

9 February 2024

Retirement, Advice and Investment Division  
The Treasury  
Langton Crescent  
PARKES ACT 2600

To whom it may concern:

**RE: Consultation – Retirement Phase of Superannuation**

**Background**

Optimum Pension was established in 2016, with a goal to deliver better lifetime income products for Australians. We believe that sustainable retirement incomes are essential to provide better lifestyles and greater peace of mind in retirement; no matter how long someone lives.

Each member of our team brings their own expertise and industry experience for the development and implementation of innovative retirement income stream solutions that can help Australians with the long-term security they need.

We are driven by the regular finding in government reviews, inquiries and academic research: **Innovative (investment-linked) retirement products can deliver 15% - 30% higher retirement income for Australians** than traditional life annuities and account-based pensions. This increase in income comes from repurposing lump sum death benefits in old age, and passing on the benefit of investment returns to members. The design can still allow for a death benefit to be paid if required.

A simple innovative retirement income product (an investment linked lifetime annuity) has been developed by the Optimum Pensions team. The product has been brought to market in 2022, in partnership with Generation Life and Hannover Re.

Over the years, we have made regular submissions to the various retirement income inquiries and consultation papers undertaken by Treasury and APRA.

One of our initiatives was to develop an easy to use Lifespan Calculator. This online tool helps individuals and financial planners provide a more personalised assessment of how long their retirement plan needs to last to provide the confidence level they desire. This is hosted on our website and by various other organisations and has had approximately 14,000 people get their assessment.

More recently we published a book for financial planners to help them to keep pace with the latest changes in the retirement space and to enable them to take advantage of the new

possibilities for the benefit of their clients (Retirement Income for Life – A Guide for Financial Planners).

This book focusses on the risks of underestimating life expectancy and provides a number of case studies that show the practical side of using innovative income streams on a client's retirement outcomes. <https://bit.ly/RetirementIncomeforLife>

## Our responses

**Our response is made up of two parts. Part 1 deals with the overall approach and Part 2 provides the details and examples that support Part 1.**

### Part 1

The superannuation industry has been grappling with the retirement phase since at least the Super System Review (2010). It's important to remember, the original MySuper proposals had a strong whole of life focus. ***“MySuper should be a whole of life product and include a single type of retirement income stream product chosen by the trustee and not just cater for members in the pre-retirement phase. Trustees would have a duty to address longevity , inflation and investment risks for retirement phase members in developing their strategies”*** (Super System Review: Final Report)

Since 2010, regulatory barriers that were preventing the development of suitable retirement products have been removed and a number of innovative income stream products have come to market.

We share ASIC's and APRA's frustration with the lack of action and urgency from superannuation trustees. Our response in this submission leans towards a government directed approach rather than relying on a (largely absent) superannuation industry led approach. In this submission, we have set out suggestions for what this can look like, how it can be achieved, and how problems and objections can be addressed.

Considering the ongoing retirement reviews over the past 10+ consultations in this area, we have come to the view that:

- From a philosophical/economic point of view, it simply may not make sense to have a compulsory system that becomes a voluntary system part way through the journey of each member (i.e. when they retire).
- The behavioural and market inefficiencies which required compulsion in the first place still persist in the retirement phase.
- The SG system, and the resultant superannuation funds and retirement income system were not created by the industry *in response* to customer demand., It was designed by the government to build up superannuation '*in spite*' of customer demand. It is not an efficient market.
- The current Superannuation system only exists as a result of government intervention.

- The Super System Review’s policy principle 6 is important: “A compulsory superannuation system cannot depend on all its participants having the skills necessary to *comprehend complex financial information or being investment experts*”<sup>1</sup>. Hence the need for MySuper products.
- The tax concessions provided to support the system can be better used to motivate the use of more efficient lifetime income products and solutions.

We have not answered every question in the discussion paper, but rather highlight particular issues and provide comments and suggested solutions.

**Issue raised: “It’s difficult to navigate the various parts of the retirement system, combine multiple income sources, consider the needs of your partner and dependents, and manage the numerous risks and changes”**

Agreed. Because of this, it is an enormous undertaking for the trustee of a single retirement product to take on responsibility for the entire retirement income picture of each member’s household for life<sup>2</sup>. Total retirement income is a function of all of the households’ assets and incomes – as demonstrated by the design of the Age Pension assets test and income test.

**Solution.** *Products with some allocation to lifetime income streams help to mitigate this complexity. By having each product deliver a defined level of income for life, based on the product’s rules (rather than an ‘income’ by drawing down on a reducing balance), this makes forward planning easier for the member.*

*Lifetime products, and blended products that utilise a lifetime component can have a more consistent impact on the household’s Age Pension means test outcome than account-based pensions. This is because the assessable asset value is based on the purchase price, not on a reducing balance.*

*If superannuation funds provide members with more defined, predictable and reliable tranches of income, this allows them to use them as simpler building blocks to achieve a target retirement income. This also goes a long way to making the retirement system more efficient. It can be done in a way that still gives significant flexibility, as set out in the Appendices to this submission.*

*There will still be a place for education and advice to help members understand and personalise their decisions.*

**Issue raised: Take up of lifetime products remains low.**

The products and toolkits already exist and offer valuable improvements to outcomes as well as incentives to use them. They are available in the market today. The products can be used by superannuation fund trustees ‘as-is’ or can be white labelled and tailored by funds for their members.

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<sup>1</sup> Superannuation System Review: Policy Principle 6, page 4 of Final Report (2010)

<sup>2</sup> We note many superannuation funds seem to think the average superannuation balance of their members at retirement isn’t enough to justify building a new lifetime income product. In reality, ABS research shows the average household between ages 55-75 has around \$700,000 in financial assets! See ABS Household Income and Wealth Study, Table 10.

**Take up is now a demand side issue.** It's time to acknowledge that Australia's superannuation system is not built on demand or market efficiency. It is built on compulsion and soft defaults.

*"A compulsory superannuation system cannot depend on all its participants having the skills necessary to comprehend complex financial information or being investment experts."<sup>3</sup>*

For these reasons, and experience to date, there appears to be a limit to what industry innovation can or will achieve without further government intervention.

The original MySuper proposals identified these same problems and were designed to work around them – for both the accumulation phase and retirement phase. The original MySuper proposals were 'whole of life' solutions - some 13 years ago. It would seem that most Trustees are not confident enough to, and don't want the responsibility of, making the design decisions required from an entrepreneurial point of view, then being held accountable for the results.

Note that, because of the Best Financial Interests Duty, trustees are highly wary of spending money and resources on initiatives where member take up might be low<sup>4</sup>. However, it is questionable that letting members retire when they could have achieved a much better retirement outcome (with a more efficient product) equates to a trustee acting in the members best financial interests.

**Solution:** *The original recommendation for MySuper to be a whole of life product is still sorely needed. The regulatory barriers to this have now been removed so there is no reason not to proceed.*

*Once members exit the workforce, funds should move them into a soft-default retirement product solution<sup>5</sup>. This would be a fully flexible product until the member is 5 years past the Age Pension age - at which point a blended product mix would kick in.*

*Blended retirement products deliver 15% - 30% more retirement income than traditional retirement products, and the income continues for life. See Appendix 2 to this submission for an explanation of why the 5 year period solves the problems of heterogeneity, and what this product would look like.*

*The blended product mix from age 72 can be made safe by having "red flag" warnings to make it clear which members the product is not suitable for (see example below from the UK).*

*Government needs to be prescriptive on what this must look like – to relieve trustees of that responsibility.*

**Issue raised:** The Retirement Incomes Review found that retirees are not maximising the benefit of their superannuation, with the pervasiveness of the 'nest egg' framing of superannuation balances making retirees reluctant to draw down on their superannuation savings.

