Actuaries Institute.

# Retirement Matters

Dialogue Paper

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## Acknowledgement of Country

The Actuaries Institute acknowledges the traditional custodians of the lands and waters where we live and work, travel and trade. We pay our respect to the members of those communities, Elders past and present, and recognise and celebrate their continuing custodianship and culture.

## About this Paper

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# 1. Executive Summary

## "The changing nature of retirement will bring opportunities, challenges and risks to individuals and society."

Since the concept emerged in the late nineteenth century, retirement has evolved from a point in time to a short period before death to a multi-phased time of renewal, reinvention and discovery.

The main drivers of change have been lengthening life spans and health spans and, with that, changing expectations for life after full-time work. Many people will choose not to follow conventional retirement patterns, and the economy and business must adapt, including valuing mature workers. Some people have even observed that the word "retirement" may have certain unfortunate connotations and that we should consider retiring the word "retirement"!

The changing nature of retirement will bring opportunities, challenges and risks to individuals and society. The key retirement risk for individuals is longevity risk—the fear of outliving their money. This fear results in many retirees living much more frugally than is required.

There is frequent reference to Australia having a Three Pillar Retirement Income System. To support longer retirements, we must expand that framework to include additional pillars such as work options post full-time work and accessing income from equity in the family home (or other property), for those who have such assets.

The retirement income system—including its interaction with other systems, such as tax and aged care—is complex and challenging to navigate. This challenge is compounded by low levels of financial literacy. People need Help, Guidance and Advice (HGA) for both the transition to retirement and in life after full-time work. However, it's hard to get, and it's challenging to access at an affordable price.

Our concerns include:

- The large gap between the demand for HGA and its availability—partly due to too much regulatory-driven complexity, both for financial advisers and superannuation funds/trustees.
- Uncertainty regarding how advice regulation will be amended following the Quality of Advice Review and whether these changes will make a difference.
- The challenge for financial services institutions to offer help and guidance to complement more regulated personal advice.

The things that matter in retirement include financial, physical and mental health, and a sense of purpose and identity. Individuals would benefit from a broader and more holistic approach to retirement planning that considers all these factors.

It is paradoxical that when planning retirement and making decisions about when to retire, financial considerations typically take centre stage, whereas, after the event, it is more likely that non-financial considerations dictate whether one has a good retirement (underpinned by financials, of course).

Consequently, the non-financial considerations merit much more extensive attention in public policy, media commentary, retirement transition planning, and managing wellbeing in retirement.

In this Dialogue Paper, we don't give definitive solutions because there are none. However, in Section 7, we suggest questions for consideration by employers, governments and superannuation trustees. More work is required to better prepare individuals and societies for the plausible futures ahead.

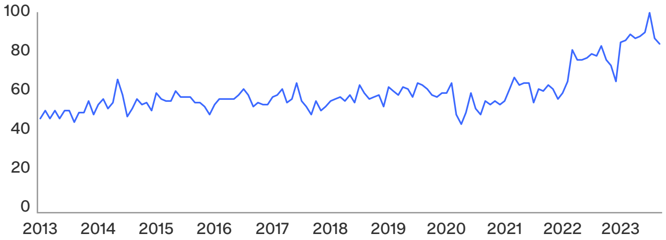
Our aim for this paper is to provoke conversations about the evolving nature of retirement and how actuaries and others can help society be better prepared for the future of retirement. A good starting point is to ask the question: what does Retirement Reimagined really look like?

# 2. The Concept of Retirement

## 2.1 The Evolution of Retirement

Australians' interest in the concept of retirement is growing. According to Google Trends (n.d.), searches for the term "retirement" have increased by over 80% in the last decade (see Figure 1).

Figure 1: Searches on "retirement" in Australia[1]




Source: Google Trends

This growing interest is hardly surprising. There are now more than 4 million Australian retirees, and another 670,000 people intend to retire in the next five years (ABS, 2023b).

> "There are now more than 4 million Australian retirees."

The concept of retirement is a relatively recent one in the history of humanity. Many trace it to the German Chancellor Otto von Bismarck. In 1881, he announced that anyone over 70 years old would be forced to retire and that he would pay a pension to them. The retirement age in Germany was reduced to 65 during World War I (Laskow, 2015).

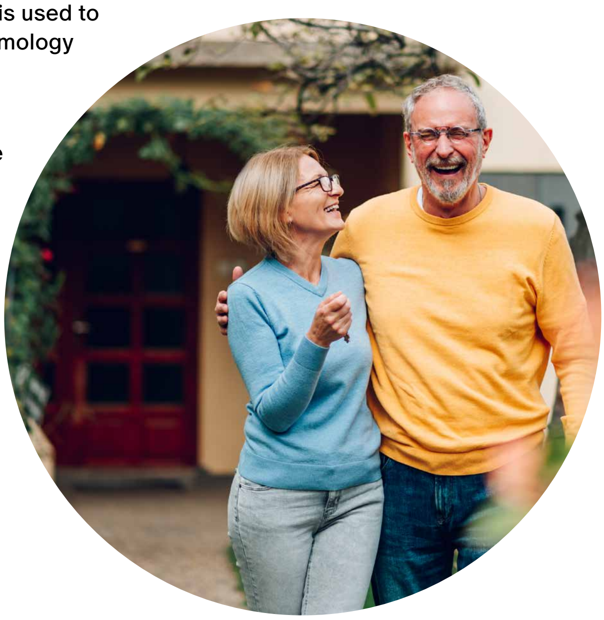
Most dictionaries give two definitions for retirement, which are variations of:

1. retirement is the time when a worker retires
2. a person's retirement is the period in their life after they have retired

The first is a point in time; the second is a period of time.

For much of the twentieth century, retirement as a point in time was the more pervasive of the two, with the term post-retirement used to describe the few short years following that point. This use is consistent with the etymology of the term: the French verb *retirer*, meaning to leave or to withdraw, and the suffix *-ment* is used to form nouns from verbs, the noun being the result of the action (Online Etymology Dictionary, n.d.).

During Bismarck's time, the life expectancy at birth in Germany was 37.7 years for men and 41.4 years for women, though he died in 1889 at the age of 83 (von Herbay, 2013). Similarly, when the Australian Government introduced an Age Pension in 1908 with a qualifying age (pension age) of 65, barely half of Australians were expected to reach pension age—life expectancy at birth was 55.2 years for men and 58.8 years for women. At Federation in 1901, only 4% of the population was over 65 (National Museum of Australia, n.d.). The pension age for women was reduced to 60 in 1910 because women generally became "incapacitated for regular work at an earlier age than men" (Kewley, 1973, as cited in Treasury, 2001). This change was made despite women having higher life expectancy. The eligibility age for women remained at 60 until 1 July 1995, when it started increasing by six months every two years until reaching 65 on 1 July 2013 (Callaghan et al., 2020).



