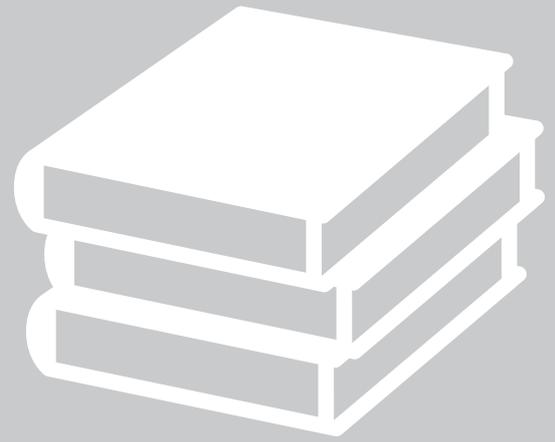


Challenger Retirement Income Research



The changing landscape of retirement income; here comes MyRetirement

Most advisers have heard that the Government is currently consulting on a framework for 'MyRetirement' (previously known as CIPRs), and are wondering what the reforms mean for them and their clients.

This paper, which will only take a few minutes to read, explains the 'need to know' parts of these reforms for the busy adviser.

Background

The Financial System Inquiry (FSI) recommended at the end of 2014 that super funds be required to offer all of their retiring members a new type of retirement income solution, now called 'MyRetirement'. The idea is that it would be a composite product, providing:

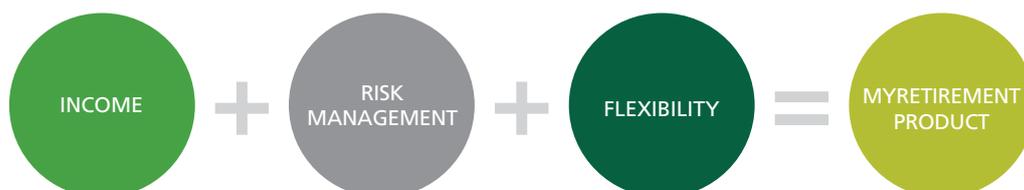
- a minimum level of income that would exceed an account-based pension drawn at minimum rates;
- a broadly constant stream of real income for life (i.e. managing longevity risk); and
- a component of flexibility allowing access to a lump sum and the ability to leave a bequest. This flexibility could be satisfied by the existing account-based pension.

The problems that MyRetirement is intended to address are:

- most retirees are currently self-insuring against longevity risk and are often living more frugally than they should (i.e. underspending);
- the lack of products that efficiently manage longevity risk;
- the over-reliance on account-based pensions to manage all risks; and
- the complex decisions faced by people about to retire who do not seek advice.

MyRetirement is intended to be a composite product, building on the account-based pension. Think of it as an 'insurance overlay' where some form of longevity risk pooling product is added. The government is also keen to see retirees consume more of their capital, thereby increasing their standard of living in retirement.

 Over 50% of people seek financial advice around the time of retirement.



What does it mean?

We think retirement offerings will increasingly be the basis on which advisers compete for business; retain clients and add the most value. Retirement is where household wealth is higher, there is more at stake and clients have the time and interest to engage. This is even the case for members of industry funds. On a household basis, such members are increasingly retiring with \$350,000-\$500,000 in super. Contrary to many opinions on this topic, these people are engaged and want advice. Around half of respondents in National Seniors Australia surveys in 2014 and 2016 reported that retirees and pre-retirees seek advice and information from financial advisers about retirement. In simple terms, the MyRetirement reforms are aimed at the other half: retirees who are not currently getting advice.

 Households are already retiring with over \$350,000 in super.



Call to action

The Government intends that MyRetirement products will provide a benchmark against which retirees can compare other retirement offerings. This could reinforce the need for advisers to have a sharper retirement value proposition, for more advice and more comprehensive retention strategies.

Advisers need to ask whether new products or strategies that might emerge can be tailored to suit their client base. It will be a matter of watching for opportunities.

Is there a do nothing option?

There is a 'do nothing' option, but that would be missing the opportunity to add value to clients, cementing your relationship even further. There is a clear push from Canberra to change the retirement phase. Rather than wait for your clients to ask you what is happening and why their friends are being told about MyRetirement, why not talk to them about enhancing their retirement income experience?

The information in the report has been compiled by the Challenger Retirement Income Research team.

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Into the looking-glass

Many players in the retail market have already enhanced their retirement solutions and the large licensee groups all have at least one model portfolio for retirement that explicitly includes a longevity risk management solution. The MyRetirement reforms aim to make such solutions available to every retiring super fund member.

While this looks like a competitive threat, advisers have a competitive advantage in that they have better information about their clients and their financial goals. Advisers are well placed to provide a more tailored solution to their clients by addressing specific needs and goals, rather than a 'mass-customised' solution aimed at the average member.

No free lunches

The days where tax and social security advantages naturally followed any change to the retirement income system are long gone. Just like the financial markets, there is no free lunch here. On the other hand, superior risk management; more sustainable lifetime income and tighter focus on achieving spending goals can add value to many retirees.

MyRetirement in a nutshell

Key points:

- MyRetirement will be a composite mixture of products, not just a single product. It will add new products to form a more comprehensive suite of retirement solutions, including deferred lifetime annuities. This will allow advisers to cherry-pick products and strategies that are appropriate for their clients.
- MyRetirement products are intended to suit the 'average' member of a large super fund. This opens up an obvious opportunity for advisers to offer a superior retirement option.
- Under the current proposal, it won't be mandatory for funds to offer MyRetirement and the SMSF sector is excluded entirely.
- The current proposal does not require advice for the mass-customised product. Far from being a negative, this potentially makes a retail offering that does include advice, a more attractive proposition in that an individual retiree's goals can be targeted.

Myth-busting

MyRetirement products are not a hard default and will not be compulsory – funds may offer them and members will have a choice whether to take them up.

It is not "all about longevity risk." Longevity risk will be just one of the risks proposed to be managed by MyRetirement products.

MyRetirement will not replace the need for retirement income advice, but is aimed for members of funds who currently do not have access to advice.

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