The Frontier Line

Retirement incomes progress – the regulators' review

Issue 214 | August 2023

Frontier | Forefront Thinking
Advisors

About us

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

Our 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.

AUTHOR

David Carruthers
Head of Member Solutions

David joined Frontier Advisors in 2015 as a Principal Consultant 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.

AUTHOR

Cecily Williams
Principal Consultant

Cecily joined Frontier in 2022 as a Principal Consultant and provides consulting support to clients in the insurance and superannuation sectors. Prior to joining Frontier, Cecily spent close to 25 years with Mercer, including a period as Head of Retail Consulting. Over that time she was lead consultant for a number of Mercer's major clients across several segments.

Prior to Mercer, Williams worked for ten years at NSW Treasury Corporation, and Share Analyst with MLC. Cecily holds a Bachelor of Economics from James Cook University.

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Introduction

With a year elapsed since superannuation funds needed to have their retirement income strategy in place, APRA and ASIC have reviewed funds' progress to enhance retirement outcomes for their members.

In March 2022, APRA and ASIC released a letter outlining an indicative implementation pathway for funds as they implemented the Retirement Income Covenant. This was in lieu of a more formal guidance note and allowed trustees flexibility in their implementation. In particular, the regulators outlined five key areas for funds to consider:

- oversight and strategy implementation

- robust analysis of member cohorts/sub-classes

- quality data

- fit-for-purpose assistance for member

- strong product governance and distribution practices.

In their recently released review, APRA and ASIC reported the findings of their joint thematic review of RSE licensees' implementation of the covenant against the expectations outlined in their letter.

Overall, the review found while trustees are improving their offerings of assistance to members in retirement, there is variability in the quality of approach taken and a lack of urgency in embracing the intent of the covenant.

Regulators' review

During the 2022–23 financial year, APRA and ASIC examined the progress made by 15 trustees in implementing the covenant over the past year. They conducted the review by examining each RSE licensee's retirement income strategy and met with funds to discuss their approach and decisions as well as their progress in implementing their strategies.

The review considered how trustees understood member needs, how they offered assistance to members, and how they executed and oversaw their strategy.

Throughout the review, it became evident to the regulators that effective implementation of the covenant centres on satisfying three core elements:

- understanding members' needs

- designing fit-for-purpose assistance

- overseeing strategy implementation.

The regulators observed that funds were focusing most of their efforts on expanding the assistance and support available to members in or approaching retirement. However, they found variability in the quality of approach taken – overall, there was a lack of progress and insufficient urgency from RSE licensees in embracing the retirement income covenant to improve members' retirement outcomes.

Understanding members' needs

The regulators stated understanding members' retirement income needs is critical to having a retirement income strategy that is appropriate for members.

To provide meaningful assistance to members in or approaching retirement, funds need to have sufficient understanding of members' financial position at retirement as this will have an impact on their Age Pension eligibility and spending in retirement. This does not mean funds need to accurately know the financial position of each member; rather, they need to know enough about their membership profile to formulate and review an effective strategy.

The review found all funds captured superannuation savings and the Age Pension when determining the meaning of 'retirement income'. However, only eight out of 15 funds considered members' financial position beyond these factors.

The review identified better practices:

- Fully exploring the depth and breadth of their own data, ensuring data was sufficiently current, and supplementing this with external (population level) data.

- Seeking to better understand the financial profile of their membership in different sub-classes beyond their superannuation balance, including key information such as home ownership, partner/marriage status, and material assets and income outside of the RSE or the superannuation system.

- Integrating external data and research with internal data on retirees' behaviour.

- Modelling member behaviours and pension drawdown amount using historical transactional and account data they hold.

- Undertaking robust data gap analysis based on what is needed to further develop their strategy, identifying cost-effective ways to obtain the data required by using both internal and external resources, and having a clear plan to address data gaps identified.

- Giving careful and comprehensive consideration in member segmentation, and closely linking their sub-classes of members to designing assistance and product offerings for each sub-class.

Understanding members' needs

Review objectives

- To gauge what data is being collected and how it is being used by RSE licensees to understand members' financial position and future spending needs.

- To gauge how RSE licensees are using their understanding of members' needs for member segmentation.

- To understand what plans RSE licensees have in place to deepen their understanding of these needs and refine their strategy over time.

Key findings:

RSE licensees had drawn on a range of internal and external data sources to understand their members' retirement needs. However, all RSE licensees were missing data that is critical for developing an effective retirement income strategy. Further, few RSE licensees had critically assessed the extent to which their analytical and modelling capability enabled them to draw meaningful insights from their data.

Priorities for RSE licensees:

- Address fundamental data gaps to support effective strategy formulation and deliver useful assistance to members.

- Enhance modelling and analytics to better understand how members' financial position and retirement spending needs could change over time.

Designing fit-for-purpose assistance

Members in or approaching retirement will have different retirement aspirations and income needs. They will also have varying levels of engagement and understanding about superannuation, and different preferences for making decisions, such as the extent to which they prefer to research options themselves before making a decision.

