



Ensuring that all retirees find a suitable retirement solution

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Development of the retirement incomes framework ... an ongoing journey

- Notable milestones so far:
 - Changes to treatment of income products under means testing
 - Measures to improve professionalism in the advice industry (ongoing)
 - Retirement Income Review
- Retirement Income Covenant (RIC)
 - Will place obligations on trustees to develop a retirement income strategy
 - Aim of (cattle-?) prodding the industry to get going

A retirement income strategy: two challenges

- The RIC requires trustees to develop a retirement income strategy for the members of their fund. We see two primary challenges:
- Challenge 1: Developing a suite of retirement strategies:
 - Catering for retirees that may differ significantly
 - Hurdles include: getting information on members, cohorting, strategy design
- Challenge 2: Matching members to suitable retirement solutions:
 - Member engagement and communications come to the fore
 - What are the appropriate delivery mechanisms?

Solutions need account for regulatory frameworks ---

- ASIC:
 - Design and Distribution Obligations
 - Disclosure
 - Financial advice laws and regulations
- APRA:
 - Retirement framework (whatever form that takes)
 - Integration with Member Outcomes Assessment
 - Potential for other tools such as a Retirement Heatmap

Indicated choice architecture for accumulation and retirement _____

Accumulation

*Defaults provide the foundation
(SG, MySuper)*

Decumulation

*Member self-choice or advised
(consumption, product, investment)*

Retirees differ along two dimensions

Financial circumstances and preferences	Willingness and capacity to engage
<ul style="list-style-type: none">• Balance• Homeowner vs. renter• Other assets• Single vs. partnered• Desired income stream• Risk appetite	<ul style="list-style-type: none">• Ability to make financial decisions<ul style="list-style-type: none">Financial literacyCognitive abilityBehavioural hurdles• Desire to engage - interest, confidence• Trust (in their fund)• Preparedness to pay for financial advice
Implications for: suitable solutions	Implications for: delivery mechanism



Retirement solution choice – A spectrum

Type	Preferred mode	Decision frame	Who would identify an appropriate solution
1. Fully-advised	Seeks comprehensive financial advice	Fully-advised	Adviser
2. DIY-active	Wants to choose by themselves, perhaps with some assistance	Self-directed choice	Retiree
3. DIY-reactive	Would welcome a recommendation from their fund, but wants to decide for themselves	Fund-guided choice	Fund and Retiree
4. Guided	Would prefer their fund to choose an option		Fund
5. Disengaged	Does not engage at all	Fund selection	Fund

Why accommodate fund-guided choice? ---

1. Some retirees might welcome it:

- Low financial literacy; lack of confidence to choose; many trust their fund
- Some people don't want to choose ... they just want to be looked after
- Reluctance to pay for comprehensive advice

2. Funds might come up with a better choice in some situations:

- Members know themselves better than anyone, but...
- Choice brings exposure to poor understanding, behavioral influences & shysters

