

From Principles to Practice

Implementing Lifetime Income in Superannuation

A practical guide to Treasury's Best Practice Principles



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OPTIMUM
PENSIONS

The stakes have never been higher

Australia's superannuation system has excelled at accumulation. The retirement phase is the unfinished business. Over 2.5 million Australians are expected to move into the retirement phase over the next decade. If the status quo remains, most will retire into an account-based pension, draw the minimum, and leave a significant portion of their superannuation unspent. The Best Practice Principles signal that this is no longer acceptable.

The legislated objective of superannuation is to deliver income for a dignified retirement. Drawing the minimum from an account-based pension and hoping it lasts is a crude proxy for delivering sustainable retirement income. The Retirement Income Covenant was the first signal. The Best Practice Principles are the second.

The principles are voluntary, but they carry real weight. Funds that choose not to implement them will fall short of what the principles envisage. More significantly, the principles reflect where APRA and ASIC enforcement attention is heading. Funds that cannot demonstrate a coherent approach to lifetime income are taking a reputational and regulatory risk.

15–30%

potential retirement income uplift from including a lifetime income component – Australian Government Actuary

Treasury has made one thing very clear: one product alone cannot balance the three objectives of the Retirement Income Covenant: maximising expected retirement income, managing expected risks, and having flexible access to funds. Members need solutions that simultaneously maximise income, manage longevity, sequencing and inflation risks, and maintain flexible access to capital. An account-based pension in isolation cannot do all three well.

The question is no longer whether to include a lifetime income component. Treasury has answered that through Principles 5, 6 and 9. The question is how... and how quickly.

This guide is written to answer that question.

What your board will ask

What does the BPP actually require us to do and is it mandatory?

What are our implementation options and what do they cost?

What legacy obligations are we taking on?

What happens to our funds under management?

How does this align with our RIC strategy, SPG 515 obligations, and APRA's expectations?

Why us, why now and what happens if we wait?

What the Best Practice Principles require

Treasury's Guidance on Best Practice Principles for Superannuation Retirement Income Solutions (the Best Practice Principles, BPP) provides a framework for trustees on the design and delivery of high-quality retirement income solutions. The lifetime income obligation runs consistently across three principles and is the thread that connects product access, product design and solution construction into a coherent framework.

Principle 5 establishes the baseline: every fund must provide members with access to a lifetime income product that is not the Age Pension. This is where the obligation to offer a lifetime income product sits. Funds that currently offer only an account-based pension (ABP) at retirement do not meet this standard.

Principle 6 addresses product design: settings must be designed to allow for the construction of retirement income 'solutions' that meet members' retirement income needs. This includes each setting for both lifetime income products and ABPs that manage sequencing, market, inflation and longevity risks. Trustees must also design ABP drawdown pathways that convert balances into income more efficiently than the legislated minimum drawdown rate.

Principle 9 brings the framework together: for each identified member cohort, trustees must construct a separate trustee-designed retirement income solution that balances income, risk and flexibility. At least one solution must include a lifetime income component, with regard to likely Age Pension eligibility. For most solutions, drawdown pathways should exceed the legislated minimum, taking into account the income stability from the relevant components.

Principle 18 closes the loop: trustees must assess the effectiveness of their guidance services and engagement strategies, and collect data on member experiences. Implementation is not complete at launch. The member experience layer carries an explicit obligation to measure, learn and improve.

When it comes to lifetime income products, the obligations can be summarised as follows:

Principle	The obligation	What it means for your fund
5	Provide access to a lifetime income product	Every member must have access to a lifetime income product (not the Age Pension), an ABP, and lump sums. This is the access obligation, the foundation everything else builds on.
6	Design product settings that manage risk	Product settings must address sequencing, market, inflation and longevity risks. ABP drawdown pathways should convert balances into income more efficiently than the legislated minimum calibrated to complement the lifetime income component.
9	Construct cohort-based solutions	For each identified member cohort, construct a trustee-designed solution balancing income, risk and flexibility. At least one solution must include a lifetime income component, regarding likely Age Pension eligibility.
18	Measure and improve guidance effectiveness	Trustees must assess the effectiveness of their guidance services and engagement strategies and collect member experience data. Implementation is not complete at launch. It requires an ongoing measurement and improvement cycle.

