Insights into the growing need for retirement solutions

A call to educate members on their retirement and longevity to build more confident futures

2024

About MetLife

MetLife Inc. is a leading provider of life insurance, retirement solutions, employee benefits and asset management. We partner with employers, superannuation funds and financial advisers to help Australians build a more confident future.

Backed by over 150 years of history and a strong global presence, MetLife have the scale and experience to be a valued and trusted partner in business. MetLife protects customers in over 40 countries worldwide and leads the market in corporate insurance solutions in the US, Latin America, Asia, Europe and the Middle East.

Entering the Australian market in 2005, MetLife is the third largest group insurer and the second largest provider of insurance for corporates in Australia, protecting over 1.5 million people.

MetLife's award-winning health and wellness program, 360Health is designed to help your members build a more confident future by supporting their wellness and longevity with access to expert services ranging from mental health and specialist medical support to nutrition, fitness, and recovery services. 360Health focuses on your members healthspan to help them live healthier for longer.

Introduction

Ongoing Australian demographic changes and recent regulatory tailwinds in the retirement space have impacted super funds and their members, prompting MetLife to undertake an examination of the market.

Australia's retirement landscape is changing. An ageing population means there are 670,000 people planning to retire in the next 5 years[1]. People are also living longer and experiencing healthier lives compared to previous generations[2].

MetLife research shows 69% of people aged between 40-60 years are concerned about outliving their retirement savings and half (51%) of all people surveyed don't have a retirement plan[3].

These factors are contributing to uncertainty around how much a person can spend during retirement, as well as how long retirement savings need to last. Without appropriate retirement planning, people risk outliving their retirement savings or living too conservatively and not making full use of the funds they have available.

As more people are retiring and living longer, traditional pathways for earning a living and saving for retirement are being re-examined. Financial literacy and engagement in retirement has been one of the emerging areas of focus for super fund members to ensure that long term financial needs are met. Helping Australians make informed choices about their financial health in retirement will be pivotal to tackling the growing demographic challenges.

To alleviate the long-term impacts of funding the Age Pension and aged care more generally[4], super is expected to play a greater role in funding individuals during their retirement, as flagged by Treasury in the 2023 Intergenerational Report[5].

Super funds can service this need as they have become a significant channel of wealth accumulation for most Australians. Currently, the super system has 17 million Australians collectively owning $3.5 trillion in assets[6]. More than 20% of those Australians are expected to transition from the accumulation phase to the retirement phase over the next 10 years[7].

Super funds can play an important role with financial literacy and engagement with 70% of people saying they trust their fund to help them make informed decisions around their retirement savings[8].

In this paper we examine the issue of retirement and longevity from two distinct perspectives:

- **Part 1:** the legislative and regulatory framework governing retirement product propositions; and
- **Part 2:** the member view on longevity, super and retirement including views on financial planning, financial advice and engagement with super funds.

[1] Retirement and Retirement Intentions, Australia, 2020-21 FY| Australian Bureau of Statistics (abs.gov.au)

[2] Intergenerational Report 2023, Australia's future to 2063, Australian Government

[3] MetLife Australia Retirement Study 2023

[4] Projections on total spending, Around 40% of the projected increase in Australian Government expenditure in the next 40 years is estimated to be attributed to demographic ageing, Intergenerational Report 2023 Australia's future to 2063, Australian Government (pg 144)

[5] Age Pension expenditure, Intergenerational Report 2023 Australia's future to 2063, Australian Government (pg 165)

[6] Key trends and drivers - Superannuation, Intergenerational Report 2023 Australia's future to 2063, Australian Government (page viii)

[7] APRA Deputy Chair Helen Rowell, Speech to Australian Financial Review Super and Wealth Summit, (APRA Deputy Chair Helen Rowell - Speech to the Australian Financial Review Super and Wealth Summit | APRA), 22 November 2021

[8] MetLife Australia Retirement Study 2023

Part 1:
Legislative and Regulatory Framework

Part 1: Legislative and Regulatory Framework

The legislative framework under which retirement income products are offered has been an area of incremental change over the last decade, with regulator and policy scrutiny expected to progressively ramp up in the near future.

1.1. Legislative landscape

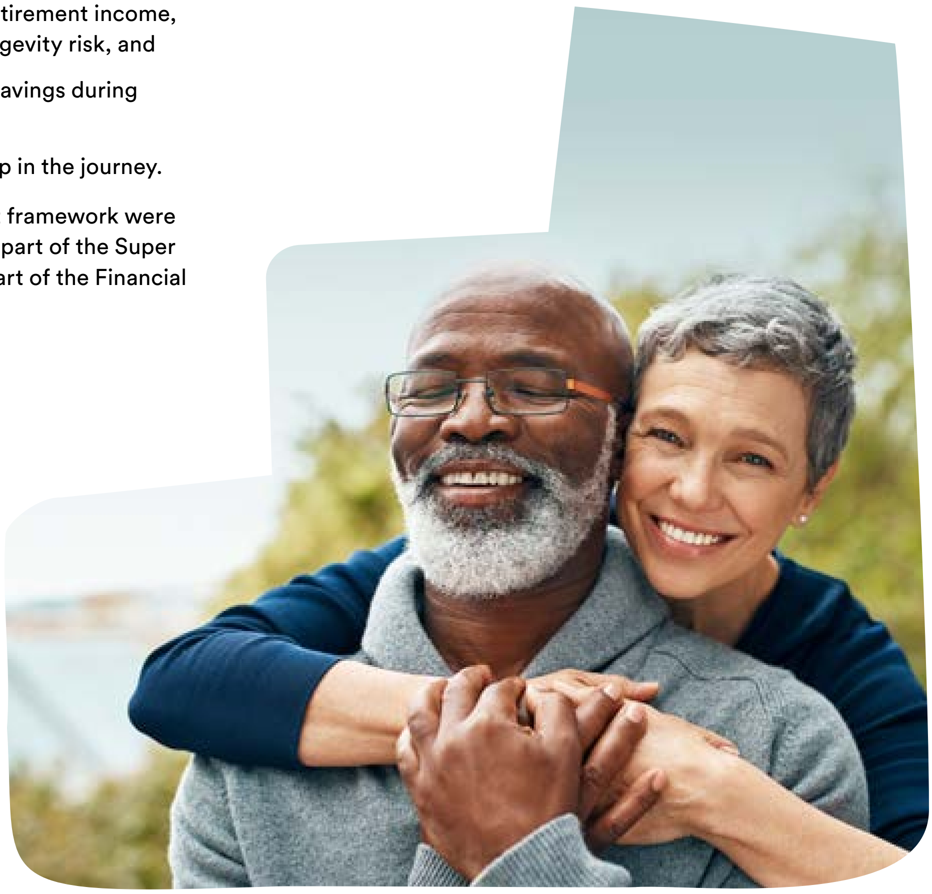
In recent times, the key change has been the introduction of the Retirement Income Covenant in 2021. From 1 July 2022, funds are required to formulate, review and give effect to a retirement income strategy that balances 3 key elements for members:

