The Retirement Phase

Response to Treasury Discussion Paper: Retirement Phase of Superannuation

9 February 2024

09/02/2024

Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: **Retirement@Treasury.gov.au**

Director of the Retirement Income and Adequacy Unit,

Re: Discussion paper – Retirement phase of superannuation

AustralianSuper values the opportunity to provide a submission to the important discussion paper 'Retirement phase of superannuation'. As Australia's largest superannuation fund, AustralianSuper is entrusted with the superannuation savings of more than 3.3 million members and this submission has been informed by research, insights, and analysis across this membership.

Australia's superannuation system is a remarkable success story. Having amassed $3.6 trillion of workers' savings over the past 30 years, we are now witnessing it come to maturity. Superannuation is delivering on its promise to provide greater savings for retirement while ensuring that the costs of the Age Pension are sustainable as a proportion of GDP as retiree spending power grows. The maturing of the system will bring profound changes for the nation. With the total population aged 65 and over forecast to grow from 4.1 million in 2020 to 5.7 million by 2030, the system needs an urgent focus on the 'spending phase'.

In the midst of the demographic change, there is also a 'cultural shift' taking place around how people define 'retirement'. As the relationship between work and retirement evolves, many members are telling us they are struggling to navigate the complexities of a fragmented system, where the interplay of income from multiple income sources, be it from work, government benefits or private savings, is challenging to navigate. Many AustralianSuper members are telling us that they want flexibility and simplicity in the retirement income system as they define what retirement looks like for them.

We have the opportunity to not only ensure the system better serves the needs of members approaching retirement now, but to create enduring change to system settings such that it is fit for the remainder of the century.

One of the key reforms needed is the implementation of an 'account for life', so that Australians can move seamlessly between work and retirement. This would ease the transition between the 'saving' and 'spending' phases, and also provide the flexibility for additional contributions while members draw an income. This type of flexibility would support a diverse range of retirement journeys and make the system more member centric.

Members want to know they have enough to retire, and to be able to take a holistic view of their retirement income from different sources, including the government Age Pension. Around 63% of the population aged 65 and over receive income support payments, predominantly the Age Pension. Research suggests less than half of people apply for the government Age Pension immediately when eligible, with many members missing out on their full Age Pension entitlement by delaying their application.

Better integration of the Age Pension and superannuation systems, allowing Funds to support members to negotiate the Age Pension system with simplicity, would go a long way towards streamlining the system for members.

Key enablers to system simplification are measures that assist funds to gain a holistic understanding of a member's financial situation, so that they can be better supported. Empowering members to give their superannuation fund secure access to relevant data held by government, and allowing members to identify themselves to superannuation funds through a government accredited digital identity, would help to deliver improved outcomes.

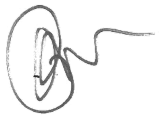
Members are increasingly looking to their superannuation funds to provide greater support, guidance, and direction to assist in their retirement journey. Just as their work journey has multiple phases and their ambitions change throughout this period, so too will their retirement. Older Australians may live in retirement for decades and their needs and expectations will change enormously during this time.

Having a simple, seamless and, most importantly, integrated system in retirement, as they do in accumulation, will help retirees to navigate these changes with confidence.

Retirement is deeply personal. There is no one size fits all, as each retiree has their own wants, needs and expectations of this important phase of their life. It’s important we listen to superannuation members and seek to understand their changing needs, and in response develop holistic solutions which not only build the adequacy of their savings but also their confidence to spend these savings to improve their standard of living during retirement. The Retirement Income Covenant provides a strong framework to enable funds to continue to drive this personalisation and innovation.

While we believe longevity products have an important role to play and can be a good supplement to a range of retirement pathways, particularly for people with higher balances, they are not the solution for everyone. A mandatory national default product risks increasing complexity, stifling innovation and limiting the ability of funds to tailor their offering to meet specific member needs and preferences. It may also create unintended consequences including cross-subsidisation and make the system less attractive. Instead, we believe that the recommendations we have set out in this response will better meet the needs of Australians in retirement.

Please find attached a detailed submission that draws on AustralianSuper member experiences and qualitative interviews. We look forward to working with Treasury and the Government on an opportunity of a lifetime to ensure the system settings are ready and able to support Australians as we transition into the retirement phase of superannuation.



Paul Schroder
Chief Executive

About AustralianSuper

AustralianSuper is the country's largest superannuation fund. We manage over $300 billion of retirement savings on behalf of over 3.3 million members. We do that by using our size, expertise and global reach to access the best investment opportunities for members. We're proudly a profit-for-member fund. This means we don't pay profits or dividends to shareholders, so the profit we make is only for members.

Our ambition, that all Australians live well in retirement, establishes our purpose - to help members achieve their best financial position in retirement.

Executive summary[1]

Superannuation is delivering on its promise to help members save for a dignified retirement. With $3.6 trillion of workers' savings amassed over the past 30 years, we are now witnessing a transition to maturity. A mature system is a system that can seamlessly accept, grow and distribute savings[2].

To deliver an experience consistent with the purpose of superannuation, and the expectations of the broader Australian community, we have provided recommendations that propose a system where a member can have an account for life, greater Age Pension integration, and a program of work focused on simplifying the system.

An account for life aims to remove the barrier between work and retirement, contributing and drawing down. This barrier is no longer suitable and does not reflect the changing nature of work or retirement.

Age Pension integration with the superannuation system would allow members to have a better understanding of their expected income and allow them to spend with confidence and avoid living below their potential means.

Simplifying the system would provide Australians with an easier experience while transitioning to retirement and allow funds to provide more targeted cost effective, timely assistance.

As outlined in the consultation paper, "individual circumstances are different, and there is no one size fits all approach"[3]. With the population aged 65 and over forecast to be 5.7m by 2030, these individuals need a system that recognises their uniqueness and supports them to live well in retirement[4].

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[1] This document may include general financial advice which doesn't take into account your personal objectives, financial situation or needs. Before making a decision consider if the information is right for you and read the relevant Product Disclosure Statement, available at australiansuper.com/PDS or by calling 1300 300 273. A Target Market Determination (TMD) is a document that outlines the target market a product has been designed for. Find the TMDs at australiansuper.com/TMD. AustralianSuper Pty Ltd ABN 94 006 457 987, AFSL 233788, Trustee of AustralianSuper ABN 65 714 394 898.

[2] Australian Prudential Regulation Authority (APRA), *Annual fund-level superannuation statistics*, December 2023.

[3] Department of the Treasury, *Retirement phase of superannuation Discussion paper,* Treasury, Australian Government, Dec 2023, p 21

[4] Australian Bureau of Statistics (2022) 'Table B9. Population projections, by age and sex, Australia – medium series' [time series spreadsheet], Population Projections, Australia.

Our recommendations to government

Legacy system settings are not meeting member needs. AustralianSuper's recommendations are as follows:

An account for life

- End the divide between accumulation and retirement accounts. Allow people over preservation age to draw an income from their super and recontribute concurrently.

Age pension integration

- Allow superannuation funds to assist members to apply for the age pension.
- There should be greater integration between superannuation and age pension income streams.

System simplification

- Empower members to give their superannuation fund secure access to their relevant data held by government.
- Allow members to identify themselves to superannuation funds through a government accredited digital identity.

Product focused recommendations

- Maintain flexibility and support innovation in retirement product development. A mandated national longevity product risks increasing system cost, complexity and socio-economic disadvantage.
- Apply quality filtering to retirement products. Standardisation of terminology and plain language is required to support member understanding.

The Retirement Phase

Introduction

AustralianSuper values the opportunity to provide feedback to Treasury's December 2023 discussion paper: Retirement Phase of Superannuation.

This submission leverages insights from AustralianSuper's 3.3 million members, considering their views, needs, expectations and experiences in retirement. Our response seeks to outline the challenges the superannuation system is facing and is informed by quantitative and qualitative member research and direct member engagement. With 1 in 7 working Australians being a member of AustralianSuper[5], our membership reflects the financial positions, expectations, demands and desires of Australians working towards retirement. This submission provides evidence-backed recommendations and responses to Treasury's questions. Implementing these recommendations will enhance confidence in the retirement phase of the system at a critical moment in its evolution and maturation.

With Australians living longer, and a wave of Australians approaching retirement age, we will see more people retire with larger balances and a higher reliance on super. This demographic shift is combined with a change in attitude when it comes to retirement and staying retired. It clashes with an inflexible super system designed around retirees simply putting the tools down at age 65.

At least **40%** of members' earnings are going to be generated for their retirement in the pension phase.

There are currently 1.6 million people aged 65 and over receiving income from a superannuation product[6]. Over the next 10 years an estimated 2.5 million Australians will move from the accumulation to the retirement phase[7] extenuating any inefficiency present. A system-wide approach is necessary to deliver the best possible retirement outcomes for members, financially and experientially. Superannuation is a system based on incentivising foregone consumption in an individual's working life to provide a greater standard of living in retirement. As a nation, amid the rapid and relentless movement towards decumulation, the super system needs to give people greater understanding of the returns generated during the retirement phase and provide confidence to access and spend hard-earned super savings to enjoy a dignified standard of living in retirement they have earned and deserve. If the system and its settings fail to deliver this, they are not fit for purpose.

1. The wave of retirees

Over the past thirty years, the superannuation system has accumulated more than $3.6 trillion of working Australians' savings, generating a level of wealth that gives them the potential to live a far better life in retirement than they otherwise would. As a result of being an early mover towards a defined contribution model, working Australians will soon be saving 12% of their salary towards retirement, resulting in comparatively higher standards of income in retirement than in the past.

