

Longitudinal Drawdown Analysis of Superannuation Members

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Aware Super

32nd Colloquium on Pensions and Retirement
Research



Aware Super at a glance



1.1 Million

members and
clients



\$185 Billion

combined
asset pool



\$38+ Billion

in retirement with
100k+ members



\$4 Billion

Pension benefits p.a.
Profit-to-member



Award-winning
fund **



27 years+

providing financial
advice[#]



Understanding members' drawdown provides insight to improving member outcomes

It is well understood in the industry that...

- Typically half of retired members draw down at the minimum rate

But there are still many unknowns about retired members...

- Lump sum drawdown
- How member behaviour changes over time



Our mission is to promote members' retirement outcome

Retirement Income
Covenant

Research into our members' retirement drawdown is critical to...

Design retirement solutions

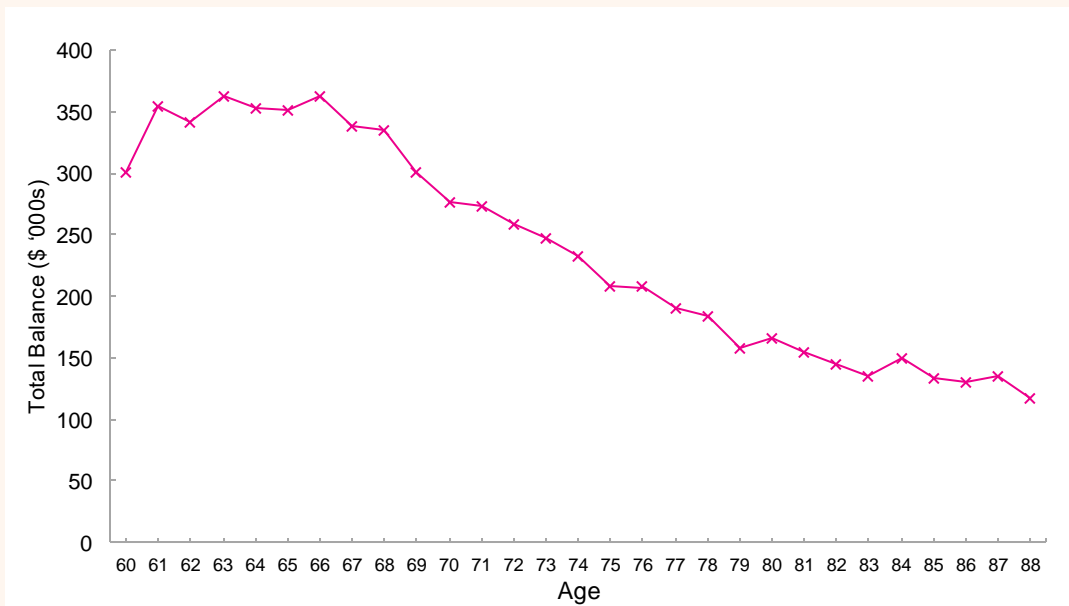
Provide drawdown guidance

Continuously improve retirement income strategy

Longitudinal study better captures changing pattern

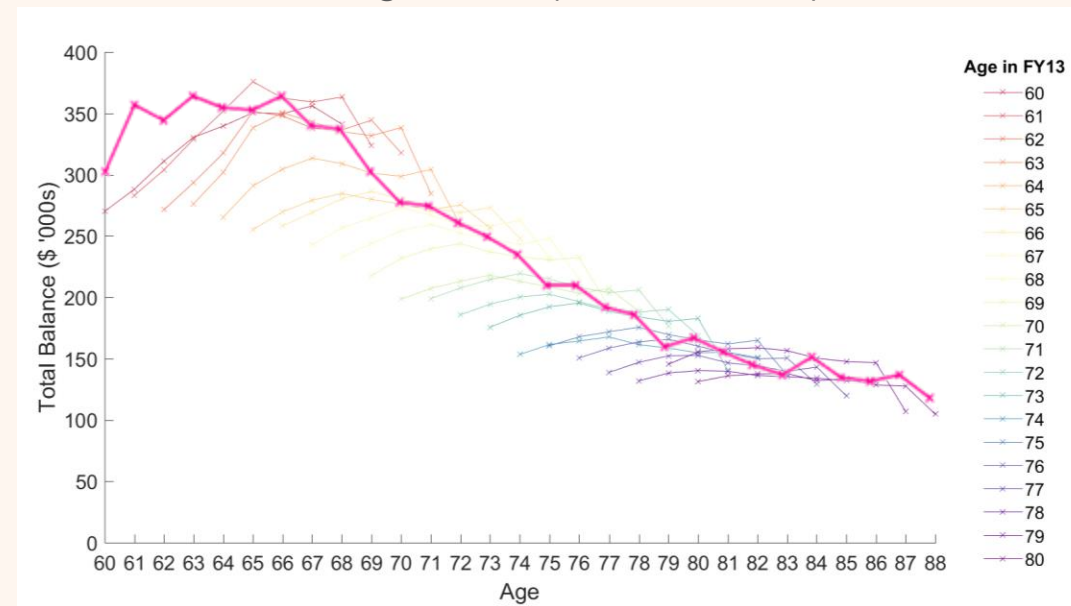
Total Superannuation Balance by Age

Cross sectional (FY18)



Cross sectional chart implies that retiree's balance **steadily declines** with age as they draw down

Longitudinal (FY13 – FY20)



Longitudinal chart shows the effects of:

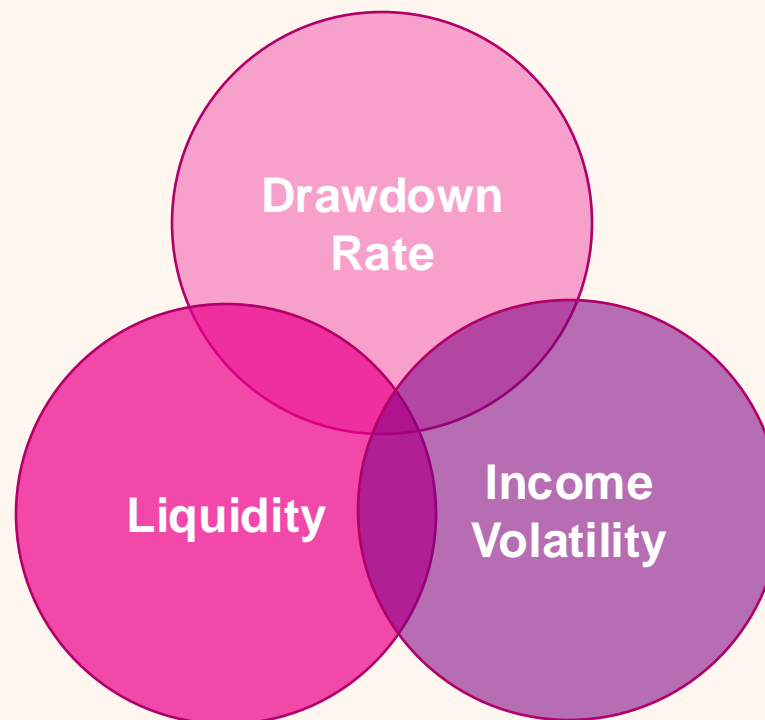
- Maturity of the superannuation system
- Impact of drawdown on balance

Key Research Question

A longitudinal analysis of Aware Super pension members over FY13 - 23



How do members drawdown their super?



