

CEPAR & Crawford School of Public Policy 2018 Retirement Incomes Policy Dialogue

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**Session Three – Implementing Policy in a
choice and guidance framework**

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Overview

Where are we going today?

Choice and guidance framework

Implementation of MySuper reforms

The challenge – retirement is different

Retirement is different from accumulation in many respects

Retiree behaviour

Understanding our biases

Implementation for retirees

The framework must anticipate behaviour

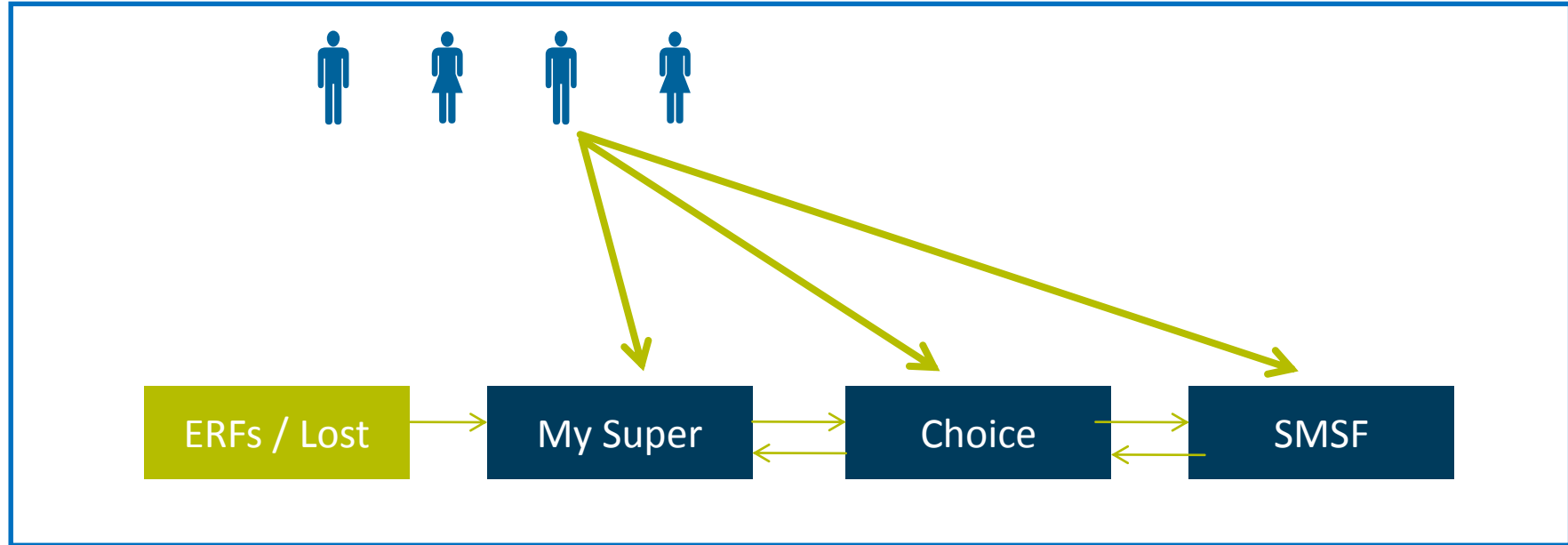
Our choice and guidance framework

The Australian experiment

- ASIC must strive to:
 - ‘promote the **confident and informed participation of investors and consumers** in the financial system’
- Belief in financial literacy
- Disclosure is a necessary, but not a sufficient condition
- ‘Clear, concise and effective’ has been a complete failure
- Literacy and numeracy decline with age
- Reluctance to use defaults or even auto-enrolment in retirement
- Is this just another agency conflict?

