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Superannuation in Retirement: Submission by Super Consumers Australia

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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

Australia's retirement income system is not delivering an adequate standard of living for all retirees. For some people, this is driven by the complexity of converting their accumulated superannuation into an income, and lack of accessible guidance and safe default products to make this easy. Other people simply do not have enough resources, and face disadvantage and poverty in retirement. At the same time, the tax system facilitates wealth accumulation by high-income households, driving ongoing inequality in retirement outcomes.

The status quo is unsustainable. Government must consider how to best address these issues for all Australians in retirement. This means looking more broadly than the regulatory settings for superannuation funds.

In this submission, Super Consumers Australia has focused on how we can harness superannuation to deliver better retirement outcomes for people on middle and lower incomes. Consumers should not have to become superannuation experts or seek comprehensive financial advice to receive decent outcomes in retirement. The accumulation phase of super has a suite of in-built safeguards, including default products, performance testing, and compulsory saving. However, equivalent safeguards are almost entirely absent in the retirement phase.

Many of the solutions for problems in the retirement phase are already known. Government cannot continue to impose a highly complex retirement savings system without giving people access to free, independent guidance to help them navigate that system effectively. After 30 years of compulsory superannuation, most super funds have failed to deliver high quality, useful guidance and support to their members. Funds are conflicted, and will not help their members to shop around to find a better deal. The government needs to step in to provide an independent retirement product comparison tool, as it has in the energy and private health insurance markets. It should also examine ways to make the tax and social security system simpler and easier for older Australians to navigate.

The retirement system also needs to be safer for everyone, including people who are disengaged from retirement planning. Extending the annual performance test to the retirement phase is an urgent priority, given that balances are typically largest at the point of retirement and super fund members pay more fees during retirement than they do in the entire accumulation phase.[1] Providing better support and guidance, along with targeted nudges, would help people to consider when to move their super into the retirement phase and start drawing an income. Ideally, there would be default settings to make this move automatic for people who do not make an active product choice when they stop working, although implementing defaults throws up a number of challenges.

Finally, there should be robust consumer protections around longevity products. Because people are generally locked in to these products after they enter them, and they will be unsuitable for some people, the risk for harm is considerable. An accreditation scheme for

[1] Rainmaker Information (2022), Retirees pay more in superannuation fees.

no-frills longevity products would help to give people confidence to invest in longevity protection where they may genuinely benefit from it. This needs to be combined with an independent comparison tool to help people understand which product features could meet their needs and to easily compare accredited products on the market. Such a model would help to end the ‘chicken and egg’ problem of funds not offering longevity products because their members are unlikely to take them up, while members do not invest in these products because their fund does not offer them.

Summary of Recommendations

Recommendation 1: Adopt policies to improve outcomes for disadvantaged groups in retirement, including renters, people who retire involuntarily, women, First Nations people and people with a disability. This should include paying compulsory superannuation on parental and carer’s leave, and increasing the rate of Commonwealth Rent Assistance and indexing it to growth in rents.

Recommendation 2: Task an independent agency to connect Australia’s government-provided retirement planning assistance services and tools through a single portal to provide quality, impartial guidance, delivered via digital channels with in-person or phone-based support.

Recommendation 3: Require the ATO and super funds to proactively prompt people to consider their options for retirement income as they approach retirement. This should include referring members to the independent guidance service to help them to work out when to move their super into the retirement phase; work out how to structure their income streams; and compare retirement income products across super funds. These prompts should be subject to ongoing consumer testing and improvement to ensure they are effective and not resulting in unintended harmful outcomes.

Recommendation 4: Require APRA to immediately release product-level data on the performance and fees of all retirement phase products.

Recommendation 5: Develop an independent comparison tool for retirement income products to help people easily understand and compare the features and quality of products on the market. This tool should be subject to ongoing consumer testing and improvement to ensure it is meeting users’ needs.

Recommendation 6: Explore ways to simplify the tax and social security rules relating to retirement to make the system simpler for all Australians to navigate.

Recommendation 7: Introduce an online application process for the Age Pension through MyGov, with pre-filled information on assets and income provided by the Australian Taxation Office. This process should also direct people to guidance and calculators provided by the independent service to help them work out how to combine the Age Pension with other sources of income, such as withdrawals from super or the Home Equity Access Scheme.

Recommendation 8: If access to free, independent guidance (recommendation 2) and proactive prompts (recommendation 3) are ineffective at helping people to start drawing down their superannuation, consider how people could be automatically defaulted into a retirement-phase account when they reach a certain age and are no longer working (where people have ample opportunity to opt-out of this default).

Recommendation 9: Extend the existing annual performance test to account-based pensions from 1 July 2024.

Recommendation 10: Establish a process for designing an appropriately adapted performance test for retirement products that are not account-based pensions, to ensure there is a minimum standard that all products must meet. This should be done within 2 years.

Recommendation 11: Introduce a robust product accreditation regime for relatively simple 'no frills' longevity products. This should be supported by an independent product comparison tool to help people compare accredited products, and a cap on the proportion of a superannuation balance that can be invested in an accredited product in the absence of independent financial advice.

Recommendation 12: Increase consumer protections for all longevity products (including non-accredited products) by introducing requirements for longevity testing and risk-reflective pricing, a ban on commissions and intra-fund advice for these products, and a requirement that non-accredited products can only be distributed to people who have received independent financial advice. These protections should be backed by strong regulator oversight.

What is the policy problem?

Australia's superannuation system has been a world leading success in building a pool of retirement savings across most of the population. However, it has been far less successful in using these savings to deliver incomes in retirement. The biggest policy problem today is that policy settings are not delivering an adequate standard of living for all retirees. Evidence shows some groups are under-consuming in retirement or not efficiently converting assets into income. These were primary findings of the Government's Retirement Income Review.[2]

The causes of under-consumption—and the policy responses that are needed—differ across three main groups:

1. Retirees who have a lower standard of living than they can afford because they face barriers to optimally drawing down and spending their superannuation, for example due to complexity, confusion and a lack of appropriate guidance or products.
2. Retirees who save more than they need and deliberately retain wealth in superannuation, including to fund bequests, facilitated by the generous tax concessions available to them.
3. People who cannot afford an adequate standard of living in retirement because they rent, do not have any superannuation, and/or face forms of structural disadvantage.

Treasury's consultation paper focuses almost exclusively on the first of these three groups—which is likely to comprise people with middle and upper levels of wealth. Our submission also focuses mainly on the issues facing the first group, given Super Consumers Australia's expertise and remit. However, the government must consider how to best address inequities in consumption and wealth accumulation across all Australians in retirement. This means looking more broadly than the regulatory settings for superannuation funds.

The retirement system is complex and does not support people with safe defaults and independent guidance

Retirement planning is one of the most difficult challenges that most people will face. This is a consistent finding from surveys conducted by Super Consumers Australia and CHOICE.

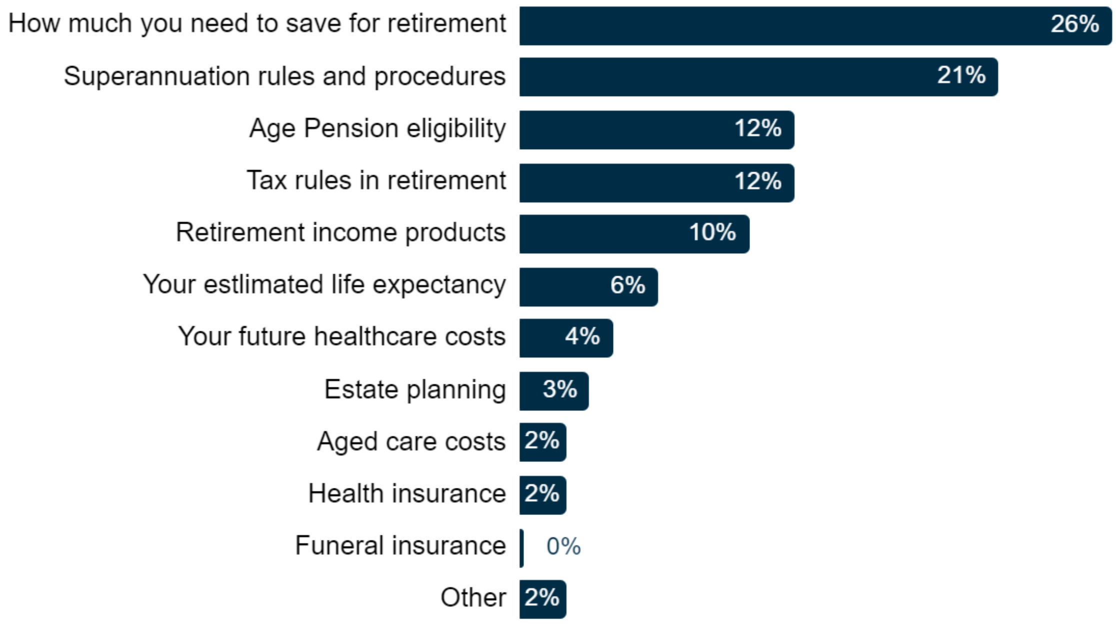
For instance, only 26% of people aged 50-64 agreed that it is easy to find information about planning for retirement.[3] A similar proportion agreed that the Australian super system is simple to understand, with lower rates for people aged over 50 (20%) and people who were retired (15%).

