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Director
Retirement, Advice and Investment Division
The Treasury

Via Email: retirement@treasury.gov.au

Retirement phase of superannuation

Thank you for the opportunity to provide a submission in response to the 'Retirement phase of superannuation' discussion paper.

Australian Retirement Trust (ART) is one of Australia's largest superannuation funds with over 2.3 million members and $280 billion in retirement savings. We help our members retire well with confidence by focusing on strong long-term investment returns, low fees, and providing our members with high quality assistance and advice.

ART supports Treasury's position to helping Australian retirees to navigate the complexities of the retirement income system. We believe that:

- Innovative retirement income products such as ART's Lifetime Pension can be effective in converting capital into higher levels of retirement income, while also addressing retiree concerns relating to the fear of running out of retirement funds.
- The Government could play a more active role in providing 'public facing' information and education on innovative retirement income products.
- Financial advice leads to better retirement outcomes and provides retirees with greater confidence to draw on their retirement savings while making informed decisions on how to invest their superannuation in retirement. ART advocates that funds should be empowered to provide appropriate support (such as relevant calculators), advice and guidance to members, and, in particular, provide advice on the interaction of superannuation and the Age Pension.
- We acknowledge that not all Australians will access financial advice, and we therefore advocate that all funds should provide a guided retirement solution ('soft default') on an opt-in basis to make it easy for members to commence a retirement income stream.
- ART acknowledges the importance of longevity protection and advocates that funds consider this as part of their soft default solutions. However, ART has concerns with mandating a standardised product as outlined in the discussion paper, as this may stifle the development of innovative soft default solutions designed for a fund's membership.

We trust this feedback will be beneficial to Treasury's considerations and would welcome the opportunity to discuss our submission in further detail.

Chris Ramsay, Senior Manager Policy and Government Relations is the primary Australian Retirement Trust contact regarding our submission and can be contacted via [redacted]

Yours sincerely,

This information and all products are issued by Australian Retirement Trust Pty Ltd (ABN 88 010 720 840, AFSL 228975) (Trustee) as trustee for Australian Retirement Trust (ABN 60 905 115 063) (Fund).

Kathy Vincent
Chief of Retirement
Australian Retirement Trust

Section 1: Supporting members to navigate retirement

Discussion questions:

Q1. **Please provide comments on the issues facing members identified in this section.**

Q2. **What actions are industry or other participants in the community taking to address the issues identified in this section?**

Q3. **Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should the Government consider?**

Comments on the issues facing members

ART believes there are a broad number of challenges that retirees in Australia face. However, for ART the three key issues we observe are:

(i) Issue 1: Underspending due to fear of running out

Consistent with the findings of the Retirement Income Review, we find that many of our retirees worry about outliving savings. This leads to members seeking to self-insure by choosing the minimum drawdown rate for their account-based pensions. Many retirees could comfortably draw higher amounts if they were confident about the sustainability of their savings.[1] Underspending can lead to a lower quality of life which is at odds with our purpose of enabling members to achieve financial security and confidence in retirement.

(ii) Issue 2: Complexity of retirement decision making

The complexity of when to retire and how much is needed in retirement cannot be understated. Members are balancing the need for income today versus ensuring they have enough to last until the end of their lives. We often see members leaving monies in Accumulation accounts (paying up to 15% tax on investment earnings) and drawing lump sums as income instead of opening an account-based pension where payments (after age 60) and earnings are tax-free. Another area of complexity is the interaction between superannuation and the Age Pension. While personal financial advice can help provide retirees with appropriate guidance, we find that those who are most in need of the Age Pension typically are unable to afford traditional comprehensive personal financial advice. This tends to result in one's reliance on their personal financial literacy when making retirement related decisions. The current low financial literacy levels of Australian adults make it difficult to navigate the complexity of retirement decision making. Also, situations where a member's low financial literacy level coincides with a low proficiency in English can generate a 'head in the sand' behavioural response, leaving them with sub-optimal retirement outcomes[2].