[1] The y-axis is relative popularity. Google Trends data for a search is presented on a scale of 0 to 100, with 100 representing the highest search interest for the selected time and location. In this case, the highest search interest for the term "retirement" in Australia was in July 2023.

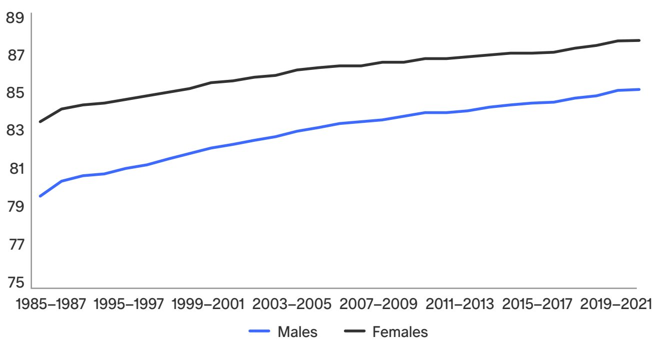
Life expectancy at age 65 has increased significantly to 85.3 years for males and 88.0 years for females (ABS, 2022), with 17% of the population over 65 (ABS 2023a). The pension age only recently increased from 65 to 67 (Services Australia, 2023b).

The two ages guiding discussions about retirement in Australia are when individuals become eligible to start drawing on their superannuation and when they are eligible to receive the Age Pension. As we have seen, the pension age only recently increased to 67, and Australians can access their superannuation when they turn 65, regardless of whether they have retired or are still working, or earlier in certain circumstances (ATO, n.d.-a).

Life expectancy at birth provides an indication as to the numbers reaching retirement. Life expectancy at age 65 is the length of time Australians can expect to spend in retirement.

As life expectancy at age 65 has increased (AIHW, 2022), retirement has come to refer to a period of time rather than a point in time, and the term post-retirement is used less and less. Some might say that post-retirement is death (see Figure 2).

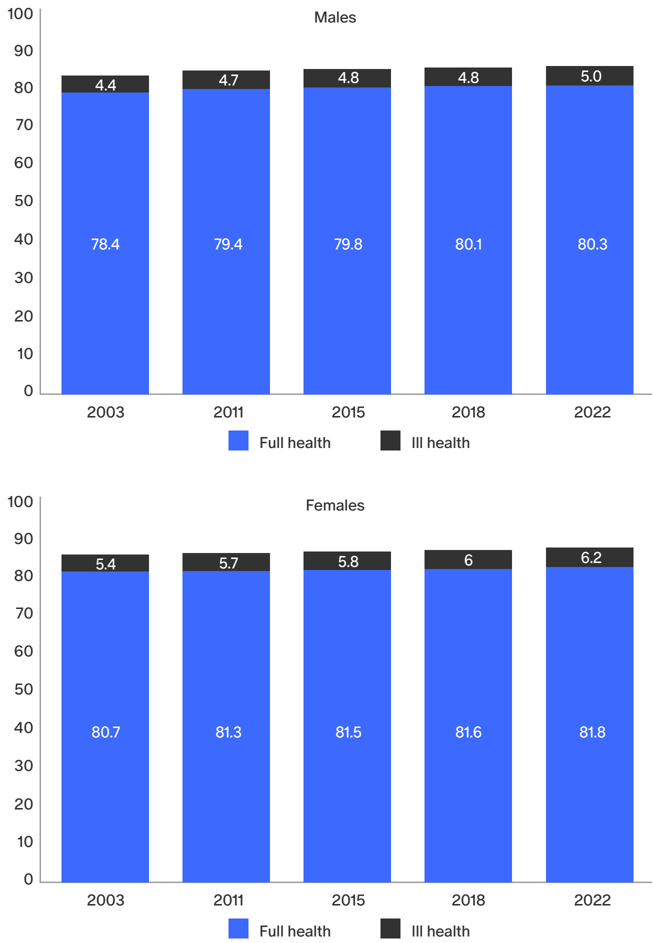
Figure 2: Life expectancy at age 65




Source: Australian Institute of Health and Welfare

KPMG (2022) estimates that over the past 40 years, men have seen an 8-year increase in the expected length of retirement, while women have seen a 3.5-year increase. While the time spent in retirement is increasing, so is the time spent in both good health and ill health in retirement (AIHW, 2022).

Figure 3: Health-adjusted life expectancy at age 65




Source: Australian Institute of Health and Welfare, Australian Burden of Disease Study 2022

Retirement is no longer a point in time but rather a new phase of life—in other words, retirement is the journey rather than the destination. Considerations include how to spend the additional years of good health and how to fund the additional years of ill health.

## 2.2 Retirement Intentions Versus Reality

The relationship between retirement and social security that started with Bismarck is an important one and has a significant influence on when Australians retire.

For many, the age of 65 becomes a target age to start retirement, even though there is no legislated or fixed age in Australia, as in many countries. On average, Australians intend to retire at 65.5 years (ABS, 2023b).

While retirement intentions have remained around 65 for some time, many retirees retire earlier than planned. In 2020, 140,000 Australians retired, bringing the total number of retirees to 4.1 million. For these 4.1 million, the average age at the start of their retirement was 56.3 years. The actual age when people are retiring is increasing. For those who retired in 2020, the average start of retirement age had increased to 64.3 years, with women tending to retire one to three years earlier than men, on average (see Figure 4) (ABS, 2023).

Financial security is the main factor influencing when Australians plan to retire (see Table 1).

Table 1: Top four factors influencing decision about when to retire

| Factors | Median |
|---|---|
| Financial security | 38% |
| Personal health or physical abilities | 22% |
| Reaching the eligibility age for an age (or service) pension | 14% |
| Ability to access superannuation funds | 4% |

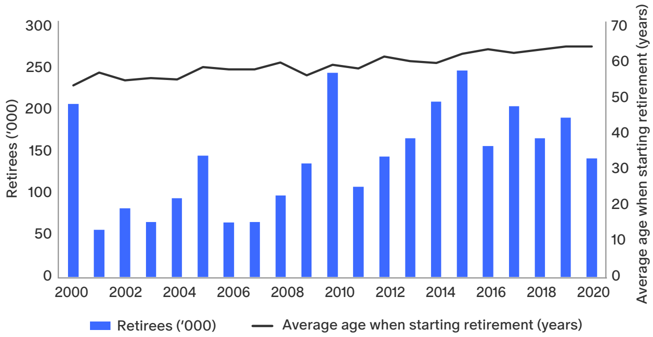
Source: ABS, Retirement and Retirement Intentions, Australia, 2020-21

The actual reasons reported for retirement are quite different. Of those who retired in the last 20 years, 27% of these retirements were involuntary. Reasons include:

- lost last job for economic reasons (retrenched)
- own sickness, injury or disability
- to care for an ill, disabled, or elderly person

While things don't always go to plan, we should heed Dwight D. Eisenhower, who said, "Plans are worthless, but planning is everything".

