RETIREMENT CONFERENCE

REVIEW & REFLECTIONS

8 August 2023 I Old Parliament House, ACT

BY DAVID BELL & GEOFF WARREN,
THE CONEXUS INSTITUTE

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RETIREMENT CONFERENCE

EXECUTIVE SUMMARY

1. The federal government and regulators issued a clear message: they expect funds to do more in developing their retirement income strategies. Better understanding of members and improving member experience were two key areas of focus.

2. Developing a scalable mechanism through which trustees can direct members to suitable retirement solutions - while being cognisant of the personal financial advice laws - is arguably the most pressing policy challenge. This would open up the full choice architecture, particularly if this mechanism could be used to recommend or assign members to solutions.

3. Funds are seeking further clarification around the collection and use of personal information, in particular the connection to directing members into retirement solutions in light of the personal financial advice rules. While ASIC was clear that funds can and should collect member information to inform retirement strategy development, funds remain uncertain and are building in a legal risk buffer.

4. Industry would benefit from clarification around what funds can do for retired members under the sole purpose test. Examples might be trustees assisting members with the Age Pension and aged care.

5. Longevity products offer benefits in terms of both boosting and sustaining income and providing confidence to spend. But member take-up is modest. Overcoming member reluctance may require better use of language and communication, integrating longevity products into retirement income solutions that funds recommend, and addressing concerns over risk of policy change.

6. The scale of the retirement challenge is significant for all players in the system. Funds needs to change operating models and mindsets to meet the need for greater personalisation. Developing retirement income strategies will likely require extended timeframes and will cost more than accumulation. In our view, the required level of development will not happen unless retirement becomes a top two priority for funds.

FUNDS BEING PUSHED TO DO MORE

The annual Retirement Conference, a collaboration between The Conexus Institute and Conexus Financial, aims to facilitate an important conversation: how the superannuation industry can improve the retirement outcomes of Australians.

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

The day started by hearing messages from government and opposition. This was followed by a joint presentation from APRA and ASIC. The room then explored several topics in detail. Points of focus included the choice architecture (specifically the pathways through which a member may find their way into a suitable retirement solution), the role of longevity solutions, and whether more policy and regulation is required to complement the Retirement Income Covenant.

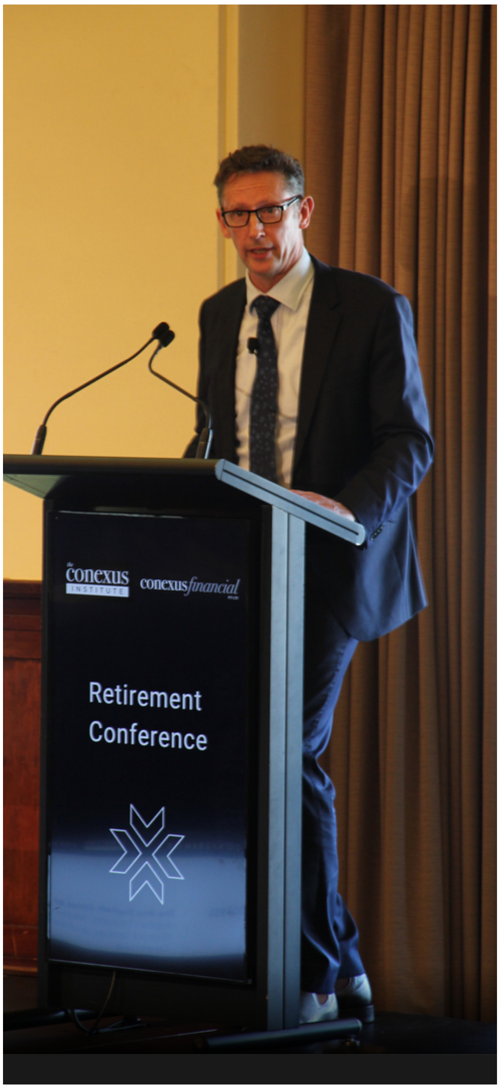
MINISTER STEPHEN JONES MP

Minister Stephen Jones MP, assistant treasurer and minister for financial services, made it clear that he was focusing on three areas to improve retirement outcomes:

1. Establishing a political consensus
2. Improving fund performance
3. Lifting the customer service standards

Objective of superannuation
In coming months, the government will release draft legislation for the objective of superannuation for consultation, with the intent of introducing it to Parliament soon after.

Superannuation performance
Minister Jones viewed the Your Future, Your Super performance test as an effective but somewhat blunt tool that has helped clear out the worst underperformers in the sector. As the bad performers exit, he acknowledged that the performance test will need to evolve into a more enduring test.