The superannuation system was built to support all Australians through leveraging the benefits of compounding, pooled savings through professional investment management. However, as the system matures the responsibility does not end there.

The next evolution is on the spending side

By 2030 there will be nearly 5.7 million people in Australia over the age of 65[8], and this number will continue to grow rapidly. This population wave necessitates urgent action to complete the other side of the superannuation system's coin, the development of a world-class retirement spending system.

We need to make the system work better for those who are approaching and in retirement. To do so, we must radically shift our perspective from one that sees retirement as an end point for superannuation to one where it is viewed as a continuation.

[5] Australian Bureau of Statistics (Labour force) and AustralianSuper Member Data, December 2023.
[6] Treasury, *Retirement phase of superannuation Discussion paper*, December 2023, p 6.
[7] Ibid
[8] Australian Bureau of Statistics (2022), Population Projections.

The path to retirement takes many forms. Some AustralianSuper members are confident and excited to cease working and draw down on healthy super balances to maintain, or in some limited cases, improve, their living conditions. These typically more affluent members may also seek comprehensive financial advice.

"I do not subscribe to hoarding money forever, rather we should be encouraged to make our super work in a purposeful way whilst we still have the capacity to actively create and participate in a purposeful life." - AustralianSuper member

This scenario is generally the exception. The median investment balance of an AustralianSuper member that has reached preservation age is $65K.[9] Members with lower super balances represent the majority of Australians and have the most to gain from engaging with their superannuation and understanding their Age Pension entitlements. But they are the least likely to do so.

Research conducted by AustralianSuper found that across our members, financial confidence is low approaching retirement, with over 50% of pre-retirees concerned that their money may run out[10]. When combined with anxiety around cost of living and outstanding debts, we found that 8% of pre-retirees don't plan on ever fully retiring. And for those who open an account-based pension, 20% are still in the workforce or will return to the workforce[11].

In the decades ahead, retirement benefit payments will grow significantly.

By 2036, retirement benefit payments are expected to reach $234b

Figure 1 Retirement benefit payments [All figures are nominal], Deloitte Superannuation Market Projections Report, 2023

The Government Response to the 2022 Quality of Advice Review seeks to address the confidence issue through allowing funds to provide more advice, including cost-effective intra-fund advice, a positive step that AustralianSuper supports. It is critical that we recognise from the outset, however, that the sheer volume of people approaching retirement means that trustees cannot deliver tailored personal financial advice to all those who are seeking support. For this reason, different solutions anchored in guidance are required, that can be flexible in engaging with the variety of life experiences and circumstances of retirees. And, most importantly, these solutions would help Australians on the best way to use their super to their advantage, based on their needs.

The size of the challenge

Life expectancy continues to increase; by 2050, a couple aged 67 is expected to spend an additional two years in the retirement phase[12]. This shift will see more Australians enter the 'retirement phase' of life than ever before with 22.5% of the total population projected to be 65 and over by 2050[13] (see Figure 2). The superannuation

[9] Figure shown as at 31 December 2023. Figure reflects money held within AustralianSuper and members may also have other superannuation savings held elsewhere.
[10] Nature, AustralianSuper Annual Retirement Study, December 2023.
[11] fiftyfive5, Project Pilot AustralianSuper, May 2023.
[12] AustralianSuper projections based on Australian Government Treasury data, Australian Life Tables 2015-17, 2019.
[13] Australian Bureau of Statistics (2022), Population Projections.

system needs to evolve to ensure this group can effectively navigate the system and its complexities while re-contributing with as few barriers as possible.

The 2023 Intergenerational Report points to the central place superannuation has in meeting this challenge. It notes that superannuation will become the primary source of retirement income for many future retirees.

The retirement wave is driving a shift of assets and accounts from accumulation to decumulation, and the Australian superannuation system will be the first defined contribution system in the world to navigate this wholesale shift.

More retirees with larger balances and greater reliance on super means the scale of the upcoming retirement wave is so significant that it cannot be solved by a product solution in isolation. It requires systemic reform of the current superannuation system.

The following chart (Figure 3), shows a significant increase in average account balance as the system matures, and an increasing proportion of assets in retirement.

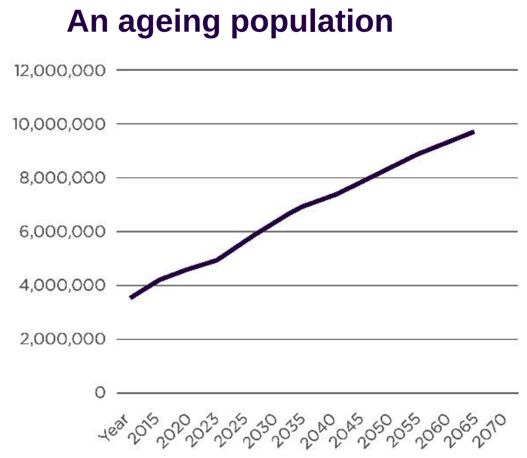

Figure 2 Number of persons aged 65 and older, data from Australian Bureau of Statistics (2019) 'Australian Historical Population Statistics, 2019', Historical population; and Australian Bureau of Statistics (2022) 'Table B9. Population projections, by age and sex, Australia – medium series' [time series spreadsheet], Population Projections, Australia

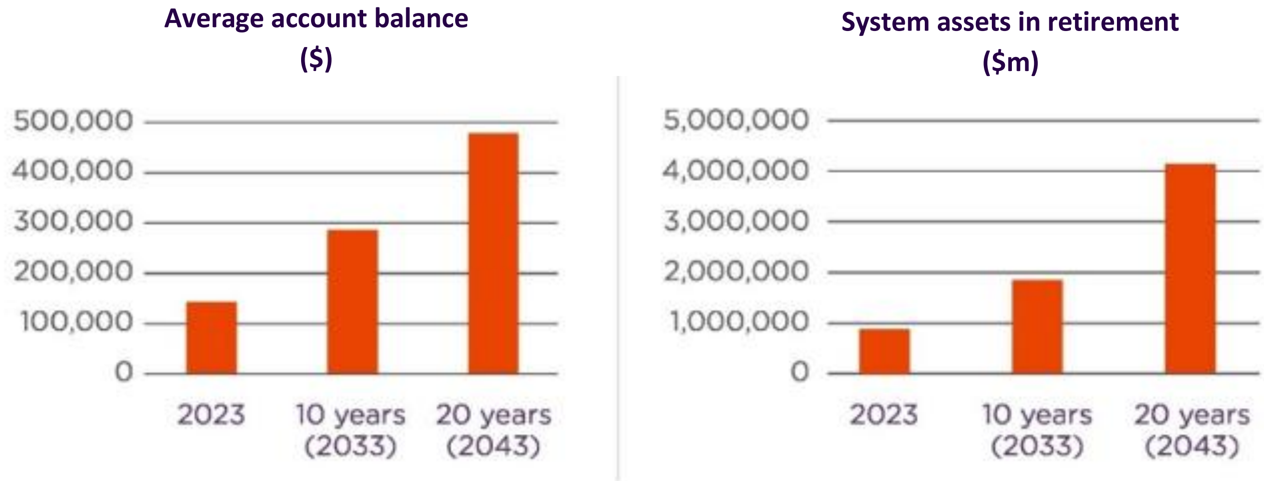

Figure 3 Average member balances at retirement & Assets in retirement, Deloitte Superannuation Market Projections Report, 2023. All figures are in nominal values.

These increases in the size of balances, system and assets are paired with individuals living longer, as seen in Figure 4.

Life expectancy of 67 year-old	Single	Couple (both aged 67)
2025	87.9	92.6
2030	88.2	92.9
2050	89.4	94

Figure 4 Life expectancy of a 67-year-old, AustralianSuper projections based on Australian Government Treasury data, Australian Life Tables 2015-17, 2019.

2. Member experience and expectations at retirement

> **1 in 3** Australians are expecting to delay their retirement due to the cost-of-living crisis.
> (AS Annual Retirement Study 2023)

A growing issue for many households in or approaching retirement is the elevated cost of living and cost of servicing debt. These contextual or everyday pressures are likely to increase the reliance of retirees on their savings held within the superannuation system. Research conducted by National Seniors Australia and Challenger found that 80% of Australians aged 50 and over felt the increasing cost of living impacted their lifestyle[14]. Over 83% believe the impacts would continue beyond the next 12 months[15]. This strain is particularly acute for elderly renters. In 2020, 49.7% were in poverty compared to 9.6% who owned or were purchasing their home[16]. This statistic has likely worsened due to the ongoing rental crisis.

AustralianSuper frequently undertakes significant qualitative and quantitative surveys of members to understand their experiences, needs, challenges on their retirement journey - and how we can best help.

The economic climate has seen an upward trend in members making partial lump sum withdrawals, with spikes during COVID-19 and following subsequent cash rate decisions. The chart below (Figure 5) shows that both contributing and non-contributing AustralianSuper members are making more frequent partial lump sum withdrawals.

