MANDALA

09/02/2024

By email:
treasury@treasury.gov.au

Director
Retirement Advice and Investment Division
Treasury
Langton Cres
Parkes ACT 2600

Dear Sir/Madam,

Re: Mandala Submission: Superannuation in retirement consultation

Mandala welcomes the opportunity to make a submission responding to Retirement phase of Superannuation – Discussion paper. As Australia's superannuation system matures, it will be critical that public policy responds to the changing needs of millions of Australians. It is imperative to adjust settings to deliver a society that successfully supports ageing and longevity.

This submission to the Treasury is informed by Mandala's recent research report *Default Dividend: How a default retirement product can help Australians retire with confidence* (see Appendix A: Default Dividend report).

About Mandala

Mandala is a research firm with offices in Melbourne, Canberra, and Sydney. Mandala specialises in combining cutting-edge data and advanced analytical techniques to generate new insights and fresh perspectives on the challenges facing businesses and government.

Views and opinions expressed in this document are prepared in good faith and based on Mandala's knowledge and understanding of its area of business, markets and technology at the time of the preparation of this report. Opinions expressed herein are subject to change without notice.

Australia's maturing superannuation system warrants a retirement phase solution that benefits its members.

Over the last three decades, Australia has developed a world class retirement income system. This includes a superannuation system that has accumulated more than $3.5 trillion in savings since the early 1990s. This has been underpinned by the Superannuation Guarantee (SG), preservation of these savings until 55 to 60 years of age, and strong fund performance that has delivered 8 per cent returns over the past decade.[1] These strong settings have placed Australia 6th on the Global Pension Index (GPI)[2] as of 2022.

---

[1] APRA (2022) Annual fund-level superannuation statistics.

[2] The Global Pension Index score produced by Mercer is based on the 'Adequacy', 'Sustainability', and 'Integrity' of each countries retirement income system. The rankings consider 44 global pension systems.

As Australia's superannuation system matures, there are a growing number of Australians moving into retirement with large superannuation balances. The typical Australian retiring in the next three decades could have a balance of up to $500,000 (2023 dollars) by the time they can access their superannuation savings.[3] With this structural change imminent, there is a need for Australia to evolve its current policy architecture to reflect the importance of the retirement phase of the superannuation system, and support those transitioning into retirement.

Without the right retirement product, Australians moving into retirement could be losing out on thousands of their savings. For example, Australians that continue to hold an accumulation phase account will be subjected to earnings tax —costing the typical Australian that is eligible to retire up to $1,900 in a year. Similarly, Australians that opt to withdraw their savings in a lump sum could be missing out on up to $3,800 of additional earnings in a year if they had a retirement product invested in a balanced asset allocation.

While advice can be an important part of the solution, policy settings could be improved by introducing a default retirement product. Given this, there is a need to identify how the Government and industry should design a default retirement product, and who is likely to use and benefit from it.

Default retirement products need to be flexible, have an appropriate asset allocation and minimum safeguards to protect the interests of Australians.

To protect the interests of Australians transitioning into retirement, a default retirement product needs to be flexible, have an appropriate asset allocation and minimum safeguards.

Retirement products have an inherent trade-off between flexibility and longevity risk. Account-based pensions provide members with significant flexibility and choice, however this is at the cost of managing longevity risk. On the other hand, annuities provide protection against longevity risk, but provide very limited choice and flexibility to members. While a default retirement product follows a generalist approach, it may not address individualised needs for all retirees. Therefore, it is critical for a default product to be reversible, ensuring Australians maintain control over their savings and retirement.

High levels of flexibility come at the expense of traditional longevity protection offered by products such as annuities. Default retirement products should have appropriate asset allocation that helps to manage risks associated with longevity and inflation. This will require exposure to growth asset categories such as equities, property and infrastructure.

Default products need to also be complemented with minimum safeguards focused on protecting the interests of Australians in retirement. At a minimum, retirement products that are eligible for defaulting should be (i) performance tested and included in a comparison tool; (ii) have low fees; and (iii) be standardised to ensure easy comparability.

The introduction of a default retirement product can be government-led, industry-led, or collaboration between the two.

---

[3] Mandala analysis (see Appendix A, page 8).

By 2040, there could be 3.3 million retired Australians using and benefiting from a default retirement income product.

Just like the accumulation phase, a default product will not be appropriate for everyone. However, as of 2023 there are 1.4 million Australians that are likely to use and benefit from a default retirement product. This could grow by 1.9 million to 3.3 million Australians by 2040. For these Australians, a default product will provide them with a safety net that improves financial outcomes in retirement.

Australians with limited understanding and engagement with the superannuation system are most likely to use and benefit from a retirement default product. They are typically Australians with low superannuation balances that are confused about their financial options in retirement, are less engaged, and desire a simple, low fee product for retirement. A majority of these Australians (70 per cent) will also need to supplement their super savings with the Age Pension.

Australians benefiting from a default retirement product are also likely to have benefited greatly from MySuper products, the default product for the accumulation phase.

Next steps in superannuation policy reform.

Reforming the existing policy settings and enabling these Australians to benefit from a default retirement product requires a three-phased approach:

1. Update legislative and regulatory frameworks to define the core objective of superannuation (noting the current bill before the parliament means this step is currently being progressed).

2. Establish frameworks and regulatory requirements for the default retirement product.

3. Evolve industry standards to introduce default retirement products for all Australians.

Further information

We would welcome the opportunity to appear before the committee to provide further information if it would be of assistance.
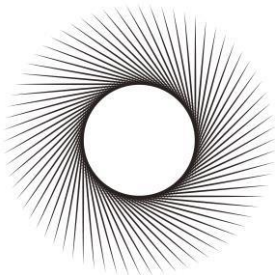
Contact

Tom McMahon, Director

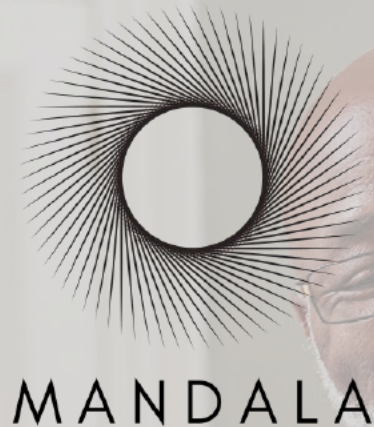Sergio Suarez, Associate

Yours sincerely,

Amit Singh
Managing Partner

Appendix A: Default Dividend report

Default Dividend

How a default retirement product can help Australians retire with confidence

Final report – October 2023

Prepared by Mandala

M A N D A L A

Contents

MANDALA

This study examines the minimum standards for a default retirement income product for Australians in retirement, and how many are likely to use and benefit from such a product

- This study provides a guiding framework for designing a default retirement income product for Australia's superannuation system. This considers the core features and minimum safeguards required for a default retirement product. It also uses survey data from Susan Bell Research to examine how Australians understand and engage with the superannuation system. This was used to also identify and quantify the size of cohorts that would likely use and benefit from a default retirement income product.

- This study builds on the extensive collection of research on this topic, specifically, the *Super System Review*, *Retirement Income Review*, and various other initiatives. In unison, these studies have identified the need for reform in Australia's superannuation industry, specifically the retirement phase, and proposed various pathways forward.

- For simplicity, this study does not factor in the interaction between products and the age pension, however acknowledges this is an important consideration for Australians transitioning to or in retirement.

- This study could be extended to define the thresholds under which a default retirement product would come into effect for Australians as well as how to implement a default product and overcome its associated challenges (e.g., superannuation funds limited knowledge of when Australians retire or having the necessary details to facilitate income payments), however this is not directly addressed in this paper.

- All information in this report is derived or estimated by independent Mandala analysis using both proprietary and publicly available information.

Executive summary

Australia's maturing superannuation system warrants a retirement phase solution that benefits its members

Over the last three decades, Australia has developed a world class retirement income system. This includes a superannuation system that has accumulated more than $3.5 trillion in savings since the early 1990s. This has been underpinned by the Superannuation Guarantee (SG), preservation of these savings until 55 to 60 years of age, and strong fund performance that has delivered 8 per cent returns over the past decade.[1] These strong settings have placed Australia 6th on the Global Pension Index (GPI) as of 2022.

As Australia's superannuation system matures, there are a growing number of Australians moving into retirement with large superannuation balances. The typical Australian retiring in the next three decades could have a balance of up to $500,000 (2023 dollars) by the time they can access their superannuation savings.[2] With this structural change imminent, there is a need for Australia to evolve its current policy architecture to reflect the importance of the retirement phase of the superannuation system, and support those transitioning into retirement.

Without the right retirement product, Australians moving into retirement could be losing out on thousands of their savings. For example, Australians that continue to hold an accumulation phase account will be subjected to earnings tax – costing the typical Australian that is eligible to retire up to $1,900 in a year. Similarly, Australians that opt to withdraw their savings in a lump sum could be missing out on up to $3,800 of additional earnings in a year if they had a retirement product invested in a balanced asset allocation.

While advice can be an important part of the solution, policy settings could be improved by introducing a default retirement product. Given this, there is a need to identify how the Government and industry should design a default retirement

product, and who is likely to use and benefit from it.

Default retirement products need to be flexible, have an appropriate asset allocation and minimum safeguards to protect the interests of Australians

To protect the interests of Australians transitioning into retirement, a default retirement product needs to be flexible, have an appropriate asset allocation and minimum safeguards.

Retirement products have an inherent trade-off between flexibility and longevity risk. Account-based pensions provide members with significant flexibility and choice, however this is at the cost of managing longevity risk. On the other hand, annuities provide protection against longevity risk, but provide very limited choice and flexibility to members. While a default retirement product follows a generalist approach, it may not address individualised needs for all retirees. Therefore, it is critical for a default product to be reversible, ensuring Australians maintain control over their savings and retirement.

High levels of flexibility come at the expense of traditional longevity protection offered by products such as annuities. Default retirement products should have appropriate asset allocation that helps to manage risks associated with longevity and inflation. This will require exposure to growth asset categories such as equities, property and infrastructure.

Default products need to also be complemented with minimum safeguards focused on protecting the interests of Australians in retirement. At a minimum, retirement products that are eligible for defaulting should be (i) performance tested and included in a comparison tool; (ii) have low fees; and (iii) be standardised to ensure easy comparability.

The introduction of a default retirement product can be government-led, industry-led, or collaboration between the two.

By 2040, there could be 3.3 million retired Australians using and benefiting from a default retirement income product

Just like the accumulation phase, a default product will not be appropriate for everyone. However, as of 2023 there are 1.4 million Australians that are likely to use and benefit from a default retirement product. This could grow by 1.9 million to 3.3 million Australians by 2040. For these Australians, a default product will provide them with a safety net that improves financial outcomes in retirement.

Australians with limited understanding and engagement with the superannuation system are most likely to use and benefit from a retirement default product. They are typically Australians with low superannuation balances that are confused about their financial options in retirement, are less engaged, and desire a simple, low fee product for retirement. A majority of these Australians (70 per cent) will also need to supplement their super savings with the Age Pension.

Australians benefiting from a default retirement product are also likely to have benefited greatly from MySuper products, the default product for the accumulation phase.

Next steps in superannuation policy reform

Reforming the existing policy settings and enabling these Australians to benefit from a default retirement product requires a three-phased approach:

1. Update legislative and regulatory frameworks to define the core objective of superannuation.

2. Establish frameworks and regulatory requirements for the default retirement product.

3. Evolve industry standards to introduce default retirement products for all Australians.

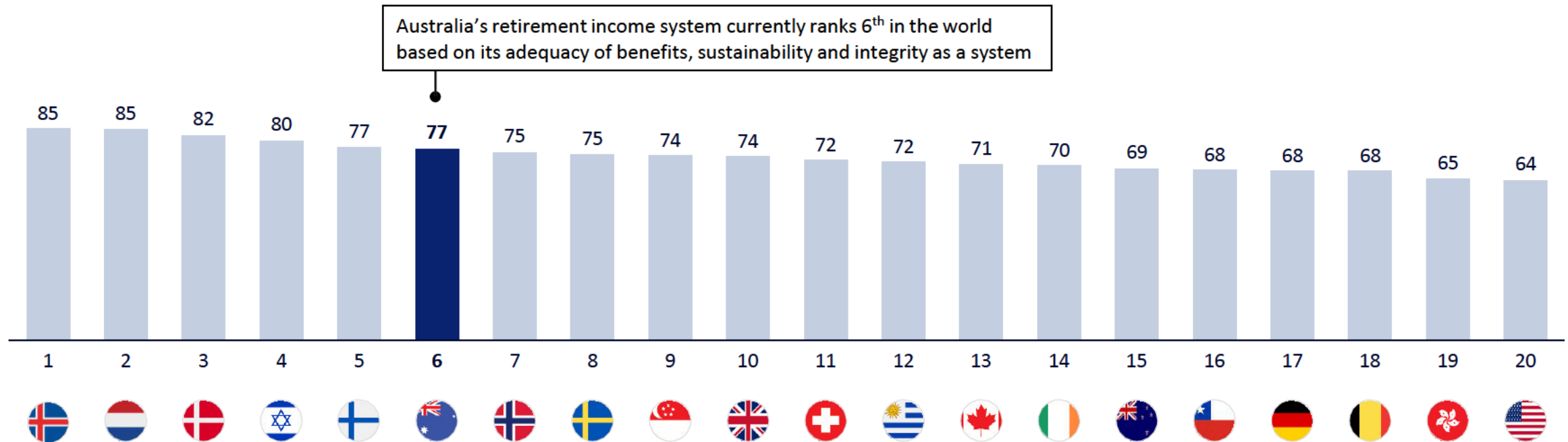|	
1	**Australia's maturing superannuation system warrants a retirement phase solution that benefits its members**
2	Default retirement products need to be flexible, have an appropriate asset allocation and minimum safeguards to protect the interests of Australians
3	By 2040, there could be 3.3 million retired Australians using and benefiting from a default retirement income product
4	Next steps in superannuation policy reform

Australia has developed a world class retirement income system, ranking 6th on the Global Pension Index

Exhibit 1: Australia's ranking on the Global Pension Index[1]

Index score, 2022

Australia's retirement income system currently ranks 6th in the world based on its adequacy of benefits, sustainability and integrity as a system

Rank	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Score	85	85	82	80	77	77	75	75	74	74	72	72	71	70	69	68	68	68	65	64

Over the last three decades, Australia has developed a world class retirement system. Australia's position was recognised in the global ranking of pension systems such as the Global Pension Index (GPI). The GPI ranks over 30 pension systems globally based on a range of factors that consider the system's adequacy of benefits, sustainability of the system for the long-term and integrity of the system.

