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The Treasury
Langton Crescent
PARKES ACT 2600
AUSTRALIA

Best practice principles – superannuation retirement income solutions

As the peak consumer body representing older Australians, with 270,000 members and supporters, National Seniors Australia (NSA) works to improve the well-being of all older Australians.

NSA welcomes the opportunity to contribute to this consultation on principles to guide superannuation retirement income solutions, as income in retirement – in all its forms – is a key concern of seniors. We are encouraged by the inclusion of both account-based pensions and lump sums in the list of products to which superannuation fund trustees will offer to their members.

However, we continue to be concerned with the focus given to lifetime income products. Most people have relatively low superannuation balances at retirement. If these people are encouraged to direct their superannuation into lifetime income products (such as annuities) this may leave them unable to respond to unpredictable and urgent expenses related to ageing.

The consultation paper appears to take the view that if people are not withdrawing from their superannuation account in retirement, this must be due to some error on their part because it doesn't match the actuarial estimations. We take the view that people are best placed to decide how to manage their income and expenses over the long term, including by retaining superannuation in anticipation of planned and unplanned future expenditures. This is particularly the case given recent moves by government to ask people to contribute more for aged care, and so prudence should not be discouraged.

However, we acknowledge superannuation funds should do more to provide information, services and products that support a members decision making, provided that, choice and control remains.

Yours Sincerely

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Why assume people are making the wrong choice with their money?

While the superannuation sector has been focussed on the accumulation stage, greater emphasis should be placed on supporting members in the retirement income phase, provided this does not unduly restrict choice and control.

NSA welcomes reforms aimed at encouraging more support and giving more product options to members. It is critical that superannuation funds are encouraged to develop innovative products that suit the diverse needs of members in the retirement phase. However, we are concerned that people should not pushed into drawing down more from their superannuation than they deem appropriate or towards products which may not suit them.

NSA does not have an issue with lifetime income products being available as part of the overall mix of retirement income options.[1, 2] However, we warn against these being the default or 'first offer' options and would be concerned if a "lifetime income product which is not the Age Pension" is put first on the list of products to which super funds will provide their members.

The consultation paper states: "These reforms are aimed at giving Australians more choice". If this is true, then we shouldn't assume that people don't know what is best for them. If retiree drawdown behaviour is not matching the expectations of government, perhaps it is the expectations that are wrong and not the behaviour?

Much of this expectation is driven by modelling that highlights a lack of spending by retirees. For example, the consultation paper refers specifically to the value of superannuation assets not declining in the five years prior to death, though much of this analysis has not been made public.

The Retirement Income Review[3] pointed to similar research, including by Asher *et al* from 2017, which utilises data from 1999-2007.[4] There has been a wide range of changes to the retirement system since then, including the Simpler Super reforms. Additionally, this period covers the low of the post-dot-com bubble and to the highs of the pre-GFC, which could impact asset levels. It is also worth noting the levels of assets being discussed here: even the highest assessable asset quintile had assets of at most $250,000. This is likely a consequence of the dataset, which draws on the information available for people receiving the Age Pension.

There are contradictions in this modelling

[1] Submission to Retirement Phase of Superannuation: Discussion Paper | NSA
[2] Submission on Development of the Framework for Comprehensive Income Products for Retirement | NSA
[3] Retirement Income Review - Final Report | The Treasury
[4] Asher, A., Meyricke, R., Thorp, S., & Wu, S. (2017). Age pensioner decumulation: Responses to incentives, uncertainty and family need. Australian Journal of Management, 42(4), 583-607.

While the analysis identifying the apparent problem of limited drawdown uses Age Pension data and is skewed towards people with lower assets, modelling showing the apparent benefit of lifetime income products (what are seen as part of the solution to this problem) uses much higher asset balances.

The three options calculated by the Australian Government Actuary, for the Financial System Inquiry, either involve exhausting the account-based pension at age 85 (within life expectancy) or allocating 75% of the $400,000 superannuation balance to the longevity product.[5] This requires a significant amount of confidence in a complicated financial product to spend retirement savings potentially saved over a lifetime, particularly given the modelling did not account for the Age Pension which already operates as longevity protection. Completely exhausting superannuation by age 85 is also well within life expectancies and less than the exhaustion by age 90-92 as summarised by the Retirement Income Review, which we discuss further below.

While there may be benefits for people with higher superannuation balances in allocating a portion of superannuation into a lifetime income product to reduce longevity risk, this does not apply to all or even most people currently or soon to retire.

As modelling prepared by the Australian Centre for Financial Studies found, retirees with superannuation balances lower than $250,000 would ensure an adequate income by having their balance in an accounts-based pension[6]. Whereas retirees with balances over $500,000 would benefit from an annuity to protect against risks, including longevity risk.

