Treasury
Langton Cres
Parkes ACT 2600

Via Email: Retirement@treasury.gov.au

9 February 2024

Dear Treasury,

Retirement phase of superannuation

The Financial Advice Association of Australia[1] (FAAA) welcomes the opportunity to provide feedback to the Treasury on the retirement phase of superannuation consultation.

The FAAA recognises the growing importance of retirement income policy, and the government's commitment to address obstacles to retirees making optimal decisions about investing and spending their superannuation in retirement.

Summary of recommendations

Our recommendations are further explained in our paper below, in short, they are:

- A broad initiative to increase financial knowledge across the Australian population, including at school, and specific initiatives to support those preparing for retirement.
- Improved information and tools (calculators) for those approaching retirement, via a retirement specific government website (i.e. retirement.gov.au).
- Increased access to financial advice for retirees.
- A limited special payment of $2,000 (means tested) to support those seeking financial advice in the lead up to retirement.
- Support for the development of new product solutions including, for example, an insurance product to provide for funding aged care deposits.
- Enabling account-based pensions to accept additional contributions.
- Supporting product issuers to modernise their retirement income product suites by continuing concessional social security treatment for members.
- A review of the minimum drawdown rates for account-based pensions.

[1] The Financial Advice Association of Australia (FAAA) was formed in April 2023, out of a merger of the Financial Planning Association of Australia Limited (FPA) and the Association of Financial Advisers Limited (AFA), two of Australia's largest and longest-standing associations of financial planners and advisers.

The FPA was a professional association formed in 1992 as a merger between The Australian Society of Investment and Financial Advisers and the International Association of Financial Planning. In 1999 the CFP Professional Education Program was launched. As Australia's largest professional association for financial planners, the FPA represented the interests of the public and (leading into the merger) over 10,000 members. Since its formation, the FPA worked towards changing the face of financial planning, from an industry to a profession that earned consumer confidence and trust, and advocated that better financial advice would positively influence the financial wellbeing of all Australians.

The AFA was a professional association for financial advisers that dated back to 1946 (existing in various forms and under various names). The AFA was a national membership entity that operated in each state of Australia and across the full spectrum of advice types. The AFA had a long history of advocating for the best interests of financial advisers and their clients, through working with the government, regulators and other stakeholders. The AFA had a long legacy of operating in the life insurance sector, however substantially broadened its member base over a number of decades. The AFA had a strong focus on promoting the value of advice and recognising award winning advisers over many years. The AFA had strong foundations in believing in advocacy for members and creating events and other opportunities to enable members to grow and share best practice.

The FAAA does not support Government intervention into the financial product space where this is likely to come at a significant cost to taxpayers and without any guarantee of voluntary take up by consumers.

Conclusion

When the SG scheme was introduced, there was not a strong focus on the need for improved financial knowledge to enable superannuants to manage an increasing level of wealth in retirement. We think this is important to change.

The FAAA supports government a to better enable good outcomes for more Australians entering and throughout retirement. We believe that improved financial knowledge combined with financial advice is critical to achieve this. Financial knowledge and advice will have a greater impact in achieving positive consumer outcomes than new reporting regimes or product changes. Financial advice is at the core of assisting Australians to make good financial decisions.

The FAAA would welcome the opportunity to discuss the issues raised in our submission in more detail. Please contact me on 02 9220 4500 should you have any questions.

Yours sincerely,

Sarah Abood

Sarah Abood
Chief Executive Officer
Financial Advice Association of Australia

Financial knowledge

Few Australians have the required level of financial knowledge to understand the complex issues and products involved in retirement. The superannuation guarantee regime has been in place for many years resulting in increasing balances, however this has not increased the understanding of how to manage this wealth on a personal level, for super members. We think it unlikely that in the absence of financial knowledge or advice, Australians would make the decision to invest in a longevity risk product such as an annuity (immediate or deferred).

