

Empowered for Retirement: A Best Practice Framework for Superannuation Funds

Prepared for Financial Services Council

April 2025



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Executive Summary

<p>Scope</p>	<ul style="list-style-type: none"> ▶ Recent shifts in retirement policy (specifically the introduction of the Retirement Income Covenant) has increased pressure on Super Funds to deliver optimised retirement strategies for their members; the regulator has been critical of industry progress thus far ▶ NMG was engaged by the FSC to produce a piece of research to support FSC members (and industry) to: (1) define ‘what good looks like’ regarding a holistic retirement offering; (2) define success measures for retirement propositions; (3) identify current regulatory and practical barriers Trustees face in implementing a high-quality retirement offering 	<p>Approach</p>	<p>Cohorts</p> <ul style="list-style-type: none"> ▶ To design a ‘good’ holistic retirement offering, Trustees must consider their whole member base. We have assessed the relative strength of retirement product, member servicing and engagement across age-cohorts. <p>Product</p> <ul style="list-style-type: none"> ▶ ‘Good’ product proposition includes high quality accumulation vehicles (competitive performance, fees, premiums, Choice), a TTR product, and a suite of retirement building blocks to meet a myriad of strategies <p>Service</p> <ul style="list-style-type: none"> ▶ Education and advice solutions are required to optimise retirement outcomes ▶ ‘Good’ service includes a broad range of educational materials, and provision of a spectrum of advice solutions, via an omni-channel offering <p>Engagement</p> <ul style="list-style-type: none"> ▶ To achieve the right retirement solution, members must be engaged throughout their life to maximise savings, and confidently make decisions ▶ ‘Good’ engagement includes proactive initial engagement (set-up, app) and ongoing nudges aligned to changes in behaviour and life stage into retirement <p>Practical barriers</p> <ol style="list-style-type: none"> 1. Regulatory Interactions: Conflicting legislature restricting advice offering 2. Member Disengagement: Leads to lack of optimal decision making 3. Advised Relationships: Funds don’t have the data/remit to holistically advise 4. Take-up of Income Streams: Lack of understanding hinders adoption 5. Retirement Cohorts: Ineffective given lack of data / member literacy 6. Retirement Product Assessment: Illogical as strategies are non-homogeneous
<p>Hypothesis</p>	<p>This report, and the framework produced are anchored in 4 fundamental tenets:</p> <ol style="list-style-type: none"> 1. Retirement is a service, not a product proposition: Retirement is about more than income products; retirement strategies must consider engagement, education and advice in tandem with financial products 2. Retirement is individual (non-homogenous): Household finances and goals drive retirement needs; Trustees cannot meet the needs of retirees without consideration of their individual needs i.e. personal advice 3. Start early: Retirement strategies must consider member needs on a whole-of-life basis, beginning with early engagement and building familiarity and understanding over time to maximise retirement outcomes 4. It’s not (that) complicated: Overcomplicating retirement is detrimental to retirees. Trustees must focus be on providing the right level of support and guidance/advice and simplifying the experience for all members. 		

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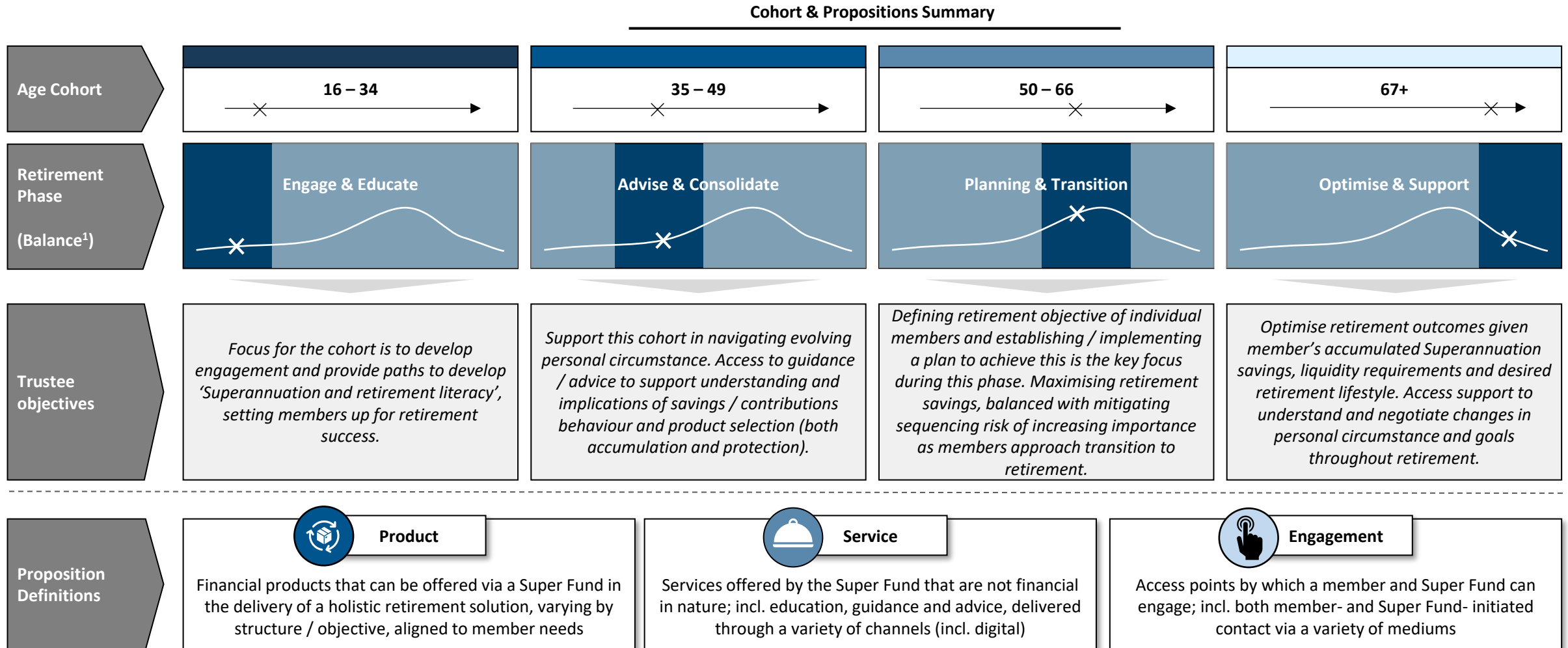
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Age Cohorting

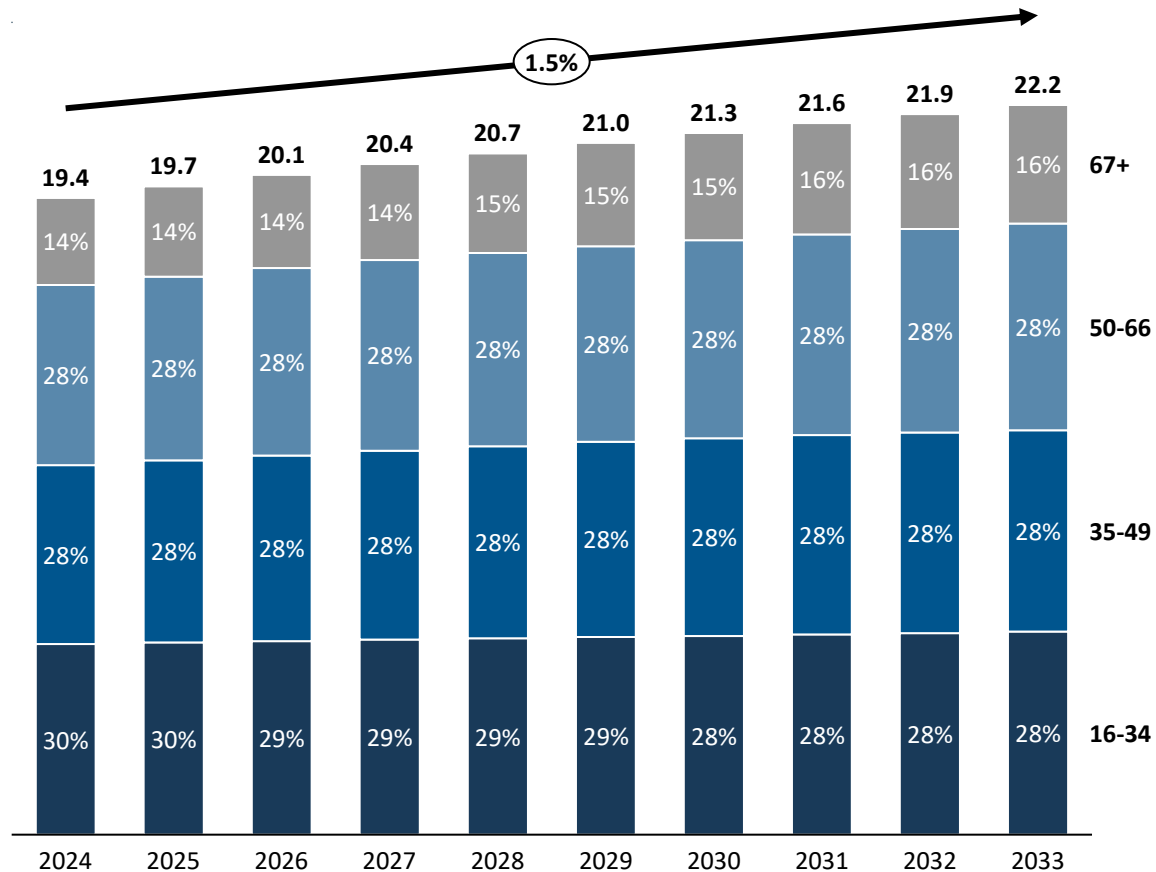
What 'good' looks like in terms of retirement offer changes as members near retirement, we have conducted our assessment across four age-based cohorts, each with different objectives and product, service and engagement requirements.