1. the maximising of income to achieve the highest expected net income possible for members over their retirement,
2. the management of expected risks to the sustainability and stability of retirement income, such as investment risk and longevity risk, and
3. allowing for flexible access to savings during retirement[9].

However, this was not the first step in the journey.

Changes to the current retirement framework were recommended as early as 2010 as part of the Super System Review[10], and in 2014 as part of the Financial System Review[11].

In the years that followed, legislative changes were made to allow for the introduction of alternative retirement products compared to the existing account-based pension and traditional guaranteed annuities available in the market. With greater flexibility in product design, the take-up of the retirement products would increase and consequently alleviate the reliance on the Government Age Pension and reduce economic impacts of demographic changes.



[9] Section 52AA of the *Superannuation Industry (Supervision) Act 1993* (Cth)

[10] Recommendation 7.4 requiring trustees to devise a separate investment strategy for post-retirement members in MySuper products having regard to longevity risk among other risks

[11] Setting clear objections for superannuation in the context of retirement and the proposal of a concept of Comprehensive Product for Retirement (CIPR) which was a pre-selected retirement product for members

In terms of legislative change, the following key milestones are noted:

2017	**Amendments to *Superannuation Industry (Supervision) Regulations 1994* (Cth)[12] and *Income Tax Regulations 1997* (Cth)[13]** These changes introduced product and taxation rules with respect to "innovative income streams" which: (a) allowed for super funds to make available alternate immediate or deferred income streams (e.g. pensions or annuities) with no minimum drawdown requirements and that would pay income for the life of the member. (b) provided earnings tax exemptions to super funds and life insurers on income generated from assets held to support these income streams in retirement phase, enabling greater pricing flexibility. (c) treated these income streams as a super benefit for the purposes of the *Income Tax Assessment Act 1997* (Cth) and therefore tax concessions were available in the hands of the member/individual.
2019	**Amendments to the *Social Security Act 1991* (Cth)[14]** Amendments allowed for the favourable treatment of lifetime income streams (under both the assets test and income test) for the purposes of determining entitlement to the Government Age Pension. From a member perspective, focusing on more favourable income levels could be achieved by taking up a lifetime product and obtaining a lesser amount of the Government Age Pension, compared to a scenario where that individual were to just rely on the Government Age Pension.
2021	**Amendments to *SIS Act 1993* (Cth)[15]** The introduction of the Retirement Income Covenant required the formulation of a retirement income strategy that would be reviewed on an ongoing basis and made publicly available. The strategy would need to consider how it would assist beneficiaries in achieving and balancing the following objectives: (a) to maximise expected retirement income over the period of retirement; (b) to manage expected risks to the sustainability and stability of retirement income over the period of retirement; and (c) to have flexible access to expected funds over the period of retirement.

As is evident above, across the 2017 - 2021 period, notable changes were made to allow for alternative products and incentivise product innovation.

Legislation changed significantly up until 2019, however very few alternate lifetime income stream products were actually developed or released into the market. A key reason for this was that member engagement and education needed to be a focus. Most Australians are unfamiliar with what they need to do to plan for retirement and what products are available to help them meet their retirement objectives (see Part 2 of this paper for more insights). It is also noted the product change process, including associated member journey and system build considerations, would require time and investment to formulate and deliver propositions in the best financial interests of members.

During this period, super funds also had to grapple with making system and governance changes to cater for a raft of other regulatory changes, such as regulatory data reporting, the Government Protecting Your Superannuation (PYS) Package, Putting Members Interest First (PMIF), Your Future Your Super (YFYS) stapling rules and APRA performance testing on accumulation account products, meaning that retirement incomes were one priority among many.

It was the introduction of the Retirement Income Covenant in 2021 (effective July 2022), which served as a signal by the Government reiterating the importance of retirement in the context of super. Both Australian Securities and Investment Commission (ASIC) and Australian Prudential Regulation Authority (APRA) also committed to regularly reviewing those strategies and ensuring that those strategies were appropriate based on the member segmentation adopted by the fund.

Following this legislative change, super funds have been more focused on retirement, as evidenced by the appointment of senior executive roles dedicated to this phase of life.

