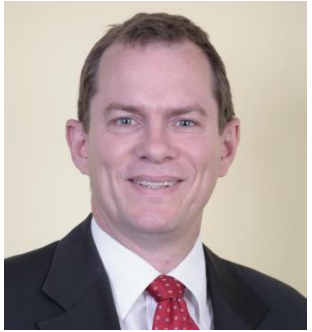
Development Of Alternative Retirement Income Products In Australia - The Comprehensive Income Products For Retirement System

Nick Callil – Willis Towers Watson
Tim Furlan – Russell Investments

About the speaker



- **Nick Callil**
- Head of Retirement Solutions, Australia
- leads WTW's research on retirement strategy
- consults to leading superannuation funds and financial institutions on retirement strategy, default DC design and related matters

Willis Towers Watson

- **Willis Towers Watson**
- a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth
- more than 40,000 employees serving 140 countries
- our actuarial roots date back to 1828

About the speaker

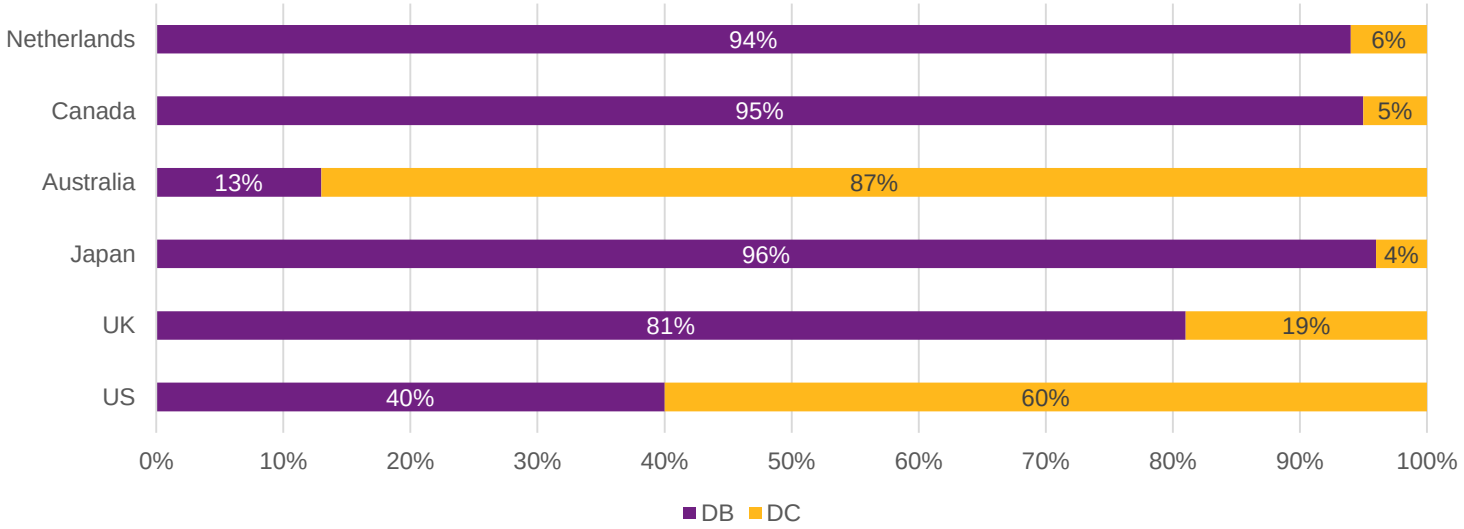
Tim Furlan

- Head of Master Trust & Superannuation, Australia
- Responsible for outsourced corporate pension for DC & DB plans
- Advisor on retirement strategy and product development
- Chair of the International Actuarial Association's Pension Accounting Sub-Committee