The cohort requirement

Principle 4 requires trustees to develop at least three distinct member cohorts based on data held by the fund using characteristics such as account balance and age. These cohorts are the foundation on which Principle 9 solutions are built. Each cohort should have a trustee-designed retirement income solution. At least one of those solutions must include a lifetime income component.

Cohort design and product design must be developed together, not sequentially. A fund that defines cohorts without knowing which products it will offer, or selects products without reference to cohort characteristics, will produce solutions that do not genuinely serve members.



What is a lifetime income product?

A lifetime income product provides a member with a regular income over their entire lifetime. It eliminates longevity risk for the member. Regardless of how long they live, the income continues. This is the defining feature that an account-based pension cannot replicate: an ABP can be depleted; a lifetime income product cannot.



Products vary in their design:

- Fixed payments: a set amount paid each period, regardless of investment returns.
- Investment-linked payments: income that rises and falls with underlying investment performance, possibly subject to a floor or guarantee.
- Inflation-indexed payments: income that adjusts with inflation.
- Reversionary benefits: continuing income to a surviving spouse after the member's death.
- Death benefit: a lump sum payment to protect members and their beneficiaries if they die earlier than expected.

In Australia, these products are known by several names: lifetime income stream (LIS), lifetime annuity, lifetime pension, and innovative retirement income stream (IRIS). This guide uses lifetime income product and LIS interchangeably.

Why does Age Pension treatment matter?

Currently, around a third of Age Pensioners see their payment level reduced by Centrelink's means-testing rules. The proportion of Age Pensioners subject to means-testing is expected to rise to more than half in coming decades ¹.

Under the means testing rules, the use of a lifetime income product can produce an immediate increase for these retirees. Only 60% of the income from a lifetime income product counts toward the Centrelink income test and 60% of the purchase price is assessed under the assets test (reducing to 30% at age 85).

This is why Principles 9 and 5 both explicitly require trustees to have regard to likely Age Pension eligibility when designing lifetime income solutions. For many members, the Age Pension interaction is as significant as the lifetime income stream itself.

[1] 2023 Intergenerational Report, Commonwealth of Australia

The three implementation pathways

Superannuation funds have three main pathways to implement a lifetime income component. The right choice depends on the fund's appetite for product ownership, control, speed to market, FUM retention, and tolerance for legacy obligations as conditions change.

The most important factor in this decision, and the one boards will scrutinise most closely, is the legacy obligation. Lifetime income products are, by their nature, lifelong commitments. Once a member commences a lifetime income product, those obligations remain in force for the member's full lifetime. A fund that builds a product and later decides to exit still carries those obligations, unless they can be transferred to another provider.

	1. REFER	2. INTEGRATE	3. BUILD
Product issuer	LIS Partner (external provider)	LIS Partner (external provider)	Super Fund
Description	Fund refers members to an external LIS provider's product for the lifetime component. Can be fund-branded.	Fund partners with a LIS provider to offer a white-label or co-designed product. Fund can potentially retain FUM by including its own investment options.	Fund creates a new segregated division issuing its own lifetime income product, ideally insured and administered by a LIS partner via Group Life contract.
Tailoring	<ul style="list-style-type: none"> • PDS and portal branding • Application form customisation • Choice of settings for different cohorts 	<ul style="list-style-type: none"> • Spouse benefits design • Investment option selection • Increase rate design • PDS and portal branding • Cohort settings 	<ul style="list-style-type: none"> • Full design control • Custom investment options • Requires APRA approval for changes • PDS and portal branding
Speed to market	Short to medium term: depends on IT integration and level of branding required.	Medium: requires product rule changes, portal integration, investment options finalisation and unit pricing integration.	Medium to long: Group Life contract, APRA approval, new PDS, IT, administration, fund accounting and marketing.
Key benefits	<ul style="list-style-type: none"> • Quick to market • No legacy product risk • Lowest internal resource cost 	<ul style="list-style-type: none"> • FUM retention potential • Unique member value proposition • No legacy product risk • Shared governance burden 	<ul style="list-style-type: none"> • Maximum control • FUM retention Full design flexibility
Key risk	Less control, integration and member experience cohesion.	Shared governance requires strong provider relationship and clear SLAs.	High complexity, high cost, long timeline, and full legacy risk if product does not reach scale.

