

# Supporting members navigate the retirement income system

UNISUPER SUBMISSION TO SUPERANNUATION IN RETIREMENT

## About UniSuper

UniSuper is one of Australia's largest super funds with more than 620,000 members and close to \$125 billion in funds under management. We've been around for 40 years, and have long-focussed on retirement and delivering Greater Retirement to our members. We manage \$28b in pension member assets which makes us the fourth largest manager of pension assets among the profit-to-member funds.<sup>1</sup>

### About this submission

UniSuper would welcome the opportunity to discuss the submission further and to provide additional information in respect of the comments made in this submission.

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## Key priorities

### Supporting members to better navigate the retirement income system should be *the* priority

The Government's financial advice reform package should be prioritised

Superannuation advice should be expanded through consistent rules on what advice topics can be paid for via superannuation, allowing superannuation funds to consider a broader range of a member's personal and household circumstances and supporting increased member engagement at key decision points in retirement

A key part of delivering simple advice at scale is also to remove frictions at retirement and to develop a comprehensive framework to allow super funds to nudge their members

### A key aim should be to remove frictions at retirement

Product switching (i.e. starting pensions) will be made easier with expanded access to retirement income advice but further simplification, particularly using digital tools, will also help

Members need ongoing access to assistance from qualified staff when starting a superannuation pension and may need assistance completing retirement applications

We also support policies that make starting the Age Pension easier; from a fund perspective, it's important to be able to integrate the Pension into assisting members to understand their retirement income options

### Nudges that boost member decision making should be prioritised

Evidence suggests that the best default might be active decision making

Therefore, creating a specific permission to allow super funds to nudge members, including smart prompts and action steps, will be important to complement broader advice reforms

Again, members using digital tools require ongoing access to a handover point for assistance and advice where further support is needed

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<sup>1</sup> APRA Fund Level Data, 30 June 2023, UniSuper calculations

## Overview: Our focus on delivering greater retirement outcomes

UniSuper from its outset has been focussed on retirement, starting out 40 years ago paying defined benefit pensions to retired university staff. We've opened our doors to all Australians but we remain committed to helping members achieve greater retirement outcomes through assistance and advice.

Our members look to us in the lead up to and into retirement for both assistance and advice. They expect assistance from us and for us to be able to explain the features and benefits of the fund and its options. At one level, this is no different to other consumer products where many consumers seek to make choices about how to use the product in a way that suits their needs. But the law needs to make it much easier to provide this assistance and we welcome the Government's comprehensive financial advice reform package that should make it easier for funds to offer advice to more members.<sup>2</sup>

UniSuper has a long history of providing retirement incomes to its members, and we currently offer a full-suite of pension products currently allowed in law i.e. account-based pensions, defined benefit pensions and a lifetime income stream (similar to a purchased annuity). We already have "well-rounded products" but we don't think product alone is the answer.

### Members need help with answers to questions

When it comes to our members approaching retirement, they don't ask us about products. Instead, they ask:

- How much income will I need?
- Where will it come from?
- Do I have enough money in super?
- Will I get the Age Pension?
- How can I turn my super into an income?
- What fees am I paying?
- Who can I ask for help

In effect, members are shopping for answers rather than shopping around. Very few of these questions have a one-size-fits-all answer. As a result, we believe it's important to offer a personalised service to help answer these questions.

The retirement income covenant focusses squarely on providing assistance to members and achieving greater retirement outcomes, and part of that will be achieved through tailored guidance or advice.

With industry consolidation, population ageing and clear member expectations, the challenge for many super funds remains to build scale for a service model that assist members at and into retirement. While many members will continue to seek comprehensive financial advice, delivering limited scoped and intra fund advice on single topics is also going to be important to meet this need.

We acknowledge that not everyone will need comprehensive financial advice, and we expect many super funds to develop tools to assist those members with simpler needs or those who wish to be empowered to make their own decisions. Digital tools, such as decision support tools, will be increasingly important. Decision support tools aim to help members make decisions themselves.

What is increasingly clear is that members have differing needs at different life stages and this requires a comprehensive service offering that is personalised rather than standardised. Access, affordability and scale matter a lot here but while different super funds will respond to these challenges differently, our approach is based on researching and identifying what works for our membership.

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<sup>2</sup> Australian Government (7 December 2023) [Government unveils comprehensive financial advice reform package | Treasury Ministers](#)

## Supporting members to navigate the retirement income system

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

A successful retirement outcome for UniSuper members is characterised by a holistic approach that encompasses a range of products, services, education, guidance, and advice. Our objective is to empower members, ensuring they feel equipped to balance the objectives of the Retirement Income Covenant (RIC). We strive to engage members at crucial moments, raising awareness and providing support during their decision-making processes to formulate personalised retirement solutions. In essence, we believe that we should be providing answers to the questions our members have, such that they can make informed decisions about their own unique retirement.

