

8/02/2024

Sent to: retirement@treasury.gov.au

Retirement Advice and Investment Division
Treasury
Langton Crescent
PARKES ACT 2600

To whom it may concern,

Superannuation in Retirement Consultation

Thank you for the opportunity to provide feedback and JANA's views with respect to the Superannuation in Retirement Consultation.

As a leading consultant in Australia's superannuation sector, JANA has been working with superannuation funds on their investment strategies for decades. As part of our role, we provide investment advice to Trustees of superannuation funds. We support a stronger focus on Retirement products and solutions for members.

JANA welcomed the introduction of the Retirement Income Covenant (the 'RIC'), which requires trustees of superannuation funds to develop a Retirement Income Strategy. JANA believes the requirement for trustees to "formulate, review regularly and give effect to a retirement income strategy" both for the benefit of retired beneficiaries or those who are approaching retirement is in the best interest of members. JANA is supportive of balancing the three objectives of the covenant, which include maximising retirement income, managing risk and flexibility.

JANA commends Treasury on its engagement with the industry in relation to the Superannuation in Retirement Consultation to continue to improve retirement outcomes for superannuation fund members.

We note that the Consultation spans a broad range of topics relating to retirement. As an investment consultant in the superannuation sector, JANA has commented on the areas of the Consultation paper that have a direct link to our areas of focus. We have shared JANA's views and suggested improvements, with the objective of improving retirement outcomes for the superannuation fund members of our superannuation clients.

Regards,

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Any questions regarding this submission can be directed to the below.

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About JANA Investment Advisers

JANA Investment Advisers was established in 1987 and is a leading consultant in Australia's superannuation sector. For over 35 years, we have provided considered and responsible advice to our clients, rooted in our depth of talent, global research, deep insight, and innovative thinking.

Today, we have grown to over 140 staff members, with \$1.3tn in funds under advice. A management-owned asset consultancy, JANA advises over 80 institutional clients across superannuation funds, universities, foundations, endowments, charitable trusts, insurers, corporate clients, long-service leave funds and family offices. JANA-advised clients have a history of outperforming both their internal benchmarks and peers.

At JANA, we believe that together with our clients, we can make a meaningful positive difference to the lives of millions of everyday people directly or indirectly impacted by the advice we provide. Therefore, we are strongly aligned to the objective of improving member outcomes for superannuation fund members.

Summary of JANA Views

A summary of JANA's views and suggested improvements are outlined below. JANA has commented on the areas of the Consultation paper where we believe we can seek an improved outcome for our superannuation fund clients and their members.

The views and suggested improvements expressed in this paper are the views of JANA and not our clients. Any opinions expressed in this paper do not constitute advice on behalf of JANA. JANA has focused responses on areas related to JANA's expertise in investments.

Section 1: Supporting members to navigate retirement income

Consultation Question 3: Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should the Government consider?

Role of superannuation funds in providing advice and guidance

JANA Views

JANA's role in the superannuation industry is to provide institutional investment advice to superannuation funds. JANA does not provide personal advice to superannuation fund members. In our role as investment adviser to superannuation funds, JANA makes the following observations:

- JANA views financial advice as an important pillar in Australia's retirement income system. JANA is supportive of the role for superannuation funds to provide affordable advice or appropriate guidance to members.
- JANA supports measures to encourage superannuation funds to engage with their members about retirement from a young age (and on an ongoing basis). As part of this, JANA is also supportive of the use of member education to build financial literacy for superannuation fund members. JANA is also supportive of reducing complexity for superannuation fund members.
- The use of member projection tools and calculators can also be useful tools to help members understand more about their potential retirement income stream. However, as with any tool, careful consideration would need to be given to the assumptions made and the rules around what information a superannuation fund is allowed to provide to members.

Suggested Improvements

- Greater clarity and regulatory certainty on what a superannuation fund is allowed to offer superannuation fund members with regards to advice would enable superannuation funds to confidently make more progress in this area.

‘Nudges’ and ‘defaults’

JANA Views

- From an investment perspective, JANA is supportive of the proposed policy response to develop alternative drawdown profiles to present to members, aimed at achieving different objectives.
- JANA is also supportive of proposed policy response to develop alternative investment allocations for members in retirement.

Suggested Improvements

- JANA is supportive of a focus on having different retirement products designed for different classes/ sub- classes of a superannuation fund’s membership, subject to sufficient scale. Rather than a ‘default’ solution for all members, the approach of having a range of products available for selection by superannuation fund members would allow differentiated investment strategies to be offered to groups of members with varying circumstances. The lack of information regarding a superannuation fund member’s personal circumstances and assets outside of superannuation also makes the concept of a ‘default’ solution challenging.
- JANA believes that superannuation funds having the ability to ‘nudge’ members to drawdown patterns or retirement products that better suit their circumstances could be beneficial in improving retirement outcomes. How this operates in practice would be subject to the rules around what information a superannuation fund is allowed to provide to members.

Further Question 5: Data is a critical input for funds to provide better retirement income strategies. What processes are funds undertaking to collect, analyse, and apply data analysis to understand their membership? What barriers are there to better practices, and what policy approaches could help achieve better data use?

