

The Frontier Line

Thought leadership and insights from Frontier

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**Understanding member
retirement needs**

About us

Frontier has been at the forefront of institutional investment advice in Australia for over 25 years and provides advice on \$600 billion of assets across the superannuation, charity, public sector, insurance, private wealth and university sectors.

Frontier's purpose is to empower our clients to advance prosperity for their beneficiaries through knowledge sharing, customisation, technology solutions and an alignment and focus unconstrained by product or manager conflict.



David Carruthers

Principal Consultant

David joined Frontier in 2015 and leads the Members Solutions Group. He provides investment advice to a range of clients and conducts research in the area of retirement strategy and product development for superannuation funds. Prior to Frontier David spent nineteen years at Mercer in both the UK and Australia. Prior to joining Mercer, David was at Towers Perrin for around six years, working with a number of clients in a consulting and research capacity. David holds a Bachelor of Economics from Macquarie University and is a Fellow of the Institute of Actuaries of Australia.

Introduction

What other industry can proclaim “we don’t know our customers (members)?”

The introduction of the Retirement Income Covenant requires funds to have a strategy identifying how they will assist members to achieve and balance certain retirement income objectives.

In formulating the strategy, funds are expected to identify the retirement income needs of beneficiaries noting that they will have different circumstances. Funds must take reasonable steps to gather general information about their members to inform the formulation and review of their strategy.

In their responses to the initial consultation, many funds recommended the Government provide access to MyGov, ATO and Centrelink data so funds could fulfill their obligations.

An alternative would be for funds to survey and collect this information themselves.

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“So, I think instead of focusing on the competition, focus on the customer.”

SCOTT COOK, INTUIT CO-FOUNDER

Frontier worked with a group of superannuation funds over the last three months to survey their members. We found two important things:

- most members want to be engaged by their super fund
- members’ needs and preferences vary, and cohorting them based on their account balance will provide limited benefit.

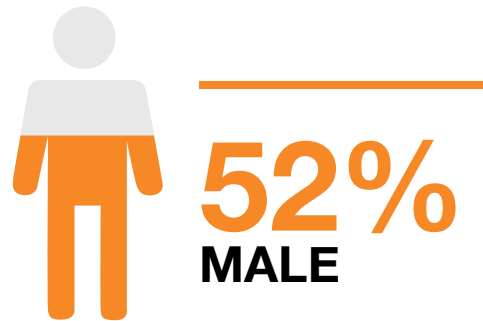
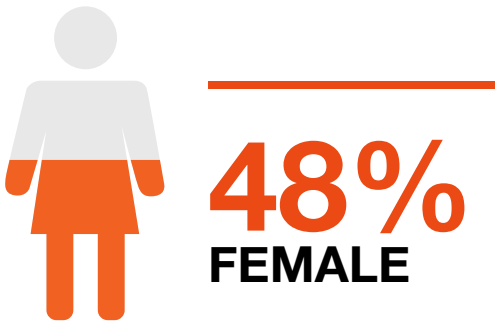


Understanding members

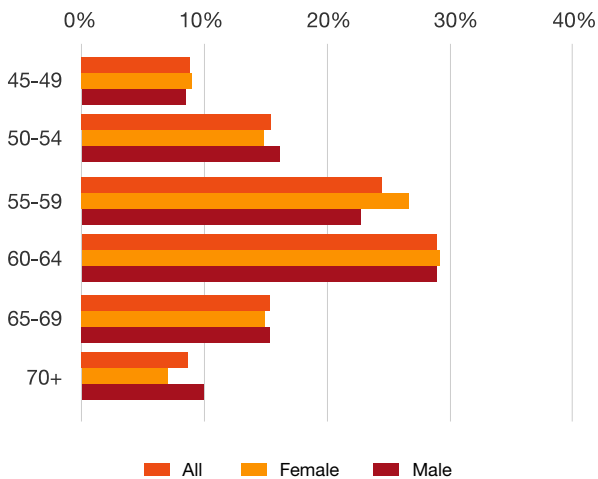
Retirees want products which address a number of often competing considerations. Understanding members' retirement goals and priorities is key.

Frontier worked with five profit-for-member funds (AvSuper, Care Super, First Super, UniSuper and Vision Super) to better understand the unique needs and circumstances of their members. The survey provided an opportunity for members to provide feedback on their financial needs and preferences when they retire.

