Empowering Consumers to Achieve Income Security in Retirement

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Today we have heard about the problems people face in retirement. And we have heard deep insights from industry leaders about the challenges they face in helping retirees manage their financial risks.

This Forum comes at a pivotal time for the retirement income system. The government has recently announced an important package of super measures including the much-awaited post retirement reforms. Earlier in the week, the Productivity Commission released a sobering report on the default super system. And the royal commission is continuing its far-reaching investigations.

With so many policy initiatives, reviews, inquiries and consultation processes currently underway, the need for a forum that rises above sectional interests and provides an integrated perspective across the whole system has never been more important.

As a non profit, non partisan, independent organisation, the CSRI provides a unique and authentic setting for progressing these issues.

Today's Leadership Forum builds on a four-year journey starting with the first Leadership Forum in 2015. This was a time when very few acknowledged the importance of developing the post retirement system, yet CSRI was there carving out this critically important strategic space. This was followed by a holistic review of the retirement income system in 2016 involving a broad range of stakeholder and expert perspectives. This led in 2017 to an intensified focus on improving member outcomes in retirement that contributed the government's recent announcements.

Retirement Income Framework

The Government's proposed retirement income framework represents an historical development. Some 25 years after the introduction of compulsory superannuation, trustees will finally be required to consider the retirement income needs of their members.

While this announcement has been a long time coming, I am sure I am not telling you anything new by saying that the task of reform and continuous improvement is only just beginning and we all have a role to play.

We need to do our best to get the policy settings right and avoid the destabilising changes that have characterised the super system.

The Productivity Commission report released this week provides a timely reminder of the need to learn from the experience of superannuation in designing the post retirement system.

One of the lessons is the importance of regular monitoring and recalibration to make sure the system remains true to its objective. Timely change may avoid the cost and instability of a major overhaul of the system down the track.

The focus should not just be on directing consumers. It must also be on empowering consumers to help themselves. This is a worthy vision, which I hope we all share in this Leadership Forum.

Implications for Policy Makers

History has shown that policy changes that go barely noticed in the public domain can ultimately have profound impacts once you fast forward 10 or 20 years. The growth of super from basically a niche market in the early 1990s to an over 2 trillion-dollar industry today is a case in point.

The retirement income framework could potentially have a dramatic effect on income distribution and intergenerational wealth not to mention on market structure and the flow of funds in the pension market.

It is critical that these measures receive the public scrutiny they deserve to ensure they meet their objectives and ward off possible unintended consequences. History also shows that it becomes more difficult to unwind measures once they have been introduced.

The announced new means test rules for income streams would seem innocuous to many given that such products do not exist currently. However, they suddenly take on a whole new meaning if trustees are obliged to offer comprehensive income products in retirement (CIPRs) and nudge members to take them up. The distributional impacts of these measures need to be carefully weighed up to ensure they improve incomes and reduce reliance on the age pension.

Given normal human inertia, we also need to be mindful of the license given to trustees to guide consumer choices. Nudging is not new. Making it cumbersome for customers to exit or to take advantage of an improved rate or lower fees, are forms of reverse nudges that are not in the interests of consumers.

In the same way that an object in outer space given a slight nudge will travel a long distance, consumers have also been shown to be highly responsive to a nudge. If we are going to institutionalise nudging at retirement, where the consequences can be significant and potentially irreversible, we have to have the checks and balances in place to protect the consumer interest. And that includes protections against mis-selling as we have seen in other areas, including SMSFs, with dire consequences.

These are not measures that can be implemented with a ‘set and forget’ mindset. Their impact on consumers needs to be closely monitored to ensure they are meeting their policy objectives without negative consequences.

There is no one body in Australia charged with responsibility for monitoring the effectiveness of retirement income policies as there are in other jurisdictions such as New Zealand. That monitoring role is conducted on an ad hoc basis which seems inadequate and in need of strengthening.

For all these reasons, CSRI will push the boundaries for a world class reform and collaboration agenda. It will provide a much-needed ‘safe zone’ for bringing together a broad range of stakeholder perspectives, to ensure that post retirement policy and its implementation are in the community interest and remain true to their policy objectives. That’s my commitment to the industry and those it serves.

Empowering Consumers

Today’s forum is being held at an important juncture. Trust in institutions is at an all-time low. We have the opportunity today to take stock of the situation and assess what needs to be done.

As a starting point, there needs to be a shared vision between all sectors of the industry and government as to the role of the consumer.

I intentionally refer to the consumer to signify that, unlike the member, she is not captive. Unlike the investor she is not a voluntary participant. And unlike the customer, she is often not the decision maker.

The Royal Commission has dealt a fatal blow to libertarians who would argue that consumer choice is an end in itself. Fair Work Commissioner Donna McKenna was quoted as saying that “*if someone of my education and experience hits a brick wall, what hope does the average person have?”*. This I’m sure resonated with many.

On the other hand, paternalism only works where the interests of the agent, whether they be employers, trustees, or financial planners, are aligned with those of the consumer. The ability of agents to resolve conflicts in favour of the consumer has also been cast into doubt by the Royal Commission.

