

Part 1: Deconstructing Retirement Income | Questions & Answers

Does the focus on 'advice' still create too much dependency on intermediaries (whether funds or external advisers)? How about better opportunities for self-fulfilment through digital tools etc?

Many people need help with retirement issues. For some, this will involve getting financial advice, including advice through a digital tool. For others, education and guidance might enable them to make an informed choice. Funds who enjoy a long-term relationship with members, and generally a high degree of trust, are ideally placed to provide information and guidance to members through to retirement.

Funds should also be looking to provide 'guidance' to members, not just at the point of retirement but also leading up to it.

If funds can collect more data on members, can funds provide mass tailored retirement solutions to members without crossing into 'personal advice'?

At present no. There needs to be a review of what information can (and should) be used to enable a mass-tailored solution.

It will be interesting to see whether the CIPR safe harbour idea will proceed.

How do we build scale for CIPRs without having them offered/taken up by people who they may not be suited for?

Many funds have sufficient scale on their own. Solutions can be implemented using third parties where additional scale is required.

Would free financial advice from funds to members provide confidence? ie members who don't obtain advice are possibly reluctant to spend their balances in retirement?

Making advice 'free' to the person seeking advice won't solve the problem. Someone will have to pay. Education and guidance can reduce the need for full advice.

Does 'robo advice' have a significant role to play in providing cost effective retirement solutions? If so, where are we on this journey?

Yes. Still early stages. Groups are progressing from asset allocation advice (which is beneficial in accumulation) to digitising more meaningful advice for retirees.

While robo advice tends to relate to asset allocation, the term digital advice is more meaningful when one thinks of applications to intra-fund advice. For most Australians with relatively modest assets at retirement this offers a cost-effective alternative to face-to-face advice.

Could income coaching be 'mass-personalised'?

Yes.

If we encourage all product providers to develop unique solutions for retirement income, how can we reasonably expect advice to cover all potential products and deliver on the clients' best interests?

Solutions can be tailored to each retiree. The components don't need to be unique for each retiree, so the set of options to review should still be small.

Are annuities a solution for retirement income? Why has takeup not been stronger? Should the government stipulate a minimum percentage of retirement income be invested in annuities?

Yes. Annuity take-up has increased dramatically in recent years. Because they aren't widely used, the benefits have been explained to retirees in one-on-one conversations with advisers which has slowed the uptake. A minimum percentage could be problematic, but the retirement income covenant is likely to guide trustees to offer longevity risk pooling to the segment of retirees who would benefit from it. In simple terms, this would be the large group of retirees in the part pension zone and above.

Perhaps we can do a better job at highlighting the benefits of an annuity rather than just the features.

Can part of Super contributions be routed into a deferred annuity product instead of all funds sitting in Super Fund?

This is possible and in some ways ideal, but the administration is complex given the choice of fund during accumulation. Some funds are already exploring how this can be implemented.

Peter - who are the best potential providers that are willing and able to provide longevity insurance at scale and sustainably over the long term? The market needs more choice than just lifetime annuities and sustainable providers that can stand behind long term promises. Your thoughts?

There is a global market in longevity risk management with international insurers that can be considered.

What suggestions does the panel have to 'improve understanding of the integration of the three-pillars'?

The Retirement Income Review was considering the interaction between the three pillars and as the review report remains a cabinet-in-confidence document, this was not answered during the discussion.

Surely there are four pillars with home ownership ranking way up here with the others

The Retirement Income Review considered housing as a special component of the voluntary savings pillar.

With the introduction of index benchmarks to monitor the performance of super funds, will super funds move out from alternatives and more towards passive investing focusing on beating benchmarks rather than generating long term returns? If not, how the alternatives performance will be benchmarked?

Time will tell how funds will react. Some funds are likely move towards more passive options. Perhaps as the legislation is drafted, the listed versus unlisted infrastructure/alternative assets question might be addressed.

Surely the standard in retirement should not be based on some artificial construct such as the ASFA standard but rather their standard of living over their working life. Applying a single ill-conceived standard across all results in truly non-optimal consumption over their whole life.

Different standards meet different purposes. The OECD aim of x% of pre-retirement income does not maintain living standards. the required % varies by income level. While a standard such as ASFA comfortable offers the benefit of simplicity, it was developed to provide guidance for the top 20% of income earners. This is not really an appropriate aspiration for lower income earners who would have to forgo an unrealistic amount of working-life income.

Does the panel feel our industry might underestimate retirees' appetite to use their super for bequest motives and categorisation of low drawdowns as lack of confidence might be too simplistic?

The are some retirees who wish to leave a bequest, but surveys of retiree's intentions report this as a minority of retirees, while a majority are worried about running out of money, suggesting lack of confidence is the key reason for accumulated balances at the end of life.

On David's earlier point on income focus in retirement - Do we need to start changing the investment objective for pension products away from risk and return objectives towards income objectives and variability?

Yes. It is the income payments (ie cash flows) that matter in retirement. And there is nothing stopping funds doing this now.