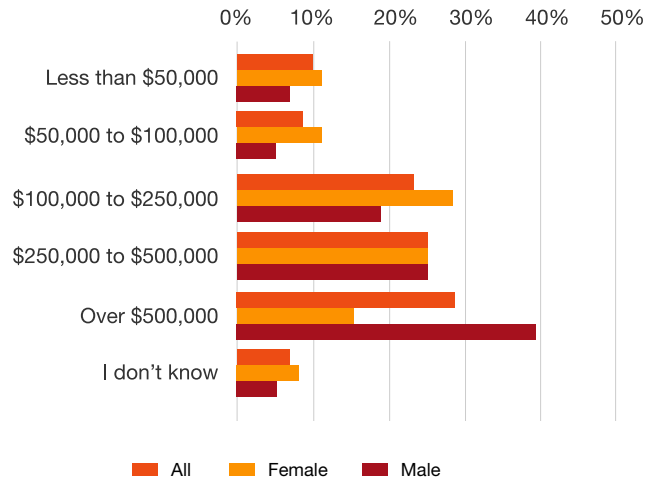
The survey was completed in late 2021 by over 3,500 members who are approaching retirement. The results will help the funds engage with their members when and how those members want, and provide them with the information they need to make the most of their superannuation.



Age



Superannuation balance



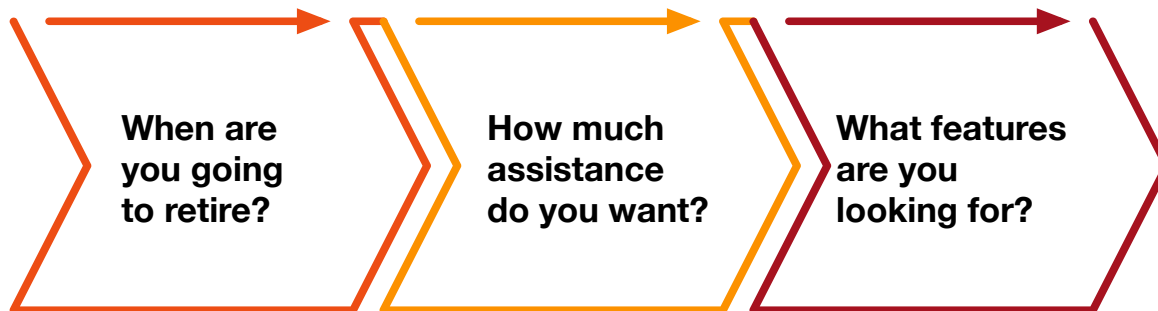
The survey collected membership characteristics (responses were anonymous) and questioned members on their retirement needs and preferences.

The survey included demographic questions to understand the member. These questions correspond to Retirement Income Covenant factors. These details can be used to determine 'traditional' member cohorts.

Respondents were also asked a series of questions related to their attitudes and preferences towards retirement income. These questions can help determine the member's preferences for retirement product features and the level of help or advice the member wants in choosing an appropriate retirement product.

We also asked the members to select between an account based pension (ABP) and a generic CIPR-type product. Their choice here was compared back to their product preferences in the prior questions.

This paper summarises the learnings across three key questions from a member perspective.



Frontier has analysed the member responses under each of the three categories. In each case we looked at whether specific types of members had different preferences in each category.



Retirement age

Knowing when you are going to retire and start drawing down on your super is important.

The earlier you retire, the longer your superannuation may need to last. Knowing when members are going to retire helps your fund engage with you so that you have the right information to make important decisions about how you want to use your superannuation.