We believe that the problem is actually much deeper, as many Australians lack the awareness and education to understand how to address the superannuation rules, strategies and existing retirement products as they apply to their personal circumstances. This general lack of knowledge means that they are often confused, ill-prepared for retirement and unlikely to consider products that essentially reduce access to their funds as a retirement solution. This behaviour is evidenced by many Australians who are eligible to take out an account-based pension, however do not do so, and simply leave their money in the accumulation phase, paying additional unnecessary tax. On the other hand, we suspect that a lot of Australians cash in their super when they become eligible and simply take the money out of the tax effective superannuation/pension regime and put it in the bank.

A large number of Australians die without a will – according to a 2022 Finder.com.au survey, 60% of Australians have not completed this critical document. This suggests a severe shortage of estate planning and a lack of understanding of the financial benefits that can accrue to their beneficiaries with careful and appropriate estate distribution, on the part of the majority of Australians.

It might be assumed that higher wealth and higher income Australians should have higher levels of financial knowledge, however this is not always the case. It is also common that for couples, one person may have much higher financial knowledge and engagement with their financial situation than the other. This can become a significant complication if they separate, or one passes away.

Retirement behaviours

In its call for submissions, the Treasury has noted a concern that some Australians in retirement reduce their spending out of fear of how long their money will last. However, there are also Australians who spend more than they can afford. These people risk quickly exhausting their savings and may be forced to rely upon the age pension. This issue of sub-optimal retirement behaviours is a much deeper one than cannot be solved by simply looking to deliver a product solution. Improving financial knowledge would provide Australians with greater confidence to retire and live a life where they can genuinely enjoy themselves, knowing that they have the means to fund their needs during their lifetime.

Retirement planning is complex

Planning for retirement, even for those with good financial knowledge, is challenging. There are many uncertainties. You don’t know how long you will live, you don’t know what your health will be during your years in retirement, you do not know what your family’s needs may be or how investment markets will perform, and you don’t know if you will need aged care, what those costs will be or how they will be structured. Some of this uncertainty is impossible to avoid, however it is possible to better plan for this. Understanding is knowledge and provides confidence that one has considered relevant options and how to respond when a financial challenge arises.

Improving the reporting on pension products and the capacity to compare product features, costs, portfolios and returns, alongside the introduction of new longevity risk products, is unlikely to change behaviour to any meaningful extent, unless we can at the same time increase the level of financial knowledge and confidence among Australians by increased access to financial information and advice.

As feedback from FAAA members has shown, longevity risk products already exist. They are essentially good products, however the demand for them is very limited and dependent on their income return provided relative to alternative assets. Historically, they have more often than not, been products that were available outside the superannuation system. That has changed in recent years as some super funds have built product solutions internally, while others have made them available through their platforms. Some superannuation funds do not have capacity to provide the capital that might be needed to back some of these products, however all have access to the option of engaging with alternative providers such as life insurers to build solutions for members on the funds' behalf.

Draw-down minimums

Clients receive conflicting messages relating to the government mandated minimum draw down rates for account-based pensions. The general perception from the public is that this mandated drawdown rate is set to ensure one's funds last their lifetime, however this is not their intention. The goal of having a minimum drawdown rate is to ensure these products are used as intended, which is to provide an income in retirement (rather than being a store of wealth).

Some feedback from members, is that the rates for older Australians (i.e. 11% for 90 to 94 and 14% for those 95 and over) are excessive and often go well above what these Australians need to live on. While we acknowledge that the various tax and other concessions provided to superannuation monies is in part designed to ensure that funds are used to fund retirement rather than estates, a minimum drawdown increasing as one ages is counter to the needs of clients. Data shows that one generally spends less, as one ages (Household Expenditure Surveys conducted by the Australian Bureau of Statistics).

The need for longevity risk products

The FAAA supports longevity risk products, however we recognise that there is a cost to the consumer with these products. In purchasing these products, consumers are paying a price for another party to accept the risk that they may live well beyond their life expectancy. In order to cover this risk and to provide an adequate return on equity, they will offer a lower return than could be earned on other investments and require consumers to forego access to the funds invested. A decision to invest in a longevity risk product is a decision to trade off return and access to capital for greater certainty of long-term income.