Figure 4: Average age when starting retirement by year, 2020-21




Source: ABS, Retirement and Retirement Intentions, Australia, 2020-21

## 2.3 The Nature of Retirement

In Section 2.1, we looked at the transition of retirement from a point in time to a period of time. The nature of this period of retirement is also evolving from a period of withdrawal and decline to one of renewal, engagement, meaningful pursuits, and personal growth.

Other changes in the nature of retirement are taking place. The boundary between full-time work and retirement is not always a sharp dividing line, as phased retirement is becoming more attractive for individuals and employers. This phased retirement might include a bridge job or part-time employment. Sometimes retiring from one job leads to a whole new career, sometimes called an "encore career".

Nor is it a one-way street. Between 2019 and 2022, more than 179,000 Australians over 55 re-joined the workforce (ABC, 2023). This phenomenon is referred to as unretirement. For some, the return to work has been for financial reasons. Others soon realise that "the three Gs approach – golf, gardening and grandparenting — [are] not for everyone" (ABC, 2023). The tight labour market in Australia has facilitated unretirement.

As the period of time in retirement increases, it is becoming more important to consider different phases of retirement. It is common to refer to three phases using a range of terms, including:

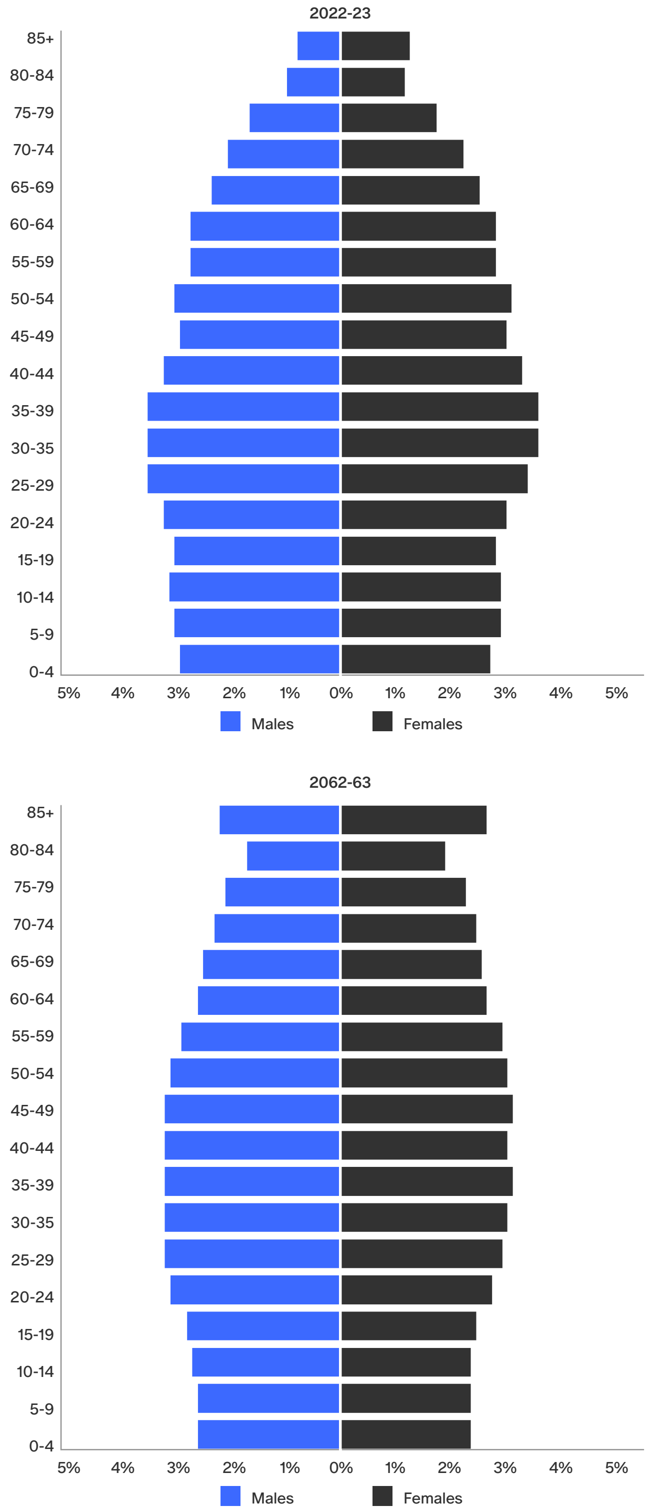
- the Active Years, the Passive Years, and the Twilight Years
- the Independent Phase, the Decline Phase, and the Dependent Phase
- the Go-Go Years, the Slow-Go Years, and the No-Go Years

## 2.4 The Future of Retirement

On 30 June 2020, there were an estimated 4.2 million older Australians (aged 65 and over), with older people comprising 16% of the total Australian population (ABS, 2020b). The Intergenerational Report 2023 (IGR) (Commonwealth of Australia, 2023) projects the number of people aged 65 and over will more than double by 2062-63, and those aged 85 and over will more than triple (see Figure 5).

Little wonder the IGR identifies population ageing as one of the powerful forces that will continue to shape Australia's economy over the coming decades, including the future of retirement.

Figure 5: Australian Population Age structures, 2022–23 & 2062–63




Source: Intergenerational Report 2023

The phases of life have changed over time, influenced by a range of factors, including increases in life span and changes in education, the economy and technology. For example, the concept of the teenager emerged at the end of the 1950s and came into its own in the 1960s (Thompson, 2018).

Similarly, new ways of thinking about life after full-time work are emerging, changing the very nature of retirement.

In the past few years, we have seen a flurry of articles calling for a rebranding of retirement or even to retire retirement. Here are a few of the expressions we have come across:

- rethinking retirement
- reinventing retirement
- retiring retirement
- reframing retirement
- redesigning retirement
- Life 2.0, Life Two
- the fourth quarter
- elderhood

At the 2007 Actuaries Institute Biennial Convention, Darren Wickham (2007) called for abolishing retirement. One of his reasons was that retirement based on a fixed age does not make sense. Wickham proposed the following:

> "Consider the following thought experiment – imagine life expectancy (at birth) increasing significantly – say, to 110 – as a result of medical advances (for example, due to effective treatments for major diseases such as cancer). What age would you choose as the minimum to be eligible for a social security age pension?
> Why would you choose that age? Some proportion of Life Expectancy? An average age of the onset of disability?"

He concluded that setting a fixed retirement age is an entirely arbitrary decision, just like the decision to use age 65.

