

9 February 2024

Lynn Kelly
First Assistant Secretary
Retirement Advice and Investment Division
Treasury
Langton Crescent
Parkes ACT 2600

Dear Ms Kelly

Superannuation in retirement

Thank you for the opportunity to provide feedback in relation to this consultation.

Given the increasing number of people who rely on superannuation in retirement, the paper raises matters of significant benefit to the community.

CFS are one of the largest payers of superannuation pensions to the Australian community and are pleased to provide our perspective on how to improve retirement incomes.

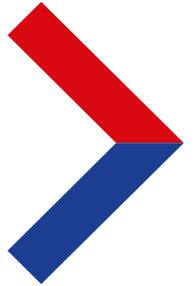
We would appreciate the opportunity to discuss our response with you.

Yours sincerely



Kelly Power
CEO Superannuation

Superannuation in retirement submission



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About CFS

CFS is one of Australia's largest retirement income providers after the Australian Government.

We manage around \$140 billion on behalf of almost a million Australians through our leading superannuation and investment offers.

We are a provider of choice for retirement incomes, such as account-based pensions, to around 200,000 Australians giving us a unique perspective on the needs of those in retirement.

Around half of our customers are at or pre-retirement stage.

We also work with thousands of financial advisers around the country to assist them in providing financial advice to our customers.

For those without an adviser, we are committed to serving our customers with more information, tools and guidance to help support their plans for retirement.

Recent initiatives at CFS

In January 2024, we issued *The Empowered Australian Report 2023*¹ to show how more people can benefit from financial advice as part of their superannuation. The report shows how people want advice from their superannuation fund to help them on their retirement journey.

In Q4 2023, we launched our new *Simple Super Advice* service to pilot topic-based online advice to our unadvised superannuation members. The service enables CFS customers to access simple advice online assisted by our contact centre. We are developing additional functionality over time to meet members' advice needs.

Latest retirement research conducted by CFS

CFS recently commissioned new research to understand how Australians think about retirement and to help assess how we can best meet their needs. The research surveyed Australians in all states and territories on their approach to navigating retirement.

We have used this research as part of our response to the consultation. We would be pleased to discuss our findings with Treasury.

¹ <https://www.cfs.com.au/content/dam/cfs-winged/documents/campaign/cfs-empowered-australian-report-2023.pdf>

Executive summary

As one of Australia's leading superannuation and investment businesses, CFS strongly support initiatives to improve the way people plan for and draw a superannuation income in retirement.

Building financial capability, improving access to financial advice and better guidance remain crucial pillars to improve financial outcomes for everyone in retirement.

New CFS research supports the finding that people face barriers in preparing for retirement, navigating the retirement income system and optimising it for their circumstances.

There is plenty of room to simplify things across the retirement income system so that it works better for everyone.

Our analysis shows that people who have received financial advice do better than those without, and that those with an adviser are more likely to enjoy a comfortable retirement.

At the same time, people who consider and prepare for retirement earlier and over time also do better. The improvements that can be made from having a plan and building towards a dignified income in retirement over time are significant.

Pleasingly, many Australians are highly responsive to receiving more help and support on retirement from their super fund. More prompts or nudges to help people consider retirement at different stages of life were warmly welcomed. People are supportive of receiving information about their different retirement income sources in the one place.¹

Our research shows that people with advice are more likely to know how much they are likely to need and feel more confident that they are on track to reach their retirement objectives.

We welcome the discussion paper and consider the ideas herein offer the potential to support improved retirement income outcomes for all Australians.

In our response we make a number of recommendations based on our research, analysis and customer feedback.

CFS is also a member of the Financial Services Council and have contributed to and support recommendations that have been made in their submission.

¹ See chart 6.

Our findings and recommendations

Finding 1: Australians are not planning early enough for retirement

Findings

Our research found that certain triggers play a considerable role in encouraging people to think about retirement.

The largest proportion of Australians, 47 per cent, begin to consider retirement in response to reaching the age of around 50.

A further 1 in 5 are prompted to think about retirement through discussion with family or friends whilst, another 1 in 4 do so following a life event. The smallest amount of people consider retirement following a prompt to do so by their super fund or accountant.

The findings show that when people begin considering retirement, 22 per cent of people's first step is to speak to a financial planner, while another 21 per cent turn to their super fund.

