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Superannuation in Retirement

Response to Treasury Consultation

Retirement Phase of Superannuation Discussion Paper

January 2024

Background and Concerns of the Association of Independent Retirees

The Association of Independent Retirees is the national peak body representing current and future partly and fully self-funded retirees. AIR works to advance and protect the interests of Australians seeking independence in retirement. AIR seeks to secure recognition and equity for Australians who, through their diligence and careful management, fully or partly self-fund their own retirement needs.

Our members have a clear understanding of the need for ongoing management of the financial, health and longevity risks they face in retirement, but are concerned about changes that impact on their capacity to have an independent and fulfilling retirement. There are over 2 million Australians who either fully or partly self fund their retirement. The greater majority of these are not “wealthy” individuals and unexpected financial impacts to their income streams may result in them needing Government support in the later years of their retirement. APRA predicts there will be another 3.6 million Australians who will move into the retirement phase of superannuation over the next 10 years.

AIR remains committed to a view that any changes to superannuation, retirement savings and income arrangements must not disadvantage current retirees and those about to retire.

We accept the premise that those who can afford to contribute to their health care and aged care costs should do so. However, we have concerns with more aged care funding required, fees, charges, consumer contributions, means test arrangements will change and many self-funded retirees will be financially disadvantaged by such measures.

Retirement planning has not only become more complex, but current volatile financial market conditions are making it harder for many retirees to develop a retirement plan that will last for the longer term. The government needs to ensure in the process of policy change, fully and partly self-funded retirees are not impacted from the unintended consequences of the changes.

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The Retirement Phase of Superannuation

Consultation Scope:

The Government released a discussion paper at https://treasury.gov.au/consultation/c2023-441613 and is seeking community and industry views on how the superannuation system can best provide the security and income Australians need as they have longer and healthier lives in retirement.

More Australians are looking to their super to play a greater role in providing for their retirement. Over the next 10 years, the number of retirees with a super account will more than double, with an estimated 2.5 million Australians set to retire. While there is recognition of super's importance in building nest egg savings, there has been less attention on optimising its role in retirement.

This discussion paper increases the focus on the retirement phase of life by examining three key areas:

- Supporting members to navigate the retirement income system
- Supporting funds to deliver better retirement income products and services, and
- Making lifetime income products more accessible.

This consultation invites feedback on how this can be achieved through better availability of assistance, information, and well-rounded retirement products.

The Government is interested in feedback on the opportunities, barriers and challenges to improving the experience and outcomes of people in retirement phase.

The Government welcomes views on how these issues should be tackled and the merits and risks of different approaches.

Methodology of gathering responses from AIR members

A national survey containing the consultation questions from the Treasury discussion paper was distributed to AIR branches and members across in all states and territories.

Members/Branches were asked to provide feedback on the questions.

Survey responses were received from AIR members and branches in NSW, Queensland, Victoria and Western Australia.

This feedback was consolidated by the Policy and Advocacy Committee of the Association of Independent Retirees into this single response document.

AIR Response

Supporting members to navigate retirement Income

The discussion paper identifies a number of challenges for retirees in managing their superannuation as follows:

- Superannuation members face complex decisions to plan their retirement income
- For retirees, superannuation is no longer a nest egg, it's their income
- Default behaviour, precautionary saving, and withdrawing at the minimum

The discussion paper identifies a range of policy responses as follows:

- Guidance, education, and communication
- Superannuation funds assisting and defaulting members to better settings
- Simplifying the retirement income system

Consultation Questions:

1. What actions is industry or other participants in the community taking to address the issues? **Community Participants** - The Association of Independent Retirees (AIR) and other national retiree 'consumer' organisations represent a substantial proportion of superannuation 'consumers'. A significant majority of AIR's members are in retirement phase of superannuation. Since its formation in 1990, AIR has been advocating for our members' (and full and partly self-funded retirees in general) best interests in retirement for superannuation, retirement income and savings policy. AIR is a key provider of general information to retirees about superannuation, retirement income, aged pension, concession card eligibility, financial literacy, etc. Our monthly meetings around Australia feature speakers from financial advisers, superannuation industry participants, investment specialists, government agencies, etc.
2. 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? **A. Guidance, education, and communication to superannuation members should be prioritised.** **B. Funds assisting and defaulting members to better settings** **C. Simplifying the retirement income system** **D. Improve availability and affordability of financial advice** **E. Oversight of APRA regulated superannuation funds should be strengthened.** ***A. Guidance, education, and communication*** ***1) Basic factual information, education, or information produced by government.*** AIR has advocated for a number of years for a national program to improve financial literacy and understanding of the Retirement Income System, so people can adequately plan for their retirement

