August 2021

# Retirement Income Covenant Position Paper

## ABOUT US

Super Consumers Australia (Super Consumers), formerly known as the Superannuation Consumers' Centre, is an independent, not-for-profit consumer organisation formed in 2013. Super Consumers was first funded in 2018. We work to advance and protect the interests of low and middle income people in the Australian superannuation system.

During its start up phase Super Consumers has partnered with CHOICE to deliver support services. Set up by consumers for consumers, CHOICE is the leading consumer advocate that provides Australians with information and advice, free from commercial bias.

# Introduction

The retirement phase of our superannuation system is underdeveloped and under-delivering. This means that after 29 years of a compulsory superannuation system, retirees and those approaching retirement are unclear if they have enough and how to best use their savings to support their living standards in retirement.

The superannuation industry's focus on creating a 'nest egg' has left consumers overly focussed on balance preservation over drawing down a decent income to enjoy their retirement. With 56% of pre-retirees feeling retirement planning will be moderately to extremely complicated, the system as a whole needs to do more to guide people through retirement planning.[1] Retirees and pre-retirees have relatively low knowledge about finances[2] and this impacts their understanding of the retirement system, products and its interactions with the Aged Pension, and other long term risks.

The Retirement Income Covenant (the covenant) is an opportunity to set clearer obligations on industry to solve these problems. Requiring trustees to create a retirement strategy for members is a valuable step which will ultimately require funds to better understand their members and provide appropriate solutions to meet their retirement needs. Requiring trustees to contemplate how they can best maximise their members retirement income, manage risks to sustainability and ensure flexibility, will help funds develop strategies that address the previous failures of the retirement system.

However, the level of discretion proposed to be given to trustees, particularly relating to cohort analysis, leaves funds with too much room not to act. Too often the superannuation industry has failed to innovate in the interests of members and has instead done the bare minimum. This can be seen in a litany of problems the government has had to step in to solve in recent years, including dealing with multiple accounts, capping high fees, addressing underperformance and weeding out inappropriate insurance. The cost and likelihood of industry inaction should not be underestimated. The Your Future, Your Super reforms alone will save consumers $17.9 billion over the next decade. These are gains which an industry properly focussed on member best interests should have delivered on its own.

While there is merit in allowing industry best practice to emerge, policy makers and regulators should be ready to act to enshrine and build upon any best practice that develops.

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[1] Retirement Planning Survey, February 2021, Super Consumers Australia and Fiftyfive5, N=1,541, https://superblog.netlify.app/2021/07/28/nationally-representative-retirement-survey-results/

[2] Ibid

# Summary of recommendations

*For the benefit of all retirement cohorts:*

1. The Superannuation Industry (Supervision) Act 1993 (SIS Act) be amended to set obligations on funds to collect and use (via cohort analysis) a specific list of key data points.

   Alternatively, or in support of the SIS Act reform we recommend the Explanatory Memorandum for the retirement income covenant should set expectations on APRA and ASIC to direct funds to collect and use (via cohort analysis) a specific list of key data points

2. That a data working group be established to identify key data sets the ATO holds which could be of value to retirement income strategy development.

*Specifically, for the benefit of disengaged members and engaged delegators who look to defaults:*

3. The government, treasury and regulators should develop metrics for assessing trustees against the covenant and member best interests, including:

   a. Objective performance testing of investment backed products, particularly account based pensions

   b. APRA should be tasked with developing a quantitative and qualitative basis for testing new products

   c. Best practice expectations for DDO target market determinations, particularly for products that 'lock-in' consumers

*Specifically, for the benefit of engaged DIYs:*

4. The SIS Act set obligations on funds to provide independent information sourced from a government or independent resource such as MoneySmart.

   Alternatively, or in support of the SIS Act reform we recommend the Explanatory Memorandum for the retirement income covenant should set expectations on APRA and ASIC to direct funds to provide independent information to assist members.

5. The government implement a tool to compare retirement products

# Metrics to assess effective strategy implementation

The proposed retirement income strategy principles state that the strategy **can** be formulated for:

- all members in generality, or
- cohorts of members in generality, as identified by the trustee

Therefore, it is at the discretion of the trustee as to whether they construct their retirement income strategy in cohorts.

