FEAL
Strategy
Seminars

A focus on retirement

This paper summarises the recent FEAL strategy workshops on data analysis and application for super funds, delivered in October 2018 and sponsored by Challenger.

2020 Retirement vision

The success of Australia's super system in accumulating savings is delivering rising balances for retirees to provide a dignified lifestyle in retirement. While the previous focus has been on accumulating assets, the focus is now switching to retirement and finding a way to deliver a source of income to retired members so that they can meet their various needs and goals in retirement.

Some funds are building improved retirement income products and engaging with their members to improvement member retirement outcomes. These funds have set a specific strategy around retirement income for their members and their progress to implement this strategy was a central part of the FEAL strategy seminars.

On 11 and 15 October 2018, FEAL ran strategy seminars on retirement hosted by KPMG (Melbourne) and Challenger (Sydney). The seminars included presentations and panelists from KPMG, Challenger, Qantas Super, SunSuper, First State Super, Willis Towers Watson, VicSuper, AustralianSuper and HostPlus. Audience participation was key to better understanding the issues, which included: the policy framework, member confidence and the advice and product solutions needed to get the best retirement outcomes for members.

The seminars were conducted under the Chatham house rule, but this is a short summary of the key points discussed, without any specific attribution.

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How well is the Australian superannuation industry helping members in retirement?

With compulsory super now 26 years old, accumulating assets for retirement is an issue well under control. There is still room for improvement (e.g. women who are out of the workforce for a time) but the typical balance for those moving into retirement is significant and growing. ABS data for 2016 reported median balances of $187,000 for men and $170,600k for women aged 65-69. Today, a couple household would have over $400,000. Indeed, almost a third of the system: $880 billion is in the retirement phase already.

While the proposal to legislate the primary and subsidiary objectives of super is in Parliamentary limbo, growing super balances are already reducing the reliance of new retirees on the age pension. By 2025, ASFA estimates that only 30% of all retirees will be on a full age pension, and many of these will be older retirees who had minimal or no super when they retired. Super needs to provide a better solution for members in retirement. The view in the seminars was clear from discussions, drawing the minimum from an account-based pension will not deliver the best outcome for members.

What is happening in policy development for retirement?

Policy development is progressing. There are plans for a new retirement income covenant to apply to super funds directing trustees to design better retirement income solutions, with more focus on specific risks such as longevity, inflation and even cognitive decline. The more product-specific CIPR (Comprehensive Income Products for Retirement) project has suffered from a lack of consensus on key features. The view across presenters and audience members was that it might be preferable to rely on the covenant alone, rather than the more prescriptive CIPR concept.

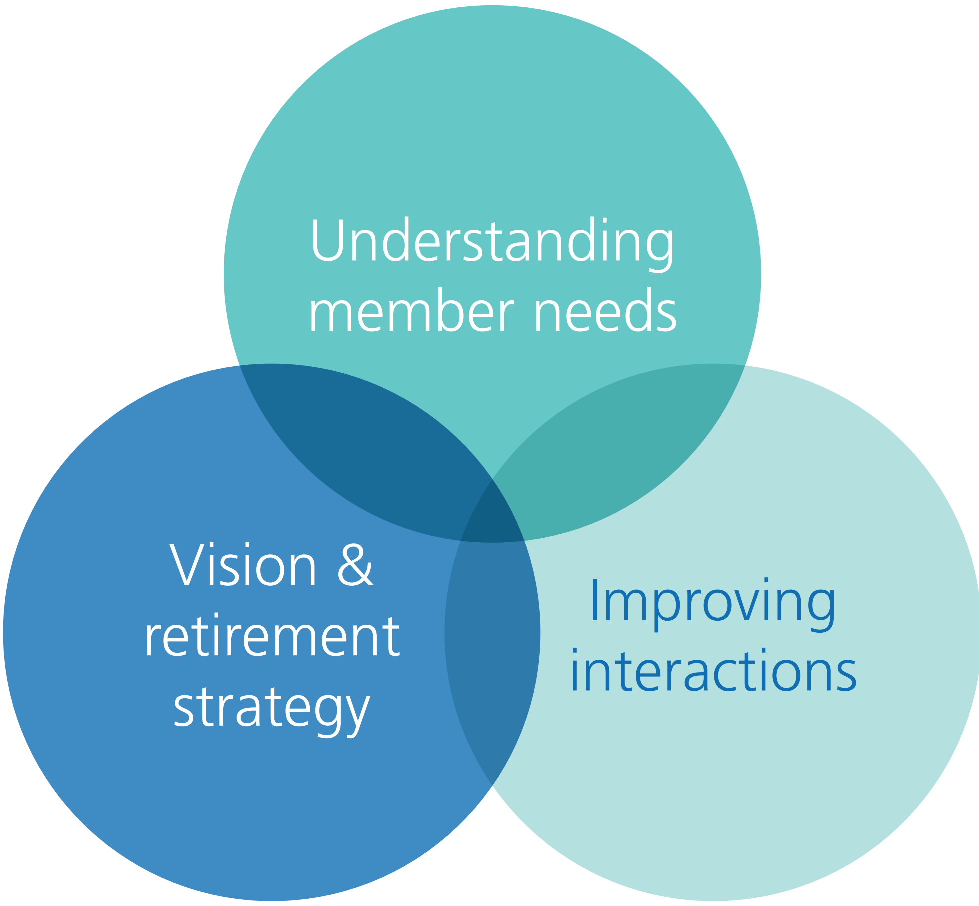
On October 31, the government announced that the requirement to offer a CIPR will be pushed bask to 2022, although funds will still need a retirement income strategy in place by 2020.