Chart 1: Retirement triggers

Trigger for thinking about retirement (Top 5)

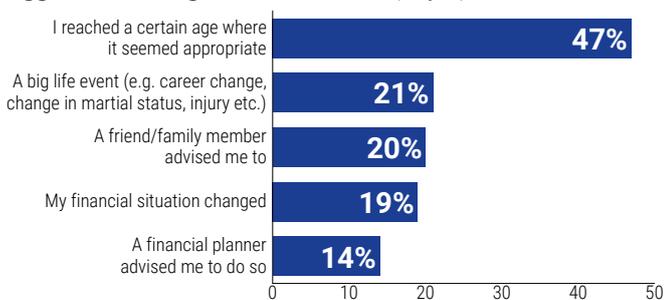


Chart 2: Steps people are most likely to take when considering retirement

First step when planning for retirement (Top 5)



Why it matters

Whilst not unreasonable to consider retirement only after many years of work, a level of financial advice and guidance is likely to improve decision-making along the way.¹

Prompts to members might include reviewing fund type, contribution rate and other strategies to help people assess their needs and whether any changes will help achieve their preferred retirement income.

Encouraging people to consider additional contributions earlier in their working lives cannot be understated. The Retirement Income Review noted "compounding returns make early working-life contributions more significant, where the gender gap is greatest. Men's longer working lives, on average, also mean they benefit more from compounding."² The Centre of Excellence in Population Ageing Research (CEPAR) said recently³, "that each dollar we contribute in our 30s is worth around three times the dollars we contribute in our 50s."

Changing people's approach to think about retirement planning earlier in life will also help contribute to the outcomes expected from the retirement income covenant.

Recommendations

- The measures put forward in the discussion paper, such as to consider the use of customer onboarding packs about retirement, behavioural nudges and more regular communication with members to encourage people to consider retirement planning earlier should be implemented.
- Our research indicates we would see a favourable response amongst the majority of super fund members to initiatives such as this.

1 Retirement Income Review Final Report (treasury.gov.au)

2 Retirement Income Review Final Report (treasury.gov.au)

3 5 things to know about superannuation according to CEPAR Associate Investigator Susan Thorp | CEPAR (cepar.edu.au)

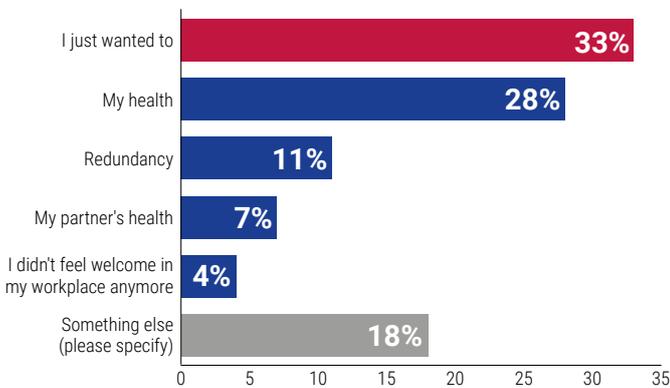
Finding 2: The majority of Australians retire out of necessity not their own choosing

Findings

CFS research found that 68 per cent of Australians retired out of necessity, with only a third of people retiring of their own choice.

Around 35 per cent retired for their, or their partner's, health while a further 11 per cent leave the workforce due to redundancy. 18 per cent left for a variety of other reasons such as due to reaching a certain age for their role, working conditions and more.

Chart 3: Main reason for retiring



Why it matters

Our research shows that people tend to retire for a number of reasons that are more likely than not to be fully in their control.

The effect of this is that if any of these events occur unexpectedly, people can be underprepared for a retirement date that can occur sooner than they might expect. The risk is that if they are less financially prepared for retirement than they may be if they assume it will be planned for.

The implication of this is that there can be unexpected financial stressors that can impact on other aspects of people's lives.

For those who have taken an iterative and long-term approach over their working lives to retirement income planning they are likely to be in a better position and have a higher level of financial resilience and confidence as they approach retirement.

Recommendations

- Financial advisers and super funds should incorporate regular steps to ensure that retirement income plans include sufficient flexibility for members.
- We recommend superannuation funds continue to enhance their understanding of member needs to improve engagement at all life stages.
- Understanding should be enhanced through improved access and use of additional government, member and other data sources.

Finding 3: Australians think they need \$1.6m to retire comfortably. Younger Australians and people who don't receive financial advice appear to significantly overestimate how much they need for retirement.

Findings

CFS research found people think they need \$1.6m to retire. The amount people think they need is significantly influenced by their age and whether they receive financial advice.

People receiving financial advice estimate that they need around 25 per cent less in retirement than those who do receive advice.