Russell Investments

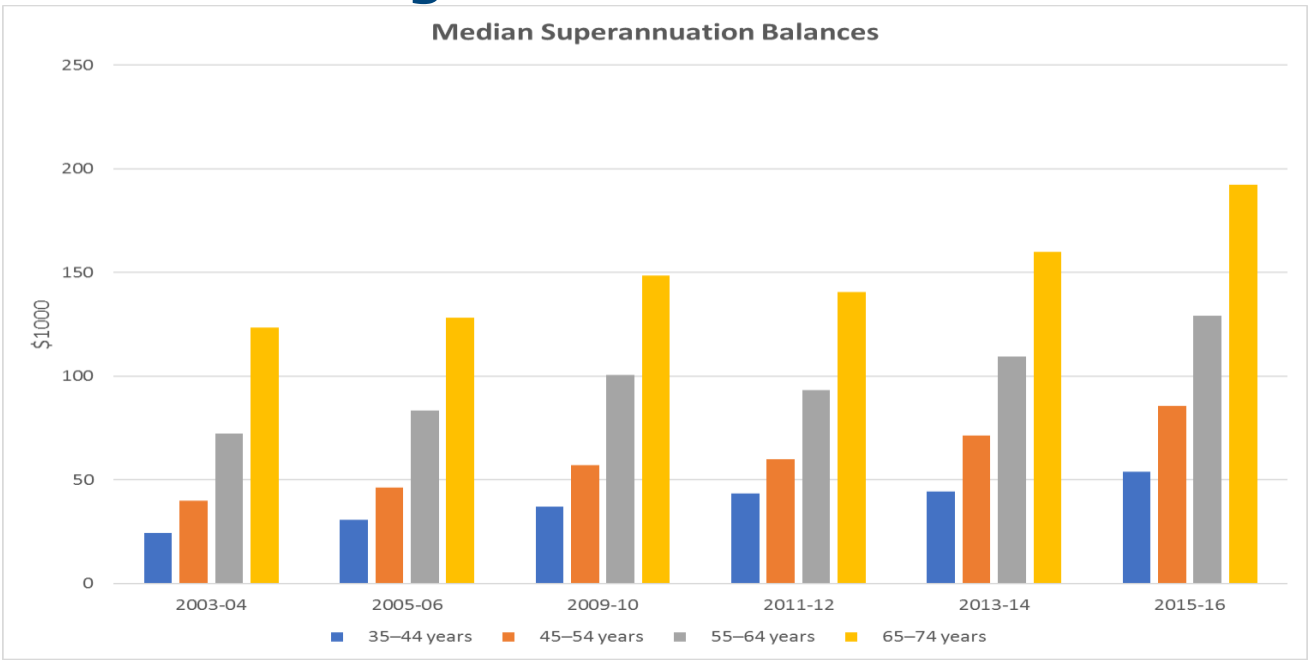
- Russell Investments is a global asset manager offering multi-asset portfolios and services to institutional clients, advisers and individual investors
- Since 1936 we have be dedicated to improving people's financial security

