Super Consumers Australia submission in response to the Retirement Income Review

January 2020

ABOUT US

Super Consumers Australia (Super Consumers), formerly known as the Superannuation Consumers' Centre, is an independent, not-for-profit consumer organisation formed in 2013. Super Consumers was first funded in 2018. We work to advance and protect the interests of low and middle income people in the Australian superannuation system.

During its start up phase Super Consumers has partnered with CHOICE to deliver support services. CHOICE is the leading consumer advocate in Australia, established 60 years ago, it is an independent voice, ensuring consumers get a fair go.

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Summary

Super Consumers Australia (Super Consumers) welcomes the opportunity to review the retirement income system in Australia. On the back of a Productivity Commission and Royal Commission which found serious efficiency flaws and failings in financial advice, it is timely to see whether the system is delivering good retirement outcomes. Given our expertise, this submission will focus superannuation aspects of the retirement income system.

The review's work will be enhanced if it frames its findings within the recommendations of the Productivity Commission's review of the efficiency and competitiveness of the superannuation system. The Commission highlighted large efficiency gains that could come from superannuation. Targeting major issues like multiple accounts, chronically underperforming funds and inappropriate insurance, could all provide a major boost to people's retirement balances. Importantly, these gains come without significant extra cost.

Retirement income adequacy - Improving metrics

Australians deserve realistic retirement income standards that are grounded in the actual expenditure of current retirees. These standards should include an appropriate consideration of different groups across the income distribution at retirement. Existing models pushed by the wealth management sector have serious flaws, making them inappropriate for an increasing number of people. Existing models overestimate what most middle-income retirees will need, and fail to model scenarios for people who rent a property or are still paying off their mortgage, a category of people likely to increase in coming generations. At best, industry-created models are misleading, and at worst they are self-serving by encouraging greater flows of money into the wealth management sector.

Inequality in retirement balances

The systemic undervaluing of work done by women means we leave them with substantially lower superannuation balances at retirement. We think there should be a strong focus on modelling bolder policies that drive at the heart of the inequalities in the way women's work is valued. In the superannuation space, we see a need for clear modelling on the impacts and benefits of paying superannuation on all forms of leave, and removing the $450 threshold.

Improving accessibility and quality of retirement planning advice

The advice market is still failing people, with the majority of advice failing to pass a basic best interest test. Even with the removal of some forms of conflicted advice, there are still serious risks for consumers due to inherent conflicts within many of the advice business models. Tinkering with existing advice models will not overcome these failings. We need a bigger solution. We see value in the review considering the independent advice model in the United Kingdom and how it could benefit Australian consumers if transferred here.

Bringing a consumer voice to the Retirement Income Review

Throughout the submission we have drawn upon the more than 10,000 people who responded to the Super Consumers Australia and CHOICE 'Retirement in Australia survey'.[1] People shared with us their concerns about adequacy, fairness and complication in planning for their retirements. We have included case studies from people that are emblematic of common problems people have faced. This is designed to give the review an unvarnished insight into how people experience the retirement system.

Summary of recommendations

Recommendation 1: That the Retirement Income Review model the effects of paying superannuation on paid and unpaid parental leave on women's superannuation balances and their income in retirement.

Recommendation 2: That the Retirement Income Review model the impact of removing the $450 per month earnings eligibility threshold on women's superannuation balances and their income in retirement.

Recommendation 3: That the Retirement Income Review model the impact of paying superannuation on various forms of carer's leave on women's superannuation balances and their income in retirement.

Recommendation 4: That the Retirement Income Review assess the relative benefits of tailored default products for the retirement phase.

[1] Super Consumers Australia and CHOICE, 2020, 'Retirement in Australia Survey', conducted between 17-24 January 2020, includes both quantitative and qualitative data from a self-selecting sample. n=10,732

Adequacy - Retirement Standards

Consultation paper questions:

- What are the relative strengths and weaknesses of different measures of adequacy?
- Are there circumstances where one measure of adequacy is superior to another?
- What are appropriate assumptions to use when determining adequacy?

Assessing Adequacy with Retirement Standards

Retirement budget standards provide a budget that funds a particular standard of living in retirement. They are valuable for those planning for retirement in that they detail the quality and quantity of different consumption items a retiree will be able to afford given a certain level of expenditure. The annual expenditure and associated 'nest egg' of savings required provide a simple target for those planning retirement.

In addition, budget standards may be used as an indicator of poverty and to assess the adequacy of social security payments to retired Australians.[2] The "low cost" budget standard by the Social Research Policy Centre (SPRC) at UNSW and their more recent "minimum income for healthy living" standard have been used extensively to assess the adequacy of Australian social security payments.[3][4] Finally, budget standards for retirees have been widely used as benchmarks for adequate retirement incomes by researchers. Examples include simulation models of hypothetical retirement balances for different types of individuals[5] and assessments of system level adequacy.[6]

The set of budget standards that are commonly referred to in Australia are The Association of Superannuation Funds Australia (ASFA) standards.[7] These standards were originally developed for ASFA, a superannuation lobby group, in 2004 by the SPRC team behind the original 1998 SPRC standards. They are widely used by superannuation funds and financial advisors to provide retirement planning guidance. They also form the basis of regulator ASIC's free

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[2] Saunders P. and Bedford, M. (2017) "New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians" See literature review in section 1.1
[3] Saunders et al (1998) "Development of indicative budget standards for Australia"
[4] Saunders P. and Bedford, M. (2017) "New Minimum Income for Healthy Living Budget Standards for Low-Paid and Unemployed Australians"
[5] Khemka et al (2020) "The 'Right' Level for the Superannuation Guarantee: A Straightforward Issue by No Means"
[6] Actuaries Institute (2015) "For richer, For Poorer, Retirement Incomes"
[7] ASFA (2018) "ASFA Retirement Standard"

retirement planning advice on adequate retirement incomes. ASIC uses the standards as the sole guidance about what a 'comfortable' retirement is in the superannuation explainer and retirement income explainer.[8] ASFA itself maintains a website which allows consumers to calculate how much they need to save to reach the comfortable standard.[9]

The reliance on the ASFA standards has affected media and public perceptions of what constitutes an adequate retirement income. Much of the media coverage around retirement incomes has focused on the supposed inadequacy of Australians' retirement balances by comparing them with the ASFA 'comfortable' standard. Some recent examples are detailed in the box below.

Media Narrative about Inadequacy of Australian Retirement Incomes:

"At the moment, more than 80 per cent of women are retiring with insufficient superannuation savings to fund a comfortable retirement."
ASFA, 3/05/18

"Over 80% of Aussies at risk of inadequate retirement funds. Need $2 - $4m for comfortable self-funded retirement."
Channel 9, 11/10/17

"Average man faces $236k super shortfall"
SMH, 13/1/17

"Almost half of the older Australian population faces a massive shortfall"
MLC, 28/8/17

ASFA plays a contributory role by producing media releases linking actual retirement balances to the ASFA comfortable standard and highlighting the shortfall.[10]

Super Consumers Australia maintains that these standards may be useful for retirement planning purposes for some retirees, but are inappropriate for a substantial proportion of the population. Below we detail how middle income pre-retirees, and those who do not outright own their home in retirement, are not well served by the standards. We also review the validity of a key assumption that goes into calculating the retirement balance 'nest eggs' used in the standards. In both cases, we outline suggestions to better assess retirement income adequacy going forward.

