Dialogue Paper
April 2026

Actuaries Institute.

It's Time: Here's How to Turn Superannuation into a Retirement Income System

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Nick Callil and David Knox declare that they have no conflicts of interest.

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ISBN: 978-1-7643622-5-2

Suggested citation: Callil, N. & Knox, D. 2026. It's Time: Here's How to Turn Superannuation into a Retirement Income System. Actuaries Institute.

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Executive Summary

Australia has a well-respected superannuation system which has helped millions of Australians save for retirement. But we do not have a retirement income system. This is reflected in the number of members leaving their balances in (taxed) accumulation phase beyond age 65 (which we term 'stranded balances'). Currently there are more than 1.5 million Australians aged 65 and over with stranded balances totalling more than $320 billion. As a result, these individuals are paying more than $2 billion of additional tax every year.

This paper recommends that APRA-regulated superannuation funds must offer these individuals a pre-set account-based pension designed by each superannuation fund. Accepting this offer would provide these members with regular income and tax-free investment earnings. In addition, it is recommended that retirement income payments must commence no later than age 75 for all members of APRA-regulated funds and Self-Managed Super Funds (SMSFs). These proposals would alleviate the 'stranded balances' problem. They would also help transform our system into one which achieves its objective of delivering income in retirement for all Australians.

1. We Do Not have a Retirement Income System

Introduction

Australia has a well-respected and well-funded superannuation system. It covers virtually all employees, has a decent contribution rate of 12 per cent and has provided very good investment returns to members over a long period.

However, we do not have a retirement income system.

A retirement income system is one where retirement savings are predominantly drawn down by retirees as a regular income. While superannuation is an efficient means for Australians to accumulate money to spend during their retirement years, there is currently no effective and widespread mechanism in place for these savings to be delivered as income.

Australia has already recognised the issue. As the legislated Objective of Superannuation states:

'The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.'[1]

Further, the Retirement Income Covenant requires superannuation fund trustees to have a strategy to assist their members to achieve three objectives, the first of which is maximising their expected retirement income.

These measures are clearly focused on the provision of retirement income. But the current system does not deliver on this intent.

> "A retirement income system is one where retirement savings are predominantly drawn down by retirees as a regular income."

An international perspective

In part, Australia's slow progress towards a retirement income system reflects the challenges inherent in providing income from a defined contribution (DC) scheme. This problem is not unique to Australia. Many DC systems around the world are grappling with the same issue. As the Thinking Ahead Institute's 2025 study of twenty leading DC pension funds with average assets of US$109 billion concluded:

'The most pressing concern is retirement income, still unresolved.'

Interestingly, 60% of the peer funds volunteered, unprompted, that retirement income was the biggest challenge for DC systems over the next decade.

In this context, it is valuable to consider the retirement income rules that apply in leading pension systems around the globe.

The 2025 Mercer CFA Institute Global Pension Index compared and ranked 52 pension systems considering the adequacy of the benefits provided, as well as the long-term sustainability and overall integrity of each system. Australia was ranked seventh, which is a creditable outcome but with room for improvement. Table 1 shows the requirements in each of the other top ten systems (in order of their ranking) in respect of the benefits required to be provided at retirement.

1 Superannuation (Objective) Act 2024, Section 5(1).

Table 1: Requirements relating to the form of retirement benefits

Country	Retirement benefit requirements
Netherlands	Lifetime pensions with a limit of 10% of the benefit that may be taken as a lump sum from 2026
Iceland	Lifetime annuities are required for a significant part of the mandatory contributions
Denmark	Lifelong benefit options are common with significant contribution limits for lump sum plans
Singapore	Lifetime annuities are required with three indexation options
Israel	Lifetime annuities are required although they are not guaranteed
Sweden	An income stream is required although it can be for a limited term
Chile	An income stream is required; either a lifetime annuity or market-linked
Finland	Lifetime indexed pensions with no lump sums available
Norway	The income stream must be payable for at least 10 years and until age 77 with no lump sum option

The comparison with the Australian system is stark. We have no restrictions at all. Australian retirees can take all their superannuation at retirement and spend it immediately, pay off debt, give it away (perhaps operating as the Bank of Mum and Dad) or invest it elsewhere. Alternatively, they can leave it in their superannuation accumulation account, where it will be subject to a higher tax rate than in a tax-exempt pension account, but with no drawdown or income requirements.

That is, there is complete freedom as to the form and timing of benefits that are to be taken once retirement is reached.

Proposals for change

The lack of an effective income focus within superannuation has been well identified for some time. Similarly, the concept of a pre-selected or default solution being offered to retirees has been well canvassed as a means of remedying this shortcoming.

Following recommendations from the Government's Financial System Inquiry in 2014, a pre-selected retirement solution meeting prescribed conditions, known as a Comprehensive Income Product for Retirement or 'CIPR', was proposed. Subsequently, however, the focus shifted to a more principles-based approach, as reflected in the Covenant.