The finding is good news for those who've been planning their retirement with a financial adviser because it shows that a higher level of planning means people can be more realistic and confident about their retirement.

Chart 4: Expected retirement savings by age cohort

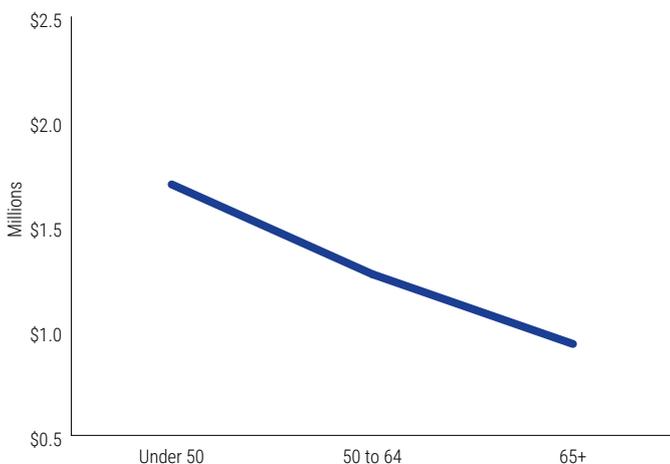
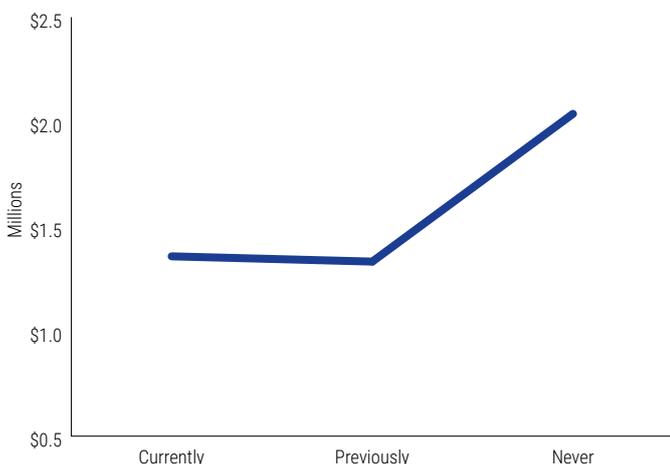


Chart 5: Expected savings by level of financial advice



Why it matters

Different approaches and guidance are beneficial for everyone to understand their needs and circumstances and plan for the level of retirement savings and income that people expect. A default retirement income product cannot achieve this.

The research shows that when people receive more information and build a plan around retirement they take a more realistic approach to it. A graduated, iterative approach to becoming retirement-ready can improve wellbeing.

The findings show that superannuation funds and financial advisers will need to continue to accommodate differences in people's understanding of their financial needs and objectives. As people's understanding increases this will help build their confidence around retirement.

Recommendations

We support the financial advice reforms in the Better Financial Outcomes package being legislated. The reforms will reduce complexity and red tape for financial advisers and superannuation funds to make it easier to provide more advice and guidance to customers to develop a retirement income plan.

Finding 4: 67 per cent of people want to do some work in retirement

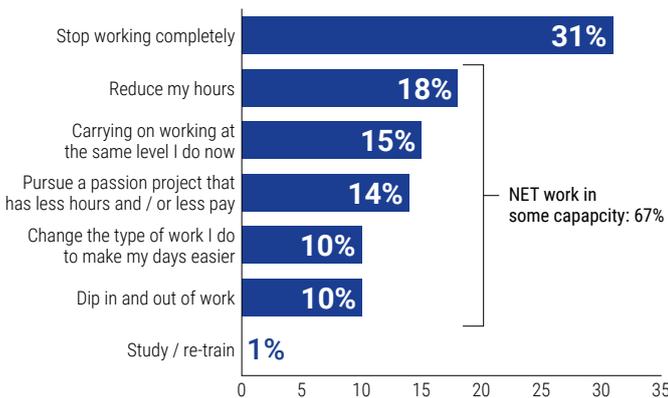
Findings

Whilst it is commonly believed most people retire fully from the workforce when they reach retirement age, CFS research shows that two-thirds of Australians want to do some level of work once they reach retirement.

Whilst 31 per cent still prefer to stop working altogether, a majority indicated they want to work but reduce their hours, pursue a passion project or, for some, continue the same level of work.

The research is a surprising shift in how Australians think about retirement and shows the importance of ensuring policy settings provide flexibility so that people who want to participate in work can easily do so, without undue complexity about the impact on their retirement income.

