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Retirement explainer series

Pathways to retirement solutions

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Technical rating

Boffin

Industry professional

Novice

Brief synopsis: This explainer describes the potential pathways through which superannuation (super) fund members could find their way to a suitable retirement solution. The underlying theme is that a range of pathways are required to cater for differences in how members engage with financial decisions for retirement. Five distinct pathways are identified and discussed, including *self-direction*, *adviser direction*, and three forms of *trustee direction* – recommendation, assignment and default. Recent policy developments with respect to advice by super fund trustees are discussed in a pathways context, including facilitation of trustee recommendations and targeted prompts.

Questions addressed:

1. What are the various pathways for identifying a suitable retirement solution for retired members?
2. What issues are presented by each pathway?
3. What are the implications of phase 2 of the Delivering Better Financial Outcomes (DBFO) reforms with respect to trustee-provided financial advice?
4. How do targeted prompts (i.e. nudges) fit into the pathways framework?

Key terms: Choice architecture; self-direction; adviser direction; trustee direction; member engagement; guidance; financial advice; advice through superannuation; targeted prompts, or nudges; defaults

Who should be interested? Retirement specialists, retirement leads, member experience personnel, financial advisers, policy makers, regulators, people wanting a career in the retirement income space

Introduction

This explainer addresses the general topic area of the ‘choice architecture’ for retirement solutions. Potential ‘pathways’ are discussed through which super fund members could find their way to a retirement solution that is suitable for their needs. We commence by providing a high-level summary of a Conexus Institute paper[1] that details potential pathways, which readers might access to further explore the topic. Implications of recent reforms under phase 2 of the DBFO reforms[2] with respect to advice through superannuation and targeted prompts are then discussed through the lens of the pathways framework.

The underlying theme is that members differ in how they engage with financial decisions for retirement, which creates a need for differing ‘decision’ pathways. We scope out five potential pathways: *self-direction*, *adviser direction*, and three forms of *trustee direction* including recommendation,

[1] *“Pathways for directing members into retirement solutions”*, November 2023

[2] See https://treasury.gov.au/consultation/c2025-637814.

assignment and default. Here the organising structure is which of three parties plays the primary role in identifying a retirement solution – a fund trustee, a financial adviser, or the member themselves. The table below summarises the main features and key issues for each pathway.

Our interpretation is that passing of the DBFO phase 2 'financial advice through super' reforms would facilitate trustee recommendations. Meanwhile, targeted prompts by trustees may be viewed as activity nudges that sit in a grey area between self-direction and trustee direction.

Overview of pathways to a suitable retirement solution

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 planner 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	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
Key issues	• Complexity of decisions and products • Literacy, behavioural and cognitive limits • Decision support needs development	• Trade-off between complexity and cost • Capacity of financial advisers is constrained	• Reliance on funds to offer range of solutions suitable for all members • Trustees need to be able to readily access and use personal information for pathway to operate effectively • Members may place reliance on trustees, limiting access to independent perspectives and competitive tension		• Satisfying the conditions for default to occur • Risk of assigning members to unsuitable solutions in absence of any engagement

Self-direction

The self-direction pathway involves the member identifying a retirement solution for themselves. This would likely occur with assistance, including: sourcing information on available products, solutions and strategies; decision support tools such as retirement calculators; using general advice and possibly low-cost limited advice supplied by their super fund; accessing online resources; and possibly seeking input from family and friends. Targeted prompts might be used to influence member choice, noting that the member is required to engage with the 'nudge' and exercise an element of choice even if just whether to accept what is being presented.

A member choosing from a list of options offered by their superannuation fund would strictly fall under self-direction, as the member is required to understand the options and choose for themselves. This could be implemented by presenting 'personas' with which the member self-identifies along with providing a recommended or 'default' solution for that member type. Nevertheless, this approach sits in something of a grey area as the solution provided for each persona or member-type might contain elements of a trustee recommendation.

The self-direction pathway caters for those members who want to choose for themselves, and ideally are capable of doing so effectively. Self-choice is a necessary component of any choice architecture. However, it faces various limitations as outlined below that create a strong need for other pathways. The survey evidence we have seen suggests that around 20% of members might prefer self-direction.

The key limitation of the self-direction pathway relates to the difficulty for many members in making informed financial decisions due to a combination of high complexity and limited cognitive ability. Retirement decisions are complex because they entail investing assets to generate income over a long period of time under uncertainty over both investment returns and how long the member might live. Available financial products can be difficult to understand, in particular lifetime income streams (annuities) where a wide range of design features are emerging. Deciding how much can be safely drawn is also a very challenging, dynamic problem.