Minister Stephen Jones MP

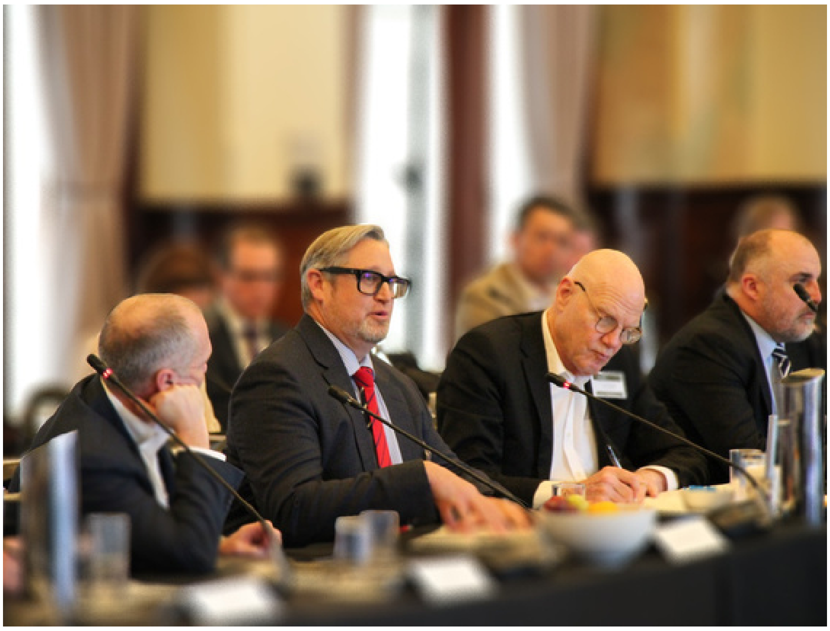
Customer service standards
Minister Jones re-stated previous public comments that trustees will be held to account for their customer service. As a case in point, Minister Jones referred to the finding from APRA and ASIC's joint thematic review that funds were not making sufficient progress in knowing their members and understanding their needs.

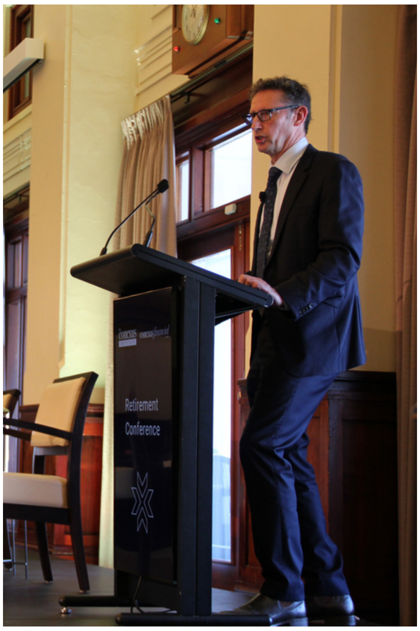
Connecting it all together
The main point of emphasis for Minister Jones was the role super funds have in assisting members to get the most out of their superannuation by drawing down on their savings for a dignified retirement. He noted that, in the absence of getting the guidance they need, retirees are forced to make decisions for themselves about matters such as mitigating potential risks, balancing costs and discretionary spending. As a consequence, many retirees are enjoying a lower standard of living than they might otherwise.

The government sees the lack of advice and information around retirement as the biggest gap. Members would significantly benefit from being able to access assistance, including to help them navigate simple decisions such as tax obligations and pension entitlements.

Minister Jones expects funds to play an important role in providing this advice and guidance. Indeed, he saw it as a necessary part of the increased obligations now placed on trustees. The government has hence committed to expanding the provision of advice through superannuation funds.

While details need to be worked through, Minister Jones considers this step as a natural progression for funds to be able to better know and serve their members, having more meaningful conversations and providing helpful and safe advice.





Adrian Stewart,
Allianz Retire+

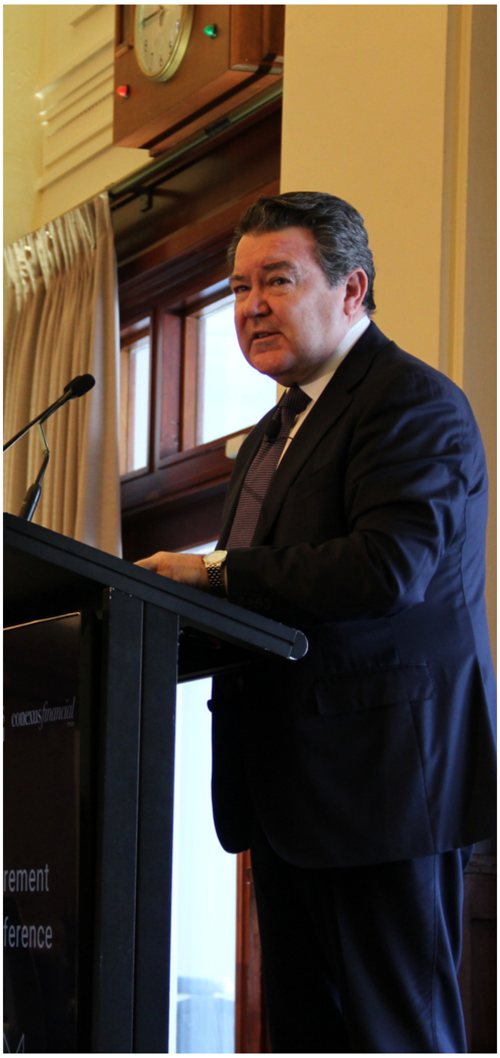
SENATOR DEAN SMITH MP

Senator Smith began by highlighting the importance of a secure and trusted superannuation system, reinforced by a more accessible financial services sector, for the wellbeing of Australian retirees and the national economy.

