

HEALTH WEALTH CAREER

# GREAT EXPECTATIONS

ATTITUDES AND BEHAVIOURS AMONGST AUSTRALIAN RETIREES

PART 3:  
JOINING THE DOTS -  
SUPPORTING MEMBERS  
WITH SOLUTIONS,  
KNOWLEDGE AND  
DECISION-MAKING



MAKE TOMORROW, TODAY



# CONTENTS

SURVEY METHODOLOGY .....	1
TIMES ARE CHANGING .....	2
KEY FINDINGS AND RECOMMENDATIONS .....	3
A MORE HOLISTIC AND INTEGRATED RETIREMENT SYSTEM IS NEEDED .....	4
PROTECTION AGAINST OUTLIVING WEALTH IS REQUIRED.....	5
RETIRES DECISION-MAKING PREFERENCES VARY .....	7
CONCLUSIONS.....	11



## SURVEY METHODOLOGY

In November 2018, Mercer commissioned an online survey of more than 1,000 Australians that were aged 55 and over. All respondents had a superannuation balance of more than \$50,000, so we knew that super would form part of their monetary support in retirement.

# TIMES ARE CHANGING

There is clear direction from the Australian Government and regulators for the superannuation system to provide greater support for members reaching, and within, their retirement phase of life. In part, this is driven by Australia's ageing population, which will restrict the level of Government support available to the aged, if superannuation does not become an increasing source of income in retirement.

While the superannuation system has generally served members well during their accumulation phase of life, it has not focused as much on meeting members' needs in retirement. Furthermore, as members are retiring with increasing balances and less support from the Government, the focus for superannuation funds must shift.

In our first two 'Great Expectations' reports, we explored where pre-retirees expect to get their income from in retirement, how much they expect to spend and whether this aligns to current retiree experiences. We also looked at the income features that are important to retirees and how the design of retirement income solutions can be influenced by a better understanding of retirees' needs.

In this final report, we join the dots to identify some of the critical areas of support needed for retirees.