Decision-making capability can be limited for various reasons. Many members lack financial literacy and may be subject to cognitive limitations. They can be subject to behavioural effects such as narrow framing, inertia, availability biases, myopia, and so on. Cognitive decline, propensity to take advice from poorly-informed players (e.g. friends, online sources) and vulnerability to scammers could be at play. Many members simply do not have the capability to make a well-informed decision on what type of retirement solution suits their needs.

The current state of decision support services is another issue faced by the self-direction pathway. Information on products and solutions is often provided in a form that is hard for members to understand. Self-directed members do not currently have access to any services that compare products and solutions across providers. Many of the available decision support tools are limited in scope. For instance, they may consider only the allocation between growth and defensive assets while ignoring lifetime income streams, apply basic drawdown rules, and fail to effectively take risk into account. Decision support services need considerable further development if the self-direction pathway is to operate effectively.

Adviser direction

We define adviser direction as the member paying for personal financial advice entailing either recommending a retirement solution or constructing one from available products. Personal financial advice may be limited or comprehensive in scope. Here, limited advice could pertain only to the retirement solution. Comprehensive advice can provide a broad set of recommendations beyond the retirement financial plan, potentially including areas such as wealth management, estate planning, tax and so on. Limited advice can be offered at lower cost than comprehensive advice. Some estimates put the average cost at around $2,000 for limited and $3,500-$4,000 for comprehensive advice.

Personal financial advice offers the potential for 'gold standard' guidance, if done well. However, two substantial hurdles limit the potential footprint of the adviser direction pathway.

First is supply constraints. The number of financial advisers currently sits in the region of 15,000-16,000, and there are limits to how many clients an adviser can effectively handle. Further, advisers tend to favour richer clients. The second hurdle is cost. The constraints around cost relate to both the aversion of many members to pay (much, if anything) for advice, and cost effectiveness of advice for low wealth members.

Advice capacity might be expanded and costs reduced through simplifying the advice process, which is one focus the Government is considering under the DBFO reforms. Wider incorporation of digital tools could also help.

While hard estimates are difficult to come by, indications are that around 10% and at most 20% of members are currently seeking or using financial advisers – many of whom would be categorised as high wealth. While the percentage of members using advice might be increased, it seems unlikely that the advice pathway will get anywhere near being able to cater for the majority of retirees.

Trustee recommendation and assignment

This leads us to the trustee direction pathways. We deal with trustee recommendation and assignment together as they entail similar delivery mechanisms. However, they would necessitate different legal frameworks due to the distinction between a recommendation that is more like a type of advice, and an assignment that is more in accord with a form of defaulting process under request. 'Hard' defaults where the member has little or no involvement are addressed further below.

Trustee recommendation entails the trustee identifying a suitable retirement solution *for* the member and recommending that solution to them. The member could then decide whether to accept the recommendation, or either choose an alternative solution or possibly enter another pathway. Trustee assignment would involve the member requesting that the trustee chooses a solution on behalf of the member and assigning them to that solution. Under either pathway we envisage an opportunity to opt-out before final assignment as a last check.

The trustee would need to source and use personal information to identify a suitable retirement solution under these pathways. Consider a cohorting approach where member cohorts are formed and retirement solutions built for each cohort. Under this approach, the trustee would need to use personal information to identify the cohort to which the member belongs to recommend or assign them to a suitable solution. Personalised tailoring would also require detailed member information to inform the design of a tailored solution.

The trustee recommendation and assignment pathways can play three roles:

(a) *Assisting members* who are looking for guidance but do not want to seek a financial adviser and are not well-prepared to choose for themselves. This group could be 60%-70% of retirees.

(b) Matching members with suitable retirement solutions in a *scalable and efficient* (i.e. low cost) way. For instance, the cohort-based process described above could be scaled by constructing solutions by combining basic investment building blocks[3] and drawdown rules (Explainer #7 discusses building retirement solutions.)

(c) A *mechanism to encourage better choice* through embedding appropriate elements within retirement solutions, such as take-up of lifetime income streams or drawing down income at higher rates where appropriate to do so. While comparable nudges might be built into the self-direction pathway through how solutions are offered, nothing beats a clear recommendation.

