



Legislating for retirement incomes

26 November 2021
Andrew Boal

Legislating for Retirement Incomes

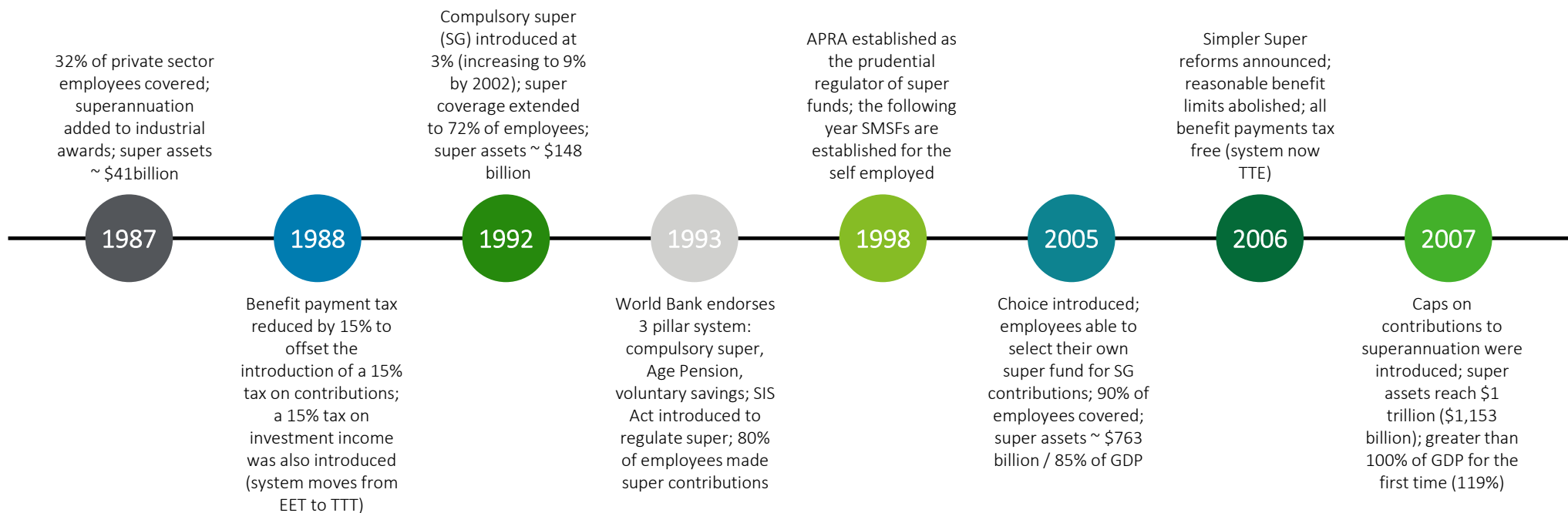
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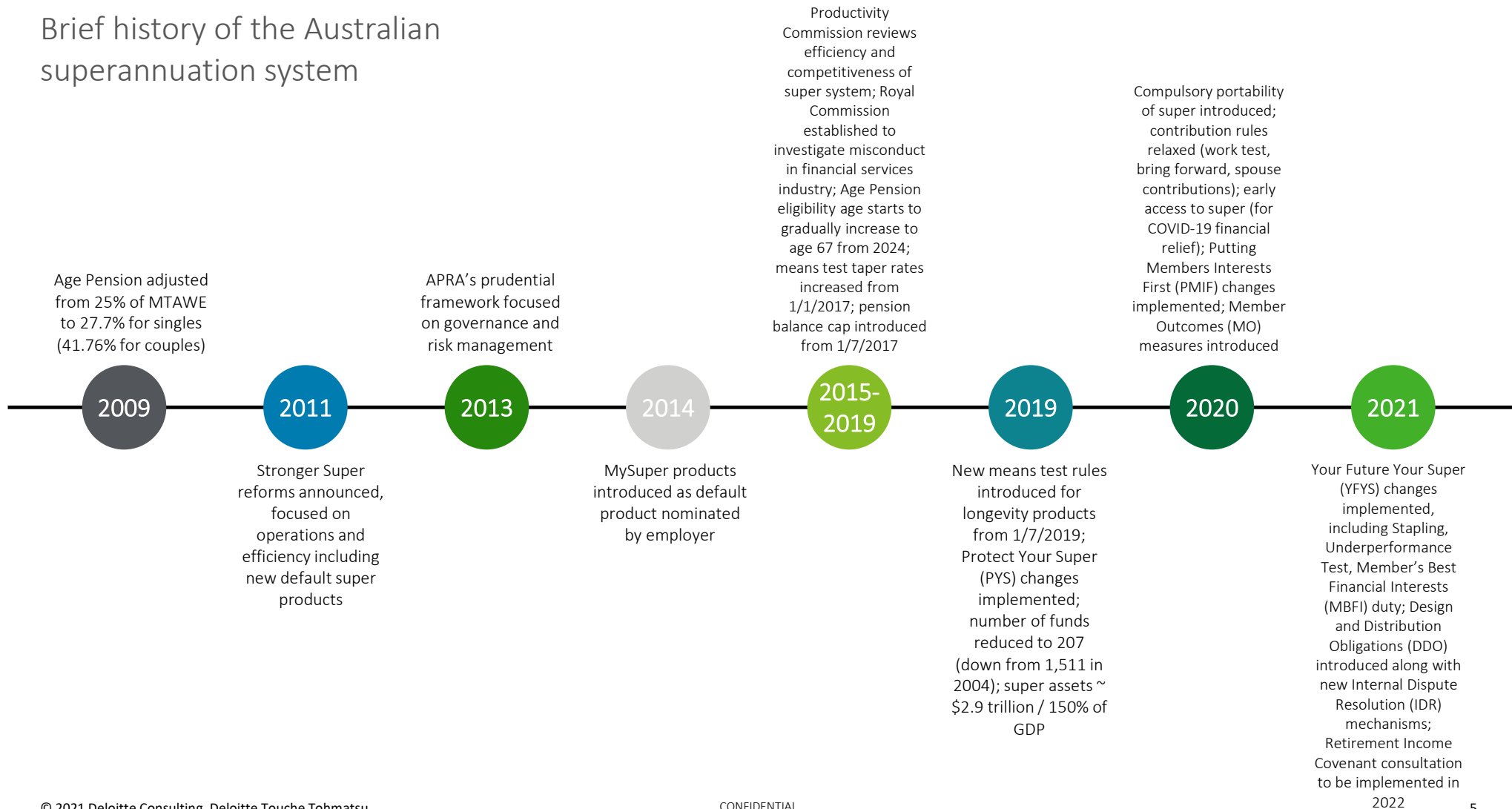
Background to the Australian system



Brief history of the Australian superannuation system



Brief history of the Australian superannuation system



Mercer CFA Institute Global Pension Index 2021

Covers 43 retirement income systems measuring adequacy, sustainability and integrity:

Grade	Index Value	Systems
A	>80	Iceland Netherlands Denmark
B+	75-80	Israel Norway Australia
B	65-75	Finland Sweden UK Singapore Switzerland Canada Ireland Germany New Zealand Chile

Australia

Australia's retirement income system comprises a means-tested age pension (paid from general government revenue); a mandatory employer contribution paid into private sector arrangements (mainly DC plans); and additional voluntary contributions from employers, employees or the self-employed paid into private sector plans.