For all of these reasons, neither caveat emptor nor paternalism can be relied upon – we need to find a middle ground anchored in delivering quality long-term outcomes for consumers.

There is a role for government, industry and community groups to work together to help to empower consumers to look after their interests, while at the same time supporting them to make smart choices.

That doesn't mean turning consumers into financial experts. It means giving them the practical tools, meaningful choices and appropriate nudges to make the right decisions. Empowering the consumer is an important theme for this Forum.

With the bulge of the baby boomers about to reach retirement, they will need help to manage the range of risks they face and many would find CIPRs difficult to understand. This poses communication challenges for funds, product providers and government. So how do we empower consumers to be better placed to meet those challenges?

First, we must declutter the system and standardise options. We know from the accumulation phase that giving people a laundry list of options only confuses them and results in disengagement. A low-cost universal advice tool would help consumers make choices among retirement products by visualising the trade-offs and allowing comparability across funds.

Second, the traditional ways of marketing and engaging with consumers needs a new standard, governed by a voluntary code, and reviewed by a consumer panel. Industry participants would be regularly reviewed based on principles of transparency and clear communication focused on practical retirement outcomes without use of technical jargon.

Third, information alone is not enough – many consumers want to be shown what to do. Lifelong engagement, smart defaults and digital decision support tools can guide people towards better long-term outcomes. We will hear today a number of approaches being used already. Industry needs to continue with the diversity of approaches for the foreseeable future, and also report back their effectiveness to better inform industry practice.

Finally, and importantly over the longer term, we need an integrated policy approach to superannuation. While it was pleasing to see the Productivity Commission is looking at shifting the focus from employers to members, the Commission remains silent on what will happen to members when they reach retirement. Members who have been in default funds all their working lives cannot be expected to suddenly switch on at retirement and be able to navigate the complex choices they face in the next stage of their lives. It will be important that the "best in show" default funds have both the capability and motivation to help transition members into retirement.

Implications for Industry

While more work is needed to finalise the retirement income framework, that doesn't mean that industry can be complacent. It's time for funds to start taking action.

In addition to all their current activities focussed on the accumulation phase, funds will have to give more attention to meeting the needs of consumers in retirement. On top of their current activities of acquiring contributions, administering accounts and investing funds, they must also develop retail capabilities to engage consumers and provide retirement incomes.

This diversification will impact on funds' resourcing, incentive structures, organisational capabilities and board and executive structures. Governance and planning will have to be reviewed to accommodate these new requirements. If nothing changes in the governance and strategy, then the possibility for positive change is all the more remote.

Adopting a compliance mentality to developing a retirement benefit strategy would severely limit the ability of funds to make the most of opportunities to create value for members and ensure future sustainability.

Improved benchmarks

Bearing in mind the industry transformation that needs to take place, improved industry benchmarking is also needed.

In this regard, let me now turn to a new CSRI initiative to support funds in implementing a retirement income focus and shine light on consumer outcomes. This initiative will examine what constitutes good practice, what innovative approaches are being developed, and will identify organisations that are at the forefront of those developments.

As a first stage we have identified good practice principles around five core consumer focus capabilities (as shown in the slide). They relate to governance; understanding consumer needs; financial advice; investments and products; and consumer outcomes.

Our plan is to develop these principles into a balanced scorecard assessment tool that will assist funds to benchmark their own performance. I have circulated a paper in the delegate pack that discusses the proposed CSRI Scorecard.

We don't expect that any super fund will have a comprehensive retirement income strategy in place. Each fund will develop its own approach depending on the needs of its members and its competitive advantages. The Scorecard will look at the whole strategy not each component. And it will not disadvantage funds for being different if their approach suits their members and capabilities.

The process will involve "judgement with independence and objectivity". While this won't satisfy those who seek an objective measure, we are mindful that the use of metrics in the absence of judgement may result in unintended consequences.

"Teaching to the test" issues already exist in the super industry. Headline investment returns already receive an excessive amount of attention, relative to other important indicators of consumer outcomes, and investment returns are rarely compared on a like for like basis. By drawing attention to a broader set of qualitative indicators, we will seek to lessen the risks of a singular focus on one financial measure. The Royal Commission has reinforced the importance of taking into account non-financial indicators of performance with a view to furthering the bests interests of consumers.

The Way Forward

This CSRI initiative is timely given the government's commitment to a retirement benefit framework and the Productivity Commission's urging funds to focus on members.

Further work is needed to develop and socialise the scorecard capabilities and principles which we plan to do on a collaborative basis.

In the initial beta testing stages, the Scorecard will be developed as a tool for super funds to benchmark themselves against peers. In the longer term, the intention is to create a tool that is available for consumers.

We recognise that it is still early days but that's not to say there are not important developments worth showcasing. We plan to investigate the exemplary performers and unveil the results at the next Leadership Forum. If you are interested in more information on this initiative, or being part of the collaboration, please contact me.

The CSRI has achieved much in championing a sustainable retirement income system for all Australians. Our contribution will continue with vigor. We see these changes as a substantial, long-term investment in making the market work more effectively, making our retirement income system more sustainable and improving the lives of millions of Australians.

Thank you.