In recent years, Australia has consistently ranked in the top 10 systems in the world, reaching as high as the 3rd best system globally. As of 2022, Australia is ranked 6th in the world, ahead of countries such as Norway, Sweden and Singapore.

1 The Global Pension Index score is based on the 'Adequacy', 'Sustainability', and 'Integrity' of each countries retirement income system. The rankings consider 44 global pension systems.
Source: Mercer (2022) *Global Pension Index 2022*; Mandala analysis.

Effective default settings have led to a superannuation system with over $3.5T in member savings, ready to deliver higher relative standards of living in retirement

Exhibit 2: Superannuation assets under management

Nominal $AU billion, 1988-2023

The superannuation guarantee (SG) rate was introduced in 1992 at 3% to make employers legally required to pay super.

Changes to the SG were introduced in 2010 to increase the rate to 12%.

Minimum salary requirements to receive the SG were removed.

3,541

The SG rate was progressively increased to 9% by 2002.

MySuper was introduced in 2014 as a default product with the intention of expanding this to retirement. Scheduled SG increases were delayed.

Your Future, Your Super performance tests were introduced, and the SG increased for the first time since 2014.

Compulsory savings	Preservation	Strong fund performance
The introduction of the Superannuation Guarantee in 1992 and its associated tax concessions have helped. The SG is set to rise incrementally to 12% by 2025.	Limiting access to superannuation savings until Australians reach the 'preservation age'[1] has been critical in ensuring these savings remain intact.	Superannuation funds have performed strongly over the past few decades, capitalising on a period of unprecedented growth in equities and infrastructure.

1 The preservation age ranges for 55 years for those born prior to 1 July 1960 to 60 years of age for those born after 30 June 1964.
Source: ABS (2022) *Managed Funds*; APRA (2023) *Quarterly superannuation performance statistics*; Mandala analysis.

Effective use of super to fund retirement incomes will be critical as the system matures
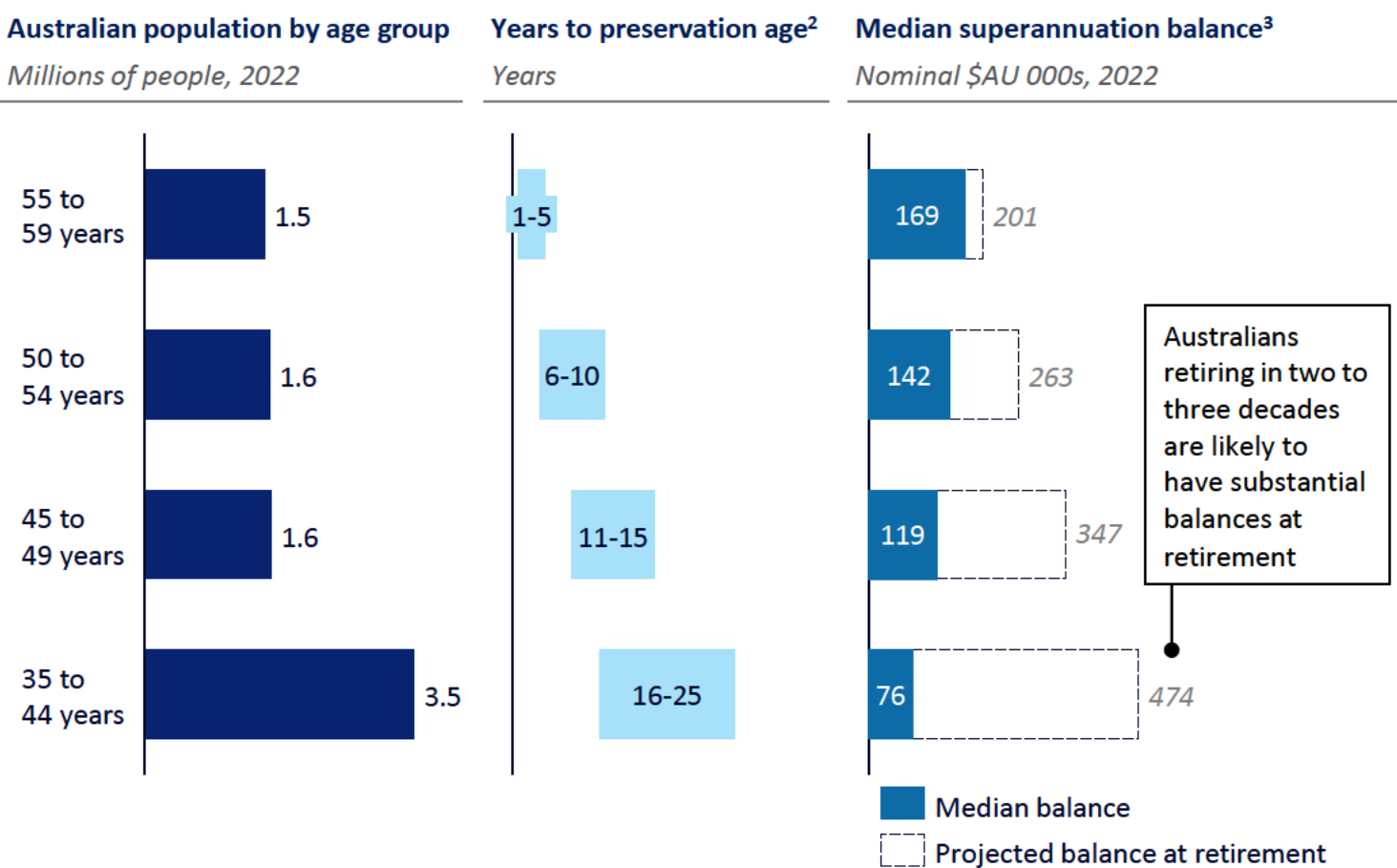
The strong position of Australia's superannuation system has been underpinned by policies and industry development for the accumulation phase.

However, an ageing population means more Australians are transitioning into retirement. These Australians will have significantly larger superannuation balances compared to retirees today. This is driven by exposure to the superannuation guarantee at higher rates for a longer period of their working life.

Australians retiring in the next three decades could have a balance significantly larger than those retiring today. This is significantly larger than typical balance of Australians aged 65 or older ($102,400).[1]

With this structural change on the horizon, there is an urgent need to re-calibrate the retirement phase of superannuation to work in favour of Australians transitioning into retirement and reflect their evolving needs.

Exhibit 3: The typical Australian entering retirement in the next few decades could have superannuation balances of up to $0.5M by the time they are eligible to retire

Australian population by age group	Years to preservation age[2]	Median superannuation balance[3]
Millions of people, 2022	*Years*	*Nominal $AU 000s, 2022*

Age group	Population	Years to preservation age	Median balance	Projected balance at retirement
55 to 59 years	1.5	1-5	169	201
50 to 54 years	1.6	6-10	142	263
45 to 49 years	1.6	11-15	119	347
35 to 44 years	3.5	16-25	76	474

Australians retiring in two to three decades are likely to have substantial balances at retirement

■ Median balance

▭ Projected balance at retirement

1 Median superannuation balance of Australians aged 65 or older; ATO (2023) *Taxation Statistics*.
2 Super savings can be accessed from the age of 60; the projected balances use the mid-range of years until this age.
3 Additional balances have been estimated based on the median superannuation balance and median contributions for each age cohort. Returns are based on the median performance of a balanced portfolio of as of July 2023, generating a nominal return of approximately 6.5% per year over a 15-year period; SuperRatings (2023) *Accumulation Fund Credit Rating Survey*.
Source: ABS (2022) *Census Population*; APRA (2022) *Annual fund-level superannuation statistics*; ATO (2023) *Taxation Statistics*; Mandala analysis.

However, the current system does little to encourage Australians into suitable high-quality retirement products

Nearly half (49 per cent) of Australians eligible for retirement (65 years or older) continue to hold accumulation phase accounts, with large savings. While there are legitimate reasons for retired Australians to continue to hold accumulation accounts, this indicates there are many Australians missing out on benefits due to limited guidance on the right products.
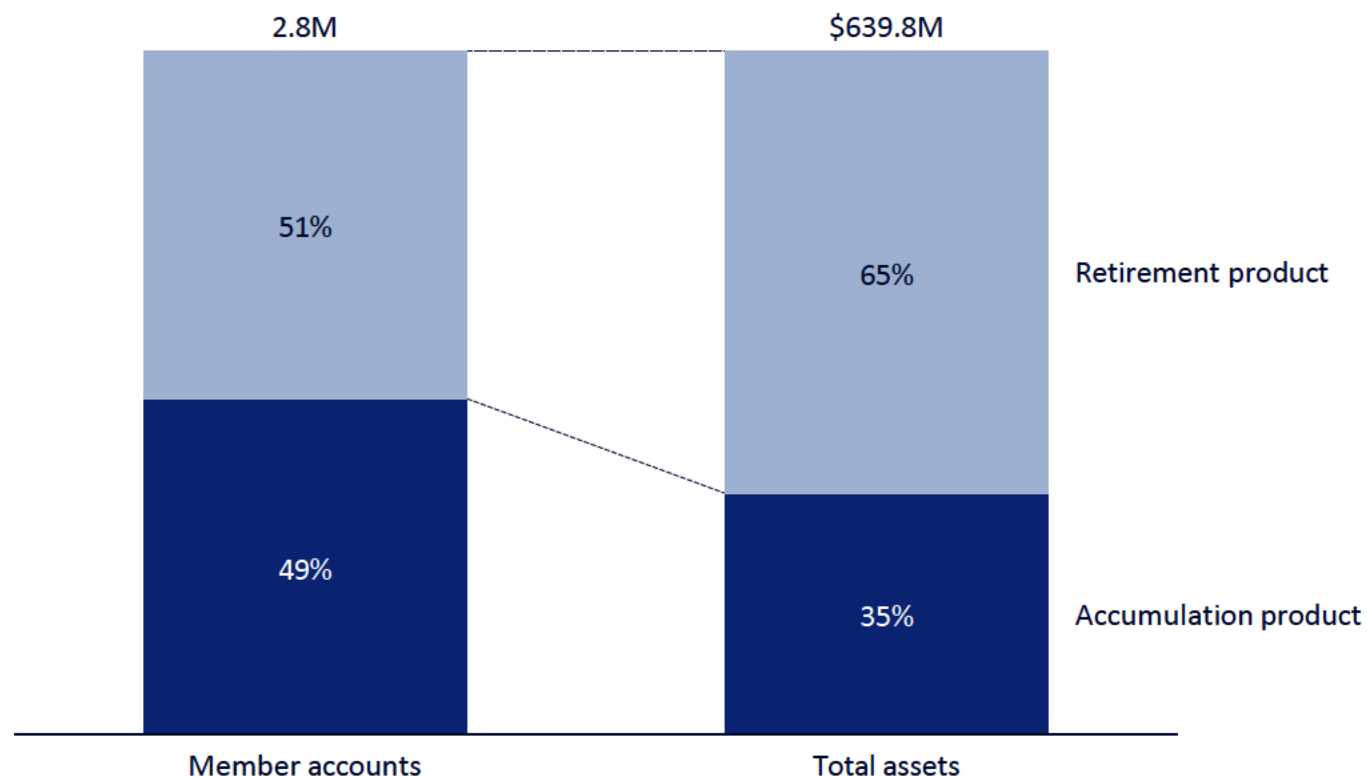
The three primary reasons Australians continue to hold on to accumulation products include:

1. They have a balance greater than $1.9 million, which would be subjected to tax.
2. They have other sources of income, including current and potential employment.
3. They were unaware of retirement income products or that they needed to make an active decision.

It is the Australians in this last group of lacking awareness of retirement products that are missing out on savings and require support as they transition into retirement. This is exacerbated by the system's limited capacity, particularly that of trustees, to understand when Australians are moving into retirement.

Exhibit 4: Distribution of superannuation accounts and assets by product type

LHS: Number of member accounts; RHS: $AU millions held by Australians aged 65 years or older, 2022

Member accounts — 2.8M: Retirement product 51%, Accumulation product 49%

Total assets — $639.8M: Retirement product 65%, Accumulation product 35%

The wrong retirement product can cost Australian retirees thousands every year

While there are some Australians in retirement that may continue to stay in an accumulation product for a range of reasons (see previous page), there are Australians missing out on two key benefits of a retirement product: (1) tax savings on investment earnings; and (2) higher returns from optimising their asset allocation.
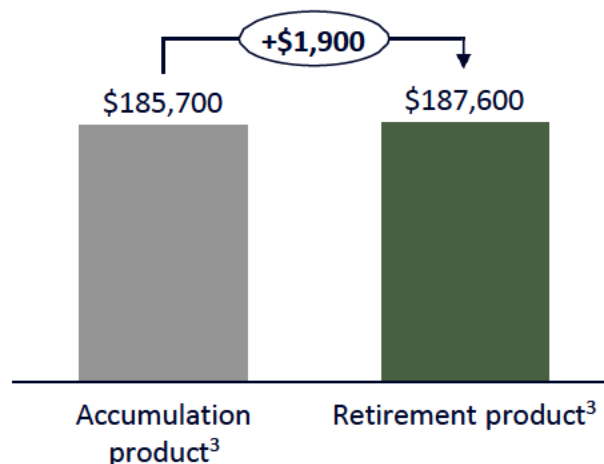
Accumulation products in superannuation attract a tax of 15 per cent on any investment earnings. Therefore, the typical Australian eligible for retirement with approximately $175,100[1] in their superannuation earning a return of 7 per cent in a year could pay $1,900 in tax. Meanwhile, Australians that have a retirement product are not subjected to any tax on their investment earnings, saving them $1,900 . These savings will continue to compound each year as their balances grow, saving up to a total of $26,000 after 10 years.

Australians in retirement can also benefit from a retirement product that has the right asset allocation. An ideal asset allocation can mitigate longevity risk and enhance financial outcomes.[2] Specifically, Australians that have the right asset allocation could earn up to $3,800 more in a year than those withdrawing their savings as a lump sum and investing in a term deposit. Over a 10-year period, Australians eligible for retirement could earn up to an additional $96,000 by optimising their asset allocation in a retirement product.

