



2 February 2024

Treasury

via email: retirement@treasury.gov.au

SUBMISSION TO SUPERANNUATION IN RETIREMENT DISCUSSION PAPER

I read the Treasury discussion paper on Superannuation in Retirement with interest and would like to provide you with my thoughts and suggestions on this important topic.

Background

Before going into detail with my suggestions, I thought it relevant to provide a little background about myself and where my thinking comes from. I am a retired financial planner who provided advice to a wide range of individuals for over 30 years, commencing in 1987 with Westpac. The process that I used to assist my clients was very successful resulting in me retaining clients and exceeding the KPI's that were put in front of me.

My submission is about trying to adapt the successful and sustainable elements of my advice process into a modern, changing superannuation landscape.

My Process

My process revolves around the genuine need to "know my client". In many cases, getting to know my client required me to know more about them than they knew about themselves. It also involved creating a process that was able to enforce spending discipline along with providing peace of mind. I have summarised it briefly below:

Information Gathering

1. Establish the level of after-tax income per month.
2. Take each individual (or couple) through an exhaustive list of their monthly expenses. Often this involved actively prompting them around things that are often overlooked, such as Christmas presents or car insurance and registration.
3. Assigning these expenses into three main categories:
 - Non-negotiable expenses for living (bills, insurance,)
 - Day to day expenses (groceries, coffee, movies, ...)
 - Surplus expenses (holiday, car upgrade, ...)
4. If anything remained, then this could be allocated to an investment vehicle.

Spending Discipline

This element is the more practical element where regular income (or existing savings) are allocated into three separate accounts associated with the three categories above:

- Non-negotiable expenses – requisite income is allocated to an account from which all of these expenses are met either via direct debit or via EFT. This account is exclusively used for this purpose.
- Day to day expenses – the identified amount required to cover these expenses is allocated from monthly income to an account with an associated tap and go card. All such expenses are met from this account only. If it is running low or runs out, then spending has been too high relative to the stated plans.
- Surplus Income – this amount is allocated to an associated high interest account or term deposit.

It is important that the process is aligned with the individual's income frequency, whether that be weekly, fortnightly or monthly, so that their spending can be closely aligned to the timing of their income inflows.

Review and Reset

The process then involves keeping records of actual expenditure in each category and recognising where the individual has over or under spent. When confronted with actual spending history the individual is often surprised as to where the money went and this becomes a prompt to either modify their behaviour or to review their earlier allocations.

To assist your understanding of the process I have provided you with two more practical elements:

1. In the Appendices, I have set out some screen shots of the four stages of the process. The first being the "Know Your Client" process of identifying income and expenses, with the second being the allocation of key categories of expenses in a disciplined way. The third appendix shows the regular recording of expenses with a year-to-date tracking of progress, while the fourth brings it all together to see how they are tracking.
2. Included in the submission is a video of me taking a friend through their expenses on a one-to-one basis.

How and Why Does it Work?

I have had many clients who are very good at spending what they earn, just as many who used to spend more than they earned. If they earn a little more then they spend a little more - even clients with high levels of income. Higher levels of income do not necessarily translate into higher levels of financial literacy.

In my view, this process works for the following reasons:

- it creates awareness of what their actual spending is,
- it creates peace of mind knowing that the major living expenses are looked after, and
- it provides discipline around having access to a finite amount of discretionary spending that tells them if they are over-reaching.

In essence, it takes the worry out of spending and allows them to live the life they want to live. To put a parental lens on it, it is like providing a child with weekly pocket money which they can manage, knowing that there remains a roof over their head with bills paid.

Where is the Superannuation Industry Going?