**Emily Barlow**  
Senior Investment  
Consultant  
Mercer Australia  
emily.barlow@mercer.com

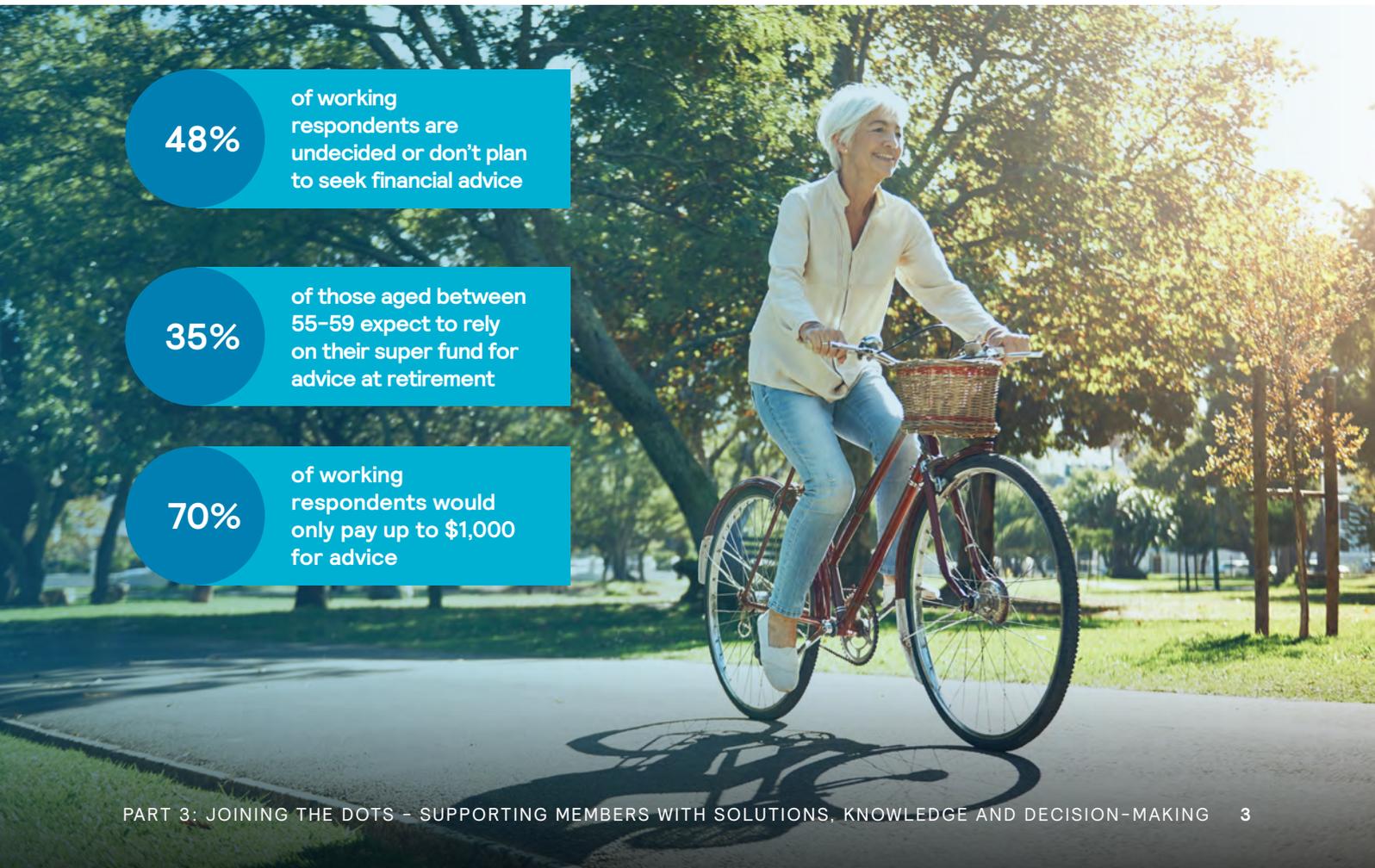


**Will Burkitt**  
Post Retirement  
Innovation Leader  
Mercer Australia  
william.burkitt@mercer.com



# KEY FINDINGS AND RECOMMENDATIONS

FINDING	RECOMMENDATION
1. A more holistic and integrated retirement income system is needed.	More focus needs to go into the different sources of income, how they interact and the impact this has on retirees. Retirees need to be able to understand and navigate these systems and they should not be structurally deterred from utilising all of their available assets to support themselves in retirement.
2. Retirees’ strong behavioural preference for a stable level of income in retirement requires some form of protection against outliving their wealth.	Superannuation funds need to better educate and engage their members on the different retirement solutions available, how they might help them maintain income longer in retirement, and make them more available. Accessibility can be improved by building well thought through engagement journeys, which lead to retirement income solutions combining longevity protection with an account-based pension.
3. Retirees decision-making preferences are not uniform; hence a range of product design mechanisms are needed – ranging from appropriate default solutions through to personalised advice.	There is a clear gap between the expectations and reality for retirees, as shown in the perspectives of ‘Great Expectations’ respondents. It is a clear wake up call for Australia’s superannuation industry that better information, tools and advice is required for members as they approach and enter retirement.  Super funds also need to be building simple to understand retirement income solutions designed for pooled cohorts of their membership base. A one-size-fits-all approach will not work. These solutions should be built on a strong understanding of their members’ characteristics and likely preferences.



48%

of working respondents are undecided or don't plan to seek financial advice

35%

of those aged between 55-59 expect to rely on their super fund for advice at retirement

70%

of working respondents would only pay up to \$1,000 for advice

# A MORE HOLISTIC AND INTEGRATED RETIREMENT SYSTEM IS NEEDED

There are a range of financial sources that may be available for retirees to utilise for their retirement needs and goals. Each source has different outcomes, risk characteristics and availability and should be used according to their respective alignment with the needs and preferences of the individual retiree or household.

