FINANCIAL ADVICE ASSOCIATION AUSTRALIA

Friday 23 February 2024

Senator Andrew Bragg
Chair
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Email: economics.sen@aph.gov.au

Dear Senator Bragg

Improving consumer experiences, choice, and outcomes in Australia's retirement system

The Financial Advice Association of Australia[1] (FAAA) welcomes the opportunity to provide input to the Senate Economics Committee inquiry into *Improving consumer experiences, choice, and outcomes in Australia's retirement system.*

The FAAA recognises the growing importance of retirement income policy, and the political 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 and projection) for those approaching retirement, via a retirement specific government portal (i.e. "myRetirement").
- Increased access to financial advice for retirees.

[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.

- A limited special payment of $2,000 (means tested) to support those seeking financial advice in the lead up to retirement.
- Clarification of the regulation of personal aged care advice to provide consumer protections for older Australians.
- 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 when transitioning out of legacy products.
- A review of the minimum drawdown rates for account-based pensions.
- Expanding the Consumer Data Right (CDR) across all financial product providers.

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

Our submission incorporates important matters and recommendations raised in our recent submission to Treasury as part of its retirement phase of superannuation consultation.

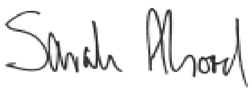
Conclusion

When the Superannuation Guarantee scheme was introduced, there was insufficient 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 policy change to better enable optimal 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 the greatest impact, although we believe that technology innovation also has an important role to play over time. In our view, financial advice is at the core of assisting Australians to make good financial decisions in preparation for and throughout retirement.

We would welcome the opportunity to discuss with the Committee the matters raised in our submission. Please contact me on 02 9220 4500 or at sarah.abood@faaa.au.

Yours sincerely,



Sarah Abood
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FINANCIAL ADVICE ASSOCIATION AUSTRALIA

Improving consumer experiences, choice, and outcomes in Australia's retirement system

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Terms of Reference

On improving consumer experiences, choice, and outcomes in Australia's retirement system, with reference to:

a. *regulatory and tax impediments to innovation and uptake of insurance products in retirement;*

b. *the economic costs and opportunities of innovation in our retirement income system;*

c. *the interaction of health insurance, life insurance, general insurance, and social security supports to retirement outcomes, including options to improve incentives that drive consumer outcomes and support the sustainability of the retirement income system;*

d. *the potential role of FinTech platforms, technologies, and innovations in supporting better retirement outcomes;*

e. *policy options to support greater choice and quality of life in the retirement income system, including but not limited to the aged pension, financial advice, home ownership and downsizing, and insurance;*

f. *progress on implementing the Retirement Income Covenant;*

g. *the impact of climate change on insurance premium affordability and accessibility;*

h. *the impact that climate change is likely to have on insurance premiums for products including life, home and contents and small business;*

i. *the impact of climate change on the value of assets (e.g., houses, investments) of retired people; and*

j. *any other related matters.*

FAAA response to Terms of Reference

1. CONSUMER UNDERSTANDING

The FAAA recognises the growing importance of retirement income policy, and the commitment to address obstacles to improve consumer experiences, choice, and outcomes in retirement.

However, 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 retirement strategy is required that suits the individual consumer's needs before a product is suggested. 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 solutions similar to those developed for the accumulation phase of superannuation, such as default products (MySuper) and comparison tools (YFYS) will not work in the retirement phase. What has worked in the accumulation phase will not necessarily work in the retirement phase, as the level of complexity and decision making required is substantially different, as well as the impact of retiree's differing personal goals and situations. 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, and that financial products will always be the solution. 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, which is critical to have before any financial product is considered.

There is a danger in seeking a solution based upon defaults, as defaults in retirement are highly likely to not meet consumers' needs. In addition, 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.

The focus of the debate must shift from product innovation to the underlying impediment of consumer knowledge, financial literacy and education. When the superannuation guarantee scheme was introduced, there was insufficient 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.

