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READY FOR ANYTHING

Retirement is the opportunity of a lifetime … and flexibility is the key to making it a success

Sam Higgie

1. Retirement in Australia: yesterday, today and tomorrow

Australia's superannuation system – the Superannuation Guarantee – is now in its 25th year. By almost all measures, this system has been an exceptional success that is playing an important role in supporting Australia's current and future prosperity.

According to Willis Towers Watson's study of 22 major pension markets, Australia has the world's third largest pension holding, with approximately A$1.9tn in assets – a figure that is growing by a net $100m a day. This is smaller than the far more populous UK and USA, however, it is well ahead of both markets in terms of 10-year US$ CAGR and assets to GDP ratio.

Furthermore, Mercer has nominated Australia as the third highest rating pension system in the world. Again, it sits well ahead of both the UK and USA, primarily due to the requirement for compulsory contributions and the strong skew to defined contributions. In fact, Australia is often referred to as a model for the changes that have recently been implemented in the UK.

And, most importantly, the system has helped to ensure that millions of Australians are better prepared for retirement. There have been some legitimate concerns raised regarding the system's ability to fully achieve this goal, but these concerns should be considered in the light of two realities.

First, the system has not yet reached its full cycle. Australians retiring today are still only receiving the benefits of 25 years of accumulation. As every year passes, Australian retirees move closer to the goal of career-long accumulation… a journey that will be completed in the mid-2030s.

Second, it is worth considering where Australia would be today without the Superannuation Guarantee. Our retirement quality of life would be considerably lower, while the drain on Government funds would be far larger at a time when we are challenged by significant public-sector debt.

A critical tipping-point for superannuation funds and insurers

This is not to say that the system can't be improved. In fact, right now, it is at a critical tipping-point for two reasons:

- A rapidly growing number of baby boomers are heading into retirement. The number of Australians over 65 years of age is expected to rise from 3.2m in 2012 to approximately 5.7m in 2031: a 78% increase.

The quote

This combination of challenges and remedies that have created … the chance for the superannuation and insurance sectors to materially and positively change the future.

- Australians are living longer lives. Since the Superannuation Guarantee was launched in the early 1990s, Australia's life expectancy at birth has increased by approximately five years. It is projected to increase by a further two or three years by 2025/6.

These two factors are placing pressure on all sectors of the economy. The prospect of longer lives (while, of course, welcome) leads to financial adequacy and certainty concerns for Australians. The growing number of retirees creates an increasing funding and social support issue for Government. Superannuation funds themselves are feeling pressure as cash outflows continually rise. And the ageing population is also a significant challenge for insurers, because a growing share of the population is living with reduced life insurance or without any life insurance at all.

A number of steps have been taken in response. Recent legislation means that both the retirement age and the size of mandated superannuation contributions will progressively increase in coming years.

But more needs to be done. In particular, it is vital that retirees have easy access to positive solutions to manage and preserve their retirement nest egg, while maintaining a quality lifestyle. It is similarly important that the reliance on public pensions is reduced and the superannuation sector remains sustainable. These outcomes are the core drivers of the Government's extensive regulatory efforts, which are touched on in section 4.

It is this combination of challenges and remedies that have created the 'opportunity of a lifetime': the chance for the superannuation and insurance sectors to materially and positively change the future, not just for their businesses, but for their members and country as well.

2. The opportunity of a lifetime

The opportunity that exists today involves superannuation funds working in concert with insurers to expand and improve the retirement investment options available to their members.

This would involve superannuation funds providing:

- A range of competitive retirement investment products
- The services to simplify each member's transition to retirement
- Advice and support to help members manage their retirement investments as their lifestyle and circumstances change over time.

Insurers also have a vital role in making this opportunity a reality, through the packaging of fixed income annuities and capital protected products. Their involvement is particularly important given that:

- Most superannuation funds have limited capability to provide these sorts of products unless they partner with a third party, such as life insurers.
- The Government is signaling a strong preference for annuities as part of each Australian's retirement investment mix.

This retirement opportunity is significant. In fact, it has the potential to become a powerful 'win-win' not just for funds and insurers, but for Australia and every Australian.