and/or make the most of their retirement savings. This could include the extension of information available from ‘moneysmart.gov.au’, my.gov.au, ATO Online and Services Australia. These information services should receive significant public promotion in the media and throughout the community.
AIR also proposes the development of a personalisation option within ‘my.gov.au.’ where an individual can track, plan and model for their retirement using their individual financial circumstances.

2) Requiring funds to provide general information about both phases of superannuation and the objective of superannuation when on-boarding members.
AIR Comment: When discussing superannuation with younger workers, AIR members have seen a considerable lack of understanding about the purpose of superannuation, superannuation guarantee contributions and the accumulation phase. This is reflected in comments like “Why does the government steal money from our wages to put into super and we can’t get it back until we are over age 60”.

3) Government providing and distributing educational and guidance material on key retirement income sources (including savings, superannuation drawdowns, the Age Pension, home equity release, annuities, etc. Providing free and impartial guidance for retirees in or approaching retirement.
AIR recommends that the government work with post-secondary educational institutions and professional bodies to develop and deliver training material which better reflect the needs of Australians seeking financial advice in the retirement phase of their lives. Noted, that most advice currently on offer is pre- retirement centric.

AIR’s anecdotal evidence shows that a significant proportion of retirees have a limited understanding of the objectives of superannuation and how superannuation works in retirement phase. This is evidenced by the proportion of people ‘cashing out’ their superannuation at retirement due to lack of information about retirement income planning or the fear of the unknown. There is also a common belief that superannuation is just a component of overall wealth and should be available for inheritance without death benefit taxes.

4) Prompting members to investigate government information services, such as Services Australia’s Financial Information Service and Aged Care Specialist Officers.
Until recently, AIR frequently invited Financial Information Service Officers to AIR branch meetings around Australia to bring retirees update to date with changes to age pension payments and commonwealth seniors health card eligibility requirements and procedures. **Unfortunately, these very useful information sessions have now been discontinued by Services Australia** and financial literacy of retirees has diminished as a result.

B. Funds assisting and defaulting members to better settings
Consideration of the relevant personal information, including level of financial dependence/ independence, age, marital status, health status, dependents (if any) and their needs, assets/ liabilities, income/expenses, asset/investment allocation, etc. when providing assistance and guidance to members.

C. Simplifying the retirement income system
Presenting key information in a relatively simple manner helps with consumers’ understanding of retirement income and can influence consumer preferences for certain types of products. In AIR’s

submission on the legislation for the Retirement Income Covenant, we recommended that superannuation funds provide to retired members in their annual statement an indicative forecast of annual future income using the member's drawdown history, retirement account performance and members' life expectancy, etc. This measure would have informed retired superannuation members a simple guide to their anticipated future annual income. It would have provide retirees the confidence to spend their retirement savings. This recommendation was not incorporated in the final legislation for the Retirement Income Covenant

D. Improve availability and affordability of financial advice
Developing a hybrid advisory system consisting of APRA regulated super funds, financial advisors and government agencies provide readily available and affordable advice to retirees and those approaching retirement**.**

E. Enhancing the superannuation fund supervisory capacity of regulators such as APRA and ASIC.
Enable more effective oversight of the management and operation of the superannuation funds in particular their adherence to the Retirement Income Covenant.

3. What does 'good' look like for how superannuation funds support and deliver products to their members in retirement?

AIR has found that 'good' means different things to different individuals. First and importantly, 'good' means that we are not seeking a 'one size fits all' solution. There must be flexibility which allows for 'tailoring' to support changes in consumer circumstances which inevitably occur over the long period of retirement.

Developing an approach which has the support of the commonwealth government, the Superannuation sector, Industry Associations, Consumer groups including AIR and other relevant Professional Bodies.

Promotional, education and communication tools to assist in behavioural change so Australians are better prepared for, and more accepting of, the need to fund appropriately designed retirement income streams from their super account/s.

Financial income products in the retirement phase that seek to provide the regular cash flow requirements of day-to-day life. While working, consumers are accustomed to the weekly, fortnightly or monthly pay check and budget their expenditure accordingly. Retirement income should continue this pattern.