1.1 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, for example, 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 remove access to their capital as a retirement solution. This behaviour is evidenced by many Australians who are currently 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 many 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 in 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 the more knowledgeable partner passes away.

1.2 Retirement behaviours

While some Australians in retirement reduce their spending out of fear they may outlast their money, there are also Australians who spend more than they can afford. This latter group of people risk quickly exhausting their savings and may be forced to rely upon the age pension. This issue of sub-optimal retirement behaviours is one that 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.

1.3 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. Knowledge increases understanding and provides confidence that one has considered relevant options and knows 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, many longevity risk products already exist. They are essentially good products, however the demand for them is very limited and dependent on the income return provided relative to alternative assets. Historically, they have often 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 external longevity risk products available through their platforms. Some superannuation funds do not have the 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. We do not see a strong case at this stage for government to step in, where a number of options already exist, demand is currently low, and the impact on Australia taxpayers of providing such products, or guaranteeing them, is likely to be great.

1.4 Draw-down minimums

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

Feedback from FAAA members indicates 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 superannuation money is used to fund retirement rather than estates, a minimum drawdown increasing as one ages sends the wrong signals and is counter to the actual needs of clients. Data shows that Australians generally spend less, in the later stages of retirement (Household Expenditure Surveys conducted by the Australian Bureau of Statistics).

1.5 The importance of financial advice

The importance of financial advice is not always well understood and is often undervalued by those who have not experienced it. Retirement is a situation where good financial advice is particularly critical, due to the numerous personal 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.
- Putting in place the appropriate powers of attorney and guardianship.
- 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.
- Developing an appropriate estate plan to ensure desired distribution of assets in a tax effective manner.

Good financial advice in these areas can make a huge difference to self-funding retirement, not just in the short to medium term, but also for many years to come; and in turn, reduce reliance on government benefits.

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. And yet 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 or an immediate product purchase. Increased flexibility for the provision of strategic advice would be beneficial. Retirement plans are not a set and forget proposition. Many things can change during retirement (markets, product options, lifestyle needs, health, aged care, family situation, capital needs etc) and it is essential that a retirement plan is regularly reviewed to ensure it remains appropriate.

Financial advisers have a legislated duty to educate clients so as to allow them to make decisions with informed consent, which means that advisers include financial education within their advice (Standard 4 - Financial Planners and Advisers Code of Ethics 2019). The advice profession also has the obligation to act in the best interests of consumers, ensuring that strong consumer protections exist for those using a financial adviser.

Thus educated consumers with a strong financial advice relationship are protected against poor financial products and services as well as being better able to avoid financial scams.

“Nudges”

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

The Government has also 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.

We believe that retirement planning should occur in four deliberately separate phases:

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

- ***1.5.1 Unlicensed 'advice'***

As discussed above, low financial literacy, lack of adequate information and guidance, the significant complexity of the retirement, social security and aged care systems, and the very difficult and important decisions to be made in the lead up to and during retirement, impact the choice and quality of life of older Australians. 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. These issues cannot be addressed through product innovation.

Further complicating these issues, is that too often people lean on family, friends and other unqualified 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 decisions, the application of biases and a lack of ongoing support and guidance for consumers – in some cases such 'advice' can be fraudulent, permanently destroying the financial futures of those who take it.

1.6 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 suggest the government develop a portal for retirees (similar to myGov or myAgedCare) that draws personal data from government agencies to provide longevity projections on a person's superannuation, personal savings and social security eligibility. To improve consumer understanding, educational information should also be available in 'bite size' elements that can be more easily digested, and then built upon. Scenarios and real-life examples should be used to show how important issues have been considered and addressed successfully by others. The delivery of this education should also be accessible through multiple means to support the different learning preferences of middle to older aged Australians.
- The current regulatory regime makes it very difficult to provide strategic financial 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. This might require a change to the definition of financial advice to exclude class of product advice in certain circumstances or greater flexibility through the Code of Ethics.
- 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 provide funding for aged care deposits. This would reduce the need to retain a large continency of funds for this purpose. This is discussed below in more detail.
- 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 uptake by consumers.

