COTA
For older Australians

Submission to Treasury

in response to the Discussion Paper on

Retirement phase of superannuation

Prepared **by**

COTA Australia

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About COTA Australia

COTA Australia is the peak body representing the almost nine million Australians over 50. For over 70 years our systemic advocacy has been improving the diverse lives of older people in policy areas such as health, retirement incomes, and more. Our broad agenda is focussed on tackling ageism, respecting diversity, and the empowerment of older people to live life to the full.

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Summary of recommendations

Recommendation 1: Abolish "drawdown" language and "accumulation" language - working age phase and retirement age phase - to help refocus cultural change from nest egg/accumulation focus within industry**.**

Recommendation 2: Affirm the role of the age pension as a longevity protection when needed.

Recommendation 3: Develop a 5-year superannuation reform roadmap. Sequence the reforms and have a staggered implementation approach.

Recommendation 4: Implement, and monitor the efficacy of, government policies and interventions to achieve retirement income equity between diverse / disadvantaged populations. Prepare and publish disaggregated data about a dignified retirement of todays and tomorrow's diverse retirees.

Recommendation 5: Model the future predicted retirement incomes of self-employed workers. Consider whether a Superannuation Guarantee should be compulsory for all, including self-employed people.

Recommendation 6: Audit policies with an age-equity lens to remove inappropriate age-based rules.

Recommendation 7: Consider the reality of different retirement phases in policy development and product design. Increase policy focus on the forced / transition to retirement phase.

Recommendation 8: Require annual statements to include a standardised projection of fortnightly income at retirement. Regulate consistent format and assumptions to be used including current age pension rules.

Recommendation 9: Require all superannuation funds to distribute five yearly 'wake up packs' with more detailed information of retirement income projections and modelling of how steps taken now can change retirement incomes at average retirement age.

Recommendation 10: Develop, publish and update a 'recommended' retirement income draw down rate.

Recommendation 11: Make visible political commitment to Medicare and Age Pension to counter retiree belief that "they won't exist when I need them in retirement" (resulting in greater savings for 'a rainy day').

Recommendation 12: Prioritise Superannuation for the next phase of 'Consumer Data Rights' provisions to enable lower cost guidance, and planning by connecting data for the purpose of nudges, segmentation modelling, guidance, intra-fund advice and personal advice.

Recommendations 13: Outline timelines and pathways for individuals to consent to sharing Government held data on themselves with superannuation funds / advisors. (e.g. taxation, Centrelink, land registry / property titles)

Recommendation 14: Fund and develop an independent advisory service for those planning retirement and in retirement.

Recommendation 15: Regulate calculators and retirement income projection calculations to build confidence in the accuracy and consistency of projections.

Recommendation 16: Introduce regulations on SMSFs to require a 'retirement income strategy statement' or other such appropriate mechanism to achieve a similar goal as the retirement income covenant does for managed funds.

Recommendation 17: Ensure that informed consent, and multiple opportunities for member direction occur before any default arrangements are imposed on a super member.

Recommendation 18: Ensure consumer protections (e.g. retirement income performance tests, independent advisory service, regulation on data to be used in comparisons and calculators) are introduced and stabilised before any default options are regulated.

Recommendations 19: Impose trustee obligations to elicit member directions via trustees to recommendations and/or segment driven trustee assignments occur prior to any default is imposed.

Recommendation 20: Work with Services Australia, the Superannuation Industry and the Banking/Finance sector to develop a simply formatted information about their superannuation interests which can be used for applying for the Age Pension and applying for credit.

Recommendation 21: That ASIC/APRA continue to publish annual analysis on the industry's success at developing and implementing retirement income strategies for the next five years, after which the annual cycle may be reviewed.

Recommendation 22: Implement a 'retirement' and 'transition to retirement' annual performance test. Start with existing tests for working life phase being applied to account-based pensions. Design a new test within 2 years for all non-account-based pension retirement products. Ensure SMSF are included in the new tests.

Recommendation 23: Regulate assumptions to be used for calculators, future retirement income projections and comparison tools.

Recommendation 24: Introduce standardized product disclosures for retirement income products once performance tests and regulations for calculator/comparison assumptions are fully implemented.

Recommendation 25: Consider if current regulatory settings are appropriate to allow retirement products to build in different levels of advice to assist onboarding new retirement product members.

Recommendation 26: Treasury to convene a roundtable of banking/finance sector, superannuation sector, Services Australia and regulators to discuss how retirement income information (including age pension & superannuation assets) be interpreted and regulated for credit application purposes.

Recommendation 27: Consider what products could or should be available as part of retirement income planning to assist with later stage retirement financial needs for medical and/or care costs.

Recommendation 28: Consult on the development of a social insurance longevity solution to underpin all lifetime/retirement income products.

Introduction

COTA Australia welcomes the opportunity to comment on the policy issues outlined in the discussion paper on the retirement phase of superannuation.

We all want an inclusive, cohesive and prosperous Australia. Focusing on getting the retirement phase policy settings right (including from an intergenerational perspective) and improving superannuation balance equity across all Australians can have a tangible benefit on individuals lives and the nation’s budget.

COTA agrees that superannuation is about both saving for retirement (accumulation) and delivering an income for a dignified retirement (decumulation). It is important to reflect continued use of accumulation and decumulation reinforces the ‘nest egg’ mentality that has been the main focus of superannuation for the past 30 years. We applaud Government's intention to move the superannuation industry from a focus on investment funds to becoming a retirement service provider - the purposes for which it was established.

Recommendation 1: Abolish "drawdown" language and "accumulation" language - working age phase and retirement age phase - to help refocus cultural change from nest egg/accumulation focus within industry**.**

The retirement phase

The paper correctly identifies the complexity that older people go through at the point of retirement. Importantly it releases Treasury’s modelling that in 10 years’ time there will be an estimated 4.1 million superannuation members who will be in the retirement phase, more than double todays 1.6 million. It acknowledges that people worry about running out of savings but manage this risk by drawing down the minimum and limiting expenditure in retirement rather than taking a longevity product.

The most common longevity product available to older people in later years of life is the age pension and this is overlooked in the paper. While there is less reliance on the age pension by people with higher superannuation balances it remains a key retirement income pillar and will support people who for whatever reason do not have enough superannuation to support them throughout their life. This includes those who may only become eligible for the age pension in their later years as their assets held in the other retirement income pillars assets are used up, or they live longer than their financial plan anticipated.

Recommendation 2: Affirm the role of the age pension as a longevity protection when needed.

We thank APRA/ASIC for taking a proactive approach to monitoring the efficacy of the recent retirement income covenant.

Continued regulatory pressure to encourage funds to go beyond the minimum requirements is necessary. We need to ensure that the superannuation industry is clearly focused on supporting people to plan for, and have, a dignified retirement.

Currently the sector is too heavily incentivised in accumulation targets and the predominate thinking is about investments. This paternalistic approach (we know better than you do because we can get you a better investment outcome) may be appropriate in the accumulation phase but may not be an appropriate culture when acting as a retirement service provider in the later stages of superannuation.

Moving away from this approach requires a significant culture change. This could be supported by reframing the accumulation/working life phase as the way to achieve income to live on in retirement rather than simply growing a 'nest egg'. Trustees should have access to data to make informed nudges and provide relevant guidance to their members to achieve this aim. Comparable obligations on self-managed super funds should also be considered.

Greater regulation may be required from 30 June 2025 (3 years since the covenant started and after changes to advice regulations have been legislated) if the industry has not moved to a focus on supporting retirement.

Develop a superannuation reform roadmap

The discussion paper identifies several good initiatives that should be explored. This should be done acknowledging that quick changes in this space have a major impact on the quality of an individual's retirement/financial future. People need notice of changes years in advance to appropriately plan for their retirement. Accordingly, a bipartisan approach to delivering stability through any changes is necessary. One way of doing this would be to publish a five-year roadmap outlining the sequence of planned changes and allows testing of the changes prior to full implementation. This would allow sensible adjustments to be made along the way while providing certainty for individuals. The roadmap should have clear pathways for both trustee-directed superannuation funds and self-managed super funds to make changes in either the working age phase (including planning for retirement) or the retirement phase (including transition to retirement).

The roadmap should be accompanied by a program to develop better monitoring of the efficacy of the system, including for a range of cameos reflecting the diversity of the population.

A review of all three pillars of the retirement income system should be undertaken at the commencement of the final year of the roadmap to inform the development of the next roadmap.

