

9 February 2024

Retirement, Advice and Investment Division
Treasury
By email to: retirement@treasury.gov.au

Dear Sir/Madam

Retirement phase of superannuation discussion paper

Vanguard Super Pty Ltd and Vanguard Investments Australia Ltd (together, '**Vanguard Australia**') welcome the opportunity to make this submission to the [Superannuation in retirement](#) consultation.

The retirement phase of superannuation has been subject to numerous reviews and inquiries over the past ten years to solve the challenge of improving retirement outcomes for Australians. Vanguard Australia supports the ongoing efforts of government, industry and the community to identify and address the complexities and challenges that still remain.

We commend Treasury for a well-considered discussion paper that clearly articulates the issues facing retirees and includes potential policy responses to address these complex and multi-faceted issues.

Our submission outlines the key areas that we believe will improve retirement outcomes for Australians, drawing upon our expertise and experience as a global leader in retirement and advice solutions.

About Vanguard

Founded in 1975 and based in Pennsylvania, United States (U.S.), The Vanguard Group Inc. ('**VGI**') – the parent company of Vanguard Australia – has offices worldwide and is one of the world's largest global investment management companies, managing money on behalf of more than 50 million clients.

VGI operates under a unique, investor-owned structure and adheres to a simple purpose: *To take a stand for all investors, to treat them fairly, and to give them the best chance for investment success.*

Vanguard Australia has been serving financial advisers, retail clients and institutional investors for over 25 years, with Australia being the longest-established presence for VGI outside the U.S. Vanguard Australia is a major provider of low-cost investment management services to all segments of the Australian superannuation industry, as well as to the broader institutional, exchange traded fund and retail wealth management sectors.

In the United States, VGI is a leading provider of investment, advisory, and recordkeeping services for defined contribution retirement plans and helps millions of Americans save for a secure retirement. VGI provides direct defined contribution recordkeeping and investment-related services to nearly 5 million participants and approximately 1,400 plan sponsors in the U.S.

Summary of recommendations

Guidance, education and communication

Personal financial advice

- We recommend the Government progress with consultation on the design of the *Delivering Better Financial Outcomes* package as a key priority to improve access to financial advice and personalised guidance.
- We support urgent progress on reforms to the safe harbour, statement of advice and intrafund advice rules as measures to streamline financial advice and assist with the affordability of personal financial advice.

Access to data

- We recommend the Government undertakes consultation on improving data sharing between Government agencies and superannuation funds, employing a consumer-led consent model.

Government advice service

- We support further consideration of a publicly-funded and independent government-offered financial advice service alongside the Government's existing commitment to legislate the *Delivering Better Financial Outcomes* package.

Nudges and technology

- We recommend the Government progress reforms to clarify that behavioural nudges to influence better retirement decision-making can be provided under general advice, including clear guardrails to provide consumer protection (such as ensuring nudges do not include product recommendations).
- We support consultation on a principles-based legal boundary, definition or regulatory guide to clarify the distinction between personal advice and personalised guidance on a sliding scale.

Funds assisting and defaulting members to better settings

Minimum drawdown rates

- We recommend that any potential higher 'soft default' drawdown rates remain at the discretion of each trustee in accordance with the Retirement Income Covenant ('**the Covenant**').
- To preserve flexibility for members, we support maintaining the minimum legislated drawdown rates at their current levels.

Tools for comparison and performance

Retirement performance testing

- While we support the overarching principle of performance testing for accumulation products, we do not support the extension of the existing performance test to retirement products as the overall performance of a retirement product is complex and multi-faceted, and an investment performance test will not on its own be suitable for retirement.
- We support further consultation on retirement performance testing, including on the proposed design, appropriate metrics, and methodology. Any retirement performance test should comprise multiple tests against the Covenant objectives, however these should not be combined at the product level.
- The consequences of failing a retirement performance test should not include mandating product closure, especially given the increasing usage of lifetime income products (many of which cannot be commuted).

Comparison tools

- We do not support a YourSuper comparison tool for retirement products. Such a tool would not adequately reflect the diversity of retiree circumstances, needs, and preferences, and that even sophisticated tools may still risk directing some members towards inappropriate products.
- We support a new Australian Prudential Regulatory Authority ('**APRA**') heatmap containing the results of trustee self-assessments of progress against the Covenant objectives. We believe this will improve transparency for consumers and increase comparability of products relative to a retiree's specific preferences and priorities.

Regulatory barriers

Portability of retirement phase products

- Allow retirement income streams to be directly rolled over to another superannuation fund without requiring them to be commuted back to accumulation to commence a new retirement income stream.

Standardised product framework

Standardised product structures / default retirement products

- We do not believe default retirement products will lead to improved member outcomes, noting that defaulting may lead to worse outcomes for members who are defaulted into inappropriate products, especially where they include a longevity component which may not be able to be commuted or rolled over.
- While a standardised product has some merits in improving the take-up of retirement products (over a 'no action' position), it will be extremely important to ensure that issues with longevity product portability are addressed, and that there are clearly defined guardrails to prevent members from being offered a product that may not suit their needs.
- Any standardised product or 'first offer' should retain the maximum flexibility for members, noting that for many members a combination of an account-based pension alongside the Age Pension (with members supported by superannuation fund guidance and advice) will be sufficient.

We discuss these recommendations, our rationale, and additional considerations which may be relevant for policy makers, in further detail below.