The range of resources available to people as they prepare financially for retirement can contribute to their ability to increase and manage their wealth base, income sources or consumption levels. They can loosely be grouped into one of three categories.

## AVAILABLE RESOURCES FOR FINANCIAL WELLBEING IN RETIREMENT

### GUARANTEED INCOME

- Government Social Security
- Defined Benefit Pensions
- Annuities

### VARIABLE INCOME

- Account Based Pensions
- Paid Employment
- Group Self Annuities
- Other Savings

### ADDITIONAL RESOURCES

- Housing Wealth
- Variable Spending
- Insurance
- Health Care & Ageing Arrangements
- Family

There are a wide range of ways in which a person can build and manage their wealth. This can be incredibly powerful when used in a holistic and integrated way. A major challenge for Australians is that the current systems which support people in their retirement years are complex and disjointed. The superannuation system, the age pension and other social security systems, the aged care system, housing policy and employment-related policies are not integrated and are not easy to understand, or co-ordinate, by an individual.

Furthermore, there is nothing that integrates information and tools to aid decision making which leverages all these available resources to create a single logical retirement plan and solution for the individual retiree. The exception to this may be planners providing holistic financial advice. However, this type of advice is expensive and could become even more expensive as the number of financial advisers decline, making this less of an option for the vast majority of Australians.



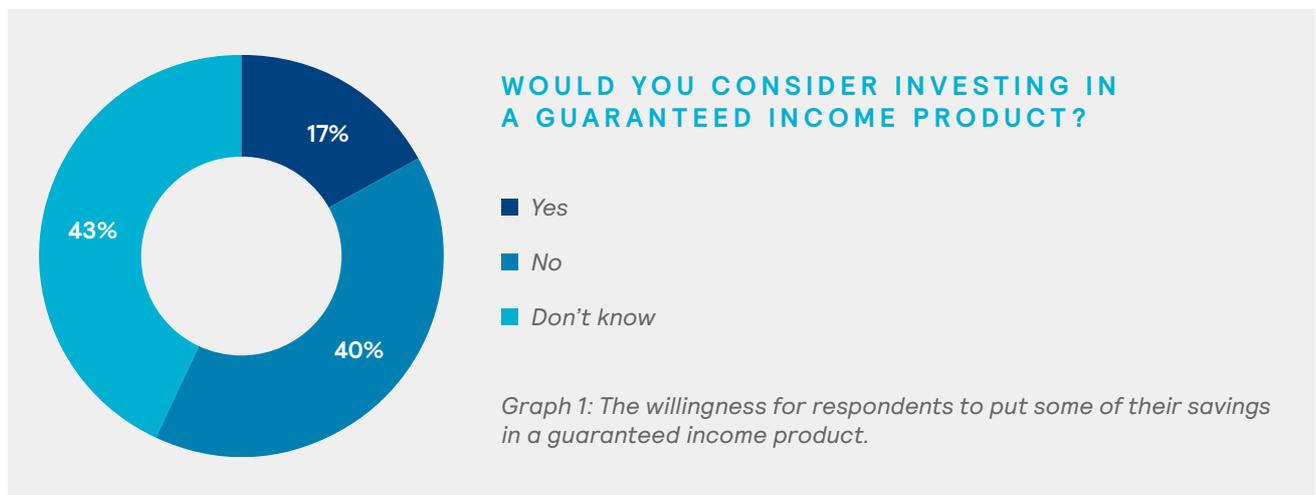
**Only 15% of respondents did, or expected to, work longer in retirement**

# PROTECTION AGAINST OUTLIVING WEALTH IS REQUIRED

As explored in parts one and two of our ‘Great Expectations’ series, retirees have shown a strong preference for a stable level of income that will last their lifetime without having to take on too much investment risk<sup>1</sup>. The mechanisms for retirees to achieve this are currently incomplete, inefficient and not well communicated. This makes it difficult for retirees to form optimal retirement plans, implement solutions and achieve the best retirement outcomes according to their goals and preferences.