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<sup>3</sup> Superannuation System Review: Policy Principle 6, page 4 of Final Report (2010)

<sup>4</sup> <https://www.actuaries.digital/2023/07/05/balancing-retirement-assistance-and-member-best-financial-interest-duty/>

<sup>5</sup> By soft-default, we mean members have the opportunity to opt-out if they wish.

The lump sum design and culture of Australia's superannuation system reflects history and the way most communications about superannuation are framed - in terms of 'balance' and investment returns.

It does not make sense to have a compulsory system that switches over to a voluntary system part way through the journey of each member, especially when the members do not have the skills and knowledge required to manage their financial outcome in retirement. **The behavioural and market inefficiencies that required compulsion still persist in the retirement phase.**

Research by the Melbourne Business School found that, with good guidance, most respondents do seem able to select sensible options that are in line with their preferences. However, the researchers had another critical finding. They found a strong preference for NOT to have to make any choice at all. If given the option, a large proportion of respondents will "choose not to choose" if they could. Retirees don't want the responsibility of making choices they might later regret or feel they'd made a mistake. We suspect this also applies to some superannuation trustees.

**Solution:** *To assist with justifying a compulsory change to extend MySuper products to the retirement phase, Australians should be made aware that for most people, at least 25% of their superannuation balance at retirement has come from tax concessions, not from their own contributions. See Appendix 4 for these calculations. We consider that the government has some right to be prescriptive with how tax concessions are ultimately used. The reason for these concessions was to provide retirement income, not a nest-egg and lump sum death benefit after age 80+.*

*As a minimum, the portion of each retirees' superannuation balance relating to tax concessions (i.e. 25%+) could be subject to government direction (with opt-outs and red-flags) - in order to better achieve the policy objectives for superannuation.*

*Member decisions will be simpler if they only need to work around superannuation rules, rather than having to solve and optimise complex decisions for themselves to deliver income over an uncertain timeframe. Defaults mitigate choice overload<sup>6</sup>.*

#### **Issue raised: Standardised product disclosure framework, and Tools for comparison and performance**

There has already been significant, quality work done in this area including by the Behavioural Economic Team of the Australian Government and the Australian Government Actuary. See Appendix 5 for comments on disclosure and comparisons.

Note that red flags should be introduced on retirement products as a simple way to increase safety (by helping ensure the wrong customers don't end up in the wrong products). This approach is used with lifetime annuities in the UK. See example below from Standard Life:

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<sup>6</sup> To task retirees with the complex issue of working out how to spread their life savings over an uncertain timeframe ultimately means forcing them to confront their own death.

This page offers a brief outline of the Standard Life Pension Annuity suitability. For full details, please see the Key Features Document.

**The Standard Life Pension Annuity is suitable for you if you:**

- Want a regular, guaranteed lifetime income
- Would like the option of having your income increase each year, either in line with inflation or by a fixed rate
- Would like the option to provide a lump sum or a regular, guaranteed lifetime income for a dependant when you die
- Would like to avoid your retirement income being impacted by investment risk
- Are happy to accept that you can't change or cash in your annuity once it's been set up, even if your circumstances change
- Are happy to accept that the total income you receive over the life of your annuity may be less than the total amount that was used to buy it
- Live in the UK

**The Standard Life Pension Annuity may not be suitable for you if you:**

- Have less than one year to live
- Have less than £10,000 in pension savings
- Would like the freedom to make changes to your retirement income payments, such as taking additional cash lump sums
- Would like to keep your pension savings invested so you can potentially benefit from future investment growth
- Would like your dependant to benefit from any remaining savings in your pension pot when you die, without having to buy additional guarantees or protection
- Are happy to accept that your pension savings could run out before you die
- Have declared bankruptcy and the fund value of your pension plan has been earmarked to settle some or all of the outstanding debts

**Solution:** *Continue with the proposals from the 2018-19 Retirement Income Disclosure Consultation.*

*A 'red flag' system will help to make it easy for customers to know when a product is not a safe or suitable option for their circumstances.*



*Also, trustees should be much more diligent when producing their Target Market Determination (TMD) for each retirement product. This document is supposed to set out which customers the product is suitable for. The government should consider mandating a list of standard retiree needs that need to be addressed in a retirement product TMD. The list should include the three major objectives of the Retirement Income Covenant and require funds to provide clear comments on whether their product does or doesn't meet each need. Some fund managers use a Red, Amber, Green system for this approach – which draws attention to features that customers may require but the product does not offer.*

**Issue raised: Barriers in the supply and demand for lifetime income products**

We are of the view that barriers to supply have been sufficiently overcome.

What is required is confidence that there will be demand, and that it will be safe (both professionally and commercially) for trustees to build and offer them, and to help members to use them appropriately. All of this is currently lacking.

We strongly support the concept of Default Products like MySuper in retirement that automatically balance the objectives of the retirement income covenant.

Appendices 1-3 sets out detailed thinking on what this could look like, and we show that the outcomes are appropriate for the different cohorts of retirees.

**Solution:** *The superannuation system requires an element of compulsion to overcome demand side issues. The lifetime income allocation of the Default Product would 'kick in' 5 years after age pension age, at age 72. See Appendix 3 for what this could look like. Like MySuper today, members can opt out.*

**Issue raised: Education – the lack of knowledge in the industry needs to be addressed**

It is generally acknowledged that members do not have the skills and knowledge to develop their own retirement income plans. However, based on the lack of action in the industry, it would appear that this lack of knowledge extends to superannuation trustees and executives, who for the past 30 years have only had to deal with account-based products, rather than managing products with defined outcomes and involving actuarial reserves .

**Solution:** *Trustees and superannuation staff should undertake training based around the retirement phase. We would be happy to discuss the topics needing to be covered.*

**Issue raised: Retention of Members and Fund under management**

The size of funds has become an issue that Trustees focus on and many believe that retirement income products other than an account-based pension will see members and their account balances leave the fund.

**Solution:** *Well-designed lifetime products, combined with excellent education, can be used by superannuation funds to see both the member and their balances stay within the fund.*

**In Conclusion**

The superannuation system is not a normal industry built on supply and demand. The SG system was put in place to overcome demand side issues with saving for retirement.

A compulsory superannuation system cannot depend on all its participants having the skills necessary to comprehend complex financial information or being investment experts. This is why the MySuper reforms were introduced.

It does not make sense to have a compulsory system that switches to a voluntary system half way through the journey of each member. The original recommendation for MySuper to include the retirement phase are now vital. Appendix 1 to this submission explains how this needs to work from age 60 – 72. Appendix 34 shows what a blended retirement product mix should look like from age 72 and shows the outcomes for members with different balance levels and how this works for several key aspects of their retirement, such as immediate income, income for life, access to capital and death benefits.

Do not hesitate to contact me if you have any questions or wish to discuss this consultation.

