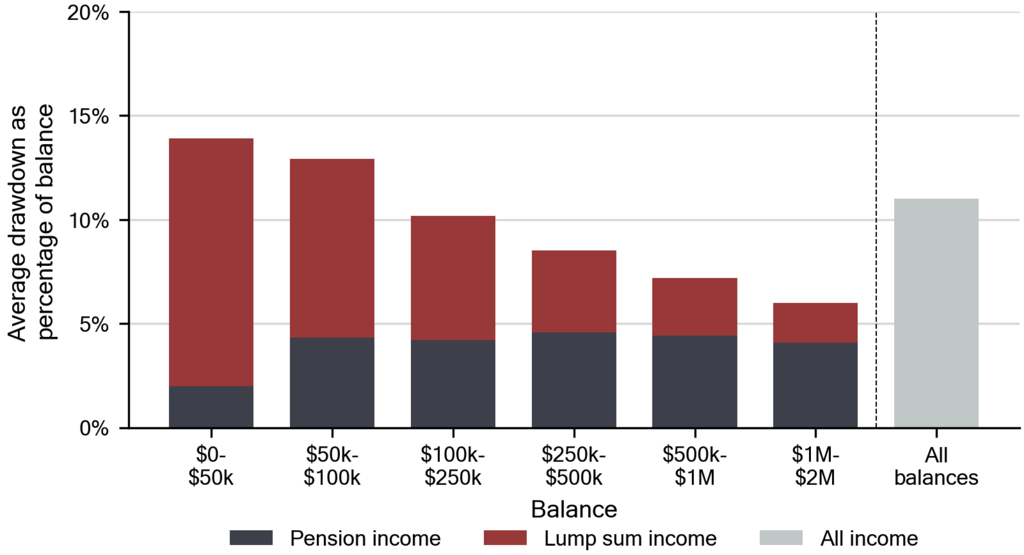
Figure 14: Pension and lump sum drawdowns of accumulation and retirement accounts by age (2024-25)



Source: SMC fund survey data analysis
Note: Lump sum income derives from non-contributory taxed accumulation accounts and tax-free retirement accounts for members of preservation age. Pension income derives solely from tax-free retirement accounts. These are calculated across all retiree accounts.

Members with super balances under $50k typically withdraw larger proportions of their funds, often as lump sums.

Figure 15: Pension and lump sum drawdowns of accumulation and retirement accounts by balance range (2024-25)



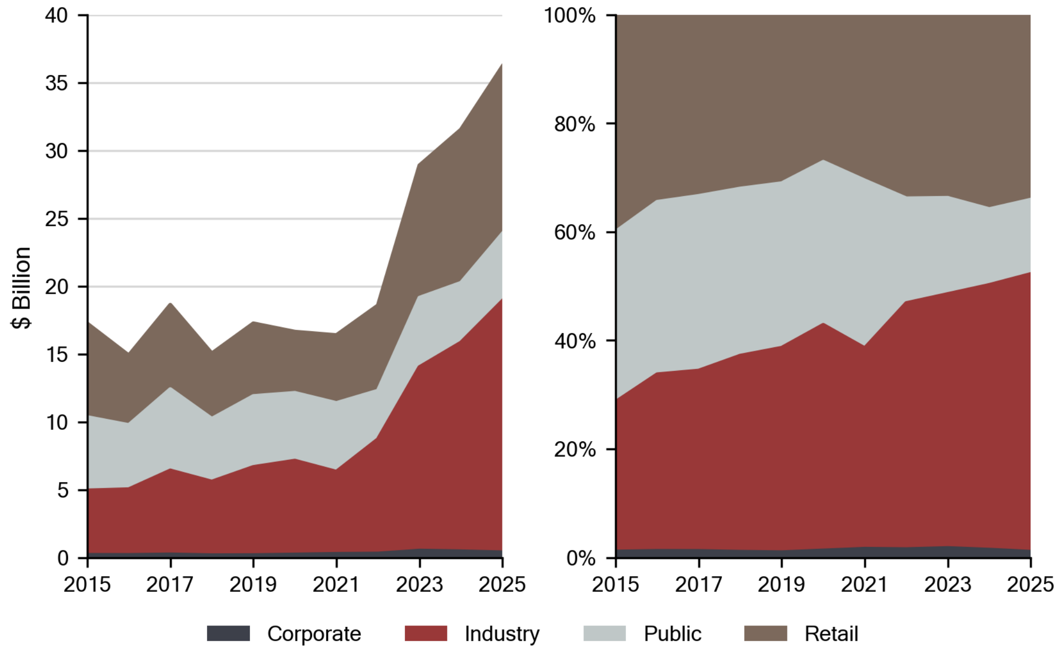
Source: SMC fund survey data analysis
Note: Lump sum income derives from non-contributory taxed accumulation accounts and tax-free retirement accounts for members of preservation age. Pension income derives solely from tax-free retirement accounts. These are calculated across all retiree accounts.

Lump sum withdrawals are typically for debt repayment, home improvements, or health

Debt repayment, home improvement and health explain most withdrawals, not discretionary spending or bequests.

- Only 12% of retirees with super balances above $200,000 took a lump sum exceeding 30% of their balance in the first two years of retirement.
- Retirement related lump sum benefit payments for APRA-regulated sectors have risen substantially in the past decade to around $32 billion as of June 2024, up 83% from $17 billion in June 2015.
- Overall lump sum retirement payments have increased since the financial year to June 2023 (see Figure 16 below), breaking out from the $15 billion to $20 billion range between June 2015 to June 2022 – suggesting cost of living pressures post COVID have been a significant factor.

Figure 16: Lump sum retirement benefit payments



Source: SMC Analysis, APRA Annual Superannuation Bulletin June 2024, APRA Quarterly Superannuation Performance Statistics June 2025.
Note: Retirement lump sum for 2025 is an estimate based on applying historical ratio (of retirement lump sum vs all lump sum) to all lump sum value for the historical years to June 2025 (data from Quarterly performance stat). For each sector, we take the year to June 2025 growth of calculated retirement lump sum and multiply this to the June 2024 carve out sourced from Annual Bulletin.

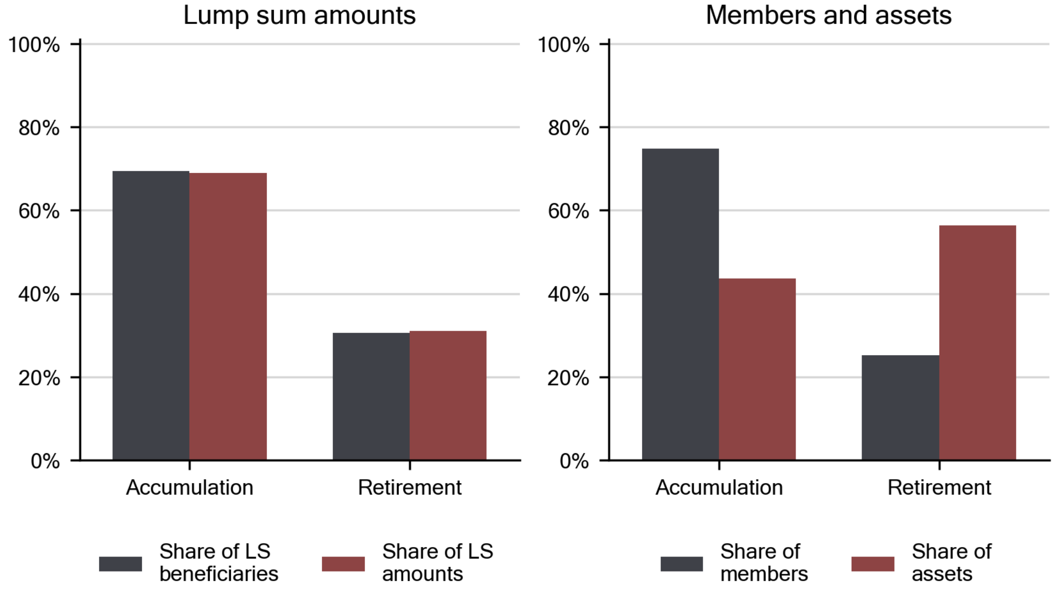
Lump sum withdrawals from taxed accumulation accounts (ages 60-69)

During the early years of retirement, a smaller proportion of people enter the tax-free retirement account phase, while most people in their 60s remain in the taxed accumulation account phase. Two-thirds of persons who make lump sum withdrawals originate from people in the taxed accumulation phase. Having said that, the actual value of super assets withdrawn through lump sums is mainly from members with tax-free retirement accounts.

A recent consumer survey commissioned by SMC reveals that among Australians who have fewer assets, 87% have super before retirement, but only 29% report still having super after retiring – highlighting a strong tendency to withdraw super as a lump sum and quickly exhaust their savings. The group of survey respondents is disproportionately made up of women, single people, and those who are separated or divorced. Most are renters.

In contrast, the group of people with the most assets in retirement are more often men and people in a relationship. About 93% of Australians those with the most assets have super before retirement, and 70% retain super after retiring, showing a much higher likelihood of preserving super as an ongoing income source.

Figure 17: Distribution of lump sums, lump sum recipients, members and assets by phase



Source: SMC fund survey data analysis

For people aged 60-69, lump sum withdrawals are most common among members with lower balances, and these are predominantly taken from taxed accumulation accounts. As balances rise, tax-free retirement account withdrawals become more prevalent, especially for balances over $500,000.

Notably, tax-free retirement accounts with balances under $50,000 are more likely than their taxed accumulation account counterparts to make lump sum withdrawals. This may indicate a preference among some retirees to access most or all of their super at once – often for rational reasons – rather than maintain a regular income stream.

The way retirees access their super savings has important implications for both their financial security in retirement and the sustainability of the super system. People in the 60-69 age group with lower balances who withdraw lump sums from taxed accumulation accounts may be at greater risk of depleting their savings prematurely, potentially increasing reliance on the Age Pension or other government support.

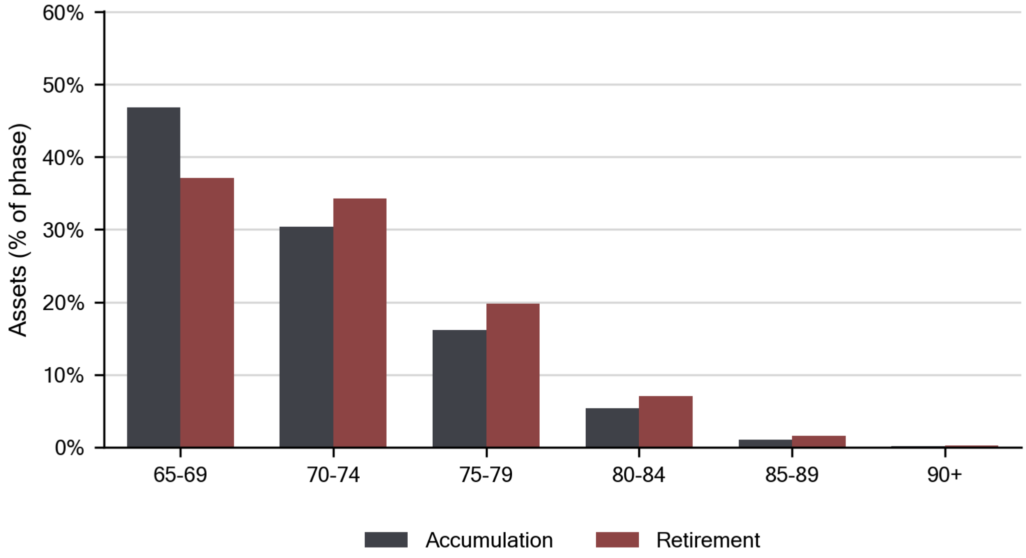
While taking a lump sum may reduce overall income in retirement, it gives retirees the autonomy to address immediate needs or preferences. This flexibility reflects legitimate choices and financial needs and is consistent with the principles of the Retirement Income Covenant, which emphasises the ability for members to match their retirement income to their personal circumstances.

Super savings lasting longer into retirement

The asset distribution by age shows that while the 80+ cohort has lower average balances than younger retirees, they still hold a significant share of total assets*. In 2024-25, the average balance for the 80+ group is around $315,000, compared to $497,000 for those aged 60-69. Note, however, that analysis of average balances by age groups in cross sectional data is subject to survivorship bias (as retirees who exhaust their super balances are excluded from the analysis, so older groups will skew more wealthy on average).

The share of assets held by retirees aged 70+ has increased over time, with the 80+ cohort now representing a significant proportion of total assets. By 2024-25, people aged 70-79 held around 50% of retiree assets, and those aged 80+ held over 6%. This suggests that as the system matures, super savings are lasting longer.

Figure 18: Distribution of assets by phase and age group, 2024-25



Source: SMC fund survey data analysis

The total proportion of Australian retirees in their 80s with super income has doubled from 15% to 30% over the past 22 years[11].

Previous analysis of the Survey of Income and Housing suggests 20% of males and 10% of females currently have super in their 80s. Bequests (measured by death benefit payments for members of all ages) are only around 5% of total system benefit payments[12].

Super withdrawals remain high across different age groups and super account balances, with the exception of accounts with very low balances. The likelihood of people making withdrawals increases with both age and higher balances.