3. Accommodates nudges:

- Encouraging retirees to invest more in growth, and increase drawdowns

Choices put to a retiring member by their fund

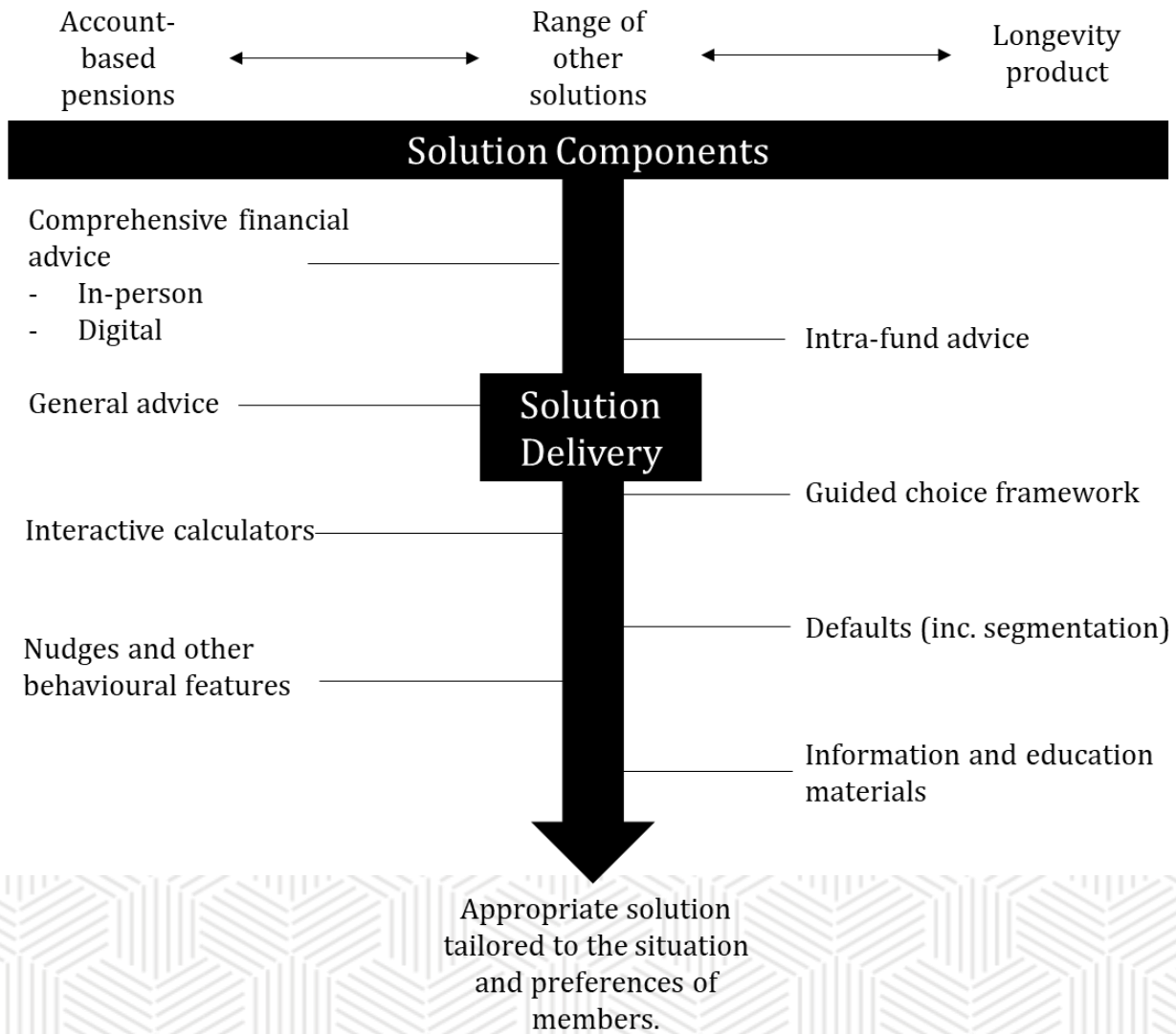
Please choose one of the following options:

- A. Please assign me to a retirement solution
- B. Recommend a retirement solution to me
- C. I want to choose a retirement solution for myself
- D. Please refer me to a financial planner

