6 August 2021

Director
Retirement, Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600 Email: superannuation@treasury.gov.au

Dear Sir/Madam,

Retirement Income Covenant Position Paper 19 July 2021
Submission by Plan for Life, Actuaries and Researchers

Thank you for the opportunity to participate in the consultation process.

Plan For Life, Actuaries & Researchers is a premium research and analytics business unit of ISS Market Intelligence, that specialises in the fact-based measurement and analysis of Australian retail and wholesale financial services, investment, retirement and life insurance markets. Plan for Life has conducted research in the Retirement Income Stream Market for over 30 years.

Since 2014, Plan For Life has supported a project with the Retirement Incomes Working Group of the Actuaries Institute The research has focused on analysing the pension and lump sum drawing behaviour of superannuation fund members in transition-to-retirement and retirement accounts, using very large extracts of member-level data. Currently we're examining over $100 billion of member accounts, drawn from several retail, industry fund and public sector superannuation funds.

An initial study using data from 2004 to 2015 found that generally speaking, members were being fairly conservative in the extent to which lump sum amounts above the minimum required pension were being withdrawn. This ties in with the points about over-conservatism made in the Position Paper, however we also found that by working downwards through the various cohorts to member level, in a number of cases, members were draining their accounts very rapidly.

The continuation of the study based on further data collected since 2015, up to 31 December 2019, showed a substantial change in members' pension and lump sum drawing experience across a large part of the data. As an example, the average drawing rate across the member data for 2016 was 7.75% of the account balances, with pension drawings at 6% and extra lump sum drawings accounting for 1.75%. By 2019, the average had increased to 9.04%, made up of 6.64% in pension drawings and 2.4% in extra lump sum drawings.

The conservatism which prevailed previously, now appears to have been replaced with a much greater tendency to withdraw additional amounts. If this continues, it has the potential for retirees to overdraw their accounts.

Whilst more in-depth analysis is needed to understand the reasons for the apparent change in behaviour, there are two submissions we would like to make regarding the Retirement Income Covenant Position Paper, the general principles of which we support.

1. Based on our own experience of analysing members' retirement data, we believe that Trustees should be reviewing members' retirement accounts on at least an annual basis.
2. Where the review, initially at a higher cohort-level, then at lower levels, identifies groups of retirees whose accounts show cause for concern (such as where substantial over-drawing has occurred), that the Trustee should then proceed to examine these accounts at an individual member-level.

Yours sincerely,

Simon Solomon
Actuary