After referring to the surging cost of living, Senator Smith made four notable comments:

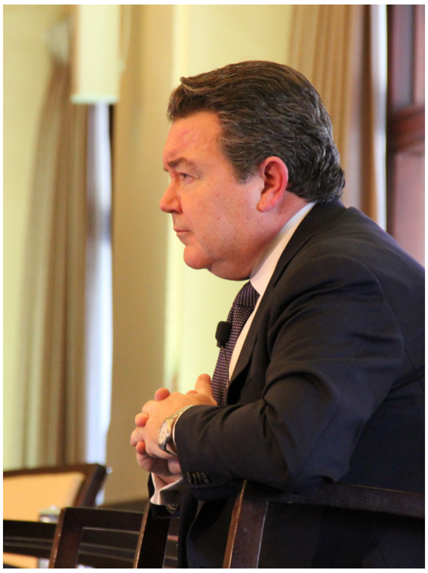
1. Importance of not over-tinkering with the superannuation system.
2. The Coalition's support for all 24 recommendations in the Quality of Advice (Levy) Review.
3. A belief that super funds knew the Retirement Income Covenant was coming for three years prior to announcement, making the findings identified in APRA and ASIC's joint thematic review more disappointing.
4. The Coalition remains committed to its Super Home Buyer Scheme.

Senator Smith's full speech can be accessed here.



SENATOR DEAN SMITH MP

Don Russell, AustralianSuper



JOINT UPDATE FROM APRA AND ASIC

APRA and ASIC jointly issued a strong message to conference delegates: super funds can, and should, be doing more to assist their members in retirement.

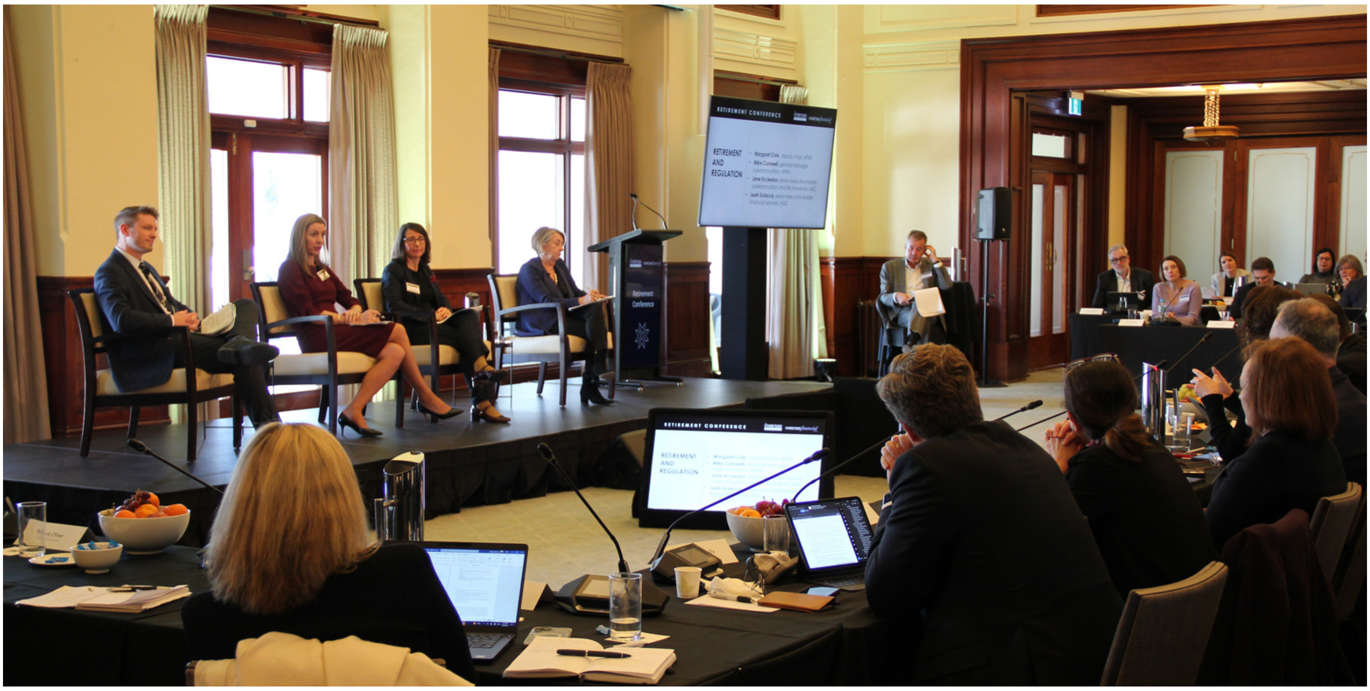
These messages follow their recently released joint thematic review. This review found that many trustees are developing and continuously improving their retirement income strategies.

However APRA and ASIC expressed disappointment in the quality and depth of research, data and member-centricity underpinning the design of some retirement income strategies. They also pointed to a lack of urgency in strategy execution by a number of trustees.

APRA and ASIC are not confident that all trustees are making adequate progress in satisfying three elements considered core to effective implementation of the Retirement Income Covenant:

1. Understanding members' needs in retirement
2. Designing fit-for-purpose retirement assistance; and
3. Overseeing retirement income strategy implementation.

While all parts of the system have roles to play, APRA and ASIC believe that it is trustees who know their members best, and hence must take the opportunity to design and implement member-centric retirement income strategies.



Left to right: Mike Cornwell, APRA, Leah Sciacca, ASIC, Jane Eccleston, ASIC Margaret Cole, APRA

Margaret Cole, Deputy Chair of APRA, detailed three areas of focus going forward:

1. *Supervision*: further follow-up with funds identified to be lagging in certain areas; seek self-assessment by all trustees against key findings identified in the joint thematic review; and to closely monitor progress and implementation of retirement income strategies.