Exhibit 5: Benefits of a retirement product after 1 year for typical Australian eligible for retirement[1]
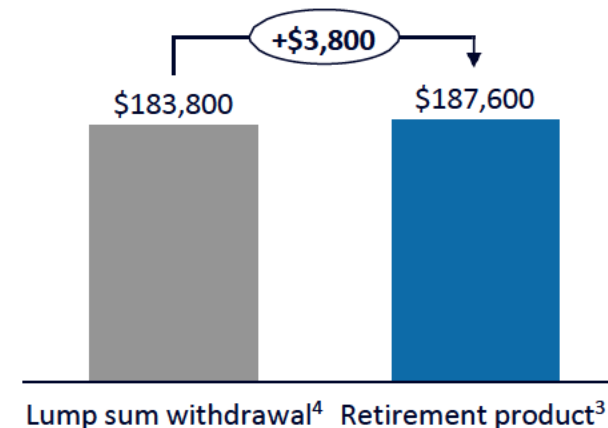*Nominal $AU, 2023*

Retirees save on tax by moving from an accumulation product to retirement product

+$1,900

$185,700 $187,600

Accumulation product[3]   Retirement product[3]

Investment earnings in retirement products are tax-free, while earnings in accumulation products are subjected to a 15 per cent tax.

Retirees benefit from investing in an asset allocation that yields better risk-adjusted returns

+$3,800

$183,800 $187,600

Lump sum withdrawal[4]   Retirement product[3]

Selecting a balanced asset allocation can generate higher earnings for Australians in retirement relative to cash based products.

Note: Excludes minimum drawdown requirements for retirement income products.
1 Based on the median superannuation balance of $175,100 for Australians aged 60 to 64 years old (eligible to withdraw from their superannuation savings); ATO (2022) *Taxation Statistics*.
2 Longevity risk refers to the risk of an individual outliving their retirement savings.
3 Based on the median performance of a balanced portfolio of as of July 2023, generating a return of approximately 7% per year over a 10-year period; SuperRatings (2023) *Accumulation Fund Credit Rating Survey*. Returns are excluding fees and insurance deductions.
4 Based on a lump-sum withdrawal that is invested in a term deposit rate of approximately 5% per year as of September 2023. Savings withdrawn as a lump sum may also attract income tax depending on other sources of income.
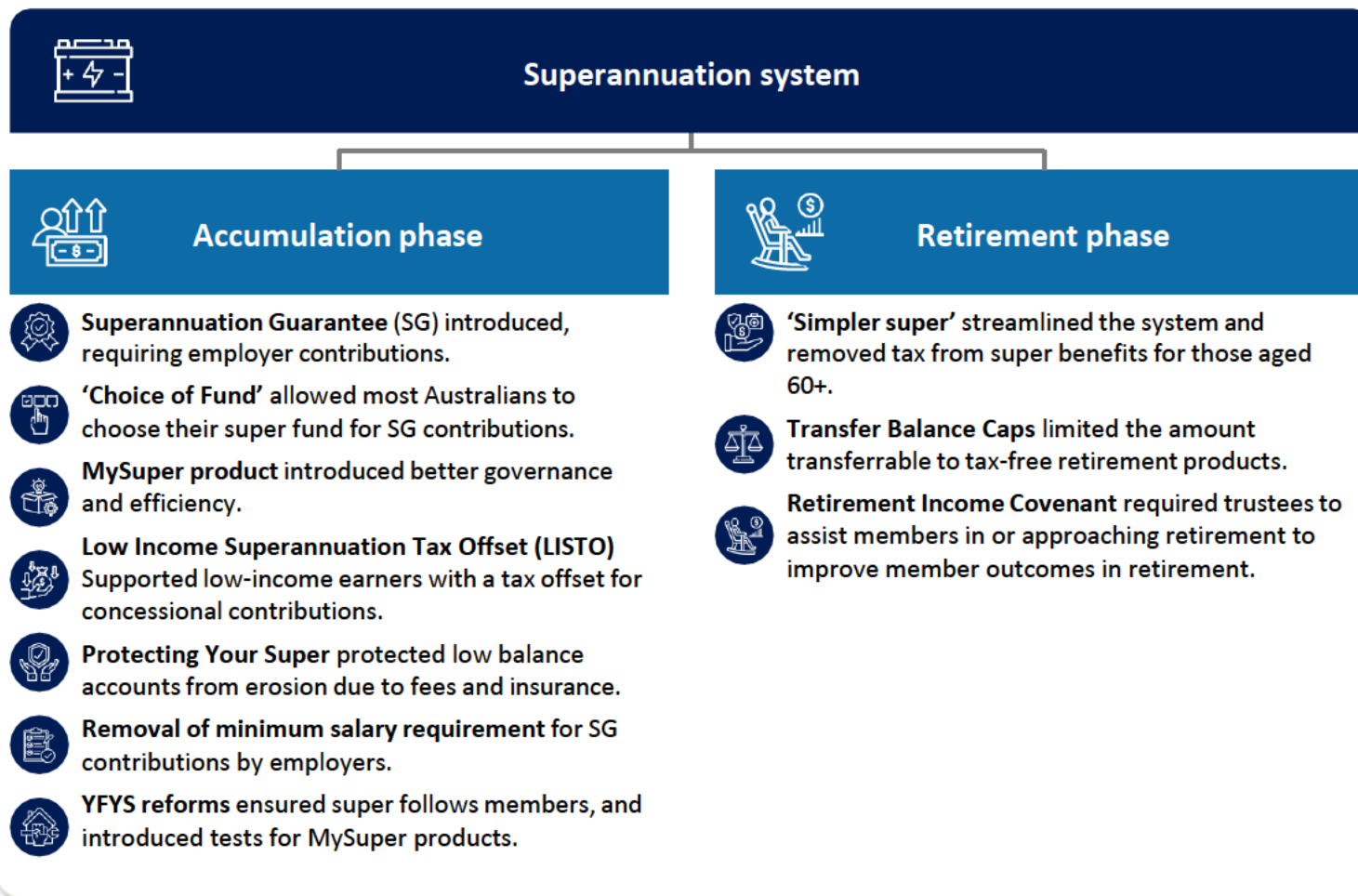Source: Mandala analysis.

The policy architecture needs to evolve to reflect a system where the retirement phase is equally important

Australia's superannuation system is at an inflection point, requiring an urgent re-evaluation of its policy architecture. Historically, the efforts of policymakers have been focused on the accumulation phase. However, the retirement phase, a critical component in securing financial stability for retirees, has received relatively less attention.

Recognising the structural changes in Australia's population and economy, there is a need to reorient the priorities of policymakers and trustees in relation to superannuation. While recent policy reforms and industry actions have been a step in the right direction, they have not been enough.

Exhibit 6: Reform has focused on the accumulation phase to date, but this needs to change to generate effective retirement phase policies as Australia's population changes

Superannuation system

Accumulation phase

- **Superannuation Guarantee (SG) introduced**, requiring employer contributions.
- **'Choice of Fund'** allowed most Australians to choose their super fund for SG contributions.
- **MySuper product** introduced better governance and efficiency.
- **Low Income Superannuation Tax Offset (LISTO)** Supported low-income earners with a tax offset for concessional contributions.
- **Protecting Your Super** protected low balance accounts from erosion due to fees and insurance.
- **Removal of minimum salary requirement** for SG contributions by employers.
- **YFYS reforms** ensured super follows members, and introduced tests for MySuper products.

Retirement phase

- **'Simpler super'** streamlined the system and removed tax from super benefits for those aged 60+.
- **Transfer Balance Caps** limited the amount transferrable to tax-free retirement products.
- **Retirement Income Covenant** required trustees to assist members in or approaching retirement to improve member outcomes in retirement.

Recent efforts to reform the super system are not comprehensive or well-conceived

There have been significant efforts to reform the superannuation system in recent years. However, the focus remains on the accumulation phase. The exception to that is the Retirement Income Covenant (RIC), which emerged from the recent *Retirement Income Review* (2020). Yet, the efficacy and alignment of these reforms with retirees' actual needs may fall short.

The RIC sees trustees having the primary responsibility to ensure members have positive experiences in retirement. However, this places the entire burden upon trustees, as opposed to a shared responsibility with government.

Similarly, the Member Outcomes Assessment risks becoming a mere procedural compliance, rather than a meaningful gauge of member benefit enhancements.

The YFYS reforms introduced a performance test to ensure trustees act in the best interest of members. However, this test does not apply to retirement phase products. There is a concern that funds might apply this performance test to retirement products, even when it might not be fit for purpose. The retirement phase is more about matching assets with liabilities and ensuring stability of cash flows. Applying a test thought for optimising risk adjusted returns could misguide retirement income strategies.

Exhibit 7: Challenges and limitations posed by the current regulatory approach in superannuation

⚖️ Initiative	💡 Application		🔲 Challenges and limitations
	📊 Accumulation	💵 Retirement	
Retirement Income Covenant (2021) 📄	❌	✔️	▪ Places entire responsibility of the retirement phase on trustees ▪ Trustees have limited oversight on when people retire (vs government) ▪ Requires trustees to collate data, a lot of which the government already has
Member outcomes assessment (2018) 👥	✔️	✔️	▪ Broadness of benchmarking can lead to inconsistencies across funds ▪ Might not fully capture all choices available to a member, potentially limiting their exposure to better-performing options
Your Future, Your Super (2019) ⭕	✔️	❌	▪ The YFYS performance test does not cover the retirement phase, leading to concerns about its inappropriate extrapolation for retirement products. ▪ There is a need for a test tailored to retirement products.

Note: See Exhibit B4 in the appendix for more detail.
Source: The Australian Government The Treasury (2020) *Retirement Income Review*; APRA (2018) *Prudential Practice Guide SPG 516 Outcomes Assessment*; The Australian Government The Treasury (2021) *Your Future, Your Super reforms*; Mandala analysis.

Many Australians will need a sensible default to secure their financial well-being

Millions of Australians have been helped to save for their retirement through strong defaults and consumer protections, without the necessity of developing an interest in the mechanics of superannuation.

These Australians should be confident that this same system will protect and help them as they move into their retirement by introducing a safety net for those who might otherwise fall through the cracks.

The remainder of this report will show that a default retirement product, whether mandated by the government or selected by a fund trustee, presents a valuable opportunity to enhance retirement living standards, especially for those less engaged or with limited understanding or need of retirement planning. For these Australians, a default retirement product will automatically place them into a solution that provides them with a regular income during their retirement.

Financial advice will continue to be important for those Australians that are actively seeking a tailored retirement solution based on their individual circumstances. This is likely to include Australians that have higher superannuation balances or have other sources of income, such as employment or investments from voluntary savings outside of superannuation.

Exhibit 8: Introducing a default product is one of the key components to reforming the retirement phase of Australia's retirement system to improve the living standards of Australians

A

Default retirement income product

- Automatically places Australians transitioning to or in retirement into a retirement product that provides a regular income based on their superannuation savings during their retirement years.
- The default retirement product should provide flexibility, with an appropriate asset allocation and minimum safeguards.
- Australians with either a limited understanding or lower engagement with their finances and retirement income are likely to use and financially benefit from a default retirement income product.

Focus of this study

B

Financial advice for Australians in retirement or thinking about retiring

- Provides Australians either transitioning to or in retirement guidance to make informed decisions about managing their finances during their retirement years.
- Financial advice is tailored to the individual's circumstances, including finances, retirement goals, and risk tolerance.
- Australians that are highly engaged with their finances and retirement income are more likely to use financial advice.

Designing a default retirement product requires consideration of its key features, its key users and a roadmap to reform

Exhibit 9: Components to designing a default retirement income product

Key questions examined in this study

Define the key features of a default product

- Defining the key features of a default retirement product can guide Government and trustees on how to design the product.
- Establishing minimum features and safeguards will ensure the interests of all Australians is protected by the default retirement product.

- What are the core features and characteristics of a default retirement income product?
- What are the minimum safeguards that are required to protect the interests of Australians in retirement?
- What are the options available for implementing a default retirement product?

Identify cohorts likely to use a default product

- Identifying the cohorts likely to use a default product can help superannuation funds developing products that are tailored towards the right populations.
- Identifying these cohorts can inform Government and Industry when a default retirement product should come into effect.

- Who are the cohorts of Australians that will benefit from the availability of a default retirement product?
- What are the typical characteristics of these people?
- How many of them are there in Australia and how will this change over time?

Next steps in superannuation policy reform

- Government and Industry need to work closely to identify and align on a clear path to introducing a default retirement product.
- Establishing the right path forward can help provide a secure and stable retirement for Australians and improve their retirement outcomes.

- What is the process for Government and Industry to introduce a default retirement product?
- What are the key steps required to re-calibrate the retirement phase of the superannuation system?

1	Australia's maturing superannuation system warrants a retirement phase solution that benefits its members
2	**Default retirement products need to be flexible, have an appropriate asset allocation and minimum safeguards to protect the interests of Australians**
3	By 2040, there could be 3.3 million retired Australians using and benefiting from a default retirement income product
4	There is an opportunity to re-calibrate the superannuation policy settings to work in favour of Australians moving into retirement

The default retirement product should provide flexibility, with an appropriate asset allocation and minimum safeguards

Exhibit 10: Recommended features of a default retirement product

1 — Flexibility

- Default products need to provide flexibility to consumers to ensure they are not locked into a solution they were automatically placed into. This also is important for Australians that wish to re-enter the workforce in future years and make contributions to their savings.

- Flexibility provides members with the ability to actively engage in their retirement planning and make alternative decisions.

- However, it comes at the cost of higher exposure to longevity risk.

2 — Appropriate asset allocation

- High levels of flexibility come at the expense of traditional longevity protection offered by products such as annuities.

- Default retirement products should have appropriate asset allocation that helps to manage longevity and inflation risk.

- This will require exposure to growth asset categories such as equities, property and infrastructure.

3 — Minimum safeguards

- Minimum safeguards will ensure trustees develop default retirement products that are centred on the members' best interests.

- At a minimum we think that all retirement products that are eligible for defaulting should be (i) appropriate testing with the inclusion of a comparison tool; (ii) have low fees; and (iii) be standardised to ensure easy comparability.

Flexibility needs to be the overriding feature of a default retirement product

Flexibility in a default product allows members to opt out the product if they wish to. For those who stay, it allows members to customise key aspects tailored to their needs. This flexibility extends to allowing members who have retired the option to return to work and continue making contributions without complication.
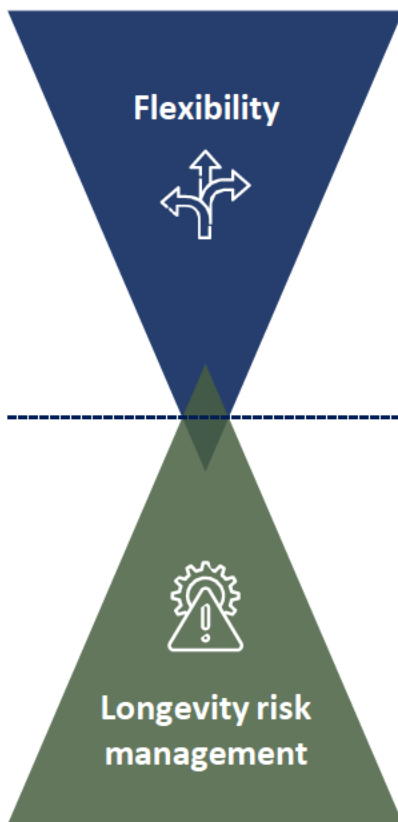
In designing a default retirement product, flexibility needs to be the defining feature. This ensures members are not committed to an option that is irreversible and they continue to exercise control over their savings.