[2] Treasury (2020), Retirement Income Review, Final Report.
[3] Survey of 1,572 people aged 50-64 in 2022; see Super Consumers Australia (2023), Super Consumer Pulse Wave 0: Results from our pilot national consumer survey.

Retirees and pre-retirees also have relatively low knowledge about finances,[4] and about how super is taxed in the accumulation and retirement phases.[5] Knowledge of the superannuation system is varied and is correlated with age, gender, education, and income.[6]

In 2021, we asked pre-retirees and retirees (aged 45-80) what they found most difficult about retirement planning. The most commonly nominated area of difficulty was knowing how much to save for retirement, followed by superannuation rules and procedures, and rules relating to tax and the Age Pension (see Chart 1).

Chart 1: What are the most difficult aspects of retirement planning?[7]



The Retirement Income Review's key observations included that the retirement system is complex. 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.[8]

These difficulties are compounded by a lack of accessible assistance, guidance and advice for most people. Relatively few people actively seek advice and guidance about retirement. In 2023, fewer than half (43%) of older Australians we surveyed said they had sought some kind of advice about money in retirement.[9] In 2021, we asked pre-retirees and retirees what sources of

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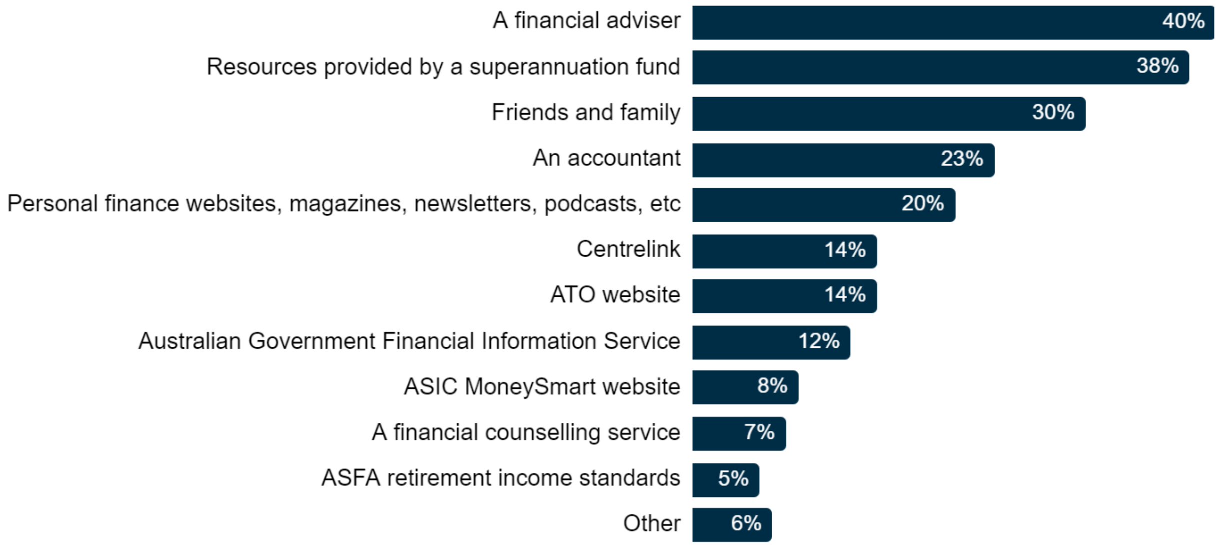
[4] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), Consultative Report: Retirement Spending Levels and Savings Targets.
[5] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.
[6] Survey of 1,572 people aged 50-64 in 2022; see Super Consumers Australia (2023), Super Consumer Pulse Wave 0: Results from our pilot national consumer survey.
[7] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), Consultative Report: Retirement Spending Levels and Savings Targets.
[8] Treasury (2020), Retirement Income Review, Final Report, p. 17.
[9] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.

information they use for retirement planning, and found a variety of sources were being turned to. Only about 40% said they had used a financial adviser, and only 38% mentioned resources provided by a super fund (see Chart 2).

Chart 2: Use of different retirement planning sources (multi-response question)[10]



Our research has also found different motivations for why people under-consume their superannuation in retirement. Well over half (61%) of people with an account-based pension draw down their balance at the minimum rate allowed by legislation.[11] However, for many this will be an informed decision influenced by their financial circumstances and the tax concessions available in superannuation. In our survey, 37% of people who were drawing down at the minimum rate said they did this because they were following advice they were given, and 30% said it was because they had other sources of income (e.g. from investments or partner's super) (see Chart 3).

A smaller, but still material, number of people (20%) said they were drawing down at the minimum rate because they thought it was a government recommendation (which it is not), and about 15% said it was because it was the simplest thing to do.[12] Around a third (32%) of people selected at least one of these two options in a multiple response question.

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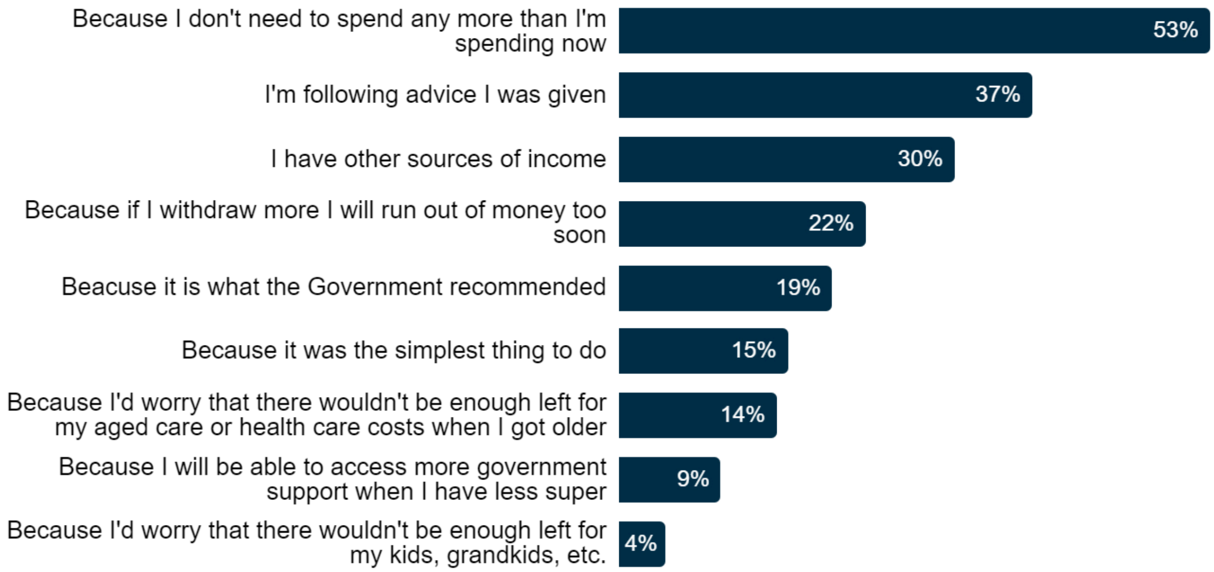
[10] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), [Consultative Report: Retirement Spending Levels and Savings Targets](#).
[11] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), [Insights from our survey about how older Australians are using their super](#).
[12] Super Consumers Australia survey of 1,100 Australians aged 65 and over in August 2023. See https://www.superconsumers.com.au/minimum-withdrawals-blog

Chart 3: Why some retirees only draw down their super at the minimum legislated rate (multi-response question)[13]



Further complexity arises from the difficulties many Australians face in managing their longevity risk. Improvements in longevity and life expectancy mean people will spend relatively more time in retirement if working lives are not similarly extended. Yet aside from the government Age Pension, the retirement system offers little support to give people confidence to consume their superannuation 'nest egg' in retirement.[14] Fear of future health and aged care costs is often blamed for driving consumption decisions,[15] although our research shows that relatively few older Australians (about 14%) are spending less so they will have enough money for health or aged care.[16] The more likely reasons are that the complexity of the retirement system combined with inadequate support and guidance makes it very difficult to work out an 'optimal' level of consumption. Tax concessions also encourage minimal drawdowns, particularly among those who need these concessions the least.

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[13] Survey of 1,100 Australians aged 65 and over in 2023, of which 38% had a super account in the drawdown phase; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.
[14] Treasury (2020), Retirement Income Review, Final Report, p. 56.
[15] Treasury (2020), Retirement Income Review, Final Report; Challenger and National Seniors Australia (2019), Feeling financially comfortable? What retirees say.
[16] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.

