



# Submission to Federal Treasury's Retirement Phase of Superannuation consultation

9 February 2024

Helping all Australians achieve a better, more sustainable retirement income

9 February, 2024

Retirement@treasury.gov.au

## SuperEd/Retirement Essentials submission to Australian Treasury's Retirement Phase of Superannuation consultation

Dear sir/madam,

Thank you for the opportunity to provide this submission to the Treasury's consultation on the Retirement Phase of Superannuation. We are very supportive of the government's ongoing push to focus the superannuation fund industry on how it can help members in this vital stage of their lives. Super funds have a huge role to play and retirement is central to their purpose.

Our recommendations are built around five key areas for improvement

- i) The Age Pension – calling for more super fund help for members to address the challenges of their very important government retirement entitlements...and on the Government to address the complexity of the Age Pension.
- ii) Super Fund Provision of Retirement Advice and Education – emphasising the great opportunity for super funds to improve their members' retirement outcomes by doing more in education and advice. And the opportunity for the Quality of Advice Review implementation to facilitate this.
- iii) Matching Members with Suitable Solutions – discussing the rich potential in “Trustee directed” solutions.
- iv) Retirement Income Forecasting – addressing the importance of strong retirement forecasting tools to help members understand their future retirement incomes and longevity risks.
- v) Simplification of the Overall Retirement Ecosystem – suggesting that having “simplification” as a principle of future regulation would pay off in better retirement outcomes.

### About SuperEd/Retirement Essentials

SuperEd, and its subsidiary, Retirement Essentials have a long-held mission to help members get better retirement outcomes. We work directly with consumers and with many of the top super funds to help members with affordable education, help and advice on retirement matters. We have a particular focus and unique service helping older Australians understand and access the Age Pension, which we believe is often undervalued and overlooked as a major source of income in retirement.

We are also focused on providing top quality affordable retirement income advice through hybrid and digital services – with an emphasis on episodic advice. Accordingly, we have a very strong interest in

the progress of the Quality of Advice review, which we think could make a huge difference in resolving the massive advice gap.

We provide a widely read weekly newsletter on vital retirement matters to over 130,000 older Australians.

We would like to acknowledge the contributions of Michael Rice and Professor Deborah Ralston to our submission.

Please let us know if we can assist further with your consultation.

Sincerely,

Jeremy Duffield  
Co-founder and Director  
SuperEd Pty Ltd

## I. Introduction

*Imagine that you are playing a really important football game, but you've never played before. Maybe you've watched a match once or twice from the grandstands, but don't really know the rules. And you have never been trained.*

*That's what going into retirement is like for most Australians.*

*In addition to your lack of experience and the complexity of unknown rules, the rapid recent exodus of financial planners, and the very high cost of traditional financial planning, means very few affordable coaching staff are available - except to the wealthy.*

*Unlike football, it's not a competition against another side and it's not about scoring points over a 2-hour battle. Retirement's more like a marathon, running on your own or as a team of two, over maybe 25 years or longer, with life and investment markets creating mountains and potholes along the way. Like a marathon, the challenge is to last the distance. The biggest concern for most people is "will I have enough money?"*

Super funds are in an excellent position to ease the entry of the workforce into this "new game" of retirement and to cater to them well into retirement. Research we did with Link Advice in late 2021 showed that 72% of people wanted their super fund to help them with retirement and the Age Pension.<sup>1</sup>

So super funds are arguably in the best position to help...and it's totally consistent with the mission and purpose of super. But, as the government has pointed out, the actions of the industry have been modest. Super funds have historically focused on the accumulation stage and have mostly been slow to embrace a change to a deep focus on the retirement phase.

The Murray Inquiry of 2014 set out the case strongly for greater emphasis on the retirement phase. And important government initiatives since then have reinforced the imperative – notably the Retirement Income Review of 2020 and the Retirement Income Covenant effective in July 2022. So the regulatory environment has finally shifted to an appropriate focus on retirement as the core purpose of super...and now still to come are the changes anticipated from the Quality of Advice Review<sup>2</sup> to create more viable settings for providing advice that will enable providers to address the current cavernous knowledge and advice gap. But super funds must act. And as the recent APRA/ASIC review showed, there has been too little action despite the regulatory mandating.

## II. The Real Life Financial Problems Older Australians Face

To identify what should be done, by super funds, or others, we should first specify the help needed by consumers approaching, moving into and in retirement. There are many significant challenges older Australians face in preparing for, entering, and living in retirement.

Their top concern is will they have enough in retirement. Our research indicates that 60% of older Australians identify whether they will have enough as their biggest concern about retirement. How long will it last? How much can I afford to spend? How do I get my government entitlements?

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<sup>1</sup> Link Advice [Retirement Reality \(2022\)](#)

<sup>2</sup> [Final Government Response to the Quality of Advice Review](#)

And the evidence of real problems among older Australians dealing with retirement is pretty clear. Here are some of the most important areas we think this consultation should consider:

