

# RESPONSE RETIREMENT PHASE OF SUPERANNUATION

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## **Background**

This submission has been prepared by Bec Wilson, the author of bestselling book, *How to Have an Epic Retirement*. Bec writes a weekly, nationally syndicated column for Nine Newspapers. She is also the host of the pre-retirement podcast Prime Time. And she writes a weekly free newsletter for more than 26,500+ subscribers about preparing for retirement at [epicretirement.net](https://epicretirement.net).

To prepare the underlying insights, we ran a survey to the 26,000+ Epic Retirement subscriber base for a duration of 14+ days, driving 524 detailed responses.

Nine Newspapers published a column by Bec Wilson on the topic on Sunday 28th January 2024. You can read it here: [The top concerns retirees have about their super and how to fix them.](#)

## **Insights**

Australians approaching and in retirement are aware they need to understand their superannuation better. But the opportunities to do so are quite limited.

The insight into what average Aussies facing retirement right now are seeing and feeling might just make this feel a bit more real to all of us. After all, this is about the people, isn't it. Australia's pre-retirees have spoken out in an organised and coherent manner.

We have also provided a list of suggestions for potential solutions.

Please note, we've provided more information than that incorporated in the article in Nine Newspapers.

## **Problem one: why aren't people accessing their superannuation in retirement?**

As both the funds and the government know, there are about 4.3 million people in retirement right now in Australia yet only 1.3 million people have flipped their superannuation funds over into the retirement phase and started drawing on their hard earned money.

People have worked for this money all their lives, so they should want to spend it. And from the government's perspective, the spending of it is meant to fuel the economy, and make older generations less dependent on social security, which is currently a significant source of income for more than 50% of people over the age of 67 according to the latest census.

When I asked, about 47% of people said their understanding of superannuation and how it works was mediocre or worse, and 53% said they had a good or better understanding of it. And 35% admitted they didn't really understand how the retirement phase of superannuation works.

And there was no easy answer on where people are learning about it right now. Seven percent of people had participated in online workshops and masterclasses which are pretty hard to find, 7% had participated in in-person workshops and only 22% had accessed calculators on their superfund website, a more readily available tool. 24% had read books or newsletters on retirement, one of the only other ways to learn right now. And 4.3% had used the Moneysmart website and calculators to help them better understand retirement.

But the hunger is clear. People want to learn. More than 55% of people say they want courses, workshops and masterclasses. 43% of people think the government should pay to provide them while 40% think that their superannuation fund should provide them for free. 27% think they should be provided by independent providers. Another 15% think superfunds should offer them on a user-pays basis and 12% think financial advice companies should also offer retirement education.

**Potential solutions for contemplation:**

The super fund industry does provide some very limited education, usually in the form of 1 hour masterclasses (very simple information focussed purely on finance with moderate to low engagement) and employee super workshops, again very simple and often low engagement. They also support individualised education through their general advice channels.

The private advice industry is focussed purely on one-to-one services on a fee for service basis.

We believe retirement education needs significant uplift in priority and approach if we want to help people build financial confidence for longer lives and to contextualise the information. I believe we need to start to run high quality one-to-many education programs, leveraging modern digital technologies that can make these affordable, and allow access in the home. And, we need to make it engaging for consumers, not just technical, boring and overwhelming.

This could include:

- Retirement Education Programs **funded by Government** and offered to consumers en masse that incorporate some of the life planning insights that go with financial literacy education that is lacking among up to 50% of Australians.
- Retirement Education Programs **funded and provided by Superannuation funds** to their members that incorporate some of the life planning insights that go with financial literacy education.
- Retirement Education Programs part funded and provided by Superannuation funds (negotiated and run centrally for scale and efficiency) and **part funded by the consumer** from their super fund to their members that incorporate some of the life planning insights that go with financial literacy education.
- Retirement Education Programs **funded by consumers** offered through independent providers that can be as deep or broad as the consumer market is willing to pay for. It is yet to be determined whether consumers will in fact pay for education.

We recommend that Super funds are allowed to broaden their Best Financial Interest for the purpose of retirement education, recognising retirement education goes

beyond financial education, if we want to build more certainty and engagement with the retirement phase.

We believe it is important to allow consumers to fund their pre-retirement education out of their super balance if paid for themselves up to a cap. This would require a change to legislation.

This may be a helpful strategy, noting some funds under their legislation cannot provide education beyond the financial realm due to their Best Financial Interests duty, but they may be able to negotiate more holistic education at scale to a cost-effective price and efficiency that users can afford to contribute to via their super on a one-off basis to benefit from the education.

## **Problem two: Convincing people to seek financial advice and making it accessible**

There is a real challenge for people in accessing financial advice, or frankly, seeking out financial advice as they approach retirement. There's also a deep distrust among some in this retiring generation who have been actively burned by poor advice experiences in the years prior to the Hayne enquiry.

Nearly 39% of the people surveyed said they did not get any form of advice. And 25% have only sought general advice from their superannuation fund. Only 40% of people admitted they have sought personal advice from either their superfund or an independent financial advisor.

To tackle these numbers we have to address two issues. First we have to overcome the scarcity of advisers in this country that makes it expensive. Then we have to tackle the brand problem. It's been called 'wealth advice' for far too long, placing it out of the reach of the average Australian. It is perceived to be only valuable to the wealthy. But that's just not the case. People with average superannuation balances of \$150,000-\$200,000 can benefit enormously from learning how to drive compound investment, and how to carefully execute a strategy to draw income from centrelink, superannuation and potentially some work in retirement.

**Potential solutions for contemplation:**

People at all levels of wealth need individualised assistance to help them plan for and navigate the complexity of retirement. Financial advice cannot be reserved for the affluent only as there are significant benefits to being able to guide people around the effective combinations of Age Pension and Superannuation income streams, and increasingly, helping them navigate the complexity of staying in the workplace part time if they can.