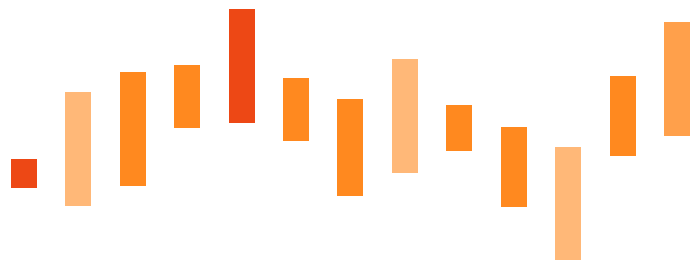
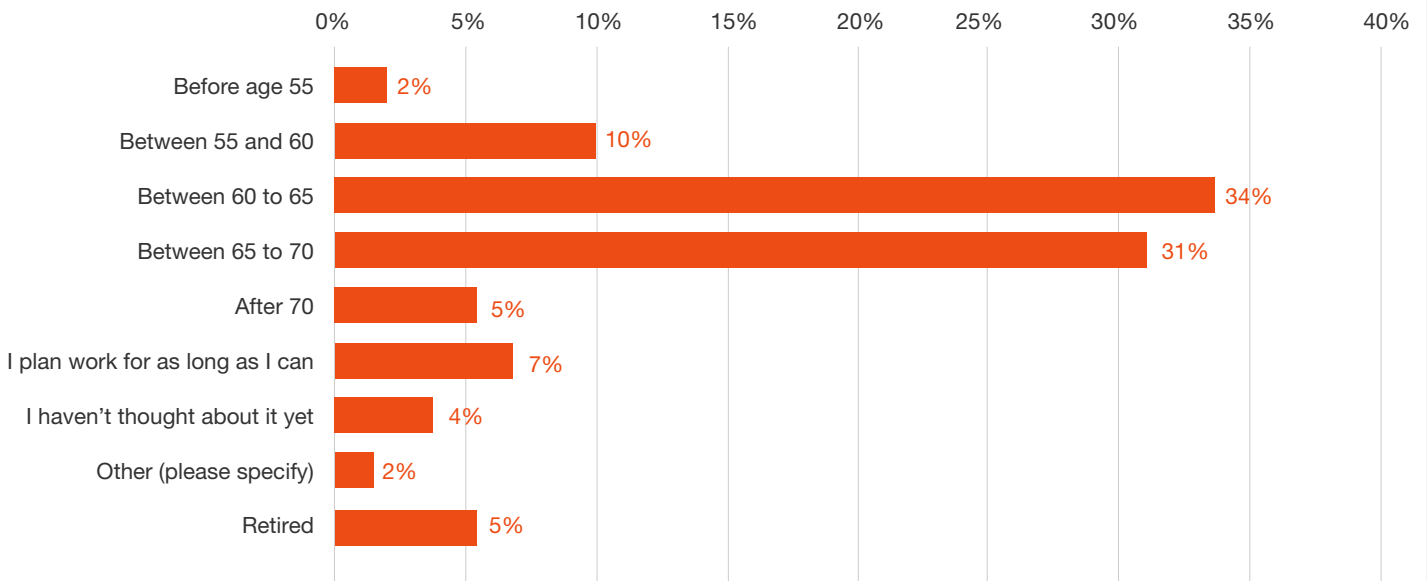
Most respondents are expecting to retire between 60 and 70. Only one-in-eight members are expecting to retire before 60. A similar proportion are expecting to retire after 70, or plan to work for as long as they can.

Encouragingly, only 4% of people haven't thought about their retirement age.

Members who are expecting to retire early:

- Are more likely to be single, with divorced/separated members retiring later.
- Have a higher account balance on average. Members with an account balance over \$500,000 are twice as likely to retire before 60.
- Are much less likely to receive the Age Pension.

When do you expect to retire?



Assistance

When you come to retire, you need to make some important decisions about your superannuation.

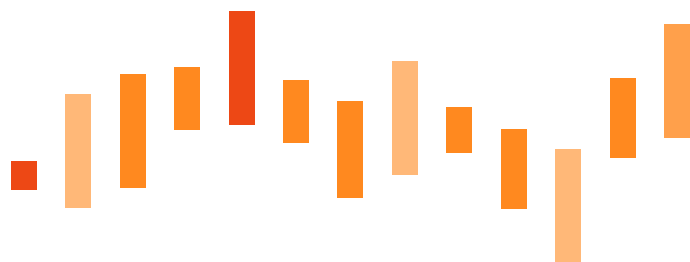
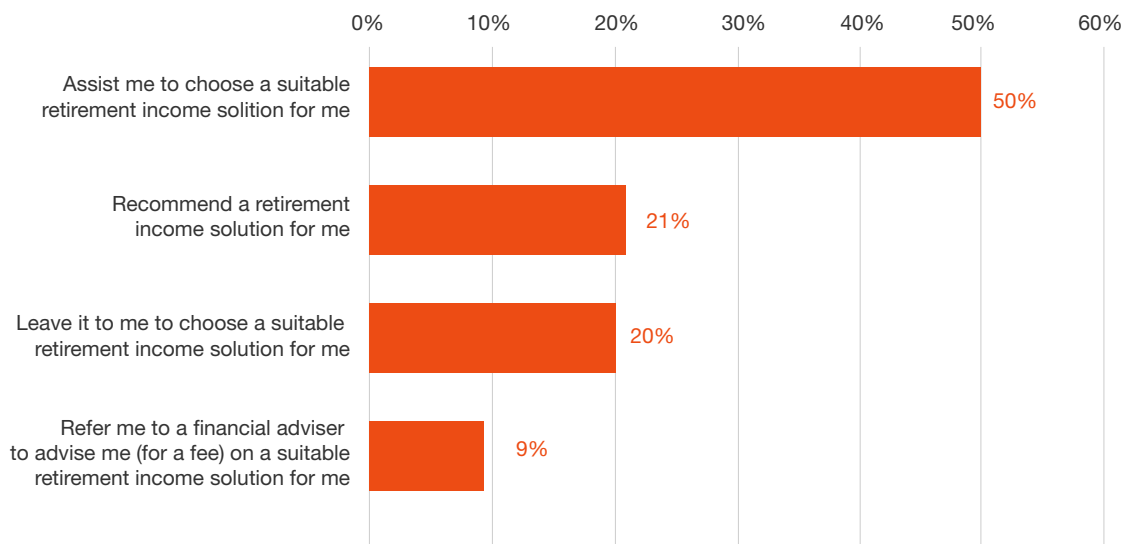
Over 60% of surveyed members will look to their superannuation fund to provide them financial information about retirement. Financial advisers and accountants were the next most popular choices. A quarter of members plan to seek the help of family and/or friends.