- **Age Pension literacy.** The most important component of retirement income for more than 50% of older Australians is the Age Pension. Yet AMP research reveals that 40% of people over 50 don't know whether they'll be eligible for the Age Pension.<sup>3</sup>
- **Age Pension delayed applications:** Link Advice research with Retirement Essentials showed that only 44% of people apply for the Age Pension on time. Around one third(32%) apply at least a year late and almost one fifth are over 3 years late in applying. There's probably not a more expensive mistake for older Australians, as there's no "backpay" for missed Age Pension. One client we were working with reported that he applied three years late with a calculated a loss of \$75,000 in Age Pension foregone.
- **Delayed conversion from accumulation super to pension phase.** Challenger reports on the 30% of people over 65 who are still in accumulation(taxed) as opposed to an Account-based pension (untaxed). This experience is confirmed by our data among 200,000 Retirement Essentials users. Consider a super account of \$200,000, which may forego on average something like \$1,000 to \$1,500 per year in unnecessary tax each year, reducing the spending power of their super savings in retirement.
- **Observed underspending.** The Retirement Income Review lamented the high proportion of people leaving large unintended bequests because they consistently underspend in retirement. That same observation is made in the discussion paper to this consultation. We all know older people who do live very frugally, underspending relative to their assets.
  - It's not really a surprise, is it? How are individuals, unassisted, supposed to work out what Nobelist Bill Sharpe has called "the nastiest, hardest problem in finance." It's not easy to work out how much you can spend in the face of uncertain life expectancy and unknown future investment returns. Anyone with a mild sense for self-preservation would underspend. Government and the industry must find ways to address the challenge and help members spend more realistically and enjoy the retirement they can afford.
- **Access to affordable advice.** As noted in the introduction, retirement is a strange new game for consumers. Consumers are faced with the "they don't know what they don't know" problem. It's unfamiliar, difficult territory. And yet we have a massive gap in the availability of affordable advice and help. This is not only a result of the incredible drop in financial adviser numbers over the last 5 years(from 28000 to just 15000) as there was poor availability of affordable advice before then. The Final Report of the Quality of Advice Review gives a comprehensive listing of the gaps in the supply of affordable advice. For instance, the Report showed affordable advice is hard to come by with consumer willingness to pay a fraction of the actual advice prices in the market. Among many other evidence points, this one gets our attention: more than 80% of retirees in the 75+ bracket wanted advice but were unable to pay for it.<sup>4</sup>

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<sup>3</sup> Australian Financial Review Sept 19, 2023 <https://www.afr.com/companies/financial-services/ai-can-be-the-solution-to-retirement-financial-illiteracy-20230917-p5e58x>

<sup>4</sup> Quality of Advice Final Report – p50

### III. The Remediating Role of Superannuation Funds



As noted, super funds are in the prime position to help members move into retirement. And it is fully consistent with the mission and purpose of superannuation for them to do so.

Yet, the APRA/ASIC review shows that the response to the “push” provided by the Retirement Income Covenant (RIC) has been slower than expected. “Overall, there was a lack of progress and insufficient urgency from RSE licensees in embracing the retirement income covenant to improve members’ retirement outcomes.”<sup>5</sup>

Adapting to the RIC is a big change for super funds as they’ve traditionally been predominantly “product providers” with dominant default solutions which are appropriate for most of their members, who have common investment goals of building strong savings to retirement.

While super funds have been focussing on engaging members through regular communications, being able to engage members in the accumulation phase is challenging. The default system ensures that all Australians are able to grow their retirement savings however, this passive approach means that as members approach retirement, their relationship with their super fund changes significantly.

The retirement opportunity and regulation requires superannuation funds to switch to providing client-focused services. We also know that members are more engaged in their retirement savings as they approach retirement, as well as in retirement. This represents a great opportunity for super funds to re-engage their members and offer a range of services, including education, guidance and advice. Further to this, the wide differences in member needs become highly apparent in the retirement phase...and the level of help required and desired by members increases exponentially.

We work with a number of super funds which are responding to the Covenant, and the opportunity to help their older members, with varying levels of effort, budget and commitment. It’s been very good to see the appointment of Heads of Retirement and retirement focused teams in most of the organisations we work with. How to best provide the range of education, guidance, advice and help are the major challenges at the current time. This has to be done for members approaching retirement, entering retirement, and periodically during the retirement years.

### IV. SuperEd/Retirement Essentials Recommendations

We will focus on five areas where we think significant improvements can be made:

- i) The Age Pension
- ii) Super Fund Provision of Retirement Advice and Education
- iii) Matching Members with Suitable Solutions
- iv) Retirement Income Forecasting
- v) Simplification of the Overall Retirement Ecosystem

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<sup>5</sup> Information Report: Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic review(July 2023)

## IV.i The Age Pension

The Age Pension's importance to everyday older Australians has been underestimated by the super industry. Yet, it's the dominant part of retirement income for most older Australians, as shown in the graphic<sup>6</sup> below. The Age Pension is the larger portion of retirement income for people in lower income levels:

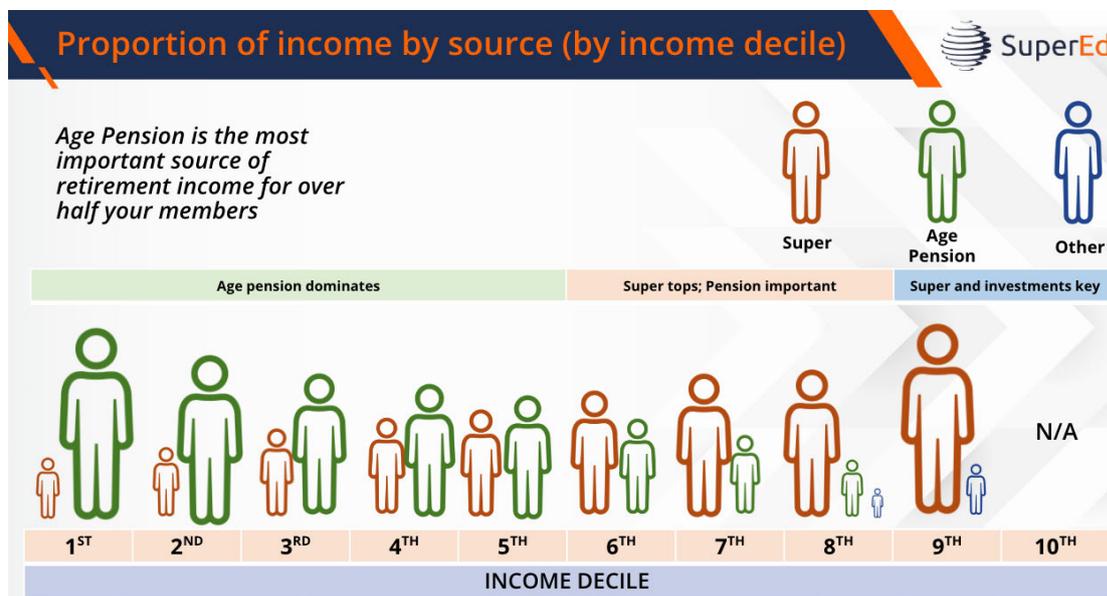


Figure 1. Proportion of income by income source

It's inconceivable to develop a super fund's Retirement Income Strategy without a major role for the Age Pension. Not only is the Age Pension the majority source of retirement income for half of the older population but its means testing features entwines superannuation with eligibility for the Age Pension. The amount of superannuation a member, and partner, have will impact whether someone is eligible and the amount for which they're eligible.

The Age Pension also has characteristics which make it essential to meeting the objectives outlined in the Covenant. It provides a safety net for retirees, and is an excellent inflation and longevity protection device. As such, it is critical to meeting the objectives of "maximising expected retirement income" and "managing expected risks to the sustainability and stability of retirement income."

As a result, a Trustee's solution set for retirees should be built around eligibility for the Age Pension. Someone on the full Age Pension already has a substantial annuity component. Someone on the part Age Pension has a substantial allocation to what is effectively an inflation linked and longevity protected fixed income portfolio. That's highly relevant to construction of suitable retirement solutions. And as everyone's eligibility for the Age Pension is different, based on their facts and circumstances, it means one-size-fits-all solutions for retirees are completely inappropriate.

<sup>6</sup> Sourced from Retirement Income Review – p47

The other reason the Age Pension is critical to a super fund’s Retirement Income Strategy is that its members find the benefit very difficult to understand, to apply for and to fit into their retirement planning. The inspiration for founding Retirement Essentials’ was Paul Rogan’s insight that the Age Pension is pain point #1 for older Australians. And he was right!<sup>7</sup>

Consumers find the Age Pension and its means testing extremely complex. Our clients’ stories and experiences often make us wonder if Australia could have made it any more complex.

The answers to a couple of survey questions<sup>8</sup> will make the point:

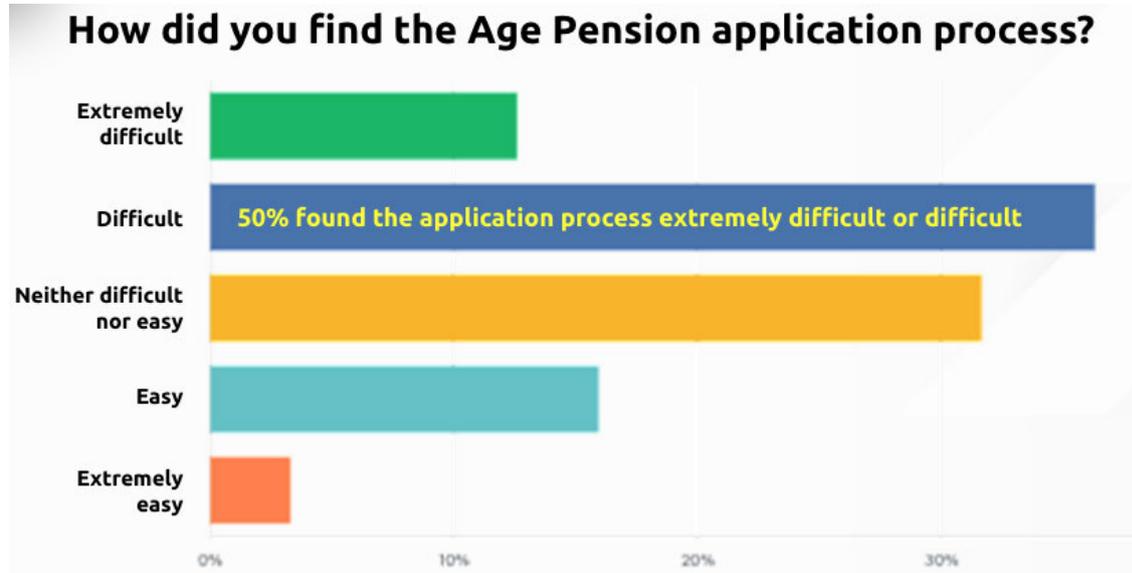


Figure 2. Member response to “How did you find the Age Pension application process?”