Partial lump sum withdrawals

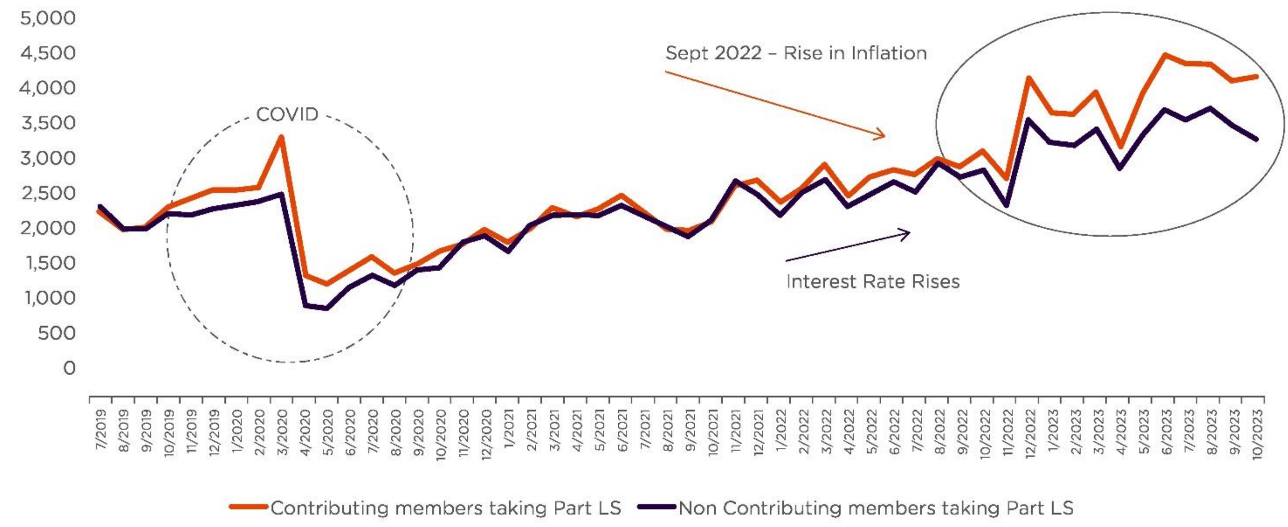

Figure 5 Partial Lump Sums Withdrawals, AustralianSuper membership data, October 2023.

As shown in figure 6, the reasons for lump sum withdrawals and or fund exits are difficult to accurately establish. As superannuation funds currently have no way of determining whether a member has multiple accounts across different funds, we are unable to determine if cashing out represents a complete exit from the superannuation system. This limits our ability to report on the true scale of exits or motivations, or to provide guidance at scale to ensure members understand the benefits and downsides of exiting the system entirely.

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14 National Seniors Australia and Challenger and, *The cost of living and older Australians' financial wellbeing*, September 2023, p 4.
15 Ibid
16 Ibid, p 6.

AustralianSuper's research does show that the main driver for withdrawals from super is to pay off existing debts, accounting for 23% of members who decide to cash out entirely (Figure 6). While this is partially driven by the rising cost of living and debt servicing costs, it also demonstrates that the nature of retirement has changed.

There are a vast range of different experiences of retirement, and understanding members needs is key to ensuring they achieve their best financial position in retirement. However, AustralianSuper members are clear on what they want from us and from the system more broadly. They expect their superannuation fund to assist them in navigating the retirement phase and to act in their best financial interests without exception. They expect high levels of service, much of which can be delivered via an advanced technology offering, while keeping fees at an acceptable level.

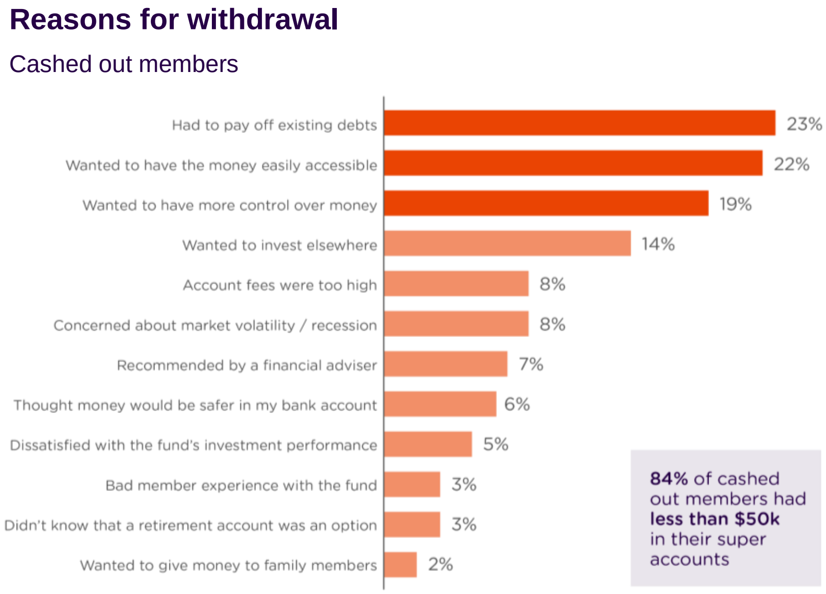

Figure 6 Reasons for Withdrawal, AustralianSuper Annual Retirement Study, Nature, December 2023.

The approaching wave of retirees, with higher average balances than in the past, rightly increases the expectations placed upon the superannuation system and superannuation trustees. Superannuation trustees need to be able to scale up services and guidance to members transitioning into retirement. This additional demand for servicing and interaction needs to be managed innovatively through emerging technology to ensure trustees can continue to meet community expectations on servicing and fees.

- As at 31 December 2023, AustralianSuper has over 113,000 members in retirement with $46bn in assets making up 3% of total fund membership and 14% of assets.
- In the year to 30 June 2023, more than 50,000 members, most aged over 50 years, contacted the retirement call centre for help, guidance and advice. This is more than double the number of calls received the year before.
- More than 45,000 members attended our retirement education seminars and webinars.
- There has also been an 11% increase in the number of members who received a personalised Statement of Advice to help them reach their financial goals.

Superannuation trustees must bear a significant responsibility in meeting members' rightful expectations about how they help them navigate retirement – its challenges and how to plan for it. However, systemic changes are required as well to ensure that the estimated 2.5 million additional retirees over the next ten years[17] can receive suitable retirement solutions.

3. Complexity of navigating the retirement income system

Australia has developed a world leading accumulation system for members. This includes strong regulation of trustees, oversight of fees and performance, and not least, a simple, low-cost default accumulation product in MySuper. These are all designed to ensure members get the strong outcomes they deserve, whether they choose

[17] Treasury, *Retirement phase of superannuation Discussion paper*, December 2023, p 6.

to engage or not. These principles were well articulated in the 2010 Final Report of the Super System Review (the Cooper Review):

> *Members should not have to be interested, financially literate, or investment experts to get the most out of their super. If members want to engage and make choices, then the system ought to encourage and facilitate them doing so. If members are not interested, then the system should still work to provide optimal outcomes for them. The super system should work for its members, not vice versa*[18]*.*

Although significant progress has been made on achieving this vision in the accumulation phase, there is still work to be done in addressing complexity for the retirement phase of superannuation.

> *"Retirement feels fairly negative at the moment, I'm definitely not ready. It's amazing what curves life throws that really upset your plans because I planned to retire at 50 but after the divorce I'll be lucky if I retire at 70."*
> – AustralianSuper member

When members reach retirement, they are suddenly faced with difficult decisions and a wall of complexity. Some of their biggest questions are the most fundamental – 'can I afford to retire?', 'how do I have the best retirement possible?', 'will my super last long enough?' And they find it difficult to get answers.

Faced with this complexity, the danger is that members disengage or make poor choices, and potentially erode the quality of the retirement they have worked so hard for.

90% (239,000 members) of AustralianSuper members between the ages of 60 to 67 have balances beneath the ASFA Comfortable Retirement Standard to retire at age 67[19] (which requires retirees to drawdown all of their capital and receive a part Age Pension). 44% of AustralianSuper members surveyed in the planning for retirement phase expect to be less financially comfortable in retirement when compared to their current lifestyle.

Members with lower superannuation benefits who would gain the most from engaging with their superannuation are least likely to do so.

Guiding members

AustralianSuper members tell us that they want information about retirement and how to get ready for it. But crucially, they want tailored information that reflects their financial situation and gives them the autonomy to make their own choices for their own needs.

The government's response to the Quality of Advice Review will result in the provision of important assistance, particularly in respect of intra-fund or collectively charged advice. It will also facilitate more general advice and cost-effective personal advice. However, even if the numbers of financial advisers doubled in the next few years, there would still not be sufficient advisers to meaningfully service the estimated 2.5 million additional retirees. Managing the demographic shift into retirement requires solutions that complement the Quality of Advice Review reforms but recognise that the advice regime cannot meet the upcoming demand alone.

Superannuation funds need to be able to provide targeted guidance and assistance to all retiring members who seek it, and with the upcoming retirement wave, they will need to do so at an unprecedented scale. To deliver a solution of this nature, superannuation funds and the government must collaborate to ensure members are provided with choices that are informed by multiple data sources, while also respecting members' privacy.

Superannuation funds would be well placed to guide the upcoming wave of retiring members when they could retire and how to appropriately manage their retirement savings with the implementation of two key reforms;

- Empowering members to give their superannuation fund secure access to their relevant data held by government (**Recommendation 1**); and
- Allowing superannuation funds to assist members to apply for the Age Pension (**Recommendation 2**).

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[18] *Super System Review Final Report – Part One Overview and Recommendations,* Australian Government, 2010, p 1.
[19] The Association of Superannuation Funds of Australia (ASFA), *ASFA Retirement Standard,* 2023, p 3.

