

# Lifetime Income

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09 February 2024

Retirement Advice and Investment Division  
The Treasury  
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Dear Sir/Madam

## **Response to Treasury Discussion Paper: Retirement Phase of Superannuation:**

### **Introducing Lifetime Income**

We are an independently owned boutique consultancy that provides strategic advice, research, modelling, and implementation support to businesses looking to expand in the rapidly growing retiree marketplace. We apply our actuarial skills and many years of experience to develop and quantify innovative, effective, and robust solutions. Our approach is holistic and integrated, not limited to providing regular income stream, but focused on the effective use of financial resources. We support businesses address aspects of the multi-faceted retirement challenge with an overarching focus on assisting retirees achieve financial security and dignity throughout their retirement.

We have been active in this space for over a decade. Some examples of our work given in an Annex.

### **Overview**

We welcome this Discussion Paper and applaud it for including some lateral and innovative approaches to potentially solutions to the rapidly emerging retirement sustainability challenges that Australia and all societies face.

The core challenge is setting a policy framework that facilitates super funds and other service providers supporting retirees with a dignified, financially secure, and meaningful retirement. This is a complex and multi-faceted challenge with many interactions to identify and manage. This challenge has moved from the 'future' to 'current' with the urgency that implies. To date progress, despite supportive policy settings, has been slow as highlighted by the July 2023 APRA/ASIC report on progress implementing the Retirement Covenant.

In summary, we believe:

- There is scope for innovative and effective solutions that build on existing retirement offerings
- Our research and modelling suggests the financial management can be addressed using existing tools and actuarial techniques
- A holistic view of the retirement challenge is required hence specific aspects, including the financial one, should not be addressed in isolation as that risks suboptimal overall outcomes

- A framework that identifies key paradigms can provide a language for more productive future discussions. Some current implicit paradigms should be called out, broadened, and revised to support this. A pragmatic 'use test' of the success the overall retirement ecosystem is the extent to which retirees' quality of life is enhanced.

In particular, while the receipt of income (regular and other) is important, the focus should be on outcomes achieved, that is, the effective use of that income. A focus on 'effective use' is a change in perspective and draws in broader but important non-financial considerations. It is more complex than just depositing funds into a retiree's bank account. For example, if a retiree is cognitively impaired, depositing funds into their account may not help unless the appropriate supporting infrastructure is in place, and might increase the risk of elder abuse. The use test should focus on outcomes for groups of retirees not specific individuals. This is supported by key sections of the SIS Act which discusses beneficiaries in the plural not the singular.

### **Elephants in the room**

Reflecting the change in perspective identified above, from accessing funds to their effective use, drives the need to explicitly identify some entrenched paradigms and then consider how they may be reviewed and adjusted to be more flexible, holistic, and genuinely be retiree outcome focused.

We identify a number of key issue and paradigms which collectively provide a framework and 'language' to support broader and more lateral discussion. We suggest that while some of these paradigms are entrenched and may be conveniently comfortable, they are not always recognised for what they are. We suggest that in some cases, at least in part because they are unstated, without clarification and refinement they can impede progress. It is also important to recognise these issues interact with each other and their higher order interactions need to be understood to reduce the risk of unexpected overall outcomes. The order of the following list does not imply a ranking of importance and relevance will vary depending on the specific topic being addressed.

#### **E1 Inbuilt systemic inefficiency is due to lack of pooling of financial resources**

Individuals seeking to manage their life expectancy on an individual basis have only one choice – to assume their worst case scenario. This is clearly not in their or their beneficiaries best or best financial interests. However, it is a natural and sensible behaviour by individuals if they see no better options.

The extent of this systemic inefficiency, at a high level, assuming the (sole) purpose of superannuation funds is to support the retiree's own retirement, is of the order of 30% of the total fund available. At a macro level this is clearly not in the interests (financial and more broadly) of individual retirees or society.

From an actuarial perspective, the only way that longevity risk, and hence systemic efficiency, can be managed is by pooling the resources from groups of retirees. This management is inherently statistical and can be done using established actuarial techniques. The larger the group the more predictable its overall behaviour becomes. There is trade-off to manage, as the larger the group become the less subgroup variances will be recognised. The management of subgroups within the larger group can also be addressing using established actuarial techniques. See also our later comments on annuities.

