Retirement phase of superannuation

Aware Super Submission

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Contents

Executive Summary

Retirement is complex and highly personal.

In accumulation phase, the goal is straightforward – to preserve and maximise member savings. Retirement cannot be treated as a one-size-fits-all approach.

Every one of Aware Super's members, along with every other retiree, has not only a unique set of financial circumstances, but a unique experience of retirement, and their own goals and preferences.

Retirement is as much an emotional and psychological journey as a financial one, and good retirement outcomes are about ensuring we help members make decisions that suit both their financial and personal situation.

The best way to do this is to focus on simplifying the process for our members, rather than trying to remove all complexity from the system.

With the right approach to personalisation, we can help members understand their options, support their decisions and make their interactions with each pillar of the retirement system as straightforward as possible.

This submission focuses on the following key principles:

- **A simplified member experience requires reducing friction, as well as deep engagement and personalisation**. If we try to solve for retirement without considering and engaging retirees as whole individuals, we risk wasting time on expensive and ineffective retirement solutions.
- **We need to understand what will shift the dial for members**. It's crucial that we can identify and act on the opportunities that will make the most difference to member outcomes, like ensuring that eligible members are accessing Age Pension payments.
- **Australians want peace of mind about their retirement**. This requires a combination of the right products, service and support, and helping members understand their whole retirement income in a single view, both today and for life.

When viewed through this lens, it becomes easier to identify:

- the policy levers and reforms that will support these outcomes;
- the opportunities for different parts of the retirement system to work together; and
- the areas where innovation can be better facilitated.

As an industry, we have a clear responsibility to focus on delivering a simplified, personalised approach to retirement, which delivers better outcomes for members, more simply.

We understand the sense of urgency from Government and regulators to see progress toward this outcome.

However, in many ways, the industry together with Government and regulators, are still grappling with the problems we need to solve in retirement phase, and how to implement the above principles.

It is important we gain true clarity on what we are trying to achieve, and how to get there, before accelerating the development of retirement solutions.

About Aware Super

Meet Aware Super - the multi-awarded super fund. We're here to help our members grow their savings, whether retirement is 2 or 20 years away. As one of Australia's largest profit-for-members funds, we always remember whose money it is and whose future we're looking after.

That means being super helpful in ways our 1.1m members want, and sometimes in ways they don't expect. From super returns of 8.40% p.a.[1] over ten years for our High Growth option. To expert super advice and guidance for right now. We're committed to helping our members get more from their super, so they can get more for their future.

Retirement is our core business

Aware Super has 100,000 members with around $40 billion funds under management in retirement today. Members aged 55+ account for 32% of Aware Super's membership, and 57% of funds under management.

Around 25,000 of our 1.1 million members will retire every year over the next five years, bringing $7.5 billion annually into retirement phase. Around 70% of Aware Super members will draw down at least a part Age Pension.

Aware Super has undertaken extensive research, both internally and externally in collaboration with academia, to understand our members retirement needs, including:

- Large-scale quantitative surveys;
- Qualitative research to map member journeys and test product/service designs;
- Insights from frontline staff;
- Analysis of administration data and member behaviour.

This research has not only been used to improve our products and services to our members, but also informed our previous policy submissions which has been well received and referenced by regulators and the government.[2]

[1] Index median of 7.89% p.a. for the same period. Source: SuperRatings Fund Crediting Rate Survey (FCRS) 31 December 2023 (SR50 Growth (77-90) Index (approx. 50 options). Returns are after investment fees and costs, transaction costs, tax on investment income and any implicit admin fees. Past performance is not an indicator of future performance.

[2] See, for examples, the Retirement Income Review Report, 2020

Recommendations

Understanding the retirement problem

1. Focus policymaking on enabling funds to deliver well-rounded retirement service and solutions, rather than on product development and delivery.
2. Ensure industry has sufficient long-term certainty to confidently invest in developing retirement solutions.
3. Consider the relative impacts of reform proposals, including the risk of poor outcomes for members or groups of members, when evaluating retirement policy reforms.
4. Retirement policy should consider how the pillars of the retirement system work together, including the Age Pension.
5. Retirement policy should explicitly consider both system and individual impacts across member cohorts, with a focus on equity.
6. Government should minimise policy interventions that are likely to unnecessarily stifle innovation in retirement solution design.
7. Government should ensure retirement product rules do not restrict the design of customisable, multi-product retirement solutions.

A roadmap for retirement policy

8. Government and regulators should work with industry to prioritise and sequence key retirement reforms, and develop a 'retirement policy roadmap' documenting this approach.
9. The retirement roadmap should be reviewed annually to monitor progress and update as needed.

The role of defaults in retirement

10. Government should actively ensure that language used in relation to retirement products is clear, consistent and well-defined.
11. Ensure that system anchors remain appropriate to balance systemic objectives and member outcomes over time.
12. Government and industry should prioritise understanding and removing barriers to member engagement with retirement decision-making.
13. Allow for innovation in the development of retirement solutions, including use of data and personalised nudges, before considering automatic defaults for highly disengaged members.
14. Focus on making longevity products more attractive to members who will benefit from them, rather than compelling take-up of products which may not be suitable for all members.
15. Government should not move to design standardised retirement products, and should instead focus on providing support for funds to develop products that meet their members' needs.

Simplifying the retirement journey

16. Prioritise reforms that simplify member experience and make it easier for them to meet their retirement goals, with a focus on advice, guidance and member service.
17. Remove barriers to simpler, faster commencement of retirement products and solutions.

18. Amend Account Based Pension rules to allow members to contribute directly into their retirement income account, subject to other rules including the Transfer Balance Cap.

19. Prioritise development and implementation of *Delivering Better Financial Outcomes* reforms to enable simplified, personalised retirement experiences.

20. Ensure funds can proactively provide personal advice communications as members approach and move through retirement.

21. Provide clear exemptions in legislation to allow retirement projections and calculators to be effectively used for retirement planning and update existing exemptions to enable consistent member experiences.

22. Explore opportunities for simplifying superannuation fund access to member data, particularly data held by Government agencies.

23. Establish a clear pathway to offering soft default product recommendation for members with limited engagement.

24. Government and industry should prioritise efforts to ensure Australians entitled to the Age Pension are accessing this income.

25. Services Australia should work directly with industry to support integration of Age Pension and other benefit applications into superannuation fund systems.

A successful, sustainable retirement system

26. Work with industry to develop performance metrics appropriate for the retirement phase, looking beyond product-level investment fees and returns to reflect member outcomes and Retirement Income Covenant obligations.

27. Ensure regulatory settings, including performance measurement, support innovation and the development and implementation of multi-product retirement solutions.

28. Do not extend the accumulation performance test to retirement products.

29. Defer any consideration of standardised disclosure or product comparison until measures of success are agreed.

30. Further explore industry-level solutions to risk pooling that may offer pricing and product benefits to individuals with need for longevity products.

31. Amend the Capital Access Schedule to facilitate more flexible longevity products.

32. Amend Account Based Pension rules to facilitate embedding longevity pooling structures as a product feature, with the option to be CAS or non-CAS compliant.

33. Ensure product rules are set in a manner that enables the appropriate pooling of longevity risks across products or classes of products (both within and between funds) and reconsider current CAS compliance rules with this in mind.

34. Address regulatory inconsistencies around innovative retirement income streams.

35. Ensure the legislative and regulatory framework continues to allow and encourage funds to develop tailored retirement solutions for their members.

36. Where possible, allow products to evolve alongside rules and expectations, to avoid costly legacy product proliferation.

37. Consider rule changes to allow innovative product features that will give members confidence and certainty to spend their retirement savings.

1. Understanding the retirement problem

Solving the right problems to improve retirement outcomes

1.1 Retirement is personal, not just financial

Retirement is a broad, complex life transition for individuals and families, which has both financial and emotional elements.

Financially, it is a confronting moment for members to assess if they are in a financial position to retire, which can be daunting and make them feel resigned and ashamed if they don't have enough.

Emotionally, members are trying to assess if they are ready to retire, which often means letting go of the sense of purpose, routine and identity they have held throughout their working life.

Members also tend to retire in their own way – there is no longer a formula for retirement. Many may return to work or join the gig economy. Some want to maximise their income and live an active lifestyle while they can, others crave the quiet life and are simply content to let go the responsibilities they juggled during their career.

These lifestyle goals and financial values have as much impact on the inclination to spend in retirement as the desire for income and spending confidence.

1.1.1 Retirement decisions are based on personal values

Our research has shown us that members want to have peace of mind that they will have enough money to last through their retirement, regardless of their balance. But they also find retirement difficult to plan due to the uncertainties at play.

Most members are aware they do not know how long they will live or what life events may impact them during retirement (divorce, death of a spouse, illness). They don't know how their expenses might change as they age or how this will be impacted by inflation.

For many lower balance members, a sense of fear and shame that their savings are not where they should be acts as a barrier to seeking help. This includes expert advice that is both digital and human.

This uncertainty impacts how members make decisions, but not all members want the same kind of certainty.

Even when making what appear to be purely financial decisions, a range of factors will impact how an individual values different elements like income and access to capital.

For example, Aware Super's member research has shown that many members value preserving flexible access to their capital more highly than having a guaranteed level of income.

