VIC and
National Office
L22, 130 Lonsdale St
Melbourne 3000

PO Box 24231
MELBOURNE VIC 3001

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

By email: Retirement@treasury.gov.au

Dear Sir / Madam

Retirement phase of superannuation – Discussion Paper

Cbus welcomes the opportunity to comment on the discussion paper which seeks community and industry views on how the superannuation system can best provide the security and income Australians need in retirement.

About Cbus

Cbus has the proud history of being one of Australia's first industry super funds, created in 1984 to assist in giving members a decent standard of living in retirement. Now in our fortieth year, Cbus has more than 910,000 members, managing over $85 billion of their money (as of 30 June 2023).

Cbus has a retirement strategy that is focused on addressing the specific needs of members during an important phase of their lives. The Cbus strategy is a holistic approach to engagement, service, advice and product for our diverse membership and their varying needs. Our strategy is not just about product, but also covers improved member guidance, education and referrals.

Summary of our submission

Our submission examines the unique challenges faced by Cbus members. In comparison to the general population of the same age, our members' working lives are often characterised by fragmented work patterns, and sometimes early, unplanned, and sudden transitions in (and out) of retirement.

Most Cbus members do not work full time for 40 years. It is common for our members to spend time working as independent contractors, and many members also experience periods of unemployment between projects. This has several impacts on members' retirement outcomes – such as lower average retirement savings – often making them more vulnerable to financial hardship as they navigate the gap between involuntary early retirement and Age Pension eligibility age.

Members in a compulsory superannuation system should be able to rely on the standard settings to protect their interests in retirement – yet the quirks and evolution of our system do not always deliver that outcome. In assessing the retirement system, the experiences for the millions of Australian workers whose approach to retirement does not conform to a linear trajectory must be properly considered, which is why our submission focuses on these three key themes:

- **Lower average retirement savings** – many members arrive at retirement with modest super balances.
- **Early and non-linear transition to full retirement** – we can no longer assume a linear transition to retirement and overlook the reality of a phased retirement.
- **System complexity** – creating barriers to stronger member engagement with superannuation in retirement.

ACT
2 Badham St
Dickson 2602

NSW
L25, 44 Market St
Sydney 2000

NT
1/29 Daly St
Darwin 0800

QLD
L3A, 300 Adelaide St
Brisbane 4000

NORTH QLD
Unit 2,
31 Thuringowa Dr
Kirwan 4817

SA
Ground Floor,
50 Flinders St
Adelaide 5000

TAS
PO Box 2001
North Hobart 7002

WA
L1, 82 Royal St
East Perth 6004

Lower average retirement savings

While the overall strength of Australia's superannuation system and success of industry funds like Cbus means that members' wealth has been growing steadily over several years, there are still many Cbus members who arrive at the retirement phase with modest super balances.

	General population[1]		Cbus members[2]	
Age Band	Average account balance	Median account balance	Average account balance	Median account balance
50-54	$215,115	$137,930	$150,171	$109,139
55-59	$277,327	$158,462	$175,457	$121,568
60-64	$361,539	$183,524	$184,165	$107,406
65-69	$428,738	$207,540	$177,987	$84,135
70-74	$481,483	$214,431	$181,710	$90,575
75 or more	$475,422	$171,716	$189,830	$107,175

As the system matures over the coming decades it would be expected that average balances will increase however the system still needs to cater to a diverse group of member circumstances. Cbus members tend to have lower average account balances for a variety of reasons, including gaps in coverage of the superannuation system – construction is the industry with the most independent contractors, periods of insecure, intermittent, casual or part-time work and high incidences of unpaid superannuation.

Policy change in the decumulation phase has recently been focused on the few that have significant sums of wealth in superannuation (e.g. transfer balance caps and contributions caps) yet there is an opportunity to better support members with modest balances to get the most out of their balance in order to have dignity in retirement. Despite the modest account balances of many Cbus members at retirement, the amounts that members can access at retirement is likely to be the largest asset they have ever had access to (outside of the family home) and can play a key role in supporting their retirement – alongside Government support such as the Age Pension and Disability Support Pension.