Yours sincerely,

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## APPENDIX 1: Retirement income planning for people in their 60s: Everybody is different

Between ages 60 and 70, the cashflow needs of Australian households are likely to be very different to each other - due to the following factors:

- Most people enter retirement as a couple of different ages
- Each individual may end their working career, and hence their income from their salary, at a different date to each other
- For couples who reach Age Pension age at different times, their income from the government pension gets halved until the younger spouse also reaches Age Pension age. During this period, the younger spouse's superannuation in accumulation phase is not counted for means-testing purposes, but after that it is. These issues can cause highly erratic cashflows for the household's Age Pension income and hence their total retirement income
- Many people do not retire by choice but end up leaving the workforce before they are eligible for any Age Pension. This can be due to things like redundancy, difficulty finding work, health issues and carer responsibilities. It can result in very large gaps in their income and hence cashflows. This will need to be funded by drawing down superannuation or other savings at a high rate for a temporary period.
- A growing number of retirees work part time in the early years of retirement which reduces the need to draw on superannuation and other savings for that time. Part time work can also impact their Age Pension entitlements and that of their spouse.
- As people transition into retirement, they can face other lumpy cashflows such as:
  - Having to pay off debt
  - Receiving a payout of long service leave, or a redundancy payment
  - Downsizing, upsizing or renovating their main home
  - Making large non-concessional superannuation contributions
  - Buying a caravan or paying for a 'trip of a lifetime' holiday
  - Helping children (weddings, property deposits) or helping older parents
  - Selling a business, selling investment properties
  - Divorce, or finding a new partner
  - Receiving an inheritance
- For those impacted by means testing, each issue above has a secondary effect as the impact on assessable income / assessable assets changes the amount they get from the Age Pension

It is not realistic for a superannuation trustee to know all of this about every member. Many of the issues relate to preferences and personal decisions of the retirees rather than things that can be gleaned from 'data' about them.

Between ages 60 to 70, members need a lot of flexibility with managing their finances and how they access superannuation.

However, Appendix 2 shows how this changes for people in their 70s.

## APPENDIX 2: Retirement income planning for people in their 70s: Far simpler

Once retirees enter their 70's many of the issues in Appendix 1 subside significantly.

For Australians who are 5 years beyond their age pension age, i.e. age 72, the financial issues they face become more stable and, as a group, their needs become more homogeneous again.

This permits the kind of principles that were used to design MySuper products in the accumulation phase to be applied to the retirement phase. **It enables the design of default superannuation settings for these retirees.**

By the time people are in their mid-70s:

- They, and their spouse, are likely to have fully retired from work
- They, and their spouse, are likely to have reached Age Pension Age
- They're likely to have completed the more dramatic life changes with retirement like paying off debt, moving house and one-off world-trips
- They are likely to have a clearer view on their retirement living costs and have made adjustments to their lifestyles accordingly.

The financial needs of people aged 70 plus are similar to workers in that what they need most of all is regular income - to fill the role of the salary they used to get. They need:

- Maximum regular income. They need their savings to efficiently convert into a high, reliable income stream that they can be confident will last for their life
- Income that is stable and fairly predictable from year to year, and lasts for life
- Inflation protection – given that retirement typically lasts two or three decades.

Apart from health, the financial issues facing retirees in this age group are likely to be as similar to one another as workers are in MySuper products. It is easy enough for retirement products to take into account the age of the member's spouse, and even their health status(es) – through a standardised underwriting process like the UK.

A remaining complexity for means-tested retirees can be that the cashflow they receive from the age pension is very irregular for account-based pension holders. An advantage of incorporating a lifetime product into the default retirement product mix is the resultant cashflow pattern from the Age Pension is steadier over the course of retirement than for an account-based pension<sup>7</sup>. The assessable asset value is based on the purchase price, not the (reducing) balance.

Comments about the need for 'access to capital':

- After the lumpy cashflow problems in their 60's have been dealt with, the need for retirees to have full access to their superannuation balance as a lump sum, or as a lump sum death benefit is less of a priority. To allow the 25% - 44% of their balance that came from tax concessions to be used as a 'nest egg' is at odds with the purpose of superannuation and the objectives of the Retirement Income Covenant.

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<sup>7</sup> A problem with account-based pensions under the means test rules is they can result in an Age Pension that is low in the early years of retirement and higher later as the person's assessable assets reduce over time. This does not necessarily apply to a lifetime income product as the asset-test value is based on the purchase price – which is a fixed number.

- It's important to note that **if a retiree's account-based pension balance runs out (because they had no longevity insurance) then they will not have any capital to access anyway! And there will not be any lump sum death benefit to pay.** See the chart for 'Plan A' in Appendix 5 as an example.
- A lifetime income stream is less vulnerable to elder abuse or 'inheritance impatience' than a lump sum account balance is. It's also less likely to be mismanaged.
- The need for access to capital is likely to be, in part, caused by nervousness about the system's design, and the risk that the individual could make poor choices that they later regret. If the system design is clear, and 'everyone is in a similar boat' then people may have more confidence that things are designed around their needs, rather than every individual needing flexibility in case the system lets them down or they make a mistake. An example of this is confusion around the need for a large lump sum to pay for a residential age care deposit.

Designing a default retirement income product combination becomes quite achievable, and highly desirable once retirees are in their 70s. As people enter their 70's, the relative advantages of buying a lifetime income stream also become more pronounced<sup>8</sup>. The level of annual income that can be bought per \$100,000 (say) increases the older the customer is. The following example is based on an investment-linked lifetime annuity design by Generation Life (results are rounded).

<b>Single male age:</b>	<b>Lifetime Income level per annum</b> (with higher increases thereafter <sup>9</sup> )	<b>Lifetime Income level per annum</b> (with lower increases thereafter <sup>10</sup> )
<b>60</b>	<b>\$4,900</b> per \$100k	<b>\$6,600</b> per \$100k
<b>65</b>	<b>\$5,500</b> per \$100k	<b>\$7,100</b> per \$100k
<b>70</b>	<b>\$6,200</b> per \$100k	<b>\$7,800</b> per \$100k
<b>75</b>	<b>\$7,200</b> per \$100k	<b>\$8,800</b> per \$100k
<b>80</b>	<b>\$8,900</b> per \$100k	<b>\$10,400</b> per \$100k

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<sup>8</sup> This is due to mortality credits increasing with age. Mortality credits are basically the reserves of those who die (minus any death benefit they receive) being distributed among surviving retirees. Given that mortality rates increase with age, so do mortality credits.

<sup>9</sup> Based on the 2.5% lifebooster feature of Generation Life's product

<sup>10</sup> Based on the 5% lifebooster feature of Generation Life's product

## APPENDIX 3: A suitable default product and investment mix for retirement

### **Note: Australians need lifetime income that's more than the Age Pension provides**

Australia's national median weekly household income in 2020-21 was **\$92,040 per annum**<sup>11</sup>. For those in the age 55-64 band, the median household income in 2019-20 was **\$96,096 per annum**<sup>12</sup>.

The full age pension for a homeowner couple is, however, only **\$42,988 per annum**. I.e. Less than half of what pre-retirees live on.

We envisage a very large cohort of Australians who desire a lifestyle in retirement that is more than the Age Pension alone provides, and don't want this extra income to ever run out. In other words, they want to be able to meet their reasonable spending needs throughout retirement, no matter how long they live (noting that the desired lifestyle in retirement may fall to some extent during retirement, especially as discretionary spending on some items such as leisure activities declines).

### **Here's what a suitable default could look like**

The use of innovative lifetime income streams can increase retirement income by 15% - 30%.

For retirees in their 70's and beyond, having a predictable income that won't run out provides considerable peace of mind and a higher level of regular income. Research shows that retirees on lifetime income streams are happier, even once you adjust for any wealth effects.

Here is an example of a draft default product for a couple.

