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Quality of Advice Review - Advice and guidance for all Australians

ABOUT US

Super Consumers Australia is the people's advocate in the superannuation sector. Super Consumers Australia advances and protects the interests of people on low and middle incomes in Australia's superannuation system. It was founded in 2013 and received funding for the first time in 2018.

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Introduction

All Australians deserve access to a financial services sector that improves financial security, gives greater peace of mind and freedom to pursue lifestyle goals. For some, traditional financial advice will be appropriate to help unlock these benefits. For many Australians on middle to low incomes the solutions are broader and need to consider how these groups currently engage, or don't engage with decision making. In this submission we will focus primarily on the advice and guidance needs of those planning for and in retirement, as this is the cohort that faces the greatest complexity in navigating financial decisions.

In our survey of retirement planning covering 45-80 year olds, we found that the minority of people (25%) look to the expertise of professionals (e.g. advisers) to assist with planning.[1] Despite this fact, the lion share of attention on the advice needs of Australians has been placed on what the financial advice sector delivers. As the objective of the Quality of Advice Review (QoA Review) makes clear, its assessment of the regulatory framework extends beyond the comprehensive personal advice provided by financial advisers. We welcome this approach as it better aligns with the needs of Australians on low to middle incomes who are more likely to look for guidance beyond traditional financial advice models.

Our regulatory framework could do much more to support retirement planning Australians who wish to receive accessible reliable guidance on their retirement incomes. Our nationally representative survey of pre-retirees and retirees (45-80 y.o.) found more than a third (37%) were looking to take a DIY approach to planning for retirement. This group primarily relies on themselves to track down useful information and guidance to help them plan. These resources tend to be scattered across government service providers, media outlets and superannuation funds. These resources are often constrained in their quality by limitations imposed by the regulatory framework. Many of these constraints exist for good reason, for example where conflicts or lack of expertise exist, others are regulatory overhang. Attention also needs to be paid to the responsibilities of government in assisting this cohort with reliable, independent guidance. Superannuation is a compulsory retirement savings system with significant tax concessions, therefore the government shares some of the responsibility in ensuring people are equipped to maximise their retirement incomes.

The review should also reflect on the needs of people who are not engaged with retirement planning. According to our research this makes up the biggest group of retirement planners (38%). For this group the review will need to reflect on the role appropriate product design and defaults play to guide better outcomes. There are also opportunities to improve engagement from this cohort on targeted issues where it is safe to do so.

[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/

As people approach retirement they're faced with complex decisions like, will I have enough income, how long do my savings need to last, what types of products can help me and how do I tell which ones are high quality. The quality of the product alone can have a massive impact on the returns a person could expect across retirement. Super Consumers Australia modelling found a person with a typical $200,000 balance at age 65 would have received $188,000 (or 42% less) in investment returns across retirement if they were in one of the worst performing 'balanced' investment options versus one of the best performers.[2] Currently there are only limited consumer protections over the quality of retirement phase products. Design and distribution obligations go more to the appropriateness of the product for a particular cohort, rather than relative quality and the performance test would require further regulation before it applies to retirement phase products. There is also uncertainty over how a test of quality could be applied to products that are not purely investment market linked, such as annuity based products. In the absence of these systemic protections, quality, independent advice and guidance has an important role to play in ensuring consumers get good quality retirement products. The review will need to address how people can get access to this information if they are in a fund with poor quality and/or inappropriate products, where intra-fund advice may be the only advice option they can afford.

To help navigate this complexity, the Retirement Income Review said, "people need better information, guidance and good, affordable advice tailored to their needs".[3] With the introduction of the retirement income covenant (RIC), there has never been a more crucial time to get the framework right. This may lead to an explosion of new products and approaches to delivering retirement incomes. Lessons learnt from other emerging markets have shown us that appropriate consumer protections are often left to play catch up, while consumers are harmed. In the context of a market that includes longevity products, which may lock people in for life, this could lead to disastrous consequences.

We need solutions that make sure everyone can get a good outcome from the retirement system regardless of wealth or level of financial knowledge. The benefits of the RIC will be lost if it is not accompanied by a regulatory framework that helps match people with the strategies and products that are appropriate for them in the market.

In the UK, to address changes made to their retirement product market, the government implemented a 'guidance guarantee' which provided everyone with the ability to seek guidance

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[2]Analysis assuming retirement investment returns follow the 10 year net returns of two balanced pension options, one above and one below SuperRating's median balanced option return, as of April 2022. Assuming a balance at retirement equal to the median balance of $200,000 for a 65-74 year old in 2019-20 based on ABS Survey of Income and Housing data. Retirement assumed to be from age 65 to 90. Assumes drawdown at minimum drawdown rates based on currently legislated rate (implying reversion to previous schedule after 2023). CPI growth based on RBA Statement of Monetary Policy May 2022 projections and a long term rate of 2.5%. Investment returns accrued are in today's dollars.

[3] Retirement Income Review, p17

that was impartial, good quality and covered the options in the market. This model removes conflicts in advice at the source. Millions of Australians would benefit from a framework that delivers a similar independent one-stop shop portal that brings together and builds on the scattered resources people must currently rely on to plan for retirement.