2. *Regulatory framework*: while not all of the review findings will be immediately embedded into APRA's prudential framework, fundamental aspects will be incorporated into APRA's Prudential Standard SPS 515 Strategic Planning and Member Outcomes in a set of planned updates over the next 12 months.

3. *Encouraging funds to be bold*: trustees need to be clear and courageous in determining how to best serve their members, embracing a step-change in capability and adopting a 'success in retirement' mindset. Funds that do not have the requisite capability in retirement should consider partnering with other organisations, or even move retired members to other funds.

Jane Eccleston, Senior Executive Leader at ASIC, focused on clarifying some misunderstandings:

- Misunderstanding no. 1: without being able to provide personal financial advice to members there is little progress that can be made on retirement outcomes for members. Here, Ms Eccleston encouraged a pragmatic approach by super funds ("cannot realistically have a business model whose success is entirely contingent on making individual product recommendations to customers"), highlighting the need for high quality products that meet members' needs along with decision-making support.

- Misunderstanding no. 2: more data is itself the solution. Here the message was for trustees to be strategic by considering what data is needed to develop, implement, and review their retirement income strategy, accounting for the evolution of the strategy and an assessment of data gaps.

- Misunderstanding no. 3: collecting data on members results in the provision of personal financial advice. ASIC is not suggesting that data collected from members to inform a retirement income strategy needs to be applied to delivering them personal solutions. Collecting member data in itself creates no requirement or obligation to provide personal financial advice.

In closing, Ms Eccleston encouraged trustees to think how member's choices are made and, accordingly, how to present information and offer choices that maximise the chances of members ending up in a suitable retirement solution. Further, while super funds are faced with policy and regulatory uncertainties, ASIC's message is that there is plenty of scope for trustees to move forward within the existing framework.

The full speech can be accessed here.

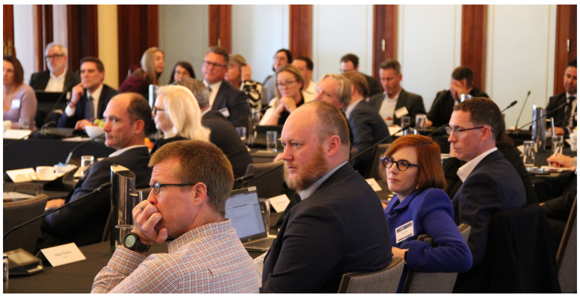
CHOICE ARCHITECTURE - PATHWAYS TO ASSIST RETIREES INTO SUITABLE RETIREMENT SOLUTIONS

In this topic, the term "choice architecture" is used to describe the range of pathways retirees may use to find their way to a suitable retirement solution. The table below was provided as an overview.

Pathway	Self-directed	Adviser-directed	Trustee-directed		
	Member choice	Personal financial advice	Trustee recommendation	Trustee assignment	Default
Nature	Member chooses solution, probably drawing on decision support services	Directed to a solution by financial planner through comprehensive or limited advice	Trustee recommends a solution to member, who can opt-in or opt-out	Member requests that trustee assigns them to a solution	Trustee defaults member into a (probably basic) retirement solution
Member type most suited for	Members with desire to self-choose	Members who desire a personalised recommendation, and are willing to pay	Members looking for direction, but: • Do not want to seek a financial adviser • Not well-prepared to choose for themselves		Highly disengaged members who take no action
Currently facilitated?	Yes	Yes, but under review	Possibly? • Trustees wary of breaching advice rules • Might be facilitated by infra-fund advice?	No	No

Discussion at the conference revolved around the 'trustee-directed' pathways on the right-hand side of the table, as this is the area where the greatest need resides and where policy now needs to focus. This helped frame the central issue as "what does the scalable trustee-directed solution look like?".

Defaults received mixed support. Retirement defaults represent the most scalable solution, can establish baseline outcomes, and may embed a range of useful behavioural nudges. However, there are operational challenges. For instance, information such as bank details and proof-of-identity are required, making auto-enrolment (a key underpinning of the operational efficiency of defaults) difficult. And defaulting without engagement risks inappropriately assigning members to a solution.



Antony Thow, CBUS Super, Dee McGrath, Link Group

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The other two trustee-directed models – assignment and recommendation – might be served by an expanded intra-fund advice mechanism. "Fund-guided choice" was a term that entered the conversation. These trustee-directed approaches would be less holistic than comprehensive financial advice. However, they could facilitate more tailored member solutions in a way that should cater for members who do not want to take financial advice or choose for themselves in a scalable way. Some funds explained how this could integrate into existing member triage approaches. For these pathways to operate effectively, trustees need to source and use personal information to identify the most suitable solution for the member, which is not facilitated under the advice rules as they currently stand.

This session concluded with a discussion on the importance of customer experience, member engagement and how these connect with retirement. This highlighted the challenge for super funds – the industry needs to switch from an accumulation setting where defaults dominate and only moderate engagement is required, to a retirement phase that necessitates far greater engagement to be effective.

WHERE TO FOR LONGEVITY PRODUCTS?

APRA and ASIC's joint thematic review indicated progress in adopting longevity products at the trustee-level, but there seems little take-up by retirees. Is there a localised version of the "annuity puzzle" that needs to be solved?