As we saw in Section 2.1, this arbitrary age has increased modestly while life expectancy has increased significantly, and we expect it to continue increasing. Millions of dollars are being spent on longevity science (Deloitte, 2021), and more and more researchers are optimistic about success (Willingham, 2021). In 2021, The New York Times asked, "Can we live to 200?" and looked at a range of innovations that might make that possible (St. Fleur et al., 2021). Imagine what that would do to the concept of retirement!

One of the outcomes of longevity science is an increased understanding of the difference between biological and chronological ages.

Moshe Milevsky (2019) suggests retirement planning should be based on biological age, which refers to how old your cells and tissues are based on physiological evidence. He says, "Your true age is not the number of years you've circled the sun".

The concept of biological age versus chronological age should not be a surprise. Many will be familiar with the saying "60 is the new 40". A recent report on the State of the Older Nation by the Council of the Ageing (COTA, 2023) reported that nearly 70% of Australians over 50 feel younger than their age, and they felt, on average, 7.7 years younger!

We may not be basing pension age on biological age anytime soon. However, whether we abolish or simply rebrand retirement, as our understanding of the ageing process improves and life spans grow, the concept of retirement will continue to change.

# 3. Retirement Risks and Challenges

As retirement evolves, so do the risks for individuals in achieving a good retirement.

Achieving a good retirement requires planning, and retirement planning is complex with plenty of uncertainty—from deciding when to leave full-time work to wondering what our future lifespan will be and whether we will have enough funds to last the distance.

Given these uncertainties, retirement planning done properly is an exercise in risk management. The Retirement Income Covenant *(Superannuation Industry (Supervision) Act 1993* (Cth) s 52(8A) and s 52AA) recognises this. It requires superannuation fund trustees to have a retirement income strategy that sets out how they will assist their members in managing the risks to the sustainability and stability of their retirement income.

Trustees are required to assist their members in balancing this risk management objective with another two:

- to maximise expected retirement income over the period of retirement; and
- to have flexible access to expected funds over the period of retirement.

Based in the United States, the Society of Actuaries (SOA) has conducted biennial studies on potential risks faced by Americans in retirement and published a Retirement Risk Chart for many years. While plenty of articles list retirement risks, the SOA takes an actuarial approach and includes commentary on the risks, how they might be managed and related planning issues. Some risks can be planned for; others might be unexpected. Table 2 shows the 13 risks identified in the 2020 Retirement Risk Chart (SOA, 2020) in three broad categories.

Table 2: Retirement Risk Chart

| Economic Risks | Personal Planning Considerations | Unexpected (or Unpredictable) Events |
|---|---|---|
| • Inflation<br>• Interest Rates<br>• Financial Markets<br>• Employer Solvency | • Longevity<br>• Post-Retirement Employment<br>• Changes in Housing and Support Needs<br>• Death of Spouse or Partner<br>• Divorce or Separation in Retirement | • Public Policy Changes<br>• Significant Health Care Needs<br>• Unforeseen Needs of Family Members<br>• Bad Advice, Fraud or Theft |

" Achieving a good retirement requires planning "

Even this list is not exhaustive. Kevin Gaines (n.d.) lists 18 retirement risks, and we are sure you can come up with more. The list of risks can be overwhelming for retirees. Retirement planning expert Wade Pfau (2014) suggests focusing on the primary financial objective of maintaining a suitable standard of living for the remainder of one's life and then treating longevity as the fundamental risk facing retirees.

Although longevity is a good thing for an individual, longevity risk is the mother of all retirement risks. The longer one lives, the more exposed one is to all the other associated retirement risks.

An essential step in any effective risk management process is prioritising the risks. Wenliang Hou (2022) looked at how well retirees assess the risks they face in retirement and concluded that there is "a big disconnect between how actual and perceived risks are ranked."

Hou rated longevity as the most significant risk, followed by health risk. However, retirees perceive market risk as the most important, highest-ranking risk due to their exaggeration of market volatility. Retirees rated longevity risk and health risk lower in the subjective ranking than in the objective ranking because retirees underestimate their life spans and their health costs in late life.

These results are not surprising given the findings of Yakoboski et al. (2013) that US adults demonstrate a lack of longevity literacy and that "this matters because longevity literacy is associated with retirement readiness". Both National Seniors Australia (2014) and YourLifeChoices (2023) report that Australians also tend to underestimate life expectancy.

Self-perceptions and attitudes really do matter, and a key issue for society is addressing attitudes towards people becoming older. Society has been rightly tackling racism and sexism; it is high time that there is an active debate and strong focus on the next '-ism' – i.e., ageism. Attitudes towards and treatment of our more mature citizens have a material impact on the wellbeing of "mature" citizens and collective societal wellbeing.

> "Although longevity is a good thing for an individual, longevity risk is the mother of all retirement risks."

# 4. From Retirement Saving to Retirement Funding

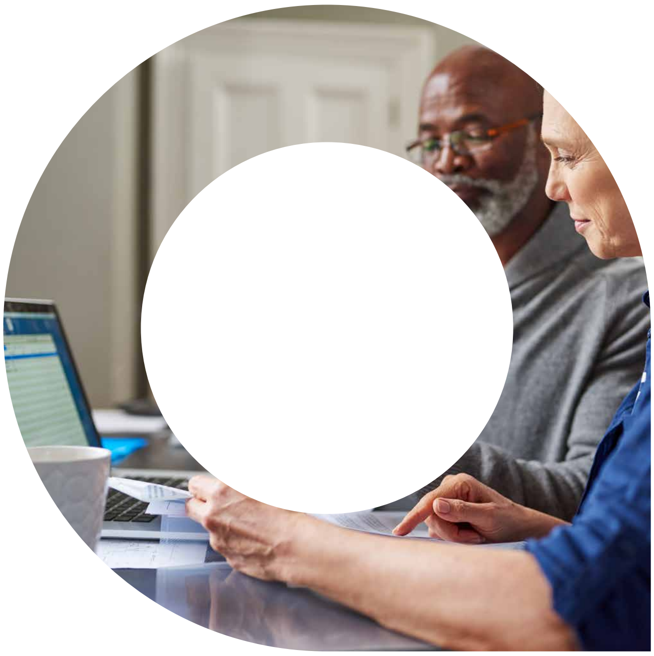
For decades, the Australian retirement income system was the Age Pension. As we saw in Section 2.1, Bismarck introduced the concept of government providing funding for retirees, and in 1908, the Australian Government did likewise. While some Australians were fortunate to benefit from occupational superannuation schemes since the mid-nineteenth century (The Treasury, 2001), it was not until 1992 that the introduction of the Superannuation Guarantee (SG) extended coverage to almost all employees.