Default settings within the accumulation phase have recognised the unique experiences, needs and risks of workers - and employers – across different industries and have driven funds (industry funds in particular) to develop products and services responsive to the bespoke needs of their actual or target membership based on the industries they work. Low balance and members with little engagement with the system who have benefitted from a strong default system during the accumulation phase are faced with a complex system to navigate at retirement without appropriate support. These members are also unlikely to be able to afford to pay to see a financial adviser (who often have minimum target market criteria as evidenced by recent research which shows that the average client investment balance of a financial adviser has grown to $744,000[3]). Consumer protections should ensure members are not worse off as they struggle to navigate the complexity at retirement.

Our experience demonstrates that members with lower balances are significantly less likely to take up a retirement product and that the likelihood of a member enrolling in a retirement

[1] Australian Tax Office. Individual statistics (2023). Available from: https://www.ato.gov.au/about-ato/research-and-statistics/in-detail/taxation-statistics/taxation-statistics-2020-21/statistics/individuals-statistics#Chart12Individuals

[2] Internal Cbus data

[3] Adviser Ratings (AR), 2020 Australian Financial Advice Landscape (2021). Available from https://intl.assets.vgdynamic.info/intl/australia/documents/resources/adviser/2020_aus_fin_advice_landscape.pdf

product increases the higher the account balance. Instead, we have observed that members with lower balances are more likely than higher balance counterparts to either withdraw their money and put it in the bank (potentially missing out on returns) or do nothing and leave the account in accumulation phase (and continue to be subject to the 15 per cent earnings tax).

Members asked why they made a lump sum withdrawal and didn't commence an income stream[4]

"Didn't have enough money to make it work [SIS Product]. Need a reasonable balance to make it work". Former Cbus Member

"If I had enough, it would be good - it would've been excellent [SIS Product]. There's not enough in there to be beneficial". Former Cbus member

"Really needed to pay the house off heading into retirement". Former Cbus member

"I wanted to reduce my mortgage". Former Cbus member

Of Cbus members who withdraw their entire balance at retirement, 85% had a balance of less than $100,000. Member survey research found that many members making full withdrawals at retirement believed that due to their relatively low balances they would be better off having money in their bank account and that they did not have enough super to commence an income stream. Other common reasons noted for making a full withdrawal included to pay for income/living expenses, deposit funds in the bank and pay off mortgage/debt.

Another large cohort of members with low balances leave their funds in accumulation phase – 55% of Cbus members that are over preservation age and still in accumulation phase had a balance of less than $100,000. Common reasons provided by these members for not commencing an income stream are because they did not believe they had enough in superannuation, or they found the product/system too complex.

Low balance members often have a much higher need for flexibility than the system currently provides. Given these members are more likely to rely on the Age Pension, it is access to capital (for a 'rainy day'), rather than viewing retirement savings as a means to manage longevity risk that is often their highest priority. The requirement to drawdown an income is often seen as a barrier for low balance members who would prefer to make ad hoc lump sum withdrawals when needed.

As noted in the discussion paper, the minimum annual payment rules are designed so that retirees draw down on their superannuation capital over their retirement - recognising that superannuation is a retirement savings vehicle, supported by tax concessions, designed to provide income in retirement.