Designing retirement products require careful consideration of various factors. This includes, but is not limited to, flexibility and choice, longevity risk, inflation risk, fee structures, as well as investment options. However, there is an inherent trade-off between some of these features – specifically flexibility and longevity risk. Greater flexibility results in higher levels of longevity risk, and vice versa.

However, a default product may not be the ideal option for all Australians transitioning to or in retirement, specifically those that understand and are engaged with their superannuation. For them, a default product needs to allow them to make active choices about their retirement. Further, retirees may change their preferences and retirement objectives overtime.

1 Flexibility

Exhibit 11: Flexibility needs to be the overriding feature of default retirement products to give members choice and control over their retirement savings

Retirement product features	Examples[1]	Description
Flexibility	Account-based pension	▪ Flexibility ensures members are not locked into a specific product design, particularly when there is uncertainty. ▪ It also allows members to change their income streams and investment strategy as their retirement circumstances change overtime. ▪ Account-based pensions provide members with the greatest degree of flexibility, but fall short in providing protection against the risk of outliving one's savings.
Longevity risk management	Market-linked annuity Lifetime annuity	▪ Managing longevity risk provides stability to ensure members receive a regular income for the rest of their life. ▪ It achieves this by sharing the risk across a pool of members. By sharing the risk, the chance of outliving their savings is reduced. ▪ Lifetime annuities provide the strongest protection against longevity risk, along with the safety net of the Aged Pension, however provides very limited flexibility and choice for members.

1 Examples are non-exhaustive.
Source: Mandala analysis.

Products with an appropriate asset allocation can mitigate longevity risk, while maintaining flexibility

Products such as lifetime annuities and market-linked annuities manage longevity risk by providing retirees with a consistent and stable retirement income for the rest of their lives. However, these products typically have limited flexibility and options, leaving retirees locked into a product regardless of how their circumstances change.

To provide retirees with both flexibility and some mitigation of longevity risk, default retirement products should have an appropriate asset allocation.
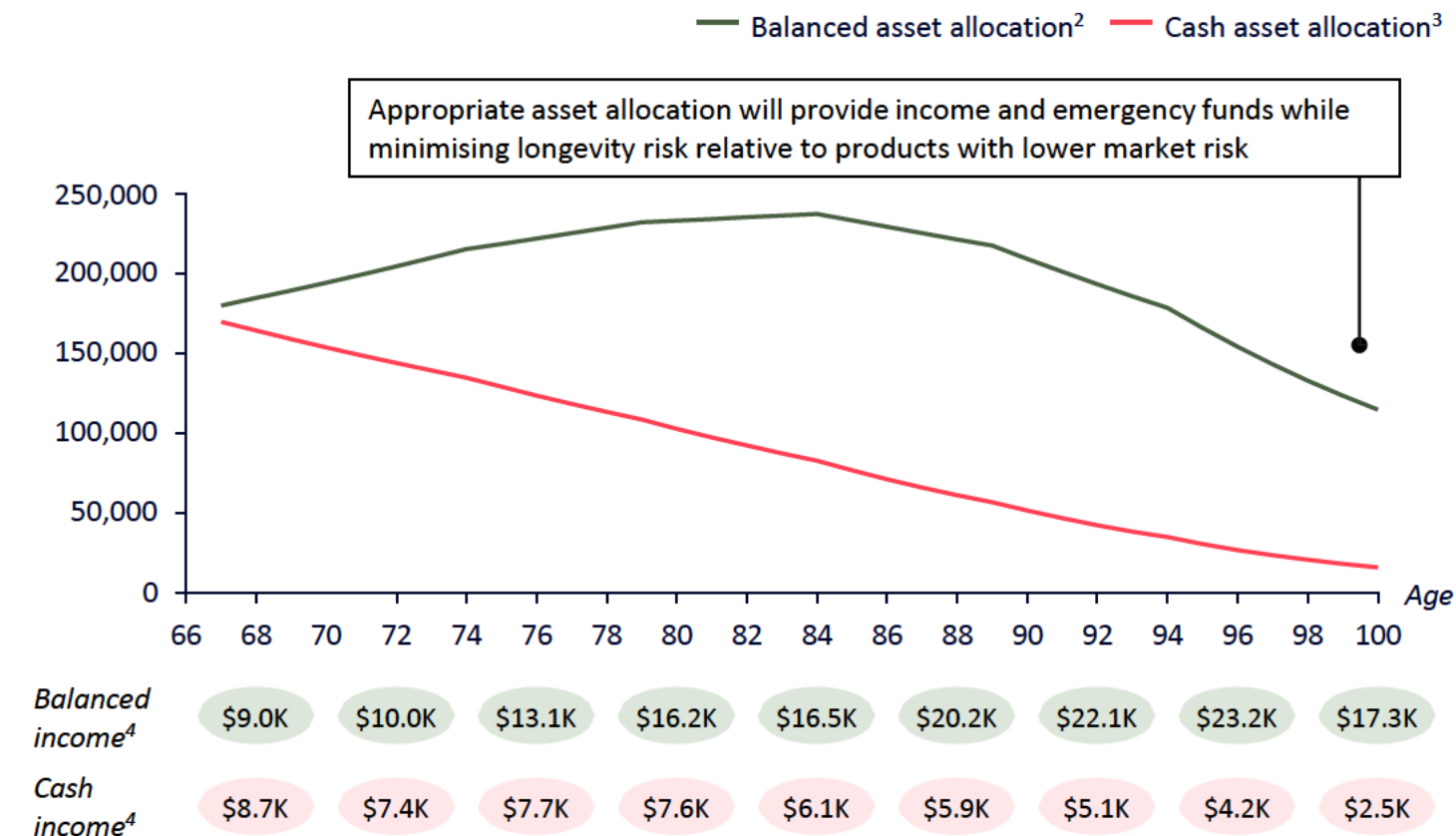
Appropriate asset allocations will ensure retirement products are exposed to growth asset categories such as equities, property and infrastructure. Over the past decade, pension products with a balanced portfolio have returned 8 per cent per annum.[2] Compared to a cash allocation, this could deliver additional savings and income for Australians in retirement.

The typical Australian with a balanced asset allocation will have lower longevity risk versus a cash allocation due to a larger savings balance. Additionally, a balanced asset allocation will generate a retirement income of up to $23,000 per annum, while a cash allocation would return up to $8,700.

---

2 Appropriate asset allocation

Exhibit 12: Illustrative savings and income for typical Australians eligible for retirement by asset allocation[1]

Nominal $AU (2023), Age of retiree

Appropriate asset allocation will provide income and emergency funds while minimising longevity risk relative to products with lower market risk

Balanced asset allocation[2] — Cash asset allocation[3]

	66	68	70	72	74	76	78	80	82	84	86	88	90	92	94	96	98	100
Balanced income[4]	$9.0K		$10.0K		$13.1K		$16.2K		$16.5K		$20.2K		$22.1K		$23.2K		$17.3K	
Cash income[4]	$8.7K		$7.4K		$7.7K		$7.6K		$6.1K		$5.9K		$5.1K		$4.2K		$2.5K	

1 Based on the median superannuation balance of $175,100 for Australians aged 60 to 64 years old and are eligible to withdrawn from their superannuation savings; ATO (2022) *Taxation Statistics*.
2 Appropriate asset allocation assumes a return of 8% per year based on the 10-year historical average of a balance pension product; SuperRatings (2023) *Pension Fund Credit Rating Survey*.
3 Cash allocation assumes a return of 2% per year based on the 10-year historical average of a cash pension product; SuperRatings (2023) *Pension Fund Credit Rating Survey*.
4 Income is based on the minimum drawdown requirements and does not consider any tax liabilities or paydown of preexisting debt; ISA (2023) *Drawdown rates for 2023*.
Source: Mandala analysis.

Members should be protected by a minimum set of safeguards

The *MySuper* product was introduced in 2014, marking a significant reform in the Australian superannuation system. Its main intent was to provide a default product for the accumulation phase, simplifying investment options and ensuring members' best interests are driving decisions.

The primary features of MySuper products included:

1. Standard investments that were in the best interests of members

2. Low fees

3. Product standardisation to ensure members had the information required to make decisions about their savings, including investment options, insurance offerings and many more.

While originally designed as a template for the accumulation phase, the lessons from the *MySuper* and subsequent reforms offer a blueprint for default retirement products, specifically the need for performance testing, cost-efficient competition, and product standardization.

This would also reflect the spirit of the *MySuper* reforms which saw the extension of accumulation phase products into retirement.

3 Minimum safeguards

Exhibit 13: There are key lessons from MySuper on member protections that can be extended to implementing a default retirement income product

Appropriate performance testing[1]	**Low fee and cost structures**	**Transparent and comparable**
▪ Comparison tool that benchmarks the default product against expected returns for its strategic asset allocation ▪ Ensures that super funds not only adhere to best practices but also actively demonstrate and validate that their strategies and decisions yield positive outcomes for their members	▪ Encourage competition between superannuation funds to lower fees and costs for members ▪ Ensures superannuation savings are not eroded by high fees and costs from the funds	▪ Ensure products are standardised and simplified to allow members to easily compare products across trustees ▪ Ensures members receive clear and concise information to make informed decisions when needed

Three approaches to designing retirement products are: government-mandated, soft default, and trustee-led recommendation

Exhibit 14: Approaches to designing a default retirement product can be government-led, industry-led, or collaboration between the two

	Government-led	**Collaborative approach**	**Industry-led**
Options	**A. Mandated default product**	**B. Soft default product**	**C. Guided product selection**
Description	▪ Government mandates how a default product or product menu is designed and implemented ▪ Provides universal coverage for retirees, while also providing regulatory oversight and stability, and lower costs ▪ Provides a solution that may not be suitable for all retirees	▪ Government defines a minimum set of features for a default product or product menu (e.g., asset allocation and appropriate testing), but trustees design the product ▪ The universal features protect members from poor performing products, high costs and complexity ▪ Trustees are not required to offer it, which may limit take-up of default products	▪ Trustees design a product or product menu, and then guide members towards it without auto-enrolling them ▪ Promotes competition through innovative product development and permits funds to leverage their expertise in product design ▪ Trustee-advised products may exclude cohorts that are not captured in the majority of a fund's membership
Default product	✓	✓	✕
Who designs the product?	Government	Trustees	Trustees
Who sets the rules and safeguards?	Government	Government	Trustees

Approach used for default accumulation products

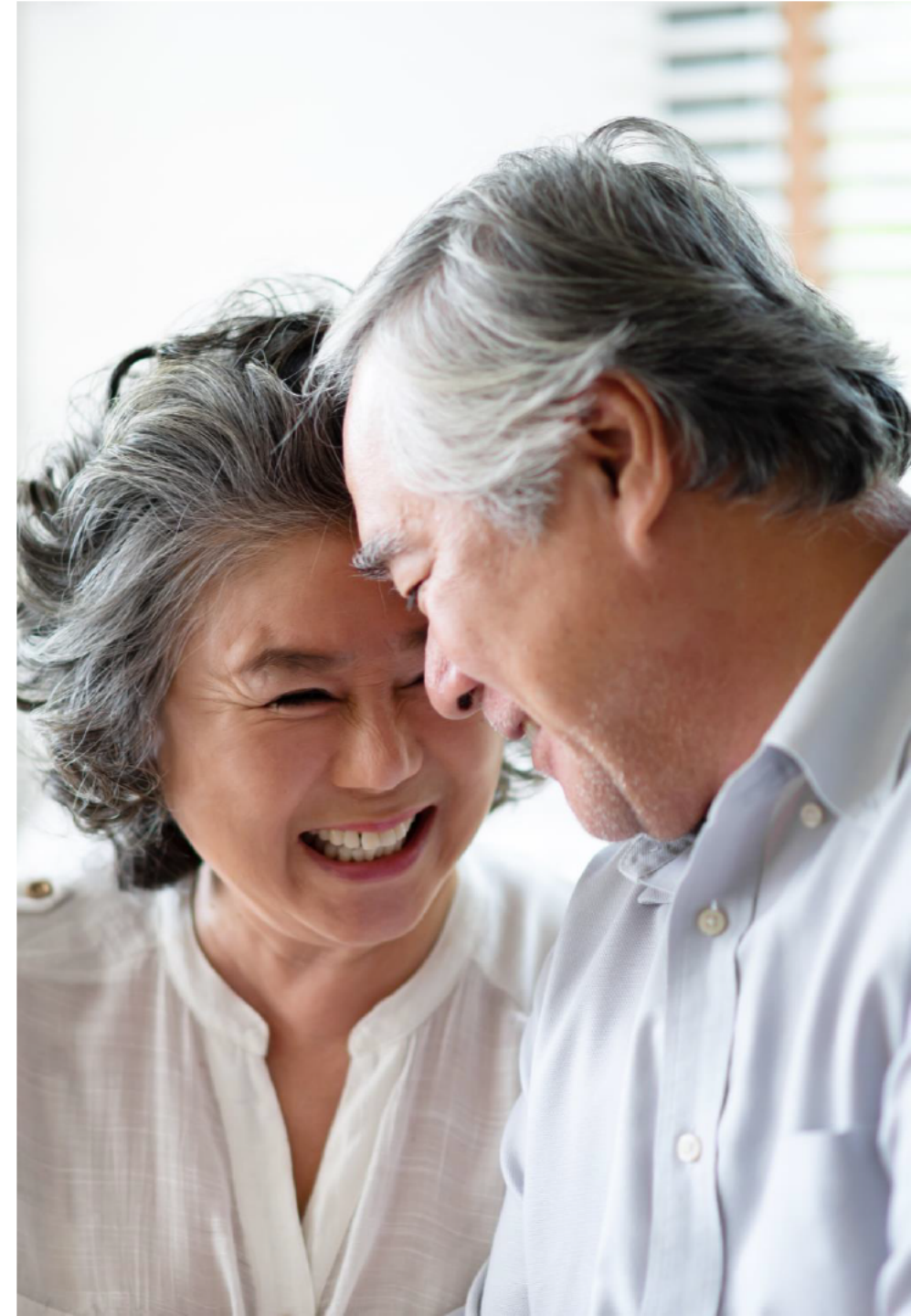|	
1	Australia's maturing superannuation system warrants a retirement phase solution that benefits its members
2	Default retirement products need to be flexible, have an appropriate asset allocation and minimum safeguards to protect the interests of Australians
3	**By 2040, there could be 3.3 million retired Australians using and benefiting from a default retirement income product**
4	Next steps in superannuation policy reform