(iii) Issue 3: Australians are often forced into retirement without proper planning

Our research suggests that close to a third of Australians are forced into unexpected retirement due to declining health or loss of employment.[1] Retirees often choose not to make decisions or defer decisions in the absence of guidance and for fear of making poor choices. We observe that this typically results in members remaining in their current product (often a MySuper option) and not making changes due to decision paralysis. We believe there is an important role for superannuation funds to guide these members and support their transition to retirement. By offering a guided retirement solution ('soft default') on an opt-in basis, funds can streamline the process of commencing an income stream and help to improve member outcomes.

[1] IPSOS Retirement Journey Research, November 2019

[2] Financial Literacy in Australia: Insights from HILDA Data (Preston A., UWA, March 2020).

Actions industry is taking to address the issues identified

Regarding Issue 1 (underspending), ART observes that most super funds are providing tools (such as retirement income calculators) to support members in retirement income planning, so that retirees can model what they could draw from their super.

While these tools and calculators play an important role, they do not appear to drive higher drawdowns in retirement.

Products such as ART's Lifetime Pension can be effective in converting capital into higher levels of retirement income (compared to the legislated minimums for account-based pensions), while also addressing retiree concerns relating to the fear of running out of retirement funds. This is achieved by pooling the longevity risk as opposed to each member self-insuring. We are therefore a strong advocate for these types of products alongside an account-based pension. We provide some suggestions on this in the next section.

With respect to Issue 2 (complexity of retirement decision making) and Issue 3 (Australians being forced into retirement without proper planning), we observe that most super funds address these issues through the provision of education and financial advice. There remain legislative constraints for superannuation funds in their provision of education and advice, and also their capacity to provide guidance to the increasing number of Australians retiring. However, we do acknowledge that implementation of the Quality of Advice Review recommendations may help address a number of these issues.

Opportunities for the Government to consider

ART believes there are two key areas of opportunity to address the first issue relating to underspending, being:

- education and increased support for longevity products; and
- a review of the Government's legislated minimum drawdown.

Education and increased support for longevity products

Products such as ART's Lifetime Pension provide retirees with the confidence to spend in their retirement with a guarantee of income for life. To improve the uptake of such products, ART encourages the Government to provide more 'public facing' information on and support for this type of product (e.g. through the MoneySmart website). In addition, consistency in usage of product terminology across government agencies can promote further understanding in this area, which is currently not the case. Inconsistent usage of terminology can cause member confusion when they look to research longevity products on websites.

For example:

- Services Australia refers to this type of product as 'Asset tested lifetime income streams' when explaining them on their website.
- Services Australia also refers to them as 'Pooled Lifetime Income Stream purchased form superannuation monies' on the Details of income stream product form (SA330) – commonly called the Centrelink/DVA Schedule
- The ATO refers to this type of product as an 'innovative retirement income stream'
- ASIC's MoneySmart website does not include any information about this kind of product.

Further, we believe that defining longevity risk as 'the risk of outliving savings' is too restrictive. It implies a person must live to an advanced age for this risk to materialise. A key reason we believe longevity products do not appear to create the necessary demand is because of the 'living too long' framing. This definition does not capture the key issue people are trying to address, which is the uncertainty of their own life expectancy.

In technical terms this uncertainty can be defined as idiosyncratic longevity risk. All retirees are uncertain about how long their money should last, not just those that believe they will live to an advanced age. One way to resolve this uncertainty is to provide members the confidence to spend in retirement without fear of their money ever running out. From our experience with the Lifetime Pension, that appears to be a key factor driving interest, along with confidence that there is fair return of remaining capital to purchase the product in the event of unforeseen early death.

The Government can facilitate and support Australians in their education and understanding of longevity and longevity solutions, especially with these new types of innovative income streams.

A review of the Government's legislated minimum drawdown

The current minimum drawdowns for account-based pensions have been in place since 1 July 2007, and in nine of the financial years since implementation, the amounts prescribed have been reduced. The current drawdown rates provide retirees with low levels of income early in retirement and there are income spikes as retirement progresses (jumping as much as 25% in income in a single year). ART believes it may be appropriate to review the current drawdown regime in a way that could provide a more stable yet sustainable income experience, while retaining access to capital when needed.