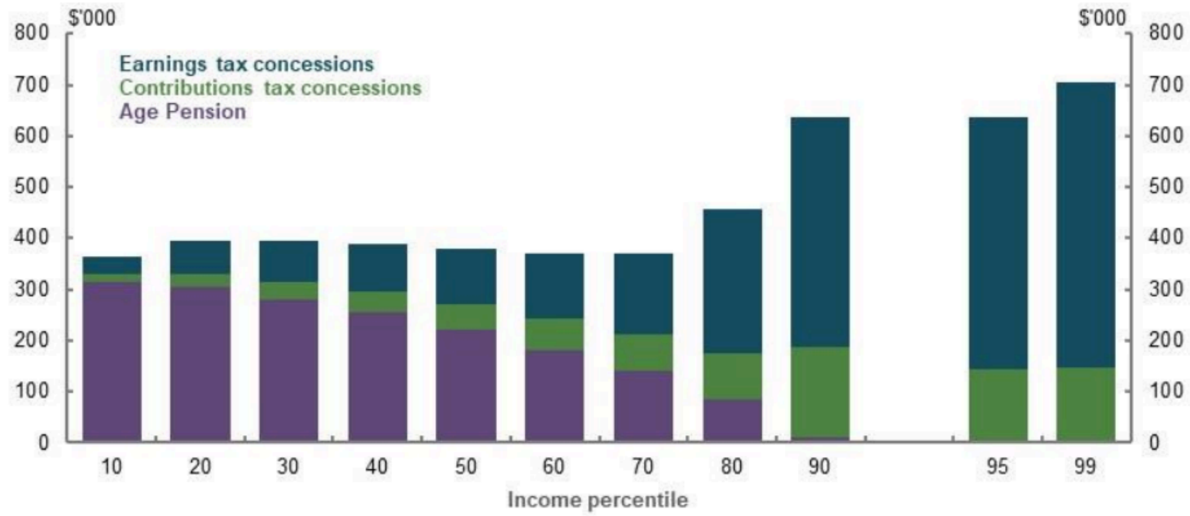
Tax policy is inequitable and inconsistent with the proposed objective of super

The tax and social security system provides strong incentives for retirees to maximise the amount of wealth they hold in superannuation (which is mostly untaxed in the retirement phase) and the family home (which is exempt from the Age Pension assets test regardless of its value).

There is clear evidence that many retirees are acting on these incentives, especially those with sufficient income or wealth from other sources to fund their cost of living, and who can afford sophisticated financial advice and tax planning to optimise their tax position. As noted above, in our 2023 survey of older Australians, we found that many people who had received financial advice, or had income outside of super, were choosing to draw down their super at the minimum rate allowed. This suggests that for some, drawing down at the minimum is a deliberate decision influenced by the generous tax treatment of wealth stored in superannuation.

Higher income groups disproportionately benefit from the tax concessions in superannuation. According to Treasury, almost $54 billion in taxation revenue was foregone in 2022-23 from the tax concessions on super contributions and earnings.[17] People on the top 10% of incomes benefited the most, accounting for 30% of the contribution tax concessions and 40% of the earnings tax concessions. The Retirement Income Review projected that over a lifetime, the value of tax concessions for higher income earners would significantly exceed the value of the Age Pension for people on lower incomes (see Chart 4).

Chart 4: Projected lifetime government support provided through the retirement income system[18]



[17] Treasury (2024), 2023-24 Tax Expenditures and Insights Statement, pp. 13-17.
[18] Treasury (2020), Retirement Income Review, Final Report, p. 247. Values are in 2019-20 dollars using Cameo modelling and assumptions from the Retirement Income Review.

The current tax settings conflict with the proposed objective of super "to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way."[19] The incentives the tax system gives to maximise wealth held in super will likely lead to many high-wealth individuals passing away with significant levels of super wealth left over.[20] The incentives also serve to reinforce the 'nest egg' mentality that makes many retirees reluctant to spend down their capital in retirement.

Some groups are significantly disadvantaged by the retirement system

Almost one in five older Australians say they find it fairly difficult or very difficult to get by on their current income.[21] This includes people in groups who are significantly disadvantaged by the retirement system, including those who never had superannuation or who retire with meagre balances due to having low incomes or time out of the workforce. Disparities in superannuation savings have been the largest contributor to widening wealth inequality in Australia over the past decade.[22]

Key groups at risk of low living standards and poverty in retirement include:

- **Renters**: Retiree renters have much higher housing expenditure than retirees who own their own home, and almost half experience income poverty.[23] Research by Super Consumers Australia has found that a single person on a low income aged 65-69 who rents in retirement will need to save over twice as much as a homeowner (110% more) to maintain a similar standard of living in retirement.[24] For many renters, this will not be an achievable savings goal, and they will not be able to enjoy the same standard of living in retirement. About 12% of Age Pensioners receive Commonwealth Rent Assistance.[25] However, levels of rent assistance remain inadequate for many renters and have not kept pace with growth in rents, even after the 15% increase to the maximum rate that took effect in 2023.[26]
- **People who retire involuntarily**: The Retirement Income Review found that nearly half of people that retire at age 60-64 do so involuntarily for caring, health or job-related

[19] Subsection 5(1), Superannuation (Objective) Bill 2023, First reading.
[20] Treasury, Retirement Income Review, Final Report, July 2020, p. 182
[21] This includes people who have not started drawing on their superannuation and people who no longer have any superannuation. Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.
[22] Australian Council of Social Service and UNSW Sydney (2023), Inequality in Australia 2023: Overview, p.15.
[23] Treasury (2020), Retirement Income Review, Final Report, p. 33, 142.
[24] This calculation is based on spending levels in the 30th percentile and has been adjusted for inflation. Super Consumers Australia (2022), Retirement Savings Targets: Feedback Report, p. 9.
[25] Department of Social Services (2023), DSS Benefit and Payment Recipient Demographics - quarterly data, September.
[26] B. Coates and J. Moloney (2023), How to tackle Australia's housing challenge, Grattan Institute; Productivity Commission (2022), In need of repair: The National Housing and Homelessness Agreement, Study Report, pp. 320-25.

reasons, and that these people are at a higher risk of financial stress than voluntary retirees.[27]

- **Women**: Inequality between men and women's super balances and the structural reasons underlying this are well-documented and remain largely unaddressed.[28] These inequalities are exacerbated by the absence of compulsory superannuation payments on parental leave and carer's leave.[29]
- **First Nations people**: Many First Nations people experience lower superannuation balances and barriers navigating super throughout their working lives, often due to mandatory participation in a superannuation system that is not designed for their needs.[30]
- **People with disability**: People with disability retire with less superannuation and other savings than those without disability. In our recent survey of older Australians, about a third (30%) of people with a disability said they found it fairly difficult or very difficult to get by on their current income.[31]

Other groups likely to experience financial difficulty in retirement are recent migrants and refugees, people who have separated from a partner later in life, and those experiencing financial abuse. There will also be many people who fall into more than one of the above groups and may be facing multiple forms of disadvantage.

None of the potential policy responses in Treasury's consultation paper are likely to deliver a dignified retirement to people in these disadvantaged groups. Given many within these groups are experiencing poverty in retirement, with little to no prospects of returning to work, we urge the government to prioritise targeted policy to improve the lives of these Australians. Government should be considering a broader set of policy options, including paying compulsory superannuation on parental and carer's leave, and increasing the rate of Commonwealth Rent Assistance and indexing it to growth in rents.

Recommendation 1: Adopt policies to improve outcomes for disadvantaged groups in retirement, including renters, people who retire involuntarily, women, First Nations people and people with a disability. This should include paying compulsory superannuation on parental and carer's leave, and increasing the rate of Commonwealth Rent Assistance and indexing it to growth in rents.

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[27] Treasury (2020), Retirement Income Review, Final Report, p. 33.
[28] Women's Economic Equality Taskforce (2023), A 10-year plan to unleash the full capacity and contribution of women to the Australian economy, Final Report; E. Littleton and G. Jericho (2023), The Times They Aren't A-Changin (enough): It is past time to value women's work equally, The Centre for Future Work at the Australia Institute; Treasury (2020), Retirement Income Review, Final Report.
[29] See Super Consumers Australia (2020), Super Consumers Australia submission in response to the Retirement Income Review.
[30] Treasury (2020), Retirement Income Review, Final Report; ASIC (2023), ASIC's Indigenous Financial Services Framework; J. Blakkarly (2023), "First Nations people missing tens of millions in super," CHOICE, 6 December.
[31] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.

Super Consumers Australia's principles for retirement income policy

In preparing this submission, we have been guided by the following principles:

- Policy settings should give people confidence that their interests are protected when they are taking out a retirement product or being given advice or guidance about how to invest or spend their money.
- People should have flexibility to make their own choices, but be protected from poor outcomes if they do not actively engage.
- All Australians have a right to independent and trustworthy guidance to support them to make decisions about superannuation and retirement. As the government has made superannuation mandatory for most people, the onus is on the government to give consumers the guidance they need to navigate the system.
- Behavioural interventions such as nudges and defaults should aim to leave most people better off, while minimising the risk of leaving anyone significantly worse off. They should be backed by ongoing consumer testing to ensure they deliver the intended outcomes.
- Where poor outcomes arise because of incentives embedded in the tax and social security systems, these incentives should be targeted directly rather than by encouraging people to make decisions that are not in their individual financial interests.
- Intermediaries such as financial advisers should always act in the best interests of their customers.

Supporting people to make better decisions

Super Consumers Australia research reveals that there are broadly three types of people when it comes to retirement planning:[32]

- **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 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 and a targeted social safety net to assist with their retirement.

Policy settings need to cater for all three groups. For example, some people will not undertake their own research and product comparisons, so policy solutions based on improving information and disclosure will not benefit everyone. Similarly, many people will not be willing to pay for comprehensive financial advice to help them navigate the retirement system, so measures intended to improve the accessibility and affordability of financial advice will not impact them.

In this section, we discuss how to improve information and guidance for people who are seeking it. In the following section, we discuss how to make the retirement phase of superannuation safer, including by introducing default options.