The FAAA supports better enabling good outcomes for more Australians entering and throughout retirement. We believe that improved financial knowledge combined with financial advice is critical to achieving 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.

2. AGED CARE NEEDS

As discussed in detail in the 2020 Retirement Income Review Final Report, there are many elements of the retirement system that impact on its equity, sustainability, fairness and cohesion. We suggest there is a need for solutions to support consumers to navigate and understand the options to help fund their aged care needs, which in turn will encourage Australians to plan ahead for care. This will reduce reliance on government benefits and funding so it can be focused on those most in need, and improve retirement outcomes for all retirees.

Given the demographics of the Australian population, a range of solutions should be considered to improve the accessibility and affordability of aged care services for people regardless of their financial circumstances. This will improve the fairness and sustainability of the aged care and social security systems.

The residential aged care funding system is complex and difficult to understand for consumers. It includes an accommodation payment which pays for the room and the amenities; basic care fees which pay for daily living expenses and nursing care, a means tested care fee; and additional services fees (which pay for additional packaged services and lifestyle choices). Accommodation payments are quoted as a lump sum Refundable Accommodation Deposit (RAD), as well as the equivalent Daily Accommodation Payment (DAP). Evaluating the range of financial strategies and choices for payment of the upfront RAD and determining the ongoing fees payable based on the consumer's individual circumstances can be difficult. The impact on the person's cashflows, Centrelink entitlements, estate planning and tax outcomes of the strategies adds to the complexity of the decisions.

2.1 Aged care insurance

Insurance products specifically designed to assist consumers with funding accommodation payments as part of their aged care needs do not currently exist in the Australian market, due to regulatory impediments and lack of consumer demand. In addition, the consumer needs to fund ongoing aged care fees based on their assessable assets and income.

- ***2.1.1 Transfer of ownership of aged care bond/RAD/RAC***

There are three options for paying aged care accommodation costs:

- a refundable lump sum amount
- non-refundable daily payments, or
- a combination of both.

Accommodation lump sums that must be refunded when a person exits an aged care facility include:

- Refundable accommodation deposit (RAD)
- Refundable accommodation contribution (RAC)
- Accommodation bond (if the person entered care and paid a lump sum before 1 July 2014).

The maximum amount a provider can charge for a room or part of a room is currently $550,000 (or the equivalent daily payment) unless the residential care provider has current approval to charge more.[2]

The Aged Care Act 1997 does not prevent a family member from paying part or all of these accommodation costs. However, any lump sum payment made by a family member or other person/entity on behalf of the individual care recipient, will be counted as the 'individual's asset' for aged care purposes.

The following consequences of the legal ownership of the aged care accommodation costs lump sum payment are a significant regulatory barrier to innovative product solutions that could assist more individuals to self-fund residential aged care:

- *Drives up the cost of aged care* – as the lump sum payment is counted as the individual's asset regardless of who pays the money, it affects the person's aged care means test outcome resulting in higher ongoing care fees.
- *Refund of lump sum capital* - the balance of the lump sum (minus any agreed deductions) must be refunded to the individual as the 'owner of the asset', or their estate, when they exit the aged care home, regardless of who originally provided the capital to pay for that bond. Currently, the funds contributed are not returned to the individual making the contribution and is dealt with by the person's Will as part of their estate.

- *Deters family contributions to aged care costs* – refundable accommodation payments can be very large (average RAD across Australia is approximately $470,000 and can be as much as $1 million in inner city areas for facilities where the residential care provider has current approval to charge more). The transfer of ownership to the older person, and their estate upon death, of such a large capital outlay can deter family members from contributing to care costs. This issue is exacerbated if the older person has dementia or impaired mental capacity and does not have the legal capacity to enter into a contract confirming the loan of funds for the refundable accommodation costs.