Academic research involving Geoff Warren indicates that there is a role for longevity products for many, but not all, member cohorts. For instance, for lower income cohorts the Age Pension provides sufficient longevity protection.

Participants highlighted the dual benefits of annuity products: longevity risk management and an income boost from mortality credits. The confidence provided to members that that they will not run out of money was emphasised as a major benefit. An example was offered of increased spending amongst those retirees who use a longevity product.

The second part of this discussion was to explore what is needed to facilitate greater retiree take-up. Language and communication are important. For instance, the term "longevity product" should be for industry use only (at best).

Some of the solutions reside in better integrating longevity products into retirement solutions. This involves overcoming operational challenges (which service providers have been addressing) and further refinement of cohort-tailored retirement solutions by super funds. There is also the need to overcome wariness about the potential for changes in policy when committing to a long-term product.

Other noteworthy comments included: (1) the existing (and likely growing) dispersion in longevity products, which makes assessment and comparison difficult, and (2) care needs to be taken by trustees before placing members into solutions that receive limited take-up and are difficult to unwind.

Luke Spear, Treasury, Lynn Kelly, Treasury

IS FURTHER POLICY AND REGULATION REQUIRED TO COMPLEMENT THE RIC?

This session framed the challenges faced by policymakers and regulators. No delegate agreed that existing policy and regulation provides all the clarity, direction, and mechanisms required for funds to move forward with confidence in aiming to deliver excellent retirement outcomes for all retirees. Yet there was no consensus on what is required to clear the way.

The Retirement Income Covenant is principles-based and only a few pages in length. The strain is that industry would most likely benefit from some further direction, but appear hesitant to switch away from a prescriptive approach.

The question was put as to what is the true nature of the trustee obligation: provide retirement solutions and decision support to enable members to identify appropriate solutions, versus an obligation to do their best to assist every member into a suitable solution. This met a mixed reception, and with no clear view emerging. Perhaps this was because the scalable trustee-directed solution is not yet in place.

The need for a scalable trustee-directed solution appeared to resonate most with delegates. This may be facilitated through the government's response to the Quality of Advice Review. A note of caution was offered around using an existing instrument (intra-fund advice) as a starting point, rather than starting with the problem statement. Some delegates reiterated the need for the guidance solution to enable Age Pension assistance.

Delegates acknowledged that reviewing the sole purpose test would be beneficial with a view to delivering clarity on providing additional assistance in areas related to retirement, such as Age Pension support and aged care assistance.

APRA's frameworks for assessing retirement income strategies continue to develop, as noted by Margaret Cole. However, there was no indication given of any forthcoming metric-based assessment. Delegates appeared comfortable with this approach, but would like to be made aware of what it would look like if metric-based assessment is in the pipeline in order to minimise solution re-engineering and associated costs.

10 REFLECTIONS

1. Anecdotally it seems like many super funds are taking retirement far more seriously. Optimistically, a few participants stated they sensed the industry is on the threshold of a major tipping point when it comes to retirement. Most funds in attendance had dedicated retirement roles (albeit operating at different levels of seniority). In our view, the serious level of development will not happen unless retirement becomes a top two priority for funds.

2. The message was clear from Minister Jones, APRA and ASIC: they want to see ongoing significant development in the retirement income strategies of super funds. Their messages emphasised both carrot and stick - particularly with APRA suggesting that trustees should consider directing their retired members to another fund if they can't meet their needs.

3. Minister Jones connected retirement to the customer experience challenge he first put to industry at last year's Retirement Conference. This adds up to a substantial industry uplift in operations, member engagement and use of member data.

4. Solving for the scalable trustee directed solution is arguably the most pressing policy challenge. This would open up the full choice architecture to trustees, particularly if it can be provided on a recommendation and assignment basis. It appears a basic auto-enrolment default solution may not be workable, raising lingering questions over what happens to highly disengaged members who are retired but don't act.

5. There were a few strong calls to allow funds to assist members to access the Age Pension. This would amount to a substantial increase in the role played by funds, and would need to be incorporated into the scope of the above-mentioned scalable trustee-directed solution and clarified under the sole purpose test.

6. We consider it possible that the obligations on trustees will evolve to require best endeavours to guide all members into a suitable retirement solution. Accepting such an obligation may become more palatable after a policy framework is in place that facilitates scalable trustee-directed solutions.

7. Information collection, obligations and usage remains a contested issue. ASIC attempted to provide clarity on this issue. However, the industry remains concerned around the difficulty and cost of data governance and management, along with lingering uncertainties around personal advice.