Members with low understanding or engagement are most likely to benefit from a default

There is a strong relationship between those likely to benefit from a default retirement product and their overall level of engagement with their superannuation. This in turn is strongly correlated with their superannuation balance.
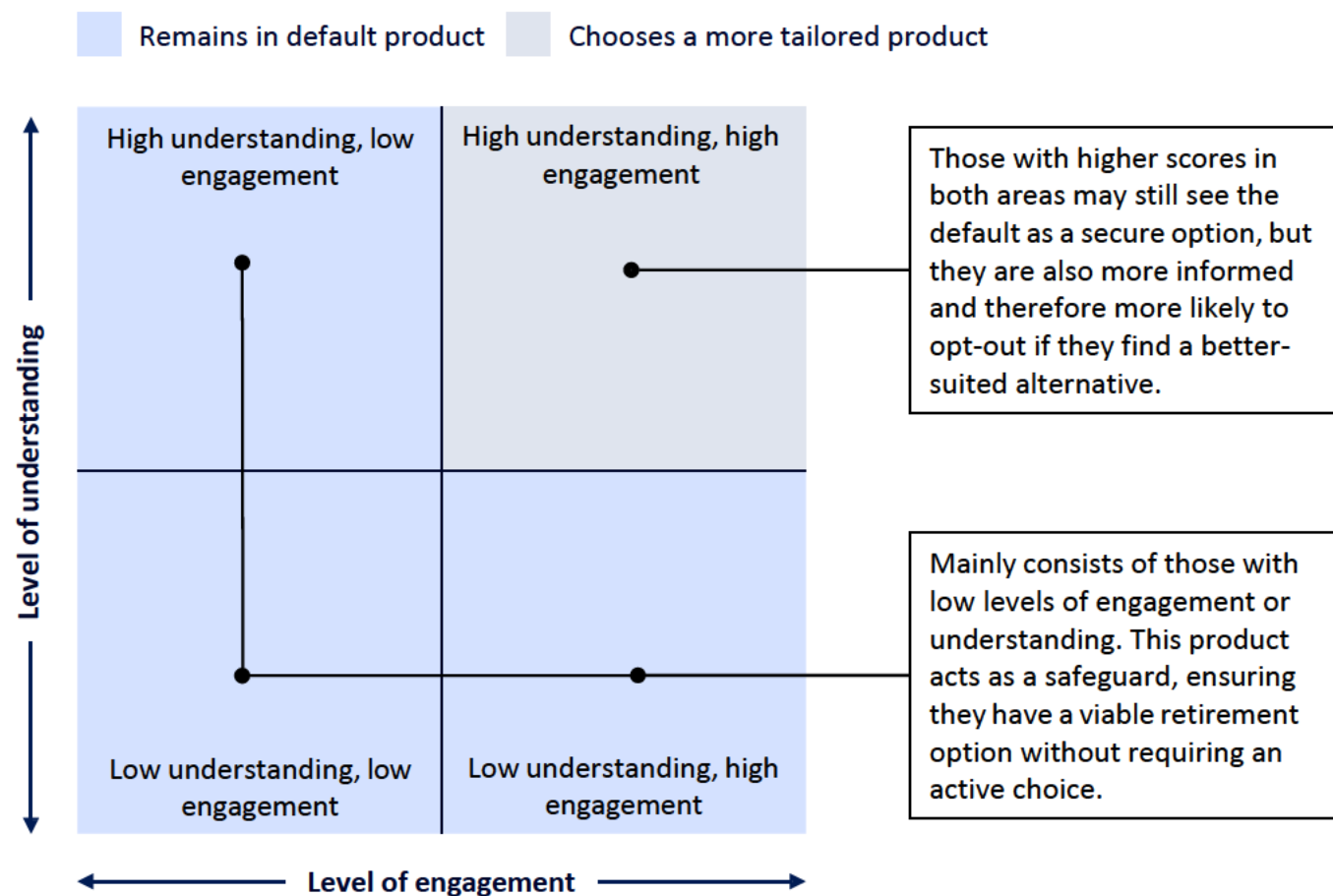
Members with low engagement are unlikely to make an active choice regarding their superannuation as they transition into retirement.[1] This may prevent them from switching their accumulation product into a retirement product, subjecting them to tax on earnings.

On the other hand, members with limited understanding, regardless of their engagement level, can struggle to pick a solution that is right for them. This could result in retired Australians investing their savings into an inappropriate product, such as a cash portfolio.

The introduction of a default retirement product, as presented in Chapter 2, serves as a safety net for everyone. It will likely have the strongest benefits for those low in engagement or with low understanding. These Australians are also likely to have benefited greatly from default products in the accumulation phase.

Those with higher levels in both areas may still see the default as a secure option, but they are also more likely to opt-out if they find an alternative that is better tailored to their specific needs.

Exhibit 15: Segmentation of Australian superannuation members based on their understanding of and engagement with the system

Legend: ▇ Remains in default product   ▇ Chooses a more tailored product

- High understanding, low engagement
- High understanding, high engagement
- Low understanding, low engagement
- Low understanding, high engagement

(Axes: Level of understanding (vertical), Level of engagement (horizontal))

Those with higher scores in both areas may still see the default as a secure option, but they are also more informed and therefore more likely to opt-out if they find a better-suited alternative.

Mainly consists of those with low levels of engagement or understanding. This product acts as a safeguard, ensuring they have a viable retirement option without requiring an active choice.

1 It is important to differentiate between passive members and those making deliberate decisions. While some with low engagement might indeed be passive or apathetic, others might be consciously entrusting their savings to their superannuation fund, which is an active decision.
Source: Mandala analysis

1.4 million Australians who will retire soon would benefit from the introduction of a default retirement product
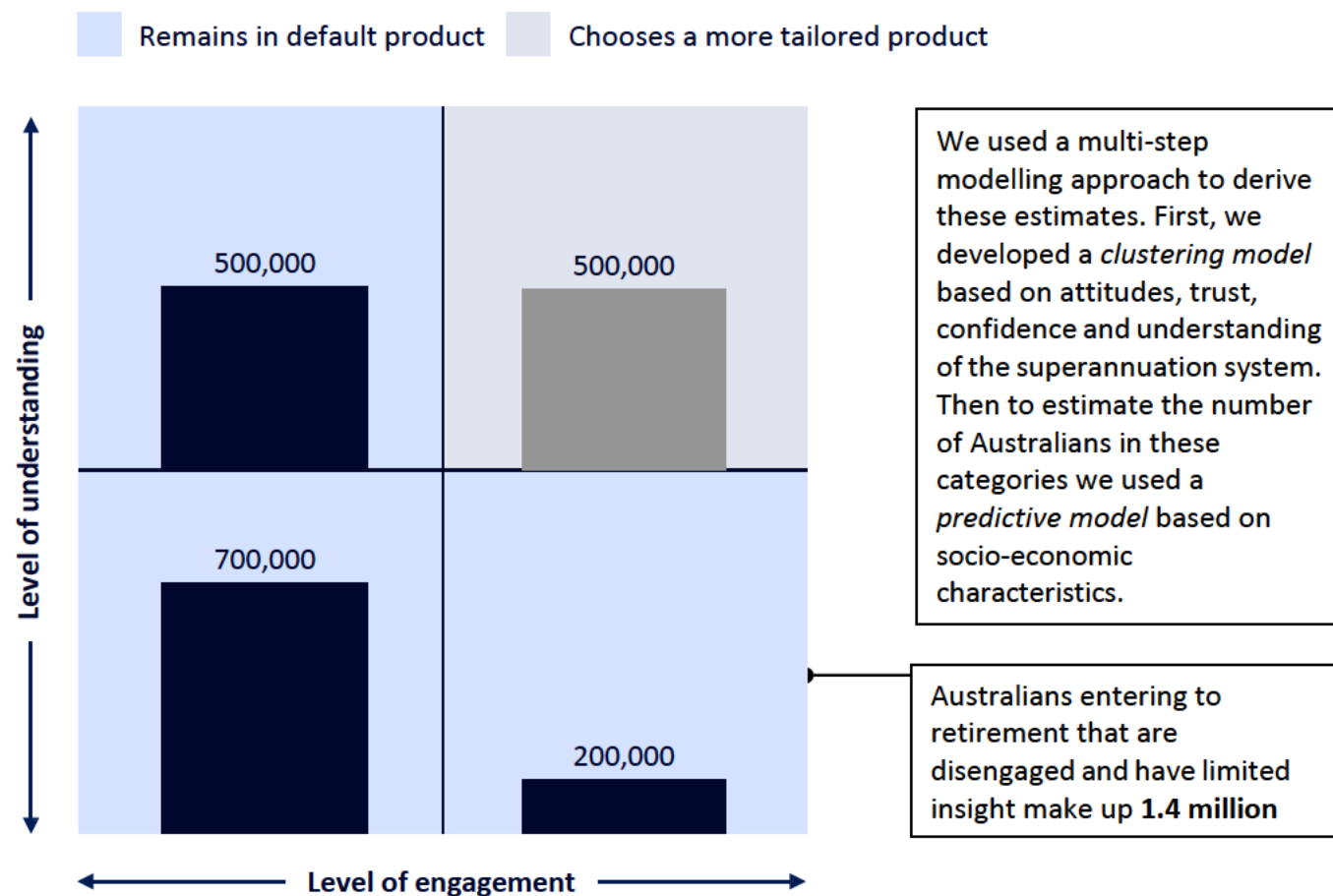
Utilising a recent survey from Susan Bell Research on Australians attitudes towards and understanding of retirement, we developed a clustering model to classify Australians that will retire in the coming years according to two dimensions: understanding and engagement. These not only encompass retirees' actions but also their trust, confidence, and grasp of the superannuation landscape.

We then developed a predictive model of who would find themselves in these cohorts by mapping socio-demographic data onto these identified groups. This allows us to pinpoint which segments of the population are most likely to benefit from default products and which may require different forms of intervention or support.

Today we estimate that 1.4 million Australians will benefit from a default retirement product. This cohort predominantly comprises retirees with limited engagement in their superannuation choices. Their restricted financial literacy underscores the critical role of a default product (as outlined in Chapter 2), acting as a safeguard against potentially suboptimal retirement decisions.

Exhibit 16: Superannuation members' understanding of and engagement with the system

Estimated number of people, aged 60 and over but not retired, 2023

We used a multi-step modelling approach to derive these estimates. First, we developed a *clustering model* based on attitudes, trust, confidence and understanding of the superannuation system. Then to estimate the number of Australians in these categories we used a *predictive model* based on socio-economic characteristics.

Australians entering to retirement that are disengaged and have limited insight make up **1.4 million**

The default retirement product will help retirees that are primarily confused about retirement, less engaged or do not trust the advice from their superannuation fund

Exhibit 17: Engagement and understanding of retirement, financial advice and superannuation

% of people in each group aged 60 and over but not retired, 2023

	Australians likely to remain in the default product		Australians likely to choose a more tailored product	
I am confused about financial options in retirement...[1]	48% / 52%		85% No / 15% Yes	
I am interested in getting advice...[2]	84% / 16%		64% No / 36% Yes	
I would trust the advice of my super fund...[2]	56% / 44%		17% No / 83% Yes	
I am interested in a simple, low fee retirement product...[2, 3]	45% / 55%		37% No / 63% Yes	

Retirees that have faced systemic disadvantages during the accumulation phase benefit the most from a default retirement product

Exhibit 18: Sociodemographic profile of each group

Estimated % of people in each group aged 60 and over but not retired, 2023

		Australians likely to remain in the default product	Australians likely to choose a more tailored product
Gender[1]	Female	64%	47%
	Male	36%	53%
Occupation[2]	White collar job	48%	70%
	Blue collar job	36%	11%
	Other	16%	19%
Financial characteristics[3]	Homeownership	71%	90%
Superannuation balance[4]	Less than $300,000	85%	24%
	$300,000 to $500,000	9%	19%
	More than $500,000	6%	57%

3.3 million Australians are projected to benefit from a default product by 2040
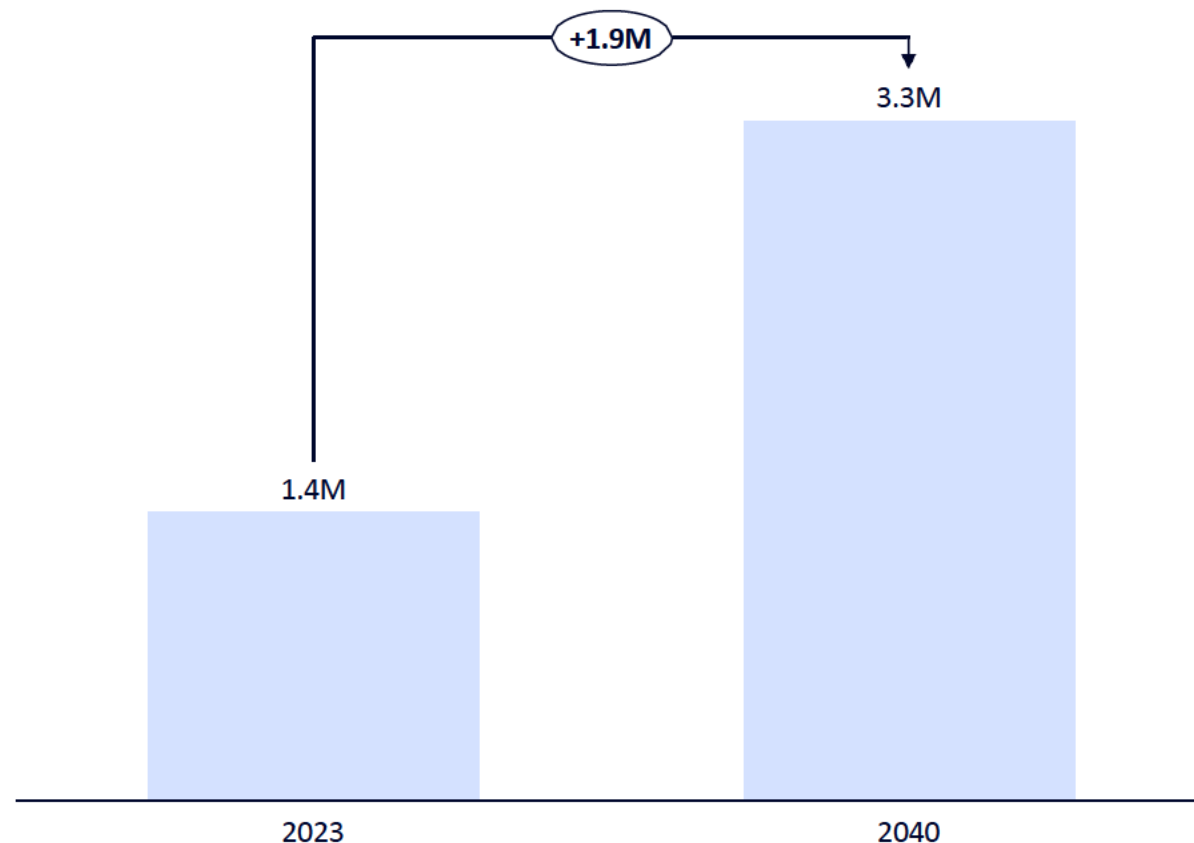
In 2023, 1.4 million Australians would likely use and benefit from a new default retirement product. We forecast that this will rise to 3.3 million by 2040. The introduction of this product aims to simply the status of the retirement system.