The overall index value for the Australian system could be increased by:

- moderating the assets test on the means-tested age pension to increase the net replacement rate for average income earners
- reducing the level of household debt

- introducing a requirement that part of the retirement benefit be taken as an income stream in most circumstances
- increasing the labour force participation rate at older ages as life expectancies rise
- introducing a requirement to show benefit projections on annual statements

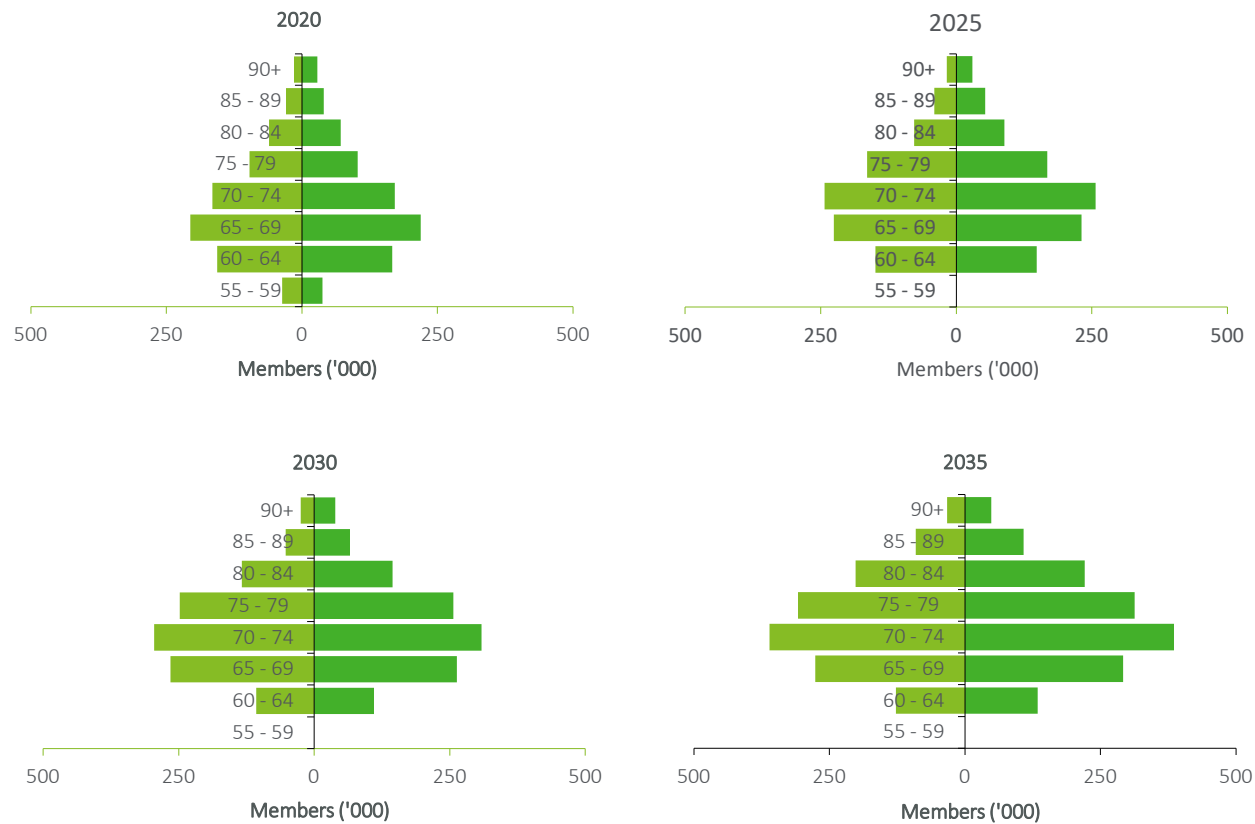
The Australian index value increased from 74.2 in 2020 to 75.0 in 2021 primarily due to an increase in the household savings rate in the adequacy sub-index.

Why is retirement income policy important?



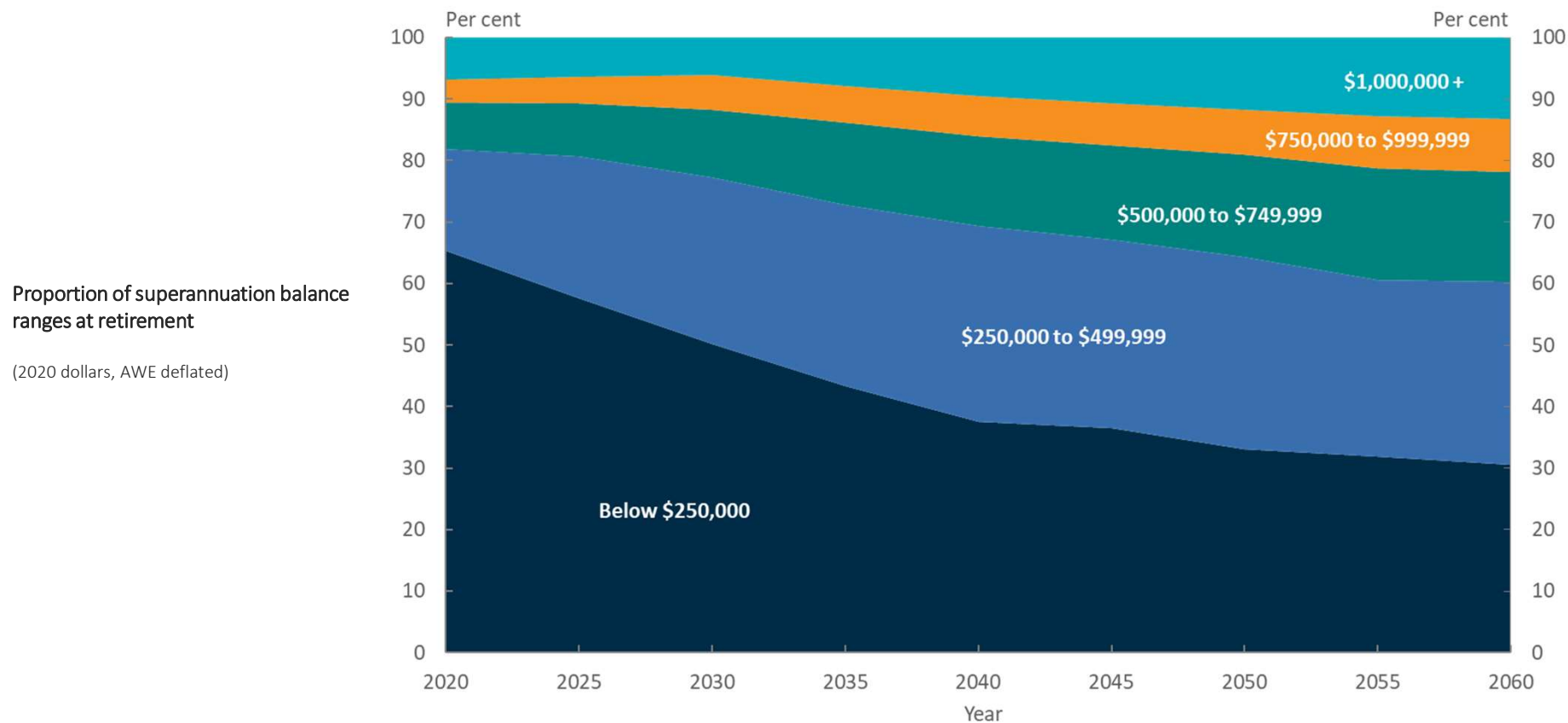
Retirement Themes – the retired population is growing ...