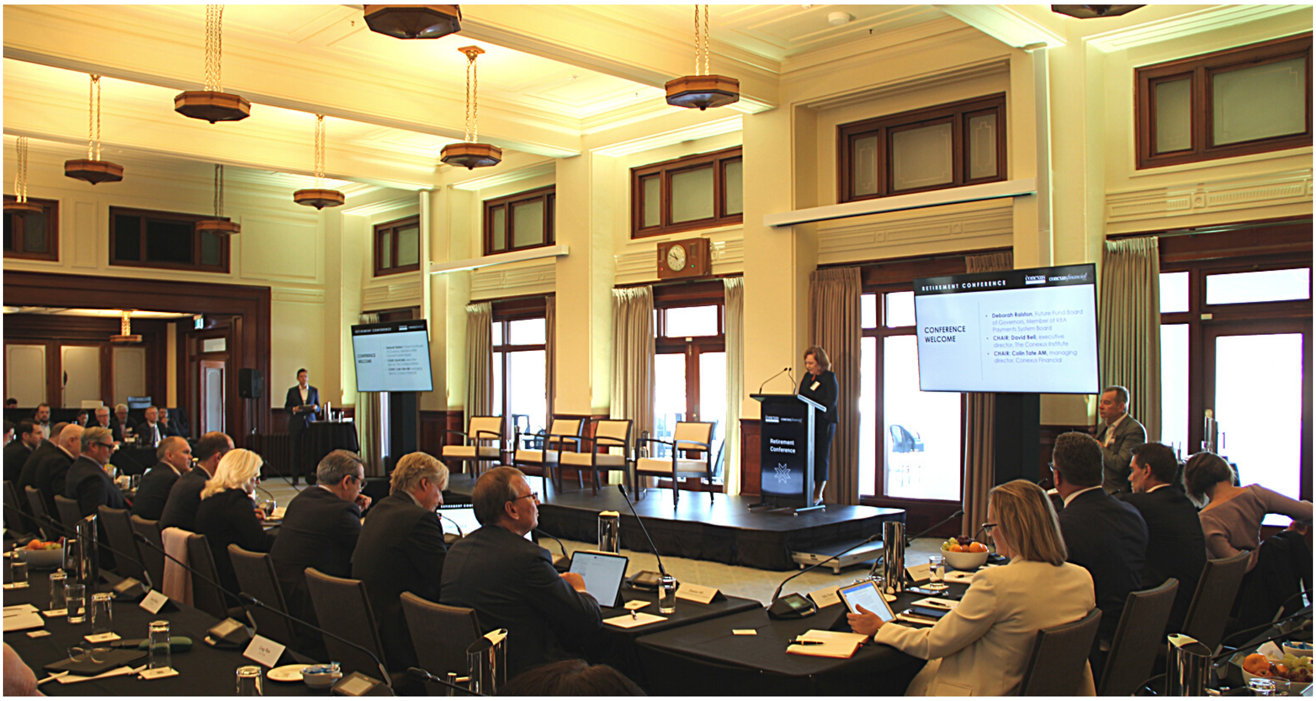
8. Longevity products are viewed as having a valuable role to play, but significant take-up is only likely if trustees are able to integrate these products into their recommended solutions.

10 REFLECTIONS

9. Self-assessment by trustees of their retirement income strategies is expected by APRA, and assessment metrics will need to be developed. Funds may want to consider which measurements could be standardised (and potentially developed collaboratively), and which remain proprietary.

10. The complexity and scale of the retirement challenge for funds is sizable. For many (but not all) funds, their accumulation offerings are based on scaled solutions, little tailoring and modest engagement. The fundamentals change for retirement, when member differences require a greater level of personalisation. Retirement income strategies will likely take extended timeframes to implement and will be more costly than accumulation.

*DEBORAH RALSTON,
THE CONEXUS INSTITUTE*



STEPPING FORWARD

The message from Minister Jones and the regulators is clear: prioritise retirement and move forward. However, it genuinely felt like the conference participants are stepping forward, particularly in terms of the focus and resourcing afforded to retirement. This bodes well for the future.

We see the pivotal policy development as facilitating a scalable trustee-directed solution under which funds are able to direct members to retirement solutions that are suitable for their needs. We think this aligns with the government's direction outlined by Minister Jones. We hope that the government gives due consideration to creating this pathway as part of its response to the Quality of Advice Review.

Our working view is that, for now, APRA will continue to apply traditional prudential regulatory approaches, coupled with strong nudges, rather than formalising public assessment through establishing clear metrics.

Supporting members in accessing the Age Pension seems a promising idea that requires further consideration. It could provide many member benefits, and help trustees engage with and become better informed about their members. However, it would place funds at the centre of the retirement experience for many members, which would be a big step up in trustee responsibility, operations, and influence.

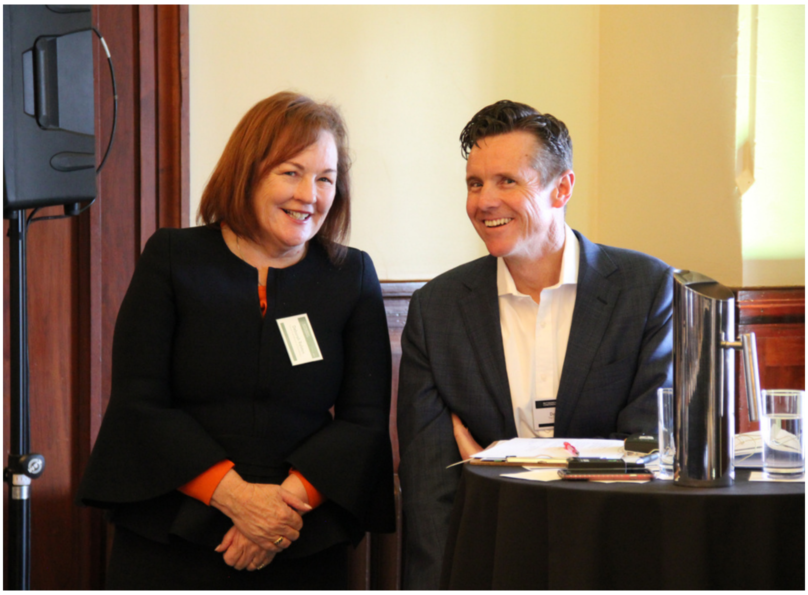
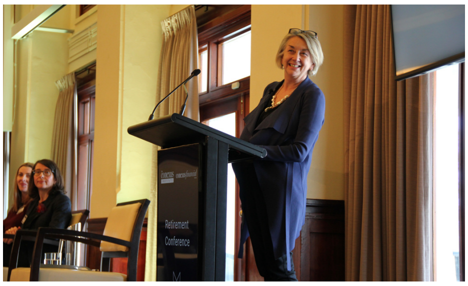
Retirement is a significant industry challenge. Realistic expectations are needed around the timeframes and costs. It is worth considering what areas could be addressed collaboratively, and which areas should remain proprietary.