On legacy risk

When a member commences a lifetime income product, those commitments remain in force for life, potentially 30 or more years. If the fund later decides to exit the product, the obligations do not disappear. Legacy products can potentially be transferred to another provider, but this is complex and subject to regulatory and member consent requirements.

This is why many funds will find the Integrate pathway, where a specialist LIS partner carries the operational and longevity risk, a more attractive starting point than building in-house. The Refer pathway carries no legacy risk at all, but offers the least integration and member experience cohesion.

There is no first-mover advantage here. Approximately 14 lifetime income products are already available in the Australian market. The risk is not in moving too early; it is in moving too late.

The solution stack: three layers every fund must address

Implementing the BPP's lifetime income obligations is not simply a product decision. It requires trustees to think across three distinct layers of their retirement income solution. Choosing the right pathway (Section 4) answers the product question, but the solution stack considers the broader implementation question: what do we need to build, and what can we leverage from a partner?

It is also worth noting that the pathways are not mutually exclusive over time. A fund might start with a simple referral arrangement, then move to a more integrated model as member demand grows and internal capability develops.

Layer	What it covers	Key insight for implementation
Layer 1 Member Experience	<ul style="list-style-type: none"> Retirement education, calculators and lifespan tools Application and onboarding processes Income payments and annual income resets Portal integration showing ABP and lifetime income together Proof-of-life processes Death benefit and reversionary benefit processing Guidance and advice prompts (under DBFO reforms) 	Under Principle 18 of the final BPP, trustees must assess the effectiveness of their guidance services and collect member experience data. Layer 1 is not just a UX investment. It carries a direct compliance obligation. Integrating the lifetime income stream into the fund's existing digital environment builds member confidence and creates the data foundation required for ongoing improvement.
Layer 2 Product & Rules	<ul style="list-style-type: none"> ABP drawdown pathways calibrated to complement the lifetime income stream Lifetime income product structure: pricing, investment options, longevity guarantees, indexation, reversionary benefits 'Accumulation IRIS' considerations (see note below) APRA, ASIC and SIS compliance framework 	The true intent of the BPP's lifetime income obligations is delivered here: designing the ABP drawdown pathway and lifetime income component to work together around each cohort's objectives. Principle 6 is explicit. Drawdown rates should reflect the income stability the lifetime component provides. This is not about offering two separate products; it is about integrated solution design.
Layer 3 Administration & Plumbing	<ul style="list-style-type: none"> Registry and unit-pricing systems Payment and income reset engines Proof-of-life and death benefit processing Data feeds, API integration and reporting Operational risk management (CPS 230) and business continuity controls 	Building this infrastructure internally is resource-intensive and slow. Partnering with a provider that has tested, operational systems dramatically reduces cost, risk and time to market. Most funds pursuing the Refer or Integrate pathways will not need to build Layer 3 from scratch as the provider brings it.

The Accumulation IRIS option

An Accumulation IRIS is a superannuation accumulation account designed to transition into a lifetime income stream at retirement. Pioneered by AMP, this design begins accruing Age Pension incentives earlier, as it qualifies as an innovative retirement income stream (IRIS) under current Centrelink rules, making it relevant even before members reach retirement.

This option requires the fund (or a partner) to be an issuer of a lifetime income stream. It can be a powerful member engagement tool, giving funds a reason to have the lifetime income conversation earlier in the member journey rather than only at the point of retirement. The Accumulation IRIS option interacts with Centrelink means-testing rules in a way that may not have been intended by policymakers. Trustees considering this design should take independent advice and monitor regulatory developments closely.