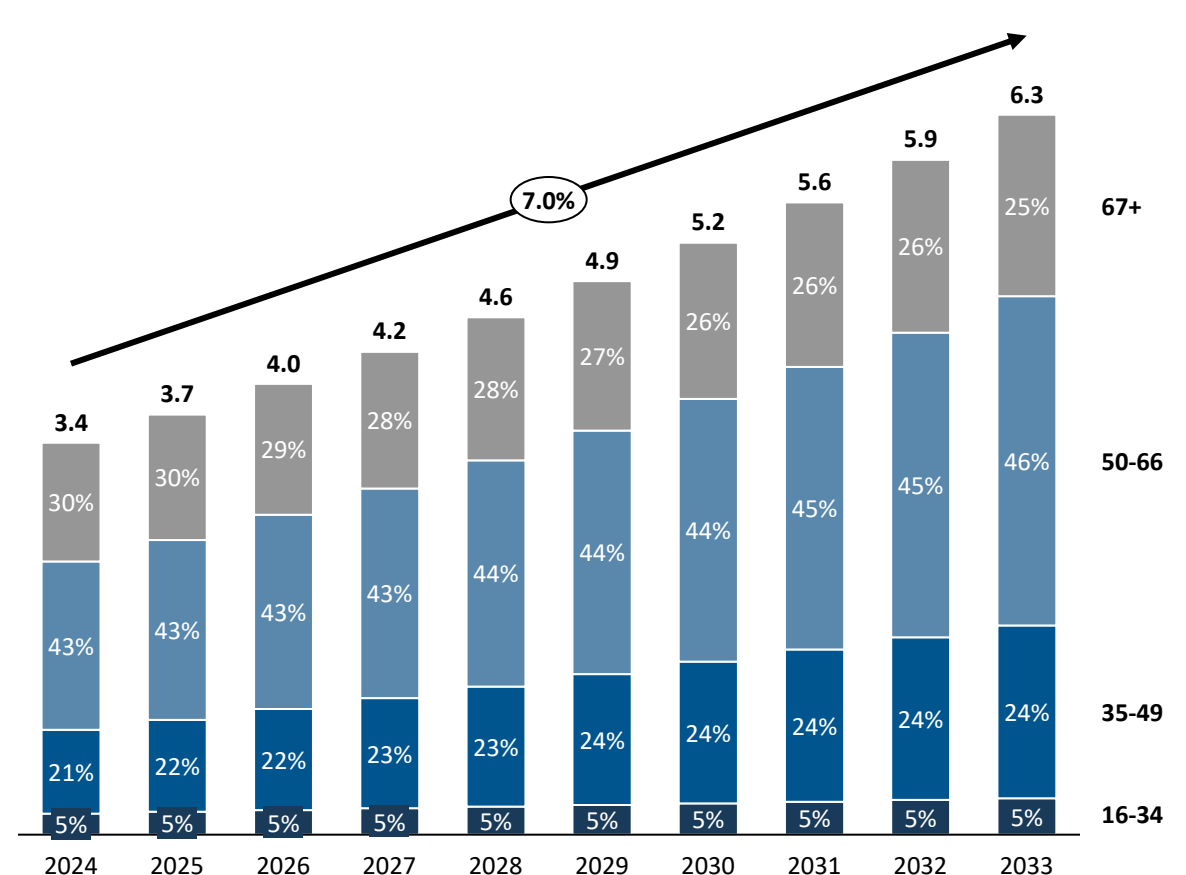
Australian Superannuation System Forecasts (1/2)

Australia's aging population and growing Superannuation assets, driving regulatory reform in retirement. By 2033, Australia will have ~3.6m retirees holding ¼ of the Super system's assets, whilst a further ~6.3m Australian's will be approaching retirement with almost ½ the System's assets.

Australian Superannuation System Members²
(Jun 2024E-2033F, m)



Australian Superannuation System Net Assets¹
(Jun 2024E-2033F, \$b)



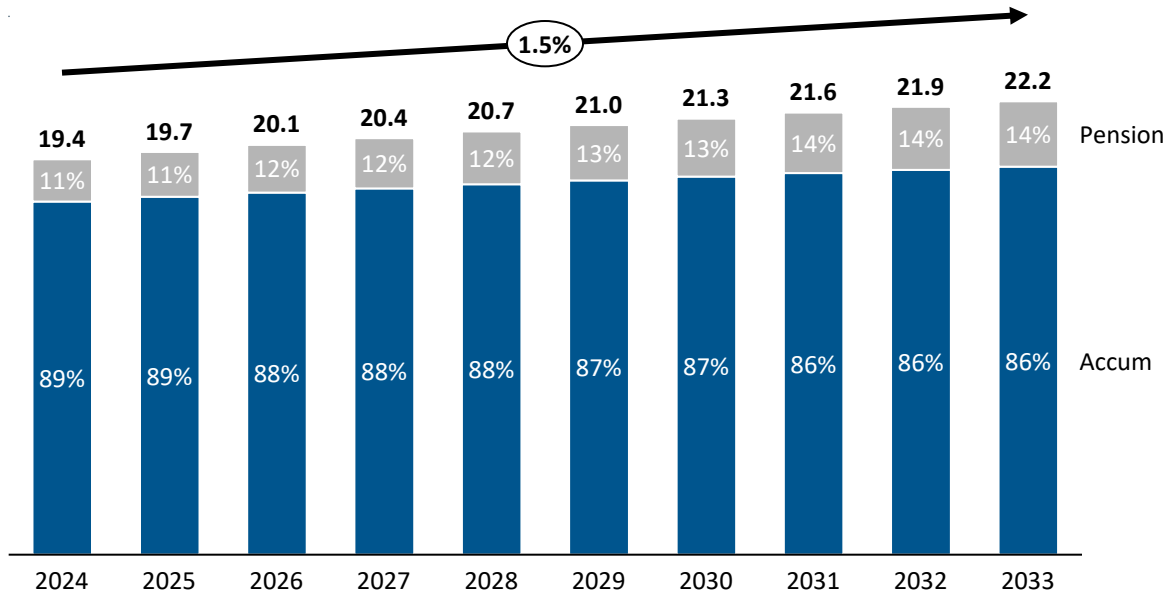
Sources: NMG Superannuation Asset Model, APRA, ATO

Note: [1] Excludes Commonwealth Defined Benefit schemes due to unfunded pension net assets. [2] Member numbers adjusted for duplicate accounts.

Australian Superannuation System Forecasts (2/2)

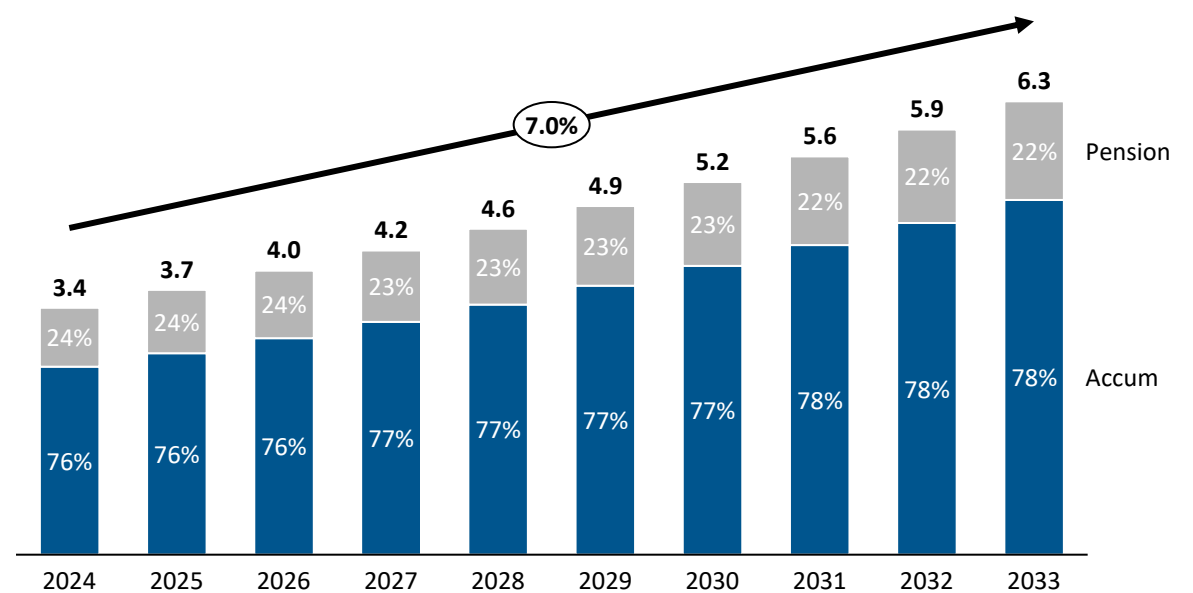
Members require support from Super Funds to understand the significance of not transferring to retirement phase and the options available to them after they hit Preservation Age (60) to reduce taxable income and manage their transition into retirement.