We help members balance the three elements of retirement income set out in the Covenant, but ultimately we cannot control the relative values individuals place on each of the elements – we know from speaking to our members that this is specific to the member's financial values, circumstances and retirement goals.

The ability to strike this right balance represents the largest opportunity for us to add value for our members in retirement.

1.1.2 Retirement is not just about products

Products are a crucial piece of the puzzle for members in retirement, but they are not the whole story.

No product suite can deliver consistently good member outcomes without the appropriate support, help and advice. Superannuation funds will need to focus on delivering both retirement solutions and support.

Members will increasingly expect this as the system matures, average balances grow, and the retirement market becomes more competitive and choice-driven.

This will require offering products that members need and want to take up, while also focusing on the broader retirement needs of members and delivering more personalised experiences that can be accessed by members when and how they want.

Reducing retirement solutions and outcomes to a question of offering "well-rounded products" overlooks the many aspects of a member's retirement experience that aren't directly related to product selection. It also overlooks the fact that a retirement solution may involve multiple products, and a member's needs may change over the course of their retirement journey.

For most Aware Super members, the Age Pension is a key part of their retirement income. Member circumstances, as well as the interaction between the Age Pension and drawdown behaviour, mean that Age Pension outcomes are likely to differ not just between members but throughout a single member's retirement. No one product can fully address the objectives of all members given this variability.

Rather than a narrow focus on well-rounded products, it would be more appropriate for Government to focus on the need for well-rounded solutions and service offerings to support member retirement needs.

Recommendation

1. Focus policymaking on enabling funds to deliver well-rounded retirement service and solutions, rather than on product development and delivery.

1.2 We are still defining the problems to be solved in retirement

1.2.1 Progress has been slow, for good reason

We recognise that the Government is frustrated that there has not been more progress toward a mature retirement income system over the last decade.

However, it is important to acknowledge the factors that slowed industry progress over this time, as well as the timeframes that are actually required to come to terms with the problem to be solved in retirement.

Policy uncertainty has slowed progress and investment

Super funds and other retirement product providers have spent the majority of the last decade in a state of significant regulatory uncertainty. Significant time and resources have been invested in policy development processes, including the now-abandoned proposal for funds to offer Comprehensive Income Products for Retirement (CIPRs), superceded by the Retirement Income Covenant (not finalised until months before its implementation in 2022).

The lack of certainty around what the legislative framework for retirement would look like has made it difficult for funds to justify committing resources to development of retirement solutions which may have been non-compliant with the legislation under development.

It is also worth noting the significant scale of other regulatory reforms and industry shifts during this period. With finite resources available, greatest focus and effort was directed towards other non-trivial issues the industry also had to solve, including significant regulatory reform, increased IT security and consolidation to realise the benefits of scale for members.

Given the Covenant has been in force for less than two years, it is unsurprising that many funds are still early in their retirement journey.

We are still defining the problems to be solved

We don't disagree that some funds need to do more to take retirement seriously. But even funds like Aware Super, who have been actively working to understand our members and improve their retirement outcomes, are still defining the problems that need to be solved.

This is because it's simply harder to optimise outcomes in the retirement phase than accumulation due to the personal nature of member goals, balances and circumstances. Trustees have to take the time and work harder to understand member preferences and behaviours, rather than jumping to solutions mode and launching new products.

It can take several years to design and implement a retirement product solution. If funds jump to designing and implementing products without understanding their members, we risk seeing a costly proliferation of legacy products that are not taken up.

Recommendation

2. Ensure industry has sufficient long-term certainty to confidently invest in developing retirement solutions.

1.2.2 Understanding the context and impact of retirement decisions

Understanding why members make decisions

While our current system does not have formal default settings, it has accidental defaults built in that act as an anchor for member decisions, including:

- Remaining in accumulation phase and drawing down lump sums as needed; or
- Commencing an account-based pension at the minimum drawdown rate.

We know that our less engaged members, particularly those who do not (or cannot) access advice are more likely to 'default' into one of these options. We also know that these settings don't always result in the best outcomes for members, who may be missing out on tax savings or drawing down a less than they can afford without realising they could enjoy a greater quality of life in retirement.

Within Aware Super's membership:

- Excluding low balance members, 55% of our members are drawing down at the minimum rate.
  - Our analysis shows that these members could be enjoying an income 16% higher than they are currently receiving from their super.
- Around 27% of members are drawing 20% of their balance on average each year.
  - If they do not have other savings or sources of income, these members are likely to run out of money and be solely reliant on the age pension.
- Only around 17% of our members draw down at a level that is close to their sustainable rate – that is, the highest level of income they can draw with confidence their money will last for life.

However, while we understand the potential impact of these choices, we do not always know why members are making them or the broader circumstances that inform their decision.

We must be careful not to base policy thinking on untested assumptions about behaviour and decision-making. Pushing members toward what appears to be a better retirement outcome without knowing enough about them creates significant risk of poor outcomes.

Measuring the impact of member choices

Conversations about retirement policy should be informed by important context about the impact of different options on the retirement outcomes of members. Not all changes in policy or behaviour will be equal in terms of impact. Some may have less of an impact on member outcomes than assumed, and others could unintentionally leave members worse off.

For example, retirement policy conversations often focus on the impact of members missing out on the tax-free environment they can enjoy in the retirement phase. We agree that ensuring members shift into retirement phase at the right time is important.

However, Aware Super analysis shows that getting into the right retirement solution has a far bigger impact on retirement incomes than the tax savings from the timing of the decision.

For example, the following choices could each have a significantly larger impact on average retirement income than delaying moving into retirement phase by 10 years (see Figure 1):

- accessing the Age Pension as soon as eligible;
- drawing down at a sustainable rate above the minimum;
- choosing the right investment option;
- having the right mix of retirement products.

Moving into pension phase to take advantage of the tax-free environment also may not make sense for someone who doesn't need to draw down their savings and would not re-invest their minimum drawdown amounts. The tax benefits are quickly eroded by lost investment earnings over a period of several years, leaving the member worse off overall.

This is why it is vital that we understand not just the broader context of member decisions, but the risks associated with getting the answer wrong.

Where there is minimal risk of poor outcomes from a particular policy intervention, that policy should be prioritised over another which could have negative outcomes if applied to the wrong members or in the wrong way or would likely be better specified in future as the industry builds a more nuanced understanding of members retirement needs, decision making and behaviour.

Table 1: Retirement income trade-offs

Solutions and scenarios	Impact on average annual total income (income from super and income from Age Pension) Compared to the **status quo solution** (%)	Impact on average annual total income (income from super and income from Age Pension) Compared to the **good solution** (%)
Status quo solution: Commence an account-based pension (ABP) immediately with minimum drawdown		
Good solution: Commence an ABP with sustainable drawdown plan	+10%	
10 years delay in moving from accumulation to an ABP		-1%
Remain in accumulation for life		-2%
Retire 1 year earlier		-4%
Retire 1 year later		+2%
Retire with a top quartile fund as opposed to a median fund		+2%

Select a very defensive investment strategy (25% growth assets exposure)		-8%
3.2 years delay in applying for and receiving the Age Pension		-6%*
Great solution: Holistic multi-product solution (including a longevity component) tailored to member needs	+21	+10%

Assumptions: Based on a member aged 67 with a superannuation balance of $400,000 (single/homeowner) with no other assets and income outside of superannuation. Investment returns for the base case (for simplicity this is taken to be a static 75% growth assets exposure through accumulation and pension phase) are assumed to be CPI + 4.25% per annum within an ABP and CPI + 3.75% per annum within an accumulation account). Consumer Price Index (CPI) is assumed to grow at 2.5% per annum and Average Weekly Ordinary Time Earnings (AWOTE) is assumed to grow at 3.5% per annum and it is assumed that the full Age Pension rate will grow at the AWOTE rate. For the impact analysis, the average annual income is expressed in today's dollars (deflated using CPI at 2.5% per annum). No administration fees are earning tax are separately modelled as investment returns are assumed to be net of fees and taxes. Sustainable drawdown plan is a drawdown plan that provides a constant real total income level through retirement such that super assets are exhausted at age 95. Retirement Essential research indicates that people are, on average, delaying applying for the Age Pension by 3.2 years – this is the basis for the Age Pension delay scenario above.

** The impact on average retirement income is more significant for full Age Pensioners. Our analysis indicates that the impact is worse at 13% reduction if the member has a balance of $200,000 instead of $400,000.*

Prioritising 'bang for buck' interventions

Research from Aware Super's pilot with Retirement Essentials indicates that, on average, members apply for the age pension 3.2 years after they become eligible. This costs them an average of $69,000 in foregone pension payments, materially impacting their retirement income.

Our modelling shows that a typical member eligible for a part Age Pension and living solely on income from an ABP during that time can expect an average reduction in lifetime annual income of 5.7% due to this delay.

This is because of the higher level of drawdown required during the time before the Age Pension commences, unnecessarily eating into their savings.

For a member with a $200,000 balance eligible for the full Age Pension, this 3.2 year delay could reduce their annual income by 12.7%.

As shown in Table 1, ensuring that members are accessing their Age Pension and other Government entitlements is one of the most significant ways we can boost their retirement outcomes. There is also minimal risk of poor member outcomes from this activity.

At both a fund and system level, this kind of 'low risk, high reward' activity should be prioritised.

