New research highlights the dangers in a one-size fits all approach to post-retirement

Super funds may need to offer their members more than one default retirement income stream, new modelling has suggested.

The research - commissioned by **the Australian Institute of Superannuation Trustees (AIST)** and conducted by the **Australian Centre for Financial Studies (ACFS)** - follows recommendations from the Financial System Inquiry that funds provide their members with a default retirement income stream.

Currently, super savings do not automatically transition into an income stream on retirement. This requires retirees to make a large number of decisions including investment and product choice and draw down options.

The report modelled a range of retirement income 'solutions' for six different retiree cohorts for typical superannuation balance sizes of $100,000 through to $500,000.

Its findings suggest that retirees with lower super balances – of $250,000 or less –will be better off by investing in an account-based pension as opposed to either an annuity or a combination of both products. In one scenario the retiree was nearly $70,000 better off after 25 years in retirement by choosing an account-based pension. This additional capital could be used to cover aged care or health costs.

Conversely, retirees with balances of between $250,000 and $500,000, may benefit from annuitizing a part of their retirement balance (ie by investing in a part-annuity) to protect against market, inflation and longevity risk.

AIST CEO Tom Garcia said the findings highlighted the danger of a one-size-fits-all approach to post-retirement and suggests super funds may need to consider a range of default retirement income products rather than a single default.

"These findings highlight that post-retirement is a case of horses for courses," Mr Garcia said. "What delivers a superior outcome for one cohort of members, may be less than ideal for another".

Mr Garcia said the report had a particular focus on retirees with moderate super balances ($250,000 or under) to reflect the typical retirement scenario for the great majority of retiring Australians.

"There has been a lot of market focus on annuities recently but this report really shows that the case for annuities is weak for the typical Australian retiree with a lower super balance," Mr Garcia said. "We need a reality check on post-retirement – there is a huge gap between the amount of super most people have and what the market wants them to have"
Lead author of the report, Professor Deborah Ralston, said that "given the diversity of retirees' financial profiles, tolerance for risk, and income expectations, there will be an increasing need for funds to provide guidance on selection of the appropriate defaults in retirement".

Key results

- For most retirees on average balances superannuation will supplement income from the Age Pension.
- Even retirees with relatively low superannuation balances can receive an adequate income through retirement from a combination of the Age Pension and their superannuation.
- For these retirees, minimum drawdown rates are unlikely to be sufficient to achieve a suitable quality of life, particularly in the early years of retirement.
- For retirees with low superannuation balances the Age Pension provides longevity insurance. These retirees will generate the highest income and have the greatest flexibility to access their capital by investing their superannuation in an account-based pension.
- For retirees with moderate superannuation balances their choice of income product depends on the trade-off between flexibility and risk management. A component of annuities assist with longevity risk.
- Flexible access to capital may be required to meet unexpected health or aged care costs.
- Rental costs for non-homeowners are largely unmet by welfare payments and reduce financial wellbeing in retirement.

Key recommendations

- Trustees should provide information to members about the retirement income they can expect. Informed members may choose to increase their superannuation contributions to boost their quality of life in retirement.
- Trustees need to understand their members' demographics in order to recommend an appropriate default CIPR. Funds with diverse membership may need to consider offering more than one default.
- Many retirees will require assistance selecting the right income stream products to suit their circumstances. Trustees could provide this advice, and guidance on how members should drawdown their income to achieve an adequate quality of life while retaining some capital to cover unexpected costs.

Snapshot of the post-retirement phase

- In 2013, 1.9 million members were in the retirement phase of superannuation. By 2043, it is predicted that this figure will grow to 5.4 million Australians.
- In 2011-12 (the latest ABS statistics) the average super balance at retirement was $197,000 for men and $105,000 for women.
- While half of all men have average super balances of $100,000 or more, just over 40 per cent of women have balances of this amount.
- Around 70 per cent of retirees receive the Age Pension, with around 40 per cent of retirees receiving the full rate.
- Currently, around 9 per cent of people aged 60 to 64 have super balances of $500,000 or higher.
- Annuity products currently account for about five per cent of the post-retirement market.