How should funds be preparing for members retirement phase?

Funds need to have a retirement strategy for their members.

This strategy should be understood by members and the staff in the fund so that everyone is working toward a better outcome for members in retirement. There was even a renewed call for the Chief Retirement Income Officer position to become standard. Understanding the differences between accumulating and retired members is essential.
One participant questioned whether fund boards are currently set up to deal with the starkly different needs of accumulating members on the one hand and retired members on the other.

There are also calls for funds to understand in more depth what their members actually want. Some argue for better use of big data, and others are already running surveys and focus groups to understand their members and their needs in retirement.



A third category of activity is member interaction. Some are increasing access to advice (discussed below) and others are using engagement tools. Many funds see a benefit of higher member retention when they are able to interact in more constructive ways with their members. This category also includes member education and improving financial literacy around retirement issues. Not all funds have moved to reporting income projections instead of account balances, but the trend is towards the former.

Why aren't members more confident about their retirement finances, and what should funds do?

The Qantas Super CSBA index of retirement confidence was discussed along with the surprising result that Australians typically are not confident they will be able to enjoy a financially 'comfortable' retirement. It was noted that the older people were, the more confident they are they can afford to be comfortable. Younger people were also more confident providing a u-shaped pattern that is observed across ages with broader happiness surveys.

Table discussions raised a number of ideas that funds could implement to help boost the confidence of their members. These included:

- Prepare members for the reality of retirement. Income projections will be useful here
- Tailor communications to be relevant to the member
- Promote a 'people like you' approach for member comparisons. It is more useful and removes expectation gaps when members won't be able to afford an arbitrary benchmark
- Increase access to financial advice

Do members need advice for retirement? If so how will they get it?

The average member cannot identify, nor manage the key risks to their retirement income. They are going to need help. Along with better products, advice is a key potential solution. With a growing number of retirees, most funds won't have the internal capacity to meet members' advice needs under a comprehensive face-to-face model.

One example discussed was a fund's use of an external panel of advisers to supplement internal phone-based advisers. The panel was used by members with more complicated advice needs under a member-led service delivery model.

1 The Qantas Super CSBA index does not define what comfortable means, leaving it to the respondent to consider what 'comfortable' means for them.

With the challenge of developing scale to meet member needs, audience views drifted to scaled and digital advice as potential solutions. This includes leveraging technology for delivery and providing relevant examples, such as 'people like you' to improve member education. By improving member education and engagement in the lead-up to retirement, some funds will be able to reduce the need for personal advice at or following retirement.

What are funds currently doing to improve member outcomes in retirement?

The need to develop a better retirement income offer to improve member outcomes was universally accepted by the panel and the audience. The growth in super balances, although not universal, is seeing an increasing number of members being in a position to support a more sophisticated retirement income solution. It was noted that while $50,000 was a general minimum threshold, there were examples where a solution for a member with only $100,000 was making a substantial difference to their standard of living in retirement.

The key development is to add some level of collectivism, or pooling of investment and longevity risk, in a retirement income solution. Several forms of this were discussed.

Some funds are currently using existing products that use collectivism of income payments: an account-based pension and a lifetime annuity to provide a mix of secure and variable income for their members. These, and others, are considering the benefits of using deferred lifetime annuities.

Other funds are considering options with collective approaches not previously implemented in Australia. These will have no guarantee for members, but the expectation is that the income ultimately received by surviving members will be higher than DC because of mortality credits and because capital is consumed more efficiently. Using a collective approach will ensure that this income lasts for the life of each member. One of these approaches is the CDC (collective defined contribution) approach that operates in some European countries and is currently being debated in the UK. The challenge in Australia is the compatibility of a CDC approach with super choice. CDC schemes operate on a whole of life basis and the member can't leave.

While a better product design is needed for retirement, it is not a specific product design that is required, but rather an improved focus on member outcomes. This includes understanding the range of member wants and needs in retirement and finding an offer that is straight-forward to explain to them. While the problem is complex, members need a simple solution. This is for the product, advice, engagement and education throughout their time in the fund. Combining flexibility with risk management to deliver higher income will provide members with the peace of mind that they are seeking.

Concluding comments

Members need more reliable retirement income from their super. This is something that funds can deliver on. Ahead of policy clarity on the objectives of super and increased governance focus on retirement income via a new SIS covenant, funds are already working to deliver better retirement income solutions for their members.

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