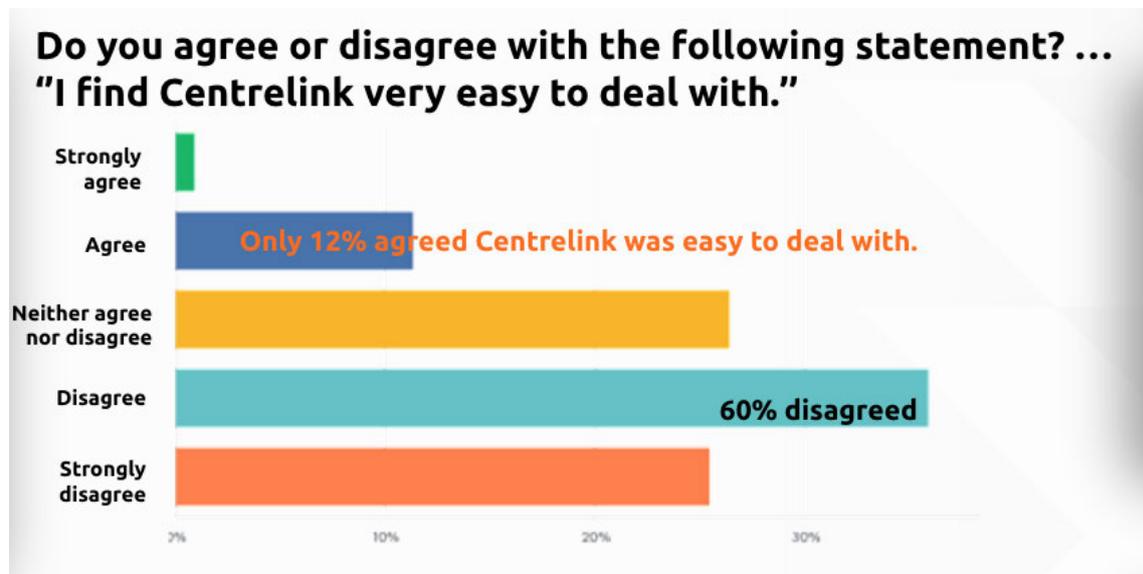


Figure 3. Member response to “Do you agree or disagree with the following statement?...I find Centrelink very easy to deal with”

<sup>7</sup> The Centrelink Experience: National Seniors Australia and Retirement Essentials(2018)

<sup>8</sup> Link Advice Survey: [Retirement Reality](#)(2022)

As a result of the complexity and challenging application process, many older Australians apply late and miss out on thousands, or tens of thousands, of dollars of Age Pension income, since there is no “backpay” on the Age Pension. These survey results convey the extent of the problem and the reasons for it.

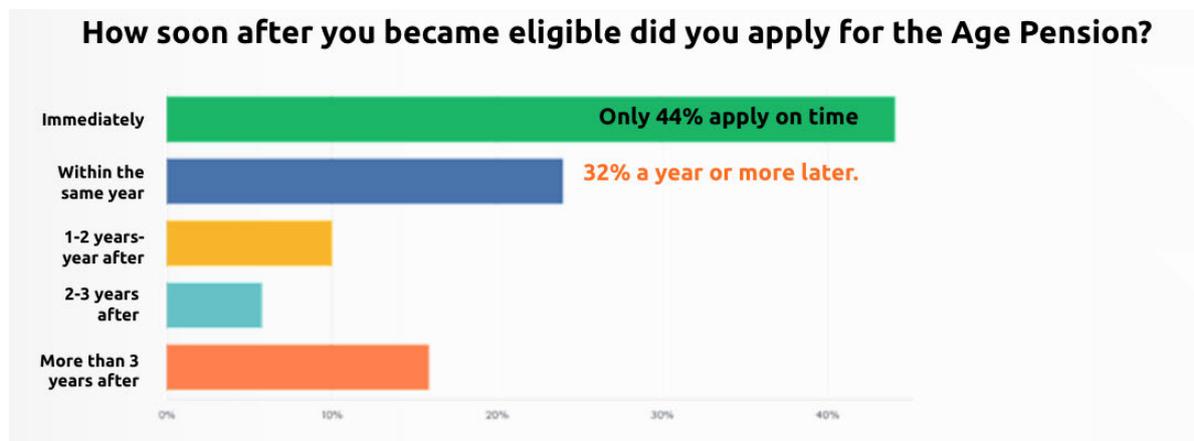


Figure 4. Member response to “How soon after you became eligible did you apply for the Age Pension”.

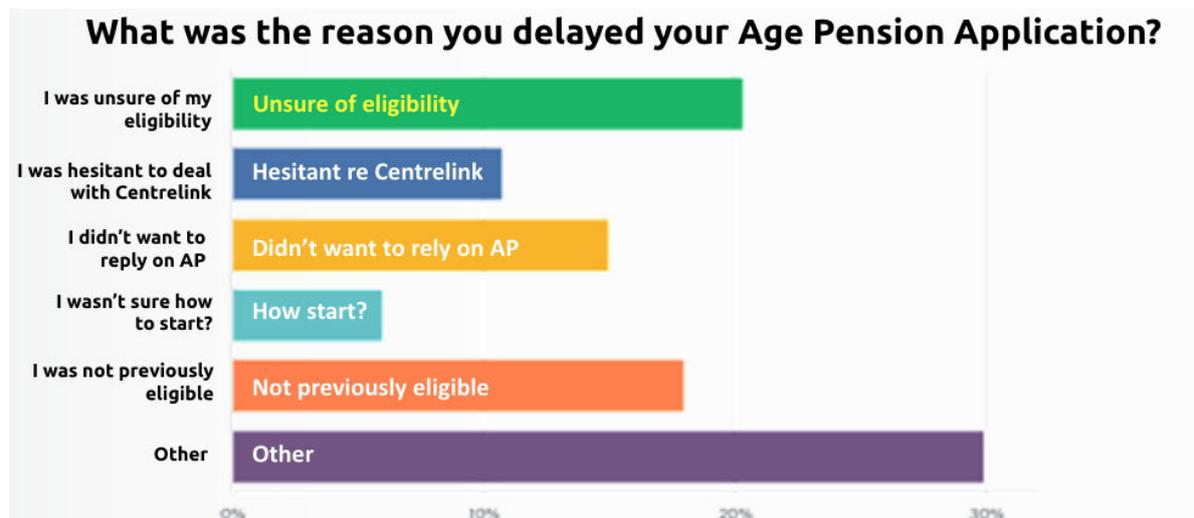


Figure 5. Member response to “What was the reason you delayed your Age Pension Application?”