[12] Regulation 1.06A and Regulation 1.06B of the *Superannuation Industry (Supervision) Regulations 1994* (Cth) set out the standard for innovative income streams with associated changes throughout the act recognising "deferred superannuation income streams"

[13] Notably the introduction of Regulation 307-205.02C, 307-205.02E into the *Income Tax Assessment Regulations 1997* (Cth)

[14] Introduction of the concept of the "asset tested income stream (lifetime)" as set out in section 9E and associated means test treatment e.g. sections 1099C and 1120AB of the *Social Security Act 1991* (Cth)

[15] Section 52AA of the *Superannuation Industry (Supervision) Act 1993* (Cth)

1.2. APRA and ASIC's thematic review - current progress by super funds

In July 2023, ASIC and APRA released their Information Report setting out the findings of their thematic review of the implementation of the Retirement Income Covenant[16].

The review acknowledged that super funds were focusing efforts on expanding assistance and support to members approaching retirement. However, the overarching finding was that there was a lack of progress and insufficient urgency from regulated super funds in embracing the Retirement Income Covenant to improve member's retirement incomes.[17]

Broadly speaking, the findings fell into three key areas:

1. **Understanding members' needs**

   Data gaps for certain super funds in relation to effective strategy formulation including an understanding of the members' financial position and income needs in retirement.

2. **Designing fit for purpose assistance**

   Concrete plans needed in terms of implementing new initiatives and tracking member usage of assistance offered, as well as better understanding the extent to which members are receiving advice about retirement incomes from external sources.

3. **Overseeing strategy implementation**

   Not all funds had integrated their retirement income strategy and initiatives into their overall strategic and business plans. Better practices flagged included considering appropriate metrics to measure each covenant objective, including the performance and success of the retirement strategy.

Further oversight with respect to fund retirement income strategies by APRA and ASIC is foreseen with amendments expected to be made to APRA Prudential Standard SPS 515 – Strategic Planning and Member Outcomes, and SPG 516 – Outcomes Assessment.

[16] APRA Letter to RSE licenses: Implementation of the retirement income covenant Implementation of the retirement income covenant | APRA, (7 March 2022)

[17] APRA Letter to RSE licenses: Implementation of the retirement income covenant Implementation of the retirement income covenant | APRA, (7 March 2022)

1.3. Legislative amendment horizon

1.3.1 Further exploration as to what more can be done

In December 2023, a Discussion Paper was released by Treasury[18], and made available for public consultation, examining what can be done to further assist in managing the challenge for retirees in super. Some items of note from a member engagement and education perspective are the potential Government policy responses being explored to cater for the following:

- How and when information about retirement, and retirement offerings, are communicated to members,
- How products are compared, including a potential standardised product disclosure framework, and
- The potential for funds to implement "default" style recommendations such as:
  - Alternate income drawdown profiles from retirement products for differing objectives,
  - A range of default solutions for sub-classes of the fund membership based on account balance and expected needs, and
  - Default investment allocations for members in retirement.

1.3.2. Upcoming legislative changes

Further changes are earmarked in relation to retirement including changes to how advice is provided and paid for, as well as amending an objective for super that recognises the fundamental purpose of the super system is to provide income in retirement that substitutes or supplements the Government Age Pension[19].

Proposed financial advice changes arose from the recommendations put forward in the Quality of Advice Review, including streamlining ongoing fee renewal and consent requirements for financial advisers and expanding access to retirement income advice through intra-fund advice and potential deduction of fees from member super accounts[20]. It is expected that these will make it easier for members to engage financial advisers without having to fund advice from personal non-super savings when making retirement planning decisions.

In terms of the objective of super legislative amendment, the wording proposed and moved by the House of Representatives is as follows:

"The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way."

The goal of legislating the objective of super is to recognise income in retirement, to provide a minimum standard of living in retirement and to acknowledge the interaction between government support and equity in terms of the super system and sustainability of the system (in the context of cost-effectiveness and broader demographic, economic and social change).

By clarifying the objective of super in the context of retirement, the objective would then become the anchor for the future direction of policy settings and provide a framework for assessing the performance of the system[21].

1.4. All roads lead to super

In light of the recent and proposed legislative changes, it is evident that reliance is being placed on super funds to, in part, solve the retirement puzzle and assist with addressing emerging demographic ageing trends.

Though not explicitly mandating what super should offer in terms of retirement propositions (e.g. something akin to the previously proposed concept of a Comprehensive Income Product for Retirement (CIPR)[22]), we see that the policy framework to make retirement propositions available is broadening, with more distinct guardrails being imposed in terms of how a super fund offers products.

These are all ultimately positive steps in the right direction.

Nevertheless, a key area of improvement is the issue of member engagement with super and retirement which is currently lacking (which we set out in Part 2 of this paper).

[18] Retirement phase in superannuation Discussion Paper, Australian Government, The Treasury, December 2023

[19] Objective of Superannuation Discussion Paper, Australian Government, 9 March 2016

[20] Government response to the Quality of Advice Review, Delivering Better Financial Outcomes, Detailed Overview, June 2023, (Government Response to the Quality of Advice Review | Treasury.gov.au)

[21] Explanatory Memorandum to the Superannuation (Objective) Bill 2023, Superannuation Objective EM (aph.gov.au)

[22] Development of the framework for Comprehensive Income Products for Retirement Discussion Paper, Australian Government, 15 December 2016

Part 2:
Member Insights

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Member Insights

Super fund members are concerned about longevity and retirement. To better understand these concerns MetLife conducted two qualitative studies in 2023 which explored the attitudes, behaviours and needs of Australians with regards to super and retirement.

Methodology

MetLife Retirement Income Research:

An online study conducted in August 2023 by independent researcher, Zylo Group, with 1,036 working Australians aged between 40-60 years. 41% of sample aged 40-49, while the remaining 59% aged 50-60 years.

The MetLife Future Insights Report:

An online study conducted in January 2023 by independent researcher, Harris Poll, with 18,506 consumers globally, including 1,522 Australians. 47% of sample aged 18-39 years, whilst the remaining 53% aged 40+ years.