This fundamental inefficiency should be recognised and addressed.

#### **E2 Need to manage longevity risk**

It is well established that the primary fear of retirees is that they run out of funds before they die. This is usually termed 'longevity risk'. From the retiree perspective this very rational. From a societal perspective the challenge is to address this with appropriate, stable, efficient, trusted, and equitable retirement income products. To date this challenge has not been met. Allocated Pension products fail

as they are inherently individually focused. Traditional Annuity products, as offered by life insurers, fail as they include unnecessary (but established) guarantees, require capital (which reduce member benefits), and may have conservative backing investment approaches. They are also deeply unpopular in Australia

There is clear need to break the shackles of the traditional approaches to providing income streams, particularly when they are lifelong. The key challenge here is managing the changes in future expected mortality. We believe this can be achieved, using established actuarial techniques, provided absolute guarantees are removed. From a practical point of view, our modelling indicates that the likelihood of the implied 'market' expectations not being met is small, even when the historic worst case investment scenarios of the last 60 years in Australia are replayed. Expected mortality rates, for both males and females are typically expected to decline - meaning people, on average at any age, are expected to live longer than they currently do. Future experience of changes in rate of mortality is unclear, so processes and new products need to have the flexibility to equitably manage the impacts of those changes as they emerge.

Longevity risk, for individuals, remains impossible to manage without assuming either worst case scenarios (inefficient at a group level as outlined previously) or accepting the perhaps significant risk of exhausting funds. This is a poor and insecure outcome for individuals living longer than expected which is approximately half of any cohort - is a lot of people and, potentially, unacceptably many. Effective and publicly supported, 'safety nets' building beyond the Age Pensions, should be put in place.

To make any meaningful progress in supporting efficient financial outcomes for retirees, the need for effective pooling of resources between retirees to manage longevity risk must be recognised and addressed. Our modelling suggests this need increases as retirees age increase, becoming a key driver when retirees exceed an age of, (approximately, currently) about 80.

The fundamental need to provide retirees with assurance there are ways in which they can avoid financial longevity risk and be assured of receiving income streams for life should be acknowledged. Our research and modelling suggest there are practical and robust solutions available and they can be developed and managed using established actuarial techniques within the existing SIS regulatory framework

We applaud the concept put forward at the end of the paper of the government supporting managing longevity risk through a mortality pool. While there remains much work to do on the specifics, we believe the issues can be addressed using established actuarial techniques and strongly encourage the further development of the concept. We note that the Comprehensive Income Product for Retirement (CIPR) concept put forward a few years ago is a move in this direction despite the fact that there seems to have been little progress to date in developing it further.

### **E3 The collective benefit of being part of a group**

We have outlined the need for longevity risk to be managed at a collective, group, level as it cannot be efficiently managed at an individual level.

More broadly, a range of risk are managed at a group level. The groups may be the whole of society or smaller groups. Smaller groups might include the group of policy holders for a product offered by an insurer (life or non-life). At a societal level, compulsory superannuation, based on employment salary is an example of a societal recognition that the risk of individuals running out funds in their retirement needs to be addressed. While the implementation of this, especially in the decumulation phase, may be a challenge that does not detract from the objective which is broadly accepted.

It is noteworthy that participation in the accumulation phase of superannuation is compulsory, not optional. For all employees. The long term societal benefits are accepted to far outweigh individual and/or short term disagreement. This leaves open a realistic possibility of compulsorily requiring some actions in the decumulation phase of superannuation. We suggest that some mandated actions should be included in the debate to reflect overall societal benefits. We accept that some individuals may see some disadvantage or inconvenience of this but suggest the overall collective good is more important than some purported individual benefits.

We also note there are other examples of the collective good being addressed, perhaps at the possible immediate expense individuals may perceive on some occasions. These examples include the provision of Medicare on a universal basis, the requirement for Compulsory Third Party Property motor insurance, Worker's Compensation, and government supported Unemployment 'insurance'.