MySuper approach to choice and guidance

Facilitate, not impose



increased individual responsibility

Implementing policy in a choice and guidance framework

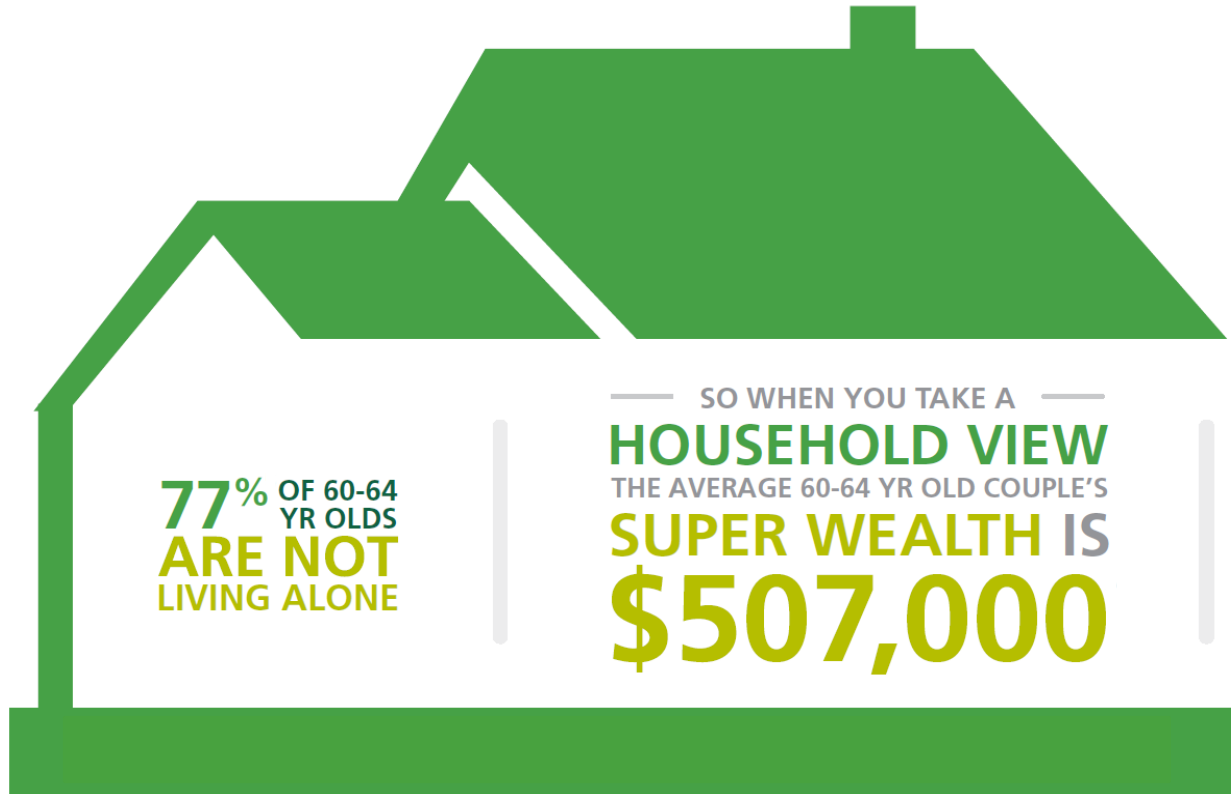
Retiree fact base

Baby boomers are retiring

700
AUSTRALIANS
 **RETIRE**
EACH
DAY

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Household wealth is increasing



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Source ABS Census tablebuilder and Cat 6523.0