Within the current superannuation system, the logical path for many retirees is to include a form of longevity protection within their retirement portfolio. This is because no one knows how long their savings will need to pay an income for, and longevity protection can provide assurance against running out of money later in life. The age pension is an example of longevity protection however it will not be enough to maintain many retirees’ lifestyles.

Despite this, less than 20% of our survey respondents were willing to consider guaranteed income products.



The results varied slightly by age, with 26% of the surveyed 55-59 year olds willing to consider these types of solutions. However, this is still low given one of the primary objectives of most respondents is to achieve an income for life.

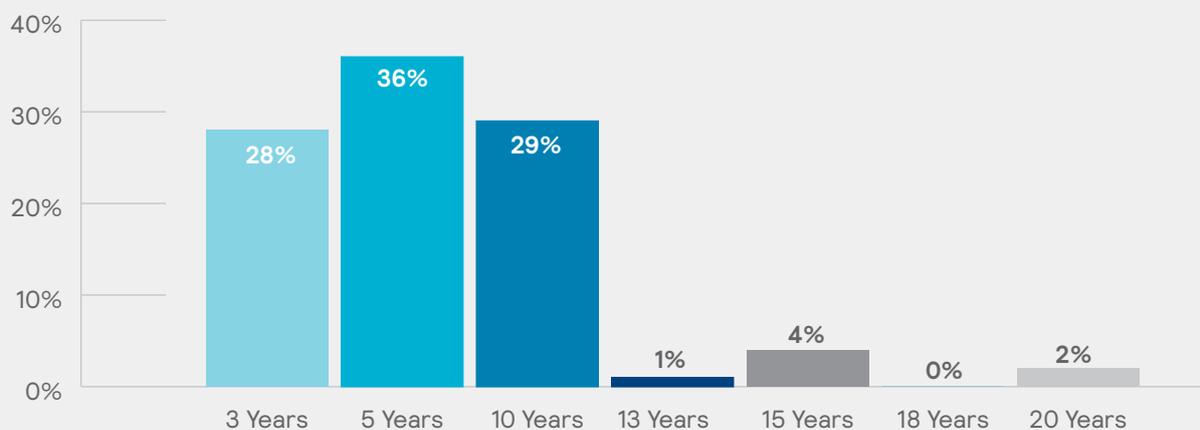
Of the 17% that said they would consider a guaranteed income product, 82% were willing to delay the receipt of payments by a maximum of 10 years to receive more money later.

 **Education and engagement will be critical in helping retirees understand the benefits of longevity protection**

<sup>1</sup> Great Expectations – Part 1: Spending Preferences  
Great Expectations – Part 2: The Ideal Retirement Solution