People with significant superannuation balances or other assets outside super do not often seek out these products, as they will generally have sufficient funds to last in retirement, even if they live much longer than their life expectancy. At the other end of the spectrum, Australians who will either entirely or largely rely on the aged pension, also have little need for these products. Having access to the age pension is the ultimate in longevity risk products. That said, the Age Pension does not deliver a standard of living that many would desire or expect. Those who have significant equity in their home, can also seek to supplement their retirement income by taking advantage of the Home Equity Access Scheme or similar products. Greater awareness of and support for these options would benefit retirees in managing their retirement.

The importance of financial advice

The importance of financial advice is not always well understood, and for those who have not had the benefit of it, often undervalued. Retirement is a classic situation where good financial advice is critical due to the numerous aspects that need to be considered and the decisions that need to be made as well as the complexity of rules, regulations and the financial products involved.

Some examples include:

- Eligibility for the aged pension.
- Ability to increase superannuation balances to fund retirement via further contributions.
- Ability to access superannuation to convert to an income stream or access capital.
- Debt repayment.
- Considerations with respect to ending employment and the different benefits that may be available.
- Family needs.
- Lifestyle costs and aims.
- Health considerations.
- Navigating aged care options and personal needs.
- Personal insurance risk and needs.
- Longevity risks.
- Tax considerations, including how to structure an appropriate tax effective outcome.
- Consideration of financial assets both inside and outside superannuation and their impact on the overall financial plan and strategy being employed.
- What products or mix of products will be most suitable.
- Developing an appropriate estate plan to ensure desired distribution of assets in a tax effective manner.
- Putting in place the appropriate powers of attorney.
- Understanding Transfer Balance Caps and Total Super Balance aspects.
- Understanding what happens to superannuation on death and what options are available.
- Strategies for managing death benefit pensions.
- Ensuring the appropriate death benefit nominations are in place and kept up to date.

Good financial advice in these areas can make a huge difference in retirement, not just in the short to medium term, but also for many years to come.

There is so much to consider, and most Australians do not know where to start. Superannuation rules and regulations are complex and intertwined. Most people do not know the basics and have no understanding of how to manage their retirement strategy, what they are entitled to or what options are available to them. Accessing guidance, information and advice is essential.

A core component of retirement advice relates to strategic advice to enable individuals to navigate the retirement system and understand their choices to determine the best course of action for their individual circumstances. Often, specific product recommendations are not included. Increased flexibility to provide Strategic advice would be beneficial.

Advice relating to planning for retirement is critically important; and should be undertaken well in advance of retirement, however retirement plans are not a set and forget proposition. Many things can change during retirement (markets, product options, lifestyle needs, health, capital needs etc) and it is essential that a retirement plan is regularly reviewed to ensure it remains appropriate.

The Government has suggested that their intent, as part of their response to the Quality of Advice Review, is to better enable ‘nudges’ to encourage people to take action. We support this approach, provided that it is done in a way that is balanced and encourages people to consider independent personal advice relevant to their situation, financial objectives and aims.

We note that ‘nudges’ that encourage a member to consider options that may benefit them are very different to ‘defaults’ that take action on behalf of a member who has not made an active decision. We do not support defaults in retirement planning, as there is a high risk of permanent loss that cannot be recouped. For example, if an unwell client were defaulted into a deferred annuity, and that client only lived another year or two or needed access to capital for expensive medical treatment, the default decision could not be unwound and the member or their family would not be able to access the capital.

FAAA recommendations

The FAAA recommends the following:

- A broad initiative to increase financial knowledge across the Australian population, including at school and specific initiatives to support those preparing for retirement.
- Improved information and tools (calculators) for those approaching retirement. We imagine that this could be helped by the development of a retirement specific government website (i.e. retirement.gov.au). We would recommend that this education be provided through bite size elements that can more easily be digested, and then built upon. We also favour the use of scenarios and real-life examples to show how important issues have been considered and addressed. The delivery of this education should be through multiple means to support the different learning preferences of middle to older aged Australians.
- One key point of feedback is that the current regulatory regime makes it very difficult to provide strategic advice. Often this is where retirees need to start, to allow them to get a sense of their options, without committing to the full advice process. Increased flexibility for the provision of strategic advice would be beneficial.
- Given that lifting the level of financial knowledge in the Australian population is a long-term process, we recommend as an interim measure, perhaps for a decade, an offer to Australians of a special payment to allow them to seek financial advice. This could be something in the order of $2,000, potentially subject to means testing, and only available to those beyond a threshold age (possibly 55 or 58).
- The development of alternative solutions including the possibility of an insurance product to better provide for the need for funding of aged care deposits, to reduce the importance of retaining a large continency of funds for this purpose.
- The FAAA supports a careful review of the minimum drawdown rates for account-based pensions.

The FAAA does not support direct Government intervention into the financial product space where this is likely to come at a significant cost to taxpayers and without necessarily much voluntary take up by consumers.

Responding to Consultation Paper Questions

The FAAA's response to each of the consultation questions is set out below.

Supporting members to navigate retirement income

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

We agree that the paper has identified the key issues, being low financial literacy, lack of adequate information and guidance, significant complexity and the very difficult and important decisions to be made. These are substantial issues, that in the absence of financial advice, coupled with increased financial literacy and engagement, are very unlikely to be effectively addressed.

Further complicating the above issues, is that too often people lean on family, friends and other uninformed sources to assist with these key decisions rather than seeking expert financial advice. In addition, we have seen the emergence of social media as a vehicle to get guidance, however often this guidance can be unlicensed, unqualified and conflicted. This can lead to ill-informed choices, application of biases and a lack of ongoing support and guidance – in some cases such 'advice' can be out and out fraudulent, permanently destroying the financial futures of those who take it.

Whilst we note the differences in the regulatory regime that applies to SMSF clients, such clients are much more likely to have access to financial advice. In addition, the SMSF model is very different to that of retail and industry superannuation funds, in terms of the responsibilities of trustees, who are also members. Thus, whilst they may not have a requirement to comply with the Retirement Income Covenant, they are likely to have a higher level of knowledge and/or access to a financial adviser who can address their advice needs and help ensure their financial future is rosy.

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

In the absence of personal advice from a financial adviser, guidance and support is typically coming from product providers and social media. Super funds now have an obligation under the Retirement Income Covenant to have a retirement income strategy. This is a reasonably new obligation, and a recent report by APRA and ASIC suggests that the implementation has been somewhat patchy. This will no doubt improve over time as funds further develop their strategies on how best they can support their members.

Many funds are offering seminars and webinars for their older members. This is a great start; however it is very difficult for people with limited financial knowledge to quickly come up to speed and understand the key messages being delivered at these seminars.

Encouraging super funds to provide greater education for members as part of the implementation of the Retirement Income Covenant would increase member awareness and provide greater support to make informed decisions, particularly if the education is provided through multiple means (written, videos, social media, seminars). Such education may extend to include understanding super, the interaction with the age pension, how to combine super between account-based pensions and annuities, the different phases of retirement and how to navigate them, as examples. A financial adviser would be able to tailor strategies and products to meet members' needs and objectives on an individual bespoke basis.

Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should the Government consider?

The proposals put forward in the Government's response to the Quality of Advice Review, have the potential to make a meaningful difference in increasing access to financial advice, however the details are yet to be finalised. We envisage that super funds could provide more factual information, general advice and even personal advice, however given the importance of this advice, we would like to see specific encouragement provided for people to seek external professional advice that is not tied to a single product solution. Whilst on the surface it sounds appropriate to present key concepts in a simple manner, this is more difficult to do in practice and is likely to have limited effectiveness given the underlying complexity inherent in the retirement area.

We support the Government doing more to assist retirees by the provision of additional information in this area. Whilst ASIC's MoneySmart website is a useful tool, it might be better to build a sole purpose dedicated retirement website (e.g., retirement.gov.au). We also support tools and calculators being built into the my.gov.au website, where people have access to critical information such as Total Superannuation Balance and Transfer Balance Caps. With the inclusion of additional personal information, this could calculate eligibility for the age pension, along with a range of other relevant information.