[8] MoneySmart (2020) "super and retirement"
[9] SuperGuru website (2020) "retirement tracker"
[10] ASFA (2018) "Media Release: Getting superannuation right for women"

Limitations of existing standards

Middle income households

There are two budget standards published by ASFA, a ‘comfortable’ and a ‘modest’ standard. The modest standard is described as “considered better than the Age Pension, but still only able to afford fairly basic activities”. By contrast, the comfortable standard is described as “a comfortable retirement lifestyle” that “enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living”.[11] The comfortable standard is presented as a target for all those retirees wanting more than a ‘modest’ retirement. ASFA has recently stated an appropriate goal for the system is for 50% of retirees to meet the comfortable standard by 2050.[12] Yet the comfortable standard was originally designed for and still broadly applies to people in “the top income quintile of the aged population” (as the designers put it).[13]

As noted in the consultation paper, consumption smoothing across time in work and retirement is a widely used adequacy metric for retirement incomes. The associated replacement rate approach to measuring retirement income adequacy was used in the Henry Tax Review[14] and international research by the OECD.[15] A retirement standard that is relevant to the top quintile of retirees makes little sense for a middle income households pursuing consumption smoothing. It implies that households in the middle of the income distribution need to substantially reduce their consumption during working life to fund a higher ‘comfortable’ standard in retirement.

ASFA relies on data which shows the median disposable income of households with a head aged 55-64, after housing costs, is actually greater than the ASFA comfortable standard level.[16] As noted by the Grattan Institute, this is a problematic comparison for multiple reasons.[17] Firstly, it compares income before retirement with expenditure in retirement. These pre-retirement income figures include saving, which is substantial for this age group as they place significant discretionary income into their savings.

Secondly, the median household income figure incorporates the income of, and expenditure on, adult children. Very few households headed by over 65’s include dependent children (2%), while a significant proportion of 55-64 year old headed households do (17%).[18] Controlling for

[11] ASFA Retirement Standard
[12] ASFA (2018) “Media Release: Getting superannuation right for women”, linked report
[13] Social Policy Research Centre (2004) “Updating and understanding indicative budget standards for older Australians”, p. 1.
[14] Henry Tax Review (2009) “The Retirement Income System: Report on Strategic Issues”
[15] OECD (2019) “Pensions at a Glance”
[16] ASFA (2018) “2018 ASFA Retirement Standard Budgets Review” p. 5
[17] Grattan Institute (2018) “Money in Retirement: More than enough” p. 35
[18] ABS (2018) “65300 HES Summary of Results, Table 10.2”

dependent children, the comfortable standard corresponds to the annual expenditure of the top 20% of singles and top 40% of couples aged 55-64 in the most recent ABS Household Expenditure Survey.[19]

To provide concrete examples, the median annual expenditure of a couple aged 55-64 in the 2015-16 ABS Household Expenditure Survey is $49,780, excluding housing. The ASFA comfortable standard at the time prescribed a level of spending during retirement of $54,110. For singles the difference was more stark, with the median 55-64 year old spending $22,800 per year, while the comfortable standard required $38,760, or 70% more.[20]

ASFA also justifies the relevance of the comfortable standard as a broad target for all retirees wanting more than a 'modest' retirement by pointing to analysis from the 2017 HILDA statistical report on retirement income expectations.[21] Respondents who were aged 45 or over and not retired had a mean expectation of required retirement income very close to the ASFA comfortable standard (for both singles and couples).[22] However, the same report also notes that these expectations significantly decrease as respondents approach retirement, such that respondents aged 60-64 state they require on average "$11,800 less per year than people aged 45 to 49". Survey research from MLC has demonstrated people substantially overestimate the retirement balance they require for a 'comfortable' retirement when compared with actual balances at retirement and the ASFA 'comfortable' standard.[23]

ASFA argues the maturing of the superannuation system means the proportion of retirees achieving the comfortable standard "will increase" from 20% of retirees currently, to "a figure like 50%".[24] Setting aside that this will change the nature of the standard, it remains uncertain whether this will occur, and if so, how quickly. In the meantime, middle income retirees and pre-retirees are limited to a standard that implies an inappropriately high expenditure in retirement, with the consequence that they must reduce their standard of living during working life to achieve it.

Constructing 'nest egg' targets

A key issue in retirement planning is how to model the evolution of spending requirements in retirement to produce target balances or 'nest eggs' for retirement. The approach taken for the ASFA comfortable standard is to inflate the value of the standard by wage growth through retirement. In recent history wages have generally grown faster than prices, so using a wage inflation model assumes retirees incomes grow in real terms as they age. Evidence from bank

[19] Grattan Institute (2018) "Money in Retirement: More than enough" figure 3.9
[20] Grattan Institute (2018) "Money in Retirement Chart Data"
[21] Wilkins, R. (2017) "The Household, Income and Labour Dynamics in Australia Survey: Selected Findings from Waves 1 to 15"
[22] Ibid, p. 5
[23] NAB – Group Economics (2017). "MLC Quarterly Australian Wealth Behaviour Survey: Q1 2017"
[24] ASFA (2018) "2018 ASFA Retirement Standard Budgets Review" p. 5

account data and successive waves of the ABS household expenditure surveys suggests that this does not reflect reality. As a result, the ASFA 'nest eggs' overstate the required retirement balance for the standard of living expressed by the comfortable standard. If followed this could lead to unnecessary additional saving by those using the standard as a target for their retirement.

Actuarial consultancy group Milliman Australia analysed the bank accounts of over 300,000 Australian retirees in 2018 and discovered that across the wealth distribution, spending fell consistently and substantially with age.[25] In addition, the Grattan Institute analysed several waves of the ABS household expenditure survey and found that for a given five year birth cohort, spending fell with age across successive waves. Specifically, the report shows that for the four five year cohorts born between 1930-1949, spending fell in relative terms once they reached retirement age.[26]

Both of these methodologies have the common limitation that they do not follow individuals as they age. This means they cannot verify whether individuals spend less over time, although Milliman have stated their dataset will allow for longitudinal analysis as it matures. Another superannuation fund lobby group, the Australian Institute of Superannuation Trustees (AIST) commissioned analysis of longitudinal data from HILDA which showed that retiree spending is modest and does not materially decline through retirement.[27] However both Grattan and ASFA[28] agree that HILDA expenditure data substantially underrepresents real expenditure as it misses important categories. For example, HILDA misses recreation expenditure, which Grattan's cohort analysis shows to decline with age.[29] Therefore the HILDA study is unsound as a measure of total expenditure changes across a lifetime.

There is clearly a need for more complete longitudinal expenditure data. Given the initial evidence, constructing 'next eggs' on wage inflation runs a very serious risk of overinflating people's actual retirement needs. Treasury modelling with the MARIA model finds that the median superannuation balance for a 65-74 year old in 2060 will be $350,000 in 2019 dollars.[30] The nest egg required for a single to meet the ASFA standard is currently $545,000. More sophisticated approaches that incorporate both the current trajectory of expenditure over retirement and emerging trends would improve the accuracy of nest egg targets to the benefit of those planning their retirement.

