


The state of retiree research in Australia

A hand in a blue suit sleeve points at a chalkboard covered in white chalk drawings. The drawings include various financial and business concepts: a bar chart with values like 1000, 300, and 100; a line graph with a peak and trough; a pie chart; a lightbulb; a box labeled 'Team' with arrows pointing to 'WORK' and 'community'; and various numbers and symbols like \$, €, and ¥. The background is dark and textured, resembling a chalkboard.

With more than 50 years' actuarial, product development and consulting experience, together with a highly successful career in Australia's superannuation industry, **DAVID ORFORD** shares his insights into the state of retiree research in Australia and how the recently established Orford Foundation has pledged funding for research programs that can benefit retirees, superannuation and life insurance industry players.

It's safe to assume the superannuation industry appreciates that Australians today are amongst the longest living people in the world. This recognition of our increasing longevity and the challenges this poses for our retirement savings has trained the lens on what it takes to retire in Australia. The Federal Government, industry associations and participants have tracked the investment trends and factors impacting superannuation savings requirements for some time.

The great news is we have a considerable number of research papers on retirement planning, consisting of interviews with literally thousands of Australians over the past three decades.

More recently even more detail has been added to retiree research papers. Key topics such as confidence in retirement, financial literacy and security, plus where people look for more information about managing their retirement—their superfund—is polled from the retiree perspective. We can certainly feel confident in understanding the aspirational aspect of retirement for Australians.

WHAT DO THE WORLD'S BIGGEST FUNDS KNOW THAT WE DON'T?

Ever since I kicked off my career in 1969 as an actuary I have been fascinated with the concept of CPI-indexed annuities. A CPI-indexed annuity basically lasts as long as you do – and it keeps pace with inflation.

In the case of annuities, the legislative impediments are now being addressed and it's time to review the single biggest factor in influencing retirement outcomes – the approach to post-retirement. For many Australians annuities or pensions are based on preconceived ideas about losing their

money if they die tomorrow. In this instance the fear of loss outlives the fear of gain – which can be substantial for long livers and we are all doing that.

The largest superannuation funds in the world offer pensions for their members and have done so for a long time – some even for centuries. One colossal fund in the United States has been manufacturing a broad range of offerings to suit members and successfully marketing and selling this different type of product to members since 1952.

What's even more interesting is that pension and the post-retirement discussion is part of the zeitgeist. One of the most high-profile financial advisors in the United States, Suze Orman, authors a column that openly reviews annuities in the Oprah Winfrey 'O' magazine – a magazine that predominantly targets over 27 million female subscribers annually.

What I want to know is what do they know that we don't? Why and how are they discussing quality of post-retirement life so openly and in so much detail? What are the psychological hurdles they have overcome to reach this point and what can we learn from this?

WHAT ROLE CAN WE PLAY IN INFLUENCING RETIREMENT OUTCOMES FOR AUSTRALIANS?

Here in Australia we have an adequate amount of research into what drives superfund members as they prepare for retirement, but what is it that will drive different behaviours to change the outcome of their post-retirement?

There are many external economic factors now impacting how long retirement savings will last.

To me it makes sense to look at the oldest financial product in the

world—the annuity/age pension—as many Australians now recognise they don't want to exhaust their retirement savings and then live on the pension with low quality lifestyle. A lifetime income stream can provide a far happier outcome than many people are currently expecting, as it provides a higher income.









ADDRESSING THE GAPS

Retiree research needs to address the gap I see in two key areas – the role of the financial planner in the post-retirement space, and how they can work with clients to address and prepare for an income for life.

There is no greater evidence in the importance of the financial planner in the post-retirement space than with the acknowledgement lifetime income streams are not perceived to be value for money; in fact only one percent of Australians invest in them. Because of this perception they haven't been of interest to most financial planners and subsequently they haven't recommended them.

This is something three leading actuaries and I recently investigated in the *Financial Planning Research Report* for the Actuaries Institute's Financial Services Forum. We asked 2,500 financial planners how they formulate retirement income advice and we gained significant insights into the practical methodologies and tools they use. There is a heavy reliance on Risk Profiling Questionnaires despite the growing sentiment they only go part way to determining an appropriate risk profile and asset mix. Some tools may mask or downplay risks, leading to clients potentially failing to achieve their long-term retirement objectives.

CHALLENGES FINANCIAL PLANNERS FACE WHEN FORMULATING RETIREMENT INCOME ADVICE

 Risk profiling and asset allocation	Risk Profile Questionnaires inadequate for determining risk profile and thus asset allocation
 Life expectancy	Current Australian Life Tables in existing financial planning software makes no allowance for past and future mortality improvements
 Average assumptions inbuilt into planning tools	Half of client base could outlive average assumptions of an assumed lifespan – leading to reducing pension income and thus lifestyle. Projections need to be made to the end of the Australian Life Tables
 Longevity risk and the 'best interests' duty	Focusing solely on average assumptions means less attention being paid to key risks. These need to be addressed in the Statement of Advice (SOA)
 Overspending risk and 'scoping' the SOA	More robust personal or family budget estimates are needed – to be included in SOA
 Client education	Informal client education process can increase their appreciation of the advice and satisfaction levels
 Adviser education	Actuarial projection techniques may produce a deeper understanding of key retirement risks
 Suitability of current retirement income products	Longevity products are perceived as expensive by financial planners however this can change when allowance is made for future expected mortality improvements

Source: Financial Planning Research Report ©2018 John de Ravin, Paul Scully, Jim Hennington and David Orford

THE ORFORD RESEARCH INITIATIVE

Most recently the Orford Foundation established a new approach to retiree research via The Orford Research Initiative with my old alma mater, the Melbourne Business School (MBA 1976) to revolutionise the way Australians think about superannuation.

This three-year research project will specifically investigate how Australians can improve their retirement income and security through a better understanding of the benefits available within lifetime pensions and annuities. It will review different approaches to financial security for retirees, working with key industry players in the retirement and planning sectors to gain valuable insights and outline a path for improvement.

What I want to do is bring a fresh perspective to commonly held assumptions about super and retirement. It's important to have

a better understanding about the decisions we make about retirement plans and why we make them.

The benefit of a lifetime income stream also can impact all Australians, not just retirees. If we can develop lifetime income streams that provide up to 30 percent more income in retirement this correlates to a potential, and considerable, saving in the government's age pension bill. This increase in retirement income would also cover higher health insurance premiums, vital for a section of the community that spends more on healthcare.

We have identified the underlying impediments to lifetime income streams and the research is now underway. The Melbourne Business School plans to complete the first phase and then release its findings on a regular basis, sharing what we learn freely with the super industry, the Federal Government and the wider community.

APPROPRIATE MORTALITY RATES

Appropriate mortality rates for Australian lifetime pensioners are needed before these reforms can start and products developed. There is little relevant information available – even from the major life insurers. The Orford Foundation is also funding new research with the Actuaries Institute of Australia and we aim to share this freely with everyone in our industry.

This has never been done before, but I have great faith in Australia—as an early adopter nation of all things new—will be more than willing to look at new solutions that deliver concrete benefits for us all. **SF**

David Orford is managing director of Optimum Pensions.