Supporting members to navigate retirement income

The challenges for members in managing their superannuation for retirement

Vanguard Australia agrees with the core issues identified in the discussion paper, being:

- The inherent complexity in retirement decision-making.
- A lack of adequate guidance and assistance (including financial advice).
- Complexity in the retirement income system, in particular Age Pension eligibility and the interaction of superannuation and non-superannuation assets and income.
- Complexity in the retirement income product landscape, including in retirement income products and annuities.
- Low levels of financial literacy making navigating a complex system and the inherent complexity in retirement decision-making even more challenging.
- A prevailing 'nest egg' mentality, leading to behavioural impacts such as sub-optimal drawdown rates and higher than necessary precautionary saving.

These issues have been widely noted across multiple independent reviews, including the Retirement Income Review¹, Financial System Inquiry², and the Productivity Commission's inquiry into efficiency and competitiveness in superannuation.³

Industry research has also confirmed the impact of these issues:

- Vanguard Australia launched its inaugural *How Australia Retires* survey⁴ in May 2023. This survey sought to better understand the way Australians across different age groups feel towards retirement, how they prepare for retirement, and the role that superannuation plays in that preparation. Survey responses indicate pre-retirees may overestimate what they will need in retirement, anticipated retirement income needs and lifestyle preferences are connected to demographic and financial variables (including future housing circumstances, current partnership status, and confidence making financial decisions), and there is heterogeneity in the spending needs and lifestyle preferences of current retirees.

¹ [Retirement Income Review Final Report](#), Australian Government, July 2020

² [Financial System Inquiry Final Report](#), Australian Government, November 2014

³ [Superannuation: Assessing Efficiency and Competitiveness](#), Productivity Commission, December 2018

⁴ [How Australia Retires 2023](#), Vanguard Australia, May 2023

- Investment Trends' Retirement Income Report (2022)⁵ found one in five retirees are concerned about outliving their retirement savings. This concern lessened for advised retirees, highlighting the benefits of advice in promoting confidence in retirement spending. The report also found that fund demographic profiles vary dramatically, highlighting the importance of designing fit-for-purpose assistance and maintaining trustee flexibility to develop tailored solutions under the Retirement Income Covenant.

When considering how best to assist members to navigate these challenges, it is important to acknowledge the significant diversity in retiree circumstances. This may include differences in incomes, time in the workforce, employment situation, capacity to save, home ownership status, risk preferences, financial literacy, partnership status and life events⁶.

With several high impact variables at play, we agree with the Productivity Commission's conclusion⁷ that there can never be a 'one size fits all' approach that will adequately address the diversity in retiree circumstances, needs, preferences, and risk profiles.

As such, there is a diversity of advice needs amongst Australians in and approaching retirement and it is Vanguard Australia's view that policy-settings and industry practices that leverage the full spectrum of advice – from comprehensive, full-service advice to simple personalised guidance, to general information – are critical to drive improved retirement outcomes.

This includes:

- **Member-focused measures** – improved financial literacy through education, insights and engagement (including touch points at key life stages).
- **Fund-level measures** – personalised guidance, nudges, and intra-fund advice.
- **System-level measures** – reducing complexity in the system, improving access to financial advice (Quality of Advice Review recommendations), government services including education, tools, and further consideration of a government-offered advice service.

⁵ *Retirement Income Report 2022*, Investment Trends

⁶ [Retirement Income Review Final Report](#), Australian Government, July 2020 – p.24

⁷ [Superannuation: Assessing Efficiency and Competitiveness](#), Productivity Commission, 21 December 2018 – p. 40

Guidance, education and communication

We agree that how super funds and government communicate about retirement to members and the community can impact retirement outcomes. We support the need for improved guidance, education and communication to retirees across the advice spectrum – from full personal financial advice, to nudges and simple personalised guidance, digital tools, calculators, and member education measures. This will address the significant diversity in retiree circumstances, needs, preferences, and risk profiles and more effectively support members to navigate complexity in the system.

Vanguard Australia's *How Australia Retires* survey showed that Australians with a plan are six times more confident in planning for retirement. Comprehensive financial advice is the gold standard but is not always accessible or affordable for everyone. Superannuation fund members could be further supported to improve their retirement outcomes through sophisticated retiree engagement models that include the use of technology, nudges, or 'soft default' settings such as higher default minimum drawdown rates. This will allow simple, personalised guidance at scale which will be required as millions of Australians approach retirement.

As individual and household circumstances vary significantly across the population, pre-retirees stand to benefit greatly from increased access to the full spectrum of advice options. This does not diminish or replace the vital role of comprehensive financial advisers, and we outline the value of financial advice further below. Further, those with complex or unique circumstances will ultimately require more comprehensive advice, which can and should be referred to financial advisers.

In addition, clarifying that personal advice can cover only one or a limited set of topics based on member needs, as well as being able to be based on limited information without an exhaustive fact find, will allow advisers and trustees to assist members approaching and in retirement with simple advice, personalised guidance and 'next best actions'. We discuss this further below under the nudges section.

It is also critically important for super funds to commence engaging with members earlier in life to set them on the right retirement path and not leave a large complex decision to the later stages of pre-retirement. Many retirees move into pension phase and/or seek the age pension long after they are eligible, losing considerable benefits, due to engaging late in the process. We believe engagement in the pre-retirement phase and even earlier will be critical to increase financial literacy to prepare for a secure and confident retirement. The above-mentioned advice and personalised guidance reforms will assist greatly in this regard.

Whole-of-household view

Retirement planning is highly complex, with many benefits, including the Age Pension, being determined based on the circumstances of the whole household. Retirement decision-making also happens in practice at a household level and requires consideration of factors outside superannuation including home ownership, work patterns, partner status (and their retirement circumstances), and household assets outside superannuation.