SuperEd recommends that super funds should offer greater assistance to members in understanding the Age Pension and their eligibility for it and help them apply for it. As noted previously, AMP research showed that only 40% of members over 50 understood whether they’d be eligible. And our research shows that 79% of people want help applying for the Age Pension. Further, 72% wanted support from their super fund with the Age Pension and what to do with super in retirement.

SuperEd also recommends that Treasury review the complexity of the Age Pension and the application process. While we understand the vast sums of public spending the Age Pension represents (over \$50 billion per year), we ask, on behalf our clients, whether means testing really needs to be so complicated and sometimes so “mean.”

- Could eligibility rules be simplified?

- Our Retirement Essentials customers express a very strong preference for a Universal Age Pension. While this may not be financially practical, it does call out the concerns older Australians have both about the complexity of the eligibility process and the desire for government assistance as a matter of fairness in the context of having worked and paid taxes for most of their lives.
- If the government believes means-testing is essential for financial viability of the Age Pension program, then can the eligibility rules be simplified? The current application process is a “monster” requiring a deep fact find on just about all the facts and circumstances of a couple’s/single’s life?
- Could older Australians receive a notification from the government that they are approaching eligibility age and should check their eligibility status? (Overseas example: The US Social Security System sends out 6 monthly reminders of eligibility.)
- Must taper rates for increases in assets and income be so severe?
  - Current rules impose a \$78 per year cut for increases per \$1,000 in the value of assets. So, a \$20,000 increase in the value of assets results in a \$1,560 drop in the Age Pension for a part pensioner.
  - The taper rate for income is even more severe at 50% once threshold levels of income are reached. What a terrible disincentive to stop older Australians working! Particularly as the thresholds for employment income are so low.
- Must ongoing compliance with the Age Pension be so difficult? The current rules require immediate notification of changes in relevant information, such as asset values. If someone is relying on investments to fund their retirement, valuations will change frequently. It is not reasonable, or socially optimal, to expect constant updating.
- Services Australia should set up a unit to assist professionals – including those working for super funds and financial advisers – helping older Australians apply for the Age Pension and improve technology to simplify that assistance. Today, Services Australia offers no such assistance. Retirement Essentials helps just under 1% of Age Pension/Commonwealth Seniors Health card applicants...but gets no special avenue to deal with Services Australia – not even preferred call centre access. It would be beneficial to Services Australia to treat such professionals in a similar manner as the ATO treats tax agents.

## IV.ii Super Fund Provision of Advice and Education

We would argue the greatest opportunity for super funds to make an improved contribution to their members' retirement well being is via expanding efforts in education, advice and help around retirement. That's the primary thesis of our submission.

The QAR Final Report has revealed the magnitude of the affordable advice gap – so we won't recover that ground here.

To help their members prepare for, transition into and thrive in retirement super funds need to excel in the spectrum of information, education, guidance and advice. The proposed changes in the Government's response to the Quality of Advice Review should give them great scope and potential to do this.

Of course, funds need to recognise that superannuation is only a portion of the retirement solution needed by the members. The Age Pension, other savings and investments and housing, and later in life Aged Care, represent other vital components.

Super funds efforts to help in retirement are currently constrained by the limited data they have about members. They rarely have sufficient data, without further inquiry, to ascertain whether someone is eligible for the Age Pension or what rate of Age Pension they may get. The Age Pension is determined on a household basis, so partner information is crucial to giving appropriate help, guidance and advice. Moreover, members' situations change during retirement and funds have very limited ability to keep up with changing circumstances.

We encourage the government to facilitate sharing of data, with member consent, so that super funds can personalise and improve member communications and advice.

With the dual challenge of responding to the large demographic wave of retiring Australians and doing so at affordable levels, super funds will have to seek scalable solutions utilising technology to keep costs down. Digital advice will be an important component of the solution set but it is likely that hybrid approaches combining human assistance and digital technology will be better appreciated by older Australians approaching and moving into retirement.

To date, super funds have invested comparatively little in the technology required to deliver advice at scale. Overseas examples show that a greater focus on technology will accelerate affordable advice delivery. As the barrier of uncertain advice regulation is cleared, we would expect to see greater investment and focus on innovation and new solutions.

Funds have a great opportunity to ramp up the communications with members about retirement topics. While members might have been disengaged while accumulating due to the quality of MySuper default options available to them, they are likely to want to be much more engaged with the challenge of providing income streams in retirement. Older members are curious about the new frontier of retirement and concerned about how to tackle it. Our own experience is that our weekly newsletter to 130,000 older Australians on Age Pension and Retirement Advice topics is very well read with a 45-50+% open rate.

As they acquire more insight into their members, super funds will be able to personalise the information to be more suitable and helpful to individual members. Funds should be permitted to nudge their members towards behaviors leading to better retirement outcomes, without running afoul of the advice laws.