Roughly doubling over the next 15 years



.... and they will retire with more super

Those in “the middle” will grow from ¼ of retirees to around ½



The ASFA Comfortable Standard

health, vitality and connection in retirement

The minimum annual cost of a comfortable retirement.



Singles
\$44,818*



Couples
\$63,352*



Daily essentials

Housing

- Council rates
- Water, electricity, gas
- Insurance
- Internet/telco subscription
- Home repairs and maintenance – fix leaking roof/repair plumbing
- Replace broken household appliances
- Run air conditioner or heater

Groceries

- Fresh food
- Pantry staples
- Toiletries

Transport

- Bus/train tickets
- Petrol
- Car ownership, insurance and maintenance/repairs

Clothing and footwear

- Replace worn-out items
- Modest wardrobe updates

Staying fit and healthy

- Health insurance
- Pharmacy
- Doctor/specialist visits
- Exercise (e.g. aqua aerobics, yoga, bowls, dance class)



Staying socially engaged

- Movies
- Streaming services
- Day tours – galleries/exhibitions
- Attending sports games
- Visit to local club
- Haircuts



Connecting with family

- Computer
- Mobile/home phone
- One domestic flight per year
- One international flight every seven years

Australia's trusted retirement savings companion since 2004

*For retirees aged 65-85 who own their own home.

June quarter 2021

Paper to the Australian Gender
Economics Workshop (2018)
- Grattan Institute

“Single women who are retired and do not own their own home are the group most likely to rely almost solely on the Age Pension, and are at the greatest risk of poverty in retirement.”

IS A COMFORTABLE RETIREMENT OUT OF REACH FOR THE AVERAGE AUSTRALIAN? - University of Melbourne (2016)

“Federal government changes to the Age Pension assets test will reduce retirement incomes of a surprisingly large proportion of the Australian population.”

“Under the new rules, only 51 per cent of couples will be on track to be able to retire comfortably. For singles, the changes to the assets test have almost no effect, with 37 per cent, rather than 38 per cent, projected to achieve a comfortable living standard in retirement.”

How single retirees spend their money

Age Pension \$25,000 pa

ASFA Modest \$29,000 pa

Renter \$35,000 pa

ASFA Comfortable \$45,000 pa

Renter \$51,000 pa

Over age 85 ~ 4% less

RIR: “Average
Working-life
Taxable Income”

Lower 30% < \$48k
Higher 20% > \$113k
Median ~ \$68k
2019-20 dollars



How will we balance the Covenant objectives



Objective for superannuation (2016)

The Superannuation (Objective) Bill was introduced to Parliament in 2016 to establish the primary objective of the superannuation system:

“To provide income in retirement to substitute or supplement the age pension.”

Unfortunately, this bill lapsed in Parliament, leaving some uncertainty about the overall pathway to better retirement outcomes.

Retirement Income Framework (2016-17) explored the key issues with CIPRs.

First Retirement Income Covenant position paper (2018).

New Means Test rules for lifetime income streams effective from 1 July 2019.

Retirement Income Review (2020)



Trustee obligations



It will be important for funds to prepare and take action early

Retirement Income Covenant (2021)

Trustees will need to formulate a strategy to provide members with a path to achieve their retirement income objectives by 1 July 2022.

The proposed retirement income strategy **principles** are:

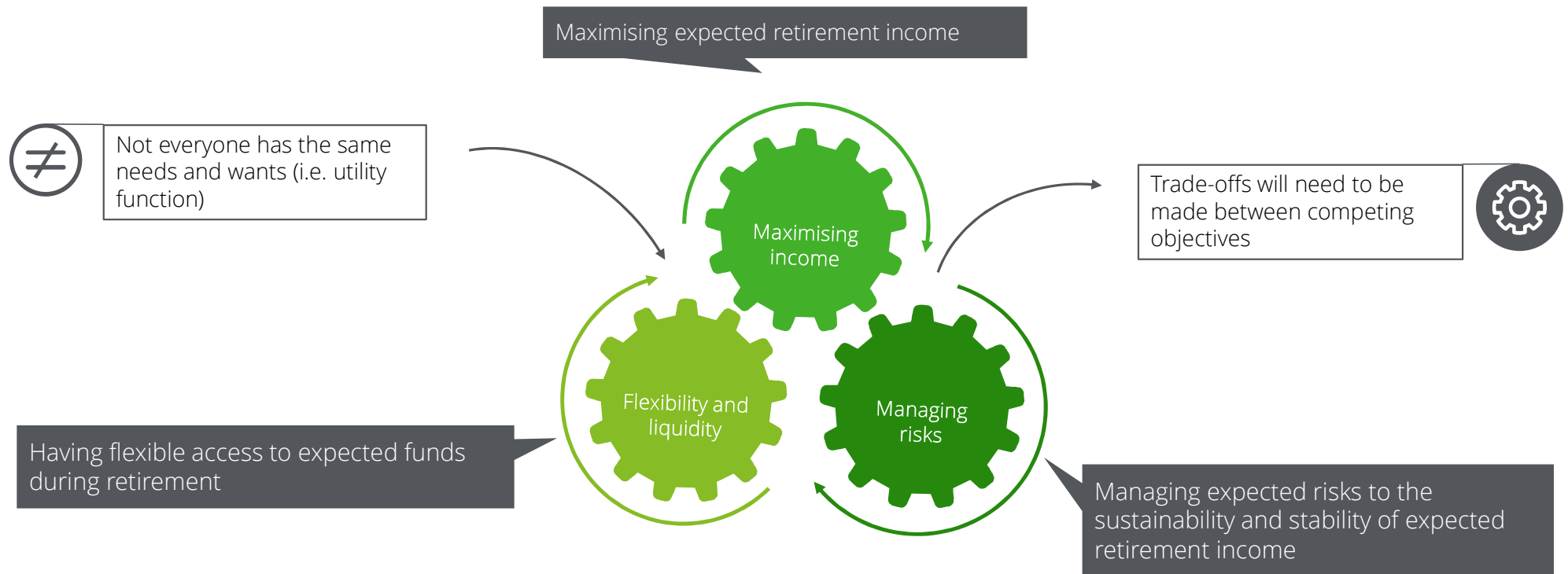
- Trustees are required to formulate, review regularly, and give effect to a retirement income strategy for the retired members of their fund, and the members of their fund approaching retirement. The strategy can be formulated for:
 - all members in generality, or
 - cohorts of members in generality, as identified by the trustee.
- The strategy should outline how the trustee intends to assist their members to achieve the following objectives:
 - **maximise their retirement income** (considering the Age Pension and any other relevant income support payments)
 - **manage risks to the sustainability and stability of their income**
 - have **some flexible access to savings** during retirement.
- The strategy should identify **how trustees intend to assist their members to balance these objectives**, and whether the trustee's intended assistance is likely to increase or decrease the retirement incomes of their members.

Funds must use data to assign members correctly to the cohort strategies.