#### **E4 Annuities vs income streams**

The traditional interpretation of the word 'Annuity' is narrow and outdated. We leave aside term annuities and focus on the true intent, life-long annuities. Life annuities are currently only permitted to be offered by life insurers. In exchange for an initial lump sum investment policyholders (retirees) receive a guaranteed income stream for the rest of their life. Such guarantees require the insurer to establish reserves and so require capital backing for which the annuitant then pays. A fundamental flaw with the annuity product design is that the assumptions are locked in at issue without the scope for future adjustment to reflect future changes of circumstances. This forces insurers to be conservative with their offerings and may be a reason why annuities may not be popular. They fully transfer longevity risk but at a cost that may be perceived as too high. The risks to the insurer are real as shown by the failure of Equitable Life in the UK. This product design, with annuitants now typically living many years after purchasing their annuity is restrictive and outmoded.

The focus should be broadened to mean income streams (perhaps differentiated by the word 'annuity' as opposed to 'Annuity') in a 'for life' context. The key to broadening the perspective and generating viable future products lies in removing the impediments built into traditional Annuities. In particular, removing the requirements of absolute guarantees of the future levels of annual income (that they may not decrease and typically will increase at a rate related to a measure of inflation) and that all the assumption setting is done at inception without the scope to reflect future environment changes. Removing the guarantees while retaining an expectation of increasing income streams and allowing for changes in environment (removing the need for capital) is a path permitted by the SIS Act. The SIS Act also removes the requirement that such product may only be offered by life insurers, which provides opportunities to other providers, superannuation funds in particular, subject to appropriate and prudent actuarial management. Our modelling suggests such products can be viable, robust, and efficient.

We are surprised this path has not been pursued more vigorously and can only surmise that this is due to 'traditional' attitudes being applied to a non-traditional situation and opportunity. We believe this path should be pursued more vigorously we consider it provides a viable approach to addressing longevity risk.

#### **E5 Focus on providing income streams (the means), not what they are used for (the end)**

We believe the core purpose of generating retirement income (regular streams and managing more unexpected lump sum costs) is to support the quality of life of retirees. That is, the core challenge for retirees is not the receipt of funds, but their use.

It is widely accepted, and government policy, that the objective of retirees remaining in their own homes and community for as long as possible is desirable. This suggests that the provision of services to retirees remaining in their own homes is a crucial aspect of the use of retirement incomes.

#### **E6 Need to change from a wealth accumulation to a wealth management focus on retirement**

Much of the discussion around investment performance and choices in retirement is focused on maximising investment returns. This may be appropriate during the accumulation phase of retirement but we suggest it may not be appropriate in the decumulation phase. The focus in the decumulation phase moves from growth to management and, increasingly, preservation. Sequencing risk then becomes a risk to address (our view is this can be managed through retaining appropriate levels of liquidity).

A management focus differs significantly from an accumulation focus, not least since in the accumulation phase further contributions are expected and they can help redress losses. This is not the case in the management phase when contributions have ceased.

It also should be recognised that the investment returns are greatest in the management phase, especially at its start since that is when the largest balances are in place. The investment risks then taken then should be constrained by the liability objectives - the expected sequence of drawdowns - and so unfettered pursuit of investment gains may be inappropriate.

This is a significant shift in perspective and paradigm that should be embraced by both retirees and their investment providers including their superannuation funds.

#### **E7 Lack of retiree knowledge (and confidence)**

It is an unfortunate reality that many retirees have little, or inadequate, knowledge (or even interest) in the investment performance of their superannuation and other assets intended to support their retirement.

A direct consequence of this is that many retirees (or impending retirees) do not have the confidence to attempt to make financial retirement decisions. Instead, they may rely on friends, hearsay, or worse.

While it is true that financial education can redress this, the reality is that this is a long term process that relies on positive engagement and so is unlikely to impact the decisions or actions of impending retirees or retirees. This reality should be recognised in policy decisions and appropriate protections for uninformed retirees and impending retirees put in place.

#### **E8 Lack of planning by retirees. Lack of adequate defaults.**

The impact of E7 leads to the lack of capacity of many retirees to realistically undertake such planning without assistance. The ongoing presentation of financial and retirement matters as being complex and emphasis then being placed on individuals to make choices they may be ill-equipped to make should be addressed.