Chart 6: Employment plans once people reach retirement age



Why it matters

People's propensity to work in retirement varies globally depending on culture, generosity of retirement systems and other factors.¹ Other research indicates people's propensity to work in retirement is linked to education, savings and work type.²

Whilst CFS is focussed on maximising retirement incomes and providing the choices and flexibility our members need, work provides a purpose for many that goes beyond monetary compensation.

The Employment White Paper noted³ "while the financial benefits of work are important, they are not the only factor affecting whether people take up paid work." For example, numerous studies⁴ show a positive correlation between having a purpose and health benefits such as reduced mortality, incidence of cardiovascular disease and loneliness.⁵

When people reach retirement age, the need for purpose continues. Whilst retirees are often highly purposeful during their working lives, people often want to continue this in retirement whether this be through different ways of working, family or community activities.

The 2023 Intergenerational Report noted⁶ further policy considerations, "reducing barriers to labour force participation for older people who may wish to work, women and historically underrepresented groups will make the workforce more inclusive" and "employers can make themselves more attractive to older workers by being more flexible about when and where they work".

The need for flexibility extends to all aspects of the retirement income system and the way in which they work together. For people of retirement age, it is essential they are supported with easy ways to opt-in or out of work by understanding impacts on their retirement income and, if applicable, the age pension.

Recommendations

- The retirement income system should be designed in an integrated way to allow people who want to participate in work during retirement to do so without undue complexity or impact on retirement income or age pension, subject to safeguards so the system remains equitable.
- A model for data sharing between government and the superannuation sector should be considered to determine how employment, retirement income, age pension, superannuation cap, consumer data right and other information could be integrated, under a consent-based model.

¹ <https://nationalseniors.com.au/uploads/NSA-2022-Post-Retirement-Work-Report-Final.pdf>

² Taylor A.W., Pilkington R., Feist H., Dal Grande E. and Hugo G. (2014) A survey of retirement intentions of Baby Boomers: an overview of health, social and economic determinants. BMC public health

³ Working Future (treasury.gov.au)

⁴ Purpose in Life and Its Relationship to All-Cause Mortality... : Psychosomatic Medicine (lww.com)

⁵ Purpose in Life, Loneliness, and Protective Health Behaviors During the COVID-19 Pandemic | The Gerontologist | Oxford Academic (oup.com)

⁶ Intergenerational Report 2023 (treasury.gov.au)

Finding 5: People want much more help from their super fund

Finding

CFS research shows that 83 per cent of Australians found having flexible access to income appealing and 82 per cent found a guaranteed steady stream of income was appealing.

Australians are also strongly supportive of receiving different types of help to them plan for their retirement. This includes:

63 per cent of people want to receive digital reminders at key milestones to plan for their retirement.

66 per cent support combining information about their superannuation income and aged pension all in the one place.

66 per cent supported their super fund reviewing their investments once they reach retirement age to help them optimise their portfolio.

Why it matters

Consumers have told us that retirement decisions can be complex which supports the findings in in the discussion paper.

Presenting more timely and regular information and tools to superannuation members in easier-to-understand ways can aid consumers' understanding and decision making.