The below outlines one possible sequence the roadmap could consider, ensuring that:

- consumer protections are in place first,
- followed by a 'voluntary' period that enables live testing and refinement,
- and only then any period of mandatory requirements

1. Removal of age discrimination in superannuation laws and regulations (e.g. 75yo's should be able to make voluntary (concessional and non-concessional) contributions).
2. Implement changes to financial advice based on the Quality of Advice Review.
3. Consider regulations that allow retirement funds to include onboarding advice (to improve intergenerational fairness in accumulation funds).
4. Introduce Consumer Data Rights for Superannuation industry (to allow individual members to opt-in to sharing financial information with their super fund and/or advisors to improve ease of retirement planning).
5. Introduction of data sharing capability from Government to super funds, with an opt-in mechanism by individual members to obtain their informed consent. Ideally this should be utilising the same consumer data rights framework. Information should be progressively built to share data from the ATO, Centrelink and land registry offices.
6. Introduction of performance tests for both current pension-based accounts, future income stream and other retirement products.
7. Introduce consumer protections for retirement income stream products (including longevity products). This may include accreditation of some retirement income stream products.
8. Introduce regulations to require all funds to have one optional longevity product. Encourage increased segmentation of members to facilitate improved nudges.
9. Introduction of 'retirement income objective' requirement on Self-Managed Super Funds.
10. Amendments to regulations that restrict access to credit for retirees (e.g. ASIC RG209) and clear format for financial institutions about funds held in retirement.
11. Regulations around 'nudges' and 'guidance' including key data that can be collected for segmentation and one-to-many tailoring, before individual personal advice regulations apply. These regulations and guidelines should include what standard calculations must be used in any online calculators / comparison tools to ensure equity and accuracy across the industry.
12. Introduce ATO / My Gov nudges to encourage individuals to consider their retirement at appropriate milestones leading up to retirement.
13. Require annual statements to include retirement income projections of likely fortnightly income (both superannuation and pension entitlements). Regulate consistent format and assumptions (to ensure they are consistently calculated by all funds the same way) including current age pension rules.
14. Require superannuation funds to develop 5 yearly wake up packs sent to members from age 45 years.
15. Require superannuation funds to introduce nudges, trustee recommended options and defaults at key milestones.
16. Production of a Government-backed 'recommended drawdown rate' (not just a minimum) to provide guidance to individuals on the amount of money to spend from their retirement.

17. Funding to improve access to independent retirement planning tools, guidance and low-cost/free advice.
18. Consider enhancements to regulations around longevity products, such as requiring funds to promote the option to all people at the point of retirement.

Recommendation 3: Develop a 5-year superannuation reform roadmap. Sequence the reforms and have a staggered implementation approach.

Monitor impact of government policies on different population groups

Australia is a diverse, not homogeneous population, with different levels of wealth, opportunities and disadvantage. Superannuation policy reform needs to consider these groups and the strategies Government will implement to achieve equitable balances in retirement.

While the 28% super gap[1] for women retiring with balances less than men is well known, government policies to achieve gender equity[2] such as superannuation on paid parental leave remain under consideration. With women on average living five years longer than men[3] and leaving the workforce on average 5.3 years earlier than men[4], women will need an extra 9 years of retirement incomes (age pension/government supports, superannuation, personal savings) to provide for a dignified retirement. In 2021, of the people who were retrenched and retired, 14% of women had no personal source of income. The average age of these women was 57.4 – ten years before they can receive a government pension.[5] Further work is needed to consider the various issues women face to have an equitable and dignified retirement income.

Disparity of retirement outcomes for renters (compared with homeowners or mortgagors), people who are forced into retirement earlier than their financial plan intended, people who are long term unemployed prior to retirement due, in part to ageism, should also be considered. While some policies have commenced to improve the rate of Commonwealth

[1] Roy Morgan Single Source (Australia), 2022. Available here.

[2] Women's Economic Equality Taskforce 'A 10-year-plan to unleash the full capacity and contribution of women to the Australian economy 2023 – 2033', Recommendation 2.6 (October 2023). Available at: https://www.pmc.gov.au/resources/10-year-plan/recommendations

[3] Median age at death for women 85.0, 79.7 for men. ABS, Deaths, Australia (September 2023), available here.

[4] Australian Bureau of Statistics, 6238.0 Retirement and Retirement Intentions, 2020-21 (August 2023)

[5] Australian Bureau of Statistics, Table 6. Sources of income in retirement, 6238.0 Retirement and Retirement Intentions, 2020-21 (August 2023)

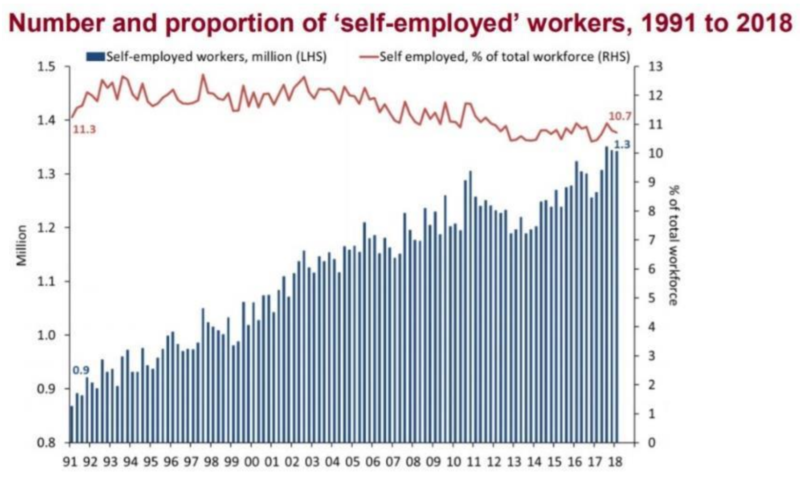
Rent Assistance[6], and to improve outcomes for mature age jobseekers and workers[7], the ongoing gap indicate further work is required.

Clear data pulled together from Government and non-government sources such as superannuation funds is necessary to ensure effective monitoring of how the system is working for different population groups. Such data should include all aspects of the three retirement pillars including personal savings and investments and home ownership.

Recommendation 4: Implement, and monitor the efficacy of, government policies and interventions to achieve retirement income equity between diverse / disadvantaged populations. Prepare and publish disaggregated data about a dignified retirement of todays and tomorrow's diverse retirees.

Superannuation on every dollar earnt - Self-employment

In order to have a dignified retirement, Government must also consider how to ensure different cohorts of the population will prepare for their retirement. The number of self-employed Australians has risen over the past two to three decades; from around 890,000 in 1991 to 1.3 million in 2018, although as seen in the figure below, there has been a slight decrease in the portion of the working population who are self-employed. Without compulsory superannuation, individuals must make their own arrangements for their retirement income.



Sources: ABS *characteristics of employment*; *Labour Force Australia, Detailed Quarterly*.

Most self-employed people have little or no superannuation, and only a small minority make contributions on a regular basis – and this poses a significant question for public policy. In 2012 around 29% of the self-employed had no superannuation, or where they did

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[6] Rishworth, A. Chalmers, J. 'Boosting support payments to help with cost-of-living pressures' (May 2023). Available at: https://ministers.dss.gov.au/media-releases/11146

[7] See https://www.dewr.gov.au/mature-age-hub and

their balances were significantly lower , with men more likely than women to have none.[8] The latter may have changed more recently but we understand it is still low. The assumption that self-employed people have put their retirement savings into assets other than superannuation is not true. Instead, around 50% of the self-employed do not have significant business or other financial assets.[9] The evidence available indicates that many self-employed people are not financially prepared for retirement.

The 2017 changes designed to incentivise voluntary contributions to superannuation, does not appear to have resulted in a substantial increase for self-employed people. Many tax incentives have a limited effect, if any, on the decision to make salary sacrifice arrangements. This is in part due to the limited incentive on low and middle incomes, the complexity of the retirement income system overall, or, simply, that individuals feel that they cannot afford to invest long-term if they are struggling with costs of living right now. The inability to access the funds when voluntarily put into superannuation makes it less attractive compared to other investment options for many self-employed people. Put simply, it brings self- employed people comfort to know they could easily access their funds if personal circumstances change, even if in the longer run they may be disadvantaged.

To that end, COTA Australia urges the Government to consider the modelling on the future predicted wealth of self-employed people. In principle we believe that the Superannuation Guarantee should be compulsory for all, including self-employed people, for the same reason it is compulsory for wage and salary earners – to ensure a dignified retirement with suitable levels of retirement income.