Research Scope

Data



- FY 13 – FY 23
- Aware Super members (mostly unadvised)
- Members with at least 2 years of observation
- Data fields
 - Age
 - Balance
 - Yearly drawdown (regular and lump sum)

Cadence



- Extract member data every year and update results

Research Usage

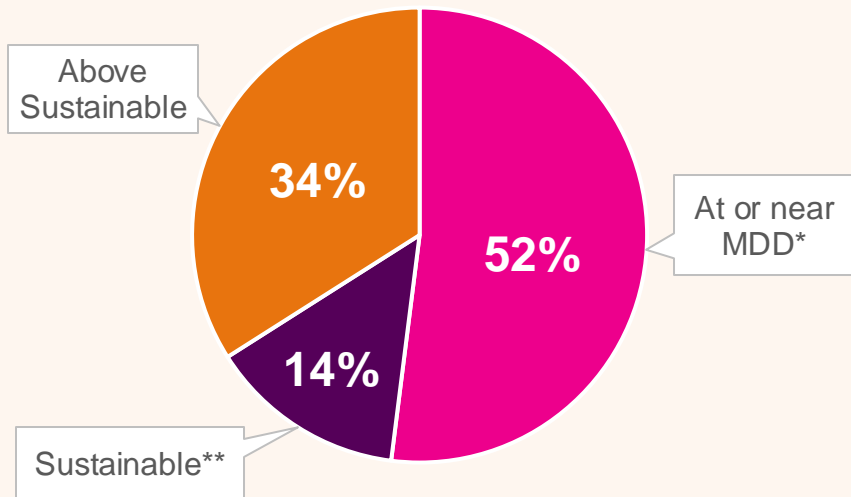


Inputs to many business activities such as:

- Retirement income strategy
- Annual member outcomes assessment
- Product design