[25] Gebler, J. (2018) "Analysis: Retirees spending falls faster than expected into old age"
[26] Grattan (2018) "Money in retirement: more than enough" p. 29
[27] Auster, A. and Maddock, E. (2016) "Expenditure Patterns in Retirement"
[28] ASFA (2018) "2018 ASFA Retirement Standard Budgets Review" p. 3
[29] Grattan (2018) "Money in retirement: more than enough" p. 29
[30] Treasury (2019) "Information Note: Accumulation of superannuation across a lifetime"

The value of retirement standards for renters

According to the 2017 ABS Survey of Income and Housing, the proportion of 65-74 year olds that rent currently sits at 15.6%, while 12.8% still have a mortgage.[31] Average housing costs for these groups are substantially higher than for homeowners. ASFA has previously released research showing that retirees living in private rental accommodation would need substantially higher levels of retirement income to achieve the same standard of living as homeowners, yet it has not incorporated this in an ongoing way into its published standards.[32]

Census data shows a declining rate of homeownership across most age groups over the last thirty years, with ownership rates reducing significantly for younger age groups.[33] A standard designed for homeowners is useless for an increasing portion of the population. If these types of standards are to be relied upon in future they need to reflect the housing costs of retirees who are renting or still paying off mortgages.

Once housing costs are accounted for, income poverty is prevalent for over 65s who rent. A 2018 report by ACOSS found 43.4% of renters over 65 are in income poverty, which far exceeds the rate for over 65's who own their home (7.5%) and the general population (13.2%).[34]

In its 2017 report on housing and homelessness, the Productivity Commission found that private rents have grown more quickly than Commonwealth Rent Assistance since 2008.[35] The shortfall is due to the fact that rent assistance has been indexed to consumer price inflation. Since the purpose of the assistance is to allow pensioners who rent to be able to live at a similar standard to those who are homeowners, the inflator should reflect this.

In a response to a question in senate estimates in February 2019, the Department of Social Services stated that 32% of pensioners who received Commonwealth Rent Assistance paid over 30% of their income in rent,[36] which is the technical definition of housing stress for low income earners.[37] The following responses to our supporter survey illustrate the situation for pensioners who rent:

Direct from consumers: comments from the Super Consumers survey

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[31] ABS (2017) "65300 HES 2015-16 Summary of Results, Table 10.2"
[32] ASFA (2017) "Retirees renting need more than $1 million to be comfortable"
[33] Hall, A. (2017) "Trends in home ownership in Australia: a quick guide"
[34] Australian Council of Social Service (2018) "Poverty in Australia Report"
[35] Productivity Commission (2017) "Report on housing and homelessness"
[36] Additional Senate Estimates (2019) "Question and Answer to Question SQ19-000134"
[37] Australian Housing and Urban Research Institute (2019) "Understanding the 30:40 indicator of housing affordability stress"

> *"We basically languish on a pension which is just not enough. I don't smoke or drink, and pay $200 pw for rent. I don't own a car and never get to the movies or other entertainment. I don't think a few of those things...are a lot to ask after willingly chipping in taxes all my life."*
>
> - Peter (Age 65-74, retired)
>
> *"Being a renter I have $30 a week left out my pension after paying rent. My son gives me money to buy food and pay utilities. There is no public housing available, I have been told I have a ten [year] wait. I have always been a low income earner, hence no money for retirement."*
>
> - Jerome[38]

There is a strong need for a renters standard to help unpack retirement income adequacy for low income renters. Not accounting for a major cost like housing in these retirement standards renders them next to useless in understanding the needs for a growing portion of the population.

Summary of findings on adequacy

1. *The existing retirement standards have some serious limitations.*
    a. They assume homeownership, when a substantial and growing minority of retirees are renting or paying off a mortgage.
    b. The 'comfortable' standard is presented as a target for all retirees seeking a comfortable retirement, but in fact represents the expenditure of the top quintile of singles and top two quintiles of couples aged 65-69.
    c. The nest eggs associated with the standard assume retirees grow their expenditure in real terms through retirement, when multiple sources show it actually decreases.
2. *Retirees who rent require different adequacy metrics to homeowners.*
    a. Retirees who rent have much higher rates of income poverty after housing costs are accounted for.
    b. Pensioners who rent face substantial housing stress, even after including Commonwealth Rent Assistance.
    c. Commonly accepted replacement rates of 60-70% are premised on homeownership and are inappropriate for renters.
    d. There is value in creating a budget standard for people who rent and are on low incomes. This will allow for a tailored assessment of retirement income adequacy that better reflects the changing needs of people in retirement.

[38] Not his real name, as he wished to remain anonymous.

Equity - the gender balance gap in superannuation

Consultation paper questions:

- Whether outcomes for individuals in different circumstances are fair and adequate.
- Does the system provide equitable outcomes for women, given they are more likely to take career breaks, work part-time and have lower lifetime earnings and longer life expectancy?

The systemic undervaluing of work done by women means we leave them with substantially lower superannuation balances at retirement. The gap between men and women is found to persist in 2060 in Treasury simulations using the MARIA model.

Given our expertise in superannuation, we have deliberately confined our analysis to the contributing factors to retirement balance gaps. We acknowledge there are broader issues that the committee should also review and as part of this holistic analysis assess the relative efficiency and equity of each solution.

As for superannuation, we see value in the committee conducting further modelling on the potential benefits of removing the $450 threshold and paying superannuation to people taking parental and carer's leave. Having greater modelling on the impact of these interventions and their relative equity and efficiency versus other interventions will greatly improve the quality of policy debate.

Direct from consumers: comments from the Super Consumers survey

"[W]omen my age definitely are disadvantaged as I have spent so much time out of the workforce raising my children and not contributing to superannuation during this time. I also have a lower paying job as I work in a female dominated industry - this also reduced the amount that was put into super by my employers and I couldn't afford to top that up. My partner is not working now either as he burnt-out at 64 years of age and has not been able to find a job which could be due to ageism. He has had to spend a lot of his super to survive and the government expects me to support him - he hasn't had one bit of help from Centrelink. So that is going to make things tougher for both of us when we finish work."

- Angela (Age 55-64, not retired)

The nature of the problem

Women's superannuation balances are significantly lower than men's at retirement. As the Retirement Income Review discussion paper states, the *median* superannuation balances for people approaching retirement age (60-64 years) was 26% higher for men ($154,453) compared to women ($122,848).[39]

The commonly identified reasons for the gender balance gap include that women:

- earn less than men in the same occupations and industries,[40]
- retire on average more than six years before men,[41]
- are more likely to be in paid employment either part-time or casually, and
- are more likely to take extended periods of leave from paid employment to have children, or take on other carer responsibilities.

ASFA analysis suggests that there is only a small gap between the average balance of men and women early in their working life (aged 25-34).[42] This gap begins to widen notably over the next decade (aged 35-44), as many women take leave from paid employment to raise children.

Industry Super Australia modelling estimates the cost to retirement balances of taking five years from full time paid employment between the ages of 29-34, reduces a woman's average retirement savings by $100,000.[43]

Women's balances are lower but their retirement needs are greater

These causes of the balance gap are made worse by the fact that many women's financial needs will be greater in retirement. AIHW data shows that women have a life expectancy four years longer than men.[44] Due to longer life expectancy, women are more likely to outlive their already smaller retirement savings.

