

9 February 2024

Director
Retirement Income and Adequacy Unit
Retirement, Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600

Dear Director,

Retirement phase of superannuation

MLC Life Insurance welcomes the opportunity to respond to Treasury's consultation on the retirement phase of superannuation.

About MLC Life Insurance

MLC Life Insurance was founded in Australia in 1886, has nearly 1.1 million customers and continually seeks to fulfill its purpose of 'a promise for life'. In 2016, Nippon Life Insurance Company (**Nippon Life**) acquired an 80% interest in MLC Limited (**MLC Life Insurance**).

Nippon Life, founded in 1889 and based in Osaka, Japan, has 14 million customers worldwide and has a mission to help create a secure future for its customers.

Principles/Recommendations

1. Holistic approach to retirement settings
2. Use of nudges to default retirement strategies within superannuation, requiring members to opt-out of investing at least a portion of their retirement savings in an income stream solution, including a portion for managing longevity risk
3. Improve the Retirement Income Covenant (RIC) by enabling data sharing between Government and its agencies and superannuation funds
4. Develop tools and frameworks that enable comparison of product offerings that are not like for like

Discussion

Australia's superannuation system is a fundamental part of a world-class retirement system. It is one of three pillars including a means-tested Age Pension and private savings and has evolved into a mature system.

The defined contribution nature of superannuation has meant that policy settings have mostly focused on the accumulation phase by growing the savings of Australian workers, with the purpose to deliver income in retirement. However, challenges remain on how to incentivise how these savings are used in retirement, including complexities in navigating the retirement income system while considering individual needs and risks.

MLC Life Insurance believes this consultation is an opportunity to develop retirement solutions that meet the needs of superannuation members and help with the fiscal challenge of a decreasing tax base to fund the Age Pension.

1. A holistic approach to retirement policy

Policy settings that help individuals maximise their savings in retirement should enable retirees to seamlessly engage with the retirement system, whether it's through their superannuation fund, the Age Pension, or other retirement solutions providers like life insurers.

As Australia's population ages, driven largely by increasing life expectancies, this demographic shift carries with it challenges over how individuals can best fund their retirement. The latest data from the Australian Bureau of Statistics (ABS) on retirement and retirement intentions indicates that for the 2020-2021 financial year, the average age at retirement was 56.3 years¹. As life expectancies increase, the challenge retirees face in managing these savings over an uncertain number of years is more difficult without appropriate mechanisms, products, and guidance that help them manage this longevity risk.

While the Australian retirement system already provides some protection against this risk via the publicly funded Age Pension, it does not provide an adequate level of income for a dignified retirement.

The latest data from the OECD shows that even accounting for mandatory retirement savings (e.g. superannuation guarantee contributions) combined with the Age Pension, the average male Australian worker will have a replacement rate (income in retirement relative to income during working life) of less than 30% compared to an OECD-average of around 50%².

While the Consultation Paper (**Paper**) recognises the problem of longevity risk and that running out of retirement savings is a key concern for Australians, it does so mostly in the context of the superannuation environment. This is reflective of the current retirement landscape, where most retirees use account-based pensions within the superannuation system. However, the problem is bigger in scope and any proposed solutions must be commensurate.

The problem of longevity risk is a wide retirement system problem that requires solutions from superannuation funds but also from other key market participants such as life insurers. Leveraging the know-how of life insurers in managing longevity risk is paramount to solving the retirement challenge facing Australia in the coming years and MLC Life Insurance is pleased to see this recognised in the Paper.

Changes to policy settings should also recognise the interaction between retirement and aged care. The aged care funding challenge must be considered through the lens of the retirement system, and the consultation should consider the real prospect of insurance solutions that could address funding challenges in the future. Potential solutions that address these challenges, and which also manage longevity risk in retirement, should involve designing policy settings holistically and not just within superannuation. They should enable retirees to engage seamlessly with each pillar of the retirement system in a way that meets their needs and risk appetite.

2. Using nudges

The low take-up of lifetime income products by superannuation members despite the removal of some regulatory barriers to product innovation remains a challenge. However, this is not the result of products not being made available. Lifetime income products exist and have indeed gone to market but take up has been low largely due to their complexity, a lack of awareness, upfront costs (lump sum capital investment) and perceived loss of savings, making it a demand-side problem and not solely a supply-side failure.

¹ ABS (2023). [Retirement and Retirement Intentions, Australia](#). Retiree statistics and the retirement plans of people aged 45 years and over (reference period 2020-2021 financial year).

² [OECD \(2023\). Pensions at a Glance 2023: OECD and G20 Indicators.](#)

This is crucial to highlight because market intervention on the basis of fixing supply is unlikely to have the intended consequences of increasing take-up, because the market has remained undeveloped due to demand-side barriers. This means that any intervention must be targeted at incentivising demand rather than solely focus on supply-side interventions.

Some policy changes aiming to address supply-side problems have already been deployed through the introduction of frameworks like the Retirement Income Covenant (RIC) and product design and distribution obligations (DDO). These frameworks are good starting points, but more needs to be done to develop a well-functioning market for lifetime retirement income products which focuses on incentivising demand.