Super funds have a poor track record when it comes to advice and guidance

Relying on super funds to give advice and guidance will not deliver better retirement outcomes. More than 30 years after compulsory superannuation was introduced, super funds are still failing to deliver quality assistance and guidance to most Australians. The fact that a legislative covenant was required to compel funds to help people maximise their retirement incomes is evidence of this fact.

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[32] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), Consultative Report: Retirement Spending Levels and Savings Targets.

Further evidence is that:

- Super Consumers Australia's recent review of super funds' retirement calculators found that many lacked the capability or willingness to provide quality tools for members.[33] Almost none of the 28 calculators we looked at helped users to work out how much income they would realistically need in retirement. Many showed annual retirement income based on arbitrary, one-size-fits all targets such as the ASFA comfortable standard or a replacement rate, regardless of information a user inputs about their super balance, work status (e.g. full or part time) and homeownership status. These targets are inappropriate for most Australians, especially renters who will need to spend significantly more on housing in retirement than homeowners. Some calculators also presented results in unhelpful or confusing ways, or contained outdated information or assumptions. Our findings raise concerns about the lack of investment and innovation from funds to cater to members' individual needs, and suggest funds are failing to tailor their calculators based on consumer testing and monitoring.
- In a recent 'shadow shop', Super Consumers Australia and CHOICE found that the intra-fund advice that funds offer free to their members can be unhelpful or conflicted.[34] We saw examples of advisers being unable to help consumers understand how their fund is performing compared to others in the market. We also saw advisers recommending that a member makes voluntary contributions, without adequately considering other financial needs (like paying off a mortgage) or their desired spending levels in retirement.
- In 2019, an ASIC review of advice provided by superannuation funds found that only 49% of the advice files it reviewed demonstrated full compliance with the best interests duty and related obligations.[35] In 15% of the files, there was an indication that the member was at risk of suffering financial or non-financial detriment as a result of following the advice provided.
- ASIC and APRA found an overall "lack of progress and insufficient urgency" in how funds have been implementing the retirement income covenant.[36] They also found some funds were not bothering to track how members were using the information and tools the fund provided, or lacked concrete plans to address gaps in their assistance offerings.
- Many funds are failing to provide an adequate level of customer service for their members. In 2022-23, almost 7,000 complaints were made about super funds to the Australian Financial Complaints Authority (AFCA), a third more than in the prior year.[37] This included 767 complaints about service quality, 709 complaints about account administration, and 337 complaints about failure to follow instructions.

A related issue is that consumers have low levels of trust in advice given by super funds. In our recent survey of older Australians, only 21% of people said they would trust a super fund to give

[33] To be released in February 2024.
[34] D. Herborn (2022), "Is your fund best placed to help you plan for retirement?", CHOICE, 21 December.
[35] ASIC (2019), Financial advice by superannuation funds, Report 639.
[36] APRA and ASIC (2023), Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic review, Information Report, p. 5.
[37] Australian Financial Complaints Authority (2023), Superannuation complaints: Annual Review 2022-23.

them advice about money in retirement, compared to 35% who said they would trust a government source such as the Australian Taxation Office or Moneysmart.[38] In another survey, only 42% of people who received advice or guidance from their fund felt that they were in a better financial position as a result of this advice.[39] A survey by the Conexus Institute found that financial advice and general assistance provided by super funds rank 7th and 9th respectively in a list of most trusted sources of financial assistance, with scores of around 6.5 out of 10.[40]

This poor track record reflects that super funds are more interested in growing the size of the fund than in helping members to spend down their money or switch to a better fund. The superannuation fund business model is built on growing the size of the fund and charging fixed and percentage based fees on balances. This creates a strong incentive to encourage members to over-save during accumulation, as well as a strong disincentive to give advice or guidance which sees this capital move elsewhere at retirement.

These incentives have been on full display with the retirement targets products by industry lobby group the Association of Superannuation Funds of Australia (ASFA), which have been enthusiastically adopted by many super funds in their communications, guidance materials and calculators, and by the media in quoting what people need to have a comfortable retirement. This is despite the fact that the widely cited ASFA ‘comfortable’ standard for a single person would deliver an income in retirement that only the top 20% of households actually spend.[41] Most people aiming to reach this target would significantly oversave, at the cost of lower living standards during working life or in retirement.

Super funds also have a strong incentive to promote their own products, even when members would be better served by switching to a different fund. This may result in considerable consumer harm. For example, a person with a typical $200,000 balance at age 67 would have received $55,374 less (or 17% less) in investment returns across retirement if they were in one of the worst performing ‘balanced’ investment options versus one of the best performers.[42] Analysis by the UK consumer advocate Which? found that shopping around for an annuity could increase someone’s retirement income by up to 20%.[43] This would be a life changing increase for most people.

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[38] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.
[39] Survey of over 1,200 CHOICE members in 2022. See D. Herborn (2022), “Survey says: Conflicted financial advice still a problem”, CHOICE.
[40] Conexus Institute (2022), Transforming Financial ‘Advice’ Report, p. 16.
[41] John Daley and Brendan Coates (2018), Money in retirement: More than enough, Grattan Institute, pp. 35-6.
[42] This is the difference between net investment returns of 8.3% a year and 9.0% a year, based on the first and third quartile performance of pension products with a 60-80% growth allocation over 15 years to December 2023. Returns data from Chant West, sourced from Super Guide (2023), Pension fund rankings: Growth category (61–80%). Modelling assumes 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 is modelled as from age 67 to 92, with drawdown at the minimum legislated rate and an annual administration fee of $74, consistent with Moneysmart default assumptions. Figures are in today's dollars, with inflation of 2.5% a year netted off returns.
[43] Which? (2023), Buying an annuity.

Further, many funds only offer account-based pensions that lack explicit longevity production, and are only willing to recommend these products to members—even though some members may be better served by switching to a fund that offers a longevity product.

The law exacerbates these conflicts by restricting funds from paying for advice that is about products outside of the fund. This means that funds can only make recommendations about their own products. The harms are exacerbated by other laws which allow funds to give their members 'free' advice (known as intra-fund advice) that is ultimately paid for by the entire membership out of fee revenue.

The government has committed to regulatory changes to make it easier for super funds to give intra-fund advice to their members, including about retirement planning.[44] This includes clarifying the scope of topics that funds can advise on, enabling funds to provide their own personalised 'nudges' to members, and introducing a new category of 'qualified adviser' that is subject to lower education standards than other advisers.[45]

However, these reforms may increase the scope for funds to give conflicted, vertically integrated advice about their own products, which risks more people ending up in poor quality products and entrenching poor member outcomes. If the government proceeds with these reforms, it should ensure that strong consumer protections are maintained around the recommendations and advice that super funds can give, and constrain funds' ability to collectively charge the costs of advice to all members (including those who do not use advice). It should also ensure that all Australians have access to free, independent advice about super and retirement, including comparison tools (as recommended below). This will help to drive healthy competition between super funds.

Australians need an independent, one-stop-shop for guidance about super and retirement

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.

Australians need access to a single source of independent guidance about superannuation and retirement.[46] Government-commissioned reviews have called for government to consider extending the Financial Information Service to offer impartial information about retirement,[47] and noted there may be a role for government to provide comparison tools.[48] Treasury has also, in

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[44] Australian Government (2023), Final Government Response to the Quality of Advice Review, Treasury.
[45] Stephen Jones (2023), "Better advice, better financial outcomes", Speech, Assistant Treasurer and Minister for Financial Services, 7 December.
[46] For more detail see the Super Consumers Australia submission to the Quality of Advice Review (2022).
[47] Productivity Commission (2018), Superannuation: Assessing Efficiency and Competitiveness, Inquiry Report No. 91, p. 70.
[48] Treasury (2020), Retirement Income Review, Final Report, p. 69.

its consultation paper, identified government provision and distribution of education and guidance material on key retirement income sources as a potential policy option.

The government should establish an independent, one-stop-shop that people can turn to for free guidance when they need it. This would fill the gaps that currently exist between:

- Existing government information sources—which are widely trusted but scattered, hard to navigate and generally underused.[49]
- ‘Free’ advice offered by super funds—which is conflicted, of limited helpfulness to fund members, and not generally trusted.
- Independent, professional financial advice—which is unaffordable and out of reach for most lower and middle income Australians.

The one-stop-shop should be modelled on the successful Money and Pensions Service in the United Kingdom, which offers free telephone and in-person advice to help people with drawing down their retirement savings. This is backed up by digital comparison tools, calculators and guidance (see Box 1).

Box 1: The UK Money and Pensions Service

The UK Money and Pensions Service integrates a range of government financial services into a ‘one-stop shop’ called MoneyHelper. This includes a service called ‘Pension Wise’ which gives people access to free, impartial, specialised guidance about their pension options. This guidance is available face to face or over the phone. There are also free online comparison tools on the MoneyHelper website to help people choose how to access their pension money, including product comparison tools that take people through an assisted decision making process (see Box 2 later in this submission).

The tools on the MoneyHelper website take people through an assisted decision making process. For example, the annuity comparison tool makes users aware of key product features (e.g. reversionary options, death benefits, inflation protection) and their value to the person before presenting them options for each of these features. The tool uses the inputted information to show expected monthly, yearly and 10 yearly income based on the product features and investment amount they elected to make (see example below). This process radically shortens the amount of time a person would otherwise take in understanding and comparing these complex products.