While better financial education is obviously a good thing, the current average low level of financial literacy should be acknowledged and addressed, while long term improvement of financial literacy is pursued. Financial education programs such as those that should be in place in schools do not benefit impending retirees who are financially less literate than they should be to make sensible retirement decisions.

That is, there is a large and immediate problem that future education does not address. This may be a transition stage if it is assumed future education efforts will be successful. History to date suggests this

aspiration may be ill-founded and, in any case, does not address the immediate. The idea that individual should make their own choices, based on being informed and willing to do so, 'sounds good' but in practice is debilitating and isolating for many and can easily lead to poor outcomes or even abuse.

A consequence is that it cannot be a surprise, and indeed should perhaps be expected, that many retirees avoid the issues, seek simplistic (and often suboptimal) solutions, and are very conservative and seek to avoid a worst case scenario (often running out of funds - longevity risk). People are typically not silly and, assuming capacity, a 'level playing field' for the decisions, and some confidence, through self-interest will make the best decisions they can with the tools available to them. However, if one or more of these conditions is compromised their decisions may become simplistic (including not making decisions) or otherwise adversely influenced, leading to poorer outcome than might have been available. This is not in their interests or in their financial interests.

In our view there is a clear fiduciary responsibility of super fund trustees under the retirement covenant to take all reasonable step they can to avoid such outcomes. We suggest there are many retirees who are not able to make informed decisions. We also suggest that a mantra that because choices are available and are adult decisions should be left entirely to them, is inappropriate (even if politically convenient) since they are not quipped to make such choices on an informed basis. This is not in their best or best financial interests.

There is a clear need for defaults to be put in place to support retirees who cannot or will not make their own decisions. The primary objective of such defaults is to have a good widely process applicable that can be easily followed and is considered to produce reasonable outcomes. In particular, to avoid poor outcomes. By having a flexible (but defined) process some allowance for varying circumstances can be reflected so it is not simplistic 'one size fits all' approach. If the range of outcomes is split into quartiles to intent would be to land in the second quartile (with the first quartile including 'best' outcomes). The intent of the default is not to attain 'best' outcomes for specific individuals, but to achieve 'good' outcomes for subgroups of individuals by applying a clear and defined process. The avoidance of poor outcomes is clearly in the financial and broader interests of both individuals and society as a whole. In our view it is a clear fiduciary responsibility of super fund trustees under the retirement covenant to put such processes in place. However, they should be relieved of the target of 'best' outcomes since the individuals are not participating in the process.

#### **E9 Declining physical capacity. Increasing need for services at home**

The prevalence of physical disabilities amongst retirees is striking and increased markedly with age. 2018 statistics show that:

- 1.8 million, just over half, of Australians aged 65 and over have a disability, compared to one in eight (12.5 %) aged under 65
- Almost 40% of those aged over 65 need some form of assistance with everyday activities (almost half of the women and a third of the males)
- At age 85, more than 80%, 8 out 10, people needed assistance compared to less than 30%, 3 out 10, people aged 60-69
- After age 90, three quarters of women and two thirds of males have profound or severe core-activity limitation

These results vividly demonstrate the need for in-home services for retirees.

With an aging population the proportions can be expected to be increasing. The impact of physical disability on retirees should be factored into discussions of retiree needs including their financial needs.

#### **E10 Declining cognitive capacity. Declining ability to make good decisions**

Statistics reported by Dementia Australia in 2018 suggest:

- In 2018, there are an estimated 425,000 Australians living with dementia (190,000 (45%) males and 235,000 (55%) females)
- Without a medical breakthrough, the number of people with dementia is expected to increase to over half a million by 2025 and about 1.1 million by 2056
- Three in ten people over the age of 85 and almost one in ten people over 65 have dementia

In addition to dementia, so called Mild Cognitive Impairment (MCI) can also affect retirees. 2015 data regarding MCI indicated:

- The rates of objective cognitive impairment increased from about 20% for ages 60-69 to 25% for ages 80-89

Retirees with dementia or MCI can be expected to have decreased capacity to make effective or insightful financial decisions for themselves. As retirees age a significant and increasing proportion of them should be expected to suffer from dementia or MCI.

