



# Guiding members safely down a path in retirement



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**The Australian superannuation system is world-leading as a framework for getting people to save for retirement. While its origins were in a wage trade-off under specific industrial awards, it transformed into a near universal system that is already providing benefits for Australians today; both retirees and those still working.**

Over time, the system has been able to adjust and develop new solutions to problems as required – adding insurance to cover for death and TPD; building flexible payment solutions; introducing member direct investment options; and internalising investment capability as significant scale has been achieved. As our previous whitepaper highlighted, the industry is maturing and generally aware of its need to provide better solutions for members in retirement.<sup>1</sup>

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## Negative messaging can scare members into inaction

While the industry celebrates investment success, its members often can't see a direct link to their retirement benefits. They frequently see commentary that people won't have enough for retirement. While this is the case for some with broken work patterns, super is improving retirement for the majority of members. Without an understanding of what super can deliver in retirement, there is a danger that many people will discount the importance of super, relying only on the Age Pension instead of maximising and making the most of their savings.

The messaging around super adequacy needs to be refocussed on engaging with members around the role of their super and therefore their super fund through their retirement. A fearful member is more likely to seek help from an external adviser. Living off your super in retirement needs to be positioned as a solution and not a problem.

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## The new CRIO – Chief Retirement Income Officer

One issue for funds is that it is sometimes unclear where the responsibility lies for delivering retirement income for members. In the effort to build up savings for members in the accumulation phase, investments and asset allocation are the go-to solutions. It follows that the CIO has been a central figure in delivering solutions. Retirement is different though. The return **of** member money is not the same as the return **on** money.

Ultimately, it is about the benefit to members, but the responsibility can get lost in the cracks between, Product, Member Engagement and Investments. A new role, the Chief Retirement Income Officer (CRIO) could expedite implementation by taking charge of this important function in the one place. Equipping this new CRIO with the right tools (internal and/or external) could provide tangible value to members, leading to better retention through retirement. Even thinking about the need for a CRIO could be useful in considering how best to manage the retirement income challenge.

<sup>1</sup> <https://assets.kpmg.com/content/dam/kpmg/pdf/2016/06/framework-retirement-income-challenger-july-2015.pdf>

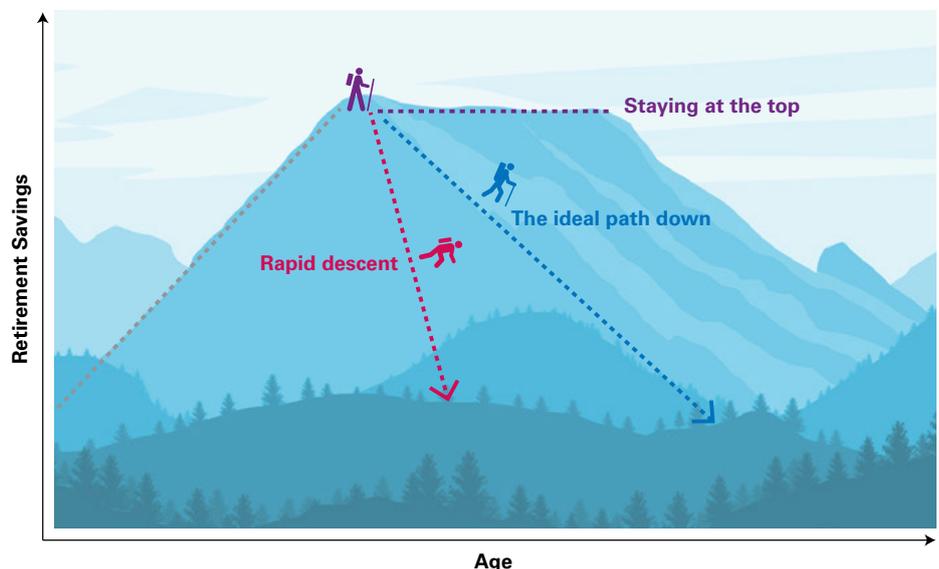
## Overcoming a fear of heights

A mountain analogy is often useful in talking about retirement income. Members accumulate their savings over a lifetime (climbing the mountain) and need to negotiate their way down safely in retirement. Coming back down (i.e. spending their savings) is essential for most retirees to maximise their standard of living.

Until recently, a typical household's retirement savings didn't seem much like a mountain. Indeed, after finally clearing the mortgage, taking a well-deserved holiday and updating the car, many retirees were left with something more like a mole-hill than a mountain. Jumping down in one go was often the only option. However, current balances for retiree households (after they consolidate their accounts and/or combine their finances with a spouse) are bigger. Maybe not the mountain yet, but large enough that a rapid descent should and can be avoided. The maturing system is delivering an increase in super savings that should be consumed throughout retirement. And this outcome will continue to improve until retirees have spent their whole careers with contributions of 9.5+% of salary into their super.

With the purpose of super clear in providing income throughout retirement, members need a safe path down the mountain. The Government's acceptance of the Murray proposals to offer the appropriate solution to clients in retirement needs to be embraced. As Treasury recently noted, this is not about specific products but actually about delivering to members.<sup>2</sup>

At the moment, fearful retirees are negotiating the top of the plateau, maintaining their capital in fear of it running out. As a result, they are sacrificing the better lifestyle that they could enjoy if they were able to negotiate a path down safely, gradually spending down their savings. This would reduce the sacrifice and contribute to a better lifestyle.



Source: KPMG and Challenger, 2016

Campaigns that focus on the inadequacy of retirement savings capture the attention of members and promote awareness of retirement issues. However funds have a pressing need to develop solutions that integrate engagement, advice and product to meet members' needs as they navigate through their whole life.

For funds that successfully achieve this, the result will be successful outcomes for retiring members and better engagement with members throughout their membership based on a clear understanding of the whole super journey – up and down the mountain.

<sup>2</sup> "CIPR Discussion paper by year-end" Financial Standard Sep 14 2016  
<http://www.financialstandard.com.au/news/view/87774562>



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