

9 February 2024

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

Retirement Phase of Superannuation: Discussion Paper

National Seniors Australia (NSA) welcomes the opportunity to make a submission to the *Retirement Phase of Superannuation Discussion Paper* consultation.

As the peak consumer body representing older people, with a community of over 230,000 supporters, NSA is well placed to provide insights to inform this discussion.

With our dedicated research team, NSA has produced a range of research reports on issues related to retirement income and superannuation. We draw on the findings from this research to inform this submission.

Later life is an important and cherished time, a time of freedom where many hope to pursue a range of activities and interests after many years in the workforce. For many superannuation provides the financial resources to achieve retirement goals.

Attaining adequate levels of superannuation is critical for supporting these goals and for maintaining wellbeing in later life, with our strong superannuation system having positive impacts on Australia's economy.

While the focus of the discussion paper is on the 'retirement' phase of superannuation, it is important to acknowledge there is still much to do to reform and enhance the accumulation phase of superannuation. There are still far too many people reaching later life with limited superannuation from which to support consumption in later life.

While this will change as the super system matures, there are opportunities to improve the equity of the superannuation system to ensure more people have adequate savings in later life. In this regard, NSA supports moves to boost accumulation among people with low balances as a priority action for government.

For those lucky enough to reach later life with some level of superannuation, it is important they get support to maximise their financial wellbeing.

Ultimately, the system should empower people to make informed choices but not make choices for them. This requires a base level of financial literacy built on independent and high-quality information and guidance.

While planning for later life can be complex, it is critical that we continue to give people the flexibility to control their financial affairs by giving them the means to make informed decisions and by offering them access to products that deliver positive outcomes with adequate consumer protections.

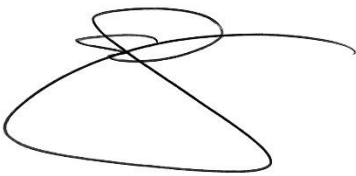
As pointed out in our submission to the Standing Committee on Economics inquiry into the Superannuation (Objective) Bill 2023, older people need a flexible system that gives them opportunities for regular income streams, but also capital in the form of lump sums, to meet their needs in later life.

This requires a flexible system with supports that match the resources, knowledge and expectations of the diverse circumstances of individual superannuants.

This can be achieved by delivering independent information, education and guidance to superannuants, complimented by adequate consumer protections to give people the means to manage their consumption in later life in ways that suit their preferences.

Attached to this submission are responses to the potential policy responses outlined in the discussion paper.

Yours Sincerely

A handwritten signature in black ink, consisting of a large, stylized loop with a horizontal line extending to the right.

Chris Grice

Chief Executive Officer

Responses to the Discussion Paper

Supporting members to navigate retirement income

Guidance, education and communication

It is critical we have a superannuation system that engages fund members and provides information and guidance that they can use to make informed decisions about their financial future.

We support moves to oblige trustees to do more to educate members about retirement strategies and to offer products which help to meet member objectives as outlined in the Retirement Income Covenant.

Trustees are well placed to deliver information given they have direct lines of communication with their members. They should be required, as a minimum, to deliver relevant prompts at key stages of the life cycle (e.g., preservation age, pension age etc.).

The obligation on funds to do more to educate members, must be complimented by independent information and guidance to avoid conflicts of interest and to spur market competition.

In doing so, we must be conscious of the wide variability in the expectations and circumstances of individual superannuants.

People with larger balances will likely benefit from, see value in and will be able to afford personalised advice. In contrast, those with limited balances will likely benefit from more cost-effective interventions (from our own experience, this is often simply about explaining the complex rules around pensions and super).

NSA believes strongly there is scope for an independent guidance service to compliment information provided by funds and advice given by financial advisors. Ideally, this service should not be delivered by government or government agencies but via an independent community-based organization with a clear mandate and responsibilities and adequate funding.

This could operate similar to the UK Pension Wise program giving superannuants access to free or subsidized information sessions and could be funded via a combination of government funding, industry levy and co-contributions.

This model would support competition in the superannuation sector and reduce the risk of conflicts of interest. It could become a one-stop shop for information about financial wellbeing in later life, including information related health and aged care.

A benefit of this model is that it could be used to develop trusted online tools to compare retirement strategies and products.

Ultimately, we need to empower superannuants to choose options that are in their best interests.