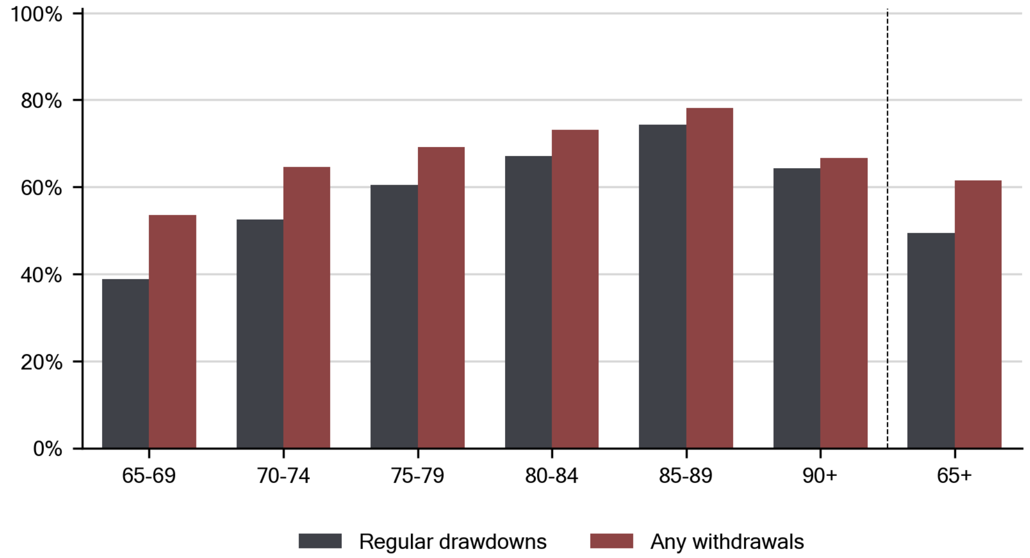
Among older members, the gap between the proportion making regular drawdowns and those making any withdrawal narrows, reflecting a transition towards tax-free retirement accounts. Conversely, as identified in prior sections of the report, withdrawals from low-balance accounts, when they occur, are often substantial. This pattern may indicate a “rainy day fund” approach as a rational strategy.

Most retirees make regular withdrawals, with utilisation rates rising with age and balance. For those aged 65+, 61% made some form of withdrawal in 2024-25. This rises with higher balances and age with balance utilisation over 80% across all account types (see Figure 19).

[11] SMC analysis of the ABS Survey of Income and Housing (SIH)

[12] Annual Superannuation Bulletin June 2024, APRA, tables 2 and 3, and SMSF Annual Overview 2022-23, ATO, table 13.

Figure 19: Proportion of members aged 65 and over who are making withdrawals, 2024-25



Source: SMC fund survey data analysis

Retirees with lower super balances (under $100,000) are much more likely to deplete their super early, especially if they take large lump sums. But retirees in higher quintiles ($500,000+) tend to preserve more of their super into advanced age and may not fully deplete their savings before death reinforcing the importance of trustee recommendations for higher than minimum drawdowns or consider lifetime income products to make the most of their super savings.

4. Other parts of the retirement story we need to consider

Age Pension playing a crucial role

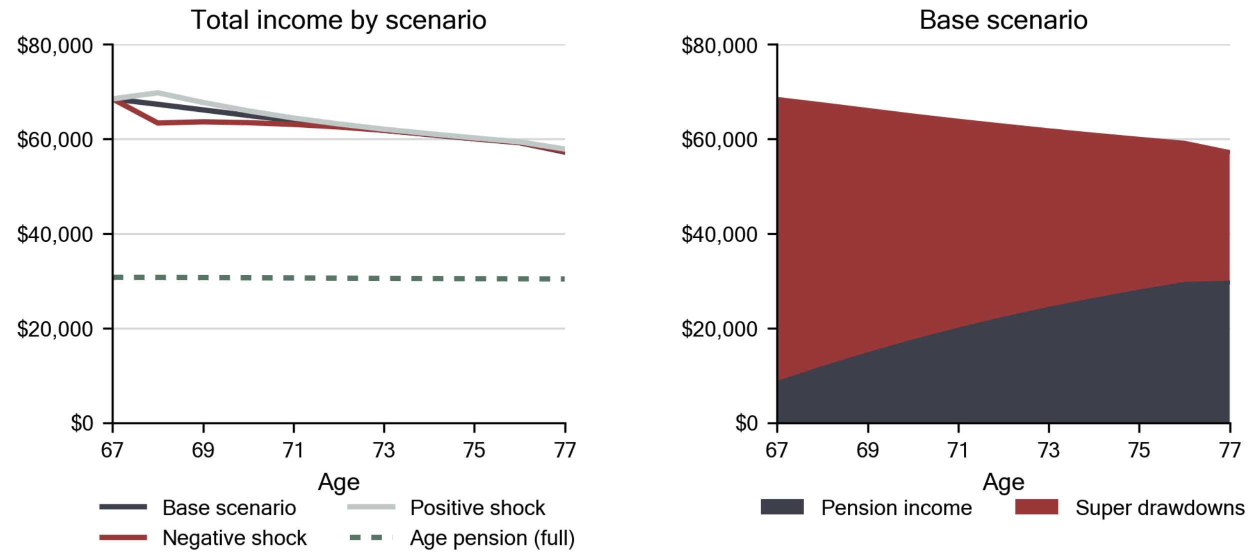
All Australians aged 67 or older are entitled to the government Age Pension if they meet residency requirements and income and assets tests. People with assets and incomes below an initial set of thresholds qualify for the full rate of Age Pension. Those with higher incomes and assets that are below a second set of thresholds can receive a part Pension, with their payments reduced by the extent they are over the first threshold. Although the means tests are complex and difficult to navigate, they are designed to direct government support to older Australians who do not have sufficient income or wealth from other sources.

Age Pension is a shock absorber for retirees

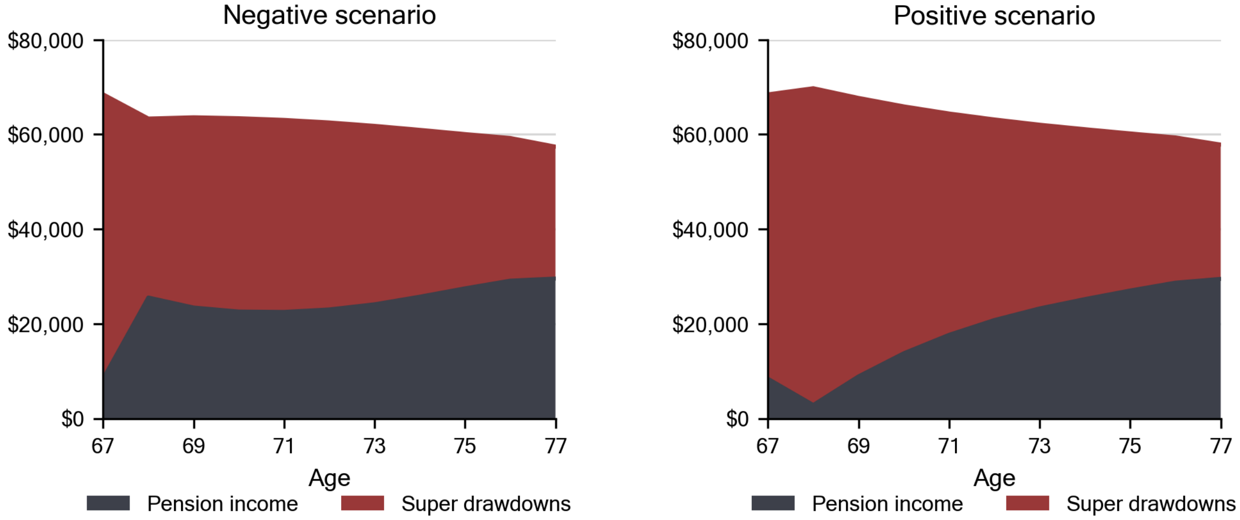
The Age Pension is more than just a safety net for retirees; it plays a crucial role as a stabiliser of retirement incomes. By design it provides a risk-free wage indexed lifetime income source for eligible retirees. For part rate pensioners the Age Pension automatically responds to changes in a retiree's private savings, particularly super balances, by increasing when those balances fall and decreasing when they rise. This mechanism allows the Age Pension to act as a "shock absorber" against financial market volatility for typical retirees with super balances in quintiles 3 and 4. Even in the face of significant market swings, many retirees experience a remarkable degree of income stability due to the Age Pension.

SMC modelling shows that for part-Pensioners, the Age Pension can absorb a substantial portion of the impact from both negative and positive investment shocks.[13]. In a scenario where a retiree experiences a significant negative investment return, the Age Pension increases to offset more than three-quarters of the decline in super drawdowns. Conversely, when investment returns are strong, the Age Pension payment falls, but overall income remains relatively stable and converges back to baseline levels in subsequent years as returns normalise. This is a direct result of the Age Pension's means-testing mechanism.

Figure 20: Total income under base, negative, and positive shock scenarios, 2025-26 dollars



[13] Analysis assumes a 67-year-old homeowner with a starting balance of $600,00. Each year they withdraw 10% of their balance. The base scenario assumes a return of 5.92% each year after investment fees. The negative shock scenario assumes a 25% loss in the first year that converges to the base scenario return by age 74. The positive shock scenario assumes a 25% return in the first year that converges to the base scenario return by age 74.



Source: SMC cameo modelling.

This shock-absorbing feature delivers income stability for retirees within the Age Pension taper range. Despite significant volatility in super returns–15.6% standard deviation in the negative shock scenario–the volatility of total income is much lower (2.9%). Over a decade, cumulative income varies by less than $10,000 between the negative and positive shock scenarios. By age 74, income scenarios converge, and by the late 70s, the Age Pension makes up about half of total income.

It is important to note this "shock absorber" effect is strongest for retirees within the Age Pension assets test taper range. For those at the extremes–close to the full Pension or no Pension–the effect is smaller and less symmetrical.

Overall, the Age Pension means test provides insurance against a range of financial shocks:

- **Investment risk**: the risk of seeing a large drop in savings because of adverse market movements, such as the Global Financial Crisis. As the value of assets falls below the means test thresholds, the amount of Age Pension increases up to annual limits.
- **Inflation risk:** the risk that the purchasing power of a person's savings is eroded by unexpected increases in inflation, such as the recent spike in consumer prices following the COVID-19 pandemic. Because Age Pension payment rates are benchmarked to the higher of changes in consumer prices and wages, entitlements increase automatically when inflation spikes.
- **Longevity risk:** the risk of running out of money because you live longer than expected. This is a major risk for some retirees. For example, a male today aged 67 has a 12% likelihood of living to age 95 and a female a 20% likelihood[14]. As savings are depleted, more of your income will come from the Age Pension.
- **Unexpected expenses risks**: the risk of facing a major expense in retirement, such as home repairs, which depletes savings. If assets fall below the means test thresholds, more Age Pension is payable. As means tests for health and aged care subsidies are similar to Age Pension eligibility, people in this situation are also insulated against further one-off expenses.

[14] Australian Government Actuary - Australian Life Tables 2022-22

Lifetime income products have an important role to play

The 2024 Mercer CFA Institute Global Pension Index[15] highlights the global shift from defined benefit to defined contribution systems has transferred longevity and investment risk from employers to individuals, making the need for effective longevity protection more pressing, particularly as life expectancies rise and retirement periods lengthen.

It's in this context that longevity products, such as lifetime annuities and deferred income streams, can play a role in managing the risk of outliving retirement savings.

But the suitability of longevity products varies across member cohorts and funds (depending on demographics, health status, and personal preferences) and will change over time as the system matures.

And longevity products potentially add another complexity to an already complex situation, with many Australian retirees drawing income from a mix of sources including the Age Pension, super income streams, part-time or casual employment, personal savings, non-super investments and to a lesser extent home equity. Add to that means-testing rules and individual preferences.

Types of longevity products

- **Deferred Lifetime Annuities** (DLAs): Purchased at retirement. Provide income starting at a future age, typically 80+. Uptake remains low due to cost and complexity. These are insurance-based and priced based on life expectancy, gender, and deferral period.
- **Immediate Lifetime Annuities**: Begin paying income immediately and continue for life. Typically low-risk, low-yield investments used by providers to manage exposure.
- **Group Self-Annuitisation** (GSA): Pooled products where income varies based on group mortality. Rare and mostly adviser-only.
- **Hybrid and Trustee-Partnered Solutions**: Some super funds partner with third-party insurers or investment managers to offer longevity products, often with limited visibility into member-level uptake. Others are developing true hybrid models, including "income-for-life" products in partnership with insurers.

Key features of longevity products include how they deliver income, manage longevity risk, and provide flexibility for retirees. This includes:

- **Insured vs. group pooling**: Products may be insured (guaranteed by an insurer) or pooled (risk shared among members).
- **Access to capital**: Most providers offer some access to capital (death/exit benefits), but this reduces income.
- **Spouse reversionary option**: All providers offer income transfer to a spouse on death, at a lower income rate.
- **Immediate vs. deferred**: Income can start immediately or at a later age (e.g., age 85).

Providers and market share insights

Super funds are working to expand their range of longevity products; however, for the most part these offerings are basic and many provide limited choice for members.

Not surprisingly, SMC analysis of fund survey data shows only a small fraction of tax-free retirement account assets are allocated to longevity products. Many of these products remain subscale, and several have recently been discontinued due to low uptake and the high costs associated with their development.

For most Australians, particularly those with lower super balances, the Age Pension continues to serve as the primary means of longevity protection in retirement.