Retirees also need access to capital to meet larger one-off expenses like a new car or a wedding or home renovation.

The object of super is to fund retirement (decumulation). Super in retirement phase should not be exploited as a savings vehicle beyond what is required to fund the retirement by the fund member, spouse and dependents.

Super in retirement phase should inspire confidence by being underpinned with a set of institutional arrangements, legislative/regulatory and supervisory systems and a tiered financial advisory system.

There should be an available, affordable and hybrid financial advice system consisting of APRA regulated super funds, financial advisors and government agencies targeted at retirees and those approaching retirement. The advisors should be well-educated and ethical with a culture of service where standards of practice and performance are a given. This advice could be tiered in complexity from ‘general’ to ‘mid-level’ to ‘personal detail’. There should be an emphasis on providing advice at each level which can be understood by people within that range of financial literacy. It could be offered by a combination digital tools and face to face. Noting though, that compliance must be obtained and that these functions should be Australia based. Developing a code of practice as well as an enhanced licensing and regulatory systems which underpin consumer confidence in the provision of advice related to retirement. Developing a commonly agreed risk management framework which aims to provide greater assurance around drawdown arrangements which should meet life expectancy, health and the other significant financial risks. Developing an insurance system which provides a level of protection against risks such as fraud, misconduct, negligence by staff/management of APRA regulated super fund, etc. **NB.** In the event that residual superannuation of a member is left unspent at death, funds need to develop better levels of support to deal with the death of a member. There have ongoing reports in the media and from AIR members about significant delays and paperwork ‘nightmares’, in relation to super death benefit payments. Often the death benefit is payable to a dependent spouse and long wait times can leave these individuals financially stranded. Retirement products should have a component to allow pension payments to be made to a dependent for, say, 3 months after the death of a member. This may require specific legislation. It is noted that the Centrelink aged pension has provisions for financial assistance along these lines.
4. What basic information do superannuation members most need to assist their understanding and simplify decision-making about retirement income? **The most fundamental question is -** *How much inflation adjusted income will be available during retirement on an annual basis and how does this compare to individual current lifestyle spending patterns.* An individual retiree or couple needs to know, with confidence, what income they can expect to receive from their super fund, plus sources outside super, eg. Aged Pension, if applicable, having regard to their personal circumstances. This income can then be matched with their current or planned financial lifestyle budget to determine if there planned lifestyle is affordable going forward. **AIR agrees with the statement on page 9 - *“Framing superannuation in terms of income can help put it into terms that are helpful for budgeting and decision making, the same way people are used to managing their finances from working life”.*** Other important information is product cost comparison (fees), risk factors, longevity expectation

and the ability to access funds (drawdowns) and/or transfer into competing products (flexibility).

Further to this, individuals may want to consider various spending and super drawdown scenarios. This may include analysis of different possible life expectancies and their associated probabilities. For example, an individual may have a life expectancy on retirement of say 30 years but may have a 30% chance of earlier or later death.

Risk Management – members need to know what their various risk factors are and how they can be managed. This would include the range of financial but also health and life expectancy risk factors.

Some form of government guarantee of retirement income would provide considerable comfort and certainty.

Product Assessment – having a set of basic common comparison metrics on a proscribed format. There needs to consistency in published fund information.

5. Where can government and industry reduce complexity in the retirement income system, and provide simpler consumer experiences?

Manage Change Thoughtfully - Changes to the rules on super, pensions, tax concessions, health care, ACAT etc. occur regularly and individual retirees often need to revisit their plans and potentially revisit their financial adviser. Financial Advisers need ongoing training and education and some report that it is a struggle to keep up with government changes.

Grandfathering change - Where changes are made by government there should always be a 'grandfathering' clause where there are potentially negative consequences. Members who make long term financial planning arrangements based on current legislation should not have plans upended by government changes. 'Grandfathering' should be used by government to protect those who have locked in retirement plans from potential negative changes.

Risk management frameworks need to be developed which take account of the financial and personal circumstances of each individual.