Recommendation 5: Model the future predicted retirement incomes of self-employed workers. Consider whether a Superannuation Guarantee should be compulsory for all, including self-employed people.

Address ageism in superannuation regulations

Ageism hurts us all – older people and younger alike. Ageism is hurting older people and stopping them from giving back. As we all live longer and healthier, in order for older Australians to fully participate in the economy and community they need to be given the opportunity to live a dignified retirement.

That means working for as long as they want; supported to have the healthiest life in later years as possible; and having the skills and support to navigate the financial and non-financial opportunities a dignified retirement can present.

[8] Clare R, 2012. *Equity and superannuation: the real issues.* ASFA

[9] Ibid

Without action and leadership from governments, the current systems can't change and will continue to contribute to inequity and make life harder for everyone both young and old.

From 2022-23, compulsory superannuation contributions and downsizing contributions made by a person over the age of 75 could be accepted by a super fund.[10] For those over 67 the work test, or work test exemption rules apply in order to make tax-deduction personal superannuation contributions. Downsizer contributions are permitted for people aged 55 years or older.

We note that compulsory employer and downsizer contributions can be made at any age and that the changes meant voluntary contributions could now be made up to age 75 without a work test requirement. Nevertheless, rules based on age require a clear and stated policy rationale. For example, no public rationale for preventing a wife of working age to make contributions to her retired husband's superannuation as any other couple can, has been articulated. Similarly, employer contributions beyond the compulsory items made available to all employees, such as contributing to administration fees and insurance premiums, should not be restricted simply because the employee is over the age of 75 years.

If a super member has moved into the retirement phase and opened an account-based pension, no new contributions are able to be made to this account. At age 75 years employer contributions are also not able to be made to their account-based pension. This means that individuals are required to have a second account, paying additional administration fees and resulting in less retirement income. With government policies encouraging part-time work for people who have moved into the retirement phase, such policies appear ageist and inconsistent.

An audit of such policies is needed to remove inappropriate age-based rules. Where age distinctions are kept for a particular reason, the policy rationale should be made transparent and published.

Recommendation 6: Audit policies with an age-equity lens to remove inappropriate age-based rules.

[10] See https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/caps-limits-and-tax-on-super-contributions/restrictions-on-voluntary-contributions

Supporting members to navigate retirement income

Members face complex decisions to plan their retirement income

People have different levels and interests in retirement planning

Not all members are the same. Super Consumers Australia breaks down members planning for retirement[11] into three groups of people and their attitudes to retirement planning:

- **Disengaged** – 38% of people are "not that interested in my finances"
- **Engaged Delegators** – 25% of people "My financial decisions are very important, and I see the value in the expertise of professionals"
- **Engaged DIY** – 37% of people "My financial decisions are very important and I am confident enough to do it myself"

Solutions to support people making complex decisions will need to consider broadly these three scenarios. For example, use of nudges to elicit engagement, may result in the 'engaged delegators' simply stating to the trustee they want to take the trustee's recommendation (aka make the decision for them). Consumer protections are needed to ensure that nudges are used appropriately including the frequency required.

People have different financial needs at each retirement phase

Broadly COTA Australia describes five stages of retirement to support people think about their retirement income needs at different stages of life, or circumstances.

Retirement phases can broadly be described as:

- **Working Life (16-67+)**– during this phase people need to understand how much money their superannuation will translate into when in retirement. Talking to people about their 'lump sum' does not easily equate to an understanding of how much money they will have to pay bills each fortnight.
  Nudges should be used to:
  - collect data to better inform trustee recommendation segments,
  - provide guidance and promote calculators to educate those wanting to receive more information,
  - in a non-product recommendation – alert members to things to consider / pathways towards trustee recommendations.

  Trustee recommended actions and interventions to protect those who are disengaged are all critical during this phase. Current provisions that indicate a super fund holding information about a member could trigger personal advice clauses need to be

[11] Super Consumers Australia "Retirement Spending Levels and Savings Targets." (March 2022). Available at https://www.superconsumers.com.au/retirement-standards-consultation

considered in light of what data is appropriate to be collected to build an appropriate segmentation model.[12]

From 45 onwards, more assertive communications to encourage engagement by members is required. The long journey of retirement decision making should start in a light touch way early, to provide for the greatest number of opportunities an individual can personalise their version of a dignified retirement.

- **Forced/transition-to-retirement (50-67+)**– COTA views this phase to include any people who:
  - have begun a transition to retirement strategy/pension,
  - are long term unemployed in later years waiting for either their superannuation preservation age, or access to the age pension,
  - were forced into early retirement before their original financial plan, or
  - remain in, or return to, the workforce beyond age pension age.

  Significant financial significant shocks to plans for a dignified retirement outcome can and do occur during this phase. For those forced into early retirement, this transition to retirement phase is likely to have a great impact on their financial security in retirement. Greater policy focus on this phase is required.

- **Earlier Retirement (60-75+)** – The notion of when someone retires spans a 10-year period. Evidence shows that many people retire earlier than age pension age. Some as part of a deliberate plan to access superannuation at the preservation age, others are forced retire due to illness or retrenchment. For those who plan the early retirement years are understood to have some of the highest financial needs but may be funded from other sources in order to preserve superannuation as part of a tax minimisation strategy for longer.
- **Middle Retirement (65-80)** – Following a period of more active retirement, research shows that many people's spending patterns lessen due to a less active lifestyle. Be it from simply having travelled everywhere they planned to, due to increased frailty, increased desire to be more present within their family structures or loss of a partner. The reasons for this shift into the middle retirement phase and the impacts of being in this phase vary.
- **Later Retirement (75-80+)** – This later phase of retirement is often indicated by increased medical and care needs, along with a reduction in discretionary spending. The

[12] As an example, trustees might be permitted to source and act on information that is critical to assign members to a cohort under their cohorting process. For instance, a detailed cohort-based process that considers assets outside of super, homeownership, partnered status and the member's preferences might be permitted to collect information on all these aspects, but not go beyond.

Discusses such as flagging whether a particular member has multiple superannuation fund accounts, receives the Age Pension in part or full, or has a spouse.

https://theconexusinstitute.org.au/wp-content/uploads/2023/11/Pathways-to-retirement-income-solutions-Final-Paper-20231127.pdf costs associated in the later retirement phase are often illustrated with a higher financial need than middle retirement driven by health and care costs.

Things to note about this model:

- The years of age are indicative only. They are designed to illustrate that these phases overlap and will occur at different times for different people. Some people may skip entire phases altogether (e.g. move directly from working to early retirement, skip middle retirement due to ill health, remain in transition to retirement longer and move directly into later retirement).
- no two people will experience these broad categories in the same way. Each retirement journey is unique.

Having an easy to understand conceptual model helps to facilitate an individual's personal vision for their own retirement and what their retirement needs may be. Current Government retirement planning solutions, such as MoneySmart provide no insights into these different stages of retirement and their likely financial variations.[13] Similarly, policy considerations such as default retirement income products seeking to 'income smooth' retirement should also be alert to how their solution will meet the different needs at each phase.

There has been a growing understanding of the value of planning for stages of retirement and their different financial needs by financial planners in the last decade. However Government approaches to this nuance remain outdated. Government can do more to support individuals understanding of the broad retirement stages and the different financial needs they may have during those stages. Ensuring data is collected and reported on to demonstrate some common retirement experiences for diverse groups of people during each phase is required.

Recommendation 7: Consider the reality of different retirement phases in policy development and product design. Increase policy focus on the forced / transition to retirement phase.

Help people to create their retirement vision – both financial and non-financial

Retirement planning, and the support needed to help someone make informed decisions should always commence with working out what an individual wants their retirement to look like. While decisions taken at the point of retirement may change over time, there nevertheless need to be a number of things considered:

[13] See https://moneysmart.gov.au/retirement-income/prepare-to-retire

- **What are the non-financial goals I have in retirement?**
  Envisaging what your life will look like when your current working patterns change is no easy task. Support to think of the options available, assess which ones you want and when are critical to achieving a dignified retirement. Many of these opportunities, once crystalised in a person's mind will have an impact on their financial needs to support themselves achieve those goals.
- **How much money do I 'need' in retirement?**
  For example, 1 in 5 people think that Government issued minimum draw downs are a recommended amount someone needs in retirement[14]. A greater authoritative understanding of what expected amounts of retirement income are likely to be available.
- **How do I learn to make these decisions?**
  While there is a correlation between financial literacy and better retirement income outcomes, without deeper analysis we are unable to state whether there is a causation (i.e. financial literacy leads to higher super savings).[15] Investment in financial literacy skills is critical to giving members the tools to understand these issues.

