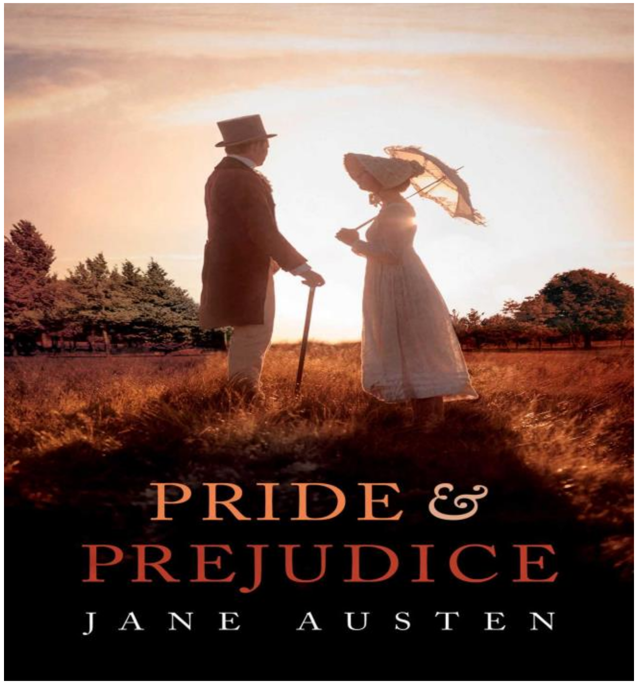
The Retirement Income Covenant: A Powerful Regulatory Tool or a Solution in Search of a Problem?

Australians in need of a retirement income solution trope

- It is a truth universally acknowledged, that a single man (or woman or a couple) in possession of a good (or even modest) fortune, must be in want of a superannuation longevity product
- Problem is that such analysis often ignores what the man (or woman or couple) actually needs
- Marriage is not for everyone, longevity products might have even a narrower target market



Other tedious tropes

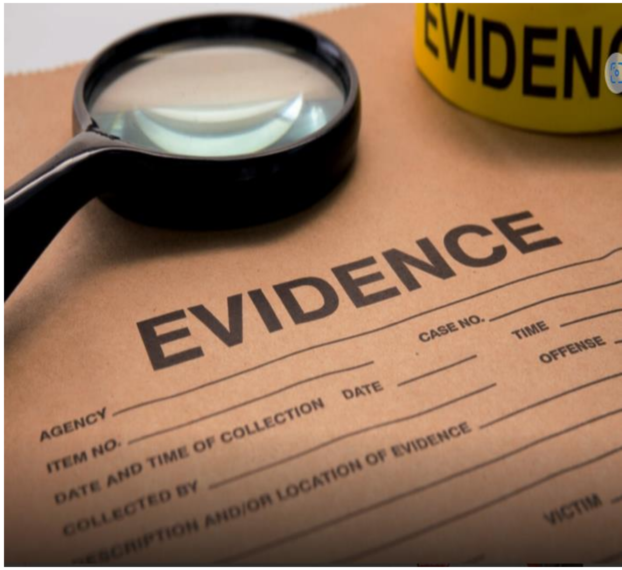
- There is going to be a tidal wave of babyboomers all retiring at once
- Most people will die with most of their super unspent
- Life and TPD insurance is just an expense, not a benefit for fund members
- Superannuation funds are only interested in the accumulation phase
- If you have the Age Pension and home ownership (and nothing more) retirement is bliss

Poll questions

- Hands up if you will buy a retirement income longevity product
- Hands up if you at least will look at such a product before retirement
- Hands up if you think that a person should purchase a longevity product without first seeking personal financial advice

The clear (or less than clear) evidence that funds are not very interested in post-retirement

- The Explanatory Memorandum for the Retirement Income Covenant legislation asserted that funds mainly (or only?) focused on accumulation and have failed retirees but provides no evidence for that assertion
- However, APRA and ASIC have acknowledged that many RSE licensees already had a strong understanding of their members’ needs and had operated in the retirement income market for some time