While trustee discretion may deliver some benefits in the early stages of development of the retirement framework, it needs to be complemented by some assessable metrics to test how well trustees exercise their discretion. We see it as appropriate for regulators using existing powers, and policy makers where further articulation is required, to develop these metrics. Without them we will have little idea of how well superannuation funds and the system more generally is delivering against the proposed covenant.

## Collection of member information

Many funds have a poor understanding of their membership. In its three year analysis of the efficiency and effectiveness of the superannuation system, The Productivity Commission (PC) found significant member data limitations at funds.[3]

The PC found:

> *"Superannuation funds make insufficient use of their own (or imputed) data to develop and price products (including insurance). This is particularly problematic for designing products for the retirement and transition to retirement stages, because this is when different strategies can have the biggest payoffs for members."*[4]

The PC found shockingly poor collection rates on data points that funds must come to grips with if they are to develop an appropriate retirement income strategy. For example, an overwhelming majority of funds failed to collect even basic data required to understand a member's needs:

- Household income (79.5% of funds failed to collect)
- Household wealth (86.6% of funds failed to collect)
- Marriage status (75.9% of funds failed to collect),
- Smoker status, which is a basic indicator of health relevant to the appropriateness of longevity products (75.9% of funds failed to collect).[5]

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[3] Productivity Commission Inquiry Report: Superannuation: Assessing efficiency and competitiveness, p163
[4] Ibid, p56
[5] Ibid, p.238

The evidence from the PC report suggests funds are unlikely to do the basics like data collection without prescription. Without collection funds will have nothing or very poor information to use in designing strategy or appropriate products. If a principles based approach is to be taken to the retirement phase, then at the very least regulators should be checking that funds have appropriate data collection in place to enact those principles.

We would hope that super funds had improved on this poor data collection since the PC report was finalised in 2018, but as we will explore in the next section the publically available evidence is not encouraging.

## Use of member information

On the back of a PC report recommendation, funds are now required to report annually on how they are operationalising their duty to act in member's best interests via a Member Outcomes Assessment (MOA). The powers APRA has to direct these assessments under Prudential Standard SPS515 Strategic Planning and Member Outcomes is a key piece of regulatory architecture for testing and guiding improved consumer outcomes under the retirement covenant. Similar to the retirement covenant, the MOAs currently give wide discretion to trustees to analyse the needs of members at either a general or cohort level. As such, it is also a useful testing ground to see how far super funds have developed in their ability to self-assess against a principles based framework and use data to respond to member needs.

Super Consumers Australia recently undertook preliminary analysis of the first batch of member outcomes assessments (MOAs) which required a fund to assess the outcomes provided to members and identify opportunities for improving these outcomes.[6] Our analysis highlighted significant scope for improvement and suggests a need for more prescription to ensure trustees are meeting their obligations. The legislation and APRA standards affords funds the discretion to choose their own content and methodology, so that many MOAs have been used as instruments of self promotion rather than honest self-assessments. This resulted in an underwhelming amount of improvements in member outcomes.

Specifically on cohorting, our review found:

- Only one fund (3%) consistently analysed the outcomes it was delivering to cohorts of members relying on demographic data throughout its MOA.
- Nine funds, (21%) made partial reference to cohort information.
- 76% of funds treated their membership profile as homogenous, neglecting to mention cohorts at all.

[6] S52(9) of the SIS Act 1993 and Prudential Standard SPS 515

On the public evidence most funds are choosing to ignore cohort analysis. If this approach is copied over to the retirement phase it will be catastrophic to people's retirement needs, which are far less homogenous than during accumulation.

We understand from APRA that some funds may be taking more of a cohort approach to internal thinking, but not presenting this within the MOA. However the point of the MOA is for funds to be transparent about how they are delivering better outcomes to members. The public scrutiny of these MOAs is meant to drive improvement. If funds continue to use them as a vanity exercise rather than engaging with member needs, including cohort needs, then they become nothing more than a tick a box exercise.

This issue needs to be addressed if funds are to take a more diligent approach to the retirement covenant. To assist, we recommend funds be required to collect a basic data set on members and show evidence of how this data has been used in the development of the retirement strategy under the covenant.