[15] Mercer CFA Institute Global Pension Index 2024

Figure 21: Providers and products features (as at July 2024)

Provider	Product Suite Name	Distribution Channel	Types Offered	Longevity Risk	Exit/Death Benefits
Allianz Retire+	AGILE	Direct/platforms	Lifetime annuity or Investment linked (rollover from growth)	Insured	Yes
AMP North	MyNorth Pension: Lifetime	Financial advisers	Investment linked lifetime annuity (investment choice)	Insured (TAL)	Yes (optional)
Challenger	Liquid Lifetime	Direct/platforms/funds	Offers full range of longevity solutions	Insured	Yes (optional)
Generation Life	LifeIncome	Financial advisers	Investment linked lifetime annuity (investment choice)	Insured (Hannover Life)	Yes (optional)
ART	ART Lifetime Pension	Direct from fund & financial advisors	Investment linked lifetime annuity (no investment choice)	Group pooling	Yes, and cooling off.
UniSuper	Lifetime Income	Direct from fund	Real immediate annuity only	Pooled with DB plan	Yes

Source: Retirement Explainer Series: Lifetime Income Streams, Edition 9, September 2024, David Bell & Geoff Warren, Conexus Institute

Lifetime income products and retiree behaviour

Key barriers to the take-up of lifetime income products include low understanding, product complexity, and a strong desire for flexibility, leading many to prioritise control over their retirement funds.

An SMC Pyxis survey conducted during June 2025 found that while around two thirds of pre-retirees are aware of these products, only a small fraction feel knowledgeable about them. Consequently, only 20% of pre-retirees are inclined to use such products, and just 6% of retirees currently do.

Behavioural factors, such as the complexity of products and concerns about locking away a large portion of savings, deter people from taking up longevity products. 61% of pre-retirees and 53% of retirees surveyed preferred options that allow both flexible access to savings and a guaranteed income, demonstrating support for a mixed approach over products offering only guaranteed income. Addressing these concerns and simplifying product design can encourage more retirees to consider them as part of their retirement strategy.

Lifetime income product design and suitability considerations

Key considerations include:

- **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. Over time, the Age Pension amount they receive could decrease. The combined

effect is 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.
- **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 of lifetime income products for some groups

Despite the challenges, longevity products can deliver significant benefits for certain cohorts and should be considered as part of a broader toolkit. SMC's Pyxis survey finds that only 20% of pre-retirees say they're likely to use an annuity or lifetime income product.

International experience of lifetime income products and policy lessons for Australia

Both the Mercer Index and the OECD Pensions Outlook 2024[16] emphasise that no single product or approach is optimal for all retirees. The OECD notes that well-designed retirement systems should offer a range of payout options, including products that provide guaranteed lifetime income to cover essential spending needs, as well as flexible drawdown options for discretionary and unexpected expenses.

Key international lessons include:

- **Regular income is critical.** The primary focus should be on providing regular income throughout retirement, not just wealth accumulation.
- **Protection from longevity and inflation risk**. Guaranteed lifetime income products are well suited to cover basic needs, but flexibility is needed for discretionary spending and unexpected expenses.
- **Flexibility and choice**. Systems that allow retirees to combine products, such as partial annuitisation, tax-free retirement accounts, and home equity release, better meet diverse needs.
- **Defaults and guidance.** Where defaults are used, they should be carefully designed to avoid locking individuals into unsuitable products. Guidance and advice are essential to help retirees navigate complex choices.

Drawing on the 2024 Mercer CFA Institute Global Pension Index and the OECD Pensions Outlook 2024, the following reforms are widely recognised as effective approaches for improving retirement outcomes:

- Encourage the development and adoption of simple, value for money longevity products, supported by clear standards and robust consumer protections.
- Promote flexibility and choice by allowing retirees to combine products to suit their needs, rather than mandating a single solution.
- Support financial education and guidance to improve awareness and understanding of longevity risk and the available solutions.
- Monitor and review default settings to ensure that default options do not inadvertently lock retirees into unsuitable products and provide pathways to adapt as needs change.

Very few retirees access housing equity for income

Despite its potential, very few retirees access home equity for income, often due to product, regulatory, or psychological barriers. This despite several mechanisms available to retirees including

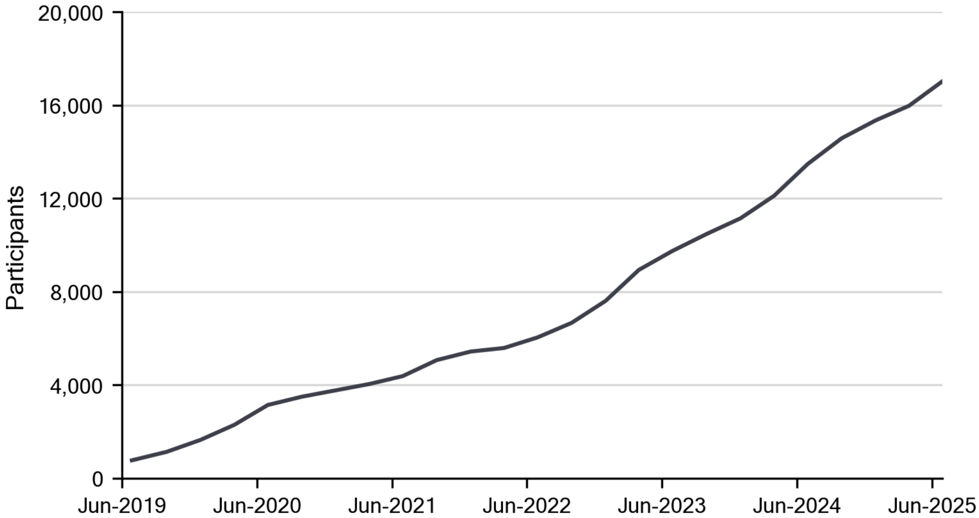
[16] OECD Pensions Outlook 2024

the government-backed Home Equity Access Scheme (HEAS, formerly the Pension Loans Scheme), private sector reverse mortgages, and home reversion schemes.

Modelling in the Retirement Income Review[17] shows that using the HEAS to $5,000 per year from home equity can increase the replacement rates by 10 percentage points for the median retiree, but take-up remains minimal.

Recent reforms have made the government's home equity release product more flexible and attractive. The 2021 Federal Budget introduced several key changes to the PLS (now HEAS). While these products offer flexibility and income support, uptake remains modest. The HEAS has seen a positive trend in participation, but broader adoption is constrained by limited awareness, complexity, and cultural attitudes toward debt in retirement. As of 30 June 2025, there were 17,032 active participants in the HEAS. The average loan amount per participant was $24,055, and the total outstanding loan balance was $566.2 million[18].

Figure 22: Pension loans scheme participants



Source: DSS Home Equity Access Scheme – Quarterly report, June 2025

Barriers to the popularity of home equity income streams

Data from a survey commissioned by SMC[19] aligns with past research conducted by the Productivity Commission, confirming Fewer than 10% of pre-retirees would consider a reverse mortgage or equity release product. The main barriers are a desire to leave the home as a bequest, fear of losing security of tenure, discomfort with debt in later life, and lack of understanding about product features and Age Pension impacts. In a Productivity Commission survey, 71% of older homeowners saw their home as a safety net for adverse events, and 44% wished to pass the family home on to their children. SMC Pyxis survey results indicate home equity is seen as a 'last resort'.

[17] Retirement Income Review Final Report, Treasury 2020

[18] DSS's Home Equity Access Scheme - Quarterly Report

[19] Pyxis Polling research commissioned by SMC, 2025.

5. How Government and funds have responded so far

Australia's retirement income system has undergone significant reform in recent years, with government playing a central role in setting the direction and parameters for change.

This section of the report examines the key reforms and responses across government and industry—what has been achieved so far, how funds are working within the parameters set, and where further action is needed to ensure the system continues to deliver for all Australians.

Government response

The 2020 Retirement Income Review provided a significant new fact base for Australia's retirement income system, examining how the Age Pension, super, and savings interact. It found the system works for many, but inefficiencies remain in turning super savings into reliable income. Its findings informed subsequent policy reforms and continues to shape the national conversation about retirement outcomes.

In July 2022, the Government introduced the Retirement Income Covenant (RIC), requiring super trustees to develop and regularly review a retirement income strategy for their members. The RIC aims to ensure funds balance income, risk, and flexibility for retirees, prompting a wave of innovation and renewed focus on member needs. The RIC in turn has led to increased scrutiny from regulators, with APRA and ASIC conducting multiple rounds of joint thematic reviews to assess how funds are implementing these new obligations.

The legislated purpose of super was also enshrined in law, providing greater clarity and stability for the system, ensuring future reforms are consistent with the system's core purpose: to provide income in retirement that substitutes or supplements the Age Pension. This legislative clarity is intended to guide both industry and government, supporting long-term confidence and effective policy development.

Industry response

The introduction of the RIC has prompted funds to think more about their approach to retirement outcomes. This has led to a wave of innovation and renewed focus on member needs but also revealed variability in how funds are responding. With more members entering retirement each year, funds are rightly shifting focus from accumulation to retirement, investing in tools, products, and advice models that support income drawdown, risk management, and long-term financial wellbeing.

Member engagement and advice

Funds are increasingly tailoring products and advice, using behavioural nudges and prompts to guide members at key life stages and help them make informed decisions about retirement. Despite these efforts, APRA and ASIC's joint thematic review[20] highlighted persistent challenges in advice delivery and member engagement.

Specifically, the thematic review found many funds faced critical gaps in availability of existing member data, with funds citing privacy, security and cost concerns hindering their ability to address these gaps. While 21 funds noted low levels of member engagement and financial literacy relating to super and retirement.

This underscores the complexity funds face in both gathering the right data to support tailored advice and overcoming barriers to member engagement and financial capability.

Examples of fund responses:

- AustralianSuper has rolled out targeted communications and digital tools to help members understand their retirement options, including calculators and webinars tailored to different cohorts.
- Aware Super has invested in member segmentation, offering tailored advice and guidance based on age, balance, and retirement readiness.
- UniSuper has piloted digital advice models and expanded access to retirement seminars, aiming to reach disengaged members and those with lower balances.

[20] APRA and ASIC, Joint Thematic Review of Retirement Income Covenant Implementation, 2024.

- Cbus launched its Advice Essentials Plus offering which allows members and their spouse/partner receive affordable retirement advice

Product development and innovation

Product development has accelerated since the RIC, with funds introducing new retirement income products and refining existing offerings. There is a clear trend towards cohort-based product design, with tailored solutions for different member segments. Funds are also responding to APRA's product performance heatmaps, which have increased scrutiny on product quality, fees, and member outcomes. Notably, profit-to-member funds have consistently outperformed retail funds across all levels of investment risk, as shown in SMC's analysis of APRA data[21].

Examples of fund responses:

- Australian Retirement Trust (ART) has developed hybrid retirement products that combine tax-free retirement accounts with longevity protection, aiming to provide both flexibility and income certainty.
- Hostplus offers an investment option exclusively for pension embers, designed to give retirees peace of mind and greater certainty over returns, with yearly rates set in advance at a fixed percentage above CPI inflation.

What's next

Recent government reforms (as noted above) represent important steps in the right direction. These initiatives have provided a strong evidence base, driven innovation, and delivered greater policy stability. Ongoing regulatory oversight is helping to maintain momentum and lift standards across the industry.

However, while these changes have set the system on a better path, more needs to be done to future-proof Australia's retirement income system. Persistent complexity, gaps in advice and guidance, and the need for better integration between super and the Age Pension remain key challenges. Continued reform is required to simplify the system, improve product quality, and ensure that all retirees (regardless of financial literacy or engagement) can achieve a secure and dignified retirement.

Achieving this will require coordinated leadership, with government and funds working together to elevate the system and deliver better outcomes for all Australians.

[21] APRA Quarterly Product Level Superannuation Statistics (June 2025)

6. A vision and principles for reform

Australia's retirement income system aims to provide financial security for retirees through a combination of super, the Age Pension, and private savings.

While Australia has taken a default-driven approach to the taxed accumulation account phase of super, the same cannot be said for the tax-free retirement account phase. Instead, soon-to-be retirees and retirees are required to navigate a complex set of decisions, grappling with unknowns outlined in this report, including longevity risk, income drawdown strategies, and debt management, all within a complex system that's difficult to understand.

SMC's vision for the retirement income system

SMC envisions an Australian retirement income system that is straightforward, secure, and genuinely easy for retirees to navigate. In a world-class model, Australians would benefit from:

- Simple pathways for the majority, with tailored options for those who want them.
- Easy-to-access products that meet a diverse range of retirees' needs.
- Tools that convert super, Age Pension, and private savings into one cohesive income strategy.
- Comprehensive resources for individuals to use regardless of financial knowledge or confidence.
- Reliable and clear advice, supported by robust consumer safeguards and industry best practice.

The principles that should guide reform

- Super is compulsory, so members should not need to be highly engaged or seek extensive advice to achieve good outcomes in retirement.
- Much as they do during their years accumulating super, people should have access to straightforward, easy-to-understand pathways and solutions for managing retirement income.
- Robust consumer protections are essential to ensure trust in the products and advice available to retirees
- When members require help or have more complex needs, personal advice will often be the most appropriate and effective form of support.
- Super funds play a vital role in designing innovative solutions that meet the evolving needs of their members.
- People should retain full flexibility to access their savings as they wish and any solution that requires members to forgo flexibility should be voluntary.

Both funds and government have a role to play

Achieving this vision will require coordinated leadership from both industry and government.

Super funds are best placed to offer retirement pathways, guidance and advice, nudges, risk management, products that integrate with the Age Pension, as well as reliable customer service. Many of the changes necessary are already in operation or soon to be, or if not are within the ability for funds to do now.

But policy reform by government is also needed. Better enabling funds to offer appropriate tailored information, guidance and advice and ensuring government support structures like the Age Pension better interact with super and other private savings. Government also has a role in protecting consumers from harm, so people trust the advice and products on offer, and funds have the confidence to invest in innovation.

This underscores the need for complementary action from government and regulators.

7. Smart retirement pathways

As outlined in this report, Australians face a complexity of information and options as they enter retirement with no clear path forward.

Traditionally retirement planning has relied on detailed individual fact-finds and bespoke advice. This model is not sufficiently scalable for large populations, not able to meet the sheer number of pre-retirees expected to transition to retirement in the next decade. Fortunately, the evidence tells us most members approaching retirement have relatively simple financial circumstances, enabling funds to adopt a cohort-based approach that balances efficiency with member needs.