Australian Superannuation System Members²
(Jun 2024E-2033F, m)



► Whilst a small proportion will continue to work past retirement age, many Australians are unaware of the need to transfer to retirement and/or the availability of TTR options to reduce unnecessary income tax – in fact, 41% of Australians eligible for decumulation phase remain in accumulation phase³

Australian Superannuation System Net Assets¹
(Jun 2024E-2033F, \$b)



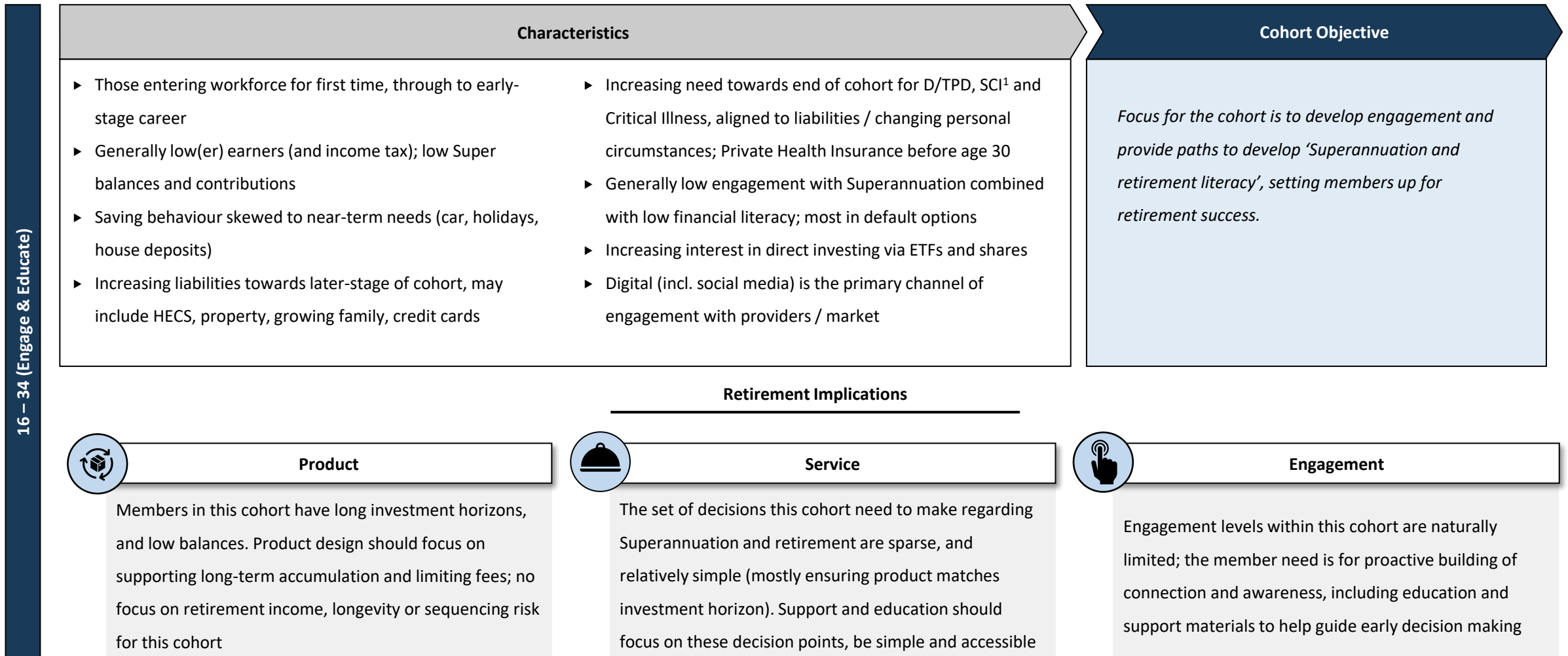
► An aging population, combined with growing wealth / Super balances as SG climbs to 12%, will see a shift in system assets towards Accumulation
 ► However, we expect this trend to reverse as whole of life superannuants enter retirement from 2040

Sources: NMG Superannuation Asset Model, APRA, ATO

Note: [1] Excludes Commonwealth Defined Benefit schemes due to unfunded pension net assets; [2] Member numbers adjusted for duplicate accounts; [3] Conversely, there are also <67 yo's considered in the pension phase (e.g. reversionary)

Cohort Ages: 16 – 34 (Engage & Educate)

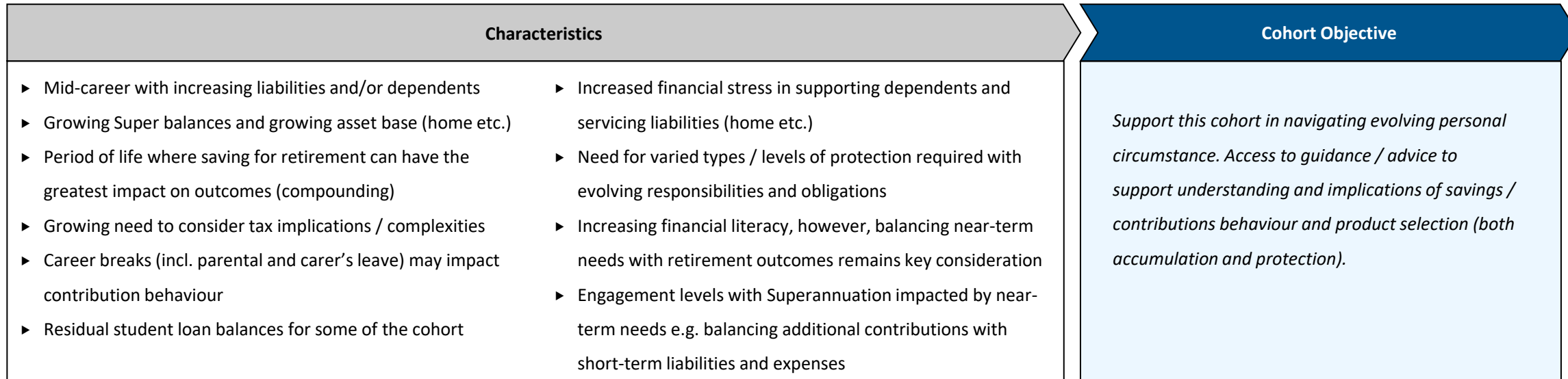
Comprising those in the early-stages of entry to the Superannuation system. Member focus is early engagement and education to support development of behaviours that improve financial well-being, balancing utility of retirement savings.



Cohort Ages: 35 – 49 (Advise & Consolidate)

Growing incomes and Super balances, combined with a long investment time horizon sees accumulation remain forefront to support retirement outcomes. Evolving complexity of personal circumstance requires support and education balancing near-term liabilities.

35 – 49 (Advise & Consolidate)



Retirement Implications



Product

Members in this cohort have long investment horizons and growing balances. Product design should focus on supporting long-term accumulation and limiting fees; no focus on retirement income, longevity or sequencing risk. Greater need for insurance options / levels.



Service

Readily available support and education remains important for this cohort, particularly in later years. Growing need to understand insurance products and the long-term benefits of additional contributions.

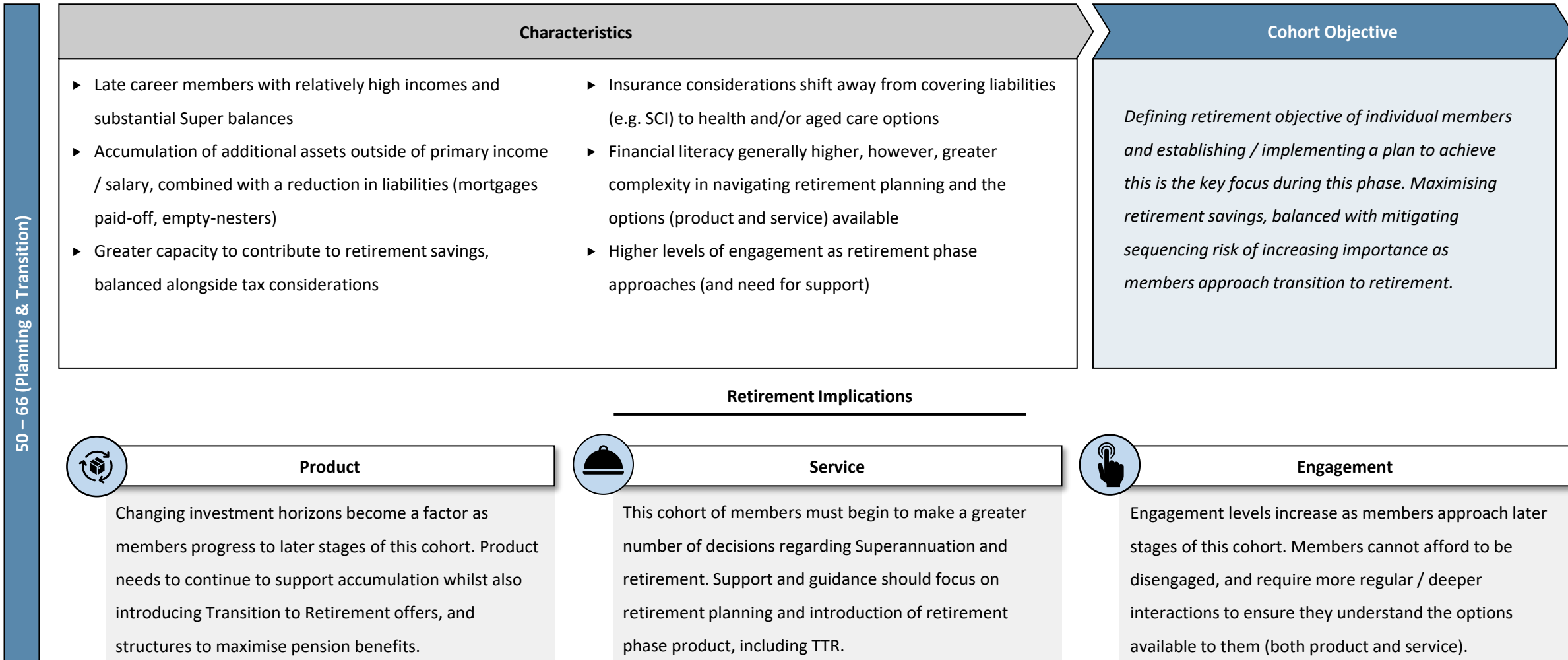


Engagement

Engagement levels within this cohort remain relatively low, although building from earlier cohort. Members require continued proactive engagement to drive awareness of education materials relevant to the cohort life stage and pathways to advice where necessary.