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[39] Treasury, Retirement Income Review consultation paper, page 5, available at https://treasury.gov.au/sites/default/files/2019-11/c2019-36292-v2.pdf

[40] WGEA, 2019, Australia's Gender Pay Gap Statistics (fact sheet), available at https://www.wgea.gov.au/data/fact-sheets/australias-gender-pay-gap-statistics

[41] ABS, 2017, Retirement and Retirement intentions, available at https://www.abs.gov.au/ausstats/abs@.nsf/mf/6238.0

[42] ASFA, 2017, Superannuation balances by Age and Gender, page 9, available at https://www.superannuation.asn.au/ArticleDocuments/359/1710_Superannuation_account_balances_by_age_and_gender.pdf.aspx?Embed=Y

[43] ISA, 2017, The Gender Super Gap (web feature), available at https://www.industrysuper.com/media/the-gender-super-gap/

[44] AIHW, 2019, Deaths in Australia (web report), available at https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/contents/life-expectancy

What is the practical impact of having less money in retirement

The CHOICE Consumer Pulse quarterly survey between 2014-17 shows that women in retirement are encountering higher rates of financial stress than men. According to the September 2017 figures, significantly more retired women than men are:

- borrowing money from friends or family (7% men vs 10% women),
- living off a credit card to cover the gap until payday (5% men vs 15% women)
- deliberately missing bill payments (4% men vs 13% women).[45]

According to a CHOICE survey of renters, women are also more vulnerable in increasing renting costs compared to the general population. The research found 66% of women over 55, compared to 39% of the general population, would find a 10% increase in rent difficult or very difficult to afford.[46]

As the evidence stands, women are retiring earlier and living longer, with lower superannuation balances than men. This is leading to women being more likely to exhaust their superannuation savings and be at greater risk of financial stress in retirement.

Possible solutions to retirement income inequality

The Grattan Institute evaluated several options that could be introduced through the tax and transfer system in a 2018 paper.[47] It found that targeted measures, including increasing rent assistance, increasing superannuation top-up payments, making (gendered) changes to contribution caps and superannuation tax breaks would all help to close the gender balance gap.

Direct from consumers: comments from the Super Consumers survey

"Women, particularly those in my age group. I'm did not have the benefits of paid parental leave, let alone super paid on that leave. When my children were small, I worked part time, so that when we separated, my ex husband had about twice as much super as me. The settlement we agreed didn't fully take this into account. I am now in a position to make substantial contributions to my super, as my children are now independent, I have a reasonable income and have almost paid my mortgage. However current rules prevent me from making more than $25,000 concessional contributions each year and even post tax

[45] Super Consumers Australia analysis of financial stress metrics from successive waves of CHOICE Consumer Pulse Survey (Q4 2014 - Q3 2017). Note this survey is nationally representative.
[46] CHOICE, 2018, 'Disrupted: the consumer experience of renting in Australia', p. 6
[47] Grattan, 2018, Best way to close gender gap, see page 15, available at https://grattan.edu.au/wp-content/uploads/2018/02/899-Best-way-to-close-gender-gap-retirement-incomes.pdf

contributions are limited. This is likely to increase my reliance on the aged pension. I know there has been some discussion about increasing super for women, but I do not think any measures have been aimed at women of my age. I think there should be more flexibility around concessional contributions in particular, taking into account age and current super balances."

- Jayne (Age 45-54, not retired)

We agree that solutions should be targeted to ensure we are pursuing the most efficient policies to solve the gender balance gap. However, there should also be a strong focus on modelling bolder policies that drive at the heart of the inequalities in the way women's work is valued. In the superannuation space we see a need for this to focus on paying superannuation on all forms of leave and removing the $450 threshold.

Current modelling on the impact of paying super on parental leave

In 2013, the newly elected Federal Government proposed expanding the Commonwealth parental leave scheme to pay new parents their full replacement wage (up to $150,000), including superannuation, for 26 weeks.[48] Public reporting of Parliamentary Budget Office figures indicated this policy would provide $50,000 in extra superannuation savings by age 65 for women on the average wage.[49] To our knowledge these figures were not publicly released, so it is difficult to understand the key assumptions. Notably the policy proposal was later scaled back and eventually shelved, pointing to possible sustainability issues.[50]

Industry Super Australia modelling in 2016 concluded that paying superannuation on paid parental leave would increase retirement savings by 1.7%.[51] At face value this seems like a relatively small measure given the size of the balance gap. However, the modelling assumptions were again not made public.

In the absence of good publicly available modelling, it's difficult to draw firm conclusions about the precise impact of paying superannuation on parental leave. To adequately assess the best

[48] 'The Coalition's policy for paid parental leave', 2013, available at https://parlinfo.aph.gov.au/parlInfo/download/library/partypol/2674145/upload_binary/2674145.pdf
[49] Sydney Morning Herald, 2013, Tony Abbott's paid parental leave scheme to begin July 2015', available at https://www.smh.com.au/politics/federal/tony-abbotts-paid-parental-leave-scheme-to-begin-july-2015-20130818-2s4jc.html
[50] The Guardian, 2015, 'Tony Abbott to abandon paid parental leave scheme in face of pressure', available at: https://www.theguardian.com/australia-news/2015/feb/02/tony-abbott-to-abandon-paid-parental-leave-scheme-in-face-of-pressure
[51] ISA, 2016, submission 74 to Senate economics committee inquiry into economic security for women in retirement, page 42, available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Economic_security_for_women_in_retirement/Submissions

policies, we need transparent modelling of the impact of paying superannuation on the total period of leave taken. This should include both paid and unpaid leave. It should also assess the relative efficiency of each policy in solving the gender balance gap.

Again, we have confined our focus to superannuation based policy levers. We acknowledge that they may not be the most efficient measures for dealing with the inequality in retirement outcomes. We expect the review to take a more holistic view to the possible solutions to this problem.

Recommendation 1: That the Retirement Income Review model the effects of paying superannuation on paid and unpaid parental leave on women's superannuation balances and their income in retirement.

Removing the $450 threshold

The '$450 threshold' is the amount of Ordinary Time Earnings (OTE) per month that an employee can earn before an employer must pay the 9.5% Superannuation Guarantee. The measure means people in casual or part time work, who may be working one or two shifts per month with an employer, do not receive superannuation contributions on their earnings.

In 2014-15, an estimated 400,000 people (3.5% of all employees) earned less than $450 per month from a single employer and therefore did not receive superannuation. Around 60% (240,000) were women and 40% (160,000) were men.[52] This is reflective of the broader data which shows women are more likely to be in casual and part-time work.

Treasury documents accessed through Freedom of Information requests note that abolishing the threshold would increase coverage for some workers, but a large portion of the benefit would be eroded by fees.[53] Treasury modelled a cameo in which a university student with no super was paid $4,000 a year. Assuming the threshold was abolished the student would receive $380 into her superannuation each year. At the time, the lack of protection from high fees meant about 40% of her superannuation savings would be eroded by fees.

We understand that this modelling was done prior to the introduction in 2019 of the Protecting Your Super and Putting Members Interests First reforms. These two packages had a combined impact of capping fees at 3% and making insurance opt in for low balances (under $6,000). These measures are likely to increase the percentage of balances that are retained by a person rather than be eroded by fees and insurance. However, there are still problems in the system

[52] Treasury FOI disclosure log, 2019, available at https://treasury.gov.au/foi/2524
[53] Treasury FOI disclosure log, 2019, available at https://treasury.gov.au/foi/2524

multiple accounts and poorly designed insurance can still lead to significant erosion for people with lower balances and intermittent work patterns. This is why proper modelling is still needed to determine how much someone on a low income would lose to fees and duplication in the current system.

Given the new protections offered to people with low balances, we recommend the impact of removing the $450 threshold be modelled again.

Recommendation 2: That the Retirement Income Review model the impact of removing the $450 per month earnings eligibility threshold on women's superannuation balances and their income in retirement.

Superannuation for carers

Taking leave from paid employment to care for children or relatives has a significant impact on retirement income savings. Carers Australia's analysis of 2012 ABS data found there were 2.7 million carers in Australia, 770,000 of whom are primary carers.[54] This is clearly a role women take on disproportionately, as 70% of carers are women. The analysis also found that nearly 40% of all carers are aged 45-64 years (46% for women carers). These are crucial years to be taking time out of paid employment as it is when many would normally have their highest earning potential, and therefore superannuation contributions.