2.1. Uncertain outlook on the future and attitudes in relation to personal longevity

(The MetLife Future Insights Report – January 2023)

The MetLife Future Insights Report told us that Australian's sentiments and behaviours are changing rapidly in an environment of increasing uncertainty, greater longevity and concerns around threats to security and wellbeing.

Some call out statistics from Australian consumers are:

82% agree

things are going to get worse before they get better (economic situation, geopolitical conflict etc.)

90% agree

as we live longer, we should re-define what retirement looks like

78% interested

in changing the traditional idea of retirement (when it starts, how individuals prepare for it, etc.) if we are going to work until 75 years old

It is evident that a growing number of Australians recognise that we are living longer and therefore that we need to re-examine the concept of retirement and how individuals plan for a later retirement age.

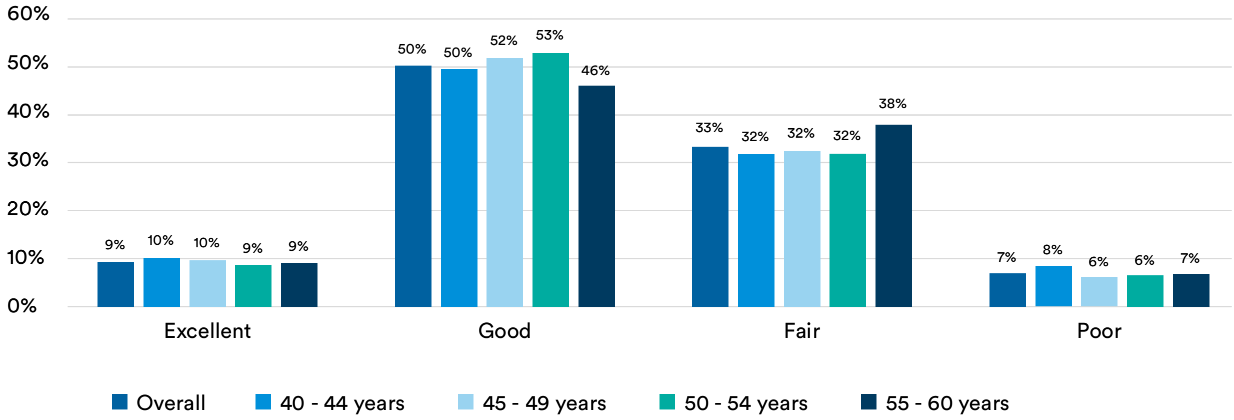
2.2. Confidence in relation to financial literacy

(MetLife Retirement Income Research – August 2023)

In terms of financial literacy, the respondents broadly viewed themselves has having "good" (50%) or "excellent" (9%) amounts of knowledge (collectively described in this paper as 'Financially Proficient').

For the purposes of the survey, guidance was provided to indicate that knowledge levels included things such as understanding different investments, knowing how to create a budget, planning for retirement, managing debt and tracking personal spending.

How would you rate your financial literacy / knowledge?



Based on these results, 40-60 year-olds have a degree of confidence with respect to financial planning and a willingness to engage with their finances. However, our findings suggest that this financial aptitude does not necessarily extend to super, and the area of retirement specifically as explored further below.

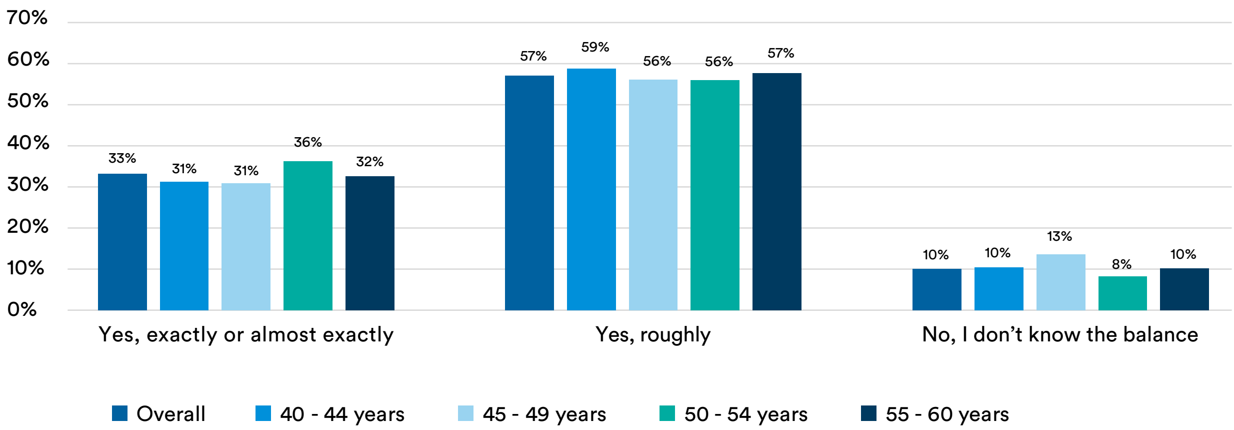
2.3. Light touch engagement with super

(MetLife Retirement Income Research – August 2023)

For Financially Proficient individuals, 33% knew their super account balance exactly or almost exactly with 57% knowing their balance roughly.