The regulatory landscape

The BPP sit within a broader regulatory ecosystem that shapes how lifetime income solutions can be designed and delivered. The Australian Law Reform Commission has acknowledged the navigational complexity this creates for even experienced practitioners. The good news: much of the groundwork has already been traversed by specialist providers operating in this market. Partnering with an experienced provider means accessing a compliance foundation that has already been built and tested.

Framework	Focus area	Implication for implementation
Retirement Income Covenant / SIS Act	Retirement income strategy: maximise income, manage risk, flexible access	The BPP operates within and extends the Covenant. Any lifetime income solution must demonstrably serve the three Covenant objectives for the relevant member cohort.
SPS 515 / SPG 515 Strategic Planning & Member Outcomes	Governance, strategic alignment, measurable member outcomes	Any new product must link to the fund's retirement strategy, with clear KPIs and monitoring mechanisms. Board sign-off should be sought against SPG 515 requirements.
CPS 230 Operational Risk Management	Operational resilience, outsourcing, incident response	New systems, partners and processes introduce operational risk that must be built into governance and monitored from day one. Partner selection should include CPS 230 due diligence.
DBFO Delivering Better Financial Outcomes	Advice models, fee-deductions from super, targeted prompts to cohorts	DBFO reforms enable trustees to provide cohort-based prompts to members on retirement income solutions without meeting personal advice requirements. Directly relevant to member engagement under Principles 13, 14 and 18.
RG 274 Product Design & Distribution Obligations (DDO)	Target market, distribution pathways, product lifecycle reviews	Superannuation products, including ABPs and lifetime income solutions, requires a clear target market definition, appropriate distribution controls, and periodic product review. These obligations apply from day one.
Best Financial Interests Duty (BFID) / SIS Act trustee covenants	Member value, fairness of cost and benefit, improved member outcomes	The chosen implementation pathway must demonstrably serve the member's best financial interests. Innovation does not justify lower member outcomes or higher fees without commensurate benefit.



A practical five-step implementation pathway

For many funds, a white-label integration model, such as the Integrate pathway above, may offer the fastest, safest and most scalable route to meeting the BPP's lifetime income obligations. It allows trustees to leverage the provider's actuarial, administration, legal and technological frameworks that have already been market-tested, reducing development time and risk while preserving control over member relationships and FUM. The six steps below provide a practical implementation sequence applicable to most funds pursuing this pathway.

1	Define cohorts Using member data, identify the segments of your membership who most benefit from a lifetime income component, particularly members whose households will be subject to means-testing. Consider account balance, age, risk preferences and existing drawdown behaviour data. A minimum of three cohorts is required under Principle 4. Cohort design and product design must be developed together, not sequentially.
2	Design retirement income solutions For each cohort, design solutions that maximise expected income, manage risk and preserve reasonable access to capital. Where a lifetime income component is included, align the ABP drawdown pathway and investment settings so that total income is stable and sustainable. This is the core intent of Principles 6 and 9 working together.
3	Select implementation pathway and integration depth Decide your level of integration: simple referral, white-label integration, or in-house manufacture. Use the pathways framework set out above to determine which approach best matches your fund's strategy, resources and member profile. Confirm the legacy risk position before proceeding.
4	Establish the implementation framework Move from design to delivery: legal agreements, pricing, operational processes, compliance checks and IT integration. Configure data links and reporting through proven templates and APIs. Align administration and governance protocols under CPS 230 and SPG 515.
5	Review and scale Embed the solution as part of a proactive retirement offering for members approaching and entering retirement. Establish an ongoing review process that tracks outcomes, usage and member behaviour to meet the requirements of Principle 18 (guidance effectiveness) and Principle 19 (having regard to changing member needs). Report results to the board and integrate into annual SPG 515 reviews.

