SUBMISSION

Submission to Treasury: Superannuation in retirement discussion paper

9 February 2024

The Association of Superannuation Funds of Australia Limited
Level 11, 77 Castlereagh Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 2001

T +61 2 9264 9300
1800 812 798 (outside Sydney)
F 1300 926 484
W www.superannuation.asn.au

ABN 29 002 786 290 CAN 002 786 290

Overview

The discussion paper raises a range of issues relevant to superannuation, funds and fund members themselves and ASFA is pleased to provide responses to those issues.

ASFA has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

Delivery of well designed retirement products which are relevant to the needs of fund members are fundamental to meeting core objectives for the system, namely:

- Equity between members in regard to levels of government assistance and in regard to superannuation balances and retirement incomes received
- Adequacy of retirement incomes relative to the needs and expectations of retirees
- The dignity of individuals in retirement, including achieving the right balance between self-reliance and receipt of government assistance
- Operational effectiveness of superannuation funds, including delivering at a reasonable cost services of a type and standard that meet the needs and expectations of fund members

The discussion paper largely asserts rather than demonstrates that superannuation funds have failed or largely failed retirees through not providing sufficient financial longevity products and/or not channeling fund members into taking up such products.

It is essential that any discussion about possible changes to retirement income policy settings be based on a comprehensive and clear evidence base. There should be a clear definition of any problems that need to be addressed rather than moving straight away to supposed solutions to what may not be problems for the bulk of retirees or which are not problems at all. Imposing unjustified requirements on superannuation funds in regard to retirement income products runs the risk of adversely impacting the operational effectiveness of superannuation funds.

Assertions about supposed failure in the provision of retirement income products also overlook the successes achieved by superannuation in Australia.

Equity

A gender lens in particular is necessary in considering retirement income policy settings. While the gender gap in retirement savings has been decreasing due to compulsory superannuation, there still is an around 25 per cent gap between the median superannuation balance of men and women at the typical age of retirement. Women also receive lower annual payments from life annuities due their longer life expectancy than men on average. What is needed in most cases are policies that increase the retirement balances for women, rather than innovative longevity products being the solution for low retirement incomes.

ASFA has recommended that the Superannuation Guarantee apply to Paid Parental Leave and that the upper threshold for the Low Income Superannuation Tax Offset be increased in order to assist women and low income earners.

Equity in the retirement also phase also needs to take into account differing average life expectancies on average linked to each of lower incomes, impaired health status and gender. Individuals with a lower life expectancy should not be required to provide a subsidy to those who have a higher average life expectancy.

Adequacy

The Australian superannuation system is a world leader, delivering substantial benefits for current retirees with future retirees likely to be even better off on average.

Superannuation is substantially improving retirement incomes for nearly 2 million retired Australians by providing regular income streams. Australian Bureau of Statistics (ABS) data also indicate that in 2019-20 around 580,000 households, encompassing over 1 million Australians, were mainly dependent on payments from superannuation. This is nearly double the number of households mainly dependent on superannuation in 2009-10. For those dependent on superannuation income, around 75 per cent of such households have less than 20 per cent of their income from government pensions. Many more retirees also have benefitted by taking lump sum benefits either at retirement or during retirement.

By 2021-22, there was a total of $59 billion in superannuation income payments in retirement, which is greater than the annual Age Pension expenditure of around $51 billion in that year.

Recent data published by Chant West indicate that in the 10 years to December 2023 account based superannuation pension accounts offered by APRA regulated funds achieved for the median performer an annual return of 7.7 per cent per year, with the top performer recording an average of 9.4 per cent. These products supported retirees much better than alternatives which rely much more or entirely on interest payments, such as term deposits. These account based products also provide retirees with considerable flexibility.

As well, it is important to acknowledge that Australia's retirement income system is based on three pillars:

- a means-tested Age Pension
- compulsory superannuation; and
- voluntary savings, including home ownership.

Arguably, the discussion paper focuses almost solely on the role of superannuation in supporting retirement incomes.

However, protection against the financial implications of longevity is not the responsibility of superannuation funds alone. It is not necessarily a failure of the superannuation system if many or indeed most individuals do not take up a superannuation linked longevity product. For low to middle income households, sufficient protection often is provided by the Age Pension in conjunction with home equity release facilitated by private providers or through the Centrelink administered Home Equity Access Scheme. Whether low to middle superannuation account holders need to take up a longevity products is generally a matter of individual choice rather than an objective requirement.