Finally, the recommendations of the QoA Review are likely to have a wide reaching impact. It is typical for consequential reviews to release an interim report, so that stakeholders can reflect on the recommendations and provide additional evidence as necessary. Not doing so risks incomplete policy solutions and low ‘buy-in’ from key stakeholders. We recommend the government extend the period of the review to give time for an interim report.

Recommendations

Recommendation 1

The Federal Government extends the Quality of Advice Review to allow for the production of an interim report for stakeholder feedback.

Recommendation 2

That a Federal Government agency be tasked with connecting up Australia's public retirement services and tools through a single portal to provide quality, impartial guidance, delivered via digital channels with in-person/over the phone support as required.

Recommendation 3

That the single portal develop a retirement product comparison tool, so that people can easily understand and compare the features and quality of products on the market.

Recommendation 4

That APRA and ASIC be tasked with developing benchmarks for retirement default products that are simple, safe and cost-effective for disengaged Australians.

Recommendation 5

The Federal Government pass regulations to ensure appropriate quality filters are developed to cover retirement products.

An interim report supports good policy

There are a large number of open questions and issues that this QoA Review is considering in a relatively short period of time. Our understanding is the QoA Review will not provide a public interim report or discussion paper detailing their initial view on any of these issues before making recommendations. This missing step is out of line with almost every major review and good policy development in general.

The Productivity Commission review of superannuation and the Hayne Royal Commission both released interim reports that benefited the creation of final recommendations. An example can be seen in Hayne's interim report, which questioned whether conflicted grandfathering commissions should be removed. Including this suggestion in an interim report enabled a more robust evidence base for his final recommendation, including industry consensus these commissions were inappropriate. This helped lead to the smooth passage of legislation which had a large benefit to consumers, but also a financial impact on the industry.

We recommend that the QoA Review be extended to give time for an interim report prior to finalisation.

Recommendation 1

The Federal Government extends the Quality of Advice Review to allow for the production of an interim report for stakeholder feedback.

How should we measure demand for financial advice?

Some analysis of demand for advice appears to be predicated on the assumption that everyone either wants or needs advice. Our research took a different approach and instead measured demand by looking at the characteristics of Australians and the sources they rely on to help make financial decisions about retirement. Our research revealed three distinct cohorts of retirement planners.[4] These cohorts provide an answer to how financial advice demand should be measured. The three cohorts are also a good lens to develop more appropriate models of advice and guidance for Australians.

[4] 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/

Cohort 1 (38%) - The disengaged: who are they?

The disengaged are more likely to represent people who have lower wealth levels (46%) and are renting (27%) than other cohorts.[5] They are less likely to do their own research (55%) or shop around before making financial decisions (44%). They have low confidence (35%) and no clear financial goals (20%). They invest no significant time (62%) into managing their finances and therefore were more likely than some others to rely on default options (34%) when it comes to their superannuation. Disengagement may be rational for many within this group, given the cost, effort and complexity associated with engaging relative to the benefit they could gain from better guidance over their typically lower amounts of wealth.

Financial guidance viewed in its broadest sense is on a spectrum with comprehensive advice provided by a financial planner at one end, right through to the inbuilt guidance the system provides in the form of defaults. For the most part, current advice and guidance models are poorly adapted to the disengaged cohort. Ultimately, their financial guidance needs to come in the form of stronger system design, quality products and defaults. Currently this group has some of the least protections, relying primarily on a very broad and historically inadequate 'best financial interest duty'. This is supplemented by a newly introduced and complementary member outcomes assessments and the retirement income covenant. These measures offer significantly less protection than this cohort has access to during the accumulation phase, where default products with minimum standards and a performance test are tailored to the needs of this disengaged group.

Cohort 2 (37%) - The engaged DIYs: who are they?

The engaged DIYs are highly engaged with their finances but want to make decisions themselves (94%).[6] They are less likely to rely on financial professionals to make decisions (1%). Instead they prefer to do their own research and shop around when making financial decisions (77%). They showed the lowest level of preference (25%) of the three cohorts to use the default options when it comes to managing their super.

Their unwillingness to rely on financial professionals and lower preferences for defaults means they look for other sources to help guide financial decision making. For example, of the three cohorts they were:

[5] 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/
[6] 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/

- Twice as likely to use personal finance websites. Magazines, newsletters, podcasts, etc. (28%),
- More likely to use Centrelink (17%),
- Twice as likely to use the ATO website (20%),
- More likely to use the Australian government Financial Information Service (15%),
- Almost twice as likely to use MoneySmart (12%).

One of the most striking things about this group is the range of sources it was willing to navigate, an average of 2.8 sources in planning. This cohort was the most likely among the three cohorts to use the four government services listed (Centrelink, ATO, Financial Information Service and MoneySmart). Also of note was the lower reliance of this group on sources of information that could give them independent product recommendations. Given the variable quality of products this would likely be valuable information. However, these government services do not currently deliver information on the quality of various retirement products.

Connecting up these government services into one frictionless experience for retirement planning would clearly reduce any complications this group faces in retirement planning. They would also stand to benefit from the creation of services they trust that could also deliver independent product comparisons. Without this they are poorly served by existing options in assessing the quality or products.

Cohort 3 (25%) - The engaged delegators: who are they?