There are now a variety of retirement planning tools, advice and support available in the community. This is good to see but more work on giving people a decision-making framework to make good decisions is required.

Given the complexity around making decisions for retirement, using easy to relate to concepts in the retirement planning phase is critical. One such approach we have favoured appears to be modelled off The Barefoot Investor by Scott Pape's concepts of buckets of funds for retirement income. It is likely that older people will continue to think about 'buckets' of money for specific activities (holiday, debt repayment, major expenses), an investment bucket (currently the bulk of their superannuation) and the every day bucket (which may in the future be used for retirement income streams). Expanding this concept, some will also seek a bucket (or account under one of the existing buckets) for medical and care future expenses, bequests etc. More work on developing how people explain their retirement income planning is needed to develop a simple, easy to understand method of guidance and information for those who are not overly engaged in their retirement planning journey.

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[14] Super Consumers Australia 2023.

[15] Preston, Alison. "Financial literacy in Australia: insights from HILDA data." *Perth, WA: University of Western Australia* (2020).

For retirees, superannuation is no longer a nest egg, it's their income

"It's a nest egg for old age, but when we get to our old age, we don't use it because we might need it at a yet older age. Then we die and can't use it anyway!" (Feedback to COTA by retiree)

COTA's long argued position is that the purpose of superannuation is to generate optimum retirement income, rather than ending up as bequests. It's good to see that the discussion paper recognises the importance changing the mind set from a lump sum, or 'nest egg' approach, to superannuation as retirement income.

This mindset shift is not just for "retirees" but across the entire lifespan if individuals are to effectively use superannuation as retirement income.

The research on why people draw down the minimum amount highlights that 1 in 5 thought it was a government recommendation, 1 in 7 thought it's the easiest thing to do and 50% said they don't need to spend any more than they're spending now.[16] (Although we also note that a quarter of people say they don't know how much they need to save for retirement.[17])

The discussion paper outlines a summary of suggestions as to why there are low drawdown rates yet provides little citation for its evidence base to assess. While we agree with its summary, there is minimal qualitative and quantitative research that fully illuminates why different cohorts of people resist drawing down on their retirement lump sums to generate a more adequate income.

From anecdotal evidence we receive, we are conscious of the following reasons:

a. Throughout their lives until retirement people are encouraged, incentivised and to a degree frightened into believing it is vital for their well-being that they accumulate as large an amount of assets as possible. Yet on retirement they are expected to reverse a now ingrained instinct and plan to run those assets down. This is difficult in a superannuation system in which leaves the individual to accept full responsibility for the risks:
    - longevity - will I run out of money,
    - health and aged care cost - will I have enough money to support my needs, and
    - investment risk - what if there's another crash.
b. That "culture of saving" is reinforced by superannuation funds promotion of their value proposition, strength and success on the size of their investments and the size of the

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[16] Super Consumers Australia 'Insights from our survey about how older Australians are using their super', Chart 4: Reasons people gave for only drawing the legislated minimum from their superannuation, 2023. Available from: https://www.superconsumers.com.au/minimum-withdrawals-blog

[17] Super Consumers analysis of data from Fiftyfive5 (2021) "Retirement Income Standards: Quantitative Report" contained in 'Retirement Spending Levels and Savings Targets' (March 2022).

member's lump sum[18]. Superannuation Funds have consistently reinforced the nest egg mentality when communicating with their members by focusing exclusively on the amount of accumulation, not what it could generate in income. In nature, eggs transform into animals (birds, fish, monotremes, etc) but superannuation nest eggs are never portrayed as transforming into an income that can materially improve one's living standard in retirement. It is only recently that a few funds have started to communicate regularly with their members about the retirement income they can expect. It is not clear that this yet incudes explaining how generating an optimal retirement income necessarily involves a planned draw down beyond the legal minima required.

c. Our superannuation rules currently do not require that the tax advantaged asset we generate at retirement must be used to produce a retirement income, so people can take it as a lump sum, which they then protect and try and live from the earnings on it (plus a part pension in most cases).

d. If people do take all or part of their superannuation savings as an account based pension, or as an annuity using superannuation, the minimum required drawdown is quite low in the early years of retirement and in recent years for people taking only the minimum, and having their balance remain invested in a Balanced type product, their balance will have grown rather than fallen. This of course may change into the future. Ironically the minimum drawdown rises significantly in later years, when one's income requirement generally decreases.

e. While in principle people should understand that they have substantial longevity insurance available to them in the form of the Age Pension this does not seem to be understood by many retirees. While living only off the age pension may not seem an attractive prospect to many people when commencing retirement, at later years when income requirements tend to be lower, it is often quite sufficient, depending on provision to meet care costs.

f. Some people report to us as part of their retirement planning that they do not believe the age pension or Medicare will be available to them in the same way it is today. Accordingly, they seek to save their own funds for future use when they have increased medical and care expenses.

g. Obviously some people do protect their balances because they wish to bequeath the funds to children or grandchildren. When they do this with assets they have acquired outside of superannuation that is properly entirely their call. When they are doing that with tax advantaged superannuation the degree to which that should be possible is a public policy question.

[18] For example, the most common and long running advertisement by industry super funds comparing themselves with retail funds is all about the size of your lump sum on retirement, not about what your income will be.

We believe that as part of the requirement to manage the sustainability of retirement income, Trustees must communicate clearly with their members that this entails the consumption of their capital, and that longevity risks are incorporated clearly and effectively in that same strategy.

COTA has long argued that Superannuation Funds should be required to provide members with reports on both their accumulated funds and on their projected retirement income. Reporting on projected retirement income should be based on a standardised set of variables prescribed by APRA or ASIC with appropriate caveats.

A dedicated communication device (i.e. separate to the annual statement) should be sent at five yearly intervals from age 45 to increase the likelihood of engagement with an individual's retirement pre-planning. These 'wake up' packs should be required by the entire industry and should include a consistent, regulated summary to build confidence in the projections articulated. These wake up packs should be included in any regulation about 'nudges'.

The projections on annual statements (or exclusively in wake up packs) could also provide comparison estimates based on (say) two levels of additional voluntary pre-tax contributions, to demonstrate what extra savings could generate. Reporting on estimated retirement incomes is fundamental to cultural change and should be a prescribed component of all Trustees retirement strategies.

Recommendation 8: Require annual statements to include a standardised projection of fortnightly income at retirement. Regulate consistent format and assumptions to be used including current age pension rules.

Recommendation 9: Require all superannuation funds to distribute five yearly 'wake up packs' with more detailed information of retirement income projections and modelling of how steps taken now can change retirement incomes at average retirement age.

Default behaviour, precautionary saving, and withdrawing at the minimum

Generally, older people take a frugal approach to their retirement. In COTA's 2018 State of the (Older) Nation report[19] we found that 82% of people agree with the statement "Before I buy something I carefully consider whether I can afford it" while less than 1 in 5 agree "I find it more satisfying to spend money than to save it for the longer term". Other research reconfirms these findings with actual consumption reported as low compared to ASFA retirement measures, even for wealthier households[20]. Consumption declines with age, instead of increasing in line with expectations of rising medical costs[21].

Another area that reinforces the nest egg mentality is the misunderstanding around Government issued minimum draw down rates. This is a particular issue for superannuation members who don't want to or can't afford to seek advice. While these figures don't specifically outline how these members regard the minimum drawdown, the clear views shared with COTA are that many misinterpret them as a government recommendation, not a minimum requirement. Accordingly, we think both a minimum rate and recommended rate for a dignified retirement should be published.

In considering recommended drawdown rates, the real-life experience of needing more funds in early retirement, less funds for discretionary expenses in mid retirement and some additional fund for medical and care needs in later retirement should be included. This is not consistent with the current minimum draw down rules that progressively increase the minimum drawdown as people age.

We note that some people discuss the concept of 'defaults' in retirement at a certain age. This approach is troubling for two reasons. The first is that there is no longer a universal age of retirement, with many retiring earlier due to economic, personal or medical reasons. The second is that there are a range of individuals who plan to utilise non-superannuation assets from the 3rd pillar of retirement (private savings including the family home), earlier in their retirement plan, followed by a combination of the 2nd pillar (superannuation) and transitioning into a blend of 1st and 2nd pillar sources, eventually planning to be reliant on the 1st pillar (age pension). This is the way our system works. It is designed to utilise all three pillars in retirement. If we were to use age to default one pillar, it would diminish the other two pillars. Age based assumptions when applying defaults are therefore highly problematic.