That was the birth of Australia's three-pillar retirement income system, with each pillar representing a source of retirement income:

1. a publicly provided means-tested Age Pension
2. mandatory private superannuation savings
3. voluntary savings (including voluntary superannuation savings)

As the population ages, some worry about the government's ability to afford to continue to pay the Age Pension in its current form (Herborn, 2021). However, as noted in Section 4.1, this worry is probably unfounded. Some might recall the short-lived proposal in the 2014 Federal Budget to increase the pension age to 70 years by 2035 (Hockey, 2014). Recently, Professor Hanlin Shang (cited in Chantiri, 2023) called for the pension age to be raised to age 70 by the year 2050.

However, we should consider the overall cost of the retirement income system as a whole. As well as spending on the Age Pension, this also includes the two main superannuation tax expenditures: concessions on contributions and earnings.

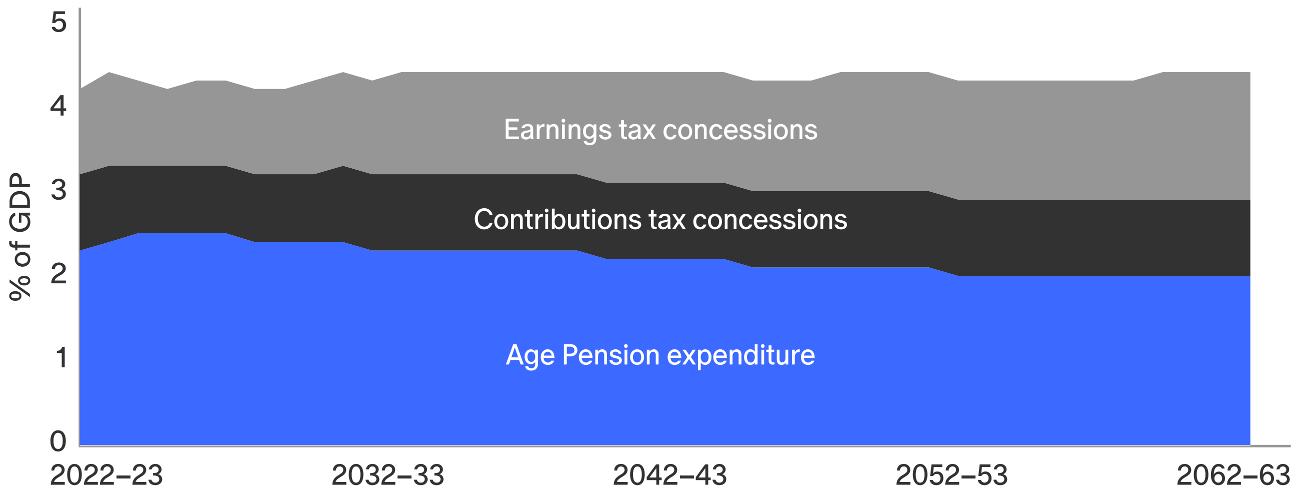


## 4.1 Maturing Superannuation System

The SG rate is scheduled to be 12% from 1 July 2025 (ATO, n.d.-b), and more Australians will be retiring with the benefit of higher SG contributions for their full working life. As the superannuation system matures, the importance of superannuation as a source of retirement income will increase, reducing the reliance on the Age Pension. The IGR projected the proportion of the population over pension age not receiving any pension to increase from 28.6% in 2022-23 to 43.2% in 2062-63 (Commonwealth of Australia, 2023).

The total annual cost of Australia's retirement income system is projected to remain relatively steady over the next 40 years, at around 4.0 to 4.5% of GDP (see Figure 6).

Figure 6: Fiscal impact of the retirement income system




Source: Intergenerational Report 2023

It is nearly 10 years since the Financial System Inquiry Final Report recommended the Australian Government set a clear objective for the superannuation system to provide income in retirement (Murray et al., 2014). After much consultation and a failed attempt at legislation in 2016, the Government has recently released an exposure draft to legislate the objective of superannuation as "to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way" (Superannuation (Objective) Bill 2023 Exposure Draft, 2023).

As the superannuation system matures, more Australians see superannuation as their primary source of retirement funding (ABS, 2023b). Many trustees are now acknowledging that they have predominately focused on the accumulation phase, to the detriment of retirees (Wootton, 2023). In response to this lack of focus on retirees, two of Australia's largest superannuation funds now have Chief Retirement Officers representing retirees at the C-suite (ART, 2023; Klijn, 2022).

Currently, the dominant retirement product is the account-based pension, which is a drawdown product rather than a true pension product. One of the key observations of the Retirement Income Review (RIR) was the need for more efficient use of savings in retirement and that "greater innovation is needed to deliver retirement incomes that meet retirees' needs" (Callaghan, 2020). The industry has started to respond with the launch of several innovative retirement income products in recent years (Allianz Retire+, n.d.; AMP, n.d.; ART, n.d.; Challenger, n.d.; Generation Life, n.d.). We look forward to this trend continuing—a broad range of retirement income solutions are needed to meet the range of different requirements.

To complement these products, we must provide retirees with accessible and affordable Help, Guidance and Advice (see Section 5).

## 4.2 Beyond Three Pillars

In the same way the retirement income system increased from one pillar to three pillars to adapt to changing conditions, it needs to keep evolving.

Several submissions to the RIR (Callaghan et al., 2020) said there were more than three pillars in Australia's retirement income system. Additional pillars include work, equity release, non-financial arrangements such as pensioner discounts, other government payments, and inheritances. These are all sources of income that people may be able to draw on in their retirement.

We should no longer talk about a three-pillar retirement income system. It is time to give more voice to additional sources of retirement income, such as home equity and part-time work, providing an additional two pillars.

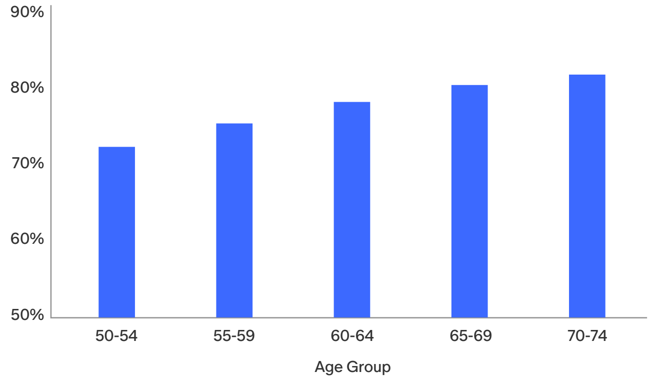
Accessing equity in the home was one of the options listed in the RIR for boosting retirement outcomes (Callaghan et al., 2020). It observed that "For most retirees, the family home is their main asset. Using relatively small portions of home equity can substantially improve retirement incomes." As well as introducing a new source of retirement funding, there is the added benefit of potentially staying in familiar surroundings (both home and neighbourhood) for longer.

As well as commercial providers of equity release products, the Federal Government, in recognition of the importance of home equity, also runs a scheme that allows senior Australians to supplement their retirement income by accessing the equity in their home through a government loan (Services Australia, 2023a).