The engaged delegators are more likely to have higher levels of wealth than the other cohorts (46%).[7] They have clear financial goals they work towards (75%). Overwhelmingly, they rely on financial professionals when making decisions about growing, managing and protecting their wealth (97%). In keeping with their reliance on perceived expertise this group is also more likely than others to use default options when it comes to managing their superannuation (39%).

Given its high reliance on financial professionals this cohort will be best supported by a high quality advice regime and professional standards. Almost half (46%) of this cohort falls into a higher wealth bracket, with the overwhelming majority (80%) having either high or medium wealth. Given this cohort both demands and is in a relatively better position to afford financial professionals, it calls into question the degree to which cost is a barrier to them seeking the type of advice they demand. The flow on from these findings is the degree to which ongoing exemptions for conflicted remuneration are needed to keep advice 'affordable'. We support the

[7] 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/

recommendations made by CHOICE in calling for asset based fees, insurance exemptions and inappropriate vertical integration arrangements to be banned.

Super Consumers Australia is set up to advance and protect the interest of people on lower and middle incomes. People in these cohorts fall mostly into the disengaged and the engaged DIYs and therefore our focus is on ensuring the QoA Review focuses on the demand for advice from this large cohort (75%) of the community.

In what circumstances do people need financial advice but might not be seeking it? What are the barriers to people who need or want financial advice accessing it?

Super and retirement advice is crucial

There are key times in people's lives including entering the workforce, starting a family and planning for retirement when access to guidance is key to good financial outcomes. Getting the right guidance at the right time can transform someone's standard of living. With retirement it is crucial. For example, the Productivity Commission estimated there is a $502,000 retirement balance difference between someone staying with a good performing super fund throughout their working life compared to a poor performer.[8] Making the decision to switch to a fund that is on average a better performer can be life changing.

As people approach retirement they're faced with complex decisions like, will I have enough income, how long do my savings need to last, what types of products can help me and how do I tell which ones are high quality. However, the retirement income system is complex and doesn't give answers to these questions in any one place.[9]

As the Productivity Commission found, there are significant reasons why people find engaging with retirement decisions around their superannuation difficult.[10] The compulsory nature of the system, cognitive constraints, behavioural biases, poor financial capability and other factors all limit a person's ability to engage with superannuation and retirement.

For those that are engaged, they prioritise getting retirement right. ASIC found the top three areas consumers want advice on are investments (45%), retirement income planning (37%),

[8] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', p.13
[9] Retirement Income Review, p57
[10] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', p.248

and growing superannuation (31%).[11] Yet, as we discuss further below, even though they seek this advice there are many barriers restricting a cohort like the engaged DIYs from receiving this type of advice.

One of the most crucial areas of retirement planning for all Australians is finding an appropriate superannuation product. People who find themselves in poor products, either through poor decision making or poor system and product design face a lower standard of living in retirement. Given that 45% of MySuper products have performed below APRA's heatmap benchmarks and 61% in choice accumulation options[12], which are often similar to pension options, it's likely a substantial number of people in the untested retirement phase are also in underperforming options.

To illustrate the detriment, we identified a balanced pension option on the market with a 7.96% net investment return over ten years to April 2022 and compared it to another balanced option with a 10.27% net investment return over the same period. Using a typical median balance of $200,000 at 65, an individual in the first product would receive $188,000 or 42% less in investment returns over their retirement period.[13]

The UK Financial Conduct Authority found: "the majority of consumers (60%) do not switch providers when they buy an annuity [at retirement], despite the fact that 80% of these consumers could get a better deal on the open market.[14] Australia is likely to have similarly low levels of switching at retirement given there is little to prompt any type of informed engagement with options outside of their existing fund. On a system wide-scale, this may mean Australians stick with a poor fund and end up increasingly relying on the age pension as people run out of money earlier than necessary.

The RIC is likely to lead to a large expansion of the range of retirement products available to people. This is a significant change in the market that must be considered by the QoA Review. It is hoped that the RIC will drive super funds to develop better strategies and products, however they have been given a large amount of discretion in what they deliver. They also have no incentive to direct members to better options that exist outside of the fund. Not shopping around could be catastrophic in the context of people making a decision to take up a retirement product that they are locked into for the remainder of their life. We are aware of one fund that is

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[11] Quality of Advice Review - Issues Paper, p10
[12] APRA's composite of four performance metrics, Insight Paper, MySuper and Choice Heatmaps, 16 December 2021, p8 and p11
[13] Analysis assuming retirement investment returns follow the 10 year net returns of two balanced pension options, one above and one below SuperRating's median balanced option return, as of April 2022. Assuming a balance at retirement equal to the median balance of $200,000 for a 65-74 year old in 2019-20 based on ABS Survey of Income and Housing data. Retirement assumed to be from age 65 to 90. Assumes drawdown at minimum drawdown rates based on currently legislated rate (implying reversion to previous schedule after 2023). CPI growth based on RBA Statement of Monetary Policy May 2022 projections and a long term rate of 2.5%. Investment returns accrued are in today's dollars.
[14] Financial Conduct Authority, February 2014. At http://www.fca.org.uk/static/documents/thematic-reviews/tr14-02.pdf, p10

checking with members that make these types of decisions, but the lack of consistent protection or access to independent advice is concerning.