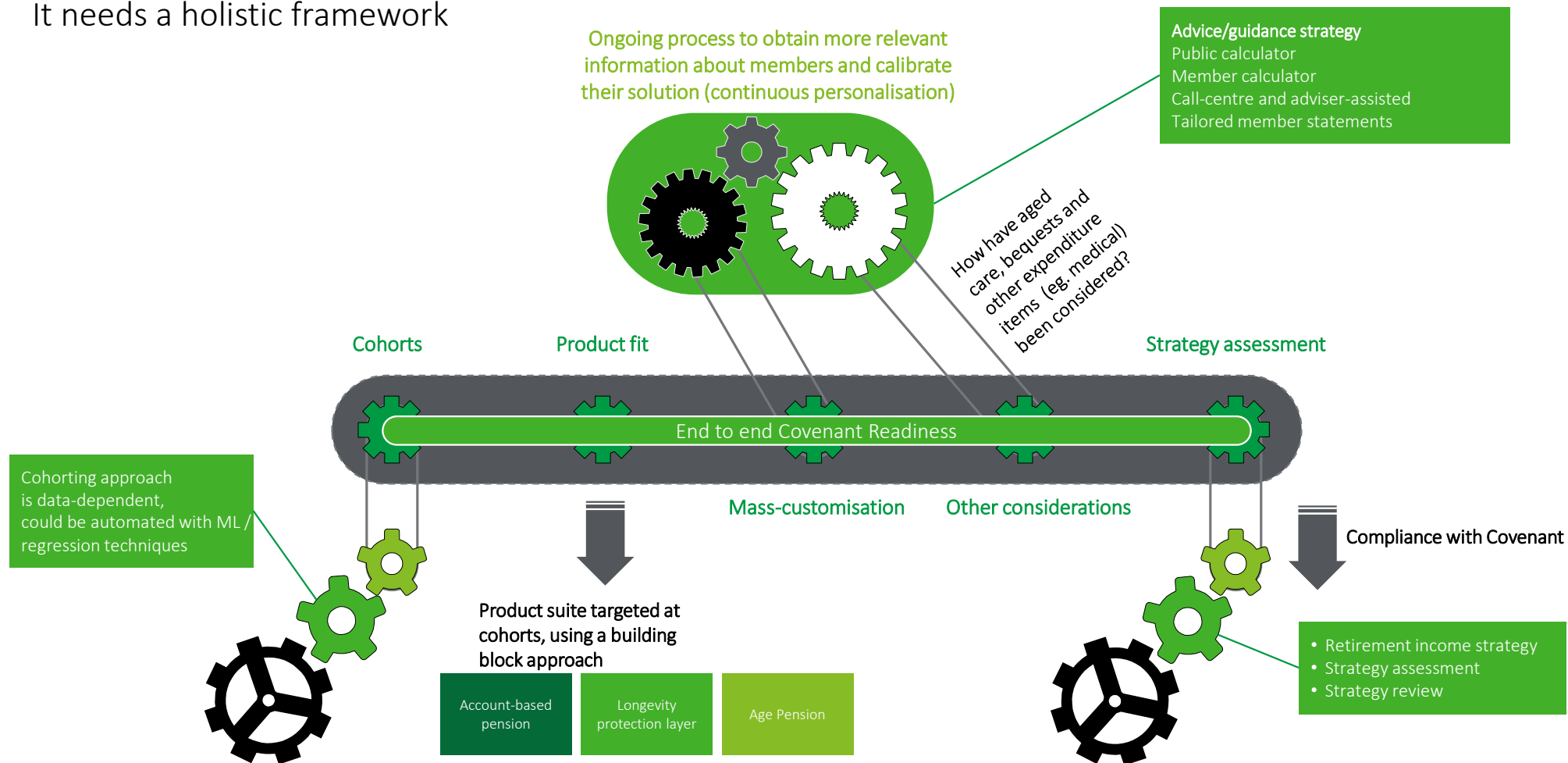
Main focus is introduction of new products to manage retirement risks

Funds will need to engage members using technology, tools and guidance

Setting the retirement income strategy is a balancing act



It needs a holistic framework



Objectives for retirement income products



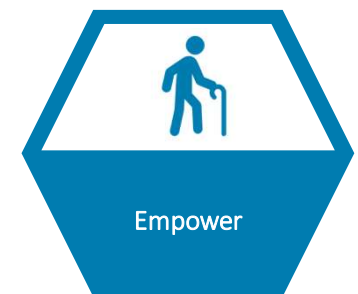
Increase individuals' standard of living by facilitating risk pooling – providing security of income for life and the potential for higher income in retirement



Increase the availability and choice of products that efficiently manage longevity risk



Increase the efficiency of the superannuation system so that it can better meet its proposed objective