Increasing emphasis on self-provision

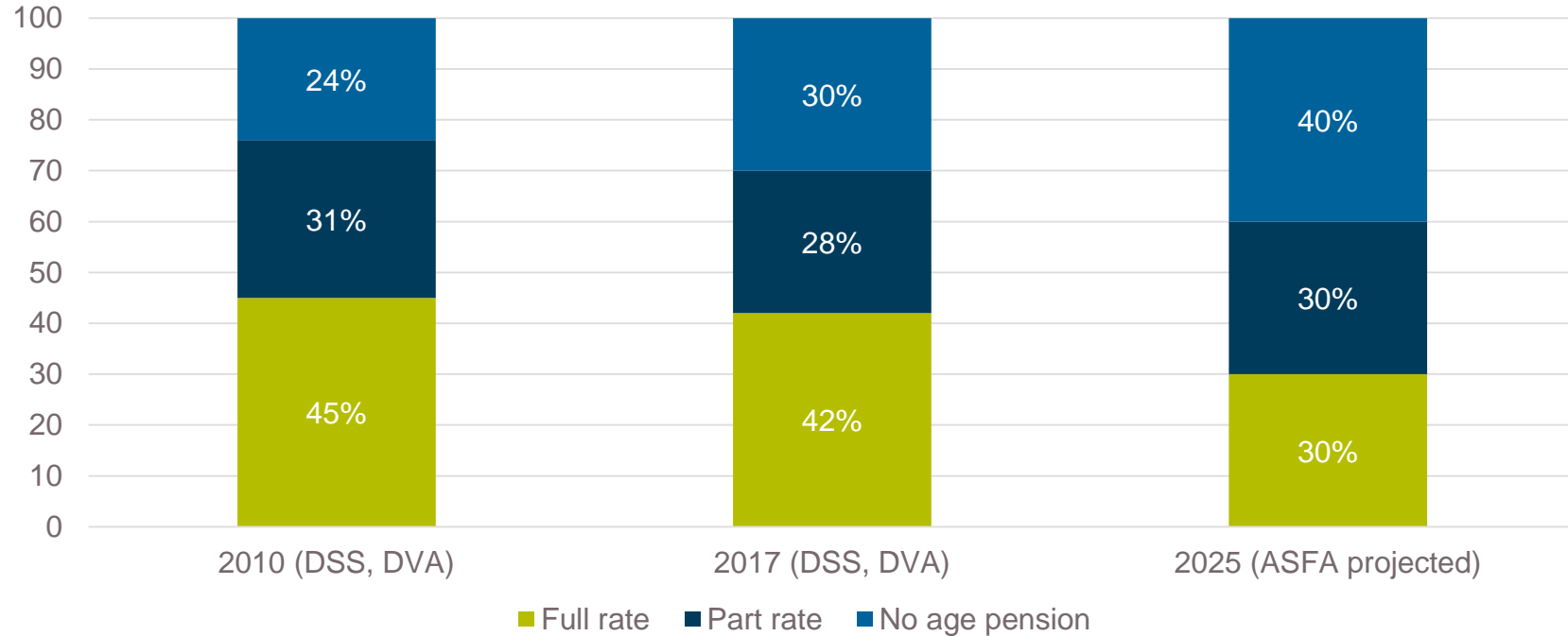
Creates a need for regular, secure retirement income

ONLY 42% of **>65yo**
RECEIVE **FULL AGE PENSION**



Age pension entitlement trends

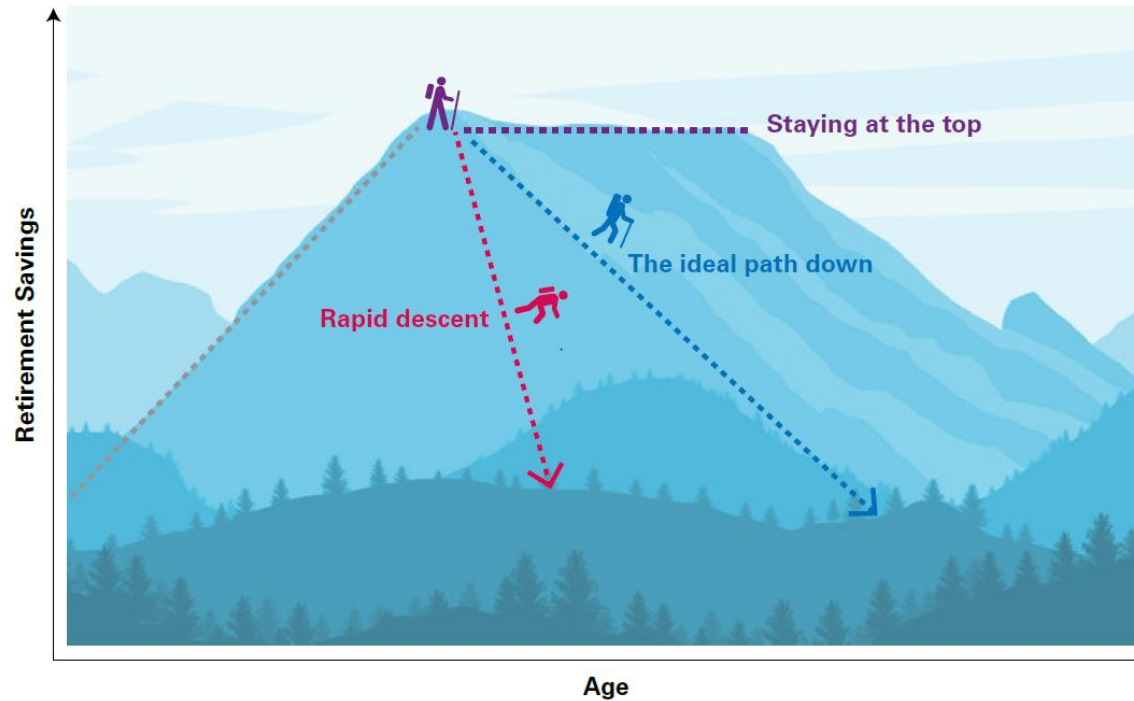
Proportion of eligible population on the age pension



