

The American Chamber of Commerce

Business Briefing

Andrew Hagger, Group Executive – NAB Wealth

Retirement or Welfare - The Future for Australians. Challenge & Opportunity to Industry & Government

Wednesday, 22 April 2015
SYDNEY

INTRODUCTION

Good afternoon ladies and gentlemen, and thank you for being here. We meet today on the land of the Gadigal people of the Eora Nation, and I pay my respects to their Elders both past and present.

I would like to acknowledge AMCHAM Governor, Joseph Scarf and event sponsor, Declan Boylan from Seven Consulting as well as my NAB and MLC colleagues in the audience.

I'd also like to thank the American Chamber of Commerce for asking me to speak on this most topical of subjects: the economic challenges for Australia and our ageing population, and the important role the wealth industry – my industry – has to play in securing a prosperous future for our nation and our people.

Every Australian deserves to retire in comfort after years of working hard. For 128 years, we have played a key role in helping Australians “Save Retirement”.

We've assisted them create wealth; providing trusted advice as they plan for their retirement.

We've protected their wealth and financial security through life insurance and income protection.

But, with more than half of retirees outliving their retirement savings, the challenge ahead for the wealth industry and the Government is enormous.

The recent release of the Federal Government's Intergenerational Report considers the nation's long-term sustainability over the next 40 years and how

PLEASE CHECK AGAINST DELIVERY

Australia's age profile and population size could impact economic growth, workforce and our public finances.

It is fascinating reading. But it should also serve as a wakeup call.

By 2055, the average Australian woman will live to around 97, and men can expect to live to 95.

In the past, we considered ourselves – and we were – a relatively youthful country. In 1975, for example, there were just 122 people aged over 100 across Australia.

Forty years from now there will be around 40,000 people aged over 100, and remarkably, nearly 2 million Australians aged over 85.

This demographic change won't just influence who we are, and how we see ourselves as a nation, but also our whole retirement system and the drivers of the Australian economy.

The demographic shift has significant repercussions for how we prepare to meet the needs of an ageing nation in future, and also for our current approach to the accumulation of retirement savings, income in retirement, and when people exit the workforce.

For me, and indeed for the wealth industry, this presents both great opportunity and great responsibility.

THE WEALTH ISSUES

It is timely at this point to go to the recent challenges facing the wealth industry, and in particular issues involving our business.

This is relevant because if we are to play a key role in helping Australians meet their ageing needs, they must trust our advice.

Our company has a proud track record of providing leadership in the financial advice industry.

PLEASE CHECK AGAINST DELIVERY

We broke ranks and called for a move away from commission based remuneration models. We were also the first of the majors to move to a 'fee for service' remuneration model. Today all of NAB Wealth's investment business is written on a fee for service basis.

The majority of our more than 1600 financial planners are doing the right thing, and providing good advice to everyday Australians concerned for their retirement. And with more than 1.7 million customers, our complaint rate is small.

But while we are proud we are not perfect.

We have worked to strengthen our business and while we don't always get it right-we believe our business is stronger today than it was 2 years ago, and that it will be even stronger in two years' time.

We have undergone significant change and will continue to do so to improve our business and the outcomes for our customers.

Additionally, in February we committed to several initiatives that will substantially improve outcomes for our customers:

Where there is professional misconduct we will move to write to all customers, and where misconduct has occurred in the last five years we will also write to customers.

We are improving our complaints process, providing our customers with support to resolve complaints within 45 days.

We are going to add independence into our whistleblower process and our complaints process.

And; we will advise ASIC of all advisers who leave our business and the reason why.

These reforms will make our customer service model even stronger.

As I will detail later, there are a series of cultural changes which we believe will also help to raise industry standards and professionalism.

A SIGNIFICANT CHALLENGE

The challenge ahead is significant.

No one looks to the future and wants to imagine their 'golden years' as a period of financial struggle or hardship. But the brutal truth is that half of Australia's retirees will need to fall back on the age pension, which is unlikely to meet a great many people's current lifestyle expectations and needs – particularly those who require aged care and specialist assistance later on.

Living longer and having more opportunities to take advantages of time with family and friends, productive work, leisure and learning is a positive thing.

And just as last year's Blueprint for an Ageing Australia report found, if we are to truly embrace the concept of positive ageing, we simply need to start planning for these opportunities earlier, throughout our adult lives.

We also need to dramatically increase the number of Australians working in a part or full time capacity beyond the age of 65.

The number of working people aged between 15 and 64 for every person aged over 65 is decreasing. It was 7.3 in 1975, it is 4.5 today, and will be just 2.7 in 2055.

This is compounded by the fact that at just 58.9 per cent, Australia has relatively low levels of mature age employment, or work for the over 60's, when compared to many other OECD countries, including the USA, UK, Canada and New Zealand.

Over the next 40 years, the proportion of the population over 54 will almost double to around 25%. At the same time, growth in the population of traditional workforce age is expected to slow to almost zero. This is a permanent change.

It is a challenge that is and should be at the front of mind of government and policy makers – how do we keep more Australians employed, in some capacity, in an appropriate job, for longer?