Ensuring the refundable accommodation cost is returned to the person or entity who paid the funds would significantly reduce the risk for product providers to design affordable products to help Australians prepare for and fund their future aged care needs. It is essential that both this inquiry and the aged care task force report considers and supports the importance of returning the capital to the issuing entity in order to allow a pathway for the innovation and development of products that would assist everyday Australians with a greater range of funding options for their aged care capital needs.

Equally, consideration must be given to the interaction with a person's assessment for social security purposes. A refundable lump sum accommodation payment made by a family member or other person/entity on behalf of the individual care recipient is currently counted as the individual's asset for aged care purposes. The law must be changed to make it clear that the payment is not considered as an asset or income for the social security means test.

[2] www.myagedcare.gov.au

- ***2.1.2 Aged care awareness and consumer behaviour***

It is evident that past attempts to establish aged care insurance products have been unsuccessful due to the market response and lack of uptake of such products by consumers, in addition to the regulatory impediments discussed above. The aged care component of retirement planning is commonly ignored by consumers until a crisis occurs and such services are urgently needed. This means the majority of Australians when planning for retirement do not also plan for potential aged care needs and funding.

Consumer behaviour indicates a lack of understanding of the decline in personal abilities as one ages and significant uncertainty about the type of care that may be needed, and how it can be funded. There is also a misconception by some Australians that the government will cover the cost of aged care needs. Generally, most people are not willing to put aside part of their superannuation or pay an insurance premium to fund future aged care needs as it is usually not required for many years, often decades, and sometimes it is not needed at all.

However, the cost of aged care is likely to increase substantially over time to address the follow issues:

- the projected growth in the ageing of the population and the number of people who will require aged care in the future. According to the 2023 Intergenerational Report, the number of people aged 65 and over will more than double and the number aged 85 and over will more than triple by 2062-63, with the proportion of the population over the age of 65 representing 23% of the population. This population change has the potential to create supply and demand issues in aged care services, which will further drive up the cost of care.
- the required increase in investment from aged care providers to meet the higher standards and requirements under the New Aged Care Act, and
- higher consumer service and care expectations evident following the Royal Commission into Aged Care Quality and Safety.

These issues will strain government subsidisation of aged care services as there will be a need to support more Australians during this phase of retirement with higher service costs. While increasing government funding is critical for the sustainability and accessibility of the aged care system, equally individual users of the system will need to pay more to access such care. Increasing aged care costs are likely to see Australians needing to fund a greater portion of their care needs where they have the financial means to do so. This will increase the demand for aged care advice and necessitate more active aged care considerations to plan ahead for aged care costs and needs.

Aged care insurance will not work if Australians ignore or are unaware of their potential need for aged care services. Consumers must be encouraged and incentivised to consider the aged care options available to them and plan for the costs associated with care services in older age.

A significant deterrent to planning for aged care needs is the complexity of the aged care system and particularly the funding arrangements for aged care services. This reduces consumer understanding and confidence to make decisions related to their aged care needs. It makes it all 'too hard' and results in consumers failing to plan.

The purpose of the government's Aged Care Taskforce was to "*review funding arrangements for aged care and develop options for a system that is fair and equitable for everyone in Australia*"[3]. We note the pending release of the Final Report of the Taskforce and strongly encourage this Committee to

[3] https://www.health.gov.au/committees-and-groups/aged-care-taskforce

give careful consideration to the recommendations made in the Report to improve the aged care funding system, as part of the current inquiry.

2.2 Clarifying legislation relating to aged care personal advice

The provision of personal financial advice related to aged care funding options is currently confusing and inconsistently applied. Personal advice which leads to investment into specific financial products is clearly regulated under the Corporations Act 2001 as personal financial advice, however, a worrying trend has emerged whereby financial advice on aged care is increasingly being provided to older Australians by unlicensed and unregulated businesses and services. The outcome is a prevalence of superficial, often conflicted advice, lacking regulatory oversight and essential consumer protections, thereby putting the consumer at substantial risk.