### HOW MANY YEARS WOULD YOU BE WILLING TO DELAY THE INCOME PAYMENT FOR?

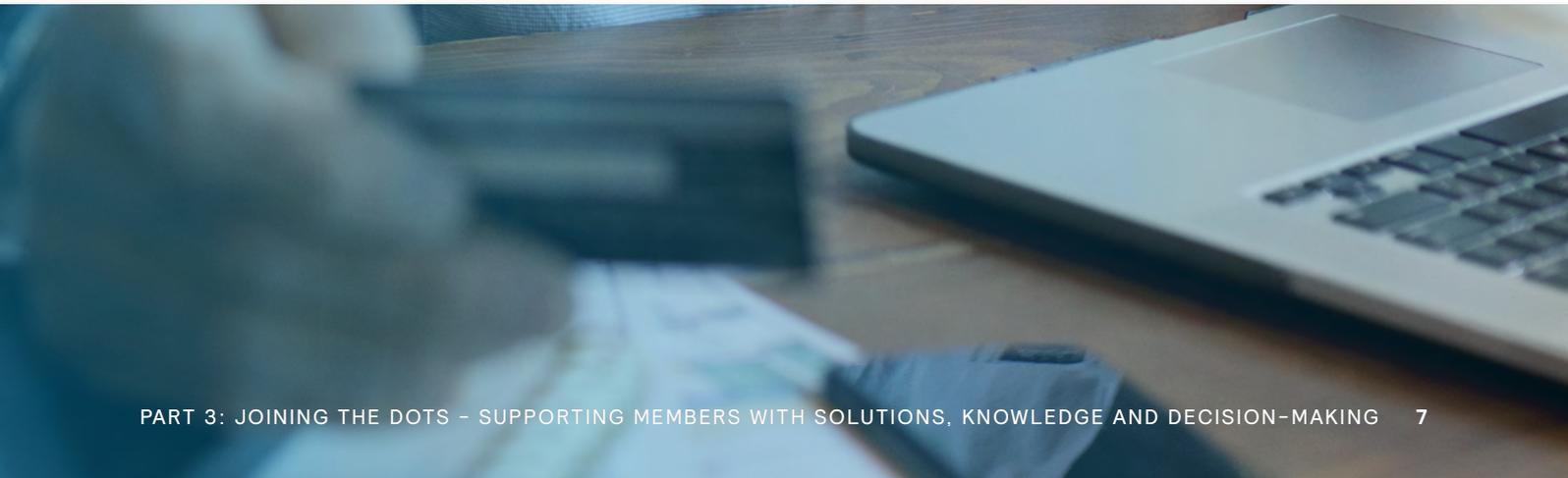


Graph 2: How long those who would consider investing in a longevity product were willing to delay income payments

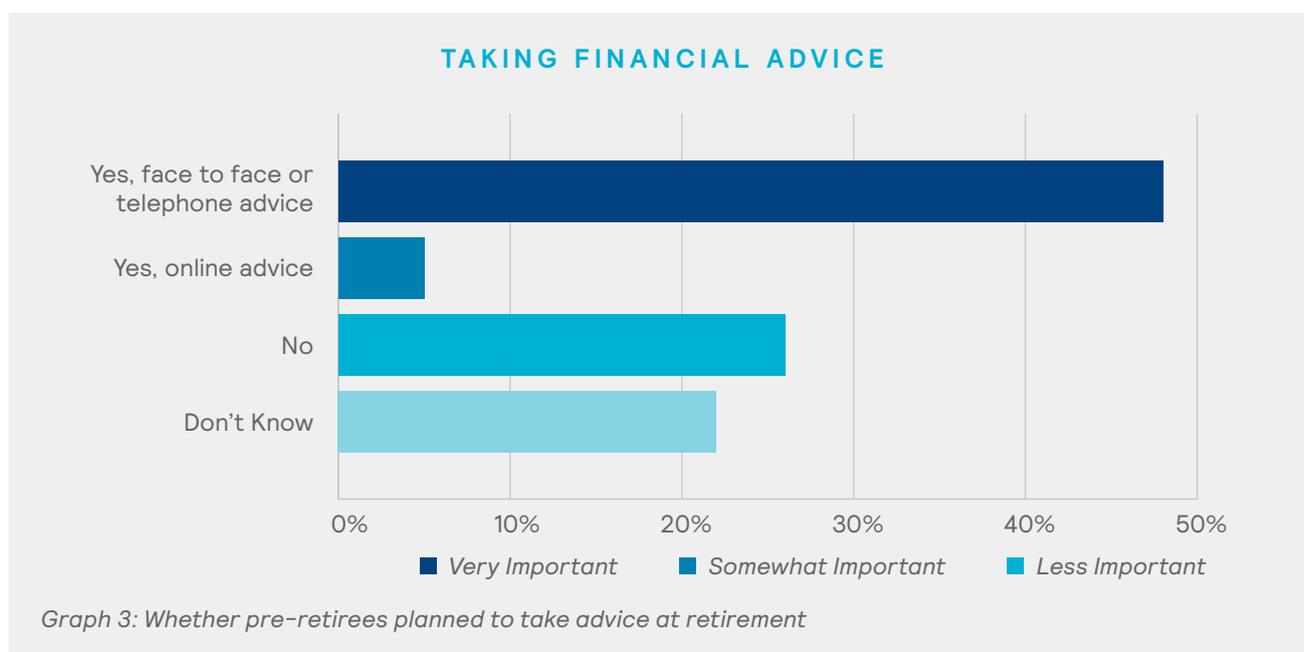
The low level of interest is perhaps due to the shorter-term focus of retirees as well as the fact that these types of products are still rarely used in Australia. Complexity is also a key consideration; particularly when it comes to incorporating them into an overall retirement portfolio. It is not easy for retirees to understand how they interact with and complement other products, such as the age pension and account-based pensions without financial advice.



