# SUPPORTING A SIMPLE APPROACH TO RETIREMENT INCOME

## Rest Super Submission in response to:

## Discussion paper – Retirement phase of superannuation

## 9 February 2024

Rest appreciates the opportunity to contribute to the ongoing discussion on the retirement phase of superannuation, and respond to the Treasury discussion paper, which seeks to examine the opportunities, barriers, and challenges to improving the experience and outcomes of members in the retirement phase.

Rest is a major profit-to-member industry superannuation fund with two million members – or around one-in-seven working Australians – that manages assets of around $80 billion[1]. Rest members are typically younger, with 50 per cent of our membership being under 30 years old, with decades until retirement. We strongly believe that early actions lead to better outcomes, and that providing all our members with access to information and guidance over their working lives is vital to improving retirement outcomes.

Alongside Rest's predominately younger membership is our growing number of members at or nearing retirement. Rest members aged 55 and over have the lowest average balances across the 10 major funds[2] and our recent survey of member attitudes shows that over half are 'extremely' or 'fairly' worried[3] about whether they have enough money to retire. Rest members over the age of 50 are more likely than the general population to be single, renting or still paying a mortgage, and on average have less wealth outside superannuation.

For many Rest members, therefore, complex longevity products and retirement strategies will not be relevant. Instead, they would benefit from receiving simple guidance on decisions about matters like paying down debt, ensuring they maximise their access to the Age Pension, understanding the transition from salary income to managing the draw down on their superannuation efficiently and combining it with the government Age Pension. This kind of support would offer Rest members the necessary assistance.

We acknowledge however, that unlike the relatively homogenous experience of the accumulation phase of super, members' experiences of retirement can vary greatly. Therefore, an examination of the ways in which funds can support members to navigate the variety of issues related to retirement, and the role that superannuation plays, is an important discussion at this point in the maturation of the superannuation system.

The following pages further consider the particular experiences of Rest members, and the opportunities to enhance the services and support that superannuation provides to improve retirement outcomes.

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[1] As at 31 December 2023
[2] APRA Annual fund-level superannuation statistics, Jun 2022
[3] Rest survey, Jun-Sep 2023

## Rest members and retirement

### Membership overview

Rest has around two million members, of whom 326,000 (16 per cent) are aged over 50, and 145,000 (7 per cent) are aged over 60. This compares to the top 10 industry funds, excluding Rest, who in aggregate have 33 per cent of members aged over 50 and 24 per cent aged over 60,[4] reflecting Rest's unique member profile.

Just over 19,000 members are in a Rest account-based pension or Transition to Retirement (TTR) account.

> 145,000 (7%) of Rest's two million members are aged over 60
>
> Rest members aged 60-64 have an average balance less than half that of the top 10 industry funds.

Rest members, because of their backgrounds in the lower paid and casual-dominated retail and hospitality industries, as well as broken work patterns, have some of the lowest average superannuation balances in the industry. APRA fund level data as at June 2022 (latest data providing an age breakdown) showed Rest members aged 60-64 with an average account balance of just $92,000 dollars, less than half of the $191,000 average balance of 60-64 year old members in the other top 10 industry funds.[5]

Therefore, Rest members will generally rely on the full or part Age Pension for most, if not all, of their retirement. Superannuation provides a vital part of their financial security in retirement, but the interactions between superannuation and government income support are key to meeting our members' needs.

Of Rest members in drawdown, or pension phase, 55 per cent have a pension account balance less than $200,000 and 32 per cent have a balance less than $100,000. Just 22 per cent have a balance greater than $500,000.

For Rest members commencing an account-based pension, 20 per cent of Rest members opened their pension account with less than $100,000, and 24 per cent with balances between $100,000 and $200,000.

### Drawdown patterns

Of Rest members in pension phase during the financial year ending 30 June 2023, 77 per cent took more than the minimum drawdown rate (noting that the minimum drawdown rates in FY23 were still at reduced levels). Across these members, the average drawdown was 7.6 per cent of the total pension balance. As expected, the proportion of members withdrawing more than the minimum is highest for younger pension members: of members aged 60-74, 82 per cent withdrew more than the minimum, while for members aged over 80, the proportion was 48 per cent.

> In 2023, 77% of Rest pension members took more than the minimum drawdown pension income.

[4] Source: APRA Annual fund-level superannuation statistics, Jun 2022

[5] Source: APRA Annual fund-level superannuation statistics, Jun 2022

Similarly, the proportion of members withdrawing more than the minimum is highest for those with lower balances; of members with less than $200,000 in their Rest pension account, 81 per cent withdrew more than the minimum (with an average withdrawal rate of 10.3 per cent of the total balance), while for members with more than $300,000, 67 per cent withdrew more than the minimum (with an average withdrawal rate of 6.1 per cent of the total balance).