Retirement is different

Climbing and descending the mountain

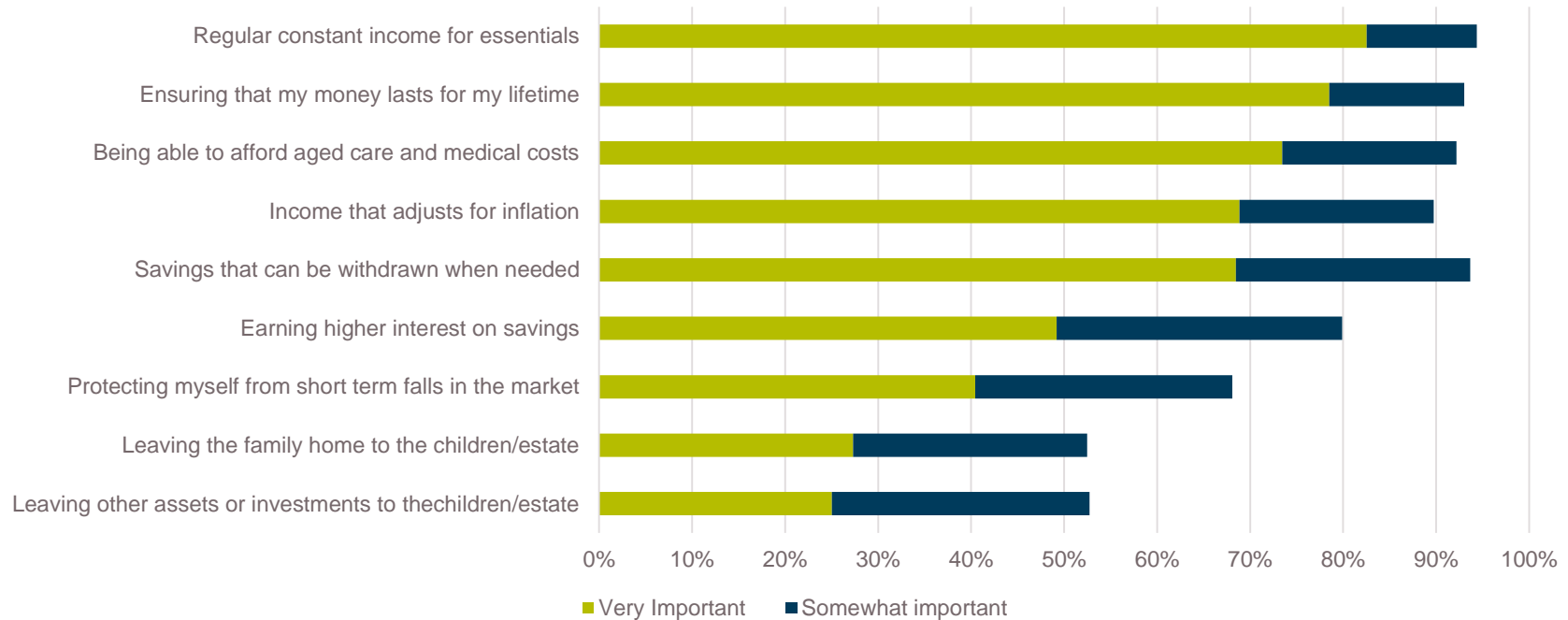
Spending is different from saving



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The most important retiree goals relate to income