Improve existing Government services - AIR recommends that within each individual's My Gov account that a link be set up to use personalised Moneysmart retirement budgeting tools, including spreadsheets to map personal spending patterns and expectations in retirement. AIR is aware that, as members approach retirement there is often a greater focus on retirement planning and Moneysmart could meet more of those needs than it currently does. AIR supports the suggestion of *"Providing free and impartial guidance for retirees in or approaching retirement, for example, through a service similar to the United Kingdom's PensionWise service" as outlined on page 11.*

Support Community Groups - Organisations such as AIR provide independent and trusted information and create networking opportunities for members to hear of real-world retirement experience. AIR does not receive any government funding and is totally member driven on a volunteer basis. Perhaps, there are ways that organisations such as AIR and the government could collaborate to mutually benefit retirees.

Increase Financial Literacy - On-line learning is an option that government should explore through

TAFE. Whilst it may not suit all super fund members, there would be a percentage who would be interested in completing a Cert II online course in personal retirement planning (for example), particularly if it was free or subsidised.

By developing education and communication tools that analyses how each of us learn and understand information and advice, government may be able to simplify consumer uptake of retirement related material.

6. How might superannuation funds utilise guidance, nudges, defaults and other actions to assist members into better solutions for their retirement income? What are the barriers to superannuation funds being more active in these ways?

This starts with a detailed understanding of their fund members and considerable more data about them, than they current have. A significant barrier is that super funds have historical focussed on the accumulation phase where growth in member balances was the main priority.

For the retirement phase, individuals will have varying requirements based on personal circumstances. Funds need to engage with their members, collect relevant data and develop behavioural change tools.

Minimum verses potential Drawdowns – AIR agrees that in the absence of a detailed retirement expenditure plan) there is a perception that the 'minimum' drawdown percentages proscribed by government is the 'easiest' or 'recommended' drawdown strategy.

There needs to be communication that 'minimum' means just that there could be a range of drawdown strategies used based on the individual members account balance and circumstances. Members should be prompted to review their drawdown settings on an annual basis and not treat drawdowns as a 'set and forget' setting.

Fund Management needs a refocus to retirement phase - It appears that super funds need to grow their capability to provide an adequate level of support to their retired members. Insufficient resources have been allocated to focus on the retirement phase of super. Hopefully, the thematic review by APRA and ASIC has sharpened the attention of APRA regulated superannuation funds on the growing proportion of their members that are now or approaching retirement.

Another challenge or barrier relates to fund liquidity. When the members account is converted from accumulation to retirement phase products, the funds must be able to mitigate potential high cash outflows driven by unplanned drawdowns, increasing pension payments and death claim levels. This means funds may need to develop retirement phase products with a higher proportion of funds invested in more conservative asset classes to mitigate exposure due to liquidity traps. Unlisted investments may need to be reconsidered as a proportion of fund investments in retirement phase.

Nudges to members based on their financial circumstances to suggest investigation of Aged Pension eligibility and other government supports such as CSHC could be done by funds at scale. But funds probably do not currently have sufficient detail of a member's personal financial situation including personal investments or even if they have returned to work. Potentially, we see the government being in a position to assist with this process with the permission of the fund member.

7. 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?

From our anecdotal evidence at AIR, there seems to be very little data gathering from super funds through member contact. Perhaps funds are working on this, but have not approached their members yet. They need very granular demographic details of their membership (age/dependants/retirement age/retirement time of year) as well as claims trends (number/payout value) and trends in fund balances so they can plan likely needs of their membership to some degree. These need to be cross analysed/correlated as significant demographic milestones evolve, e.g., a 50th birthday.

The Retirement Income Covenant has only been implemented fairly recently and AIR members have seen little real-world change as a result of this development.

One barrier is that superannuation funds do not have holistic data on each member's financial and asset position, plus life goals. Members may hold significant personal investments and multiple account-based pensions (ABPs). Individuals may choose to keep this information to themselves or only trust their financial planner and/or accountant with such.

Member communication should be much improved and tailored around planning for retirement - eg how much money do you have in your account, how much do you want/need and is your asset allocation strategy appropriate for you? What are your constraints, opportunities and priorities in preparing yourself for retirement?

For example - one AIR member who recently retired had their super with one of the largest government member funds in NSW. They received no communication from the fund about their pending retirement in the years prior. When the member notified the fund of their retirement the fund sent forms to complete for conversion to pension phase. They were offered access to a spreadsheet calculator and were given contact details to an advisor. This seems to be a very minimal approach from one of the largest super funds in Australia.