Fund members are diverse in many ways, including their attitudes towards financial decision-making. And so super funds need to cater to different styles of decision making or focus on which styles they will support. The traditional segmentation of financial decision making has included: those who wish to make decisions themselves (DIYers), validators (who seek guidance but wish to make the final decision themselves), delegators (those who lean heavily on financial advisers' recommendations) and the disengaged (who are reluctant or unable to make decisions).



David Bell and Geoff Warren's (of The Conexus Institute) recent paper<sup>9</sup> is an excellent framework for thinking about the role super funds can play in providing members with help in finding retirement solutions. It adds to the traditional segmentation model thinking about the role trustees can play in providing "direction." We explore this in the next section.

#### IV.iii Matching members with suitable solutions

A key role for super funds is helping their members find the appropriate "solution" for their retirement funding. This has led many funds to focus on product solutions that strive to optimally achieve the RIC's three objectives: maximising expected retirement income; sustainability and stability of retirement income; and, flexible access to capital during retirement.

However, the retiring/retired population is incredibly heterogeneous with different facts and circumstances and different preferences and needs. There is not one right solution that will suit them all. It's most important to determine or help the person determine the right solution for them. How can funds best do this?

We commend the framework David Bell and Geoff Warren describe, which includes multiple pathways to get consumers to the right retirement phase solution for them. They identify different decision making modes from Do It Yourself, to using Advisers to three levels of Trustee Guidance/Direction, from Trustee recommendations through to defaulting members into solutions.

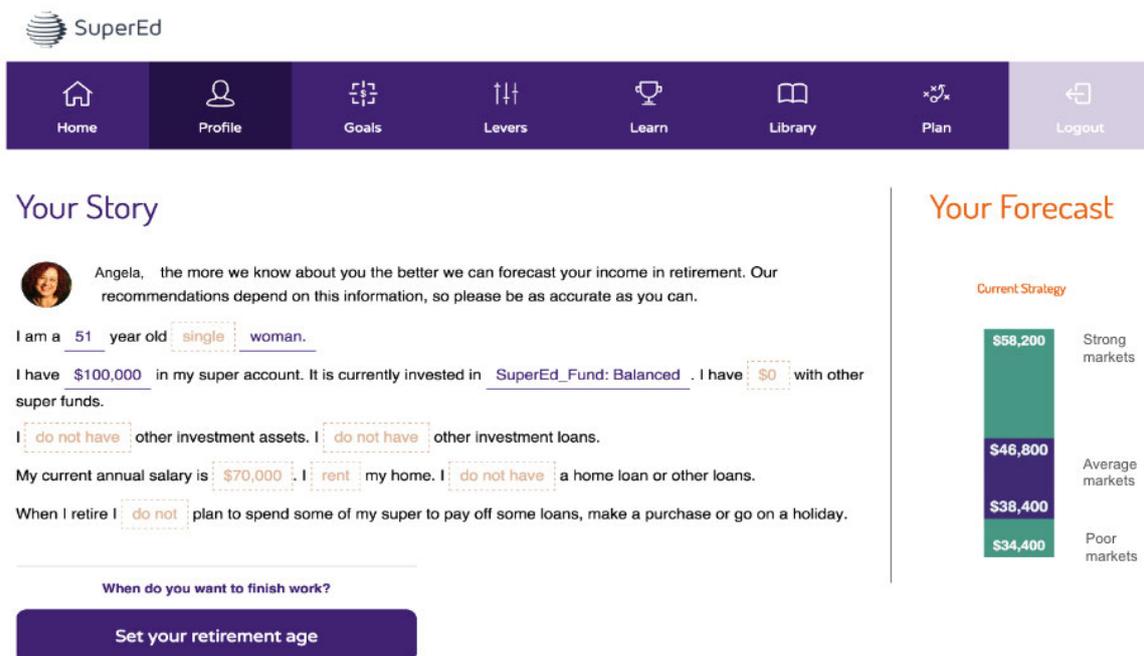
Pathway	Self-direction	Adviser direction	Trustee direction		
	Member choice	Personal financial advice	Trustee recommendation	Trustee assignment	Default
Nature	Member chooses solution, drawing on decision support services	Member is directed to a solution by a financial planner through: (a) limited advice, or (b) comprehensive advice	Trustee recommends a solution to member, who then opts-in or opts-out	Member requests trustee to assign them to a solution	Trustee defaults member into a (probably basic) retirement solution
Member type most suited for	Members who want to choose for themselves	Members with desire for a personalised recommendation and are willing to pay	Members looking for direction, but: • Do not want to seek a financial adviser • Not well-prepared to choose for themselves		Highly disengaged members who take no action

Table 1. Pathways for directors members into retirement solutions - who decides - fund trustee, adviser or member?

<sup>9</sup> Pathways for directors members into retirement solutions – who decides – fund trustee, adviser or member?

In a world where the provision of affordable advice will be challenging for super funds to scale up and where many members are disengaged, the Trustee Direction approaches deserve serious consideration. In particular, the opt-in “Trustee recommendation” approach could enable many consumers to get to a good solution. We see it as an extension of the guiding role played by super funds in accumulation where the Trustee has responsibility to offer a default MySuper product. For fundings offering lifecycle solutions their guidance role is even clearer; they design the asset allocation glidepath.

For members not wanting to do it themselves, or seek advice, we think it’s viable for the fund to put forward one or more drawdown options for the consumer to consider. The fund should first ask the client to complete a simple fact find, enough to determine the household situation and likely eligibility for the Age Pension. A plain English “my story” discovery approach can be used (as in the illustration below). Based on that, the recommended options would include an investment solution (with or without a longevity component) and a drawdown recommendation (% or \$s).



