



RETIREMENT CONFERENCE

REVIEW & REFLECTIONS

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RETIREMENT CONFERENCE

STEPPING FORWARD AMIDST POSITIVE DEVELOPMENTS

The 2022 edition of the Retirement Conference was a collaboration between Conexus Financial and The Conexus Institute. The aim was to facilitate the continuation of an important conversation: how to improve the retirement outcomes of Australians delivered by the superannuation industry.

To create the opportunity for open forum discussion, attendance was limited to representatives from the 14 largest super funds, Treasury, APRA and ASIC, government and opposition representatives, six industry partners and some leading thinkers on retirement.

The agenda for the day was to explore the first round of retirement income strategies, an update on how the regulators are working in concert with the Retirement Income Covenant (RIC), explore innovations in retirement solutions, and address the challenges associated with advice, guidance and engagement in retirement. The day was bookended by presentations from the shadow minister and the minister.

MOVING THROUGH THE DAY...

Shadow Minister Stuart Robert MP began by outlining the principles which underpin the coalition's policy framework:

1. It's members' money
2. Performance matters
3. Transparency and integrity are important

It was through these principles that Mr Robert framed the intent of the previous Government's reforms. My reflections here are that everything is more complex in retirement:

- It is members' money, but on a preserved basis and generally considered to be for financing retirement. The callout, made multiple times through the day, for an enshrined objective of superannuation would provide clarity.
- Performance matters, but what is performance in retirement? It is far more complex, and simple performance tests won't work well in a decumulation setting. Assessment is a major challenge for the future, whether by APRA or research houses.



Shadow finance minister Stuart Robert

FIRST ROUND OF RETIREMENT INCOME STRATEGIES

Given the small amount of time, industry did well to complete the first round of retirement income strategies. However, as identified in **Mercer's research**, there was significant dispersion in what was published on fund websites. One area of uncertainty appeared to be the intended audience of the published document (regulators or members). ASIC's guidance was that any document published on a fund's website should be targeted at fund members.

One interesting area of differentiation amongst funds was the definition of retirement income (60% identified fund assets and age pension eligibility, 40% identified additional assets such as other fund holdings, other savings, income from spouse). The concern here is that solutions developed under different definitions will not be readily comparable.

Varying approaches were taken to cohorting. Many funds identified cohorts, while a smaller number alluded to tailored solutions for these cohorts. Some well-considered funds aspired to individual solutions. Broadly, where the conversation settled was that cohorts are valuable for strategic planning and overarching design but anything that can be delivered in a more personalised manner is likely to have higher adoption and instil greater confidence.

Of Mercer's surveyed universe, only 8% of funds offered a lifetime pension solution (i.e. a product with an element of individual longevity protection). Some funds are actively exploring solutions.

Mercer also identified large variation in the forms of financial assistance provided to members, from guidance tools such as calculators through to financial advice.



Richard Boyfield, Mercer Consulting

UPDATE FROM APRA AND ASIC

This overview discussion (of the first round of retirement income strategies) flowed nicely into the joint presentation by APRA and ASIC. The difficulties of regulating a principles-based policy framework on a complex topic area cannot be underestimated. In my opinion the challenges faced by regulators on retirement are somewhat like those faced by central banks fighting inflation at the moment:

- Create tight regulations and the outcome is a de facto prescriptive framework, undermining the potential for innovation afforded by a principles-based framework.
- A hands-off approach by regulators will likely result in a broad range of solutions from which there are two possible scenarios down the track: no assessment (because it is too difficult), or assessment which creates legacy products.

Given this backdrop what I admire most about APRA and ASIC's approach is that they are using their non-prescriptive regulatory techniques to good effect. They are being consultative and transparent. The joint thematic review of retirement income strategies to take place over the latter part of this year provides an opportunity to showcase (early next year) what the regulators consider to be best practice examples.

Clearly there are policy challenges – the assessment challenge is a tricky issue for APRA while it is possible to construct situations which are difficult to navigate under anti-hawking, DDO and advice laws. But the message was clear: applying a member-centric approach is a sensible starting point.

The full speech can be accessed [here](#).



Left to right: Bradley Ruting, ASIC, Leah Sciacca, ASIC, Mike Cornwell, APRA, Gideon Holland, APRA, Suzanne Smith, APRA and Jane Eccleston, ASIC.

INNOVATION IN RETIREMENT SOLUTIONS

Many attendees may have been surprised by how packed the innovation session was, to the extent that we ran overtime! We initially focused on longevity solutions. Here, the flexible design offered by different service providers was a fascinating development. There was also lots of innovation in investment strategies and drawdown approaches. As per Geoff Warren's comments it is the way that all these innovations are integrated into a retirement solution which is important. My two reflections from this session were:

1. Funds are moving forwards. There were many examples of innovation and several funds talked to their planned developments.
2. The role of product is interesting: while providing personalised solutions via some form of advice or guidance is important, products can be used to deliver some of these elements including some behavioural nudges. It will be interesting to see how advice, guidance and product design interact as the industry develops.

This session raised important callouts on the issues of portability, the risk of legacy products, and unisex annuity pricing.

EXPLORING THE ADVICE, GUIDANCE AND ENGAGEMENT CHALLENGE

For many attendees, an insight into Michelle Levy's thinking as Lead of the Quality of Advice Review was a major feature of the day. While, at the time of publication of this note we can't go into too much detail, it appears that there could be a pathway for super funds to have increased scope to do more to assist their retiring members. This all sounds promising although concerns were raised around controlling for agency issues and the ability to regulate.



