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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Via Online Submission

23 February 2024

Inquiry - Improving consumer experiences, choice, and outcomes in Australia's retirement system.

Thank you for the invitation to make a submission to the 'Inquiry into improving consumer experiences, choice, and outcomes in Australia's retirement system.

Australian Retirement Trust is one of Australia's largest super funds. Over 2.3 million Australians trust us to take care of more than \$280 billion of their retirement savings. In addition, ART is a founding member of the Super Members Council of Australia (SMC) which represents profit-to-member superannuation funds that cover more than 10 million Australians.

ART acts in our members best financial interests by focusing on strong long-term investment returns, competitive fees, and the information and access to advice our members need to manage their super and retire well with confidence.

In compiling our response to this inquiry, we have chosen to provide responses to the Terms of References where we feel we can add most value. We hope this feedback will be beneficial to the committee in their deliberations.

My tenure as Chief Executive Officer ends on 29 February 2024. David Anderson will commence as CEO on 4 March 2024. Chris Ramsay, Senior Manager Policy and Government Relations is the primary Australian Retirement Trust contact regarding our submission and can be contacted at

Yours sincerely,

Bernard Reilly
CEO
Australian Retirement Trust

a. Regulatory and tax impediments to innovation and uptake of insurance products in retirement.

While the main purpose of superannuation funds is to act in their members best financial interest to provide a retirement income stream, there is a strong expectation from Australians that funds will undertake activities and provide them with products and services that support them on a journey both to, and through, retirement.

Services and products such as advice, insurance and education are crucial to the best financial interests of members and help ensure Australians can retire well with confidence.

These activities and services are not a set and forget function for funds. Members preferences and expectations are evolving. Trustees need to innovate their product and services offering to meet these changing member expectations and in line with the requirements of their legal and regulatory obligations.

ART believes that insurance is an important element of superannuation, helping to provide a safety net as part of securing an adequate retirement for a member, and contends that providing insurance through a group arrangement within superannuation fund memberships is an efficient and cost-effective method of providing insurance benefits.

In group life arrangements for example there is often limited or no requirement for underwriting, and cover is generally available at a lower cost than individual insurance arrangements, allowing members to obtain insurance where otherwise they could not. As a profit for member fund, ART caters for members across multiple industries and socio-economic groups. For example, many emergency service workers and lower income members highly value insurance cover provided by the Fund given its unavailability or unaffordability elsewhere.

b. The economic costs and opportunities of innovation in our retirement income system.

ART believes there are opportunities to better integrate the Age Pension, Aged care, and retirement income system to create solutions for Australians in their later years. This could be achieved through better data sharing between the Government and superannuation industry and could result in system-wide administrative efficiencies and better retirement outcomes for individual fund members. Subject to member's consent, data can be shared between superannuation funds and Government departments such as Services Australia, the Department of Veteran's Affairs (DVA), and the Australian Taxation Office, and the Department of Health and Aged Care.

In addition, ART believes that there are opportunities through group self-annuitisation (GSA) solutions to help Australians achieve higher retirement incomes. The main problem with allocating 100 per cent of your superannuation to an account-based pension (the most common retirement product) at retirement is that retirees are unsure how long they are going to live. As a result, many retirees do not know how much income they can safely withdraw each year to avoid exhausting their retirement savings. To manage the uncertainty, many retirees withdraw the minimum amount from their account-based pension.

To help address this problem, the Australian Government Actuary provided a report to the Financial Systems Inquiry on the possible design of retirement income products that simultaneously:

- Deliver higher income in retirement to retirees than is possible with an account-based pension; and
- Do this without any increase in the risk of outliving their savings¹.

A key highlight of this report is the significant advantages of a “Group Self Annuity” (GSA) product design compared to alternative retirement income solutions. In particular, the Australian Actuary’s analysis and report concluded that:

- A GSA can deliver retirement incomes that are, in expectation, about 40 per cent higher than from an account-based pension drawn down at minimum rates. Importantly, this result can be achieved without any increase in the risk of outliving savings.
- Out of 1,000 simulations the Actuary performed, 970 resulted in the GSA outperforming the life annuity.

This is achieved by pooling together retirement savings of many retirees so the resulting large number of lives and retirement savings in the pool can provide a higher level of income to everyone as the risk of living shorter or longer is shared.

ART has experience with successfully developing the first GSA product (our Lifetime Pension) to be offered by a superannuation fund in Australia. This was successfully completed via ongoing market research and design, and via the Government’s cross-agency process for innovative retirement income stream products.

The product was introduced to existing members of the fund in March 2021, and since that time over \$250 million in Lifetime Pensions have been purchased.

A key challenge for this type of innovative retirement product is the limited educational material available to consumers through Government platforms (e.g. MoneySmart). We believe that GSA products (such as our Lifetime Pension) can be used in combination with an account-based pension to provide retirees with higher levels of sustainable income while maintaining access to capital when needed (via the account-based pension).

d. The potential role of FinTech platforms, technologies, and innovations in supporting better retirement outcomes.

ART’s experience with the provision of a digital advice solution is that it has led to a significant increase in the number of members who receive personal advice, and that the cost to provide this advice is lower than financial adviser-led channels.

We support the consistent regulation of advice whether it be provided through both digital advice tools or financial advisers. This may support consistent advice quality regardless of channel however it is noted that currently demonstrating that all safe harbour steps have been met to meet the Best Interest Duty can be difficult in the context of digital advice. ART expects that the proposed renewed Best Interest Duty will address these issues in providing digital advice.

FinTech platforms provide consumers with greater investment choice, with the availability of hundreds of unique investment options allowing consumers to tailor an investment portfolio aligned to their risk profile and thus improve their retirement outcomes. In addition, FinTech

¹ Australian Government Actuary, Towards more efficient Retirement Income Products. Available: [Towards mor efficient retirement income products \(treasury.gov.au\)](https://www.treasury.gov.au/australian-government-actuary-towards-more-efficient-retirement-income-products)

platforms play a major role in supporting advisers, by reducing administrative requirements and allowing advisers to focus on value-add activities for their clients.

Further, FinTech platforms also support innovation within the market, by providing access to a wider product offering, including longevity products on their platforms. By offering these products, it allows the product to be accessed by a wider market, build scale and is ultimately beneficial to members and their retirement outcomes.

f. Progress on implementing the Retirement Income Covenant.

ART believes that the complete and mature implementation of the principles-based Retirement Income Covenant (RIC) will take time. The superannuation industry should be allowed to develop solutions and improve outcomes within the current regulatory framework. It is important to note that the RIC requires a focus on 'member outcomes and metrics'. This contrasts with metrics in the YFYS Performance Test and APRA Heat Maps that measure 'performance at a product level'.

We therefore support making it easier for people to enter the retirement phase, reduce complexity and barriers to commencing income streams. ART advocates that all funds provide a ready-made retirement solution to help their members commence a retirement income stream. Provided as an opt-in 'first offer' to members commencing a retirement income stream and with default settings to assist members who find investment and drawdown decisions overwhelming when commencing a retirement income stream.

Features of a ready-made solution could include a pre-selected investment strategy, drawdown approach, payment frequency and allocation to longevity protection to simplify the process of commencing a retirement income stream for members. Members could opt-out or make changes to product features if they decide that the features no longer suit their circumstances.

Ultimately, we believe the progress on implementing the RIC is best measured by the quality of retirement solutions being developed by superannuation funds and the assistance being provided to retirees.