

9 February 2024

Retirement@treasury.gov.au

Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

Re: Retirement phase of the superannuation Discussion Paper

Dear Treasury

Thank you for the opportunity to respond to the Discussion Paper.

We are SCOR, a global organisation that protects societies by combining the art & science of risk. As a top-tier reinsurer, we have established long-lasting partnerships with our clients through our collaborative approach. Clients partner with us for our local and international risk expertise, global risk diversification, offshore capital support, and product innovation support.

We are a longevity solution provider and are committed to actively working with clients to develop this unique market and extend protection and peace of mind to Australian retirees. Longevity is a key focus of our strategic plan, "Forward 2026", highlighting the importance SCOR places on being an active member of this market and its evolution.

SCOR is a contributing member of the Council of Australian Life Insurers (CALI), which is engaging stakeholders and advocating for effective policy settings on retirement, ensuring a deep and innovative market that supports people in managing longevity risk. We are aligned and fully supportive of CALI's position, so SCOR's reply has focused on answering questions that build on this position and offers the perspective, knowledge, and expertise of a global reinsurer with a local presence in Australia through an APRA-regulated entity.

We note the Discussion Paper suggests Government could support the reinsurance of longevity risk. The Paper highlights competition as a key ingredient for the market to work best. We see this also extends to reinsurance. We are confident in our ability to contribute to the market in many ways, including with fair, sustainable pricing, in creating quality products and our ability to manage risks using our global footprint. We welcome a conversation about this point or to dive deeper into any of the other perspectives shared in the appendix.

SCOR recently conducted a study of over 1000 Australians who were either approaching retirement, semi or fully retired. Many respondents found retirement daunting, and only just over 4 in 10 of those currently retired felt able to afford a comfortable lifestyle. Yet, most respondents had not paid for financial advice from a professional (10%) or sought advice from their

superannuation fund (18%). All stakeholders in the retirement system have a shared responsibility to create an environment that nudges Australians towards well-rounded solutions, trusted advice, and support. We have an opportunity to enable this environment together; empowering all Australians to actively engage and confidently make decisions to deliver a lifetime of income for a dignified retirement.

Regards

A handwritten signature in dark ink, reading "Dion Russell". The signature is written in a cursive style, with the first name "Dion" being more stylized and the last name "Russell" being more legible. The signature is positioned on a light blue background.

Dion Russell
Chief Executive Officer
SCOR Global Life Australia

Supporting members to navigate retirement income.

1. *Please provide comments on the issues facing members identified in this section.*

- **Retirement is a significant and unique life change on many levels.** Stakes are high, the challenge is complex, and consumers can't be expected to have the expertise to make the best choices possible for their unique needs and circumstances on their own.
- **'Learning through experience' in the retirement phase is difficult.** Retirees have only one chance to experience retirement, and financial decisions taken during this phase may not become apparent until later, making it difficult to learn from experience and adjust course. Australians can't learn how to provide for an optimal retirement alone.
- **Australians need to be nudged and empowered to actively engage with the retirement process.** Everyone needs to be able to confidently access information, trusted advice, and well-rounded income products so they can make well-informed choices that maximise retirement income, manage risks to income sustainability and stability, maintain flexible access to capital and ultimately make the most of their whole retirement.
- **Funds cannot create the behavioural shifts required alone; it will take a whole systems-thinking approach.** The Australian Government can enhance existing foundations and develop policy that nudges and empowers consumers to engage with confidence. There are non-traditional stakeholders in the ecosystem who can provide nudges. Examples are provided below under point 4.

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

- **CALI has been established as the voice of the Life Insurance industry and is playing a key role.** CALI is working to meet four strategic goals focused on; 1. Customer, 2. Trust, 3. Community and 4. Vibrant Industry. CALI's 2024 priorities include advocating for an efficient regulatory framework for financial advice and effective policy settings on retirement.

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?*

Guidance, education and communication

- **Calculators and tools are helpful, but there is a role beyond these being provided.** Australians need to be met where they are in terms of financial literacy, education, socioeconomic and life circumstances to provide access to opportunities and motivation. To be successful, everyone in the retirement ecosystem needs a collective ambition to play their part. We must nurture an environment where everyone can learn how to actively plan, research, seek advice, and build towards a retirement income that suits individual needs. Education and government policy can help bridge the gap in financial literacy.