Michelle Levy, Quality of Advice lead

How super funds account for potential policy change is difficult as they continue to build out their retirement income strategy strategies. My reflections on hitching your wagon to review recommendations are cautionary (note: this is in no way a criticism of the ideas outlined):

- What makes it through from reviews into policy varies greatly from review to review.
- It is the combination of policy and regulation which dictates the industry setting.
- Policy (and any accompanying regulation) can take a long time to implement.

Maybe the pathway for super funds to do more from an advice and guidance perspective for retiring members will open up, but there is a scenario that it doesn't. The leading funds will have a clever (likely modular) strategy for navigating their way through, perhaps emphasising certain activities (like calculators) which will be relevant in most policy environments.

MINISTER STEPHEN JONES MP

This left us with Minister Jones' session which proved to be a broad ranging discussion. Minister Jones began by outlining the Albanese government's plan for super. First and foremost, funds are run in the best interests of members. Second, funds need to be high-performing and well-governed. Third, and of most interest, super as a sector works in partnership with government to grow the economy.

Minister Jones acknowledged the need for more attention on the retirement phase. He noted that a one-size-fits-all approach won't work, that funds are expected to respond with a range of solutions, but that consumers may take time to respond to these solutions. That is why the Quality of Advice Review is important. And with advice and guidance Jones was careful to note that multiple solutions will be required.



Minister Jones was constructive on creating an objective of superannuation, commenting that it was something that he and Treasurer Jim Chalmers were working through. In terms of getting this right, two comments were promising:

- Separating the objectives of super from the objectives of the retirement income system.
- Separating the objectives of super from the benefits of superannuation.

It will be fascinating to see where the Albanese Government settles on financial advice policy. Minister Jones' framing of the problem was insightful:

- The foundations (which won't change) are an advice industry on the journey to professionalisation and that advice needs to be delivered through the lens of best interests of clients.
- An advice challenge viewed through the needs of consumers, not viewed through the prism of the advice profession, super funds or institutions.
- If super funds are part of the solution, then rules need to be developed to accompany that model.
- If the solution is through an adviser, then there needs to be a business model which works.

The Albanese Government has stated its intent to address the gender gap in super but finds itself restricted by its fiscal situation. The initial focus will be on addressing the gender pay gap, then childcare costs. While they plan to address super on paid parental leave, he also challenged industry to lead. To that extent it was great to see that many funds in the room pay super on paid parental leave.

One question from the floor to Minister Jones centred on what industry can do to assist government. The answer was interesting: shore up the social license for super via an excellent member experience. Minister Jones pointed out that member experience will be compared not against other super funds but against other customer experiences, such as banking. This challenge drives at capabilities in areas such as communications, IT and data. This was interesting given some comments during the day that the super industry is lagging in member experience compared to other industries.

10 REFLECTIONS

1. Retirement strategies of super funds are moving forwards. Every fund met that initial hurdle to produce a retirement income strategy, and the developments in the pipeline are exciting. I think this will likely create a momentum effect, aided by the regulatory approach (joint thematic review, sharing of best-practice etc.).
2. How will retirement income strategies be assessed? This is a tricky issue because there is a how question (which Geoff Warren and I are exploring – [discussion paper](#)), and a when question (too soon has a prescriptive effect, too late could lead to a broad range of solutions which may subsequently create legacy issues). This challenge applies not only to APRA but also the research houses. My working view is that APRA should maximise the learning opportunities for industry and itself by starting sooner rather than later, but on a no-consequence basis for an initial period.
3. A related issue is whether there will be real competition in retirement and, if yes, what form competition will take. Solutions will be difficult to compare and so it may come back to service-based competition. Under either scenario there is little in the way of transparency and comparability available to consumers. Brand will likely be the basis of competition and I'm concerned that this is not particularly healthy.
4. It was made clear that published retirement income strategies need to be written from a member facing perspective. This doesn't mean that a retirement income strategy needs to be central to the member engagement piece on retirement (for instance a dedicated retirement portal may be a better starting point).
5. At some point the retirement income strategy will need to connect into the annual member outcomes assessment. Leading funds will be the ones who start to develop this connection, supported by some new metrics. This will be a fascinating development from which APRA will be able to showcase best practice.
6. A legislated objective of super can only help. It will provide greater clarity and add momentum to the focus on retirement. It sounds like government is making progress on this.
7. While advice and guidance solutions are necessary to assist those who engage with their retirement, there remains the conundrum of how to assist the disengaged. Retirement defaults remain an important topic which may require further policy attention.
8. The product challenge and the advice and guidance challenge are not independent. The task of integrating various solutions into a personalised strategy crosses into advice and guidance world. And useful elements of advice and guidance (especially some behavioural nudges) can be incorporated into product design.
9. Given the policy uncertainty, funds need to work out how to account for distinct policy scenarios when developing their retirement advice and guidance strategy.
10. Finally, will we end up with one-hundred well-formed retirement income strategies? I doubt it. But what does this mean? Another lever to drive consolidation, or perhaps a separate licencing regime for retirement to account for those funds for which the business case does not stack up.

STEPPING FORWARD



Was the purpose of the 2022 Retirement Conference achieved? I'm confident that all in attendance would have left better informed, indeed excited, about how industry is stepping forward on retirement. The regulators were transparent and consultative, innovation was on display, attendees had good insight into the possible direction that advice and guidance may take, while the messages from government and opposition were clear. The broad message is to continue moving forward. Undoubtedly there are challenges, but there is room for further improvement before the boundaries created by those challenges are reached.

Next steps always matter. The Conexus Institute is already working on a number of these areas and is always open to new ideas. Please let me know if you have feedback or would like to collaborate further. We look forward to sharing our work with you and contributing to better retirement outcomes.

Thank you to all involved for your preparation and constructive participation on the day.



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