Recommendation 1: *Empower members to give their superannuation fund secure access to their relevant data held by government*

In providing guidance to members to ensure they are equipped to achieve their best financial position in retirement, the missing piece of the puzzle for superannuation funds is the information required to gain a holistic understanding of a member's financial situation.

If funds were equipped with an understanding of a member's assets, income, debts, marital status and dependants during the transition to retirement period, the product or strategy recommended could be more aligned with their objectives, situation and needs. This information is critical to ensuring members can be nudged [20]to the best solution as they make planning decisions for retirement, or as they consider accessing retirement income through superannuation or the Age Pension. To be clear, this is not information funds need to hold on all members. Instead, when members are at key planning stages, this is information that is essential to helping them make decisions on accessing retirement income through super or the Age Pension.

As it currently stands, superannuation trustees have no way of passively knowing:

- Whether the member has a partner. This can significantly reduce living costs and impact Age Pension eligibility.
- Whether they own their own home. This has a major impact on cash flow and considerations around withdrawing a lump sum to pay off a mortgage. Our research shows that 52% of members (or their partners) have outstanding debt when approaching retirement[21] which can have a detrimental impact on retirement comfort (figure 7).
- Their eligibility for the Age Pension. This is a critical retirement income source for many members with 44% of retirees expecting to fund their retirement with the Age Pension once their superannuation runs out[22].
- Their assets and income outside of superannuation. This has a significant impact on what the appropriate income strategy is for each member. Our research shows that a third of members have some form of investment outside of their super[23].

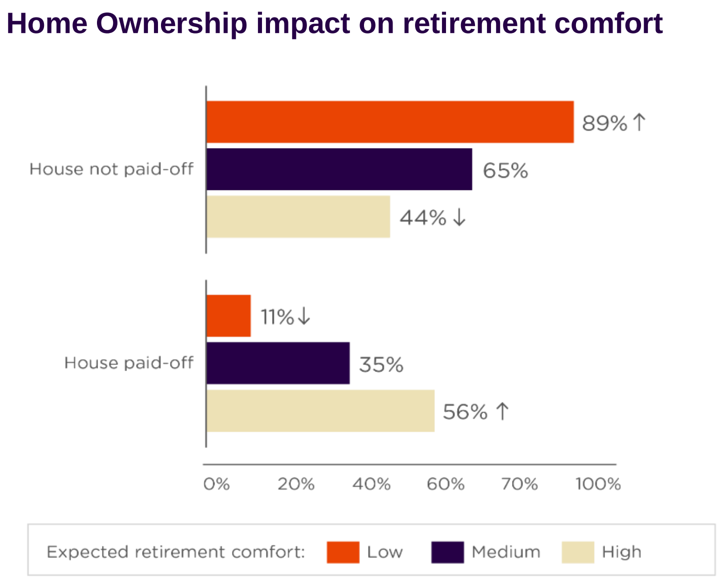

Figure 7 Home Ownership, Retirement Comfort Customer Research, AustralianSuper, January 2024 based on data from Project Pilot AustralianSuper, fiftyfive5, May 2023.

SuperStream infrastructure has been effective in allowing super funds to securely interact with data held by the ATO. This provides a model that should be expanded, with appropriate consents, to allow funds to receive information to facilitate retirement planning and implementation. This information will also help us further refine how we group or cohort members through the Retirement Income Covenant.

Table 1 has been developed to provide an indicative guide on the information that would assist trustees in delivering better, data driven, retirement outcomes. Enabling members to choose to provide this data to their fund, would address multiple pain points currently present in the transition to retirement caused by the lack of a single source of truth. Empowering members to provide their trustee with an accurate and dynamic understanding of

[20] A nudge is any aspect of the choice architecture that alters people's behaviour in a predictable way without forbidding any options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates.: Thaler, R. H., & Sunstein, C. (2008). *Nudge: Improving decisions about health, wealth, and happiness*. New Haven, CT: Yale University Press.
[21] Nature, AustralianSuper Pension Conversion 2022 Report, November 2022.
[22] Swinburne University of Technology – Customer Experience and Insight (CXI) Research Group, *AustralianSuper Lifetime Income Product Research Final Report*, May 2019.
[23] Nature, op. cit.

their financial position, potential entitlements and liabilities would allow greater tailoring of product recommendations.

Examples of specific data fields and the way each would inform guidance provided to the member is provided in Table 1. We are currently undertaking further exploratory work and will seek to engage Treasury on this topic further in due course.

Data field	Held by	Benefit to member guidance
"In the last 12 months, have you (and/or your partner) stopped working for any employers (including self-employment)?"	Centrelink (Income and Assets Form)	Cessation of work and engagement with Centrelink indicates a member may be receptive to receiving an income stream from their superannuation (i.e. allocated pension).
"Do you (and/or your partner) own, or are buying, or have a life interest in your home?"	Centrelink (Income and Assets Form)	Home ownership status is a key data point to enable super funds to personalise member engagement more appropriately.
"Is any part of the home property used for income producing purposes".	Centrelink (Income and Assets Form)	A more holistic understanding of income allows for greater personalisation, and this may also identify if home equity release is of interest to members.
"Do you (and/or your partner) have an interest in any other real estate in and/or outside Australia."	Centrelink (Income and Assets Form)	Allows for greater personalisation and more appropriate grouping of member 'cohorts' which enable funds to engage in a more relevant, and therefore helpful manner.
Ownership of shares, managed funds, bonds etc.	Centrelink (Income and Assets Form)	Allows for greater personalisation and more appropriate grouping of member 'cohorts' which enable funds to engage in a more relevant, and therefore helpful manner.
Receipt of employment termination payments	Australian Tax Office	Clear indicator of cessation of employment, when combined with age can indicate intention to retire.
Recent Capital Gains Tax event	Australian Tax Office	Suggests other sources of savings outside of superannuation, informing product choice.
Whether member has a spouse	Australian Tax Office	Allows for greater personalisation and more appropriate grouping of member 'cohorts' which enable funds to engage in a more relevant, and therefore helpful manner.
Key personal identifiers (Name, DOB, Address, TFN, external verification.	Australian Tax Office	Assistance in verifying the identity of the member, their likely eligibility to access one or more retirement products/services and verify the legitimacy of transactions or service requests (assisting with financial crime risk).
Spending data and debt	Banks. Accessible with member consent through consumer data right.	Can provide recommendation based on existing lifestyle.

Table 1 Data Requests and Rationale, AustralianSuper

Recommendation 2: *Allow superannuation funds to assist members to apply for the Age Pension*

One of the most concerning responses to the complexity of the retirement income system is members delaying their application for the government Age Pension, notwithstanding entitlement. Just 44% of people apply for the Age Pension immediately when eligible[24]. Not only does it cost them money, but it may also mean they eat into savings or superannuation that could otherwise support their retirement, rather than supplementing their income with Age Pension payments.

> Only 44% of people apply for Age Pension immediately when eligible, with 32% of people delaying for one year or more. Reasons for this delay include due to uncertainty about eligibility, hesitation about dealing with Centrelink, uncertainty how to start and reluctance to accept Centrelink benefits.
>
> Failing to apply for the Age Pension on time can have severe financial ramifications for individuals who need the support the most.

Source: Link Group, Retirement Reality: Advice and the Age Pension Whitepaper, July 2022

[24] Link Group, *Retirement Reality: Advice and the Age Pension Whitepaper*, July 2022, p 5.

The potential cost to members of delaying their application for the government Age Pension can significantly impact their financial income in retirement.

When a member approaches retirement, superannuation funds already help them consider their options in retirement. Allowing a superannuation fund, on the request of a member, to action their Age Pension application, would make this process far more seamless for the member.

Cost of Age Pension delay

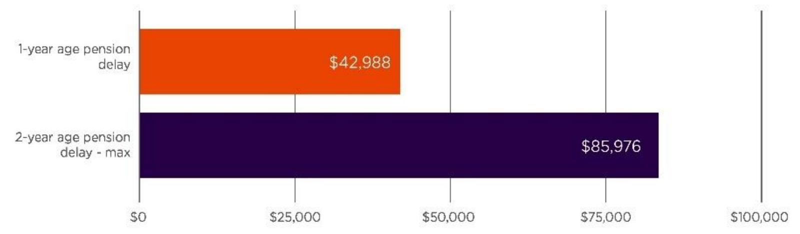

Figure 8 Cost of Age Pension delay, calculated using 26 fortnightly payments per annum for a Couple Combined on Age Pension Normal Rates, Services Australia February 2024.

Retirement research conducted by Link Group found that 72% of respondents wanted their super fund to assist with their application for the Age Pension.[25] It is not uncommon for members to confuse applying to drawdown on their super with applying for the Age Pension.

We note that Services Australia currently makes provision for assisted applications. Superannuation funds could develop the administrative capabilities to apply for the Age Pension for eligible members, on the request of the member. However, the sole purpose test prevents superannuation funds from supporting this assistance through an 'intra-fund' or collectively charged advice model. Legislative change would be required to facilitate this. In considering whether to offer this, superannuation trustees would have to be conscious of and consider their duties to their membership as a whole.

Integrating the three pillars

The challenges members face in applying for the Age Pension reflect a further cause of complexity in the retirement income system. The cause is a lack of integration of the three pillars of Australia's retirement income system: the Age Pension, superannuation and private savings. Greater integration of these pillars would provide a greater degree of simplicity, consistency and certainty for members.