Direct from consumers: comments from the Super Consumers survey

"I am an older healthy woman who has throughout her adult life at different times been an unpaid carer for a child (no maintenance paid by the father) then in a second relationship cared for my partner who was dying of cancer (at a time when there was no such thing as a carer's allowance)... I've been in and out of the workforce as other family commitments allowed. So I have little superannuation and have gone back to study for a qualification at TAFE so I can teach and top up my super."

- Petra[55]

[54] Carers Australia, 2015, submission 39, available at https://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Economic_security_for_women_in_retirement/Submissions
[55] Not her real name, as she wished to remain anonymous.

When modelling the impact of paying superannuation for carers, an equity perspective needs to take account of the large replacement cost of carers' contributions. Deloitte Access Economics was commissioned by Carers Australia to model the economic value of Australia's informal carers, and estimated the replacement cost of informal care at $60.3 billion.[56]

The Commonwealth currently offers a Carer Payment and Carer Allowance to provide income support for people with a disability, serious illness, or someone who is "frail aged". The Carer Payment is currently $850.40 per fortnight ($22,110 p/a) for single people (or $1,282.00 per couple combined; or $33,332 p/a) providing constant in-home care. The Carer Allowance is fortnightly supplement of $131.90 for 'additional daily care'. These payments are administered by the Department of Human Services and none are eligible for the Superannuation Guarantee.[57]

Again this is an area in which the work done predominantly by women is undervalued. Making superannuation payments to people on carer's leave is one way to address this equity issue. We see value in modelling the impact of paying superannuation on carer's leave to help assess its relative merits against other options for addressing unequal retirement outcomes.

Recommendation 3: That the Retirement Income Review model the impact of paying superannuation on various forms of carer's leave on both women's superannuation balances and their income in retirement.

Inappropriate insurance products

Many total and permanent disability (TPD) insurance products significantly limit cover where people are in intermittent work or have been out of paid employment for a period of time (usually 6-12 months).[58] Women are more likely to be impacted by these 'junk' insurance policies due to their work patterns. People in intermittent work are paying the same premiums under these policies as others, but for more restricted cover. As a result there is a significant erosive impact without much additional benefit.

This is a problem the Royal Commission and ASIC have both identified.[59] To date Treasury has run a consultation on the Royal Commission recommendation to explore universalising

[56] Deloitte Access Economics, 2015, Economic Value of Informal Care, https://www2.deloitte.com/au/en/pages/economics/articles/economic-value-informal-care-Australia-2015.html
[57] DHS, 2020, Carer payment rates, available at https://www.humanservices.gov.au/individuals/services/centrelink/carer-payment/how-much-you-can-get
[58] ASIC, 2019, 'Holes in the safety net: A review of TPD insurance claims', p.8
[59] FSRC, 2019, 'Final Report', p.322; ASIC, 2019, 'Holes in the safety net: A review of TPD insurance claims'

insurance in superannuation policies, which may remove these overly restrictive terms.[60] The government is yet to respond to the consultation.

We see an urgent need for action on this issue. Given these TPD policies are meant to be designed to protect people who are effectively retired from work, we see this issue within the terms of the current inquiry.

There are solutions to this problem being weighed in the Treasury consultation on universal terms for insurance within MySuper. The main issue being the increased cost versus the additional benefit gained from universal terms. However, we see this debate as leading to a false economy. The savings in cost are currently being worn by those least able to afford it. People tend to fall into cover under these restrictive terms because they are in intermittent work. They pay the same premiums as everyone else, yet receive a fraction of the cover. Universalising terms may lead to everyone at least receiving the same standard of cover. In the short term this may increase costs overall, but if done correctly, will greatly increase the value of cover for these groups.

As for cost increases, there is an overriding obligation on superannuation fund trustees to ensure “insurance does not inappropriately erode the retirement income of beneficiaries”.[61] If the effect of this change became inappropriately erosive it would be a trustee’s obligation to reduce costs. This might be achieved through a range of responses, such as finding more competitive insurance offers or reducing benefits. This ‘inappropropriate erosion’ obligation on trustees has been of limited value, as highlighted by the need to introduce legislation in 2019 to explicitly protect low balances being eroded by inappropriate insurance.

In reviewing the relative merits to solving this problem, we recommend the review cast a wider net than simply trying to tinker with the terms of these policies. At its heart this is an issue that requires the most efficient and equitable response to adequately provide for people who are effectively retired due to disability. This is an issue that requires a consideration of state based workers compensation schemes, the disability support system and various insurances, including insurance in superannuation.

Given the Retirement Income Review’s limited timeframe and the complex nature of this system of insurances and public support, we recommend a separate independent review. The Productivity Commission made the same recommendation in its final report to its review of the superannuation system.[62] We see value in this review happening as a matter of urgency.

[60] Treasury, 2019, ‘Universal terms for insurance within MySuper’, available at: https://treasury.gov.au/consultation/c2019-t370846

[61] *Superannuation Industry (Supervision) Act 1993* section 52(7)(c)

[62] Productivity Commission, 2018, ‘Superannuation: Assessing efficiency and competitiveness’, p.72

Cohesion - how individuals engage with the system

Consultation paper question:
- Whether individuals understand how to achieve desired outcomes within the system and the extent to which the system is being used to achieve outcomes other than those for which it is designed.

Complication in retirement planning

People perceive that planning for retirement will be complicated, more complicated than almost every other consumer decision they need to make. The Super Consumers Australia and CHOICE Retirement in Australia survey found that 82.54% of respondents who were yet to retire thought it was at least 'moderately' complicated to plan for retirement.[63] For those who had already retired this number dropped to 57.39%, but was still a sizable majority. This difference perhaps represents the difficulty people face being able to judge future needs. It may also indicate that some people's confidence in navigating the system will improve once they have experienced it. Either way, it is clear that a sizable majority of people are struggling with the complexity of the retirement income system.

A component of retirement planning is finding an appropriate superannuation product. CHOICE has conducted nationally representative research to measure the level of complication in finding a product which suited them across key product categories. Superannuation ranked second highest on the list, with 42% of people finding it either quite or very complicated to find a product that best suited them.[64]

Product	Quite complicated + Very complicated	Neither	Very easy + Quite easy
Health Insurance	47%	25%	27%
Superannuation	42%	31%	28%

[63] Super Consumers Australia and CHOICE, 'Retirement in Australia survey', Q. Retirees - 'How complicated has it been to plan for your retirement?', Pre-retirees: 'How complicated do you think it will be to plan for your retirement?' n = 10,674, not nationally representative.
[64] CHOICE, 2017, Consumer Pulse, 'Q. How complicated do you feel it is to find the product that best suits you in each of the following areas?' (excluding 'don't know' answers), n= 1042, nationally representative.

Mortgage	40%	30%	30%
Home and contents Insurance	36%	28%	36%
Gas and electricity	33%	29%	38%
Car Insurance	29%	28%	43%
Internet / Broadband services	27%	26%	47%
Mobile phone services	27%	25%	48%
Technology appliances (e.g. cameras, home computers, TVs)	25%	28%	48%
Airlines / holiday operators	20%	31%	49%
Household appliances (e.g. fridges, washing machines)	15%	30%	55%
Day to Day banking, like transaction accounts, savings accounts	14%	28%	58%

As the Productivity Commission found, there are significant reasons why people find engaging with retirement decisions around their superannuation difficult.[65] The compulsory nature of the system, cognitive constraints, behavioural biases, poor financial capability and other factors all limit a person's ability to engage with superannuation.