Whilst the UK's PensionWise service is a useful reference point, this is only a partial solution, as it does not cover a wide range of issues that are important in retirement nor the delivery of financial advice. There is also no provision for an ongoing relationship which is important when circumstances change.

As noted above, we think the increased access that SMSF members have to financial advice, should negate the need for them to be covered by the Retirement Income Covenant.

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

This question is framed through the eyes of providing products, however in our view this is not the correct starting point. Consumers need relevant and timely information about a broad range of important concepts in order to make the right decisions for a comfortable and successful retirement.

This also highlights the fundamental conflict that exists in funds selling their products, including where their product is not the best solution for the member. The challenge for funds will be to put education and advice for members well in front of product, and only get to product when the member is fully informed, capable of delivering informed consent and fully aware of the conflicts of interest that exist with seeking advice from their fund.

The starting point needs to be education. This needs to be delivered in an engaging way and in multiple formats including online, in writing and face-to-face, and targeted to members' circumstances. It is not sufficient to simply have passive information available on a website; relevant information needs to be provided based on the members' characteristics at an appropriate time. It also needs to be frequent, as it is usually necessary to explain concepts more than once as well as in multiple mediums.

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

Whilst we acknowledge the goal of seeking to simplify retirement to express it in the form of some basic information, in practice this is just not realistic or the best solution. This might lead to quick, uninformed decisions that are influenced by conflicts of interest from product issuers selling solely their own products.

Preparing people for making the myriad of important decisions involved in retirement, takes time, where the primary focus initially must be education and not product. This takes quite a lot of time. It also takes the development of a trusting relationship.

The concepts and the decisions that need to be made are not simple. This is illustrated by the following list of topics, all of which are complex:

- Access to and eligibility for the age pension
- The eligibility to contribute and/or access superannuation including such matters as concessional vs non-concessional, bring-forward provisions etc.
- For those in business, the interaction with the Small Business Retirement Exemption provisions.
- The tax treatment of different financial products and the interaction with eligibility for the age pension.
- Product options, particularly for products with complex trade-offs where decisions once made cannot be undone, such as with annuities.
- Estate impacts of distribution of balances.
- Interaction with a partners' situation, needs and product options.
- Housing considerations including downsizer contributions and the Home Equity Access Scheme.
- Aged care considerations.
- Understanding investment markets and the appropriate asset allocation.
- Eligibility and applying for benefits such as the Commonwealth Seniors Health Card, Seniors Card, and other seniors' benefits.
- It is easy to conclude that there are no simple solutions and reducing retirement advice to basic information risks substantial consumer harm.

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

This is an easy question in the sense that tax and social security complexity and access issues could easily be simplified, however that would come with huge financial consequences for both the Government and individuals. We would strongly support a reduction in regulatory complexity, where that is possible and economically sustainable. Given the significant financial consequences in this, it would be more appropriate for this work to be done by Treasury, who are better positioned to model the implications of different options.

We are strongly supportive of reducing complexity in the retirement system, however suggest that this should be the subject of a separate dedicated review.

Industry can also help to address complexity by playing their part in increasing financial knowledge and delivering more and better targeted education.

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?

The FAAA supports the appropriate use of "nudges", which is also proposed in the Government's response to the Quality of Advice Review. These nudges should be with respect to providing relevant information and suggested actions, not from the perspective of selling products.

An example of a highly appropriate nudge might be, a targeted communication to members aged 60 and over in an accumulation product, alerting them that they may be paying too much tax, and inviting them to an information session on transition to retirement strategies.

However, the range of nudges that can be delivered by a super fund will be constrained, as most funds have little information about their members. They generally will know the member's employer, super contribution, investment selection, death benefit nomination and age, however may know very little else. Funds generally do not know the member's total income and how it is derived, assets and liabilities, financial structures, health status, financial goals and objectives, plans in retirement, longevity factors, risk profile, level of financial literacy, family status and so on.

Thus, while age-based nudges to seek information about retirement are a good option, other options may be quite limited.

