

# **Pathways for directing members to retirement solutions**

**31st Colloquium on Pensions and Retirement Research**  
**UNSW Sydney, 5-6 December 2023**

---

**Presenter: Geoff Warren, The Conexus Institute and ANU**

**Co-author: David Bell, The Conexus Institute**

# Overview

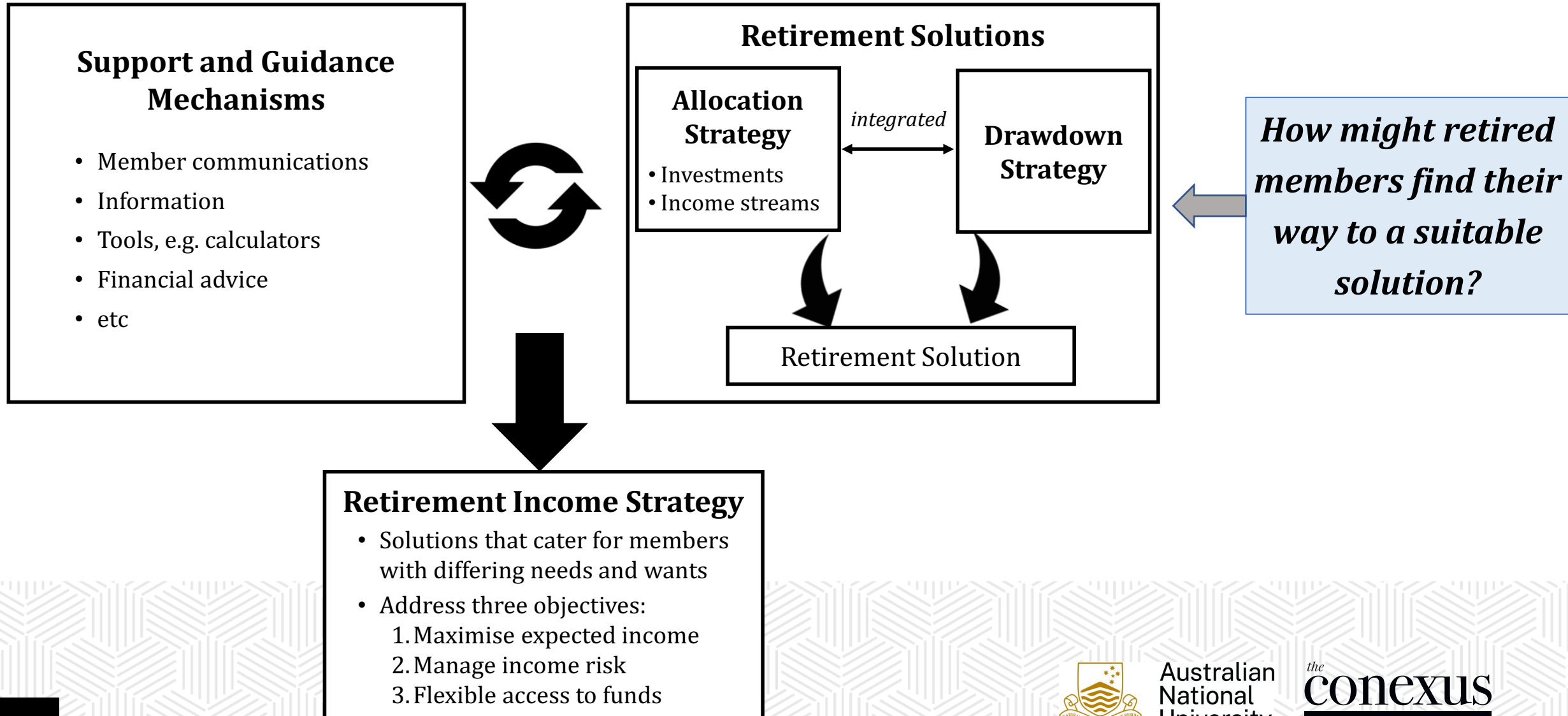
---

- We investigate various pathways through which retiring or retired members might be directed towards suitable retirement solutions, i.e. the choice architecture
- Our organising structure is who identifies the retirement solution, considering three parties:
  - (1) Member, self-choice
  - (2) Financial adviser
  - (3) Superannuation fund trustee
- For each pathway, we scope out
  - Main features
  - Strengths and opportunities
  - Weaknesses and challenges
  - What is required for the pathway to operate effectively

