# Retirement framework must consider longevity risk protection and better, low-cost advice

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- **Case to be made for a compulsory longevity risk management element to be added to superannuation products.**
- **Better and simpler products could increase retirees' income by 15 to 30%.**
- **Retirees can benefit from access to good, low-cost financial advice.**

Superannuation funds should include a longevity-based product in their retirement income offerings and provide retirees with greater levels of low-cost financial advice to help improve living standards for older Australians.

In a Dialogue* paper, *Developing the Retirement Income Framework,* academic actuary Anthony Asher states that having products that more efficiently manage longevity risk will result in higher living standards in retirement and better align the superannuation system with its objectives.

According to the author, making it compulsory for superannuation trustees to at least offer products that provide longevity risk cover would help Australians increase their retirement income, potentially by as much as 15% to 30%.

The Federal Government has issued a Retirement Income Covenant Position Paper, to help form the first stage of the retirement income framework. Findings from its Retirement Income Review are due soon.
The Dialogue paper adds to the public debate around what happens to retirees' savings once they retire, and whether retirees spend enough to enjoy life once they stop work.

Australians have been accumulating retirement savings via compulsory superannuation contributions since 1992. Industry experts argue there's now need for a deeper development of Australia's post-retirement market, when retirees are looking for the best ways to enjoy life but are worried about ensuring they can make their savings last.

“It seems clear that more direct Government intervention may be required – just like the introduction of the superannuation Guarantee, MySuper and even Account Based Pensions,” the paper states. “While not likely to be popular, there is potentially a case for compulsory partial allocation of some members’ superannuation to lifetime income stream products in retirement."

The Dialogue paper states a new framework should incorporate a requirement for all trustees to include a covenant requiring them to offer longevity risk-style products and affordable advice to members to ensure longevity products are broadly tailored to their needs. This could be similar to the requirement for trustees to offer insurance to members.  The proposal to offer longevity protection recognises that these products may not be suitable for take-up by members with low balances.

The paper suggests that the cost of advice could be significantly reduced if the Australian Tax Office (ATO) could provide some of the data necessary for good advice. The ATO holds information about an individual's income, superannuation and share assets. If this could be provided, with appropriate permission, in a standardised format to advisors the cost of advice could be significantly reduced.

The paper states few new longevity products have been brought to the market despite new legislation that supports them.

Reluctance, from the industry, to embrace these products could reflect:

- concerns about lack of demand from members for new products
- perceptions that retirees' needs are diverse and super funds could find it too complex to mass-customise longevity products
- concerns the products are irrevocable and people will regret their decisions, and
- fears that trustees may be taking on significant risk in providing advice on longevity products.

According to Mr Asher, most retirees' needs fall into just five general requirements from their savings. These are: a high income, an income that lasts (including for a spouse), a stable annual income, access to enough capital and a desire to leave a bequest. People assign different weights to these objectives, but trustees can offer a range of products to meet each of these needs and provide advice based on general expectations.

He argues, that, as a minimum, funds should offer members an appropriate longevity protection product for all or part of their balance, setting out pros and cons, before paying any benefits at retirement.

"Members and their beneficiaries are prejudiced by the absence of options to obtain suitable income stream products, and trustees should be at risk if they fail to make such an option salient," the paper states. "Modelling shows a 15-30% increase in retirement income by using an appropriate allocation to suitable lifetime income streams."

Anthony Asher is an Associate Professor at the University of NSW Business School. He is available for interview. A copy of the Dialogue *Developing the Retirement Income Framework* can be found **here**.

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