The barriers for the engaged DIYs

For the engaged DIY cohort, they find themselves in the circumstance where it is very difficult to get independent strategic and product advice from the sources they rely on. The theme of trust in financial advisers is one that resonated in a survey of CHOICE supporters in May 2022. Only a third of people in that sample trusted the financial advice industry (such as financial advisers and advice from superannuation funds) in Australia to provide high-quality advice about their financial needs.[15]

"I've not been confident that I can find an impartial advisor that will give me good advice for a fee. I'm concerned that they'll try to sign me up on some kind of 'investment plan' which needs their periodic input (for which I pay and pay)." Mary 55-64

"The financial advisor I was seeking advice from provided complex tables and diagrams that filled a whiteboard regarding what to do with my money, plus how he would manage everything, including my spending. The end result is that it was going to cost me $11000 per year plus a set up fee of $3000. The fee was set regardless of whether the fund made a profit or not. My instincts told me that the financial advisor was not going to make me more than $11000 per year so the advice was nothing but to his advantage." James 55-64

ASIC's MoneySmart provides some good independent strategic guidance but relative to its value it is underused. In part this is also due to the limitations placed on it to not stray into advice, in particular respondents gave feedback on the lack of personalisation or product level recommendations.

"Unfortunately, the free and unbiased help from MoneySmart was generic (because it has to be) so I couldn't get help with my very specific and circumstance particular questions." Lisa 45-54

"It was far too general to provide advice that an individual could rely upon. It seemed that there was encouragement to seek private financial advice rather than give simple answers to simple queries." Sunita 65-74

"I felt that it was trustworthy was the best thing. I find it difficult to trust financial advisors after the Banking Royal Commission. The worst thing is it is not tailored to me specifically." Terry 55-64

[15]CHOICE & Super Consumers Australia, 2022, "Quality of Advice Review survey", data was collated 4 May – 23 May, 2022, the sample is self-selecting from an online survey asking CHOICE supporters and the general public to share their experiences in seeking financial advice, n=1,221.

The Financial Information Service and Centrelink provide some direct financial advice and pension related information. Not-for-profits like financial counselling and community legal services linked with the National Debt Helpline cover direct advice to people in financial hardship dealing with credit, debt and some insurance issues. My Aged Care is also a useful starting point for accessing Australian Government-funded aged care services. However, these services are spread out over multiple locations making it harder for some consumers to find and access them.

Figuring out the best retirement and superannuation product is also hard because there aren't any good online tools to compare relevant products on the market. Product dashboards have not been extended to choice products. The ATO based super comparison tool only covers MySuper products and leaves out choice and retirement products. APRA's heatmaps are helping to improve consumer outcomes at a structural level, but the endless excel spreadsheets are not designed for consumers and do not cover retirement products. The engaged DIYs are left to search multiple, complex super fund websites often with non-standardised information.

These barriers leave a significant gap for low and middle income Australians looking for quality independent guidance and information to help them. These outcomes are symptoms of a regulatory framework that has understandably spent its energy on preventing the harm caused by conflicts and lack of expertise, but must now shift focus to encourage the delivery of advice from non-conflicted expert services.

The disengaged are not adequately protected in retirement

After years of neglect stronger safeguards have been implemented into the accumulation phase. Prior to these changes the Productivity Commission found, "there is little (enforced) regulation of member outcomes in the choice segment or of the products and investment options that are offered to choice members — and yet this is where many of the worst member outcomes occur."[16] To improve on this, accumulation products now have heat maps, a legislated performance test and an independent comparison tool to accompany a "MySuper" licensing arrangement for default products.

The current member protections in our retirement system are not of the same quality. They do not do enough to protect the disengaged who can find themselves in products that continually underperform. Our current retirement system design risks repeating the mistakes of the past for people with much more to lose.

[16] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', p.490

There are some protections at the market level in the form of design and distribution obligations and member outcomes assessments. Given their recency it is not clear whether these are significantly altering product design for retirement products. More importantly they are not designed to assist an individual make a decision about the best product for them or even protect people from poor quality products. Instead they are designed to protect people from being distributed inappropriate products for their ‘objectives, financial situation and needs’. For example, two products may cater to the same cohort of consumers in terms of their objectives, financial situation and needs, but due to differences in financial performance may deliver very different outcomes.

After observing the application of design and distribution obligations to certain accumulation products, we remain cautious about the level of protection these obligations will provide. For example, one of the superannuation products which was a significant underperformer on APRA’s heatmap; dark red graded on the main heatmap performance metrics and total fees had a target market determination which read as follows:

“the issuer has assessed the product and formed the view that the product, including its key attributes, is likely to be consistent with the likely objectives, financial situation and needs of consumers in the target market” and that there are no distribution conditions for this product due its broad application and retail nature.[17]

The regulator may yet intervene with this product, but as it stands there is no reference to its underperformance. This product continues to be freely distributed to a wide range of consumers despite its consistently poor member outcomes. Likewise, existing individual focused protections, such as product disclosure, have consistently been found to be poor consumer protections.[18]

We cannot expect everyone who is disengaged to engage with a complex area like retirement, let alone navigate the current regulatory settings to seek advice and guidance. Changes need to be made to acknowledge that these people require protections as well.