## RETIREES DECISION-MAKING PREFERENCES VARY



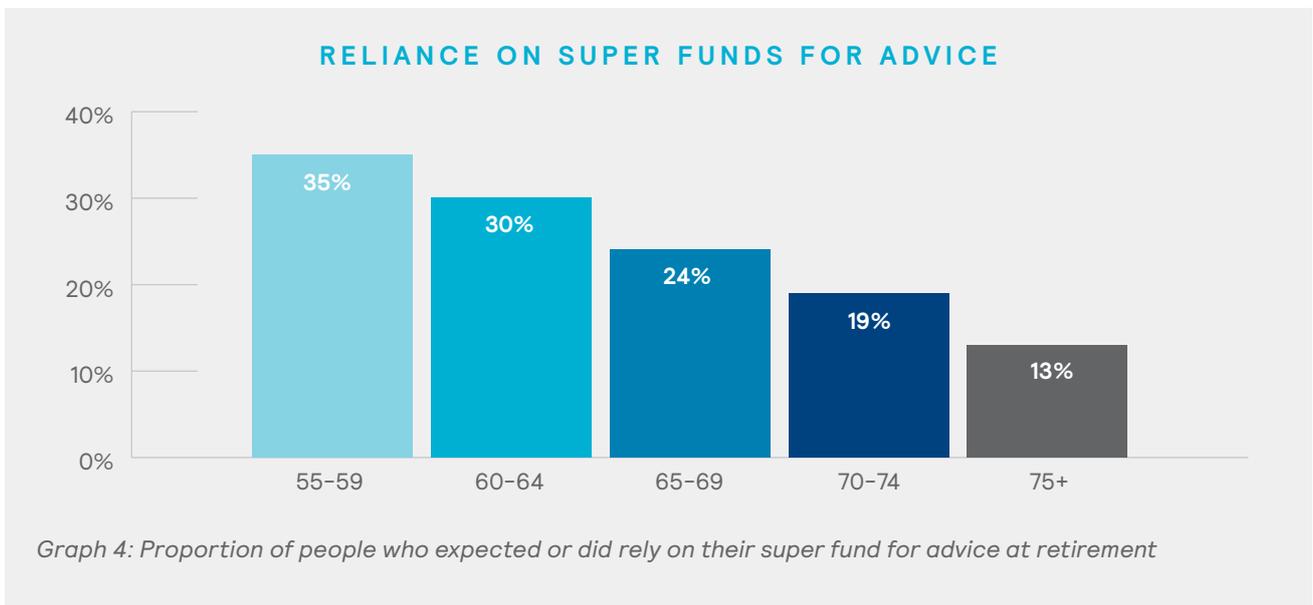
Across Australia, superannuation funds are increasingly recognising the value of financial advice for their members as they transition their savings from accumulation to pension phase, but did our respondents recognise and value this too? For roughly half of the working respondents the answer was yes; however, there was also a large portion (48%) who were undecided or didn't plan to seek support from a financial adviser.