- **Between age 60 and age 72:**
  - Once contributions cease being received by the fund, the fund must write to the member to inform them about retirement. This might include an education pack and an invitation to a workshop about retirement. The fund will need to obtain the bank account details where pension payments will be made, plus details of the member's spouse.
  - 12 months after contributions cease, or earlier if the member chooses, the entire balance is transferred into an account-based pension. The default settings would be a retirement based MySuper style investment and a schedule of drawdowns based on the members age and whether they have a spouse
    - If no response was received from the member, then the balance might be considered 'temporarily lost super' and stay in accumulation phase (the minimum income payments can't be made if the fund doesn't know what bank account to make payments).
  - An age based drawdown level will be set. The level of drawdowns will be such that, if no extra lump sum were withdrawn then no step up/down in income level will occur

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<sup>11</sup> <https://www.abs.gov.au/articles/new-census-insights-income-australia-using-administrative-data>

<sup>12</sup> <https://www.abs.gov.au/statistics/economy/finance/household-income-and-wealth-australia/latest-release#data-downloads> Table 10

at age 72 when the default blended product mix kicks in. The maths to administer this is simple and accurate - using techniques that we have developed.

- Annual letters and emails would be sent informing the member what their income projections are. This only needs to show income from the super fund not the Age Pension (as an Age Pension projection requires details of all assessable assets and incomes of the member and their spouse). The member can be shown where to find further information and estimates of their Age Pension. The correspondence must include confirmation of what will be locked in at age 72 by default (unless they opt out), and the options the member has. The letters must include 'red flag' warnings to make it clear who should **not** proceed with the default product at age 72.
- Red flags include (see example on page 6)
  - those with a pressing need for a lump sum (e.g. to repay debt or for medical expenses)
  - those with impaired life expectancy
  - Those with a very low risk profile (i.e. who would require a guaranteed annuity)
- **At age 71:**
  - Ideally the member should be offered an underwriting process – whereby they complete an underwriting questionnaire that helps the insurer build a more accurate picture of their life expectancy. This is common practice in the UK. It ensures every customer gets a fair rate. Unlike with life insurance, with retirement income, underwriting allows those with health issues to get a higher level of annual income - if their life expectancy is shorter than typical life annuity customers.
- **At age 72:**
  - The following product rebalancing will occur to all members with a balance over, say \$50,000<sup>13</sup>.
    - 40% of the balance stays in the account-based pension drawing the minimum
    - 60% of the balance moves to an **innovative lifetime income stream product**
      - If the person has a spouse, then on death the pension level will reduce by 30%
      - 3% hurdle rate (sometimes known as an assumed interest rate or Lifebooster rate)
  - Default investment mix (for both the ABP and lifetime product) = 60% growth, potentially phasing down to 40% growth from age 85.
  - **Note:** We do not suggest a deferred annuity. Instead, what we are suggesting is effectively a 'deferred purchase' of an immediate lifetime product at age 72. This approach provides the benefits of predictability – as younger members know a lifetime income stream will get used – but also flexibility as the final decision can reflect the member's actual health and personal circumstances when they reach age 72.

Please contact us if you would like further information about the detailed reasons for this suggestion.

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<sup>13</sup> Note that for a full Age Pensioner earning \$28,514 per year (\$42,988 for couples) if their only asset is a \$50,000 superannuation balance, then an income of \$3,000+ per annum is a significant improvement to their lifestyle.

The following ‘heat-map’ tables illustrate the various characteristics of this default product mix for retirees with varying levels of wealth. They show that the above mix broadly works for all of them.

As noted by the Retirement Income Covenant, retirement is a multi-period issue with competing objectives. The following heat-maps therefor look at:

1. The Year 1 income that would be paid (i.e. at age 72)
2. The Total Income over their lifespan (based on an age that would cover 90% of retirees)
3. Access to Capital over that lifespan
4. The Death Benefit payable 10 years after purchase

### Heatmap 1: Year 1 income (Single male at age 72)

Each row in the table represents a member with a different level of superannuation balance at age 72. Each column then represents allocating a different percentage of this superannuation balance into a lifetime income stream. 100% means all their superannuation would be moved into the lifetime income stream. 0% means all their superannuation would remain in an account-based pension.

In Heatmap 1, each coloured cell shows what the Year One income would be.

The proposed default setting of 60% allocation to a lifetime product is highlighted by the red border. For example, for the first row, a member with \$50,000 of superannuation who allocated 60% of their superannuation to the lifetime product, would get a Year One income of \$30,633 per annum.

Superannuation Balance (Non Super = 0% of Super)	Metric: Total Income Year One		Allocation of total Super Balance to RLP										
	Member Super	Household Super	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
	50000	50000	30164	30242	30320	30398	30477	30555	30633	30711	30789	30867	30945
75000	75000	31414	31531	31648	31766	31883	32000	32117	32235	32352	32469	32586	
100000	100000	32664	32820	32977	33133	33289	33445	33602	33758	33914	34071	34227	
125000	125000	33914	34109	34305	34500	34695	34891	35086	35282	35477	35672	35868	
150000	150000	35164	35398	35633	35867	36102	36336	36571	36805	37039	37067	37025	
200000	200000	37664	37977	38289	38602	38914	39167	39311	39455	39435	39378	39322	
250000	250000	40164	40555	40745	40925	41104	41284	41464	41644	41760	41689	41619	
300000	300000	39154	40559	41964	42970	43186	43402	43617	43833	44049	44000	43916	
350000	350000	37754	39393	41032	42671	44310	45519	45770	46022	46274	46311	46213	
400000	400000	36354	38227	40100	41973	43847	45720	47593	48211	48499	48623	48510	
450000	450000	34954	37061	39169	41276	43383	45490	47598	49705	50724	50934	50807	
500000	500000	33554	35895	38237	40578	42920	45261	47603	49944	52285	53244	53104	
600000	600000	31464	33564	36373	39183	41993	44803	47612	50422	53232	56041	57698	
700000	700000	35000	36094	37188	38282	41066	44344	47622	50900	54178	57456	60734	
800000	800000	40000	41250	42501	43751	45001	46251	48966	51378	55124	58871	62617	
900000	900000	45000	46407	47813	49220	50626	52033	53439	54846	56253	60285	64500	
1000000	1000000	50000	51563	53126	54689	56251	57814	59377	60940	62503	64066	67093	
1500000	1500000	75000	77344	79689	82033	84377	86722	89066	91410	93754	96099	98443	

("RLP" is an abbreviation for Real Lifetime Pension. See the assumptions below for the product assumed)

The Year One income figures *include* the means-tested Age Pension. Whilst members will inevitably have more household assets than just the one super fund, you can see that people with higher levels of assets still benefit from using a lifetime pension.

Whilst the Age Pension rules do create some curious shading patterns above, caused by the complex interactions with the means-testing rules, it's clear that allocating most of your superannuation to a lifetime product generates higher income than just drawing the minimum from an Account Based Pension. This is consistent with the findings of the Australian Government Actuary, Financial System Inquiry and Retirement Incomes Review as well as regular academic research studies in Australia and globally. Our suggestions incorporate the fact that innovative lifetime income streams can increase retirement incomes by 15 to 30%<sup>14</sup>.

The trade-off with allocating funds to a lifetime income product is reduced access to capital. But it's critical to note that access to capital gets eroded anyway as an account-based pensioner draws down their balance to zero over time.