For guidance or assistance (including financial advice) to effectively address a retiree's full circumstances, a whole-of-household view is required. However, much of the data required to fully consider a retiree's household circumstances is not currently available without entering into a personal financial advice arrangement with the retiree (and their partner, if applicable). This highlights the importance of improving the accessibility and affordability of financial advice and personalised guidance to ensure retirees' full circumstances can be appropriately considered.

For this reason, the reforms on increased data collection, safe harbour amendments, and disclosure, will be essential to increase access to guidance and advice with the goal of improving retirement outcomes. The reforms to replace the statement of advice requirements are critical to enable simple personalised guidance to be delivered at scale, as well as reducing the compliance burden for financial advisers. A principles-based regulatory regime is important to ensure member disclosure is aligned to the complexity of advice given.

The value of personal financial advice

Vanguard Australia has long supported⁸ the benefits of personal financial advice in helping clients achieve better outcomes, whether the advice is delivered through intermediated channels by professional financial advisers or by a product issuer offering guidance. We believe advice should be accessible in different ways to suit diverse consumer needs, preference, and circumstances, and that advice should be affordable in terms of delivering long-term value for the cost incurred.

In 2022, VGI published research⁹ highlighting the value of personalised financial advice across a range of different areas. The research noted the value of financial advice covers more than simply investment performance, and that most investors can get substantial value and improved outcomes from reasonably priced advice that helps them make financial decisions consistent with their goals and aspirations.

⁸ [Issues Paper – Quality of Advice Review](#), Vanguard Australia submission, June 2022

⁹ [The Value of Personalized Advice](#), The Vanguard Group Inc., August 2022

The research concluded that, given each investor has varying circumstances and needs, the personalisation afforded by financial advice provides value to investors across four core areas – **financial value** (assistance achieving specific financial objectives), **portfolio value** (building a well-diversified portfolio with better net returns, matched to risk tolerance), **emotional value** (helping investors achieve financial well-being or peace of mind), and **time value** (performing tasks that investors might not have the time, willingness, or ability to perform on their own).

In addition, VGI's "Advisor's Alpha" research¹⁰ looks to quantify the benefit that advisers can contribute based on the individual components of the advice services provided to their clients. The research finds that advisers can play a valuable role in helping clients understand personal financial needs, construct and manage a portfolio for those goals, and maintain discipline to help achieve them, demonstrating the important role advisers play as behavioural coaches. Our research suggests the value-add of following certain best practices in wealth management can be about 3% in net returns to an advised-client portfolio.

In Australia, advice plays a vital role in assisting consumers with their wealth creation, protection, and management, as well as improving their retirement outcomes and financial wellbeing.

Vanguard Australia's *How Australia Retires* survey found that having a well-documented, detailed financial plan is one of the most effective ways to not only achieve a successful retirement, but to alleviate the emotional burden and anxieties that Australians can feel towards retiring.

Investment Trends research¹¹ found that for the 12 million Australians with advice gaps, retirement is the number one issue. Of those who would seek professional financial advice, there is a distinct preference for advice to be provided by their superannuation fund. While the research found that one in five retirees are concerned about outliving their savings, retiree confidence in the longevity of their savings was improved for members with a financial adviser.

Enabling personal financial advice and guidance

Single issue advice or limited advice is commercially unviable for many financial advisers and advice providers.

Vanguard Australia advocates for the statement of advice requirements to be replaced with technologically neutral disclosure requirements that allow flexibility and

¹⁰ [Putting a value on your value: Quantifying Vanguard Advisor's Alpha](#), Vanguard, August 2022

¹¹ *Retirement Income Report 2022*, Investment Trends

should improve customer understanding and implementation of advice. By adopting a more flexible approach to advice disclosures, we believe this will reduce the cost to deliver advice and ensure advice is accessible, affordable, and easy to understand for Australian clients.

Compliance with the various advice laws and regulations is a key driver of higher advice costs and restricts the ability to offer affordable advice to clients¹². We believe that the removal of the prescriptive Safe Harbour steps and the application and interpretation of the best interest duty as a principles-based duty will enable the delivery of more accessible and affordable personal advice.

As such, we welcomed the Government's commitment to deliver on the recommendations of the Quality of Advice Review through the *Delivering Better Financial Outcomes* package¹³ and we look forward to contributing to the upcoming consultations on the design of these measures and their implementation.

Recommendations:

- We recommend the Government progress with consultation on the design of the Delivering Better Financial Outcomes package as a key priority to improve access to financial advice and personalised guidance and improve retirement outcomes.
- We support urgent progress on reforms to the safe harbour, statement of advice, data collection and intrafund advice rules as measures to streamline financial advice and assist with the accessibility and affordability of personal advice and guidance.
- Regarding data collection and intrafund advice, it will be critical to allow super funds to collect additional data points from members, consider household and whole-of-wealth circumstances and provide guidance on a broader range of topics, in line with Vanguard's research outlined in the following section.

Impact of data on the effectiveness of financial advice

In 2023, Vanguard Australia researched the impact of individual and partner details on the effectiveness of superannuation fund advice¹⁴.

¹² [White Paper on Financial Advice](#), Financial Services Council, 2021

¹³ [Delivering Better Financial Outcomes – reducing red tape and other measures](#), Treasury consultation, December 2023

¹⁴ *Delivering retirement income at scale: The impact of missing personal information on retirement income strategies*, Vanguard Investments Australia and The Vanguard Group Inc., available 2024

The study identified significant disparities in retirement outcomes depending on the level of personal data used to inform guidance and advice around retirement income strategies.