The 2023 Intergenerational Report highlights the growing prominence of the superannuation pillar in Australia's retirement income system: superannuation will become the primary source of retirement income for many future retirees. This suggests that institutions in the superannuation pillar should take on a greater role in operationalising retirement income streams.

With the maturation of the superannuation system, the Age Pension will increasingly supplement retirement income to assist retirees in maintaining their standard of living[26]. Amongst those older Australians receiving a pension, the Intergenerational Report projects a continuing shift toward Australians receiving a part rate pension, rising from 40% currently to 60% in 2062-63[27].

Case study: *many members will rely on the age pension at some point in their retirement*

A single homeowner aged 67 starting an account-based pension with a superannuation account balance of $1.9 million (i.e. the transfer balance cap, far in excess of the national average) and $50,000 of personal assets becomes eligible for the Age Pension at 85 if they withdraw $98,600 in the first year increasing by 3.5% pa (i.e. constant in real terms). The account-based pension will cease at age 93.

**Age Pension rates at 20 September 2023 and assumed to index at 3.5% pa. Assets test threshold indexed at 3.5% pa. Investment returns after fees and taxes are 6.0%. Admin fees of $1 a week, and 0.10% p.a. of account balance (capped at $600 p.a.).*

[25] Ibid.
[26] Department of the Treasury, *Intergenerational Report 2023*, Treasury, Australian Government, 2023, p 165.
[27] Ibid, p 168.

Recommendation 3: *There should be greater integration between superannuation and age pension income streams*

We recommend that, where a member requests it, superannuation funds should be able to provide integration of superannuation income streams with Age Pension income streams.

Around 63% of the population aged 65 and over receive income support payments, predominantly the Age Pension[28]. As the Treasury Discussion Paper notes on page 8, when reaching retirement Australians typically go from relying on a single source of income to income coming from multiple sources that will change over time. As more and more Australians will come to depend on a combination of superannuation and the Age Pension, rather than just the Age Pension, for their retirement income, this reform would allow them to have a more holistic understanding of their financial position.

Allowing superannuation funds to assist members by integrating these different sources would provide certainty to members, who will have greater confidence to spend to support their desired lifestyle in retirement. This could take many forms – from a high-level dashboard view to one integrated income stream.

4. Changes in the nature of retirement

The complexity of navigating the retirement income system is compounded by the fact that retirement itself is becoming more complex. There are a vast range of experiences of retirement and the length of time Australians spend in the 'retirement phase' is increasing. As noted above, by 2050, a couple aged 67 is expected to spend an additional two years in the retirement phase. In addition, members are 'unretiring' or 'reworking'.

Retirement can be unpredictable. 40% of surveyed AustralianSuper members retired earlier than planned.[29] Of those 40%, 30% became unemployed, 25% retired due to health issues, an accident or disability, and 9% to take care of a family or friend.[30]

For more and more people, the transition from work to retirement is no longer an 'off and on' transition. Retirement is now much more fluid. The superannuation system needs to be updated to reflect this. Sometimes people return to work after retiring because they need additional income. AustralianSuper's research also identified a growing theme of 'working around life' – that is, people increasingly finding work as a fulfilling part of their life which they want to continue for longer into their later years.

> *"I'm not really sure [about financial comfort] … My husband retired for about a month and hated it, so he's still working a bit. And while he's working, I'm working. It's really hard to know how we'll be and what we'll do. We haven't really started talking about it ... Maybe our heads are in the sand, I don't really know."* – AustralianSuper member

As many as 20% of AustralianSuper members who receive a pension from their super savings are still in paid work[31]. Our research shows that this trend has increased with the cost of living and increases to the cash rate. There is also a clear trend of members aged 60 and over recommencing contributions to their superannuation accounts after a period of non-contribution. We saw a year-on-year increase of 45% in the number of members recommencing contributions aged between 65 and 69 between 2021 and 2022.

The need for one account for life

Unfortunately, the key features of the superannuation system still reflect the outdated notion that the move into retirement phase is a permanent one. The most pressing example is that to begin drawing an income from their superannuation, members are required to establish a new retirement or pension account.

[28] Australian Institute of Health and Welfare, *Income support for older Australians*, Australian Government, 2023.
[29] Retirement Cohorts Pilot Study, AustralianSuper, February 2023. For the study, the Fund surveyed 5,916 members aged 50 years and above. 2,834 were in the accumulation stream, and 3,082 were retirees who had opened an account-based pension (Choice Income). The entire sample was representative of the membership base in terms of state or territory, gender and income level.
[30] Retirement Cohorts Pilot Study, AustralianSuper, February 2023.
[31] fiftyfive5, Project Pilot AustralianSuper, May 2023.

Some members are reluctant to set up a new retirement account as they feel this decision can't be reversed, they're unsure of their future status in the workforce or that they're reluctant to acknowledge they are entering the final stage of life. This results in members having more than one account, with additional fees.

In the event a member returns to work they must retain or reopen an accumulation account to accept contributions. In addition, retirees may receive an alternative source of capital, such as from an inheritance, or downsizing their home, and wish to draw an income from this. When they are ready to draw down on the new accumulated savings, the member would have to open a second retirement account or create a new account with the funds from both the accumulation and the existing pension account. Current regulations prohibit the adding of capital to a pension or an annuity once it has commenced paying income.

This means three things for members:

- Members are more likely to stay in the accumulation phase. Managing the complexity of two (or more accounts) is not worth the trouble for many members who wait until they are certain that they are fully retired before they move to the pension phase.
- Where members do transfer, they will often only do a partial transfer, keeping an accumulation account open.
- They pay multiple fees.

Members would reap significant benefits if a simpler system allowed one account for life for both the contribution and drawdown phases. They would also benefit from accounts in the retirement or drawdown phase being able to accept more contributions.

AustralianSuper has 405,405 members who have met a condition of release who still hold an accumulation account. 165,992 are deemed inactive as they are not withdrawing nor contributing. The average balance of an inactive account is $131,200.

These members are potentially missing out on higher returns that a tax-free retirement account can provide and on using their super to support a better standard of living.

When a member wants to start drawing down an income from their super, they would not have to go through the process of applying for and setting up a new account for the retirement phase.

While superannuation funds endeavour to make this process as easy as possible, this is an issue that could be addressed through legal change to remove the distinction between accumulation and retirement accounts.

Reasons for delaying transition to a retirement account

Figure 9 Reasons why people don't transition to a retirement account, Driving great retirement outcomes for members, TRA, July 2023

Recommendation 4: ***One account for life. End the divide between accumulation and retirement accounts. Allow people over preservation age to draw an income from their super and recontribute concurrently.***

Members should only need to have one account for life. We should end the divide between accumulation and retirement accounts. In suggesting an account for life, we are not recommending that members be automatically 'hard defaulted' into retirement when they reach preservation age. The concept is that members can draw down when they are ready. This may be self-initiated or in response to trustee guidance, but ultimately the member must remain in control of this all-important decision. Finally, accounts in the drawdown phase should be able to accept contributions.

It was in 2010 that the Cooper Review argued that MySuper products should not just cover accumulation to retirement but also the drawdown phase (Recommendation 7.1). This remains unfinished business and could be a defining achievement for any government.

Not having a single account was less of a problem in previous years when more members withdrew their balances in a lump sum. But as more and more members move into retirement and seek products to provide them with an ongoing income, the problems these barriers cause will be more and more acute. On average 55% of balances are likely to be converted to a retirement account at AustralianSuper, with the number of members intending to remain in accumulation trending downwards, declining from 27% in 2021 to 18% in 2022[32].

Currently, as a matter of law, when a member opens a retirement account, this account cannot accept contributions. If rollovers or contributions are received in respect of the member after the pension has commenced, the trustee must allocate those to an accumulation account for the member. This binary approach is a product of particular administrative rules relating to the tax status of retirement accounts.

These legal settings are despite the fact that, with some restrictions, members can make additional voluntary contributions to their super after they reach preservation age.

Compulsory employer contributions (the superannuation guarantee), which are payable when a member continues to engage in paid employment, can be made at all ages. The transition from working to not working is not a point in time, but rather a dynamic process which may span many years. As a result, the distinction between accumulation accounts and decumulation or retirement accounts is no longer fit for purpose.

A fit for purpose system would recognise the fluid nature of modern retirement and alternative sources of capital, allowing them to contribute to their existing retirement account.

Making the identification process simpler

As an additional friction point, AustralianSuper members have raised concerns about the difficulty of the identity verification process that they have to go through before they can begin to withdraw funds from the system. This is a particular point of frustration because members do not need to meet the same requirements when they or their employer sets up a superannuation account.

Recommendation 5: ***Allow members to identify themselves to superannuation funds through a government accredited digital identity***

We request that the government allow funds to require new and existing members to sign up for the Australian Government Trusted Digital Identity Framework accredited Digital Identity Solution. This would make for a more seamless verification of members' identity and allow them to access their superannuation to support their retirement sooner. At the same time, robust identity verification processes would be maintained, ensuring that superannuation funds meet their crucial legal obligations under the AML/CTF framework and minimising the risk of fraud.

[32] Nature, AustralianSuper Pension Conversion 2022 Report, November 2022

5. The need for accessible and transparent products, centred around flexibility for members

While a product-based solution on its own is not enough to meet the retirement challenge, ensuring that all members in retirement have access to and receive quality superannuation products represents a crucial part of ensuring that all members can live well in retirement.