Simple retirement pathways could be used to initially match members to solutions that have a high probability of being right for them based on their characteristics and supplemented by information confirmed by members and appropriate data which the government could provide to trustees. Funds could design pathways best suited to their members with simple information guidance and advice available to everyone which could increase confidence of retirees and allow additional tailoring. Comprehensive advice and personal financial planning would remain an important feature for key groups of members and an option those who want it. Government would need to set standards through a quality filter, empowering funds to innovate within a framework that delivers the strongest possible retirements.

The benefits of this approach.

- Provides member choice while offering a structured and simplified decision-making process.
- Improves member outcomes by reducing the number of retirees in lower-quality products or in products that fail to meet their needs.
- Prompts more retirees to move into a tax-free retirement account.
- Avoids the risk of rigid default allocations that may not suit the diversity of retirement needs.
- Avoids the need for comprehensive financial advice for all and reduces system-wide costs.

How to design smart retirement pathways

After a lifetime of work, the key question most people confront is how super can support their lifestyle in retirement and how to factor in the Age Pension. This involves a multitude of questions: how much they expect to spend each year, how their super is invested, and much to keep in reserve for emergencies or medical and age care costs later in life. These are complex decisions – but need not be. And while most funds give members access to retirement income calculators, most do not incorporate other assets and income sources, and making sense of and using the outputs remains complex.

Smart retirement pathways can be constructed using SMC's Portfolio Retirement Income Simulation Model (PRISM). The model's base assumptions are informed by descriptive analysis of pre-retiree and retiree cohorts characteristics, behaviour and trends (described earlier). It also incorporates a variable (stochastic return) module to increase confidence in the range of expected income from investment portfolio construction decisions.

PRISM provides a detailed look at how different choices and circumstances affect retirement incomes, and includes factors such as starting balances, other assets, investment strategies, Age Pension interactions, drawdown rates, longevity, and spending needs. The model tests the impact of various income sources and strategies, including lump sums, income streams, and lifetime income products, using realistic assumptions and stochastic investment returns to reflect real-world uncertainty.

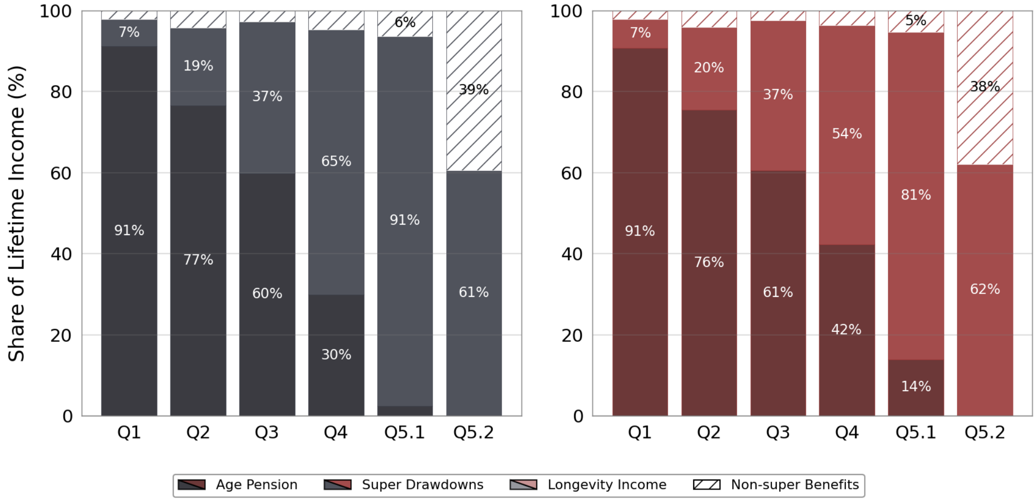
What elements could be part of simple retirement pathways

An initial PRISM analysis by SMC indicates key elements to incorporate into member pathways.

The Age Pension is an important source of income for members up to the median

For Australians with super balances up to the median, the Age Pension remains the primary source of retirement income. The model shows that the Age Pension accounts for 91% of income for the lowest balance group (Q1) and 60% for the 3rd quintile (Q3), assuming minimum drawdown rates. Members in the lowest two quintiles can expect a full Age Pension, while those at the median will typically receive a part Pension for most of their retirement. Those just above the median will see more than half their income from super, with the remainder from the Age Pension. In contrast, the highest balance group (Q5) will rely almost entirely on super and other assets, with the top decile unlikely to receive any Pension at all.

Figure 23: Composition of lifetime retirement income by balance quantile
(Good-quality balanced retirement account: minimum vs optimised drawdown scenarios)



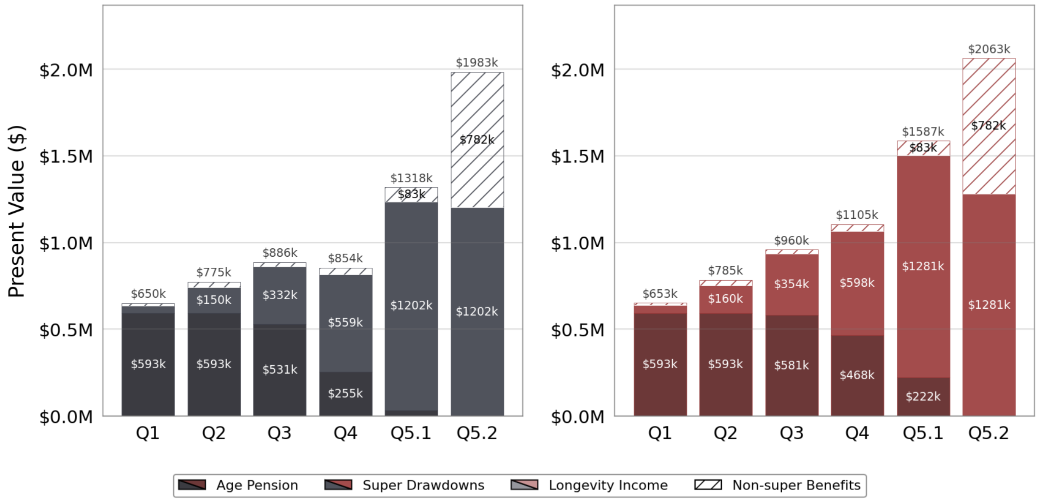
Source: SMC PRISM analysis

Drawing down more than the minimum may benefit members with above median balances

While minimum drawdown rates offer security, they may not deliver optimal outcomes for many members with above median balances. For these retirees, sticking to the minimum could reduce total retirement income by 30% (or $250,000) over the course of retirement compared to an optimised drawdown strategy[22].

For high-balance members, minimum drawdown eliminates longevity risk but is likely to result in significant unspent balances at life expectancy. The evidence suggests that members with higher balances can safely support higher drawdown rates, and alternative strategies (such as targeting specific dollar amounts) may be more appropriate for many retirees.

Figure 24: Present dollar value of lifetime retirement income by balance quantile
(Good-quality balanced retirement account: minimum vs optimised drawdown scenarios)



Source: SMC PRISM analysis

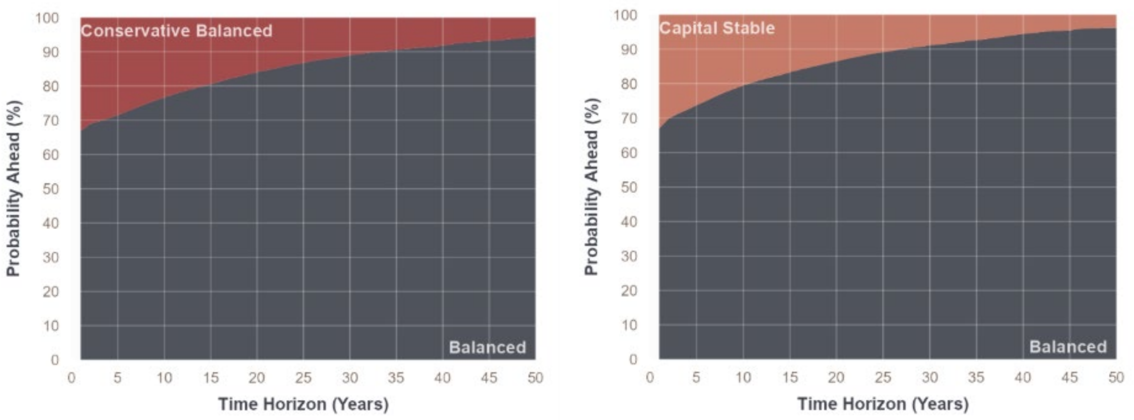
[22] Refer to Appendix 3 for further details on the optimised drawdown strategy.

Growth assets can mitigate longevity risk or boost income if paired with higher drawdown rates

Investment strategy plays a critical role in retirement outcomes. The model shows that, over longer horizons, growth-oriented portfolios almost always outperform defensive ones. The probability that a defensive portfolio will outperform a balanced portfolio is less than one in three over five years, about one in five over ten years an approximate one in ten over a 25-year retirement.

This suggests that defensive portfolios are likely only suitable for shorter investment horizons or when retirees need access to most of their super in the near term. Defensive portfolios can also lead to the premature erosion of capital and increased longevity risk as the expected rate of return is materially below even the mandated minimum drawdown rates. There are however important behavioural effects that need to be better understood and there is an important role for trustees to educate members, including that the Age Pension also helps mitigate overall income risk, as do lifetime income products with both providing a safety net against market downturns.

Figure 25: Probability of superior return outcomes
(Balanced vs Conservative Balanced and Capital Stable portfolios by investment horizon)



Source: SMC PRISM analysis

High-performing retirement income accounts savings last longer or deliver higher incomes

The quality of the retirement income account is another key factor. A high-performing account can have effects similar to investing in more growth assets, especially when paired with higher drawdown rates. The difference between a high-quality and poor-quality retirement account can be 2% per year or more in average returns. If drawdown rates are increased proportionately, super income could be 14% higher.

Retirees could choose to use higher returns to boost their incomes or, without adjusting drawdown rates, to help sustain them for longer, thus mitigating longevity risk. Or a combination of both.

Lifetime income products should be part of the mix for higher balance members

Lifetime income products can play a valuable role for retirees with higher balances, though not all products are created equal. Some offer better value and flexibility, and certain products benefit from concessional Age Pension asset test treatment. However, this is only beneficial for those eligible for a part Pension.

PRISM analysis suggests that lifetime income products offer questionable benefit for those at or below the median, whose income is largely supported by the Age Pension. Members well above the median are more likely to benefit, as they are unlikely to receive any Age Pension and often share attributes associated with a longer-than-average lifespan.

Early or late retirement makes a big difference

Not everyone chooses or has the choice to retire at age 67 (Age Pension eligibility age). Although almost 7 in 10 access their super by this age.[23] a significant number expect to retire earlier or later for a variety of reasons. Milestone birthdays.[24] and super preservation ages (60 and 65) appear to play a part but people might cease work early due to involuntary retirement, poor health and caring responsibilities. Some decide to keep working to build sufficient savings and for others it's because they wish to continue to be engaged in work.

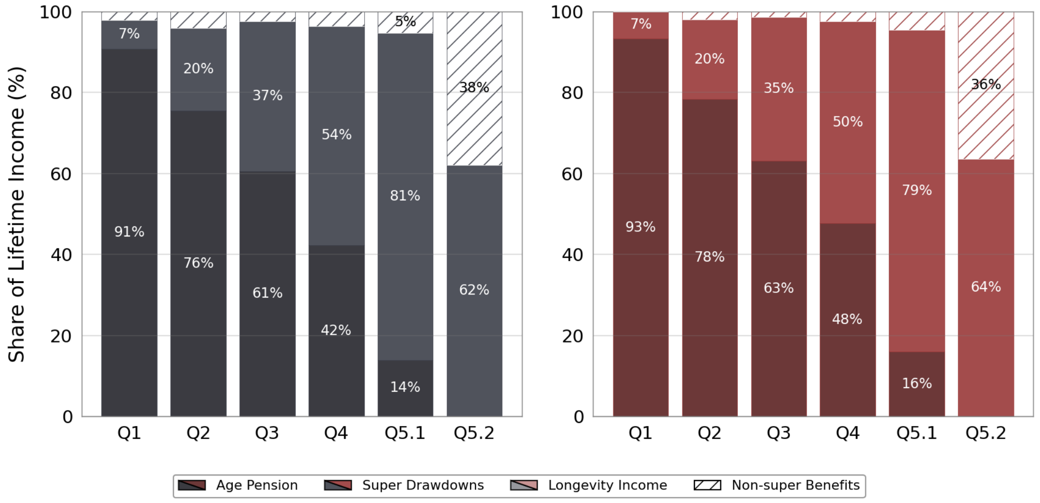
Early retirement can be especially challenging given there are fewer years to accumulate savings coupled with an equivalent increase in the duration in retirement. For low balance groups early retirement can result in complete depletion of super savings before Age Pension age. It is vitally important such members access any income support they might be eligible for. Improved data sharing could assist funds to ensure members claim any benefits they might be eligible for.

Mortgage debt needs to be an important consideration

The repayment of debt is one of the main reasons members access lump sum withdrawals early in retirement – this is an entirely rational decision. Whilst withdrawing super to repay debt will lower retirement income it reduces expenditure on repayments. Just under half of retirees have some mortgage debt at retirement. For those in lower balance groups those with debt will have lower incomes than those without debt (after repaying the debt) but no increase in Age Pension. Members in the lowest balance group Q1 with debt are likely to use all their super savings to repay it.

