

# Guidance on best practice principles for superannuation retirement income solutions – Consultation

## Submission by The Conexus Institute

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### **About The Conexus Institute**

The Conexus Institute is an independent, not-for-profit research institution focused on improving retirement outcomes for Australian consumers. Philanthropically funded, the Institute is supported by the insights of a high-quality advisory board, who work on a pro-bono basis. The Institute adopts a research-for-impact model and frequently collaborates with researchers from academia, associations, and industry. Where possible research is made open source to assist industry and create transparency and accountability. Further information [here](#).

### **About David Bell**

Dr David Bell is Executive Director of The Conexus Institute. Bell's career has been dedicated to the investment and retirement sector. He has worked with both commercial and profit-for-member firms, and ran his own consulting firm. Bell taught for 12 years at Macquarie University and in 2020 completed his PhD at UNSW which focused on retirement investment problems. Full bio [here](#).

### **About Geoff Warren**

Dr Geoff Warren is Research Fellow at The Conexus Institute and an Honorary Associate Professor with the Australian National University. Warren's career has contained distinct industry and academic phases, with investment and superannuation being two particular areas of focus. He has worked with commercial investment firms and government centres, while his academic career has predominantly been at Australian National University. Warren is a member of various advisory boards, including the ASIC Consultative Panel. Full bio [here](#).

**\*\*\* The authors are willing and able to participate in further consultation. Please treat this as a public submission. \*\*\***

# Introduction

This submission responds to the Treasury consultation paper “*Guidance on best practice principles for superannuation retirement income solutions*” of August 2025. Our submission is relatively short, in part because we largely agree with the framing of the best practice principles (BPP), although we see room for improvements in a couple areas.

We would like to congratulate Treasury on the process through which it formed the BPP, including the extensive consultation in which we were pleased to be involved. We wonder whether the BPP process might be an exemplar for future consultations with the superannuation (super) industry.

Given the targeted nature of our comments, we decline to offer a detailed response to each consultation question.

## Comments

We have only four comments of substance.

### 1. Thoughts on ensuring that the BPP are used to best effect

We view the BPP for retirement as an excellent framework to guide super fund trustees in developing their Retirement Income Strategy (RIS). We are hopeful that the industry will embrace the BPP as a template for moving forward, and that they might become to be seen as a baseline standard rather than an optional requirement. We have already heard early anecdotes of funds not wanting to have an offering that does not attain a best practice standard, and business case approvals gaining more support because of the imminent introduction of BPP that trustees intend to meet.

Nevertheless, ensuring that the BPP are used to best effect may require more than just relying on voluntary adoption by the industry. Consideration might be given on how the Government might give real traction to the BPP. Three regulatory actions building on the BPP are listed below, which could potentially be introduced in a progressive fashion to help to advance the industry:

- a) Regulators immediately using the BPP as basis for their engagement with super funds.
- b) Creation of regulatory standards and guidance, informed by the BPP.
- c) Introduction of regulatory assessment for RIS.

Our thought piece [Evaluating Retirement Income Strategies through a capability-based framework](#) of August 2025 outlines different approaches to assessment, and discusses the idea of assessing capabilities. The latter is indicative of how the BPP might be translated into a checklist of capabilities that super funds should have in place in order to deliver on the principles.

### 2. Framing of minimum drawdown rates

The BPP are framed in a way that seems to assume that drawing down at the minimum rate is necessarily inefficient, and that best practice entails members drawing down at higher rates. Principle 6-III in particular is expressed along these lines in being written as follows:

*“Trustee-designed drawdown pathways for account-based pensions that more efficiently convert superannuation balances into income than the legislated minimum drawdown rates.”*

Principle 9-II (which we discuss in the next section) is similar but less dogmatic:

*“For most solutions, a drawdown pathway that is higher than the legislated minimum drawdown rate.”*

We appreciate that the Government may be keen for members to convert their super balance into income during retirement based in a large part on a public policy position, i.e. that super is intended for the purpose of supporting income in retirement while being tax-advantaged and hence should be

converted into as much income as possible. However, it is not necessarily the case that drawing down at more than the minimum rate is always in a member's best financial interests, which trustees are required to consider. Two flash points in this regard include the following:

- Some members, particularly those with low balances, might be better off relying on the Age Pension for income and using their super as accessible funds when they require a little extra cash. Arguably this would be consistent with the third objective under the Retirement Income Covenant (RIC) related to 'flexible access to funds'. Facilitating such members requires minimising drawdowns so that the capital is available as needed. Indeed, there is an argument that such members might be financially better off if a portion of the balance was exempt from the minimum drawdown rules – an idea that Treasury floated with respect to the 'capital reserve' component of the 'example bundled product' appearing in the Appendix of the [Retirement phase of superannuation](#) discussion paper of December 2023. In short, the BPP might contemplate super funds providing members with 'rainy day' or contingency' accounts as a potential component of retirement solutions.
- Members with financial assets outside of super may be financially better off by first deploying those assets before drawing down their super, noting that members may benefit from professional management and a zero-tax environment through an account-based pension. This case highlights the potential for tension between trustee duties and public policy.