Superannuation funds are well placed to help members navigate the various options for how they can use their superannuation in retirement. By analysing data on members' choices and their retirement income needs, trustees can identify which types of retirement products, information, tools and advice are likely to be most relevant to different types of members.

The review examined how funds were using their analysis of member needs and behavioural preferences to deliver fit-for-purpose assistance. It also assessed the range of assistance offered, including product offerings, to improve member outcomes in retirement.

The better practices identified included:

- Using member surveys to understand members' preferences for decision making and levels of engagement in retirement planning (i.e. not just financial characteristics).

- Using focus groups or surveys to test whether members understood new initiatives and assess whether the initiatives would meet their current or future needs.

- Having mechanisms in place to identify assistance gaps.

- In relation to longevity products, undertaking member research, having a clear target market and mindful of personal advice obligations.

- Highlighting the important elements of the underlying strategy in fund's summary, while ensuring that the summary remained readable and catered for different audiences.

- Providing details in strategy and business plan about the scope of changes, the timeline for implementation and the relevant approvals required.

Designing fit-for-purpose assistance

Review objectives

Assistance

- To gauge how RSE licensees plan to assist members in or approaching retirement to identify suitable strategies/solutions (e.g. products, advice, guidance, actions).

- To understand how RSE licensees plan to expand their assistance in future.

- To explore how individual RSE licensees plan to assist members and identify concerns such as the risk of non-compliant advice, breach of the hawking prohibition or other potentially harmful actions.

Product governance

- To assess whether the strategies are consistent with RSE licensees' target market determinations for retirement products (including the identification of product target markets, and distribution channels).

Website summaries

- To assess whether website summaries provide an accurate representation of RSE licensees' strategy and whether there are disclosure practices that could be improved.

Key findings:

RSE licensees had started implementing a range of measures to improve the assistance they offer to members, though some RSE licensees were not robustly tracking member usage of assistance offered. Further, a sizeable proportion of RSE licensees lacked concrete plans to address the gaps they had identified in the types of assistance offered.

Priorities for RSE licensees:

- Tailor member communications and other assistance to cater to diverse member preferences and needs.

- To address any assistance gaps, implement regular testing and appropriate metrics to track the effectiveness of assistance offered.

Overseeing strategy implementation

Having a strong framework in place to drive a strategy's implementation is critical to its success. The review looked at the management and governance structure adopted by trustees, how they were integrating their retirement income strategy into their broader business planning process, and how they intend to track the performance of their strategy.

The review found:

- Many trustees had not integrated their retirement income strategy and initiatives into their overall strategic and business plans.

- A small number of RSE licensees had identified metrics to measure meeting retirement income needs – typically in terms of meeting a retirement adequacy target.

- Having a senior executive to oversee implementation of the strategy can help ensure the strategy receives proper attention, including suitable allocation of staff, time and budget to support the implementation of the strategy and the delivery of initiatives.

The better practices identified:

- Regular reporting to the board helps ensure close monitoring of the strategy's performance and provides an opportunity for deficiencies to be identified in a timely manner.

- Having a business plan that incorporates the key initiatives identified in the retirement income strategy and showed a clear pathway to implementation.

- Considering appropriate metrics to measure each covenant objective and the trade-offs between the objectives, evolving their modelling capability to better illustrate the range of likely outcomes for members.

Overseeing strategy implementation

Review objectives

Strategy implementation and oversight
- To determine how RSE licensees resource and oversee the formulation and implementation of their retirement income strategy, including integration of their strategy into the overall strategic planning and member outcomes assessment processes.

Success measures
- To identify how RSE licensees measure the performance and success of their strategy.

Key findings:

Some RSE licensees had not yet embedded initiatives set out in their strategy into concrete actions in the business plan. Disappointingly, the majority of RSE licensees lacked metrics to assess the retirement outcomes provided to members.

Priorities for RSE licensees:

- Integrate the retirement income strategy with the broader business planning cycle.

- Develop metrics that focus directly on member outcomes (such as changes in drawdown rates and member confidence in meeting their retirement goals) to measure success of their strategy.

Regulators' next steps

APRA and ASIC's review outlined their findings, included examples of better practices and highlighted priority actions for trustees. They expect all trustees to consider the findings and examples of better practices outlined in their report. Trustees should address, with urgency, the gaps in their approach.

The regulators note the Government has recently released its response to the Quality of Advice Review. The regulators' report does not address the implications of future advice laws on the assistance that RSE licensees may provide as part of their retirement income strategies. This is a matter that RSE licensees will need to consider as legislative changes are made. Regardless, under the existing laws, there are still a number of actions funds can take now to better assist members in or approaching retirement.

The regulators will continue to engage with trustees and other stakeholders to understand how the industry and other relevant providers are improving practices to better assist members with the retirement phase of superannuation. Where appropriate, APRA's prudential framework will be enhanced to reflect key findings of this review. APRA will consult on proposed enhancements later in 2023.

