Conexus Institute In-brief

To-do list for policymakers and regulators on retirement

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The retirement phase of superannuation (super) is developing slowly … too slowly for the many who will soon retire. All agents in the system need to do more. Here we put forward a 'to-do' list for policymakers and regulators of 10 suggested action items spanning four key areas:

(a) ***Enablement (En)*** – Removing barriers to super funds in undertaking key activities.

(b) ***Expectations (Ex)*** – Establishing what is expected of funds regarding their retirement income strategy (RIS).

(c) ***Assessment (As)*** – Putting in place effective regulatory assessment of RIS.

(d) ***Consequences (Co)*** – Creating meaningful consequences for funds that lag on retirement income strategies.

Items #1 to #4 are in the pipeline but need to be advanced. Items #5 to #10 are additional matters we think should (or even need) to be addressed to complete the policy and regulatory framework for retirement. Links to our existing commentary are provided for those wanting to delve deeper.

In the pipeline, but need to be advanced

1. Delivering Better Financial Outcomes (DBFO) reforms *(En)* – The DBFO reforms are progressing too slowly, to everyone's frustration. DBFO remains an ***important*** reform to progress. Key components for super funds are:

a) *Advice through super* – This policy measure is in a good place but needs to be legislated. The regulations scoping out allowed topics and circumstances also need to be finalised.

b) *Targeted prompts* – The legislation as drafted seems broadly fine albeit perhaps a bit too prescriptive. However, it may be too restrictive in prohibiting the mention of product names, which will inhibit the effective implementation of suggestions (see item #5).

c) *New class of adviser* – This component should help to frame what super funds can do to assist members through human contact and thus raise the supply of in-person advice. The Government is yet to reveal any concrete plans.

2. Best Practice Principles (BPP) for Retirement *(Ex)* – We are very supportive of how the BPP are framed and the role they can play: they just need to be finalised and formalised.

3. Retirement Reporting Framework (RRF) *(Ex, As)* – The RRF has potential to drive progress and increase accountability around RIS but needs to be developed much further if it is to play this role. Treasury needs to refine and then finalise the RRF, after which APRA will have to build infrastructure to collect and report the measures. The RRF should be connected to the BPP.

4. Performance testing of pension products *(As)* – Applying a version of the Your-Future-Your-Super (YFYS) test to retirement income products is clearly on the agenda. In our view, testing of account-based pensions should be addressed either through the current YFYS test review, or better still, later as part of the development of a broader RIS assessment framework (see item #9). Any test should be focused on much broader and nuanced criteria than just performance against investment indices. Considerations such as risk management, income sustainability and member satisfaction come to mind as relevant.

Should (or need to) be on the to-do list

5. Enabling fund trustees to suggest retirement solutions to members *(En)* – A key missing piece of the retirement 'choice architecture' is the ability for trustees to assist members who are reluctant to

engage and looking for clear direction from their super fund. Our recent *'default retirement solutions'* report argues for the need to enable super funds to *suggest* a retirement solution to members as a type of nudge, 'soft default' or 'first offer'. Enabling such a capability requires policy adjustments including addressing the restraints on referring to products by name under DBFO tranche 2 (see 1b) as well as unhelpful elements of the anti-hawking legislation.

6. Help super funds to source member data *(En)* – One of the barriers faced by super funds in assisting their members is sourcing dependable[1] member personal information in order to understand their retirement needs – a major challenge for funds as identified in the APRA-ASIC 2025 Pulse Check – and then using that information with confidence. While DBFO Tranche 2 *Advice Through Superannuation* should allow certain data to be collected and used, the Government should consider what might be done to further help via:

a) *Access to government data* – Government entities such as the ATO and Services Australia (Centrelink) hold a range of information that is highly relevant to the retirement solution a member may need, especially where they are an Age Pensioner. Policymakers might investigate the feasibility of making this data available to super fund trustees … and take definitive action if benefits exceed the risks.

b) *Consumer Data Right (CDR)* – Policymakers might look at what could be done to facilitate application of CDR within the super industry.

c) *Financial advice rules implications* – Some uncertainty exists within the super industry over whether the mere possession of personal member information triggers the rules and obligations around personal financial advice rules. Policymakers should aim to address any legal constraints (whether real or perceived) on super funds collecting data that would allow them to better understand their members.

7. Facilitate 'rainy-day accounts' *(En)* – 'Rainy day accounts' (which we have called a 'contingency account' and Treasury a 'capital reserve') offer a number of benefits. They can act as a pot of funds that low balance members can draw upon when needed while relying on the Age Pension for income, as well as offering behavioural framing benefits (e.g. confidence to spend more of their other assets). Policymakers should look to support the effective operation of rainy-day accounts by enabling the carve-out of a (limited) amount that is exempt from the minimum drawdown rules.

8. Address frictions around retirement *(En)* – The complications around operating retirement accounts create some unfortunate frictions that make life difficult for members, especially those who may move in-and-out of work or want to switch super funds in retirement. While we understand that there is complexity due to the interaction with tax law, this nevertheless remains an important issue for policymakers to address.

9. Establish a retirement assessment regime *(Ex, As)* – We have a long-held view that RIS assessment was necessary and indeed inevitable, first writing about the topic in 2022 and more recently here. Policymakers and regulators should aim to be quite clear on what super funds are expected to do, including conveying a sharper message of 'what good looks like' than examples of best practice. We suggest working on the following:

a) Setting a vision and plan for RIS assessment.

b) Developing a capabilities-based framework to inform and incorporate into RIS assessments.

c) Linking of RIS assessment to the RRF.

d) Embedding RIS assessment within the regulatory framework.

10. Establish consequences for sub-standard offerings *(Co)* – Just establishing expectations and setting standards is insufficient. There also needs to be consequences for failing to deliver on requirements, especially where weak competitive forces provide little discipline. There are a range of consequences that policymakers and regulators might choose to implement. The introduction of a retirement licensing regime would be one way to create consequences for not coming up to standard.

[1] Dependable information may not always be forthcoming from members themselves.