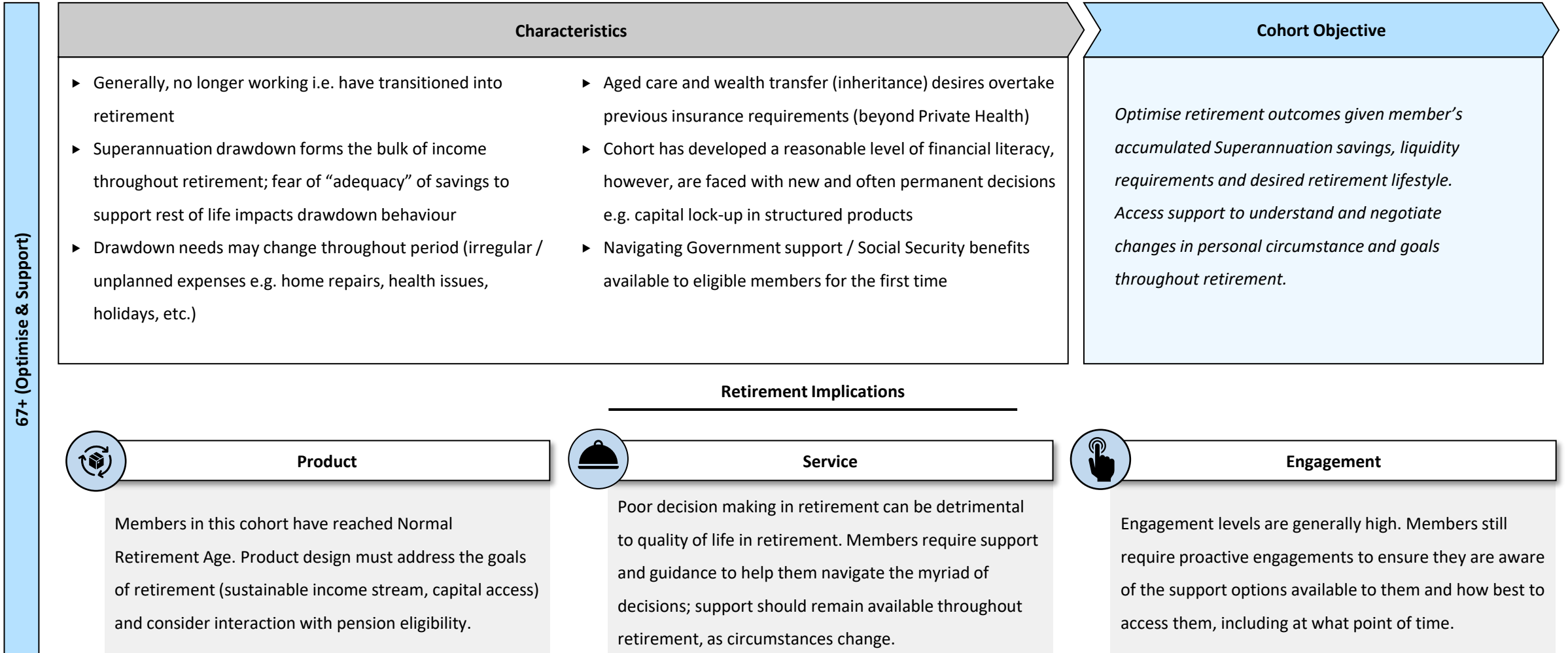
Cohort Ages: 50 – 66 (Planning & Transition)

Member retirement objectives to be defined, with a financial plan designed and implemented to achieve them. As members approach later stages of the cohort, sequencing risk is of increasing importance and must be considered in investment strategies adopted.



Cohort Ages: 67+ (Optimise & Support)

Optimisation and implementation of retirement plan including product selection. On-going engagement throughout retirement to ensure members remain supported if any changes in personal circumstance and that the product (where possible) remains appropriate.



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Defining “good”

A “good” retirement strategy is one that provides a comprehensive range of solutions for members throughout their lifecycle, delivering optimal retirement outcomes aligned to their specific needs and goals.

Cohort	Engage & Educate (16 – 34)	Advise & Consolidate (35 – 49)	Planning & Transition (50 – 66)	Optimise & Support (67+)
<p>Product</p>	<ul style="list-style-type: none"> ▶ High quality accumulation product suite, sensitive to lower balances, high inflow rates and long-term investment horizon ▶ Range of high pedigree Choice products and strategies, suited to member preferences ▶ Range of insurance options (D/TPD and SCI) with level of cover that can be aligned to member circumstance 	<ul style="list-style-type: none"> ▶ Greater flexibility of insurance arrangements to meet evolving needs 	<ul style="list-style-type: none"> ▶ High quality accumulation product suite with flexibility to de-risk portfolios to cater for sequencing risk & shorter investment horizons ▶ Introduction of longevity solutions that allow for maximised pension deeming benefits in retirement phase 	<ul style="list-style-type: none"> ▶ Suite of simple retirement products and strategies, allowing members to choose based on needs / goals
<p>Service</p>	<ul style="list-style-type: none"> ▶ Access to basic education / guidance from Day 1, covering investment and protection options, and how Super contributes to future retirement outcomes; extends to address specific insurance needs as members liabilities change, including calculators and tools ▶ Omni-channel guidance required, on demand and proactively delivered ▶ Access to full spectrum of advice services (digital, phone based, and F2F), either internal, or by referral to trusted partner 		<ul style="list-style-type: none"> ▶ Comprehensive suite of omni-channel advice (incl. education) solutions supporting members to define retirement goals and construct plan to meet these objectives ▶ Support in implementing these retirement strategies (product selection, additional contributions, etc.) 	<ul style="list-style-type: none"> ▶ Comprehensive suite of omni-channel advice (incl. education) solutions supporting members to navigate transition to, and income needs throughout retirement
<p>Engagement</p>	<ul style="list-style-type: none"> ▶ Proactive engagement with members from Day 1 (and as circumstances change e.g. contribution behaviour) ▶ Push engagements (digital / email) aligned to significant changes in contribution behaviour, surfacing relevant educational content and/or providing avenue to advice provider(s) ▶ Low-/no-cost, on demand access to digital content (e.g. video, interactive content, messaging) with access to personal advice (internal or external) ▶ Availability of basic advice via messaging / chat 		<ul style="list-style-type: none"> ▶ Push engagements to commence retirement planning process ▶ Digital tools providing assessment of current circumstance / goals ▶ Seamless pathway to a range of advice providers (intra-fund through to external holistic financial planning) to validate and implement strategy 	<ul style="list-style-type: none"> ▶ Push engagements vital as retirement approaches (both members with / without existing retirement plan) ▶ Mix of media (digital, email, human) to deliver content concerning T&Cs / implications of various financial product ▶ Ongoing support / contact with members in retirement

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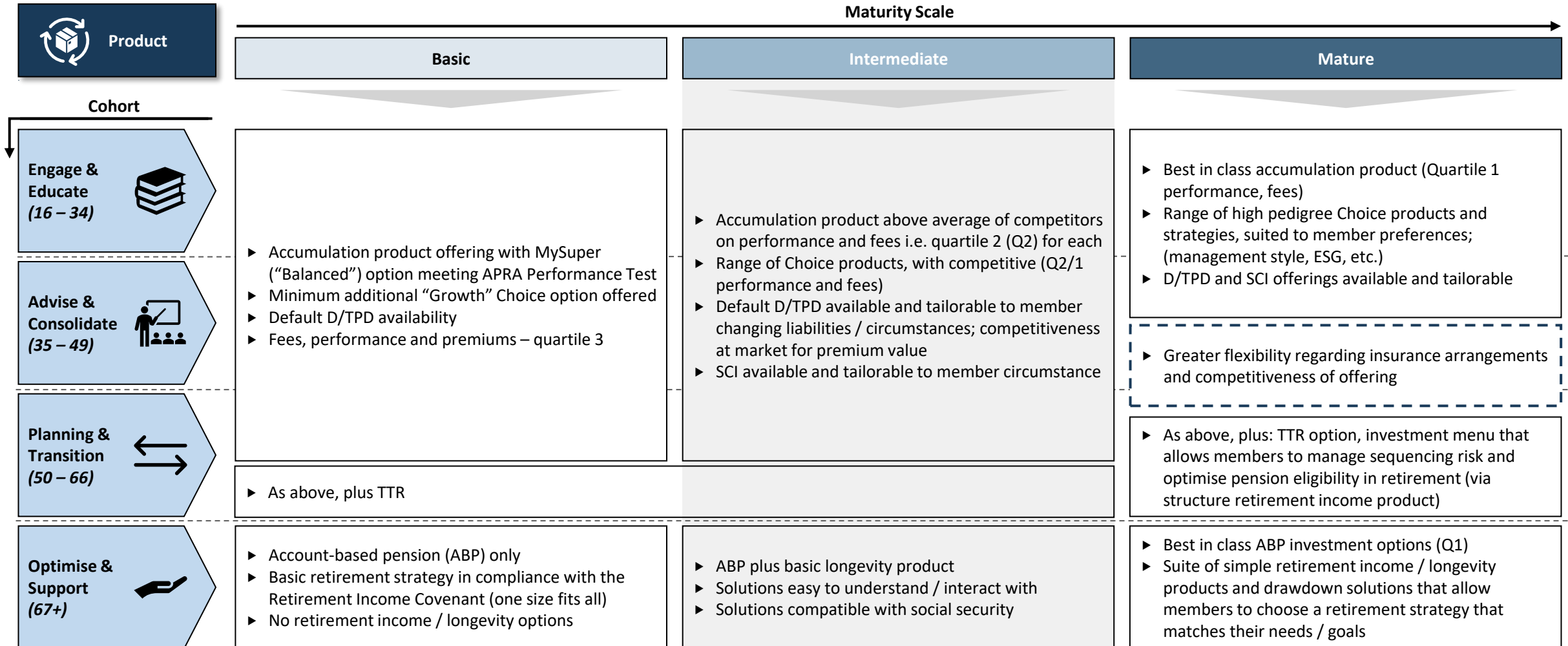
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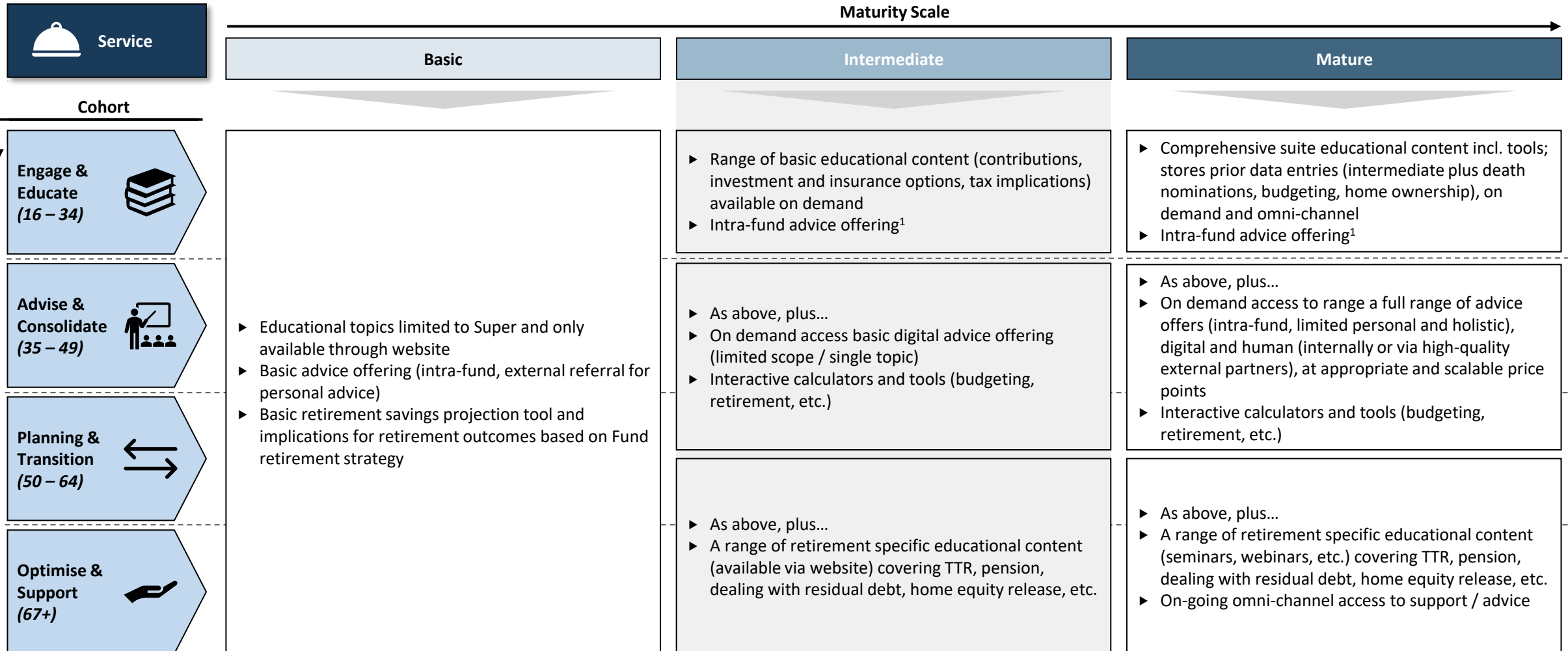
Moving towards a mature proposition: Product