Not just to boost workforce participation, but to reduce the inevitable pressure on the aged pension system and also keep people contributing to their superannuation and retirement savings for longer.

We know the longer an individual or couple can wait until drawing down on their superannuation balance, the better off they will be.

Somewhat surprisingly, the average age for an Australian to retire today is 59 – six years short of the age of 65 many of us would have expected to be the case.

And while this early retirement age is often due to unforeseen circumstances, such as poor health, the need to take on other family responsibilities or retrenchment, it speaks to the financial challenge people are facing as they draw down on their retirement savings early on.

OUR ROLE

The wealth industry has an important role to play in helping Australians meet these challenges, and in influencing existing policy settings to ensure we are helping to create the right environment, the right system to ensure people are engaged and active in planning for their retirement.

We are fortunate to have a strong compulsory superannuation system that will allow those aged 60 and beyond to reap the benefits of contributions from their long working lives.

But right at the moment there is insufficient clarity about the public policy purpose of superannuation, and that lack of clarity is contributing to system uncertainty. It would be helpful if Australia's political leaders, both in government and opposition, could restate a shared set of objectives for the system.

You sometimes hear people say that compulsory superannuation was designed to replace the Age Pension and its failure to do so reflects poorly on the system overall. For some people, this is a sufficient reason for arguing that the tax concessions that underwrite the system should be removed.

But compulsory superannuation was never designed, nor intended, to replace the Age Pension. Rather, it was always intended to complement both the

pension and voluntary household savings, in a way that enhances retirement incomes overall with a longer term objective of reducing reliance on Government income support. The major planks of our superannuation system were put in place in the context of national debates about the best means of lifting Australia's relatively low rate of household saving and addressing the need to enhance post-employment incomes for a rapidly growing cohort of retirees.

Of course, underwriting a boost in private saving through tax concessions means that there is some fiscal cost. Nevertheless, the superannuation system has lifted Australia's national saving performance.

Now that the system is maturing, and in the context of even higher estimates of life expectancy, it is appropriate to focus on the best means of developing innovative retirement solutions that allow Australians to achieve their goals in retirement while managing one of the biggest challenges they will face – longevity risk.

As I said earlier, currently 1 in 2 Australians will outlive their retirement savings by at least 13 years, so managing retirement needs in a way that addresses longevity risk and protects Australians against this is crucial for the industry.

Our quarterly MLC Wealth Sentiment survey consistently points to Australians rating outliving their savings, falls in financial markets and not having enough to meet their needs as their top concerns in retirement, with a plan to make their super last for life the main area they want further support and guidance around.

To date, the retirement income system has largely been focused on accumulation of a lump sum balance. This is understandable but, on its own, it won't actually deliver the lifetime income and security Australians are looking for in retirement.

We need to improve living standards in retirement whilst not adding considerably to the fiscal costs of an ageing population.

We have to make it easier for Australians to be self-reliant, not just in terms of being able to self-fund their retirement, but in terms of being able to make the right decisions in preparation for and in retirement.

And that means having access to the right range of retirement income products, whether they are deferred, lifetime or variable annuity based, investment options best suited for their circumstances and insurance protection.

NAB has detailed its position on these vital matters in its submissions to the Financial System Inquiry, where we clearly outline what can and should be done to improve our national retirement system.

WHAT NEEDS TO BE DONE

A key priority has to be raising the level of self-sufficiency among Australian retirees. That means ensuring the majority of our population is saving to the level needed to fund – at a minimum – the age pension equivalent over 10, 20 and 25 years.

An appropriate aspiration for the system is that a significant majority reaches the headline target of 70% pre-retirement earnings for full retirement.

It is a significant task. If we are going to support the growing number of Australians living longer and in some cases much longer than they may have previously expected, we need individuals to be dramatically increasing their ability to self-fund, or partially self-fund their retirement.

One simple calculation which typically raises concerns for any pre-retiree is the 10/2 rule our Retirement Solutions team uses to help someone understand the income they are likely to achieve in retirement. Think of your superannuation lump sum balance, divide it by ten, and now halve it.

If you were 65, and that was your super balance, that result could be the income you could draw from your super savings for the rest of your life. Now compare that to your current salary.

It certainly puts things into perspective. An Australian who may be looking at a \$500,000 balance in their super fund could be forgiven for feeling pretty confident about their future.

However when we position that \$500,000 balance as a reliable annual income of \$25,000 above any potential government benefits, they may be

reconsidering what they can do today to meet their lifestyle expectations in retirement.

We in the industry know that information – trusted information – is key to boosting self-sufficiency and therefore making this sound advice more readily available to more Australians is critical.

Consumers who speak to a financial adviser, even if it is just once or twice, feel more prepared for retirement than those who don't – even amongst people with the same super savings balance.

Currently however, only around 18% of Australians are financially advised, which when you consider the super savings gap the nation is facing, must increase if we are to boost financial literacy around retirement, and have more people thinking about and making informed decisions earlier about their financial future.