In December 2023, The Treasury released a Discussion Paper entitled *Retirement phase of superannuation*. Among the policy options raised in the paper was a standardised retirement product, proposing that 'funds could be required to develop at least one product which meets the framework attributes and provide as a 'first offer' to members.' It also provided an example of a standardised product (which included a longevity component).

The idea of some form of default retirement products has also been discussed within the industry. For example, Garvin Tso presented a paper entitled *Default Pension Mechanism to the 2025 All Actuaries Summit* which proposed a mechanism for automatically transferring members' retirement savings from accumulation phase to an account-based pension.

In November 2025, David Bell and Geoff Warren of the Conexus Institute published *Default retirement solutions – Why, what and how*. The paper identified five pathways through which a default solution could be provided. The paper's final comment represents a useful insight for future policy development: '…the potential benefits from using 'default' offerings to help lead members toward better (although not necessarily optimal) retirement solutions far outweighs the risks that a few members end up in an inappropriate place.'

Finally, in March 2026, leading industry fund HESTA supported a default retirement transition mechanism solution, arguing that: 'A default transition mechanism would bring retirement into line with the broader logic that has driven the best improvements to Australia's superannuation system.'

This paper does not aim to critique or repeat the proposals or observations in these papers. Rather, our purpose is to propose a practical way forward to improve the outcomes of Australian retirees, while not removing the flexibility currently available to them.

> "Our purpose is to propose a practical way forward to improve the outcomes of Australian retirees, while not removing the flexibility currently available to them."

An Australian problem – stranded balances

The lack of any restrictions or requirements on how members use their savings once they reach retirement gives rise to a specific problem within our system: members leaving balances in accumulation phase when they could be earning tax-free returns in pension phase[2]. We refer to these accounts as 'stranded balances'.

The extent of stranded balances is sizable. As shown on the next page, we estimate there are at least 1.5 million Australians aged 65 and over in APRA-regulated superannuation funds who have balances in accumulation phase. The aggregate amount of these stranded balances is estimated as $326 billion, implying an average stranded balance of over $200,000.

By not transferring stranded balances to pension phase, these Australians are paying more than $2 billion in additional tax each year, forgoing investment earnings that could materially improve retirement outcomes.

As reaching age 65 is a 'condition of release', there is no barrier to these balances being transferred to tax-free pension phase (or indeed, withdrawn from superannuation altogether). Most funds attempt to make these members aware of the tax benefits they are foregoing. The majority of these individuals will have retired[3], and so will often have a need for income. And yet the stranded balances remain.

There are likely to be a number of reasons for individuals aged 65 and over leaving moneys in accumulation phase. These include inertia, lack of awareness of the tax benefits and the complexity involved in transitioning to pension phase – namely the need to complete forms, submit proof of identity and make decisions on the drawdown amount and investment option (which many members feel uncomfortable or ill-equipped to make).

Whatever the reasons, the financial detriment to members of stranded balances can be significant[4]. The Case Study (page 8) illustrates the benefit to an individual member of moving a stranded balance to pension phase — even where the individual does not immediately need an income stream.

Despite these material incentives to shift into pension phase built into our system, large numbers of members aged 65 and over are not doing so. Given the size of this problem, we conclude that the system as currently designed is failing Australians.

We must do better.

2 In superannuation funds, taxable investment income on balances in accumulation phase is taxed at 15%, whereas a zero tax rate applies to investment income on balances in pension phase.
3 The labour force participation rate for Australians aged 65 and over is 16.1 per cent (ABS, Labour Force Australia Detailed, October 2025).
4 We estimate the amount of the additional tax paid by Australians in the sidebar, and the cost to government revenue (should the MyIncome package be adopted) in Section 4.

Estimating Australians' stranded accumulation balances

We define 'stranded balances' as superannuation balances held by individuals aged 65 and over which remain in accumulation phase and which could be transferred to pension phase (thereby enjoying tax-free earnings).[5]

APRA's various statistical publications do not allow the number and aggregate size of stranded balances to be readily determined. However, they do provide some partial information, from which we can derive estimates.

As a baseline we know there are 3.3 million member accounts held by fund members aged 65 and over, with aggregate assets of $951 billion[6]. If we deduct the members and assets for those in this group in pension phase[7], we obtain a 'first estimate' of stranded balances of 1.6 million members, and $350 billion in assets.

However, these estimates will overstate the actual stranded balances. We need to remove members and assets in accumulation phase for those aged 65 and over who:

- are defined benefit members; or
- have balances in excess of the Transfer Balance Cap.

In each case, these balances cannot generally be transferred to pension phase and so are excluded from our definition of stranded balances.

After allowing for these reductions, we estimate there are 1.56 million members with stranded balances as at 31 December 2025, representing over half of all eligible[8] members aged 65 and over. Their stranded balances total $326 billion. Our estimated split between MySuper and Choice accounts is shown in Table 2.