System settings in the accumulation phase are designed to ensure members get the strong outcomes they deserve, whether they choose to engage or not. This includes performance testing of accumulation products, and the standards around MySuper products.

In the retirement phase, system settings should also apply that help ensure members receive quality and appropriate superannuation products that will deliver for them. To this end, AustralianSuper strongly supports the Retirement Income Covenant legislation, with its aim of ensuring super funds have a clear plan for assisting members approaching and entering retirement. The Retirement Income Covenant has been an undeniably positive development for the superannuation industry. In addition, we strongly support measures to ensure the quality of every product that is offered to members in retirement.

Recommendation 6: *Maintain flexibility and support innovation in retirement product development*

In our view, the Retirement Income Covenant, when combined with ASIC's Design and Distribution Obligations (DDO) provides a clear direction to industry for trustees on regulatory expectations in relation to retirement. These expectations encompass a need to consider each member's circumstances and to assist with 'flexible access' to funds, as outlined in the covenant.

We believe that this progress could be undermined by the proposal in the Treasury Discussion Paper to mandate the distribution of longevity products and create a national mortality credit. As outlined earlier in the paper, every retiree and their circumstances are unique. Some retirees will find longevity products are a perfect fit, which is why AustralianSuper is in the process of developing a longevity product. However, this is likely to be a smaller cohort of members who would benefit from it rather than a majority.

> *"I want flexibility for the unexpected things that might pop up. Being able to withdraw my super at any time is important, not being locked into something I cannot easily change."* – AustralianSuper member

If a nationally pooled longevity product is to be mandated, we are deeply concerned about the socioeconomic implications and how they would be mitigated. We note the latest Australia Institute of Health and Welfare (AIHW) found that individuals living in Australia's most disadvantaged areas are more than twice as likely to die from an avoidable cause than somebody in an advantaged area and had a life expectancy disparity on average of 5.9 years for a man and 3.9 years for a woman in 2018[33]. This potential for cross subsidisation is even more egregious when considering the gap between Indigenous and non-Indigenous Australians was estimated to be 8.6 years for males and 7.8 years for females in 2015-17[34].

> *"A guaranteed lifetime income would allay concerns about my money running out before I die."* – AustralianSuper member

[33] Australian Institute of Health and Welfare (AIWH), *Health across socioeconomic groups,* Australian Government, July 2023.

[34] Australian Institute of Health and Welfare – National Indigenous Australians Agency, *Aboriginal and Torres Strait Islander Health Performance Framework – Summary Report*, Australian Government, August 2023, sourced from ABS 2018b. Life Tables for Aboriginal and Torres Strait Islander Australians, 2015-2017. Canberra: Commonwealth of Australia.

We recognise Treasury's vision that as the superannuation system matures, balances will increase and so will the population that longevity products are appropriate for, but this may take some time. It is also important for members that there is clarity and stability in how these products are means tested, for example, how they are treated for the purposes of the Age Pension means test. Longevity protection has an important role to play. There are people who will outlive their retirement income and economic shocks can and will dramatically impact people planning to retire, but this is arguably why the safety net in the form of the Age Pension exists.

Account-Based Pension Income Stream	
Advantages for most members	**Disadvantages for most members**
Low cost	Inflation risk
Able to build wealth in retirement	Market risk
Appropriate for the majority of members	
Flexibility	
Helpful building block for a retirement solution	

Table 2 Benefits and disadvantages of an Account-based Pension income stream, AustralianSuper

AustralianSuper's Choice Income account-based pension[35] allows members to receive a regular income while keeping their balance invested. Importantly this means a member's super balance can continue to have exposure to some growth assets through the 20, 30 or even more than 50 years of their retirement. Our research shows that at least 40% of members' earnings are going to be generated for their retirement in the pension phase; the investment choices, fees they pay and the products they use are important decisions. Subject to the legislated minimum drawdown requirements, members can also choose how much money they want paid straight into their bank account and how often. We believe income stream pension products will probably form the basis of a range of options that can also include combinations of deferred annuities, equity release and other income sources.

But in our view a mandated national longevity product risks increasing system cost, complexity and socio-economic disadvantage.

Recommendation 7: *Apply quality filtering to retirement products*

We believe that a performance testing framework should be applied to retirement products, noting that there will be additional aspects to performance that are particularly relevant to retirement. These include the objectives of the Retirement Income Covenant, SIS Act obligations and suitability requirements for retirement products. The performance of retirement products is particularly important, given a member in retirement does not have an extended period of time to build savings like a member earlier in their working life. Measuring product performance in a uniform and universal manner to assist members has been consistently and unambiguously supported by AustralianSuper.

Testing retirement products will be challenging. Complexity increases as it must navigate a greater prevalence of lifecycle options and different approaches across funds.

A filter, or test, should consider investment performance and fees over a period as indicators of better outcomes. Focus should be placed upon the fund's ability to deliver better retirement outcomes based on numerous factors. This could include probable/actual levels of household income, volatility of income, management of inflation risk and the adequate needs of the relevant cohort. Any filter would need to capture all retirement products and recognise the value placed upon the different aspects of retirement income (i.e. flexibility vs investment returns, vs volatility) in a comparable way.

We support measures that ensure only high performing funds manage Australians' superannuation, and we believe that performance must be measured accurately across the overall cost and benefit to the member. The need to focus on outcomes becomes even more important in retirement phase, particularly the focus on retirement income outcomes.

[35] Information, including the PDS, for our Choice Income account-based pension can be found here: https://www.australiansuper.com/retirement/retirement-income-account

Responses to Treasury consultation questions

Supporting members to navigate retirement income – the challenges for retirees in managing their superannuation

Question - *Comment on the issues facing members identified in this section.*

Uncertainty is the greatest challenge faced members approach retirement. This encompasses the issues raised in the Treasury discussion paper, including longevity risk., such as failing to move from an accumulation account to a pension account in a timely fashion, resulting in less preferential taxation treatment for retirement savings.

Retirement is complex for members. Members are not confident that they understand how much super they should have, how long it will last and that they can make the right decision. The fact that a member will often have multiple sources of retirement income (superannuation savings, the Age Pension and savings and assets outside of superannuation) can prove overwhelming and prevent the development of a household view of potential government entitlements and wealth.

To address this uncertainty, we must remove elements of the system which can result in members putting necessary decisions in the 'too hard' basket to their detriment. This is why our recommendations to government include empowering members to give their superannuation fund secure access to their relevant data held by government (see **Recommendation 1** above). The challenges members face when it comes to managing a superannuation balance during the retirement phase vary by balance size, level of financial literacy and pre-retirement engagement with their retirement income sources. This would make a significant difference to the guidance available to many members to help them navigate retirement.

In addition, we recommend that government remove points of frustration for members as they move to retirement. These include:

- One account for life. End the divide between accumulation and retirement accounts. Allow people over preservation age to draw an income from their super and recontribute concurrently. (see **Recommendation 4** above)
- Allowing superannuation members to identify themselves to superannuation funds through a government accredited digital identity (see **Recommendation 5** above) would remove a point of frustration and make it easier for members to begin to draw down on their superannuation.

Finally, we experience frequent queries on whether a member qualifies for the Age Pension, and how to apply. This often occurs after the member has lost weeks, if not months, of potential payments which can have a large impact on their financial wellbeing - particularly if they are servicing a debt. The adoption of **Recommendation 2**, above, allowing superannuation funds to assist members to apply for the Age Pension could make a significant difference to many members standards of living in retirement.

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

Superannuation funds including AustralianSuper play a key role in offering support and advice to help members manage their super and approach their retirement with confidence. This includes online information and articles, calculators and tools, education videos and webinars, over-the-phone advice on a number of topics and comprehensive face-to-face financial advice. AustralianSuper will continue to work to ensure our advice, service and guidance continues to help members approach and experience retirement with confidence.

The Treasury discussion paper refers to assisting members into drawdown settings that are better for their circumstances than the legislated minimum drawdowns. In this regard, AustralianSuper members can set up a Choice Income account-based pension[36] with AustralianSuper's Smart Default option. This includes a pre-set investment and income drawdown arrangement which is designed to provide an income that may last up to 20 years or more and provide ease in member decision-making at account setup.

Under Smart Default, members initially receive at least 6% of their balance each year, reverting to the minimum required percentage at older ages. This amount, which is initially higher than the legislated minimum drawdown, enables new retirees to draw income with some confidence as they gain experience of what their household need for income is likely to be. Members can change investment choices and income levels at any time after

[36] Information, including the PDS, for our Choice Income account-based pension can be found here: https://www.australiansuper.com/retirement/retirement-income-account

commencement; if no changes are made the Smart Default settings will continue through their retirement. These settings were selected for their high confidence of income lasting 20 years or more, and for their simplicity, reducing the anxiety of complex decision-making at the time of application.

It is crucially important that all members in retirement have access to and receive quality superannuation products represents a crucial part of ensuring that all members can live well in retirement. To this end, Government should maintain flexibility and support innovation in retirement product development (see **Recommendation 6** above) and apply quality filtering to retirement products (see **Recommendation 7** above)

There is more that can be done to address the challenges faced by retirees in managing their superannuation including **Recommendation 2**, allow superannuation funds to assist members to apply for the Age Pension, and **Recommendation 3,** there should be greater integration between accumulation and Age Pension income streams.

Question - ***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?***

The Treasury discussion paper identifies three potential policy approaches to help retirees meet the challenges in managing their superannuation (see pages 10-12 of the discussion paper):

- guidance, education and communication
- funds assisting and defaulting members to better settings, and
- simplifying the retirement income system.