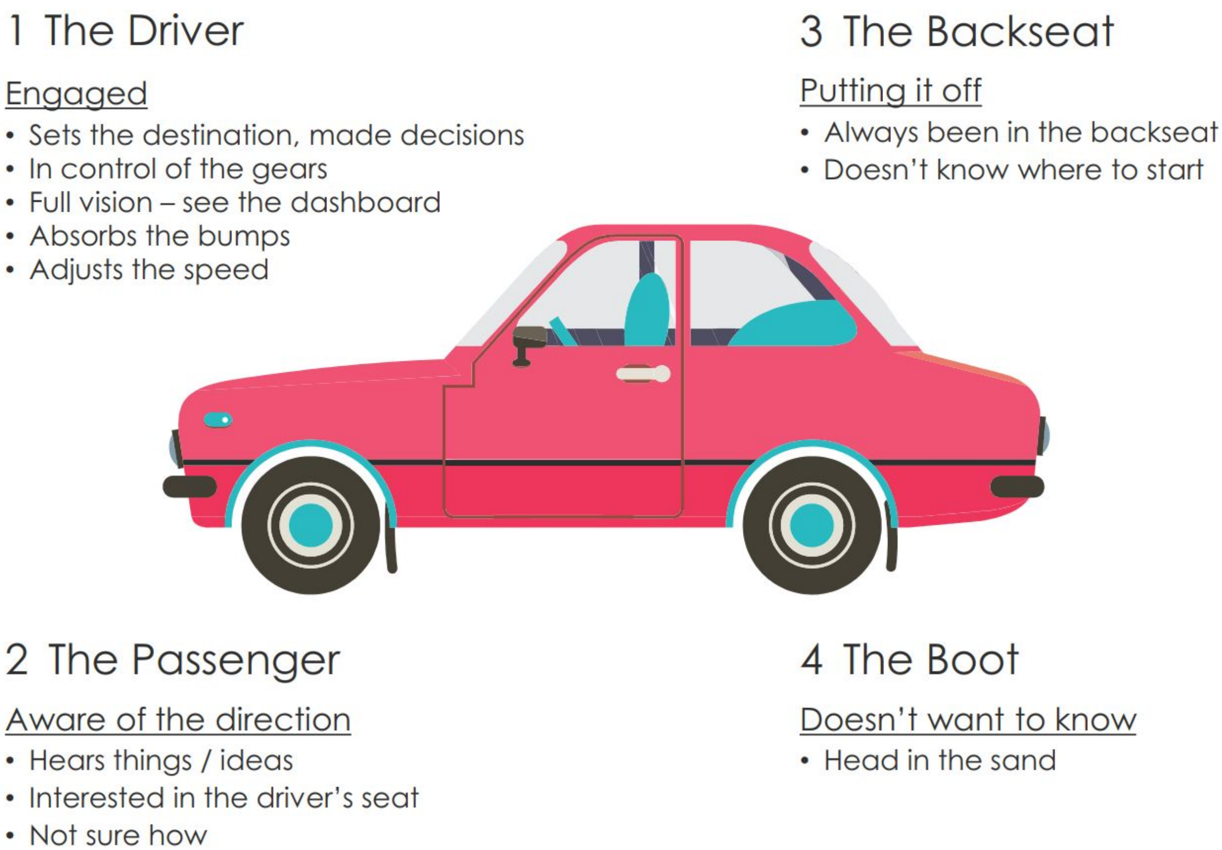
Project SuperPower

In 2016 CHOICE sought to better understand the drivers of disengagement with superannuation through a qualitative piece of research.[66] This research - Project SuperPower - unpacked the key factors that were contributing to this lack of engagement. Most relevant to the current review, it found the failure of disclosure and a lack of trust in the superannuation system as key drivers of disengagement.

Research focussed on the experiences of young adults, new mothers and pre retirees. These groups were selected as they represented key periods in a person's life when engagement with superannuation could deliver most benefit to people's retirement outcomes.

[65] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', p.248
[66] CHOICE, 2016, 'Project Superpower', available at: https://www.choice.com.au/-/media/b139626583b444aa9e65fae317fcf807.ashx?la=en

The first important finding of the research was that people are not a homogenous group when it comes to their ability to engage with superannuation. The researchers developed a framework for understanding how people engaged based around the seats of a car. It indicates that different policy responses are required to help people engage with superannuation decisions.



The Driver: Has a financial adviser and a high level of financial capability. Knows when to make extra contributions, understands their investment risk appetite and could easily navigate dispute resolution options in response to a problem.

The Passenger: Has a good level of financial capability, but is overwhelmed by the number of options available. They would be in a position to act with a small amount of assistance from a trusted source of information.

The Backseat: Poor level of financial capability, they know which superannuation fund they are with, but don't know what other decisions can be made to improve retirement outcomes. They would be assisted by a triaging of their needs and providing a simple path to good decision making.

The Boot: No level of financial capability, actively avoids thinking about superannuation. They would require direct assistance and a strong default system to help protect them from multiple accounts, poor performance, high fees and insurance that they cannot claim against.

Disclosure is a poor consumer protection

People are looking for answers, not more 'information'.[67] As much as people might want to do something about their super, they feel incompetent to act. The subject matter is complex and the language impenetrable to the layperson. People want to make the right decisions, but they don't want to upskill or be 'educated'. Instead they want a 'shortcut' to decisions.

ASIC's major report of 2019 into the failure of disclosure as a consumer protection echoes these findings.[68] It has long been assumed that more information would help people make better financial decisions. The ASIC report found that often the opposite was true, that disclosure can be less effective than expected, or in some instances backfire and contribute to consumer harm.

The limits of self help and disclosure were also raised by the Productivity Commission. It showed that many people lack the financial capability to engage with superannuation. Research presented in the final report found close to 60% of people do not understand their fees and charges, and around 40% lack an understanding of basic investment options (such as growth, balanced and conservative).[69]

There is uncertainty and a lack of trust around superannuation

The Project SuperPower research found three major contributing factors to this uncertainty and lack of trust.

1. **Changes to the law**

There was a general sense that changes to superannuation would reduce people's benefits. When unpacked, people pointed to changes in taxation. The research was done at a time when the Federal Government was attempting to address some of the inequalities in the system by

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[67] CHOICE, 2016, 'Project Superpower', p. 14, available at: https://www.choice.com.au/-/media/b139626583b444aa9e65fae317fcf807.ashx?la=en
[68] ASIC, 2019, 'Disclosure: Why it shouldn't be the default'
[69] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', p.21

introducing a transfer balance cap. Although this only impacted higher wealth people, it appears some of the push back to these reforms penetrated through to the general population.

Consumer anxiety about legal reform is not necessarily an argument for keeping the system as-is. Anxiety is likely closely linked to well-funded campaigns from the wealth management industry about the impact of reform. The wealth management sector regularly attempts to characterise positive consumer protections as costly or harmful. For example, it is not uncommon for superannuation funds to introduce new fees on members and attempt to shift blame onto the government for these fees by naming the fee after the consumer protection initiative. Australian Super was guilty of this practice in early 2020 when it introduced a new administration fee. It claimed the fee was needed to offset the impacts of the Federal Government's Protecting Your Super legislation and sought to name the fee after the legislation. [70]

2. **Lack of trust of super funds**

The research found people often felt like they had been kept in the dark by their super fund. Many claimed they had never had personal contact from their fund (verbally, rather than just in writing). Some saw super funds as biased or self-serving, putting their own interests before their customers. Some of these beliefs were probably compounded after the subsequent findings of the Productivity Commission and Royal Commission.

