



Guidance on best practice principles for superannuation retirement income solutions

The three pillars of the retirement income system – superannuation, the Age Pension and private savings – work together to support Australians in retirement. Superannuation is playing an increasingly important role in providing income to Australians in retirement, consistent with the objective of superannuation which has been enshrined in law: to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

Registrable superannuation entities (trustees) have a legal obligation under the Retirement Income Covenant (Covenant) to have a retirement income strategy that assists members in and approaching retirement to maximise expected retirement income, manage expected risks, and have flexible access to expected funds.

The Covenant operates alongside broader trustee obligations in the *Superannuation Industry (Supervision) Act 1993*, prudential standards and other relevant guidance.

These principles give non-binding guidance to trustees about how they can better design and deliver fit-for-purpose retirement income solutions for their members under their retirement income strategy.

They are voluntary to adopt and designed to be read holistically. They will support trustees in their considerations of how to:

- Deepen understanding of their membership and their retirement income needs, to support the design of quality retirement income solutions, guidance services and engagement strategies.
- Design a robust suite of products and product settings that allow trustees and members to build quality retirement income solutions.
- Combine products and product settings to construct retirement income solutions appropriate for identified cohorts.
- Foster member engagement in retirement to support informed choice and improved retirement outcomes.
- Review and improve their trustee-designed retirement income solutions.

Each trustee serves a distinct membership with different retirement income needs which will shape what members need from their retirement income solutions. A one-size-fits-all approach to retirement income will not work. While some members will require simple solutions that work alongside the Age Pension, others will need more sophisticated solutions to manage more complex retirement objectives.

Trustees are accountable to their members for the quality of their retirement income solutions, guidance services, and engagement strategies that support members to achieve quality retirement outcomes. The principles complement trustee obligations and articulate steps trustees can take to continuously improve the quality of their retirement income solutions offerings. It is expected that each trustee will consider the appropriateness of individual principles for their membership and how application could foster better retirement outcomes for members.

The principles do not change the operation or interpretation of existing law, prudential standards, or fiduciary duties. No enforcement action will be associated with trustees' adoption of these principles. The Australian Prudential Regulation Authority (APRA) and Australian Securities and Investments Commission (ASIC) will continue to monitor compliance with existing trustee obligations.



Understanding members' retirement income needs

Best practice for understanding members' retirement income needs means a trustee will:

1. Undertake regular research to ensure an up-to-date understanding of the composition of its membership base and how member characteristics, engagement preferences and retirement income needs are changing over time.
2. Use accessible data and behavioural research to inform the design of information, engagement strategies and guidance services.
3. Improve understanding of the membership base by:
 - i. Identifying members who are in or approaching retirement.
 - ii. Gathering information on characteristics relevant to its members' retirement income needs, including during retirement.
 - iii. Asking members about their engagement preferences.
4. For the purpose of the principles, develop at least three cohorts that reflect the composition of the membership at or approaching retirement to inform the design of retirement income solutions.
 - i. Base cohorts on information held and gathered by the trustee.
 - ii. Use characteristics relevant to the development of retirement income solutions to develop cohorts, such as account balance and age.



Designing the elements of a quality retirement income solution

Best practice for designing the products and product settings to build quality retirement income solutions means a trustee will:

5. Provide their members with access to:
 - i. A lifetime income product that is not the Age Pension.
 - ii. An account-based pension.
 - iii. Lump sums.

6. Design product settings that allow for the construction of retirement income solutions that meet members' retirement income needs, including:
 - i. Lifetime income product settings that have regard to member preferences around expected risk and return, for example managing longevity or investment risk.
 - ii. Account-based pension product settings that help to manage expected risks, for example sequencing, market and inflation risks.
 - iii. Trustee-designed drawdown pathways for account-based pensions that more efficiently convert superannuation balances into income than the legislated minimum drawdown rates.

7. Allow all members that meet a relevant condition of release access to a retirement income solution that includes an account-based pension component, irrespective of account balance.¹

8. Ensure these products and product settings can be used to construct both trustee-designed retirement income solutions and allow members to tailor their own retirement income solution.

¹ For this purpose, a relevant condition of release refers to the member having reached a nil cashing restriction, such as retirement upon attaining preservation age, or reaching age 65.



Constructing retirement income solutions that meet members' needs

Best practice for constructing retirement income solutions that meet members retirement income needs means a trustee will:

9. Construct a separate trustee-designed retirement income solution for each identified cohort, that balances members' needs to maximise expected retirement income, manage expected risks, and maintain flexible access to capital. These should include:
 - i. A lifetime income product component in at least one retirement income solution, that has regard to likely Age Pension eligibility.
 - ii. For most solutions, a drawdown pathway that is higher than the legislated minimum drawdown rate, considering stability of income delivered through relevant components.
10. Ensure each trustee-designed retirement income solution is broadly calibrated to the financial characteristics of a retiree cohort.
11. Design guidance services that assist members to understand and select the components of their retirement income solution, for example through personas or assisted choice tools.



Supporting member engagement with retirement income solutions

Best practice for supporting members to choose a retirement income solution means a trustee will:

12. Support all members to understand their retirement income needs by providing forecasts or projections of income in both annual and pay-cycle terms, including through:
 - i. Annual member statements.
 - ii. Budgeting tools or expenditure calculators.

13. Foster member engagement during the accumulation phase by providing information and tools that can help members prepare for and understand their retirement income needs, including on:
 - i. Moving into the retirement phase of superannuation.
 - ii. Classes of retirement products and drawdown pathways.
 - iii. Guidance services offered by the trustee.
 - iv. Government resources on retirement related topics, including information on non-superannuation sources of income in retirement such as the Age Pension and access to home equity.

14. Engage with members approaching retirement, to:
 - i. Provide information on trustee-designed retirement income solutions and a description of the financial characteristics used to inform each solution.
 - ii. Inform them of how to access information on all retirement products offered by the fund.
 - iii. Encourage further engagement with information and guidance services to help inform members' choice of retirement income solution.

15. Provide access to financial advice services that reflect the composition and preferences of its membership.

16. Consider members that receive personal financial advice in engagement strategies for members approaching retirement, including information on trustee-designed solutions.



Review and improve

Best practice for review of its retiree cohorts and trustee-designed retirement income solutions means that a trustee will:

17. Assess the effectiveness of its trustee-designed retirement income solutions in meeting the needs of its cohorts and consider relevant data on measurable outcomes, usage, and member behaviour to improve the quality of its retirement income solution offerings.
18. Assess the effectiveness of guidance services and engagement strategies in supporting members to navigate their retirement income solution choice and collect relevant data on member experiences.
19. Have regard to the changing needs of members approaching retirement (over the short and medium term) when assessing the ongoing settings of trustee-designed retirement income solutions.