Leaving the home or an inheritance are the least important

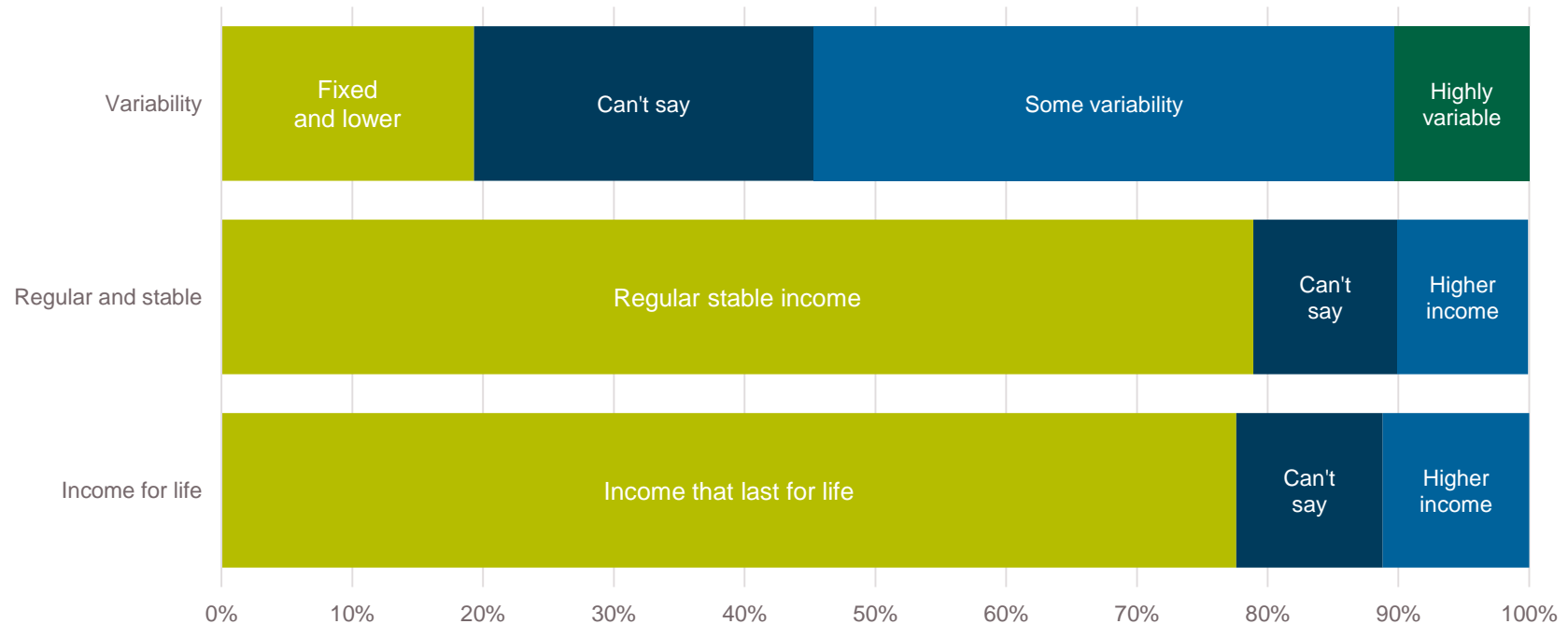


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1. Source National Seniors and Challenger. (2018). *Once bitten twice shy? GFC concerns linger for Australian seniors*. Brisbane: National Seniors.

Regular and lasting better than higher income

Support for the 'retirement pay cheque'