Assumptions for the heatmaps:

- A single male homeowner, aged 72 in average health. (Similar heatmaps can be produced for single females, couples, and non-homeowners)
- The lifetime product is based on the innovative income stream product by Generation Life. This product is similar to a normal lifetime annuity but instead of paying \$X per annum for life, the product pays X units per annum of income for life<sup>15</sup>.
  - The product pays a (reducing) lump sum benefit in the event of early death
  - A reversionary spouse's benefit can be paid but this wasn't needed for the single 72 year old
- The investment option for both the account-based pension and the lifetime income product is a balanced fund (i.e. the same as a typical balanced option in an account-based pension) earning a return before tax and fees of 7.5% per annum.
- Admin and investment fees for the Account Based Pension were 0.6% per annum
- Admin, longevity, and investment fees for the lifetime income of 1.22% per annum
- The Age Pension and means-testing threshold increase at the rate of 2.5% per annum
- The retiree holds superannuation and no other assets or sources of income apart from the Age Pension. (Similar heatmaps can be produced for households with non-super assets in addition)
- With the account-based pension the retiree draws the minimum (as per the age-based minimum percentages) and makes no other lump sum withdrawals.

## Heatmap 2: Total Lifetime Income

Heatmap 2 has a similar structure to Heatmap 1, but in this case the metric we are looking at in each coloured cell is the Total Income receive by the member for their 'lifetime'. Note that 'lifetime' is an unknowable metric for retirees – because the lifespans of people in any group are subject to randomness. We therefore used a period that will cover the lifespans of 90% of these members (one in 10 retirees would live longer than the lifespan we have used for this calculation)<sup>16</sup>.

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<sup>14</sup> Actuaries Institute Submission to the Retirement Incomes Review –

<https://www.actuaries.asn.au/Library/Submissions/2020/retirementreview.pdf> (Page 20)

<sup>15</sup>The unit price moves in the same way as unit prices in a normal account-based pension product. However, a 2.5% lifebooster feature gets used. This results in a higher level of initial income when the product commences but increases after commencement are more likely to be in line with inflation than with, say, a balanced fund's returns. The lifebooster feature is similar to the hurdle rate on other innovative income stream products. In return for the higher income at the start of retirement unit prices increase by the net investment return in excess of 2.5% (the lifebooster rate).

<sup>16</sup> To quantify this figure, we used the Australian Life Tables 2015-17 and 25-year improvement rates. For more insight into the potential lifespan of different retirees and couples, please see our Lifespan Calculator

Each coloured cell in the table shows the total projected retirement income. The figure in each cell comes from a detailed, year-by-year asset and cashflow projection model for that scenario - including a year-by-year calculation of the person's Age Pension income.

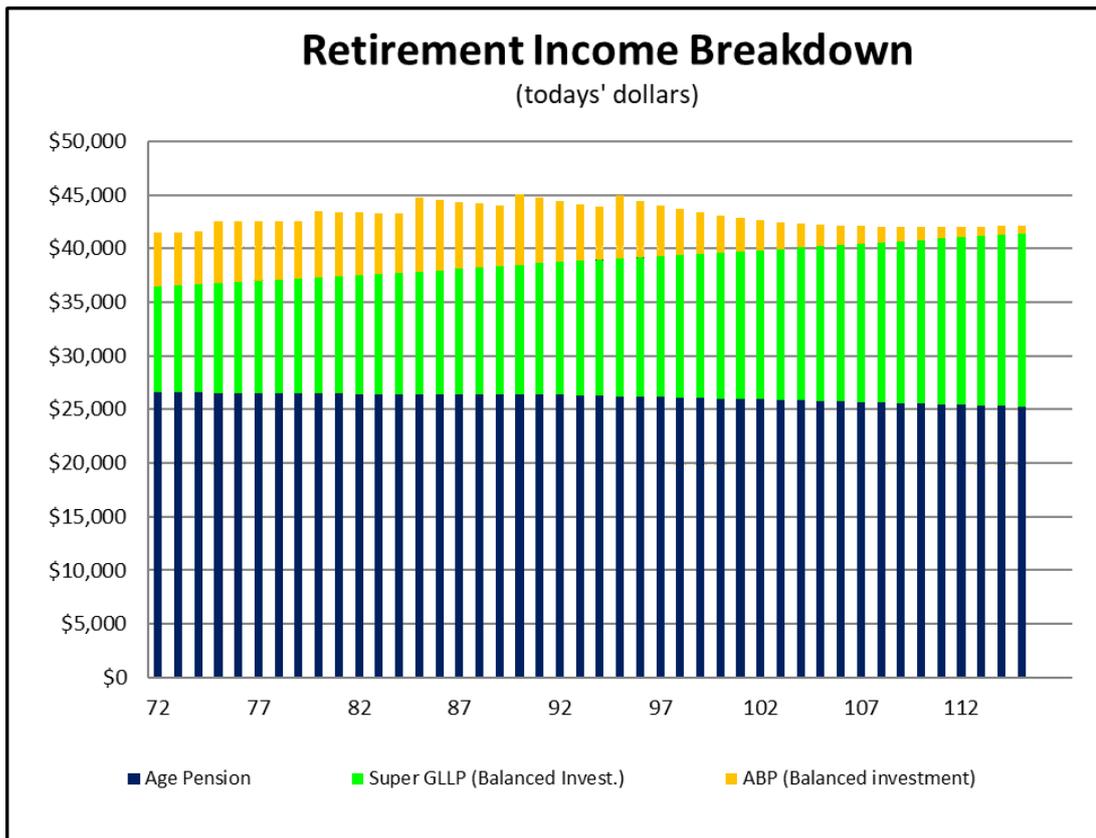
Metric: Total Income To Lifespan		Allocation of total Super Balance to RLP											
Superannuation Balance (Non Super = 0% of Super)	Member Super	Household Super	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
	50000	50000	818673	821337	824001	826664	829328	831992	834656	837320	839984	842647	845311
75000	75000	856677	860673	864669	868665	872660	876656	880652	884648	888643	892639	896635	
100000	100000	894682	900009	905337	910665	915992	921320	926648	931975	937303	942631	947309	
125000	125000	932686	939346	946005	952665	959324	965984	972644	979303	985224	988131	988597	
150000	150000	970691	978682	986674	994665	1002657	1010648	1018640	1024542	1026171	1025416	1024532	
200000	200000	1046699	1057355	1068010	1078665	1089321	1097026	1098854	1099795	1098742	1097563	1096386	
250000	250000	1122708	1136027	1148090	1157655	1163024	1166105	1168878	1171066	1171184	1169711	1168239	
300000	300000	1176994	1200945	1218406	1226941	1230970	1234877	1238540	1241715	1243501	1241859	1240091	
350000	350000	1207880	1240644	1266508	1284379	1296819	1303483	1307980	1312060	1315075	1314006	1311945	
400000	400000	1229171	1270695	1302130	1327531	1349645	1366356	1376964	1382245	1386265	1386154	1383798	
450000	450000	1244379	1294329	1333675	1365191	1393727	1419320	1438881	1451428	1457273	1458301	1455651	
500000	500000	1255999	1313259	1361214	1401785	1434536	1466314	1494081	1514728	1527425	1530449	1527503	
600000	600000	1272332	1343330	1407789	1465978	1515022	1554256	1592298	1628242	1655537	1671575	1671210	
700000	700000	1320407	1389695	1456666	1525473	1588399	1642198	1686622	1731047	1772475	1802047	1812759	
800000	800000	1407416	1478099	1547127	1613443	1676666	1732533	1782874	1831696	1882397	1925460	1948069	
900000	900000	1513234	1585033	1657977	1730917	1796251	1852863	1897556	1939829	1990316	2043932	2078550	
1000000	1000000	1629888	1703506	1779377	1855200	1928939	1992639	2040122	2073465	2114320	2163350	2206249	
1500000	1500000	2301903	2389367	2479627	2571788	2658734	2738591	2810564	2870050	2926903	2999499	3079414	

You can see that across all wealth levels, a high allocation to a lifetime income product produces a higher total lifetime retirement income.