Survey participants were also asked how they would like their superannuation fund to help them choose an appropriate retirement product.

Half of members are looking to their superannuation fund to assist them in choosing a suitable retirement income solution. This could be via a retirement seminar, fact sheets or information on the fund's website.

Around one-in-five members are looking to their fund to recommend a suitable solution for them (aka a default). A similar proportion are not looking to their fund for any help. Financial advice is the solution for the remaining members.

When I retire I would like my fund to...



Features

What do you value most from your superannuation in retirement? A stable income that lasts your lifetime? A high return, flexibility to use it as you want or the ability to leave some of it to your children?

No solution can provide all features. Preferences and priorities in retirement will influence the choice of retirement income product suitable for a particular person.

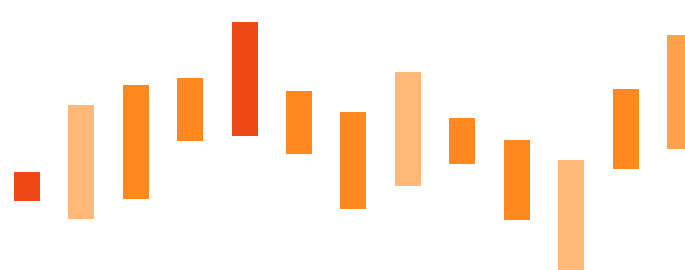
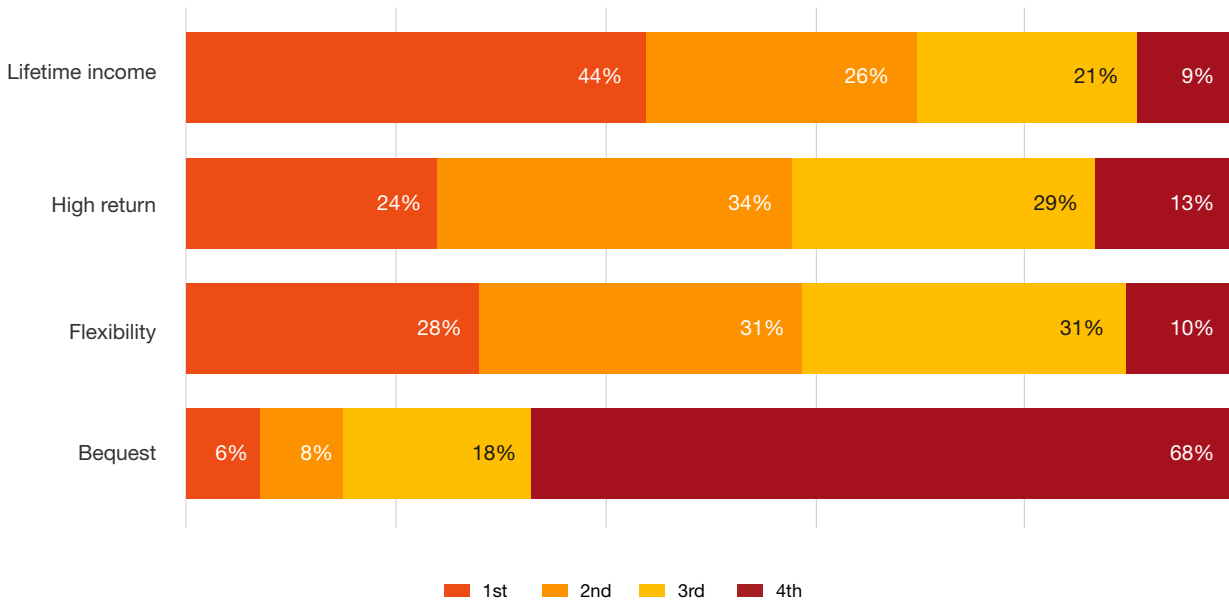
We asked survey participants to rank in order of priority the following features.