We also see scope to build on this data set over time with more detailed cohort formulation. We are supportive of the factors in the position paper being used as a starting point, such as:

- The size of a member's superannuation balance
- Whether a member is expected to receive a full, part-or-nil rate Age Pension at retirement
- Whether a member is partnered or single
- Whether a member owns their own home outright, owns their home with a mortgage, is a rent-vestor or is renting without owning other property at retirement
- The age a member retires and/or starts to draw down from their superannuation

The factors listed above can have the largest impact on the type of outcome that may be desired by retirees and how retirement strategies should be designed for their needs. They address the heterogeneity of retired members and focus on important points of difference. For example, the Retirement Income Review detailed that couples are significantly better off in retirement than single men and women and that the retirement income system does not appear to be delivering an appropriate standard of living for many retiree renters.[7]

We recommend:

1. The SIS Act be amended to set obligations on funds to collect and use (via cohort analysis) a specific list of key data points.

   Alternatively, or in support of the SIS Act reform we recommend the Explanatory

[7] Retirement Income Review p43, p44

Memorandum for the retirement income covenant should set expectations on APRA and ASIC to direct funds to collect and use (via cohort analysis) a specific list of key data points. Evidence of the adequacy of this data collection and use should be assessed via the regulators' relevant design and distribution and member outcomes powers.

## Assisting data collection

**Financial advice and data collection**
We understand funds have raised the concern that collecting information on individual members or cohorting could see them stray into personal advice. This concern represents a poor understanding of the financial advice laws, in particular the BT case.[8] There is nothing preventing funds from gaining a better understanding of their membership via data collection and to use it to develop a better strategy and products for members. We see value in ASIC releasing guidance to this effect in order to clarify the situation to trustees.

**ATO and data collection**
We are also aware that the ATO holds data which is highly valuable for funds in helping to determine their retirement income strategy. Without requiring personal data sharing, there is a role for Treasury, APRA and the ATO to help identify key macro-level data sources that could be used by funds to develop a retirement income strategy. This level of data should also be used by APRA and ASIC in testing funds compliance with their respective design and distribution and member outcomes obligations.

We recommend:

2. That a data working group be established to identify key data sets the ATO holds which could be of value to retirement income strategy development.

# Appropriate guidance framework

## Retirees and pre-retirees are unclear how to best use their savings to support their living standards

A common theme called out by the Retirement Income Review is that the focus of our retirement income system has been on the accumulation phase and insufficient attention has been given to

[8] Westpac Securities Administration Ltd & Anor v. Australian Securities and Investments Commission 2020

the retirement phase.[9] Retirees and those approaching retirement are unclear how to best use their savings to support their living standards in retirement.

In general, retirees do not fully consume their retirement savings by the time they die.[10] While a buffer zone is entirely reasonable, most retirees never spend a large part of the savings that they have on the day they retire.[11]

Four main factors contribute to people not maximising their retirement savings:

- risk and uncertainty,
- the focus on nest-egg,
- an inappropriate soft default for some, and
- complexity without guidance.

## Risk and uncertainty must be addressed

Retirees are concerned about outliving their savings and tend to spend less rather than use products to manage this risk.[12]

Improvements in longevity and life expectancy mean people will spend relatively more time in retirement if working lives are not similarly extended. Due to this uncertainty, retirees live more frugally because they have little knowledge of income smoothing and their own longevity time horizon.

Many people also find it challenging to estimate and plan for the cost of their aged care and future health.[13] The actual costs can vary significantly depending on the type of and length of time spent in care. People also find it difficult to estimate their likelihood of requiring care or how means testing may apply to them. While many of these costs will be covered by the public system and may not warrant the level of concern, this poor understanding still feeds into the uncertainty about spending retirement savings.

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[9] Retirement Income Review, p56
[10] Retirement Income Review, p432
[11] Daley, J. et al., 2018b. Money in retirement: More than enough, s.l.: Grattan Institute, p32
[12] Rees, K., Maccora, J. & McCallum, J., 2018. You don't know what you don't know: The current state of Australian aged care service literacy, Brisbane: National Seniors.
[13] Aged Care Financing Authority, 2018. How Consumers Plan and Finance Aged Care, Canberra: Aged Care Financing Authority

## The focus on a nest-egg or a lump sum exacerbates spending reluctance

A well researched area of behaviour finance is that people are primed to save for retirement but when they retire, they struggle with the concept that those savings are to be consumed.[14] Additionally, evidence from the US suggests retirees are more reluctant to spend savings that they see as lump sums or investments, rather than as an income stream.[15]

In Australia, the savings mindset is exacerbated by the superannuation industry's focus on a 'nest egg'. Industry lobby group Australian Superannuation Funds Association (ASFA) has produced its own retirement targets. These targets are widely used in government resources, in material published by super funds and by the media quoting the need for a million dollars to have an appropriate retirement.[16]

Funds also have an inherent conflict because they benefit from retirees not spending down their savings. The super business model is built on higher balances and therefore nudges to spend capital are not prevalent.