The impact of a decline in cognitive capacity, in addition to the impacts of an increase in physical disability on retirees should be factored into discussions of retiree needs including their financial needs.

Especially for the over 80's cohorts, the proportion of retirees affected may well be the majority.

#### **E11 Retiree needs change over time**

It is critical to acknowledge that retiree needs and capabilities evolve over time. Typically, they decline as outlined above.

Typically, there are three stages of retiree's lives – Active, Passive, and Frail. Each has their own needs and transitions depend on individual circumstance. A clear consequence of this is that it is inappropriate to assume retirees will remain capable and interested in managing their retirements throughout their lives. The levels of interest and capability will decline over time. As the average ages at death increases the impact of such declines will be accentuated. This implies the need for external and appropriate fiduciary support will increase. This applies not only to financial interests but more broadly. The need to address and reduce elder abuse rises in concert with the challenges of ageing and appropriate fiduciary support.

It is striking that the initial drafts of the Retirement Covenant addressed the issue of cognitive decline but the final version avoided the issue. This is an emerging issue of great import that is currently being ignored.

The management of retiree best (financial or other) interests should recognise and address the consequences of changes in retirees' capacity to manage both their financial interests and their broader interests

#### **E12 Characteristics of a 'best'/'best financial' outcome**

These appear to be undefined. The SIS Act does not appear to provide any direct guidance.

However, the terms are used repeatedly. They should be clarified and applied consistently to retain relevance and support effective discussion.

We observe that a specification of 'best' is inherently a moving target as standards of practice evolve over time. This suggests that 'best' should be interpreted in a temporal and situational context. Additionally, it should recognise the differences between standard Business as Usual situations and assumptions and Business Not as Usual (stressed) situations.

**E13 The perfect preventing the good - the paralysis of perfection.**

There is significant risk of paralysis due to immediately seeking a 'best' solution to a complex and evolving challenge, especially from a policy perspective.

We strongly suggest this should be avoided. It is a poor outcome to do nothing while apparently seeking a 'best outcome'.

This implies that good but not 'perfect' solutions should be taken up with the proviso that they are flexible and adaptable and can be updated in light of experience. This also implies a need to avoid retrospective penalties for initiative that are well intentioned and reflect 'best efforts at the time with the information and analysis then available' but may not be as successful as hoped and then require amendment and updating.

This attitude may require some political bravery and support and may also require some cultural shifts in approach.

**E14 Narrow – financial only - view of retirement needs**

Much of the debate and discussion of retirement outcomes is focussed on the financial aspects and then within that the provision of regular income streams. We acknowledge that in the Discussion paper there is some recognition of the need for other income needs that may arise. We suggest this broader issue should be given a higher profile, especially as retirees age, may suffer from decreased cognitive capacity and may be faced, perhaps unexpectedly, with significant costs for moving into residential and aged care. Such decisions should not be made under stress and appropriate pre-planning should be supported.

Further the potential for elder abuse, deliberate or not, in such situations should be recognised and mitigated.

**E15 Need for a holistic approach. Trying to solve a complex problem but only looking at one aspect**

Following on from the previous point, the multi-faceted, satisfying, and meaningful nature of retirement should be acknowledged and recognised. Many non-financial aspects are important and a singular focus only on the financial aspects may lead to suboptimal quality of life outcome and may also risk being counterproductive.

More emphasis on the structure and core components of a rounded and meaningful retirement should be reflected and acknowledged in this work. The reality that the retirement challenge is multi-faceted and complex should be recognised and reflected.

**E16 The superannuation industry needs to step-up**

Few funds actively appear to actively engage in product development, preferring to follow the herd. A seeming lack of desire to take a long term view, acknowledge that the decumulation phase is growing and, relatively, the accumulation phase is declining, and/or address the decumulation challenge proactively may lead to the impression that finding excuse to defer addressing the retirement challenge

take precedence over addressing it. This could be seen as a lack of acceptance that the ultimate objective of superannuation and the funds retiree hold at retirement is intended to support their retirement.

We believe the superannuation industry should be more proactive in taking up the retirement challenge. We suggest this is in the long term interests of their members, even if arguments are put forward that it may not be in their short term interests. At a macro long term societal level, we suggest the need to address the retirement challenge is clear.

