My-POST-RETIREMENT-Super

MySuper without a consistent post-retirement component can hardly be worth introducing, writes ROB PATON.

In an interim report, the Super System Review Panel presented its research that over 80 percent of members of Australian superannuation funds invest all their assets in the default investment option of their default superannuation fund.

We're all now very aware that in the final report, the Panel recommended that there should be increased regulation of the default investment options offered by superannuation funds which accept Superannuation Guarantee contributions. This is what the panel has dubbed 'MySuper'.

Because most people who "purchase" (i.e. are defaulted into) default investment option products have limited capacity to assess them from the perspective of future investment returns and risks, the Panel has recommended that "trustees offering MySuper products would be required to maintain a facility for providing intra-fund advice to members".

The Panel has detailed substantial regulation which is recommended to apply to a MySuper investment option while a person is accumulating superannuation. But what about post-retirement, or what I have dubbed "My Post-Retirement-Super"?

There, the Panel's report states that "MySuper products must include one type of income stream product, either through the fund or in conjunction with another provider, so that members can remain in the fund and regard MySuper as a whole of life product. The Government should consult comprehensively with industry before mandating the post-retirement arrangements to apply to MySuper products."

The Panel has recommended that: "trustees should be required to offer intra-fund advice proactively to MySuper members as they approach normal retirement age" (current intra-fund advice rules would need to be changed). Financial advice requires an understanding both of a person's future cashflow requirements (i.e. planned outflows) and the person's tolerance of investment risk, which together dictate the nature of the investments which are made.

Financial planning within the context of a person's superannuation fund alone is simplified during the accumulation period (when a person's ability to withdraw money from their superannuation account is constrained by the legislative restrictions). However the purpose of superannuation is to provide people with money to draw down after they have ceased work, the very time when people need the risk related protections which MySuper is intended to provide. MySuper without a consistent My-Post-Retirement-Super component can hardly be worth introducing.

> As personal financial planning is conducted today, many people at retirement do not have have sufficient money to justify the cost of preparing a comprehensive financial plan, on a cost/benefit basis.

Because employer paid Superannuation Guarantee contributions at the full nine percent level commenced only from 2002, over much of the period to the year 2030 many retirees are expected to have small superannuation balances at retirement when compared to the amounts which they are expected to draw down as annual benefits in retirement.

The Panel states that currently "the median superannuation balance for people aged 55 to 64 years old in the accumulation phase is only $72,000)".

As personal financial planning is conducted today, many people at retirement do not have sufficient money to justify the cost of preparing a comprehensive financial plan (on a cost/benefit basis).

A My-Post-Retirement-Super approach would address these issues.

What to do? The Panel's MySuper concept specifies a single default approach which will apply to the significant number of people who have either no interest in or ability to make superannuation related decisions.

My-Post-Retirement-Super also needs to specify a single default approach, which is expected to "look after" those people who are drawing down their super and who do not elect other alternatives for drawing their superannuation benefits or managing their assets post-retirement.

With this in mind, perhaps My-Post-Retirement-Super can build from the Panel's MySuper concept as follows:

- Under the current superannuation system, a person who wishes to commence drawing their superannuation benefit must make contact with their superannuation fund (either in person or on-line) before their benefit payments can commence. This requirement provides the trigger for My-Post-Retirement-Super to collect a minimum amount of information from a person who is commencing to draw down their superannuation benefit, which can enable a basic level of intra-fund financial advice to be provided by the superannuation fund to the person who is retiring.
- This minimum information could be used to determine the amount which the person needs to drawdown from their superannuation regularly to meet expenses over a foreseeable period, perhaps five years (this period might be specified in regulations). The process of determining the regular drawdown amount could be made much more informed for the retiree by the provision by the superannuation fund of basic financial advice covering expenses, debt, homeownership, current income from work or Government pensions, cashflow from other investments etc. Substantial automation would be possible. This process would concentrate on foreseeable cashflow needs, and not on unknowable future investment returns.
- My-Post-Retirement-Super would require secure investment arrangements to be established for assets covering these known future drawdown payments for the specified period. The intention

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would be for these known future drawdown payments to be matched by assets with a high level of security.

In its most basic form, any residual investment risk under My-Post-Retirement-Super would be borne by the retiree. However, as a variant, the superannuation fund could provide a guarantee covering the drawdown payments, or could pass through a guarantee from a financial institution (for example a bank or a life insurer).

- The balance of a person's superannuation (above the secured amounts) could continue to be invested in MySuper (as the person does not need to draw down this amount to meet planned expenses over the specified foreseeable period). Information could be provided by the super fund on the expected time period over which the person's super could be expected to be completely drawn down, based on the regular amounts being drawn down, the account balance and an appropriately conservative future investment assumption.
- Prior to the end of the specified period, the process set out above could be repeated to secure further payments after the initial payments cease. For those who are approaching retirement and have a firm future retirement date in mind, the arrangements above could be put in place prior to retirement with a deferred starting date.
- Where the process set out above cannot occur (for whatever reason), the (small) minimum drawdown amounts under current legislation could apply, and either secure investments could be set aside by the Trustee to cover these payments, or alternatively MySuper could continue to apply.

The establishment of My-Post-Retirement-Super as outlined here would not prevent any of the many other alternatives for drawing down super from being adopted by trustees as default, or from being used by those who have access to financial planning advice or can organise their own retirement finances. **SF**

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KEY ADVANTAGES

1. Amounts which need to be drawn down as regular retirement income over the specified medium term are secure and need not be taken out of the investment markets at times when the prices in those markets may have fallen from the levels which applied when payments commenced. This is particularly important at the current time when many of those who retire are expected to draw down substantial percentages of their superannuation balance each year due to the relatively low superannuation balances which have accumulated to date.

2. Amounts which are able to be set aside for longer term use in retirement can remain invested for the longer term, and used later. The point of time financial risks involved in changing investments to allow for drawdown (rather than accumulation) are spread over time, rather than occurring at one time (as occurs if long term annuities are purchased at retirement).

3. Retired people will not need to be as concerned about investment market conditions as they are under the current system where each person bears the entire responsibility of their post retirement investments.

4. My-Post-Retirement-Super need not be significantly more costly to people than MySuper.

5. People who are retiring will have access to limited, cost-effective financial advice covering their cashflow needs in retirement (including Age Pension or other state pension entitlement). Tools will be developed to assist people to specify their retirement income drawdown amounts, thereby simplifying the financial advice process and reducing its cost. People who are retiring will be encouraged by the intra-fund advice process to bring together superannuation from different sources. People will understand the extent to which their superannuation can be expected to last into the future.

6. People will retain control over their superannuation, and will not be required to draw down their superannuation in ways that may not suit their financial circumstances as those circumstances change over time (e.g., if a compulsory requirement was introduced to purchase a long term annuity).

7. Decreasing income needs in old age are accommodated within these proposals, which do not compulsorily defer the drawing down of superannuation to the long term future. Older Australians receive substantial support in meeting their old age financial needs through all of the Age Pension, Medicare, Aged Care services and community rating of private health insurance premiums, and are able to access any other sources of income after their superannuation is fully drawn down.

8. Innovation in retirement product design will be encouraged. Superannuation funds could offer additional options to My-Post-Retirement-Super such as increasing the regular payments in line with inflation, providing the ability to participate in investment market upside, longevity protection, etc.

9. The need of retirees to have secure investments in retirement aligns well with the needs of Australian banks to increase their domestic sources of funding. Superannuation funds could direct some of the assets backing My-Post-Retirement-Super to term deposits and other similar investments.