Lifetime income was the most popular feature, with almost half of all people selecting it as their highest priority. A further 26% of people selected it as their second priority. Over one-third of members were frequently, or very often, worried they may outlive their savings and have to rely on the Age Pension.

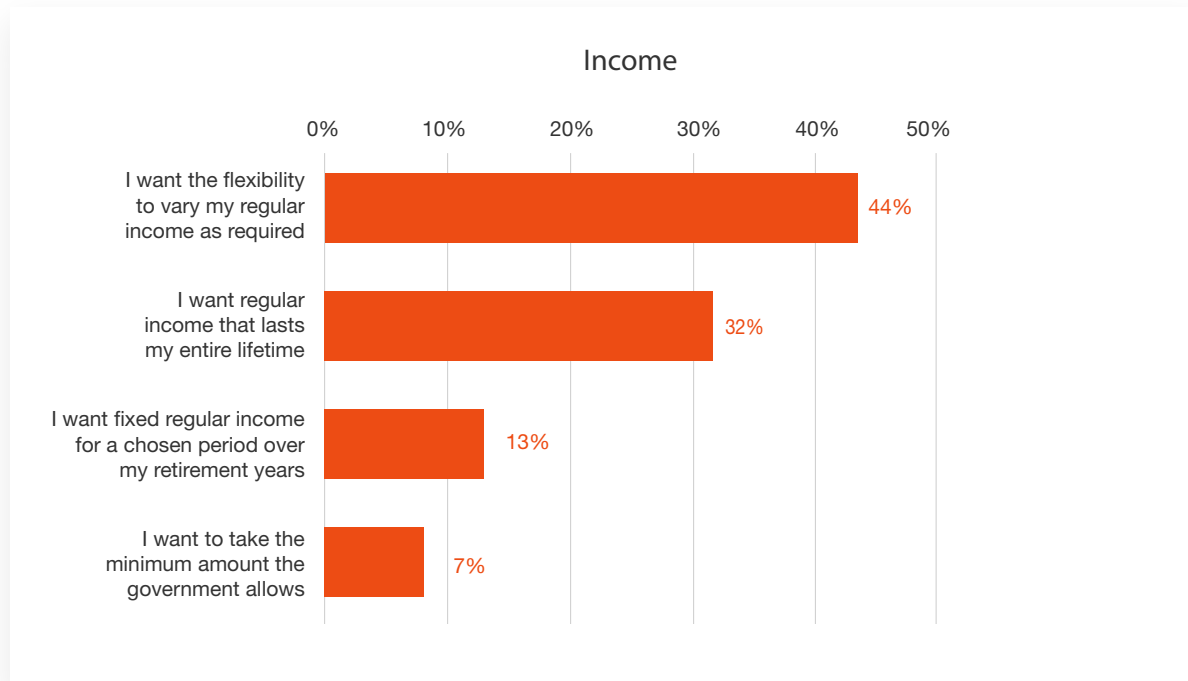
Flexibility and high return were equal as the next most important features. Older members had an increased preference for flexibility compared to younger members.

Bequest was the least important feature, ranked last by two-thirds of members. Members with higher balances were even less likely to rate a bequest as an important feature.

Retirement features



We also asked the respondents what level of income they wanted their superannuation to provide. We know from industry research that approximately 50% of retirees are drawing down at the minimum rates. This was the least desired option across the survey.