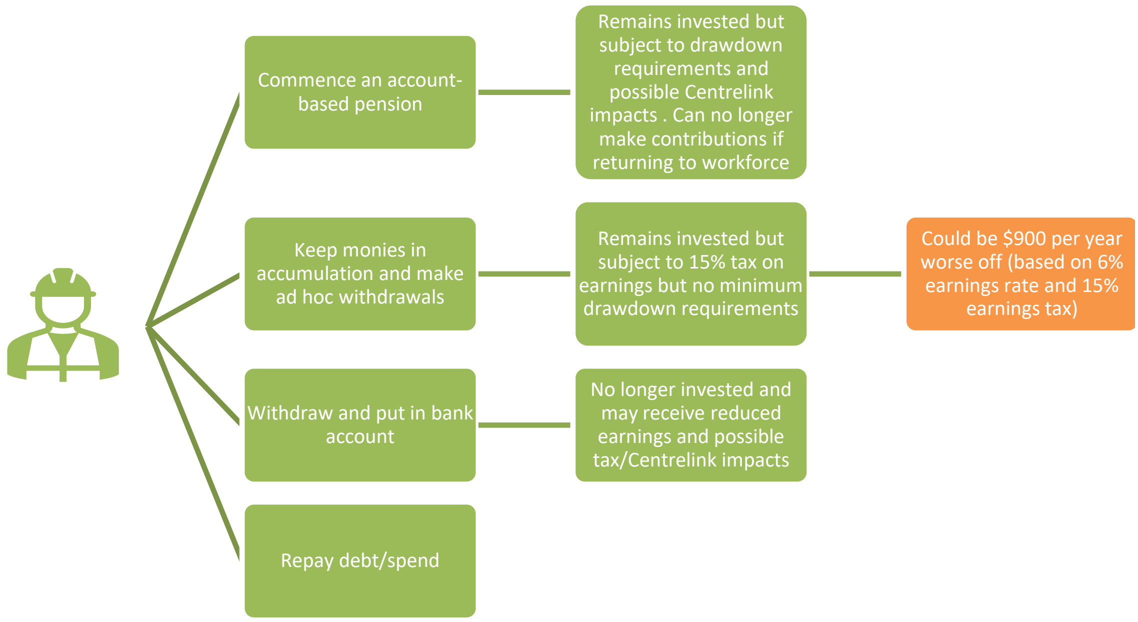
The minimum drawdown requirements however currently add further complexity and it is therefore worth considering the impact that minimum drawdown requirements have on low balance members alongside the likelihood of them not commencing an income stream product. This is particularly pertinent given this cohort of members are by the nature of their low balances, less likely to pass away with significant sums of money.

Furthermore, when low balance members do commence an income stream, Cbus data shows that these members are significantly more likely to drawdown above the legislated minimum compared to their high balance peers.

[4] Cbus survey conducted in 2022

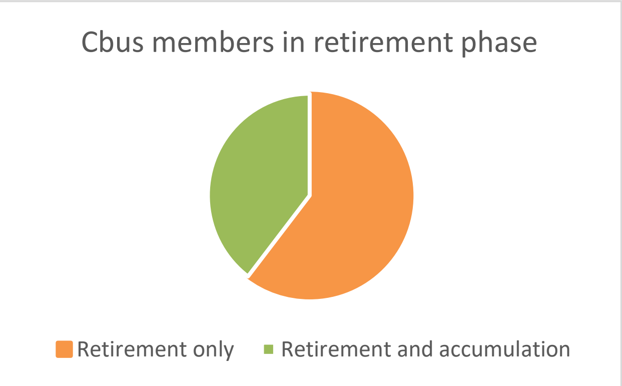
Another feature of the current system is that lump sum withdrawals do not count against minimum drawdown requirements despite this being the preferred option for many low balance members.

Illustrative example of some of the options at retirement for a 65-year-old member with a balance of $100,000



Early and non-linear transition to full retirement

To understand how the system can work for all people, it is important to consider the diversity of experiences faced by Australians as they approach retirement. Due to the physical nature of their work, many Cbus members involuntarily retire early or transition to a different occupation. In some cases, despite not being able to find work in their 60s, many members do not yet see themselves as retired. Early retirement can be challenging for many members as they navigate the period from involuntary early retirement to Age Pension age – often being required to use their superannuation in this period to get by.