## Account based pensions have become a 'soft default'

Compared to the pre-retirement phase, the retirement phase involves more complex decisions. However, it has no default arrangements.

Instead account based pensions have become a defacto default, with around 83 percent of income streams invested in them.[17] These products offer the flexibility of access to lump sums of money held in an account where funds can be withdrawn at any time. They also require minimum annual drawdowns to encourage spending.

Importantly, the drawdown of income is left entirely up to the individual. As the Retirement Income Review stated, "the minimum draw down rules may be acting as a 'default' option for many people when they select a draw down amount. For some, it is the easiest option to pick. For others, it is an 'anchor'; a reference point that informs their final decision on a draw down amount".[18]

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[14] Reeson, A. et al., 2016. Superannuation Drawdown Behaviour: An Analysis of Longitudinal Data. Jassa, Issue 2, pp. 42-53

[15] Madamba, A. & Utkus, S. P., 2016. Spending and saving in retirement. [Online] Available at: https://www.nasdaq.com/articles/spending-and-saving-retirement-2016-01-06

[16] https://www.news.com.au/finance/superannuation/the-projects-superannuation-experiment-shocks-millennial-retirement-plans/news-story/9c899ee822f680f21f19418015c9a2c5

[17] Australian Prudential Regulation Authority, Annual Superannuation Bulletin June 2019.

[18] Retirement Income Review, p445

This highlights the importance of defaults and in the retirement phase 'soft defaults' in influencing the retirement standards of Australians. Many academic studies have shown that people resort to these defaults not only out of disengagement but because of trust and lack of self-confidence in financial decision making.[19]

## The system is highly complex and offers little guidance

Recent research undertaken by Super Consumers Australia found that 56% of pre-retirees felt retirement planning will be moderately to extremely complicated.[20]

The Retirement Income Review's key observations included that the retirement income system is complex.[21] Complexity, misconceptions and low financial literacy have resulted in people not adequately planning for their retirement or making the most of their assets when in retirement.

They also stated that 'people lack an adequate framework to guide their decision-making in planning for retirement and when in retirement.[22] The quality of financial advice has been lacking and many people do not seek advice because it is expensive and/or raises issues of trust, especially in the context of ongoing conflicted remuneration.[23] In the previous 12 months to ASIC's 2019 report on what consumers really think of advice, they found only 12% of Australians had received financial advice.[24]

# How to address the needs of the three key retirement cohorts

The Position Paper is quiet on how funds are to design strategies based on how people engage yet it is the gateway to people either finding, not finding or defaulting into products. Failure to take account of this step is likely to see people continue to take up retirement products that don't maximise income and account for longevity risk.

[19] Bateman, H., Deetlefs, J., Dobrescu, L.I., Newell, B.R., Ortmann, A. and Thorp, S., 2014. "Just interested or getting involved? An analysis of superannuation attitudes and actions" Economic Record, 90(289), 160-178.
[20] Retirement Planning Survey, February 2021, Super Consumers Australia and Fiftyfive5, N=1,541, https://superblog.netlify.app/2021/07/28/nationally-representative-retirement-survey-results/
[21] Retirement Income Review, p17
[22] Ibid, p45
[23] Report REP 627 Financial advice: What consumers really think, p8
[24] Ibid, p5

Super Consumers Australia research reveals that there are three distinct approaches people take to retirement planning:[25]

- **The disengaged** (38%): This group is less engaged with financial decision making, in part because they tend to have limited means. They will require the support of default options to assist with their retirement.

- **The engaged DIYs** (37%): This group is highly engaged with their finances but want to make decisions themselves. They are less likely to trust others to make decisions for them, including financial planners. Instead they require quality, independent information and nudges. This group is underserved by the current system and could benefit from tools that help them understand their retirement needs and find products that meet them.

- **The engaged delegators** (25%): This group is engaged with their finances but look to others to make decisions for them, including financial advisers or default options. People in this group will require professional financial advisers offering quality advice, backed by appropriate default options and nudges.