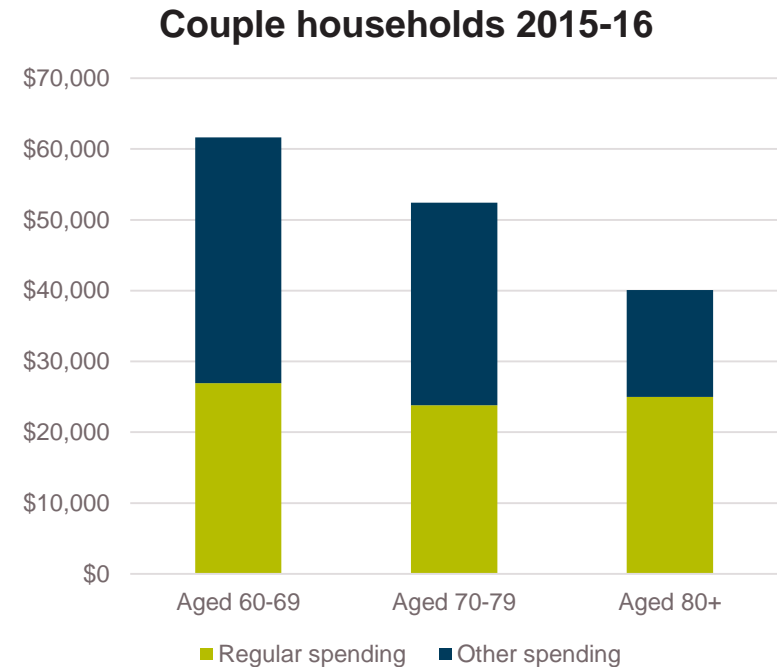
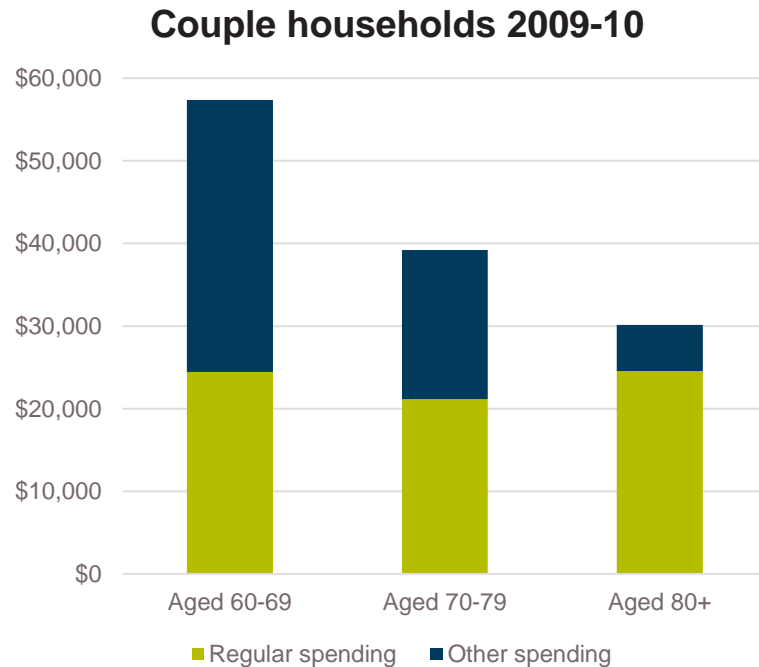
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1. Source National Seniors and Challenger. (2018). *Once bitten twice shy? GFC concerns linger for Australian seniors*. Brisbane: National Seniors.

What are retirees doing?