Source: Internal Cbus data (2024)

The transition into retirement is diverse, and the policy framework should not overlook the reality of phased retirement and potential re-entry into the workforce.

Under current rules, members in either a transition to retirement account or account-based pension cannot make contributions to their account – they will either have two separate accounts or opt to retain an accumulation account. It is noted that 40% of Cbus members in retirement phase also hold an accumulation account.

Our data demonstrates significant numbers of these members are required to then go through the process of 'recycling' their Account-Based pension – whereby they need to commute their existing Account-Based Pension in order to combine it with their accumulation account and start a new Account-Based pension. This process creates unnecessary paperwork for both the member and superannuation funds. Having to deploy workarounds and requiring people to navigate the quirks of the system dampens engagement in retirement planning and goes against government priorities – such as the Work Bonus – to encourage older Australians to re-enter the workforce.

System complexity

It is widely recognised that Australia's retirement income system is extremely complex. This causes several significant costs and risks for members. This includes the risk of making poor decisions and the costs of poor decisions that impact on a member's retirement income. Complexity means that many members are worse off than they need to be – a significant reason Cbus members cite for not taking up a retirement product (account-based pension) is because they found it too complicated.

This complexity reveals itself in several ways – particularly where the superannuation system meets the ATO and Centrelink. Members must navigate a web of rules and requirements which includes:

- Separate tax treatment for income streams.
- Taxable and tax-free components.
- Different Centrelink treatment and impact on households. For example, a pension income stream is assessable whereas an accumulation account is only accessible when over Age Pension age.
- Requirement to drawdown minimum amounts.

These requirements are especially unclear to members on Disability Support Pension and JobSeeker. Coupled with this is the complexity around retirement definitions and contributions, which includes:

- 55 years of age: eligible to make downsizer contributions.
- 60 years of age: preservation - access super if retired permanently from workforce, change jobs or can access up to 10% when commencing a transition-to-retirement.
- 65 years of age: full access age to super, even if still working.
- 67 years of age: eligible for Age Pension & Home Equity Access Scheme loan
- 75 years of age: can no longer make contributions to super other than employer contributions and downsizer contributions.

Key points:

- System policy design needs to consider a diverse group of member circumstances – in particular members with modest retirement savings and those with an early and non-linear retirement pathway.
- Lower balance members have a much higher need for flexibility than the system currently provides - access to capital (for a 'rainy day') is a high priority.
- The Age Pension provides longevity protection for low balance members who are unsuitable to move into a longevity product.
- Minimum drawdown requirements, system complexity and inability to make contributions are a key barrier for members with modest balances moving to an income stream in retirement – leaving many members worse off due to the different tax treatment of income streams.

Addressing the challenges

Cbus recognises there are opportunities to improve the retirement system to better address the unique challenges faced by our members. The three key issues highlighted in our submission—lower average retirement savings, early and non-linear transition to full retirement, and system complexity—present an opportunity to explore changes that provide greater certainty and flexibility for members, irrespective of how they get to retirement.

Suitable products for members with modest balances

For the vast majority of Cbus members, longevity risk is not their primary concern given the significance of the Age Pension and its role in providing longevity protection. The Age Pension plays a critical role in the provision of retirement income to Cbus members. We estimate that 98% of Cbus members receive some form of the Age Pension with almost 50% of members having 80% of their retirement income come from the Age Pension[5].

There should be a focus on addressing the needs of members that are unable to navigate the system complexity and have modest balances. To address the reluctance of members with modest balances to enrol in retirement products, consideration could be given to allowing funds to provide more suitable products for these members.

Similar to the 'capital reserve' in the bundled retirement product example outlined in the Discussion Paper, such a product could provide an exemption from minimum drawdown requirements - particularly for an initial threshold, such as the first $100,000. The product could also:

- Be assessable for Centrelink at Age Pension Age – removing complexity that households of different ages face when retiring together.
- Receive contributions – reducing the need to hold two accounts as members come in and out of the workforce.
- Provide tax free earnings (as per existing account-based pensions).