8. The retirement income covenant does not apply to SMSF trustees. What approaches do SMSF trustees take to manage risk, ensure they have access to savings, and maximise their income? Are there barriers to improving how SMSF trustees achieve these objectives, and what role can government or industry play to improve these outcomes?

AIR has been a strong advocate for the Retirement Income Covenant for Industry and Retail superannuation funds. **AIR does not support the application of the Retirement Income Covenant to SMSF's.**

AIR Comment: SMSF members are required to be trustees of their SMSF. This means as members of the SMSF, they are not at arms-length from the trustees. Consideration of the best interests of the members of a SMSF will always be top of mind for them as SMSF trustees. This includes managing risk, maximising retirement income and accessing capital as required.

What approaches do SMSF trustees take to manage risk, ensure they have access to savings, and maximise their income?

From AIR's observation those retirees with SMSFs are generally among the most financially literate and pro-active superannuation fund members. They are often 'younger' self-funded retirees, well informed and keep up to date with superannuation and financial developments.

Risk Management: SMSF trustees manage investment risks through asset diversification. They manage inflation risk by holding growth investments like shares, property or floating rate fixed interest investments. They can use SMSF funds to purchase a market-linked life-time annuity to manage longevity risk. SMSF trustees may be capable of undertaking their own risk management or could engage a specialist advisor to providing the personal risk assessment they need.

Maximise their income: SMSF trustees can maximise their income by allocating a higher proportion of their assets to higher yield investments or selecting managed funds/ETFs with higher returns.

Barriers to improving how SMSF trustees achieve their objectives

Lack of Financial Advice – There is a significant barrier with the high cost and lack of availability of financial advice. Some Trustees of SMSFs recognise that they need professional support in order to maximise their objectives and better access to financial advice would assist. Refer to AIR's submissions to Treasury on the *Quality of Advice Review.*

Compliance - The compliance requirements for SMSF's are provided by the Australian Taxation Office (ATO) administering the relevant super laws for SMSFs. Australian Securities & Investments Commission (ASIC) regulates financial services to protect consumers and manages SMSF auditor registrations. These arrangements work well and AIR does not recommend any changes to this oversight.

SMSFs may face unique challenges in retirement, including a need for exit planning in the event of the member-trustee becoming unable to manage the fund at older ages or due to the death of a member of the fund who undertook management responsibilities.

AIR Comment: Estate and disability planning are not unique to SMSF members. All retirees whether members of APRA regulated funds or SMSF's should have appropriate arrangements for wills, death benefits nominations, enduring powers of attorney, etc. SMSF's are required to use appropriate professionals to support accounting, auditing, compliance and legal requirements in their ongoing fund operations. These professionals would normally assist the SMSF plan and manage transition or wind-down requirements in the event of trustee/member infirmity or death.

Exit Planning Checklists – The provision of Binding Death Benefit Nominations and other estate issues such as Wills are well known but the intricacies of winding up an SMSF often require appropriate preplanning. AIR suggests introducing a preplanning process with checklists.

Supporting superannuation funds to deliver better retirement income strategies

The discussion paper identifies a number of actions that have been taken to improve superannuation in retirement as follows:

- Reviews and reforms of superannuation in retirement
- The Retirement Income Covenant
- Comprehensive Income Products in Retirement

- The findings of the ASIC and APRA thematic review

The discussion paper identifies a number of potential policy responses to support superannuation funds deliver better retirement income strategies as follows:

- Standardised product disclosure framework
- Tools for comparison and performance
- Regulatory barriers

Consultation Questions:

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

Industry always tends to act within the guidelines and legislation of government. In order to be the most competitive, some industry players issue products that may be considered on the ‘leading edge’ of what is standard practice, in terms of risk and return and government regulation.

Therefore, consumers are reliant on government to continue to maintain the appropriate levels of protections. Due to the evolution of products in the context of AI and increasing globalisation, government must remain nimble and be constantly ready to review and regulate when needed but without unnecessary complexity. There must be a balance between innovation and the maintenance of consumer protection.

While stakeholders such as AIR, advocate for strong consumer protection to encourage confidence in the retirement income system we also encourage innovation and product competition.

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

Priority 1 should be the understanding of the strengths, weaknesses, opportunities and threats with the status quo. The introduction of a standardised product disclosure framework would assist. The concept of a ‘Comprehensive Income Product in Retirement’ CIPR) could be revisited. The example given of an account-based pension paired with a pooled product that provides longevity risk protection has merit.