The study showed that a superannuation fund, currently restricted in its ability to use the personal financial information of members and therefore needing to impose assumptions, can facilitate improved retirement outcomes for its members relative to households who follow simple rules of thumb to manage their retirement income, such as withdrawing and spending at the minimum drawdown rates.

A superannuation fund that can provide guidance that incorporates increased personal member information can improve retirement outcomes relative to guidance based on assumptions, but there remains a substantial gap in outcomes relative to comprehensive advice that incorporates full information.

The findings emphasise the pivotal role of advisers and the opportunity to facilitate a broad uplift in retirement outcomes through more personalised guidance at scale.

Of particular note was the difference in outcomes for couples, where the best efforts of a superannuation fund based on limited personal information were consistently sub-optimal relative to advice based on full information, given the fund's inability to accurately estimate age pension eligibility or advise the whole household.

Reiterating our strong support for the Government's *Delivering Better Financial Outcomes* package, we note that as superannuation funds are permitted to engage further with members and provide greater assistance, corresponding reforms will be required allow superannuation funds to obtain greater access to data about their members and households which is necessary to improve the quality of guidance, while upholding critical consumer protections around the use and retention of member and household data.

Recommendation:

- As the quality of guidance is contingent on the information utilised, we recommend further consultation on improving data sharing between Government agencies and super funds, employing a consumer-led consent model. This could include Age Pension eligibility, partner status, income and assets outside superannuation, or the sale of a home. This would improve the quality of superannuation fund guidance and allow trustees to further assist members through retirement as their circumstances change.

Government advice service

The discussion paper refers to a policy proposal under consideration for the development of a government advice service similar to the United Kingdom's (U.K.) Pension Wise service.

The Pension Wise service enables people aged 50 or over to access free and impartial guidance to better understand what they can do with their retirement savings and key factors to consider when deciding their options. As of 2022, U.K. pension providers are required to refer all customers who decide to access their retirement savings to Pension Wise guidance and explain its purpose.

We note that Pension Wise has consistently been welcomed by U.K. consumers and has been shown to improve retiree confidence and financial literacy. This has led to demonstrable benefits in the actions taken by customers which include increased engagement with their retirement and taxation planning, greater consideration of longevity factors, and consideration of how best to invest the money drawn down from their pensions.^{15 16}

While a government advice service will not on its own be able to fully address the advice gap in Australia, we support further consideration of the benefits and implications of a government-offered advice service to supplement existing advice channels alongside the Government's *Delivering Better Financial Outcomes* reforms.

Recommendation:

- Noting the U.K. experience, we support further consideration of a publicly-funded and independent government-offered financial advice service alongside the Government's existing commitment to legislate the *Delivering Better Financial Outcomes* package.

Nudges and broader use of predictive data analytics

Vanguard Australia sees an important role for superannuation funds in prompting members to take action through nudges or 'next best actions'. We generally consider nudges to be communications designed to educate investors about opportunities to improve their financial outcomes, consistent with well-recognised principles of behavioural finance and financial wellness. These can be delivered through digital or

¹⁵ [Pension Wise service evaluation: Experiences and outcomes of consumers using Pension Wise in 2019/20](#), Ipsos MORI, September 2020

¹⁶ [Pension Wise users much more likely to feel well informed about pension pot options than non-users](#), UK Money and Pensions Service, September 2023

other means. While nudges may be driven by personal information, they do not provide personalised guidance or advice and do not include specific product recommendations. Any options and actions proposed in nudge communications must be progressed by the member themselves.

In the U.S., VGI leverages technology across all areas of the firm to help investors to achieve investment success. VGI's self-directed brokerage and advice businesses use a variety of technologies to encourage investors to consider their risk profile, set and save for their goals, improve portfolio diversification, and generally take an active role in their financial wellness. This has been shown to improve investor understanding and decision-making, and ultimately the outcomes achieved by investors. We have provided below some examples of how we use nudges to assist members achieve better outcomes in the U.S.¹⁷:

- **Nudges designed to boost retirement success:** Our US 401(k)-recordkeeping business uses client data to identify clients whose employer offers to match retirement contributions and nudge them to take full advantage of this match to boost their savings and increase the odds of achieving a successful retirement. We also deploy nudges to encourage clients to consider boosting their retirement savings. For our self-directed clients who rely on individual retirement accounts ('IRAs') to save for retirement, our technology reviews contribution data and encourages clients to contribute earlier in the year to benefit from compounding and potentially maximise returns. We also nudge non-contributors to make at least one contribution per year because even one contribution annually can build momentum and returns that compound over time. Our clients are undeniably better off because of these prompts. Approximately 60 percent of 401(k) plan participants took action after receiving a nudge from VGI¹⁸ and 14,000 IRA clients acted after VGI nudged them, boosting their retirement savings by \$50 million.
- **Digital savings optimiser for advice clients:** VGI's advice business uses various technologies to encourage investors to take an active role in their financial well-being by providing educational materials, questionnaires, and tailored outreach designed to help investors understand key trade-offs and make informed choices to advance their financial goals. For example, our Digital Advisor service provides clients with a tool that analyses the sufficiency of their emergency savings to withstand unexpected changes in spending or income

¹⁷ [*Conflicts of Interest Associated with the Use of Predictive Data Analytics by Broker-Dealers and Investment Advisers*](#), The Vanguard Group Inc., October 2023

¹⁸ [*A Look Ahead with Vanguard*](#), The Vanguard Group Inc., at 41:10 – 41:25, 27 January 2023

(e.g., home repairs or job loss, respectively). This tool uses machine learning technology to provide personalised projections of a client's likelihood of job loss and potential length of unemployment based on historical job market data. The tool then uses the projections to provide a range of estimates so a client can make better decisions regarding where and how much to save for different types of emergencies.