The strategies super funds implement need to go beyond simply designing appropriate products for different demographics, they also need to contemplate how best to guide decision making of consumers towards appropriate products. The three basic groups we have identified in the model above are a good starting point for super funds to understand the guidance needs of members. Likewise they are an appropriate framework for regulators to assess the guidance approach of super funds in fulfilling their obligations against the proposed retirement income covenant.

## The ‘disengaged’ (38%) and engaged delegators (25%) and the role of quality defaults

**The disengaged - who are they?**

The disengaged are more likely to represent people who rent with lower wealth. They are less likely to do their own research or shop around before making financial decisions. They have low confidence and no clear financial goals. They invest no significant time into managing their finances and therefore tend to rely on default options when it comes to their superannuation.

[25] Retirement Planning Survey, February 2021, Super Consumers Australia and Fiftyfive5, N=1,541, https://superblog.netlify.app/2021/07/28/nationally-representative-retirement-survey-results/

The disengaged[26] may be completely ignored by funds under the discretion afforded under the covenant. This group is unlikely to make any choice with regards to their retirement product and may outsource this to their fund without providing information about their retirement needs. If funds do not consider this cohort, it leaves them in a similar situation to the current framework, but potentially with more retirement products being offered to them.

Due to lack of wealth and capacity, financial advice, information and guidance is also not a sound solution for this group. Ultimately, they are more likely to need quality default products to ensure they are making the most of their retirement savings.

**The engaged delegators - who are they?**
Engaged delegators are more likely to have higher levels of wealth. They have clear financial goals they work towards. Overwhelmingly they rely on financial professionals when making decisions about growing, managing and protecting their wealth. This group also tends to use default options when it comes to managing their superannuation. This is consistent with the delegation of decision making.

The portion of this group that relies on financial advice will be best supported by a high quality advice regime and professional standards. The outcomes of Treasury's planned Quality of Advice review in 2022 will be crucial for this segment. The review will need to focus on resolving the remaining conflicts of interest the Financial Services Royal Commission identified, while ensuring there is no derogation in the professional standards this industry is currently developing. For the remainder, quality products and appropriate defaults will be crucial.

## Metrics for assessing trustees against the covenant and member best interests

Whatever the makeup of the new product offerings post the implementation of the covenant they will still need to be quality, safe products for consumers. Without this, people will find themselves in underperforming products that they can not compare and don't give them confidence to spend.

Safeguards have been implemented into the accumulation phase after continual underperformance and lack of oversight. These products now have heat mapping, a legislated performance test for and an independent comparison tool. Rather than repeating the mistakes of the past, we recommend we learn from the accumulation phase in designing the architecture of the retirement phase.

[26] In the context of retirement, disengaged is likely to mean those individuals who retire and go to their fund and are 'soft defaulted' into setting up a retirement account and receiving ABP.

Due to larger balance sizes and the irreversible nature of some retirement product decisions, the impact of being in a poor quality product can have a lasting serious impact. For this reason there needs to be a strong quality filter to ensure consumers are protected from severe underperformance, as they are in the accumulation phase.

To date there has been no public scrutiny of the performance of products in the retirement phase. While these products are set to be exposed to scrutiny via APRA data collection in the future, currently there are limited safeguards to drive better performance among these products. By way of example we identified two MySuper funds where the pension account is comparable to the MySuper option. We did this to highlight the different approach in consumer protection regimes between the accumulation and retirement phases.[27]

- Fund x's option performs on average **73 basis points below the benchmark portfolio over a six year rolling net return as of June 2020.** This fund has over 100,000 fund members in the default option who may be exposed to this underperformance if they did not select a different option at retirement.

- Fund y's option performs **142 basis points below the benchmark portfolio over a six year rolling net return as of June 2020.** There are over 500,000 fund members in the default option who may be exposed to this underperformance if they did not select a different option at retirement.

Across just these two funds there are over 600,000 members, stapled to their fund, who may be offered a retirement product that is underperforming when they retire. These individuals will have limited ability to assess this underperformance, because unlike those in the accumulation phase, they will not be notified of the underperformance, nor will it appear on a comparison tool.