Measures of total spending by age

Couple households

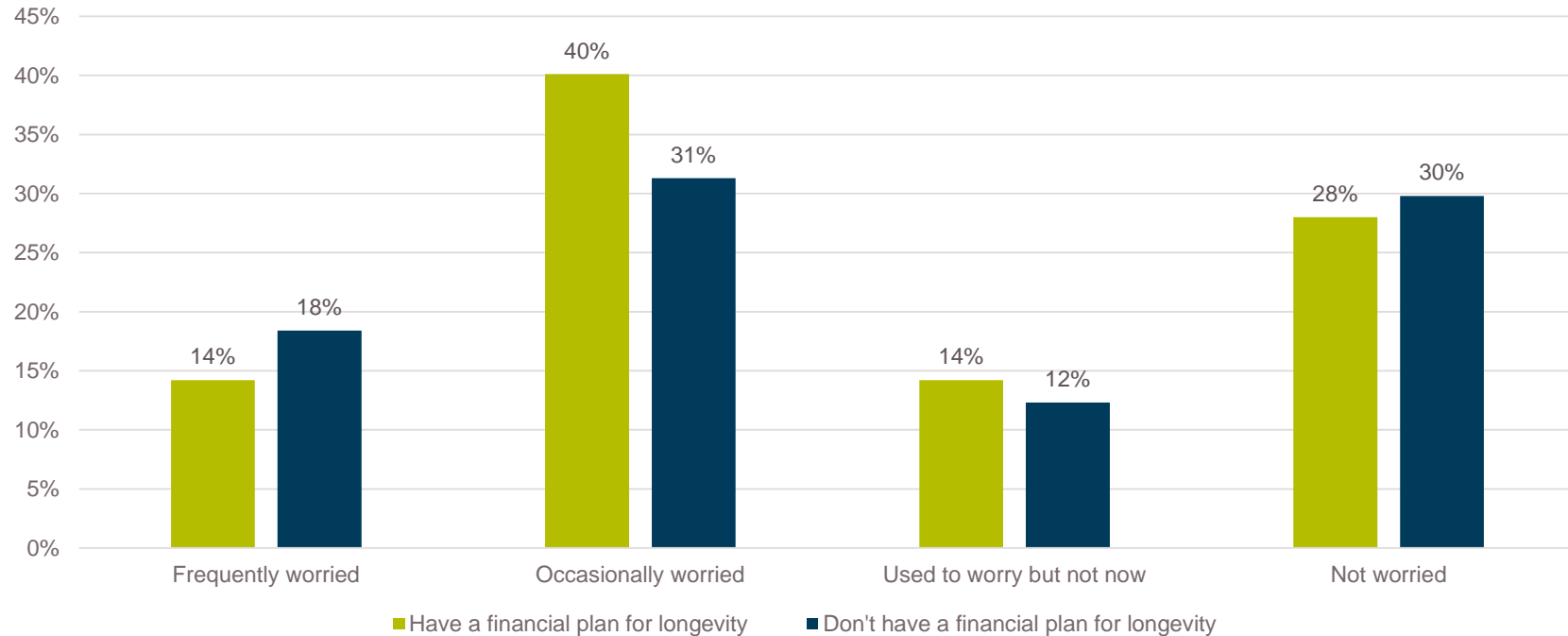


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Regular spending is calculated from HILDA
Other spending is ABS total Household spending less regular spending

The majority fear outliving their savings

Level of concern about outliving savings by financial plan for longevity



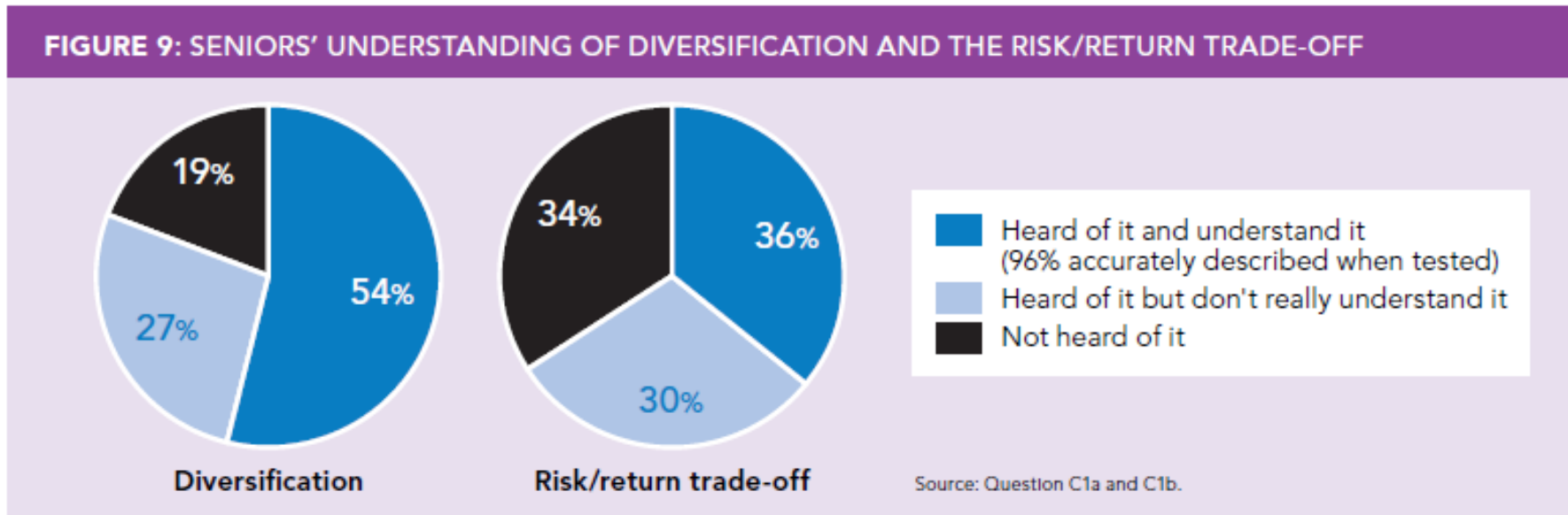
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1. Source National Seniors and Challenger. (2018). *Once bitten twice shy? GFC concerns linger for Australian seniors*. Brisbane: National Seniors.