The current regulatory regime in Australia restricts superannuation funds from being able to provide similar nudge-based member services. Subject to the regulatory barriers being addressed through the *Delivering Better Financial Outcomes* package, we believe that nudges will form an important component of a superannuation fund's guidance and assistance to their members.

Reforms to specifically include personalised nudges under the general advice regime will allow further personalisation of tools such as retirement estimates (to propose drawdown rates more tailored to the member) and superannuation calculators (to let members know if they are 'on track' for retirement based on appropriate replacement rates). We believe this would greatly increase the confidence of members leading up to and in retirement, as well as earlier in life, to better prepare for retirement – to both accumulate and then drawdown appropriately based on their circumstances.

Personalised guidance

We also believe there will be a significant role for 'personalised guidance' beyond simple nudges to improve retirement outcomes and close the 'advice gap'.

To increase the accessibility and affordability of advice and foster innovation, we believe consideration should be given to principles-based legal boundaries and definitions, or regulatory guidance, to distinguish between personalised guidance and personal advice on a sliding scale. This will provide guardrails for consumer protections as well as certainty to trustees and advisers they can provide this form of guidance under the personal advice regime (or whether it should be a separate regulatory category).

Personalised guidance is a category of customer engagement intended to help clients and members in their decision-making process under an insights style self-directed model of guidance, including recommendations and 'next best actions' based on personal information, but not advice recommendations. However, it would also go beyond a simple 'nudge'. For example, after nudging a member to know whether they are 'on or off track' for retirement, personalised guidance may present one or more options to improve the member's retirement projection, which may involve collecting further information from the member.

Information required from clients should be on a sliding scale, proportionate to the nature and complexity of the guidance being sought; this is how we lower the barrier to receiving personalised support and it feels less like a cliff people must climb to a gentle slope they walk up.

Currently, this describes interactions that would be considered personal advice under the current legal and regulatory framework, as it is based on personal information. However, we believe that this conceptualisation still leaves out a critical component of the customer experience, when their need is more for insights, education and guidance (along the sliding scale of customer support) rather than 'advice', and their requirement is to know what actions they can take, or their 'next best action' based on known information rather than an advice recommendation.

We believe there is a role for nudges, personalised guidance and simple advice to provide a continuum of support, filling the existing gap between generic, factual information and regulated financial advice and planning. Ideally consumers could move seamlessly between these according to need and life stage: e.g., a customer may opt for personalised guidance during accumulation but wish to take simplified or full financial advice at retirement with an adviser. Therefore, the proposals should be principles-based, without friction from a consumer perspective, across multiple channels: digital, hybrid, and face-to-face.

Permitting superannuation trustees to provide personalised guidance is wholly in line with the objectives of the Covenant. Introducing this concept into law or regulatory guidance (as a principles-based sliding scale rather than bright line to cross) will significantly improve member engagement in both the pre- and post-retirement phases of superannuation and improve retirement outcomes.

Recommendations:

- Progress the proposal to clarify that retirement nudges can be provided under general advice and implement suggested guardrails including: does not include product related or switching nudges; the nudge can be based on information the fund already has on the member; and the member acts on the nudge of their own accord. If the nudge includes product recommendations, it should be under personalised guidance or personal advice obligations.
- We recognise the critical need for a principles-based sliding scale boundary between personal advice and personalised guidance. We support Government consideration of a legal boundary, definition, or regulatory guide to give certainty to trustees and members.

Ongoing engagement throughout retirement

We believe it is important for trustees to continue to engage with members throughout their retirement journey.

There may be benefits in funds conducting annual check-ups to obtain an update on members' circumstances and provide an opportunity to assist members where there are any changes. This could include changes to the member's household position (and hence a need for greater guidance or advice) or assisting members experiencing cognitive decline, which studies have shown can affect approximately half of individuals in their 80s¹⁹.

Data from fund check-ups could also be utilised by superannuation trustees to further inform their retirement income strategies and consider additional avenues to assist their members in and approaching retirement.

Education and improving financial literacy

Increasing the general level of financial literacy in the community will further help retirees to navigate the retirement income system.

We acknowledge that raising financial literacy to a level that will have a material impact on retirement outcomes is a long-term endeavour that can take decades to take effect. However, we note the role for superannuation funds to play in developing educational materials and prompting members to review other credible sources of education, including those issued by the Government.

For example, Vanguard Australia has developed a framework for retirement decision-making²⁰ to assist retirees to capture their unique priorities and use their financial resources in a way that best aligns with achieving their goals and mitigating their risks. In the U.S., VGI also seeks to raise financial literacy in children through our My Classroom Economy²¹ and My Home Economy²² initiatives.

Funds assisting and defaulting members to better settings

The discussion paper notes that the information gathered by trustees to assess the outcomes delivered to members under the Covenant could be utilised to allow funds to nudge members towards settings that better suit their circumstances, which the

¹⁹ [The Age of Reason: Financial Decisions over the Life-Cycle with Implications for Regulation](#), Sumit Agarwal, John C. Driscoll, Xavier Gabaix, and David I. Laibson, 2009.

²⁰ [Vanguard's roadmap to financial security: A framework for decision-making in retirement](#), Vanguard Research, March 2021

²¹ <https://myclassroomeconomy.org/>

²² <https://home.myclassroomeconomy.org/home>

paper suggests could include features or products, drawdown pathways, investment strategies, or longevity products.