Table 2: Estimated stranded balances as at 31 December 2025

Type	Members (millions)	Account balances ($ billions)	Average stranded balance ($000s)
MySuper[9]	0.88	106	120
Choice	0.67	220	328
All stranded balances	1.56	326	210

5 We consider only funds with more than six members; SMSFs are therefore excluded.
6 Data from APRA Quarterly Superannuation Industry Publication, December 2025 - Table 7.
7 Derived from APRA Annual Superannuation Bulletin June 2015 to June 2025 - Table 8a.
8 Excluding defined benefit members and those with balances in excess of the Transfer Balance Cap.
9 Data from APRA Quarterly Superannuation Industry Publication December 2025 - Table 7a. MySuper data includes only members with 100% superannuation balance in MySuper.

Case study: Tax benefit from transferring to pension phase

Consider an individual aged 65 with a superannuation balance of $450,000 in the accumulation phase.

Table 3 compares the member's position after five years assuming:

- the balance remains in the accumulation account; or
- the balance is transferred into an account-based pension, with pension payments at the minimum drawdown rate deposited in a savings account with various interest rates.

Table 3: Comparison of financial position after five years from transfer to pension phase

	Super remains in accumulation phase	Super moves to pension phase				
		Super in pension phase	Savings account, with various (net of tax) interest rates pa			
Balance at start	$450,000	$450,000				
Drawdowns	Not applicable	Minimum drawdown of 5% of balance each year ($22,500 in year 1)				
Deposits	-	-	Equal to drawdowns from pension			
Assumed earning/interest rates[10]	6.2%	6.7%	0%	2%	4%	6%
Balance at end of five years ($)	607,904	489,573	116,008	121,870	128,003	134,417
Total balance after five years ($)	**607,904**		**601,627**	**607,489**	**613,622**	**620,036**
Change in financial position from transfer to pension phase (%)			**-1.0%**	**-0.1%**	**+0.9%**	**+2.0%**

A higher net interest rate on the savings account improves the pension transfer option, as the difference between the return on the pension account and the savings account is reduced. We would regard the 4% net interest rate as the 'central' scenario (i.e. closest to current conditions[11]) — in this scenario transferring to pension phase option increases the individual's wealth by $5,718 or 0.9% per cent after five years.

However, the most important conclusion from the case study is that, while individuals can improve their financial position by investing any drawdowns in a savings account yielding market rates, even those whose drawdowns are not invested will not be materially disadvantaged by a transfer to pension phase. Further, should the drawdowns be invested in a higher yielding strategy (such as a mortgage offset account), the benefit of the pension transfer option increases.

10 The earning rates of 6.2% (accumulation phase) and 6.7% (pension phase) are those used in ASIC's Moneysmart Superannuation Calculator for a balanced investment option in a superannuation fund. These return assumptions are based on Willis Towers Watson's Global Asset Model outlook as at August 2025.
11 The highest cash rate available on retail savings accounts in mid-March 2026 was around 4.6% pa.

The above example assumes the individual does not spend any of their retirement savings (as may apply, for example, if they continue in paid work). This assumption results in the least benefit from transferring to pension phase, as any spending reduces the amount held in the lower-yielding savings account, thereby improving the overall advantage of the transfer to pension option.

Further, the time horizon over which the comparison is made (5 years in the example) affects the result — over a longer period, the greater build-up of assets in the lower yielding savings account will reduce the advantage of a transfer to pension strategy.

The impact of these factors is illustrated in Table 4, which sets out the period from age 65 during which there remains a financial advantage in transferring to pension phase, for different spending amounts.

Table 4: Years post-65 for which a transfer to pension phase is advantageous

Annual spending from savings account	Savings account net interest rate (% pa)			
	0%	2%	4%	6%
$0	3 years	4 years	9 years	30+ years
$10,000	6 years	8 years	15 years	30+ years
$20,000	18 years	21 years	29 years	30+ years

For example, in a scenario where pension payments are placed in a savings account that earns no interest and the individual does not spend any of this extra income, the transfer to pension strategy provides a financial advantage for only 3 years. However, in a (more realistic) scenario where the savings account earns 4% interest (after any tax) and the retiree spends $20,000 each year from this account, the transfer to pension strategy remains advantageous for 29 years.

It is reasonable to expect that most individuals reaching age 65 will need to start drawing down their superannuation savings over the following 5-10 years. Hence a transfer to pension phase at age 65 is likely to be financially advantageous to most, even where a low interest savings account is used for unspent pension payments.

2. The Status Quo is Not Working

The stranded balances problem outlined in the previous section reflects a broader shortcoming in our system — the lack of a true focus on retirement income.

This lack of an income focus is perhaps not surprising. When the Superannuation Guarantee was introduced in 1992, the focus was to put in place a contribution system for those in the workforce who previously did not have any superannuation. Establishing the accumulation phase was the priority and has largely remained the focus since then.

The introduction of the Retirement Income Covenant from July 2022 was a significant step forward in promoting a focus on the retirement phase by superannuation fund trustees. The Objective of Superannuation, legislated in 2024, enshrined the aim 'to deliver income for a dignified retirement', which reinforced this focus. However, both these measures are statements of principle and do not ultimately require provision of retirement income in the way that occurs in most leading pension systems.