The importance of a holistic approach to considering member needs also demonstrates why personalisation and nudges are a more appropriate approach than an automatic default where personal outcomes may be inferior (see section 3.2).

Recommendation

3. Consider the relative impacts of reform proposals, including the risk of poor outcomes for members or groups of members, when evaluating retirement policy reforms.

1.3 Setting up the system for success

Superannuation is a key pillar of the retirement system, but it should not be considered in isolation as it is not the sole determinant of retirement outcomes.

It is vital that we consider how the pillars work together to contribute to retirement outcomes for Australians. This was well canvassed by the Retirement Income Review, which identified cohesion as a key principle at a system level.

At a member level, we need to consider a member's superannuation (which may sit across more than one fund), eligibility for the Age Pension and other Government entitlements, private assets, and retirement goals and priorities to truly optimise their retirement outcome.

1.3.1 System outcomes vs member outcomes

Policy development for superannuation and retirement must consider the impacts, and likely outcomes, from both a system perspective and a member outcomes perspective.

Long term sustainability of the retirement income system is critical, but given the heterogenous nature of member needs it is important to consider impacts on different member cohorts.

For example:

- Increasing the minimum drawdown rate may help some members spend more appropriately, but for members with low balances the current minimum drawdown rates may provide the best balance of the three retirement income covenant elements (see section 3.1.1 below).
- Compelling the adoption of longevity products may increase system sustainability and improve outcomes for some members, but it will likely result in poorer outcomes for members with high and low balances who don't need additional longevity protection (see section 3.3.1 below).

Detailed analysis of the potential impact of any retirement policy change should include consideration of impacts at both the system and member level.

This analysis should particularly focus on how policy impacts low-balance members (which is still the largest group of superannuation members) and supports retirement equity for women, Aboriginal and Torres Strait Islander people, and other groups who are not always well-served by the system today.

Recommendation

4. Retirement policy should consider how the pillars of the retirement system work together, including the Age Pension.
5. Retirement policy should explicitly consider both system and individual impacts across member cohorts, with a focus on equity.

1.3.2 Solving for retirement requires innovation

A focus on enabling innovation will be central to ensuring all Australians have access to retirement solutions that meet their needs and goals.

Super funds are well placed to understand their members and develop support and products to align with these needs. Our research consistently tells us that members want their fund to proactively support them to plan for and navigate retirement.

An industry environment that allows for and encourages investment and innovation in retirement will require:

- Sufficient stability and certainty to allow for appropriate investment in product and service development (see section 2);

- a product-neutral regulatory framework, which does not punish innovative product design (see section 5.2.2);
- a sensible approach to managing legacy products (see section 5.2.2);

Recommendation

6. Government should minimise policy interventions that are likely to unnecessarily stifle innovation in retirement solution design.
7. Government should ensure retirement product rules do not restrict the design of customisable, multi-product retirement solutions.

2. A roadmap for retirement policy

Sequencing policy and reforms to maximise return on investment

2.1 Balancing progress with certainty

In order to create a mature retirement sector, it will be necessary to ensure we can simultaneously improve system settings and foster ongoing industry innovation.

A UK-style reform roadmap would be beneficial to support sequencing and prioritisation of retirement reforms. It should include regulator as well as government initiatives, and should be regularly updated to account for delays or shifting priorities.

This would provide industry the space and certainty to plan and implement retirement projects, including product development, without being overtaken by uncertainty about rushed and overlapping reforms. It will create the most efficient pathway to a mature retirement system that delivers the best possible outcomes for as many Australians as possible.

At a thematic level, we would propose the following framework to guide priority setting:

- **Now**
  - Low risk interventions to boost engagement and improve member outcomes.
  - 'Quick win' reforms to facilitate innovation and safeguard against legacy product risk.
  - Commencing longer-term policy projects that require sustained engagement.
- **Next**
  - Focus on securing the retirement system for long-term success.
  - Implement longer-term priorities commenced in 'now' phase.
- **Later**
  - Changes that require learnings from earlier reforms
  - 'Mop up' reforms that may be considered at a later date once any gaps left by other policies have been identified

Appendix 1 sets out Aware's proposed cadence of policy work and legislative reform across these categories.

Throughout this submission, we recommend prioritising reforms according to this framework. This includes prioritising low-regret reforms which will have the biggest impact on retirement outcomes, and de-prioritising consideration of reforms which carry higher risk or where we don't have enough information to safely implement them.

Recommendations

8. Government and regulators should work with industry to prioritise and sequence key retirement reforms, and develop a 'retirement policy roadmap' documenting this approach.
9. The retirement roadmap should be reviewed annually to monitor progress and update as needed.

3. The role of defaults in retirement

Compulsion does not improve member outcomes

3.1 What does 'default' mean in retirement?

When discussing retirement defaults, it is important to ensure that clear, consistent language is used. Currently, stakeholders are using words like "default" to mean very different things in relation to retirement products.

Without qualification, "default" could be interpreted in several ways.

For clarity, this submission uses the following terms, and intended meanings:

- "compulsory products" – requiring take-up of a particular product, for example the now-abolished UK requirement for certain cohorts of members of defined contribution pension schemes to purchase an annuity.
- "hard defaults", "automatic defaults" or "opt-out defaults" –placing people into products without them making a clear decision, for example automatically commencing an income stream for every member at a certain age (potentially on an opt-out basis).
- "standardised defaults" – requiring a specific, standardised and prescribed product to be offered to a member as the 'default' option For example, requiring all super funds to offer a guaranteed life annuity indexed with CPI to retired members.
- "soft defaults" – suggesting particular products, or combinations of different products (and features), to members based on a limited set of information, without compelling them to take up the product (ie an opt-in approach).

Aware Super does not support compulsory products, hard/automatic defaults or standardised defaults, as detailed in this section.

Aware Super does support the use of soft defaults to improve member outcomes, as detailed in section 4.

We recognise that others may use these terms with different meanings. Given the vast difference in member experience and outcomes between these options, there is a role for Government to work with industry in supporting clear and descriptive language when discussing retirement policy, to minimise confusion from stakeholders.

This goes beyond the word "default" to other terminology related to retirement. For example, "Innovative Superannuation Income Streams" in the Superannuation Industry (Supervision) Regulations 1994 were referred to as "Innovative Retirement Income Streams" by ATO.

Recommendation

10. Government should actively ensure that language used in relation to retirement products is clear, consistent and well-defined.

3.1.1 Consider system anchors carefully

As noted above, there are anchors in the retirement system that act as soft defaults for members with low levels of engagement or financial literacy.

While we should be working to minimise the number of Australians who rely on these anchor settings to their detriment, it's also important that we have an agreed objective for these policies.

For example, the minimum drawdown rate acts as an anchor for some members who could draw a higher sustainable level of income. However, this does not mean that increasing the minimum drawdown is the right policy lever to reduce under-spending in retirement, either at a system or member level.

While the primary goal of the minimum drawdown is to ensure system fairness and sustainability, there is a clear opportunity to structure the minimum drawdown to better reflect a 'retirement income' mindset toward super and help members achieve a smoother, sustainable drawdown over time.

However the minimum drawdown should remain just that, a minimum, which is able to be tailored by funds and individual members to meet their own needs. Increasing the minimum drawdown is unlikely to better serve many members – for example, those with lower balances who use their super as contingency savings while relying on the Age Pension for their ongoing income. The objective of the minimum drawdown should not be to drain accounts to zero by a particular age.

Recommendation

11. Ensure that system anchors remain appropriate to balance systemic objectives and member outcomes over time.

3.2 Hard defaults will deliver poor outcomes

3.2.1 Engagement should always be the desired outcome

We know we can get better outcomes for members who engage with their super.

This is why measures to remove friction and make engagement simpler should be the priority for Government. These reforms will do the most to improve retirement outcomes in the near term, and importantly create little additional risk of poor outcomes.

Engagement creates an avenue to collect information to personalise and validate product and pathway recommendations. Automatic defaults, even with an opt-out, are likely to further reduce member engagement and decision-making as members will assume the best decision has been made for them.

From a policy perspective, the clear uplift in outcomes offered by engagement means we should prioritise shifting as many people into an active decision as possible:

- First, by ensuring the right settings are in place to make engagement simple.
- Second, by allowing us to nudge members toward a solution based on what we know about them.
- Then, only once we have made every effort to maximise engagement, considering whether there is value in automatically defaulting members.

Moving to implement a solution for disengaged members, without creating avenues to boost engagement, will cut off the opportunity to provide more members with the best, tailored solution for their needs, ultimately limiting the potential effectiveness of the retirement system as a whole.

Boosting engagement will require the right policy settings, including:

- an advice regulatory environment that allows funds to actively nudge and prompt members to engage (see 4.2);
- the right data flows to make engagement easy and helpful for members, rather than creating additional friction (see 4.4.2); and
- the ability to nudge and recommend tailored products to members based on limited information, with appropriate safeguards (see 4.4.2).

Recommendation

12. Government and industry should prioritise understanding and removing barriers to member engagement with retirement decision-making.

3.2.2 Automatic defaults create unacceptable risk

While we know we can get better outcomes for members who are engaged, we know we also need to consider how we can get better outcomes for our least engaged members. We need to determine how we can balance interventions to reduce poor outcomes for members who will never make an active choice, without risking leaving members worse off.