Given that such a design could offer members a comparatively better outcome in retirement, there could be scope to explore the role of defaults and nudges to move low balance members into this type of product, given there would be no withdrawal requirements. Member engagement on its own might not ensure the system produces better outcomes in retirement for all members, enrolling members who are transitioning to or in retirement could provide a guided pathway for members that are not as well prepared to navigate the complexity of the system.

It is noted that other countries are also considering the role of defaults and backstops for members:

- United Kingdom:
    - Members of the National Employment Savings Trust (nest) automatically move into a Nest Guided Retirement Fund if they meet certain criteria (aged between 60 and 70 and at least £10,000 balance[6])
    - Department for Work and Pensions (DWP) have proposed that pension scheme providers develop a generic product solution for members. As a backstop the

[5] Based on projections completed by Willis Towers Watson on our behalf

[6] https://www.nestpensions.org.uk/schemeweb/nest/retirement/retirement-options/guided-retirement-fund.html

member would be placed into this solution if they access their pension assets, but do not make an active choice about what they want to do with them[7].

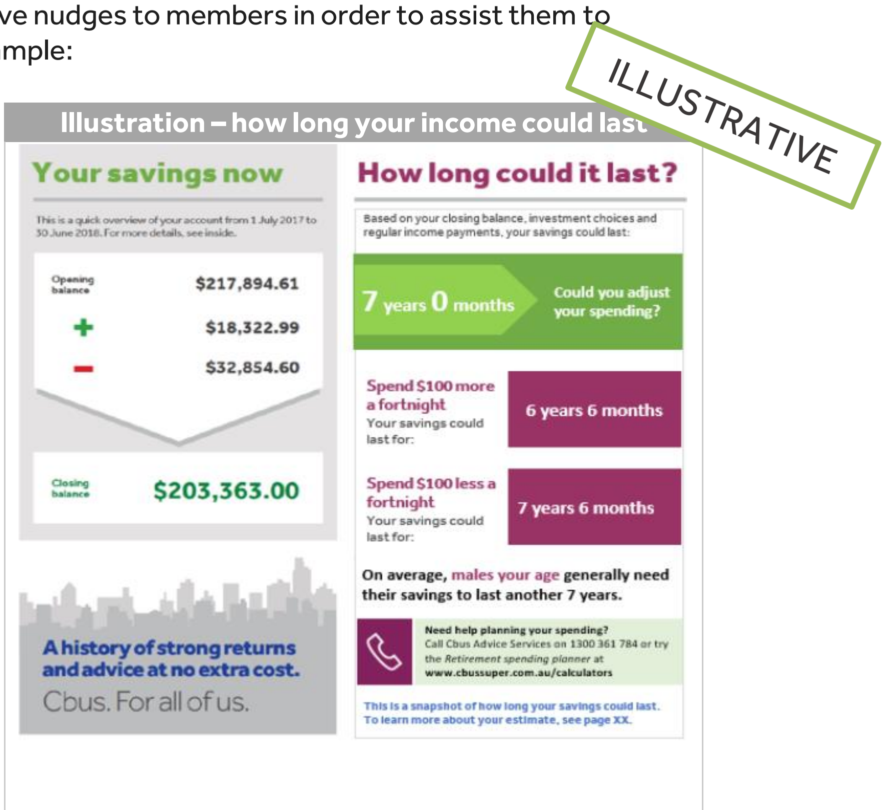
- New Zealand – KiwiSaver members can access their KiwiSaver from the age of 65 as lump sum or can draw down periodic amounts – providing a convenient way to drawdown funds without starting a separate financial product.

Better guidance and support

To navigate retirement complexity, members need varying levels of support depending on their circumstances. Some members require basic information, while others need nudges, personalised digital tools, or financial advice.