The Money and Pensions Service was established in 2019. It 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 savings. Rather than leaving people to work out solutions on their own, the UK government developed an independent

[49] For example, our qualitative research on the ATO YourSuper comparison tool found that people generally trusted it, but few were aware it existed: see Super Consumers Australia (2023), Using the ATO’s YourSuper Comparison Tool: Findings from Super Consumers’ qualitative research project. A survey by the Conexus Institute found that the ATO and Moneysmart were the two most trusted sources of financial assistance. However, only 29% of people were aware of Moneysmart and only 10% had ever used it: see Conexus Institute (2022), Transforming Financial ‘Advice’ Report, pp.13, 16.

service to help guide people through the complexity. The service is funded through a small levy on people's pensions, making it a scalable user-pays model. The service is backed by a 'guidance guarantee' which provides everyone with the ability to seek guidance that is impartial, good quality and covers the options in the market. This model removes conflicts in advice at the source. In addition, pension providers are obliged to help customers easily identify if they could be getting a better deal by shopping around. A majority of Pension Wise users have rated the service as beneficial, with a 94% satisfaction rate.[50] About 90% of users said they were substantially more likely to feel informed about their options after using the service (90%), compared to 65% of people who had not accessed the service.[51]

The first step in delivering this one-stop-shop is for the government to task an independent agency to connect up and promote the existing suite of government services through a single portal. Awareness of some of these services is currently low, and they are spread out over multiple locations making it harder for people to find and access them. Some also have information that is hard to locate, lacking in depth, or difficult to understand (see Table 1).

Table 1: Existing government sources of information and guidance about retirement planning

Service	Strengths	Weaknesses
Moneysmart website	• Contains independent strategic guidance and a range of calculators and interactive tools, covering superannuation, retirement and a range of other financial topics. • Used by an estimated 9.7 million Australians.[52]	• Generally provides high-level information, with detail often lacking. • Information is generic with limited ability to personalise to individual needs. • Inability to compare products. • Content is only available in English.
Financial Information Service (Services Australia)	• Provides free in-person, over-the-phone and video-based appointments to help people make decisions about their finances. • More accessible and personalised than other government sources.	• Low awareness of the service. • Can be difficult for people to secure an appointment, due to inadequate resourcing of the service. • Unclear whether appointments are available in languages other than English.
My Aged Care	• Provides information about	• Positive user feedback, with about

[50] Ipsos MORI (2020), Pension Wise service evaluation, UK Money and Pensions Service.
[51] UK Money and Pensions Service (2023), "Pension Wise users much more likely to feel well informed about pension pot options than non-users," Media Release, 1 September.
[52] ASIC (2023), ASIC's Moneysmart is a trusted source for 1 in 2 adult Australians.

website	the aged care system, eligibility and costs. • Provides interactive tools to help people assess eligibility for aged care, estimate the fees they will pay, and to compare providers. • Some information available in languages other than English	three quarters of care recipients and carers saying in 2019 they were satisfied with the quality of information provided.[53] • No guidance on how to manage income and assets when entering aged care.
Services Australia website	• Information about eligibility and benefits for social security, including the Age Pension and Commonwealth Seniors Health Card. • Some information available in languages other than English.	• Information is generic with no ability to personalise to individual needs. • Some information is complex and difficult to understand, such as information about eligibility requirements and means testing. • No guidance on how Age Pension payments can be affected by superannuation drawdowns or downsizing the family home.
Australian Taxation Office website	• Detailed information about tax rules, including tax calculators, relating to superannuation contributions and retirement income. • Some information presented using diagrams, examples and videos to aid understanding. • Includes an interactive comparison tool for default (MySuper) accumulation products. • Some information available in languages other than English.	• Information is generic with limited ability to personalise to individual needs. • Information is often detailed, complex and technical (e.g. regarding contribution rules), which largely reflects the complex tax rules that apply to superannuation.
Australian Tax Office MyGov	• Secure online facility for users to see information about their superannuation balance and contributions. • Includes a comparison tool for default (MySuper) accumulation products, with some personalisation.	• Mostly provides information about a user's current superannuation, without guidance on using superannuation for retirement. • Comparison tool does not cover choice accumulation or retirement products, and can be confusing to use.

[53] AMR (2019), My Aged Care Evaluation: Wave 3 Summary Report.

Over time, the service should be expanded to include more useful tools, including retirement income calculators, budgeting tools, longevity calculators and product comparators. These tools could be made easier to use by giving people the ability to easily import data about their circumstances from their super fund, the ATO and Services Australia. Extending the Consumer Data Right to superannuation, as the government has previously committed to do,[54] could facilitate this.

The independent service should also include guidance and tools to help people work out how much income they will need in retirement, and how to draw this income from available sources including their superannuation, the Age Pension, Commonwealth Rent Assistance and/or the Home Equity Access Scheme. This could be supported by case studies and examples to help people understand the options available to someone in similar circumstances to them.

An independent one-stop-shop offers substantial benefits. By helping people to compare products and shop around, more people will end up in retirement products that best meet their

[54] Treasury (2022), Consumer Data Right - Strategic Assessment Outcomes.

income needs and help them to manage risks. This also has the potential to improve consumer-led competition in the market. Further, the service would avoid the barriers relating to personalisation, limited scope and conflicts that arise when super funds try to give guidance.

There is precedent for a one-stop-shop in other areas. For example, the NSW Government introduced Service NSW so residents can access State government services through a single point of contact at a time that suits them. The Australian Government introduced free, independent comparison tools for energy plans and private health insurance, in reflection of the difficulty consumers face in comparing these complex products and the failure of the market to develop unconflicted comparison services.

Super funds are well placed to be a contact point for members, and are one of the sources members most often turn to for information about retirement planning.[55] They have the potential to be an important channel for delivering (rather than creating) quality, independent information. Super funds could be encouraged or required to embed the information and tools from the independent service on their website, to help their members seamlessly access independent guidance and product comparisons. This would be much more efficient than expecting each of Australia's 128 super funds[56] to invest in ways to reinvent the wheel by developing its own tools and guidance—which experience tells us will likely be of inferior quality.

Super funds should also be encouraged to refer members who are facing financial difficulty or who have needs that other services are unable to meet (e.g. support in their preferred language) to a suitable financial counsellor.

Recommendation 2: Task an independent agency to connect Australia's government-provided retirement planning assistance services and tools through a single portal to provide quality, impartial guidance, delivered via digital channels with in-person or phone-based support.

People should be prompted to consider their options

While disclosure alone has limitations, behavioural interventions such as prompts and 'nudges' can be an effective way to encourage people to consider their options as they approach retirement. There is some evidence that proactive prompts can increase engagement with super and retirement planning. For example, researchers have found that retirement income projections can increase voluntary contributions and engagement with super funds.[57]

Government and super funds could better use prompts to support people in the lead up to retirement, for example, by:

[55] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), Consultative Report: Retirement Spending Levels and Savings Targets.
[56] APRA (2024), Annual superannuation bulletin.
[57] G. Smyrnis, H. Bateman, L. Dobrescu, B. R. Newell and S. Thorp (2020), Motivated saving: The impact of projections on retirement saving intentions.

- The ATO informing people about the independent guidance service and how it can help them to plan for retirement and understand their options. This could be facilitated through a message from the trusted MyGov service to all taxpayers when they turn particular ages, e.g. when they turn 50 and every 5 years thereafter.
- Requiring super funds to direct their members to the independent guidance service, and to embed information about it in their communications to members.
- Requiring super funds to send members retirement income projections (e.g. on their annual statement) while they are in the accumulation phase, to encourage them to start thinking about how their super can deliver an income in retirement.

Prompts to encourage people to think about retirement planning will only be effective if people are given the right support, tools and guidance to navigate the decision making process. Directing people to the independent guidance service can achieve this.

However, if member communications and prompts are poorly designed or regulated, they could end up being ineffective or harmful. Prompts should be based on consumer research and improved upon with ongoing consumer testing—they cannot be set and forget interventions. They should be informed by consideration of the ways in which disclosure and nudges can fail.[58]

Where super funds are required to provide prompts , the way these can be provided and any information that sits around them should be regulated, otherwise the industry will find ways to undermine these interventions (e.g. by providing contradictory or confusing information).[59] For example, ASIC has found that some funds provided biased or misleading information alongside the notices they were required to send to members in underperforming products, which could discourage members from moving to a better performing fund.[60]

Where funds have discretion to design their own prompts, there need to be strong consumer protections so they are not used to steer people towards inappropriate products or financial decisions. The existing personal advice framework offers such protections, including the requirement that recommendations about products can only be made if they are in a member's best interests, given their individual financial circumstances. Where exemptions to the personal advice rules are contemplated (e.g. as is already the case for super funds giving members retirement income projections), funds should be required to provide information in a prescribed format and prohibited from promoting specific products. Funds should also be required to direct people to the independent guidance service so they can access free, impartial guidance on their options.

[58] See ASIC (2019), Report 632: Disclosure Why it shouldn't be the default; C. R. Sunstein (2017), "Nudges that fail", *Behavioural Public Policy*, vol. 1(1), pp. 4-25.
[59] H. Bateman and S. Thorp (2018), Submission to Productivity Commission Draft Report - Superannuation: Assessing Efficiency and Competitiveness.
[60] ASIC (2022), REP 729 Review of trustee communications about the MySuper performance test. See also Super Consumers Australia (2022), Are our funds being honest? A fact check on underperforming super fund communications.

