# TWO MILLION MORE AUSTRALIANS BETTER OFF UNDER QUALITY OF ADVICE REFORMS

Tuesday, 29 November 2022

The FSC has today released research that shows implementing the Quality of Advice Review's proposals would help an additional two million retirees spend $22.5 billion more and leave $6 billion less in bequests annually by the year 2040.

CEO of the FSC Blake Briggs said: "Despite the benefits of compulsory superannuation, if advice policy settings are left unchanged only a third of retirees will get financial advice over the next decade.

"A generation of retiring Australians would benefit from high quality and affordable financial advice that is fit for purpose, on the topics they want, when they want it.

"The Review's proposals would help millions of Australians put in place a plan to spend more of their superannuation with confidence and in a way that improves their financial wellbeing throughout their retirement."

The Quality of Advice reviews reforms would:

- Increase the provision of information, products and advice that is fit for purpose to consumers, particularly those who are unable to afford comprehensive advice (e.g. shift superannuation fund tools, calculators and retirement estimates towards offering consumers more choices).
- Shift the superannuation system's focus towards making consumers more confident when drawing down their retirement savings, resulting in higher consumption throughout retirement.
- Enable increased retirement specific advice and member engagement by enabling trustees to better guide and engage members through tools that are deterred by current regulation.

As a result of these reforms, NMG Consulting research shows:

- Around 100,000 additional retirees receiving advice each year would more efficiently draw down their superannuation savings (either not consuming too quickly, or drawing down higher amounts with confidence), equating to $10,000 in increased retirement incomes per individual every year on average.
- Two million more retirees (with super savings) obtaining financial advice by 2040 increasing further to 3.4 million by 2060.
- These retirees would collectively draw down $22.5 billion more from their superannuation by 2040, and annual drawdowns would increase further to $42 billion by 2060.
- Annual bequests from retired Australians paid out of the superannuation system would halve from their projected path, down from $53.7 billion currently forecast to $26.8 billion by 2060 under the Review's proposed framework.

The new modelling follows research revealed last month which showed the implementation of a scaled advice model and other reforms to simplify advice would see a million more Australians with the life insurance they need.

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About the Financial Services Council

The FSC is a peak body which sets mandatory Standards and develops policy for more than 100 member companies in one of Australia's largest industry sectors, financial services. Our Full Members represent Australia's retail and wholesale funds management businesses, superannuation funds, life insurers and financial advice licensees. Our Supporting Members represent the professional services firms such as ICT, consulting, accounting, legal, recruitment, actuarial and research houses. The financial services industry is responsible for investing $3 trillion on behalf of more than 15.6 million Australians. The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world.

# FSC Retirement Policy – Release Slides

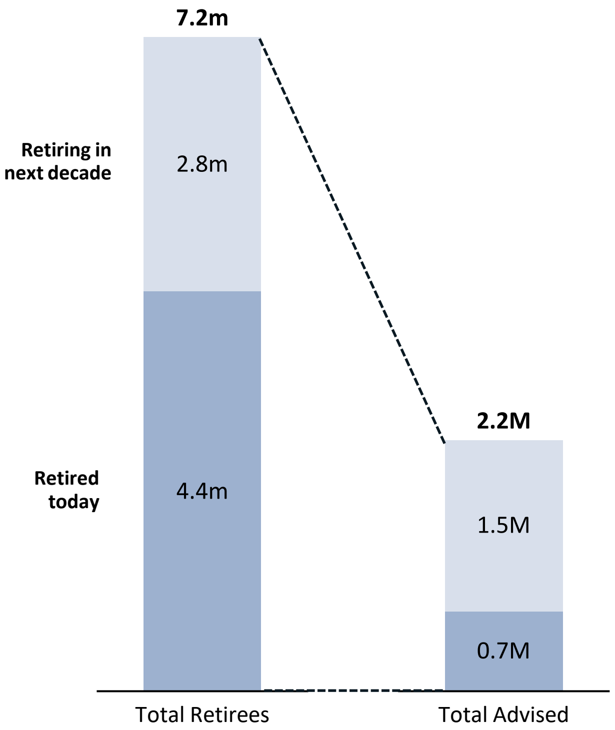

- Prepared for the Financial Services Council

November 2022

# Under current policy settings, retirees are not adequately advised, drawdown based on minimum requirements and leave large bequests at death