Dignity in retirement

Prior to the introduction of compulsory superannuation coverage was around 40 per cent of employees, generally white collar or public sector and predominantly male. Defined benefit schemes linked to specific employers dominated the market. Coverage of women was low and/or many women failed to receive significant superannuation benefits because of the need in most cases to have long periods of continuous employment with the one employer.

Compulsory superannuation changed all that with its concept of dignity in retirement for all employees, not just the lucky few. The intention also was to supplement rather replace the Age Pension in the case of most employees, particularly those on low to middle incomes.

The rate of compulsory contributions started at no less than 3 per cent of wages, gradually increasing to 9 per cent and then more recently with phased increases to 12 per cent. It will be some decades before the system is fully mature in the sense that employees will have received contributions at the rate of 12 per cent of the bulk or all of their working career.

While the rate of contributions has been an important design feature so was the move from control concentrated in the employer to the empowerment of individual fund members. Crucial elements of compulsory superannuation included the requirement for vesting of contributions (so that employer contributions were not forfeited if an individual left an employer before retirement age) and portability of account balances so that a fund member could choose the fund they were in and also the investment option they were in.

In regard to the latter, rather than investments being chosen in order to meet their emerging liabilities of employers in regard to superannuation, fund members have been able to benefit from sophisticated investment portfolios which focused on maximising long-term investment returns.

Preservation of superannuation savings until retirement was also an important part of the social contract given that substantial tax concessions were provided on the based that money in superannuation was held for people's retirement. The COVID early release of superannuation was a significant and arguably unjustified departure from the principle.

However, the intention was and should continue to be that individuals own and control their superannuation. The establishment of the regulatory environment which has supported the establishment of Self-Managed Superannuation Funds is yet another outworking of this. Superannuation account holders at the time of retirement should be able to have significant control over their superannuation without having the need to establish an SMSF.

The goal should be to provide individuals with choices (albeit guided or advised in many instances) in regard to what they do with their superannuation rather than to try to replicate defined benefit arrangements at the time of retirement. The latter goal generally is not achievable or does not make sense on an individual basis given the costs involved and the need for pooling of risks prior to retirement.

In this context ASFA makes the following recommendations in regard to the matters raised in the discussion paper:

- Any claim that there are deficiencies in the provision of retirement income products should be demonstrated by objective evidence rather than by assertion or unquestioning acceptance of matters set out in the Retirement Income Covenant
- Superannuation balances at the time of retirement should be improved by a range of measures, including providing SG on paid parental leave, increasing the upper income threshold for the LISTO, and ruling out any future general early release of superannuation savings

- Preparation and publication by Treasury of relatively recent data on retirees generally and for specific cohorts in regard to their spending patterns, incomes and asset holdings would better inform policy debate and also would assist funds meet their obligations under the Retirement Income Covenant
- Superannuation funds should not be required or be expected to default fund members into a retirement income product. Funds should be able to choose which retirement income products or products are provided to their members and on what terms they are provided
- Minimum draw down rates for retirement income products should be set by the government rather than there be both a legal minimum and some higher rate set or suggested by superannuation funds. "Temporary" reductions in draw down rates that persist for years should be avoided
- Funds and service providers should be allowed to develop innovative retirement income products rather than being required only to offer a standardised product set by the government. The characteristics of fund members can vary substantially between funds leading to a need for a variety of products
- Standardised product disclosure and/or performance testing of longevity products is unlikely to be of much assistance to members given the differing characteristics of longevity products in the market and varying needs and circumstances of retirees
- Funds already make use of "nudges" and should be supported in their use going forward. The use of nudges and the provision of guidance to members more generally will be supported by the changes to regulation of the provision of financial advice that are flowing from government decision in regard to the recommendations of the Quality of Advice Review
- Mechanisms such as using the Consumer Data Right to collect bank account transactions are likely to be poor substitutes for directly collecting relevant data about the financial circumstances of fund members. A more productive approach would be to permit funds to access relevant Centrelink and ATO data relating to a member
- A number of impediments to the development of longevity products should be removed
- Consideration should be given to more favourable social security means testing treatment for longevity products
- Regulatory relief for superannuation and retirement estimates should be extended and expanded to appropriately deal with retirement products
- Funds should be permitted but not required to pool longevity risks. Achieving more favourable annuity rates for target groups may require individual underwriting and/or provision of a government subsidy

Practical issues that need to be addressed in regard to provision of suitable retirement income products

Size of retirement balance of individual and household

Many individuals have a relatively small balance at retirement and/or investments outside of superannuation. The financial situation of a person's spouse also generally will be relevant.