As an avid follower of financial media, I am aware of the fast-growing superannuation industry and associated developments including:

- Limitations placed on financial advisers to provide general and light touch financial advice (currently being addressed in financial advice reforms recently announced).
- Government frustration at superannuation funds not moving quickly enough to meet member needs in retirement.
- The influence of large superannuation funds with an increasing proportion of superannuation assets and the ongoing consolidation of the superannuation industry into a smaller number of large funds.
- The oft-quoted “grey tsunami” where a large group of current working age fund members will be retiring and looking for answers from their super funds as to how to manage their finances in retirement.
- The significant reduction in the number of financial advisors in the industry following changes to educational requirements and lack of demand from the average fund member.
- The dearth of annuities or guaranteed income products, despite the apparent acceptance of the concept of annuities among a key segment of the population.

What do Fund Members Need?

A read of the financial press over the last week alone has uncovered the following observations:

Super tech transformations to redefine how Aussies navigate retirement in 2024 – an article in Super Review quoting Paul Giles of Iress as saying that:

“Advanced algorithms and AI-driven tools are expected to analyse data comprehensively and provide personalised retirement planning strategies based on specific member needs, goals, risk profiles, and life stages.”

“Looking further than retirement planning, these platforms might offer insights into debt management, budgeting, and other financial aspects to support overall financial health for members.”

Aussies call for redefining retirement for a longer lifespan – an article in Money Management quoting recent research conducted by MetLife. A relevant extract from the article is set out below:

“69 per cent are concerned about outliving their savings, and 52 per cent expect their monthly needs will exceed their actual monthly income in retirement. Although they have these fears, over half said they have not calculated their income needs in retirement or created a retirement plan. There is great opportunity for organisations that identify and move with these changes. Those that don’t will be left behind.”

Australians more worried about retirement costs – an article in The Australian from 17 January 2024, which makes the following observations about a survey by State Street Global Advisors and quoting their head of investments Australia, Jonathon Shead:

“Some 50 per cent said they were worried they would not have enough money to retire when they planned to — up from 40 per cent the previous year. Further, 28 per cent of Australians surveyed were worried they would outlive their savings. Only 5 per cent saw being able to pass on a bequest as being important.”

He said the survey had shown Australians were becoming more confident in using annuities to help fund their retirement. *“We saw encouraging signs that annuities may have turned the corner in Australia. Acceptance of some of the stereotypical negative statements about annuities has softened. It isn’t clear whether this softening is due to higher rates of education or some other factor, but it does auger well for trustees looking to include longevity products in holistic retirement solutions.”*

Australians’ retirement confidence continues to seesaw – an article in Super Review based on the same State Street Global Advisors survey:

“To be fair, the problem of retirement income is not one that superannuation funds can solve on their own. When we asked respondents about their understanding of ‘retirement income’, most selected a simple, holistic statement that equates retirement income to a regular paycheck.

“This definition resonated more strongly than either an annuity or a drawdown plan, both of which are ‘products’ that a superannuation fund might offer,” it stated.

My observations from the above industry commentary are as follows:

1. Fund members need help to manage their expenses in retirement. The success of default investment options pre-retirement points to adopting some form of default post-retirement expense management process.
2. Technology is moving forward at great speed which means that information around spending habits, including actual expenditure data is increasingly available. This points to incorporating tried and tested aspects of my expense management process into a more automated solution.
3. While we all have our own nuanced financial needs, my experience suggests that a significant number of fund members’ needs could be addressed by incorporating the expense management process into a selection of tailored solutions for a select number of sub-groups of retirees. While there may be differences in:
 - the sources of income (investments, age pension, personal super),
 - the size of income (influencing age pension eligibility), and
 - expenditure needs (changing as client ages),
 default information gathering processes could be developed for each sub-group.
4. Certainty in where the money is coming from and the palpable relief my clients expressed once this was addressed provided me with immense satisfaction as their advisor. Analogous to a regular paycheck, the potential for annuities to provide this certainty and, hopefully, changing attitudes to these products, is an encouraging development.