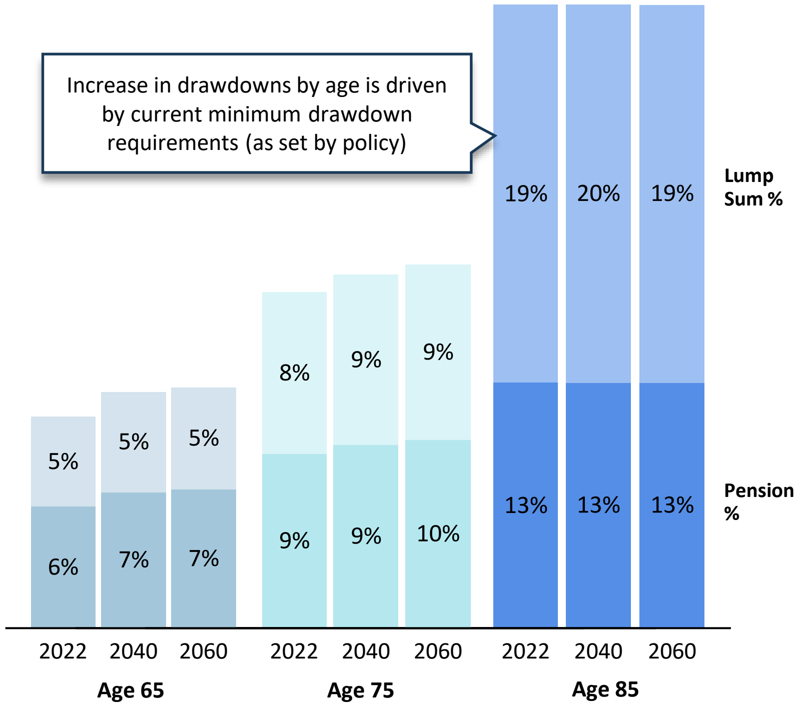
**1** **At the people-level, ~31% of retirees will get advice in the next decade**

**Number of retirees and advised retirees**
(#m, current policy settings)




**2** **Currently, retirees are drawing down based on minimum drawdown requirements**

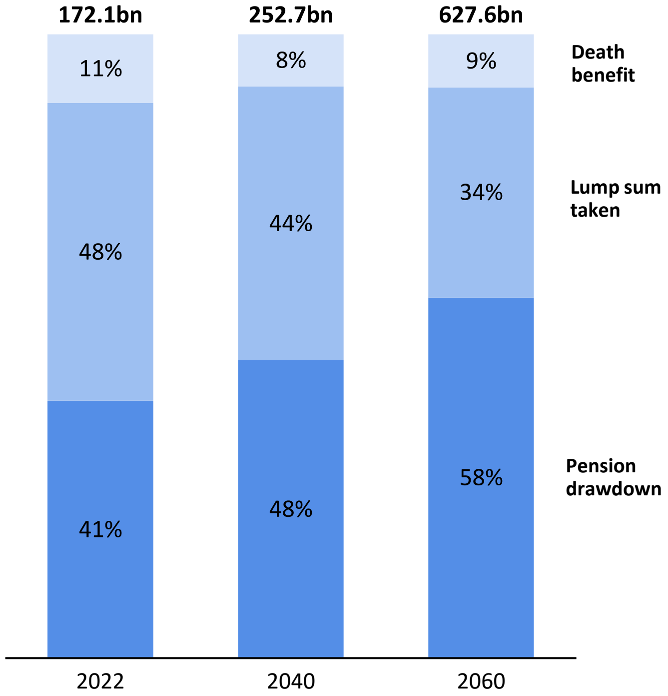
**Proportion of pension assets withdrawn, by age[1]**
(%, current policy settings)




**3** **Consequently, drawdown of retirement income is low and money left as a bequest remains high**

Death benefits represent money leaving the system which could have been consumed in retirement

**Total benefits paid (incl. death), per year**
($bn, %, current policy settings)



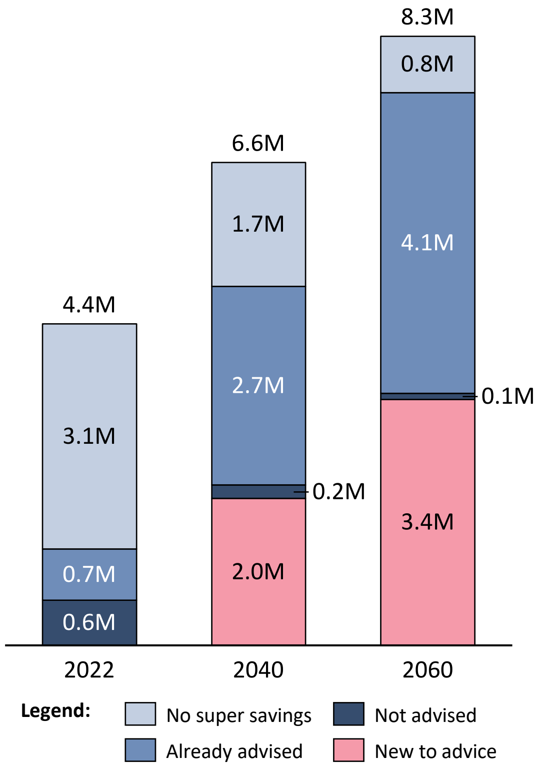

**Note:** [1] includes payments from life-time annuity products

# Impact of a simpler financial advice framework on retirement spending

If the *Quality of Advice* reforms are implemented, by 2040 an additional 2 million retirees will have received retirement advice and will collectively drawdown an additional $20+bn from super per year[1] – leading to a 'more effective' retirement system