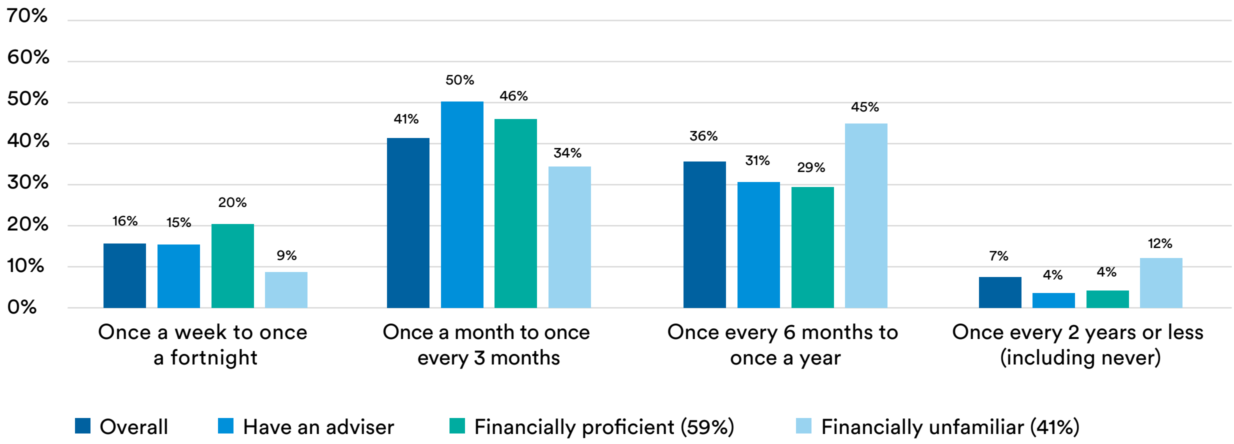
This trend is broadly consistent with the overall figure of those approaching retirement.

Do you know the balance of your super account(s)?



When examining the frequency in which individuals check their super account balances, the majority (77%) of people check their balance ranging between once a month to once a year. People with a financial adviser on the other hand tend to check their balance more regularly.

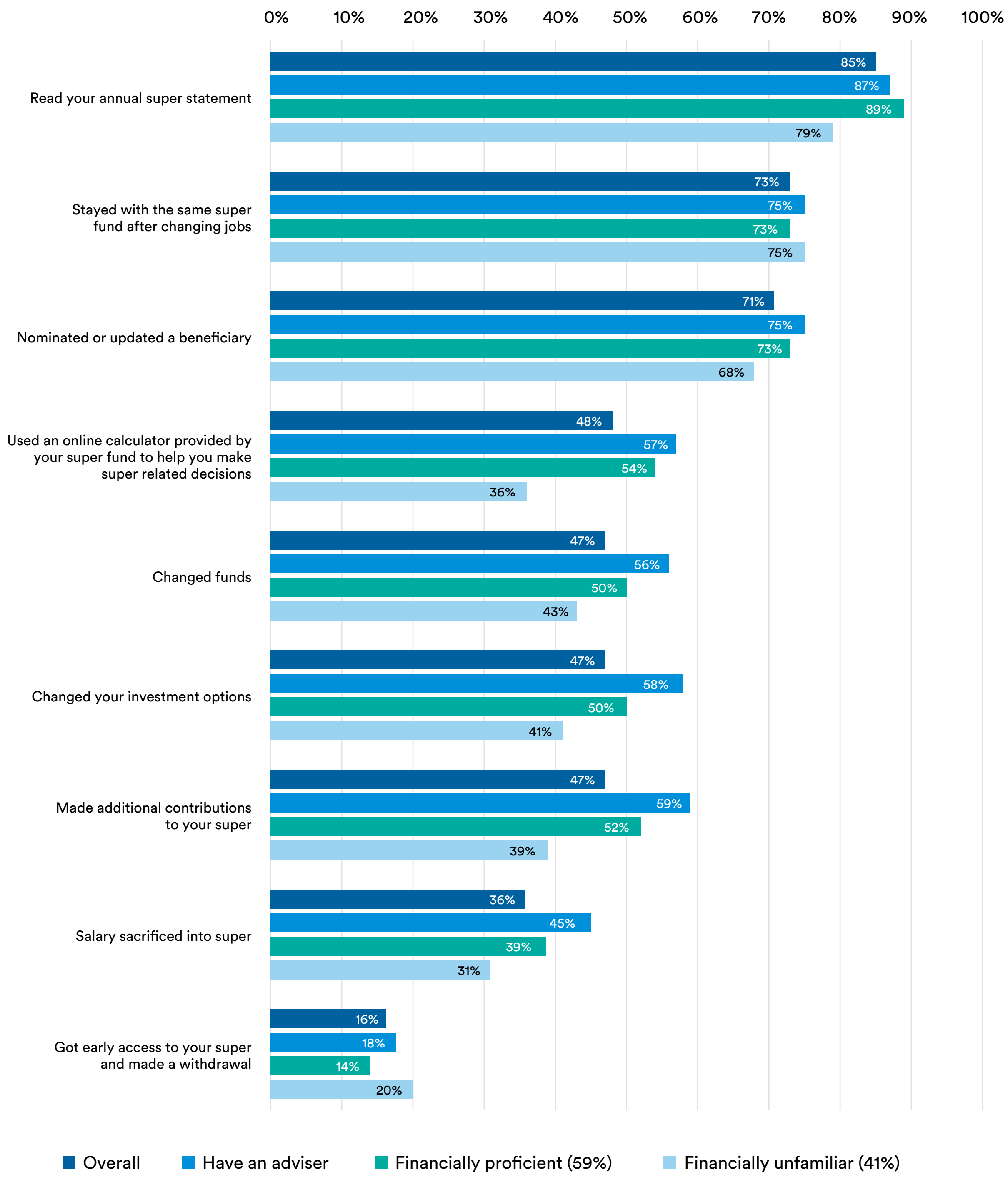
How often do you check the balance of your super account(s)?



In line with expectations, it is noted that those individuals who rated themselves as having "fair" or "poor" financial literacy/knowledge tended to review their super balances less often (collectively described as 'Financially Unfamiliar').