Figure 1. Retirement opportunity of a lifetime

Members	Superannuation Funds	Insurers
• Convenience • Financial adequacy • Lifestyle • Certainty	• A natural product extension • Member outcomes • Member acquisition, retention and growth • Sustainable growth and scale	• New income stream • Supplement insurance with investment income • Improved client and fund relationships
Government • Better retirement outcomes for Australians • Reduced public cost of retirement • Support for Australia's financial system • Improved industry sustainability		

Members…
Would benefit from a simpler transition to retirement and the opportunity to maintain an investment relationship with a familiar fund… an organisation they may have been involved with for decades. The fund would be well positioned to begin the retirement discussion early and ensure that each member is fully aware of, and prepared for, their retirement decisions. And, by offering a wide range of investment options, the fund can help each member preserve their assets, reduce their reliance on the Age Pension and, ultimately, help them preserve their assets and improve their retirement lifestyle.

Superannuation funds…
Would benefit from a significant long-term income stream that is a natural extension of their existing business and member relationships. This would allow them to improve member outcomes, leading to increased member acquisition, retention and growth and, ultimately, greater financial sustainability and scale. A retirement position would also help to strengthen the fund's competitive position, with stronger differentiation and an enhanced ability to defend against potential foreign entrants.

Insurers…
Gain the opportunity to supplement potentially lost life insurance income with investment income. In doing so, they also benefit from new income streams and longer, more durable relationships with their superannuation partners and each fund's members.

The Government…
And the broader Australian economy will also benefit from better retirement outcomes for Australians, lower demands for the public funding of retirement,

improved industry sustainability and returns and support for Australia's financial system. The benefit of this support was highlighted in the 2014 Financial System Enquiry report, which found that:

"The GFC highlighted the benefits of Australia's largely unleveraged superannuation sector. The absence of borrowing enabled the superannuation sector to have a stabilising influence on the financial system and the economy during the crisis."

The impact of retirement on the superannuation sector

The potential for a stronger retirement position to support the aspirations of superannuation funds was highlighted by the Mercer 2020 Super Fund Executive Report. This report found that the top six risks being faced by superannuation funds were:

- Government, regulatory changes, productivity commission
- Investment returns
- Competition between funds, emphasis on scale
- Member experience, engagement, confidence, outcomes
- Growing post-retirement membership/income streams
- Financial sustainability, revenue, financial performance.

It is notable that all six of these risks have the potential to be substantially eased by a focus on post-retirement.

Retirement is a significant priority for the sector

Given the scale of this opportunity, it is not surprising that retirement is regarded as a significant priority by superannuation sector leaders.

The 2015 ASFA/PwC CEO Superannuation Survey found that 'Post-retirement products' was the leading priority for superannuation CEOs. 61% of respondents rated post-retirement as a major three-year priority: a result that was both well up on the previous year (48) and well ahead of the second placed priority – Advice offerings and Member engagement (50%).

This sentiment has been further echoed by the Mercer 2020 Super Fund Executive Report (see inset) and (albeit in a more muted tone) by the KPMG Australia Super Insights Report 2017, which stated that:

"…the industry is maturing and generally aware of its need to provide better solutions for members in retirement."

3. More than money

There is no doubt that superannuation funds and life insurers have a significant opportunity to improve the financial sustainability of Australia's retirees.

But the opportunities for all involved go much deeper than that.

A recent Accenture report on 'connected wellness' found that only 14% of insurance consumers interact with their carrier daily or monthly. This compares to 55% for banks and 46% for online retail.

Accenture succinctly outlined the problem this creates for insurers (a problem that also exists for funds):

"Less frequency means less relevance. It's the old out-of-sight, out-of-mind dynamic at work."

On the flip side, Accenture's research also found that:

"78% of consumers are interested in insurers helping them or aging relatives live safely in their homes."

This is where the opportunity exists for funds and insurers to go beyond the financial: to begin playing an active role in improving the life quality and expectancy of Australia's retirees.

These retirees are very different to their parents. They want an active, independent life. They want to stay at home as long as they can. And, in a growing number of cases, they want to keep working part-time. They are the 'boompreneurs'.

At the same time, today's retirees are tech-savvy and living at a time of enormous innovation in what the Financial Services Council has called '#retiretech'. That is, technologies designed to support the lifestyle and care of older Australians, such as:

- Devices that can help retirees and their health professionals monitor each person's health, while pre-empting, diagnosing and responding to episodes
- Enormous improvements in technology-enabled healthcare and patient management
- Deep, personalised data to guide the provision of products, advice and support
- Digital automation and advanced communications, which can help to enable extended in-home living.

Superannuation funds and insurers have an important role to play in helping retirees manage the financial side of these many opportunities. As they are effectively the financiers, the door is open for funds and insurers to become the first port of call for retirees looking for the best ways to manage the rest of their lives.