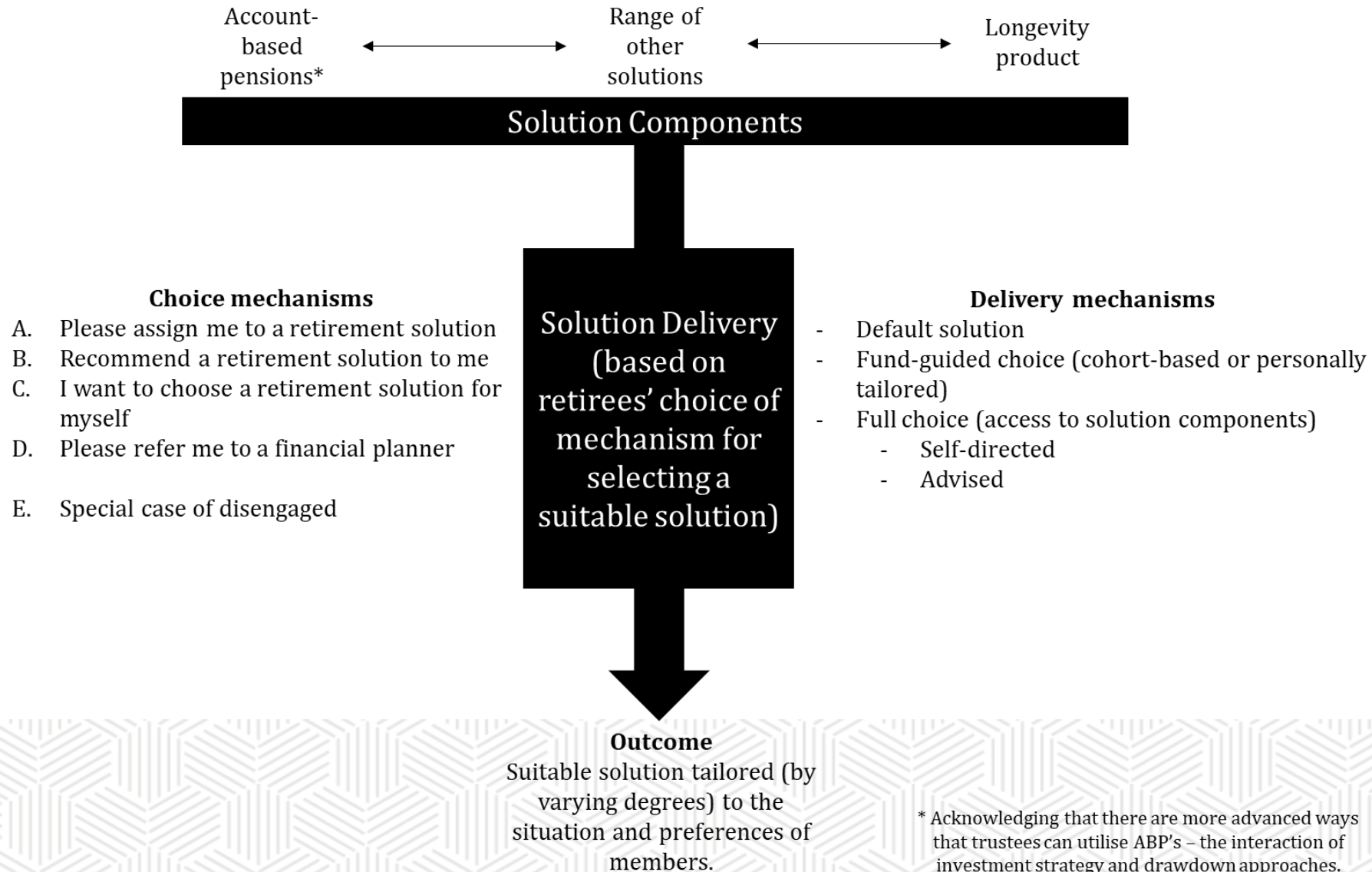
Safety net required for retirees who do not choose _____

1. Further requirement for trustees to constantly attempt engagement to establish their retirement status and preferences.
2. Empower trustees to default members into a retirement option under certain conditions.
 - Possible ability for members to opt-out.

Framing the retirement strategy challenge



Accounting for different engagement mechanisms



What we would like to see

1. Framework designed to ensure fund-guided choice is part of the system:
 - Obligation on trustees to engage with retiring members to establish their preferred mechanism for finding a suitable strategy, and then support them.
 - This obligation ideally written into the RIC.
 - Provide ability for funds to seek personal information and recommend strategies without triggering the need for a full SOA.
2. A mechanism to address retiring members that do not engage.



Likely policy direction

1. Defaults appear unlikely → focus on choice with advice and guidance the primary supports.
2. Uncertainty around the delivery mechanism for cohort-based solutions:
 - Personal versus general advice (post Westpac case).
 - Ongoing policy focus on expanding advice and guidance capacity.
3. At a minimum should the RIC incorporate a requirement that funds must develop an engagement strategy for their retirees?