Three key issues arise with the trustee recommendation and assignment pathways. First is the reliance on super funds to be able to offer a suite of retirement solutions that are suitable for all members. The main hurdle here is catering for the wide range of member differences as discussed in Explainer #4. Trustees also need to solve for personal needs that span multiple dimensions while only being responsible for the member's assets managed by the super fund (see Explainer #7).

Second is the need to use personal information for these two pathways to operate effectively. To date it has not been possible for a trustee to collect and use personal information to recommend (let alone assign) a member to a retirement solution without becoming subject to the costly requirements accompanying the provision of personal financial advice. The DBFO phase 2 reforms (as discussed further below) would appear to facilitate collection and use of personal information that is required to support trustees recommendations (or assignment).

The third is the 'vertical integration' issue. Placing members in a position where they may be relying on trustees will limit access to independent perspectives and competitive tension. There is no clear path to redress if a trustee offers substandard or poorly matched retirement solutions that the member accepts out of trust. The gives rise to a call for consumer protections where trustees are providing advice on their own retirement offerings.

Trustee default

This pathway involves the trustee defaulting a member into a retirement solution without prior assent. 'Hard' default without engagement is problematic in retirement, but is highlighted for two reasons. First is for completeness, i.e. to span the entire spectrum of possibilities. Second is that a default mechanism may be the only way of catering for, and protecting, members who are highly disengaged and may not otherwise shift their balance into the tax-free environment of retirement.

One hurdle in defaulting members into a retirement solution is ascertaining if default is appropriate. There could be good reasons for a member remaining in accumulation such as personal preference, not having retired, or being over the transfer balance cap (set at $2 million for 2025-26) possibly due to having multiple accounts. Operational aspects need to be sorted, such as bank account details so that income can be paid. Either some engagement with the member or another avenue for sourcing this information is required.

Another issue is the risk of assigning members to unsuitable solutions in absence of any engagement. This risk might be minimised by defaulting members into basic retirement solutions such as an account-based pension that applies the minimum drawdown rules, thus limiting potential for harm and maximising flexibility to readjust later.

DBFO phase 2 reforms – Advice through super

These reforms aim to facilitate trustees providing advice on a member's interest with the fund (i.e. their super balance) on a collectively-charged basis, denoted here as "trustee-provided advice". At the time of writing the legislation had not passed through parliament. This discussion is based on the assumption that the proposals will become law.

The legislation allows for defining the scope of trustee-provided advice under regulations, which will set out: (a) allowable topics, (b) persons to whom the advice may be given; (c) and personal circumstances that may be taken into account. To this effect, Treasury's *Advice through Superannuation* consultation paper contains proposed lists of 'allowed topics', 'allowed circumstances' and 'disallowed topics'. These lists are summarised within the figure over, while focusing on parts most relevant for retirement.

[3] Solutions might be formed from growth and defensive portfolios and a small number of lifetime income streams.

Scope of trustee-provided advice as per the *Advice through Superannuation* discussion paper

Status	Allowed topics	Allowed circumstances	Disallowed topics
Currently proposed by Treasury	• Super contributions • Investment options • Insurance through super • Retirement income *Examples:* - Transition to retirement products - Retirement income solutions and products - Drawdown strategies - Lump sum withdrawals - Longevity protection	• Cash flow and income of member's household • Assets and interests held outside of super by the member's household *Examples:* - Property - Cash - Insurance - Securities • Financial position of the member's spouse • Debts and liabilities of a member's household • Eligibility for government services *Examples:* - Age Pension - Other support	• Purchase or disposal of assets outside of super • Purchase or disposal of financial products outside of super • Holistic financial planning • Estate and tax planning
Missing key characteristics with reference to Explainer #4		• Member objectives and preferences *Examples:* - Investment risk tolerance - Type of retirement income stream - Income risk tolerance - Requirement for accessible funds	

Allowed topics specifically include retirement and cover off on the key components of integrated retirement solutions (as listed under "examples"), which are very similar to those that we describe in Explainer #7. Allowed circumstances account for the four key member personal attributes outlined in Explainer #4, proposing that trustees be permitted to consider assets outside super including property while taking into account the household situation. What is missing from allowed circumstances that trustees may take into account are a member's objectives and preferences, which we recognised in the bottom row. It is hoped that objectives and preferences would be added to the allowed circumstances list by policymakers.