Importantly, the research also modelled a retiree with $500,000 in superannuation who experienced a health shock requiring $80,000 of expense. It found that this situation could only be managed if no more than 25% of their superannuation was invested in an annuity. This highlights the importance of retaining access to capital, not just the preoccupation with longevity protection.

Likewise, modelling by RiceWarner found people with superannuation assets in the range $150,000 - $200,000 did not need longevity protection from a lifetime income product because they would receive the full Age Pension rate for most of their retirement.[7] Even with a balance of $400,000 the benefit of lifetime income products could be marginal or even negative, with the expected present value of different scenarios relative to minimum drawdowns being in the range of -$19,000 to +$12,500 (-1.96% to 1.29% compared to the base scenario of $970,000, including the present value of the Age Pension).

The modelling suggests that people should not be encouraged to take up lifetime income products if they hold relatively low superannuation balances.

[5] Towards more efficient retirement income products | Australian Government Actuary
6 Superannuation in the post-retirement phase: the search for a comprehensive income product for retirement | AIST, ACFS
[7] Retirement Income Covenant Position Paper | RiceWarner

When combined with data showing the relatively low balances of most older people[8], this raises questions about policies that compel or encourage everyday people to take up such products.

For example, the most recently available ATO data, from the 2021/22 financial year, has the median account balance for males age 60-64 as $206,091 and for females as $191,475. This means that half of men and women in this age range have balances less than these amounts![9] This implies that any moves to compel or even encourage the take up of longevity products could have negative consequences for those who do not fully understand the consequences of this decision.

This is further complicated by recent policy changes, that increase the need to hold capital later in life to manage unexpected health and ageing risks.

Why would retirees draw down more on superannuation when they are being asked to contribute more to health and aged care?

Instead of asking why aren't people spending their savings in line with government's expectations, perhaps government should ask what message they are sending to retirees through other policies?

We note the consultation paper lists investment risk, sequencing risk, inflation risk, and longevity risk. This highlights the focus on retirement *incomes* to the exclusion of other considerations, such as liquidity risk, which arises from the need to fund future significant and urgent expenses due to unpredictable health shocks. Our point is that spending decisions are not just about managing regular income, but also about accounting for uncertainty about future (and possibly lumpy) consumption costs, such as those associated with health and aged care services sectors.

As the Retirement Income Review found, based in the academic literature, underspending retirement savings relative to actuarial estimates may be reflective of need prepare for potentially large expenditures. This could include entering a retirement village, substantial health expenses, or entering residential aged care.

National Seniors Australia's own research has consistently shown that health and aged care costs are important considerations, which impact older people's thinking with regard to intention to retain capital.

Our most recent survey on older peoples' views of superannuation, conducted for the Super Members Council (SMC), showed that older people retain capital: as a buffer against unforeseen circumstances; for future care needs; to generate income; and for medical and health needs over and above other concerns, which include: minimising longevity risk; for beneficiaries; and to help

[8] An update on superannuation account balances ASFA
[9] Taxation Statistics 2021-22 - Snapshot - Table 5 | Data.gov.au

family. This finding, if taken seriously by government, undermines arguments for compulsion and reinforces the need for control and choice as it shows that older people are simply acting rationally in response to perceived future costs.

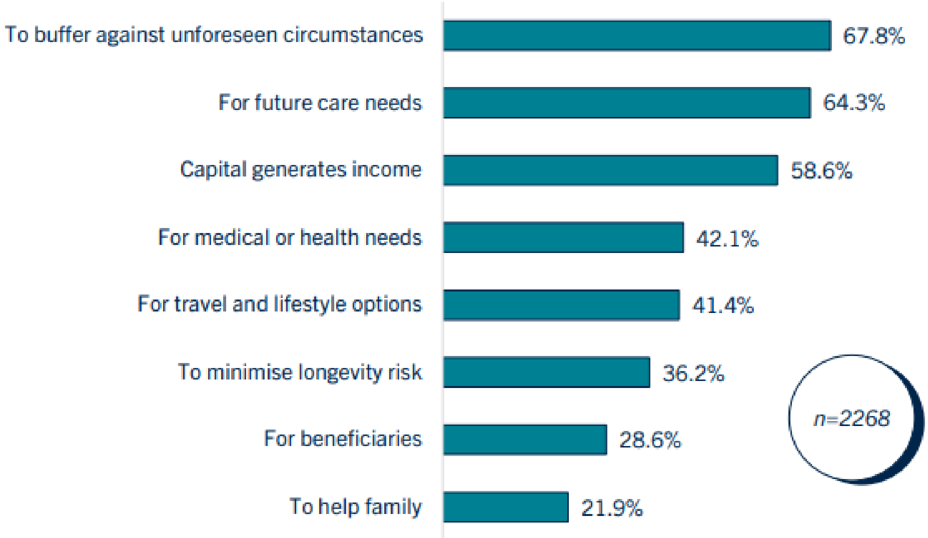

Figure 1: Reasons for maintaining the capital of super savings. Respondents could select more than one reason.[10]

