

Super funds failing to understand the needs of vast middle market: Report

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The financial needs of a staggering 64 per cent of retirees sit beyond the comprehension of super funds, a new report states, because there is too much complexity involved when retirement income isn't enough to satisfy lifestyle ambitions.

Super funds can't really understand Australians in the financial 'middle' of the retirement spectrum that have a likely tension between their needs and the funds at their disposal, according to a new 'science based' report from researcher Capital Preferences.

A staggering 64 per cent of retirees sit in this 'Misunderstood Middle' bracket, says the researcher, which conducted a study of over 4,000 older Australians in conjunction with product provider Challenger. On either side of this group lies either Basic Pensioners, who subsist on the age pension, or 'High Enders', who have plenty to go around.

It's the bulging middle cohort of retirees, however, that require a deeper understanding according to the study, because they have the most complex needs.

"Whereas High-Enders are well resourced against their retirement needs, and Basic Pensioners will rely on Age Pension as their primary source of income, the 64 per cent of pre-retirees in the Misunderstood Middle require deeper understanding and the most personalised assistance," the report states.

Individual preferences

Super funds, naturally, are the first line of stakeholders that should be helping to understand the needs of retirees in the middle bracket. In fact, these funds are now legally required to come up with solutions to help older Australians decumulate, due to the recent Retirement Income Covenant.

Yet super funds can't rely on the demographic and financial data already available to them to cohort members for retirement, according to the research, and will need to learn more about what people really want in their golden years to provide personalised retirement income.

Data isn't enough, the report states. What super funds need to help them understand the middle cohort is *science*.

"Our findings highlight the importance of recovering individual preferences as part of the member experience," says Shachar Kariv, Capital Preferences co-founder and

chief scientist (pictured). “Simply relying on demographic data to predict income certainty preferences will almost certainly misdiagnose members – and hinder superfunds in providing fit-for-purpose retirement income assistance.”

Members in the misunderstood middle require “deeper understanding and the most personalised assistance” from their fund, despite many of them being the same age and having the same balance as other members that feel more comfortable with their super.

For example, one member might be willing to trade higher income for a more certain income, best served by a guaranteed lifetime income (GLI) product, while another member is happier with the opposite and might prefer an account-based pension with a nominal drawdown and 50 per cent growth assets.

“Digital and scientific innovation can play a significant role in solving this potential issue, allowing super funds to recover essential information on their members,” Kariv says. “Members can’t self-report their preferences in areas of risk, but they can show us with their decision making.”

Income product solutions

Funds should measure a representative sample of their members’ income certainty preferences and incorporate them – alongside “holistic member resources” – into cohorting for product strategy purposes while engaging them with more modern, interactive digital experiences as well as adviser assistance.

Challenger and Capital Preferences also suggest that a significant chunk of members could benefit from having part of their balance placed into GLI products to provide certainty that their money won’t run out, an amount the research puts at around \$145 billion.

“When GLI is in a member’s retirement income strategy, it is associated with feeling much more prepared for retirement and having lower anxiety about outliving one’s savings,” the report says. “When we conducted deeper regression modelling against feelings of retirement preparedness, it shows the association for GLI product ownership is on the same order of magnitude as renting vs. owning one’s home free and clear.”

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