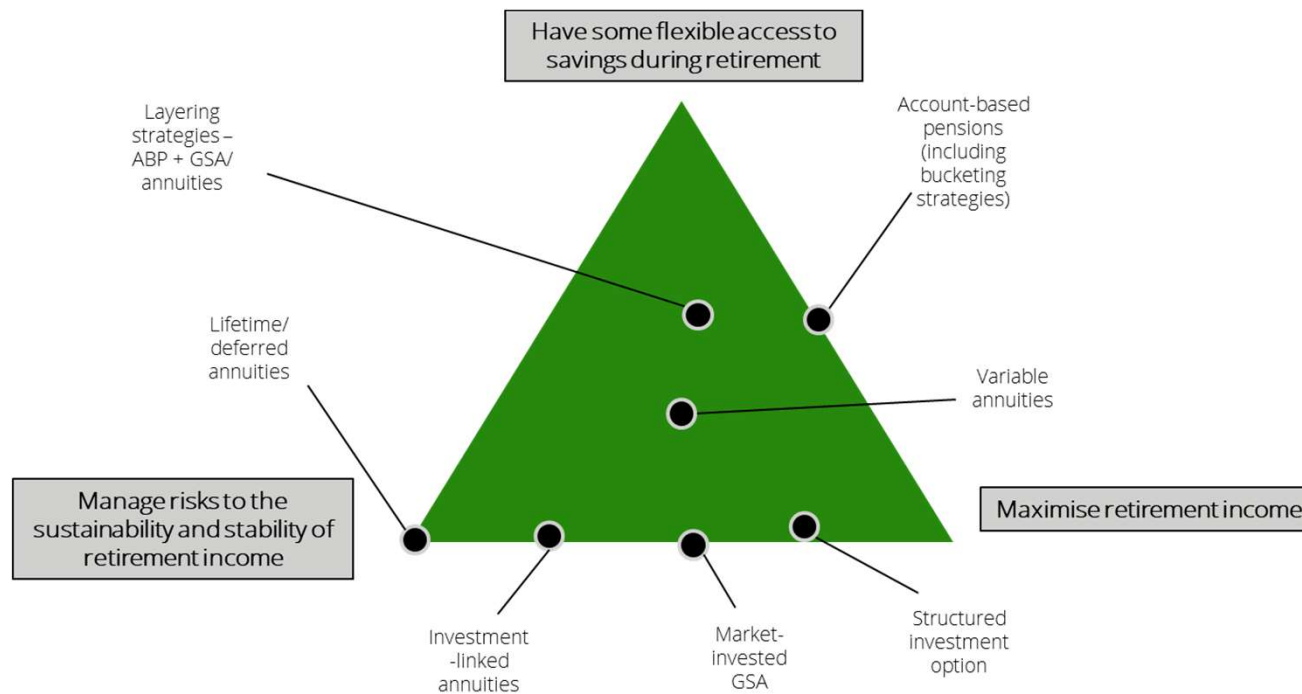


Empower trustees to provide members with an easier transition into retirement

Types of retirement income products

Product	Brief description
Lifetime annuity	Provides a guaranteed regular income stream, starting immediately, for life, regardless of market performance or length of life. May or may not be indexed to inflation.
Fixed term annuity	Provides a guaranteed income stream for a fixed term. May have a residual capital value (RCV) of anywhere between 0% to 100%, so has the ability to emulate a term deposit.
Deferred lifetime annuity	Provides a guaranteed regular income stream, starting at some pre-determined point in the future, for life, regardless of market performance or length of life. May or may not be indexed to inflation.
Investment-linked annuity	Provides a lifetime income stream, starting immediately, linked to market performance, regardless of length of life. Generally, the guarantee provided is linked to a certain number of units that are invested in an underlying fund.
Group self-annuitisation scheme	Similar to a lifetime annuity but with no guarantee and income dependant on underlying investments and the survivorship pool.
Variable annuity	A guaranteed income stream linked to market performance with some downside protection. The investor pays an explicit fee for the guarantee.
Declared rate investment option (in ABP)	An account-based pension investment option that provides members with short-term certainty by having a declared rate each year so members know what they will receive.
Capital protected investment option (in ABP)	An account-based pension investment option that provides members with downside market protection while capping maximum performance. The guarantee is usually funded through the investment management fee and is set at a level commensurate with the volatility of the underlying investment.
High yield investment option (in ABP)	An account-based pension investment option that provides members with a fund that has a specific focus on income-generating assets, with no guarantee or declared rate. Members will be aware that the investment option's aim is purely to generate income.
Bucketing strategy (in ABP)	An account-based pension investment option that provides members with a rebalancing strategy that aims to provide exposure to higher growth assets while simultaneously having cash available for drawdowns and to withstanding market downturns.

Balancing the objectives with different retirement income products



How do we guide members through the complexity?



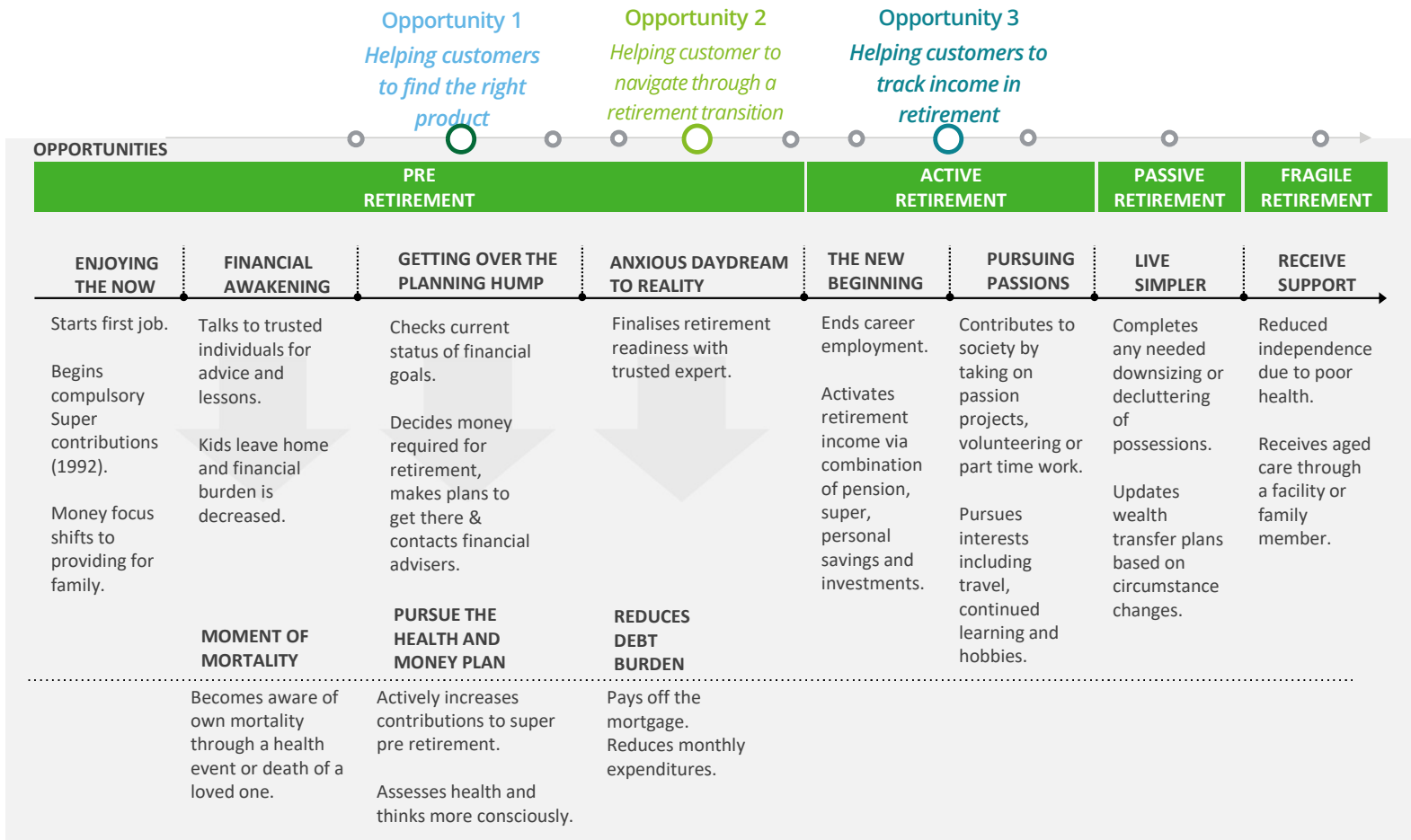
The need for help and guidance at retirement