> "Inertia, compounded by the complexity of our system, mean that many individuals remain in accumulation phase and do not commence an income stream, to their detriment."

Options for reform

So, what are the options to ensure that superannuation becomes a genuine retirement income system?

Status Quo

We could continue with the current principles-based approach, relying on the Retirement Income Covenant obligations of trustees, accompanied by regular prodding by the regulators ASIC and APRA (both publicly to the industry as a whole, and to individual superannuation funds in private), to accelerate their embrace of retirement income solutions. While as noted above, the Covenant has certainly increased the focus of superannuation fund trustees on the retirement phase, we must be realistic about the limits of 'legislated encouragement', as the current arrangements might be described.

ASIC/APRA's latest Pulse Survey (released in November 2025) lists the challenges cited by trustees to implementing the Covenant, including insufficient member data, uncertainty over advice law, potential low demand for retirement products and low member engagement and financial literacy. We recognise that trustees are expending considerable efforts and building resources to overcome these challenges. However, given the experience of the four years since the Covenant commenced, it must be questioned whether the Covenant and other current regulatory settings will move the system towards a true retirement income system within any reasonable timeframe.

While the Covenant and Objective of Super, as well as the recently announced Best practice principles for superannuation retirement income solutions, certainly promote a strong focus on retirement income, the current system ultimately requires positive action by individuals to move into retirement phase. Inertia, compounded by the complexity of our system, mean that many individuals remain in accumulation phase and do not commence an income stream, to their detriment. In our view, this is likely to remain the case under the status quo.

If we are to move away from the status quo, two broad approaches are available: compulsion and defaults.

Compulsion

The most extreme alternative to the status quo would be to require all retirees to take a significant portion of their retirement benefit as an income, as occurs in many leading pension systems around the world.

Compulsion would, by definition, be very effective in increasing the take up of income solutions. However, Australia's retirement system has not to date included any compulsory income element for several reasons including the need for flexibility (recognising the variety of financial circumstances and retirement pathways experienced by retirees), and the history and ongoing popularity of lump sum benefits in Australia.

Defaults

Guy Opperman, a former UK Conservative Party Pensions Minister, recently commented: 'in my experience, principles will get you only so far — legislation is needed to take you further'. In the context of the need to provide retirement income he said: 'the solution is a default pathway'.

When raising the concept of a default for retirement, we must be clear about the meaning attached to that term.

A 'hard default' is a pathway or product that is automatically applied to members who take no action, requiring an active opt-out to choose an alternative arrangement. This is softer than the compulsion route, as the opt-out provision exists.

A 'soft default' refers to a recommended or pre-selected pathway or product presented to members as the suggested option but requiring an active opt-in or confirmation by the individual to proceed. This approach may reduce concerns that a particular pathway or product is being promoted or recommended. However, the need for a decision represents a barrier for many retirees to move into the pension phase.

A way forward

In developing a proposal to shift the retirement system towards income, we are predisposed to a default-type solution. However, we also recognise that an element of compulsion may be needed to ensure the drawdown of retirement balances is not deferred indefinitely.

In Section 3, we set out a package of measures which combine stronger encouragement to transfer a member to pension phase during the early years of retirement, together with a mandated transfer to an income stream at a later age. We also discuss the related legislative changes that would be required.

3. Our Proposal: A Practical, Three-legged Package

The proposed design

Our proposed package has three 'legs', with details as follows:

Leg 1 (applying to all APRA-regulated superannuation funds, but not SMSFs)

- Upon a member reaching age 65 and with their account having received no contributions for several months[12], funds must offer a 'pre-set' account-based pension income stream to which the member's entire balance would be transferred. The offer would be simplified so that no decision needs to be made by the member (other than accepting the offer). The objective would be to make accepting the offer as frictionless as possible, including no forms to complete.
- The design of the pre-set income stream would not be prescribed by legislation. Instead, it will be up to each superannuation fund to design the pre-set income stream features (including the drawdown strategy and investment strategy) appropriate to its membership and resources.
- The offer requirement would apply to both MySuper and Choice accounts.
- The income stream offer would need to be repeated at least once a year from age 65, other than to members whose entire balance had already been transferred to pension phase.
- If funds wish to make the income stream offer to members earlier than age 65 (subject to a condition of release having been met), that should be permitted.

While the Leg 1 income stream has elements of a 'soft default', we prefer to use the term 'pre-set' to avoid the term 'default' which has different variants and can therefore create uncertainty about the operation of this leg. The income product (with the design features set by the fund) would be known as 'MyIncome'.

Leg 2 (applying to all APRA-regulated funds and SMSFs)

- Any superannuation balances (MySuper or Choice) remaining in accumulation phase at age 75 would be required to be transferred to pension phase, and an income stream commenced.
- The settings for the account-based pension income stream would be the same as those offered under Leg 1, i.e. the accounts would be transferred to MyIncome. However, at age 75 the transfer would be compulsory, with the exception of balances in excess of the Transfer Balance Cap, which would remain in accumulation phase in accordance with the current restrictions.