They can work together to open this door by:

- Building partnerships with the likes of #retiretech firms, healthcare professionals and related service providers (such as aged care facilities and local councils)
- Providing information and advice about the opportunities available to support retiree decision-making
- Creating products to help retirees plan for and acquire these opportunities when the time comes. This might include products that help working retirees manage and protect their income and businesses
- Enabling transactions between retirees and the third-party providers.

In doing this, funds and insurers can become the front office of a powerful support network. They can build an ecosystem of financial preparedness, advice and services which can potentially help each retiree:

- Improve their quality of life
- Maintain their independence, safety and ability to stay at home
- Prepare for aged care when the time comes
- And, ultimately, create the conditions that can lead to a prolonged life.

In return, both the superannuation fund and insurer can improve their income potential and increase the level of interaction with, and relevance to, each member and their family.

In doing so, they create the potential for engaged relationships that not only span a lifetime, but cross-over into the next generation as well.

4. The journey of a lifetime

In essence, the superannuation sector, in collaboration with insurers, now has the opportunity to play an expanded, important role in the lives of Australia's retirees. Importantly:

- The sector is uniquely placed to play this role due to the long-term relationships it holds
- This role can't simply begin at retirement. In fact, it needs to start many years before.

The quote

Today's Australian retirees want an active, at-home retirement, with technology enabled-healthcare and, maybe, a part-time job.

Every late teenager or young adult commencing work is embarking on a life-long financial journey. It is a journey that involves the enjoyment, spending, earning, supporting and accumulating wealth in combinations that change as their life progresses.

Superannuation funds are on this journey with every Australian right from the beginning. Unlike banks, however, they are not concerned with supporting each person's immediate financial priorities. Rather, they are there to prepare their members for retirement: a time when their career earnings cease, but their life and spending continue.

By the time today's youth reach retirement, the all-important retirement phase could represent more than a third of their adult life. It could be a third of their life marked by enjoyment and celebration, or a time of dour struggle with little hope of improvement. Ultimately, the outcome is decided years before by the decisions people make earlier in their lives and, importantly, the support they are given.

Right now, we see adulthood as two distinct phases: accumulation (career) and decumulation (retirement). There is no real mechanism to connect these two phases and streamline the transition to retirement. As a result, the fund loses a large opportunity, while the member is left to navigate this critical transition largely on their own.

This is the opportunity before superannuation funds. The opportunity to transform themselves from a retirement savings provider to a partner in the life-long financial journey of each Australian. In doing so, funds have the opportunity to make retirement far less complex, enjoyable and prosperous for members. And in return, they will be rewarded with longer, more profitable member relationships and improved scale and sustainability.

The life-long journey

With a retirement position in place, funds have the opportunity to provide seamless support through four critical phases of their life's journey.

Late teens to late 20s: "We're here to get you started"

As members enter the workforce and begin to earn an income, their decisions can have a lasting effect on their superannuation balances at retirement. While the member relationship at this stage will largely be 'light touch', funds can improve engagement levels and ensure a solid foundation for members by:

- Explaining the journey each member is on, why they're on it and the benefits of the system that's now supporting them
- Providing simple and automated solutions to enable members to establish new accounts and consolidate existing ones
- Providing life-stage appropriate investment options that can easily be understood
- Delivering appropriate levels of communication via the channels that are best suited to this demographic

Late 20s to 50: "We're with you all the way"

Over this extended period, the member relationship is likely to remain largely light touch, with members more focused on more immediate financial priorities. Nevertheless, funds have the opportunity to:

- Gradually encourage members to think about what they want from retirement
- Constantly inform them of changes to the system
- Inform them of their progress and what it could mean for their eventual retirement
- Work with their insurance partners to help people make their insurance decisions.

50 to retirement: "We're here to help you prepare"

From the age of 50, Australians gradually become more focused on their retirement. 50 is, in fact, a critical point in the superannuation cycle. At this age, a member has the opportunity to identify any deficiencies in their plan and still have the time to repair them. Funds can begin to:

- Provide deeper information on each member's position, what it means for retirement and the potential decisions they need to make
- Outline the transition support services available to members, including the fund's advisor network.
- Help members make decisions regarding the remedial steps they should be taking today and the ultimate shape of their transition plan.

The end result of these steps is critically important. Members enter retirement fully informed and prepared: working with an organisation they've known for years.

Retirement onwards: "We're here when you need us"

This is the time when years of contribution and planning come together. The member enters retirement with a clear plan in place and a clear understanding of what their lifestyle and financial planning options are moving forward. Importantly, the member feels absolutely no need to change (or even explore other) providers. The fund has been with them all the way and they're happy to keep that going. This is the time for the fund to:

- Celebrate their retirement, their preparation and the journey ahead
- Support the transition to retirement by implementing the plan that is already in place
- Ensure the member is fully informed on what the fund can do to help them manage life's changes
- Keep them fully informed on the performance of their investments
- Help them plan for, finance and acquire a wide range of lifestyle and health opportunities (see section 3).