Success is helping members make confident decisions that enable them to live their best retirement. We are committed to achieving this through providing accessible and valued support, personalised and straightforward experiences, with competitive and market-led retirement income solutions.

A successful retirement outcome for our members involves delivering information in the right form, be it through video, apps, online platforms, experiences, or text, at the right time. Ultimately, success is defined by our members having enough money to support themselves in retirement at a level they deem appropriate, sufficient, and adequate.

We also support members through:

- Helping members to make informed choices through education and guidance right through to those who need personal advice from an expert
- Satisfying members' differing needs (at different life stages and trigger points)
- Promoting access to and affordability of our services resulting in increased take-up of assistance and improved outcomes for more members

We know that access to quality support is critical in helping our members achieve a comfortable, confident and secure retirement. UniSuper strongly believes in supporting our members to make informed choices about their super. To that end, we offer our members a fully developed education, assistance and advice servicing model that assists the member make appropriate financial decisions in the lead up to retirement and then supports the member through the transition from accumulation to retirement phase, and throughout retirement.

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

While simplification is important, because members have highly heterogenous needs and wants in retirement, there are unlikely to be simple answers to their questions.

Common questions our members ask us include:

- How much income will I need?
- Where will it come from?
- Do I have enough money in super?
- Will I get the Age Pension?
- How can I turn my super into an income?
- What fees am I paying?
- Who can I ask for help

In effect, members are shopping for answers rather than shopping around or shopping for products. Very few of these questions have a one-size-fits-all answer. As a result, we believe super funds should be offering a personalised service to help answer these questions.

Providing this assistance strongly aligns with the RIC obligation to assist members to maximise expected retirement income that includes superannuation drawdowns and Age Pension payments. It also aligns with the proposed purpose of super to support a dignified retirement alongside Government assistance.

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

Reframing retirement away from the “Nest Egg” framing<sup>3</sup> is important; as is reframing retirement to away from an artificial distinction between accumulation and decumulation. Defined benefit schemes have long communicated to members that they can stay with the fund when they retire.

Simplification is also important and a priority should be to remove frictions at retirement, making it easier to retire and draw an income. Traditional defined benefits have been able to avoid many of these frictions and importantly frame benefits as ongoing membership in the form of pension membership, rather than “acquiring a new product”.

One key friction, and a policy priority, is making it easier for funds to help members with answers to their questions. To that end, the Government’s financial advice reform package is to be welcomed, particularly the direction of policy that would offer the ability to deliver simple advice at scale and keep simpler advice records.

Product switching (i.e. starting retirement income products) is also on the right path with the Government announcement to expand access to retirement income advice. Once legislated, this will make it easier for funds to help members with answers to their simpler questions.

These reforms need to be supported with additional simplified disclosure, and we encourage Treasury to consider making it easier for funds to offer simple, short “lifetime” product disclosure statements (PDSs) that incorporate both “accumulation” and “drawdown” phase into the one PDS.

Government can also assist by using more consistent language across tax and social security law (where possible) as well as consistent terminology from Centrelink and ASIC Money Smart (where practicable).

## **Q 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?**

There is good evidence that nudges can be influential.

To facilitate nudges, it will be important to allow super funds to provide helpful 'nudges' to members to drive greater engagement with superannuation at key life stages. We welcome the Government’s announcement that legislation will be developed to implement this model in 2024.

We see particular value in two types of nudges: smart prompts and action steps.

**Smart prompts** are proactive and take place at certain ages, anniversaries or life events. They encourage members to think about their financial situation at particular times, consider checklists and to seek advice at important decision-points that they might otherwise have missed.

**Action steps** complement and support information, particularly the information from a retirement calculator. They are, in essence, a series of steps that a member can follow to put into effect what they have just learned or decided to do e.g. how to start a pension.<sup>4</sup>

We recognise that both smart prompts and action steps could require a “handover” point for more assistance or advice. Thus nudges are also a key part of delivering simple advice at scale.

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<sup>3</sup> Smyrnis, Bateman, Dobrescu, Newell, Thorp (2021), Motivated Saving: The impact of projections on retirement saving intentions, <https://ssrn.com/abstract=3464813>

<sup>4</sup> See Patterson RW & Skimmyhorn WL, How do behavioral approaches to increase savings compare? Evidence from multiple interventions in the U.S. Army, TIAA Institute, March 2021

**Q 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?**

There is a wide range of consumer data that would be useful in delivering advice to members, including the Consumer Data Right. Treasury noted that might assist funds in better supporting their members to understand their overall retirement income position and a retirement strategy that best suits their needs. We see that working particularly in the context of the fact find stage of personal advice.

Administrative data, particularly Centrelink data, would be helpful, including Assets and Income test calculations / estimates that funds can then use to support members in understanding their options.