**Retirees are looking for human interactions when it comes to help with decision making at retirement**



**We then asked those respondents that planned to, or did get advice, who they would get advice from.** As expected, the majority turn to a financial adviser, however, there was an interesting trend of an increasing number of younger people expecting to get the advice from their super fund. With a maturing superannuation industry, this is perhaps to be expected.





**While many people want financial advice, are they willing to pay for it?**

The average fee for an initial consultation is \$2,250, which goes up to an average of \$3,450 per year for ongoing advice<sup>2</sup>. However, 70% of our respondents either paid or expected to pay less than \$1,000 and only 8% paid or were willing to pay more than \$2,500. This highlights a clear misalignment between what people want and what they are willing to pay. Advice or guidance solutions are needed to plug this gap.



Superannuation funds need to help members by providing affordable advice or guidance at retirement

<sup>2</sup> Investment Trends 2018 Financial Advice Report

# CONCLUSIONS



## 1. A more holistic and integrated retirement system is needed

Australians consider the superannuation system and age pension together to be their main income source in retirement. This is unsurprising given the increasing focus on self-funding with a safety net, themes that have been reinforced by communications and engagement from private and public sectors since the compulsory superannuation was first established for award workers in the 1980s. These beliefs are mirrored in the perspectives of our 'Great Expectations' respondents. However, focusing on super and the age pension overlooks two other sources of income – working longer and the family home.

Working is one of the best income sources a person has and working patterns are changing. Whilst it won't

be suitable for everyone; the vast majority of survey respondents didn't see working longer than their relevant pension access age as a viable option. This perspective is evolving around the world and Australians are increasingly likely to phase their retirement from paid employment to part-time and flexible working preferences, working longer than ever before.

The primary place of residence, i.e. the family home, is excluded from the age pension assets test hence retirees have come to not consider the wealth in their home as a possible source of income in retirement. This has been recognised by the Government who widened the eligibility of the Pension Loans Scheme on the 1st of July this year.

**Recommendation:** More focus needs to go into the different sources of income, how they interact and the impact this has on retirees. Retirees need to be able to understand and navigate these systems and they should not be structurally deterred from utilising all of their available assets to support themselves in retirement.

For example, if taking an income from the family home or working longer is going to reduce the level of aged pension they receive; are they really going to do it? Policies should support retirees drawing on all of their financial resources, to help them maximise their quality of life in retirement whilst supporting the sustainability and fairness of the superannuation and social security systems.



## 2. Retirees strong behavioural preferences requires some form of protection against outliving their wealth

People are unsurprisingly poor at estimating how long they will live for. Yet, they still want a stable level of income for life while taking minimal levels of investment risk. These requirements can be achieved through investment in products including annuities and Group Self Annuities, which are designed to provide certainty and a regular income. However, individuals are often reluctant to invest in these products.

The Government has acknowledged this reluctance and, as a first step, has introduced legislation to amend the age pension means test rules for eligible longevity products. These changes came into effect from 1 July 2019 and provide retirees with an age pension incentive if they allocate some of their assets to a qualifying longevity product. However, this will only impact the behaviours of retirees if they are aware of the benefits and are able to access these types of product with ease.

**Recommendation:** Superannuation funds need to better educate and engage their members on the different longevity products available, how they might help them maintain income longer in retirement, and make them more available. Accessibility can be improved by building well-thought out engagement journeys, which lead to retirement income solutions combining longevity protection with an account-based pension.

However, there are circumstances where it does not necessarily make sense for retirees to invest in these types of products and so care must be taken to

understand the needs of each retiring member. For example, the following retirees may not benefit from an investment into a longevity product:

- A retiree who is in very poor health and is not expected to live for many years.
- A retiree who is eligible for the full age pension, as that may provide their longevity protection.
- A retiree who has low-income requirements relative to their savings and so is unlikely to run out of money later in life.