Whilst financial advice will play a key role in supporting members in retirement and we look forward to the Government response to the Quality of Advice Review, it is not sustainable or scalable at an individual or system level to rely on every single individual member obtaining personal advice to make an optimal financial decision. Superannuation funds should be able to provide more personalised and proactive nudges to members in order to assist them to improve retirement outcomes. For example:

- Funds could contact members to demonstrate the benefits of moving to an Income stream, based on their superannuation balance – e.g.: earnings tax saved, additional income etc.
- Funds could contact members drawing the minimum to demonstrate that a higher standard of retirement living may be possible, without impacting their Age Pension entitlement. For example, it could show how long their super could last under different drawdown options. This analysis could also be extended by comparing their spending pattern with other Cbus retired members.



[7] Department for Work and Pensions (DWP), Helping savers understand their pension choices: supporting individuals at the point of access: Consultation response (2023). Available from https://assets.publishing.service.gov.uk/media/6571d64f049516000f49be2f/govt-response-helping-savers-understand-their-pension-options.pdf

Performance testing in retirement phase

Given the number of Australians reaching retirement continues to increase over time – it is also important that the same level of protections which apply to accumulation products also apply to retirement phase products. We are concerned that most of the Choice segment (which includes much of the retirement segment) is still not included in the performance test, despite the Productivity Commission findings that this is where many of the worst member outcomes occur – with respect to investment underperformance only. Given the size of member balances in retirement, a small difference in fees and returns can have a substantive impact – possibly more significant than during accumulation. According to research from Rainmaker Information, most retirees will pay more fees during retirement than they would during all the years they were in accumulation[8].

It is our view that the investment performance test should apply to all superannuation products (including retirement products), as recommended by the Productivity Commission. Though it is noted that further consultation as to whether a performance test should apply to certain retirement products in which there is not an investment component (such as longevity products).

It is however noted that measures of success in retirement will likely differ from accumulation phase, with consideration needed in managing longevity and flexible access to savings and ultimately the purpose of extending the investment performance test to retirement phase would not be to apply a quality filter or a sole measure of success but a much narrower assessment to identify significant investment underperformance that could be leading to poor member outcomes.

Data

The current system offers funds very limited insights into individual members' circumstances beyond what their super account balance is. For example, it is unlikely superannuation funds will have data on household circumstances and investments outside of super. It is noted that Government agencies including Centrelink and the ATO collect and hold a significant amount of information directly relevant to members' employment, income and retirement. Members would benefit from the introduction of a simple, efficient way to share their data with their fund.

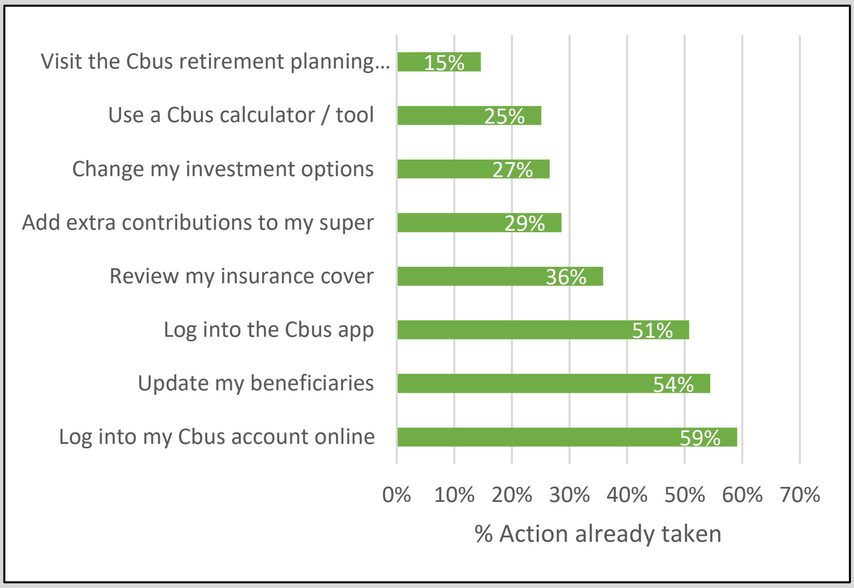
This could enable funds to give members better guidance, pre-populate forms for members, and support members to achieve a better understanding of their financial position before and in retirement.