Priority 2 should be developing a strong institutional, legislative and regulatory framework. Government regulators could provide tools that make product assessment and comparison more accessible (see previous comments).

Investigation and research should include reference to overseas product models.

Priority should be given to skills enhancement, product development, education and communication with fund members. Policy will need to evolve so its development, implementation and review becomes a ‘virtuous circle’, supported by good stakeholder engagement.

3. What are the key characteristics or metrics for comparing retirement income products and services?

The usual metrics of historical investment performance, risk factors etc and, product fit with the needs of the fund member are a starting point. Other metrics should include fee structures, withdrawal options and financial backing.

The issue will always be that historical performance is only an indicator of future performance. Particularly, when considering that the retirement phase for an individual could last for 20 or 30 or even longer.

It is important too that metrics compare 'apples with apples'. Definitions of terminology such as 'balanced', 'growth' and 'conservative' are not always consistent fund to fund.

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

The interplay between 'marketing' and 'information dissemination' will always be hard to manage. AIR has noted that many super funds have significant mass media advertising campaigns and there is uncertainty as to whether these campaigns actually help members to make informed decisions. Members' funds are used to pay for these campaigns but do they advance members' interests?

Government should consider further regulation of the advertising of super products so that directly linked to member benefits.

Published data summaries on proscribed metrics would assist product comparison and help in decision making.

The use of comparison websites, independently published analysis, regulated financial advice, and information provided at venues such as workplace seminars in pre-retirement can also assist.

Regulators have a role in working with stakeholder organisations to ensure development of standardised terms and conditions in PDSs. PDS documents tend to increase complexity but they have an indispensable role. PDS for Retirement Income Products that summarise in a standardised format would be a worthwhile consideration.

Industry bodies and trade unions can have a role in providing information, but this must be adjudged against their vested interests.

5. What barriers are there for product switching in retirement and are there opportunities to make product switching easier?

Product switching should always be an available option. Over the 20 or 30 or more years in retirement, there are likely to be situations where fund managers change their product offerings. Members should have options to switch when these circumstances arise.

AIR has members with examples where their fund manager has been taken over or merged - in one case 3 times. Products originally marketed by a major bank have gone through several hands and now reside with an overseas based manger.

The process for switching/transferring can be difficult as, over time, funds can be classified as a 'legacy products'. Transferring out of a legacy product is sometimes possible but there can be tax, insurance and capital reserve consequences. Government regulations should more easily facilitate switching out of legacy products under more circumstances including lifetime annuities.

Making lifetime income products more accessible

The retirement income covenant requires APRA regulated superannuation funds to assist their members to manage risks to the stability and sustainability of their retirement income. Risks to retirement income include:

- Investment and sequencing risk
- Inflation risk
- Longevity risk

Mitigation of these risks can broadly include:

- Investment allocation (eg, lifecycle investment or glide paths and bucketing with an account-based pension)
- Spreading the risk across many fund members (pooling) or
- Some form of insurance (or annuitisation via a lifetime income product).

A well-rounded product (or portfolio of products) should assist members in managing these risks and will complement achieving the other objectives of the retirement income covenant ie. access to capital and maximising retirement income.

The barriers to take-up lifetime income products by members include:

- Upfront cost and concern that they may die prematurely
- Difficulty with comparison to an account-based pension. An annuity includes a cost from the longevity insurance provided.
- Lack of flexibility — Longevity products require a long-term fixed investment
- Counterparty risk —concern whether the superannuation fund (or insurer) will be able pay the income for the length of their retirement, which may be up to be 30+ years.

Potential policy responses:

- Support for better longevity pricing
- Standardised products

Consultation Questions:

1. What actions are the superannuation and finance industry or other participants in the

community taking to assist retirees to better manage the risks for retirement income?

Community based organisations such as the Association of Independent Retirees (AIR) hold information sessions at meetings through their Australia wide branch network. AIR was established in 1990 to advance and protect the interests of those who fully or partly self-fund in retirement. Apart from information sessions, branch meetings and newsletters, AIR offers members a chance to share their experiences in dealing with the risks in retirement income strategies on a one-on-one basis.

Members of AIR often report that they have considerable concerns about managing risk for retirement income and that they have gained valuable knowledge in risk management through their membership of AIR.

AIR seeks to provide independent information and to assist members on where to find independent advice.