While some individuals have very large superannuation balances at the time of retirement, as shown by Table 1 many do not. For those with relatively modest balances access to capital during the earlier years of retirement may be more important than concerns about the financial impact of longevity given that the Age Pension is available.

Table 1: Percentage of age group with superannuation

Age group	% with super	Median balance
60 to 64	75	$190,000
65 to 69	60	$200,000
70 to 74	47	$220,000
75 to 79	37	$195,000
80 to 85	20	$140,000

Source: ATO and ABS

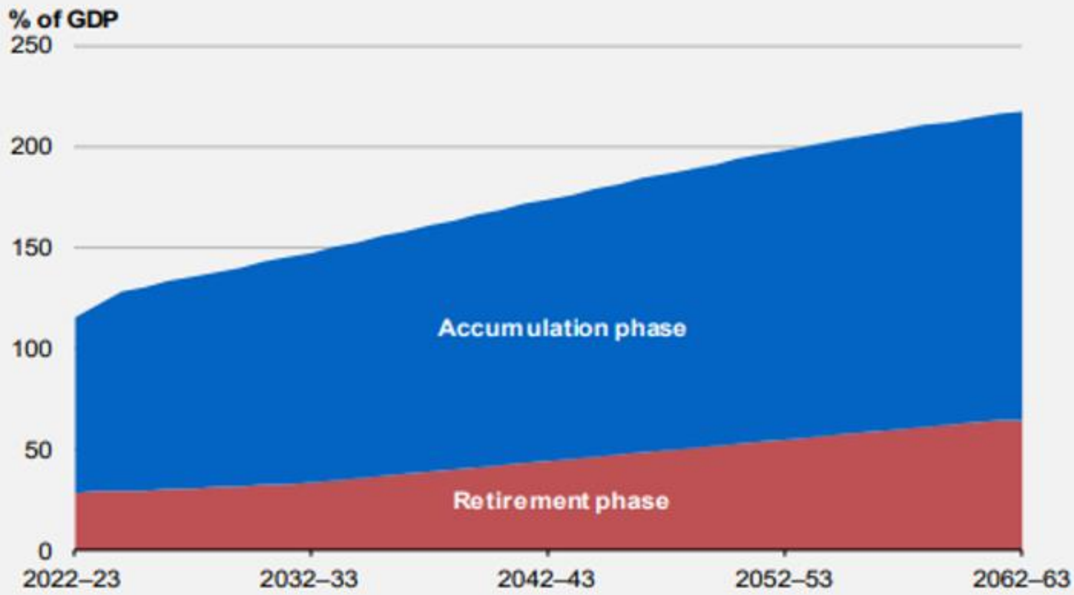
Role of the Age Pension

Attention should be given to the role of the Age Pension in meeting the requirements of many low to middle income households in regard to protection against the financial consequences of longevity. If it is to be claimed that all retirees or specific cohorts of retirees need greater protection than is currently provided by commonly used retirement products and by the Age Pension then this should be supported by evidence and a fact base.

Size of the retirement phase relative to the accumulation phase

While there currently is considerable emphasis on the accumulation stage, arguably that is reasonable given that the great bulk of collectively managed funds are in accumulation phase rather than retirement phase ($3.6 trillion total system, but only around $470 billion currently in account based pension in funds with more than 6 members. Chart 1 below from the Retirement Income Review Report clearly shows the bulk of assets will be in the accumulation phase in the decades ahead.

Chart 1: Aggregate superannuation balances



Note: Chart is a projection of total member balances that will not exactly match total superannuation funds under management.

Currently around $900 billion is in SMSFs where member has control over retirement phase strategies. As well, Treasury has estimated that around $425 billion in superannuation assets in 2025-26 will be attributable to individuals with account balances over $3 million. Such members generally well advised and/or not much in need of financial longevity products.