Notwithstanding our previously stated position that nudges should not include product-related advice, we note that many of the above-mentioned nudges are currently not permitted outside a personal financial advice relationship.

We have outlined below our views on the tendency for many retirees to draw down at the minimum legislated rates and considerations when determining the appropriate policy response to address this.

Minimum drawdown rates

We acknowledge the observed behaviour of many retirees electing to draw down at the minimum legislated rate as noted in the discussion paper. We agree that further consideration of this issue is needed to address this behaviour, which Vanguard Australia's research²³ has concluded is likely to be sub-optimal for both singles and couples.

The discussion paper seeks comment on redeveloping the minimum drawdown framework to shift retirees into drawdown patterns that better suit their circumstances. It notes this could include revising minimum rates to achieve a smoother drawdown profile over retirement which better reflects retirees' expenditure needs, or providing clarification that they are not intended to be guidance on optimal drawdown rates.

However, 'framework-level' attempts to address this issue are unlikely to lead to optimal retirement outcomes given the complex and personal nature of retirement planning (which, as previously noted, happens in practice at a household level).

As drawdown rates and superannuation balances are intrinsically linked to Age Pension eligibility, determining the optimal drawdown rate for either a single or couple requires consideration of their household circumstances, assets (including non-super assets), and Age Pension eligibility factors (including for the retiree's spouse if applicable). Much of this data is not available to superannuation trustees, meaning their best efforts are likely to be inferior to tailored strategies available via personal financial advice.

We support improving access to data in order to allow superannuation trustees to provide more personalised guidance and assistance to members (as noted earlier in this submission). However, given the complexity and diversity of individual

²³ *Delivering retirement income at scale: The impact of missing personal information on retirement income strategies*, Vanguard Investments Australia and The Vanguard Group Inc., 2024

circumstances and the need for consideration of many factors outside of superannuation, we reiterate our view that the key measure which will address the issue of drawdown rates will require a step change in access to financial advice and personalised guidance.

It will also be important for superannuation funds to implement measures to assist their members (especially those who are not advised) to improve their confidence in spending during retirement and select a drawdown pathway that better suits their household's circumstances and needs.

Such measures could include trustee guidance and education, behavioural nudges, intra-fund advice, or tools which assist members to develop a tailored drawdown profile. As part of this, we support the suggestion that superannuation funds could implement higher 'soft default' drawdown rates to address the observed behavioural trends amongst unadvised members, though we note this remains a 'blunt' approach and will not lead to optimal outcomes relative to financial advice.

Recommendations:

- We reiterate our view that the largest impact to optimising drawdown rates will be through financial advice given the impact of personal information on determining the optimal drawdown pathway for a retiree and their household and the benefits of advice on retiree confidence.
- Given the diversity in retiree profiles, circumstances, and needs, we believe any determination of higher 'soft default' drawdown rates should remain at the discretion of each trustee in accordance with the Covenant.
- To preserve flexibility for members who do not require a greater drawdown rate than the current minimum, we support maintaining the minimum legislated drawdown rates at their current levels. A higher minimum alone would reduce cohesion and have adequacy implications for some retirees where unspent withdrawals are saved or invested outside a professionally managed environment (e.g. a transaction account). Supporting institutions to provide guidance on non-super assets may alleviate this.

Simplifying the retirement income system

Measures to improve Age Pension accessibility

The Age Pension is widely understood to be complex and difficult to navigate, however it forms a critical component of an eligible individual's retirement income and acts as the primary source of longevity risk protection for many members.

Our research into the impact of personal data on the effectiveness of advice clearly demonstrates the significant impact of Age Pension eligibility factors on the retirement outcomes able to be achieved by members.

We submit there is a clear opportunity for superannuation funds to assist members through prompting them to consider their Age Pension eligibility or review government information about the Age Pension. Vanguard believes this should be included in the nudges a superannuation fund is permitted to provide to members – for example, the fund could send a communication to the member with information about the Age Pension and eligibility criteria (including links to government information) when they are approaching age 67.

In addition, given the complexity in the Age Pension eligibility requirements and application process, there may be a further role for superannuation funds to play in assisting their members with the application process, subject to the expansion of the intrafund advice rules to include this service.

Importance of increased access to data

As noted earlier in this submission, there is strong evidence to indicate that the more information a provider has about an individual and their household, the more likely it will be that the provider is able to provide advice or guidance that leads to optimal retirement outcomes.

Noting the discussion paper has referenced increased access to data as a policy option to address the issues identified under the heading '*Simplifying the retirement system*', we reiterate our prior recommendation that allowing superannuation funds to access greater levels of data under a consumer-driven model (alongside reforms to the advice rules through the *Delivering Better Financial Outcomes* package) will allow for more effective advice and guidance to be provided by superannuation funds.

Supporting funds to deliver better retirement income strategies

Standardised product disclosure framework

Vanguard Australia has long-supported increased transparency in superannuation and in investing and the benefits this brings to consumers. As such, we support the principle of a standardised product disclosure framework and would welcome consultation on its design.

We note the importance of thoroughly consulting on the metrics included in any standardised disclosure framework to ensure they are appropriate for each product and are useful for consumers to understand the product and its performance.

The discussion paper suggests three dimensions for information which could be disclosed in a standardised product disclosure framework:

- Product characteristics,
- Performance characteristics, and
- A regular assessment of how funds fulfill their Covenant obligations.

We support these three dimensions as an appropriate starting point for consultation and note the suggested data points underpinning these would be appropriate and useful for members to consider in their determination of product suitability alongside the product's Target Market Determination and Product Disclosure Statement.