Implementation readiness checklist

Use this checklist to confirm your foundation is in place before moving to implementation. Every fund's journey will look different, but the steps to readiness under the BPP are remarkably consistent.



Cohorts defined Key retiree segments identified and supported by member data, Age Pension categorisation, behavioural insights and retirement income objectives. Minimum three cohorts required under Principle 4.



Lifetime income access confirmed: Fund can demonstrate compliance with Principle 5: members have access to a lifetime income product (not the Age Pension), an ABP, and lump sums.



Solutions designed: Product component settings and weightings, lifetime income partner selection, ABP drawdown pathways and investment options modelled for each cohort. Solutions balance income, risk and capital access in line with Principles 6 and 9.



Lifetime income component integrated into at least one solution: At least one trustee-designed retirement income solution includes a lifetime income product aligned with cohort needs and likely Age Pension eligibility. Product design and ABP drawdown pathway designed to work together.



Implementation pathway confirmed: Chosen pathway confirmed (refer, integrate or build), legacy risk position understood, and implementation requirements scoped.



Business case approved (SPG 515-aligned): Objectives, expected member outcomes, cost-benefit analysis and governance sign-off completed. Board questions addressed.



Implementation framework established: All three layers defined: Member Experience (Layer 1), Product & Rules (Layer 2), Administration & Plumbing (Layer 3). Ownership confirmed across fund and any partners.



Compliance and governance framework confirmed: Requirements of APRA, ASIC, ATO and DSS addressed. Measurable member outcomes, KPIs and reporting mechanisms set. Operational risk and assurance frameworks in place.



Member experience measurement built in from launch: In line with Principle 18, data collection on guidance effectiveness and member experience is embedded from day one — not retrofitted after launch.



Review and improvement cycle established: Pilot parameters, member communications, feedback loops and periodic reviews scheduled. Results tabled to the board and integrated into annual strategic planning and SPG 515 reviews.

Why work with Optimum Pensions

Optimum Pensions has designed, implemented and operationalised an innovative lifetime income product as described in this guide, including IT integration, administration processes, decision tools and member communications. This product is currently being run by Generation Life.

Engaging with us means your team can work through a full, working model rather than designing from scratch.

Product design expertise: Our white-label retirement income product design is available to qualifying product providers and superannuation funds. We bring actuarial depth, regulatory experience and a decade of product development to the implementation conversation.

The Lifespan Calculator: Our Lifespan Calculator has been used by more than 30,000 Australians to estimate their personal life expectancy and appropriate planning horizon. It is a practical Layer 1 member experience tool that helps members understand how long their retirement income needs to last. Precisely the foundation Principle 9 solutions require. Available for embedding on fund websites, with white-label options.

Implementation support: We support funds across all three implementation pathways, from initial cohort design and product selection through to governance documentation, compliance frameworks and member communication design.

Thought leadership and education: Our book Retirement Income for Life: Solving the Longevity Equation provides worked examples of blending product types across different member cohorts. Practical reading for fund executives and board members approaching this decision.

For more Information

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Pictured: David Orford, Founder Optimum Pensions

Conclusion

Treasury's Best Practice Principles have moved from consultation to final. The lifetime income obligation, running consistently across Principles 5, 6 and 9, is now the clearest signal the Australian retirement income system has about the direction of travel expected from superannuation trustees.

The principles are voluntary, but the expectation is plain: funds that cannot demonstrate a coherent approach to lifetime income risk falling behind both regulatory expectations and the competitive standard being set by early movers. The product designs, regulatory frameworks and operational infrastructure to act on the principles already exist. The question is whether funds act with purpose or rely on a wait-and-follow approach that is increasingly out of step with what's required.

Implementing the BPP's lifetime income obligations does not require reinventing the wheel. It requires choosing an appropriate pathway, designing solutions that genuinely serve member cohorts, and building the member experience and measurement frameworks that make those solutions work for members.

The funds that move with purpose now will shape the next generation of Australian retirement income solutions — and deliver meaningfully better outcomes for Australians across decades of retirement.

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