Professional aged care advice is specific, complex and considers the following issues:

- assessing the aged care needs and preferences of clients and their families and helping clients find and access the right type of care.
- evaluating different aged care arrangements available to clients.
- analysing the financial implications of aged care arrangements, including Centrelink considerations and the family home.
- the range of funding arrangements for appropriate aged care services at home or in residential care:
    - understanding lump sum and daily care costs.
    - how the Government may subsidise aged care costs.
    - the impact of concessions for the family home.
- strategies to ensure adequate cash flows and financial arrangements, taking into account available tax offsets and Centrelink exemptions.
- examining estate planning and tax implications of aged care arrangements. [4]

Providing greater legislative clarity in the regulation of personal aged care advice would improve consumer protections and increase the welfare of older Australians. This might require a change to the definition of financial product advice.

2.3 Recommendations

The FAAA recommends the law be amended to ensure:

- the person or entity that provides the aged care refundable accommodation payment (aged care bond) is and remains the owner of that ‘asset’;

- when a person exits aged care, the refundable accommodation payment is returned to the owner of that ‘asset’ – ie, the person or entity that provided the capital for the payment (not the care recipient or their estate); and

- that a refundable lump sum accommodation payment made by a family member or other person/entity on behalf of the individual care recipient is not counted as the ‘individual’s asset’ for social security purposes.

To facilitate the development and market uptake of innovative product solutions, such as aged care insurance, the FAAA recommends funds received from aged care funding products should be excluded from the social security income and asset tests and means testing for aged care purposes.

[4] Aged Care Steps

The FAAA recommends the government and super funds be tasked with raising community awareness of the need for aged care planning and advice, including funding considerations, to encourage more Australians to plan for potential future aged care needs and drive market demand for innovative product solutions.

In addition, the social security system should incentivise Australians to plan for funding of potential aged care needs by:

- simplifying and making it easier to draw down income to fund aged care needs;
- permitting additional income to be drawn from the equity in the primary home as a means of funding aged care needs or other costs in retirement under the Government's Home Equity Access Scheme (HEAS – formerly called Pension Loan Scheme). There is also a need to create greater awareness of this scheme.
- excluding funds received from aged care funding products (eg. aged care insurance) from the social security income and asset tests as well as the means test for aged care purposes.

The FAAA recommends legislative clarity be provided in relevant laws (Corporations Act, Tax Agent Service Act, New Aged Care Act) to ensure that the regulation of personal aged care advice delivers the necessary consumer protections for older Australians.

3. THE ROLE OF TECHNOLOGY

3.1 Centrelink and ATO portals

Clients often turn to their financial adviser to help them interact with government agencies such as Centrelink and the Australian Taxation Office ('ATO'). Under current arrangements, financial advisers can provide clients with advice on their rights and obligations with these agencies, but engaging with the agencies directly on behalf of the client can be difficult or practically impossible.

Financial advisers also have no access or restricted access to Government and other systems in order to verify a client's income and other information.

The ATO allows tax agents to access its online services portal and act on behalf of their clients, but financial advisers do not currently have any access to the ATO portal. As only one professional is able to be registered per person and, as many consumers also have an accountant, the portal is also not able to recognise a financial adviser as a client's professional service provider. Financial advisers, as Qualified (Tax) Relevant Providers (QTRPs), have a role to play in assisting clients to manage their tax affairs. Advisers also require accurate and up-to-date information on their clients' tax positions in order to provide optimal financial advice. As such financial advisers need access to the ATO portal information for their clients, (They do not require transaction ability as this is the domain of the client's appointed tax agent.)

Centrelink maintains a Provider Digital Access portal (PRODA). However, the Centrelink portal has limited functionality and financial advisers often must conduct business with Centrelink on behalf of their clients over the phone or at Centrelink offices, just as any consumer must do. This arrangement is extremely time-consuming and results in significant delays and additional costs to clients. Our members have reported a significant deterioration in service standards in recent times, which is resulting in financial advisers and their staff devoting significant amounts of time on the phone to Centrelink.