The paper suggests other measures which could be included, such as a standard risk measure, a scorecard approach that demonstrates how a product balances the retirement income covenant objectives, or a combination of a qualitative checklist and quantitative modelling to assess how funds have delivered good member outcomes. We caution against including these more complex metrics in a standardised product disclosure framework, as each of these comes with additional complexity and risks confusing consumers (even those who are financially literate).

Tools for comparison and performance

We agree that it is important to ensure retirement products are performing well against their objectives, delivered at an appropriate cost to members, and are overall high-quality products.

The discussion paper refers to the tools currently employed to measure the performance of accumulation products, being the superannuation performance test and the YourSuper comparison tool, both of which were introduced as part of the *Your Future Your Super* package of reforms which commenced from 1 July 2021.

The following sections provide our views on each of these measures and considerations for extending their application to the retirement phase.

Performance testing of retirement products

We agree that applying performance testing to retirement products requires careful assessment of the unique challenges present in the retirement phase (including consideration of liquidity and longevity risks), and that any performance test for retirement products should not constrain innovation in product design.

In accumulation, a simple performance test provides a good assessment of whether an accumulation product has met its primary objective of saving for retirement. Vanguard Australia has consistently supported^{24 25 26} the core foundation of the accumulation performance test, being independent performance benchmarking of investment options, most particularly those operating as MySuper products.

However, as the discussion paper notes, the retirement phase has unique objectives and challenges, a significant diversity in member circumstances and needs, and a diverse landscape of different products and solutions delivered by superannuation funds to meet the diversity of member needs in retirement.

The Covenant requires trustees to have a strategy to assist their members to achieve and balance three prescribed objectives - *maximising their expected retirement income, managing expected risks to the sustainability and stability of their expected retirement income, and having flexible access to expected funds during retirement*²⁷.

Under the Covenant, trustees must consider their members' circumstances and are afforded flexibility to determine how they will assist their members based on the specific needs of their membership. This includes determining the appropriate balance of the three objectives in their strategy, recognising some cohorts may require greater focus on managing risks or flexible access to their savings over maximising the income provided in retirement. We understand this was a deliberate policy decision to allow trustees to align their retirement strategy to the specific needs of their members²⁸.

The Covenant also requires trustees to conduct a self-assessment of how they have met and balanced the three prescribed objectives as part of their annual outcomes

²⁴[Submission to the Productivity Commission's Draft Report: Superannuation: Assessing Competitiveness and Efficiency](#), Vanguard Investments Australia, July 2018

²⁵[Submission to the Your Future Your Super legislative package](#), Vanguard Investments Australia, December 2020

²⁶[Submission to the Your Future Your Super Review](#), Vanguard Investments Australia and Vanguard Super Pty Ltd, October 2022

²⁷ *Superannuation Industry (Supervision) Act 1993*, s52(8A) & s52AA

²⁸ [Retirement Income Covenant Position Paper](#), Treasury, p.4 & p.7, July 2021

assessment. This includes assessment of investment performance, but crucially not in isolation from the other two prescribed objectives. We submit that these trustee self-assessments (which are already subject to APRA oversight through its supervision of the industry) provide reasonable comfort that trustees are delivering well-performing and well-rounded products.

Given the diversity of product structures and solutions which exist in the industry to meet the diverse range of member needs in retirement, we do not believe a single test will accurately measure the overall performance of a retirement income product.

To the extent there is a policy imperative to develop a retirement performance testing regime, we submit this should comprise multiple tests (the results of which are not combined) to test the various components of a retirement product. This could include:

- an investment performance test
- an assessment of the cost and funding of longevity products to ensure they are priced reasonably and appropriately backed, and
- an assessment of the total fees charged for the product.

Furthermore, we stress that the consequences of failure which apply to the accumulation performance test are not appropriate for retirement income products and would likely lead to constrained innovation in retirement products. We also note there may be increased challenges associated with commuting or rolling over longevity products which fail the test.

As such we recommend that the failure of any one component of the test should not lead to a retirement product being required to close. Rather, we support the continued oversight of APRA through its supervision process to improve outcomes in retirement products (or their components) identified as underperforming.

Recommendations:

- Vanguard Australia does not support the extension of the existing *Your Future Your Super* performance test to retirement products. The overall performance of a retirement product is complex and multi-faceted, and we submit that a simple investment performance test is not suitable for retirement.
- We support further consideration of how retirement performance testing could operate in practice, including consultation on the proposed design of tests and the appropriate metrics and methodology. Any future retirement phase performance test should comprise multiple tests which consider the Covenant objectives, however we submit the results of these should not be combined to attempt to derive a product-level performance test.

- If a retirement performance test is introduced, the consequences of failing the test should not include mandating product closure. We submit that this would also be inappropriate for retirement products and, given the increasing usage of lifetime income products (many of which cannot be commuted), may lead to adverse impacts to consumers.

Comparison tools

Similarly, there are broad issues which need to be considered when determining whether a 'YourSuper'-styled comparison tool is appropriate for retirement.

Vanguard Australia supports transparency around retirement product performance, however we don't believe that a simple comparison tool similar to the 'YourSuper' tool provides an adequate solution. We query whether the diversity in retiree circumstances and needs, and in retirement income products and strategies, can be satisfactorily reflected or their performance accurately assessed via a simple comparison tool. We are concerned by the potential consequences, including the risk of misleading information or members being directed to inappropriate products.

We believe members will be better served through alternative retirement product performance reporting approaches. In particular, we support APRA publishing a new 'heatmap' based upon trustee self-assessments of their progress delivering upon the objectives of the Covenant (included in annual outcomes assessments). This would provide greater transparency of how each retirement product has delivered upon the Covenant objectives.