The main effect for low and middle balance groups is to increase the share of income they receive from the Age Pension see figure 26 below:

Figure 26: Composition of income by balance group those without debt Vs those with debt
(Good-quality balanced retirement account with optimised drawdown)



Source: SMC PRISM analysis

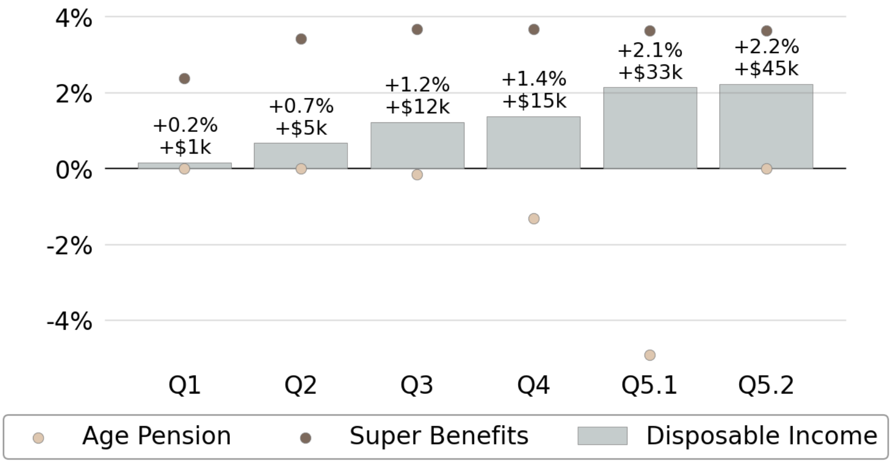
Remaining in a taxed accumulation accounts: more tax and lower net returns

Remaining in a taxed accumulation account after retirement reduces net returns, much like being invested too defensively or in a poor-quality product. Transitioning to a tax-free retirement account can increase super income by up to 5% without any additional risk, regardless of balance group. For a median balance member, ensuring that savings are held in a tax-free environment could be worth $12,000 in present value terms over the course of retirement net of Age Pension. Even for lower balance members (who tend to remain in taxed accumulation accounts) the costs are significant ($5,000) for someone with a balance in quintile 2 and $1,000 for the lowest balance members in Q1. (See figure 27 below)

[23] SMC submission to Treasury Retirement Phase consultation February 2024 (Chart 2 page 10)

[24] SMC Submission to Treasury Retirement Phase Consultation February 2024 (Chart 1 Page 9)

Figure 27: Change in present value of retirement income
(Good-quality balanced taxed accumulation account vs tax-free retirement account with optimised drawdown)



Source: SMC PRISM analysis

Summary of PRISM scenarios:

Figure 28 below summarises the impact of different strategies and choices by super balance range. The difference between poor and a combination of good strategies can increase incomes between 8-57% to life expectancy between modest and high balance groups. It also suggests lifetime income solutions such as group self-annuities (GSAs) with flexible features are superior to common market-based life annuities.

Figure 28: Summary metrics, selected PRISM scenarios

Scenario	Change in Present value of retirement income by balance group						Change in median depletion years (Q3)
	Q1	Q2	Q3	Q4	Q5 .1	Q5.2	
(1) Drawdown							
Fund Average Drawdown vs Minimum Drawdown	+0.3%	+0.7%	+6.6%	+12.8%	+2.2%	+1.1%	-6.2
10% Drawdown vs Minimum Drawdown	+0.4%	+1.1%	+7.2%	+23.3%	+13.0%	+3.3%	-8.0
Optimised Drawdown vs Minimum Drawdown	+0.4%	+1.3%	+8.3%	+29.4%	+20.4%	+4.0%	-15.4
(2) Growth vs Defensive portfolio	+1.0%	+2.8%	+4.9%	+7.1%	+12.0%	+8.8%	-0.3
(3) Good quality vs Poor quality	+0.9%	+2.4%	+4.5%	+6.8%	+9.9%	+7.7%	+0.2
(4) Tax-Free Retirement vs Taxed Accumulation	+0.2%	+0.7%	+1.2%	+1.4%	+2.1%	+2.2%	+0.6
(5) = (1) + (2) + (3) + (4)	+2.6%	+7.9%	+16.5%	+35.5%	+57.4%	+29.0%	-7.5
(6) Lifetime Income							
Lifetime Annuity (Fixed)	-0.7%	-1.3%	-0.9%	+0.9%	-4.5%	-3.0%	-9.8
Lifetime Annuity (CPI)	-0.8%	-1.5%	-1.2%	+0.4%	-5.3%	-3.6%	-9.8
GSA	+0.6%	+2.4%	+5.8%	+10.7%	+10.0%	+8.2%	-9.8
(7.1) Early Retirement	-2.3%	-6.5%	-10.5%	-11.1%	-22.0%	-12.3%	-2.6
(7.2) Late Retirement	+2.9%	+8.5%	+14.1%	+15.5%	+32.5%	+20.4%	+5.8
(8) Lump-Sum Withdrawal	-0.1%	-0.3%	+0.2%	+1.7%	+0.3%	-0.8%	-1.2

Note: See Appendix 3 for scenario details
Source: SMC PRISM Model

The mechanics of a ‘simple retirement pathway’ approach

Managing members as they transition to retirement can be viewed along a continuum.

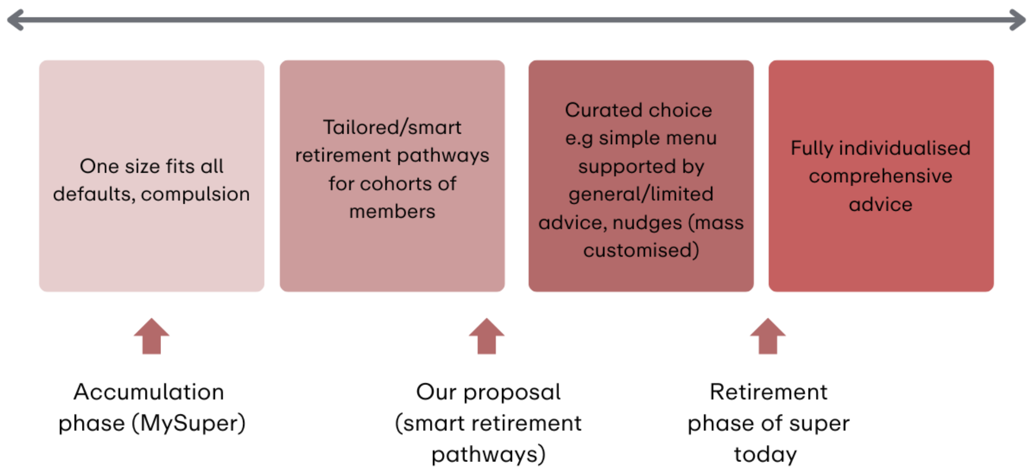
In accumulation our system relies heavily on default settings – MySuper products are designed to be a low-cost high-quality solution for most people – noting high levels of disengagement particularly among younger members. Currently there is no equivalent in retirement – particularly for less engaged members and those with lower levels of financial literacy to adequately engage in complex decision making. Until now much of the focus at retirement has been at the other end of the spectrum in the form of individually tailored guidance and advice for those with more complex financial profiles. These tend to be members with higher balances and diverse asset holdings who require more personalised solutions, including tailored advice and flexible product options.

As a consequence, there is a big gap for significant numbers of members. These tend to be members with modest and moderate super balances and straightforward financial circumstances, who as a starting point can be matched to well-designed retirement pathways with key information that funds can obtain from members and ideally in the future data exchange with Government.

These are also members who may benefit from targeted information, guidance, and simple, advice (such as that enabled by DBFO) to clarify key decisions and improve outcomes. This middle zone represents an opportunity for funds to deliver scalable support that is more targeted than defaults but less resource-intensive than bespoke advice.

The diagram below illustrates what this continuum can look like. Smart retirement pathways would sit mid-way along this continuum.

Figure 29: Continuum of level of advice and support for members



Personalisation and defaults coexist along a continuum depending on member characteristics and needs

As established earlier in this report, total super balances provide an initial reliable anchor for segmenting members, given they are strongly correlated with overall household wealth, and for most members, modest balances indicate they have limited additional assets. This is particularly true in the middle of the distribution, where individuals with mid-level super balances are more likely to fall into lower net wealth quintiles than higher ones. This gives us confidence in using super balances as a proxy for broader financial means.

Most members can be - guided to a well-designed smart retirement pathway based on observable characteristics (super balance, age, gender), supplemented by a small set of deterministic questions (partner status, housing tenure, presence of other assets).

Those with significant additional assets are more likely to be financially literate and engaged and are the members most likely to be offered or seek personalised advice and benefit from more tailored solutions.

While super balances offer a strong starting point, segmentation can be sharpened by incorporating a small set of deterministic questions. Questions could be captured through simple member disclosures or questionnaires, enabling more precise segmentation and better-targeted solutions. Key questions that would enhance cohort definition include:

1. **Housing status:** Whether a member owns their home outright, carries a mortgage, or rents has a major impact on retirement income needs. While these variables are not directly observable by funds, they could be captured through simple member disclosures or questionnaires, enabling more precise segmentation and better-targeted solutions.
2. **Relationship status:** Couples tend to have pooled resources and higher wealth, while singles face more constraints.
3. **Other material assets:** The level of assets held outside superannuation significantly influences a member's eligibility for the Age Pension and their exposure to means testing, both of which have important implications for efficient retirement planning.
4. **Other superannuation accounts**: This information is pertinent not only for assessing a member's total assets and Age Pension eligibility but also has implications for evaluating the potential effects of the transfer balance cap and any other streams of income that the member may have access to.
5. **Significant health issues:** This information may be utilised to identify products that are unsuitable for certain members. For instance, longevity protection products may not be appropriate for individuals whose serious health concerns could negatively impact their life expectancy.

Responses to these simple questions that potentially place them outside the characteristics of key cohorts should trigger extra help, guidance and advice.

A note about the influence of debt on smart retirement pathways

The prevalence and impact of debt complicates efforts to segment members based solely on super balances. While balances provide a useful proxy for overall wealth, they cannot reliably delineate between debt-free and indebted members. For example, two individuals with similar balances may face vastly different retirement outcomes depending on their debt levels.

To improve cohorting accuracy and strategy design, funds could consider incorporating a simple deterministic question about mortgage or debt status. This would allow for more precise segmentation and enable tailored communications and products that address debt management directly.

The prevalence of debt, especially among lower-balance members, highlights the need for targeted communications and strategies focused on debt management at retirement. Funds should consider how product design and member engagement can support better outcomes for these cohorts, including options for managing lump-sum withdrawals and transitioning into retirement with outstanding debt. This may include tailored options for managing lump-sum withdrawals and providing guidance or products specifically aimed at supporting members to better manage and reduce debt as they approach and enter retirement.

Consumer protections should support a smart retirement pathway approach

Providing members with the option of selecting smart retirement pathways would require strong consumer protections. Without these, there is a risk members could be defaulted into products that are not in their best financial interests, or that do not adequately reflect their individual needs and circumstances.

A quality filter for retirement products is essential, ensuring products or guidance meet high standards of value, transparency, and suitability. Retirees need to trust nudges are genuinely in their best interests, while funds need the regulatory certainty to design and offer innovative solutions without fear of inadvertently exposing members to harm.

SMC suggests government urgently work with industry to develop a quality filter for retirement products, specifically to support the safe use of smart retirement pathways. This filter should do the following.

- Assess products against the objectives of the RIC: maximising expected retirement income, managing longevity, investment and inflation risks, and providing flexible access to funds.

- Consider the needs of different member cohorts, the effectiveness of product management, and the quality of guidance provided to members.
- Be transparent and robust enough to give both members and funds confidence in the system.

Appropriately designed, a retirement quality filter will:

- Improve trust and confidence in retirement income products.
- Enable more informed decision-making by retirees, even when they do not actively engage.
- Enhance competition and innovation by setting clear standards for product quality.
- Provide a safety net that ensures smart retirement pathways work as intended by guiding members towards good outcomes, not just any outcome.

Integrating super and the Age Pension

Two pillars of Australia's retirement income system are super and the Age Pension. While each plays a distinct but complementary role, they also operate in parallel, creating unnecessary complexity for retirees. This lack of integration between the two can lead to confusion around eligibility, income planning, and product selection, ultimately undermining confidence and limiting the effectiveness of both systems.

Better integration between super and the Age Pension would deliver significant benefits.

- First, it would improve retirement confidence. Nearly 60%[25] of pre-retirees cite running out of money as their top concern. By enabling super funds to provide more accurate and holistic income projections that factor in Age Pension eligibility, members would be better equipped to plan and spend with confidence.
- Second, integration would support the delivery of targeted guidance at scale. As the retirement wave accelerates, funds must support members at unprecedented levels. Access to a complete view of a member's financial position, including super balances, debts, marital status, and government entitlements, would allow funds to tailor advice and nudges more effectively.
- Third, integration would enhance policy efficiency. As the super system matures, reliance on the full-rate Age Pension is projected to decline, from 63% of retirees today to 54% in 20 years. This trend is expected to continue, with full-rate eligibility halving by 2062 to 2063.

Beyond these benefits, integration should be viewed as a strategic opportunity to improve the retirement system. A unified application process for super income streams and the Age Pension would simplify the retirement journey, reducing administrative burden and improving member experience. It would also enable product innovation, allowing funds to develop hybrid offerings that blend super drawdowns with Age Pension entitlements, tailored to different member cohorts. Moreover, integration would support system-wide adequacy by enabling a more comprehensive assessment of whether the system delivers sufficient income across diverse member profiles, including renters, singles, and involuntary retirees.

Government implementation of reforms that support integration, while protecting member privacy and ensuring data security, would allow funds to innovate and improve services.