With respect to active engagement with super, the top three actions undertaken by respondents included reading annual super statements, electing to remain with the same super funds after changing employer and nominating beneficiaries.

Which actions have you undertaken in relation to your super?



Though individuals may read annual statements and keep up to date with nominating beneficiaries, the outcome was different when it came to engaging with super for financial decision making.

At an overall level, the use of tools and changing between investment options is an exercise that is performed by a limited amount of members and presents an area of opportunity to engage, particularly with those who would fall under the Financially Unfamiliar category.

The results highlight the importance of super funds in educating and enhancing the member engagement journey given limited interaction with the wide array of tools and information available on fund partner websites.

2.4. Limited planning for retirement

(MetLife Retirement Income Research – August 2023)

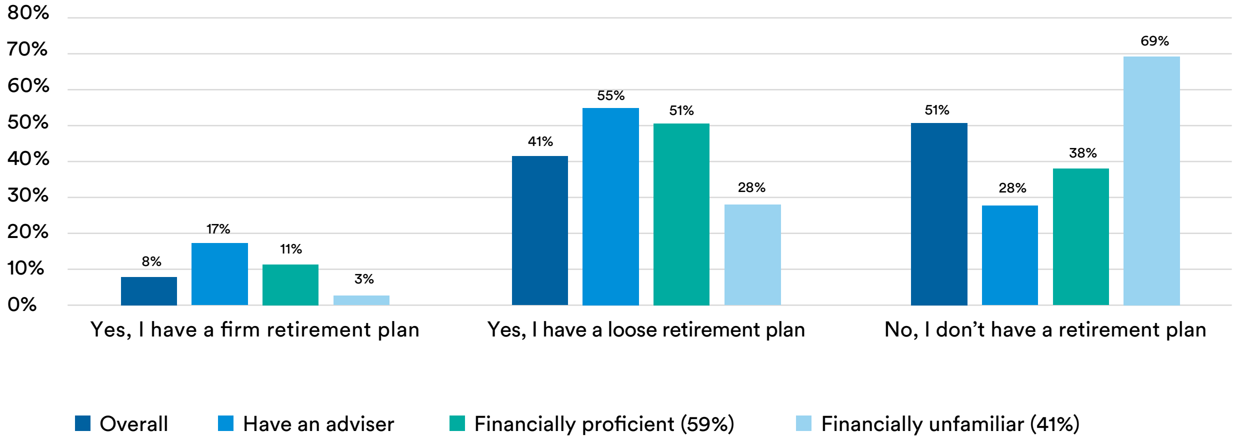
Of the 1,036 respondents (in the age 40-60 age bracket) surveyed, 2 in 3 (65%) expected to retire aged 60-70 years, which is broadly consistent with the Australian Bureau of Statistics, Retirement and Retirement Intentions, Australia Key statistics, which set out that the average age people intend to retire is 65.5 years[23].

With an expectation to retire within 20 years or less, it is interesting to note that 1 in 2 (51%) people had no retirement plan at all, with a further 41% having a loose retirement plan.

Unsurprisingly, those in the Financially Proficient category were more likely to have some form of retirement plan compared to those considered to be Financially Unfamiliar:

51% of people had no retirement plan at all

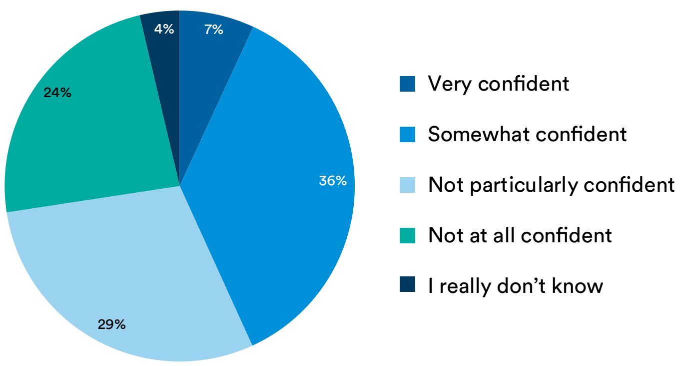
Do you currently have a retirement plan which you are following?



53% are not confident that they are prepared financially for retirement

With limited retirement planning, it is also not surprising to see that a greater proportion of individuals are not confident about their financial preparedness for retirement with 29% of respondents being 'not particularly confident' and 24% being 'not confident at all' (totalling 53%).

How confident are you that you will be financially prepared for the retirement lifestyle you want to live?

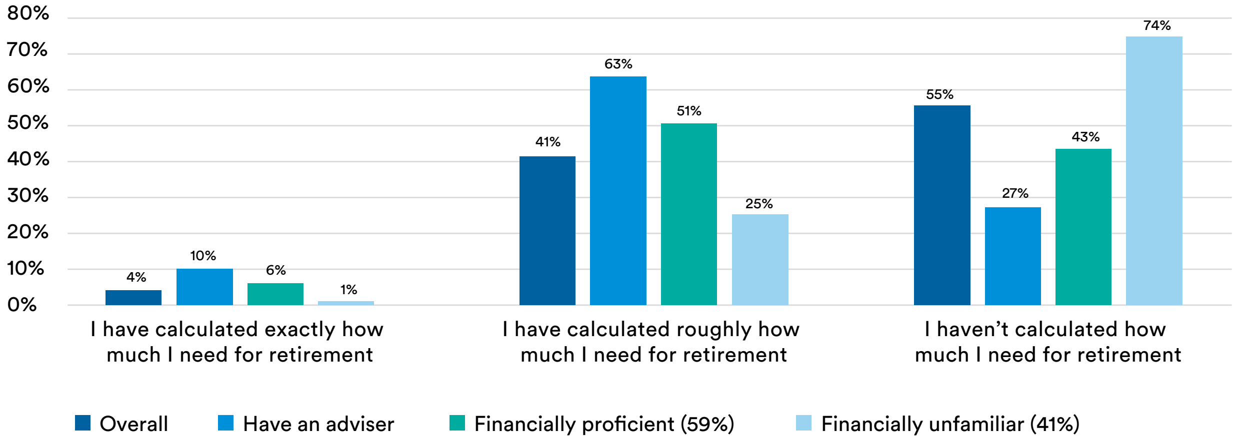


Similarly, 1 in 2 (55%) participants had yet to calculate what they would need to retire.