Many retirees exhibit low levels of engagement with their superannuation options. Coupled with a limited understanding of financial services, this leaves a significant portion at risk of making suboptimal choices in relation to their retirement.

A default option as outlined in Chapter 2 provides a pragmatic solution for these Australians. By introducing a default retirement product, we ensure there is a safety net for those who might otherwise fall through the cracks due to either limited engagement or confusion. This provides a guided pathway for those less equipped to navigate the complexities of retirement planning.

Exhibit 19: Australians that would benefit from a default product in the retirement phase

Millions of people, 2023 - 2040

+1.9M

3.3M

1.4M

2023

2040

Note: In 2023, the number reflects individuals eligible for retirement but still engaged in the workforce. The 2040 estimate indicates the expected retirees investing in the default product.
Source ABS (2021) *Retirement and retirement intentions;* Mandala analysis.

Majority of Australians likely to benefit from a default product will supplement their super with the Age Pension
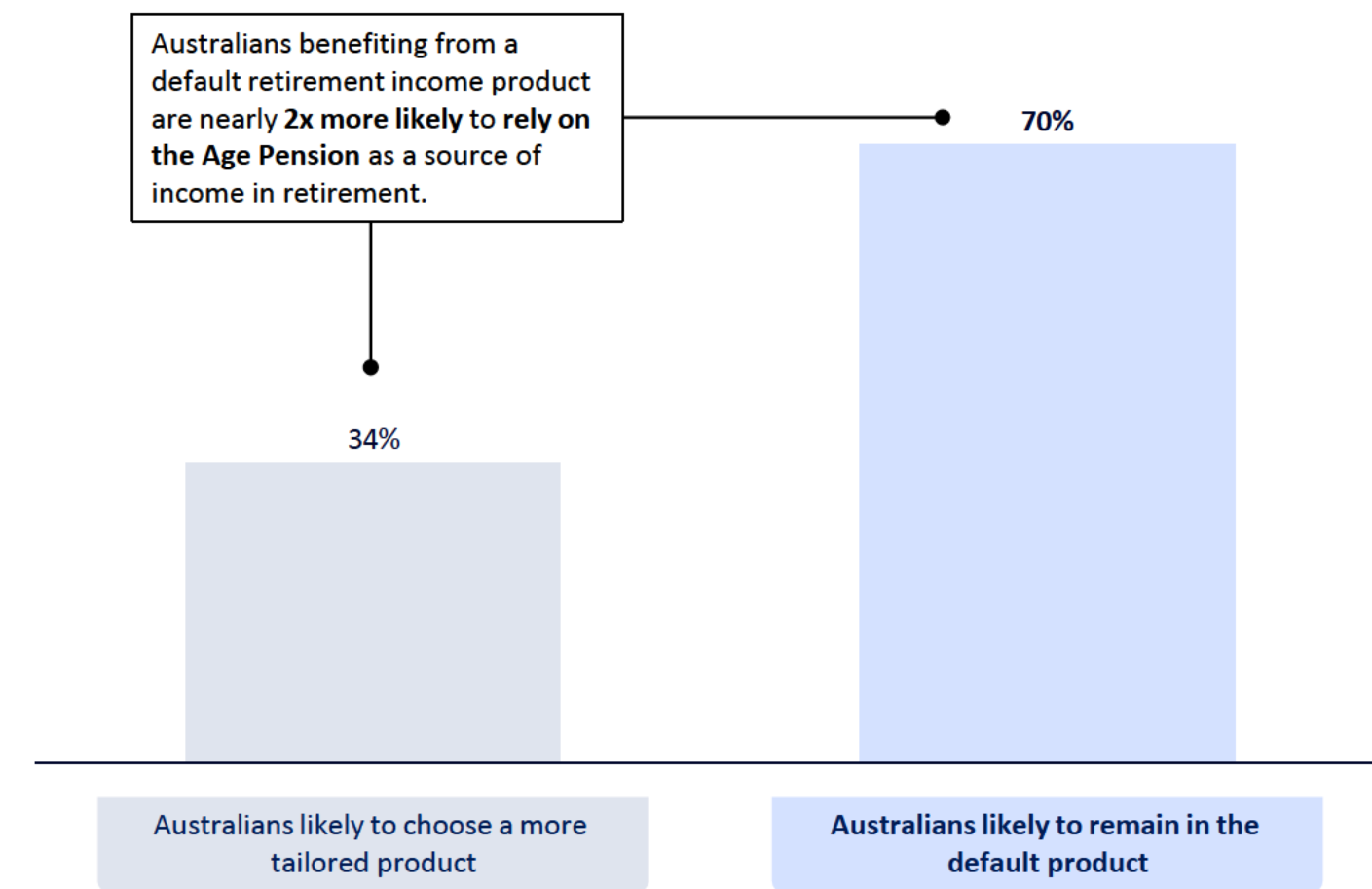
For simplicity, this study does not factor in the interaction between retirement income products and the age pension. However, it is important to acknowledge that the Age Pension will play an important role for Australians that are likely to benefit from a default retirement product. Seven out of ten (70 per cent) of Australians likely to remain in a default product will continue to rely on the Age Pension (full or part) as an additional source of income.

In comparison, Australians likely to choose a more tailored product are significantly less likely to rely on the Age Pension. Only three in ten (34 per cent) of these Australians will rely on the Age Pension in retirement.

As the design sophistication of default retirement products grows, there is a need to consider the interaction between the Age Pension facilitated by the Government and superannuation savings that are accumulated through compulsory and voluntary savings.

Exhibit 20: Reliance on the age pension by use of default retirement product

Estimated % of people in each group aged 60 and over but not retired, 2023

Australians benefiting from a default retirement income product are nearly **2x more likely** to **rely on the Age Pension** as a source of income in retirement.

70%

34%

Australians likely to choose a more tailored product

Australians likely to remain in the default product

Note: Based on responses as to whether they are receiving the full or part Age Pension payments or disability support.
Source: Susan Bell Research (2023) *The retirement landscape 2023*; Mandala analysis.

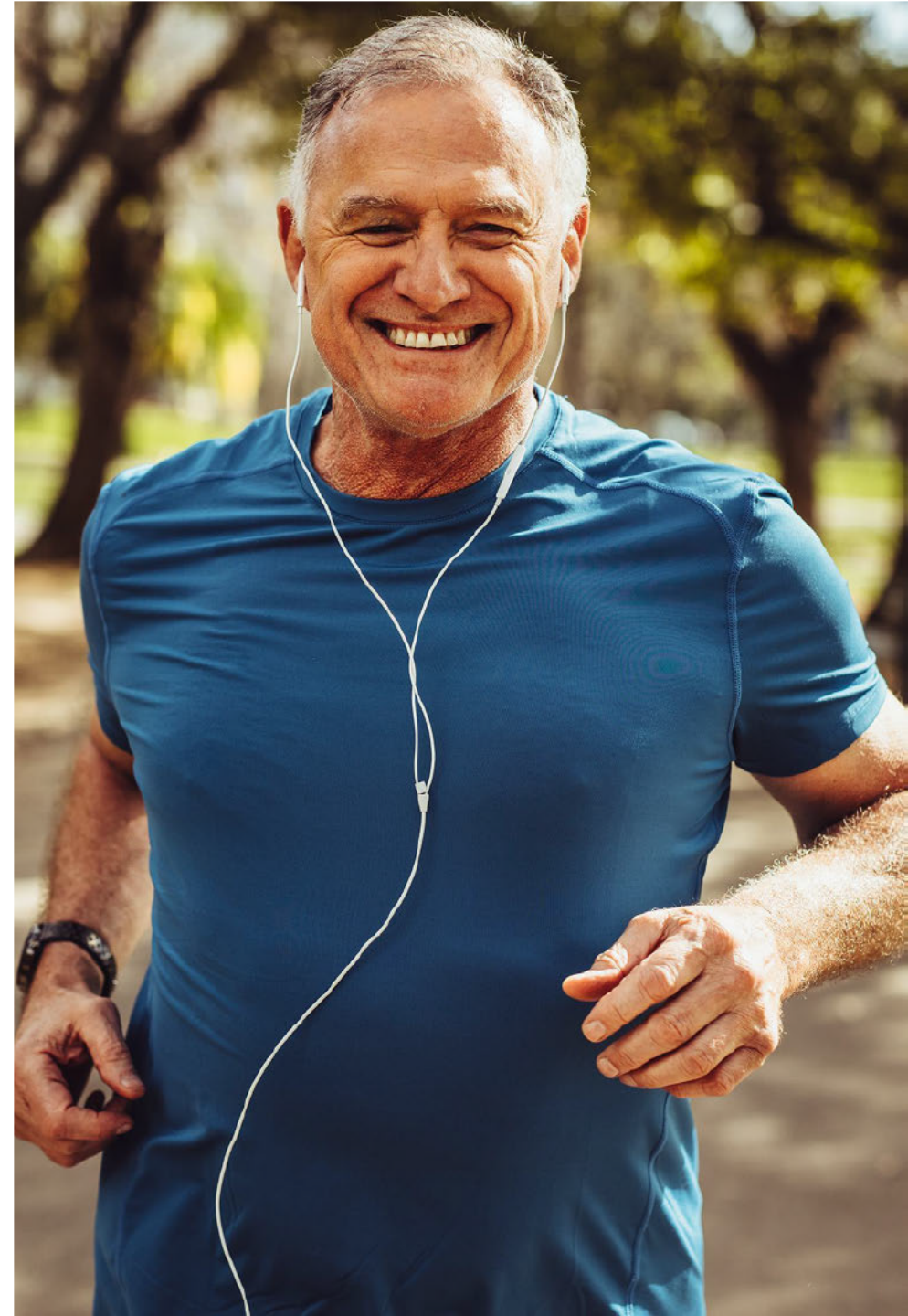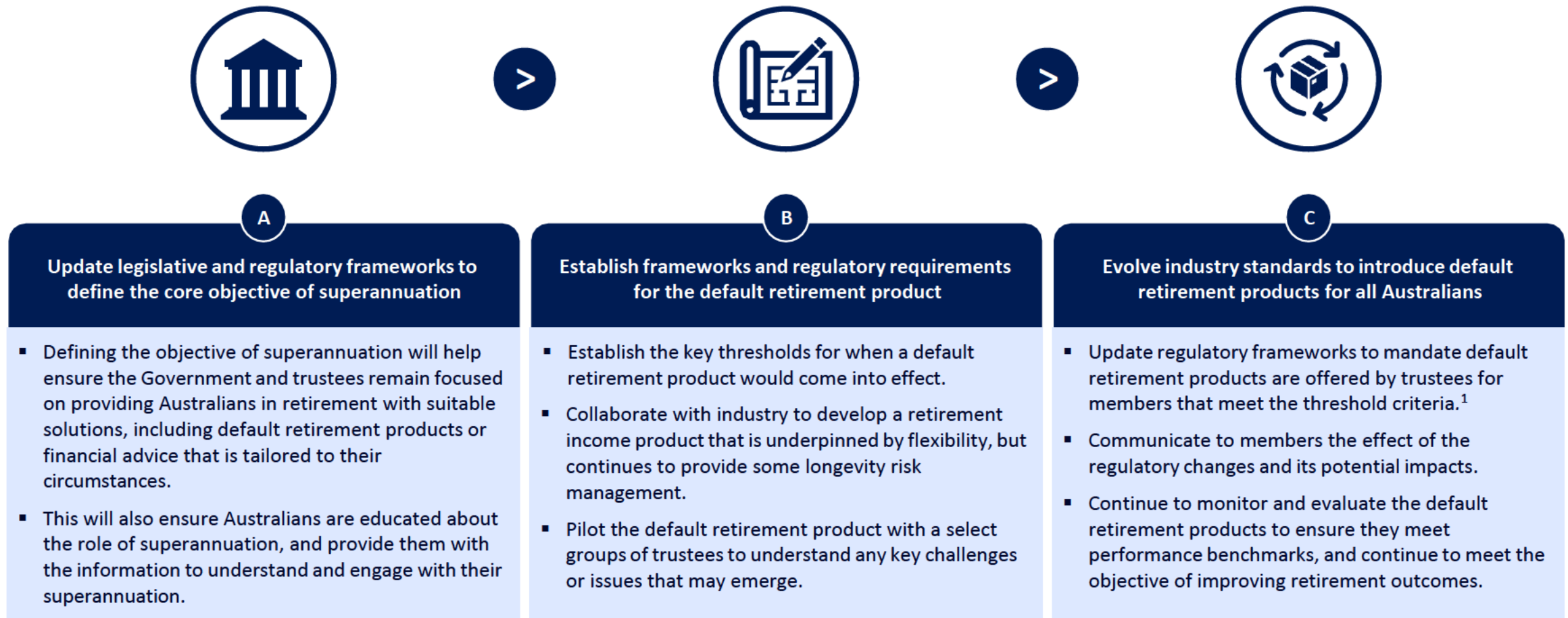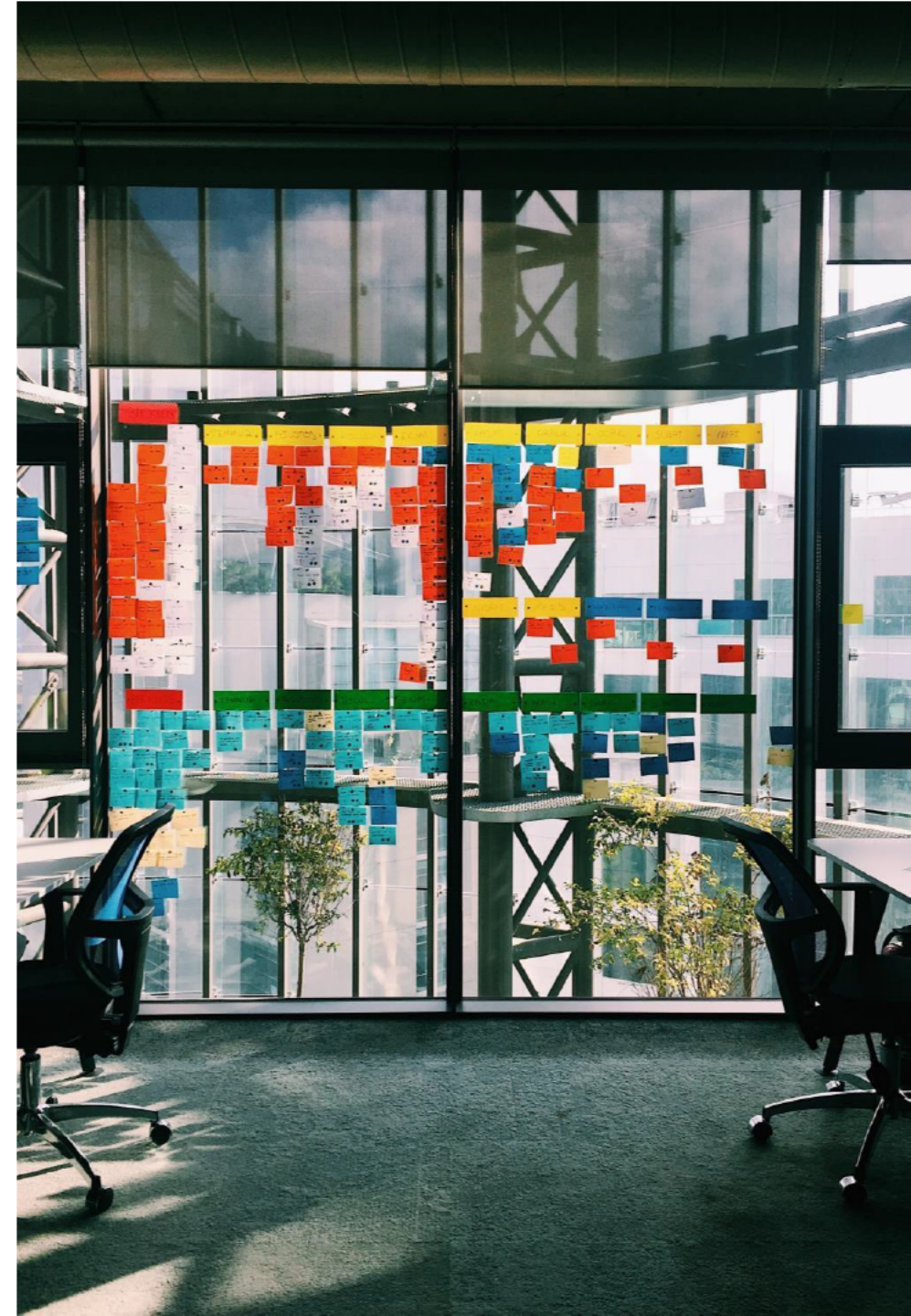| 1	Australia's maturing superannuation system warrants a retirement phase solution that benefits its members
2	Default retirement products need to be flexible, have an appropriate asset allocation and minimum safeguards to protect the interests of Australians
3	By 2040, there could be 3.3 million retired Australians using and benefiting from a default retirement income product
4	**Next steps in superannuation policy reform**