We suggest that these hoary issues can be easily skirted by a rewording of principle 6-III as follows:

***Alternative wording of principle 6-III:*** *Trustee-designed drawdown pathways for account-based pensions that efficiently convert superannuation balances into income, including drawing more than the legislated minimum rate in the absence of clear reasons otherwise.*

### 3. Principle 9 would benefit from some tightening up around drawdown rates

Principle 9 addresses retirement income solutions and includes the following sub-principles:

*I. A lifetime income product component in at least one retirement income solution, that has regard to likely Age Pension eligibility.*

*II. For most solutions, a drawdown pathway that is higher than the legislated minimum drawdown rate.*

*III. Where a solution includes a lifetime income product, include trustee-designed drawdown pathways for the account-based pension component that reflect the stability of income delivered through the lifetime income product."*

We feel that sub-principles II and III would be better consolidated into one principle that also recognises the potential influence of the Age Pension, noting that trustees are required to take Age Pension eligibility into account under the RIC. We also suggest that stability of income not be explicitly mentioned, but rather a general reference be made to managing risks to expected income (or perhaps both stability and sustainability of income as per the RIC, rather than just stability). Below is an alternative combined principle that incorporates these features:

***Alternative to principles 9-II and 9-III:*** *A drawdown pathway that efficiently converts the account-based pension component into income while managing risks to expected income, taking into account any income from the Age Pension and any lifetime income component.*

### 4. Framing around cohorts is too narrow: 'tailoring' is better

The BPP are framed under the presumption that trustees will adopt a cohort approach in designing retirement solutions. Cohorts are central to the framing of the following principles:

- Principle 4 – “at least three cohorts”
- Principle 9 – “Construct a separate trustee-designed retirement income solution for each identified cohort”
- Principle 10 – “broadly calibrated to the financial characteristics of each cohort”
- Principle 14-I – “Provide them information that is relevant to their cohort”
- Principle 18 – “Assess ... meeting the needs of its cohorts ...”

Our previous feedback provided to Treasury questioned the appropriateness of framing around cohorts. We double down on this feedback in this submission as we consider it an important issue. We do so while being aware that cohorts are mentioned in the RIC. Nevertheless, we feel this was inappropriate in hindsight and should not be engrained in the BPP. We suggest that framing around the **capacity to effectively tailor for members with differing needs** is much better for the BPP.

Two main issues with framing around cohorts with regard to the design and delivery of retirement solutions are set out below. These are versions of the points we also made in our submission to Treasury’s consultation on the retirement reporting framework (RRF).

- **Individualisation should be contemplated** – Our observation is that many super funds will not be applying a cohort approach, but rather will move straight to tailoring for individual members perhaps arising out of a financial advice process. Further, cohorts could turn out to be an ‘interim technology’, with some funds commencing with cohorts before progressing to individualisation once the systems are in place. (One wonders whether AI could assist in this regard.) We hence recommend against doubling-down on cohorts.
- **Tailoring spans both solution design and guidance pathways** – Tailoring occurs not only via retirement solutions, but also through the ‘engagement pathways’ through which members are directed towards solutions. The BPP should be sensitive to the fact that members might be segmented along either the suitable solution and engagement dimensions, or both.

We realise that extracting the focus on cohorts from the BPP would amount to more significant revisions than Treasury may like to make at this late stage. We can only say that we consider it to be worth the effort. Below is a suggestion for doing so that should cause minimal disruption. The focal point is tailoring for key member differences in both the *design and engagement over* retirement solutions. Our alternative framing aligns with our suggestion that data on tailoring approaches be collected under the RRF as a specific category that replaces the cohort category.

***Alternative wording of principles 4, 9, 10, 14 and 18 around tailoring rather than cohorts:***

4. *For the purpose of the principles, develop an understanding of the composition of the membership at or approaching retirement:*
  - I. *Based on information held and gathered by the trustee.*
  - II. *Identify characteristics relevant to development and engagement over trustee-designed retirement income solutions that support catering for key member differences.*
9. *Construct a set of trustee-designed retirement income solutions that cater for key member differences which balance members’ need to maximise expected retirement income, manage expected risks, and maintain flexible access to capital.*
10. *Ensure each trustee-designed retirement income solution is broadly calibrated to the financial characteristics of the retiree(s) for which it is intended.*
14. *Engage with members approaching retirement, to:*
  - I. *Provide them information that is relevant to their needs.*
18. *Assess the effectiveness of trustee-designed retirement income solutions and engagement over those solutions in meeting the differing needs of retired members; while considering relevant data on measurable outcomes, usage, engagement and member behaviour to improve the quality of its retirement income solution offerings.*