[23] Australian Bureau of Statistics, Retirement and Retirement Intentions, Australia using the 2020-21 financial year as a reference period, (Retirement and Retirement Intentions, Australia, 2020-21 financial year | Australian Bureau of Statistics (abs.gov.au)), Released: 29/08/2023

Again, the Financially Proficient group are much more likely to have considered their retirement income needs compared to those who are Financially Unfamiliar.

Understanding of necessary retirement income levels: Which one of the following best describes you?



Regardless of financial literacy groupings, it is evident that an understanding of necessary retirement income levels is an area of uncertainty for a significant proportion of respondent members.

Acknowledging the role super funds play in retirement decision making, the challenge is how funds can increase member engagement to improve financial literacy noting the limited active engagement flagged in section 2.3 above.

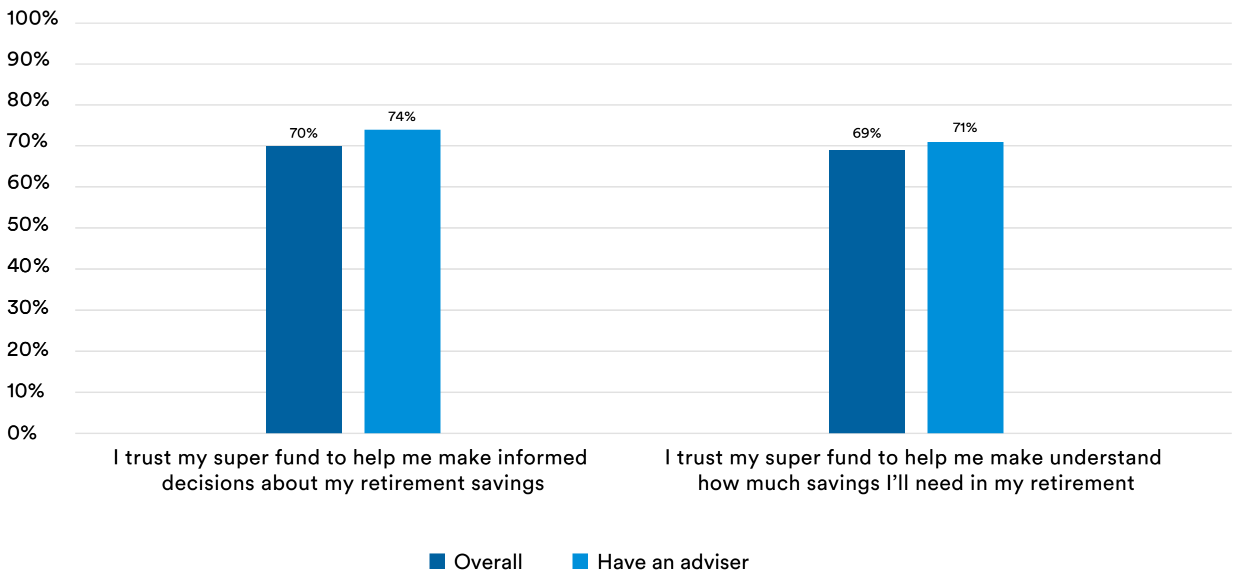
2.5. Who members trust to assist with retirement planning

(MetLife Retirement Income Research – August 2023)

As flagged in the opening of this paper, super funds are a trusted source of information for members with 70% of respondents trusting their super fund to help them to make informed decisions about their retirement savings and to help them understand how much they will need.

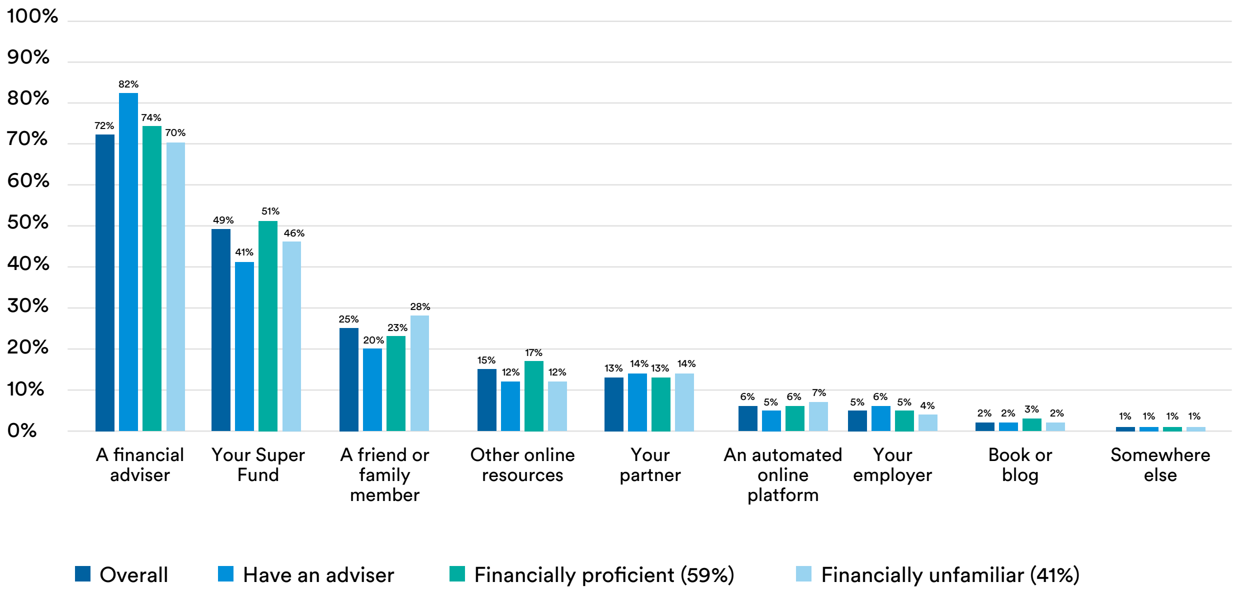
70% of people trust their super fund to help them make informed decisions around their retirement savings