Some Background on Australia – a leader in the shift to DC



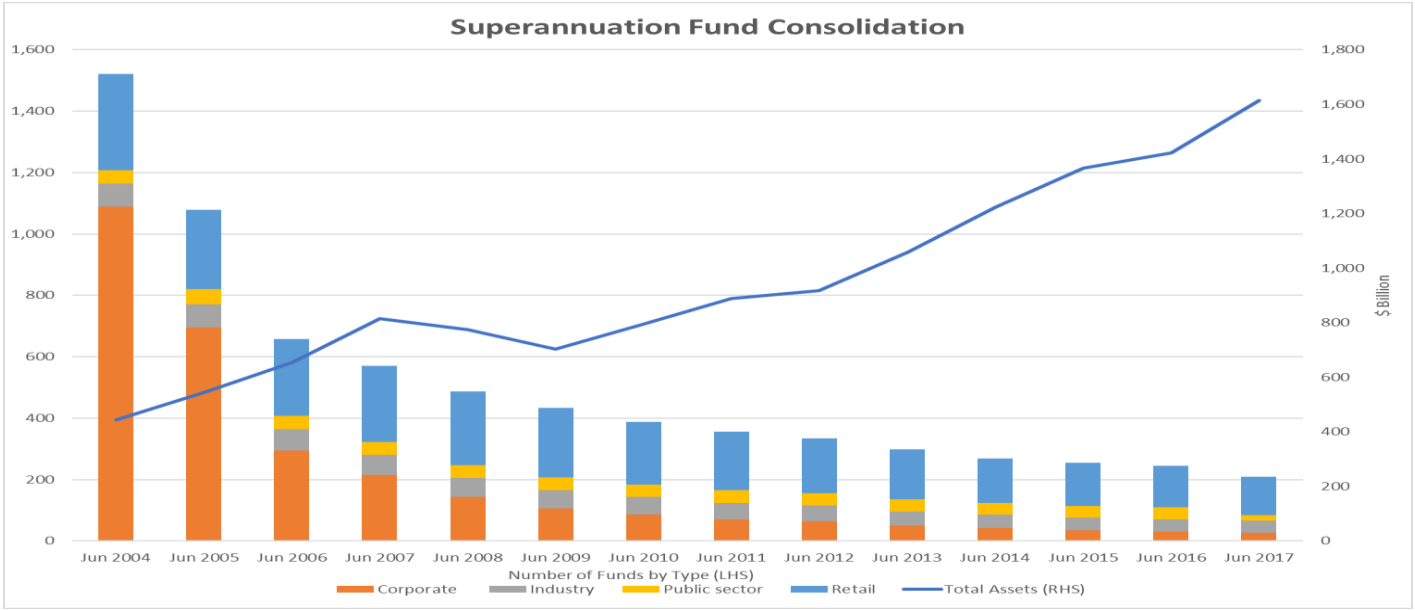
Source: Willis Towers Watson

Some Background on Australia – the DC system is maturing



Source: The Australian Bureau of Statistics

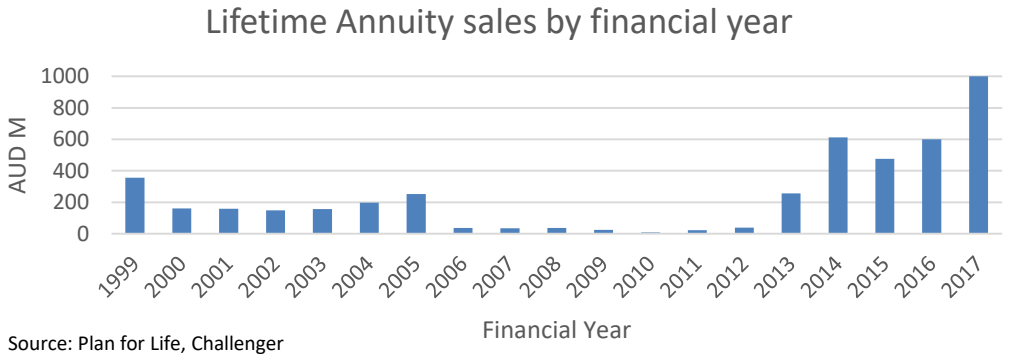
Some Background on Australia – we have had a focus on scale and consolidation



Source: The Australian Prudential Regulation Authority Annual Superannuation Bulletin

The challenges

- My Super default balances – 37% of total balances in large funds
- The superannuation system is $2.6 trillion (~150% of GDP)
- Lifetime annuities issuance has grown to $1 billion pa



Source: Plan for Life, Challenger

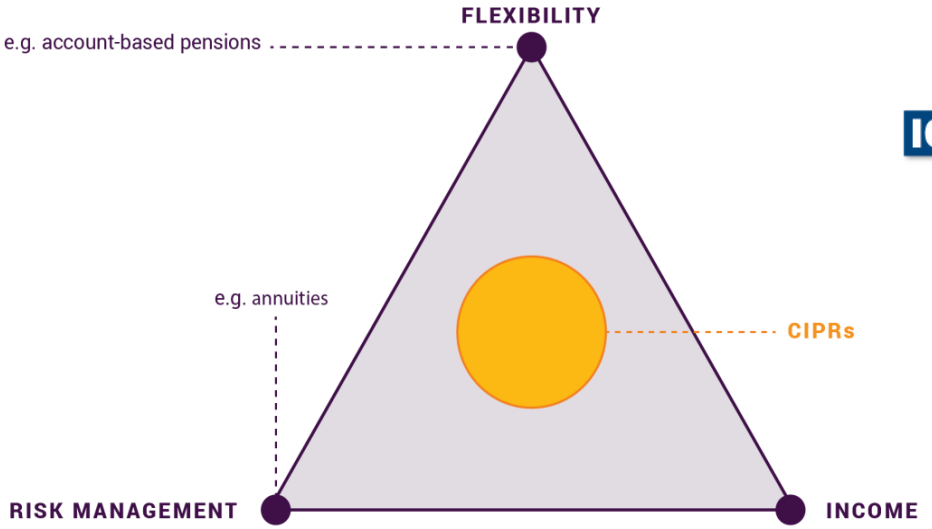
Age	Account based pension minimum drawdown
Under 65	4.0%
65- 74	5.0%
75-79	6.0%
80-84	7.0%
85-89	9.0%
90-94	11.0%
95+	14.0%