Introducing a default product requires a phased approach that updates existing regulatory frameworks, establishes new frameworks, and evolves industry standards

Exhibit 21: Introducing a default retirement product for Australia's superannuation system requires a phased approach

A
Update legislative and regulatory frameworks to define the core objective of superannuation

- Defining the objective of superannuation will help ensure the Government and trustees remain focused on providing Australians in retirement with suitable solutions, including default retirement products or financial advice that is tailored to their circumstances.

- This will also ensure Australians are educated about the role of superannuation, and provide them with the information to understand and engage with their superannuation.

B
Establish frameworks and regulatory requirements for the default retirement product

- Establish the key thresholds for when a default retirement product would come into effect.

- Collaborate with industry to develop a retirement income product that is underpinned by flexibility, but continues to provide some longevity risk management.

- Pilot the default retirement product with a select groups of trustees to understand any key challenges or issues that may emerge.

C
Evolve industry standards to introduce default retirement products for all Australians

- Update regulatory frameworks to mandate default retirement products are offered by trustees for members that meet the threshold criteria.[1]

- Communicate to members the effect of the regulatory changes and its potential impacts.

- Continue to monitor and evaluate the default retirement products to ensure they meet performance benchmarks, and continue to meet the objective of improving retirement outcomes.

1 Applies to the government-led implementation where the government designs, and sets the rules and safeguards for the default retirement product.
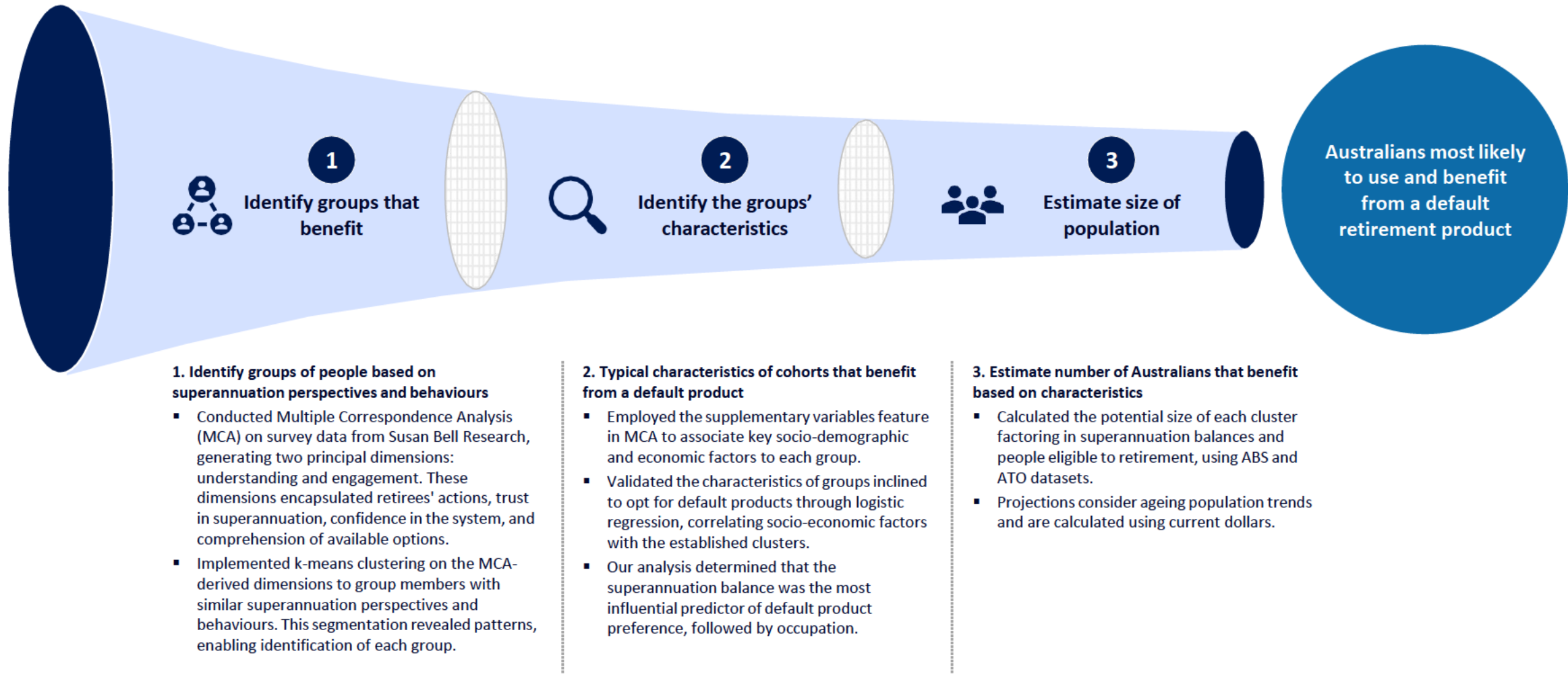Source: Mandala analysis.

Methodology: Using a three-step approach, we estimated the number of Australians that are most likely to use and benefit from a default retirement product

Exhibit A1: Three-step approach to quantify the number of Australians that would likely use and benefit from a retirement product
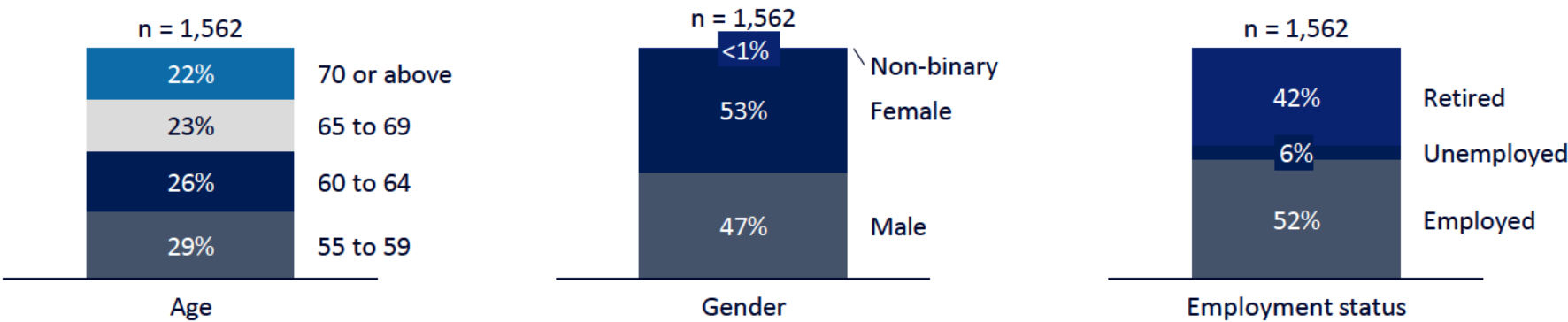
1 Identify groups that benefit

2 Identify the groups' characteristics

3 Estimate size of population

Australians most likely to use and benefit from a default retirement product

1. Identify groups of people based on superannuation perspectives and behaviours

- Conducted Multiple Correspondence Analysis (MCA) on survey data from Susan Bell Research, generating two principal dimensions: understanding and engagement. These dimensions encapsulated retirees' actions, trust in superannuation, confidence in the system, and comprehension of available options.

- Implemented k-means clustering on the MCA-derived dimensions to group members with similar superannuation perspectives and behaviours. This segmentation revealed patterns, enabling identification of each group.

2. Typical characteristics of cohorts that benefit from a default product

- Employed the supplementary variables feature in MCA to associate key socio-demographic and economic factors to each group.

- Validated the characteristics of groups inclined to opt for default products through logistic regression, correlating socio-economic factors with the established clusters.

- Our analysis determined that the superannuation balance was the most influential predictor of default product preference, followed by occupation.

3. Estimate number of Australians that benefit based on characteristics

- Calculated the potential size of each cluster factoring in superannuation balances and people eligible to retirement, using ABS and ATO datasets.

- Projections consider ageing population trends and are calculated using current dollars.

Survey: We used a survey from Susan Bell Research, commissioned by ISA, on Australians in or transitioning to retirement

Exhibit A2: Overview of survey from Susan Bell Research, commissioned by Industry Super Australia

Aspect	Description	Notes on treatment
Information	▪ The survey was from Susan Bell Research, and was commissioned by Industry Super Australia (ISA). ▪ Susan Bell are a boutique research and message testing agency based in Sydney. They specialise in customised marketing research, communications research, message testing and research about retirement. https://sbresearch.com.au/. ▪ The survey was conducted in 2023.	▪ Survey questions were designed and conducted by Susan Bell, with the assistance of ISA.
Sample size	▪ The survey sampled 1,562 Australians that soon be eligible for retirement, as well as those that were in or transitioning to retirement.	▪ People aged between 55 to 74 who have had superannuation.

Representativeness

n = 1,562

Age	
22%	70 or above
23%	65 to 69
26%	60 to 64
29%	55 to 59

n = 1,562

Gender	
<1%	Non-binary
53%	Female
47%	Male

n = 1,562

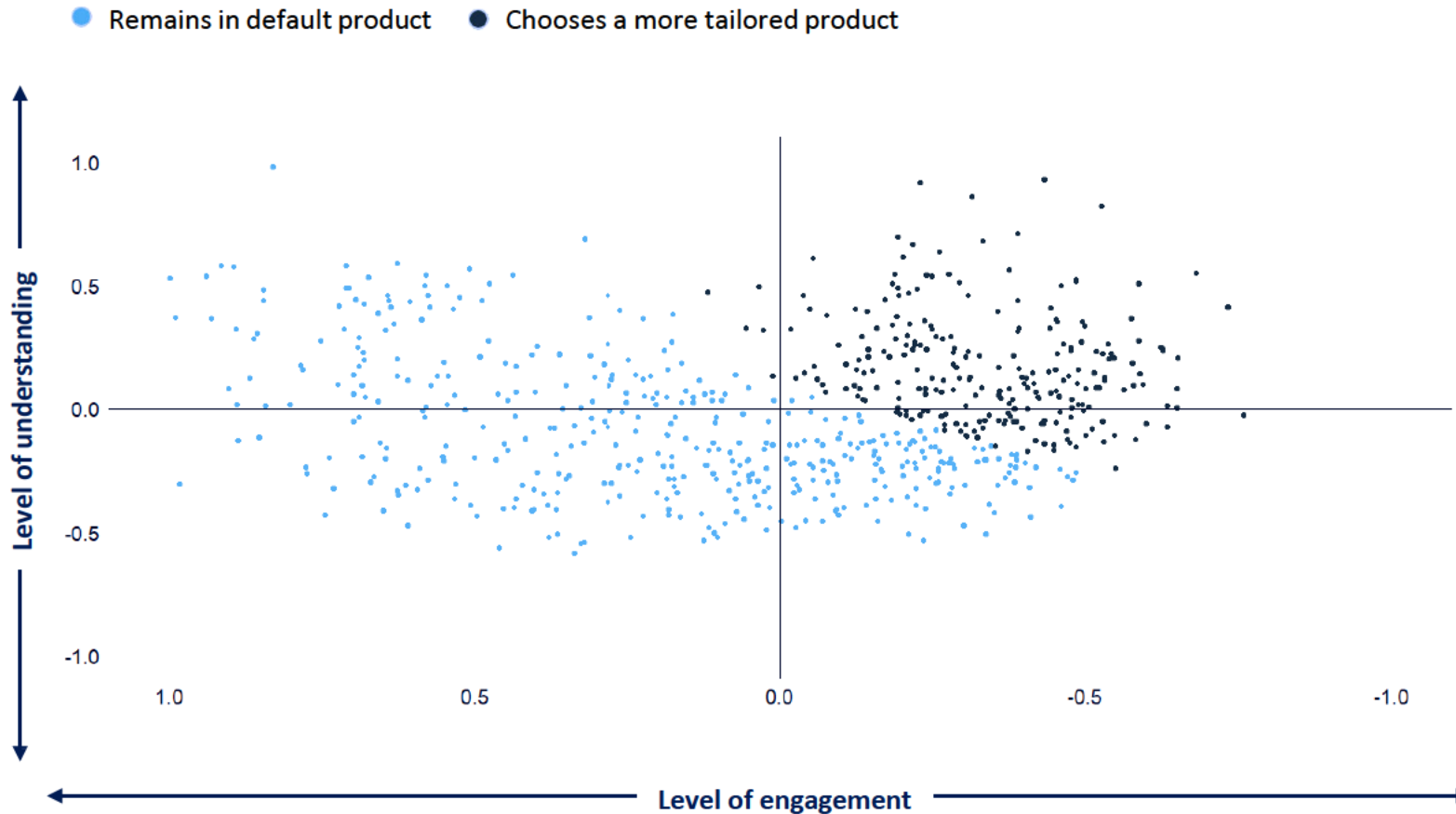| Employment status	
42%	Retired
6%	Unemployed
52%	Employed