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[19] See Page 54, https://www.cota.org.au/wp-content/uploads/2018/12/COTA-State-of-the-Older-Nation-Report-2018-FINAL-Online.pdf

[20] CEPAR 2014, Age Pensioner Profiles: A longitudinal study of Income, Assets and Decumulation

[21] Asher A, Meyricke R, Thorp S & Wu S, 2017. *Age pensioner decumulation: Responses to incentives, uncertainty and family need*. Australian Journal of Management, 42(4):583–607

Recommendation 10: Develop, publish and update a 'recommended' retirement income draw down rate.

Recommendation 11: Make visible political commitment to Medicare and Age Pension to counter retiree belief that "they won't exist when I need them in retirement" (resulting in greater savings for 'a rainy day').

Potential policy responses

Guidance, education, and communication

COTA is supportive of regulations that require super funds to improve and tailor their communications to members. Taking a life course approach to communications and identifying what needs to be communicated when onboarding new members, through to 'nudges' / 'wake ups' in the middle of working life, and providing 'nudges' and 'guidance' at retirement planning phases are all welcome.

However, clear requirements should be in place to ensure that communications are tested, prior to being introduced, to ensure people understand and can take action. Research could be undertaken by the industry or government to inform design, but the final product must also be tested with a reasonable and diverse sample of members before being implemented on a wider scale.

A current barrier to providing guidance to members is the tension between collecting key information for the purpose of segmenting and tailoring nudges and guidance that are relevant to a member, and the regulations around personal advice that triggers a trustee's obligation to consider the information it holds. Clearer regulations between these two issues will be needed.

As a starting point we think the following information should be held by a superannuation fund to build segmented messages, nudges and guidance for members:

- Age of member
- Marital/Relationship status
- Age pension eligibility (e.g. home ownership status, Assets held outside superannuation)
- High level health status
- Retirement Age intention

Collection of data should, so much as possible be collected in low friction easy solutions throughout the life course. That is to say a single focus question on an app asked once every six months, perhaps associated with a competition for increased response rates, may yield greater data for segmentation, than a survey of 10 questions asked at the point of retirement. We recognise not all people will engage with their superannuation fund throughout their life, but the use of better strategies should increase the current levels of engagement.

In order to distinguish between personal advice and data for the purpose of nudges/guidance, consideration may be given to holding some in ranges (linking to actuarial data) for segmentation and specific answers when collected trigger personal advice requirements. Such an approach may assist individuals in understanding the distinction between information given for different purposes. More detailed discussions about such regulations would need to be held with the industry, advisors and recent/current retirees to ensure solutions are fit for purpose.

One way to reduce the cost / time burden of sharing this information is to expand Consumer Data Right provisions to the superannuation industry (e.g. and to enhance it to include access the information held by ATO, Services Australia (e.g. Centrelink) and state land registry offices. Such an approach would provide a clear regulatory framework to govern the sharing of this data and would maintain the individuals consent as the permission for this information to be shared. If an individual did not opt-in to share the data via CDR processes, they would continue to be able to manually provide this information to funds. Increased efficiencies in data analytics would enable greater clarity about cohorts of members within a fund based on real time data. While such an approach would take a number of years to both build, test and deploy, it will also take a number of years to actively refine how the supplied data is mined to identify appropriate segments of members.

In the interim, the objective data could be provided by the ATO to Trustees on a de-identified and collectivised basis for each fund. This would assist funds in understanding their collective members situations better in a shorter period of time, and would substantially assist in in cohort analysis to develop segmented membership groups. Without good quality and comprehensive data, it is highly unlikely that Trustees will feel equipped to develop different strategies for different member segments.

Recommendation 12: Prioritise Superannuation for the next phase of ‘Consumer Data Rights’ provisions to enable lower cost guidance, and planning by connecting data for the purpose of nudges, segmentation modelling, guidance, intra-fund advice and personal advice.

Recommendations 13: Outline timelines and pathways for individuals to consent to sharing Government held data on themselves with superannuation funds / advisors. (e.g. taxation, Centrelink, land registry / property titles)

We also support proposals that Government increase their contribution to the provision of free and impartial guidance including:

- Promoting existing Government services such as Services Australia's Financial Information Service and Aged Care Specialist Officers.
- Funding the delivery of an independent entity to provide impartial and low-cost/free guidance for people in the retirement planning stage of life, or who have retired.
- Publishing recommended draw down rates
- Regulating clear rules around calculators and retirement income projections on what data is to be used to ensure consistency in projections and to prevent 'gaming' by individual organisations. This will require careful consideration of how past performance is used to demonstrate variability between funds (e.g. 10 year average return rate used for future projections), and a clear regulation around how expenses by funds (administration, insurance etc) is required to be included in future calculations (e.g. 5 year past average expenses with CPI projected increase). While it is clear no consistent modelling will be a fully accurate projection of an individual's circumstances, it will provide a consistent estimate across all funds.

We identify the need for performance tests of retirement products in Recommendation 18 of this submission. Once introduced, an independent comparison tool for retirement income products to help people easily understand and compare the features and quality of retirement products should be developed by Government.

The independent and impartial advisory service should assist people with understanding their retirement vision, identify the various 'buckets' of income needed in retirement, help them to compare retirement income solutions and support them in making decisions about their retirement income plan. Broad scenario modelling for the individual using online tools should be freely available and over time be able to be built in with a degree of personalisation through the use of Consumer Data Rights access to current information. The service's activities should be annually reported and regularly evaluated with users (current and past) to ensure outcomes provide no unintended consequences.

Recommendation 14: Fund and develop an independent advisory service for those planning retirement and in retirement.

Recommendation 15: Regulate calculators and retirement income projection calculations to build confidence in the accuracy and consistency of projections.

We note the possible policy response to include Self-Managed Super Funds in the retirement income covenant. In principle we agree with this proposition as all funds should be required to think about how it is working to provide retirement income. How this requirement is implemented will be critical to its success. It may be necessary for a simple one page ‘retirement income statement’ to be developed by SMSF’s and for those statements to be lodged with the ATO in order to attain SMSF status. Any approach to developing an SMSF ‘retirement income strategy statement’ must be designed with self-completion by the individual in mind. This regulatory tool should not be so complex as to require additional financial advice expenses to comply.

Recommendation 16: Introduce regulations on SMSFs to require a ‘retirement income strategy statement’ or other such appropriate mechanism to achieve a similar goal as the retirement income covenant does for managed funds.

Funds assisting and defaulting members to better settings

The purpose of minimum drawdown and recommended drawdown profiles are different. As discussed earlier, without having both, the minimum drawdown will continue to be the amount withdrawn by some members who do not seek advice. We strongly support the policy response of a second set of recommended draw down rates.

COTA is open to exploring the idea of changing the current minimum drawdown rates to reflect a drawdown profile over retirement which better reflects retirees’ expenditure needs. Such an approach, based on the available data of current expenditure needs would not be a smoother drawdown profile. It would likely be a ‘backwards J curve’ with greater funds in early retirement, lower funds in middle retirement and an uptick off that requirement in later retirement. However, we acknowledge that there are complexities in modelling this approach given that some people use non-super funds earlier in their retirement and leave the more tax effective funds in superannuation until mid and later retirement. While others (often those with low assets outside of super) use superannuation funds earlier in their retirement to pay down debt and fund their early retirement. In addition, the age at which a person enters ‘later retirement’ (most starkly indicated by an increased need for more medical and care expenses) is different for different people. To achieve one minimum drawdown for all these scenarios that remains fair and equitable for cohorts of people most affected at each milestone is challenging. A greater analysis of actual expenditure of older people, including category of expenditure should be conducted to inform any future modelling. It may be that for now, a focus on recommended draw down being introduced should occur and be refined, before any changes to the current minimum drawdown arrangements occur.

Beyond the Government obligations to set a clearer understanding, from a trusted independent source, about recommended drawdowns, we note the proposal that super funds could be required to develop alternative drawdown profiles to members. We think this information approach against common scenarios has merit, but it is necessary that it is underpinned by the independent government issued drawdown to provide people with a clean comparator. Funds should be required to include the government drawdown comparator in any alternative models.