This involves understanding the trade-offs members make (see Section 1.2.2), the anchors that inform their decisions, the things most likely to prompt action and the most efficient means for integrating data sources to reduce frictions associated with engagement and better understand those members who do not engage with us. This could include as an example, notification that members have begun to receive the Government Age Pension.

Automatically defaulting members based on incomplete information risks poor outcomes

Aware Super does not support automatic or opt-out defaulting of members into retirement phase as a first-line solution to improving retirement outcomes. Automatically defaulting members based on limited information is likely to result in worse retirement outcomes for many members.

We need to balance the potential improvement in outcomes from automating retirement, with the risk of making outcomes worse for those members.

Member validation of retirement solutions and some form of active choice is vital to ensure the recommended solution meets member needs.

While an appropriately personalised and tailored retirement solution can significantly enhance retirement outcomes, providing a solution without all the relevant information could lead to worse outcomes.

This could happen for a range of reasons, for example:

- there may be information about someone's financial circumstances the fund does not know about, such as another potential income source, or having already breached the Transfer Balance Cap with super elsewhere;
- they may be encouraged to take more or less risk than is appropriate for their circumstances;
- they may have health issues/shorter life expectancy that would reduce the value of longevity risk protection;
- the member may have specific needs or goals in relation to their retirement – for example, they may value certainty over a higher income; or
- the trustee may not offer a product the member thinks is right for them, and the member may need the prompt to shop around or seek advice.

Cameo 1 demonstrates the difference a small amount of additional information could make to a member's annual income, based on their circumstances and preferences.

A small amount of engagement to validate and personalise a solution could make a significant positive difference to member outcomes (see section 4.4.2). This is not worth trading off for the convenience of automatically defaulting members into a product.

Cameo 1

Member A has a balance of **$200k** in Fund X. When they come to consider retirement products, Fund X recommends a solution based on the assumption this is the member's total balance – an account-based pension with the minimum drawdown. The fund assumes the member will receive the full Age Pension and their superannuation will top up their income and act as contingency capital.

However, if additional information about the member had been available, Fund X would have learned that the member has **another $300k** with another fund, that they intended to rollover into Fund X and their goals and objectives would have been better met with an alternative retirement solution that would deliver a higher income with greater certainty.

This would have allowed the Fund to recommend a more appropriate, personalised solution aligned to their actual circumstances and goals.

Actual member's super balance for retirement income: $500k	Expected annual income in retirement	Expected annual income in active phase of retirement (age 67-75)	Expected lifetime average accessible capital
Mass-customised solution: 100% ABP with legislated minimum drawdown	$51,700	$39,200	$421,900
Personalised solution: 15% longevity solution + 85% ABP drawing down at a sustainable income level	$57,800	$57,500	$270,600
Difference in outcome due to personalisation	+$6,100	+$18,300	-$151,300

Automatically placing members into retirement products should only be considered as a last resort

While there may be a case to explore at a future date automatic defaults for older members who remain disengaged in the accumulation phase, this should be seen as a last resort, only to be considered when:

- the retirement system has matured further;
- the problems to solve and member behaviours are better understood;
- the member experience of retirement decision-making has been simplified; and
- avenues for engaged decision-making have been exhausted.

This is because, as noted, we know that engagement is crucial to ensure members are receiving the best possible retirement outcomes.

Delaying consideration of this option until the industry has had time to innovate, increase engagement, improve support provided to members and implement better retirement solutions.

This will ensure that any solution is actually targeted at members who will be worse off if no action is taken.

Recommendation

13. Allow for innovation in the development of retirement solutions, including use of data and personalised nudges, before considering automatic defaults for highly disengaged members.

3.3 Compulsion will not solve the problem

3.3.1 Longevity products are important, but not for everyone

The discussion paper indicates a strong policy preference for broader take-up of longevity products.

Aware Super believes that longevity protection is a key contributor to good retirement outcomes for many members. We currently offer annuity products to our members and are actively developing innovative retirement products with a longevity component.

As shown above in section 1.2.2, a holistic multi-product solution, including a longevity protection element, could increase the average income of a retiree by 10% above their sustainable drawdown rate in an ABP, and 21% above their income if they commenced an ABP at the minimum drawdown rate.

Given the power of longevity protection for some cohorts of members, and the pricing benefits of a larger pool size, it is easy to conclude that longevity products should be a universal solution.

However, it's important to acknowledge that longevity products are not a silver bullet, do not deliver the same value for all members and are not necessary to deliver strong outcomes for some members.

Defining the problem longevity products are trying to solve

The consultation paper defines longevity risk as "the risk of outliving one's savings", which doesn't align with how members actually engage with the issue of longevity risk. While it is an appropriate technical definition of longevity risk, we need to be careful how we frame this issue to avoid inadvertently limiting the demand and take up of these products.

Longevity protection isn't just about outliving your savings, but about not knowing how long you might need your savings to last.

No member knows exactly how long they need their money to last, irrespective of how long they actually live. Through this lens managing longevity risk is important to many more retirees than just those who happen to live a long life. It is about helping ensure that members have confidence in their retirement income and the peace of mind to spend and live their best life in retirement.

Framing longevity protection as managing the risk your money won't last also does not resonate with most members. Our research shows that most members do not understand life expectancy or believe they will live a long life.

The Age Pension provides longevity protection for many members

For lower balance members, particularly those with limited savings outside superannuation, the safety net provided by the Age Pension provides sufficient longevity protection in the event of outliving their savings.

For these members, their superannuation balance will only ever be a top-up to the Age Pension, or a pool of capital for necessary or unexpected expenses.

Depending on their preferences, the negative impact of locking up capital for these members is likely to outweigh the very small income top-up they could achieve through purchasing a longevity product.

Many wealthy members don't need longevity products

For many members with higher balances, or significant wealth outside of superannuation, longevity protection is simply unnecessary for them to meet their retirement goals.

While technically, longevity products can boost retirement incomes for this group, many have other sources of income and simply don't need or want more income than they are already withdrawing from their super, making any trade-off in access to capital unpalatable.

3.3.2 Compelling longevity product take-up is the wrong policy lever

The only way to have universal (or near-universal) take-up of longevity products is through mandates. However as noted above, compulsion will lead to worse outcomes for many members.

While we agree that there should be a larger proportion of superannuation benefits paid in the form of lifetime income at the aggregate level, we would have serious concerns about any attempt to implement compulsory products at the individual level, including requiring individuals to purchase longevity protection as part of a retirement solution.

If the goal of compulsion is not to improve member outcomes, but to move money out of the tax-advantaged superannuation environment and minimise bequests, we would suggest this is the wrong policy lever for this purpose due to the adverse impact it will have on a broad range of members.

It is important the Government is clear on its purpose and that policy positioning addresses issues directly.

Compulsion will not solve the confidence gap

Compulsory longevity protection will not give retirees the confidence to spend their savings in retirement.

We agree that many members currently spend less than they could. However, as noted above, the fear of outliving savings is only one driver of conservative spending in retirement.

Giving members the confidence to spend cannot be compelled. It requires support and engagement, and a broader lens on the issue that considers behavioural issues like the impact of nest egg framing in superannuation and need to shift this mentality to one focused on income in retirement.

Compulsion undermines trustee obligations

As noted above, not all members will benefit from a longevity product. Requiring members to take up a particular product would conflict with our duty to members as a trustee, and the requirements of the Retirement Income Covenant.

As a super fund, we can show members the options that will help them reach different retirement goals, and the income they can afford to draw down to help them reach those goals.

However, it is not the role of superannuation funds, or the Government, to force individuals into decisions about how to use their retirement savings. The individual nature of retirement means that any attempt to do so is unlikely to align with the best interests of many members.

Recommendation

14. Focus on making longevity products more attractive to members who will benefit from them, rather than compelling take-up of products which may not be suitable for all members.

3.4 Standardised products don't suit member needs and stifle innovation

Aware Super has significant concerns about the discussion paper's proposals to develop standardised retirement income products that funds would be required to offer members.

Funds can and should tailor products to their member base

Not all funds have the same membership profile. Particularly for funds with membership concentrated in particular industries or occupations, their members will have things in common like similar characteristics and balances and look very different from the membership profile of other funds.

We also know from our engagement with other funds that our member populations have different needs and preferences about engagement, advice and products.

Requiring funds to offer standardised products removes the value of the significant member research funds have undertaken to understand how our specific members think, feel and make decisions about retirement, which is key to developing retirement solutions that they will actually feel confident taking up.

Standardised products remove capacity for innovation

Developing and implementing standardised retirement products will stifle product innovation within funds.

Resources that today can be directed to investing in innovative retirement solutions for our members would be redirected to:

- participate in consultation and development of standardised product requirements;
- system build and implementation of standardised product; and
- ongoing work to ensure compliance with product requirements.

A mandated product requires the same system build and resourcing as in-house product development. Aware Super would have no choice but to reduce the time, effort and financial investment in innovation to support the development of a standardised product. We expect other funds would face the same decision.

We do not consider it would be in the best interests of Aware Super members to redirect resources to development, implementation and maintenance of standardised retirement products, when we know tailored products will lead to better member outcomes.

Industry innovation will be crucial for developing longevity products that members value, demand and take up. Co-creation with members is a necessary ingredient for success. For this reason, Aware Super believes that industry is better placed to design and develop successful products than the Government, who does not have the direct relationship with members that funds do.