The Institute's public policy position on home equity supports measures that allow retirees to keep their home but access the equity to boost retirement incomes effectively, whilst acknowledging that the home provides significant financial and emotional benefits to retirees (Actuaries Institute, 2021).

It is important to note that, while levels of home ownership are strong for current retirees (AIHW, 2023) (see Figure 7), home ownership rates have been falling for several decades for those of pre-retirement age (Commonwealth of Australia, 2023). The retirement planning needs for retirees who do not own their own home are very different. There is a high rate of poverty amongst retirees who are renters. The Institute's public policy position supports measures that aim to improve the retirement outcomes of retiree renters, such as significantly increasing the rate of Commonwealth Rent Assistance (Actuaries Institute, 2021).

Figure 7: Home ownership by age group




Source: Australian Institute of Health and Welfare, Home ownership and housing tenure

As we discussed in Section 2.4, a phased retirement is becoming more popular. One of the reasons for maintaining some part-time work is to supplement retirement funding from the other pillars. The Federal Government recently announced changes to allow pensioners to earn more from work before their Age Pension is affected, broadening their choices and increasing flexibility (Chalmers et al., 2023).

# 5. Retirement Planning: The Need for Help, Guidance and Advice

## 5.1 The Current System is Complex

The RIR (Callaghan et al., 2020) said that "the retirement income system is complex". Add that complexity to the risks we looked at in Section 3, and it is no wonder that Investment Trends research found that only 37% of non-retirees felt prepared for retirement (as cited in Jones, 2023).

It is as if we expect individuals to become experts in risk management — maybe even become their own defined benefit actuary!

The big challenge for individuals is effectively transitioning into retirement, including efficiently converting their retirement savings into retirement income. Alexis George, CEO of AMP, says: "We're financially illiterate when it comes to retirement and the financial solutions available to us" (George, 2023).

Complications include:

- the need to optimise the use of their assets and access social security;
- how to best navigate health care and, ultimately, aged care;
- the uncertainty of future lifespan and whether their money will last; and
- the disruption and emotional stress that can often be associated with retirement relate to both financial and non-financial issues.

The RIR (Callaghan et al., 2020) noted that:

> "Complexity and uncertainty, a lack of financial advice and guidance, and low levels of financial literacy are impeding people from understanding the system. As a result, some people fail to adequately plan for retirement and make poor decisions about how to use their savings in retirement."

How can we better support individuals with their transition from full-time work? With a combination of timely and targeted Help, Guidance and Advice (HGA).

Financial advice plays a significant role in preparing individuals for retirement (Lockyer, 2022; Rice Warner, 2002). However, "many don't seek advice because they are put off by factors such as high costs, significant distrust of the industry and a perception that financial advice is only for the wealthy" (ASIC, 2019).

The *Corporations Act 2001 (Corporations Act 2001* (Cth) Chapter 7) governs financial services, including financial product advice, and defines the concepts of personal and general advice (Sect 766B). General financial advice does not consider people's personal circumstances, but there is some ambiguity on the boundaries of general advice.

Recognising the challenges Australians face accessing quality, affordable advice, the Federal Government initiated the Quality of Advice Review (QAR) in 2022 (Hume, 2022). The Government released the final report publicly in February 2023 (Levy, 2023). In its response to the QAR (Australian Government, 2023), the Government has agreed to 14 of the 22 QAR recommendations and indicated that it will progress the package of reforms in three streams:

1. reducing red tape;
2. the role of super funds and expanding intra fund advice; and
3. allowing other forms of advice, such as those not provided by a financial adviser with a good advice duty, and the role of other financial institutions.

Suffice it to say, there is still significant uncertainty because the Government won't look to articulate a clear position until 2024, and any policies will be subject to more public consultation.

Implementing the QAR recommendations would significantly expand the scope of personal advice and reduce general advice to a more confined set of circumstances.

However, it is not only financial advice in the narrow, legislative sense that would help those approaching retirement. They also need targeted guidance and help. While many acknowledge this need, providers are challenged by the requirements of the *Corporations Act 2001.* Guidance and help are not well-defined.

The RIR (Callaghan et al., 2020) frequently refers to the role of information, advice and guidance. In most cases, it also tends to bracket together advice and guidance. Advice can include guidance, but it should also be possible to provide guidance in defined circumstances without the burden of regulatory obligations that accompany advice.

It says guidance is "advice or assistance provided to people that does not relate to a financial product recommendation" and suggests examples of guidance could include assistance on:

- The best age to retire
- Their Age Pension entitlements
- Their financial position and debts and assets
- How and when to pay down debt
- Their likely future living expenses
- Their retirement income needs (Callaghan et al., 2020).

Other guidance examples could include thinking about retirement goals, budgeting and cash flow planning, and considering utilising home equity as a source of income (without getting into financial/product advice).

"Help" includes assistance with information and where or how to access other sources of knowledge or insight that could assist with the recipient's discovery process. Examples include:

- provision of factual information
- where to go to for guidance, if not advice – and a source you can trust
- suggested areas for further research – e.g. valuable websites
- useful questionnaires, tools and templates to aid "self-discovery"
- facilitating introductions to advice providers

## 5.2 The Gap Between Demand and Supply

A great deal has been written on the gap between the demand and availability of financial advice. In 2021, Investment Trends estimated that "61% per cent of consumers had 'unmet' advice needs with only 16% per cent having seen a financial adviser in the last 12 months" (cited in Callaghan et al., 2020).

Less is said about the demand and availability of Help and Guidance.

Some QAR recommendations risk categorising nearly all one-to-one interactions between superannuation funds and members as personal financial advice based on presumed knowledge. This compounds the challenge of identifying when simple guidance approaches would be helpful.

Fundamental to expanding the availability of advice, let alone the help and guidance components, is streamlining advice processes for financial advisers without compromising quality and expanding advice through superannuation funds.

Trustees currently face a conundrum: on the one hand, they are obliged by the Retirement Income Covenant to have a strategy that "identifies and recognises the broad retirement income needs of the members of the fund; and presents a plan to build the RSE's capacity and capability to service those needs" (*Explanatory Memorandum, Corporate Collective Investment Vehicle Framework and Other Measures Bill*, *2021*). On the other hand, they must navigate the dangerous waters of personal advice obligations.

The interaction between the Retirement Income Covenant and the changes in financial advice regulation arising from the QAR is essential. The QAR has the potential to improve access to advice, specifically for advice related to retirement planning. Recommendation 6 is that "Superannuation fund trustees should be able to provide personal advice to their members about their interests in the fund, including when they are transitioning to retirement" (Levy, 2023).