COTA is attracted to the pathways approach outlined by the Connexus Institute identifying the different pathways needed for people with different levels of engagement.[22] In particular, the proposals around trustee recommendations and trustee assignments before a default product is imposed on a member, provides a greater mitigation against the risks of inappropriate outcomes that may occur with generic default options being imposed on members.

Broadly we would suggest that any regulation towards defaults should require a minimum of the following steps occurring before a default outcome is imposed on a member:

- trustee recommendations touchpoints,
- an obligation for a trustee assignment where data is known to tailor the solution,
- complying with a best interest of the member test, or
- failing those options, clear advanced warning that a default is about to be imposed if the member doesn't respond.

It is necessary to ensure that regulations require trustees "to make all reasonable efforts to update their contact details and information of the member" (e.g. search for change of address and contact details) before imposing a default on a member. We are open to the possibility that trustee assignment involves a degree of responsiveness from the member and that defaults may occur if there is no member response. Where this occurs defaults should be regulated to require trustees to consider available data to identify the most suitable default option for an individual member.

Informed consent, with multiple opportunities for member direction must be a paramount principle before considering any default arrangements. As discussed earlier (in the proposal for a roadmap), consumer protections and appropriate regulations need to be introduced and provided over a period time to stablise before any default regulations are imposed.

Recommendation 17: Ensure that informed consent, and multiple opportunities for member direction occur before any default arrangements are imposed on a super member.

Recommendation 18: Ensure consumer protections (e.g. retirement income performance tests, independent advisory service, regulation on data to be used in comparisons and calculators) are introduced and stabilised before any default options are regulated.

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[22] Bell, D. and Warren, G. 'Pathways for directing members into retirement solutions: Who decides - fund trustee, adviser or member?', The Connexus Institute. (November 2024). Available from: https://theconexusinstitute.org.au/resources/pathway-to-better-retirement-outcomes/

Recommendations 19: Impose trustee obligations to elicit member directions via trustees to recommendations and/or segment driven trustee assignments occur prior to any default is imposed.

Simplifying the retirement income system

We agree that retirees could be better supported by information that considers all three pillars of retirement income. Primarily we view this as a role for Government through the funding of independent, impartial advisory services.

In addition we recommend that Government make applying for the pension easier (e.g. pull in data already held across ATO and other sources to prepopulate an application form) and that new functionality be made available to super funds, advisors and other third parties authorised by the individual to assist them.

The current complex process has created an industry of services designed to support someone to apply for what is a citizen entitlement. Measures to simplify the application process should be funded and commenced ASAP.

Facilitating funds to provide assistance to members to understand their age pension entitlement is important to ensuring a fund can estimate the total retirement income an individual may receive. Facilitating their ability to apply for the age pension, should be a secondary consideration to Government responsibilities.

We note the discussions paper's solution of a "simply formatted information about their superannuation interests which they can use in applying for the Age Pension". We support this approach wholeheartedly and encourage Treasury to go further than the Age Pension, and to consider this approach in relation to the broader finance and banking sector.

Recommendation 20: Work with Services Australia, the Superannuation Industry and the Banking/Finance sector to develop a simply formatted information about their superannuation interests which can be used for applying for the Age Pension and applying for credit.

Supporting funds to deliver better retirement income strategies

Trustees moving from investment manager to retirement service provider

COTA welcomes the discussion paper's summary of modest reforms over the past decade to create an enabling environment for funds to deliver on member's retirement needs. We acknowledge that many of these reforms have been shelved due to conflicting advice received during the final design phase of the policy reform. This is one of the reasons we propose a clear roadmap on superannuation reform, so that the sector can be moved towards an end state in a managed and consistent manner.

The most important reform was the introduction of the retirement income covenant and the principles based approach requiring funds to develop, publish and implement a retirement income strategy that helps members balance three key goals in retirement:

- maximise their retirement income,
- manage risks to the sustainability and stability of their retirement, and
- have some flexible access to savings during retirement.

In its one year anniversary saw the regulators stated that "Overall, there was a lack of progress and insufficient urgency from RSE licensees in embracing the retirement income covenant to improve members' retirement outcomes." [23]. It identified the need for the industry to address data and analytical gaps, tailor assistance to diverse member preferences and needs and integrate the retirement income strategy within their broader business planning cycles.

ASIC/APRA should continue to issue annual reports on the progress of implementation of the retirement income covenant to maintain pressure on the industry to respond to their new principles based requirements. If full implementation isn't achieved by 1 July 2025 (three years after it commenced) (1 July 2025), new stronger regulation should be considered by Government, with a minimum set of obligations placed on trustees. The paper's frame of changing the culture from investment manager to retirement service provider is an excellent example of the change mentality required.

We agree with the paper's view that "Members are best served if they can readily compare products and switch providers to one that meet their needs" and that "The market for retirement income products will work best when it is competitive, comparable, and

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[23] APRA and the Australian Securities and Investment Commission (ASIC), REP 766 Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic Review, APRA and ASIC, Australian Government, 2023.

transparent." Robust testing and monitoring of products as discussed earlier will be one such way that these measures can occur.

Recommendation 21: That ASIC/APRA continue to publish annual analysis on the industry's success at developing and implementing retirement income strategies for the next five years, after which the annual cycle may be reviewed.

Potential policy responses

Standardised product disclosure framework

COTA welcomes the proposals to standardise product disclosure. Such an approach is necessary to enable comparison between products. A performance test should be developed prior to the introduction of a standard disclosure to ensure that the data included has had some level of independent analysis. Regulation should required stated information on the performance of the fund be derived from an independent comparable source, not from a funds own calculations. Clear characteristics of retirement products must be included not simply as an analysis of current products, but also in response to what older retirees and people planning their retirement want to know. Suggestions include:

- The amount of money that will be returned if they exit the product at five year intervals. We strongly believe that products should not lock in all assets invested for life, as they were with defined benefits, given the barriers identified later in the paper regarding the lack of flexibility.
- What (if any) insurance products are provided within the offer
- At what age the product no longer pays funds
- What tiers of investment choices can be directed by the member (as they are today in many accumulation phases)
- How much can be earnt outside of superannuation before additional taxation liabilities apply (this is especially important for those who may be in a transition to retirement product or return to the workforce)
- What is the assumed pension income based on this product's retirement income stream amount
- How much can be earnt outside of superannuation before age pension ceases based on income rules

A Funds ongoing assessment of how they fulfill their covenant obligations is different from the information a prospective retiree needs when considering product disclosure statements.

We recognise the inherent benefits of a scorecard approach in considering the three retirement income covenant objectives, but feel the representation of this product information is better suited to incorporation within a performance test.

Broader analysis of how a fund is tracking in their retirement income strategies against a scorecard / check list approach to deliver holistically on the retirement income covenant, and how the work they have implemented or have clear timelines on delivering may be appropriately covered in a thematic checklist and comparison. Checklist, comparisons or benchmarking funds should not simply rely on the words on the page of a strategy, but rather only assess strategies that have had tangible steps taken to implement them.

Tools for comparison and performance

COTA notes the discussions paper's statement that developing tools, like a retirement phase performance test, would rely on better disclosure practices. Treasury should work with the industry and consumers to identify how retirement products that exist now and into the future should be developed and that disclosure practices should be regulated to align to these measures. Arguably the existing accumulation performance test can be the substantial basis for a performance test of account-based pensions, given their similarities. A subset of this test should be how the products perform for the transition to retirement phase of super, compared with once in the full retirement phase. This is a growing area that we anticipate will continue to grow with people having a mix of incomes from work and superannuation for much longer periods of time.

More work is required to identify similarities and differences for inform the design of non-account-based pension products in the retirement phase, such as the income for life. New performance tests for all retirement income products should be able to be developed in 2 years and can then continue to evolve over time.

There is an the increasing number of 'advisor managed' SMSF funds being offered. At 30 June 2022 1 in every $4 of superannuation assets sat within one of the 603,000 SMSFs that support 1.123 million SMSF superannuation members.[24]

This means it is important that consideration is given to performance testing these funds. It may simply be a matter of translating investment benchmarks in different classes of investments, overlaid with advisor fees and other administration charges. Nevertheless, providing an easy-to-understand comparison between like classes of SMSF is an important focus for the government.

Recommendation 22: Implement a 'retirement' and 'transition to retirement' annual performance test. Start with existing tests for working life phase being applied to account-based pensions. Design a new test within 2 years for all non-account-based pension retirement products. Ensure SMSF are included in the new tests.