Any concerns about quality and suitability of industry product offerings would be better addressed by creating a clear framework for assessing retirement products and outcomes (see section 5.1).

Recommendation

15. Government should not move to design standardised retirement products, and should instead focus on providing support for funds to develop products that meet their members' needs.

4. Simplifying the retirement journey

Removing friction to increase member engagement

4.1 Pathways to reducing complexity

Retirement is complex, and we know this complexity creates a barrier to engagement. There are essentially two key pathways to simplifying retirement for members:

- Simplifying system settings to reduce the complexity of processes and decisions; and
- Supplying help, support and guidance to support members to make their *experience* of the system simpler.

There is merit in reducing complexity in the system itself where possible, and any reform should be evaluated to ensure it is not adding unnecessary additional complexity for members. However, simplifying system settings is likely to require long-term commitment.

To have the biggest impact on member outcomes, Aware Super also recommends prioritising reforms that will make the system simpler for members to navigate – simplifying the experience of navigating retirement by providing better guidance, advice and support.

Recommendation

16. Prioritise reforms that simplify member experience and make it easier for them to meet their retirement goals, with a focus on advice, guidance and member service.

4.2 Reducing friction for a simple member experience

4.2.1 A 'one click' retirement framework

While member validation of retirement product selection is crucial to prevent poor outcomes (see 3.2.2), it should still be simpler to commence a retirement income stream.

Our member testing has shown that members do not want to rush their decision-making, and want to take the time to make a choice that is right for them. However, we also know that friction in this process discourages engagement.

Aware Super already offers an online pension commencement functionality, however this process could still be simplified for members. Our data shows that even with a smooth and straight forward online join process, it currently takes members on average around 18 cumulative hours over a prolonged period to open an account. It simply takes time for members to find all the information, and make the decisions required, in this complex moment.

The ability to combine advice and data capabilities to personalise soft default product recommendations (see section 4.3 and 4.4) will allow funds to offer a much simpler and more seamless approach, particularly for existing members.

Ideally, once a member has validated the inputs used to recommend a solution, and confirmed they want to proceed, there should be minimal additional time or input required from the member.

For new members joining a fund to take up a retirement solution, it will be important to balance streamlining of process (for example, allowing proof of age cards to be accepted as part of ID verification) with necessary measures to prevent fraud.

Offering the option to simultaneously commence a retirement income stream and lodge an Age Pension application through a superannuation fund's online portal would also be an important step to improve retirement outcomes and simplify the retirement experience.

Recommendation

17. Remove barriers to simpler, faster commencement of retirement products and solutions.

4.2.2 Retirement accounts that reflect member needs

Retirement is not a single point in time for our members, but the system operates as though this is the case.

Today, 30% of our members with a pension account also hold an accumulation account.

From a member perspective, and subject to existing rules including the Transfer Balance Cap, it should be simple to:

- Maintain one account with balances in both accumulation and retirement phase, and move savings between them, and/or
- Contribute directly into and ABP.

The inability to make contributions into pension-phase products creates unnecessary complexity for members, and does not reflect the reality that retirement is often not a single point in time event. Today it is common for members to not only transition to retirement, but also move in and out of paid work during the initial phase of retirement.

Allowing members to directly make contributions and/or 'top-up' an existing pension product would reduce the need for members to hold additional products or go through a complex process to commute and re-commence their pension.

This additional flexibility would allow members to make choices about commencing a pension product without concern for the difficulty of reversing them, and would facilitate a simpler, single view approach to retirement savings and income.

Superannuation funds should be able to manage the back end complexity – for example due to differing tax rates – without impacting the member experience.

Recommendation

18. Amend Account Based Pension rules to allow members to contribute directly into their retirement income account, subject to other rules including the Transfer Balance Cap.

4.3 Guiding members to better retirement outcomes

4.3.1 Advice makes a difference to member outcomes

Aware Super members who receive advice have better retirement outcomes.

We have seen the impact advice can make on member outcomes. For example, our advised members are four times less likely to switch investment options during periods of volatility – our research shows members who switch rather than staying the course during market volatility are likely to end up worse off overall.

Our research also shows that generic communications don't have the same positive impact on member behaviour and outcomes. Members find generic communication less helpful as they have trouble applying it to their specific circumstances.

However, this does not mean all members want or need comprehensive advice. Comprehensive advice is costly and prices out many Australians. It also creates friction in the retirement experience due to the time and information commitment required.

4.3.2 Advice reform will unlock personalised retirement help at scale

The proposed reforms to advice under the *Delivering Better Financial Outcomes* package would allow us to provide more, and more useful, advice to members to support their retirement journey. For example:

- Allowing **more advice to be collectively charged** in the lead-up to, and throughout, retirement will remove cost and time barriers for members seeking support.
- Making it **easier for funds to answer simple questions** in a personalised way will help us answer the questions members have, when they have them, and provide reassurance throughout retirement - how much income they need, whether they are on track, when they can retire etc.
- A mechanism to provide **nudges** – proactively pushing personal advice to members based on what we know about them – will help us steer members to their 'next best action' in preparing for retirement.

Proactive advice to prompt action

A crucial element of the advice reform package will be clarity around providing proactive, personalised nudges to members.

Our member research shows us that members want our help, and they expect us to proactively tell them when they should be taking action or making decisions.

Today, the effectiveness of this communication is limited because :

- these nudges are considered to be marketing, which members opt out of as part of their broader marketing preferences; and
- we cannot personalise the information we provide.

The ability to proactively push personalised calls to action and 'next best steps' to members through channels like email and SMS will create a step-change in our ability to support our members with their retirement decision-making at scale.

Nudges will provide us the opportunity to engage members who would otherwise not take action, and guide engaged members who do not seek advice through a retirement decision journey.

It will be important that these proactive communications are explicitly allowed in legislation, and exempt from marketing opt-out requirements, to ensure we can target members appropriately.

Recommendation

19. Prioritise development and implementation of *Delivering Better Financial Outcomes* reforms to enable simplified, personalised retirement experiences.
20. Ensure funds can proactively provide personal advice communications as members approach and move through retirement.

4.3.3 Calculators and retirement estimates

Consistent member experiences

Calculators and retirement projections are a key tool to support members in understanding their retirement readiness.

The limitations of ASIC relief for calculators and retirement projections have driven us to develop more sophisticated calculators under personal advice regulations. This allow us to provide more appropriate estimates that are less likely to mislead members.

Difficulties with this approach include:

- an inability to use the additional information gathered through the use of these tools to provide consistent, or at least coherently different, retirement estimates to members in their annual statements after going through a digital advice journey.
- the ability to use consistent assumptions across the various retirement income projections provided to members through statements, public calculators and the provision of personal advice.

As a result, moving to a personal advice model has limited our ability to provide a consistent, meaningful retirement narrative over time and even within a moment in time (for example where we nudge members through journeys that encourage them to shift from the public calculator to the portal version where they can receive a better experience under personal advice).

Being able to provide useful retirement estimates to members across different touch points is crucial and current rules impact member take-up and unnecessarily constrain broader member communications. Members who receive multiple income projections that differ in ways that are difficult to explain (due to the assumptions used) erodes confidence and the likelihood of members will take positive action.

Once a member has interacted with a calculator, it would be sensible to allow the outcomes to be re-presented to the member across all touch points including annual statements, with appropriate labelling and within a reasonable period of time (say, one year).

Projections provided on statements, and through other channels, should be member friendly, reflect a members' actual investment strategy, align with projections provided through the fund's retirement calculator(s) and avoid member confusion - enabling consistent messaging across various communications, tools and channels.

To promote a simpler member experience, consistent member experiences across multiple touch points with a single fund should be prioritised. Appropriate disclosure and member consent, and the ability for members to change key assumptions, can be relied upon as effective remedies to inevitable differences in calculation methodologies across the industry.

Income projections for retired members

ASIC relief currently does not permit the use of projections for members in retirement phase.

Noting that the nature of calculations and member needs will change for members in retirement, additional guidance should be developed to support the development of these tools.

Recommendation

21. Provide clear exemptions in legislation to allow retirement projections and calculators to be effectively used for retirement planning and update existing exemptions to enable consistent member experiences.

4.4 Creating a 'one-stop-shop' for retirement decision-making

4.4.1 Super funds have a key role

Members expect their super fund to support them through the complexity of retirement decision-making, and funds are well placed to take on this role.

We know from research our members want to put in the effort to make the best decisions they can as they navigate their retirement journey. While we should be seeking to streamline and simplify the retirement journey as much as possible, support will still be needed.

Members want help that considers their circumstances, including support selecting investment options, retirement income solutions and drawdown rates.

There is also a potentially expanded role for super funds in acting as an intermediary to assist members in accessing the Age Pension and other benefits that support retirement incomes. Leveraging the member servicing provided by super funds in this manner would help simplify the experience of retirement for members and assist them in understanding their total retirement income.

4.4.2 Data-driven product recommendations

To get the best retirement outcomes, we need to understand a member's full financial circumstances. However we know that many members don't provide this information today because it is a costly, time consuming and difficult process.

While improving advice availability will engage more members, we still need a pathway to provide appropriate outcomes for members with low levels of engagement.