Putting criticisms of outcomes during the retirement phase into perspective

Criticism of the preparedness of funds in regard to delivering on their responsibilities under the Retirement Income Covenant needs to be put into perspective:

- The joint APRA and ASIC thematic review was conducted during the first year of the operation of Retirement Income Covenant and funds were still developing their proposed actions.
- The drafters of the thematic review and of the Retirement Income Covenant seem to assume that there has been failure by funds in regard to the provision of post-retirement products and guidance to members rather than objectively determining that there have been market failures. The modest takeup of innovative retirement products may have much more to do with a lack of demand rather than a lack of supply and marketing by funds.
- Looking internationally, it is hard to identify practices which would be an improvement on what is done in Australia currently. Compulsory annuitisation (where it still applies) is more a problem than a solution in other countries. The general trend internationally has been to allow greater access to retirement savings rather than requiring the purchase of longevity products. A number of countries actually currently look to approaches being adopted in Australia in regard to provision of retirement income and for the delivery of financial advice and guidance.
- There are a number of high quality financial products currently offered in the market which are generally available to superannuation fund members which offer some or substantial

protection against the financial consequences of longevity. However, relatively low take up rates for such products by retirees has meant that there is not necessarily a clear case for every fund to offer these products or to develop equivalent products. Fund trustees are under an obligation to make decisions which are in the best interest of all fund members. It is inappropriate for the fund membership generally to cover a substantial part of the implantation and/or operating costs of products used by only a small minority of the members of the fund concerned.

- Reforms to the regulation of provision of personal financial advice flowing from the Government's response to the Quality of Advice Review will also lead to funds better assisting fund members in the runup and during retirement. Any perceived shortcomings in regard to how funds have interacted with fund members in regard to retirement income options need to be considered in the context of regulatory constraints that have applied to date.
- Claims of retirees underspending their superannuation in retirement are attributed to the Retirement Income Review. However, the report of that review relied on what could be argued to be flawed and dated evidence. One study cited related to data that was around 20 years old and which was for retirees who generally had little or no superannuation at the start of their retirement. Other studies cited suffer from a strong survivorship bias, with those still with superannuation at the time of their death typically only drawing down their superannuation at minimum rates. Such studies ignore the large proportion of retirees who currently exhaust their superannuation well before death. Serial citation of studies over a period of up to a decade makes the material less rather than more relevant as the studies become increasingly dated. What is needed is fresh and contemporary evidence.
- Rather than what are perceived or actual problems in the past, what is important is how the needs of future cohorts of retirees are met.

The need for better data

Preparation and publication by Treasury of relatively recent data on retirees generally and for specific cohorts in regard to their spending patterns, incomes and asset holdings would better inform policy debate and also would assist funds meet their obligations under the Retirement Income Covenant.

Such data could be drawn from:

- HILDA surveys
- ABS surveys relating to both retirement and household wealth and income more generally
- ATO data on income and sources of wealth
- Centrelink data on Age Pension recipients

Drawdowns/closure of accounts after retirement

It is frequently asserted, including in the report of the Retirement Income Review, that typically individuals do not draw down on their superannuation to any great extent and often die with more superannuation than when they retired.

However, such assertions are not supported by actual longitudinal data. Fund data suffer from a strong survivorship bias given that those who close accounts are no longer represented in fund data.

ASFA has commissioned the extraction of relevant data from the HILDA database.

As show by Table 2, while some individuals increased their superannuation balance (at least during the first part of their retirement), even over a 16 year period the majority substantially draw down their superannuation balance, in many cases cleaning out their balance in its entirety. Over a longer time period even more individuals could be expected to empty their account. It should also be noted that for the bulk of that 16 year period there were substantial reductions in required draw down rates.

Table 2: Change in superannuation balance for those aged 76 to 80 in 2022 (who were aged 60 to 64 in 2006)

Number of observations that were present in both waves	429
Percentage with super in 2006	68.3%
Percentage with super in 2022	41.7%
Among those with super in 2006 (293 individuals), % that	
Increased in super	31.1%
reduced by 0 to 24 per cent	6.8%
reduced: 25 to 49 per cent	5.8%
reduced by 50 per cent to 74 per cent	6.5%
reduced by 75 per cent to 99 per cent	5.8%
closed accounts	44.0%

Source: HILDA database

It should be noted that back in 2006 superannuation balances of those aged 60 to 64 were relatively modest. Around 47 per cent of males of that age group with superannuation had more than $100,000 in superannuation, while the percentage for females was 40 per cent.

In 2021, after adjusting for price changes, around 55 per cent of those aged 60 to 64 had a superannuation balance in excess of $100,000 in 1982 dollars. Superannuation balances have been increasing but the system is still far from mature given that the many current retirees have received the benefit of contributions at an average rate well below the yet to be achieved 12 per cent of wages.