For the same reason of lacking relevant information, it would be extremely dangerous for super funds to move members into defaults. The risk of a default product selection being the wrong option for a member is very high, and in some cases could not be corrected, thus inflicting permanent harm on the member. The risks to super trustees would also be great, who may face complaints and legal action from members, who have been defaulted into something that does not suit their needs.

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?

As noted above, we are aware that superannuation funds often have quite limited information on their members, although the funds themselves are better placed to answer this question.

We would observe that collecting sufficient reliable and accurate data about a client's situation is currently highly manual and one of the key reasons that the cost of professional financial advice is so high. If super funds were also forced to collect such data manually, costs would blow out significantly.

Government can play a critical role in ensuring that consumers can be better served by both their super fund/s and their financial adviser, in two key ways:

- Facilitating consumers' ability to share their tax data with trusted providers via the ATO portal.
- Extending the consumer data right across all financial product providers, so that not just banks, but also insurers, super funds, platform providers, investment managers and so on must provide key data on consumers' financial affairs as directed by the consumer.

Privacy and consent aspects are also something that funds need to consider if information is being widely shared across the organisation or via third party providers – and should the information relate to a member's partner.

Finally, cybersecurity is a crucial consideration.

The retirement income covenant does not apply to SMSF trustees. What approaches do SMSF trustees take to manage risk, ensure they have access to savings, and maximise their income? Are there barriers to improving how SMSF trustees achieve these objectives, and what role can government or industry play to improve these outcomes?

We would caution the thinking behind this question. SMSFs are closely held products, where the trustees are also members and there is often an adviser involved. SMSF members, on average, have much higher account balances than APRA funds, and thus are much better positioned to access and afford financial advice. Often the adviser is providing advice to both the fund and the members, both as members of the fund, but also more broadly. Thus, they have a knowledge of the client's full financial position and are well placed to address risk, access to savings and maximising income.

We do not believe that at present it makes sense to extend the Retirement Income Covenant obligations to SMSFs.

Supporting funds to deliver better retirement income strategies

We note the sentence on page 17 of the consultation paper that "advice has its limits if retirement income products are not available to meet members' needs". It is our view that this is incorrect. Lack of product options is not the biggest problem in retirement income.

While there is room for improvement, products should be viewed as a means of implementing a strategy and therefore a suitable retirement strategy is required that suits the individual consumer's needs before a product is suggested. What is a much bigger problem is that few Australians understand what is involved in retirement or have access to retirement advice. In the absence of financial knowledge, they are particularly unprepared for the complex and challenging decisions that are involved in retirement.

We also believe that the apparent thinking that solutions similar to those developed in the accumulation phase, such as default products (MySuper) and comparison tools (YFYS) will work in the retirement phase, is not correct. The level of complexity and decision making required is substantially different. What has worked in the accumulation phase will not necessarily work in the retirement phase. Neither do we believe that this issue will be solved by an ability to readily compare products and switch consumers from one provider to another on the assumption that the new product will better meet their needs. This implies that retirees fully understand their financial situation, needs and objectives and how these can be met. Our key point is that in the absence of financial understanding, knowledge and advice, they cannot develop an appropriate plan for their circumstances and financial wellbeing.

There is a danger in seeking a solution based upon defaults, as defaults are likely to not meet consumers' needs. A focus on defaults may also undermine engagement efforts and as a result lead to less engagement by Australians in the superannuation system as the solution to meet their retirement needs.

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.

As stated above, we do not believe that the core problem is product, and neither do we believe that there is a lack of competition. There is little demand for new products, as there is little understanding of the role that they may play. Product comparison is a peripheral issue as unless retirees have the right strategies in place first, then they are not in a position to consider alternative products.

We do not believe that consumer protection is a significant concern in this matter, other than with respect to financial advice being provided by unqualified people and finfluencers. The existing protections that apply in the context of financial advice are already more than adequate. The Government proposals with respect to more advice being provided by super funds, opens up the issue of bias and conflicts of interest, which will need to be carefully managed.

What role should industry or other groups in the community play to support consumer protections and competitive products and services in retirement? What actions are being undertaken already?