Further innovations could include:

- a "one-click" retirement framework, enabling members to simultaneously commence a retirement income stream and lodge an Age Pension application through their fund's online portal. A "tell us once" model could allow funds to use Age Pension application data to tailor product recommendations and advice.
- funds could offer a unified income dashboard that integrates super and Age Pension income streams, giving retirees a clear picture of their total income and enabling greater confidence in spending. Integration should be viewed not just as a technical fix, but as a strategic opportunity to improve the system

[25] According to the 2025 Pyxis Retirement Survey, 57% of Australians aged 45 to 70 who are not yet retired reported being worried about their super running out before they die (25% very worried, 32% fairly worried).

8. From Vision to Reality: Next Steps

This report outlines a set of reform directions aimed at simplifying the transition to retirement and helping members optimise their hard-earned savings and enjoying their retirement.

A central focus is how super funds can connect members to retirement pathways that are right for them – efficiently and flexibly converting their super balances to income in retirement including age pension and other savings. This will help shift the prevailing mindset — from viewing super as merely a lump sum, to understanding it as a reliable, long-term income stream that can help more Australians achieve a dignified and secure retirement.

Immediate reform opportunities

Several of the reform directions in this report align with existing Government priorities and should be progressed as a matter of urgency, including:

1) Expand access to simple, affordable advice

- Modernising advice laws through is the Delivering Better Financial Outcomes legislation, which will enable funds to provide timely, simple, and cost-effective help to members, especially those with modest balances. We urge the Government to introduce this legislation to Parliament before the end of the calendar year.
- Let funds assist members with Age Pension applications, streamlining the process and improving uptake for eligible retirees.
- Remove restrictions that stop funds from offering accurate, tailored online retirement calculators. Tranche 2 of DBFO will let funds factor in broader member details (e.g. household income, Age Pension eligibility), enabling personalised tools.

2) Enable safe and effective data sharing and integration of income sources

- Fast track a process to enhance data sharing between Government agencies and super funds. Timely, accurate data is critical for funds to understand members' financial circumstances and match them to the right retirement pathway and provide tailored support—before retirement, during the transition, and throughout retirement itself. Such data will also enable funds to provide a real time retirement income dashboard to members with super and any age pension and how they can be optimised.

3) Support smart retirement pathways and suggested retirement income products

- Encourage the development of simple well-designed smart retirement pathways and suggested products for disengaged members, while ensuring flexibility and avoiding mandatory lifetime income products.

4) Preserve flexibility and member choice

- Ensure members retain control over how they use their savings, considering individual circumstances and preferences.
- Avoid mandating lifetime income products or standardised solutions that may not suit all members, especially those with low balances or specific needs.

5) Fix issues that lead to dual accounts

- 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.

6) Encourage best practice and continuous improvement

- Finalise and implement retirement best practice principles for funds to guide service quality and member outcomes.
- Enable trials of new approaches, including behavioural nudges, tailored guidance tools, and hybrid product offerings.

Beyond these immediate reform opportunities, this report identifies several areas that require collaboration between industry and government.

Addressing structural problems

While we propose initial ideas to simplify the retirement transition, each potential solution carries operational complexity for funds and policy implications for Government. For example, enabling more members to benefit from tax-free super is a worthwhile goal, but it must be balanced with integrity safeguards and existing policy settings such as the Transfer Balance Cap. Insurance arrangements and reporting processes also require careful design. Above all, member choice must be preserved–it is their money and their future.

If simplicity were easy, complexity wouldn't exist. To support this work, SMC is establishing a *Retirement Working Group* (RWG), comprising retirement experts from our member funds. It will over coming months further explore the issues raised in this report in greater depth and crystalise the key policy asks to reduce complexity, improve member engagement, and deliver better retirement outcomes.

The following reform directions carries operational and policy implications that will require careful design and consultation. There may be multiple viable solutions, and SMC's work with funds will play a key role in assessing their feasibility and recommending a concrete path forward.

Simplifying the transition to tax-free income

Issue: Some Australians–particularly if they have less super–struggle to transition from accumulation to retirement accounts due to limited financial advice, complex decision-making, or lack of awareness.

Potential reform directions for further exploration:

- Consider key engagement approaches to members in accumulation over 65.
- Consider eligible accounts to automatically transition to the retirement phase upon meeting an unrestricted condition of release.
- Designing special simplified pathways for low-balance members to move into the tax-free retirement phase without needing to navigate complex processes.
- Exploring other models such as guided transitions supported by digital tools.
- Ensuring insurance needed by members is not lost.

2. Rethinking minimum drawdown requirements for low balances

Issue: Australians with modest super balances may be discouraged from entering the retirement phase due to mandatory drawdown rules, which may not align with their financial needs.

Potential reform directions for exploration:

- Review and adjust minimum drawdown requirements for members with low account balances, and explore strategies to encourage drawdowns above the minimum across varying balance levels
- Applying exemptions to a defined portion of a member's balance, regardless of total holdings.
- Ensuring a system-wide view of member accounts to prevent rule circumvention across multiple funds.

3. Consumer protections via a quality filter for retirement products

Issue: Super fund members making the move into retirement are vulnerable to being sold poor retirement products that operate outside the strong safeguards of the APRA-regulated system.

Potential issues for exploration:

- What should be the key components in a ‘quality filter’ on all retirement products – including investment performance, fees, digital tools, member service and design innovation?
- Assessments would likely align with key objectives: maximising retirement income, managing associated risks, and enabling flexible access for retirees. Thorough research and analysis is needed to ensure it delivers sustained benefits over the long term.

Working together, we can simplify the retirement system, reduce inefficiencies, and bring to life the full promise of the Retirement Income Covenant and super’s legislative objective.

We want every Australian to have a simpler, smarter retirement.

Appendix 1: Glossary of key terms

Term	Definition
Account-Based Pension	A retirement income product that allows retirees to draw regular income payments from their super savings, with flexibility over withdrawal amounts (subject to minimum drawdown rules). The balance remains invested and can fluctuate with market returns.
Accumulation phase	The period during which super contributions are made and invested, prior to retirement. Earnings are taxed at up to 15%. Funds remain in this phase until a condition of release is met, at which point they may be transferred to the tax-free retirement account phase.
Advice models	Frameworks for delivering financial advice, ranging from general guidance to comprehensive, personal advice. Includes collectively charged advice (e.g., DBFO), scaled advice, and full-service advice.
Age Pension	Australia's means-tested government pension for eligible retirees, designed to provide a safety net and supplement private savings. Payments are determined by income and assets tests.
Annuity	A financial product that provides a guaranteed income stream for a set period or for life, purchased with super or other savings. Types include lifetime annuities and fixed-term annuities.
Asset allocation	The distribution of investments across asset classes (e.g., equities, fixed income, property) within a super or retirement portfolio. Critical for managing risk and return in retirement income products.
Cameo model	A deterministic projection model developed by the Super Members Council to estimate superannuation balances and disposable incomes across working life and retirement. It incorporates tax, super and Age Pension settings to assess retirement income adequacy and policy impacts.
Cohorting	Segmenting members into groups based on characteristics such as age, account balance, housing status, or other relevant factors, to tailor retirement solutions and advice.
Condition of release	A legislative requirement that must be met before super savings can be accessed. Common conditions include reaching preservation age (ceasing employment after aged 60), retirement, or turning 65.
Decumulation phase	The period in retirement when accumulated super savings are drawn down to provide income. Strategies include tax-free retirement account incomes, lump sum withdrawals and annuities.
Defined benefit pension	A retirement income stream where payments are determined by a formula based on salary and years of service, rather than investment returns. Special rules apply for transfer balance cap calculations.
Default pathway / soft default	A pre-designed retirement solution or product pathway that members are guided toward, often based on cohort characteristics, to simplify decision-making and improve outcomes. Soft defaults nudge members without mandating choices.
Drawdown rate	The percentage of a retiree's tax-free retirement account balance withdrawn each year. The government sets minimum drawdown rates, but many retirees withdraw above these minimums.

DBFO (Delivering Better Financial Outcomes)	A policy and advice reform initiative aimed at enabling super funds to provide collectively charged, scalable advice to members, improving retirement outcomes.
Excess Transfer Balance Cap (ETB)	Occurs when the amount transferred into retirement phase income streams exceeds the transfer balance cap. Penalties and additional tax may apply until the excess is rectified.
Financial advice	Guidance provided to help individuals make informed decisions about their retirement savings, product selection, and income strategies. Can range from general information to personal advice tailored to individual circumstances.
Guidance	Information and tools provided to help members understand their options and make decisions, distinct from regulated financial advice.
Home Equity Access Scheme (HEAS)	A government-backed program allowing retirees to access home equity via a loan, supplementing retirement income.
Housing equity release	Mechanisms that allow retirees to access the value of their home to supplement retirement income, such as the Home Equity Access Scheme (HEAS) or private reverse mortgages.
Lifetime income product / longevity product	A retirement income product designed to provide income for life, helping manage the risk of outliving savings. Examples include lifetime annuities and pooled longevity products.
Longevity risk	The risk of outliving retirement savings due to longer-than-expected life spans. Managed through lifetime income products, annuities, and Age Pension eligibility.
Lump sum withdrawal	A one-off withdrawal from super, often used to pay off debt, fund major expenses, or supplement retirement income. May occur at retirement or during the decumulation phase.
Means test	Assessment of income and assets to determine eligibility for the Age Pension and other government benefits. Includes income test and assets test components.
Minimum drawdown rate	The legislated minimum percentage of a tax-free retirement account that must be withdrawn each year, based on age. Rates are periodically adjusted by government policy.
Pension phase (retirement phase)	The period after retirement when super savings are converted into income streams. Investment earnings in this phase are generally tax-free up to the transfer balance cap.
PRISM	A stochastic simulation model developed by the Super Members Council to analyse and optimise retirement income outcomes. It captures how investment performance, drawdown behaviour, fund quality, Age Pension rules and longevity interact to influence retirement adequacy and sustainability
Replacement rate	A measure of retirement income adequacy, calculated as the ratio of retirement income to pre-retirement earnings. Typically used to assess whether retirees can maintain their standard of living.
Retirement Income Covenant (RIC)	Legislation requiring super trustees to develop a retirement income strategy for members, balancing income, risk, and flexibility.
Retirement income product	A product designed to provide income in retirement, including tax-free retirement accounts, annuities, and lifetime income products.
Retirement pathway	A structured approach or product menu designed to guide members through retirement income decisions, often tailored to cohort needs.

Sequencing risk	The risk that poor investment returns occur early in retirement, reducing the longevity of retirement savings and income stability.
Transfer Balance Account (TBA)	An account maintained by the ATO to track the amounts transferred into retirement phase income streams for each individual, ensuring compliance with the transfer balance cap.
Transfer Balance Cap (TBC)	A lifetime limit on the total amount of super that can be transferred into tax-free retirement phase income streams (e.g., tax-free retirement accounts, annuity). The cap is indexed periodically and is currently $1.9 million for 2024–25.
Transition to Retirement Income Stream (TRIS)	A type of super income stream that allows individuals to access their super while still working, subject to specific rules. Not counted towards the transfer balance cap until a full condition of release is met.

Appendix 2: data sources

1. Pyxis survey

Pyxis Polling & Insights was engaged by SMC to conduct a qualitative and quantitative survey of pre-retirees and retirees. The survey included 1006 pre-retirees (aged 45- 70) and 1013 retirees (aged 60 to 75 years old) and was undertaken in June 2025.

Quotas were used to ensure that the samples for each of the two groups were as representative as possible of the Australian population in that category. Data has been weighted to be more representative, by age, gender and location.

Pyxis Polling & Insights is a member of the Australian Polling Council and complies with its Code of Conduct, and individual staff are members of The Research Society and comply with its Code of Professional Behaviour. Pyxis is committed to adhering to all agreed industry standards for political polling and market research.

2. Fund data request

SMC sought data on large fund member accounts with the following criteria:

- Accounts belonging to members aged 60 or older
- Accounts either in the tax-free (pension) phase, or the taxed (accumulation) phase, excluding transition to retirement (TTR) accounts and accumulation accounts that are still receiving employer contributions.

These characteristics are expected to be correlated with retirement, however in some cases members may have an inactive account with one fund but an active account with another fund. In such cases these members would be included but not necessarily retired. Some groupings have very low sample sizes but have been aggregated to larger groupings where appropriate.

The following data was requested:

- Number of members
- Average opening balance
- Average investment returns
- Average pension drawdown
- Average closing balance
- Number of lump sum recipients (current financial year)
- Number of lump sum recipients (prior 4 financial years)
- Average lump sum value (current financial year)
- Average lump sum value (prior 4 financial years)
- Number of members with longevity products
- Proportion of income derived from longevity products

The data was grouped according to the following variables:

- Account status
  - » All accounts in scope (combined data)
  - » Pension account (minimum drawdown)
  - » Pension account (fund default non-legal minimum drawdown)
  - » Pension account (drawdown above minimum, non-fund default)
  - » Accumulation account (no pension drawdown)
- Account balance tier
  - » $0 to $50,000
  - » $50,001 to $100,000
  - » $100,001 to $250,000
  - » $250,001 to $500,000
  - » $500,001 to $1,000,000
  - » $1,000,001 to $2,000,000
  - » $2,000,001 to $3,000,000

- » $3,000,001 and over
- Age
  - » 60 to 64
  - » 65 to 69
  - » 70 to 74
  - » 75 to 79
  - » 80 to 84
  - » 85 to 89
  - » 90 to 94
  - » 95 and over
- Gender
- Financial year (ten years requested)

Data from the following funds was received and incorporated into the analysis:

- AustralianSuper: 2017-18 to 2024-25
- Australian Retirement Trust: 2022-23 to 2024-25
- Aware Super: 2012-13 to 2022-23 (pension phase), 2017-18 to 2022-23 (accumulation phase). Combined balance data was not provided.
- HostPlus: 2019-20 to 2024-25
- UniSuper: 2020-21 to 2023-24 (Combined balance data only).

