Super fund industry task force aims to build better retirement solutions

Key points

- *Retirees are missing out on a more comfortable lifestyle by drawing down minimal income, leaving super to their estate.*
- *Addressing this challenge needs a different approach to product design, accompanied by behavioural change.*
- *Frontier is working with 9 super funds to develop an overarching retirement solution.*

Frontier Advisors and a task force of 9 super funds are building a retirement solution to tackle the problem of retirees drawing down minimal income and leaving unintended bequests.

Frontier Advisors Head of Member Solutions, David Carruthers, said the period following the Henry Review's call for better retirement income solutions in 2009 had become a "lost decade".

"There will come a stage I suspect, much like insurance in superannuation, where the government and the regulators may well say 'enough is enough – we've been talking about this for long enough now, like it or not we will impose a solution on you'… and that's probably the last thing that we want. For me, it's time for super funds to rise to the challenge and design the types of products that they think meet their retirees' needs."

A typical member with $200,000 at retirement in a default retirement solution drawing a minimum annual income of 5% will receive more income in their late 80s than at age 67, according to Frontier modelling.

"Now to me, that doesn't look like a good starting place. If we were to design a product from scratch for members, I'd be surprised that we'd end up here," said Carruthers.

A better trade-off: more income, lower bequests

Frontier also modelled a range of other scenarios, showing that drawing down minimum rates results in significant unintended bequests. A member with $200,000 drawing the minimum rate is predicted to leave 30% of their balance after they die.

"We don't need to protect them from longevity risk, we actually need to provide that longevity risk more efficiently."

One potential solution is for the retiree to draw down a higher income of $11,600 that rises with inflation, combined with some longevity protection. This lowers the predicted unintended bequest to about 15%.

"If this retiree dies … their estate will be receiving less money – categorically – but they will be receiving much more income because of that. And to me, that looks like the start of a better solution for members."

Given members have been reticent to buy annuities or longevity solutions, funds need to consider stronger soft defaults to nudge members in the right direction.

Carruthers said the task force was not looking at building a specific retirement product, but rather an overarching retirement solution. Its collective retirement solution must meet a series of principles including:

1. Simplicity.

2. Account-based pensions continuing to provide the majority of income needs.
3. Longevity protection giving confidence to draw down at a higher rate.
4. Access to capital for the longevity element.
5. Efficiency.
6. Flexibility in design.
7. Equity between funds and members.
8. Profit to member motive.

Don't let another decade go to waste

Australia's population is aging and more members are retiring each day, many with much larger balances than in the past. We've known for more than a decade that we need to improve the products we provide them.

Frontier is working with a group of funds to design retirement solutions which will provide more income whilst retaining flexibility and some longevity protection.

We're not waiting for the government to tell us how to do it.

Key questions the panellists answered

- *(30.52m) What does an annuity look like in today's low interest rate world?*
- *(40.30m) What role will advice play?*
- *(43.10m) What countries have done a particularly good job of cracking the retirement income problem?*