Who/where would you be likely to seek advice/information?



Breaking down these results by financial literacy groupings we see a broadly consistent preference for financial advisers, with super funds another notable expected source of retirement planning assistance.

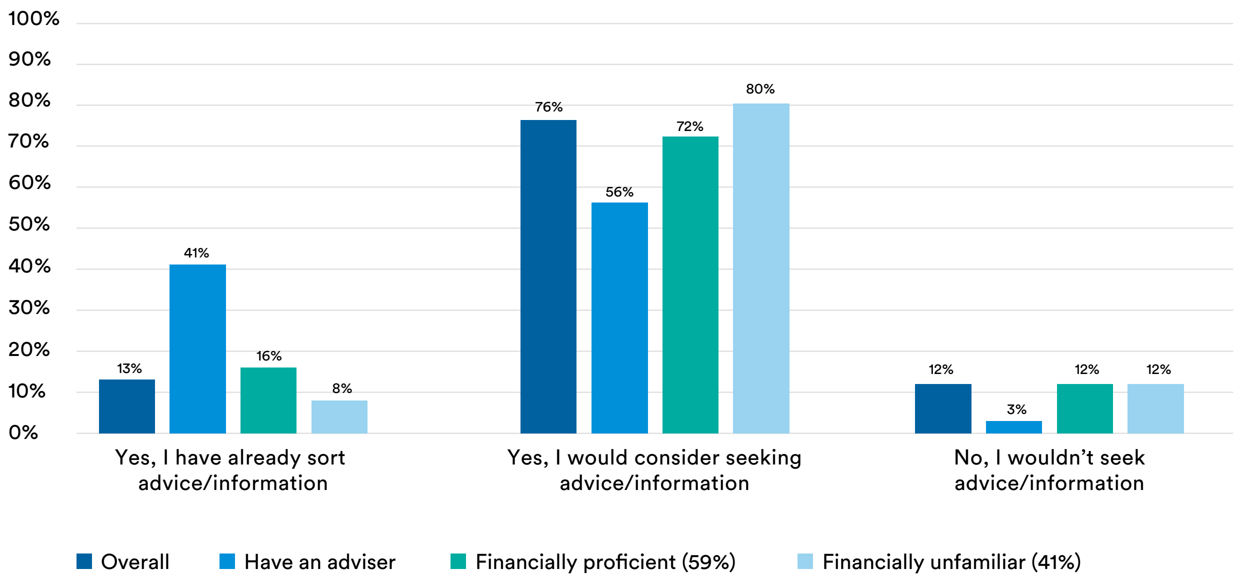
Who/where would you be likely to seek advice/information from with regards to retirement planning?



It is interesting to also observe views with respect to financial advisers. When examining preferred sources of retirement advice, financial advisers are the preferred for retirement decisions (72%), with super funds being the second (49%).

The research also found around 13% of respondents had obtained retirement advice, with the vast majority (76%) intending to. These results were broadly consistent across financially literacy groupings:

Have you/would you seek advice/information on retirement planning?



In terms of those individuals that flagged they would not seek advice, some common themes that arose were:

Affordability concerns

"They charge too much in fees and costs."

"I don't want to pay for it."

Preference to undertake research themselves

"I like to manage my own things."

"There is enough research and information available to do it myself."

Lack of trust

"I know what I need to do. I don't trust advisers."

"Adviser I have spoken to was just trying to sell me stuff and no great info to offer."

Too early to get advice

"It's still 20+ years away."

"Too early at this stage of life. Might consider in the next 4-5 years."

On the point of affordability, it is noted that the proposed changes arising from the Quality of Advice Review discussed in section 1.3 may, in part, address this issue. As such it is expected that there will be significantly increasing demand for financial advice in this space in the coming years.

Closing thoughts and observations

MetLife's research indicates that those with lower financial literacy are less likely to be engaged with their super and retirement than those who are financially proficient. How super funds assist members with decisions and planning along the member journey is important given the level of trust members have in them. This expectation in relation to super funds is also mirrored by the Government as reflected by the growing number of legislative and regulatory changes made in recent years focussed on retirement.

As super funds and regulators dedicate more time to the member journey in retirement, financial advice will be an increasingly important pathway to facilitate retirement decision making.

For those members who shy away from obtaining financial advice regardless of the changes arising from the Quality of Advice Review, the answer may be, alongside a clearly formulated member engagement strategy, to make available products that incorporate soft defaults or nudging strategies that are best suited to the particular needs of that member cohort, removing the common theme of fear of running out of income and uncertainty towards the future.

How can we help?

As a life insurer, we are experts at providing solutions to protect against risk and this includes longevity risk.

We have undertaken extensive member research at a product level to better understand attitudes on varying propositions including account-based pensions and annuities which has shaped our thinking as to what can work in the Australian market.

To learn more about our propositions or research, please contact your MetLife Relationship Manager.

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