Large degree of heterogeneity in drawdown rates

FY23 Drawdown Rate Distribution

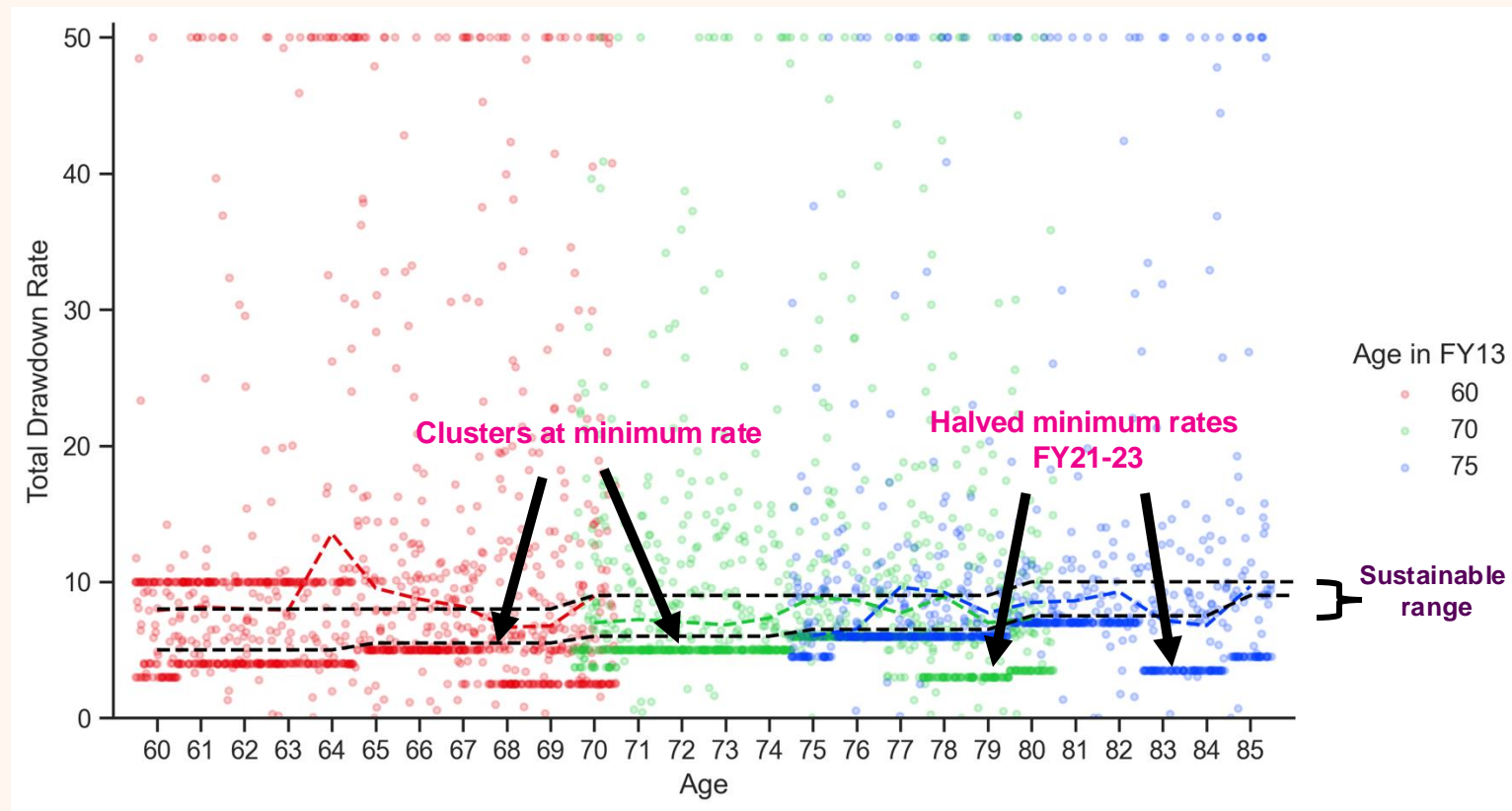


*Within 1% of MDD rate

**Sustainable rate determined by a rule of thumb using the first digit of age and +2%

- More than 50% of members draw down near minimum rates
- Less than 20% of members are drawing down at a sustainable rate
- One third are drawing 20% of their balance on average each year