A fully tailored solution could, on average, increase retirement income by 21% (over $9,500) annually, compared to the status quo.[3]

However, even providing simple tailoring to the drawdown rate could increase annual income by 10%.

It is currently difficult for us to recommend a product to a member without a full fact-find, however with regulatory certainty around the process we could make personalised recommendations for member review based on a limited number of data points.

With a small number of data points, we can recommend solutions for consideration by members that could significantly improve outcomes for members who are less engaged.

Member testing shows this approach could materially increase engagement and act as a bridge to personal advice. The role of active choice can act as an important safeguard for members with more complex circumstances.

A small number of data points can make a meaningful difference

At a minimum, we could make meaningful personalised product recommendations based on:

- **Data that indicates Age Pension eligibility**, which could be automatically populated from Government sources or provided by the member (household wealth and debt, household income, marital status).
  - Key data points include:
    - Marital status
    - Home ownership
    - Income
    - Total superannuation
    - Other assets
  - See Table 2 below for the specific data fields that could be automatically populated through various sources, the relative priority considering the marginal benefit over cost were flagged.
- **Income needs and retirement goals**, which could be adjusted by the member from a starting point based on what we already know about the member. This could be a good use case for Consumer Data Right (recipient of banking data) to derive members income needs based on analysing spending data.

This data could be used to place a member into a cohort, allowing the trustee to suggest a retirement solution that is likely to meet their needs, based on the data available. This includes assisting to understand

[3] **Status quo:** Commence an account-based pension (ABP) with minimum drawdown at age 67

if/when they are likely to be eligible for the Age Pension, suggesting a sustainable drawdown rate to maximise income, assessing the need for longevity protection.

Additional data inputs (for example, health information and risk preferences) could be used to further tailor a solution, either before or after the member opts into retirement.

Members can also use this moment to ensure we have current bank details and complete any authentication required to prevent fraudulent drawdowns.

Personalisation must be supported by validation and choice

Active choice and member validation of the information we use to personalise products in this way is key – there is significant risk that incorrect assumptions could leave a member worse off, as noted above.

Ongoing notification / data of Age Pension eligibility through the retirement period would also assist trustees in ensuring retirement solutions remain fit for purpose for members overtime, noting that significant changes can occur through retirement.

Table 2: Data required for Age Pension eligibility assessment and the data source that could enable pre-population automatically.

Age Pension Application Data		Alternative pre-fill data sources		
Category	**Data**	**Data Source**	**Priority**	**Reasoning**
Marriage Status	Single or Couple	ATO, income tax lodgement	High	Simple for members to answer single/couple, marginal benefit of automation is low, however there is additional benefit of being able to pre-populate spouse's income and ownership percentage data
Home ownership	Homeownership (Yes/No)	Manual inputs by members	Low	Simple for members to answer Yes/No, marginal benefit of automation is low
Income	Existing government payments (eg Carer payments)	ATO, income tax lodgement	High	Simple snapshot data from income tax lodgement that will provide the most accurate income data
	Employment income	ATO, income tax lodgement	High	
	Investment property, shares, and any other investment incomes	ATO, income tax lodgement	High	
	Business interest	ATO, income tax lodgement	High	

Age Pension Application Data		Alternative pre-fill data sources		
Category	**Data**	**Data Source**	**Priority**	**Reasoning**
	Payments outside Australia	Manual inputs by members Consumer Data Right (recipient), banking data	Low	Likely to apply to small cohort of members, so less critical to automate Maybe possible to identify via Consumer Data Right (recipient), banking data – but it would require more complex analytics and algorithm development to identify these transactions, marginal benefit over cost is low.
Super	Other superannuation accounts and balances	ATO, super fund details	High	Simple snapshot balance data at the last reported date and names of the superannuation funds
	Spouse's super	ATO, super fund details	High	
Assets	Bank accounts and balances	Consumer Data Right (recipient), banking data	High	Simple snapshot balance data at the last available date
	Mortgage and loan balances	Consumer Data Right (recipient), banking data	High	Simple snapshot balance data at the last available date
	Estimates for household contents, personal effects, cars and boats value	Manual inputs by members	Low	Largely depends on personal estimates, and the accuracy of the estimates were not critical
	Assets outside Australia	Manual inputs by members	Low	Likely to apply to small cohort of members, so less critical to automate
	Loan and gifts to others, funeral arrangements etc	Manual inputs by members Consumer Data Right (recipient), banking data	Low	May be possible to identify via Consumer Data Right (recipient), banking data, but would require complex analytics and algorithm development to identify transactions, marginal benefit over cost is low.

Recommendation

22. Explore opportunities for simplifying superannuation fund access to member data, particularly data held by Government agencies.
23. Establish a clear pathway to offering soft default product recommendation for members with limited engagement.

4.4.3 Integrating the Age Pension applications and retirement decisions

Opportunities for integrating Age Pension and retirement product decisions

As noted above, ensuring members are accessing their Age Pension entitlements is a key way to improve retirement outcomes.

In addition to collecting member data held by Government agencies to foster personalisation of retirement support and solutions, there is an opportunity for superannuation funds to act as an intermediary to support members in applying for the Age Pension and other Government benefits (for example, the Health Care Card).

Despite the fact we see strong engagement in any communication or education offer discussing Government benefits, we still see members delaying Age Pension applications.

Aware Super has undertaken a pilot where a third-party provider, Retirement Essentials, can support our members with Age pension applications.

This support takes the form of a free calculator to help members understand their entitlement, and an optional paid concierge service to assist with the application process.

Our experience with this service highlights the potential for the industry to providing basic support for members to complete and validate their applications - acting as nominated representatives and more directly supporting the application process, including through the sort of streamlining that would be made possible with data sharing. .

This has multiple benefits, including:

- streamlining the member experience as they could centralise their retirement decision-making;
- creating a 'tell us once' environment that would allow funds to (with consent) collect relevant information from the Age Pension application to tailor retirement product recommendations and associated advice or nudges.

It would also be valuable to explore pathways for ongoing information about changes in member circumstances to be communicated to superannuation funds, with consent, using a process similar to the current 'correspondence nominee' arrangements.

Recommendation

24. Government and industry should prioritise efforts to ensure Australians entitled to the Age Pension are accessing this income.
25. Services Australia should work directly with industry to support integration of Age Pension and other benefit applications into superannuation fund systems.

5. A successful, sustainable retirement system

Setting up the system to evolve seamlessly

5.1 Measuring success in retirement

5.1.1 Retirement outcomes are about members

Measuring the success of funds in delivering retirement outcomes is crucial. It is important for transparency, member choice and protection, future product development and regulation. However, we must take the time to develop a meaningful and constructive approach to measuring retirement outcomes.

Existing approaches to measuring performance focus on fees and investment returns at a product level, which does not assess the entirety of the outcomes that members are receiving from their funds.

Unlike accumulation phase, member goals in retirement differ significantly. Members may also hold multiple products that serve different purposes and create value to the member in aggregate, which may not be obvious or evident in isolation if judged as a standalone product.

Some retirement products, including longevity products, focus on the generation of income rather than investment returns per say and existing performance measures do not work for these products.

Other products could focus on risk mitigation, with the intent to work in concert with products that focus on return maximisation – striking an appropriate balance of risk and return for retirees when blended together (noting this is crucial to member outcomes because retirees win by losing less due to the impact of sequencing risk).

This means measuring outcomes at a product level may not provide a useful picture of member outcomes, or adequately align with the obligations and objectives specified in the Retirement Income Covenant.

Member-level metrics are crucial

Ultimately, Aware would recommend the Government and Regulators move toward a member-level measure of outcomes that assesses retirement solutions as a whole rather than the component products, and consistent metrics/methodologies to support this.

For example, the assessment and comparison of fees using representative members (eg at a range of balances) is an existing way industry and regulators assesses member level outcomes, in recognition of the differing impact of fees on members with differing circumstances.

A series of representative members representing different member characteristics and cohorts could be used as a starting point to consider member retirement outcomes in practice. These representative members should represent difference balance levels, as well as different preferences based on the Retirement Income Covenant criteria.

Aware Super can already consider member-level outcomes through our Retirement Confidence Score, which is also available to individual members through our My Retirement Planner tool.

A balanced assessment framework should be able to appropriately consider whether members are getting value for money, appropriate returns, and outcomes that are suitable to their needs and goals.

The Retirement Confidence Score

Aware's Retirement Confidence Score provides an example where retirement outcomes can be measured at the member-level both individually and for differing member cohorts.

This could also be aggregated across a fund to understand how the trustee is tracking to improve the retirement outcomes of the whole membership through different business activities.

It allows us to compute the Retirement Confidence Score for each individual member with assumptions that can be validated based on their existing behaviour. The computation can be done year on year to track the annual changes and attribute the changes separately to the impact of financial markets, membership changes and trustee's efforts.

Efforts from trustees such as a better solution designs, better member communication, services and offering of products and digital tools that facilitates better financial decisions will have a positive impact on the Retirement Confidence Score.

Inappropriate performance measures will reduce innovation

The potential impact of performance tests on innovation – which as noted will be crucial to improving member outcomes in retirement – should also be carefully considered prior to implementation. Ultimately what gets measured get managed to and the introduction of performance testing has the potential to materially constrain future innovation and shift focus away from improving member outcomes.

More work is required to ensure that we can assess retirement outcomes in a meaningful, constructive way that considers the differing goals of members in retirement, avoids unintended consequences and sets the retirement industry up for success.