**E17 Over emphasis on process, compliance (and penalties), and defensive attitudes. As distinct from clear objectives (and tests of their attainment)**

A lot of legislation and regulation in the superannuation space can be seen as being focused on compliance and, consequently, avoiding penalties for actual or perceived infringements. While we fully support the need for appropriate member and retiree focused policies, processes, and systems being in place and properly implemented, we suggest there is a place for encouraging a more proactive and positive approach to the management of retiree benefits and needs. That is, it would be beneficial for retirees and society more broadly if a focus on exceeding in the minimum required standards of behaviour and practice (as required by a compliance perspective) can be incorporated into the culture and practices of superannuation funds and other service provider for retirees.

Addressing these issues collectively, reflecting their aggregate impact, and being open to broader/alternative interpretations of information provides a framework for moving forward and focussing on improved retiree outcomes.

We acknowledge that addressing the retirement challenge is complex and so needs to be an evolutionary process. It is unrealistic to expect a 'perfect' solution immediately. This implies there should be flexibility built into the systems and processes for moving forward to allow, and perhaps require, the benefit of experience to be integrated back into the system so the system is able to be refined and adjust in light of that experience. Such a cyclic approach is entrenched in the actuarial psyche (it is called the Actuarial Control Cycle) but is not always as well recognised more widely. It represents a paradigm shift from attempting to get it right first time to an iterative process of continuous improvement reflecting best efforts at the time without retrospective penalty based on 'wisdom of hindsight'. It is not a populist approach but a rational and principled one. This 'operationalises' E11.

It is also counterproductive to have inherently good ideas and approaches shot down by arguments that may be emotive and unquantified either in terms of the proportion people affected or extent of the claimed impact. Such arguments need to have robust and impartial quantification attached to them and then outcomes need to be balanced against the overall common good. It is unrealistic to expect that all will benefit to the 'same' extent from changes. Not least because assessing 'benefit' always involves value judgements and emotive reactions which can vary depending on how data is presented and how vocal special interest groups may be. We appreciate that this may be a 'political' reality but suggest that before such implementation issues are addressed it is necessary to determine clear objectives. Where you are trying to go, and how you get there are separate and distinct matters and usually it is obvious that if you don't know where you are going you are unlikely to get there

### **Responses to specific Consultation questions**

We suggest that addressing many of these questions might benefit from stepping back from examining specific possible outcomes and reflecting more on the underlying issues. The focus should be more on asking the right questions rather than on assessing potential answers to questions that may be flawed. The framework put forward above can assist with this.

### Navigation of the retirement system

- Comments on issues identified:

We suggest the issues identified focus more on proposed solutions than on the underlying issues and challenges. We suggest some stepping back and clarification of the core underlying issues would be beneficial before considering specific solutions to questions that may not be fully appropriate.

- Action being taken (super industry and others) to address these issues:

As an overall observation, these could be improved and would benefit from being more proactive and less defensive. That said, there are some actions and endeavours that are clearly moving in the right direction and are retiree benefit focussed, but there is a long way to go for the industry as a whole to adequately and effectively meet the retirement challenge.

- Of the identified approaches, their priority, and risks. Other approaches to be considered:

We suggest the core need is the effective implementation of adequate default approaches. Many super fund members and retirees simply are not well enough equipped to make appropriate financial choices in their best (or good) interests. The need for more financial education is obvious but is also a long term exercise and so does not address the short to medium term issues of importance to upcoming retirees.

- Further questions:

SMSF's should be recognised and included in the decumulation process. They have specific issues to address, primarily the cognitive decline of the individuals(s) driving the SMSF. We believe some of the product ideas we have investigated can address these issues. More generally, the issue of 'SMSF exits', typically at ages 75-80, need to be recognised and constructively addressed.

We make no further comments on these supplemental questions in light of our overarching comment at the beginning of this section

### Funds delivering better retirement strategies

- Need for competition, product comparisons, and greater consumer protection:

There should be increased clarity on how product comparisons and consumer protections are addressed. The need for consistency in product comparisons suggests mandated approaches are appropriate. We caution that the average level of consumer understanding (low) should be reflected in such comparisons, the focus should be on preventing individuals being taken advantage of, and a mantra of providing lots of data with the responsibility for then assessing it being passed back to individual who may not be equipped to make such assessments, should be avoided (it looks good but is a cop out for effective protection).