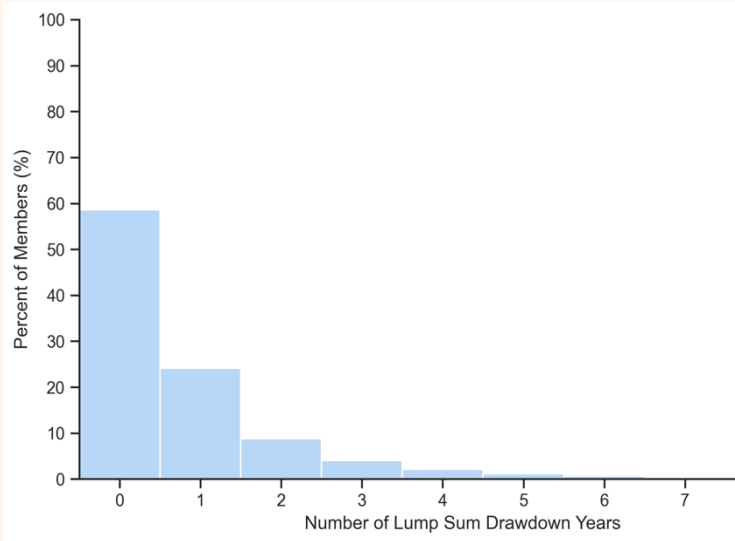
FY 13-23 Cohort Level Drawdown Rate



Potential for drawdown guidance

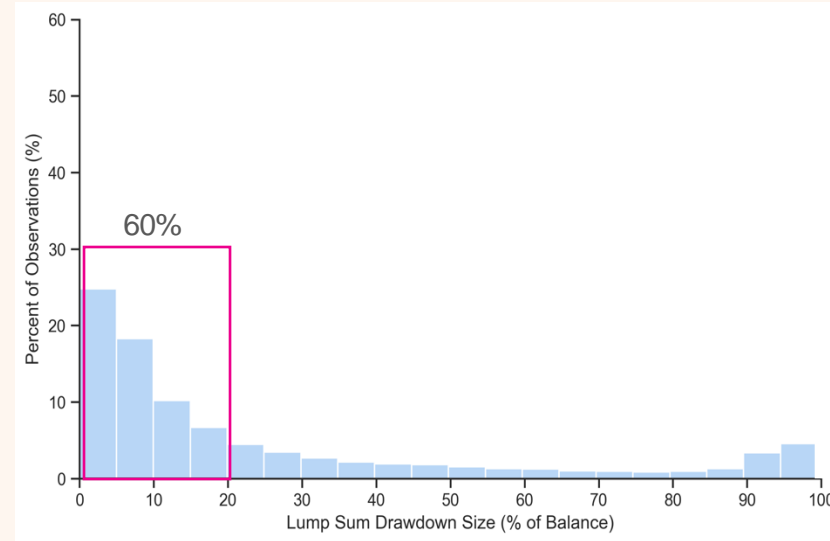
Members have more liquidity and flexibility than they may need

Proportion of Members Taking Out Lump Sums: By Frequency



- Majority (57%) of retired members did not make a lump sum drawdown over the 11-year period

Proportion of Lump Sum Size as a % of Balance



- When they do, majority (60%) of lump sum drawdowns are less than 20% of their balance

Proportion of Members Taking Out Lump Sums: Breakdown by Age



- Low balance members and early retirement age members are more likely to take a lump sum and larger proportion of their balance

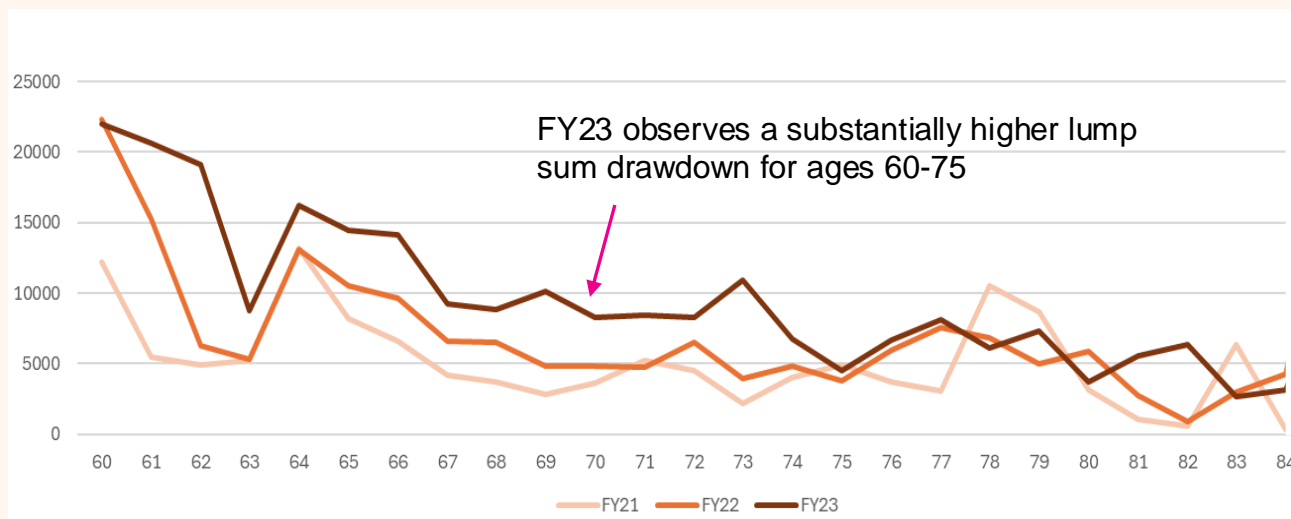
Combining ABP with a longevity product could still meet liquidity and flexibility needs for most members

Cost of Living?