Average balances, average drawdowns and lump sums for each grouping have been adjusted to 2024-25 dollars using average weekly earnings. All other values are in nominal terms.

Appendix 3: PRISM
PORTFOLIO AND RETIREMENT INCOME SIMULATION MODEL

PRISM is a stochastic simulation model developed to understand how Australians can make the most of their retirement savings while managing longevity risk and investment uncertainty. It addresses a central policy challenge—how to convert accumulated superannuation wealth into a sustainable income stream that balances adequacy, stability, and resilience over uncertain retirement horizons.

Many Australians face difficult decisions at retirement: how to invest savings, determine drawdown rates, purchase annuity products, and navigate Age Pension means testing—all while confronting uncertainty about investment returns, inflation, and lifespan. Sub-optimal choices can lead to premature depletion of savings, excessive reliance on the Age Pension, or unnecessarily austere living standards. PRISM provides a rigorous analytical framework for testing retirement strategies under realistic conditions, simulating thousands of possible retirement futures for representative Australians across the wealth distribution. This allows assessment of not only average outcomes but the distribution of outcomes.

1. Model Overview and Structure

A core feature of PRISM is its ability to simulate investment outcomes that mirror the complexity of real world markets. The model uses a stochastic process grounded in historical experience to generate thousands of plausible return paths, which form the foundation for analysing how different retirement strategies perform under uncertainty.

Stochastic Investment Simulation

PRISM applies a block-bootstrap resampling technique to historical fund-level data from the SuperRatings Fund Crediting Rate Survey spanning the period 2006-2025. This method preserves both serial correlation within asset classes and cross-asset correlations between them, reproducing realistic patterns of volatility.

The model generates monthly returns for 1,000 to 5,000 distinct scenarios over a 50-year horizon, covering accumulation and account-based pension portfolios across risk profiles (Growth, Balanced, Conservative Balanced, Capital Stable, Secure) and product quality tiers (Good, Average, Poor), plus term deposits, residential property, direct equities, and inflation-linked assets. By grounding simulations in observed historical behaviour rather than theoretical assumptions, PRISM reflects real-world market experience—including correlated downturns and recovery phases that strongly influence retirement outcomes.

For each return path, the model projects superannuation balances, income, and Age Pension entitlements under different drawdown strategies – such as legislated minimums, fixed percentage withdrawals, income-smoothing rules, or combinations of account-based pensions and longevity products such as life annuities, deferred annuities and group-self annuities that pool longevity risk

Representative Agents and Wealth Profiles

PRISM models outcomes for six representative agents corresponding to wealth quintiles 1 through 5, with the fifth quintile split by investment property ownership—a major source of heterogeneity affecting wealth composition and Age Pension eligibility.

Each agent is constructed using HILDA Survey data for income units aged 60-69 who remain in the labour force and hold preserved superannuation. Couples comprise around 70 per cent of this group. PRISM models both singles and couples separately, alongside equivalised income-unit profiles to maintain comparability and reduce the number of combinations required for analysis. By observing household disposable income during participants' 50s, the model can calculate income-replacement rates—a key measure of whether retirees maintain living standards after retirement.

Mortality and Retirement Horizons

Rather than simulating mortality stochastically, PRISM evaluates outcomes at key life expectancy percentiles: the 10th, 25th, 50th, 75th, and 90th percentiles of remaining life expectancy at retirement. This captures the diversity of retirement lengths—from those who pass away relatively soon after retiring to those who live into their 90s—while avoiding an additional stochastic layer that would complicate interpretation.

At each percentile, the model assesses income adequacy, wealth positions, and Age Pension reliance, answering questions such as: How does a strategy perform for someone who lives to 80 versus 95? What proportion of retirees exhaust savings before reaching high life expectancy percentiles?

Indexation of parameters and deflators

All relevant superannuation and Age Pension rates and thresholds are indexed to legislated factors: the Consumer Price Index (assumed at 2.5%, the midpoint of the RBA target range) or wage indexation (3.7%, consistent with the IGR assumption).

Retirement income components are deflated to 2025 dollars using a mixed deflator—the Age Pension deflated by wages (reflecting its role as a minimum income linked to community living standards) and superannuation and other income deflated by CPI (reflecting its role in supporting incomes above the minimum).

Key Outputs and Measures

PRISM generates a comprehensive suite of metrics that together provide a multidimensional assessment of retirement income adequacy, sustainability, and system interactions across criteria relevant to retirees, policymakers, and product designers.

Income Adequacy and Replacement Rates: The model tracks disposable income throughout retirement, assessed against established benchmarks such as ASFA Comfortable and Modest standards. Replacement rates compare retirement income to pre-retirement income, measuring consumption continuity.

Income Stability and Volatility: PRISM measures year-to-year income volatility and the probability of sharp declines, quantifying how product choices—such as partial annuitisation—can reduce volatility while impacting mean income levels.

Longevity Coverage and Depletion Risk: The model calculates the probability of exhausting superannuation at different life expectancy percentiles, assessing whether strategies provide adequate longevity protection.

Age Pension Reliance: PRISM calculates the share of lifetime retirement income sourced from the Age Pension across wealth quintiles and strategies, with fiscal implications (faster spend-down may increase long-term costs) and equity implications (Age Pension support distribution across wealth levels). The model tracks Age Pension entitlements in present-value terms for fiscal impact analysis.

Distributional Outcomes: PRISM presents outcomes as distributions rather than point estimates, revealing not only typical experiences but also downside risks and upside possibilities.

2. Modelled Scenarios

Unless otherwise specified, all scenarios model retirement at age 67 (current Age Pension eligibility age). Results are presented for equivalised income units derived from the HILDA Survey, maintaining representative wealth and income characteristics across household types.

For baseline comparisons in drawdown analysis (Section 2.1), we model a balanced investment option from a good quality superannuation fund. Non-superannuation assets are drawn down at 5% per annum (bank deposits) and 10% per annum (direct shares), with net rental income included as an ongoing source for Quintile 5.2 (property owners). All nominal values are converted to 2025 real values using the mixed deflator methodology outlined above.

The primary outcome measure is the survival-weighted expected present value of lifetime disposable income: mean disposable income across 1,000 simulations at each age (retirement to 110), weighted by survival probability (Australian Life Tables 2020-22), and discounted to present value. Results are presented as percentage changes relative to the benchmark strategy.

2.1 Drawdown Strategy Comparisons

Drawdown strategy is among the most consequential decisions affecting retirement outcomes, determining annual income levels, longevity protection, Age Pension eligibility, and depletion risk.

Age-based minimum drawdowns serve as the benchmark against which alternative strategies are compared. This framework prioritises capital preservation and longevity protection but can lead higher balance members to under-consume early in retirement and leave substantial unspent balances. PRISM evaluates multiple drawdown approaches; three alternatives are presented here for comparison.

Average Fund Drawdown Rates: Age and balance-specific drawdown rates derived from empirically observed member behaviour. A regression model was built using data from the SMC fund survey, with rates determined as a function of age, gender, and balance quintile. Balance quintiles were calculated on an age-specific basis by comparing wage-adjusted balance data from the fund survey to HILDA Survey data (wave 22). These rates reflect typical member drawdown behaviour.

Fixed 10% Drawdown Rate: A constant 10% withdrawal rate on current balances throughout retirement, providing higher early income than minimum drawdowns but without systematic longevity protection.

Optimised Drawdown Rates: This strategy targets a 20% precautionary buffer (in nominal terms) at the 75th life expectancy percentile (age 93.5 for those retiring at 67). A constant percentage rate, determined ex ante using expected returns, reduces the balance to this buffer by age 93.5. Once reached, members withdraw only net investment returns, preserving the buffer for longevity protection and late-life needs.

Outcomes: The impact of drawdown strategy varies substantially by wealth. Q1 shows minimal impact (0.3-0.4%) as Age Pension dominates. Q2 shows modest gains (0.7-1.1%). The impact increases markedly for Q3 with improvements of: 6.6% (average), 7.2% (10% fixed), 8.3% (optimised). For Q4+, effects are dramatic—10% fixed increases income by 23.3% (Q4) and 13.0% (Q5.1); optimised increases reach 29.4% (Q4) and 20.4% (Q5.1). Members at Q3+ have sufficient capital that minimum drawdowns lead to significant under-consumption. Higher strategies reduce Age Pension reliance for wealthier members.

2.2 Investment Strategy Comparison

Investment risk profile has substantial long-term implications for retirement income, though impact varies by wealth position and retirement horizon. This scenario compares two strategies, both using optimised drawdowns from a good quality fund in tax-free retirement phase:

Capital Stable (Benchmark): A defensive portfolio (20-40% growth assets, 60-80% defensive assets) prioritising capital preservation and reducing market volatility.

Balanced: A growth-oriented portfolio (60-76% growth assets, 24-40% defensive assets) accepting higher short-term volatility for higher expected long-term returns.

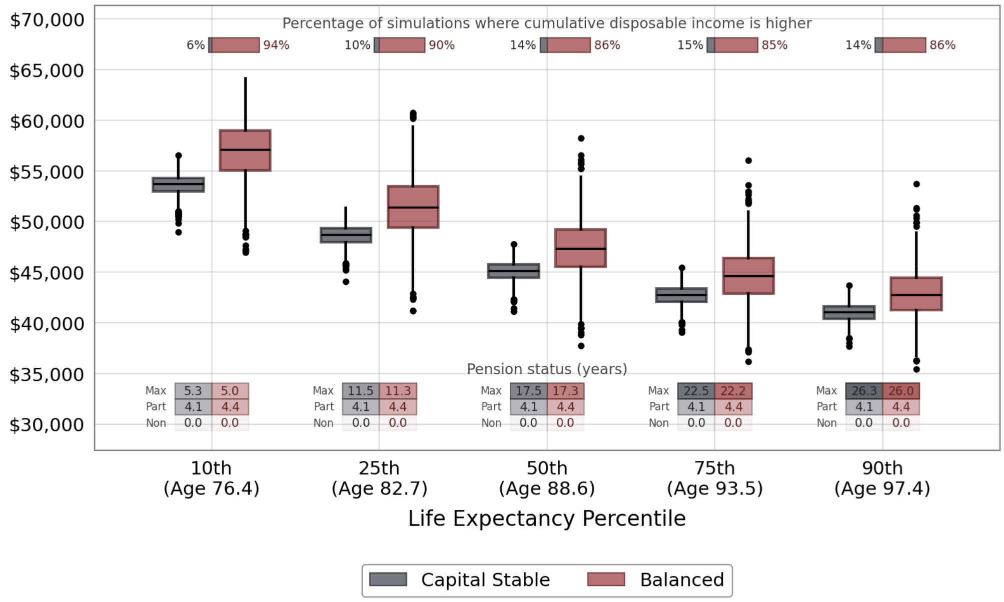
The case for growth-oriented portfolios is compelling when viewed against realistic retirement horizons. For those retiring at 67, conditional life expectancy extends to age 82.7 (median) and 88.7 (75th percentile)—investment horizons of 16-27 years spanning multiple market cycles. Over such periods, growth portfolios overwhelmingly outperform, with defensive portfolios bettering growth in fewer than one in five cases over ten years, and approximately one in twenty over 25 years.

Outcomes: Balanced strategies deliver higher lifetime income than capital-stable across all quintiles, with gains from 1.0% (Q1) to 12.0% (Q5.1). Benefits rise with wealth, reflecting slower capital depletion and reduced Age Pension reliance.

Figure 3.1 shows Quintile 3 results. Balanced outperforms capital-stable in 85-94% of simulations across all longevity scenarios. At median life expectancy, the 25th percentile balanced outcome approximates the 75th percentile capital-stable outcome—demonstrating that below-average balanced returns outperform above-average defensive results. The Age Pension functions as a shock absorber, particularly for Q3-Q4 members within the means-test taper range, automatically adjusting to buffer market volatility.

These findings demonstrate that excessively defensive portfolios are likely only appropriate for members with very short investment horizons or those requiring substantial capital access in the near term. For typical retirement horizons extending 15-27 years, this modelling demonstrates that balanced strategies consistently outperform defensive approaches.

Figure 3.1 Distribution of annual lifetime disposable income, quintile 3 - capital stable vs balanced



Source: SMC PRISM analysis

2.3 Product Quality Comparison

Fund performance has material effects on retirement outcomes comparable to investment strategy choices. Quality differentials arise from variations in investment capability, fee structures, insurance costs, and operational efficiency across superannuation products. This scenario compares two balanced portfolios using optimised drawdown rates in tax-free retirement phase.

Poor Quality Fund (Benchmark): A balanced portfolio from a poor-performing fund. Poor quality funds can underperform good quality funds by 1½-2% per annum or more in net returns.

Good Quality Fund: A balanced option from a high-performing fund with strong investment outcomes and competitive fees, representing performance achievable through effective product selection.

Outcomes: Good quality funds deliver higher lifetime income across all quintiles, with gains from 0.9% (Q1) to 9.9% (Q5.1). For Q1-Q2, where Age Pension dominates, product quality has modest impact (0.9-2.4%) as members exhaust balances relatively quickly, limiting compounding effects. For Q3-Q4, benefits rise to 4.5-6.8% as the performance gap compounds over longer drawdown periods. For Q5, advantages reach 9.9% (Q5.1) and 7.7% (Q5.2), reflecting longer investment horizons and complete reliance on returns.

Product quality is particularly important because, unlike investment strategy which involves risk-return trade-offs, it represents pure value creation or destruction. Over 20-25 years, a persistent 2% performance gap compounds substantially—a good quality balanced fund delivers outcomes similar to a poor quality growth fund, without additional volatility.