Centrelink and the ATO should develop their online services portals to ensure financial advisers, and other relevant professionals, have access to a full range of functions and relevant client data and can act effectively on behalf of their clients. Improving online engagement with financial advisers would reduce the administrative burden on Centrelink and the ATO, as consumers would require less assistance from agency staff in completing their requests and would be operating with professional advice on what they need to provide to, or request from, those agencies.

Utilising technology to enable financial advisers, and other relevant professionals, to provide accurate and timely assistance to clients will lower the cost of advice, improve consumer outcomes, and allow agency staff to focus on assisting unadvised consumers.

In the interim, we also propose a priority telephone based contact line for financial advisers, so that they can efficiently address the needs of their clients with Centrelink. This would be beneficial for all parties, as when Centrelink customers are assisted by a financial adviser, their interactions will be much more efficient. A single financial adviser call could resolve the Centrelink issues of multiple clients at once, reducing call volumes.

3.2 Calculators and tools.

As previously mentioned, there have been examples of people holding onto large amounts of capital during retirement where this may not be required by their personal circumstances. FAAA member feedback indicates that some people are fearful of potential unknown future expenses and running out of money, which impacts their spending behaviour and lifestyle choices.

Technology has the potential to assist retirees to better understand their financial circumstances leading up to and in retirement, including income and entitlements from multiple sources (weekly, monthly and annual) and identifying potential expenditures/costs (over the short, medium and long term. For example:

- Calculators and tools can help retirees to feel safe in spending their retirement savings.
- Projections – superannuation statements for fund members in the pension phase should include:
  - a 'running' super balance
  - drawdowns received,
  - projected average return on investment
  - income projections for the member's retirement, and
  - the potential longevity of their super – ie. at what age the member will likely run out of super.
  - For pre-retirees, the statement should show the super balance and the potential income stream amount.
- Interactive assessment tool – a government portal for consumers that permits a retiree to access their data (super balance, pension income, savings, other income), and receive projections on the interaction of the three retirement income pillars, would be extremely beneficial. Importantly, this should include the points in time and at what superannuation balance and personal savings level, the retiree becomes eligible for social security support. Such a tool could be housed in MyGov and draw data from other existing government portals, for example. This government tool would be considered to be a trusted source of information, reducing current confusion where a multitude of different tools and projections exist, using

many different assumptions and giving at times vastly different suggestions to consumers looking for help.

Simple, easy to navigate access to personal financial information will give retirees a greater understanding of the longevity of their superannuation and personal savings, and how these retirement pillars interact with social security support for more informed and confident decision making.

- ***3.2.1 Product comparison tools***

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 the response to the Retirement Income Covenant. However, 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 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 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.

We do not believe that product comparison tools should or could be used to rank retirement income products. This would be misleading for consumers and risk negatively impacting retirement income choices, decisions and longevity, and retirees' quality of life.

3.3 Recommendations

The FAAA recommends the ATO and Centrelink improve their online access arrangements to ensure financial advisers are able to verify client data and act/advise on behalf of their clients with respect to their tax obligations and benefits administered by Centrelink.

Collecting sufficient reliable and accurate data about a client's situation is currently a highly manual process and one of the key reasons that the cost of professional financial advice is so high. The FAAA recommends Government:

- Facilitate consumers' ability to share their tax data with trusted providers via the ATO portal
- Develop a priority line within Centrelink and the ATO for financial advisers, and other relevant professionals, who are assisting / acting on behalf of clients.
- Extend the Consumer Data Right (CDR) across all financial product providers, so that not just banks, but also insurers, super funds, platform providers, investment managers and other financial service providers must provide key data on consumers' financial affairs as directed by the consumer.

The FAAA recommends:

- the regulatory environment should facilitate a greater use of calculators, tools and projections provided by financial services providers within the appropriate financial advice obligations. This is in addition to guidance provided by the Government as per the following.
- as discussed above, the government develop a portal for retirees that draws personal data from government agencies to provide longevity projections on a person's superannuation, personal savings and social security eligibility.

4. LONGEVITY RISK AND PRODUCTS

4.1 Addressing financial insecurity and longevity risk

The barrier to the supply of lifetime income 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 addition, 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 in recent years 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 which do not involve losing access to capital. 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.