Implementation for retirees

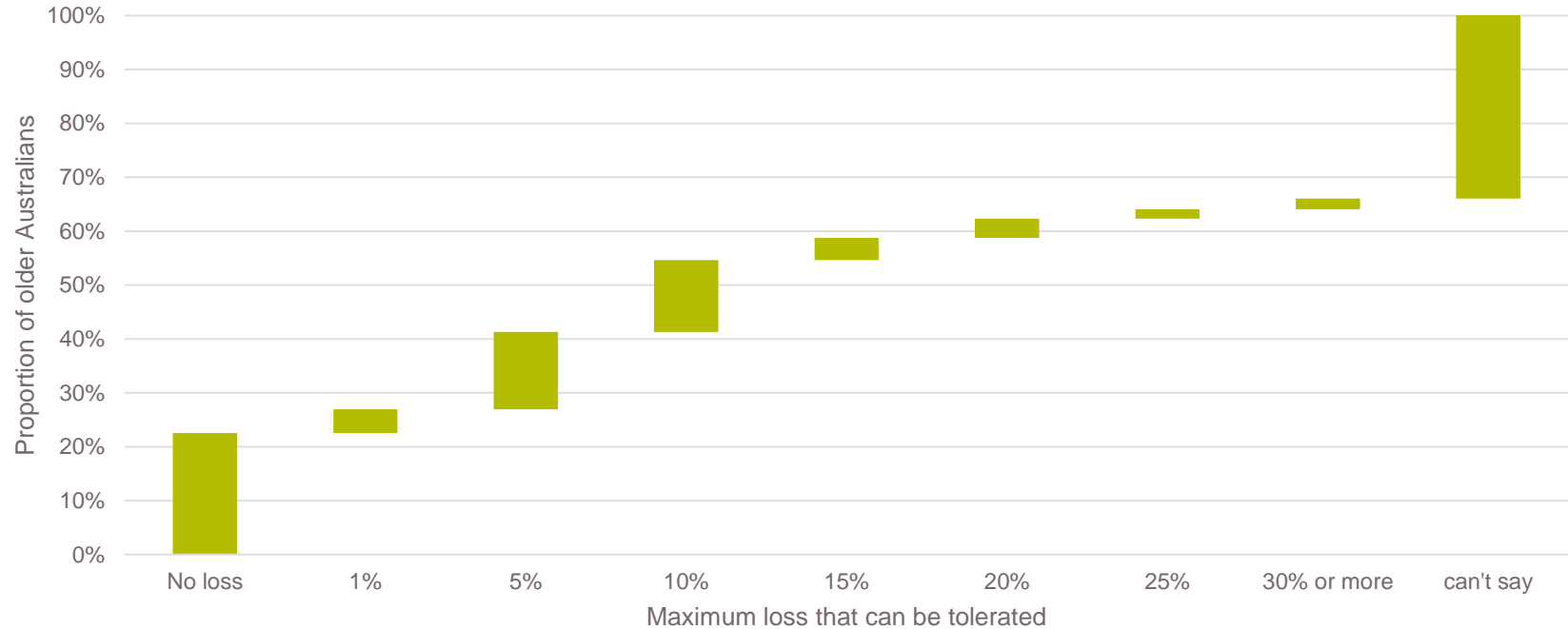
Seniors don't understand financial complexity

Nearly two-thirds of retirees don't understand risk/return trade-off



Few retirees can tolerate large losses of capital

Nearly a quarter of retirees cannot tolerate any risk of loss



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1. Source National Seniors and Challenger. (2018). *Once bitten twice shy? GFC concerns linger for Australian seniors*. Brisbane: National Seniors.

Lump sum bias

Dan Goldstein experiment in the United States

What is the better deal for a 65-year old?

- \$100,000 one-off lump sum; or
- Monthly payments of: a) \$300 in today's dollars for life; b) \$500 in today's dollars for life; c) \$900 in today's dollars for life?

The answer is that anything over about \$500 per month for life is better...

Key observations:

- People nearly always preferred the lump sum, even over the \$900 monthly payments.
- The 'indifference point' was \$1,065 per mth, more than twice what it should have been

Cognitive decline

Financial decision-making at older ages



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Risk pooling

Wildlife example

- Fish shoal in order to protect the group
- Retirees need some element of pooling to insure against risk they cannot manage on their own
- Retirement could be a mixture of pooling and individualised investing
- Will need some policy nudges



The solution needs simplicity



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The end

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