An option that could be considered to address the low levels of income and income spikes is the age-based drawdown approach provided by the pension valuation factors as per Schedule 1AAB of the Superannuation Industry (Supervision) Regulations 1994. The pension valuation factors provide allowable payment limits for allocated and account-based income streams. Compared to the current minimum drawdowns for account-based pensions, the pension valuation factor minimums provide a higher and smoother income profile through retirement. ART is open to work with Treasury to investigate the opportunities.

Regarding opportunities relating to issue 2 (complexity of retirement decision making), we strongly believe that financial advice leads to better retirement outcomes and provides retirees with greater confidence to draw on their retirement savings while making informed decisions on how to invest their superannuation in retirement.

However, we are concerned that not all Australians can access financial advice, and for those who need it most, often the advice is cost prohibitive (e.g. Age Pension advice). We therefore advocate for superannuation funds being able to support members with appropriate tools such as calculators and provide Age Pension advice as part of their intra-fund advice offering, which should be flexible enough to cater for individuals and their partner.

We are hopeful the Government's response to the recommendations of the Quality of the Advice Review, when implemented, will assist to further reduce complexity through the delivery of appropriate advice by members' superannuation funds.

Lastly, in respect to opportunities relating to issue 3 (Australians forced into retirement without planning), we would advocate that all superannuation funds with a MySuper authorisation should provide a 'soft default' retirement income solution to their members.

The development of soft default solutions will make it easier for Australians to commence and benefit from an account-based pension and/or lifetime income stream. The concept of a soft default and how this may include an account-based pension with an investment strategy and drawdown approach, or a combination of retirement products, is discussed in Section 3.

Further question (optional)

- **Data is a critical input for funds to provide better retirement income strategies. What processes are funds undertaking to collect, analyse, and apply data analysis to understand their membership? What barriers are there to better practices, and what policy approaches could help achieve better data use?**

Opportunities for data sharing and product development

ART believes that better data sharing between the Government and superannuation industry could result in system-wide administrative efficiencies and better retirement outcomes for individual fund members. This could include data sharing between superannuation funds and Government departments such as Services Australia, the Department of Veteran's Affairs (DVA), and the Australian Taxation Office, subject to members' consent.

The ongoing sharing and updating of data relating to Centrelink / DVA entitlements, member contribution history (including contribution caps), total superannuation balance and personal transfer balance account information would provide significant benefits to superannuation funds, members and their financial advisers.

For instance, retired members could specify to their fund how much they wish to receive each fortnight and the fund could provide a drawdown amount from an account-based pension that takes into account income from a lifetime income product, and any Age Pension or allowance received from Government agencies. When a member's Age Pension amount changes with indexation, or because the member updates their assets and income, the fund could update the drawdown amount from their account-based pension to continue to provide the member's target level of income. Conversely, when a member notifies their fund of changes to assets and income, the fund could directly report this to Services Australia to improve the efficiency of updates to an individual's Aged Pension entitlements.

To improve retirement outcomes, the sharing of a member's data by the ATO can assist funds in providing nudges, guidance, education and advice. Having a good understanding of a member's available transfer balance caps, contribution caps, including carry forward contributions, is especially important when a member holds accounts with multiple funds. With a more complete view of a member's contribution history across all funds (information currently held by the ATO) there is an opportunity for more targeted and direct nudges to assist members in taking advantage of their contribution caps – particularly where a member's contribution caps are varied due to the carry forward and bring forward rules, or their eligibility to contribute is varied due to their total superannuation balance.

Section 2: Supporting funds to deliver better retirement income strategies

Discussion paper questions:

Q1. **Please provide comments on the need to support competition and product comparison across the services and products funds provide in retirement, or the need for greater consumer protection.**

Q2. **What role should industry or other groups in the community play to support consumer protections and competitive products and services in retirement? What actions are being undertaken already?**

Q3. **Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should Government consider?**

Retirement product comparisons

Retirement measures cannot be compared with those applied in the accumulation phase. ART strongly supports the development of appropriate performance metrics for retirement products, as these differ from those applied in the accumulation phase.