When 'choice product' heatmaps are unveiled later in 2021, we expect even more products to be highlighted as underperforming including retirement phase account based pensions. APRA has foreshadowed this stating "administration fees in the choice sector are notably higher than they are for comparable MySuper products. There is also a wider range of investment performance outcomes in these choice products compared to MySuper products, particularly at the poorer-performing end of the spectrum."[28]

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[27] We are using the December 2020 APRA MySuper Heatmap which has investment performance over six years to June 2020. We can derive whether the performance of the MySuper option is more than 50 basis points below the benchmark portfolio after accounting for current administration fees (we deduct the median 50K industry fee from benchmark portfolio and the 50K admin fee from the funds 6 year net return). Our approach is a close approximation of the APRA performance test.

[28] APRA Deputy Chair Helen Rowell - Speech to AIST Conference of Major Superannuation Funds, https://www.apra.gov.au/news-and-publications/apra-deputy-chair-helen-rowell-speech-to-aist-conference-of-major

A quality filter that measures the effectiveness of retirement products created under the covenant will ensure there is confidence in the retirement system and provide a measuring stick to ensure the covenant has worked and products are safe.

We understand that the intent of the covenant is to move the industry beyond just account based pensions, which are easier to assess on a ‘bright line’ quantitative basis. However, at a minimum we recommend these products should be measured on the same basis as similar products are in the accumulation phase. As for newer products that may require a mix of quantitative and qualitative analysis (e.g. those with longevity components) we recommend APRA should be tasked with developing a quantitative and qualitative basis. At a high-level, this should include how a fund's product meets the three key objectives of the covenant. It should include objective performance testing and more subjective key indicators as part of this assessment.

## Developing performance benchmarks

**Objective performance testing**

*Products with investment backed products (such as account based pensions)*

Typically, these products are investested in a broadly similar fashion to accumulation options. It makes little sense for an individual who is 64 and not retired to have their MySuper product tested and comparable but a year later when they retire and continue in a similarly invested account based pension they have no ability to determine how their product is performing.

The government has announced it will undertake consultation on how to extend coverage of the performance test for the retirement phase by 1 July 2022. Extension of retirement products with investment backed strategies to the performance test should be a central metric for the covenant.

The government can easily move to address retirement phase products with account based pensions now for implementation on 1 July 2022. This will allow time for focus on developing a comprehensive performance and efficient drawdown framework for new emerging products developed under the Covenant.

**The role for design and distribution obligations in preventing inappropriate product proliferation**

The Productivity Commission noted the consumer harm caused by product proliferation in superannuation. It stated, “nevertheless, no matter how the data are measured, aggregated or interpreted, it appears that the degree of product proliferation is an undesirable feature for members of the choice segment of the superannuation system”.[29]

[29] Productivity Commission Inquiry Report: Superannuation: Assessing efficiency and competitiveness, p204

The retirement phase is not immune to this problem. In fact the problem of too-much-choice may become even more pronounced in an environment where trustees are being encouraged to create new products which may rely on scale to have long term viability. ASFA noted these issues in their submission to Treasury on the Development of the Framework for Comprehensive Income Products for Retirement, indicating if innovative products fail to get a sustainable foothold in the market, some products may become obsolete, and be closed to new members.[30] The regulator will need to monitor these products to reduce the risks for members, especially for those with poor financial literacy or cognitive decline.

The design and distribution obligations coming into effect in October can be used to help deal with this issue. At a high level it requires:

- Product designers to make a target market determination and make it publicly available and
- Product distributors to take reasonable steps so that distribution is in accordance with the target market determination

Super funds will fall into the category of product designers and distributors. Therefore, they will require an adequate framework to ensure products only find themselves in the hands of the right people.

In the context of the covenant, it will be important that products, specifically those that 'lock-in' members are only provided to the appropriate target market of members.

Funds should be using their target market determinations and distribution frameworks to ensure this is the case. In the UK, some products with locked in longevity features and guaranteed income are not able to be purchased directly or without advice.[31] QSuper's Lifetime product has a six month cooling off period which provides some protection, as well as exit path if an individual has a terminal medical condition.[32] Risk factors such as age, underlying health and balance size should all form part of the target market determination.