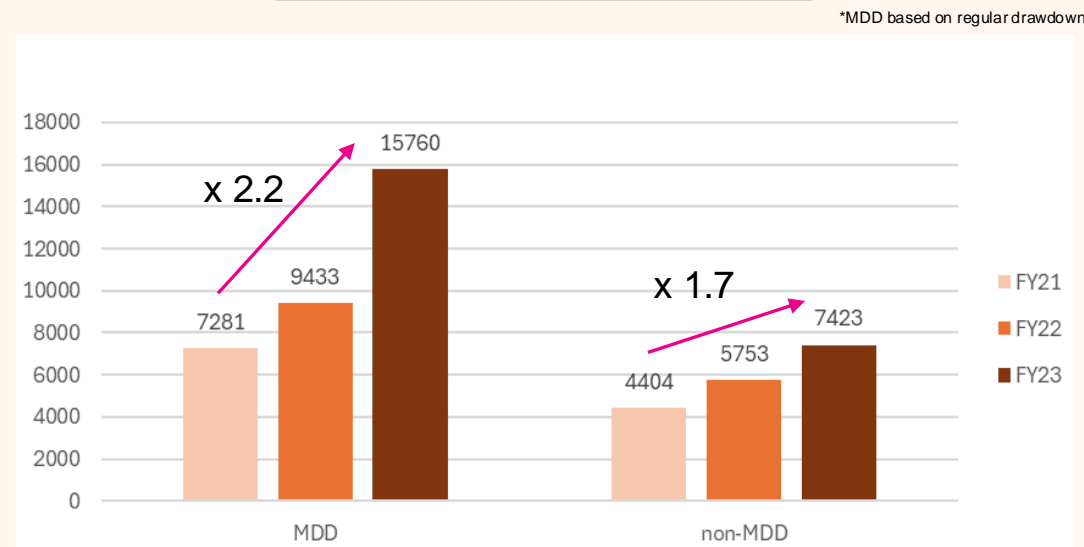
Increased lump sum withdrawals post FY21

In FY23, ad hoc lump sum withdrawals by retired members from their super have **more than doubled** compared to FY21

Average Lump Sum Drawdown \$ Across FY21-23:
By Age



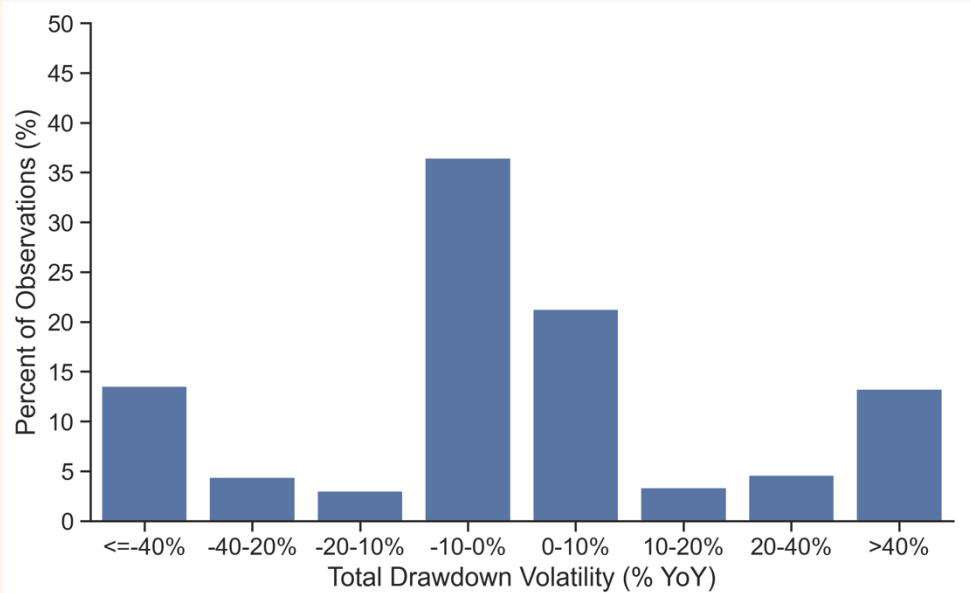
Average Lump Sum Drawdown \$ Across FY21-23:
MDD vs non-MDD members