Our interpretation is that DBFO phase 2 reforms with regard to trustee-provided advice should facilitate the trustee recommendation pathway. They appear to pave the way for trustees to collect and use the key member characteristics that are required to understand the retirement needs of the member and allows recommendations to be made on this basis. Further, defining the scope of trustee-provided advice also helps create a dividing line between where trustee-provided advice is suitable and where more specialised paid personal financial advice becomes appropriate, i.e. where the trustees might look to refer a member to a financial adviser.

Targeted prompts

The DBFO phase 2 reforms also accommodate nudges to classes of members under the name 'targeted superannuation prompts'. The proposed measures include a range of provisions aimed at consumer protections, including a prohibition on recommending products and steps to ensure that prompts are appropriately targeted.

The policy intent appears to be that prompts would be directed at suggesting certain actions be considered by members, thus encouraging them to either engage with the fund or seek financial advice. Targeted prompts by trustees might thus be viewed as a form of 'activity nudge'.

Below is a (re-phrased) list of examples of potential prompts appearing in the exposure draft for the legislation, which broadly reflect the above intent:

- Highlighting to members over age 65 who are still in accumulation that there may be tax benefits available in the retirement phase.
- Bringing retirement income solutions to the attention of members approaching retirement, including combinations of retirement product types that may be suitable for their member class.
- Presenting members drawing down at the minimum rate with the fund's recommended

drawdown range for the member class; potentially with a recommendation to obtain personal advice along with details of the fund's advice service.

- Prompting members whose investment choice appears out of step with people of similar age or similar balance size to consider changing their investment options, while recommending obtaining personal advice if they wish to do so.

Guidance and advice landscape for super funds following the DBFO phase 2 reforms

The figure below summarises the guidance and advice landscape as it should stand following the DBFO phase 2 reforms, viewed from the perspective of super fund trustees. Paid personal financial advice sits on the left, with the next four columns capturing how a trustee might guide and assist members who do not seek paid financial advice. Trustee guidance and advice might be underpinned by a range of guidance services such as those appearing at the bottom. A triaging service is mentioned, which envisages the trustee directing members towards a pathway and perhaps guidance and advice services that are most suitable for their needs. This would likely include referring members with more complex needs to a financial adviser.

The last four columns span a spectrum from the left to right where the role for the member in identifying a suitable retirement solution progressively decreases while the role for the trustee increases. For instance, self-directed members are choosing for themselves while potentially making use of the guidance services provided by their fund and perhaps other external sources. Trustee recommendation involves the trustee identifying a suitable solution for the member and presenting it to them (with scope to opt-out). Targeted prompts and personas both require some level of decision making by the member, but these decisions are occurring in a context where the trustee is providing some form of direction.

Guidance and advice landscape under the DBFO phase 2 reforms

Paid personal financial advice	Member self-direction	Target prompts ('activity nudges')	Personas	Trustee recommendation
Available on paid basis, particularly for members with more complex circumstances. Trustees to refer members where appropriate.	Available for members who prefer to choose for themselves.	Limited in scope. A member response and potentially self-direction is required.	Allows member to self-identify with a cohort for which there is a recommended retirement solution.	Facilitated under intra-fund advice, with scope of allowable advice and personal information defined under regulations.
	Trustee-provided guidance services Triaging service, information hub, digital tools, general advice, etc			

Our take: How it all evolves remains to be seen

The main message is that members differ significantly in how they engage with retirement decisions, and thus a range of pathways is required. Arguably the DBFO phase 2 reforms complete the pathway spectrum for the vast majority of members through facilitating trustee recommendations. The main missing pathway would be trustee defaults to accommodate highly disengaged members. However, defaults in retirement are controversial as there is high risk of harm in the absence of engagement and many operational difficulties. It is hence debatable whether retirement defaults should be accommodated.

What remains to be seen is how the super industry develops under the new landscape. While trustee recommendations appear to be facilitated, this does not necessarily mean that super funds will embrace the pathway. Some trustees could be reluctant to collect personal information and use it to form recommendations. Management of personal information and issuing of recommendations can give rise to risks related to data security and perhaps fear of being exposed to litigation or reputational damage. Some trustees may be more comfortable with sticking to providing members with the means to make decisions for themselves. Further, issuing targeted prompts invokes a range of requirements, and trustees may view prompts as difficult relative to the anticipated benefit to members.

It would be a shame if trustees stick to safe ground, as it may leave behind those members who would benefit from being given clear direction via recommendations and/or nudges. We can only wait to see what transpires.