- **The approaches that have been put forward are positive, and developing a free guidance service similar to the UK's PensionWise looks promising.**
- **To have maximum impact, the government should play a leading role by delivering public awareness campaigns,** such as advertising and PR through various media channels, such as TV, radio, newspapers, magazines, social media and podcasts, celebrity endorsements, greater financial literacy education in schools, online coaching/information platforms and by taking targeted actions for remote communities and vulnerable groups such as indigenous Australians, migrants and refugees.
- **Teaching Australians at different life stages in plain language about retirement and ways to create an income will be key to creating financial literacy and engagement.** The government can play a leading role in harnessing the collective intelligence of industry bodies to develop relevant and impactful educational content and school programmes.

Funds assisting and defaulting members to better settings

- **Customers must understand the value and long-term nature of longevity products** so they can play a significant role as seen in markets like the UK and Netherlands.
- **Solutions should provide members with products (and blends of products) that provide better outcomes** through drawdown profiles, investment strategies, and longevity solutions.
- **Trustees can play a role in providing default recommendations** that help members achieve and balance the three Covenant objectives. It seems important that there is a fair balance between defaulting and choice for consumers (including the choice to leave the fund). Clear communication will be essential. This could work in a way where funds:
 - Establish processes that identify objectives, personal preferences, and needs,
 - Use these objectives, preferences and needs to default members to the most suitable solutions/products, and
 - Provide levels of flexibility within the solutions that allow members to adjust or calibrate based on their individual needs and provide fair ways to cancel or cooling-off periods. This level of flexibility might look different from product to product and will need to be balanced with the barriers highlighted in point 7.

Simplifying the retirement income system

- **The provision of more holistic information and reduced friction points within the system will benefit Australians and make the system stronger.** Improved sharing of data and information between government and superannuation funds (where feasible) can support better default recommendations, product design and pricing, and make the interaction between retirement income products and social security seamless for Australians.

4. ***Where can Government and industry reduce complexity in the retirement income system, and provide simpler consumer experiences?***

- **Taking a holistic view of the consumer journey** will create opportunities for simpler consumer experiences and provide nudges where Australians receive the right information, support and access to advice when it is most relevant. Funds can only get so far alone. To be most effective, information and nudges should come from other players in the system. For example, we recommend policy be explored to facilitate nudges like the following:
 - a) **The Australian Taxation Office** can provide consumers with engaging and relevant retirement income information with their Notice of Assessment as customers approach retirement.
 - b) **General Practitioners** can be educated and empowered to provide customers with retirement information or referrals. Deterioration of physical health has a large influence on the age of retirement and doctors are one of the most trusted professions in Australia,¹ putting them in a very influential position.
 - c) **Employers** can encourage Australians to seek financial advice when being made redundant and over the age of 55. Retirement is often triggered by redundancy, making this an important time to receive information.
 - d) **Medicare benefits** can be provided for financial advice, so retirees have the best chance of financial well-being. Financial health and mental health are linked² and cost remains a barrier to obtaining advice.
 - e) **Services Australia, Centrelink and MyGov** can provide information, nudges and referrals at relevant times.

¹ [Australia: most trusted professions 2021 | Statista](#)

² https://www.beyondblue.org.au/docs/default-source/about-beyondblue/bey2191_fwresearch_execsummary_a4_final.pdf?sfvrsn=2ba87ae9_2

Supporting funds to deliver better retirement income strategies.

5. *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.*

- **The ability to easily compare product features will be important** to understand the balance and trade-off between meeting all three Retirement Incomes Covenant objectives.
- **Innovation in terms of product offerings will be important** to ensure that members with differing needs can be adequately catered for, to encourage options, better product design and outcomes. A balance is needed given this is a new area and the products are inherently complicated and not well understood by customers. Further considerations should be put into the benefits and disadvantages of standardised or simplified products compared to an innovative suite of products. A pragmatic approach should be taken. More information is provided in point 9.
- **Strong and simple disclosure is needed to ensure members are aware of restrictions** such as the inability to exit/terminate or potentially no benefit on early death.
- **Knowledge is the best protection.** Consumers can best be protected through empowered financial literacy, knowledge and support to make the right decisions and understand defaulting.