Consumer support of lifetime income products to address the risks to retirement income will best be achieved through improved financial knowledge and increased access to financial advice. We do not believe that the Government needs to intervene 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. That would create an unnecessary additional burden on taxpayers.

We would also suggest that whilst the development of 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.

Equally, the FAAA does not support the development of an industry-standardised product as it would impose a 'one size fits all' or 'default solution' in the retirement income area, to the detriment of consumers. The retirement income system is far more complex and nuanced than the accumulation phase of super, and an incorrect decision can have lifetime negative consequences for a consumer. 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.

Far better, in our view, is to spend the limited Government resources on financial knowledge to enable informed decisions to be made regarding strategies and products that will provide for retirement needs. All participants in this market need to ensure that consumers 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.

The success of innovation in the retirement income system is partly dependent on engagement by the users of the system – that is, consumers. However, feedback from financial advisers indicates that many Australians lack confidence to engage with the system as it is too complex and the perception of constant change leads to a fear that they will be worse off over time. The complexity of the retirement income system impacts consumers' understanding and attitudes about saving for retirement, and undermines consumer confidence in the system. This lack of consumer confidence exacerbates longevity risk, levels of inadequate savings, and uptake of innovative offerings. Consumer attitudes towards saving for retirement are a significant driver of longevity risk.

Investing in longevity income products invariably comes at a cost, in loss of access to capital and often, lower returns. A number of Australians will be willing to accept that cost for the benefit of the greater certainty that these products provide. However, as discussed above, 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 some 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 (as discussed above).

There have been examples of people holding onto large amounts of capital during retirement. Anecdotal evidence suggests that one of the reasons for this is to fund any unknown future health and aged care needs. Encouraging forward planning for aged care through better education and awareness as well as addressing the aged care funding issues discussed above have the potential to improve confidence and certainty in the aged care system and help retirees to feel safe in spending more of their retirement savings. This puts money back into the economy and out of the tax advantaged environment of the superannuation system.

4.2 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 longevity risk product. 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.

4.3 Product switching and out-of-date products

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 involves unnecessary processes, paperwork and cost. We believe that this should 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 Australia'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.

4.4 Insurance

Insurance serves to negate or minimise expenses when events occur in certain life stages or to a person or asset. Health insurance, life insurance, and general insurance are not specifically designed to support retirement income levels and outcomes.

However, health and general insurance do play a role in assisting retirees to manage their retirement income when insurable events occur. The interaction between the Seniors Healthcare Card and health insurance specifically assists retirees with discounts on medical services, prescriptions, and other health care needs. In addition, the health insurance rebate is higher for older Australians, assisting them to continue to cover the cost of health insurance.

There appears to be a lack of consumer understanding of the interaction between different insurance products, as well as the interaction of insurance products and social security benefits. This creates gaps in the support retirees (and all Australians) need for economic security, and means retirees might not be accessing the benefits that they're entitled to.

The age pension and other social security benefits act as a government funded insurance-like support for retirees.

There is opportunity to improve the interaction between insurance and social security support through both product innovation and Government incentives.

4.5 Recommendations

The FAAA recommends:

- Increased access to the seniors health care card

- The Government and super funds raise awareness of the Home Equity Access Scheme.

5. RETIREMENT INCOME COVENANT

The FAAA supports the Retirement Income Covenant in s52 of the Superannuation Industry Supervision Act (SIS Act) and the requirement it places on superannuation funds to have a strategy to assist members who are in or approaching retirement with their retirement income needs. In the absence of personal advice from a financial adviser, guidance and support is typically coming from product providers. The obligation under the Retirement Income Covenant for super funds to have a retirement income strategy can and should play an important role in addressing consumer behaviour and literacy in relation to retirement.

The Covenant 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.

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.

5.1 Recommendations

The FAAA opposes the introduction of default retirement income products.

6. OTHER MATTERS

6.1 Quality of Advice Review

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. 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.

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 consumers' circumstances change.