As mentioned above, the main trade-off to higher retirement income is having reduced access to capital and a reduced lump sum death benefit at older ages.

As an illustration of the calculations behind this, here is the year-by-year income projection for the retiree in the above heatmap with \$250,000 in super and investing 60% of this into a lifetime income product (shown as Super GLLP). The figures in the chart are in today's dollars.

built with assistance from Hannover Re. This has now been used by over 14,000 people:  
<https://www.optimumpensions.com.au/lifespan-calculator/>



### Heatmap 3: Average Access to Capital over lifespan

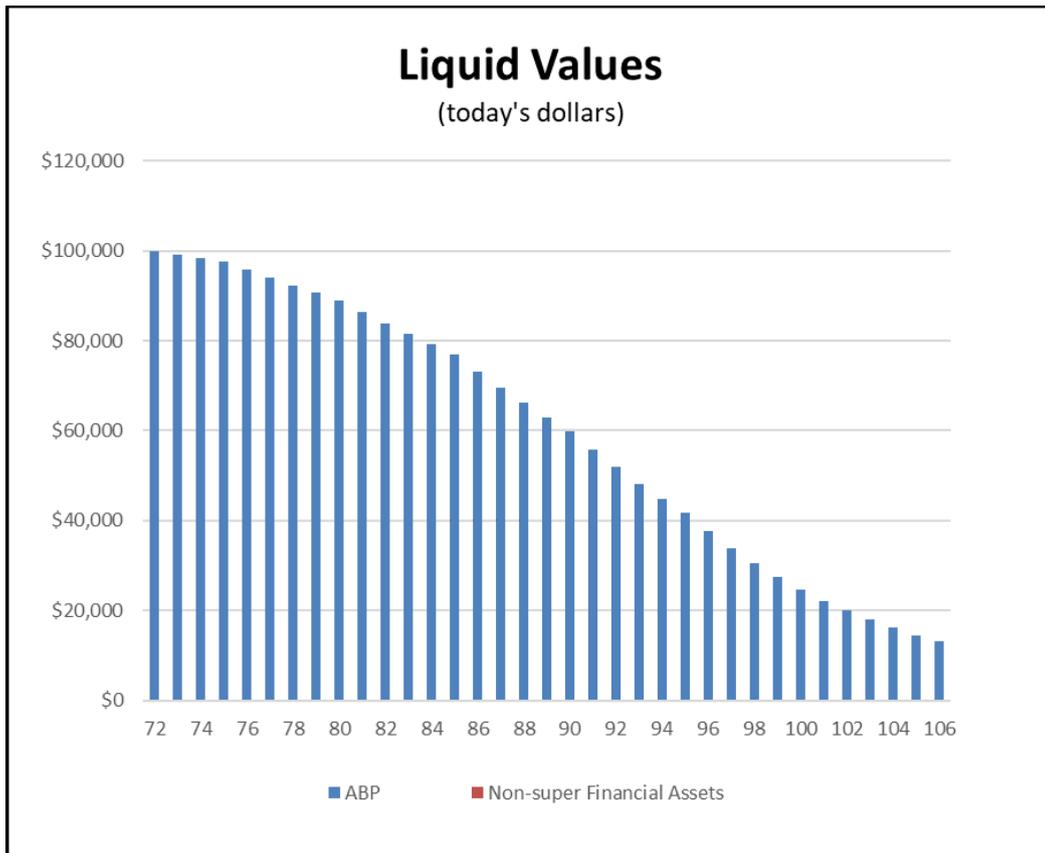
Heatmap 3 is the same structure as Heatmaps 1 and 2. However, here the metric shown in each coloured cell is how much access to capital the retirees would have, on average, over their lifespan.

Each coloured cell in the table comes from a detailed, year-by-year asset and cashflow projection for that scenario - including the Age Pension. The access to capital is based on the projected account-based pension balance. The figure in the cell is the average for this across that whole projection.

Metric: Average Access To Capital Over Lifespan		Allocation of total Super Balance to RLP											
		Member Super	Household Super	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%
Superannuation Balance (Non Super = 0% of Super)	50000	50000	36152	32536	28921	25306	21691	18076	14461	10845	7230	3615	0
	75000	75000	54227	48805	43382	37959	32536	27114	21691	16268	10845	5423	0
	100000	100000	72303	65073	57843	50612	43382	36152	28921	21691	14461	7230	0
	125000	125000	90379	81341	72303	63265	54227	45189	36152	27114	18076	9038	0
	150000	150000	108455	97609	86764	75918	65073	54227	43382	32536	21691	10845	0
	200000	200000	144606	130146	115685	101224	86764	72303	57843	43382	28921	14461	0
	250000	250000	180758	162682	144606	126530	108455	90379	72303	54227	36152	18076	0
	300000	300000	216909	195218	173528	151837	130146	108455	86764	65073	43382	21691	0
	350000	350000	253061	227755	202449	177143	151837	126530	101224	75918	50612	25306	0
	400000	400000	289213	260291	231370	202449	173528	144606	115685	86764	57843	28921	0
	450000	450000	325364	292828	260291	227755	195218	162682	130146	97609	65073	32536	0
	500000	500000	361516	325364	289213	253061	216909	180758	144606	108455	72303	36152	0
	600000	600000	433819	390437	347055	303673	260291	216909	173528	130146	86764	43382	0
	700000	700000	506122	455510	404898	354285	303673	253061	202449	151837	101224	50612	0
	800000	800000	578425	520583	462740	404898	347055	289213	231370	173528	115685	57843	0
900000	900000	650728	585655	520583	455510	390437	325364	260291	195218	130146	65073	0	
1000000	1000000	723031	650728	578425	506122	433819	361516	289213	216909	144606	72303	0	
1500000	1500000	1084547	976092	867638	759183	650728	542274	433819	325364	216909	108455	0	

You can see that the highest access to capital (averaged over lifespan) comes from keeping all of the balance in the account-based pension. However, you can also see that allocating 60% of the balance to a lifetime product still provides a reasonable access to a lump sum.

As an illustration of the calculations behind this heatmap, here is the year-by-year balance projection for the retiree who had \$250,000 in super and invested 60% of this into the lifetime income product (leaving \$100,000 in his account-based pension). The figures in the chart show his projected account-based pension balance – which gives access to capital. The figures are in today's dollars.



(\$72,203 if the average accessible capital he'd have between now and age 97, in today's dollars)

#### Heatmap 4: Death benefit 10 years after purchase

In Heatmap 4 the metric we are looking at in each row is the projected lump sum death benefit payable if the retiree died 10 years later (i.e. at age 82). This comes from the same year-by-year projection model used in the other Heatmaps. The lump sum death benefit includes the remaining account-based pension balance, and any lump sum death benefit from the lifetime income product. Looking at the results 10 years after purchase is just an example – to get a sense of what outcomes members can expect. A similar heatmap can be shown for any year, or in fact any metric of interest.