As outlined in our policy recommendations above, a combination of all three approaches will greatly assist retirees in managing their superannuation and living well in retirement. For each of these three approaches, we think the following changes would make the biggest difference in supporting members to best navigate retirement.

<u>Guidance advice and education</u>

As noted above, superannuation funds including AustralianSuper already play a key role in offering support and advice to help members manage their super and approach their retirement with confidence.

We support the Government's commitment to expanding the provision of advice by superannuation funds through its Delivering Better Financial Outcomes package.

Empowering members to give their superannuation fund secure access to their relevant data held by government (see **Recommendation 1**, above) would make a significant difference to the guidance available to many members. Members want tailored information that reflects their financial situation and gives them the autonomy to make their own choices for their own needs. If members were able to easily equip funds with an understanding of the member's assets, income, debts, marital status and dependants during the transition to retirement period, funds could provide guidance for a product and strategy aligned with their objectives, situation and needs.

<u>Funds assisting and defaulting members to better settings</u>

It is important that the system maintains flexibility to support innovation in retirement product development (see **Recommendation 6**, above). This will ensure that superannuation trustees have the scope to develop features or products that best support the needs of their members in retirement.

As noted above, AustralianSuper members can set up a Choice Income account-based pension[37] with AustralianSuper's Smart Default option. This includes a pre-set investment and income drawdown arrangement. AustralianSuper is also developing a longevity product.

For many retirees, one of the most important things they can do to improve their circumstances in retirement is to apply for the Age Pension in a timely manner. Delaying applying for the aged pension can have serious financial consequences. To this end, allowing superannuation funds to assist members to apply for the Age Pension (see **Recommendation 2** above) would make a significant difference in helping members achieve the best settings for their retirement.

<u>Simplifying the retirement income system</u>

There are significant opportunities to improve outcomes for superannuation members by simplifying the retirement income system. In particular, as Treasury notes, better integration of the three pillars of the retirement income

[37] Information, including the PDS, for our Choice Income account-based pension can be found here: https://www.australiansuper.com/retirement/retirement-income-account

system, the Age Pension, superannuation and savings and investments outside of superannuation would make it easier for retirees to navigate.

Enabling greater integration between superannuation and Age Pension income streams with Age Pension income streams (see **Recommendation 3** above) will give members greater confidence to spend to support their desired lifestyle in retirement. This would also reflect that more and more Australians will depend on a combination of superannuation and the Age Pension, rather than just the Age Pension, for their retirement income.

Question - *What does 'good' look like for how funds support and deliver products to their members in retirement?*

Members should be provided with simple, accessible products which make the daunting task of deciding when to retire easier. Ensuring accessible and consistent language is used across the industry would be worthwhile.

Product solutions should incorporate four key considerations during the design phase:

- Simple – interacting with the fund and its products is easy to navigate.
- Flexible – engages the dynamic nature of retirement.
- Engaged – provides sufficient support to engage members.
- Efficient – optimises member consumption of retirement savings.

We recommend that government should apply quality filtering to retirement products (see **Recommendation 7** above). This would help to ensure only high performing funds receive Australians' superannuation contributions.

Question - *What basic information do members need to assist their understanding and simplify decision-making about retirement income?*

Members need information about how much income they will need in retirement and how they can best use superannuation to meet these needs in conjunction with other sources of income including the Age Pension and assets outside of superannuation. Similarly, when members have a good understanding of superannuation and how their account works, they are better able to manage their retirement savings.

To this end, AustralianSuper provides extensive education services for members to help them understand their super. This includes education videos and webinars, online information and articles, calculators and tools, over-the-phone advice and comprehensive face-to-face financial advice. We seek to ensure members have the confidence they need to achieve their best financial position in retirement.

However, as the 2010 Final Report of the Super System Review noted, the super system should work for its members, not vice versa: "*members should not have to be interested, financially literate, or investment experts to get the most out of their super*". [38]

Members want tailored information that reflects their financial situation and gives them the autonomy to make their own choices for their own needs. To this end, empowering members to give their superannuation fund secure access to their relevant data held by government (see **Recommendation 1** above), would give funds the information required to gain a holistic understanding of a member's financial situation and provide tailored guidance about the best options for the member.

Question - *Where can government and industry reduce complexity in the retirement income system, and provide simpler consumer experiences?*

As the Treasury Discussion Paper notes on page 8, when reaching retirement, Australians typically go from relying on a single source of income to income coming from multiple sources that will change over time.

Navigating this is a significant source of complexity, and the following reforms would empower superannuation funds to assist members in this regard:

- providing super funds with the ability to integrate superannuation income streams with Age Pension income streams into a single retirement payment (see **Recommendation 3** above)
- allowing superannuation funds to assist members to apply for the Age Pension (see **Recommendation 2** above).

In addition, ending the divide between accumulation and retirement accounts and allowing people over preservation age to draw an income from their super and recontribute concurrently (see **Recommendation 4**

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[38] Department of the Treasury, *Super System Review Final Report – Part One Overview and Recommendations,* Treasury, Australian Government, 2010, p 1.

above) would make it simpler for members to begin to draw an income from their superannuation. In addition, this would also reflect that the transition from work to retirement is no longer an 'off and on' transition. Retirement is now much more fluid, including members going back to work and therefore receiving new contributions.

Finally, allowing superannuation members to identify themselves to superannuation funds through a government accredited digital identity (see **Recommendation 5** above) would remove a point of frustration and make it easier for members to begin to draw down on their superannuation.

Question - *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?*

AustralianSuper offers support and advice to help members manage their super and approach their retirement with confidence. This includes online information and articles, calculators and tools, education videos and webinars, over-the-phone advice on a number of topics and comprehensive face-to-face financial advice.

As noted above, AustralianSuper members can set up a Choice Income account-based pension[39] with AustralianSuper's Smart Default option. This includes a pre-set investment and income drawdown arrangement. These settings were selected for their high confidence of income lasting 20 years or more, and for their simplicity, reducing the anxiety of complex decision-making at the time of application.

The following reforms would remove barriers to superannuation funds being more active in these ways:

- Empower members to give their superannuation fund secure access to their relevant data held by government (see Recommendation 1 above). Members want tailored information that reflects their financial situation and gives them the autonomy to make their own choices for their own needs. Where a member so chooses, this reform would allow superannuation funds to provide at scale tailored guidance and nudges towards products and options that best suit the members' circumstances.
- Allow superannuation funds to assist members to apply for the Age Pension (see **Recommendation 2** above). For many retirees, one of the most important things they can do to improve their circumstances in retirement is to apply for the Age Pension in a timely manner.

Question - *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?*

As demonstrated throughout this submission, we undertake extensive quantitative and qualitative surveying of members who have chosen AustralianSuper. AustralianSuper undertakes an extensive program of customer engagement, customer segmentation, data gathering and analysis and insight generation, to inform both strategic planning and ongoing business activities.

With regard to individual members, where a member requests it, our intention is to create a single view of a members' financial and household situation. There are barriers to creating this view which we seek to address through **Recommendation 1,** (empower members to give their superannuation fund secure access to their relevant data held by government). This recommendation would improve the accuracy of estimating key elements of an individual's retirement income strategy, such as their eligibility for the Age Pension, and whether they require assistance in applying for it (see **Recommendation 2**, allow superannuation funds to assist members to apply for the Age Pension, above).

To support effective retirement income strategy formulation and deliver useful assistance to members, our intention is to create a single view of members' financial and household situation. There are fundamental data gaps which need to be addressed, specifically data that improves the accuracy of our estimations for member government Age Pension eligibility, and our understanding of members' retirement adequacy as they approach and move into retirement.

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[39] Information, including the PDS, for our Choice Income account-based pension can be found here: https://www.australiansuper.com/retirement/retirement-income-account

Supporting funds to deliver better retirement income strategies

Question - ***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.***

Treasury should consider introducing quality filtering for retirement income products, as set out in **Recommendation 7** of this submission. We support measures that ensure members' money is in high performing funds at retirement. We believe that performance must be measured accurately across the overall cost and benefit to the member.

Testing retirement products will be challenging due to the different needs of members in the retirement phase: retirement products are more complex. The need to focus on outcomes is even more important in the retirement phase, particularly the focus on holistic retirement income outcomes. It may be the case that more than one product is needed for some members to address the requirements of the Retirement income Covenant.

Instead, a filter or test should consider investment performance and fees over a period as indicators of better outcomes. Focus should be placed upon the fund's ability to deliver better retirement outcomes based on numerous factors; including probable/actual levels of household income, volatility of income and management of inflation risk and the adequate needs of the relevant cohort. Any measure needs to capture all retirement products and recognise the value placed upon the different aspects of retirement income in a comparable way.

Prior to the development of a retirement performance test or quality filter, focus must be placed on ensuring the portability of products. This ensures members in underperforming retirement products have the ability to move to better performing funds, without converting to a lump sum and losing the retirement benefits super funds provide. This includes but is not limited to preferential tax treatment and affordable advice. This however should not prevent the regulator from proactively engaging with funds who have poorly performing retirement products, or questionable fee arrangements in the meantime.

Question - ***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? What are the key characteristics or metrics for comparing retirement income products and services?***

As outlined above and in **Recommendation 7,** Treasury should consider introducing quality filtering for retirement income products.