- Role of industry and others to support delivery of competitive products and services, and consumer protection:

Commercial competition is a useful mechanism to avoid monopolies taking advantage of consumers. However, we also suggest that, due to the information asymmetry between typical retirees and their superannuation funds, that a simplistic 'competition (between super funds) is good' mantra is inappropriate. The focus should be definitively on retiree outcomes not funds (possibly self-interested) interpretations of them.

- Of the identified approaches, their priority, and risks. Other approaches to be considered:

We have outlined a set of principles making up a framework to assess proposals with. We suggest this be codified and then applied. As always, a key challenge is to avoid the paralysis of perfection and to ensure accessible consistency of comparison even if that is imperfect

- Further questions:

We make no further comments on these supplemental questions in light of our overarching comment at the beginning of this section

### **Making lifetime income products more accessible**

- Barriers to supply and demand;

A key barrier is information asymmetry between retirees and the providers of services to them including, but not limited to, superannuation funds. In the short and medium terms, it should be recognised that this is a 'fact of life' and steps taken to support retirees managing it. This includes putting in place reasonable default options that are collectively in the interests of society. The need for more accessible information, understanding, support is self-evident.

- Actions being taken (super industry and others) to assist retirees better manage their retirement income risks:

To date, these are likely inadequate and suffer from not fully recognising the extent of the information symmetry between retirees and providers. We acknowledge the need for super fund and provider to legally protect themselves from misinterpretation of their information and other abuses but emphasise the core need for information provided to retirees to be accessible, relevant, and understandable to them.

- Policy approaches to support lifetime income products and the risk to retirement income:

We strongly support the pursuit of the concept introduced at the end of the paper of a government backed mortality pool to support the efficient and effective management of longevity risk.

- Further questions:

We make no further comments on these supplemental questions in light of our overarching comment at the beginning of this section

### **Conclusion**

Addressing the retirement challenge in Australia (and globally) is complex task and effective solutions will take time to evolve. We recognise there remains 'a lot of water to go under the bridge'. Consequently, a flexible and pragmatic approach is needed. Inaction due to fear that 'perfect' solutions are not identified should not prevent good solutions being implemented. Inaction is a poor solution and as the current situation is accepted as being inadequate, reasonable steps to ameliorate it should be encouraged. Such steps should be able to be modified in light of future experience and without retrospective penalty given 'best endeavours' were made.

We have provided a framework that can support and focus future discussion and can help clarify key issues. We also have provided some research based insights and lateral approaches that may be of value.

We suggest the current discussions would benefit from being broadened, recognising the need to address retirement in a holistic (more than financial) way, and focussing more on identifying root problems before seeking specific solutions.

We applaud the concept put forward at the end of the paper of the government supporting managing longevity risk through a mortality pool. As we note, there remains much work to do on the specifics, but believe the issues can be addressed using established actuarial techniques.

We trust you find this feedback useful and would welcome the opportunity to further develop our thoughts with you.

Yours sincerely



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## Annex

Some examples of our work are:

- A 10 minute summary of our views on retirement, the paradigm shifts needed to succeed, and some paths forward, at [https://www.youtube.com/watch?v=Le\\_4zmq5A\\_U](https://www.youtube.com/watch?v=Le_4zmq5A_U)
- *"Significance of Negative Investment Auto-correlations"*, Actuaries Digital, January 2024
- *"Sustainable lifetime retirement incomes in a rising interest rate context"*, International Congress of Actuaries, May 2023. 'Your Say' Video
- *"Long-dated government bonds"*, we were the lead drafters of this Institute of Actuaries of Australia submission to Treasury in June 2020
- *"Response to Retirement Income Covenant Position Paper"*, public consultation by the Australian Treasury, June 2018.
- *"Retirement: A new frontier of the over 80s market"*, Paper and presentation at the 2018 International Congress of Actuaries in Berlin.
- *"Managing Liquidity in Superannuation"*, Institute of Actuaries of Australia Biennial Convention, April 2011.