

BT General Manager, Superannuation, Melinda Howes
Transcript: *Re-shaping the delivery of post-retirement products*

Sue and Phil are an average couple in their mid-60's. Sue retired 5 years ago and Phil, who has the majority of the super, is about to retire. They have \$500,000 in super and have always been in the default investment option as they think the trustee knows better than they do.

When Phil retires this week, there is no default retirement product for them to choose. They are cast adrift with their half million dollars and have to decide what to do.

If they do nothing, they will be cashed out of super. If they ask their super fund what's available, they'll be directed to an account based pension. They will have to choose investments. The likelihood is that they'll end up invested in a balanced style investment.

They will have no protection from the 2 biggest risks they face: market volatility, or from running out of \$ if they live too long.

There are 5 million baby boomers in Australia right now aged 52-70. Each year 289,000 people like Sue and Phil retire and we don't have suitable retirement offers for them. We are letting them down.

Our lack of suitable post retirement income products is the one area of weakness in what is otherwise a strong and robust Australian superannuation system – rated one of the best in the world. In fact once we solve the post retirement product issue, I predict we will be rated the world's best. SO how do we get there?

We can see here the size of the prize when looking at the potential market for post-retirement income stream products. The demographics are clear with retiree age groups growing twice as fast as the rest of the population.

Also those in the engagement zone for retirement – when they start caring – hold the majority of our wealth.

So given this opportunity, what has been stopping development of new products?

1. Legislative barriers tax treatment – Budget has removed
2. Lack of compulsion – CIPR Comprehensive Income Product for Retirement will address a pseudo default or “trustee's pick”
3. Complexity and diversity of outcomes for retirees – very different to accumulation phase.

Hold that thought – I'll come back to that in a moment.

In 2012 when I was working for the Actuaries Institute I co-wrote a White paper called Australia's Longevity Tsunami. This is a chart from that paper showing how our life expectancies have kicked out.

Since the late 1800s, life expectancy for Australian boys and girls has increased by over 30 years... and this improvement trend is continuing.

However we continue to underestimate our life expectancy

Underestimating life expectancy will have major implications for retirees – don't see the value in insuring their longevity with a DLA or lifetime annuity – think they will only live

as long as their parents.

As life expectancy kicks out 2 scenarios – jury is out amongst medicos:

1. Pessimistic – longer frail period – MOST EXPENSIVE – medical, aged care
2. Optimistic – longer active period then a short frail period. – STILL EXPENSIVE – travel, lifestyle.

Whilst population longevity is rising COMPLEXITY is that there is lots of variation in individual outcomes. Some actuaries predict that a healthy 65 yr old today has a 50% chance of living to 100. However unhealthy /obesity or diabetes / dementia – BIG VARIATION.

ALSO the longer you live the longer you can expect to live. Longevity ramps up from late 70s. And the average can be misleading, unlike in the accumulation-phase.

Case study:

A male aged 75 can expect on average to live another 10 years to age 85

But if that male survives to age 85, they can expect to live another 5 years to age 90

That's quite hard to plan for! How do super funds provide help, guidance and advice to our members in the face of this uncertainty?

Remember I mentioned the complexity and diversity of outcomes for retirees. What do I mean?

2 aspects of complexity.

1. Diversity of investment outcomes – sequencing risk.

Asset allocation for retirees is the same as for accumulation phase – balanced fund. We are not serving members well.

Our research shows that the average asset allocation for customers is broadly the same between the superannuation accumulation phase and pension phase (~65% allocation to growth assets).

Do we think that this is the best investment mix for people in retirement, dealing with sequencing risk, longevity risk, age pension and other factors (investment property, other assets)? Clearly this simulation shows not.

2. Complexity of Age Pension

The age pension is a core consideration of nearly all retirement income plans, except the wealthiest people who can afford individualised advice services, and the only uniform / formulaic way of measuring relative wealth in retirement.

Complexity comes from combining the age pension with financial decisions at retirement such as superannuation and investment property income.

Hard for super funds to help people when we don't necessarily know their full financial situation.

So what is my vision for the future of how we become the #1 superannuation system in the world?

1. Engage with customers in a meaningful way about their super in the lead-up to retirement. Guidance, help, advice – personalised. Income projections. Do To do lists,
2. Deliver post retirement products that help customers deal to the 2 key risks of investment volatility and longevity.

TO ACHIEVE THIS: CIPR products with in-built longevity insurance and an individually customised investment “default” based on what we know about you. The more info you tell us, the more we can refine. Tested each year and adjusted according to outcome achieved.

3. Customer experience.... Customers are helping us design the new experience. Much richer information.

So what will NEW-GENERATION POST RET PRODUCTS look like?:

Our Panorama platform is now live for investments and we’re well progressed on the build for super. Customers and advisers are helping us design their user experience so they get the information they want in a way that makes sense to them. This is a sneak peek at one of the super screens that’s in build at the moment.

Here’s my vision for the future so that if Sue and Phil were retiring next year, here is what they can get:

- Seamless transition from accumulation to post ret – same product – simply switch on pension payments
- Different investment solutions for the pension phase – a customised default that deals to sequencing risk.
- Rich and deep customer experience. Intuitive information that keeps them informed and puts them in control.

One small example of an innovation we’re developing is the page on the screen here which is currently in customer testing:

Changing the experience of starting a pension – tracking which rollovers have come in before starting the pension.

No-one sees anything at moment – customer only knows when all rollovers received. This could take days or weeks.

- Sue and Phil will also be able to get Longevity protection – they will be able to buy a DLA in their 40’s whilst still in the accumulation phase, or at the point of retirement.

For BT’s offering this will be in a later Panorama release once we have certainty about the CIPR legislation.

So how do we re-shape the delivery of post-retirement products in Australia?

In order to be the best superannuation system in the world, we need to fix the post-retirement offerings so that Australian retirees are protected against the biggest risks they face – market volatility and longevity.

The legislative pathway will soon be clear to allow these offers to be developed in a tax effective way, and to gain traction through the CIPR pseudo-default.

Now it's in our hands – it's up to the super funds to work with our members to develop the post retirement solutions they are crying out for, so they can live their best possible future.

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