The findings underscore the importance of fund selection and consolidation into high-performing products. Transitioning from poor to good quality funds can boost income by amounts comparable to optimising drawdowns or investment profiles, requiring no additional risk tolerance and benefiting all wealth levels.

2.4 Tax Structure Comparison

Superannuation tax treatment changes fundamentally at retirement: accumulation phase accounts face 15% tax on earnings, while retirement phase accounts are tax-free. Despite this clear advantage, many retirees fail to transition due to inertia, lack of awareness, or administrative complexity. This scenario compares two identical balanced portfolios using optimised drawdowns.

Taxed Accumulation Account (Benchmark): Superannuation held in accumulation phase post-retirement, subject to 15% tax on realised earnings (10% on capital gains for assets held more than 12 months).

Tax-Free Retirement Account: Superannuation converted to an account-based pension with zero tax on earnings.

Outcomes: Transitioning to tax-free retirement increases lifetime income across all quintiles, from 0.2% (Q1) to 2.2% (Q5.2). Over 20-25 years, the 15% tax drag reduces net returns by approximately 0.3-0.6% per annum, depending on portfolio composition and turnover. Remaining in accumulation is economically equivalent to accepting lower returns or higher fees—a good quality accumulation fund performs comparably to an average quality retirement fund. This represents pure value leakage with no offsetting benefit.

The findings highlight a significant policy challenge. Even for lower-balance members, the cumulative impact over retirement is material with Q2 members forgoing about $5,000 by remaining in accumulation. For middle and higher-balance members the cost rises to $15,000–$30,000 or more.

While this comparison isolates the effect of tax treatment, it is worth noting that many accumulation accounts also carry default insurance premiums. Members can opt out, but many do not, meaning a further potential opportunity costs, subject to the terms of the insurance policy.

Some funds also provide retirement bonuses when members transfer to the tax-free phase, reflecting the release of provisions for unrealised capital gains tax that will no longer crystallise. These bonuses modestly enhance the financial incentive to transition, further reinforcing the efficiency gains from moving to the retirement phase.

The findings highlight a significant policy challenge. Even for lower-balance members, the cumulative impact over retirement is material with Q2 members forgoing about $5,000 by remaining in accumulation. For middle and higher-balance members the cost rises to $15,000–$30,000 or more.

2.5 Combined Strategy Comparison

While previous scenarios isolate individual factors, retirees face multiple simultaneous decisions about drawdowns, investment strategy, product quality, and tax structure. Combined effects can compound to create dramatically different outcomes. This scenario compares cumulative impact of optimal versus suboptimal choices.

Worst Case (Benchmark): Poor quality capital stable fund in taxed accumulation with minimum drawdowns—representing suboptimal decisions across all major choice points.

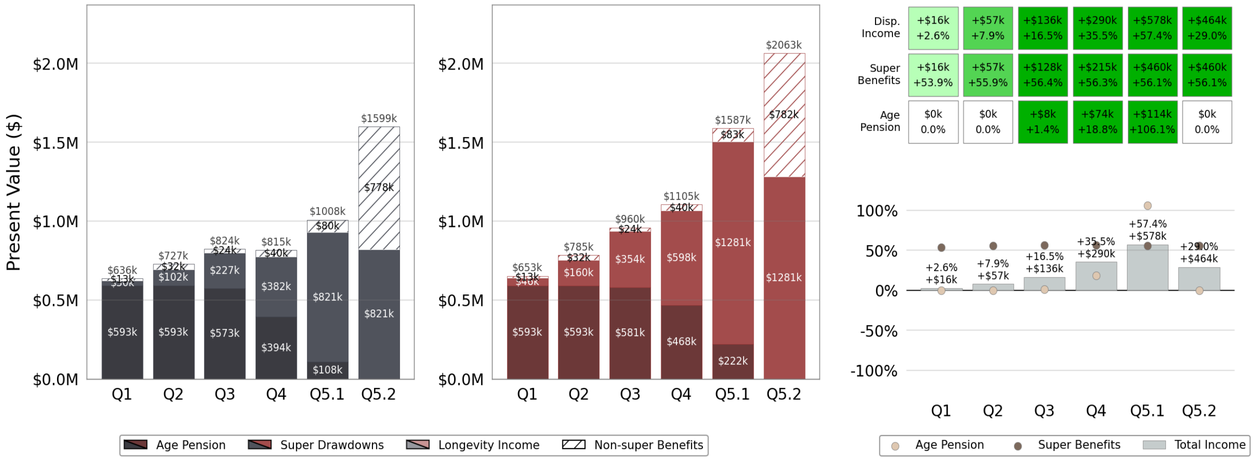
Best Case: Good quality balanced fund in tax-free retirement with optimised drawdowns—representing informed choices across all dimensions.

Outcomes: Combined impact varies markedly by wealth, from 2.6% (Q1) to 57.4% (Q5.1). These gains exceed the sum of individual effects, highlighting strong interaction effects between strategies.

Figure 3.2 presents present value of lifetime income by quintile. Three patterns emerge: First, income composition shifts substantially – worst case shows heavy Age Pension reliance, while best case draws more from superannuation. Second, absolute dollar differences rise sharply with wealth. Third, percentage improvements accelerate beyond Q3, reaching 35.5% (Q4) and 57.4% (Q5.1).

The worst-case scenario is not merely hypothetical. Many retirees exhibit several of these suboptimal behaviours—remaining in accumulation phase, holding excessively defensive portfolios, staying with underperforming funds due to inertia, and defaulting to minimum drawdowns. This analysis quantifies the cost of these decisions and underscores the importance of integrated retirement planning that addresses all dimensions simultaneously rather than optimising individual elements in isolation.

Figure 3.2 Present value of lifetime income by quintile - worst case vs best case strategy



Source: SMC PRISM analysis

2.6.1 Life Annuities

Life annuities provide guaranteed income for life, either at a fixed nominal rate or indexed to CPI. The products examined include both unindexed (fixed) and CPI-indexed variants, with members allocating 50% of their superannuation to the annuity and retaining 50% in an account-based pension.

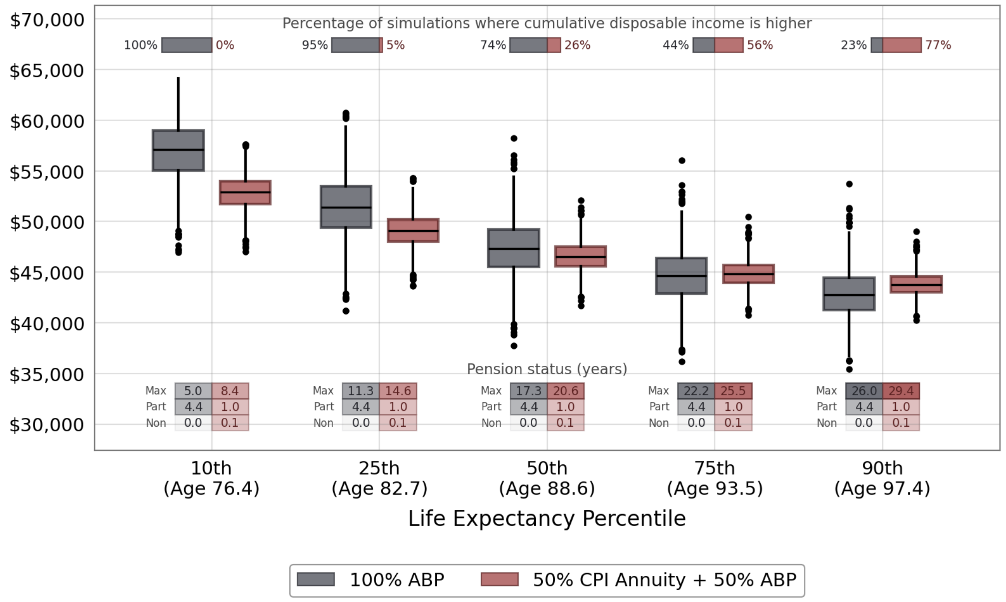
Fixed Annuity: Higher initial income, constant in nominal terms, declining in real purchasing power.

CPI-Indexed Annuity: Lower initial income, increasing annually with inflation.

Outcomes: Life annuities deliver mixed results. For most quintiles, the 50-50 hybrid produces lower lifetime income than 100% allocation to a good quality ABP with optimised drawdowns: -0.7% to -1.5% (Q1-Q2), -0.9% to -1.2% (Q3), and -3.0% to -5.3% (Q5). Only Q4 shows modest gains (+0.4% to +0.9%), driven by favourable Age Pension means test treatment. Q4 members remain within the taper range where this benefit is meaningful, while Q1-Q3 already receive substantial Age Pension and Q5 receives none.

The hybrid approach reduces volatility compared to 100% ABP but at the cost of lower average income. At median life expectancy (age 88.6), ABP outperforms in 75% of simulations. The annuity strategy only catches up at the 75th percentile and beyond, where longevity protection becomes more valuable.

Figure 3.3 Distribution of lifetime disposable income, quintile 3 - ABP vs 50 CPI annuity + 50% ABP



Source: SMC PRISM analysis

Full annuitisation using the current crop of market annuities produces even more substantial income reductions. Win rates fall to 0-7% across longevity scenarios, with median outcomes declining by $3,000-$5,000 annually compared to 100% ABP. While volatility is nearly eliminated, the cost in foregone income is severe for typical retirement horizons.

2.6.2 Group Self-Annuities (GSA)

Group self-annuities represent an alternative longevity product structure where members pool longevity risk within a fund membership. GSA payments adjust with investment performance and mortality experience, providing longevity protection without guaranteed income levels.

Outcomes: The GSA hybrid (50% GSA, 50% ABP) outperforms both 100% ABP and life annuity hybrids across most quintiles, with gains from 0.6% (Q1) to 10.7% (Q4).

GSAs outperform life annuities for two structural reasons. First, GSAs maintain growth-oriented allocations because payments adjust with market performance. Life annuities must invest defensively to meet guarantees, resulting in lower expected returns (similar to capital stable versus balanced in Section 2.2). GSAs deliver balanced-portfolio returns while providing longevity insurance.

Second, the life annuities modelled include death benefits up to half median life expectancy, increasing costs as insurers must reserve capital and price guarantees accordingly. GSAs usually provide no bequests (although some can be structured with limited death benefits and reversionary benefits to a spouse)—amounts from deceased members flow back as mortality credits to survivors. This allows all returns and mortality experience to benefit surviving members directly. Bequest values are calculated separately in PRISM but not incorporated in the lifetime income comparison presented here.

For Q4, GSAs combine structural benefits with favourable Age Pension means test treatment, driving particularly strong 10.7% gains. These findings suggest longevity products can enhance outcomes when designed to minimise costs and maintain growth strategies. Unlike traditional annuities that trade income for stability, well-structured GSAs deliver both longevity protection and competitive income for members above median balances.

2.7 Retirement Timing

Retirement age has profound implications for income adequacy. Earlier retirement reduces accumulation time while extending the drawdown period—a double burden. Later retirement provides additional compounding, contributions, and Age Pension deferral while reducing the drawdown period.

These scenarios compare retirement at age 67 (Age Pension eligibility) with early retirement at 63 and late retirement at 71. The analysis incorporates two technical adjustments. First, starting balances are scaled using age-based ratios from SMC's Cameo Model: 85% of baseline for age 63, 116% for age 71. These ratios account for additional contributions, investment returns, and fees over the extended or shortened accumulation periods. Second, optimised drawdown rates are recalibrated for altered time horizons to the 75th percentile: early retirement extends the horizon from 26.6 to 30.6 years (requiring more conservative rates), while late retirement compresses it to 22.6 years (permitting more aggressive rates).

Early Retirement (Age 63): Members retire four years before Age Pension eligibility, drawing on superannuation and transitioning to Age Pension at 67.

Late Retirement (Age 71): Members delay retirement four years, continuing to work, contribute, and accumulate.

Outcomes: Effects are substantial and asymmetric. Early retirement reduces lifetime income by 2.3% (Q1), 10.5-11.1% (Q3-Q4), and 22.0% (Q5.1). Late retirement increases income by 2.9% (Q1), 14.1-15.5% (Q3-Q4), and 32.5% (Q5.1). For Q1, where Age Pension dominates, impact is modest. For Q2-Q4, effects become pronounced—early retirement means a 30% longer horizon (26 to 34 years) funded by only marginally higher balances, substantially accelerating depletion. Late retirement compresses the horizon while adding four years of contributions and returns. For Q5, effects are most dramatic: retiring at 71 rather than 63 yields 61% more lifetime income.

Retirement age may be the single most consequential financial decision many Australians make. Unlike product quality or investment strategy, retirement timing is largely irreversible. For members above the median, the difference between retiring at 63 versus 71 can exceed the combined impact of all other decisions.

2.8 Lump-Sum Withdrawal

Many retirees withdraw lump sums at retirement for debt repayment, home improvements, or major purchases. This scenario models an additional 10% lump-sum withdrawal at retirement (beyond regular drawdowns), comparing outcomes to the baseline strategy with no lump sum.

Outcomes: The impact of a 10% lump-sum withdrawal varies by quintile: -0.1% to -0.3% (Q1-Q2), +0.2% to +1.7% (Q3-Q4), and +0.3% to -0.8% (Q5.1-Q5.2). The modest and mixed effects reflect two offsetting forces. The lump sum reduces the capital base available for compounding returns throughout retirement, but for members in the Age Pension taper range (particularly Q4), the reduced superannuation balance increases Age Pension entitlements, partially offsetting the income loss. For Q1-Q2, the small negative impact reflects accelerated depletion with minimal Age Pension offset (already receiving full or near-full pension). For Q5, who receive little or no Age Pension, the lump sum simply reduces lifetime income potential.

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