In the accumulation phase, comparison metrics are typically based on historical performance, while in retirement, the primary focus is usually on the stability, sustainability, and profile of a future income stream.

To assist members in comparing income streams, we suggest consideration of a standardised approach to presenting income profiles/projections, while allowing product providers to use specific product assumptions that underpin these projections. In doing so, retirees could compare the projected income profile between products to determine which income solution best meets their needs. This would be particularly helpful if a Trustee's 'soft default' was used in income profiles/projections.

Consumer protection, product comparisons and competition

We are of the view that consumer protection is of paramount importance; however, we believe current member protections are sufficient (including product disclosure, target market determinations, member outcomes assessments, business performance reviews, and other general protection under the SIS Act, Corporations Act, and Regulatory Guidelines). Given the similarity of various reporting and oversight obligations, we would welcome further consideration to consolidating some of these reporting requirements. This could reduce the reporting burden on superannuation funds without compromising the quality of data being provided.

Further, adding to the already heavy load of regulation is unlikely to enhance consumer protection or support competition and product comparisons. Instead, we advocate for the development of tools and guidelines for comparing retirement income streams, especially lifetime income streams, with particular emphasis on the profile of expected income and volatility over a member's lifetime.

Section 3: Making lifetime income products more accessible

Discussion paper questions:

Q1. **Please provide any comment on the barriers in the supply and demand for lifetime income products.**

Q2. **What actions are industry or other participants in the community taking to assist retirees to better manage the risks for retirement income?**

Q3. **What policy approaches should be taken to support use of lifetime income products to address the risks to retirement income? What risks should be considered?**

Barriers in the supply and demand for lifetime income products

Complexity of disclosure: There is difficulty in providing appropriate disclosure due to the need to align these products with disclosure requirements that were largely developed for account-based pension products. Lifetime income products such as the ART Lifetime Pension do not assign a balance to a member, with the member's entitlement expressed as a level of income for life. This creates issues relating to fee and cost disclosure that requires a member's account balance to be reported.

Capital Access Schedule: This is complex to disclose and continues to be a challenge for members to understand. ART believes that if a lifetime income product is designed to meet the requirements of the Capital Access Schedule (CAS), and this is sufficiently proven, there should be some relief on where this disclosure is required. If a product is deemed compliant by the regulator, there should be an exemption from the needless reduction to death or withdrawal benefits in the extreme case when the CAS is breached.

Behavioural factors such as loss aversion: Certain behaviours make it difficult for the growth of any 'new' types of retirement income solutions. Status quo bias for many retirees means they will choose to remain in an account-based pension to meet their needs and are unwilling to change. The annuity puzzle is widely known and understood so it is realistic to expect some resistance in the take-up of longevity products. The current requirement of a large initial purchase for longevity products (as opposed to being able to purchase the product in instalments) may also trigger loss aversion for many retirees. ART believes that the design of lifetime income products will need to continually find answers to these behaviours if we are to have success in managing longevity through product solutions.

Capital and capacity to build a lifetime product: Building a product similar to ART's Lifetime Pension could be a challenge for some smaller super funds that may not have the resources, expertise or administration system flexibility. For this type of product, administration systems need to maintain individual income profiles, annual adjustments and multiple capital access schedules (e.g. surrender value for voluntary exit, surrender value for death benefit) amongst other things, which may be administration system functionality that some funds do not have access to.

Further, if any feature of a lifetime income stream is guaranteed, it needs to be underwritten through balance sheet reserving and capital provisioning. Not-for-profit superannuation funds do not typically have these capabilities, which mainly exist for insurance companies. Providing a lifetime product with longevity protection may therefore require complex insurance arrangements in addition to the operational requirements of the fund.

Retirement income projections / calculator relief: Our members have expressed a strong interest in understanding the income they receive from superannuation and potential Age Pension benefits from acquiring a lifetime income product. The current generic calculator reliefs do not adequately provide for this type of product as it requires generic assumptions to be applied, while the appropriate projections and Age Pension information requires product specific assumptions and member details (e.g. age, assets and income). Developing a standard for presenting expected income profile/projection over retirement based on specific product assumptions that have been actuarially endorsed could be a highly effective method of facilitating product comparisons between providers.