Table 3 provides further details of the distribution of account balances in 2021 for those aged 60 to 64 in 2021 dollars. This distribution of account balances is relevant for assessing the potential market of various retirement products. Those with low account balances may consider that the Age Pension provides sufficient protection against the financial consequences of longevity, while for those with high account balances the fear of running out of money may be relatively limited. As the system matures there are likely to be more individuals with account balances which make them more likely to be interested in longevity products.

Table 3: Distribution of superannuation account balances for those aged 60-64, June 2021

Account balance	Number of individuals	Percentage of individuals
Less than $50,000	273,093	22.6%
$50,00 to $150,000	261,041	21.6%
$150,000 to $250,000	179,557	14.9%
$250,000 to $500,000	229,844	19.0%
$500,000 to $750,000	109,127	9.0%
$750,000 to $1 million	59,764	5.0%
$1 million to $2 million	74,414	6.2%
$2 million plus	20,092	1.7%

Source: ATO Taxation Statistics detailed tables

Improving retirement incomes

For many individuals their main challenge in regard to retirement income is a relative paucity of superannuation and other household wealth. Having a new product available in the retirement phase will not overcome a lack of enough savings in the first place.

ASFA has recommended a number of measures to improve retirement balances, particularly for women. These policies include:

- SG applying to paid parental leave
- Payment of a superannuation baby bonus
- Increasing the upper income threshold for payment of LISTO
- Greater enforcement of SG obligations
- Permitting account based pensions to be topped up rather than having new contributions having to be made to an accumulation account

Default behaviour, precautionary saving, and withdrawing at the minimum

Default arrangements

Funds should not be required or expected to default members into a retirement income product. Funds should be able to choose which retirement income products or products are provided to their members and on what terms they are provided.

At a very basic level it is not possible to provide a retirement income payment to a member without being provided bank account details for the member along with sufficient identification to meet Know Your Customer (KYC) and Austrac requirements. A fund would also need to be satisfied that a customer falls within the Target Market Determination for a product.

More fundamentally, unlike defaulting an accumulation member into a MySuper product, in the absence of very careful design and appropriate controls, defaulting into a retirement income product risks not meeting the "do no harm" criteria that should apply to default arrangements. Defaulting a member into a retirement income product, particularly one which has longevity protection elements, risks:

- The member being locked into a product which has an insured or pooled element which cannot be commuted or readily rolled over to another product or fund.
- Sequencing risk occurring, with a member potentially being locked into an annuity or the like at a time when interest rates and annuity rates are relatively low.
- Being unable to sustain a desired level of superannuation balance through not being able to contribute to superannuation because of age and/or work tests.
- Providing members who have a defined benefit interest in another fund with excessive exposure to longevity products.

Defaulting members to a MySuper product during the accumulation phase is a completely different situation. Due to preservation, accumulation has a minimum target date for contributions and accumulation. Maximising the accumulation amount for a given level of risk is an unambiguous target. On the other hand, during the retirement period income needs and life expectancy vary with each individual.

Drawdown rates

If individuals generally have not been drawing down as much superannuation as they should, then a contributing factor almost certainly would be the "temporary" reductions in minimum drawdown factors, which have been in place for 9 of the last 15 years.

If withdrawals are made at the minimum rate an account will never run out, but the balance does diminish over time. When expressed in real terms the decline is even more marked. The value of a dollar is substantially less after a period of 20 or 30 years.

Table 4 sets out ASFA estimates of the real value of accounts when payments are taken at the standard minimum rates.

Table 4: Superannuation account balances using minimum drawdown

Start (age 67)	$100,000	$150,000	$200,000	$250,000	$300,000
End (age 92)	$32,000	$49,000	$67,000	$84,000	$101,000

Source: ASFA projections. Age 92 figures are in 2023 dollars.

The ASFA projections are consistent with those prepared by the Australian Government Actuary (AGA) for the Review of Retirement Income Streams conducted by the Treasury in 2016. The AGA advised that based on somewhat conservative assumptions about investment, the current minimum drawdown factors lead to an expected average balance on death of around 25 per cent of the purchase price in net present value terms.