3. **Volatility in markets**

This came through particularly strongly for the pre-retiree demographic, which at the time of the research had the recent memory of the Global Financial Crisis. They had also seen their parents experience shocks to the system while they were reliant on their retirement savings. These systemic shocks exacerbated feelings of loss of control.

This research has useful conclusions which form the basis of our later discussion for how the advice market could deliver better outcomes for people heading into retirement.

Consultation paper question:

- Can individuals navigate the system simply or is financial or other advice needed to achieve good outcomes?

The evidence outlined above shows that people are having difficulty navigating the superannuation aspects of the retirement system. However, this does not mean the current system of financial advice is the only or the right solution to the problem. In this section we will assess the strengths and weaknesses of the existing sources of advice and outline the merits of different approaches that could be taken to address the shortfalls.

[70] Australian Super, 2020, 'Fees and charging', available at: https://www.australiansuper.com/feechanges

Attitudes to financial advisers

Even prior to the Financial Services Royal Commission (FSRC), only 25% of Australians trusted financial advisers on measures of ethics and honesty.[71] Unpacking this further, a 2019 ASIC survey found 49% of people agreed that financial advisers were more interested in making themselves rich than in helping their customers.[72] Perceptions of conflicts in advice were widespread, with 37% agreeing that financial advisers did not generally have the customer's best interests at heart.

There is clearly a trust deficit in the community when it comes to financial advisers. We will now turn to consider whether this lack of trust is earned.

How the advisers perform in reality

The most recent ASIC reviews of financial advice statements show that people's mistrust of financial advisers is well founded. If anything it appears that people have been overly optimistic when it comes to the level of trust placed in financial advisers to put their clients best interests ahead of their own.

- ASIC's 2018 report considered advice given by the five biggest vertically integrated financial institutions, regarding advice to switch to in-house products. This report found that in 75% of the advice files reviewed, the advisers did not demonstrate compliance with the duty to act in the best interests of their clients.[73]
- ASIC's 2019 report looked at the quality of advice provided by superannuation funds. ASIC found 51% of advice files reviewed did not comply with the best interests duty and related obligations.[74]

Unfinished business in improving the quality of advice

Both of these reports come post the Future of Financial Advice (FoFA) reforms which introduced a best interest duty and removed some types of conflicted remuneration. The FSRC made further recommendations to remove remaining conflicted remuneration (e.g. life insurance and grandfathered commissions). These will go some way to removing conflicts but they do not address structural conflicts created by vertical integration.

As Commissioner Hayne noted, the FoFA reforms still allowed advisers to accept many kinds of conflicted payments. For example FoFA still allowed advisers to receive grandfathered commissions and asset-based fees. The premise was that where conflicts existed they could be

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[71] Roy Morgan, 2017, Opportunity for financial planners to gain trust
[72] ASIC, 2019, Report REP 627 Financial advice: What consumers really think
[73] ASIC, 2018, 18-019MR ASIC reports on how large financial institutions manage conflicts of interest in financial advice
[74] ASIC, 2019, Report REP 639 Financial advice by superannuation funds

'managed'. He referred to the ASIC report on vertical integration mentioned above and concluded that:

> *"the law, as it stands, has not resulted in conflicts being managed successfully. It has not seen the client's interests being preferred over the interests of the adviser and the entity with which the adviser is aligned."*[75]

Given the limited time afforded to the FSRC it could not address in a detailed way all of the causes of conflicted advice. Recognising there was an ongoing problem that was yet to be resolved in financial advice, Commissioner Hayne recommended a review no later than December 2022 to look at measures to improve the quality of advice.[76] As a result, we are still a long way from an advice industry which can adequately assist people with retirement decisions without putting adviser interests ahead of client interests.

Strengths and weaknesses of existing advice services

There are a number of government and private services aimed at providing retirement advice, each with their own strengths and weaknesses, for example:

ASIC's MoneySmart - A free web-based information source with useful information on the basics including choosing a super fund, consolidating, and so on. It is run by the regulator, but relies on some non-independent sources for comparisons and other information. The website relies on disclosure to warn about conflicts, but still links out to non-independent comparison websites and draws on the industry lobby's controversial retirement income standard.[77]

Department of Human Services' Financial Information Service (FIS) - A free government service that delivers group and individual financial information. The service provides general financial information, but includes information on superannuation and retirement planning. In 2014/15 it reportedly cost $14.8 million to run, according to the only publicly available data.[78] In 2018/19, it ran 2,203 financial information seminars for 56,400 participants.[79] In 2016, it was criticised by the Australian National Audit Office for being poorly targeted and having no basis for assessing the efficacy of the program.[80] The 2018/19 annual report into the services still

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[75] FSRC, 2019, 'Final Report', p.169
[76] FSRC, 2019, 'Final Report', p.178
[77] Grattan, 2018, 'The (reassuring) truth about retirement incomes', available at: https://grattan.edu.au/news/the-reassuring-truth-about-retirement-incomes/
[78] ANAO, 2016, 'Administration of the Financial Information Service', available at: https://www.anao.gov.au/work/performance-audit/administration-financial-information-service
[79] Services Australia, 2019, 'Annual Report', p.7
[80] ANAO, 2016, 'Administration of the Financial Information Service', available at: https://www.anao.gov.au/work/performance-audit/administration-financial-information-service

does not report on any metrics of the efficacy of the service, other than the number of people reached. It does not offer online access to its service or tools.

Superannuation funds - A mixture of public web-based and user pays assistance and education services. Consumer information about products relies on sources like product disclosure statements. Only 20% of people claim to read these types of disclosure, as they are often seen as too long or overly complex.[81]

Shortened disclosures, like ‘product dashboards’, do not exist for most ‘choice’ products. For MySuper products, dashboards are not usually prominently displayed. Unless a consumer knows what they are looking for, they are unlikely to find the relevant dashboard. Even the regulator struggles to find these dashboards, with the MoneySmart website unable to find a direct link to 76 of the 103 MySuper product dashboards.[82]

As already mentioned, a recent ASIC report found that superannuation fund advice failed the best interests duty in 51% of cases.[83] We are concerned that this may indicate inherent conflicts of interest in advice given by superannuation funds. The superannuation fund business model is built on growing the size of the fund, and for some, extracting profit from charging percentage based fees on invested capital. Therefore, there is a strong disincentive to give advice which sees this capital move elsewhere, for example to a better performing fund or more suitable investment options outside of superannuation (e.g. paying down a mortgage).

Third party superannuation comparison services - A mixture of free and user pays information. The business models of these services are often reliant on referral fees or service agreements with superannuation funds. This can impact the quality and type of information available. For example, Super Consumers Australia has been unable to purchase a data set about fund performance from these providers which would allow us to publicly display information about the worst performing superannuation funds.

APRA superannuation statistics - APRA’s data is free to access. It is currently limited to MySuper and some insurance claims handling data. The information has not been designed to be consumer facing and is often embedded in hard to interpret spreadsheets.

Usage of retirement planning resources

To get a better picture of the types of resources people are using to plan for their retirement we asked our consumers connected with CHOICE what they thought about planning for retirement.