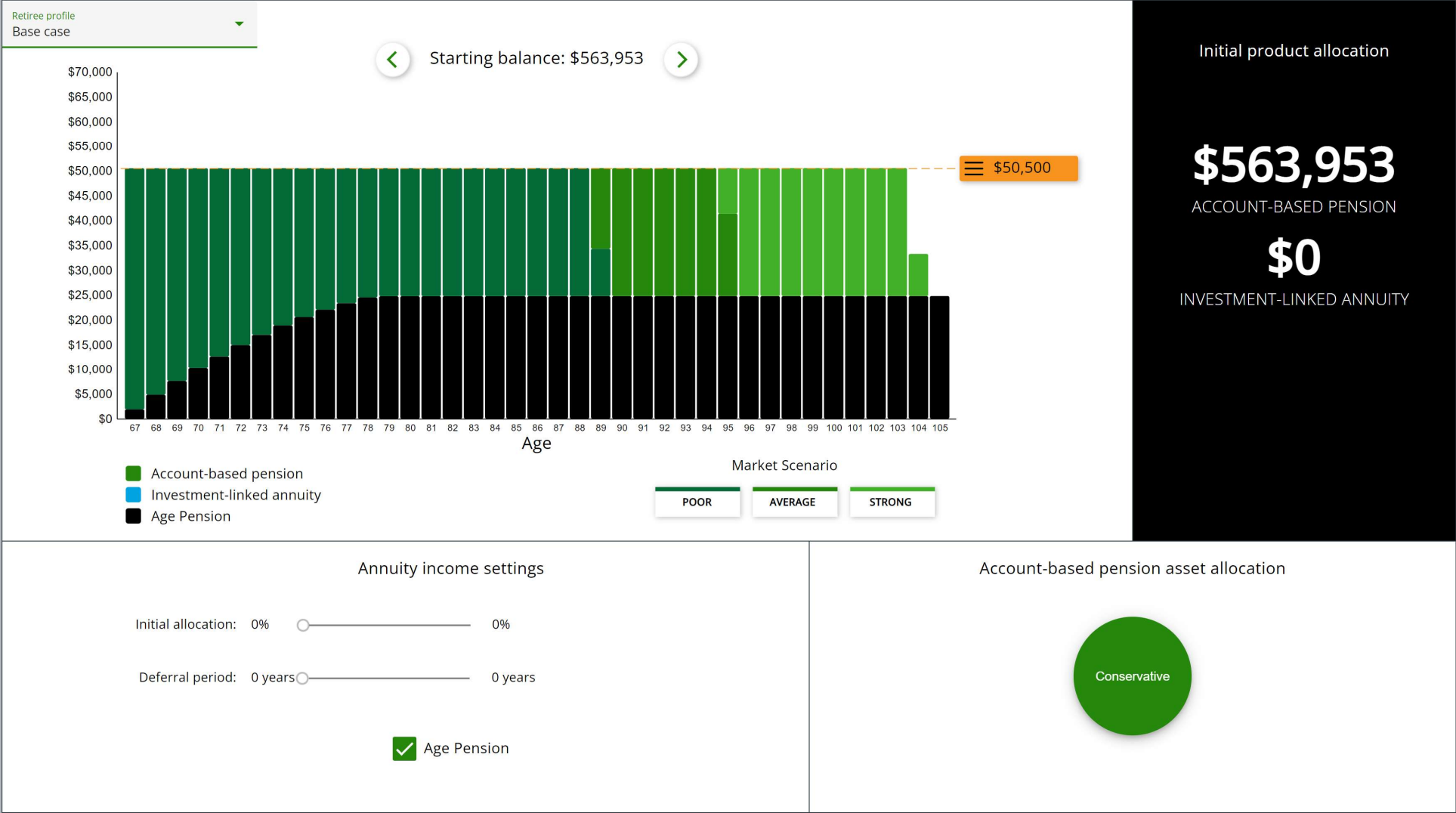
“We have some responsibilities for making sure that they don’t walk out the door with a big pot and head to the first person who has, you know, a pot of beans to sell them, and then you just wave goodbye to them and say, good luck.”