Basic product propositions offer generalised solutions with a focus on simply meeting legislative standards; mature product propositions seek to provide holistic and tailored solutions across the lifetime of a member to ensure maximum savings, and optimal drawdown in retirement.



Moving towards a mature proposition: Service

Basic product propositions offer limited guidance and education sources, if any; mature service propositions offer members flexible pathways to obtain advice / guidance (depending on need / costs) and a robust financial education to optimise decision-making, thus maximising retirement outcomes.



Source: NMG Consulting analysis

Note: [1] Extending to provide any additional advice scope allowable under the DBFO Tranche 2 / 3 regulations

Moving towards a mature proposition: Engagement

Basic engagement propositions are reactive to member needs; mature engagement propositions understand the varying needs and preferred methods of interaction across cohorts, and proactively execute effective communication strategies to support members in making the right decisions for retirement.

Engagement	Maturity Scale		
	Basic	Intermediate	Mature
Cohort			
Engage & Educate (16 – 34)	<ul style="list-style-type: none"> ▶ Day 1 set up – initial communication with member to verify set up of account and provide offering details ▶ Annual generic emails regarding notable Fund / legislative updates, and member account statements 	<ul style="list-style-type: none"> ▶ Proactive initial engagement with member (set-up, offering details) ▶ Targeted campaigns to build awareness of product and service options, with direction to educational content available ▶ Push engagements aligned to significant changes in member behaviour (contributions, insurance, investment) and external factors (new legislation, SG, etc.) 	<ul style="list-style-type: none"> ▶ Proactive initial engagement with members (set-up, offering details, how to make changes for investment, contributions and insurance) ▶ Drive members to download the app ▶ Proactive ongoing push engagements aligned to significant changes in member behaviour (contributions, insurance, investment) and external factors (legislation, Fund updates, etc.) ▶ Engagements directing member to relevant education resources, as well as pathways to receiving advice (digital, human or hybrid)
Advise & Consolidate (35 – 49)	<ul style="list-style-type: none"> ▶ Email notifying member to begin to consider retirement, directing to website, Government tools available for self assessment (e.g. MoneySmart) 	<ul style="list-style-type: none"> ▶ Initial retirement planning push engagement when members hit age 50* (email / app) ▶ Annual notifications directing members to retirement product descriptions and internal / external tools for self assessment 	<ul style="list-style-type: none"> ▶ Personalised push engagement to commence retirement planning, directing members to support, advice and educational services ▶ Direct members to advice proposition (intra-fund through to external holistic financial planning)
Planning & Transition (50 – 64)	<ul style="list-style-type: none"> ▶ Email, website and call centre availability for retired members to contact ▶ Regular updates regarding any relevant changes to legislation and/or products communicated via email to retirees 	<ul style="list-style-type: none"> ▶ Push engagements at/during retirement ▶ Range of media (digital, web, email, human) available to members ▶ Some proactive engagement around defined set of events (age, minimum balance, etc.) 	<ul style="list-style-type: none"> ▶ Push engagements at/during retirement ▶ Range of media (digital, Web, email, human) to deliver content concerning T&Cs / implications of various financial product ▶ Ongoing support / contact with retirees
Optimise & Support (67+)			

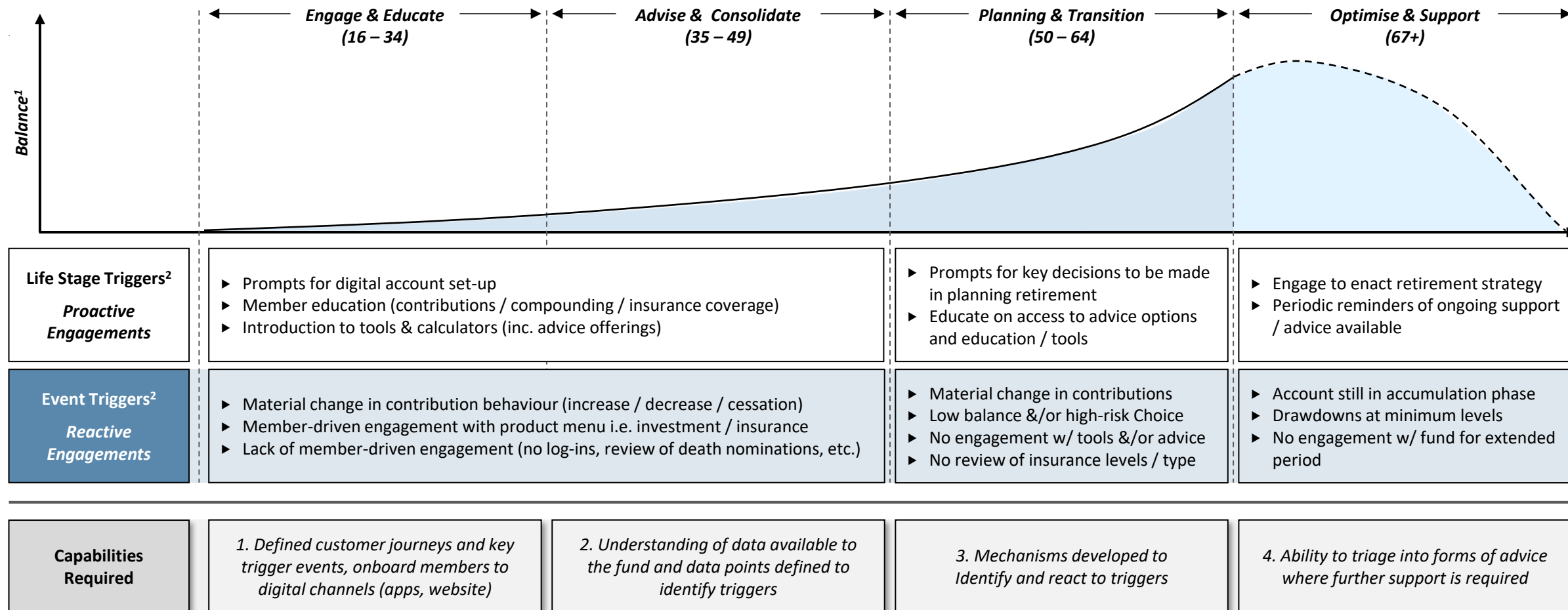
Source: NMG Consulting analysis

Note: *May be better tied to a variable like Early Retirement Age, such that if this changes in future, members are prodded to consider retirement planning at the right time.