## Supporting funds to deliver better retirement income products and services

We believe that improved servicing, particularly through expanded assistance and advice, are central to supporting members at and into retirement. While product solutions have a role to play, there are already a range of products available to members and the challenge is more about supporting members to make better use of them while navigating the broader retirement income system.

We note that the Treasury Discussion Paper refers to developing different 'default solutions' for different sub-classes of members, where cohorts are based on estimated financial need and superannuation balance. However, member needs and wants are highly heterogeneous. Thus, cohorting members into sub-classes based on superannuation balance alone risks missing important data and key considerations.

Even before taking into account different needs and wants between individual members, there is a wide range of variables and variability across age, health and life expectancy of members to consider. To appropriately consider Age Pension entitlements requires further consideration of a member's household, including spouse (and spouse's age, health and life expectancy) plus any caring responsibilities within and outside the household. There are too many variables, and too much variability, to apply a one-size-fits all approach implied by cohorting.

The answer needs to be based on helping members to make better decisions for themselves and that is why we think the most value can be delivered by focussing policy on helping members better navigate the retirement income system.

### **Q 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.**

There are already a number of important quality filters on retirement products, including the Design and Distribution Obligation, the annual outcomes assessment and the RIC itself.

When it comes to product comparisons, we think it's important to distinguish between members who are shopping around and those who are shopping for answers. It's also an open question of whether consistent disclosure arrangements can, in fact, help members to identify better retirement income products to meet their needs.

For those shopping for answers, simplified disclosure is better. For those shopping around, they are likely to be better served by advice from a professional adviser rather than standardised product comparisons.

### **Q What are the key characteristics or metrics for comparing retirement income products and services?**

Trustees already do this under the annual outcomes assessment at the product level. While approaches will differ across different trustees, at a minimum total fees and investment returns need to be compared across relevant competitors.

The broader concept of a retirement "offering", "solution" or "strategy", is far more complex. As a result, there is unlikely to be agreement on key metrics to benchmark in a consistent manner across the diverse range of options.

## Making lifetime income products more accessible

UniSuper has a great deal of experience in managing lifetime income products. We have been paying defined benefit pensions for close to 40 years and purchased lifetime pensions for over 20 years. Both of these retirement income streams could be thought of as “well-rounded products” and have a role to play for many retirees. Importantly, they provide a number of protections against investment and sequencing risk, inflation risk and longevity risk.

We do note, however, that large numbers of our members also use, or exclusively, account-based pensions.

There are many reasons for this, but part of the answer is that many of the features associated with lifetime income streams are already available to many retirees through the Age Pension. In fact, the availability of the Age Pension explains a lot about retiree behaviour.

As noted in the Retirement Income Review, the Age Pension is more than a safety net.

The Age Pension plays an important role in supplementing the superannuation savings of retirees and allowing them to maintain their living standards. It also provides a buffer for retirees whose retirement income and savings fall due to market volatility, and for those who outlive their savings.

The Age Pension also plays an important role in offering longevity protection.

Longevity risk is an important risk but the need for additional longevity protection needs to be put into context. If longevity protection is a universal need, it needs to be recognised that there are already distinct institutional settings in place that provide substantial longevity protection.

It is a question, therefore, of who needs protection in addition to that already available.

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

The framing of lifetime income is important. Barriers are likely to include poor framing and thinking too much in terms of “products” and not enough about insuring safe, secure and stable income which requires a mindset change.

On the demand side, the social security treatment of lifetime products will continue to be one of the most important considerations for members. Quite simply, the more generous the means testing, the more take up there will be of lifetime income products.

We have not found major impediments on the supply side. However, to the extent that they exist, for example, in the case of innovative mortality credit sharing arrangements or deferred annuity-style products, this should be a medium term priority, particularly if there are barriers identified through this consultation.

### **Q What is the role for a ‘suggested’ product in overcoming low take-up of lifetime income products?**

There is evidence that given the widespread availability of the Age Pension, the optimal annuitisation ratio for retirees is close to zero for many retirees.<sup>5</sup>

Further, while trustee “recommendations” or “suggestions” may have some appeal, we would caution against a “one size fits all” approach.

### **Q 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?**

No, the Age Pension already provides sufficient longevity protection to many retirees.

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<sup>5</sup> Fedor Iskhakov, Susan Thorp, and Hazel Bateman, Optimal Annuity Purchases for Australian Retirees, ARC Centre of Excellence in Population Ageing Research Working Paper 2014/06

Further, our three-pillared system has been found to spread the responsibility and risk of providing retirement incomes in a fiscally sustainable way, it is also a structure that is likely to be durable and relevant across a broad range of economic, demographic and social outcomes (see Henry Review, 2009, The retirement income system).