However, HILDA survey results indicate that even with reduced minimum drawdown rates those with low balances in particular are likely over a period of 10 to 15 years to drawdown their account to zero as a result of one-off or infrequent large drawdowns. On the other hand, those in the top quartile of superannuation balances are much less likely to empty their account and many increased their account balance between 2013 and 2017. The fact that funds observe that a majority or even a large majority of individuals with account base pensions draw down at the minimum rate is not inconsistent with most individuals passing away with no superannuation. The cumulative effect of a minority of individuals in a given year cleaning out their superannuation account with one transaction leads to the proportion of individuals with superannuation after age 65 substantially declining over time.

For those with lower balances the evidence is not strongly supportive of the notion that precautionary saving in superannuation is occurring to a significant degree. For those with relatively high balances a number of factors are likely to be relevant, including retention of assets for estate planning purposes.

If the current minimum drawdown percentages are not fit for purpose then it should be a government rather than fund responsibility to change the rates that apply in practice. “Framing” or “Social norms” are far more powerful when set by government rather than by private sector institutions such as superannuation funds. As well, the specifying of minimum draw down rates should be consistent across funds rather than being a matter of chance depending on the fund a member is in.

Standardised products

ASFA does not agree that a standardised, recommended product would necessarily provide retirees with the confidence that a solution will balance key retirement objectives and risks. The circumstances and needs of retirees vary so much that a standardised product would be inappropriate. As well, a requirement for standardisation would stifle innovation and competition. There were good reasons why past proposals for CIPRs never came to fruition.

ASFA would oppose the mandating by government of a requirement to offer a standardised retirement income product providing longevity protection. A fund may have a better product for its members. For some funds the nature of their membership might mean that there is not a viable market for the offering of such a product.

At most funds should be required to consider whether they should provide a standardised product or indeed any other longevity product. After due consideration a fund should be permitted to decide not to provide such products.

The use of nudges

The discussion paper is not clear in regard to what a “nudge” might be and how such nudges would operate, although the paper appears to be in favour of funds making nudges.

Funds already make use of marketing and communications approaches which arguably involve nudges. Tailoring marketing material to the characteristics of various markets is something that happens across the marketing of a broad range of goods and services, including financial services.

However, nudges are not restricted to advertising and can involve:

- Ease and convenience (such as facilitating online applications for a retirement product with pre-filled data items)
- Warnings about the consequences of not taking up a product such as lower income in retirement or higher taxation
- Regular reminders about product options
- Precommitment (as in agreement to takeup a product some years before it is purchased)
- Social norms (which can involve information about what colleagues or peers are generally doing)

While a nudge is generally driven by some personal information, in the superannuation context due to regulatory constraints they currently do not provide specific guidance or advice or necessarily drive investors or members to products within the entity's ecosystem. Prompts can be along the following lines:

- "You're approaching customary retirement age, you should consider selecting a pension product"
- "60 per cent of members in your age bracket contribute an extra $50 a fortnight on top of their mandatory contributions"
- A suggestion to investors who make no additional contributions above the mandatory contribution that they should consider doing so
- "You've been in pension phase for three years. Are you making the most of your government entitlements? Are you finding that your current pension investment settings are working for you?"
- Provision of general educational information including in regard to government entitlements or financial literacy resources

A particular concern is how the regulatory framework with respect to the provision of personal financial advice would intersect with trustees 'nudging' members towards a retirement income product. Depending on what is involved in a given situation in 'nudging' a member, or in providing a 'soft default', it is possible that the trustee could, in the absence of regulatory relief, stray into what might be regarded as providing personal financial advice with all the documentation and responsibilities involved in that.

In this context, it should be noted that the Federal Court *in Australian Securities and Investments Commission v Westpac Securities Administration Ltd* ruled that a service which was presented as an obvious and uncontroversial course of action for each particular member in respect of his or her BT account in the circumstances of that case was provision of personal financial advice and subject to all the requirements relating to the provision of such advice.

If the Discussion Paper regards a nudge to be no more than funds telling members about the retirement income products that are available this is something that funds do at the moment. Recommending that a specific product is suitable for an individual based on the personal circumstances of the member known to the fund would be problematic in the absence of regulatory changes.

The priority should be the provision of widely available and affordable financial advice and guidance (facilitated by the recently announced reforms) rather than assuming appropriate outcomes can be achieved by the application of nudges (however defined) or defaults.