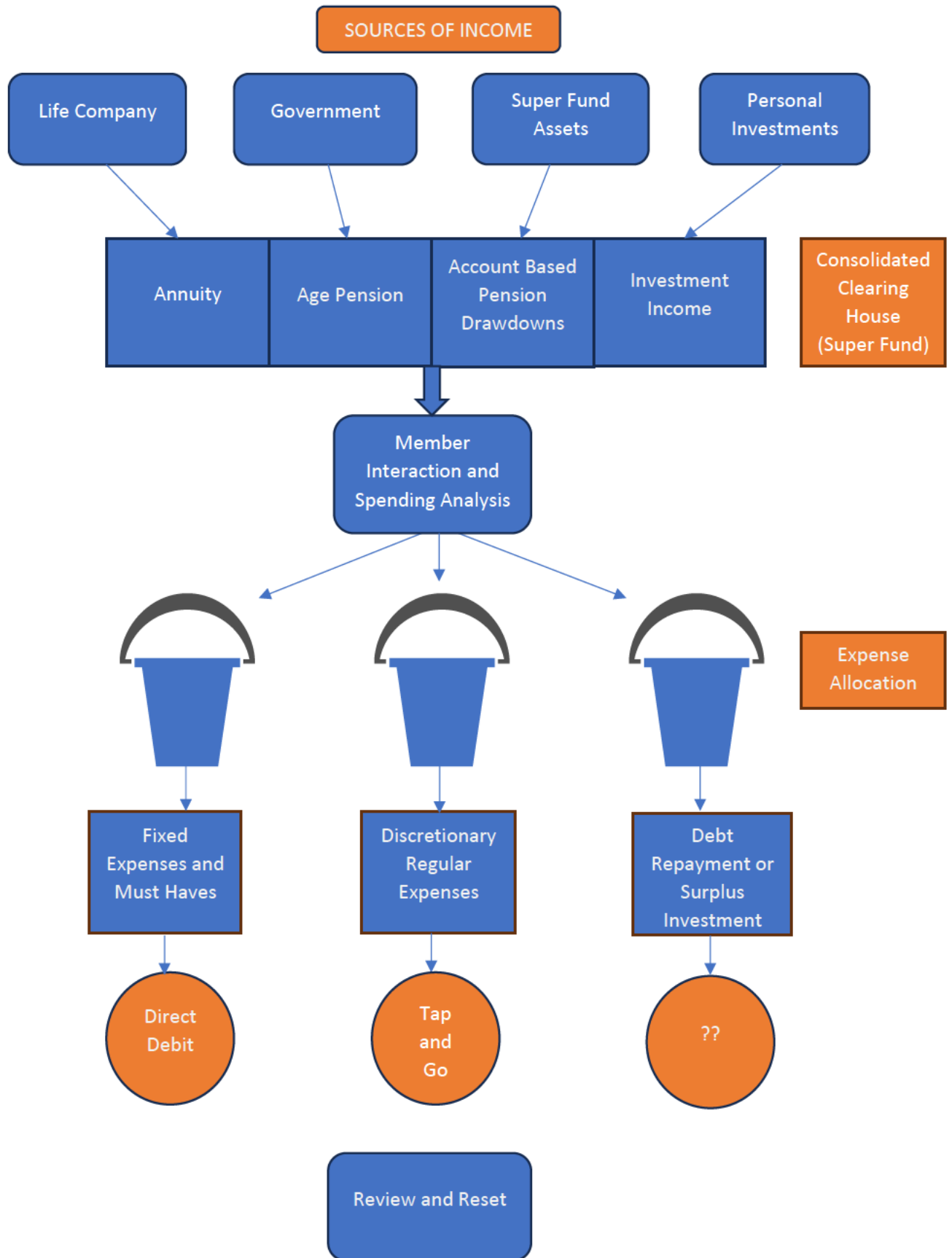
In relation to annuities, I am supportive of the reference in the Treasury discussion paper to the potential development of a government backed annuity. This would reduce concerns amongst individuals that a particular life insurer may not have the longevity that they are hoping for themselves. However, I suggest that a widespread take up of annuities will not take place unless the issue of variable pricing for different cohorts is addressed. Without this, annuities are only going to be seen as effective for the most healthy in society.