The QAR views all advice to members as personal advice in the following circumstances: "the provider of the advice has considered one or more of the person's objectives, financial situation and needs" (Levy, 2023). If these recommendations are accepted and legislated, it is likely that the vast majority of advice provided by superannuation funds and one-to-one interactions with members, including intra-fund advice, would be classified as personal advice and subject to the QAR "good advice" recommendations.

General advice will tend to be limited to other than one-to-one interaction between funds/trustees and members. As noted by the QAR, "Research reports, seminars and newsletters that are not individualised – directed to individual clients or adjusted or otherwise personalised for individual clients – will continue to be general advice" (Levy, 2023, p. 65). Other examples may include websites.

For personal advice, the QAR recommends a shift from a prescribed "best interests" advice standard (with safe harbour steps) to a "good advice" standard and a fiduciary best interests duty for financial advisers. But what is "good advice"? The QAR suggests that it is "fit for purpose" and has the "usual consumer protections". However, this is arguably ill-defined, subjective and untested (in courts). The apparent caution by many superannuation trustees regarding the QAR advice recommendations is understandable if most advice is deemed personal and a "good advice" standard is not yet defined.

An issue for both the Retirement Income Covenant and the QAR is the challenge for trustees to know enough about their members. Trustees only have a limited window into their member's financial affairs and other important considerations such as home ownership arrangements and marital status. Furthermore, where a member is in a relationship, retirement planning is best done as a couple, and, as Wayne Swan, Chair of Cbus and former Treasurer, said at the recent AFR Wealth Summit, "We need to have a situation where we can provide financial advice to couples, but you can't do that at the moment. [Plus] the social security system works on couples" (Wootton & Read, 2023). This requires further work.

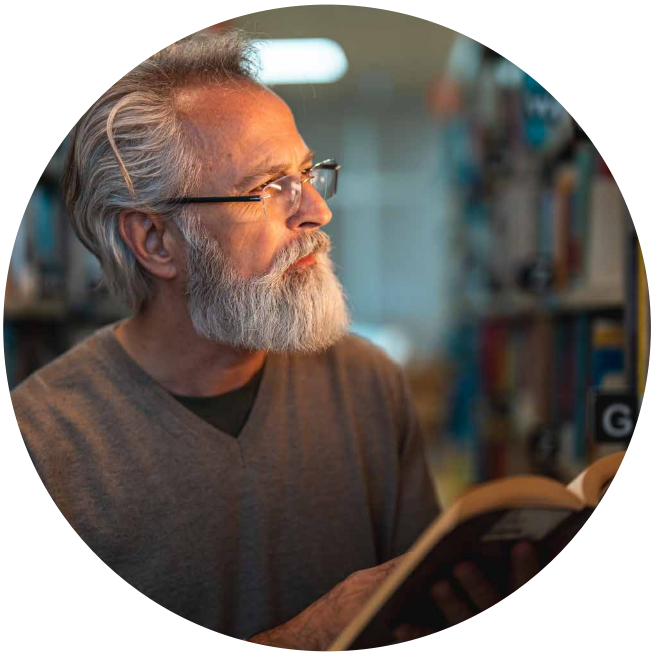
## 5.3 Some Thoughts for Moving Forward

The future of Help, Guidance and Advice is a big discussion and outside the primary scope of this Dialogue Paper; however, here are a few ideas to get the ball rolling:

- Develop a well-defined HGA Framework. Actuary Michael Rice AO recommends matching regulatory requirements with the risk from the consumer's perspective—for example, with requirements varying depending on whether personal advice is Simple (low risk), Comprehensive (medium risk) or Complex (high risk) (Rice, 2022). The aim of this framework should be to expand the supply of HGA, making it easier for consumers to obtain the support they need, when they need it, and in a format that makes sense to them. The RIR contends, "While guidance of this nature is unlikely to fall with the definition of regulated financial advice, the definition of what constitutes financial advice is not always clear, and this ambiguity may explain funds' reluctance to offer guidance" (Callaghan et al., 2020).
- Address barriers to superannuation funds knowing more about their members. Many trustees are reluctant to collect too much data from members directly due to concerns they may inadvertently be providing personal financial advice (APRA & ASIC, 2023). In addition, trustees and members have privacy and information security concerns that must be addressed. Surely, it should be in members' best financial interests for trustees to know as much as possible about their members to provide the best support possible as they make the difficult transition to retirement.
- Consider innovative regulatory approaches to expand the use of digital tools and technologies. While HGA offerings will always require a hybrid approach, we see the role of tools and technologies continuing to evolve, often involving triaging or providing initial guidance and advice before passing the consumer on to a personal advice provider, according to their needs and preferences. There is also a role for tools and technologies to support the personal advice provider.
- Be bold with advice reforms, including finding a new home for financial advice legislation. "This new home would allow a reformed structure and framing to be implemented, less burdened by the drafting styles and ad hoc legislative design choices of the past" (Filkin & Ash, 2011).

We acknowledge that these initiatives are not straightforward and not without risks requiring careful management.
The environment is constantly changing, and the demand for retirement planning support is growing. The time to act is now.

"Surely, it should be in members' best financial interests for trustees to know as much as possible about their members"



# 6. Beyond the Financial

One of the paradoxes of retirement planning is that when planning retirement and making decisions about when to retire, it is typically financial considerations that take centre stage, whereas, after the event, it is more likely that non-financial considerations dictate whether one has a good retirement (underpinned by financials, of course).

These non-financial considerations merit much more extensive attention in public policy, media commentary, retirement transition planning, and managing wellbeing in retirement.

Traditionally, commentary on retirement matters has been dominated by financial considerations, which are, of course, important. We are seeing a growing realisation that a whole host of non-financial considerations are arguably at least as important and, in aggregate, more important than financial considerations (Hayes, 2022; Stone, n.d.; Vigue, 2023).

For many retirees, life after full-time work is very fulfilling based on a naturally found balance of travel, leisure, family and friends, volunteering, community involvement, sports activities, etc. These people have got it sorted. For others, it can be a disruptive experience and a source of stress.

As well as losing our regular income, we potentially lose much more when we leave the workplace, including identity, purpose, structure, community, relevance and, for some, power. Without adequate planning and preparation, retirement can potentially be a disruptive and challenging experience with a significant detrimental impact on one's mental health.

This planning and preparation for retirement — or, as we prefer to call it, "life after full-time work" — on a holistic basis can better assure wellbeing in "life after full-time work".

"it is more likely that non-financial considerations dictate whether one has a good retirement"

## 6.1 Holistic Retirement Planning

The critical elements of a successful retirement include financial, physical and mental health, along with a sense of purpose and identity. Any successful retirement planning approach needs to consider the whole person and not just the financial elements.

These non-financial considerations are not just "nice-to-have considerations" and "add-ons" to the retirement planning process. Those approaching retirement will benefit significantly from an integrated or holistic approach to retirement planning that covers both financial and non-financial dimensions.