5 Appendix

A Methodology

B Supporting analysis

C References

We grouped Australian retirees into two cohorts based on their level of engagement with and understanding of the superannuation system

Exhibit B1: Australian retirees' understanding and engagement of the superannuation system[1]

Y-axis: Level of understanding index; X-axis: Level of engagement index, 2023

● Remains in default product   ● Chooses a more tailored product

Level of engagement[2]

- Australians with low levels of engagement are unlikely to make an active choice in retirement regarding their superannuation
- This may prevent them from switching their accumulation product into a retirement product once they decide to retire, making them worse-off than they may otherwise be (e.g., paying tax when they don't need to)

Level of understanding

- Australians with limited understanding can struggle to pick a solution that is right for them.
- This could result in retired Australians deciding to invest their savings into a cash portfolio to minimise financial losses, however this will create longevity and inflation risk

Existing products vary from flexible account-based pensions to rigid and risk managed annuities

Existing retirement products exhibit a spectrum of flexibility and longevity risk management. This spans from account-based pensions that offer a regular income or lump-sum withdrawals to a annuities that provide a lifetime income.

Account-based retirement products deliver members with regular payments based on their accrued savings, granting them flexibility to adjust payments, access additional funds, and dictate investment preferences. While these products offer significant flexibility, they entail limited management of longevity risk and the payments are not assured for life.

In contrast, annuities offer reduced flexibility for members, yet they address longevity risk through active investment strategies, ensuring retirees are guaranteed income throughout their retirement.

Exhibit B2: Account-based products offer members the flexibility to retain control over their retirement savings, while annuities provide greater certainty in the long-term in exchange for limited flexibility

		Account-based	Annuities	
		Allocated	Lifetime	Market linked
Flexibility	Modify payment value	✓	✗	Depends on returns[1]
	Access to lump sum withdrawals	✓	✗	✗
	Choose investments	✓	✗	Some choice available[2]
	Transfer residual value to estate	✓	✗	Some funds available[3]
Longevity risk management	Minimise risk of depleting savings	✗	✓	✓
	Maintain purchasing power	Depends on returns	✓	✓

1 Payment values for market-linked annuities only vary based on the performance of the underlying investments,
2 Members can typically choose how much of their savings into an income account versus a lifetime pension, and they can also choose the level of risk (and thus market returns) they are willing to subject their savings to.
3 Some products offer a payment if the member passes away, which is often a proportion of the original funds invested.
Source: Mandala analysis.

Overview of reforms in Australia's superannuation system

Exhibit B3: Superannuation reforms	Year	Phase affected	Overview	Accumulation phase	Retirement phase
Compulsory Superannuation	1992	Accumulation	▪ Introduced the Superannuation Guarantee (SG) system, requiring employer contributions.		
Co-contributions	Early 2000s	Accumulation	▪ A scheme to boost savings of low and middle-income earners with government matching.		
Choice of Fund	2005	Accumulation	▪ Allowed most Australian workers to choose their super fund for SG contributions.		
Simpler Super Reforms	2007	Both	▪ Streamlined the system; super payments from a taxed fund became tax-free for those aged 60+.		
Stronger Super Reforms	2013	Accumulation	▪ Introduced the MySuper product for better governance and efficiency.		
SuperStream	2014	Accumulation	▪ Set standards for processing super transactions.		
Low Income Superannuation Tax Offset (LISTO)	2016	Accumulation	▪ Supported low-income earners with a tax offset for concessional contributions.		
Transfer Balance Caps	2017	Retirement	▪ A cap on the amount transferred to the tax-free retirement phase.		
Protecting Your Super	2019	Accumulation	▪ Addressed unnecessary fees and insurance costs, capping fees for low-balance accounts.		
Temporary COVID-19 measures	2020	Accumulation	▪ Allowed early release of superannuation due to economic impact of the pandemic.		
APRA Benchmarking Tests	2021	Accumulation	▪ Performance tests for MySuper products and certain other investment options from 2022.		
Your Future, Your Super	2021	Accumulation	▪ Ensured super follows the employee; introduced an annual performance test for MySuper products.		
Superannuation Guarantee Rate Increase	Ongoing	Accumulation	▪ A gradual increase in the SG rate; it was at 10% in 2022 with plans to reach 12% by 2025.		
Contribution Caps	Varies	Both	▪ Introduced and adjusted caps for both concessional and non-concessional contributions.		
Regulation of Self-Managed Super Funds (SMSFs)	Ongoing	Both	▪ Various changes to regulations governing SMSFs.		
Spouse Contributions	Varies	Accumulation	▪ Rules and incentives for contributions on behalf of spouses.		
Age and work test modifications	Ongoing	Both	▪ Changes to conditions for older Australians contributing to superannuation.		
Financial Advice Reforms[1]	Various	Both	▪ Initiatives like the Future of Financial Advice (FoFA) reforms aimed to improve the quality and transparency of financial advice, including advice related to super.		
Insurance in Super Reforms	Various	Accumulation	▪ Measures to ensure insurance premiums do not unduly erode super balances. Includes reforms like 'opt-in' requirements for certain demographics and the 'Protecting Your Super' package which made insurance 'opt-out' for new members under 25 or accounts below $6,000.		
APRA Prudential Standards	Various	Both	▪ Sets minimum requirements for operations, risk management, governance, etc., of super funds.		
APRA Reporting Standards	Various	Both	▪ Data reporting requirements to enhance transparency and accountability.		

1 We note that the Government is actively moving forward with reforms, resulting from the Quality of Advice review, to fortify Australia's superannuation system. Among these reforms, a notable focus has been placed on ensuring Australians have access to reliable and affordable financial advice tailored to their superannuation and retirement needs. The proposed changes, expected to be legislated in the coming year, aim to enhance the role of superannuation funds in providing comprehensive advice.
Source: Mandala analysis

Challenges with recent reforms in Australia's superannuation system

Exhibit B4: Recent policy and regulatory reforms in superannuation

Retirement Income Covenant (RIC) – September 2021	- **Purpose**: To enhance retirement outcomes for members via trustees' structured obligations. - **Retirement Income Strategy**: Trustees are required to formulate, review regularly and give effect to a retirement income strategy. The strategy aims to assist members who are retired or approaching retirement by balancing key objectives: maximising retirement income (taking into account the age pension; managing pivotal risks, including longevity, inflation and investment risks; and ensuring members have flexible access to their expected retirement funds. - **Considerations:** The legislation is principles-based as opposed to prescriptive. While there is no specific deadline, trustees are expected to deliver the strategy over time.
Practice Guide SPG 516 Outcomes Assessment (2018)	- **Purpose**: To provide guidelines for trustees on how to fulfill their obligations in constructing benchmark portfolios, conducting an outcomes assessment, and establishing member cohorts. - **Benchmarking and Portfolio Construction:** Trustees are expected to construct benchmark portfolios. The weightings given to market indices should reflect the underlying target and actual asset weights of the relevant superannuation product. Cohorts creation plays a key role in tailoring investment strategies to meet the specific needs and characteristics of distinct members groups. - **Considerations**: APRA anticipates benchmarking to be used beyond investment performance metrics, encompassing areas like fee levels, insurance, and retirement products.
Treasury Laws Amendment (Your Future, Your Super) Act 2021 (the YFYS Act)	- **Purpose:** To streamline the superannuation system, reduce duplicate accounts, and ensure funds are acting in the best interests of members, leading to better retirement outcomes. - **Annual Performance Test and Stapling**: Trustees are subjected to an annual performance test, measuring their fund's returns against a benchmark. Persistently underperforming funds are restricted from taking new members. To prevent unnecessary fee erosion from multiple accounts, members will have their superannuation account "stapled" to them as they change jobs. - **Considerations**: The annual performance test might discourage some funds from making long-term investments. There's potential risk of members being stapled to underperforming funds. Trustees are faced with increased responsibilities to ensure they are acting in the best interests of their members, leading to potential changes in fund strategies and structures.

Key challenges and issues

(Retirement Income Covenant)
- The unclear success measures within the RIC make it challenging for trustees to prove their diligence, potentially leading to varied strategy applications across superannuation funds.
- If members don't grasp or trust the RIC's new strategies, their effectiveness could be undermined.
- Current advice legislation[1] falls short in providing affordable guidance for members, especially during pivotal decisions like retirement planning.
- Moreover, the absence of minimum features introduces greater variety to the already vast array of financial options, further complicating the system for the average individual.

(Practice Guide SPG 516)
- The broadness of benchmarking expectations for retirement products can lead to inconsistencies in assessing product performance across trustees, making comparative analyses challenging for members.
- The reliance on trustees to examine external retirement product options might not fully capture the vast array of choices available to a member, potentially limiting their exposure to better-performing options outside their current superannuation.
- With the increasing emphasis on internal benchmarking and peer comparison, there's a risk of creating an echo chamber effect, where trustees are more focused on outperforming each other rather than ensuring the best retirement outcomes for members.

(Treasury Laws Amendment)
- The YFYS reforms have a significant focus on the accumulation phase but might not give equal importance to retirement income products, leaving a potential gap in strategies tailored for post-retirement.
- The YFYS reforms may inadvertently push funds towards a more passive investment strategy to ensure they meet benchmarking requirements, potentially reducing diversification and long-term growth opportunities for retirees.
- While the YFYS reforms encourage transparency and performance, there's the potential risk that funds just meeting the benchmark may become complacent, thereby not striving for better outcomes for members, especially those in the retirement phase.

References

- APRA (2023) *Annual superannuation bulletin*, available at: https://www.apra.gov.au/annual-superannuation-bulletin.

- APRA (2023) *Quarterly superannuation performance statistics*, available at: https://www.apra.gov.au/quarterly-superannuation-statistics.

- APRA (2023) *Annual fund-level superannuation statistics*, available at: https://www.apra.gov.au/annual-fund-level-superannuation-statistics.

- APRA and ASIC (2023) *Information Report: Implementation of the retirement income covenant*, available at: https://www.apra.gov.au/information-report-implementation-of-retirement-income-covenant-findings-from-joint-apra-and-asic.

- Australian Bureau of Statistics (2023) *Labour Force, Australia, Detailed*, available at: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/labour-force-australia-detailed/latest-release.

- Australian Bureau of Statistics (2023) *Managed Funds*, available at: https://www.abs.gov.au/statistics/economy/finance/managed-funds-australia/latest-release.

- Australian Bureau of Statistics (2022) *Census Population*, available at: https://www.abs.gov.au/statistics/people/population/population-census/latest-release.

- Australian Bureau of Statistics (2021) *Retirement and retirement intentions*, available at: https://www.abs.gov.au/statistics/labour/employment-and-unemployment/retirement-and-retirement-intentions-australia/2020-21.

- Australian Taxation Office (2023) *Taxation Statistics*.

- Conexus Institute (2023) *Retirement Conference: Review & Reflections*.

- Industry Super Australia (2023) *Drawdown rates for 2023*, available at: https://www.industrysuper.com/retirement-info/income-streams/drawdown-rates-for-2023/.

- Industry Super Australia (2023) *Submission on Your Future, Your Super Review*, available at: https://www.industrysuper.com/assets/ISA-submission-YFYS-Review-submitted.pdf?vid=4.

- Mercer (2022) *Global Pension Index 2022*, available at: https://www.mercer.com/en-ch/about/newsroom/global-pension-index-2022/.

- Susan Bell Research (2023) *The Retirement Landscape*.

- SuperRatings (2023) *Accumulation Fund Credit Rating Survey*.

- SuperRatings (2023) *Pension Fund Credit Rating Survey*.

- SuperRatings (2023) *Pensions Landscape Presentation*.

- The Australian Government The Treasury (2023) *Better targeted superannuation concessions: Consultation Paper*, available at: https://treasury.gov.au/sites/default/files/2023-03/c2023-373973-cp.pdf.

- The Australian Government The Treasury (2023) *Superannuation Reforms*, available at: https://treasury.gov.au/superannuation-reforms.

- The Australian Government The Treasury (2021) *Your Future, Your Super reforms*, available at: https://www.legislation.gov.au/Details/C2021A00046.

- The Australian Government The Treasury (2010) *Strong Super*, available at: https://treasury.gov.au/sites/default/files/2019-10/stronger_super.pdf.

- The Australian Government the Treasury (2020) *Retirement Income Review*, available at: https://treasury.gov.au/publication/p2020-100554.

- The Australian Government the Treasury (2014) *Financial System Inquiry Final Report*, available at: https://treasury.gov.au/publication/c2014-fsi-final-report.

- The Australian Government the Treasury (2012) *MySuper Measures Regulation*, available at: http://www.comlaw.gov.au/Details/F2013L01246.

- The Australian Government the Treasury (2010) *Super System Review Final Report*, available at: https://treasury.gov.au/publication/super-system-review-final-report.

MANDALA