6. *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?*

- **Both standardised product disclosure statements and comparison tools will be required** so Australians can understand and consider the trade-offs of the three objectives under the Retirement Incomes Covenant, understand the product, compare features and fees and consider impacts on the Age Pension. As an example, the research that SCOR undertook showed that customers struggle to understand and choose between whether they preferred a higher amount of income, or certainty that their income would last for life. Tools should help retirees navigate choices.

7. *What barriers are there for product switching in retirement and are there opportunities to make product switching easier?*

- **Switching longevity protection products does not seem feasible.** Longevity retirement income products are generally not very flexible or liquid, meaning that consumers are not able to change, cancel, or withdraw from them easily. This is because they are designed to provide you with a secure and stable income for the long term, and providers need to manage the risk of paying you for an uncertain period of time. This issue has been considered by other markets, such as the UK, without a viable solution being reached. Disclosure of these risks to customers is critical.
- **Solutions need to be in place to allow for products to be merged or transferred as further consolidation of superannuation funds occurs to avoid legacy issues.**

Making lifetime income products more accessible.

8. *Please provide any comment on the barriers in the supply and demand for lifetime income products.*

- **Global reinsurers like SCOR, with a local presence in Australia through an APRA-regulated entity, are prepared to play a key role in creating this new market by providing offshore capital support, global expertise, global risk diversification and product innovation support.** Reinsurers have global expertise in developing longevity bases, understanding mortality improvements and pricing for long-term risks which will support insurers to provide longevity protection through lifetime income products.
- **Sensible regulation is needed so risks can be managed using global reinsurance footprints.**
- **A degree of regulatory sandbox support will be required.** Superannuation makes the Australian market unique, so whilst we can learn from other sophisticated markets (and reinsurance can help), we need innovation and creativity to happen so solutions are developed that work for Australians. This will require a process of test and learn.
- **Protections should be put in place to allow unsuccessful products to be unwound, so the industry does not create legacy issues.** Innovation and take-up are not always successful. Customers will need to be treated fairly when unwinding.
- **Creating consumer demand is imperative.** Like any product, people need to appreciate their own needs and the product's value for demand to be created. This is key to overcoming barriers like upfront costs.

9. *What policy approaches should be taken to support the use of lifetime income products to address the risks to retirement income? What risks should be considered?*

- **Further policy to support increased demand should be considered, including:**
 - o The efforts on education, access to advice and guidance as previously highlighted above, particularly to understand investments, sequencing, inflation, and longevity risk and how these products help to mitigate these risks.
 - o Further incentives to the consumer, such as:
 - a) Additional access to the aged pension or aged care support,
 - b) Tax incentives,
 - c) More innovative incentives such as an estate/beneficiary benefit.
- **Instead of standardised products, we suggest embedding a common language that can be used for product design and disclosure that instils consumer confidence and creates space for innovation.** A common language of simple, plain English terms for product features could be established industry-wide so it is easier to anchor expectations, promote understanding, enable product comparison, and support customers in matching products to their needs. The idea is that language terms would

not restrict design. This would leave space for innovation and cater to a wider set of consumer needs. As you have noted, a standardised product won't be suitable for all retirees.

- **A mandate for funds to offer longevity protection is welcomed, as suggested in The Discussion Paper.**

10. Do the barriers to managing longevity risk in the Australian market necessitate Government action? What Government action could assist funds in offering appropriate longevity protection to members?

- **Government action can best serve the market by enabling efficient regulation, capital, and other means to support industry innovation.**
- **We note The Discussion Paper suggests Government could support the reinsurance of longevity risk. Global reinsurers like SCOR, with a local presence in Australia through an APRA-regulated entity, are prepared to play a key role in creating this new market** by providing offshore capital support, global expertise, global risk diversification and product innovation support. The Paper highlights competition as a key ingredient for the market to work best. We see this also extends to reinsurance. We are confident in reinsurers like SCOR and our ability to contribute to the market in many ways, including with fair, sustainable pricing, the creation of quality products, and managing risks using global footprints.