In this regard, NSA is concerned about funds becoming “default” advisors under the proposed Delivering Better Financial Outcomes package. There is a risk that as product “sellers” in what should be a competitive market, they will only recommend their own products, leaving members with biased information or guidance.

A fund member is a captive audience in what should be a competitive market. Super funds are already not allowed to charge exit fees, for example, as means to facilitate competition and switching. It should be no different in the retirement phase of superannuation.

Government must be cognizant of the need to design the system in ways that promote and enable members to shift funds if they wish, but that requires educated consumers with access to independent information and guidance.

This can only be achieved via an independent and unconflicted organization, whose mandate is to operate in the best interests of superannuants.

Such a service is especially important for people with limited super balances who will never be able to afford costly financial advice.

Funds assisting and defaulting members to better settings

Asking funds to set default products is a risky proposition in the retirement phase of superannuation because trustees have a lack of information about a person’s overall financial circumstance from which to offer a default suited to their specific needs.

Defaulting could conflict with the obligations of the Retirement Income Covenant to provide “improved retirement outcomes” *if* a default did not consider the specific circumstances of individual members.

As recent research has shown, there is difficulty in setting defaults which meet member needs when fund member values are heterogeneous.¹

¹ <https://www.sciencedirect.com/science/article/abs/pii/S0167268117303323>

Superannuation funds do not know enough about members beyond their balance and basic demographics to assess if a product default is truly suitable unless the member is willing to provide them with this detail.

It is likely that funds couldn't provide this level of personalization without significant cost unless fund members were willing to pay for such a service, which would constitute advice.

Funds should instead be required alert members of the products available to them through the fund and be required to direct members to the proposed independent guidance service or seek independent financial advice.

Additional information and guidance outside of the fund environment will enable them to make better decisions as to which products meet their needs best. This will enhance competition across the superannuation sector.

Supporting funds to deliver better retirement income strategies

Standardised Product disclosure

NSA supports moves to require standardized product disclosure statements.

Product disclosure statements are a regular feature of other consumer markets, such as telecommunications, where there is a risk consumers will find it difficult to compare complex products with differing features.

We support including product characteristics and performance characteristics, as outlined in the discussion paper in a standardized product disclosure statement.

However, unless there is a simple way to compare the key information provided in product disclosure statement side-by-side, then it may continue to be difficult for a consumer to choose.

The proposed independent guidance service would play a key role in allowing members to compare product features and outcomes across the superannuation sector.

This could be achieved by an online tool to compare the information on comparable products, with an obligation on product sellers to provide these to the independent guidance service.

Tools for comparison and performance

NSA strongly supports the use of tools, especially online and independent comparison tools to help members make informed decisions.

Fund members need clear and consistent information about retirement product performance and outcomes to make decisions.

The appropriate place to develop and house these tools is within the proposed independent guidance service. This will provide a more efficient and trusted service than what could be offered via government or industry.

While it is important that funds offer such tools, and do so as part of their marketing activities, pooling resources to an independent guidance service is a much more efficient way to do this and will ensure greater competition.

Extending performance testing to products in the retirement phase is also supported as this would help to ensure that members know if certain products perform poorly.

Information about whether a product meets a performance test could be included in the proposed standardized product disclosure statements.

Making lifetime income products more accessible

Standardised products

Lifetime income products are an important offering for retirees seeking to protect against longevity risks. Like a defined benefit pension, a lifetime annuity provides a secure income for life, which can remove some of the worry associated with retirement planning.

Research conducted by National Seniors Australia shows worry about outliving savings and investments is lower among older people with a lifetime annuity or defined benefit pension product (see figure 1 below).²

However, lifetime annuities may not be suitable for everyone.

² <https://nationalseniors.com.au/uploads/0120203573PAR-RetirementIncomeWorry-ChallengerRpt-FNREV.pdf>

Changes pension rules on 1 July 2019 have made lifetime annuities more attractive for part-pensioners or low-income self-funded retirees, compared to other retirement income products because they receive a higher pension entitlement.

However, people on a full Age Pension with limited super balances will not get this benefit.

People with low balances may also prefer ongoing access to their limited capital for planned retirement activities and unexpected health and ageing costs and may view the Age Pension as providing them with an adequate income that lasts a lifetime.