### Lump sum withdrawals

Many Rest members also make lump sum withdrawals from their pension account. In the financial year ending 30 June 2023, around 3,200 pension members, or 17 per cent, made lump sum withdrawals of an average $27,500 each. These lump sum payments represented an additional 2.3 per cent of the total pension balance being withdrawn.
Again, member behaviours with respect to lump sum withdrawals varies with age: of members aged under 75, 19 per cent made lump sum withdrawals while for members aged over 80, the proportion was just 7 per cent.

Of those members making partial withdrawals, 46 per cent made one withdrawal during FY23, 20 per cent made 2 withdrawals, with the remainder making three or more withdrawals, including 12 per cent who made six or more withdrawals.

The patterns of Rest members accessing lump sum withdrawals demonstrate some key aspects of the role of superannuation income streams in retirement:

- Members value the ability to be able to access additional funds through access to their capital in addition to regular income payments,
- Rest members are using lump sum payments from account-based pension products to either supplement income, or to meet one-off expenses.

### Balances at time of death

Of the 70 Rest pension members above the age of 80 who died during the financial year ending 2023, 70 per cent had a pension balance under $200,000.

### Primary challenges in navigating retirement

Based on our experience in providing advice to members as they approach or move into retirement, we have observed that the key challenges include:

- Accessing information about whether they have enough superannuation to retire, including an anxiety driven by the perception that all people need $1 million to retire,
- Understanding pension eligibility,
- Navigating the complexity of decisions ranging from when they can/should retire, whether their superannuation will provide enough income, and last long enough, and the interactions between government support, superannuation, aged care needs and housing.

We find that the challenges of complexity and accessing information can lead to members being overwhelmed, and therefore making decisions of the 'path of least resistance,' either retaining balances in accumulation, or withdrawing a lump sum and placing capital in a bank account or term deposit.

Furthermore, funds have had constraints on providing the extent of information and support that is needed to help members navigate these decisions. The expectations on superannuation funds to assist members through their obligations under the Retirement Income Covenant has clarified some elements, such as the balance between providing assistance and potentially contravening hawking restrictions. However, some remaining limitations include that under existing conditions for providing intra-fund advice, funds cannot take a member's household circumstances, including income, superannuation, and debt, into account when providing guidance. This limits the effectiveness of this type of advice. We are hopeful that the upcoming Government announcement on the Delivering Better Financial Outcomes reforms will address these limitations.

Rest strongly believes that superannuation funds have a vital role to play in providing simple, accessible, valuable information to support members to approach these challenges with greater confidence.

### Data and retirement

Related to the challenges for members is the issues funds face in ensuring sufficient relevant and accurate information to support members to make better decisions. Our experience working with members shows that retirement is a flexible transition, often involving movement out of and back into the workforce, or gradual reduction in hours, and ongoing work in retirement. This makes it challenging for funds to identify when members require greater information or support, and when they can be seen to be 'retired.'

In addition, the data required to effectively provide guidance is frequently related to household circumstances, and access to data for a household can be limited, often even for the individual to access.

Opportunities exist for information sharing between government agencies, in particular the ATO, which has rich data related to work patterns through Single Touch Payroll reporting and ceasing of work through tax return information, and from Services Australia, for example on when a member has applied for the Age Pension. We consider that further consultation should be undertaken on these information sharing opportunities.

## The role of guidance and advice

Rest believes superannuation funds have a critical role to play in ensuring Australians can easily access affordable financial advice and guidance. Rest's membership of generally younger people, frequently in part-time or casual employment, and with lower superannuation balances, means that many of our members would not be able to access or afford personal advice outside what is offered by Rest. Our experience is that, for Australians with lower balances, the right advice at the right time can make a significant difference to the personal circumstances of our members, and this is often only available through the collectively charged advice models within superannuation.

***Rest advice has helped me on 2 occasions, back when I first retired in late 2021 and also again recently, after I have returned to work and needed guidance on how to arrange super and also with relation to my pension Fund , when I retire again.***
***The advice has been seamless, correct, prompt and saved me thousands of dollars in tax which I had no idea about. Also on this occasion, the adviser has guided me in the same professional way, where I again will save on tax and be ready (at the right time) to join my new super to pension fund. I continue to be amazed and so impressed that this professional advice is available because I am a Rest member.***

Rest member feedback, February 2024

Rest is supportive of proposed policy approaches to improve communications to members, including a focus on presenting key information simply. Rest is executing on its Retirement Income Strategy through actions focused on information, then guidance, then advice. Rest also supports government seeking to increase educational material and prompts to access government information services.

### Rest’s Retirement Income Strategy

Rest's retirement income strategy is primarily based upon two key components - understanding the needs of our members and providing solutions that cater to those needs.