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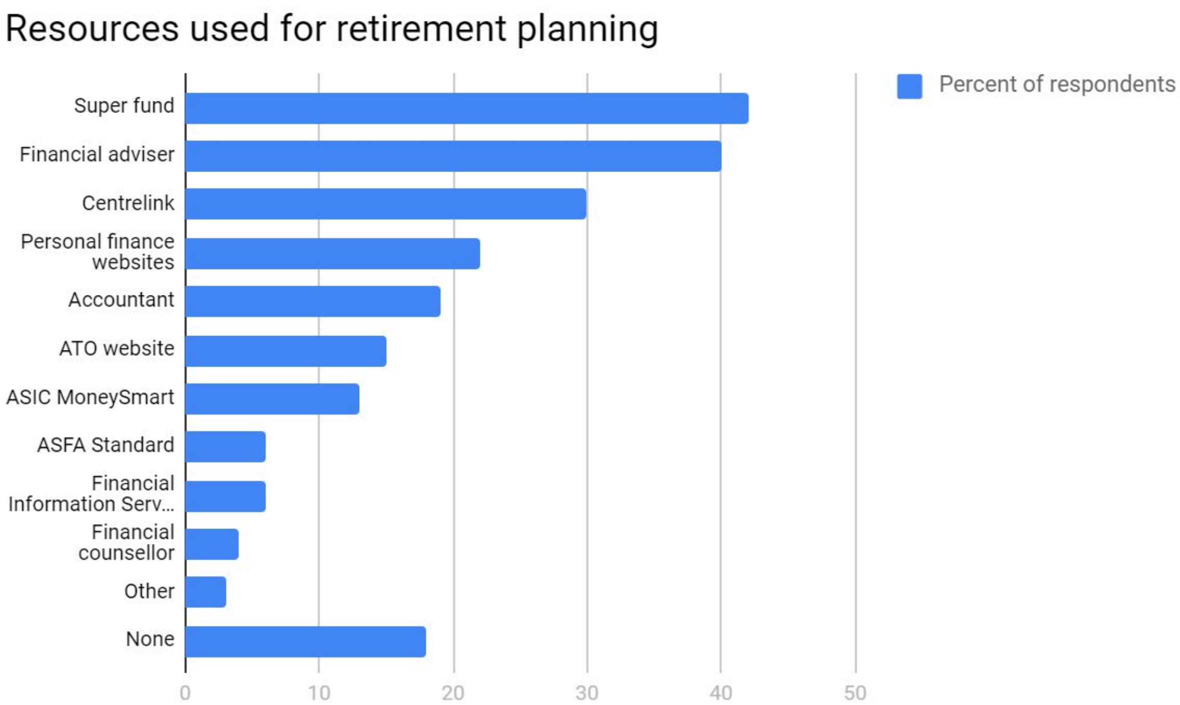
[81] ASIC, 2019, ‘REPORT 632: Disclosure Why it should be the default’, p.20
[82] ASIC, 2020, ‘MoneySmart: MySuper funds list’, available at: https://www.moneysmart.gov.au/tools-and-resources/calculators-and-apps/mysuper-funds-list
[83] ASIC, 2019, ‘REPORT 639: Financial advice by superannuation funds’, p.7

In total 9,000 people responded, nominating super funds (41.6%), financial advisers (40%) and Centrelink (29.9%) as the most commonly referred to sources of information.[84]



Given the evidence already presented about the poor quality of advice coming from superannuation funds and financial advisers, it is concerning that these two sources feature so highly on this list.

The value of independent advice

Faced with the array of information sources and their various deficiencies, we see the lack of a one-stop-shop for independent, trustworthy advice as a problem.

Direct from consumers: comments from the Super Consumers survey

"I am a reasonably well educated, reasonably intelligent person who is overwhelmed by the process of retirement. I have not dared to go to Centrelink to find out about options going forward as I hear so many horror stories. I had no idea of several of the options in your survey

[84] Super Consumers Australia and CHOICE, 'Retirement in Australia survey', Q. 'Which of the following resources, if any, have you used in planning for retirement? Tick all that apply.' Total number of people who responded to the question = 9,079. Not nationally representative.

of places to find out about retirement and I wish I had made a screen shot of that page of the survey!" - Michele (65-74, retired)

“We need a one-stop shop/govt dept that provides all the info we need.” - Sadio (retired)

We see a strong need for a new business model to provide conflict free, affordable and scalable advice.

The UK pension advice model has recently attempted to integrate a range of services into a one-stop-shop. The Money and Pensions Service (MaPS) was established in 2019 and is supported by free access to a telephone helpline and web chat. These services operate at arm’s length from government and are funded via a levy on industry. The service includes a range of money advice including debt, pensions and insurance. The pensions guidance part of the service is budgeted to cost £36.9m ($72m) in 2019/20.[85]

In Australia, responsibility for these types of services fall between different government bodies and private service providers. ASIC MoneySmart is responsible for providing web based tools and information. The Financial Information Service and Centrelink provide some direct financial advice and pension related information. Not-for-profits like financial counselling and community legal services linked with the Financial Debt Helpline cover direct advice to people in financial hardship dealing with credit, debt and some insurance issues. Unlike the UK, these services are not connected up or advertised through a single portal.

The UK pension service is aiming to reach 205,000 people through its information services and a further 290,000 people with personal guidance via their advice lines in the next year. This added human support is more resource intensive than simply providing educational resources online, but according to our superannuation engagement research, is essential to assisting some cohorts, particularly those nearing retirement.[86]

Our research found that older pre-retirees particularly needed information from a trusted source with authentic and trusted representatives. Unlike other cohorts, this group wanted a helpline and a trusted person to help them navigate the complexity. Given the increased complexity of decisions as people near retirement, this added level of assistance is understandable.

We encourage the review to assess the UK model as a possible solution to some of the deficiencies in financial advice in the Australian market. Advice provided by an independent, trustworthy organisation would remove many of the inherent conflicts created by conflicted

[85] MaPS, 2019, ‘Business Plan 2019/20’, p.29 available at: https://moneyandpensionsservice.org.uk/wp-content/uploads/2019/04/19-20-Business-Plan.pdf
[86] CHOICE, 2016, ‘Project Superpower’, p.39

remuneration and vertical integration. An industry levy funding model would ensure cost recovery from those using the service.

The value of default retirement products

Consultation paper question:

- Do individuals have sufficient access to retirement income products that manage the level and longevity of their income?

We see strong value in extending the benefits of default product design from the accumulation to the decumulation (retirement) phase. As we've already shown, there are a large number of factors which indicate relying on financial advice or self-help in retirement planning are not ideal, for example:

- a large majority of people find retirement planning decisions complex and lack confidence navigating the system.
- The quality of financial advice is generally very poor due to a number of factors, including conflicted remuneration and vertical integration.
- Many people aren't seeking advice because it is expensive or can't be trusted.
- Decision making becomes more difficult as people age and cognition is impaired.
- Complexity is compounded by behavioural biases, such as a strong focus on the short-term or a fear of running out of savings.
- People have diverse needs in retirement, despite this fact 94% of pension assets are in account-based pensions[87] (these are good for flexibility, but they don't address longevity issues).
- People manage risk of outspending their savings by only making the minimum withdrawals - potentially reducing their standard of living further than they need to.
- Some people are not making the most of their retirement savings - The Australian Government Actuary modelling suggested default retirement products could boost personal retirement incomes.

We recommend the committee review the benefits that could flow from tailored default products for retirees.

Recommendation 4: That the Retirement Income Review assess the relative benefits of tailored default products for the retirement phase.

[87] Financial System Inquiry, 2014, 'Final Report', p. 120