[8] Rainmaker Information, Retirement is when we pay most of our superannuation fees (2022). https://www.rainmaker.com.au/mediarelease/retirement-pay-most-superannuation-fees

Retirement income estimates

One of the main ways we educate members about their super is through use of a Retirement Income Estimate (RIE) in their annual statements, in line with ASIC Class Order [CO11/1227] Relief for providers of retirement estimates (Class Order). Internal and independent research[9] supports the value in providing these estimates to members, with benefits including increased engagement with superannuation, added super contributions, building financial confidence, a greater understanding of what income members might receive in retirement and reducing concern about income in retirement.

Retirement estimates result in behavioural changes and prompt action[10]



Two months after receiving their annual statement, some members were asked what action they had already taken or planned to take as a result of receiving their annual Cbus super statement. The results in the graph show the proportion that said they had already taken action.

Whilst difficult to separate effect of Statements vs other influences, the results indicate strong positive behavioural changes as a result of receiving a retirement estimate.

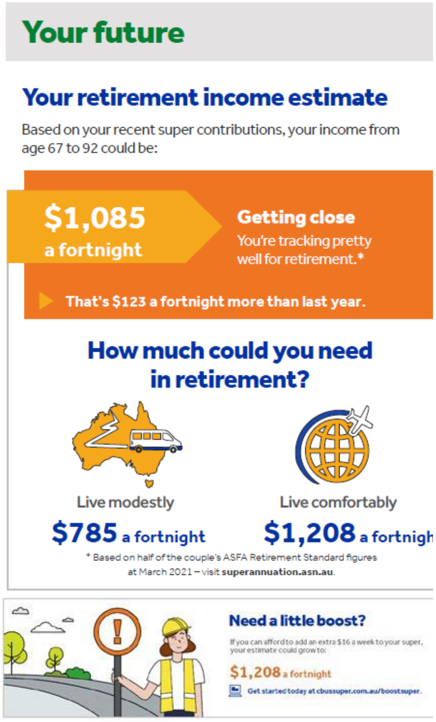
While the RIEs have proven to be incredibly valuable in their current form, there continues to be room for improvement. The calculation and assumptions requirements alongside the intended target audience and delivery restrictions, present limitations and could be improved upon so that superannuation funds can provide better guidance to members.

[9] George Smyrnis; Hazel Bateman; Isabella Dobrescu; Benjamin Newell; Susan Thorp (2019): The impact of projections on superannuation contributions, investment choices and engagement. CEPAR Industry Report 2019/1.

[10] Cbus survey research conducted in 2023

Recommendations include:

- Allowing funds to provide RIEs on a more frequent basis - currently funds can only provide a retirement income estimate to members in their annual member statement. The current limitation significantly impacts both the usability and timeliness for members. Allowing funds to provide them more regularly (at appropriate decision points or milestones, and when desired by a member) is likely to result in enhanced use and ultimately, improved retirement outcomes.
- Allowing retirement income estimates to be based on personalised member circumstances (either what we already know about a member or what they have told us). For example, a member could provide Cbus with information about whether they are a home owner or household debt.
- Allowing RIEs that are based on a retirement age that best reflects cohorts of our membership rather than prescribed standards that exist today under the Class Order.
- Allowing alternative scenario RIEs - Cbus previously provided alternative RIEs which would demonstrate to members the difference that making small contributions to their super would make to their estimated retirement income in retirement. This is no longer permitted under current regulatory guidance.



Example of Cbus retirement income estimate with additional contribution illustration