This requirement would apply to members of all superannuation funds both APRA-regulated funds and SMSFs. This broad coverage ensures the drawdown of superannuation cannot be deferred indefinitely, consistent with the Objective of Superannuation.

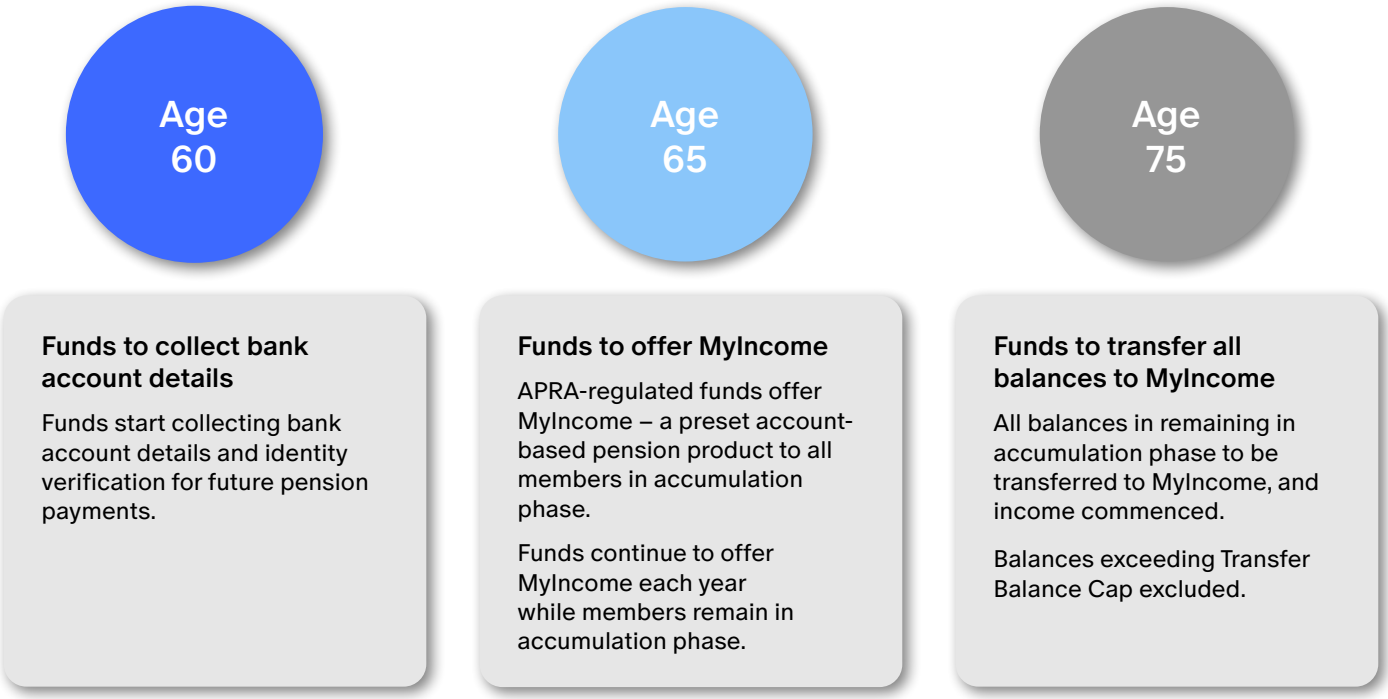
12 This period could be , for example 6, 12, or 16 months.

Leg 3 (applying to all APRA-regulated superannuation funds, but not SMSFs)

Prior to any income being paid to members, funds will need to have relevant bank account details. Hence, to facilitate the smooth transition of members into MyIncome from age 65, we propose that funds be required to commence gathering bank account details (and, as discussed in Section 4, validating identity) from age 60. Hence Leg 3 would precede the other two 'payment' legs. The requirement to start gathering these details from age 60 would foreshadow the potential income from 65 and indeed could encourage funds to promote the MyIncome concept (and their other retirement solutions) among members approaching retirement.

While MyIncome refers specifically to the pre-set account-based pension product, in this paper we also refer to the overall three-legged package as the 'MyIncome package'. The MyIncome package is illustrated in Figure 1 below.

Figure 1: MyIncome Retirement Income Package



Features of the MyIncome package

Some key features of the MyIncome package are:

- The MyIncome design involves only account-based pensions — so that individuals retain complete flexibility and may at any time transfer from MyIncome to a more tailored retirement solution (including lifetime income streams), or back into accumulation phase.
- The heterogeneity of individual circumstances at retirement is recognised through the absence of any compulsion before age 75.
- There is no lifetime income stream component (see discussion below).
- Shifting to pension phase with its tax-free earnings from age 65 will be financially beneficial to almost all individuals, even those without an immediate income need.
- The design parameters for the MyIncome are not prescribed — so funds can employ their best thinking to develop the most appropriate settings to apply to those members who do not engage.