Standardised product disclosure and/or performance testing

As the discussion paper notes, planning for retirement income requires retirees to solve a “risky, long-horizon, multi-dimensional problem” – a problem that any individual retiree cannot be expected to solve on their own. Standardised product disclosure of longevity products is unlikely to be of much assistance given the differing characteristics of longevity products in the market and varying circumstances and needs of retirees. If standardized product disclosure led to a requirement for a standardized product to be offered (CIPR 2.0?) this would be a negative outcome for many retirees as it would prevent or inhibit the offering of tailored and more suitable products for specific cohorts or individuals. It would also lead to individuals being left in current longevity products which may not reach a viable or optimal scale required to reduce operating costs and maximise returns.

Performance testing is problematic enough for accumulation products. For retirement income products involving a range of elements and with differing characteristics and varying target markets the pursuit of a simple, comprehensive metric is likely to involve an illusory goal.

Obtaining information about fund members

The discussion paper suggests that mechanisms such as the Consumer Data Right could be used to obtain information from a member’s bank account(s) in order to inform the offering of retirement income products to the member. Such an approach would require the explicit consent of the member in the first place, which is unlikely in the case of a disengaged member. It would also require labour intensive analysis of bank account transactions, would be unlikely or unable to pick up infrequent or planned future expenditures, and would not take into account the asset holdings and transactions of other household members.

A more productive approach to enabling funds to access relevant information would be for regulatory changes to allow access to:

- Centrelink data on receipt of Age Pension and the rate at which it is received.
- ATO data on total superannuation balances and whether contributions on behalf of the member have ceased. Also ATO data on whether the member is in receipt of a defined benefit pension from a fund. There is not much point in offering a longevity product to someone with a defined benefit pension.

Removing impediments to the development of longevity products and to the offering of advice and guidance

Currently there are a number of impediments at worst and a lack of incentives at best in regard to the development of longevity products:

- Restrictions on product design imposed by the pension standards in the Superannuation Industry (Supervision) Regulations 1994 (SIS regulations)

- The social security treatment of superannuation income streams and lump sums with respect to the Age Pension assets and income tests.

- The lack of any differential in the tax treatment for income streams and lump sums paid to members, which may otherwise have acted as an incentive to take an income stream. The 2007 changes abolished Reasonable Benefit Limits (where pension RBLs were twice lump sum RBLs, thereby providing an incentive to affected members to take at least 50% of their superannuation entitlement as an income stream); and rendered both superannuation pensions and lump sums tax free after 60.

- issues with respect to the regulatory standards for the retention of capital/reserving required for some income streams with a longevity or market risk component.

There also are regulatory impediments flowing from ASIC's legislative relief for superannuation calculators and retirement estimates. Legislative relief in regard to substantial requirements in regard to provision of financial advice does not apply to:

- Estimates and calculator results provided to those already in retirement.
- Estimates and calculator results in regard to specific rather than generic products.

The ASIC relief also requires calculators and estimates to assume that the Age Pension will substantially increase over the course of retirement, which downplays the need for financial protection against the impact of longevity. The ASIC relief needs recasting.

Government support for better longevity pricing

The discussion paper makes a number of suggestions for potentially getting better pricing for longevity products.

ASFA supports smaller (or even medium to large funds) being allowed to pool mortality risk with each other. However, this should be done only on a voluntary basis.

It is not clear that there is a significant role for government in the reinsurance of longevity risks or the selling of longevity bonds. Insurance companies, many of which are multinationals, are already in a position to price and provision for both expected increases in longevity and also to make allowance for unexpected to changes (which might involve unexpected increases in longevity above trend, or unexpected decreases due to COVID or the like). Government charging to take on such risks if actuarially sound may make little or no difference to product pricing.

The Discussion Paper claims that the Government's support in the management of longevity risk could include applying 'fair' risk pricing across retirees meeting community standards (for example, setting uniform rates by gender whilst differentiating based on other metrics, such as socio-economic or First Nations status) meaning those with lower life expectancy would not be disadvantaged. However, the paper does not explain how this would be done. Wider pooling of risks does not in itself lead to an ability to provide annuities and like products at the same price for men and women. Providers would face issues related to adverse selection by purchasers. That said, ASFA would not oppose government subsidisation of longevity products for certain groups if that was the decision of government. This should not be the responsibility of product providers.

Individual underwriting of annuities (such as offering better rates for obese males who smoke and who have a family history of cancer) might make them more attractive to such a cohort but this flows from the underwriting, not from any general pooling of risks. That said, there would be both practical and policy challenges in implementing individual underwriting along those lines.