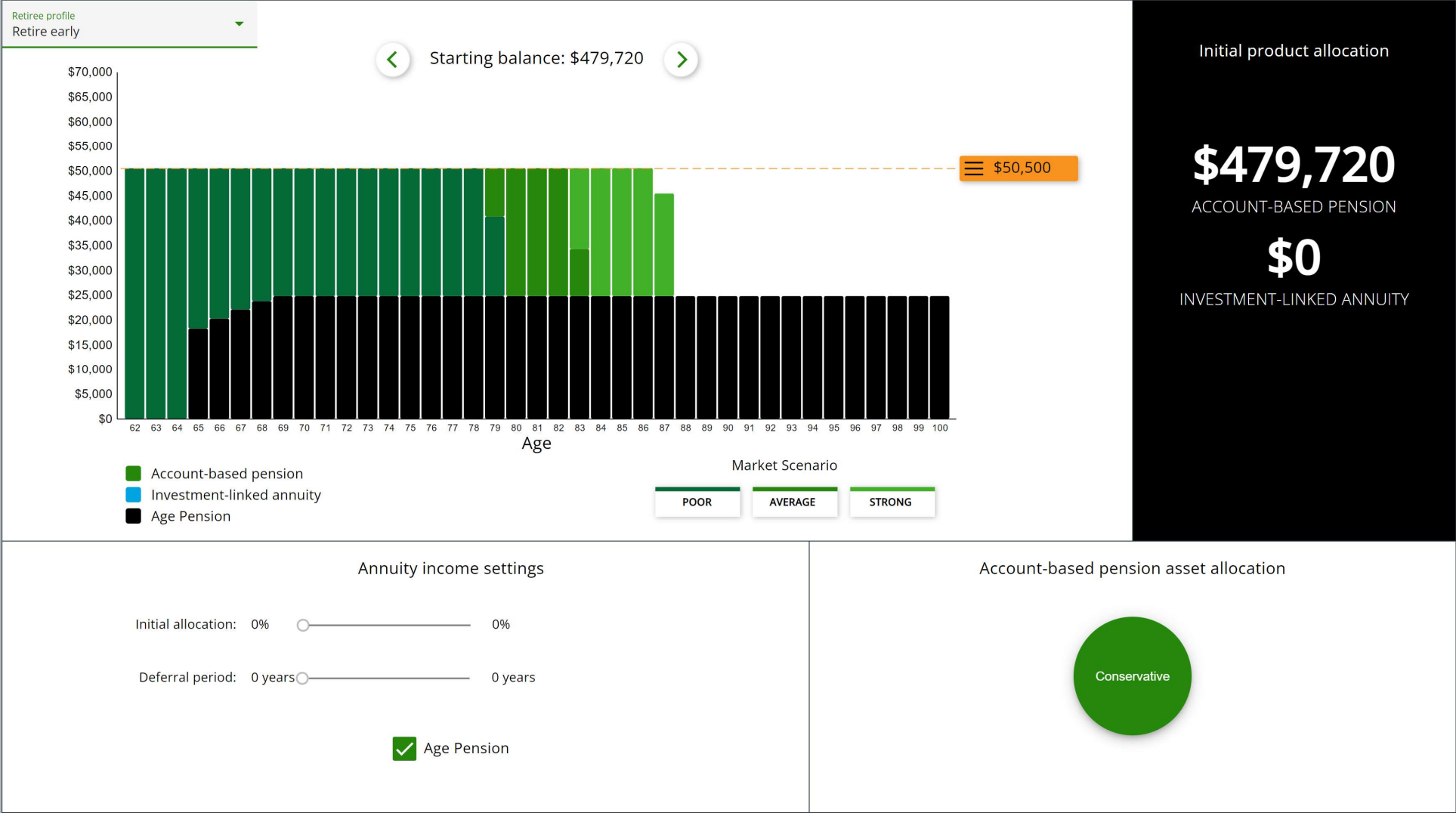
Investment Magazine, 11 June 2021

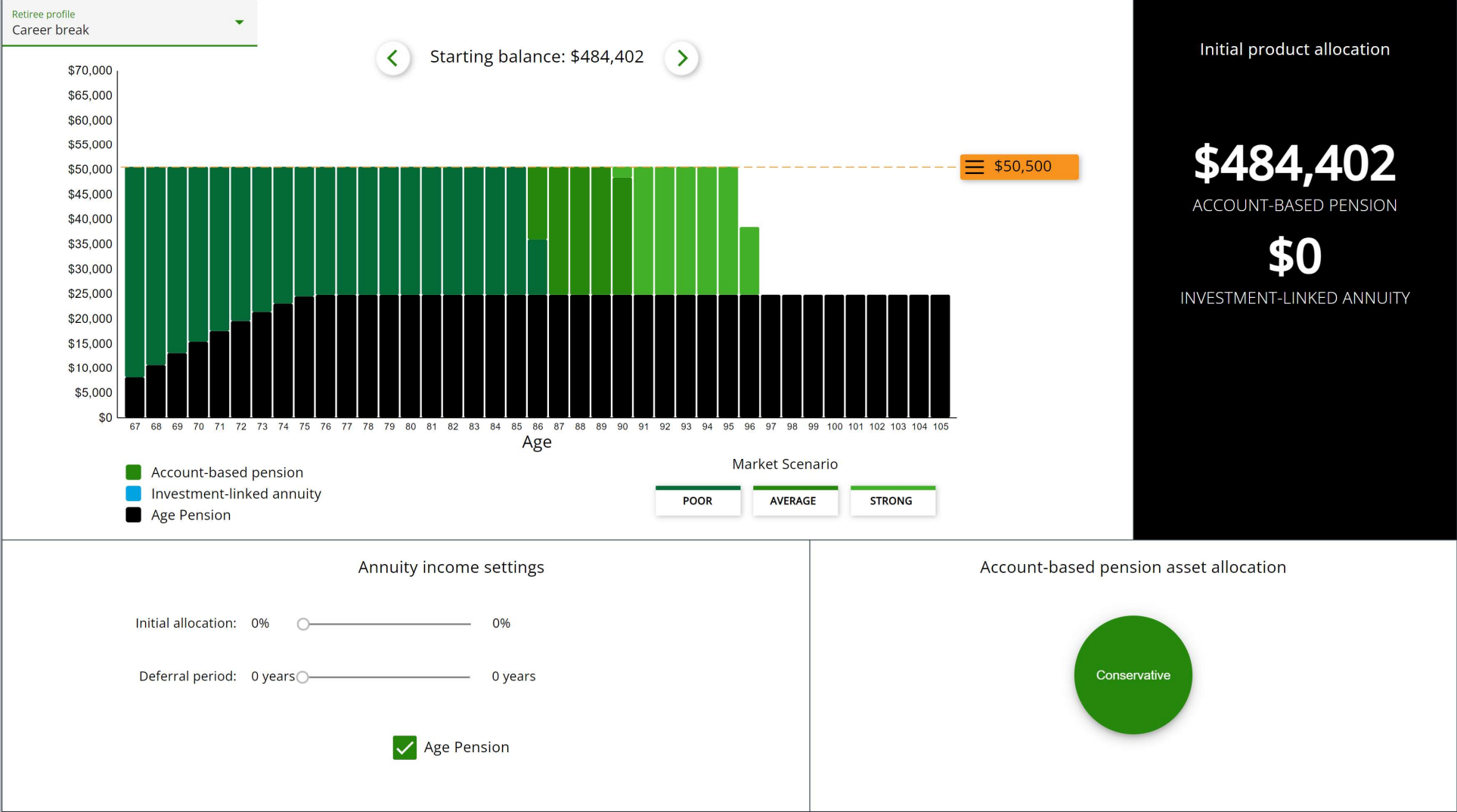


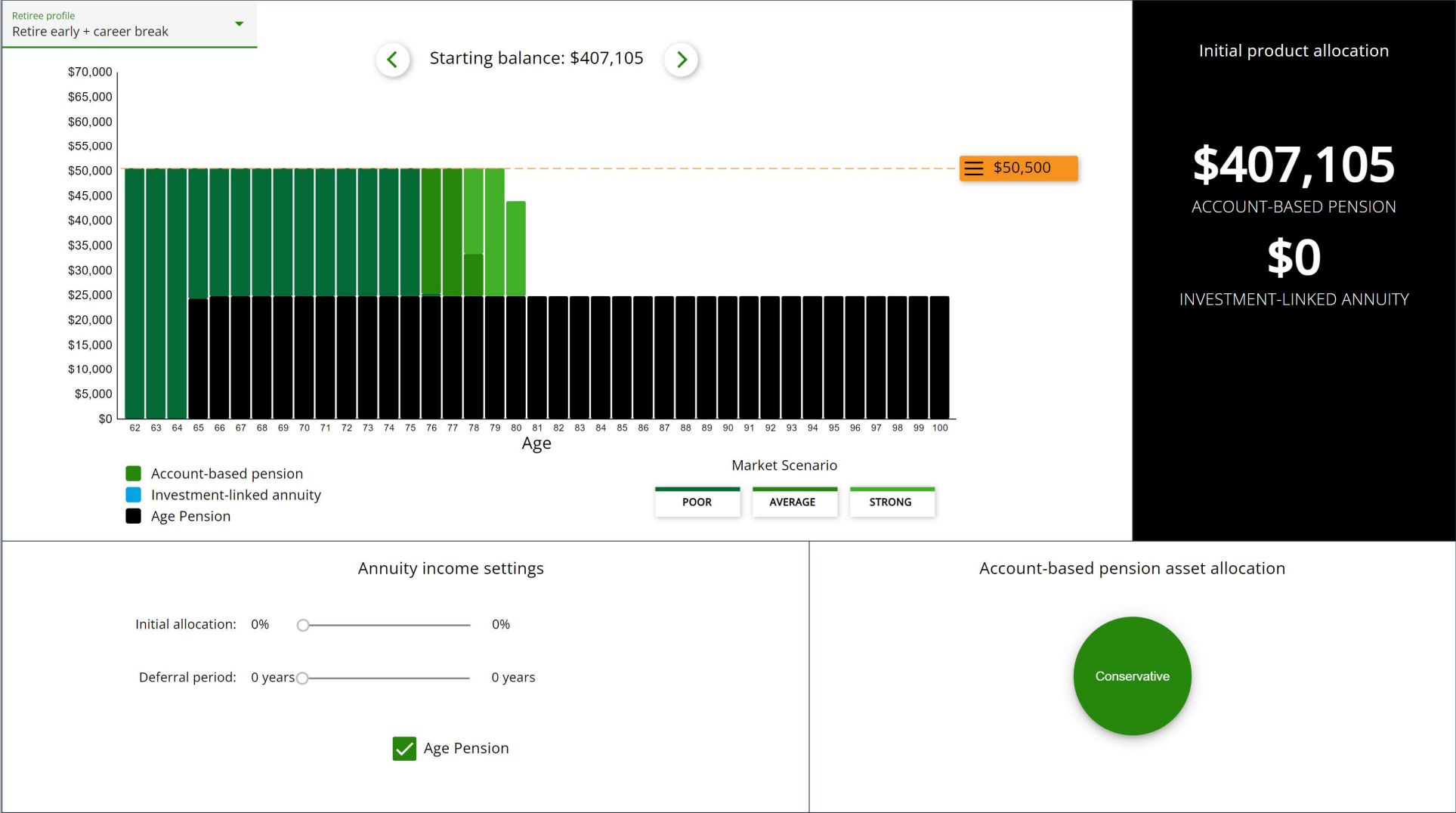
Many opportunities to support customers on their retirement journey