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[17] https://www.ampcapital.com/content/dam/capital/03-funds-files-only/aus-funds/tmd/WNBF_A_TMD_AMP1685AU.pdf
[18] ASIC and AFM, Disclosure: Why it shouldn’t be the default joint report

How could advice be more accessible? Are there circumstances in which advice or certain types of advice could be provided other than by a financial adviser and, if so, what?

A ‘one-stop shop’ and portal

The UK experience

Advice would be more accessible if Australia adopted a similar model to the UK’s Money and Pensions Service. The UK Money and Pension model integrates a range of government financial services into a ‘one-stop shop’. A service called ‘Pension Wise’ within this, gives people access to free, impartial, specialised guidance - delivered face to face or over the phone - about their pension options. The Money and Pensions service also provides a free, online tool to help people choose how to access their pension money, including product comparison tools.

Pension Wise was the result of an industry-wide consultation process following the introduction of new ‘pension freedoms’ which provided people with more flexibility in accessing their pension pots. Due to this significant change, the UK government deemed it necessary to create regulatory settings that provided universal help for UK citizens approaching retirement. With the introduction of the RIC in Australia resulting in more products and flexibility, and the limitations of our current framework, a similar guarantee would offer significant benefit.

The UK government also asked industry who should provide this type of guidance. The majority of respondents to the consultation noted it was vital for consumers to trust the guidance. The vast majority, including most of the financial services industry, agreed that consumers would not trust guidance given by a person or organisation with a vested interest in selling a financial product. The UK government decided that guidance should be provided by organisations that are independent and have no actual (or potential) conflict of interest. In Australia, the lack of trust in advice, the inability to provide guidance at scale and the vertical integration in superannuation leads to the same conclusion.

A fit for purpose, high quality, scalable solution can be simple and result in a large portion of the Australians 250,000 retirees a year being supported. The UK’s single financial guidance body legislation has clear objectives and functions. At its core it is governed by one premise, where the body provides guidance to a person it must consider whether the person receiving the pension guidance would benefit from it.[19]

A majority of Pension Wise users have rated the service as beneficial, with a 94% satisfaction rate.[20] To encourage more usage, a Government Committee has recommended that the Department for Work and Pensions set out a plan for Pension Wise use becoming the norm.[21] The UK government has now implemented a 'stronger nudge' framework to encourage more people to use this service.

Australian equivalents to the UK

Australia has a headstart in building a similar model. Our services like Moneysmart, the Financial Information Service, Centrelink, the ATO fund comparison tool, My Aged Care all exist, but are not connected up or advertised through a single portal. Our consumer research on engagement with financial decision making has highlighted the need for consumers to have access to a 'one-stop shop'.[22]

"I am a reasonably well educated, reasonably intelligent person who is overwhelmed by the process of retirement. I have not dared to go to Centrelink to find out about options going forward as I hear so many horror stories. I had no idea of several of the options in your survey of places to find out about retirement and I wish I had made a screen shot of that page of the survey!" - Pamela (65-74)

"MoneySmart has mostly generic information that has to be adapted to personal circumstances. Have used them several times over past ten years. Advice was good and very useful when combined with other websites such as Super fund, Services Australia and Alan Whittaker. " George 65-74

The PC came to a similar conclusion. It said "the Government should also consider extending the existing FIS (provided by the Department of Human Services) to offer members at or near retirement impartial information to help them navigate complex retirement income decisions."[23] This aligns with the UK's Pension Wise service.

[19] https://www.legislation.gov.uk/ukpga/2018/10/part/1/crossheading/objectives-and-functions-of-the-single-financial-guidance-body
[20] Pension Wise service evaluation, https://moneyandpensionsservice.org.uk/wp-content/uploads/2020/10/Pension-Wise-Service-Evaluation-r eport-2019-2020.pdf
[21] House of Commons Work and Pensions Committee, Protecting pension savers, https://committees.parliament.uk/publications/8514/documents/86189/default/ p37
[22] Project Superpower, Informing a strategy to engage people with their superannuation, research commissioned by CHOICE, https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/why-consumers-avoid-thinking-about-super-20161024
[23] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', p.40

The value of independent guidance

An independent guidance offering would hugely benefit those navigating Australia's complex retirement system in ways our current system has been unable to. This is necessary in two key areas. Firstly, it will show people the benefits of shopping around and help them to do so in a way (e.g. comparator tools) that has the potential to improve consumer-led competition. Secondly, it could help people navigate their different needs as they interact between private savings, government support and household financial needs. The barriers relating to personalisation, limited scope and conflicts are removed. For example, people would be able to go to this service with their partner, conduct a personalised 'fact find', learn about the types of products on the market and their relative performance, consider broader factors like Centrelink/Aged care and come away armed with market wide independent knowledge and strategies to implement.

One-stop shop can save taxpayers

The better outcomes people can derive from their private savings by making use of a 'one-stop shop' may have additional cost saving back to taxpayers. Access to higher quality products and more appropriate strategies are likely to decrease reliance on the age pension.