We support the objective behind the proposed comparison tool and the role it can play in encouraging members to evaluate and consult on their retirement income options. However, in our view, this tool does not replace the act of undertaking a relevant and meaningful comparison of products based on each individual retiree's circumstances and preferences.

Recommendations:

- We do not support the introduction of a YourSuper comparison tool for retirement phase products. We are concerned that such a tool will not adequately reflect the diversity of retiree circumstances, needs, and preferences, and we note that even sophisticated comparison tools may still risk directing some members towards inappropriate products.

- We support APRA publishing a new heatmap containing the results of trustee self-assessments of their progress delivering upon the objectives of the Covenant. We believe this will improve transparency for consumers and increase comparability of products relative to a retiree's specific preferences and priorities.

Regulatory barriers

Portability of retirement phase products

There are regulatory barriers which prevent retirement phase products from being directly rolled over to another superannuation fund.

Retirees who wish to move to another product provider must, under the current rules, commute their retirement phase product to an accumulation account and then roll that account to the new provider to commence a new retirement income stream.

Not only is this process administratively complex and cumbersome, there are often costs to retirees as a result of this process. These can include the incurring of buy-sell spreads or other transaction costs, or lower investment returns resulting from time outside the market or time in a higher-tax environment while their balance is held in an accumulation account.

This process also increases sequencing risk (especially during periods of market downturn) which can lead to significantly adverse outcomes for members and also act as a deterrent to move to another provider.

Recommendation:

- Allow retirement income streams to be directly rolled over to another superannuation fund without requiring them to be commuted back to accumulation to commence a new retirement income stream.

Making lifetime income products more accessible

We believe that lifetime income products have an important role to play in the retirement product landscape and provide benefits for many retirees. However, we note that lifetime income products are not suitable for every retiree and their take-up may lead to worse outcomes for some members. As such, Vanguard Australia does not support mandating the use of lifetime income products in retirement.

The idea of compelling retirees to take up longevity solutions was initially brought to prominence in the recommendations of the 2014 *Financial System Inquiry* ('FSI')²⁹ as a measure to address a lack of diversity and choice in retirement products which the FSI asserted led to an "over-reliance" on account-based pensions.

Following criticism of proposals to introduce *Comprehensive Income Products for Retirement*³⁰ ('CIPRs'), the question of whether the mandated use of longevity products would lead to good member outcomes was considered by the *Productivity Commission* in its inquiry into efficiency and competitiveness in superannuation³¹.

The Productivity Commission questioned the benefits of CIPRs, suggesting that they may not address the observed behavioural biases people have in consuming during retirement³² and that "A higher drawdown rate through retirement makes a large difference to the relative importance of consumption and bequests for retirees. Tailored information would leave people with the option to choose their desired rates on an informed basis, **which would be preferable to a default annuity product that would often not match people's preferences**" (emphasis ours).³³

The Productivity Commission further noted that in the retirement phase, "diverse needs, preferences and non-super assets mean one size can never fit all" and that, as such, "there are real risks in nudging many members into risk-pooled products that may not suit their needs and are costly to get out of".³⁴

We support the Productivity Commission's conclusions and notes that while lifetime income products have a role to play in the retirement planning of many Australians, they are not suitable for all and, as such, mandating the use of these products would likely lead to sub-optimal retirement outcomes. For many members, a combination of an account-based pension and the Government Age Pension alongside increased guidance or advice will be sufficient to meet their needs.

²⁹ [Financial System Inquiry](#), 7 December 2014

³⁰ [Comprehensive Income Products for Retirement](#), Treasury, 15 December 2016

³¹ [Superannuation: Assessing Efficiency and Competitiveness](#), Productivity Commission, 21 December 2018

³² [Superannuation: Assessing Efficiency and Competitiveness](#), PC, 21 December 2018 – p. 231

³³ [Superannuation: Assessing Efficiency and Competitiveness](#), PC, 21 December 2018 – p. 230

³⁴ [Superannuation: Assessing Efficiency and Competitiveness](#), PC, 21 December 2018 – p. 40

Standardised product framework

Standardised product structures

Reiterating our support for the role longevity products have in the retirement planning for **many, but crucially not all** Australians, Vanguard Australia does not support the mandated use of longevity products in either default products or as part of a standardised product structure or 'first offer' to members.

We believe that compelling the use of longevity products may lead to poor member outcomes for some cohorts of members, especially in the context of the challenges associated with the portability of many longevity products.

We further note the logistical challenges associated with any default product, given superannuation funds will still need to contact members to obtain bank account details in order to make pension payments. Rather than employing a simple default approach that may not be appropriate for many, we believe that member contact should be utilised as an opportunity to provide guidance and assistance (including access to advice) rather than simply obtaining information to default them into a product without assisting the member to assess whether or not it suits their needs.

While a 'first offer' approach may streamline the joining process for some retirees, there remain concerns about the portability of longevity products and risks to retirement outcomes if they are included in a 'first offer'.

Recommendations:

- We do not believe that default retirement products will lead to improved member outcomes, noting that defaulting may lead to worse outcomes for members who are defaulted into inappropriate products, especially where they include a longevity component.
- While a standardised product has some merits in improving the take-up of retirement products (over a 'no action' position), it will be important to ensure that issues with longevity product portability are addressed and there are clearly defined guardrails to prevent members from being offered a product that may not suit their needs.
- Any standardised product or 'first offer' should retain the maximum flexibility for members, noting that for many members a combination of an account-based pension alongside the Age Pension (with members supported by superannuation fund guidance and advice) will be sufficient.