The screenshot shows the SuperEd user interface. At the top is the SuperEd logo and a navigation bar with icons for Home, Profile, Goals, Levers, Learn, Library, Plan, and Logout. The main content is split into two columns: 'Your Story' and 'Your Forecast'.

**Your Story**

Angela, the more we know about you the better we can forecast your income in retirement. Our recommendations depend on this information, so please be as accurate as you can.

I am a 51 year old single woman.

I have \$100,000 in my super account. It is currently invested in SuperEd\_Fund: Balanced. I have \$0 with other super funds.

I do not have other investment assets. I do not have other investment loans.

My current annual salary is \$70,000. I rent my home. I do not have a home loan or other loans.

When I retire I do not plan to spend some of my super to pay off some loans, make a purchase or go on a holiday.

When do you want to finish work?

[Set your retirement age](#)

**Your Forecast**

Current Strategy

\$58,200	Strong markets
\$46,800	Average markets
\$38,400	Poor markets
\$34,400	Poor markets

Figure 6. Sample of a ‘plain English’ approach to engaging members in their retirement income options.

The recommendation would come with a retirement forecast and a description of the option’s characteristics (including initial income, likely longevity of income at a given spending rate, accessibility conditions and suitability considerations). Put in easy to understand language. The advantage of offering more than one option is that members can compare and contrast different viable solutions.

Bell/Warren's notion of Trustee Assignment is a variant of the Trustee Recommendation approach and could also be useful to members needing help to make a decision. Again, there would need to be a fact find to establish what solutions may be suitable for a member. With member permission, the member could be assigned to the recommended option and their transition to an account based pension facilitated, thereby reducing the cost of unnecessarily paying taxes in retirement phase.

While default solutions have been successful in the accumulation phase, we are not strong supporters of default retirement solutions. The population is just too heterogeneous, and too little is known by the super fund about the member's needs and financial situation, to make default solutions feasible. If they are part of the government's plan going forward, they must be liquid so that members can extract themselves easily.

#### IV. iv Retirement Income Forecasting

A key challenge for retirees, which we believe underlies the observed underspending phenomenon, is lack of knowledge and understanding of how much they can afford to spend. The dual uncertainties of life expectancy and investment returns makes it the "nastiest, hardest problem in finance."

Many super funds are now offering Retirement Income Forecasts (RIFs) to members, either as part of the annual statement process or as a calculator. We believe there should be even more emphasis on this by super funds, particularly for retirees and near retirees.

Current practices need to develop further:

- There's a significant weakness in the current ASIC relief on calculators, which mandates the assumptions that should be used. The major problem is providing retirement estimates to members for which the super funds have very limited information. The lack of information pertinent indicating whether someone is likely to be eligible for the Age Pension (and for how much) is a major handicap.
  - The relief granted in ASIC RG276 requires<sup>10</sup> assumptions that are not representative for many members, thereby resulting in unrealistic and misleading forecasts. In particular, the default assumptions are that the member is partnered (our data on 200,000+ older household shows that 63% are partnered), that the member and partner own their own home (our data shows that 77% are homeowners) and that the member and partner have the same amount of super (very unrealistic). These discrepancies result in inaccurate and misleading retirement estimates.
  - As the standard also requires trustees to avoid misleading forecasts, there is a contradiction in the regulations.

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ASIC RG276 requires: "If the trustee chooses to include an estimate of the member's age pension in a static retirement estimate, the trustee must by default assume that: upon reaching age pension age, the member qualifies for an age pension; the member has a partner; the member and their partner jointly own their own home; the member and their partner have the same amount of superannuation and no other assets or income."

- Funds, and indeed ASIC’s MoneySmart, typically provide “deterministic” retirement forecasts, with assumptions about a rate of investment return earned over the course of the member’s retirement. A single retirement forecast is typically provided.
  - The associated problem is obvious: future returns which will determine actual retirement income are unknown and can be expected to vary widely, with dramatic outcomes for sustainable retirement spending levels. While it is “simple” to provide a single forecast retirees need to anticipate widely varying outcomes based on unknown future returns. Trustees and the government should be concerned about providing misleading information.
    - the other problem that arises from using deterministic forecasts is that more aggressive investment options, which are given higher investment return assumptions, magically appear to produce better outcomes, without any disclosure about the higher variability in retirement income expectations. What could be more misleading than that?
  - Accordingly, we believe the government should encourage the provision of RIFs showing a range of possible outcomes based on various future returns. The use of stochastic forecasts is a way to provide a more realistic retirement outlook — albeit one that is not as comforting or easy to digest.

#### IV.v Simplification of the Overall Retirement Ecosystem

A root cause of challenge for members moving into retirement and for the industry is the complexity of the retirement ecosystem. It’s hard to imagine how we could have created such a complex system. And complexity creates costs. And costs come out of returns earned by members thus reducing retirement incomes.

As we go to improve the retirement ecosystem, we should look for every opportunity to simplify. Too often simplicity is sacrificed for some other “good” – often tax or compliance or “justice or fairness.” Simplicity is an overlooked good. It enables understanding by members and operational effectiveness and efficiency for funds by allowing straightforward practices to be developed.

Stability goes a long way to create simplicity. Constant changes in regulations creates complexity and challenges consumer understanding and financial literacy.

The government should consider “simplicity” as a core principle of its design framework for the retirement ecosystem.