There is an existing consumer protection regime for product

Consumer protection measures are crucial to ensure retirement products perform appropriately for members. While we support developing performance metrics for retirement products, it is important to note that there are already a range of ways products are assessed. These include:

- Design and distribution obligations (including target market determinations) which seek to ensure that products are designed and sold only to those who are suitable to take them up; and
- Member outcomes assessments, which require funds to consider member outcomes from their products on an annual basis.

These product-level requirements apply in addition to the broader obligations of the trustee.

Development of performance metrics for retirement products should seek to avoid duplicating existing obligations and focus on member-level retirement outcomes.

Recommendation

26. Work with industry to develop performance metrics appropriate for the retirement phase, looking beyond product-level investment fees and returns to reflect member outcomes and Retirement Income Covenant obligations.
27. Ensure regulatory settings, including performance measurement, support innovation and the development and implementation of multi-product retirement solutions.

5.1.2 The current YFYS performance test is not the right test for measuring retirement outcomes

Aware Super does not support the extension of the *Your Future, Your Super* performance test to retirement products. While investment performance is one element of the performance of retirement products, it should not be tested in isolation.

The current test, with its singular focus on investment returns, cannot appropriately measure the performance of retirement products, including innovative retirement income streams, for several reasons:

- Applying the current test would directly conflict with the responsibility of trustees under the Retirement Income Covenant to balance the three key objectives of income, risk and access to funds – i.e., it would not reflect the needs of members.
- Retirement solutions are also likely to involve multiple products, and it wouldn't be appropriate to test these building-block products independently of each other.
- The test does not directly consider investment risk, and hence cannot measure the success of products designed to manage/balance investment risk (including sequencing risk).

Applying a test focused solely on fees and returns would not provide a useful measure of success,, and could send the message that these are the only factors members should consider when choosing retirement solutions.

Sequencing risk is a key factor in retirement

Investment returns remain a key outcome for members in retirement - around 30% of the retirement income you get from super could come from investment earnings in the pension phase.

Sequencing risk becomes material as members approach retirement and continues through retirement – investment losses are harder to recover and have a larger impact on retirement outcomes.

Higher balances and ongoing drawdowns make retirees particularly vulnerable to sequencing risk during the early years of retirement.

Given the investment horizon remains long during retirement, it is important that members are supported to strike an appropriate balance between pursuing returns to drive retirement income, and managing investment risk to safeguard against the potential impacts of market and sequencing risk.

Our lifecycle investment strategy helps balance returns with risk management as members approach retirement, by gradually de-risking members from age 56.

Our members increasingly make active choices about their investments as they near retirement, with the proportion of accumulation members invested in the default MySuper option shifting from over 90% in their age 20s, to around 50% at age 65. Among those who make active choices the vast majority choose to invest more conservatively. The Conservative Balanced and Conservative options are our largest options in retirement.

We also manage our members retirement savings differently during the retirement phase, in recognition that the impacts of market movements are magnified for these members, potentially impacting their retirement income.

For example, our more conservative retirement options incorporate a greater focus on downside risk management. For these strategies the portfolio construction goal is to achieve the return target with minimal risk, which better aligns with the needs of retirees. The use of intra asset class risk management strategies is more efficient than adjustment to risk levels in the strategic asset allocation. It allows for the use of convexity, which more tailored to the risk mitigation needs of retirees.

The combination of our lifecycle default strategy and member choice means over 80% of retirement members are invested in lower risk options (compared to accumulation, where over 70% of members are in higher growth options).

If retirement outcomes focus too narrowly on investment performance, particularly through the current YFYS performance test being extended, it would be difficult for funds to maintain legitimate investment strategies designed to manage sequencing risk. This would create a situation where trustees have to balance their legal obligation under the Retirement Income Covenant to manage sequencing risk, against the significant business risk created by YFYS which actively penalises risk management.

Recommendation

28. Do not extend the accumulation performance test to retirement products.

5.1.3 Disclosure alone cannot solve for complexity

Standardised product comparison is premature

While standardised disclosure and comparability between retirement products is a worthy goal, this should not be an immediate focus.

Any standardised product disclosure should be designed around the measuring of success and member outcomes in retirement. This ensures consistency between product design by trustees and product providers and consumer choices.

Standardising product disclosure or attempting to directly compare products before agreeing on how member outcomes should be measured in retirement is pre-defining what success looks like.

Product comparisons are also of limited value where a retirement solution may contain multiple products, tailored to a member’s circumstances.

To simplify the member experience and don’t make it more difficult for members to compare products, it is crucial that we ensure any comparisons made are based on the outcomes they will actually achieve, and consistent with advice they are likely to receive.

Personalised information is more useful than standardised disclosure

While accurate and appropriate disclosure are crucial, we know that disclosure does not solve for complexity in products and systems or a lack of decision-making support.

Alongside product innovation, funds must find ways to support members in understanding the products they provide. This is a key responsibility under the Retirement Income Covenant, which requires funds to assist members to achieve their retirement objectives.

This will be assisted by implementation of advice reforms to allow for more tailored information to be shared, as well as agreed measures of success for retirement so members can see how products will meet their objectives.

Ultimately, retirement decisions are complicated and boiling down disclosure is less important than members understanding how products meet their needs. Standardised disclosure and comparisons will not assist members if it is not useful or usable, and risks either adding to confusion or leading to poor outcomes.

Recommendation

29. Defer any consideration of standardised disclosure or product comparison until appropriate member level measures of success are agreed.

5.2 A smarter approach to retirement products

5.2.1 Making longevity protection more attractive

Government intervention in longevity risk market is not necessarily required

The discussion paper canvasses options for Government intervention in the private longevity risk market. We do not see any immediate need for this to occur. We see significant appetite from global reinsurers who have deep expertise in pricing this risk, and are keen to enter the Australian market.

Nonetheless, we support Government efforts to investigate ways they can improve the underlying infrastructure of the private longevity risk market and reduce costs (both financial and regulatory) of providing longevity insurance to Australian retirees. For example, developing a market for longevity bonds, facilitating a deeper market for inflation-linked bonds, and/or changing insurance regulations to recognise the potential diversification benefits between longevity exposure and mortality exposure.

More importantly, there is merit in further exploring the idea of allowing industry to pool risk across funds.

There are plenty of examples in superannuation where pooling of resources has successfully led to improved member outcomes in the past, for example through the pooling of resources to support the purchase of direct assets (infrastructure etc), without which it would not have been possible for many funds to build out direct asset purchasing programs.

This approach would allow smaller funds to access the same benefits of scale that larger funds enjoy, and create opportunities for innovative collaboration between funds in terms of products offered.

Recommendation

30. Further explore industry-level solutions to risk pooling that may offer pricing and product benefits to individuals with need for longevity products.

'Quick win' product rule changes

As noted above in section 3.3.1, not all members will (or should) take up longevity products.

However, improving current regulatory settings for longevity product design could make these products more attractive to members who may benefit from them.

Current rules restrict the structure of longevity products that can be compliant with the Capital Access Schedule rules and receive tax-free pension treatment and concessional treatment from the Age Pension means test.

Longevity products are more attractive with concessional treatment from the Age Pension means test, but the trade-off is that members who leave these products through withdrawals or death often experience a significant financial penalty.

The high cost and lack of flexibility is a significant barrier to members being comfortable taking up these products. As noted above, we have concerns with nudging members toward these solutions early in retirement if they cannot change their mind.

Amending the capital access schedule to allow for a higher level of withdrawal and death benefits during the initial phase in retirement and death will allow for more flexible products to be designed, with lower regret-risk for members who experience a change in their circumstances.

We are confident this would not only allow us to attract a broader range of members but provide us with the comfort to nudge more members into these products by combatting the fear and uncertainty created by products that are difficult to exit.

While this may imply a higher fiscal cost of the Age Pension, this should be weighed together with the potential savings from the higher income rate paid out from the longevity products, which reduces the cost to Government of tax-free investment earnings.

Member experience is crucial to demand and take up. The ability to embed longevity products as a feature within an Account Based Pension would be desirable from a member experience perspective – reducing the complexity and explanations required by leveraging the relative familiarity of the Account Based Pension structure. However, it is only possible to take this approach if insurance is incorporated in the product design. This inconsistency goes against the concept of product neutrality and should be addressed.

To meet the definition of an Innovative Retirement Income Stream (IRIS), a product must follow the CAS. This means it is not possible to structure a pooling-based longevity product that provides greater access to capital (e.g., one that is not CAS compliant and hence does not qualify for preferential Age Pension treatment) but does receive the preferential tax treatment applied to Account Based Pensions. Yet such products could be quite attractive to members with higher balances who are not (and likely will not become) eligible for the Age Pension.

To encourage innovation and scale in longevity products, product rules should be set in a manner that enables the appropriate pooling of longevity risks across products or classes of products (both within and between funds). Currently, CAS compliance is determined at the product level and requires all components of the product to remain compliant. This prevents the efficient development of multiple classes of a product that strike differing trade-offs between longevity protection and capital access to suit the varying preferences and needs of different cohorts of members.

In addition to these, there are currently a number of legislative/regulatory inconsistencies which may lead to unintended consequences around innovative retirement income streams. They are quite nuanced and have been summarised in the letter from the Actuaries Institute (see, Innovative Retirement Income Stream (IRIS) Legislative Considerations (actuaries.asn.au)). We largely support these.