How did we arrive at this design?

MyIncome

The core of this proposal is MyIncome — the pre-set account-based pension income stream product with settings (primarily drawdown rates and investment strategy) to be designed by each superannuation fund. This freedom in design is analogous to the rules for MySuper products in accumulation phase, where the key settings (investment strategy, insurance level) are not prescribed by law but chosen by funds to best suit their members.

In our MyIncome proposal, the pre-set investment strategy could (for example) be a pre-tax version of the investment option used in the fund's MySuper product. Alternatively, a fund could choose to map members' accumulation account balances across to (one or more) equivalent pension phase investment options. Similarly, the pre-set drawdowns could be at the minimum drawdown rates, or at tailored (faster) rates designed by the fund to encourage earlier spending and reduce the chance of leaving assets unspent upon death. These decisions would be left with each fund, based on its own resources and membership characteristics, leaving room for creative thinking, innovation and even competition among funds within the retirement phase. The requirement would be to have a pre-set (account-based) retirement solution — not to dictate what that solution should look like.

Of course, should a member choose to engage with their fund, both the drawdown rate and investment strategy can always be varied. For example, a member in MyIncome could, after some time, elect to change investment strategy, or accelerate drawdowns. MyIncome could simply be the fund's existing account-based pension, with some pre-set design features to remove the need for explicit member decisions. Hence a member should be able to change these settings seamlessly, without any cost or need to transfer to another retirement product.

Importantly, to the greatest extent possible, these arrangements would be presented, and act, in a semi-automatic manner. That means, aside from accepting the offer and providing bank account details, there would be no decisions required to be made by members and no forms to be completed to commence the MyIncome income stream.

Critical ages — 65 and 75

The critical ages in this proposal are age 65 (when APRA-regulated funds must commence offering MyIncome) and age 75 (when both APRA-regulated funds and SMSFs must transfer eligible balances to MyIncome).

We propose age 65 (and not, for example, an earlier age) because at this age, fund members are unconditionally (i.e. whether they have 'retired' or not) eligible to commence drawdown, as they have met a condition of release. This allows superannuation funds to construct a simple package of communication, without adding conditions or questions to members which would complicate the proposal. (Of course, there would be nothing to prevent funds promoting their retirement offerings earlier than age 65, as many do now.)

Age 75 has been chosen as voluntary contributions cease to be allowed from this age. Also, this age is consistent with international practice. For example, Canada, the UK and the USA all require income payments to commence at or before age 75.

No longevity component

We are supportive of a greater role for lifetime income streams in the retirement phase and recognise that additional lifetime income can be welfare-enhancing across a wide range of retiree profile parameters (including low, median and high account balance size, different risk appetites and couple/single status).

It is therefore reasonable to ask why we do not propose a lifetime income component in the proposed package. Our rationale is simple. The structure of the proposal means that the MyIncome products should be seen as being an improved outcome for almost all members. As such, there is likely to be resistance to including a lifetime component in the proposal without a further 'fact find' (at a minimum), or even tailored guidance or advice, being directed to members to whom it is offered. However, a 'fact find' (or guidance or advice) process runs counter to the underlying premise of the package — that is, a 'smooth transfer' package offered to all members reaching age 65.

A key aim of the proposal is to 'normalise' drawing a regular income in retirement. As evidenced by the extent of the stranded assets problem, regular drawdown is not currently entrenched as 'the norm' in our system. A system where regular drawdown is normalised is a stronger platform on which to establish the wider use of lifetime income streams, and we believe the proposal as structured would not impede efforts by funds to guide members towards greater use of longevity products.

If, at some time after the introduction of the proposal, the shift toward lifetime income stream solutions remains low, the MyIncome design could be expanded to incorporate a lifetime component (subject to rules to ensure appropriate targeting of any lifetime solution).

Interaction with personalised retirement solutions

A possible objection to the MyIncome proposal could be that it removes the incentive for funds to develop tailored retirement solutions which better meet members' needs on a more personalised basis. A MyIncome offer could be taken by a member as the end of the retirement solution discussion and thus impede the scope for funds to guide members into better targeted solutions, including lifetime income solutions.

We disagree with this argument, although we acknowledge that MyIncome will require funds to carefully craft tailored engagement strategies for the different member segments. We see MyIncome as being the solution for those members (potentially the majority in some funds) approaching retirement who don't wish to or cannot engage with a process to assist the fund to develop a more personalised solution. The demand for personalised solutions targeted at members who are amenable to engagement should remain unaffected by the MyIncome offer. Hence funds should continue to develop appropriate strategies and products for their members.

Early capture of bank account details

The requirement to capture and validate bank account details from age 60 is intended to remove one key friction point for the transition to MyIncome from age 65. While it is true that funds will need to reconfirm any previously validated account prior to commencing payment, only a small proportion of Australians change their bank arrangements each year[13]. Hence in most cases, all that will be required at the time MyIncome is offered will be confirmation of a previously validated account (rather than a fresh capture or validation).