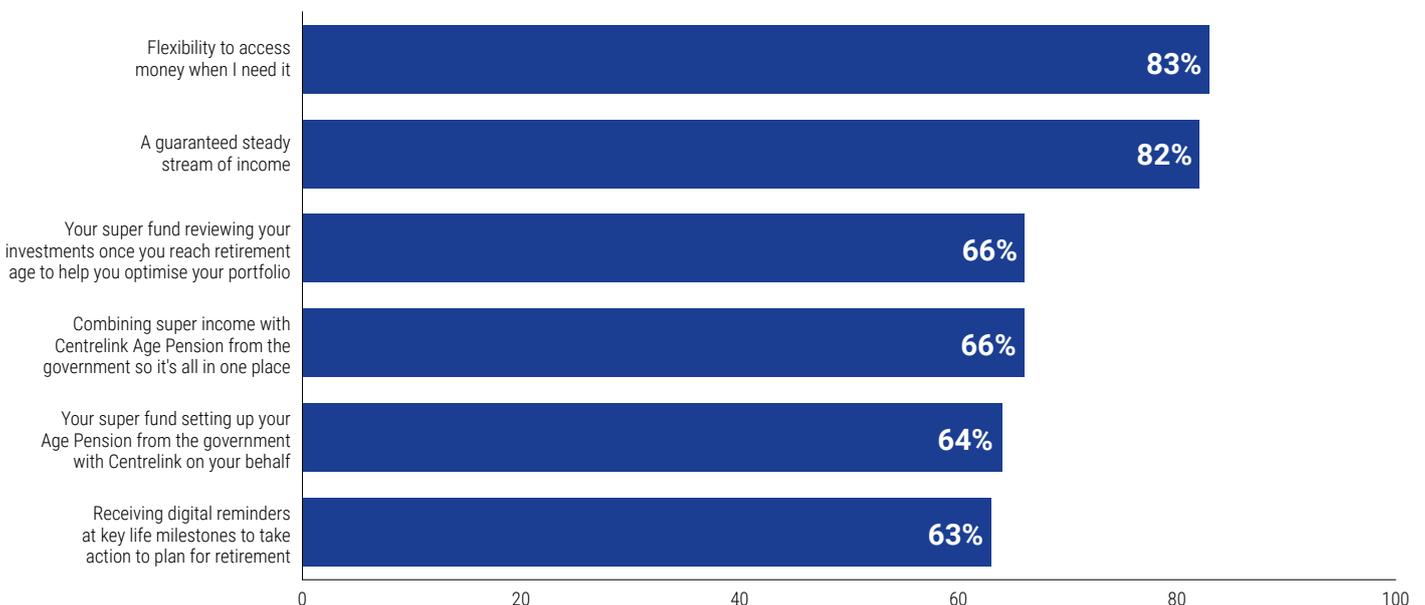
Consumers are considerably more likely to have confidence in their retirement income planning if they have been regularly engaged in taking steps to achieve it.

Women are particularly likely to engage less and later with their superannuation which can affect their retirement income.

Recommendations

- Industry should consider improved approaches to framing income projections compared to a lump sum.
- Support for including more information and nudges for fund members at any time should be expressly included in the Better Financial Outcomes reform package so industry can implement member-oriented changes as soon as possible.

Chart 7: Appeal of new functionality for retirement



Finding 6: The older a retiree is the more likely that they are drawing down the minimum

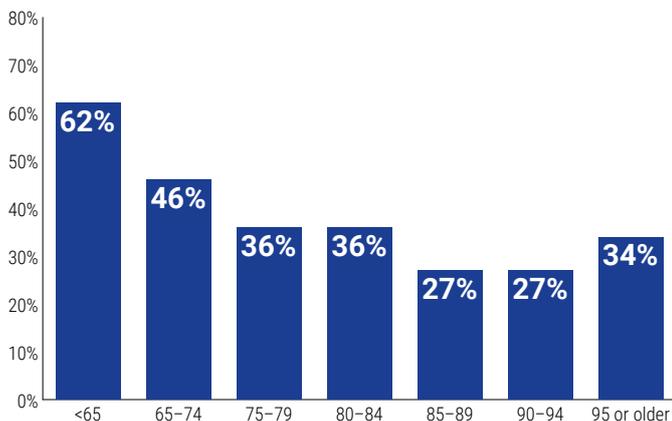
Finding

Analysis of CFS members found that for 60–65 year olds, less than 40 per cent are drawing down the minimum. 38 per cent of people are drawing between 2 and 5 times the minimum.

Whilst the discussion paper shows that around half of Australians are drawing down the minimum, our data shows the ages at which others draw down more than minimum.

Chart 8: Ages of people drawing down more than the minimum

% drawing more than the minimum



Why it matters

CFS data shows that people are aware of their choices to be able to draw down more of the pension than the minimum.

Providing further general or personalised information to members about their drawdown choices, both in preparation for and during retirement, offers the potential to help support people to use their retirement savings effectively.

Recommendations

- CFS support the development of using standardised or customised drawdown profiles and more information to present to members to aid their understanding of how to optimise their retirement income, reflecting their needs and preferences.
- We support stronger data integration between government and industry to show members their income and age pension in the one place.
- We also support working with government to develop key policies to enable this kind of information being provided to members.

Concluding comments

As one of Australia's largest superannuation and investment companies, CFS is proud to provide retirement incomes to thousands of Australians every month.

We are committed to making it easier for everyone to both plan for, and enjoy, their retirement income. We will be pleased to work with government to remove complexity and points of friction in order to improve and support financial wellbeing for everyone in retirement.

Our research methodologies

Colonial First State (CFS) commissioned online research from a panel of 2,247 Australians and 279 CFS customers, aged 18+.

All respondents hold either a superannuation, pension or annuity account or have investments in their name and are the sole or joint decision maker for these products.

The research was conducted in accordance with ISO 20252: 2019 and ISO 27001: 2013