A lifecycle of engagement

A mature engagement proposition recognises the changing dynamics of member life stages and associated events, taking both proactive and reactive measures to support members in making appropriate decisions that impact their retirement outcomes

Member Retirement Lifecycle

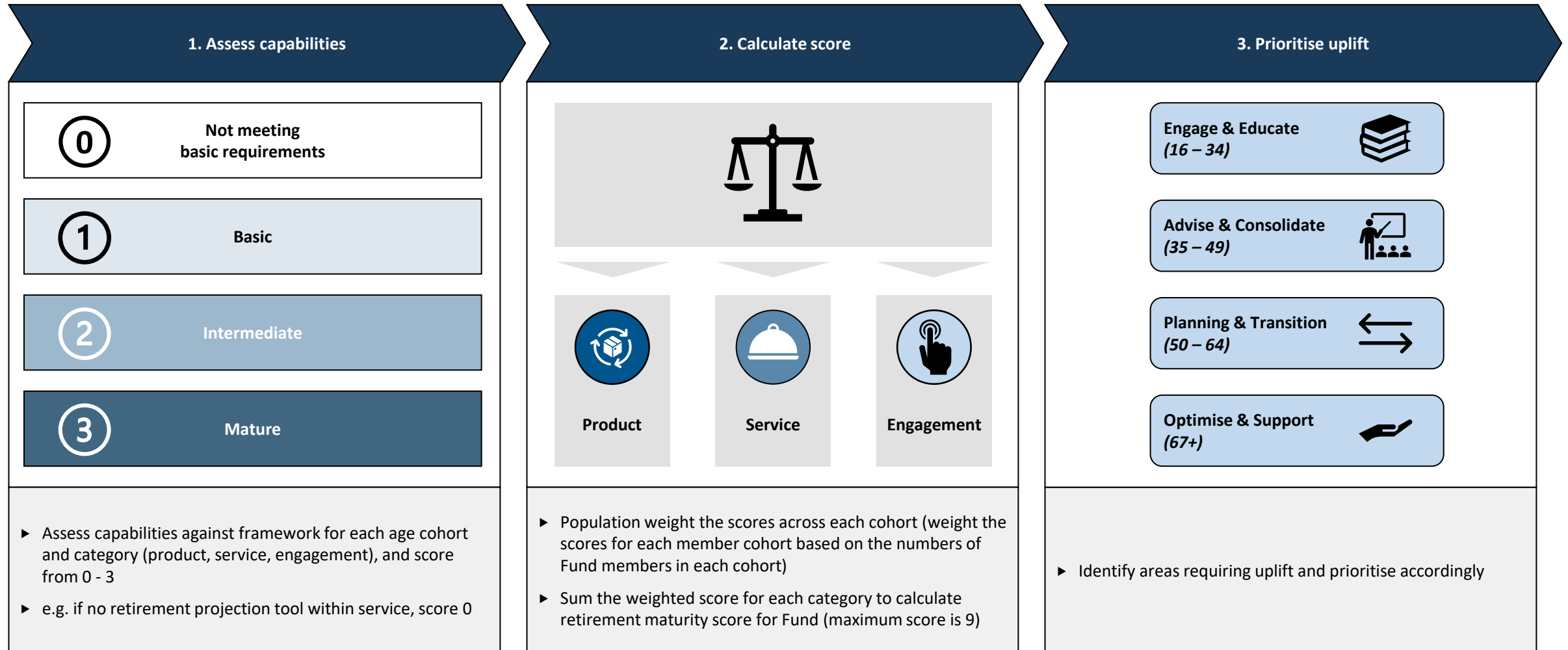


Source: NMG Consulting analysis

Note: [1] Indicative only – “Optimise & Support” illustration just one example of a myriad of retirement drawdown paths; [2] indicative only – not a complete list

Framework assessment instructions

This framework provides Trustees with a simple and effective tool to assess the maturity of their retirement offering in the context of each Fund’s member demographics; supporting the identification of and prioritisation of closing any ‘gaps’



Framework assessment example

Example walkthrough of framework.

1. Assess capabilities

Product	Maturity Scale		
	Basic	Intermediate	Mature
Cohort			
Engage & Educate (16-34)	<ul style="list-style-type: none"> Accumulation product offering with MySuper "Balanced" option meeting APRA Performance Test Minimum additional "Growth" Choice option offered Default D/PFO availability Fees, performance and premiums - quartile 3 	<ul style="list-style-type: none"> Accumulation product above average of competitors on performance and fees (i.e. quartile 2 (Q2) for each) Range of Choice products, with competitive (Q2/Q3) performance and fees Default D/PFO available and tailorable to member changing liabilities / circumstances; competitiveness at market for premium value SCI available and tailorable to member circumstance 	<ul style="list-style-type: none"> Best in class accumulation product (Quartile 1 performance, fees) Range of high-pedigree Choice products and strategies, suited to member preferences; (management style, ESG, etc.) D/PFO and SCI offerings available and tailorable
Advise & Consolidate (35-49)			<ul style="list-style-type: none"> Greater flexibility regarding insurance arrangements and competitiveness of offering
Planning & Transition (50-66)	<ul style="list-style-type: none"> As above, plus TTR 		<ul style="list-style-type: none"> As above, plus: TTR option, investment menu that allows members to manage ongoing risk and optimize pension eligibility in retirement (via structure retirement income product)
Optimise & Support (67+)	<ul style="list-style-type: none"> Account-based pensions (ABP) only Basic retirement strategy in compliance with the Retirement Income Covenant (see side file all) No retirement income / longevity options 	<ul style="list-style-type: none"> ABP plus basic longevity product Solutions easy to understand / interact with Solutions compatible with the social security 	<ul style="list-style-type: none"> Best in class ABP investment options (Q1) Scale of single retirement income / longevity products and drawdown solutions that allow members to choose a retirement strategy that matches their needs / goals
Service			
Cohort			
Engage & Educate (16-34)		<ul style="list-style-type: none"> Range of basic educational content (contributions, investment and insurance options, tax implications) available on demand Intra-fund advice offering (simple conversations with members to the extent current laws allow) 	<ul style="list-style-type: none"> Comprehensive suite of educational content incl. tools (Super, retirement, investment, insurance, contributions, tax, death nominations, budgeting, home ownership), on demand and omni-channel Intra-fund advice offering, as in "intermediate"
Advise & Consolidate (35-49)	<ul style="list-style-type: none"> Educational topics limited to Super and only available through website Basic advice offering (intra-fund, external referral for periodic advice) 	<ul style="list-style-type: none"> As above, plus... On demand access basic digital advice offering (limited scope / single topic) Interactive calculators and tools (budgeting, retirement, etc.) 	<ul style="list-style-type: none"> As above, plus... On demand access to range a full range of advice offers (intra-fund, limited personal and holistic), digital and human (normally or via high-quality external partners), at appropriate and scalable price points Interactive calculators and tools (budgeting, retirement, etc.)
Planning & Transition (50-66)	<ul style="list-style-type: none"> Basic retirement savings projection tool and implications for retirement outcomes based on fund retirement strategy 		<ul style="list-style-type: none"> As above, plus... A range of retirement specific educational content (seminars, webinars, etc.) covering TTR, pension, dealing with residual debt, home equity release, etc. On-going omni-channel access to support / advice
Optimise & Support (67+)		<ul style="list-style-type: none"> As above, plus... A range of retirement specific educational content (available via website) covering TTR, pension, dealing with residual debt, home equity release, etc. 	
Engagement			
Cohort			
Engage & Educate (16-34)	<ul style="list-style-type: none"> Day 1 set up - initial communication with member to verify set up of account and provide offering details 	<ul style="list-style-type: none"> Proactive initial engagement with member (set-up, offering details) Targeted campaigns to build awareness of product and service options, with direction to educational content available Push engagements aligned to significant changes in member behaviour (contributions, insurance, investment) and external factors (new legislation, SG, etc.) 	<ul style="list-style-type: none"> Proactive initial engagement with members (set-up, offering details, how to make changes for investments, contributions and insurance) Drive members to download the app Proactive ongoing push engagements aligned to significant changes in member behaviour (contributions, insurance, investment) and external factors (legislation, fund updates, etc.) Engagements directing member to relevant education resources, as well as pathways to receiving advice (digital, human or hybrid)
Advise & Consolidate (35-49)	<ul style="list-style-type: none"> Annual general events regarding notable "Year" / legislative updates, and member account statements 	<ul style="list-style-type: none"> Initial retirement planning push engagement when members hit age 50 (email / app) Annual notifications directing members to retirement product descriptions and internal / external tools for self assessment 	<ul style="list-style-type: none"> Personalised push engagement to commence retirement planning, directing members to support, advice and educational services Direct members to advice propositions (intra-fund through to external holistic financial planning)
Planning & Transition (50-66)	<ul style="list-style-type: none"> Email notifying member to begin to consider retirement, directing to website, Government tools available for self assessment (e.g. MoneySmart) 	<ul style="list-style-type: none"> Push engagements at/during retirement Regular updates regarding any relevant changes to legislation and/or products communicated via email to retirees 	<ul style="list-style-type: none"> Range of media (digital, Web, email, human) to deliver content concerning T&A / implications of various financial product Ongoing support / contact with retirees
Optimise & Support (67+)		<ul style="list-style-type: none"> Push engagements at/during retirement Regular updates regarding any relevant changes to legislation and/or products communicated via email to retirees 	

2. Calculate score¹

Cohort	Member Weight	Product	Service	Engage
16-34	10%	2	1	2
35-49	20%	2	1	1
50-66	40%	3	1	2
67+	30%	1	1	1

Results	Product	Service	Engage	Av. Score
Totals	2.1	1	1.5	1.5 / 3

3. Prioritise uplift

#	Prop. (Cohort)	Activity
1	Prod. (67+)	Develop suite of retirement income solutions (ABP, longevity options and drawdown solutions as building blocks)
2	Serv. (50-66 & 67+)	Partner with external advisory group to provide access to holistic advice offering (spectrum of advice offerings)
3	Eng. (50-66)	Push engagements towards / at retirement to help drive members towards services available
4	Serv. (16-34 & 35-49)	Build out suite of educational materials for accumulators
5	Eng. (16-34 & 35-49)	Develop proactive engagement mechanisms to guide accumulators to services available
6	Etc...	Etc...