How can you justify a benchmark in retirement when 70 per cent of singles and 60 per cent of couples don't meet while working?

The benchmark is aspirational and was originally focused on the top income quartile.

The home does not produce income, only need to factor in rent being part of expenses for non-homeowner.

True. Renting can be expensive for retirees.

Does that mean we need a holistic approach or system to manage the retirees' life needs?

This would be ideal.

What percentage of retirees have halved their draw-down since Covid rule changes?

There is no accurate data on this yet. It hasn't applied to a full FY. One large retail/corporate fund had found that less than 15% of members had acted to reduce their drawdown rate, but this was several months ago.

The combination of SG contributions and minimum drawings ABP is a good basic product. People can top up in accumulation phase if they want and can adjust drawdowns. Funds can't provide advice without knowledge of individual circumstances so should stick to their product knitting.

This basic product leaves all the risks in retirement with the member. The member has no way of knowing how long they will live so they cannot spend the right amount and so the tendency is to underspend. The minimum drawdown tends to "anchor" behaviour and limit drawdowns to this amount.

By definition, the minimum drawdown provides retirees with the LEAST amount of income. Its unlikely that this is the outcome many will desire.

Estimating income in retirement is not a simple task for super funds as funds do not have information on non-super assets and spouse details to estimate age pension. What is a possible solution here?

Estimates can be based on available information and sharpened as the member provides more details. This is how many digital apps operate.

Do members necessarily spend all the money they draw down? This is one of the conundrums of our system - seems to be some evidence many people are still saving in retirement notwithstanding anchoring to minimum drawdown rules.

There is no clear evidence on this yet. Academic studies have shown the preservation of modest levels of wealth (<\$100,000) but there is no evidence of the average household saving more in retirement. Wealthy households do increase their wealth in retirement through savings and investments.

Surely absolute return should be a higher priority to income, even in retirement

Higher returns are preferable, but the timing needs to be right to ensure that the income can be paid. The 'J'-curve profile of many target-return investments reduces income payments for retirees.

Question for David - what could a reasonable product look like rather than the best possible solution? Also including age pension relief boost for those entitled to a part pension with taking longevity.

Adding a longevity solution to an ABP would be a reasonable starting point for many retirees with spending goals above age pension rates.

The new innovative income rules for the age pension make a longevity solution much more attractive.

Minimum drawdown also helps to ensure that if money is saved outside of super that the earnings may be taxed (and if so obviously higher than the 0% pension)

Yes, although there are also fairly generous tax offsets that apply to a large proportion of retirees.

When are we going to see draft legislation for the retirement income covenant?

This is a question for the government, but it will have to be in the next six months or so in order to meet the 1 July 2022 commencement date.

What is the status of the retirement income review? Heard the report has been handed to the Commonwealth Treasury since late July. Will the government address the findings from the review report soon?

Cabinet has been briefed and the industry is awaiting the release of the document. Some industry observers are speculating that it will be released in November or December this year.

What is your view on the role of super funds should play in managing climate change risks?

Climate change/carbon risk is a risk for any long-term asset owner and needs to be managed appropriately.

There has been little industry leadership (for various reasons) while government-prescribed solutions such as a CIPR have failed to see the light of day. Do you think the industry can lead and develop or whether a prescriptive policy-led solution is required?

The industry has shown the initiative to lead on other issues and can lead here, particularly with the benefit to members from improving retirement. With a principles-based approach to the Retirement Covenant and retirement income more generally there will be an opportunity for funds to demonstrate leadership and alternative approaches to the issue.

It would reflect poorly on the industry if the government felt they needed to prescribe a solution because the industry hasn't shown leadership.

Question - retirement income estimates, with all their faults, help members to focus on income as the end game in retirement. Should we push more strongly for government to mandate, rather than permit, these?

YES! This would be a good outcome and one adopted last year for all KiwiSaver funds in New Zealand. The output is a forecast of fortnightly income in retirement, assuming smooth consumption of capital and a certain life expectancy.

Will the new benchmarking rules announced in the Budget apply to account-based pensions?

No. The rules only apply to accumulation accounts (MySuper) and subsequently to choice products in the accumulation phase.

What are the panels thoughts on the proposed changes to remove default super?

Default super remains. The first default will be to an employee's existing account. Only where there is no existing account, will SG be paid to the new employer's default fund.

Post the early release of super scheme, there is a huge impact on retirement balances particularly for younger members. Do you think the government should address this in the future with additional incentives to top up their super?

Those who accessed the ERS should have a plan to re-build their super once they can afford to do so. Funds could and should assist with this. Often, incentives for additional contributions are only accessed by those who don't really need them, so care will need to be taken here.

Should minimum rates be adjusted with future returns expected to be lower?

The purpose of minimum rates is to steadily remove money from the zero-tax environment. Retirees should be drawing more than the minimum to get the most out of their super anyway. Adjusting minimum rates typically only favours wealthier retirees who don't need to spend their super.

END OF QUESTIONS