The government's recent proposal to allow banks and superannuation funds to provide additional layers of qualified advice will go some distance to easing the challenges. But the real challenge is going to be attracting people back to the financial services workforce.

We believe there is three core needs that have to be addressed:

- To build a clearer understanding of what consumers should expect from different types of financial advice and how they can navigate the sector with trust and confidence.
- To work with the sector to increase the number of advisers, spanning different types, to accommodate this need for increased access to advice for everyday people at a fair price
- To ensure there is access to financial advice for those with lower savings balances and incomes, so they can better learn how to use the systems of retirement and ease their levels of financial concern that is driven by low financial literacy as well as low super balances.

**Problem three: There is no ability for people in the retirement phase to benchmark or monitor their superannuation funds.**

The reality is, many Australians are grappling with what the retirement phase is, a fundamental issue that then means they don't know how super works. And this issue sits downstream.

There has been an enormous focus on building transparency in superannuation funds that are in accumulation phase, serving the 16 million people who have an accumulation phase account in this country rather well. But within the next five years, there will be more than 5 million people considered retired and able to transfer to a retirement phase account, and they are almost completely in the dark on being able to compare, or even analyse the returns their fund is achieving and the costs they are incurring.

In fact, 75% of people didn't even realise that there was no public benchmarking similar to the YourSuper program used to monitor accumulation funds. And more than 64% of respondents were confident that creating benchmarking is an important priority for the government and super funds.

**Potential solutions for contemplation:**

The YourSuper platform has equalised the playing field in accumulation, and allowed for more open and transparent conversations about super.

A similar program for retirement phase funds is necessary, and it is best implemented as soon as possible, before the lack of transparency causes issues.

## **Problem four: The fear of running out of money**

And finally, we're all living longer, hopefully healthier lives. That means we are going to need to make our money last longer. So there was no surprise when 42% of respondents admitted they really feared running out of money before they die. Another 22% are unsure of whether their money will last.

People are increasingly recognising that living longer is a big risk they have to face. Up until now the only way people could tackle it was by holding back their retirement spending. But new products are arriving that people can invest in within superannuation, alongside or instead of their account based pension, called lifetime income streams. They guarantee your income for life, and allow you to get exposure to market based returns. The government is pretty keen to grow the appeal of these products for everyday Australians which they do by discounting the capital amounts invested in these products when assessing age pension assets and income tests.

All products of this type have to be purchased via a financial adviser so they're not well understood yet among everyday Aussies. But, people are curious. 28% said they would consider a product that offered guaranteed income for life, and another 44% wanted to know more about them.

**Potential solutions for contemplation:**

These products are complex. They require a consumer to get advice to implement a lifetime income stream. Or, they require superannuation funds to embrace the products, simplify their implementation and offer them to consumers as an option alongside an account based pension, then educate on them. This is a slow process, and one that is not necessarily in the interests of funds, but one I see as the most successful path to their ultimate rollout.

Some advisers seem to have a potential conflict of interest when they are in the position to introduce lifetime income streams. Some financial advisers, particularly those who are incentivised to 'actively monitor' their client's investments for a fee may not choose lifetime income streams as they significantly reduce the need for ongoing services.

After resolving channel conflicts and simplifying the technical aspects of products within the superannuation framework, extensive consumer education will significantly contribute to their enthusiastic adoption of the associated benefits.

More benefits will obviously help.



## Insights: We asked the community some questions

### What do pre-retirees and retirees think every Australian needs when approaching retirement to help them with decision making?

Our survey captured some more personal answers from the Epic Retirement community, around the question: 'What basic information do you think every Australian needs when approaching retirement to help them with decision making?' Many responses reflected a much greater need for more pre-retirement education. We've provided a selection of the text based responses.

"How the Superannuation retirement system works and its interaction with tax and pension. Also the aged care system and its costs."

"Easier to navigate government benefits, very hard TO UNDERSTAND."

"How budgeting changes as you get older"

"How to combine super and Centrelink"

"Some kind of info kit or on-line course"

"Understanding the difference between accumulation and retirement funds"

"How much difference making additional contributions to your super in the last 10 years of working life makes to your total balance."

"Advice on how much super you need if you're in the "super death valley" position of having too much to qualify for a pension but not enough to lead a comfortable life."

"That you do not need a large amount of money, just enough to live as actively as you want, which may be less than you think"

"An understanding of the superannuation system including tax implications."

"How TRANSITION TO RETIREMENT works and when you can access your super."

**When your super fund writes to you do you engage?**

54% said yes they read what they send and act on it.

20% said yes, they read what is sent but they don't act on it.

10% said they have an SMSF so are self-guided.

5% said, no, I ignore it.

**Disclosure:** Bec Wilson has an interest in the education of pre-retirees and retirees. Her book and podcast are built around her mission *to help Australians feel more comfortable navigating their pathway into retirement, and to help companies and superfunds responsible for retirement to educate and guide their customers and employees through this phase with confidence and trust.*

Bec Willson and her team is creating a series of scalable online education programs to help people learn about retirement and to navigate the period up to 10 years before more effectively.

Our flagship program is built on the Epic Retirement framework, delivered in 14 modules/100 videos of content, offered over 5 weeks online. This will launch in March 2024 and is designed to be customised and potentially offered by superfunds to their members also.

We are about to launch a 5 week synchronous education program for piloting. Initially we will offer it directly to consumers, however the ultimate goal is to provide high quality retirement education to companies who have an ongoing need to support their retirement phase customers with knowledge. And to offer assistance to government to support the needs of mass market education if deemed appropriate.