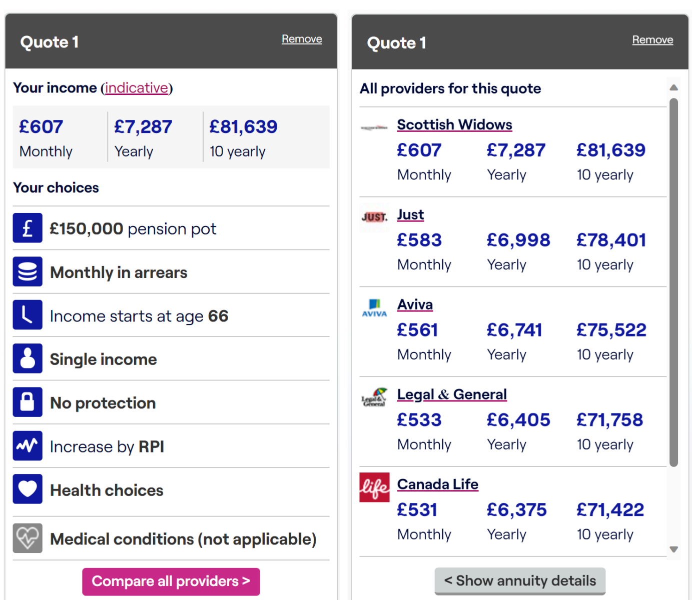
Recommendation 3: Require the ATO and super funds to proactively prompt people to consider their options for retirement income as they approach retirement. This should include referring members to the independent guidance service to help them to work out when to move their super into the retirement phase; work out how to structure their income streams; and compare retirement income products across super funds. These prompts should be subject to ongoing consumer testing and improvement to ensure they are effective and not resulting in unintended harmful outcomes.

Product comparison tools are more useful than standardised disclosures

The Government should develop an independent comparison tool for retirement income products. This should be made available through the independent one-stop-shop for super and retirement guidance, and could also be embedded in the existing MyGov and YourSuper comparison tools. Such a tool is feasible and one already exists in the United Kingdom, including for products with longevity risk protection (see Box 2).

Box 2: The UK MoneyHelper annuity comparison tool

The annuity comparison tool on the MoneyHelper website, provided by the UK Money and Pensions Service, takes people through an assisted decision making process. The tool makes users aware of key product features (e.g. reversionary options, death benefits, inflation protection) and their value to the person before presenting them options for each of these features. The tool uses the inputted information to show expected monthly, yearly and 10 yearly income based on the product features and investment amount they elected to make (see screenshots below). This process radically shortens the amount of time a person would otherwise take in understanding and comparing these complex products.



At present, some retirement income products are almost impossible to understand, let alone compare. This is a fundamental limitation of many longevity products, including the proliferation of recently launched products. Even experts lack access to reliable data on products across the market, with APRA still not having released the product-level data on retirement products (including fees and investment returns) it has been collecting since 2021.[61] Releasing this data to the market would help researchers to scrutinise available products.

Introducing a standardised disclosure framework, as contemplated in Treasury's consultation paper, may help some engaged consumers and financial advisers to compare products on the market. However, experience tells us that disclosure-based solutions will not help most people to get better outcomes in retirement, especially the 63% of people who are disengaged with their super or are 'engaged delegators'.[62] Only about 20% of people claim to read disclosure documents for financial products, as they are often seen as too long or overly complex.[63] Given the many complicated features that some retirement products have, highly engaged consumers who read the disclosures will still struggle to weigh up their attributes.

It has long been assumed that more information would help people make better financial decisions. However there is a substantial body of evidence that often the opposite is true, that disclosure can be less effective than expected, or in some instances backfire and contribute to consumer harm.[64] People can sometimes misunderstand elements of standardised disclosures or use them in unexpected ways, and this can be exploited by product providers by manipulating the way information is presented to push people towards selecting particular products.

Static disclosures such as product fact sheets offer only limited value in product comparison, requiring people to do time consuming research to even scratch the surface of available product offerings. This has been the experience with MySuper dashboards, with extensive qualitative research concluding they are ineffective.[65] They are a 20th century solution to a 21st century problem.

This is why developing an independent comparison tool for retirement income products should be a policy priority. Easy, impartial comparison of retirement income products will drive greater awareness of their existence, which will be important for takeup rates. The ability for an individual to compare what they are being offered is crucial, especially given that some retirement products lock people in and make it almost impossible to exit without forfeiting a large portion of their savings.

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[61] APRA (2023), Phase 1 Breadth.
[62] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), Consultative Report: Retirement Spending Levels and Savings Targets.
[63] ASIC (2019), Report 632: Disclosure Why it shouldn't be the default, p. 20.
[64] ASIC (2019), Report 632: Disclosure Why it shouldn't be the default.
[65] H. Bateman and S. Thorp (2018), Submission to Productivity Commission Draft Report - Superannuation: Assessing Efficiency and Competitiveness.

A comparison tool would also help to drive competition between funds to deliver quality products that deliver value to members.

Recommendation 4: Require APRA to immediately release product-level data on the performance and fees of all retirement phase products.

Recommendation 5: Develop an independent comparison tool for retirement income products to help people easily understand and compare the features and quality of products on the market. This tool should be subject to ongoing consumer testing and improvement to ensure it is meeting users' needs.

The tax and social security system should be simpler

As noted earlier, there are significant inequities in the way tax is applied in the retirement phase, with already well-off groups receiving a disproportionately large share of the tax concessions.

The tax and transfer system is also a major source of complexity for people planning for retirement. They are often left to face this complexity on their own, with existing government information and guidance having major deficiencies and the absence of useful independent guidance to help them navigate it.

The complexity also fuels demand for professional financial and tax planning services, while at the same time making those services more costly and difficult to provide, which puts them out of reach of most lower and middle income Australians. As a consequence, many people may end up making suboptimal decisions because they misunderstand or are unaware of the rules.

Most of the complexity has arisen from a succession of government decisions, many of which were made for valid reasons, but with little consideration of how they interact with previous changes. One example is the significant complexity in the contribution rules and tax rates, which has emerged as governments have moved back and forth from incentivising additional contributions to placing limits on the tax concessions people can harness by moving money into super.

Another example is the panoply of rules and requirements that have followed the decision in the mid-2000s to exempt superannuation earnings in the retirement phase from tax. These rules include:

- the requirement to move balances into a new product in order to draw an income stream
- the inability to add money to a retirement product after it has commenced
- minimum drawdown rates on account-based pensions (and equivalent rules on other products), and
- caps on how much money can be moved into the retirement phase.

Most of these rules are designed to limit the amount of tax concessions an individual can access, but would arguably not be needed if earnings were taxed in the same way as in the accumulation phase.

The different rules across the accumulation and retirement phases also put people in the position of having to actively decide when to transfer their super between these phases, and to assess the tax implications of doing so. People who decide to work (and receive superannuation contributions) after they have retired and started accessing their super are forced to open a new accumulation account and pay two sets of fees.

As discussed earlier, the way tax concessions are structured also gives people with other sources of income a strong incentive to retain wealth in superannuation and draw it down as slowly as possible. Many of them will die with significant wealth left unconsumed.

Additional complexity arises through the social security system. Complex eligibility rules and means tests make it difficult for older Australians to work out whether they are entitled to the Age Pension or health care cards, and to understand how payment rates or eligibility may change as they draw down their superannuation and other assets.

The system also makes it hard for older Australians to access their entitlements. National Seniors Australia research found the current generation of senior Australians faces unnecessary hurdles in accessing their Age Pension entitlements, such as complicated forms and long wait times.[66] Other research found 79% of future Age Pensioners want support to understand when they are eligible.[67] Many of the administrative hurdles could be significantly streamlined through greater data sharing between government departments, such as the ATO and Services Australia.

Applying for the Age Pension could be made significantly easier by creating an online application process through MyGov, with pre-filled information on assets and income provided by the ATO. This process could also direct people to guidance and calculators provided by the independent service to help them work out how to combine the Age Pension with other sources of income, such as withdrawals from super or the Home Equity Access Scheme.

Recommendation 6: Explore ways to simplify the tax and social security rules relating to retirement to make the system simpler for all Australians to navigate.

Recommendation 7: Introduce an online application process for the Age Pension through MyGov, with pre-filled information on assets and income provided by the Australian Taxation Office. This process should also direct people to guidance and calculators provided by the independent service to help them work out how to combine the Age Pension with other sources of income, such as withdrawals from super or the Home Equity Access Scheme.

[66] National Seniors Australia and Retirement Essentials (2018), The Centrelink Experience.
[67] LINK Group (2022), Retirement Reality: Advice and the Aged Pension.

Making the retirement phase safer

The retirement phase of superannuation lacks safeguards for the roughly 38% of Australians who are disengaged with superannuation.[68] These people are more likely to have lower levels of wealth, homeownership, and feel less confident about navigating the retirement income system.[69] Providing more financial advice, information and guidance is not a sound solution for this group.

The system also lacks safeguards for more engaged consumers, including the roughly 37% who are engaged DIYs and may be seeking to assess the quality and performance of retirement products, and the 25% who are engaged delegators and may be looking to default options to help them manage their super.