Funds already are doing a lot in the post-retirement space

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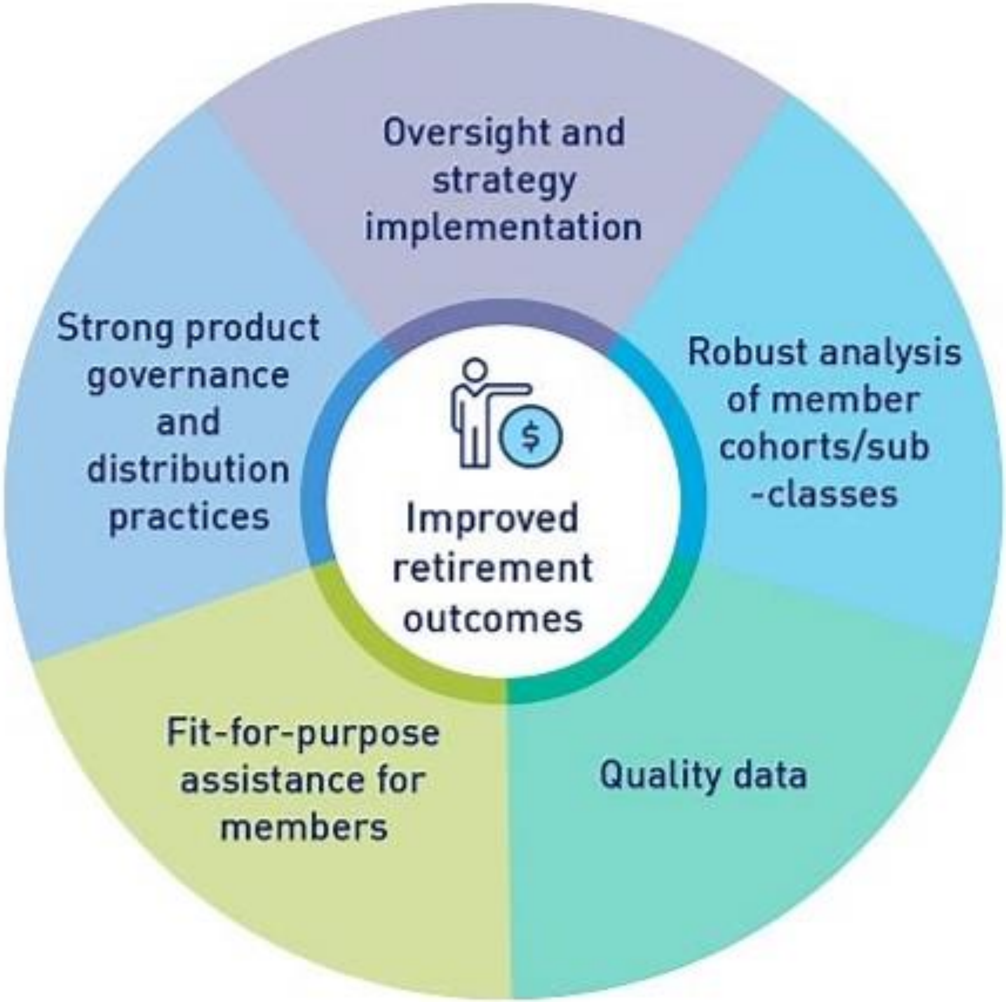
- As at March 2024 APRA regulated funds offered 231 retirement products and 121 transition to retirement products. Total assets involved were $451 billion for retirement products and $13 billion for transition to retirement products
- These products covered 1,270,000 retirement accounts and 61,000 transition to retirement accounts. The average member balance in the retirement accounts was $355,000
- In SMSFs most benefit payments in 2022 were taken as an income stream benefit, with 320,230 members receiving income stream payments at an average of $47,600 a year
- Annuity products a small part of the overall retirement market. $522 million in APRA funds, total immediate annuity assets of $14.7 billion as at June 2024 overall (mostly Challenger)

What the regulators want funds to do in the post-retirement space



Having a strategy is nice, but changing member behaviour can be challenging

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- Current legislative framework not exactly supportive
- Anti-hawking provisions
- Substantial obligations attached to provision of personal financial advice, but changes are underway which may be helpful
- Broad expressions of hope in regard to the effectiveness of "nudges" seldom identify specific actual nudges, with even fewer suggestions actually lawful
- Defaulting into a longevity product not practical, lawful or even desirable
- Even defaulting into an account based income stream is not doable

Giving a fund member a good nudge

- Ease and convenience (such as facilitating online applications for a retirement product with pre-filled data items)
- Warnings about the consequences of not taking up a product such as lower income in retirement or higher taxation
- Regular reminders about product options
- Precommitment (as in agreement to takeup a product some years before it is purchase)
- Social norms (which can involve information about what colleagues or peers are generally doing)
- Advertising and marketing more generally

Some useful recent government announced initiatives

- New money for ASIC Moneysmart resources and wider consumer education
- Changes which will allow product features such as money back guarantees, purchasing in instalments instead of an upfront lumpsum, taking into account the joint life expectancy where appropriate
- Development of voluntary best practice principles for designing modern, high-quality income products
- Development of a new reporting framework on retirement outcomes

A priority should be getting higher super balances at the time of retirement – many aged 60 to 64 do not have much super

Account balance	Number of individuals	Percentage of individuals
Less than $50,000	273,093	22.6%
$50,00 to $150,000	261,041	21.6%
$150,000 to $250,000	179,557	14.9%
$250,000 to $500,000	229,844	19.0%
$500,000 to $750,000	109,127	9.0%
$750,000 to $1 million	59,764	5.0%
$1 million to $2 million	74,414	6.2%
$2 million plus	20,092	1.7%

Source: ATO Taxation Statistics detailed tables

Other useful things that could be done

- Make more data available to funds through ATO and Centrelink mechanisms (but privacy and other considerations would apply)
- Making provision of financial advice cheaper and more widely available (with this process underway)
- Allow account based income streams to be topped up
- Provision of retirement income projections on annual member statements
- “Temporary” reductions in minimum drawdown rates should be the exception rather than the rule (reduced in 9 of the last 16 years)
- Early release of super should be avoided
- Less essay writing assignments for funds