Source: NMG Consulting analysis

Note: [1] Whilst the weighted score can assist funds in prioritising uplift, it is expected that a qualitative risk overlay would also be applied

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Regulatory and practical barriers

Despite best efforts from all involved, there remain a significant set of structural barriers that hinder (and sometime prevent) funds delivering world class retirement offerings to their members

1 Regulatory Interactions	Overview	<i>Despite best efforts of regulators to optimise member outcomes, conflicting regulations make it difficult for Super Funds to fulfil their duties to their members, and to the legislation.</i>
2 Member Disengagement	Overview	<i>The largely default construct of the Australian Superannuation system has resulted in disengaged members across most cohorts. As members approach retirement this can have unintended consequences for members.</i>
3 Advised Relationships	Overview	<i>Super Funds have members that are in existing relationships with holistic financial advisers, have been previously advised or are unadvised. Clarity around the obligation of Super Funds to these different members groups is required, to ensure that members are provided the highest level of personalised advice that is available to them and retirement outcomes are optimised.</i>
4 Take-up of Guaranteed Income Streams	Overview	<i>The growth of Australia's DC system and subsequent focus on accumulation has led to low levels of understanding (and take-up) of guaranteed income streams. These, when taken-up as part of a broader holistic portfolio, can lead to better retirement income outcomes for members. Super Funds play a significant role in providing access to and educating members on the benefits of these products.</i>
5 Retirement (Default) Cohorts	Overview	<i>Funds cannot appropriately cohort members into their optimal retirement strategy because they do not have enough information to make such decisions.</i>
6 Retirement Product Assessment	Overview	<i>Performance testing works where strategies and goals are homogenous (as is the case with MySuper products) this is not the case in retirement. Retirement products and strategies should be designed to meet the unique needs of individuals in retirement.</i>

Regulatory Interactions

Current legislature is conflicting, making it difficult for Super Funds to deliver on their obligation to achieve optimal outcomes for members in retirement (and the Accumulation phase).

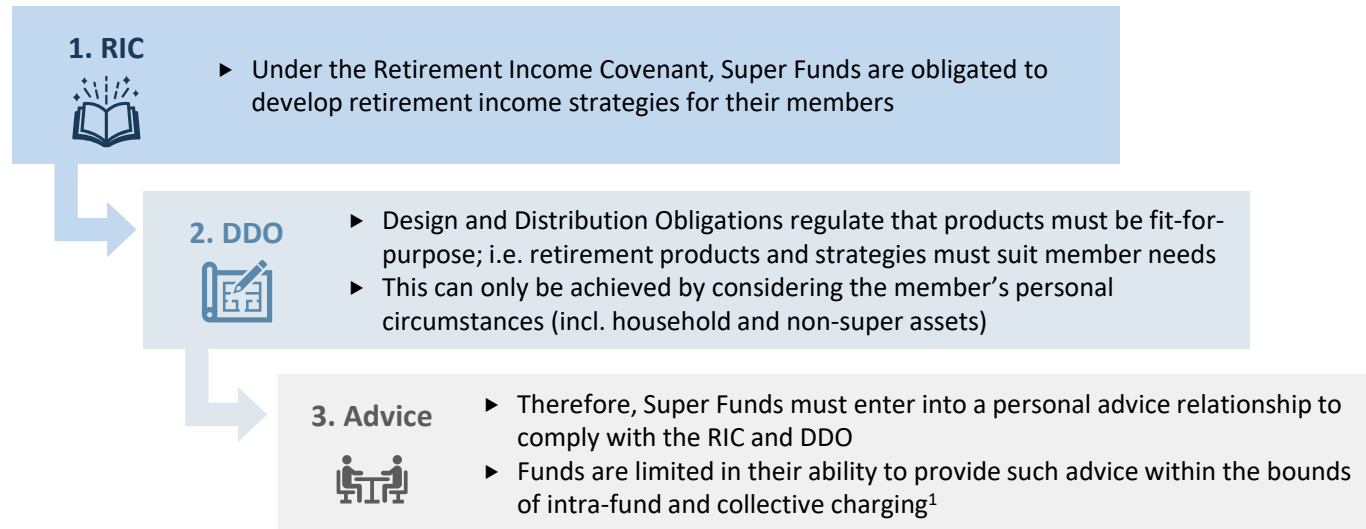
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Regulatory Interactions

Overview

Despite best efforts of regulators to optimise member outcomes, conflicting regulations make it difficult for Super Funds to fulfil their duties to their members, and to the legislation.

Example A: Conflict between RIC, DDO and advice legislation



Barrier reduction / DBFO

- ▶ The Government's DBFO package is intended to help remove some of the advice-related constraints currently placed on Super Funds
- ▶ DBFO will allow for an increased spectrum of advice solutions that a Super Fund can provide members, *notionally* leading to greater access to, and reduced cost of advice
- ▶ The appetite of Funds to implement advice strategies under DBFO could see significant variances in member outcomes between Funds

Other Examples

1. Limitations on calculators and tools assuming longevity instruments or above minimum drawdown rates, prevent Super Funds outlining optimal retirement options

2. Concerns regarding anti-hawking limit Trustee ability to proactively engage / deliver optimal outcomes





Member Disengagement

Disengaged members pose a significant challenge for Super Funds, particularly as they approach retirement. The default nature of the accumulation system has (unintentionally) exacerbated the issue. Disengagement as members approach retirement risks significant detriment to quality of life in retirement.

2 Member Disengagement

Overview

The largely default construct of the Australian Superannuation system has resulted in disengaged members across most cohorts. As members approach retirement this can have unintended consequences for members. Funds must focus on - and regulatory settings support - greater engagement with the system, particularly as members approach retirement.

Cohort	Context	Impact	Actions for Super Fund
Engage & Educate (16 – 34)	<ul style="list-style-type: none"> Engagement is generally the lowest for younger members, given long time horizon to retirement and relatively low balances Engagement allows for greater savings if members make additional contributions, however, if disengaged they are still in a good position due to default products Members may be unaware of their insurance needs leading to inappropriate cover (over/under) 		<ul style="list-style-type: none"> Continue focus on maintaining a high quality, robust accumulation product with competitive returns and fees Ensure contact information is collected and validated upon sign up, and kept up to date Onboard members to mobile apps Continue to proactively engage and educate via as many channels as are available Ideally align push notifications (via app, email etc.) to visible changes in circumstance e.g. significant increase in employer contributions Proactively engage with members at and approaching retirement age, nudging them toward education and support/advice services
Advise & Consolidate (35 – 49)	<ul style="list-style-type: none"> Disengaged members may miss opportunities for increased saving for retirement (additional contributions, tax efficiency) Members are also less likely to be aware of support / guidance options available to them and where / how to access 		
Optimise & Support (67+)	<ul style="list-style-type: none"> Members most likely to engage at this point (access to their retirement savings) however, may not know how to do so Negative consequences should (1) members commence drawdown prior to converting to pension (2) not select appropriate product 		
Planning & Transition (50 – 66)	<ul style="list-style-type: none"> Members most likely to engage at this point (access to their retirement savings) however, may not know how to do so Negative consequences should (1) members commence drawdown prior to converting to pension (2) not select appropriate product 		

There is a significant gap in the regulatory guidance here – despite best efforts, there will be a cohort of members who remain willfully disengaged. As those members approach retirement, Funds need a regulatory framework on the appropriate steps to take, and guidance on what “reasonable best efforts” to make contact entails.

Advised Relationships

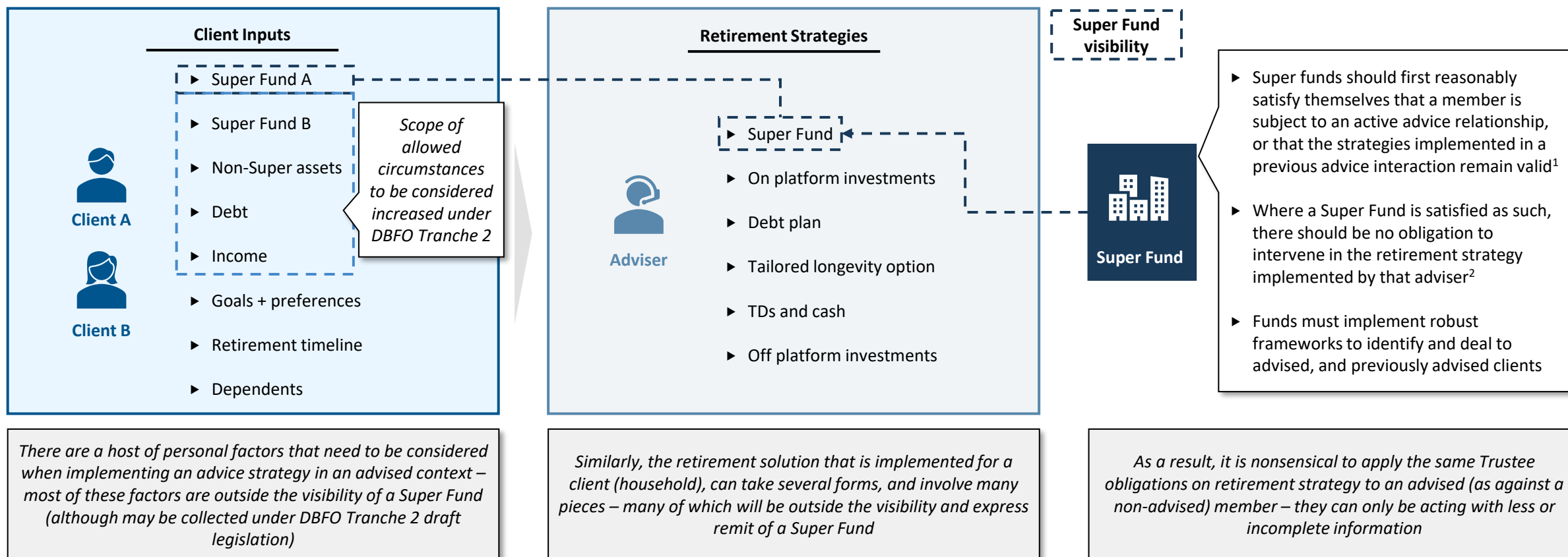
A financial adviser is in a far greater position to implement a retirement strategy than a Super Fund. Where a member is advised, a Fund has neither the information, nor the remit to properly assess or intervene in the strategy being implemented by the adviser.