One-stop shop is more efficient than simply expanding intra-fund advice

This model is also likely to be more efficient and cost less for consumers/taxpayers than super funds developing and maintaining similar services. The RIC requires funds to consider how they assist members to help them maximise their retirement incomes. There were 140 APRA regulated RSE's in the market as of March 2022.[24] If all 140 funds were to engage properly with their RIC obligations they would each need to develop resources such as retirement income calculators, longevity calculators and strategic guidance. It is also likely that the regulator will need to step in, as it has done with retirement calculators[25], to ensure the assumptions used by funds to build these tools are consistent and do not mislead consumers. A one-stop shop would remove this duplication and more efficiently deliver services than every fund developing a bespoke approach to consumer needs that are common.

The role of funds under a one-stop shop model

Developing a one-stop shop would be of little value if consumers cannot easily find and use the tools it would deliver. Past research indicates people are more likely to use these services if

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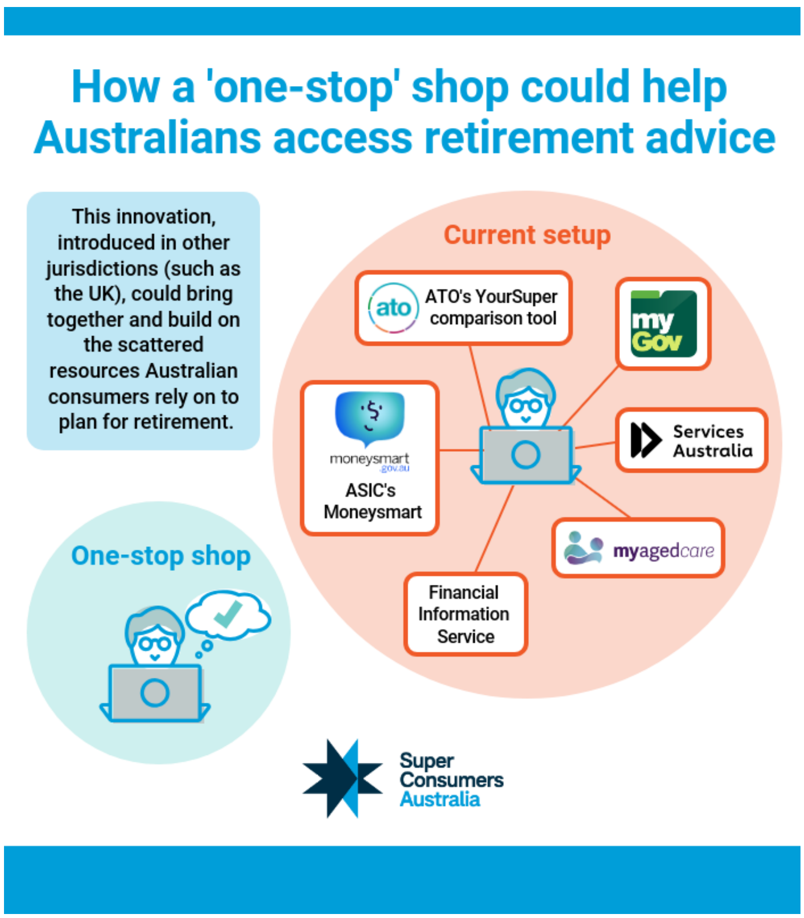
[24] APRA 'sustainability of member outcomes' paper published 29 March 2022

[25] ASIC, 2021, 'ASIC consults on updates to relief for superannuation calculators and retirement estimates' available at: https://asic.gov.au/about-asic/news-centre/find-a-media-release/2021-releases/21-309mr-asic-consults-on-updates-to-relief-for-superannuation-calculators-and-retirement-estimates/

they are bundled up in a place they already visit for this type of information.[26] The super funds would be important in delivery, as they are a resource a large number of consumers (38%) already go to when planning retirement.[27] Super funds already make use of third party calculators to deliver this type of service in the insurance market, for example Australian Super offers a calculator developed by TAL.[28] A one stop shop could develop calculators to be delivered in a similar way, with the added benefit of them being independent of potential conflicts if delivered by product providers.

Accessibility gains from bringing services under one banner



[26] Project Superpower, Informing a strategy to engage people with their superannuation, research commissioned by CHOICE, https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/why-consumers-avoid-thinking-about-super-20161024
[27] 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/
[28] Australian Super, 2022, Insurance Calculator - developed by TAL, available at: https://calculators.tal.com.au/group/australiansuper

There are examples of similar models working in Australia in other areas. Service NSW was developed after customer feedback that people wanted seamless access to government service, a single point of contact and availability of service at times that suit them.[29] AFCA is the result of the the Ramsay Review which found that the external dispute resolution framework at financial firms at that time was the product of history rather than design and gave rise to unnecessary duplication and consumer confusion.[30] AFCA has now successfully brought together three dispute resolution services to to be an effective one-stop shop for consumers and small businesses.

Aged Care is another significant worry for retirees. As part of Aged Care reform, the government created a principal entry point to the aged care system called My Aged Care to enable older people and their families to access timely and reliable information on aged care. This was built on an Aged Care PC recommendation for a new, single portal.[31] The majority of care recipients (72%) are satisfied with the way My Aged Care allows older Australians to access quality care.[32] While successful, this could be even more valuable and increase its awareness if it was part of a greater retirement one-stop shop.

