

## Part 2: Solutions for retirement income | Questions & Answers

**What is the role of advice in simplifying retirement? Are advisers equipped to cut through the complexity and find a solution that meets peoples needs?**

*Advisers have an important role to help people meet their retirement goals. More needs to be done for people to make simple decisions about retirement, because there won't be the capacity for everyone to get full-scale advice. For those who want or need it, advisers will be able to tailor the solution for their clients.*

**Andrew Boal - agree that we should engage members at the right time, in your view when is the right time to engage members? Is it age 55+?**

*Education and engagement for members should be present at all times. In the years ahead of retirement, from say age 50/55, funds should engage more actively with members so the transition to retirement will be smooth.*

**How do we best allow in product design for cognitive decline, and resultant financial overconfidence, occurring as individuals reach their late 70s/80s?**

*Retirement products can be designed so that the member does not have important decisions to make at older ages. A holistic design can integrate the longevity solution into the retirement product. If set up appropriately, the retiree will understand how they get their income and this can be confirmed, even as cognitive function declines.*

**Amara suggested heterogeneity is too great for defaults. Is this too narrow? Aren't smart defaults a solvable technology and information problem?**

*Exactly. A single default will not necessarily suit everyone, but the use of digital tools can provide smart defaults tailored for the heterogeneity, but offered as default to each member.*

**I currently have a client seriously considering commuting a DB pension \$11.1 to \$1 to leave a bequest when the cost of a Challenger annuity is \$28 to \$1!!!**

*This highlights why commuting a DB pension is usually not in the retiree's best interests. With current rates and expected returns, they cannot replicate that \$11. The government set the \$1.6m transfer balance cap on the basis of \$16 (16x a \$100,000 a year age pension) and that assumed quite aggressive returns.*

**If annuities are so simple Aaron, why is their pricing structure so opaque?**

*The goal of the annuity is to manage all the risks and provide the retiree with a simple outcome: income guaranteed for as long as they live. The pricing is complex, not opaque. Any actuary can calculate the price based on the mortality table and expected returns.*

Would we all benefit if APRA were to roll out a thoughtful consultation paper on member outcomes in retirement?

*Yes. This would help provide goalposts for the industry to move towards.*

Does the industry know how to measure success in retirement? What does 'good' look like in the retirement phase?

*The problem with measuring success in retirement is that you can only really tell when it is over, and that is too late to make a difference. The key is to maximise the income that a retiree can spend through retirement. Any meaningful measure will have to include an estimate of the income the retiree will receive over the rest of their life.*

Do funds need a Chief Retirement Income Officer to tackle the problem that CIOs usually think in terms of investment returns, rather than spendable cash flows.

*Yes, although that role is sometimes covered by the member services executive. It is key that someone focuses on putting the money back in the hands of the member.*

What member 'nudges' would best help super funds solve the retirement puzzle at scale?

*The best nudge would be a lifelong education campaign around how super provides income for life once you stop working. The key for super is to actually deliver this through a simple retirement option with some choices signposted/made for the member in advance by the trustee.*

We focus on a product perspective. From a member perspective, retirement is about purpose, connection, knowledge/choices. Have we spent enough time on this?

*Probably not. There is a lot more to retirement than just a product solution. As super funds and product providers, we focus on what we can do, but helping in other ways is important such as fostering social connections, interests & hobbies etc.*

Isn't success in retirement an individual's "peace of mind" along the journey. Have they done the things they wanted to do? Not necessarily focused on money

*Peace of mind is absolutely important. However, most people worry about money matters or being able to afford health care. Retirees need the money to do the things they want to do.*

Amara - do you think super funds struggle to see the value of pooling structures - i.e. may be too anchored to investment returns alone to deliver outcomes?

*They are seeing advantages and the key for the funds is to get the right pooling structure. They are generally happy to pool in their own member base.*

**What's the best structural mechanism or legal structure to deliver longevity pooling at scale? And who are the providers best placed to deliver it sustainably?**

*The best structure involves a guarantee, backed by capital. APRA-regulated entities such as a life insurance company can provide this peace of mind. If done well, this will be an integrated offer from the fund to the member with the benefit of scale from third parties.*

**Are large allocations to infrastructure assets in a DC structure suitable for the retirement phase?**

*As an income-providing asset, infrastructure can be very useful in the retirement phase. The key for members is to have the liquidity to access and draw down their capital in order to maximise their spending in retirement.*

**How can super funds offer conviction around how members should think about retirement without clarity around tax and age pension sustainability**

*Regulatory risk will always exist, but so will taxes and the age pension. By providing a solution to members that combines flexibility with some guaranteed income for life, funds can give members the confidence to spend what they want in retirement.*

**Andrew, what's a reasonable fee to charge for that dial-up / dial-down product structure that you've proposed? flexibility typically drives higher costs**

*The dial up/dial down difference will depend on the actuarial cost of the amount of income included. There wouldn't be an additional fee.*

**Amara, defaults don't work in retirement but pooling only works at scale. So how do funds get a pooled longevity product to scale?**

*Funds can initially access scale from third parties while they build their own pooling scale. There are several options to access the wider pool either directly through annuity providers or through other markets such as longevity swaps.*

**Do funds have good enough data to do retirement properly? If they don't, what can be done about this (and quickly)?**

*Funds have come a long way in collecting and using member data. There is more they can do to collect accurate data. A key question is what information they can use without edging into personal advice.*

**Why is it that two recent APRA-administered measurement tools (member outcomes and the Budget proposal on benchmarking) only apply to the accumulation phase?**

*Because retirement is different and the outcomes are harder to measure. A higher balance is not necessarily a sign of a better outcome. APRA will need to find a different measure for success in the retirement phase.*

**Are chief investment officers in the funds engaged in the discussion? Or is it being led by product/member-facing staff, perhaps with internal resistance?**

*This varies between funds, but some CIOs are actively involved in getting a better retirement solution for their members.*

**Keen to get the panel's thoughts on longevity pooling through a national system (like the NDIS)?**

*The government has little appetite beyond the age pension for more longevity risk. It would also tend to favour the longer-living wealthy.*

**Can super become a guaranteed income only solution, while tax effective savings accounts outside super are used to subsidise additional spending or bequests?**

*This is unlikely. Super was set up to provide income in retirement and this includes the additional spending that varies over retirement. It would be a major policy shift (and also unpopular) to force annuitisation.*

**How do age care health care costs fit into this?**

*Despite what many people think, the cost of the increase in health costs are mostly paid by the government. As retirees become more frail, their other expenditure falls so the incremental health costs are manageable. Age care bonds are more linked to the family home, rather than super. This is a potential problem for renters who need more income in retirement.*

**Should the legislated drawdown rate change as future markets are expected to give lower returns**

*The minimum drawdown is there to reduce the value of estates with tax concessions. Lower returns won't change this. Retirees should actually be spending more than the minimum drawdown in order to get the most out of their retirement, but the minimum rates create a sub-optimal anchor for retirees.*