# Background: Retiree needs are complex and varying \_\_\_\_\_

- Retirement is complex
  - Converting assets into income under uncertainty over both returns and longevity
  - Needs and wants extend beyond income, e.g. household situation, age care, and more
- Heterogeneity abounds. And retirees differ along two key dimensions:
  - A. Financial circumstances and preferences
  - B. How they engage with financial decisions
- Many members are receiving no, or little in way of, suitable guidance and assistance:
  - Only 10%-20% pay for a financial adviser. Plus advice industry is capacity constrained.
  - Remainder required to decide for themselves. Whether or not they want to, or capable.
  - Super funds are cognisant of the financial advice rules
  - Quality of Advice Review (QAR) process: how it plays out yet to be seen

# Background: Retirement Income Covenant





# Five pathways to retirement solutions

Pathway	Self-direction	Adviser direction	Trustee direction		
	Member choice	Personal financial advice	Trustee recommendation	Trustee assignment	Default
Main features	Member chooses solution, drawing on decision support services	Member is directed to a solution by a financial adviser through: (a) limited advice, or (b) comprehensive advice	Trustee recommends a solution to member, who then opts-in or opts-out	Member requests trustee to assign them to a solution; but can opt-out	Trustee defaults member into a (probably basic) retirement solution
Member type most suited for	Members who want to choose for themselves	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	No	No

# All pathways have a role to play\_\_\_\_\_

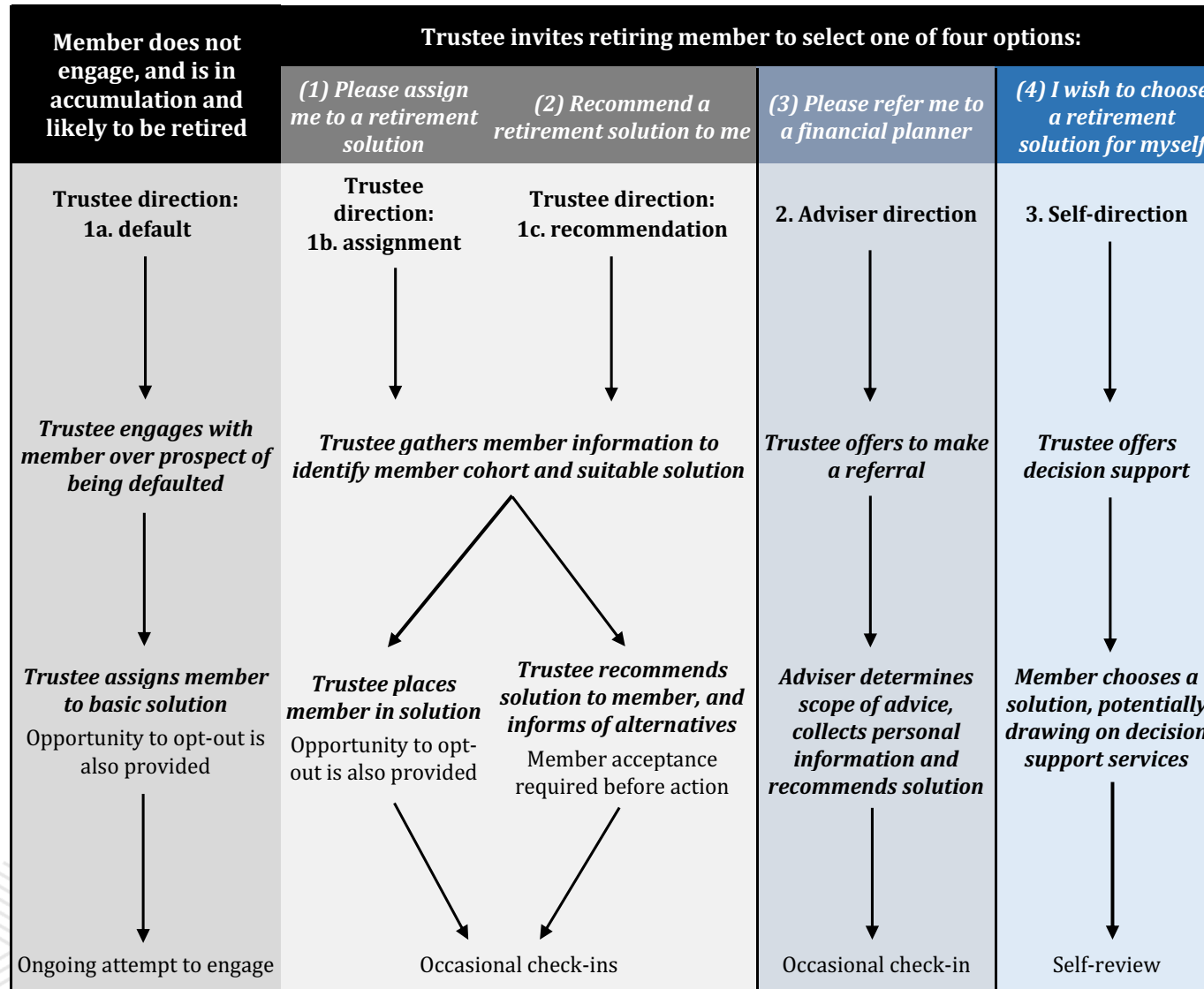
- Members differ in how they want to engage with retirement decisions
- Trustee direction is the missing link:
  - About 70% of members not taking advice and don't want to choose
  - Some *want* and *expect* their fund to look after them
- Members may be better off in some pathways than others