Our retirement strategy is informed by member research and experience, which not only tells us that all members are different, but also that their needs change through life. Our approach is therefore tailored for individuals to reflect their varying needs and providing the right support for them. It is for this reason that guidance and advice are critical components of Rest’s retirement income strategy.

We know that Rest members typically want to address their finances one topic at a time, such as investing, growing their super, or planning for retirement. We believe it is imperative that members can easily navigate and progress through Rest’s different information and advice options.

We aim to support our members by offering three distinct guidance layers to progress through (as needed):

- Layer 1: Education, information, and online calculators (including general advice).
- Layer 2: Digital advice tools (collectively charged advice).
- Layer 3: Personal advice provided by phone-based Advisers (incorporating collectively charged and individually charged advice).

These each provide a pathway for members to understand their superannuation and

It is vital that people can choose from a range of advice and guidance services, scaled in both complexity and cost. Rest has observed that when members engage with our advice offering, there is often an associated increase in their confidence and engagement with their superannuation and retirement planning.  As a result, we believe that by removing current regulatory obstacles and improving communication and engagement with members, it is possible to facilitate the crucial shift in member mindset. This shift could lead to increased levels of engagement and confidence amongst retirees when it comes to planning their retirement and drawing down on their superannuation.

To support retirement planning engagement, Rest suggests that the Government should communicate with all Australians prior to reaching age pension age, providing guidance on how to apply and where to go for help, such as Financial Information Service (FIS) Officers or financial advisers. This approach would prompt more individuals to apply for the age pension and potentially seek advice about their retirement needs.

Rest strongly supports the Government's Delivering Better Financial Outcomes package, and believes that implementing the following items will allow Rest to further support members in achieving their best possible retirement outcome:

- The ability to provide members with personalised 'nudges' such as prompting members approaching retirement to consider options for how they may wish to drawdown their super. Rest believes 'nudges' could be a useful tool to communicate basic information to members before reaching retirement, for example from age 50 and beyond, including throughout their retirement.
- The proposed introduction of a new class of financial advice provider. These new advice providers could be an effective avenue to assist members who are adopting digital advice to validate any concerns with a human advisor before proceeding with the implementation process. For instance, Investment Trends notes that only 11 per cent of Australians aged 55-64 are likely to implement digital advice without validating with a human adviser[6]
- The proposed expansion of the advice topics that can be offered via the collectively charged advice model will allow Rest to provide more impactful and beneficial retirement advice, including being able to consider household circumstances, being mindful of the cost and model, and Rest's overall obligation to act in the best financial interests of members.

## The role of employers in providing information

Rest also acknowledges that there are other potential sources of information and education for working people. The OECD released a *Policy handbook on financial education in the workplace*[7] in 2022 which stated that "Workplace financial education can help employees to improve their levels of financial literacy and financial well-being." Furthermore, the latest Edelman Trust Barometer[8] report showed that a majority of people trust businesses as a reliable source of information, and trust their CEO more than they do government leaders, and often their community peers. The *Young People and Money*[9] survey by ASIC in 2021 showed that young people expect education from their workplace about financial matters.

Rest has seen the value of employers providing accessible financial information and education programs, with our involvement in contributing to those programs. Rest believes that members having access to a range of information from different trusted sources that builds knowledge and confidence is a key part of better retirement outcomes.

> ***I have gained so much from these talks, especially since the last one. Before you visited the store, I had no understanding of the benefits of investing in superannuation and a lowly balance of around $28,000 after years of self-employment and being a single parent. I just received the employer contribution and watched as my super amounted to nothing and I paid a massive taxation bill. Fast forward two years since that talk and I now have a keen interest and understanding of how to make my super work for me and a balance of just over $100,000 and climbing. I salary sacrifice and make personal contributions, including my catch-up super. I now feel more in control of my money and my future and can work toward achieving my retirement goal with the information I have received from you both. My only regret is not being exposed to these talks years ago.***
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> Rest member feedback, March 2022

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[6] Investment Trends, 2023 Financial Advice Report Industry Analysis
[7] https://www.oecd.org/finance/policy-handbook-on-financial-education-in-the-workplace-b211112e-en.htm
[8] https://www.edelman.com.au/trust/2023/trust-barometer
[9] https://moneysmart.gov.au/young-people-and-money

### Case study – workplace financial education

Rest has ongoing involvement in delivering workplace financial education in support of internal programs at a large nation-wide retailer. An example program is *Retiring Well*, highlighting the opportunities and support available to team members who may be considering transitioning into retirement or planning for retirement.

Our support to the program has allowed us to engage with team members from across the business and provide valuable information, building greater awareness and confidence about the opportunities and support available. In 2023, 281 team members engaged with Rest through a total of 31 education sessions delivered across the year.