Australians should not have to become superannuation experts or seek comprehensive financial advice to receive decent outcomes in retirement. The accumulation phase of super has a suite of in-built safeguards, including default products (backed by the MySuper authorisation regime), performance testing, and compulsory saving (the Superannuation Guarantee). However, equivalent safeguards are almost entirely absent in the retirement phase.

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 are therefore recommending stronger safeguards for the retirement phase that will deliver better outcomes for disengaged consumers, while protecting all consumers from harm.

These safeguards need to go above and beyond the reforms that have already been in place to push super trustees towards delivering for their members. Existing obligations on their own are not enough to protect members from poor outcomes in retirement (see Table 2).

Table 2: Limitations of recent reforms in improve member outcomes in the retirement phase

Obligation	What it requires	Issues
Design and distribution obligations	Requires product issuers to only distribute products to consumers in a clearly defined target market based on their 'likely objectives,	● Creates no obligation to direct members towards the products in the market that best meet their needs or offer the best value. ● In practice, ASIC has found that some

[68] Survey of 1,451 Australians aged 45-80 in 2021; see Super Consumers Australia (2022), Consultative Report: Retirement Spending Levels and Savings Targets.
[69] Fiftyfive5 (2021), Retirement Planning Survey, report for Super Consumers Australia.

	financial situation and needs'.	funds' target markets have been vaguely defined.[70] ● Has not not protected members from poor performing products.[71]
Member outcomes assessments	Requires super funds to annually assess how well they are delivering member outcomes.	● Allows funds to pick their own performance measures and standards, and to choose what parts of the assessment to disclose publicly. ● In practice, has not led to funds developing new retirement products and has not protected members from poor performing products. ● Does not give regulators clear powers to act when funds are not delivering good outcomes.
Retirement income covenant	Requires funds to have a strategy to assist members with maximising income, managing risk and having flexible access to capital in retirement.	● Funds have significant discretion in how they assess member needs and in what assistance they provide, and some funds are taking a low-effort, tick-the-box approach.[72] ● Does not compel funds to offer different types of retirement products, or require products to perform well. ● Does not give regulators clear powers to act when funds are not delivering good outcomes.

Designing safe defaults is challenging

Once people turn 65 they are able to access their superannuation tax free, regardless of whether they have retired. Those who do not plan to work again stand to benefit from moving their superannuation into the retirement phase because instead of paying 15% tax on earnings (in the accumulation phase) they would move to paying no tax on earnings within super. They would also receive an income from their superannuation. However, people need to make an active decision to access these tax benefits.

Super Consumers Australia's recent survey of older Australians revealed that 35% of people aged 65 or older with an accumulation account had an inactive account, meaning they were neither contributing money to, nor withdrawing money from, their super. Of these people:

[70] ASIC (2022), "Super trustees urged to improve effectiveness of target market determinations", Media Release, 29 August.
[71] For example, many of the choice products with a dark red rating for investment performance on APRA's 2023 choice heatmap are still being distributed to new customers. See APRA (2023), Choice Heatmap.
[72] APRA and ASIC (2023), Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic review, Information Report.

- 58% said they did not need to start drawing on their super
- 13% said they were not sure what to do with their account
- 18% said it was inactive because they may start working again and will need an account to contribute to.[73]

Those who are not planning to work in future stand to benefit from defaults that automatically transfer their super balance into their retirement phase when they have reached a certain age and are no longer working (with the ability to opt out).

The benefits of automatically moving into the retirement phase are less clear for people who plan to work again. The tax rules relating to super require that super contributions can only be made into an accumulation account, and that money cannot be added to a retirement product after it has been taken out. This means that someone who starts working again would need to open a new, accumulation account for their employer contributions to be paid into, and would therefore end up with two accounts and paying to sets of administration fees.

In the absence of reforms to the tax rules, it should be possible to design defaults for moving members from the accumulation to the retirement phase of super. The objective should be to improve outcomes for disengaged consumers while minimising the risk of leaving anyone worse off. One approach would be to model defaults on the Protecting Your Super (PYS) reforms. These reforms require funds to transfer low-balance accounts to the ATO and to cancel insurance on accounts that have been inactive for 16 months, with a requirement to notify members 1, 4 and 7 months beforehand to explain what will happen and how the member can opt out.

Any defaults should be designed and overseen by government and regulators, not by super funds. Experience 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.[74]

However, defaulting people from the accumulation to the retirement phase presents a number of practical challenges and risks of poor member outcomes that would need to be worked through, including:

- How people would be notified of an upcoming transfer and how they can opt out, including members for whom the fund lacks contact details. An ASIC review found that super funds failed to send compulsory notices about upcoming insurance cancellations under the PYS reforms to about 2.5% of members because they did not have any

[73] Survey of 1,100 Australians aged 65 and over in 2023; see Super Consumers Australia (2023), Insights from our survey about how older Australians are using their super.
[74] This has been especially evident for the design of default insurance in superannuation, where product features and member outcomes have varied enormously. See ASIC (2020), REP 675 Default insurance in superannuation: Member value for money; ASIC (2023), REP 760 Insurance in superannuation: Industry progress on delivering better outcomes for members.

contact details for these members.[75] Where notices were sent, members may not have received them because the fund had out-of-date contact details. PYS insurance cancellations have been a major source of complaints made to AFCA.[76]

- How a transfer could be reversed if a member was unwillingly defaulted into the retirement phase but did not receive the communications about this beforehand.
- What retirement product a member would be moved into. This could be modelled on the requirements for MySuper products in the accumulation phase, for example, an account-based pension with low fees and a suitable investment strategy. A longevity product would not be appropriate because, unlike account-based pensions, longevity products lack flexibility about the amount of income that can be drawn and lock members in so they cannot withdraw their balance or move it to a different product.
- How income stream payments would be set (e.g. in line with the legislated minimum drawdown rates or some higher default rate).
- Where the income stream should be paid or held if a member has not given their bank account details to their super fund.
- How to minimise the risk of super funds using member communications about the transfer to push members towards making product choices that may not be in their best interests. ASIC has previously found that some funds provided biased or misleading information when communicating to members about the PYS changes or their performance test results.[77]

Given these challenges, in the first instance government should lessen the need for defaults by ensuring people can access free, independent guidance to support them with retirement planning. This support includes helping people to:

- understand their options and the associated tax implications
- work out how much income they will need in retirement
- compare funds and products to find one that best meets their needs (including longevity products, if appropriate).
- structure an income stream in a way that reflects their circumstances (e.g. whether they have access to other sources of household income, and their eligibility for the Age Pension).

Recommendation 8: If access to free, independent guidance (recommendation 2) and proactive prompts (recommendation 3) are ineffective at helping people to start drawing down their superannuation, consider how people could be automatically defaulted into a retirement-phase account when they reach a certain age and are no longer working (where people have ample opportunity to opt-out of this default).

[75] ASIC (2020), REP 655 Review of member communications: Protecting Your Superannuation Package (PYSP) reforms.
[76] Australian Financial Complaints Authority (2023), Superannuation complaints: Annual Review 2022-23.
[77] ASIC (2020), REP 655 Review of member communications: Protecting Your Superannuation Package (PYSP) reforms; ASIC (2022), REP 729 Review of trustee communications about the MySuper performance test.

Extend performance testing to retirement products

There needs to be a strong performance testing regime to ensure super fund members are protected from persistent underperformance during the retirement phase, as they are in the accumulation phase. Our current retirement system design risks repeating the mistakes of the past for people with much more to lose.

For most consumers, superannuation balances are largest at the point of retirement. According to Super Consumers Australia modelling, a person with a typical $200,000 balance at age 67 would have received $55,374 less (or 17% less) in investment returns across retirement if they were in one of the worst performing 'balanced' investment options versus one of the best performers.[78]

Most retirees will pay more in fees during retirement than during the entire accumulation phase.[79] Many will struggle to rebuild any losses they suffer from persistent underperformance, especially if they are unable to continue working. Those who are in an underperforming product have limited ability to assess their underperformance, because unlike the accumulation phase, they will not be notified of the underperformance, nor will it appear on a comparison tool.

This means that retirees stand to gain from performance testing even more, in dollar terms, than accumulation members.

The solution is clear: extend the existing annual performance test to the retirement phase.[80] In accumulation, the MySuper performance test has generated substantial consumer benefit by weeding out underperforming and subscale funds, lifting the average investment performance of all MySuper products, and putting downward pressure on fees.[81]

In 2023, the performance test was extended to 'trustee-directed' choice products in the accumulation phase. There is no reason why it cannot also be extended to account-based pensions straight away. These products are structurally similar to most accumulation products. It makes little sense for an individual who is 64 and not retired to have their MySuper product tested, 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.

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[78] This is the difference between net investment returns of 8.3% a year and 9.0% a year, based on the first and third quartile performance of pension products with a 60-80% growth allocation over 15 years to December 2023. Returns data from Chant West, sourced from Super Guide (2023), Pension fund rankings: Growth category (61–80%). Modelling assumes 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 is modelled as from age 67 to 92, with drawdown at the minimum legislated rate and an annual administration fee of $74, consistent with Moneysmart default assumptions. Figures are in today's dollars, with inflation of 2.5% a year netted off returns.
[79] Rainmaker Information (2022), Retirees pay more in superannuation fees.
[80] Super Consumers Australia (2024), Why we need to test retirement products.
[81] APRA (2023), Insights paper - 2023 Performance Test; Super Consumers Australia (2022), Your Fees, Your Super: changes to MySuper fees since the performance test was announced.