Metric: Death Benefit At Year 10		Allocation of total Super Balance to RLP											
Superannuation Balance (Non Super = 0% of Super)	Member Super	Household Super	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
	50000	50000	43205	40384	37563	34742	31921	29101	26280	23459	20638	17817	14996
	75000	75000	64807	60576	56345	52113	47882	43651	39420	35188	30957	26726	22494
	100000	100000	86410	80768	75126	69485	63843	58201	52559	46918	41276	35634	29993
	125000	125000	108012	100960	93908	86856	79804	72751	65699	58647	51595	44543	37491
	150000	150000	129615	121152	112689	104227	95764	87302	78839	70377	61914	53451	44989
	200000	200000	172819	161536	150253	138969	127686	116402	105119	93835	82552	71269	59985
	250000	250000	216024	201920	187816	173711	159607	145503	131399	117294	103190	89086	74981
	300000	300000	259229	242304	225379	208454	191529	174603	157678	140753	123828	106903	89978
	350000	350000	302434	282688	262942	243196	223450	203704	183958	164212	144466	124720	104974
	400000	400000	345639	323072	300505	277938	255371	232805	210238	187671	165104	142537	119970
	450000	450000	388844	363456	338068	312681	287293	261905	236517	211130	185742	160354	134966
	500000	500000	432049	403840	375631	347423	319214	291006	262797	234588	206380	178171	149963
	600000	600000	518458	484608	450758	416907	383057	349207	315356	281506	247656	213806	179955
	700000	700000	604868	565376	525884	486392	446900	407408	367916	328424	288932	249440	209948
	800000	800000	691278	646144	601010	555877	510743	465609	420475	375342	330208	285074	239940
	900000	900000	777688	726912	676137	625361	574586	523810	473035	422259	371484	320708	269933
1000000	1000000	864097	807680	751263	694846	638429	582011	525594	469177	412760	356343	299925	
1500000	1500000	1296146	1211520	1126894	1042269	957643	873017	788391	703765	619140	534514	449888	

As an illustration of the calculations behind this heatmap, for the retiree who had \$250,000 in super and invested 60% of this into the lifetime income product, if he died in 10 years' time (age 82) he would receive his remaining account-based pension balance plus a lump sum death benefit from the lifetime income product totalling \$131,399 in today's dollars.

Superannuation funds can white label the above product or design their own.

In summary, the above heatmaps show us that:

- **Allocating more to the lifetime product delivers a higher level of income at age 72, and a higher level of income over their 'lifetime'** (noting that 'lifetimes' are subject to randomness). For people who start drawing an income from superannuation prior to age 72, Optimum Pensions have developed a fairly simple formula that super funds can administer to determine what drawdown rates to apply from the ABP between retirement and age 72 – in order to align that income with the income that will be payable from age 72 onwards<sup>17</sup>. This ensures a smooth transition to the default product settings at age 72 irrespective of what market performance is. Optimum Pensions have a set of simple rules to apply this to an account-based pension.
- **The trade-off with having lifetime income is having less access to capital.** You'll notice that the green-red colouring of Heatmap 3 is reversed compared to Heatmaps 1 and 2. The maximum access to capital comes from putting no superannuation into a lifetime product. Putting the entire balance into a lifetime product produces the least access to capital. Hence judgement is required between this objective and having lower retirement income. An important factor to keep in mind here is if an account based pension were to become exhausted at older ages there would be no access to capital from then anyway, whereas income from the lifetime product would continue being paid for life.
- **Allocating more to the lifetime product will (sometimes) mean a lower death benefit.** We say 'sometimes' for two reasons:

<sup>17</sup> No complex investment theory or strategies are required to align income from the ABP with income from the default product at age 72. It can be solved with straight forward admin rules – irrespective of what investment returns are generated.

- The lifetime product would still pay a lump sum death benefit in the event of early death. In the first year, this would be similar to the lump sum death benefit from the account-based pension
- If an account-based pension were to be exhausted at older ages, it obviously wouldn't pay a death benefit either

Designing a default blended retirement product is far simpler for members 5 years beyond Age Pension age than it is for those in their 60s.

Our suggested approach gives individuals full flexibility to deal with the challenges in their 60's as set out in Appendix 1.

Once a member starts drawing an income from their superannuation, our suggested approach means they receive a default level of lifetime income (based on formulas) that they can predict and plan for. It also enables superannuation funds to better engage with retired members and allows members an opportunity to experience what their retirement income needs will be in retirement.

Superannuation funds don't necessarily need to know what Age Pension income each member will get in order to design a good default product. As per Heatmaps 1 – 4, the relative improvements, balancing a range of outcomes, are similar for all wealth levels even in light of the Age Pension means testing thresholds.

Once all the issues have been thought through, and rigorously tested through a quantitative lens and a financial planning lens, superannuation funds can then continue their focus on being good product providers rather than needing to know and manage the detailed, broader retirement income picture of each retired member and their spouse.

The suggested default product achieves the Retirement Income Covenant objectives for everyone in their 70s whether they get an Age Pension or not, subject to the Red Flags on page 6. It delivers on the objective of a 15% - 30% higher retirement income.

By giving members full flexibility in their 60s, the approach removes the need for superannuation trustees to take responsibility for each member's unique and personalised cashflow situations as they transition from earning a salary at different times and in different ways.

The above default design achieves:

- Full flexibility and access to capital for households as they phase into retirement in their 60s
- A broadly steady (investment-linked) level of income as soon as they start drawing on super
- Lifetime income with whatever balance they have remaining at age 72
- Maximises retirement incomes for life
- Considerable flexibility and access to capital for households in their 70s
- The ability to inform each member what their retirement income from super will be – in advance. This can be supplemented by tools to help people quantify other sources of income too, but these become a nice to have, not essential.
- A reversionary income for the person's spouse
- A lump sum death benefit in the event of an early death
- Confidence that income will never run out, regardless of how long the person or their spouse lives.
- Peace of mind that they'll continue receiving income without having to make decisions or manage the admin of investment choices

- A higher, more predictable level of Age Pension for those subject to means testing
- Peace of mind
- Protection from elder abuse and inheritance impatience
- Protections to ensure that people for whom a lifetime product is unsuitable can easily recognise this and opt out.

The approach essentially removes the need for superannuation funds to take responsibility for each member's full financial situation and retirement income plan. It allows trustees to confidently focus on their own product(s), knowing that it delivers value to their Target Market's financial plan.

**It returns to the paradigm of superannuation being just one component of a household's retirement, not a complete wrapper to take on responsibility for each member's total retirement income.**

Remaining concerns may be:

- **The need for a lump sum at older ages to fund aged care or health issues.** Government policy should ensure people feel confident to dedicate their super to generating retirement income rather than having to preserve a significant portion of their balance in case they need a lump sum for Age Care costs. It should be designed so that it's clear to people that having good income is equivalent, if not better, than having a lump sum for the purposes of age care needs.
- **Take up rates:** This is solved by the product being a soft default for all retirees. Based on the research by the Melbourne Business School, we envisage opt-out rates to be low.
- **Poor performing products:** Given that innovative lifetime products are new in Australia, there may be concerns that better products may become available in the future and a trustee's first choice of product ends up performing poorly. This might result in complaints if members were locked into poor performing products. Government policy should make it easy for a trustee to bulk-transfer a book of lives from one lifetime product to a better one (similar transfers of books of defined benefit pensions already take place). This also protects trustees from liability where product designs are approved by APRA. Given government policy is to encourage product innovation, and innovation is an iterative process of testing and improvement, the responsibility for getting this right should ideally be 'socialised' with government support and direction, rather than pointing fingers at particular parties in hindsight – who were trying to do the right thing at the time.