**Q Would an industry-standardised product(s) assist funds to develop and offer lifetime income products to their members?**

No. Rather than developing standard products, there is good evidence to suggest that optimal default might be active decision making because:

- At retirement, there is no one size fits all (Productivity Commission, 2015)
- Any default is likely to be sub-optimal.... in which case it may be better to prompt people to make their own decisions (Reeson & Dunstall (2009) Behavioural Economics and Complex Decision-Making Implications for the Australian Tax and Transfer System)
- A reasonable basis for policy design is the presumption that, having accumulated retirement savings, people are generally in the best position to determine how they use their assets during their retirement (Henry Review, 2010, Final Report)

Thus UniSuper strongly believes in supporting our members to make informed choices about their super.

## Priorities to assist more members better navigate the retirement income system

Of the three themes, navigating the retirement income system is the most immediate priority. Supporting members to better navigate the retirement income system promises to offer the most benefit to the most members for the least cost.

### Already being done across the industry

- Exploring alternative drawdown profiles and investment allocations for members in retirement aimed at achieving different objectives. Minimum drawdown rates continue to be appropriate for many of our members and should be retained
- Developing offerings for different members based on factors such as superannuation balance or expected needs
- Comparing retirement income strategies using mix of qualitative and quantitative measures against the covenant objectives

### Important to prioritise

Navigating the retirement income system are the most immediate priorities and stand to offer the biggest benefits to the most members.

- Simplifying the retirement income system by removing frictions at retirement, making it easier to retire and draw an income
- Expanding superannuation advice, a key priority including:
  - Legislating consistent rules on what advice topics can be paid for via superannuation
  - Allowing superannuation funds to consider a broader range of a member's personal and household circumstance
  - Supporting increased member engagement at key decision points in the retirement income journey
- Important for both retirement strategies and for advice reform, creating a specific permission to allow superannuation funds to prompt or 'nudge' members

### Medium term priority

- Remove barriers (to the extent that they exist) to retirement income product innovation by funds or life insurers

### Not a priority

- Standardised product disclosure framework, evidence suggests it's better to simplify rather than standardise disclosures
- Tools for comparison and performance, again members are more likely to be shopping for answers than shopping around. For those shopping around, they are best served with the support of a professional adviser who displays competence, integrity, impartiality and works within institutional guardrails
- Standardised products, there is nothing standard about retirement and retiree needs and wants are highly heterogeneous
- Development of a standard risk measure or scorecards, there is little evidence to suggest that more and more complex disclosure will be of use to members

## Appendix: UniSuper's research-driven approach to supporting members

In 2016, we participated in a research collaboration that had an ARC linkage funding: Super Financial Security: Improving Flexibility, Trust and Communication.

This project addressed the challenge of how to safeguard financial wellbeing at older ages. In doing so, it investigated three important and interconnected influences on retirement preparation:

- flexible choice architecture
- trust formation
- effective communication

The project, completed in 2022, used a combination of innovative modelling, experimental and field-based approaches. The principal outcomes were insights into the factors that guide superannuation choice, build trust and ensure clear and effective communication with members.

That research uncovered new insights into the relationship between interest, engagement and trust. The research findings created a body of evidence that we've used to develop our service model to members. It also shone light on the role of 'retirement income estimates/projections' to address 'Nest Egg framing'; challenges with 'regulated financial product disclosure' without adequate testing of how people actually use the information; the use of simple calculators to assist decision making; and that defaults might be sticky but a one-size fits all approach may not be appropriate for all.

### Trust and member decision making

Bateman, Deetlefs, Dobrescu, Newell, Ortmann and Thorp (2019), 'Engagement with retirement savings: It's a matter of trust' trust', *Journal of Consumer Affairs* , 53(3): 917 45.

### Communication strategies

Thorp, Bateman, Dobrescu, Newell, Ortmann (2020), 'Flicking the switch: Simplifying disclosure to improve retirement plan choices', *Journal of Banking and Finance* , Vol 121.

Wang-Ly, Bateman, Dobrescu, Newell, Thorp (2022), ' Defaults, disclosure, advice and calculators: One size does not fit all ', *Journal of Behavioral and Experimental Finance* , 35: September 2022

Smyrnis, Bateman, Dobrescu, Newell, Thorp (2021), 'Motivated Saving: The impact of projections on retirement saving intentions', <https://ssrn.com/abstract=3464813>

### Superannuation choice architecture

Dobrescu, Fan, Bateman, Newell, Ortmann, Thorp (2018), 'A Tale of Decisions and Defaults' Defaults', *The Economic Journal* , 128(610): 1047 1094

Dobrescu, Shanker, Bateman, Newell, Thorp (2022), 'Eggs and Baskets: Lifecycle Portfolio Dynamics', <https://ssrn.com/abstract=4069226>

Dobrescu and Shanker (2022) 'A Fast Upper Envelope Scan Method for Discrete Continuous Dynamic Programming' | CEPAR