Connecting up different Federal Government advice and delivering via a single portal would greatly improve the consumer experience of financial decision making. The Federal Government is the architect of the current retirement framework, so should have a strong interest in making it easier for people to navigate and get the best outcomes possible.

Recommendation 2

That a Federal Government agency be tasked with connecting up Australia's public retirement services and tools through a single portal to provide quality, impartial guidance, delivered via digital channels with in-person/over the phone support as required.

As well as receiving independent strategic information, there is significant value in assisting people to compare the quality and features of retirement products on the market. Funds currently provide information on their own products but it is difficult for consumers to source and compare the features of multiple products. Again, the UK has addressed this assisted decision making process, through its MoneyHelper service. MoneyHelper uses digital and over the phone assistance to help people understand the relative benefits of investment based (e.g. account based pensions) and insurance based (e.g. annuity) products. People are then given

[29] Service NSW Annual Report 2012-13, p5,
[30] Review of the financial system external dispute resolution and complaints framework
[31] Productivity Commission Inquiry into Caring for Older Australians, Recommendation 9.1
[32] My Aged Care Evaluation: Wave 3 Summary Report, Key Finding 1, p14

access to product comparison tools that compare the products the consumer has decided best meet their needs.

Recommendation 3

That the single portal develop a retirement product comparison tool, so that people can easily understand and compare the features and quality of products on the market.

Consumer protections which guide the disengaged

For the disengaged cohort, financial advice from an adviser is unlikely to ever be appropriate. This does not mean that this group deserves to be left unaided. Our regulatory settings need to deliver good outcomes through other guidance mechanisms. Further measures such as retirement defaults, a retirement product performance test should complement existing member outcomes assessments and heatmaps to guide people to better products.

The RIC directs funds to balance the three objectives of maximising retirement income, managing risks and having flexible access for their members. Funds are also required to do this with respect to cohorts, rather than the membership as a whole. These objectives leave a huge amount of discretion to trustees. Historically trustees have not dealt well with this degree of discretion. Poor use of discretion has led to significant and ongoing changes in insurance in superannuation. There still remain significant issues, with people being defaulted into costly products that are of extremely poor value for those in part time work, who are older, make a mental health related claim or work in certain occupations.[33]

Super Consumers Australia analysis of the first round of member outcomes assessments found similarly poor exercise of tailoring to the needs of cohorts of members. We found only a quarter of funds made any reference to the needs of cohorts within their membership, despite being directed to under the governing regulation.[34] History has shown that building a regulatory framework on trustee discretion alone, particularly over features where there is a high degree of consumer disengagement will not deliver good outcomes.

At the very least there need to be minimum standards for retirement phase products and universal design principles to make sure the product is appropriate to significant cohorts in the membership. The Cooper review which was responsible for the accumulation default made this

[33] Super Consumers Australia, 2021, Update on restrictive definitions in default TPD insurance policies, available at: https://superblog.netlify.app/2021/10/28/update-on-restrictive-tpd-policies/

[34] Super Consumers Australia, 2021, Analysis of fund member outcome assessments, available at: https://superblog.netlify.app/2021/08/16/member-outcome-assessments-analysis/

recommendation a decade ago. The review recommended that MySuper products should not just cover accumulation to retirement, but also the drawdown phase. The Panel "views MySuper, in its ultimate form, as a whole of life product, and considers that this is a key part of the MySuper concept."[35]

More recently, the Productivity Commission's concerns with the RIC as drafted in 2018 included the requirement to offer a 'flagship' annuity offering (known as a comprehensive income product for retirement) which may be irreversible and ill-suited to a fund's membership.[36] Any retirement default must be cognisant of these risks. In developing rules for a retirement default, analysis should be undertaken to determine the right product features that can be mixed to develop options that are broadly appropriate to key cohorts.

Recommendation 4

That APRA and ASIC be tasked with developing benchmarks for retirement default products that are simple, safe and cost-effective for disengaged Australians.

Introducing a quality filter for retirement products will ensure there is confidence in the retirement system and provide a measuring stick to ensure the covenant has worked and products are safe. The government can easily move to address retirement phase products with account based pensions using broadly the same approach as for accumulation products. For newer products that may require a mix of quantitative and qualitative analysis (e.g. those with longevity components), we recommend the regulator be tasked with developing quantitative and qualitative metrics to form the basis of any performance/quality test. At a high-level, this should include how a fund's product meets the three key objectives of the RIC. It should include both objective performance testing and subjective key indicators as part of this assessment.

Recommendation 5

The Federal Government pass regulations to ensure appropriate quality filters are developed to cover retirement products.

[35] Super System Review Final Report - Part Two: Recommendation Packages, p207
[36] Productivity Commission, 2018, 'Superannuation: Assessing efficacy and competitiveness', Finding 4.4 p.56

Should superannuation trustees be encouraged or required to provide intra-fund advice to members?

Intra-fund advice cannot be relied upon on its own to solve the issues facing consumers in planning for retirement. There is an inherent conflict in allowing funds to provide guidance on their own products. The industry as a whole does not have a strong record of being able to deliver good outcomes for members without a sound regulatory regime. The fact that a legislative covenant was required to ensure funds help people maximise their retirement incomes is evidence of this fact.