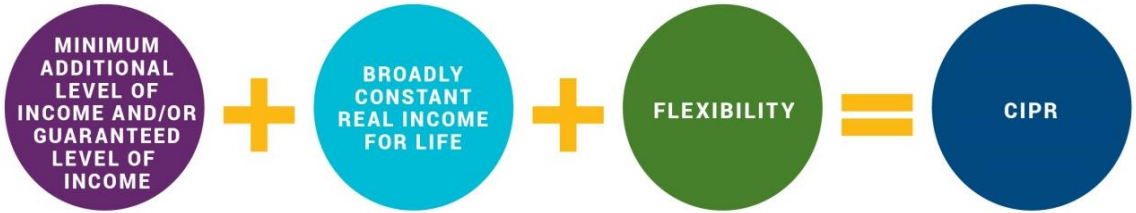
Objectives for a new system

PROBLEMS SEEKING TO BE ADDRESSED	OBJECTIVES OF CIPRS PRODUCTS AND THE CIPRS FRAMEWORK
Individuals are **self-insuring against longevity risk** and may be living more frugally in retirement than they need to	**Increase individuals' standard of living** by facilitating risk pooling – providing security of income for life and the potential for higher income in retirement
Individuals face **a lack of diversity and choice** in retirement income products, in particular an absence of products that efficiently manage longevity risk	**Increase the availability and choice** of products that efficiently manage longevity risk
The superannuation system is **not achieving its objective efficiently** due to its over-reliance on account-based pensions	**Increase the efficiency of the superannuation system** so that it can better meet its proposed objective
Individuals face **complex financial decisions**, a lack of guidance and behavioural biases at retirement but many are unlikely to seek financial advice	Empower trustees to provide members with **an easier transition into retirement**