There are countless examples where simplification could be enhanced. Here are a few:

- We have already mentioned the significant opportunities to simplify the Age Pension/other entitlements.
- It should be easier to transition between pension accounts. Why must it be accomplished via a transition through an accumulation account at the new fund?
- Transition to Retirement accounts are very hard for consumers to understand, have a limited lifespan, and limited uptake.
- Contributions rules are incredibly complex and ever changing, with many exceptions.
- Introducing Joint Superannuation accounts could be a massive step towards creating more simplicity in retirement planning. Most members will go into retirement as part of a couple. Imagine how much easier it would be to get a handle on expected retirement income if monies were pooled into linked accounts at a super fund. Funds would have much more of the information they’d need to provide forecasts and retirement assistance.

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## Appendix – responses to selected questions

We have responded to many of the questions in the above discussion. Here we add to that by responding to several questions raised in the paper.

**What actions are industry or other participants in the community taking to address the issues identified in this section?**

It has been pleasing to see some strong actions by super funds. Improving resourcing of retirement phase issues by dedicating senior executives to head of retirement roles and building retirement teams is one key indicator.

As we think Age Pension help is one of the biggest needs for members, it has been pleasing to see the uptake by a number of the top funds of Retirement Essentials Age Pension/Commonwealth Seniors Health Card eligibility and application concierge services. The introduction of the Retirement Income Covenant had a direct impact on the rate of uptake. When introducing referrals to our entitlements services, funds have increased their educational content on the Age Pension and provided training to their call centre and advice staffs. Pleasingly, we find that nearly half of members using the Retirement Essentials Age Pension Eligibility Calculator are under Official Retirement Age, which indicates that they are using it to learn about the Age Pension and how to apply.

Through the Age Pension service we have been able to supply funds with in-depth information about older members' household facts and circumstances. This is helping to inform their member cohort understanding and inform retirement decision-making.

The next step for funds we think is improving the educational content available to members. There is a strong desire for more information about retirement for this age group moving into the new game of retirement. Funds have been tentative so far in responding.

**What does 'good' look like for how funds support and deliver products to their members in retirement?**

Funds need to look at the overall circumstances for a member – covering the range of sources of their retirement income. As part of this, it is critical to provide information on the Age Pension which most members will receive in full or in part at some point in their retirement. (80% are expected to receive the Age Pension by the time they are 80.)

Good requires the provision of high quality educational material which is comprehensible to members and a range of advice services designed for different decision making styles. It may also include good trustee directed solutions.

What basic information do members most need to assist their understanding and simplify decision-making about retirement income?

Members need to know about their Age Pension entitlements. And how to apply. Plus, they will have myriad questions about how the Age Pension applies to their specific circumstances.

In addition, they need to have ongoing retirement income forecasts, which give them an understanding of the range of income outcomes they may expect in retirement.

They need to understand the benefits of Account Based Pensions and how they move into pension phase.

Where can government and industry reduce complexity in the retirement income system, and provide simpler consumer experiences?

- Consider permitting a joint superannuation account for married couples<sup>[1]</sup>. Rules can still be set for contributions and benefit payments, but engagement would be higher if the partners had a common interest. Note that most couples hold joint bank accounts, and the Age Pension is based on marital status.
- Simplify the rules around Age Pension entitlement and ongoing compliance
- Increase the rent assistance component of the Age Pension, and improve means-tests for renters, which are onerous relative to home-owners.
- Reduce the rate of change in superannuation regulations impacting consumers to allow the population to learn how the system works. A stable system will improve literacy.

How might funds utilise guidance, nudges, defaults, and other actions to assist members into better solutions for their retirement income? What are the barriers to funds being more active in these ways?

Research and financial services experience has shown that nudges can be an important component of member assistance, helping them to improve their outcomes. The right prompt at the right time can engage members and encourage them to take action in their own self interest. The advice laws should permit them so long as there are clear guardrails.

If funds can group people with similar financial and family circumstances, they can suggest a suitable strategy. The barrier is the lack of data, and the mindset of funds – which tends to focus on product rather than member services and drawdown strategy.

In our paper we have discussed Trustee Direction including Recommendations, Assignment and Defaults. This is a promising area for consideration with a potentially strong payoff given the challenges the industry will face ramping up advice.

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?

At Retirement Essentials, we offer services to a number of funds which utilise the household information gathered from the Age Pension eligibility calculator to profile their older members. Other funds use survey techniques and gather secondary information. Funds have relatively undeveloped capabilities to analyse member data. One area for further development across the industry is better segmentation approaches. Funds should have a better sense of how to best determine member cohorts for the purposes of retirement income strategy.

Please provide comments on the need to support competition and product comparison across the services and products funds provide in retirement, or the need for greater consumer protection.

Product comparison across services and products in retirement is very challenging – a whole magnitude more challenging than accumulation product comparison. Products and services will only be competitive if they are tailored to a member’s personal retirement strategy based on their personal circumstances. This requires segmenting members into cohorts with comparable strategies AND monitoring the effectiveness of these strategies over time for each member.

Consumers are just so heterogeneous and have multiple variable and competing needs which means that product/services comparisons are very difficult.

The Retirement Income Covenant itself highlights four of these competing needs: maximising retirement income, sustainability and stability of retirement income and accessibility to capital. In addition, customers care about bequests and investment risk.

And then achieving these goals is not simply a matter of selecting the right product. It’s setting up one’s finances, applying for the Age Pension and many other things like preparing for estate needs and Aged Care. It’s finding the right advice to achieve one’s goals in retirement.

The best the government can do is to encourage good standards for communicating the characteristics of retirement options so that people, and their advisers, can make the best comparison possible between competing products.

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[1] <https://www.ricewarner.com/joint-superannuation-accounts/>