Further relief is needed than currently provided under ASIC Regulatory Guide 276: Superannuation forecasts: Calculators and retirement estimates to allow for providers to be able to provide fit-for-purpose calculators and retirement forecasts that include product specific assumptions for lifetime income streams. ART is hopeful that the changes stemming from the Quality of Advice Review will alleviate some of the challenges.

Government support for longevity pooling: ART supports the suggestion by Government to facilitate risk pooling amongst funds and would be interested in assisting Government with exploring this, given our experience with the ART Lifetime Pension. However, we also understand that not all funds will have the in-house capacity and capability to develop longevity products in their entirety even if a risk pooling solution was developed.

Further questions (optional)

- **What is the role for a 'suggested' product in overcoming low take-up of lifetime income products?**
- **Would an industry-standardised product(s) assist funds to develop and offer lifetime income products to their members?**

Standardised product and the role of defaults

Despite the barriers discussed, ART believes there is a significant role for a 'suggested' product (soft default) to support the uptake of retirement income solutions that include a lifetime income product. Default options play a significant role in retirement decisions and can be utilised to improve the retirement outcomes for many retirees. The use of terms 'suggested' product and 'an industry-standardised product' may lead to misinterpretation.

To avoid potential confusion regarding terminology, ART suggests defining the various defaults as "soft default' and a 'hard default' as explained in the Table 1 below.

Table 1. Soft default vs Hard default

Soft default / 'suggested product' (guided-enrolment into a product on an opt-in basis)	**Hard default** (auto-enrolment into product on an opt-out basis)
Provided as a 'first offer' to members commencing a retirement income stream and with default settings to assist members who do not want to make a choice when they commence a retirement income stream. Features of an opt-in default include a pre-selected investment strategy, drawdown approach, payment frequency and allocation to longevity protection to simplify the process of commencing a retirement income stream for members. Members could opt-out or make changes to product features if they decide that the features no longer suit their circumstances.	As a line of last resort, a hard default could exist to automatically transfer a member from the accumulation phase to the retirement income phase when certain criteria are met (such as age and time since last contribution). Members would make no decisions relating to how their super is invested or the payment amount or frequency, as this is part of the default solution design for that member cohort. Members could opt-out or make changes to this product if they decide that this default solution is not suitable for their circumstances.

We believe there are currently a number of significant consumer and regulatory challenges related to 'hard defaults'. As the hard default option will involve moving from a taxed to a tax-free environment and the payment of income, Know Your Customer (KYC) and financial crimes risks will likely arise that need to be factored into legislation and regulations to allow for such a solution.

However, there is a strong argument for all funds to offer a soft default retirement solution which includes a longevity solution such as our Lifetime Pension. We understand smaller funds will have challenges building these products themselves. However, this could be resolved by removing barriers to enable for longevity risk to be shared and pooled across funds (thereby allowing each fund to retain the asset management). Pooling across multiple funds would require the movement (reallocation) of capital (mortality credits) between funds, which is currently prohibited by contribution rules.

Supporting members with retirement income solutions

ART is supportive of making it easier for people to enter the retirement phase by reducing the complexity and barriers to commencing income streams. But it should form part of a holistic process, where the primary aim would be to engage with an individual, and to obtain personal information to provide appropriate advice and solutions.

As discussed previously, we believe an important first step for industry is the provision of 'soft defaults' on an opt-in basis for members that can't or do not wish to engage but are seeking a suggestion. With respect to 'hard defaults' and automatically assigning retirees to an income product on an opt-out basis, we see significant regulatory challenges; however, we acknowledge this as a potential solution as a line of last resort where all other forms of engagement have been ineffective.

We note that there are both pros and cons relating to the introduction of a standardised product that must meet prescribe framework attributes. We also acknowledge this may be a challenge for some superannuation funds.

From our perspective, our main concern is that the translation of good policy intent to prescriptive legislated requirements may inadvertently stifle the development of innovative soft default solutions developed for a fund's membership.