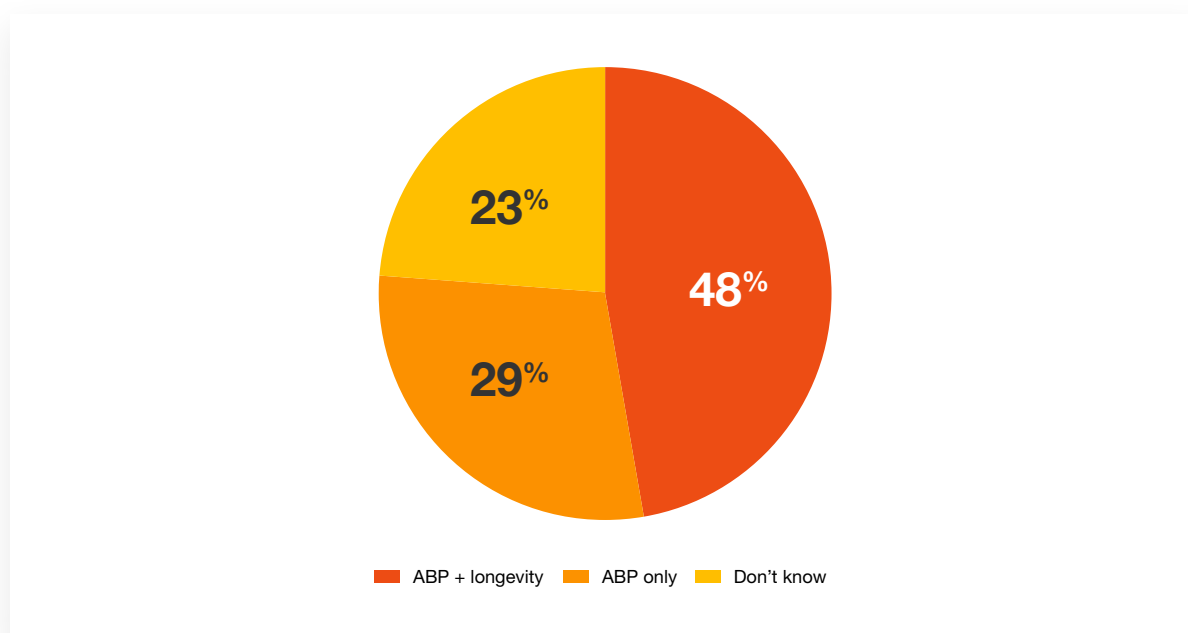


Members were presented with a brief description of two retirement solutions and asked to select the one they preferred. One solution was a typical account-based pension (ABP). The other was a higher income CIPR-like product – an ABP with some longevity protection.

Unsurprisingly, a large proportion of members chose “I don’t know” based on the brief descriptions.

Of the members who did make a selection, almost twice as many choose the ABP + longevity product.

Younger members and those with higher account balances were more likely to select this solution.



The final word



Superannuation will play an important role in ensuring members' financial security in retirement.

Over half of the surveyed members expect their superannuation to be their main source of income in retirement. Over 80% of members said they would use it to cover living expenses.

The transition into retirement can be complex and difficult. Our survey has shown members have different needs and preferences. The size of a member's superannuation balance only plays a small part in understanding those needs. Simply cohorting members based on their balance is unlikely to meet many members' needs.

Frontier encourages funds to better understand their members. The results of this survey will be used by the funds to:

- Provide members with the information they want when they come to make decisions about their retirement income greater scale
- Develop products and services to meet the different needs and preferences of members. In particular, the majority of members are seeking products which provide lifetime income.

Funds will need to have a retirement income strategy in place by 1 July 2022. We believe the following steps outline the process:

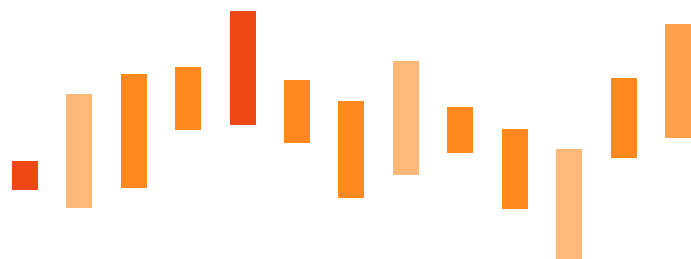
- Establish the fund's retirement income principles
- Summarise information gathered and document key considerations
- Specify approach to three key objectives (income, risk, flexibility)
- Relate objectives to members and retirement products
- Note any future developments
- Document review process
- Summarise for distribution to members.

The results of a member survey like this can form a key part of information necessary to inform the formulation of this strategy.



Want to learn more?

If you want to learn more about this survey and understanding your members' retirement needs, Frontier can help. Please reach out to your consultant or a member of the Member Solutions Group.





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