We would expect ASIC to be checking for these types of control features as part of a target market determination. To help clarify this **the Explanatory Memorandum to the covenant should outline the expectations on ASIC in reviewing trustee target market determinations.**

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[30] ASFA Submission to Treasury: Consultation on the Discussion Paper on the Development of the Framework for Comprehensive Income Products for Retirement, 2017
[31] MoneyHelper, Compare guaranteed income products tool, https://www.moneyhelper.org.uk/en/pensions-and-retirement/taking-your-pension/compare-annuities
[32] https://qsuper.qld.gov.au/our-products/superannuation/lifetime-pension

At a minimum, trustees should be developing an industry best practice in its approach to creating target market determinations and distributions in order to limit the detriment to consumers from entering ‘lock-in products’ that are inappropriate to their circumstances.

We recommend the following:

3. The Government, Treasury and regulators should develop metrics for assessing trustees against the covenant and member best interests, including:

    a. Objective performance testing of investment backed products, particularly account based pensions

    b. APRA should be tasked with developing a quantitative and qualitative basis for testing new products

    c. Best practice expectations for DDO target market determinations, particularly for products that ‘lock-in’ consumers

## The ‘engaged DIYs’ (37%) - guidance required

Coming back to the framework Super Consumers uses to understand people’s approach to retirement planning, our final group is those who are engaged with their finances but prefer to manage their own retirement planning. This group tends to do their own research before making financial decisions. They also tend to shop around when making financial decisions. They are likely to invest time and effort into managing their finances and are more confident in their ability to use this information to make good financial decisions than others. They are less likely to use the default options when it comes to managing their super.

Under the covenant, this cohort is likely to attempt to critically engage with the products designed by funds. They may also be swayed by any information or ‘nudges’ funds provide to members.

There is an inherent conflict problem with allowing funds to provide guidance on their own products, which is likely to hamper this group’s ability to engage effectively. At the moment it is very difficult to get independent strategic and product advice outside of paying for individual quality financial advice. However, this group tends not to trust or want to pay for advice from this source.

MoneySmart and other government resources provide some limited strategic guidance, but not product level recommendations. Research undertaken by CHOICE found people do not want to upskill or be educated about super but are looking for answers to make the right decisions.[33]

We are aware of some industry calls to broaden the scope of intra-fund advice. We'd encourage policy makers to proceed with caution with this approach as the industry does not have a strong record of being able to deliver advice free of harmful conflicts. Fee structures work in superannuation to incentivise funds to keep customers invested with as much capital as possible. This is at least in part to blame for people not adequately spending down in retirement and maximising their retirement income. ASFA retirement standards are emblematic of this problem. For years they have told consumers that in order to be comfortable in retirement they must reach savings targets in line with the top 20% of income earners.

## Encouraging funds to curate sources of quality independent information

Funds should be directed to curate sources of quality, independent information to help guide members. For example, this could include valuable information currently contained on the MoneySmart platform. Under this model funds would use a consistent independent source of information in their member communication portals. Consumers will benefit from the efficiency and system savings that will flow from improved education, avoidance of conflicts and bias and reduced need for funds to create their own.

Super funds are well placed to be a point of contact for individuals, but that does not necessarily mean they have to produce all content. Our research on consumer retirement planning found that 38% had used a super fund to assist decision making, the number two source of information for consumers.

We see a strong need for a new model to provide conflict free, affordable information and guidance at scale. In the UK they have implemented a pension advice model that has attempted to integrate a range of services into a one-stop-shop. The Money and Pensions Service (MaPS) was established in 2019 and is supported by free access to a telephone helpline and web chat. These services operate at arm's length from the government and are funded via a levy on people's pension savings. This in effect is funded in the same way as intra-fund advice, but it is free from conflicts and without the added cost of every fund developing its own advice model.

We understand the creation of such a resource is broader than the covenant, but we see value in the covenant directing trustees to curate independent sources of quality information and guidance as part of their retirement income strategy. We also see value in regulators setting expectations about the degree to which this type of information should be incorporated on fund websites in order to meet their existing obligations.

[33] Project Superpower 2016, Research commissioned by CHOICE

More specifically, we see a role for ASIC in looking for further opportunities to widen the class order relief it can provide from financial advice laws to allow funds to use quality independent information to assist consumers. Longer term we encourage policy makers to fund and expand upon the solid foundation that ASIC has built with MoneySmart. This should consider the value of providing and improving tools like retirement income calculators, adequate savings targets, budgeting tools, longevity calculators and product comparators. Without these tools the significant 'engaged DIY' portion of the market are likely to be poorly served in their retirement planning.