One of the clearest shortfalls of intra-fund advice is its inability to guide people into better performing products or products with features the current fund doesn't offer. For example, a fund may not offer products which protect against longevity risk (e.g. an annuity) because it concludes typical cohorts within its membership would not benefit from this type of product. This isn't just a hypothetical, it has been offered as evidence of why so few funds offer products that protect against longevity risk in the market today. This may change with the progression of the RIC, but as already mentioned the covenant still gives enough discretion to a fund to determine the product mix it should offer. Even if a fund was allowed to give advice about competitor products, it would be unlikely to, given this may lead to a member leaving them for a fund with a more appropriate product.

A person relying solely on fund advice would also miss out on the benefits of 'shopping around' to find better quality offers. Comparing the long-term performance of two 'balanced' retirement phase investment options demonstrates the consumer harm that can flow from not assisting people to find better quality products. A typical person invested in one for the poorest performing 'balanced' products across retirement would be $188,000 or 42% worse off compared to a being invested in a high performer.[37] Again, this is not a problem intra-fund with its inherent conflicts can resolve.

There are also questions on how funds will be able to answer questions like will I have enough income and how long do my savings need to last. The super business model is built on charging fixed and percentage based fees on balances. Therefore nudges to spend capital are not prevalent. Industry lobby group Australian Superannuation Funds Association (ASFA) has produced its own retirement targets. These targets are regularly used in material published by

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[37] Analysis assuming retirement investment returns follow the 10 year net returns of two balanced pension options, one above and one below SuperRating's median balanced option return, as of April 2022. Assuming a balance at retirement equal to the median balance of $200,000 for a 65-74 year old in 2019-20 based on ABS Survey of Income and Housing data. Retirement assumed to be from age 65 to 90. Assumes drawdown at minimum drawdown rates based on currently legislated rate (implying reversion to previous schedule after 2023). CPI growth based on RBA Statement of Monetary Policy May 2022 projections and a long term rate of 2.5%. Investment returns accrued are in today's dollars.

super funds and by the media quoting what people need to have a comfortable retirement. This is despite the fact its standard for a single person would deliver an income in retirement that only the top 20% of households actually spend. People following this advice would significantly oversave.[38] The cost of this oversaving is then either experienced as lower living standards during working life or in retirement.

Answering these consumer questions under intra-fund advice will require funds to undertake retirement calculations. A misleading assumption in the forecast could see people take up products that are inappropriate for their needs or give them an extremely inaccurate idea of the type of retirement income they might be able to rely on. In September 2021, Media Super discovered that the fees, premiums and returns used by its public tool had not been updated since 2015.[39] People who used that tool in the six years prior could still be relying on inaccurate information about whether they are on track to reach their retirement goals. These issues would be addressed if these tools and other information were produced once by a trusted and independent source, such as an independent one-stop shop for retirement guidance.

Relevant financial advice must also be informed by a competent fact find. The context in which someone seeks intra-fund advice may be 'simple' in that it is limited to one particular aspect like superannuation. However, the consequences of personal advice that steers them towards a particular product or strategy may have much more far reaching implications. For example, if an individual with a home loan seeks intra-fund advice on a contribution strategy to superannuation. If a fund only provides limited advice on superannuation, this may ignore the individual's need to pay down debt. If a fund was able to consider the home loan under intra-fund (or in a hypothetically expanded version) they would be subject to a significant conflict. The super fund business model is based on charging fixed and percentage based fees on a person's balance. Therefore there would be a financial disincentive for the fund to encourage people to withdraw significant lump sums in order to pay down existing debt.

With different levels of execution and quality, comes greater levels of risk. If the super sector advocates to increase what they can consider under intra-fund advice (such as assets outside super, home ownership, partners), it increases the risk for poor quality vertically integrated advice in these areas.

Independent scrutiny is also a necessity to encourage consumer-led competition. Competition in the superannuation market is unlikely to improve under current policy settings. The Your Future, Your Super reforms are likely to result in a smaller number of larger funds. Two thirds of all

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[38] Super Consumers Australia, 2022, 'Retirement spending levels and savings targets', available at: https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62282ba6f2e94d772d404a44/1646799788082/Retirement+Standards+Report.pdf

[39] https://www.financialstandard.com.au/news/media-super-apologises-for-major-calculator-error-179791105

superannuation money is already in just ten superannuation funds.[40] Although not expanded to the retirement phase, the performance test is likely to drive funds to deliver returns in line with their market benchmark, but not beyond it. There is also little to drive competition over features outside of investment performance, with important factors like insurance, customer service and product features extremely difficult to compare.

Tools like the UK's PensionWise help consumers express their preferences in a highly complex market. This in turn should help retirement product providers deliver based on consumer demand and better products overall. Consumer led competition in Australian financial services rarely gets the attention it deserves when designing the consumer protection regime. This is a missed opportunity as some problems in the consumer protection regime may be alleviated by complementary competition solutions.

All of this does not mean that super funds have no role in providing advice and guidance. As already stated, super funds are well placed to be a point of contact for members. They should be viewed as important delivery sources of quality, independent information, rather than its creators. They also have a complementary role in providing more detailed information and answering consumer queries about the products they deliver. This approach would allow the funds to play to their strengths and remove the conflicts that we know lead to poor consumer outcomes.

[40] Rainmaker information, MR 24 May 2022