- Possibly driven by the **rise in cost of living** and the **impact of halved MDD rates** from previous years
- Aware Super's modelling shows that each year of this increased lump sum withdrawal could cause retirees to run out of retirement savings 1 year earlier

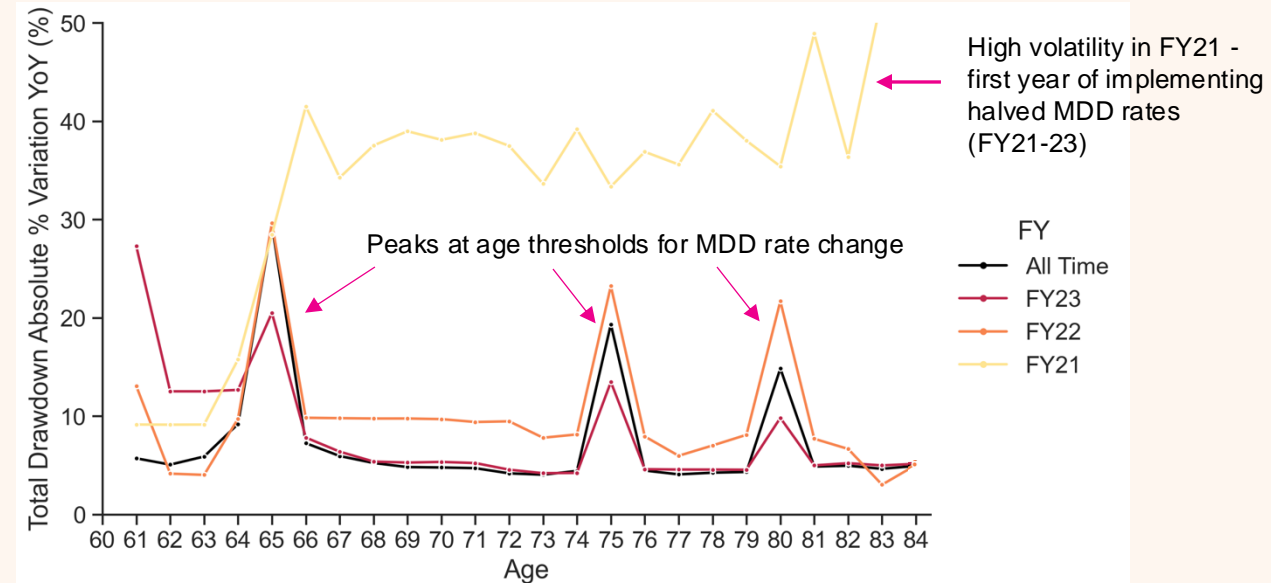
Members are managing some level of income volatility

Distribution of YoY Drawdown Variation



- Two thirds of the inter-year variation in total drawdown are within $\pm 10\%$
- Induced by balance fluctuations coming through minimum rates

Average YoY Drawdown Variation: By FY and Age



- YoY drawdown variation between age sits around 5% for most years and age
- Most members are not having to actively adjust their drawdown when MDD rates are halved. Due to private savings acting as a buffer?

Full guarantee on retirement income is not always needed

Transforming longitudinal drawdown analysis into improving member outcomes

Drawdown Rate

Greater level of heterogeneity in drawdown rates

Liquidity

Members are probably holding more liquidity than they actually need, with elevated lump sum drawdowns post FY21

Income Volatility

Most members are dealing with $\pm 10\%$ income volatility today



Design for Retirement Products and Guidance



Thank you.