The regulators should be responsible for tracking how trustees provide members with factual information in areas such as:

- key retirement income topics, such as Age Pension or aged care eligibility,
- the concept of drawing down capital as a form of income,
- the different types of income streams available and
- their trade-offs, life expectancy projections and approaches to managing longevity risk.

We recommend:

4. The SIS Act set obligations on funds to provide independent information sourced from a government or independent resource such as MoneySmart.

   Alternatively, or in support of the SIS Act reform we recommend the Explanatory Memorandum for the retirement income covenant should set expectations on APRA and ASIC to direct funds to provide independent information to assist members. This could be achieved through expectation setting by regulators via their respective design and distribution and member outcomes powers.

## Providing an ability to compare products

As well as receiving independent information, 'engaged DIYs' should be able to easily compare the retirement products on the market. Funds will provide information on their own products but it will be difficult to source the features of others easily.

Comparison of retirement phase products will drive greater awareness of their existence, which will be important for takeup rates as this market develops. The ability for an individual to compare what they are being offered is crucial and is a service which is now available to consumers in the accumulation phase.

This will be even more important in a superannuation system where individuals are stapled to their fund and are likely to have a more 'sticky' membership. For example, QSuper and their

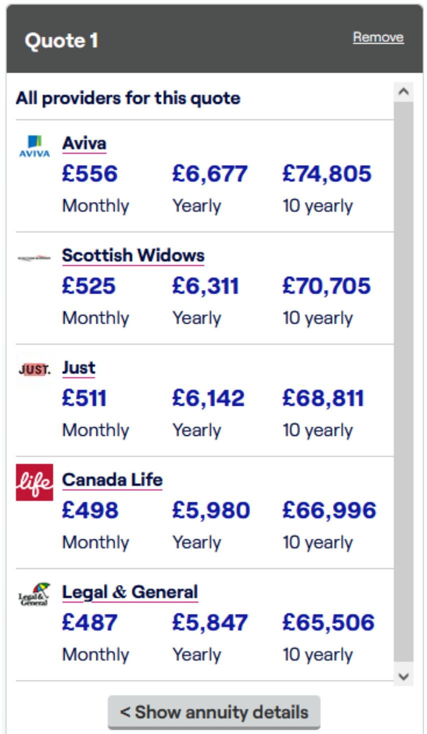
'QSuper's Lifetime Pension' product.[34] We support QSuper for taking an industry lead in developing a product that intends to ensure individuals retire with certainty and confidence. However, a member stapled to QSuper is likely to only be 'nudged' to QSuper's specific product due to the information and calculators on their site. They will have almost no ability to compare and determine if the offer is performing well relative to the rest of the market.

We would be concerned if instead of a comparator tool policy makers instead turned to disclosure via retirement product dashboards. In financial services more broadly only 20% of people claim to read these types of disclosure, as they are often seen as too long or overly complex.[35] These static tools offer only limited value in product comparison, requiring people to do time consuming research to even scratch the surface of available product offerings. In the superannuation space they are also self-serving, containing meaningless return targets that super funds set for themselves. They are a 20th century solution to a 21st century problem.

Again the UK is leading the way in assisted decision making, through its MoneyHelper service. MoneyHelper joins up money and pensions guidance to make it quicker and easier to find the right help. On MoneyHelper people are taken through an assisted decision making process for annuity products. The tool makes users aware of key product features and their value to the person before presenting them with an expected monthly, yearly and 10 yearly income based on the product features and investment amount they elected to make. This radically shortens the amount of time a person would otherwise take in understanding and comparing these complex products.[36] Similar to the proposed covenant the UK Financial Conduct Authority requires all pension providers to help customers easily identify if they could be getting a better deal by shopping around. Tools like this are a boon to competition and assist the market in operating more efficiently to deliver product consumers demand. Promoting competition is a concept only given cursory attention in the covenant, but is worthy of much more attention if we want trustees to align their strategies and products with consumer demand.

**Example of how the annuity comparator displays quotes built on consumer inputs on age, key product features and investment quantum.**

[34] https://qsuper.qld.gov.au/our-products/superannuation/lifetime-pension
[35] ASIC, 2019, 'Report 632: Disclosure Why it shouldn't be the default', p20
[36] MoneyHelper comparison tool




We recommend:

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|---|
| 5. The government develop a tool to compare retirement products |