Source: The Australian Government the Treasury

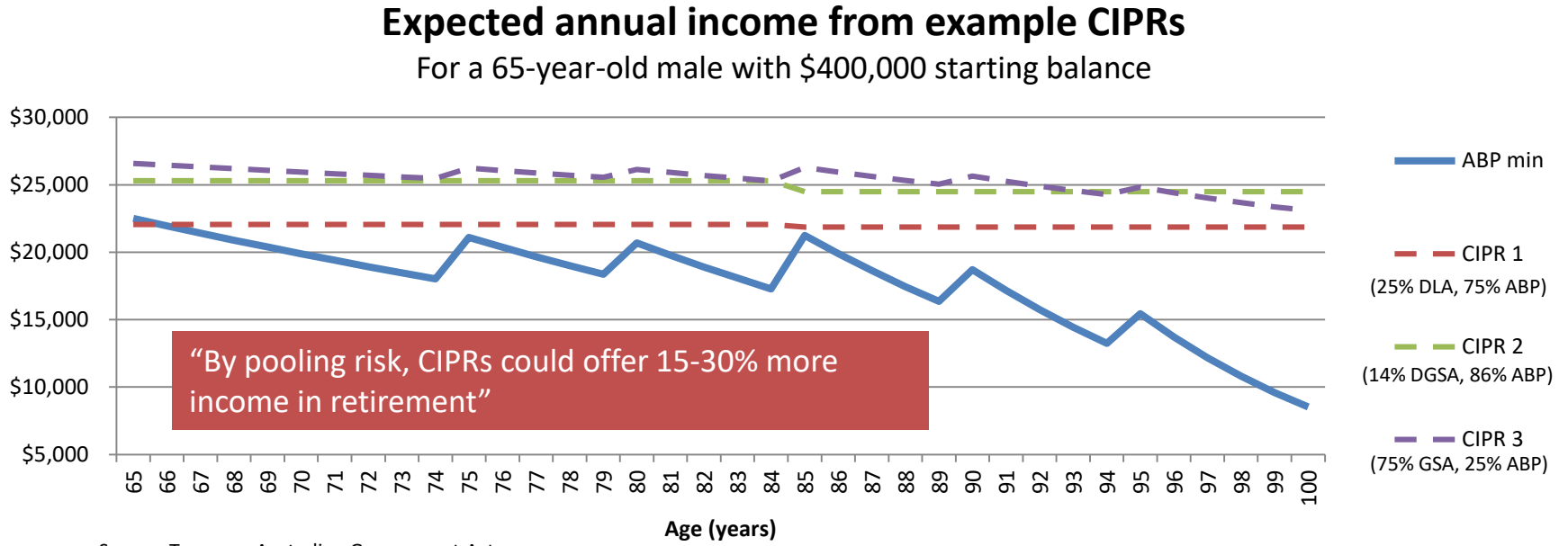
The Proposal





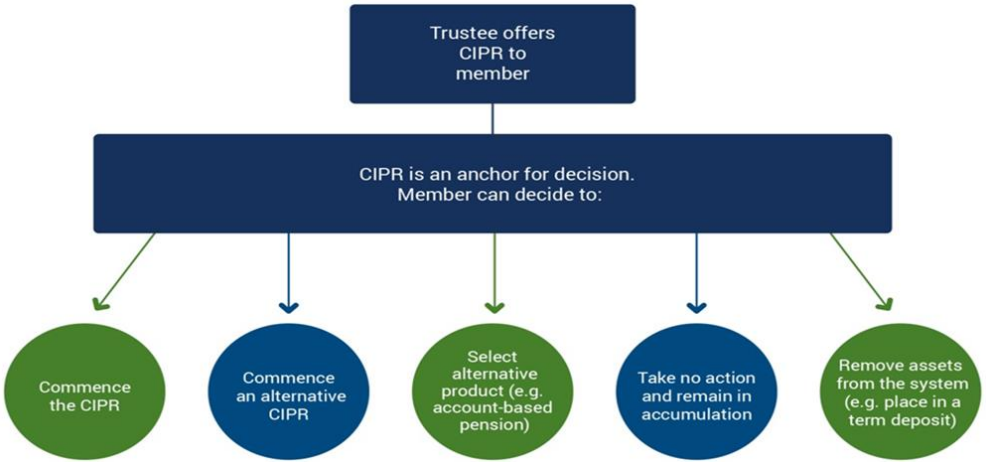
Source: The Australian Government the Treasury

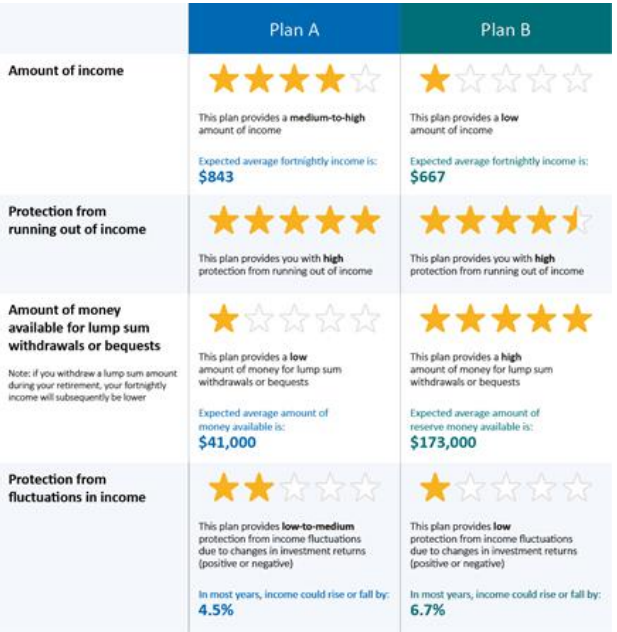
The Vision – more efficiency than an account based pension only



Source: Treasury, Australian Government Actuary

Testing comprehension and acceptance of these products





Source: Australia Government the Treasury and Behavioural Economics Team of the Australian Government

Reaction from submissions and next steps

- General agreement on the importance - BUT
- Confusion about the detail, lack of consensus on specifics
- Major themes:
  - social security means test
  - one CIPR or many?
  - concern about likely take up and effectiveness of “nudge”
- Funds to establish a retirement income framework as first step

We would also like to thank our co-authors

- Martin Stevenson – First State Super
- Darren Wickham - TAL

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Thank you very much for your attention!

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