The head of APRA has also made it clear that it would not be a big step to extend performance testing to the retirement phase.[82]

Many of the arguments against extending performance testing to the retirement phase are spurious. The fact that many retirement products have a more conservative asset allocation than typical accumulation products, and need to pay a regular income, can easily be accounted for. The existing performance test already does this by tailoring the benchmark to each product's asset allocation, and by using cashflow-adjusted measures of investment returns.

The fact that *some* retirement products offer features such as longevity protection or guaranteed returns is no reason to delay extending the performance test to account-based pensions. About 86% of accounts in the retirement phase are currently invested in account-based pensions,[83] meaning millions of older Australians are in untested products and stand to benefit from robust performance testing being rolled out.

As a subsequent and separate step, Treasury should establish a process for applying performance testing to other types of retirement products, including those that offer longevity production (such as annuities). It may be necessary to assess these products against several metrics, including both quantitative and qualitative measures. This could be looked at as part of the upcoming review of the performance test announced by the Treasurer,[84] and should be informed by input from experts and APRA.

Recommendation 9: Extend the existing annual performance test to account-based pensions from 1 July 2024.

Recommendation 10: Establish a process for designing an appropriately adapted performance test for retirement products that are not account-based pensions, to ensure there is a minimum standard that all products must meet. This should be done within 2 years.

Robust consumer protections are needed for longevity products

Some people may benefit from retirement products that help them to manage longevity risk, such as by offering a guaranteed income for the remainder of their life. Several super funds have recently launched new longevity products, and we understand that others are actively considering doing so.

However, these sorts of products have been available for many years, yet have seen very low take-up. This may be for a combination of reasons, such as the complexity of these products

[82] John Lonsdale, quoted in J. Mather and J, Shapiro (2023), "'We're at an inflection point': Big super is failing retirees", *Australian Financial Review*, 24 August.
[83] Includes transition to retirement products. APRA (2024), Annual superannuation bulletin.
[84] J. Chalmers (2023), "Investor Roundtable to help modernise our economy and maximise our advantages," Media Release, Treasury, 5 December.

and the difficulty of working out whether they are good value or not. Many people value flexibility in accessing their super, and worry about their savings being locked into a product they are unable to exit. Others may lack trust in these products, and in the super funds and life insurers that offer them. In a recent survey, 44% of people said they are not sure how an annuity works, 24% said that annuities have a bad reputation for limiting access to savings, and 16% said annuities don't represent good value for money.[85]

These issues are exacerbated by the current regulatory regime, which does not provide strong protections against people ending up in inappropriate or poor-value products. Examples of potential harm from longevity products include:

- A retiree invests her entire superannuation balance in a longevity product that delivers an income stream, but is unable to access her capital when she needs to pay for renovations to make her house more accessible as she ages.
- A retiree purchases an annuity, but the monthly payments are too low to meet his spending needs and are eroded over time by inflation. He is unable to withdraw his balance so he can switch to a fund that offers better value annuities, or to an account-based pension with a greater investment in growth assets.
- A couple invests in a longevity product using the husband's superannuation balance, but once he dies, the income stream ceases and the wife is left with neither income nor capital from her husband's superannuation.

To facilitate greater take-up of longevity products by the people who stand to benefit from them, the government needs to build robust consumer protections that give people confidence that these products offer good value and will meet their needs. There should be two categories of protections (see Table 3):

- A product accreditation regime for relatively simple 'no frills' products, where product issuers can apply to APRA to have their products accredited. These products would be shown in an easy-to-use independent comparison tool. Super fund members would not be required to obtain personal financial advice to invest in these products (subject to a cap on how much they can invest).
- Other protections that apply to all products in the market, including longevity testing and a ban on commissions. These products could have more sophisticated product features and would only be available through independent personal financial advice.

The policy rationale for not accreding all available products is that products with complex features (e.g. investment-linked income payments or the ability to purchase in instalments prior to retirement) are almost impossible to compare with other products on a like-for-like basis. There is a significant risk of consumer harm in allowing these products to be purchased without the protections of independent financial advice.

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[85] Survey of 608 Australians in August 2023 by State Street Global Advisers (2024), Global Retirement Reality Report.

Table 3: Robust consumer protections for longevity products

Protection	How it could work
Protections applying to accredited longevity products	
Product accreditation regime	Products would be accredited by APRA, the prudential regulator, if the features are restricted to a set of relatively simple 'no frills' features. These could be: ● The ability to receive income fortnightly, monthly or annually ● Income payments that are predictable and indexed to inflation, with variation limited to a narrow range ● The option to commence the income stream immediately or defer it to a future date ● The option for the income stream to revert to a dependent spouse (or for a death benefit to be paid) if the product holder dies. An accredited product would not be required to offer all permitted product features (e.g. a deferral or reversionary option).
Easy, independent product comparisons	A easy-to-use comparison tool would be offered by the independent guidance service (see recommendation 5). This comparison tool would cover account-based pensions and accredited longevity products. The tool would help to guide users through a series of questions to understand the product features that would meet their needs, e.g. based on the amount they are willing to invest, their age, whether they have a partner, their health status, and their preferences for longevity and inflation protection. Where longevity products are shown, the comparison tool would show the monthly income these products would pay to make comparisons easy. This tool could be based on the existing annuity comparison tool on the UK MoneyHelper website (see Box 2). The UK consumer group Which? has estimated that shopping around for an annuity can increase someone's retirement income by up to 20%.[86]
Cap on investment	The amount of money that can be invested in an accredited longevity product would be capped (e.g. at 30% of someone's superannuation balance) to reduce the risk of harms that may arise if someone invests all their savings in a longevity product. The cap would not apply to people who access the product through independent personal advice (i.e. not advice provided by the super fund or life insurer issuing the product).
Access to independent guidance	All super funds would be required to direct members to the independent guidance service when providing information about retirement planning or retirement income products (see recommendations 2 and 3).

[86] Which? (2023), Buying an annuity.

Protection	How it could work
Protections applying to all longevity products	
Longevity testing and risk-reflective pricing	Providers would be required to ask people questions about any medical or lifestyle conditions they have that may significantly affect their life expectancy, and offer a higher income rate to people with a lower life expectancy. This is similar to 'enhanced annuities' that are currently available in the UK, where quoted income stream payments can be up to 30% higher for people with a medical condition.[87] This would help protect people with lower longevity expectations from inappropriate, low-value product offerings. For accredited products, the medical and lifestyle questions could be embedded in the independent comparison tool to help people to shop around. The comparison tool would also provide information to help people with a medical or lifestyle condition to assess whether a longevity product could meet their needs.
Restrict distribution of non-accredited products to people receiving independent personal advice	Non-accredited longevity products would only be able to be distributed to people who have received independent personal advice (i.e. not advice provided by the super fund or life insurer issuing the product). This reduces the risk of people purchasing a longevity product that may leave them financially worse off.
Ban on commissions	There would be a ban on any commissions being paid (e.g. to an adviser or super fund) for longevity products. This would close the loophole that currently exists for some products issued by a life insurer. It reduces the risk of people purchasing a product that is not in their best interests as a result of conflicted advice or marketing.
Ban on recommending longevity products through intra-fund advice	Super funds would not be able to recommend longevity products through intra-fund advice (where the advice is offered 'free' but the costs are collectively charged to all members). Advice about longevity products that appropriately considers someone's personal financial circumstances would be costly to provide, and collectively charging these costs risks creating significant inequities across members. Further, super funds are conflicted and have an incentive to recommend their own products even when they may not be in a member's best interests.
Annual performance testing	All products would be subject to an annual performance test (see recommendation 10).
Strong regulator oversight	APRA and ASIC would provide strong prudential and conduct regulatory oversight, including through enforcement of the members' best financial interests duty and the design and distribution obligations.

[87] Which? (2023), Enhanced annuities.

Protection	How it could work
	The regulators would collect granular data to monitor consumer outcomes, including product take-up rates, average income levels, the number of product holders who die before their life expectancy, and use of product features such as early withdrawals (where available). Where evidence of harmful outcomes or conduct emerges, regulatory protections should be tightened.

There would be a commercial incentive for industry to offer accredited longevity products because the higher regulatory protections would give people confidence in these products, and the products' inclusion in the independent comparison tool would help to raise awareness and understanding of the products. This in turn will drive healthy competition in the market and may increase take-up of longevity products by people who stand to genuinely benefit from longevity protection.

The stronger consumer protections would thereby help to end the 'chicken and egg' problem of funds not offering longevity products because their members are unlikely to take them up, while members do not invest in these products because their fund does not offer them.

The foundational consumer protections in Table 3 should be put in place as a matter of urgency. Over time, other consumer protections could be added, such as regulatory requirements for the portability of products.

Recommendation 11: Introduce a robust product accreditation regime for relatively simple 'no frills' longevity products. This should be supported by an independent product comparison tool to help people compare accredited products, and a cap on the proportion of a superannuation balance that can be invested in an accredited product in the absence of independent financial advice.

Recommendation 12: Increase consumer protections for all longevity products (including non-accredited products) by introducing requirements for longevity testing and risk-reflective pricing, a ban on commissions and intra-fund advice for these products, and a requirement that non-accredited products can only be distributed to people who have received independent financial advice. These protections should be backed by strong regulator oversight.