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

Pooling Risk - Insurers, super funds and the actuarial profession need to be more capable of developing lifetime income products based on the principles of pooling risk and in the process providing an additional level of certainty regarding security of income over a product that may last for 30 or more years.

Government Guarantee - Government has a role to play in mitigating risk through some form of guarantee.

By taking a conservative approach, it should be possible to develop attractive lifetime income products which can be marketed and sold with solid backing considering the following risks;

Life Expectancy risk (longevity) - The general perception within AIR membership is that lifetime income products are, in part, a 'lottery'. This is because the perception goes – "if you die soon, you lose if you die later you win!" Life expectancy then, is probably the first 'risk' in consumers' minds when considering a lifetime product. AIR agrees with page 22 - *"As annuities are sold to all retirees at one average price, products will appear to be overpriced for anyone with a lower life expectancy."*

Product Security Risk (Counterparty risk) - Another significant risk that AIR members raise is the security of the product offered. Members ask – "**Is the Fund Manager offering the lifetime product going to last the lifetime of their product?"**

Development Costs – Government may be able to introduce some incentives to assist funds with the cost constraints of developing new products.

Cyber Security Risks - AIR notes that there is nothing stated in the discussion paper about the constant threat to cyber-security to systems used by Superannuation Companies. This would apply to annuities and is a concern. Apart from the responsibility of the super funds to protect their computer systems, the government could take a bigger role in cyber security. The government benefits from those people who, in part or in full, self-fund their own income in retirement. It would therefore be beneficial to government to take further steps to reduce cyber security attacks which could leave vulnerable superannuants needing to revert to Government pensions in the event of the loss of their funds. AIR notes that government is promising to do more in this area.

‘Managed’ Profitability - For those experts developing these products, they must do their market research to satisfy consumer requirements and balance that against the costs and a reasonable profit. Government should not support a framework which allows excessive prioritisation of the profit motive (“Hayne Mark II”) under any circumstances.

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

   See above and below

4. **What is the role for a ‘suggested’ product in overcoming low take-up of lifetime income products?**

   With only 3.5% of pension assets held in lifetime annuities it is quite clear that the products on offer are unacceptable to the market. The role is to develop confidence in such products as a basis for wider acceptance.

   Attractive Income returns must be the priority. Historically, the income from annuity products is based on the fixed interest returns available at the time of issue. Until recently, these products have not provided sufficient income to incentivise their take up. There is a perception of low income returns from annuities. An AIR member comment – *“most people have not got an annuity because the interest rate at the start is low.”*

   Recent Market-linked Lifetime Annuities overcome this perception of low returns by linking income returns to market performance from a range of investment classes that include shares, bonds and other assets.

   Any product should mitigate the relevant risks outlined. For example:

   Inflation protection - It should be inflation protected (CPI adjusted).

   Product lifetime protection - It should have product protection guarantees, preferably with support from government.

   Early Death payout – it should have provisions for a death benefit payout in the event of early death. This could be a tapering payout option that lasts say for the first 10 years of the product.

   Dependent Carryover benefit – there should be a carry over benefit in the event that the spouse outlives the account holder.

   ‘Couples’ Product – consideration could be given to developing a lifetime annuity product that could be sold to a couple who have been in a long-term marriage.

Centrelink Pensions and Annuities - Transparency and linkages between Centrelink pension accessibility and purchased lifetime income products is important to those who partly fund their retirement and receive, or could receive, a Centrelink Aged Pension.

5. **What action are funds taking to better manage longevity risk, and what role do you think superannuation funds see guaranteed income products (e.g. annuities, pooled products) playing in the future?**

Superannuation funds do not seem to be active enough in this area. The low take up from consumers and reluctance by funds to offer the products.

AIR is disappointed that following the legislating of Innovative Retirement Income Streams in 2017, less than 10 products have been developed by the financial services industry.

AIR believes that the government or the fund regulators could have done more to encourage further development of retirement income products and their adoption by APRA regulated superannuation funds.

6. **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?**

Yes, the figures outlined in the paper speak for themselves. Government can address this in several ways.

Government Guarantee - Firstly, government should consider financial backing to provide consumer confidence. The Centrelink Aged Pension is underwritten by government as are bank accounts up to $250,000. These are also guarantees provided by the government to insurance companies offering lifetime annuities. These examples could provide guidance on how government could underwrite certain risks and alleviate consumers concerns with lifetime annuity products.