Disclosure has an important role to play, but complexity and low financial confidence, not a lack of information, remains a barrier to members understanding financial products, and their potential impact of their income in retirement. Clarity and transparency that enables comparison, based on member needs, is what will ultimately deliver better retirement outcomes.

The systemic challenges of a superannuation retirement system that is not integrated with the Age Pension also adds complexity from the perspective of members. Part of the challenge is that members need to consider their holistic income in retirement. This can't be achieved through individual product disclosure alone. Members need support to enable them to navigate the process in order to achieve their best financial position in retirement.

Question - ***What approaches could make product disclosure useful for members? How might barriers such as complexity, or individuality of products, be overcome?***

As mentioned previously, complexity, not a lack of information, remains a key barrier to members understanding financial products. To overcome this challenge, focus should be placed on ensuring the system provides products that work effectively for the mass market, including for those members who will also receive a full or partial Age Pension. Typically, there is a balance that must be achieved, but the benefits of simplicity to those who lack financial confidence as they approach retirement, should not be understated. Ultimately, more complex financial products are typically suitable for a smaller cohort of individuals with the means to seek personal financial advice. Identifying and targeting those particular cohorts appropriately becomes key. For other members, understanding the impacts on retirement income of different solutions, including the interplay with the Age Pension, is vital. This is one of the reasons we have put forward **Recommendation 3**, greater integration between superannuation and age pension income streams.

Small changes, such as ensuring consistency of terminology across the industry and plain language, can be beneficial to improve the effectiveness of product disclosure. In practice, a combination of approaches and support will be needed to assist members to feel confident that they are accessing the best financial solutions for them. These include education, engagement, digital tools, information, case studies and advice.

Question - ***What barriers are there for product switching in retirement and are there opportunities to make product switching easier?***

While product switching during the retirement phase can be challenging, a larger issue is the inability of the system to adequately support members to transition in and out of employment during retirement (see **Recommendation 4**, end the divide between accumulation and retirement accounts).

In considering the barriers to product switching in retirement, consideration should be placed on what the current drivers of switching are, given the current challenges to accessing quality advice and the general lack of comparability between product offerings (which may be made up of more than one product). Further to this, if longevity products such as annuities are going to play a larger role, thought should be given to ensuring that portability and successor fund transfers can still occur despite the illiquid nature of the solution.

Making lifetime income products more accessible

Question - ***Please provide any comments on the barriers in the supply and demand for lifetime income products?***

Australians benefit from access to the government Age Pension, a default which forms a critical part of the retirement income puzzle. As highlighted earlier in the paper using the example of a $1.9m balance and an age of 85, members with balances far in excess of the national average or median may still eventually become eligible for the Age Pension.

Integration of the Age Pension and superannuation savings (see **Recommendation 3**) to provide a single source of retirement income would provide retirees with greater certainty and visibility around their incomes. Providing peace of mind to spend or save should they choose could help to address the concern of outliving savings set out in the discussion paper.

Immediate focus should be placed on streamlining the process of applying for the Age Pension, including nudges to ensure eligible individuals do not miss out on monies due to inactivity (see also, **Recommendation 2** above). As set out earlier in the paper, a delay in accessing the Age Pension can result in significant financial implications.

While lifetime income products may represent a part of the solution for certain individuals, this is likely minor when compared to the importance of the Age Pension to the Australian community. Innovative Superannuation Income Stream Regulations (2017), Centrelink Means Test Rules for Lifetime Income Streams (2019) and the Retirement Income Covenant (2022) are relatively new developments. The impacts of these major changes should be allowed to flow through before further major changes are considered (see also **Recommendation 6** above).

While common in some other markets, the market for lifetime income products is continuing to develop in Australia as funds build solutions. Currently, we do not see sufficient demand for longevity products to mandate their creation by funds or adoption by members. As balances increase demand for annuities may also increase with larger balances facilitating larger payments. However, if a fund cannot facilitate appropriate solutions currently, they should be referring members to funds which can.

Question - ***What actions are industry or other participants in the community taking to assist retirees to better manage the risk for their retirement income?***

As advised in the response to the previous question, the Age Pension is the default longevity product in Australia. Removing barriers to accessing the Age Pension and supporting members who need it the most should be an immediate priority.

Managing the risk to retirement incomes needs to focus on framing what the risk is. While lifetime income products are focused on addressing uncertainty around longevity, we have found the main concern members face is around income and accessing emergency funds. However, for members with certain characteristics, the safety features of lifetime income products can serve as a helpful way to supplement account-based pension income. This includes providing confidence to drawdown, members knowing a set percentage of savings will provide a level of guaranteed income, as well as accessing more Age Pension if they are currently on a part Age Pension through means test tapering.

Question - ***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?***

There is currently a barrier between account-based pensions and longevity options which prevents members from understanding appropriate minimum income payments. Addressing this barrier would also streamline the application process.

The market has the ability to insure against longevity risk with international markets having greater depth and offerings. The market for longevity products, and the subsequent innovation, as outlined in **Recommendation 6,** should be allowed to progress before considering policy intervention.

Question - ***What product options (or strategies within current retirement products) could better manage risks to retirement income?***

AustralianSuper's Choice Income account-based pension[40] allows members to receive a regular income while keeping their balance invested. Importantly this means a member's super balance can continue to have exposure to some growth assets through their retirement. As previously advised, at least 40% of members' earnings are generated during the pension phase; the investment choices, fees they pay and the products they use are important decisions. Subject to the legislated minimum drawdown requirements, members can also choose how much money they want paid straight into their bank account and how often. We believe income stream pension products will probably form the basis of a range of options that can also include combinations of deferred annuities, equity release and other income sources.

Greater guidance to members on what a sustainable income for them could be considering their balance, current/past drawings, withdrawals and investment mix. This can either be an implemented solution which the fund offers to members or could be guidance delivered through communications or tools. Key to achieving this will be **Recommendation 1,** empowering members to give their superannuation fund secure access to their relevant data.

Question - ***What is the role for a 'suggested' product in overcoming low take-up of lifetime income products?***

A 'suggested' product would likely be inappropriate, as lifetime income products will form a part of the solution, but not the whole solution. As outlined in the consultation paper "individual circumstances are different, and there is no one size fits all approach" and "the products, or mix of products, that are appropriate will vary".

Arguably many of the issues currently observed in the retirement phase cannot be addressed by an annuity product, such as the need for flexibility to leave and re-enter retirement seamlessly.

A priority should be addressing the low uptake of account-based pensions and the decision to elect a minimum drawdown strategy where this is not appropriate. Barriers still exist to opening and effectively managing retirement savings in an account-based pension. Resolving these issues should be the priority - see **Recommendation 4,** end the divide between accumulation and retirement accounts and **Recommendation 3**, greater integration between superannuation and Age Pension income streams.

Question - ***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?***

We see the role of guaranteed income products as a part of an overall solution that can be provided for member benefit. For example, this could include combining an account-based pension, guaranteed income product and the additional benefit members may receive by way of an increased Age Pension entitlement could provide greater certainty of income through the whole of their retirement.

Our mid-wealth cohort of members in AustralianSuper approaching retirement represents 60% of the total members approaching retirement. Their estimated balances and assets could put them in a position where a small allocation to a longevity product could improve their overall retirement outcome.

We see the initial take up of these types of products will be adviser led in most cases and likely modest in number. However, improvements in product proposition, education, tools and advice will over time see increased interest and take up of combined offers.

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[40] Information, including the PDS, for our Choice Income account-based pension can be found here: https://www.australiansuper.com/retirement/retirement-income-account

Question - ***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?***

The *Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations* and the Age Pension benefits for longevity products have only been in place for a short period of time. The impact of these reforms should be allowed to fully mature prior to considering further changes. A number of funds including AustralianSuper have indicated in their Retirement Income Strategy that they are working on, or actively considering, offering a longevity product to certain members.

Some funds will not possess the scale to be able to offer a more complex product proposition, such as longevity, when appropriate.

Treasury should consider removing the complexity of offering longevity products within an account-based pension, this could be achieved through treating longevity products as an investment option. Complexity is introduced when longevity products are required to interact with minimum drawdown amounts, which is of particular relevance to agencies like Centrelink.

Additional encouragement for Australians to utilise longevity products may be to exclude them from consideration in part or full for the purposes of the transfer balance cap. This would open the product to another cohort of members, who would be unlikely to be reliant upon social security for any of their retirement support. It would lend scale to the building out of the product category as well as establishing familiarity of the product.

Question - ***Would an industry-standardised product(s) assist funds to develop and offer lifetime income products to their members?***

We believe the Retirement Income Covenant, Innovative Income Stream Regulations and Age Pension benefits for longevity products have only been in place for a short period of time and should be allowed to develop. Standardising product development could limit innovation and the ability for funds to tailor their offering to meet specific member needs and preferences (see **Recommendation 6** above).

Question - ***Would a standardised product be cheaper to develop and offer (e.g. compared to a general mandate to offer a longevity product)?***

We do not support mandating the development of a standardised longevity product. Requiring the development and offering of a standardised product could fail to appreciate the work required under the Retirement Income Covenant to develop a deep understanding of a funds membership and to develop and distribute products using this understanding. As previously stated, the *Treasury Laws Amendment (Innovative Superannuation Income Streams) Regulations* and the Age Pension benefits for longevity products have only been in place for a short period of time and should be allowed settle.

About AustralianSuper

AustralianSuper manages more than A$300 billion in members’ retirement savings on behalf of more than 3.3 million members from more than 461,000 businesses (as at 30 September 2023).