How Does My System Fit In?

How I see my system fitting in to all of this is about process and mechanics. The process whereby different expense categories are identified and then allocated into different accounts with different levels of access.

The mechanics is provided by the super funds who have the infrastructure and technology to make it happen. For example, Australian Super have stated publicly that they would like to be able to have aged pension payments from Services Australia for their fund members paid directly to them, so that the fund member has all of their assets and income coming from the same institution.

I have set out the process visually in the diagram below.



Conclusion

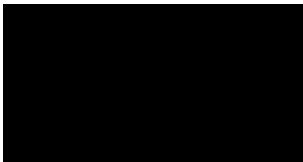
I am strongly of the view that this process of allocation of spending needs by category and accessibility simplifies an individual's financial affairs. In an aging society, where cognitive challenges are ever present, the challenge of keeping track of income, assets, spending and savings can be increasingly stressful.

Taking this stress away through a disciplined, flexible and reviewable process, will provide a great service to fund members, improving both their financial well-being and their mental health (and that of their children).

I would be happy to discuss any aspect of my submission with Treasury and, if helpful, demonstrate my process to Treasury staff.

Yours sincerely

John de Ridder




Expense Analysis (first month shown only)

| | | | | | |
|--------------------------------------|-----------------|---|-----------------|--|------------------|
| B. Expenses | | | | | |
| 1. Living expenses | | 2. Car / transport | | 5. Taxes, fees and charges | |
| Rent/mortgage on primary residence | 300.00 | Registration / maintenance / repairs x ? | 285.00 | Bank & Credit Card Fees | 0.00 |
| Rent/mortgage on primary residence | 300.00 | Fuel | 780.00 | Tax on investments | 0.00 |
| Mortgage on Investment Property | 0.00 | Tolls & Fares & Parking | 240.00 | Financial planning services | 175.00 |
| Rent on student accommodation | 0.00 | Road Side Assist | 0.00 | Professional association/Education fees | 0.00 |
| Loans | 0.00 | TOTAL CAR / TRANSPORT | 1,305.00 | Self education | 0.00 |
| Credit Card \$700 | 0.00 | 3. Insurance & Superannuation | | Course # | 0.00 |
| ATO 19000 | 0.00 | Insurance | 716.00 | Item 2 | 0.00 |
| Car loan 1 | 0.00 | Life / income continuance / trauma | 0.00 | Other taxes, fees & charges | 0.00 |
| Finance Co Name | 0.00 | Health | 381.00 | Item 1 | 0.00 |
| Credit Card(s) | 0.00 | Home & contents | 190.00 | Item 2 | 0.00 |
| Visa Card 15K | 0.00 | Car | 145.00 | TOTAL TAXES, FEES AND CHARGES | 175.00 |
| Master Card dva | 0.00 | Business | 0.00 | 6. Savings & Investments | |
| AMEX | 0.00 | Other (Boat / Caravan / Trailer) | 0.00 | Short Term | 0.00 |
| Store Card | 0.00 | Business Costs | 0.00 | New Oven | 0.00 |
| Home Maintenance | 25.00 | Fund 2 | 0.00 | Tree Lopping | 0.00 |
| Rates & levies (council, water, etc) | 455.00 | TOTAL INSURANCE & SUPERANNUATION | 716.00 | New Guttering | 0.00 |
| Telecommunications | 282.00 | 4. Leisure / entertainment | | Long Term | 0.00 |
| Utilities (electricity, gas, etc) | 412.00 | Holidays | 0.00 | 10yrs - 100k | 0.00 |
| Food / groceries / household | 2,167.00 | Restaurants /Eating Out | 350.00 | 25yrs - 500k | 0.00 |
| Medical & pharmaceutical | 455.00 | Newspapers, magazines, books, CD/DVDs etc | 0.00 | TOTAL SAVINGS & INVESTMENTS | 0.00 |
| Clothing | 163.00 | Hobbies | 320.00 | TOTAL EXPENSES | 8,821.00 |
| Pets | 165.00 | sports memberships | 320.00 | SURPLUS or DEFICIENCY (A minus B) | 1,300.00 |
| School Fees | 1,183.00 | Beautician | 0.00 | SUMMARY FOR THE YEAR | |
| Gift to parents | 0.00 | Golf | 0.00 | Total income | 121,452.00 |
| Gift to parents | 0.00 | Vet Bills | 0.00 | less Total expenses | 105,852.00 |
| Item 3 | 0.00 | Haircuts & Beauty | 348.00 | Surplus or deficiency | 15,600.00 |
| Item 4 | 0.00 | Gifts | 260.00 | | |
| Item 5 | 0.00 | Haircuts & Beauty | 88.00 | | |
| TOTAL LIVING EXPENSES | 5,607.00 | TOTAL LEISURE / ENTERTAINMENT | 1,018.00 | | |