3

Advised Relationships

Overview

Super Funds have members that are in existing relationships with holistic financial advisers, have been previously advised or are unadvised. Clarity around the obligation of Super Funds to these different members groups is required, to ensure that members are provided the highest level of personalised advice that is available to them and retirement outcomes are optimised.



Take-up of Guaranteed Income Streams

Australia has comparatively low take-up of guaranteed income stream vs. many global counterparts. Whilst there has been recent development of contemporary offerings, access to guaranteed income solutions and lack of understanding of the benefits they can provide continues to hinder growth.

4

Take-up of Guaranteed Income Streams

Overview

The growth of Australia's DC system and subsequent focus on accumulation has led to low levels of understanding (and take-up) of guaranteed income streams. These, when taken-up as part of a broader holistic portfolio, can lead to better retirement income outcomes for members. Super Funds play a significant role in providing access to and educating members on the benefits of these products.

Inhibitors to take-up

There has been a general lack in understanding and knowledge regarding the benefits of including a longevity component in a holistic retirement solution which has led to a lack of appetite for product (*income for life, greater overall financial benefit¹, peace of mind, higher drawdown*)

- ▶ Historically longevity solutions have been advised products, limiting access to those who would receive additional benefits beyond income stream (i.e. interaction with / access to age pension)
- ▶ Perception of annuity take-up being 'all or nothing' rather than a flexible approach i.e. where a longevity product is one component in a broader holistic retirement strategy
- ▶ Lack of robust retirement assessment workbench tools to demonstrate benefits of inclusion in the portfolio (i.e. calculators that compare outcomes of various strategies with / without longevity component)
- ▶ Australia's lack of familiarity with DB/pension-style products in more recent years (compared to many global jurisdictions)

These inhibitors have contributed to the lack of take-up of guaranteed retirement income streams within the Australian retirement system

What can Super Funds do?

1

Embed guaranteed retirement income products into pension phase suite

- ▶ Offer a range of guaranteed income products as the building blocks (ABP, annuity/ies), and develop accompanying retirement income strategies

2

Develop retirement income assessment tools

- ▶ Tools which model expected retirement outcomes based on retirement income strategy settings (e.g. 80-20 ABP/annuity)

3

Educate members and provide advice pathways

- ▶ Educational materials and access to range of guidance / advice to assess appropriateness of product (i.e. comparative benefit)

The above approach is somewhat hindered by legislative barriers (e.g. lack of mechanisms to avoid legacy guaranteed products)

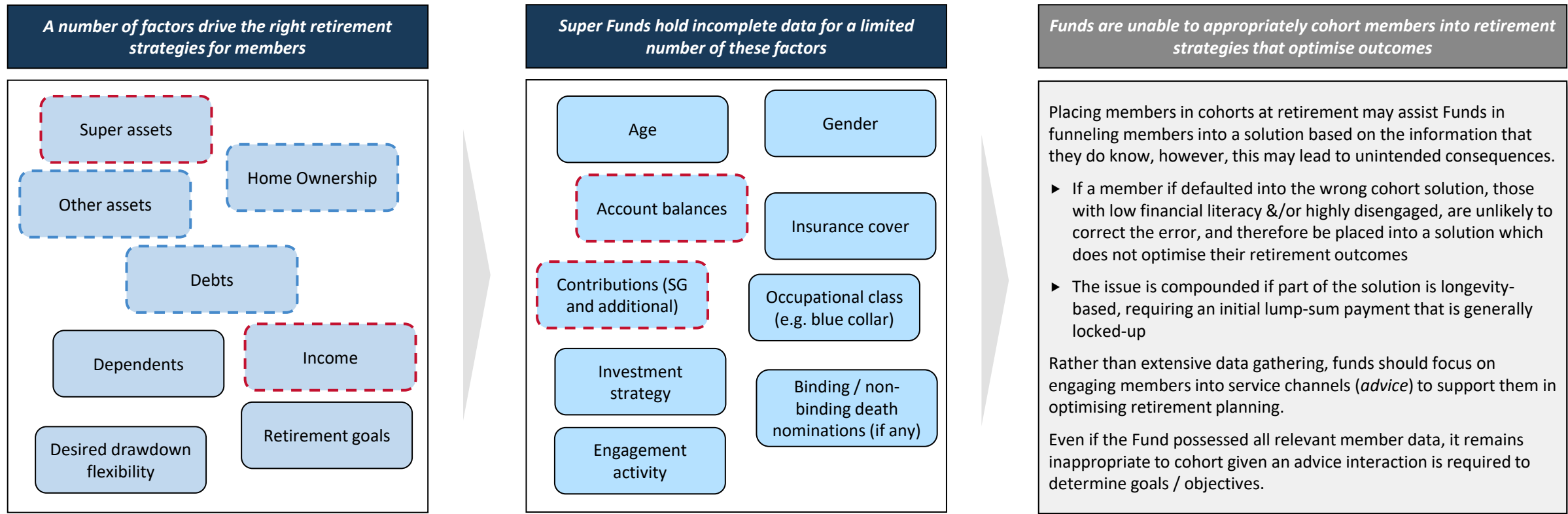
Retirement (Default) Cohorts

Funds do not know enough about members to form robust cohorts, and many members lack the financial literacy and engagement to correct the outcome of being allocated to an inappropriate cohort

5 Retirement (Default) Cohorts

Overview

Funds cannot appropriately cohort members into their optimal retirement strategy because they do not have enough information to make such decisions.



 Fund has data related to factor¹

Retirement Product Assessment (Performance Testing)

Traditional performance testing for retirement products is misguided. Retirement strategies are necessarily unique, and each product has a role to play in the implementation of the strategy; they cannot be assessed on a stand-alone basis.

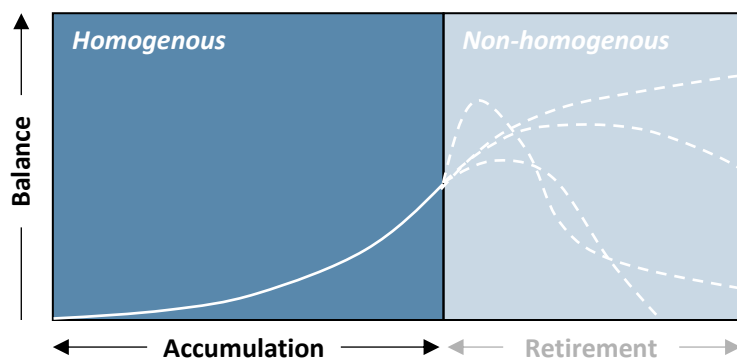
6

Retirement Product Assessment

Overview

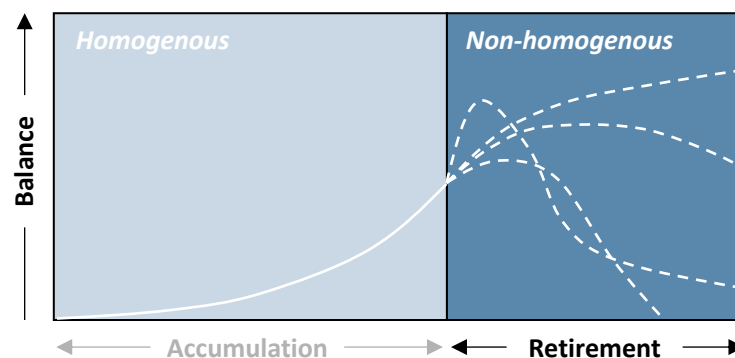
*Performance testing works where strategies and goals are homogenous (as is the case with MySuper products) this is not the case in retirement. Retirement products and strategies should be designed to meet the unique needs of individuals in retirement. **Reductionism in the form of performance tests will force the industry to homogenise retirement, to the detriment of retirees.***

Accumulation Strategy



- ▶ Goals of members in accumulation phase are broadly homogenous, with the chief goal growing wealth and with asset classes playing similar roles across strategies
- ▶ Alignment of goals and the simplicity of accumulation strategies makes them highly comparable

Retirement Strategies



- ▶ Retirement strategies are conversely inhomogeneous, where members have a unique set of goals / needs, resulting in a myriad of drawdown solutions
- ▶ Retirement strategies generally encompass more than one product, and the effectiveness of each component cannot be fairly assessed without an understanding of its role in the (holistic) retirement strategy

(some of the) Challenges

1. Liquidity skews performance

- ▶ Retirement products need to be run with higher liquidity and capital access allowances than accumulation products. Even within asset classes liquidity management may skew performance / render index-based performance inappropriate.

2. One part of a whole

- ▶ Retirement strategies need to consider the needs and financial position of a household with each product playing a part in implementing the strategy
- ▶ The efficacy of a product cannot be fairly assessed without a view of its purpose within a strategy

3. Broader purpose than generating the greatest returns

- ▶ Unlike accumulation product, longevity products have multiple objectives (e.g. guaranteed /on-going income, pension eligibility)
- ▶ Any "performance test" should be to assess whether a longevity product has met its objectives

Thank you

For more information,
visit www.nmg-consulting.com