### 3. Retirees decision-making preferences are not uniform; hence, a range of mechanisms from default allocation through to personalised advice is required

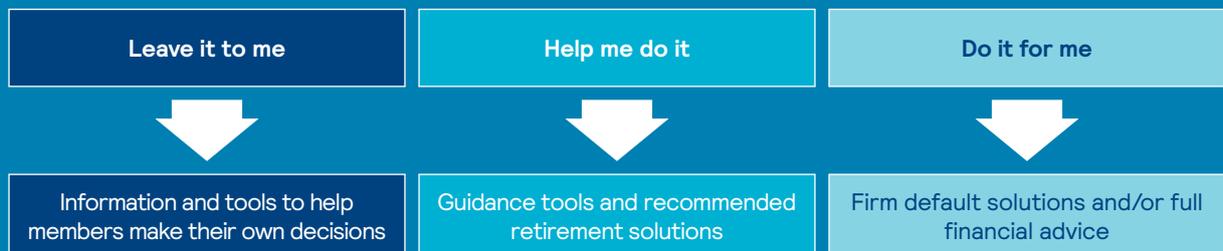
While Mercer believes that financial advice is the best way to ensure members get individualised solutions that are suitable for their unique needs and circumstances; advice is expensive and is not going to be an option available to everyone.

**Recommendation:** Member engagement needs to be targeted and ongoing, starting early enough to provide members with time to increase their awareness and form decisions within their own decision-making style, timeframe and affordability.

Through Great Expectations we highlight some of the areas where gaps in expectations or knowledge deficiencies exist.



As many retirees are not willing to access, or able to pay for, independent financial advice, superannuation funds need to provide varying levels of support for members, ranging from information through to tailored advice. Mercer recommends a progression of decision-making approaches.



The introduction of longevity protection significantly increases the complexity around making decisions with savings at retirement. In addition, retirees are becoming increasingly engaged and expect more from their superannuation fund. Therefore, much more targeted education and communication is required to point members in the right direction. Not just in the accumulation phase, but also throughout the retirement phase.

# ABOUT MERCER

In a competitive landscape subject to ongoing reform, superannuation funds need to evolve their strategies to meet the expectations of their members.

We partner with clients to design solutions that are tailored to a fund's specific needs, including:

- Products to help small and midsize super funds reduce costs, increase efficiency and deliver member outcomes, growth and fund sustainability.
- A total administration and investment outsourcing solution that helps funds take charge of their member services without having to manage the infrastructure.
- Fund-branded total outsourcing solutions that allow funds to maintain their identity and actively communicate with members.
- Simplification strategies that can improve cashflow, increase retention and improve business performance.

At Mercer, we specialise in creating highly personalised retirement journeys that aim to maximise financial outcomes for individual members.

Our clients outsource as much or as little as they need to create cost efficiencies, bespoke product and advice options, with less hassle and fewer compliance headaches, and in doing so directly benefit from the experienced support of one of Australia's longest-serving superannuation specialists.

We are proud to provide people-focused administration, investment and customer experiences for many of Australia's largest super funds and stand ready to work with the industry to provide the right solutions for tomorrow.

Visit [mercerc.com.au](https://www.mercer.com.au) or email [contact.australia@mercerc.com](mailto:contact.australia@mercerc.com)



To find out how we're working to solve Australia's retirement challenges,  
email us at [contact.australia@mercer.com](mailto:contact.australia@mercer.com)





This report has been prepared by Mercer (Australia) Pty Ltd  
ABN 32 005 315 917 Australian Financial Services Licence #244385.  
Copyright 2019 Mercer LLC. All rights reserved

**MERCER (AUSTRALIA) PTY LTD**

ABN 32 005 315 917  
Collins Square  
727 Collins Street Melbourne VIC 3008  
GPO Box 9946 Melbourne VIC 3001  
[www.mercer.com.au](http://www.mercer.com.au)