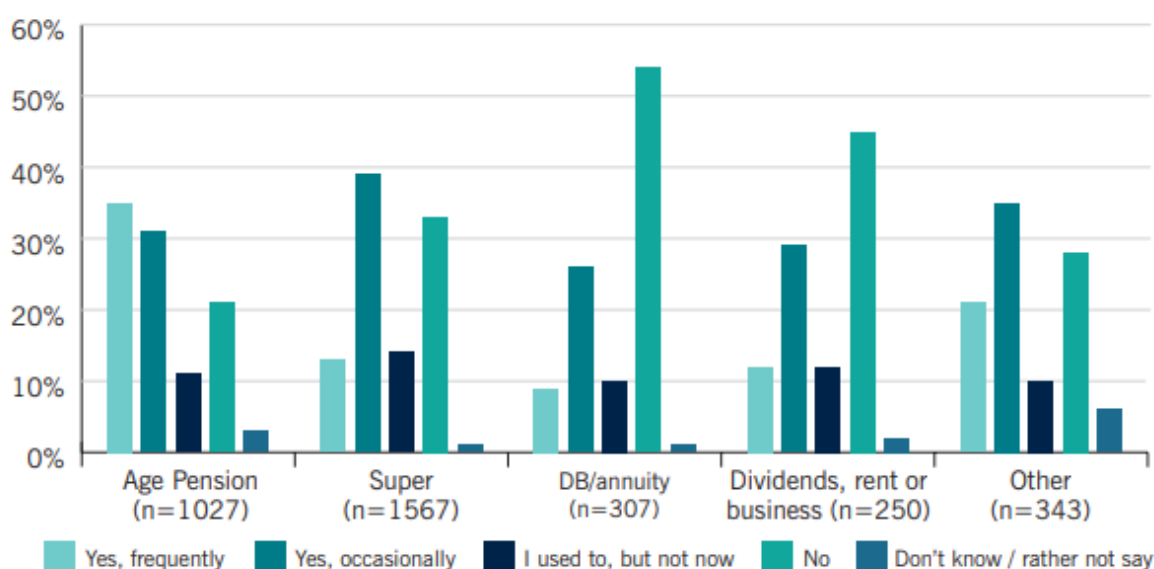


Figure 1: Worry about outliving savings and investments by main source of income in retirement.
[Source.](#)

Products that seek to ameliorate longevity risk should be an optional part of an investment strategy. Just as it is a choice for superannuants to choose between different components and levels of risk, superannuants should be free to choose whether they want to take-up a lifetime annuity as part of their retirement strategy.

NSA would support requiring funds to develop a product that meets the framework attributes outlined in the discussion paper but would be wary if there was a requirement for this to be a default product or 'first offer'.

Ideally, a product offering a lifetime annuity component should be one of several product options from which members can choose, with appropriate information provided about costs and benefits.

The proposed independent guidance service could provide general information about lifetime annuities to help people decide if this product is right for them and enable access to tools to provide comparison of products (with or without a lifetime annuity component).

There may be a need for consumer protections to ensure that members do not take out annuity products that are ill-suited to their needs.

For example, if an individual opted to take on a product paying no death benefit or a member was considering placing 100% of their capital in a lifetime annuity, it may be prudent to require them to receive independent advice before doing so.

Other matters

Research

As a final note, NSA recommends that there is a need for significant in-depth and contemporary research about member behaviour and balances in the retirement phase.

Changing the system by introducing new obligations or rules impacting on superannuants and funds should not be undertaken without first understanding the current performance of the system.

Many of the assumptions within the discussion paper are based on old or incomplete data. These findings do not reflect the contemporary superannuation system or the balances or behaviours of modern superannuants.

While it is true that some superannuants continue to accumulate and preserve their superannuation balances in later life and some superannuants die with these balances intact, evidence suggests this is not the experience of most superannuants.

Research undertaken by ASFA indicates that the great bulk of retirees exhaust their superannuation before they die and that only a small proportion have substantial superannuation balances at death.³

³ <https://www.superannuation.asn.au/ArticleDocuments/359/2103-Super-balances-just-before-death-Paper.pdf>

In this regard, we must be wary of changing the rules governing superannuation, such as placing obligations on funds (e.g., defaults) that seek to achieve outcomes based on concerns about one segment of superannuants.

NSA would like to see greater investment in research to better understand the complex diversity of behaviour and sentiment among people in later life based on contemporary data, *before* more changes are made to the superannuation system.

As an organization with 230,000 members and supporters and an in-house research capacity, NSA could help play role in these activities.