The final word

APRA and ASICs' assessment of superannuation funds' implementation of the Retirement Income Covenant could be classified as "could do better". In particular, the industry's effort grade would be "sometimes shows application".

The regulators expect all RSE licensees to consider the findings and examples of better practices outlined in their report. Over the final quarter of this year, APRA will seek all trustees' self-assessments against the key findings in our joint report, including how they have assessed themselves against better practice examples.

All trustees can expect APRA to monitor closely the progress and implementation of retirement income strategies as part of APRA's regular supervision agenda this financial year.

Where appropriate, APRA's prudential framework will be enhanced to reflect key findings of the review. Fundamental aspects will be incorporated into APRA's Prudential Standard SPS 515 Strategic Planning and Member Outcomes in a set of planned updates over the next 12 months.

Want to learn more?

Please reach out to our retirement specialists or your client team to learn more.

Funds should address, with urgency, the gaps in their approach.
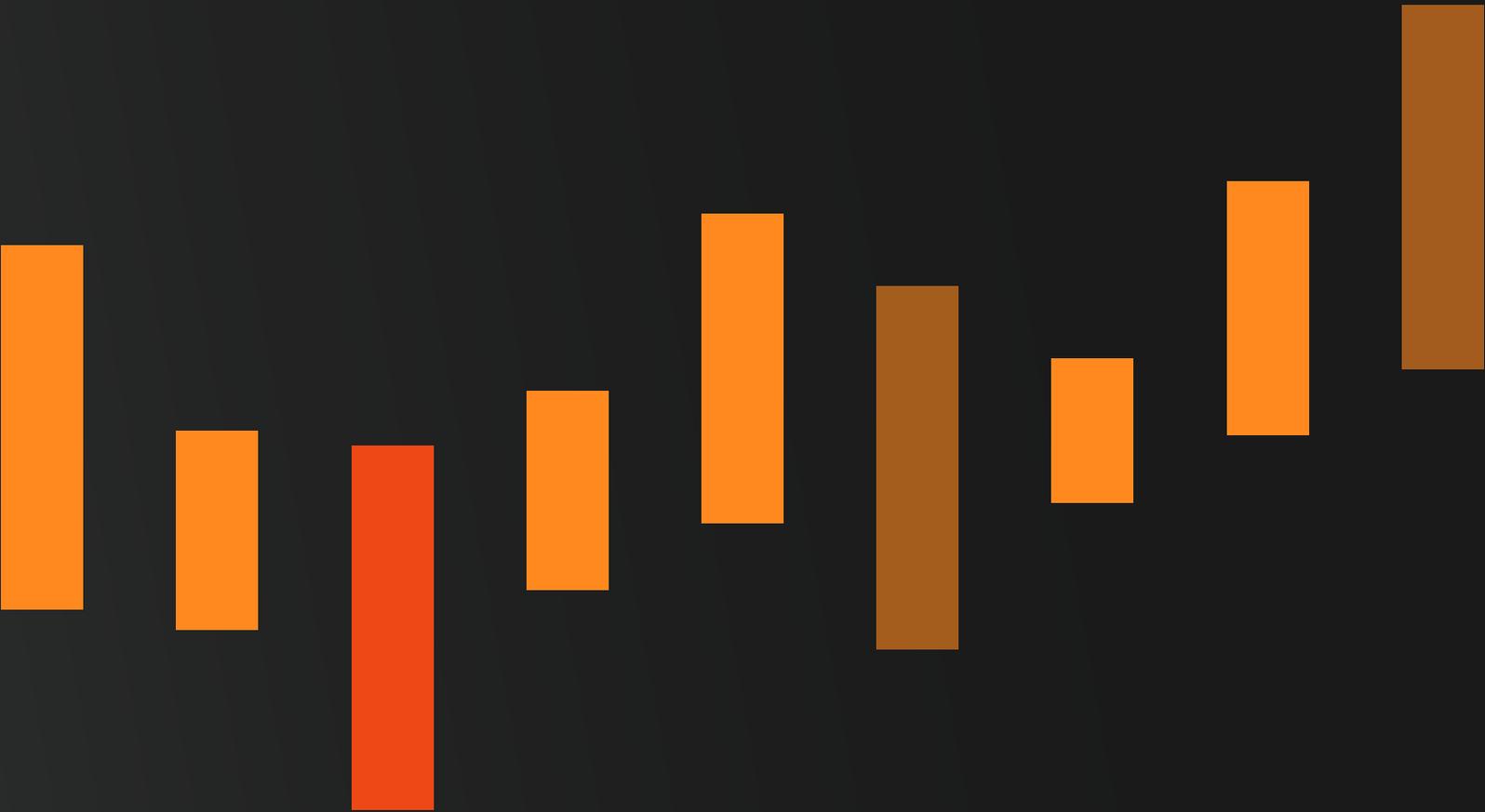
Frontier Advisors

Level 17, 130 Lonsdale Street, Melbourne, Victoria 3000

Tel +61 3 8648 4300