While gathering bank account details, there would be no barrier — indeed it could be encouraged — for funds to also gather other information (such as other savings, personal mortgage debt, or couple status) which could affect their Centrelink entitlements and hence assist in crafting a more personalised solution to be offered to the member.

What happens if no bank account details are provided?

Clearly, before pension payments can be made to any member, their bank account details must be provided to their superannuation fund. Hence the effectiveness of MyIncome in transitioning members to pension phase at age 65 relies on the success of funds in capturing bank account details prior to this age. Overseas experience suggests that the offer of some regular income (i.e. a pension) can be sufficient incentive for most individuals to provide the necessary bank details.

However, it is inevitable that some individuals will not provide the necessary information for a range of reasons. That is, the 'carrot' of future tax-free investment income is insufficient. While our proposal allows members who do not provide any details to remain in accumulation phase after 65, stronger enforcement will be required at age 75, when we propose that the transition of balances to pension phase becomes compulsory.

One option is that from age 75, the superannuation fund must pay the default pension payments to the Australian Taxation Office, like the current process relating to lost or unclaimed superannuation benefits. These payments could then be paid to the individuals when the bank details are provided to the fund.

APRA-regulated funds vs SMSFs

The MyIncome package proposes that the mandated MyIncome offer from age 65 would not apply to SMSFs. However, the age 75 requirement would apply to SMSFs as well as APRA-regulated funds.

The slightly different treatment of APRA-regulated funds and SMSFs recognises that all SMSF members are trustees and are therefore directly involved in the management of the superannuation fund. On the other hand, the age 75 requirement should apply to all superannuation funds consistent with the Objective of Superannuation.

13 For more information see: Roy Morgan. (2025, February 14). *Poor interest rates, bad service and high fees push Australians to switch their Main Financial Institution in 2024* (Finding No. 9816). https://www.roymorgan.com/findings/9816-second-mfi-share-insights-press-release-final-february-2025.

What legislative changes would be needed?

Enabling MyIncome

As with the introduction of MySuper, there would be a need for legislative amendments in the Superannuation Industry (Supervision) Act and Regulations to permit superannuation funds to offer a MyIncome retirement product, and to allow members to join without completing the forms usually required to commence an account-based pension. The amendments would also include specifying the required communications to members.

In addition, any legislative amendments would need to consider the relevant sections of the Corporations Act and associated Regulations[14] and, if necessary, modify or remove the sections which may hinder the introduction and implementation of the new package.

Anti-hawking provisions

Following the Hayne Royal Commission, changes were made to the anti-hawking legislation to prohibit the unsolicited marketing and sale of financial products, including superannuation.

The Corporations Act considers each class of beneficial interest in a fund as a separate financial product for the purposes of the hawking prohibition. Hence a superannuation trustee is prohibited from offering to transfer a member's account from the accumulation phase into a pension product.

However, if legislation were passed requiring trustees to offer a MyIncome product to members in specified circumstances, it is likely that a trustee seeking to fulfil this obligation would fit within the scope of Paragraph 38.31 of ASIC's Regulatory Guide 38 which states:

'A superannuation trustee will not breach the hawking prohibition if it contacts a consumer to fulfil its statutory obligations, which may involve making an offer, request or invitation…'

We understand this paragraph was added to the Guide to acknowledge that there are some circumstances where a trustee is legally required to offer a financial product to a consumer, and the hawking prohibition should not inhibit this process.

While a legislated MyIncome product could be exempt from the anti-hawking requirements under this provision, our preference would be that the legislative amendments to introduce the MyIncome product should also specifically deal with the interactions with the hawking prohibition to provide trustees with legislative certainty.

14 This could include Section 761E of the Corporations Act and Regulation 7.1.04E of the Corporations Regulations.

4. Related Matters

The MyIncome package would represent a significant change to the operation of superannuation funds in the lead up to and in the retirement phase. This section discusses some of the matters arising from this change.

Design and Distribution Obligations

The Design and Distribution Obligations (DDO) are intended to help consumers obtain appropriate financial products by requiring issuers and distributors to have a customer-centric approach to designing, distributing and reviewing financial products. Essentially, DDO aims to make sure the right people are targeted for a financial solution and that the product matches their circumstances.

The obligations include making a target market determination, reviewing such determinations for their appropriateness, keeping records of the decisions made and ensuring the distribution of the product is consistent with such determinations.

Should the MyIncome package be introduced, we suggest that the DDO should not be required to apply to the MyIncome product, as the target market and the permitted designs of the pension product would be defined in the relevant legislation. This would make it the same as default superannuation (i.e. MySuper products) which are already excluded from the DDO regime.