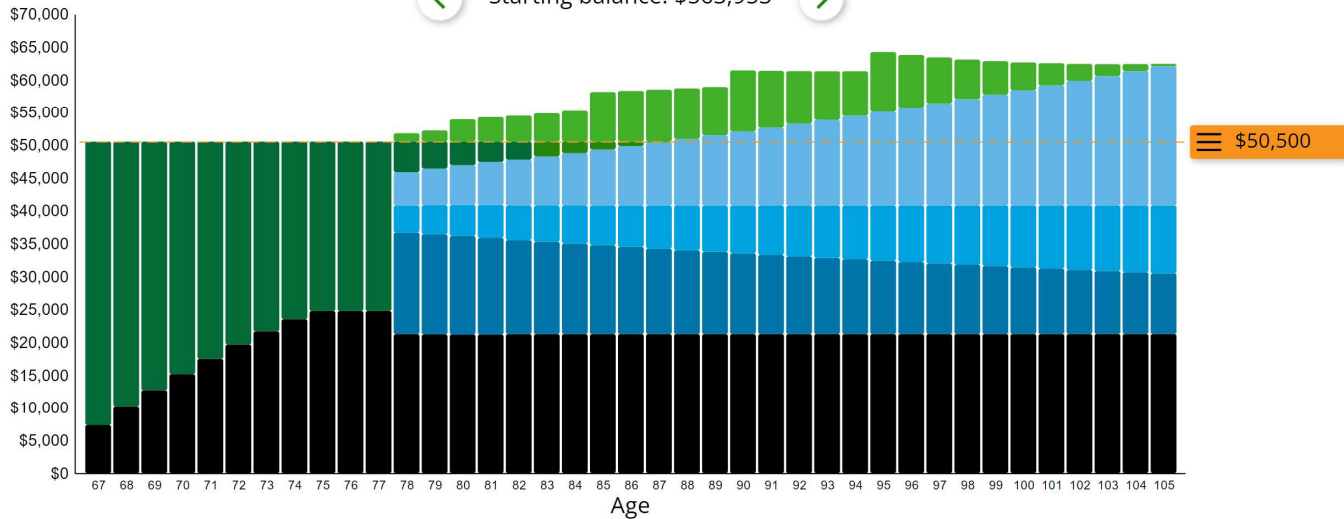






Retiree profile
Base case

< Starting balance: \$563,953 >



- Account-based pension
- Investment-linked annuity
- Age Pension

Market Scenario

POOR AVERAGE STRONG

Initial product allocation

\$389,128

ACCOUNT-BASED PENSION

\$174,825

INVESTMENT-LINKED ANNUITY

Annuity income settings

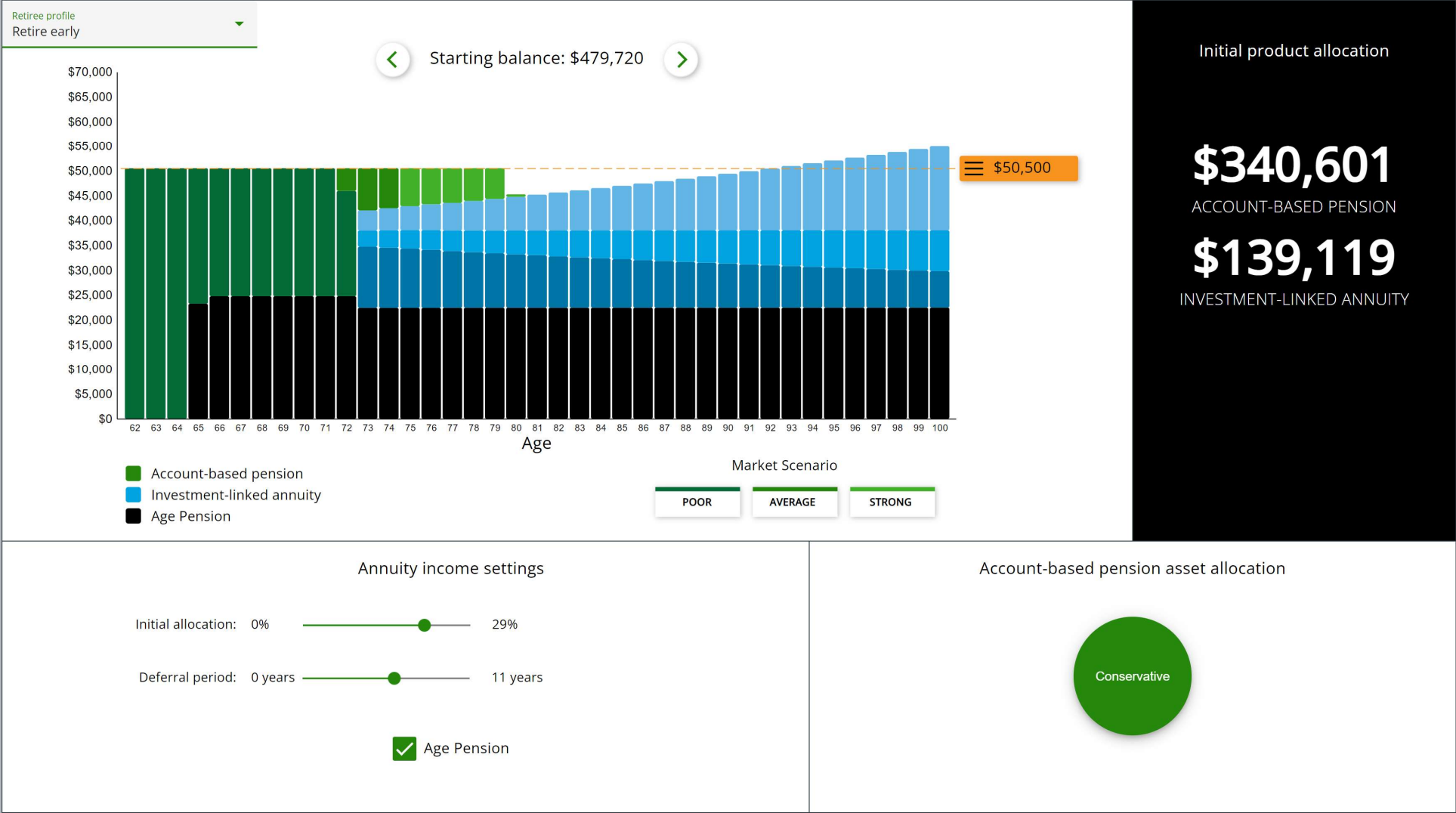
Initial allocation: 0% ————— 31%

Deferral period: 0 years ————— 11 years

☒ Age Pension

Account-based pension asset allocation

Conservative



Four significant trends shaping retirement needs

Understanding these trends is critical to defining future customer propositions that are compelling and reflect the evolution of customer needs and expectations.



Australians are living longer than ever before

Australians are likely to spend more time in retirement than previous generations with life expectancy increasing 4 years by 2050. There is greater need to begin early planning for retirement.

Australians are more technology enabled

Increasing digital and technology literacy with 70% of current seniors completing daily internet searches. Retirees are increasingly leveraging technology-enabled income opportunities such as driving an Uber or renting a spare room.

Retirement is an active multi-staged transition

Retirement is shifting from a linear pathway of learning, working and retiring to a multi-staged transition involving components of working, learning and resting, all occurring before retirement.

Open data enables a broader conversation

The broader accessibility and distribution of customer data enables a growing number of differentiated service and experience offerings to meet customers' needs. Open banking is an immediate opportunity to build customer data and insight.

Insights generated through Deloitte's recent D5 Retiring Australians open innovation research.

Five customer insights will shape future offerings



Insights generated through Deloitte's recent D5 Retiring Australians open innovation research.

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the world – Submit
your abstract by
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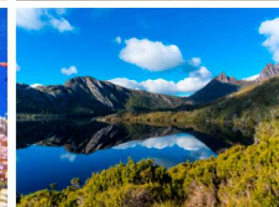
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