The importance of member data

JANA Views

- JANA agrees that data is a critical input for funds to provide better retirement income strategies. In particular, JANA understands that the availability of member data is useful for a superannuation fund to be able to conduct cohort analysis.
- There are a range of data points that superannuation funds can consider when conducting cohort analysis. JANA believes that the value of the granularity of the data needs to be assessed on a cost/benefit basis. This should consider the value it adds to cohort analysis and improved member outcomes versus introducing additional complexity and cost.
- Members in the retirement phase have varying circumstances and as a result, there is not a one-size-fits-all approach in retirement. We understand that having quality member data that adds value to cohort analysis is helpful to inform a superannuation fund’s retirement product suite.

Suggested Improvements

- JANA understands that member data is an important input for a superannuation fund’s cohort analysis. Improving the availability and quality of member data is an important area of focus.
- A retiree’s superannuation balance is only one part of their financial situation, and JANA understands that data on assets outside of super is generally unknown by a superannuation fund. Having a more complete picture of a member’s circumstances through the process of financial advice could help superannuation funds to better understand their membership base and provide appropriate retirement solutions to their members.

Section 2: Supporting funds to deliver better retirement income strategies

Consultation Question 3: Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should the Government consider?

The use of frameworks and tools for comparison

JANA Views

- JANA supports the comment in the Consultation paper that “any requirement for assessment of covenant obligations should not be overly prescriptive as it is up to funds to determine how they will implement the covenant for their members.”
- Where relevant for advice to our clients, JANA has developed a retirement framework which involves a two-stage process for assisting a superannuation fund when assessing the outcomes and trade-offs of retirement solutions for a range of member cohorts within a superannuation fund. Rather than using a single metric, JANA uses a scorecard approach of quantitative analysis and modelling along with qualitative considerations. We include the Age Pension as part of the assessment of retirement solutions, as an important source of retirement income for many Australians. JANA’s retirement framework can be used to support superannuation funds to design and review their retirement offerings in line with the RIC objectives. Given the multiple objectives in the RIC, we have included multiple metrics to assist superannuation fund decision makers to consider and balance expected income, income longevity, income stability and income flexibility.
- JANA has developed our scorecard approach to be valuable in post-retirement product design, where competing trade-offs are substantially greater than in the accumulation phase. However, we believe using metrics and scorecard approaches as an industry wide comparison tool presents challenges without an uplift in member knowledge of post-retirement products.
- Comparison tools in post-retirement ask the impossible: easy to understand, technically accurate, no unintended consequences (i.e. stifling innovation or homogenising products) and sufficiently flexible to compare ‘apples with oranges’ (i.e. different member needs/preferences).
- The goal or success of retirement products is not limited to investment performance, as defined by the RIC. Introducing a YFYS performance test (or similar) would not further the goals of the RIC and in JANA’s view it would stifle both retirement product design and the diversity in products offered.
- JANA notes that the discussion paper indicates that a performance test for retirement products should not constrain innovation in product design, and JANA shares this sentiment.

Suggested Improvements

- In our view, it is not possible to create a post-retirement comparison tool applicable across all products without material unintended consequences and/or significant standardisation of product offers. However, if a post-retirement comparison tool were to be developed, the RIC objectives should be the focus/starting point for the development of any tools/policy.
- Focusing policy development on member education and development of appropriate retirement products (i.e. that retain member flexibility and choice) will allow consumers to make better decisions in retirement.

Section 3: Making lifetime income products more accessible

Further Question 5

Would an industry-standardised product(s) assist funds to develop and offer lifetime income products to their members? What features should a standardised product include? Should there be a path to more easily transition members to a standardised product? Should superannuation funds be required to offer a standardised retirement product, similar to MySuper for accumulation? How should a product vary for individual circumstances of the member?

Standardised products

JANA Views

- An industry standardised product which includes a longevity protection component may be a suitable product for some superannuation fund members. However, it would be unlikely to be suitable for all members given the varying circumstances and diverse income needs of individuals in retirement.
- JANA notes the following considerations with regards to standardised products with a lifetime income component:
 - Funds would need to undertake significant initial work and bear the associated implementation costs, with difficulty in forecasting the number of members that may take up this type of product;
 - Funds have differing membership bases, so the suitability across all funds may differ;
 - The reduced income flexibility due to potentially using a material proportion of a members' superannuation balance to fund a future relatively fixed income stream, particularly when future income requirements are unknown and unpredictable;
 - The counterparty risk associated with lifetime income products would need to be assessed (that is, the risk to the superannuation fund member that the superannuation fund or insurer, will not be able to meet the income payments, particularly given the long time-frame of lifetime income products);
 - The cost of products being offered, due to the inclusion of an insurance component; and
 - The legacy risk of a lifetime income stream for merging superannuation funds.

Suggested Improvements

- Given their knowledge of their membership base, JANA believes that superannuation funds are best placed to design retirement income products for their members rather than adopting a standardised product approach. Increased regulatory certainty and the ability of superannuation funds to utilise more granular member data are both key to superannuation funds being able to design more appropriate retirement income products for their members.
- JANA notes the references in the Consultation paper to the potential for the Government to be involved in the pricing of longevity risk or facilitating funds in risk pooling within retirement products. At a high level, JANA notes that the Government's support in the management of longevity risk could mitigate the counterparty risk involved with lifetime income products. However, to form a complete view, more information is required on how the Government involvement would work in practice.

Next Steps

Thank you for the opportunity to provide our feedback. We would be delighted to discuss any of the points raised in this Consultation response further.