Best Financial Interests Duty (BFID) of trustees

Current legislation requires each trustee:

'to perform the trustee's duties and exercise the trustee's powers in the best financial interests of the beneficiaries'.[15]

There are several key elements of this best financial interest duty, including that trustees must:

- prioritise the financial interests of their members over non-financial interests;
- be able to provide evidence to justify their decisions and expenditure;
- obey all laws, regulations and standards, including those imposed by the relevant regulators; and
- adopt best practices in terms of decision making, including transparent processes and robust business processes.

The introduction of MyIncome will need to be considered against BFID. In particular, will complying with the MyIncome requirements potentially cause the trustees to fail to meet any of its BFID obligations?

We would argue that, given the financial benefits explained earlier in this paper, the MyIncome package is likely to be in the best financial interests of older Australians. Further, and importantly, there would remain a provision for any individual to elect to roll back their account-based pension into an accumulation account prior to age 75 and thereby stop receiving pension payments. Also, as noted in Section 3, individuals will continue to have the option to change their investment strategy, modify their drawdown payments (within the legislative requirements), receive a lump sum payment or transfer their account to another pension product, including a longevity product.

Therefore, in our view, the introduction of our proposal, supported by the relevant legislation, should not impede the trustee's duty to act in the best financial interests of the beneficiaries.

15 Section 52(2)(c) of the Superannuation Industry (Supervision) Act.

Impact on Government revenue

In Section 1 we estimated that there is more than $320 billion in taxed accumulation accounts for fund members aged 65 and over who are entitled to transfer their accumulation account into a tax-exempt pension product.

Of course, the impact on the Government revenue of such a change will depend on the proportion of these funds that are transitioned to MyIncome. It would not be expected that all stranded balances would be transferred immediately. If one makes the (generous) assumption that half the stranded balance total (i.e. $160 billion) was transferred, the estimated reduction in Government revenue is likely to be in the order of $1 billion per annum. This figure needs to be seen in the context of the estimated revenue from superannuation fund taxes of $30 billion in 2025-26[16].

While there is no doubt that the introduction of the MyIncome package would reduce Government revenue from superannuation funds, it is also likely that some retirees would increase their spending due to their extra income, thereby increasing the amount of GST received, and economic activity more generally.

Disability Support Pensioners

There is one quirk that needs to be considered that relates to Disability Support Pensioners (DSP). The current rules relating to these pensioners are that superannuation assets are taken into account if the pensioner is over the entitlement age for the Age Pension (i.e. age 67). Before age 67, the superannuation assets are only considered if the individual has commenced a superannuation pension.

This arrangement means that a 65-year-old DSP who transferred to MyIncome could have their Disability Support Pension reduced two years earlier than if they stayed in the accumulation phase. This quirk could be easily removed as part of the required legislative amendments. The resulting cost to the Government of this change is expected to be very modest.

Combatting identity fraud

Unfortunately, the transfer of funds from an accumulation account to a pension account opens the possibility of identity fraud. This is the reason why most funds have an identity verification process which normally requires two forms of identity before the first pension payment can be paid.

To overcome this likely delay with payments from MyIncome, we propose that funds should be obliged to begin their identity verification process for members from age 60. This would also introduce members to the concept of receiving income during retirement and even raise the possibility that the income could begin before age 65, if a condition of release has been met.

Possible transitional arrangements

We propose that the MyIncome package should begin two years after the passing of the required legislation. This delay would provide fund trustees with the necessary time to develop their MyIncome product in line with the conditions set out in the legislation, as well as developing the relevant communications required for accumulation members aged 65 and over.

16 Mid-Year Economic and Fiscal Outlook 2025-26, Table 3.3.

5. Some Final Thoughts

The authors are acutely aware that any discussion of introducing pre-sets, defaults or compulsion as mechanisms to improve our retirement system invariably evokes strong opinions.

We have arrived at the recommendations in this paper after many combined years of viewing and participating in discussions around, and the development of, the superannuation system in Australia, and observing the parallel debates and developments in many global retirement systems.

Specifically, we recognise that our proposal that all Australians be offered a particular income product from age 65, and that this product be made compulsory from age 75, is likely to face opposition. Many Australians may feel that the timing of any withdrawal from the superannuation system, and the product used to do so, should be a decision which is theirs alone to make. While we are committed to retaining some flexibility to allow for the variability of individual circumstances, this must be balanced against the need to shift the system towards retirement income to ensure it meets its stated (and legislated) purpose. A generation of evidence tells us that superannuation funds and their members are unlikely to accelerate the current slow pace of this shift without a stronger legislative framework.

Further, we must be mindful that the retirement income challenge that the Australian system is facing is similar to that arising in many retirement systems globally as they move towards defined contribution. As the global asset manager and custodian State Street noted in a recent report '…effective use of retirement assets depend[s] less on education than on structures that simplify decisions and align incentives. Institutions and intermediaries that support design-led solutions — defaults, automation and guided pathways — can materially influence confidence and long-term outcomes'.

We concur with the importance of moving in this direction — and the sooner, the better.

> "A generation of evidence tells us that superannuation funds and their members are unlikely to accelerate the current slow pace of this shift without a stronger legislative framework."

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