Centrelink Pension Access – Secondly, government currently maintains access to the Centrelink Aged pension as an incentive, by providing a discount on lifetime annuities purchased for the assets and income test. This discount could be increased to create a significant incentive for those receiving a part Centrelink pension.

Government could also assist with the day-to-day development and implementation by:

- Bringing key stakeholders together to identify issues and develop strategic and action plans – as it is with this Treasury Paper.
- Supporting development of an institutional framework, an ongoing consultative framework and a regulatory framework. (This is a huge task which affects all of us and it requires the building of confidence not unlike the confidence in the banking system.)
- Funding skills development related to such products to facilitate a better trained and more skilled workforce. This applies particularly to Centrelink where AIR members report dealing with staff that do not have the required expertise in relation to such matters as pensions and the Commonwealth Seniors Health Card (CSHC).

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

This may help in relation to a minimum basic product offering.

A standard product may reduce confusion.

Another AIR member who is a retired Financial Adviser states – *"Most providers have a large range of funds (too many to take in for most people). These can include lifetime annuities and term deposits, which covers the Government's attempt to encourage clients into these areas."*

Another AIR member who is a retired accountant states – "*Products could be more comparable if they were consistent from company to company, using the same terminology with the same meaning. A framework outlining consistency of terms and products would be a step in the right direction to assist retirees."*

Overall, though, tailoring will always be necessary. Enhancements should be encouraged to tailor to specific cohorts and their circumstances within the retiree community so that product differentiation is evident while maintaining confidence and assurance.

Excessive standardisation is likely to breed mediocrity.

What features should a standardised product include?

Attractive annual income returns, inflation protection, lifetime guarantee underwritten, early death benefit/money back protection and couples protection. Possible Centrelink Aged Pension access benefits. Also, possible lump sum drawdowns, conversions and switching.

a. Should there be a path to more easily transition members to a standardised product?

Yes **-** Rollover of existing superannuation accounts and possible additional concessional contributions at time of transition. This could include access to the Centrelink Aged Pension.

b. Should superannuation funds be required to offer a standardised retirement product similar to MySuper in accumulation phase?

Yes, this could be an option to create more confidence.

c. How should a product vary for individual circumstances of the member?

This is a complicated question because individual circumstances and expectations vary greatly. Obviously, the dollar amount of the member's available funds to purchase the product will be a key variant. In relation to this, another key question will be whether there is going to be a Centrelink Aged Pension component. The members age or stage in retirement would be a factor, making an annuity product more attractive. The example on page 25 with diagram and the appendix bundled product presents an interesting approach.

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

Possibly, the product developers need to determine**.** A standardised product would probably stimulate some competition. But the issue is not necessarily whether it is cheaper. The issue is the extent to which likely benefits outweigh likely costs.

Other Feedback

General Comment – AIR, in general terms, supports development of measures such as those outlined in this paper.

However, AIR does not fully support the view that a *"holistic approach to ensure a complete understanding of the issues at play and the connections between them to inform better solutions".*

AIR would suggest that this paper drives towards an agenda of encouraging the use of lifetime annuities. Whilst the rationale laid out in the paper for this approach is clearly stated it is also acknowledged that only a tiny proportion of retirees currently favour these products.

AIR would suggest that there could be a greater appeal to lifetime annuities for those retirees with average to below average super account balances. Those with higher or above average balances will probably continue to favour the account-based pension product with capital protection and easily available drawdowns.

An individual experience of an AIR member with a lifetime annuity *"I have a lifetime annuity with cost-of-living increases which terminates on my death. My problem is that it does not appear as being secure. I selected CommInsure branch of the Commonwealth Bank as being the most durable company. They sold that part of their business to AIA which has their head office in Hong Kong.. AIA have now sold that section to Resolution Life. In Moody's, it states that Resolution Life is Bermuda domiciled. The financier is based in London. Reviews of Resolution Life are negative. I tried to transfer to another company and I was told I would not get any money back."*

General Comment on the Format of this paper

AIR members found the layout this discussion paper is not as accessible as some previous papers that AIR has responded to. Our members found that having similar worded questions at the end of each section was a little confusing. Our recommendation would be that questions be included at the end of each relevant point so that it is much clearer which content the question refers to.

Thank you for the opportunity to contribute to this consultation.