As the Actuaries Institute has said, the costs of health and aged care are growing faster than inflation and conservative investment returns.[11] Rising out-of-pocket health and aged care costs have the potential to erode retirement savings over time.

For example, older people face the very real threat of needing to fund a substantial Refundable Accommodation Deposits (RAD) or Daily Accommodation Payment (DAP) for residential aged care, at short notice. This contributes to a reluctance to invest in life annuities or pensions.

Moves by the federal government to encourage retirees to spend-down their retirement savings, are occurring at the same time as it is changing the aged care system to increase consumer contributions for aged care services. For instance, the maximum Refundable Accommodation Deposit (RAD) able to be charged without needing to seek approval – was recently increased from $550,000 to $750,000[12] (now $758,627 due to indexation[13]) and a new rule allowing providers to retain 2% of a RAD amount every year has recently been approved.[14]

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[10] Older Australians' views on the superannuation system | NSA & SMC
[11] Options for an Improved and Integrated System of Retirement | Actuaries Institute
[12] FAQs - Changes to the higher maximum accommodation payment amount | IHACPA
[13] Aged Care Quality Bulletin #79 - July 2025 | ACQSC
[14] Refundable Accommodation Deposits and the Aged Care Bill 2024 | Parliament of Australia

While there is the option of paying a mix of a RAD and a Daily Accommodation Payment (DAP), or solely a DAP, the way in which the DAP is calculated means this is not a practical option for many people. The DAP is derived from the RAD based on the Maximum Permissible Interest Rate (MPIR)[15], which is set to decrease to 7.61%[16]. This makes the maximum DAP $158.17 or over $57,732 a year. Such a high level of DAP undermines it as a potential alternative for people unable to fund the RAD.

The Retirement Income Review said that "If people are able to meet all their aged care costs using regular payments [such as the DAP], having a steady income stream may give them a greater degree of comfort that they can meet these costs". However, the Government Actuary calculations above had $400,000 in superannuation split between a lifetime income product and an account-based pension producing around $25,000 in income a year, far less than would be required to pay for the above DAP, let alone any other expenses.

Increasing the amount recipients will be expected to pay for their aged care is not limited to residential care, with the MYEFO 2024/25 showing that the new system for co-contributions for in-home care would save the budget $18.8 billion from 2024/25 to 2033/34.[17]

Life expectancy does not mean date of death

We also wish to draw attention to another issue with the argument that people are drawing insufficiently on their superannuation.

The consultation paper drew on findings by the Grattan Institute that "half of retirees also draw their savings at legislated minimum drawdown rates, which leave 65 per cent of retirees' super balances unspent by average life expectancy". While this figure may be technically correct, we would dispute the conclusion that this means people are under-drawing from superannuation.

The ABS defines 'life expectancy' to be "the average number of additional years a person of a given age and sex could be expected to live, assuming current age-sex specific death rates are experienced throughout their lifetime".[18] For context, the Grattan Institute said the life expectancy for a woman age 65 was 88 (or 23 more years).[19] But this does not mean that an individual should aim to exhaust their retirement savings by the life expectancy, because life expectancy continues to be a future date. Per the 2021-2023 ABS life table for Australia, a female age 70 has a life expectancy of over 19 years, or to 89. But an 89-year female has a life expectancy of over 5 years, or to 94, and so forth.[20] Additionally, this is an average, not a maximum and does not reflect increasing life expectancies.

[15] Understanding aged care home accommodation costs | My Aged Care
[16] Base interest rate (BIR) and maximum permissible interest rate (MPIR) for residential aged care | DHDA
[17] Mid-Year Economic and Fiscal Outlook 2024–25 | The Commonwealth of Australia
[18] Life expectancy methodology, 2021 - 2023 | Australian Bureau of Statistics
[19] Simpler super: Taking the stress out of retirement | Grattan Institute
[20] Life expectancy methodology, 2021 - 2023 | Australian Bureau of Statistics

Therefore, we suggest that underspending relative to life expectancy is a logical response to uncertainty and reflects prudent retirement planning which should not be discouraged or penalised.

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