In our view, industry, including the broad spectrum that this term represents, has an important role to play in assisting with the building of financial knowledge and the promotion of the importance of financial advice. Financial advisers already have a legislated duty of care to educate clients so as to allow them to make informed consent decisions, which means they provide a level of financial education within their advice already (Standard 4 - Financial Planners and Advisers Code of Ethics 2019). Industry also has the obligation to act in the best interests of consumers, and thus ensuring that adequate consumer protections exist.

One of the best sources of protection for consumers is financial knowledge. If they have a higher level of understanding of financial matters, including retirement and the related strategies, then they will be better able to guard against poor products, services and advice. They will also be better able to avoid scams. Importantly they will be much more likely to avoid making poor financial decisions.

The superannuation sector is already building a range of services, under the Retirement Income Covenant, to provide education and guidance on retirement. This is certainly beneficial.

It is important to recognise the nature of annuity products specifically in retirement, and to note the fact that with some of them, the consumer is 'locked in'. It is essential that people investing in these products are aware of these consequences and they have invested on the basis of informed consent.

Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should Government consider?

Whilst the FAAA is supportive of a product comparison regime for funds in the accumulation phase, we do not see how it is possible for a comparison to be undertaken across both account-based pension products and annuity products. Even comparing one annuity product to another is extremely difficult, considering the substantial differences in terms and conditions, including duration, reversion, residual capital value, indexation, and so on.

We note the intent to compare products in terms of what they are delivering as part of their response to the Retirement Income Covenant. As we have noted above, an effective retirement income strategy is much broader than a single product, and retirement income products are more complex than accumulation products and thus more difficult to compare. It is difficult to see how it could be anything more than a qualitative assessment. We do not believe that it should or could be used to rank products.

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

As stated above, we do not believe that it is effective to compare products that play very different roles in the retirement system.

We note that some research providers are developing methodologies to compare specifically account based pension products. They are generally using a range of relevant factors such as investment performance, cost, service standards, reporting functionality, on-line client portal, education services and so on.

We suggest that there is value in rating the quality of services provided by super funds under their Retirement Income Covenant, but also more broadly. This may initially be descriptive, rather than quantitative, but over time could grow to include factors such as average call and email wait and response times, and reporting service standards and delivery.

What approaches could make product disclosure useful for members? How might barriers such as complexity, or individuality of products, be overcome?

As discussed above, we believe that retirement planning should occur in deliberately separate phases. We have set out below, what we believe this to be:

1. Education
2. Strategy
3. Product
4. Review

Super fund members should not be drawn to phase 3, before they have gone through the first two phases. Product is not the most important consideration and introducing it too early undermines the first two phases and puts consumer outcomes at risk.

Complexity and differences in products can only be overcome with financial knowledge that has been developed as a result of an education program and only when the clients have selected the strategies that best apply to them, and they have provided informed consent.

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

Product switching is particularly difficult for many annuity products. This is why the selection of these products should only happen after the clients are well educated, they understand the benefits and risks and are able to provide informed consent. Annuity products are products where risk is involved, and two parties have signed a binding contract. It is reasonable for both parties to expect the other to continue to comply with these contractual terms.

Switching between account-based pension products is less complex, however the process can be onerous, and costs are accrued.

There is currently an inability to contribute additional money to an existing account-based pension, necessitating the transfer back to accumulation and then the reestablishment of the account-based pension once the additional contribution has been made. This hampers the building of financial resources to fund retirement and involves unnecessary processes, paperwork and cost. We believe that this could be reviewed to enable account-based pensions to accept additional contributions.

As time goes on, increasing numbers of products will become aged, closed to new members and existing on out-of-date technology platforms. This adds complexity as well as cyber-risk to Australian's retirement system. We strongly recommend that government act to enable products to be modernised where appropriate, by ensuring social security treatment is maintained for members in older products where the product issuer wishes to modernise.

Making lifetime income products more accessible

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

The barrier to the supply of these products is directly related to the lack of demand for them.

Australians largely do not understand the issues involved in the provision of these products (longevity risk, sequencing risk etc), nor do they understand how they work or whether they would be beneficial for them. The lack of understanding limits demand and the appetite to invest in them.