Recommendation

31. Amend the Capital Access Schedule (CAS) to facilitate more flexible longevity products.
32. Amend Account Based Pension rules to facilitate embedding longevity pooling structures as a product feature, with the option to be CAS or non-CAS compliant.
33. Ensure product rules are set in a manner that enables the appropriate pooling of longevity risks across products or classes of products (both within and between funds) and reconsider current CAS compliance rules with this in mind.
34. Address regulatory inconsistencies around innovative retirement income streams.

5.2.2 Ensure product rules support innovation

While we do not support constant tinkering with product settings, it will be important to continue identifying and acting on opportunities to improve product settings to facilitate the development of products that meet member needs.

Facilitating co-design

As noted above, the specific membership profiles of superannuation funds creates an opportunity for funds to tailor products to their member bases.

Different members, and cohorts of members, have different wants and needs in retirement solutions.

The only way to ensure that products are designed in a way that is likely to appeal to members is to have them involved in the design process.

Aware’s extensive member research and ongoing consumer testing has allowed us to develop a strong understanding of how our members want to interact with us and make retirement decisions, as well as what they want to see in products.

Government can best support this process by recognising that funds can and should be working directly with their membership to develop products and services, and being open to recommendations for rule changes that result from this research.

Recommendation

35. Ensure the legislative and regulatory framework continues to allow and encourage funds to develop tailored retirement solutions for their members.

Reduce legacy product risk

As our approach to retirement evolves across the industry, the risk of legacy product proliferation will increase. This is may arise where newer products are developed, innovative products do not perform as hoped, or when product rules evolve.

Wherever possible and practical, product rules should allow funds to evolve retirement products, including longevity products, over time or shift members into new, better products without triggering significant penalties for members (for example, triggering changes to CAS treatment).

The merger of products following a Successor Fund Transfer can also be an important driver of the realisation of scale benefits and hence should also be considered in this light. The current legislation could be improved by clarifying that the CAS does not apply to successor-fund transfers or rollovers between IRIS products (where voluntary or fund directed).This is likely to result in better member experience and outcomes as they have access to new product features or solutions, as well as reducing fees and improving efficiency across industry by removing the cost of maintaining legacy products over time.

Recommendation

36. Where possible, allow products to evolve alongside rules and expectations, to avoid costly legacy product proliferation.

Consider innovative product features

Product features that would help members feel more confident and comfortable spending their retirement savings sustainably should be considered.

For example, we support the idea of carving out a 'rainy-day' fund not subject to the minimum drawdown requirements, with a balance limit, from the Account-based Pension set out in the appendix of the consultation paper. Including that this fund would not be subject to minimum drawdown requirements. We expect this would be especially valuable for members with lower balances, many of whom rely on the Age Pension for their retirement income and use their super to cover one-off or unexpected expenses.

Behavioural finance research shows that mental accounting plays an important role in people's financial decision making. Having a dedicated 'rainy-day' fund could tick the box for precautionary savings, which ultimately provides additional confidence for retirees to spend down their superannuation savings.

Research from NEST, a large DC plan provider in the UK, confirmed this and it offers a 'rainy-day' fund in its standard retirement product set.

This 'rainy-day' fund could also be used for the delayed purchase of longevity products in later years of retirement, which would help reduce potential regret risk and increase potential take up rates for these products.

However, this product feature could not be implemented within the current SIS Regulations, and without product rule changes funds wanting to implement this would spend significant time and cost investigating work-arounds to allow the same outcome.

Recommendation

37. Consider rule changes to allow innovative product features that will give members confidence and certainty to spend their retirement savings.

Appendix 1: Retirement Policy Roadmap

	NOW	NEXT	LATER
Implement	• Advice reforms • Simple changes to product rules to facilitate product innovation (e.g. CAS and ABP rules) • Allow contributions and top-ups to be made directly to Account Based Pensions	• Measures of success for retirement • Rainy day funds • Ensure product rules are not restricting fund innovation or increasing product legacy risks by preventing product rationalisation • Deliver data and system integration uplift	• Standardised product disclosure (where appropriate) • Implement any appropriate adjustments to minimum drawdowns
Commence design	• Measures of success for retirement • Streamlining access to data across the retirement system, including any barriers to the integration of Age Pension application processes within super • Identify and remove barriers to simpler transition between accumulation and retirement phase • Potential role and feasibility of 'rainy-day' funds	• Consider need for Government support for a more efficient longevity risk market • Consider objective and best approach to setting minimum drawdown	• Consider whether defaulting older, disengaged members into retirement is worthwhile

Appendix 2: Consultation Questions

Consultation Questions	Response
Supporting members to navigate retirement income	
Please provide comments on the issues facing members identified in this section.	Aware Super undertakes ongoing member research to understand the needs of our members and how to best support them through product, service, guidance and advice. See Section 1, 3, 4
What actions are industry or other participants in the community taking to address the issues identified in this section?	Aware Super offers a full spectrum of information, guidance and advice under the current regulatory framework to support members making retirement decisions. This supports members to make retirement decisions that help them meet their personal wants and needs. See Section 1, 3, 4
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?	See Section 2 and Appendix 1 for proposed prioritisation of reforms. Key risks are noted throughout our response.
What does 'good' look like for how funds support and deliver products to their members in retirement?	See Section 4, 5
What basic information do members most need to assist their understanding and simplify decision-making about retirement income?	Members need personalised information to support their decision-making. See Section 4
Where can government and industry reduce complexity in the retirement income system, and provide simpler consumer experiences?	There are opportunities to reduce complexity through better help, guidance and advice as well as allowing super funds to act as a 'one stop shop' for retirement – including as an intermediary to support applications for the Age Pension. See Section 4

How might funds utilise guidance, nudges, defaults and other actions to assist members into better solutions for their retirement income? What are the barriers to funds being more active in these ways?	The Delivering Better Financial Outcomes reforms will be key to enabling funds to offer more effective advice, guidance and nudges to members. See Section 4.2
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?	Aware Super undertakes significant member research (see p3). Better availability of data would significantly improve our ability to understand and support our members. See Section 4.2
The retirement income covenant does not apply to SMSF trustees. What approaches do SMSF trustees take to manage risk, ensure they have access to savings, and maximise their income? Are there barriers to improving how SMSF trustees achieve these objectives, and what role can government or industry play to improve these outcomes?	n/a
Supporting funds to better deliver retirement income strategies	
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.	While the retirement phase will become increasingly competitive and choice-driven, premature attempts to develop product comparisons are not likely to simplify member choice. See Section 5.1
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?	Consumer protections are already in place for retirement products, but we support the development of a member-focused framework for measuring retirement outcomes. See Section 5.1
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?	See Section 5.1 for comments on sequencing and risks of reforms proposed in this section of the consultation paper. See Section 2 and Appendix 1 for prioritisation of initiatives.
What are the key characteristics or metrics for comparing retirement income products and services?	Retirement outcomes should me measured with a member focus rather than a product focus. See Section 5.1

What approaches could make product disclosure useful for members? How might barriers such as complexity, or individuality of products, be overcome?	Personalised information and guidance will always be more useful to members than standardised disclosure. See Section 5.1
What barriers are there for product switching in retirement and are there opportunities to make product switching easier?	Product switching could be made simpler and the 'regret risk' associated with the purchase of longevity products reduced. See Section 5.2
Making lifetime income products more accessible	
Please provide any comment on the barriers in the supply and demand for lifetime income products.	See Section 3.3 and 5.2
What actions are industry or other participants in the community taking to assist retirees to better manage the risks for retirement income?	Information, guidance and advice are key to helping members identify and manage risk in retirement. See Section 1, 4, 5.2
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?	See Section 5.2
What product options (or strategies within current retirement products) could better manage risks to retirement income?	There are a broad range of strategies to manage risks to retirement income, based on the circumstances and goals of the individual member.
What is the role for a 'suggested' product in overcoming low take-up of lifetime income products?	Voluntary take-up of lifetime income products will only be taken up more widely if they meet member needs. See Section 3 and 5.2
What action are funds taking to better manage longevity risk, and what role do funds see guaranteed income products (e.g. annuities, pooled products) playing in the future?	Aware Super believes that longevity protection is a key contributor to good retirement outcomes for many members. We currently offer annuity products to our members and are actively developing innovative retirement products with a longevity component. See Section 5.2 for proposals on making these products more suitable and attractive for members.
Do the barriers to managing longevity risk in the Australian market necessitate Government action? What Government action could assist funds in offering appropriate longevity protection to members?	Government intervention in the longevity market is not required, but settings could be improved to make these products more attractive to members. See Section 5.2

Would an industry-standardised product(s) assist funds to develop and offer lifetime income products to their members? – *What features should a standardised product include?* – *Should there be a path to more easily transition members to a standardised product?* – *Should superannuation funds be required to offer a standardised retirement product, similar to MySuper for accumulation?* – *How should a product vary for individual circumstances of the member?*	No, a standardised product would not support funds to develop products that suit their membership. See Section 3.
Would a standardised product be cheaper to develop and offer (e.g. compared to a general mandate to offer a longevity product)?	No, a standardised product would not be cheaper to develop or offer. See Section 3.4