Making advice more accessible and affordable is central to this, and that's why we've rolled out more than 100 wealth advisers to NAB branches around the country, from regional West Australia to metropolitan Sydney, to provide flat fee and simple advice on superannuation and personal insurance.

PRE-SELECT RETIREMENT INCOME PRODUCTS

NAB has also wholeheartedly endorsed the Financial System Inquiry's push to require superannuation trustees to pre-select a comprehensive income product for members' retirement.

We already offer a range of solutions that meet many of the objectives identified by the Inquiry, and back trustee pre-selection of a robust retirement income product as a preferred solution for a broader range of retirees.

We recognise many are simply overwhelmed by the options available, and conflicting information from friends, family and experts when it comes to making decisions about how to best fund their life in retirement.

That's why we need to mitigate this decision inertia and provide simple, pre-selected income products to help transition Australians into a retirement income stream that manages risks and longevity.

This should be implemented with sufficient lead time to allow funds to design products or form partnerships with other providers, including life insurers. There should also be a requirement that trustees contemplate the level of certainty of an income stream to reduce the risk of consumers buying products that don't match their personal needs and objectives.

Importantly, this wouldn't prevent a fund member from choosing an alternative option, but it would provide an important pathway to a retirement income for those who would otherwise not have it.

Of course, there are already a number of low cost retirement solutions in the market today that reflect the prescribed requirements of a pre-selected comprehensive income product such as MLC's Protected Income for Life, which gives retirees a guaranteed monthly income payment over a set period.

Compulsory pre-selection of income products within superannuation funds will extend these benefits to all Australians, and help overcome the challenge many face in converting their super balance into a workable income stream in retirement.

NAB also believes there is a role for positive 'nudge' strategies that facilitate positive behaviours and encourage Australians to consider and to take retirement products which support the lifestyle outcomes they're looking for.

This recognises that individuals may not necessarily make optimal decisions, due to poor financial literacy or behavioural biases. These products would provide longevity, market and inflation risk management features.

We believe this shouldn't favour any particular type of individual product, but could be used to incentivise the use of longevity products, for example. It would help boost their take up and protection of retirees who we know on average won't be able to make their savings last the duration of their time in retirement.

ENGAGING THE UNENGAGED

It would be remiss of me not to mention here the other great challenge for the wealth industry and government, which is to engage the unengaged on ageing and retirement.

Unfortunately, we know many people-especially the young-are simply disengaged when it comes to their superannuation and retirement planning.

As our latest MLC Wealth Sentiment Survey shows, while attitudes to retirement planning are improving, there is a long way to go. For example:

- More than 1 in 2 Australians believe they will not have enough money to retire and 1 in 5 will have to sell the family home to fund retirement
- Around 64% of Australians do not give much consideration to the impact of major future financial setbacks-such as major health issues, another GFC or job loss-on their retirement funds
- Almost 1 in 4 young Australians are not investing for their retirement at all.

While it's nice to know we have a super balance growing over time, it's too often something we put off to think about 'down the track' because the mortgage, household budget and school fees are more front of mind.

As an industry, we need to be pushing Australians to start thinking about and making conscious decisions about their retirement savings early.

This is something we feel passionately about at NAB, and is why last year we launched our Save Retirement campaign, aimed at encouraging people to take control of their retirement future.

Of course, this is a national issue and we are committed to being the champions of retirement and activists of change.

We encourage people to look at their superannuation like any other savings account – it is real money and simple changes today can make a major difference later.

RESTORING INTEGRITY

It also goes to raising the industry standards of conduct and levels of professionalism – which NAB fully supports – that will see consumers gain greater confidence, while receiving better advice and outcomes.

We believe that is best achieved through a series of cultural changes including:

- Setting a higher minimum level of education, overseen and set by an independent body;
- Placing greater emphasis on professional membership with compliant associations which have approved 'Codes of Ethics and Conduct';
- Mandating ongoing professional development, including specific ethics based units, overseen by professional associations; and
- Introducing entry requirements for new advisors joining the industry that incorporate competency assessments, as well as a professional year.

LIFE INSURANCE

John Trowbridge's report, the latest review into life insurance advice, also raises pressing concerns – including on upfront commissions and other related issues – around another area of our advice sector that needs reform.

Many of the participants in the wealth industry are “equally unhappy”. But as an industry we owe it to our customers to consider the recommendations and look at appropriate reform.

There is little doubt that unless we address the issues raised and move to restore confidence, changes will be forced upon us.

CONCLUSION

What is clear is that we, the wealth industry, need to step up. This is our challenge and our opportunity. And the benefits of success will not only be great for us, but for our customers, for our economy, and for all Australians.

NAB strongly believes that quality advice and advisers are at the heart of Australia's wealth system – but we need to get this right.

We're working tirelessly to maintain the trust of our customers and fix the areas where we have fallen short. We are very proud of the work we do; we've been providing Australians with financial advice for 128 years and we certainly intend on doing that for a great many years to come.

If government, industry and community work together, stay true to the original objectives of Australia's superannuation system and put in place the

PLEASE CHECK AGAINST DELIVERY

appropriate measures, we will ultimately improve the living standards for retirees and reduce the burden of an ageing population on future generations.