It is also important to note that these products have existed for a long time. In the past they have largely been provided by life insurers, rather than super funds. We should not limit our thinking in terms of who can provide these products and assume that the solution is that they will always be provided by super funds.

In recent years (up until the last year), interest rates have been very low. Given that often lifetime annuity products are largely invested in fixed income investments, the returns on these annuity products have historically also been low, making them less attractive as someone buying these products at the bottom of an interest rate cycle will have those low returns locked in even if rates subsequently rise. More recently this is changing, since interest rates have risen, however it remains a constraining factor from a consumers' perspective when there are more attractive returns from alternative options available. Consumers may also be reluctant to give up access to the funds invested in annuities which reduces their control over their superannuation savings.

What actions are industry or other participants in the community taking to assist retirees to better manage the risks for retirement income?

Longevity risk products do exist and are competitively provided in the marketplace. Recent product innovation includes options such as market-linked annuities, and products that allow members to 'front load' their income payments, taking higher drawdowns in the early years.

There is relatively low demand for them at present and in most cases the products are provided in circumstances where people are advised.

Demand for these products could be increased as a result of improved financial knowledge, education on the need for these products and a better understanding of how they work.

These products are not right for everyone; however they will often be beneficial for those retirees who are seeking additional certainty of income and are willing to forego access to the capital invested.

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

This will best be achieved through improved financial knowledge and increased access to financial advice, for consumers.

We do not believe that the Government needs to intervene in this market.

All participants in this market need to ensure that clients have an appropriately high level of knowledge of what they are doing and are in a position to provide informed consent based on full understanding.

Investing in these products invariably comes at a cost. A number of Australians will be willing to accept that cost for the benefit of the greater certainty that these products provide.

What product options (or strategies within current retirement products) could better manage risks to retirement income?

As stated previously, the awareness of the need to retain a significant amount of money in the event that a person needs to pay a deposit to enter an aged care home, is a big factor in inducing people to curtail their expenditure in the early years of retirement. We suggest Government could support the development of product solutions in this area, such as enabling insurance type product solutions to fund future aged care costs.

What is the role for a 'suggested' product in overcoming low take-up of lifetime income products?

As previously stated, the biggest impediment to investing in these products is lack of financial knowledge and lack of understanding of the complex considerations in the development of a retirement plan.

We believe that a focus on financial knowledge and education programs is more important than building a new product, that is unlikely to change the level of demand.

We are also opposed to the Government intervening in this market. We see no reason at this point, when commercial products are already available, for the Government to take a material risk in underwriting a solution, when these products are only being used by a small proportion of the market.

Far better, in our view, is to spend the limited resources on financial knowledge to enable informed decisions to be made regarding strategies and products that will provide for retirement needs.

What action are funds taking to better manage longevity risk, and what role do funds see guaranteed income products (e.g. annuities, pooled products) playing in the future?

We will leave this question for the super funds to respond to.

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?

We do not believe that the Government should intervene in this market for the reasons discussed above, including the existence of products that can already meet these needs, and the burden that underwriting these products would place on taxpayers.

We would also suggest that whilst the development of these longevity products by super funds should be encouraged, they should not be considered the only provider of these products. Life insurers are already providing these solutions and we expect will continue to do so.

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

- ***What features should a standardised product include?***
- ***Should there be a path to more easily transition members to a standardised product?***
- ***Should superannuation funds be required to offer a standardised retirement product, similar to MySuper for accumulation?***
- ***How should a product vary for individual circumstances of the member?***

The FAAA does not support the development of an industry-standardised product. We have outlined our views above with regards to the dangers of imposing a 'one size fits all' solution in the retirement income area. This is far more complex and nuanced than the accumulation phase of super, and an incorrect decision can have lifetime negative consequences for a member. We believe that this would distract funds and other product providers from addressing the core problems, which are lack of financial knowledge and lack of access to financial advice.

Would a standardised product be cheaper to develop and offer (e.g. compared to a general mandate to offer a longevity product)?

We are not in a position to answer this question, however as discussed above, we do not support this idea.