APPENDIX 2 – Allocate Spending in a Disciplined Way

| Personal Finance Money System | | | |
|---|--|-------------|--|
| Client | | | |
| NET INCOME / SALARY \$ (from worksheet) | | 4,656 | |
| FREQUENCY | | Fortnightly | |



| CASH EXPENSES | |
|---------------------|-------|
| Groceries | 997 |
| Fuel | 359 |
| Fares | 110 |
| Magazines | 0 |
| * Eating out/Lunche | 161 |
| TOTAL | 1,627 |

| FIXED EXPENSES | |
|--------------------------------------|-------|
| * Home Maintenance | 12 |
| Rates & levies (council, water, etc) | 209 |
| Telecommunications | 130 |
| Utilities (electricity, gas, etc) | 190 |
| * Medical & pharmaceutical | 209 |
| * Clothing | 75 |
| Pets | 76 |
| School Fees | 544 |
| Gift to parents | 0 |
| Registration / maintenance / repairs | 131 |
| Insurance | 329 |
| Business Costs | 0 |
| * Holidays | 0 |
| * Hobbies | 147 |
| * Gifts | 120 |
| Haircuts & Beauty | 40 |
| Profess/ Edu & Bank Fees | 81 |
| TOTAL | 2,293 |

| DEBT REDUCTION | |
|----------------------|-----|
| Minimum to service: | |
| Home Loan(s) | 138 |
| Car Repayments | 0 |
| Credit Card(s) | 0 |
| Additional payments: | |
| SHORTFALL | 598 |
| TOTAL | 736 |

* Denotes recording

APPENDIX 4 – Monitor Progress and Reset

Client
Spending Summary as at
21-Jan-2024

| Category | Annual amount | YTD Allowance | YTD Spend | YTD Over/Under | Status to date | YTD Var% |
|--|---------------------|------------------|--------------------|------------------|--------------------|---------------|
| Medical & Pharmaceutical | \$ 5,460.00 | \$ 164.44 | \$ 150.00 | \$ 14.44 | On Target | ✓ -9% |
| Sports & Hobbies | \$ 3,840.00 | \$ 115.65 | \$ 75.00 | \$ 40.65 | On Target | ✓ -35% |
| Gifts | \$ 3,120.00 | \$ 93.96 | \$ 110.00 | \$ 16.04 | Over Budget | ✓ 17% |
| Clothing | \$ 1,956.00 | \$ 58.91 | \$ 770.00 | \$ 711.09 | Over Budget | ✗ 1207% |
| Home Maintenance | \$ 300.00 | \$ 9.03 | \$ 6.00 | \$ 3.03 | On Target | ✓ -34% |
| Holidays | \$ - | \$ - | \$ - | \$ - | On Target | #DIV/0! |
| Eating out | \$ 4,200.00 | \$ 126.49 | \$ 95.00 | \$ 31.49 | On Target | ✓ -25% |
| TOTAL Expenses | \$ 18,876.00 | \$ 568.48 | \$ 1,206.00 | \$ 816.74 | Over Budget | ✗ 112% |