[24] Australian Taxation Office 'SMSF Profile' (Feb 2023) available at: https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/self-managed-super-funds-smsf/in-detail/statistics/annual-reports/self-managed-super-funds-a-statistical-overview-2020-21/smsf-profile

Recommendation 23: Regulate assumptions to be used for calculators, future retirement income projections and comparison tools.

Recommendation 24: Introduce standardized product disclosures for retirement income products once performance tests and regulations for calculator/comparison assumptions are fully implemented.

Regulatory barriers

COTA is deeply concerned by the proposals from some parts of the superannuation industry to develop a 'product for life' approach to retirement products. That is to combine or have a continuum between the accumulation phase and decumulation phase into one product/fund. Our primary concern relates to the fact the industry has demonstrated an insufficient change of culture from a fund investment manager to a retirement service provider. If such a change were to be approved without this underlying culture change having occurred, we would expect very poor outcomes for retirees as the needs of the accumulation phase are vastly different to the needs of the retirement phase.

We recognise that whilst this friction point can be frustrating and time consuming for some individuals and seen as an additional cost burden for funds, the forced point of 'retirement' is a healthy life checkpoint in which you must engage with your superannuation fund. It presents a natural point in time to reflect on what sort of life you want to have as you change your working patterns and provides opportunities to link into education, information and support to assist you with this significant life stage.

We are however supportive of removing any regulatory barriers that may make a trustee feel like they cannot hold data to develop segmented models of nudges and guidance. We are supportive of regulatory measure that increase the opportunity for funds to talk about 'retirement incomes' and not simply 'superannuation' and to integrate estimates around age pension into those calculations.

We note however that our understanding is current regulations prevent a retirement product from charging prospective new clients for their retirement planning. This means that accumulation funds shoulder the burden of the cost for intrafund advice. Greater innovation in products, building in different levels of advice, set with different levels of administration fees to recoup that advice over a period of time (as opposed to a one off lump sum fee) may help to increase the number of people securing the advice they need for a dignified retirement. We also note that such an approach to shift retirement planning advice costs from accumulation to retirement stage products would have a generational benefit with younger workers not feeling like they are funding the retirement planning of older workers. While limits to this change such as only being able to be charged by a retirement product from your existing accumulation fund company may need to be considered, we think the current rules need revisiting with an eye to increasing the take up of advice and equity between fund members.

Recommendation 25: Consider if current regulatory settings are appropriate to allow retirement products to build in different levels of advice to assist onboarding new retirement product members.

Making lifetime income products more accessible

Retirement income strategies need to manage different risks

COTA supports ongoing obligations on trustees to manage investment and sequencing risks. While more could be done to 'nudge' people in higher risk investment settings to reduce their risk as they approach expected retirement age, issues about the current approach funds to manage these market-based risks are not problematic.

In regard to inflation and longevity/mortality risks, we believe there is a dual role for Government and Funds to manage these risks. We are pleased that the paper considers social insurance as a longevity risk solution, but it should be broadened to contemplate the role of Government in providing that solution across the population. In addition, the age pension needs to be cemented as a retirement incomes pillar that delivers a longevity risk solution. ,While we support the development of products that use a range of strategies, (including investment allocation, spreading the risk via pooling and insurances) the choice to take or not take these products (and pay the associated fees) must remain with the individual member. Continuing the approach of 'opt-out' avenues for pooling and insurance solutions appear to be the most appropriate solution to continue into retirement products.

Consideration of different investment profiles would continue to provide consumer choice on the investment allocation strategies. Clear guidance and nudges from funds will help an individual understand the importance of considering how choices in investment allocation strategies will impact their cash available when needed (i.e. investment glide paths). An assertive warning type approach when selections are made may be appropriate for self-service interactions when setting up retirement income plans without the assistance of an advisor.

Lifetime income products insure against this risk

The paper accurately identifies the issues with upfront costs and concerns over wasted capital as two significant areas that stop an individual from taking up a lifetime income product. While the paper identifies reversionary annuities, not all current products provide an annuity to any beneficiary. Accordingly the concern about wasted capital if the individual dies remains. In addition, many continue to view bequests in lumpsum terms. Bequeathing a reversionary pension may not fit with a members plan for retirement.

Accordingly, we believe the design of any lifetime income product, must include exit ramps with cash balances returning to the estate upon their death, or being able to be withdrawn and placed into another fund if lost. While these exit ramp withdrawal amounts may not represent the full amount the person could have realised with the benefit of hindsight, they represent a compelling proposition to a member concerned about choosing a lifetime income product.

Further, we note the role of the age pension in the retirement income pillars. It may also be appropriate that products are not designed as a lifetime income product, rather that those who live beyond a range around the average life expectancy, construct their retirement plan to move from their 'lifetime income' product and on to the age pension. While regulation may be needed to ensure that people are not short changed and products are inappropriately designed at a much younger cessation age, such an approach can help mitigate against the costs incurred by extended longevity protection being modelled.

We also note the data that indicates discretionary spending reduces as someone moves from early to middle retirement and continues to decline in later retirement. However, the data indicates an increase in medical and care expenditure later in life. Products that provide for these later in life expenses may prove invaluable if taken out at the point of retirement and able to be reinvested for usage in later retirement stages. Accordingly, someone who uses their retirement savings until their middle-later period of retirement and pivots to the age pension in their remaining years, along with new products for aged care and increased medical costs may be well supported throughout their retirement stage needs.

As discussed earlier in this submission, we support measures:

- To apply an objective performance test over retirement income products,
- To develop regulations that underpin consistent inputs used for calculators and projections, and
- for that consistent regulated data to be used in comparison tools. This information should include the average life expectancy of individuals based on some key actuarial data. It should present not only the average, but also the mean and the range, and explain these concepts to the person using the comparator tool.

We agree with the discussion papers statement "that fear of running out of savings hampers retirees from getting the full benefit from their superannuation".

Behavioural economists should undertake work to understand these apprehensions determine solutions that would reduce those apprehensions. Solutions should holistically consider all forms of retirement incomes from across the three pillars.

Mandating funds to offer at least single retirement income / lifetime may be one pathway to increase the availability of funds. If regulatory relief around best interest of members is needed, legislating the requirement for them to provide the fund will go some way to addressing this. Ensuring the requirement is 'offer' not 'develop' will allow smaller funds to pool resources to provide a product across their funds.

We also agree with the issue raised in the paper that some funds may not be incentivised to develop lifetime income products that ultimately reduce their investment opportunities. Structural disincentives across funds that measure success on accumulation indicators contribute to this. The following is needed to shift the disincentives and increase competition:

- Public performance tests,
- regular reports by APRA/ASIC,
- passing the purpose of superannuation legislation,
- requiring all statements to publish projected income amounts; and
- requiring all funds to offer at least one retirement lifetime income product.

Importantly, rejecting the suggestion of a lifetime superannuation product that merges the accumulation and retirement phases of superannuation into a single offer, will also assist in focusing competition on the retirement phase of superannuation.

An issue not drawn out in the discussion paper is the barriers that older people face to access credit. Addressing these barriers would seem an important precursor to tackle before considering any solutions that would smooth out incomes for older people. Currently older people report feeling discriminated against when seeking to apply for a loan, or credit card. Banks point to their regulatory obligations under ASIC issued RG209 'Credit licensing: Responsible lending conduct' as one cause. This may explain the case of one individual who reported despite having $12m in real estate assets, $1.6m in a SMSF and $900,000 in ready cash assets, with a credit rating around 900/1000 - the bank would only offer a new credit card limit of $3000. While this is an extreme example of a very wealthy individual it highlights the blatant discrimination faced by older people seeking credit. A more common example is individuals who retire feeling like they must remain on the credit card solution they had at retirement, including its uncompetitive and at times inappropriate fee structure because to secure an alternative low cost credit card to use for bill shock would prove impossible.

Two other causes beyond the regulations of RG209 have been identified by COTA:

1. many banks have an interface for applications that assume you're working (e.g. uploading payslips) which confuse and deter older people from knowing how to apply for credit. In addition it seems that bank staff/systems won't consider income information other than a payslip.
2. bank confusion about how to appropriately assess superannuation held assets.

As recommended earlier a standard template for the finance/banking sector on how to assess superannuation is required to improve the utility of superannuation information for bank credit application processes. It is important to address this now as the introduction of new products such as lifetime income products, will only further exasperate the current confusion.

We recommend that Treasury convene a roundtable of regulators such as ASIC, banking, finance & superannuation sector representatives to discuss these issues and identify appropriate solutions forward. Representatives of older people should be included in any such discussions.