## Frontier Advisers member survey

When I retire I would like my fund to...	
Assist me to choose a suitable retirement income solution for me	50%
Recommend a retirement income solution for me	21%
Leave it to me to choose a suitable retirement income solution for me	20%
Refer me to a financial adviser to advise me (for a fee) on a suitable retirement income solution for me	9%

Source: Frontier Advisers, "Understanding member retirement needs", [The Frontier Line, Issue 191](#), April 2022

# Member engagement process



1. Trustee attempts to triage

**Please choose one of the following options:**

- |  |                       |
|--|-----------------------|
| 1. Please assign me to a retirement solution         | <input type="radio"/> |
| 2. Recommend a retirement solution to me             | <input type="radio"/> |
| 3. Please refer me to a financial planner            | <input type="radio"/> |
| 4. I want to choose a retirement solution for myself | <input type="radio"/> |

2. Either collects personal information and/or 'shepherds' the member

3. Solution identified (possibly cohort-based); offered with opt-out

4. Follow-ups ... ideally

# Summary – Main opportunities and key challenges

Pathway	Self-direction	Adviser direction	Trustee direction		
	Member choice	Personal financial advice	Trustee recommendation	Trustee assignment	Default
Main opportunities	<ul style="list-style-type: none"> <li>• Overcoming cost and scalability</li> <li>• Satisfying those desiring self-choice</li> </ul>	Potential for ‘gold standard’ for providing personalised and targeted guidance	<ul style="list-style-type: none"> <li>• Catering for a significant member group that would otherwise receive no guidance, and is vulnerable to making poor decisions</li> <li>• Potentially scalable and low-cost</li> </ul>	Protection for highly disengaged members who take no action	
Key challenges	<ul style="list-style-type: none"> <li>• Literacy, behavioural and cognitive limits</li> <li>• Complexity of decisions and products</li> <li>• Decision support needs development</li> </ul>	<ul style="list-style-type: none"> <li>• Trade-off between complexity and cost</li> <li>• Capacity of financial advisers is constrained</li> </ul>	<ul style="list-style-type: none"> <li>• Reliance on funds to be able to offer range of solutions suitable for all members</li> <li>• Trustees need to be able to readily access and use personal information for pathway to operate effectively</li> <li>• Members may place reliance on trustees, limiting access to independent perspectives and competitive tension</li> </ul>	<ul style="list-style-type: none"> <li>• Satisfying conditions for default to occur</li> <li>• Risk of assigning members to unsuitable solutions in absence of any engagement</li> </ul>	

# Some takeaways

---

- ALL pathways have a potential role to play
- The trustee direction pathways are currently absent:
  - Scalable trustee-directed mechanism needed to cater for ~70% of members, but ...
  - Trustees cannot collect personal information and use it to direct members to a solution without entering the personal financial advice world
  - The Government should facilitate recommendation and/or assignment
  - A (hard) default pathway is problematic



# Thank-you!

## Questions or discussion?