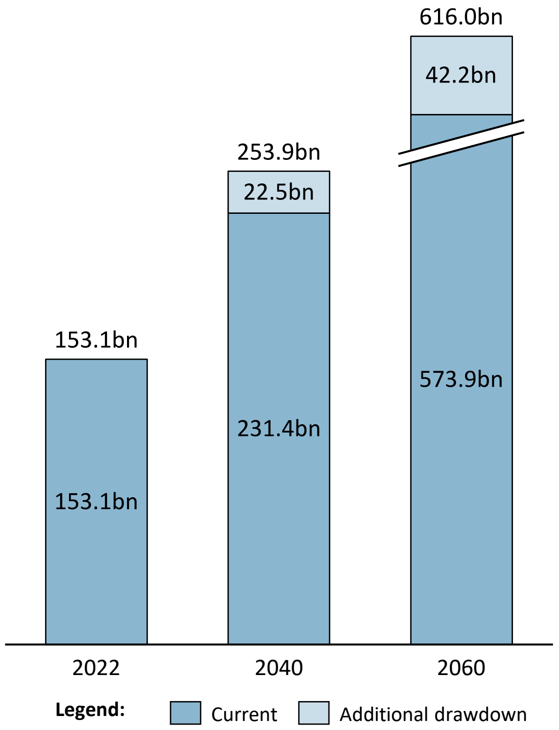
**In an effective retirement system, more retirees seek and get advice …**

**Total number of retirees, per year**
(#m, 2022 – 2060)



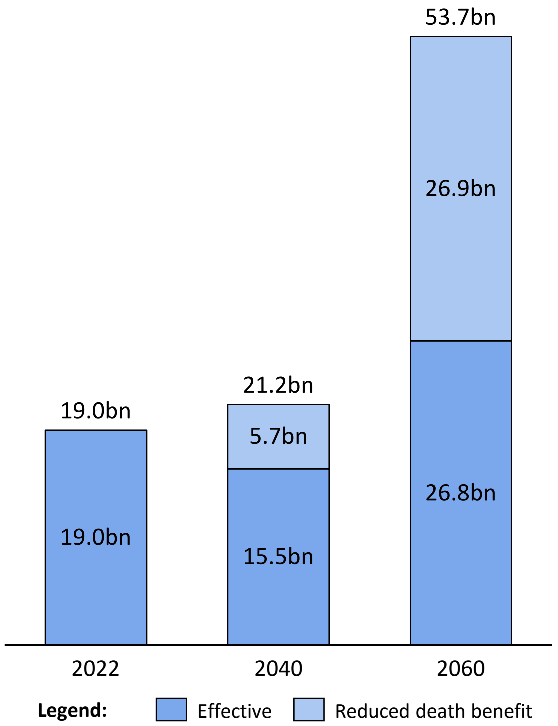

**… retirees drawdown more of their assets for consumption in retirement each year**

**Total benefits paid (excl. death), per year**
($bn, 2022 – 2060)




**… resulting in a lower level of unintended bequests left at death**

**Total death benefits paid, per year**
($bn, 2022 – 2060)




**The Quality of Advice Review's proposals will support consumers approaching or in retirement in 3 ways:**

1. **Increasing the provision of information, available products and 'good advice' to individuals**, particularly those who are unable to afford comprehensive advice (e.g. shift superannuation fund reporting like tools, calculators and retirement estimates towards offering consumers more choices)
2. **Shifting the system focus into confidently drawing down** on superannuation to provide higher consumption throughout retirement
3. **Improving access to retirement specific advice and member engagement through reforms** that enable trustees to better guide and engage members through tools and guidance deterred by the current regulatory framework

**Source:** NMG Super Assets Model
**Note:** [1] includes individuals who would otherwise have withdrawn their entire super balance and those who draw additional pension with higher confidence in not running out of funds

# Other potential improvements in retirement and explanation of key terms and assumptions

## Commentary

### Other potential improvements in retirement[1]

While higher drawdown is a key benefit of a better, more efficient retirement system (as identified by the Retirement Income Review), **there are additional elements that arise from improved information, guidance and/or advice to individuals**:

i. Better trade-off between lifetime and non-lifetime income stream products
ii. More efficiency interaction with Centrelink (and better understanding of entitlements)
iii. Management of non-super assets across different product and tax scenarios
iv. Consideration of aged care for both parents and self
v. Tax & estate planning issues more deliberately considered by individuals (resulting in more efficient use)
vi. Investing tailored to investors' unique circumstances

### Explanation of key terms and assumptions

- **Drawdown** – refers to when a retiree draws on their superannuation account (for instance, through an account-based pension)
- **Accumulation** – refers to the pre-retirement phase where an individual contributes into super
- **Death benefits** – refers to the monies given by retirees to a nominated person in the event that they pass away (bequest)
- **Pension Drawdown** – refers to the drawdown from an account-based pension product (as opposed to the *Age Pension*)
- **Lump Sum Drawdown** – refers to the withdrawal of assets from a retiree's superannuation account as a lump sum payment (single or several)

**Note:** [1] not modelled