## APPENDIX 4: Proportion of a retiree's balance that comes from tax concessions

### Proportion of a retiree's balance that came from tax concessions:

Tax band while working	Percentage of their superannuation balance at retirement attributable to tax concessions
19% marginal rate	5%
32.5% marginal rate	26%
37% marginal rate	36%
45% marginal rate	44%

### Methodology

To solve this question, rather than just using assumptions, we looked at the actual history of key factors since the SG system was first established. In particular,

- For contribution rates, we used the actual historic SG rate each year since SG was introduced in 1992. Today's 67-year-olds were age 36 at that time.
- For the salary history, we used actual AWE increase rates as published by the ABS, since 1994. In 1994, the average total earnings for a full time adult was \$34,975 per annum. Their marginal tax rate was 39.25% including Medicare. Today the average is \$94,276 (marginal rate 39%).
- For tax, the contribution tax rate was 15% throughout.
- For investment returns, we assumed a 10% tax rate on investment returns in super (allowing for tax deductions and imputation credits).
- For investment returns, we estimated the return on a balanced portfolio using Vanguard asset class returns data and the following asset allocation.
  - Australian shares: 24%
  - International shares (unhedged): 20%
  - Australian bonds: 11%
  - International bonds (hedged): 17%
  - Listed property (international): 3%
  - Listed property (Australian): 3%
  - Cash: 22%

We assumed a 1% pa fee assumption throughout.

Based on all this, for a worker earning AWE their whole career, the projected balance at age 67 comes to \$249,000. This is a little higher than the actual average balance for Australians at retirement, but career patterns vary and a lot of people won't have had continuous full time work all the way to age 67. So \$249,000 seems reasonable.

We then calculated what proportion of the balance is attributable to tax concessions, as follows.

- We compared the above figure of \$249,000 with what would have happened if those same contributions were saved outside of super
- To do this, we took the SG rates times their salary but then deducted the person's marginal tax rate. This is what they'd get in their bank account if that contribution did not go into super but was instead taxed as salary and paid to their bank account
- We assumed they invest this in the same balanced mix as super. The tax assumed on that portfolio was their marginal rate x 50%. We deducted 50% to allow for various tax rules and strategies such like imputation credits, capital gains tax rules and strategies and the deductibility of fees and costs
- We then compare this projection with the superannuation balance projection. We attribute the difference to the combined impact of superannuation tax concessions that were granted.

For the average Australian 67 year old, who worked full time since age 36 when the SG was first introduced, the proportion of their balance relating to tax concessions is **26%**.

For people in higher salary bands the proportion is higher.

For those in the next tax band (which currently applies to income between \$120,000 per annum and \$180,000 per annum) **36%** of their retirement balance came from tax concessions.

For people in the following tax band (which currently applies to income between \$180,000 per annum and \$250,000 per annum) **44%** of their balance related to tax concessions.

This analysis helps the government to justify asserting some influence over how these concessions are used to maximise people's retirement outcomes (rather than lump sum death benefits at older ages).

Only government has a clear perspective of the complete retirement system.

- Superannuation fund trustees are focussed on good returns, efficiency and keeping costs down. They are also focussed on membership numbers and funds under management. As such, any initiative that could harm net returns (e.g. by incurring costs) for projects that ultimately **reduce** members balances (i.e. by paying out income) clash with a paradigm of 'best financial interest' being to maximise member balances. Many funds lack a profit motive or competitive pressure to innovate in the retirement phase.
- As highlighted in the Super System Review Final Report, a compulsory system cannot depend on all its participants having the skills necessary to comprehend complex financial information or being investment experts. An approach of 'libertarian paternalism' is more appropriate – the idea that the outcomes experienced by inert or disengaged consumers should have inbuilt settings that most closely suit those consumers' objective needs, as assessed by the expert providers of the product or service in question. Melbourne Business

School research found that many Australians want (expect) to be looked after by their super fund rather than having to make complex choices themselves.

- Financial planners have suffered greatly in recent years as noted by the Quality of Advice Review. Until recently, the products discussed in this paper have not existed and so there has been no reason for planners to learn about them. Planners must focus on making sufficient fees in a compliant way under an evolving regulatory regime. At present, this is often achieved by focussing on wealthy clients rather than 'mum and dad' Australians. Planners may not yet have the skills or tools to deal with the complexity and 'actuarial' nature of this problem for the mass market. However, they will quickly learn if super funds present default options and clients demand help on whether to proceed with the default options or make choices themselves.
- Pure online tools and digital advice have struggled to get uptake and make a profit given that most people want to speak to a human when making complex, often irrevocable financial decisions. Users often don't understand the context, terminology, scope, inputs, assumptions or outputs of a digital tool – and so they're unwilling to rely on those tools to make life changing decisions. Many online retirement tools are not fit for purpose as they don't sufficiently model everything that the Age Pension assets test and income tests do. They are often product-centric rather than customer centric.

## Appendix 5: Product disclosure framework and Tools for comparison and performance

Treasury and the Australian Government Actuary's work in 2018-19 (the 'Retirement Income Disclosure Consultation') is still highly appropriate in this regard<sup>18</sup>. Please see our submission on this at the time encouraging these developments<sup>19</sup>.

We also refer to our submission to APRA in relation to the Prudential Standard SPS 515 Strategic Planning and Member Outcomes consultation. Our submission sets out a range of metrics for measuring member outcomes from retirement products<sup>20</sup>.

As a reminder, the overall 'winning' design developed and tested by the Behavioural Economics Team of the Australian Government was successful in helping consumers identify and understand the right issues when comparing products combinations<sup>21</sup>. This is shown below for convenience.

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<sup>18</sup> <https://treasury.gov.au/consultation/c2018-t347107>

<sup>19</sup> [https://treasury.gov.au/sites/default/files/2019-08/c2018-t347107\\_-\\_optimum.pdf](https://treasury.gov.au/sites/default/files/2019-08/c2018-t347107_-_optimum.pdf)

<sup>20</sup> [https://www.apra.gov.au/sites/default/files/submission\\_optimum\\_pensions\\_may\\_2019\\_v1\\_0\\_0.pdf](https://www.apra.gov.au/sites/default/files/submission_optimum_pensions_may_2019_v1_0_0.pdf)

<sup>21</sup> <https://behaviouraleconomics.pmc.gov.au/sites/default/files/projects/supporting-retirees-in-retirement-income-planning.pdf> page 30

FIGURE 7: TEXT TABLE  
(WITH INCOME MADE SALIENT WITH A BORDER)

	Plan A	Plan B
<b>Amount of income</b>	This plan provides a <b>medium-to-high</b> amount of income  Expected average fortnightly income is: <b>\$843</b>	This plan provides a <b>low</b> amount of income  Expected average fortnightly income is: <b>\$667</b>
<b>Protection from running out of income</b>	This plan provides you with <b>high</b> protection from running out of income	This plan provides you with <b>high</b> protection from running out of income
<b>Amount of money available for lump sum withdrawals or bequests</b>  <small>Note: if you withdraw a lump sum amount during your retirement, your fortnightly income will subsequently be lower</small>	This plan provides a <b>low</b> amount of money for lump sum withdrawals or bequests  Expected average amount of money available is: <b>\$41,000</b>	This plan provides a <b>high</b> amount of money for lump sum withdrawals or bequests  Expected average amount of reserve money available is: <b>\$173,000</b>
<b>Protection from fluctuations in income</b>	This plan provides <b>low-to-medium</b> protection from income fluctuations due to changes in investment returns (positive or negative)  In most years, income could rise or fall by: <b>4.5%</b>	This plan provides <b>low</b> protection from income fluctuations due to changes in investment returns (positive or negative)  In most years, income could rise or fall by: <b>6.7%</b>

Expected amount of money available for lump sum withdrawals or bequests

Note: if you withdraw a lump sum amount during your retirement, your fortnightly income will subsequently be lower