MLC Life Insurance supports the use of default retirement strategies within superannuation, requiring members to opt-out of investing at least a portion of their retirement savings in an income stream solution, including a portion for managing longevity risk (a solution may be a bundle of products, depending on the trustee's retirement strategy). A default mechanism as a baseline for managing retirement income and longevity risk will provide a good starting point for retirees to understand the options available and solutions that the trustee considers may be appropriate for them under the retirement strategy and contribute to behaviour changes that will help with longer term funding challenges of the Age Pension.

We acknowledge the unique experience of individuals in the context of retirement, however, so any framework that allows for nudging into defaults should have appropriate safeguards for retirees to not get locked in to inappropriate products or bundle of products. The cohorting of members that superannuation funds already are required to do under the RIC should be leveraged to ensure consumer protection.

The reliance on a pure investment, “minimum drawdown” solution risks embedding “accumulation-type” thinking on the decumulation phase of retirement. For example, the primary focus during accumulation is net investment returns, a focus which risks inadequate income levels if solely applied during decumulation given the lower investment risk appetite in or close to retirement. As retirees move into decumulation phase, the “nest egg” thinking linked to the balance of an accumulation account needs to shift to a “retirement income” thinking, where the savings are used to deliver retirement income and manage risks such as longevity. Existing account-based pensions, for example, cannot guarantee to manage longevity risk, and here is where an insurance-based solution can help meet manage this risk. As well as broadening the solutions available to members, and considering nudges or defaults that may be appropriate, there is still a large role for trustees and product providers to engage with and educate retirees to increase demand for solutions that are not primarily focused on investment returns or preserving capital at the detriment of retirement quality.

Demand-side solutions

Incentives to promote demand for retirement income products are scarce and we believe there is a role for Government in improving demand for lifetime income solutions. Extending the tax exemption on earnings in the retirement phase of lifetime income products is a good first step, but it has not in and of itself spurred take-up, suggesting challenges around individual behaviour.

Further settings that drive retiree behaviour towards maximising their retirement income are important. The Paper identifies minimum drawdown rates for account-based pensions as sub-optimal for retirement income, all the while serving as a proxy for individuals who see it as a government recommended default³. Helping individuals understand the purpose of the minimum drawdown rate is unlikely to, on its own, address retirees' reliance on it as a default.

This means that re-setting minimum drawdown rates is not likely to optimise drawdown, as individuals will simply anchor their behaviour to the new minimum⁴. Equally, proposing that superannuation trustees to set specific drawdowns in conflict with the minimum drawdown rate is likely to create confusion based on how retirees treat the drawdown.

³ Australian Government (2020). [Retirement Income Review](#).

⁴ Ibid.

One of the challenges with developing new innovative solutions that deliver retirement income, in particular those that offer a longevity guarantee (under a life contract), is the lack of options available to manage these products if they do not achieve scale and are removed from sale. The restrictions in place mean that small legacy books are often managed for long periods of time, and this creates an administrative and cost burden for product providers. Greater awareness and demand for retirement solutions will go some way in reducing this risk for new developments; however, consideration should be given to this issue as further developments for the retirement phase of superannuation are explored.

3. Retirement Income Covenant (RIC)

The RIC introduced a principles-based framework for superannuation fund trustees to implement retirement income strategies for cohorts of members. This is a good first step towards a more robust retirement framework that incentivises the conversion of accumulation benefits into income streams, including a portion for longevity products.

Furthermore, the RIC enables the collection of data by superannuation trustees for the purposes of identifying cohorts of members within their membership. This is an important step as it will enable superannuation funds to better determine the needs of their members in or reaching retirement, including nudging members towards a bundle of products that accounts for their needs, including consideration of other factors such as the Age Pension, their spouse, homeownership, etc.

However, existing barriers to data collection means the impact of the RIC enabling superannuation trustees to collect better and necessary data to produce appropriate retirement income strategies is mild. For any effective to how superannuation is used in retirement to be effective, Government and its agencies should be able to share information with superannuation funds. This will help them with cohorting, and improved designs of retirement income strategies that broadly account for a member's circumstances.

4. Bundle of products and comparison tools

The Paper recognises the importance of using more than one retirement income product to meet different needs in retirement, including access to the Age Pension where a retiree is eligible, and MLC Life Insurance is supportive of this approach.

The bundling of products that retirees should purchase to meet their retirement objectives is a key question for superannuation trustees to consider. However, assessing a retirement outcome objectively is difficult as retirees will have different experiences, expectations, and needs. This needs to be considered in the context of developing tools and comparison frameworks that may not be comparing like-for-like strategies and solutions, unlike accumulation where investment growth and fees can easily be compared.

It is important to understand the scope of advice that trustees will be able to provide to members in retirement, under the upcoming advice changes, as this will further develop the foundation to discuss product bundling with retirees.

CALI submission

MLC Life Insurance has had the opportunity to contribute to the submission by the Council of Australian Life Insurers (CALI). We support and endorse the recommendations raised in the CALI submission.

If you require further information, please contact Mark Powell, General Manager of Sustainability and Corporate Affairs, on 0477 706 922 or by email at Mark.Powell@mlcinsurance.com.au.

Yours sincerely

A stylized handwritten signature in black ink, appearing to read 'M. Rogers'.

Michael Rogers
Chief Individual Insurance Officer

Yours sincerely

A handwritten signature in black ink that reads 'Mark Puli'.

Mark Puli
Chief Group Insurance Officer