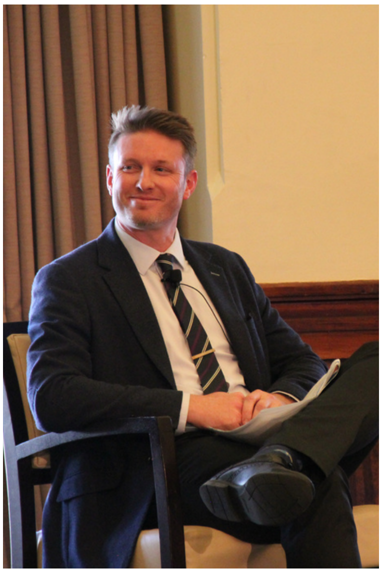
Thank you to all involved for your preparation and constructive participation on the day.

David Bell Geoff Warren

The Conexus Institute

IMAGES FROM THE DAY





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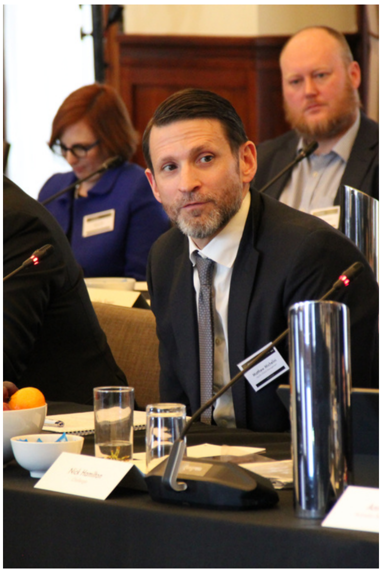