This is just a simple outline of what tomorrow's fund/member journey could look like. While simple, however, it serves the purpose of bringing to life four crucial points:

- Superannuation funds can have a powerful impact on the entire lives of their members as well as their own sustainability
- Superannuation funds are better placed to do this than any other provider
- Superannuation funds can only achieve this with a focus on retirement
- A focus on retirement is more than just an extension opportunity. It can empower the fund's superannuation relationships and performance as well.

5. Ready for anything: flexibility is the key to retirement success

The previous two sections outline the importance of retirement: not just to the sustainability of superannuation funds, but to the lives of their members and the nation as a whole.

In saying this, it must be acknowledged that the journey to retirement can be as complex for funds as it is for retirees themselves. In general terms, these complexities can be classified into three groups:

- Member complexity
- Product complexity
- Uncertainty.

In the face of these complexities (which are addressed below), funds have two options:

- Roll the dice: do their best to predict the future, set the strategy and hope they're right
- Ready for anything: build a retirement capability that is so flexible and fluid they can confidently manage their future and, in fact, leverage unexpected changes into opportunities, competitive advantage and growth.

Both options will require a significant investment in systems, innovation, capabilities and processes.

Given this, the first option, of course, is extremely daunting in such a complex, rapidly changing market. This is, perhaps, the reason why, the high priority given to retirement by funds (as mentioned in section 2) has not yet carried into widespread action.

But the second option is not only achievable, but it can enable a powerful presence in the retirement marketplace, no matter how it is shaped by members, regulators and competition in the years to come.

What does 'ready for anything' look like?

Manage product complexity with flexible innovation, deployment and collaboration.

In many respects, the retirement model is the reverse of superannuation, because it is based on spending, not saving. It is also highly personalised, unlike superannuation. To manage these differences, the 'ready for anything' fund will be able to:

- Manage one-off investments with frequent payouts and semi-regular portfolio configuration: the reverse of the superannuation model
- Provision and deliver a wide range of investment options, potentially involving several partners. These options include:
  - Account-based, allocated and defined-benefit pensions.
  - Lifetime, fixed-term and deferred annuities.
  - Capital protection products.
  - Transition to retirement.
- Separately managed accounts.
- Readily configure these products into an almost endless array of combinations to meet the individual needs of retirees (as opposed to the relatively generic needs of superannuants)

Manage member complexity with a flexible 3600 end-to-end member experience

Retirement is more complex not only for funds, but for members as well. Members need to be able to navigate their way through a wide range of product and payment options and choose the right solution for them. In response, the 'ready for anything' fund will be able to:

- Offer retirees extensive choice when it comes to their payment strategies and frequencies
- Rapidly alter these payment strategies and frequencies as each retiree's changing circumstances demand
- Ensure that their digital channels make it easy for retirees to easily manage their profiles and investment and payment strategies
- Empower their advisors and contact centres to provide the extensive advice that retirees will need
- Have the end to end internal and third-party processes to quickly and cleanly execute what will be a substantially increased volume of transactional opportunities and member change requests.

Manage uncertainty with flexible operations and extensive analytical capabilities

The uncertainty attached to retirement is very significant. To begin with, the differing and diverse properties of retirement products make the management of risk in retirement more complex than superannuation. At the same time, funds need to advise members with imperfect information. Does the member own property and, if so, what is its value? What holdings does the member's partner have? Information such as this is crucial to the provision of quality retirement advice.

And then, of course, there are the long list complex and uncertain regulatory reforms impacting both the superannuation and insurance sectors. These reforms include the application of the Member Outcomes Test and other MySuper reforms, growing APRA oversight, the prospect of regulatory-driven consolidation and the impact of RG97. There is also the Government's approach to retirement through the MyRetirement reforms. Their intention is to stimulate the provision of retirement solutions, however, the final shape of these reforms remains uncertain.

To be able to navigate this uncertainty, the 'ready for anything' fund will be able to:

- Provide advisors and contact centres with a single customer view of every member's profile, accounts and history to ensure high quality member advice
- Rapidly address change with agile, efficient, integrated and highly configurable systems, processes and workflows
- Quickly map, model and deploy new processes when changes demand
- Provide the oversight, data analytics and reporting to support member, operational, compliance and risk decision-making
- Easily configure reports to meet changing operational and compliance needs. FS