The program also highlights the Advice support available to Rest members, helping participants take action and drive informed change, critical components of any successful workplace financial education program, to improve retirement outcomes.

Anecdotal feedback has confirmed our support to the program has delivered significant benefits, providing participants with the confidence and support to make a more informed financial decision regarding the retirement options available to them.

## The role of retirement products

For most Rest members, who are reaching retirement on balances at or under $100,000, they will run out of superannuation during their lifetime. These members will not have sufficient capital to contribute to a specific longevity product, as well as draw a reasonable income, or access required lump sums to pay down debt, or for other essential expenses. For these members, a product that offers regular income drawdown, the flexibility to access additional income or lump sum amounts when needed, with an appropriate investment risk/return profile, will meet their needs. This is currently available through existing account-based pension products. For these members, their longevity risk is addressed by the ability to access the Age Pension, initially as a partial pension, leading to full Age Pension as their balance is drawn down.

Some Rest members will have built more significant balances by retirement age to consider whether a longevity product is appropriate. For these members, we would hope to see increased innovation and availability in the market in coming years, and funds should be able to offer these products to their members, based on their individual circumstances. The role of advice will be key in supporting those members to make decisions.

### A proposal for improving take-up of simple retirement products

Rest’s members eligible to benefit from having an account-based pension often retain their superannuation in the accumulation phase. This can occur even after the member has obtained advice from Rest’s advice team and understood that it is tax advantageous to move to a pension.

Rest’s older members are often very concerned about not having sufficient savings for emergencies or to assist them with aged care expenses later in life. They see their superannuation as something for a ‘rainy day’ rather than as a regular source of income. While this may also be the situation for members at many funds, Rest’s members have a much lower balance in retirement. Studies have suggested Rest's members concerns are heightened in comparison to those in other funds.

When members consider transferring from accumulation to an account-based pension, they become concerned at having to drawdown their retirement savings, no longer having a 'rainy day' fund. In theory members could divert pension drawdowns to an alternative savings vehicle. The reality is that is either not an option readily accessible to them and/or unlikely to generate returns that are commensurate to those delivered by a professionally managed super fund.

Rest believes it is in the best interests of members to:

- access the available tax concessions on their superannuation balances,
- have comfort that they will have assets available to meet contingencies over time, such as aged care expenses,
- have professional investment managers manage their assets, and
- still receive regular income to lift their standard of living during their retirement.

While there is conflict in achieving the points above, Rest believes a balance can be reached but this requires a change in the drawdown rules for account-based pensions. A change in the rules could also be an opportunity for the current drawdown rates to be simplified to reflect the needs of members through retirement.

The current minimum drawdown rates are 4% for account-based pension members aged 55-64, rising to 14% at age 95. In contrast, members are more likely to spend more in the early years of their retirement, decreasing over time (excluding aged care costs). The opportunity is to adjust drawdown rates while introducing a capital reserve that would not be drawn down as regular income by account-based pension members, but available for one-off or significant expenses, including potentially aged care.

Rest proposes consideration of a change in the minimum drawdown structure that overcomes some of the concerns that members have in moving from accumulation to an account-based pension. A suggested model is:

- First $100,000 (indexed) not included in drawdown rate calculations
- Annual minimum drawdowns of 7% of balances over $100,000 (indexed)

Thresholds and drawdown rate may be varied according to appropriate modelling by Treasury.

**Example 1**

A member aged 70 with a balance of $500,000 is currently required to drawdown a minimum of 5% or $25,000 per annum.

Under the suggested model, that member would be required to drawdown at least 7% on $400,000 (the balance over $100,000), i.e. $28,000 per annum.

**Example 2**

A member aged 75 with a balance of $200,000 is currently required to drawdown a minimum of 6% or $12,000 per annum.

Under the suggested model, that member would be required to drawdown at least 7% on $100,000 (the balance over $100,000), i.e. $7,000 per annum.

These changes would support the patterns that Rest observe members are seeking from a retirement product: regular income, while retaining access to some capital; higher income initially, declining as needs change and access to the Age Pension changes, as well as accessing the advantages of tax concessions available on retirement products and access to professional funds management.

Furthermore, Rest supports the proposal made in the submission by the Super Members Council to remove the existing prohibition on making contributions to existing account-based pensions (including for retirees aged over 75 years) in order to simplify the system, provide more flexibility and choice for retirees to manage their retirement income streams and reduce the need for multiple superannuation accounts.

Rest acknowledges that considerable consultation would be required on such changes to these products but believes that these kinds of innovations to simplify the system and products available that work for the majority of working Australians will lead to better retirement outcomes.

## Conclusion

Rest welcomes the opportunity to discuss any of the content of this submission and invites you to contact Rest as provided by email.