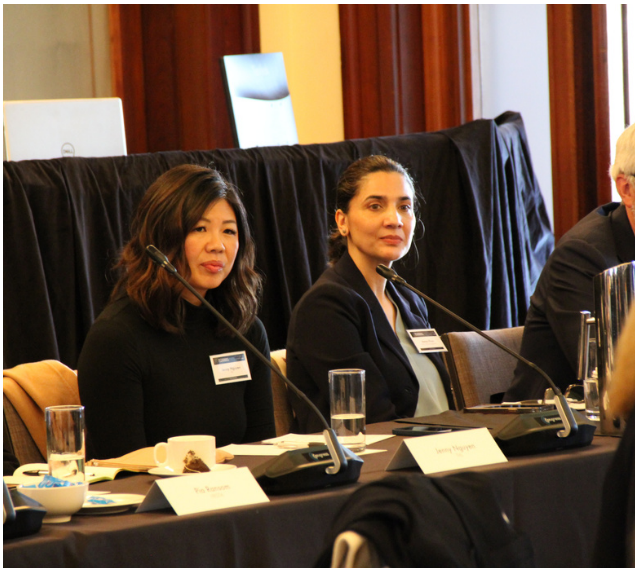

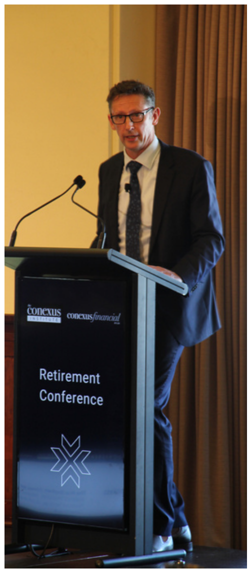

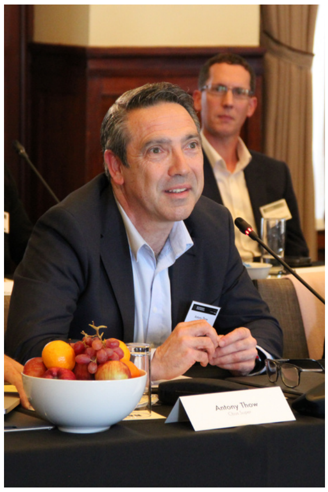

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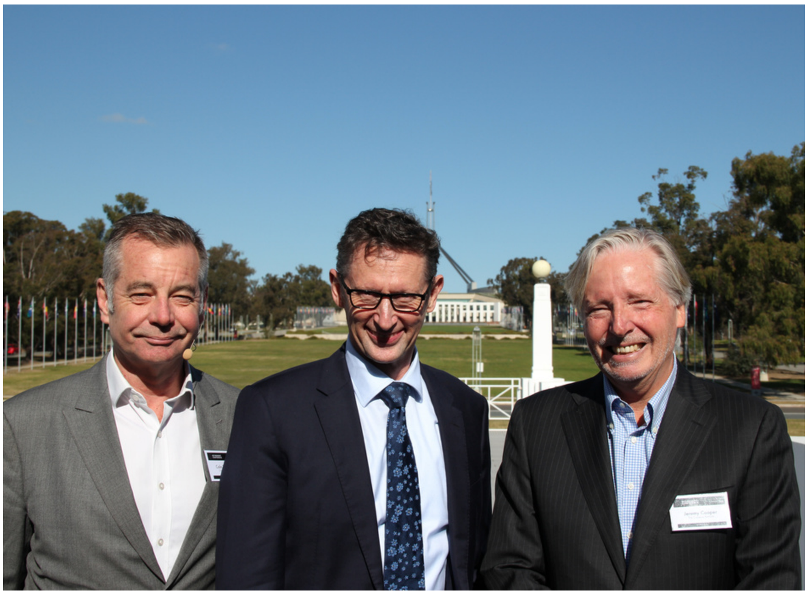

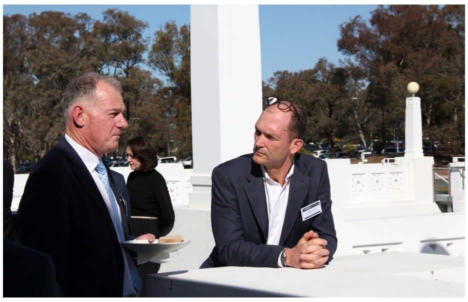

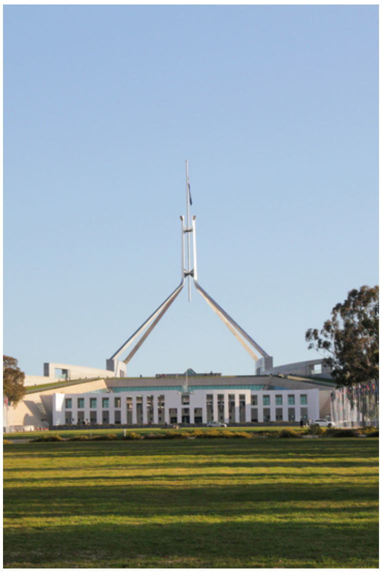

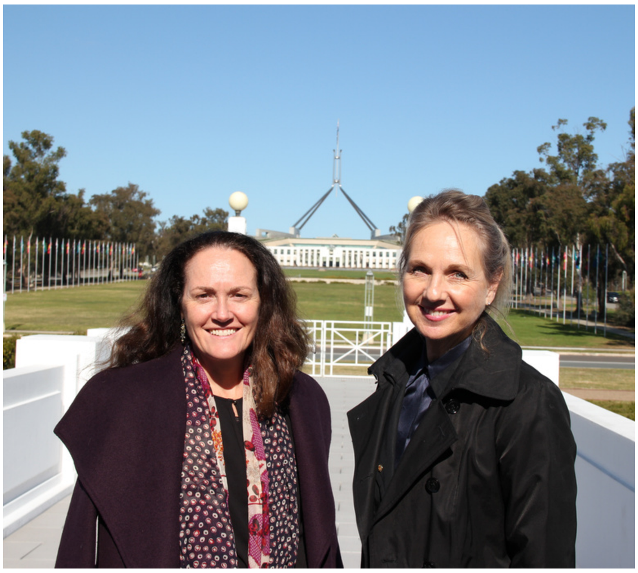

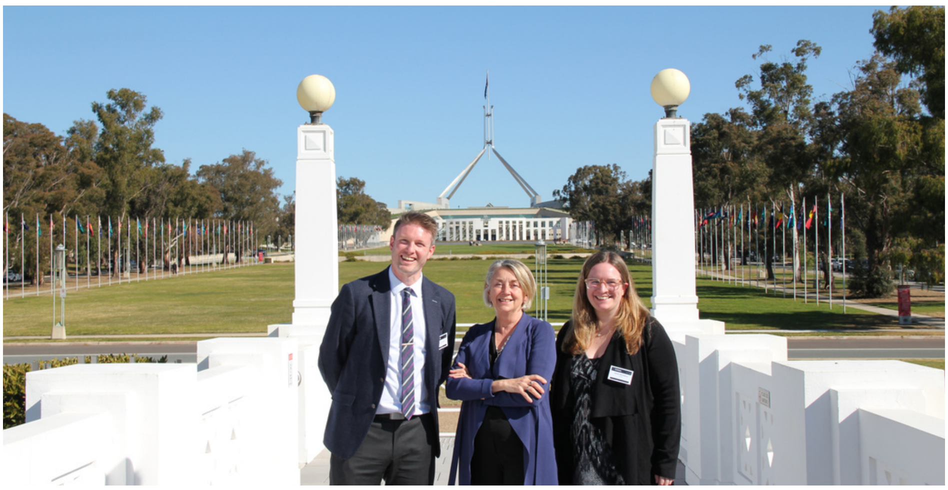

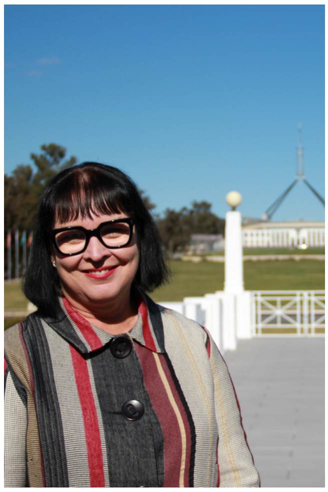

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