Recommendation 26: Treasury to convene a roundtable of banking/finance sector, superannuation sector, Services Australia and regulators to discuss how retirement income information (including age pension & superannuation assets) be interpreted and regulated for credit application purposes.

Recommendation 27: Consider what products could or should be available as part of retirement income planning to assist with later stage retirement financial needs for medical and/or care costs.

Potential policy responses

We note that the Australian superannuation system is far from mature and that low balances do not generate substantial income streams. However, it is worth reflecting that a balance of $100,000 can today produce an annuity of around $5,000 pa which would be a 20% increase in income for a full age pensioner, which is a significant uplift.

The 'hard option' is to make the purchase of an income stream compulsory for all individuals who meet a predetermined threshold level of superannuation. In its most severe form this would include removing the option to take a lump sum payment at point of retirement (presumably above a certain basic threshold balance).

In a less severe form this option would require that above a certain (higher) balance it would be compulsory to convert accumulated superannuation into an income stream.

The inability to withdraw any lump sum would disadvantage those who enter retirement with debts or in need of a major purchase (such as a new car) – remembering that a significant proportion of people "retire" earlier than they planned due to ill health or redundancy or caring responsibilities. There will also be people nearing retirement now who have earmarked the lump sum for planned one-off major expenses post-retirement, so at least a grandparenting provision would need to be part of transition arrangements.

We do not favour these 'hard option' while retirement income products remain an immature product market. However, if the intention of Government is to make the hard option, a long timeframe announcing and legislating the requirement should be made before the compulsion occurs. Consideration of grandparenting arrangements for those already in retirement and at or near retirement should also be given.

An alternative approach would be to consider a 'soft option', which allows for greater flexibility. One such 'soft option' is the creation of default retirement income products, whereby people in MySuper default funds would be defaulted into an account-based 'My Retirement' product, which may also include a deferred lifetime annuity, on an opt-out basis. Such defaults should only occur after trustee recommended and trustee

There is a risk that this kind of option may mean people are less likely shop around for the best rate or product to meet their needs. Data from the UK suggests that only one in three people shop around for the best annuity rate, despite a potential difference in retirement incomes by up to 20%[25]. Any move to increase uptake of annuitisation must be combined with appropriate consumer safeguards, and efforts to increase consumer financial literacy more widely.

Another proposal, suggested in the Actuaries Institute Green Paper, would be a mechanism by which older people in receipt of a part pension could 'purchase' an indexed portion of the Age Pension to which they are not otherwise entitled. It would create a short-term cash flow bonus for government, and directly target the middle wealth holders. This would allow a growth private market for upper wealth holders, which would still allow private industry to provide competitive and innovative products, whilst providing direct benefit to those who may be encouraged to rapidly draw down their assets to meet the full pension entitlements[26].

These products are potential investments by retirees of part of their savings, usually as a part of a retirement income strategy. The main products available in Australia are annuities, there is effectively no market for long term care products.

Annuities can be lifetime, fixed term, or deferred. Their take up rate is not great but there is a real and probably growing market for them as people retire with higher balances, affording them more flexibility in the mix of income strategies.

As part of the More Choices for a Longer Life 2018 Budget package, from 1 July 2019, new Age Pension means testing rules were introduced for pooled lifetime income streams. The rules assess a fixed 60% of all pooled lifetime product payments as income, and 60% of the purchase price of the product as assets until 84, or a minimum of 5 years, and then 30% for the rest of the person's life. This change creates a bigger incentive for their use, however is often not understood or included in any marketing provisions about the lifetime income stream.

Support for better longevity pricing

Broadly COTA supports the role of Government intervening in longevity risk pricing. AQs noted in the paper would increase confidence in the retirement income system and reduce fear that an individual provider would no longer be around in 20 years to continue paying the funds purchased.

In principle, our preferred option is to have a social insurance model underpin all longevity products. As referenced above this may not necessarily be priced to guarantee lifetime

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[25] National Association of Pension Funds (UK), 2010. *Removing the requirement to annuitise by age 75*. The NAPF response to HM Treasury's consultation, September 2010.

[26] Actuaries Institute, 2019. *Options for an Improved and Integrated System of Retirement*. Green Paper.

income, rather may be guaranteed to provide a suitable range of income beyond the average. After this point the Government already contributes towards longevity risk management for retirement incomes via the age pension.

Clearer modelling of the cost and benefits of social insurance at different age points would need to be considered before determining whether lifetime, or extended age ranges is a more appropriate underpinning of the social insurance model. Contributions to the social insurance scheme should be able to be made either at the point of retirement or throughout retirement years.

The two alternative solutions listed in the paper (around risk pooling across retirement products and/or Government reinsurance or longevity bonds), are more technical solutions which require more extensive analysis from people with the relevant technical expertise before consideration.

Measures by government to ensure equity outcomes for women who live longer than men, those with lower life expectancy and other such measures are important and would be welcomed.

Recommendation 28: Consult on the development of a social insurance longevity solution to underpin all lifetime/retirement income products.

Standardised products

While supportive of the concept that one product should be developed by all Funds, we are concerned by the suggestion of a “first offer” to members. While the lifetime products market remains immature, imposing such products onto members is inappropriate. Outlining steps towards a standardised product being developed via the Superannuation Reform Roadmap may achieve similar outcomes in a more robust manner.

That said, we have no objection to trustee recommended products being included in nudges and/or being required to be presented within a suite of options during a retirement planning activity.

While the paper suggests that all products would be required to have the same standardised features, a more appropriate solution may be to include those standard features in the performance test for retirement products, rather than regulating the requirement for them to be included in all product design. This slightly less rigorous regulatory approach would enable greater flexibility and innovation in product design. Encouraging funds to compete on standard features, by promoting them in the performance test and comparator tools discussed would enable greater competition as the market matures.

In addition to the features listed in the discussion paper we would also propose additional features for consideration:

- What overall retirement incomes (i.e. interaction with age pension rules) the product delivers. Often COTA hears of self-funded retirees just over the pension eligibility age who are ultimately worse off due to the full burden for the cost of their medication for example.
- The age does of product commencement. With increasing numbers of people being forced into retirement due to ill health and/or economic circumstances (retrenched) the age at which retirement income products commence are an important area to consider. An unwell person with a life expectancy of 15 years, should not be forced to wait until age 67, when they retire at age 55 and have a preservation age of 60. Compared with a person who retires upon age pension age at 67 and is anticipated to live 30 years, the first person will have less benefit from the fund than the second. While it may be necessary to design a test for eligibility before age pension age, in order to not encourage earlier retirement, clear flexibility about commencement age eligibility should be included in any performance test and/or standardised product features. Similarly, at the other end individuals with wealth outside of superannuation, or who continue to work beyond age pension eligibility age may seek products that benefit their delayed entry into them. This is another reason for our suggestion whether the design of such products should be for "life" or should be for a greater period of time than currently occurs.
- Identifying the exit ramps and balance paid at each. As discussed a significant barrier to purchasing such a product is the belief that if you die early, you lose all benefit from the product. Prominently building in reversionary benefits for any person and/or lump sum payments if exiting at certain stages will be necessary to secure confidence amongst people planning for retirement.

Informed consent must be a key pillar in any approach to introduce lifetime income products and increase their take up. This will build confidence in the products, rather than coercing their usage. Consideration needs to be given to what consumer protections are required in the development of any standardised products.

We are unable to comment on whether a standardised product would be cheaper to a general mandate to offer a longevity product. However, as noted earlier our preferred position is that we commence with a requirement for all funds to offer at least one product. As also discussed earlier, we do not support a single continuum product collapsing accumulation and retirement income products into one product. That said, the ability to use nudges and guidance proposed and discussed in the paper will provide an easier path for members to transition to a suitable retirement product for their individual circumstances.

Given that not all members will seek to commence a product at the same point in time, consideration of continued use of investment style accumulation during retirement phases, including transition to retirement phases will need to be maintained. Providing choice and options in retirement planning will allow for different responses to the different life stages of retirement and permit individuals to factor in their own financial circumstances and needs, including from the other pillars of retirement incomes beyond superannuation.

Nevertheless, we recognise that a government requirement that all funds have a retirement income product, a signal that from a certain date that defaults will be introduced (following trustee recommendation and directed stages discussed above) will assist with opening community mindset into exploring these new options. While the market continues to mature, we do not recommend mandating a requirement that all people moving into the retirement phase of superannuation must have an income for life product.