One such useful framework is the Changing Gears Life Stage Planning Model™ (Figure 8).[2] Changing Gears has been applying this model for over 15 years to raise awareness and understanding of the issues to address in transitioning to retirement.

Figure 8: Changing Gears Life Stage Planning Model™


Source: Changing Gears

Other frameworks that emphasise the importance of a multi-dimensional and holistic approach include work by AgeWave and Edward Jones, which uses the four dimensions of health, family, purpose and finances (AgeWave, 2021) and the Victorian Government's Better Health Channel (Department of Health & Human Services, n.d.), which addresses post-work lifestyle, financial issues and retirement, emotional issues and retirement, and partner issues and retirement and stresses that planning can help create a happy retirement.

## 6.2 Health Trumps Wealth

A significant component of the non-financial dimension in retirement planning must be planning around good health. As we have seen, the period of retirement is continuing to grow, and maybe it is helpful to talk about "rest-of-life" planning or longevity planning.

Numerous studies have concluded that health is more important than wealth for retirees, including:

- "Retirees in better health experience greater feelings of wellbeing, including feeling more financially secure" (MassMutual, 2015); and
- According to an AgeWave study, "81% of retirees cite health as the most important ingredient to a happy retirement… being financially secure was a distant second at 58%" (McWhinnie, 2014).

Any considerations of health need to cover both physical and mental health. Retirement from full-time work can be a disruptive and difficult experience. It can be a time of emotional adjustment, and stress is not uncommon and may even manifest in retirement depression. This can partly arise from the abrupt change to a sense of purpose and social relationships derived from work and work relationships.

Robinson and Smith (n.d.) noted, "While retiring can be a reward for years of hard work, it can also trigger stress, anxiety, and depression… tips can help you cope with the challenges, find new purpose, and thrive in your retirement."

## 6.3 Purpose, Meaning and Relationships

Meaning and purpose have a pivotal role to play in a successful life after full-time work. A major longitudinal study by Trinity College, Dublin highlights the role of maintaining a healthy attitude as we age. Professor Rose Anne Kenny says, "We control 80% of our ageing biology" (Kenny, 2023). Kenny's research is complementary to the views of Moshe Milevsky, quoted in Section 2.4, highlighting the need to think about "biological age" vs. "chronological age".

Some of these phenomena are explained by epigenetics, which is the study of how your behaviours, attitudes and environment impact the functioning of your genes. Many epigenetic changes are reversible and, hence, manageable (Dutchen, 2023).

Much has been written on the value of living life with a sense of meaning and its influence on wellbeing. This knowledge is especially important for retirement planning when our sense of meaning and purpose may have been strongly affiliated with the workplace. Many have adopted the philosophy of Aristotle, who believed that happiness derives from living a life of meaning and that, conversely, "happiness is the meaning and purpose of life". That is, they are mutually reinforcing.

[2] Subject to trademark by Changing Gears and reproduced here with the permission of Changing Gears. The authors are exploring potential initiatives in the retirement sector with several organisations, including Changing Gears. There is currently no commercial arrangement with any of these organisations.

Many will be familiar with the writings and thoughts of the eminent psychiatrist Dr Viktor Frankl and his book *Man's Search for Meaning* (1946). He founded logotherapy, the central tenet of which is that the search for a life's meaning is the central human motivational force.

A vital step in preparing for life after full-time work, or managing wellbeing in this stage of life, is identifying and fulfilling this meaning and purpose. This will vary by individual and may include community involvement, serving a not-for-profit organisation with a worthwhile purpose, contributing to the growth and development of others (e.g. through mentoring), pursuing further education and learning, family commitments and involvement, religious or spiritual commitments, and so on.

"Having a purpose in life has been cited consistently as an indicator of healthy aging for several reasons, including its potential for reducing mortality risk" (Hill & Turiano, 2014).

Relationships rank at least as important as purpose and meaning. One of the most well-known studies into happiness is the Harvard Study of Adult Development (Solan, 2017). Its conclusion? "Positive relationships keep us happier, healthier, and help us live longer" (Schulz & Waldinger, 2023).

Not only do relationships make us happier but the lack of relationships or loneliness can have quite detrimental impacts on our physical health. "The risk of premature death associated with social isolation and loneliness is similar to the risk of premature death associated with well-known risk factors such as obesity" (Holt-Lunstad et al., 2015).

Failing to consider purpose, meaning and relationships can harm mental and physical health in retirement. "A common mistake in planning for retirement is not considering the emotional adjustment that occurs, which, in some cases, can cause depression" (Waichler, 2023).

"Unfortunately, all too many depressed older adults fail to recognize the symptoms of depression or don't take the steps to get the help they need" (Robinson et al., n.d.).

Waichler (2023) also suggests a range of tips to manage this transition, including gradually transitioning out of full-time work (if one has that option), volunteering, preparation in advance, preparing your finances, and destigmatising age (i.e. having a positive attitude to ageing and the impacts of epigenetics).

While some superannuation fund trustees are concerned about a potential conflict between the Member Best Financial Interest Duty and the types of support they can provide to members about their retirement (Hennington et al., 2023), we are pleased to see some trustees are providing guidance on non-financial aspects on their websites (ART, n.d.; Aware Super, n.d.). We encourage more to do so.

# 7. Conclusion

Retirement matters. It is something each and every one of us has had to deal with or will have to deal with at some point in our lives.

The social, technological, employment and demographic trends shaping the future of retirement are not going to slow down. Every aspect of society will need to adapt to the evolving nature of retirement—to deal with the challenges and take advantage of the opportunities. We have addressed only some in this Dialogue Paper.

- For employers: how to manage an older workforce, including workforce planning?
- For government: where to set the Age Pension age, how to shape and manage retirement funding as their population ages, and how to regulate the superannuation and advice sectors to facilitate Help, Guidance and Advice?
- For superannuation trustees: how to best serve members approaching retirement, at the start of retirement, and in retirement within the parameters of regulatory and prudential requirements?

Many of these issues deserve their own Dialogue Paper, and we are sure you can name others not covered. For those who want to delve deeper into the issues, we have included a comprehensive reference list containing not just those sources we have cited but a broad range of further reading on the topics we discuss.

Without being exhaustive, here are a few areas we see as good places to start.

## 7.1 Longevity, Ageing and Retirement

Increasing longevity and redefining retirement are heavily entwined. Given the large amounts being spent on significantly reducing ageing, we expect lifespans to continue to grow and retirement to continue to evolve.

Many people would love to extend their working lives beyond conventional retirement ages—either in a full-time or part-time capacity. Likewise, society and the national economy would benefit from extended work patterns. Businesses and other organisations would also benefit from more workers with experience, insights and wisdom.

A major obstacle to address is societal attitudes and stereotypes. We are progressing on some of the "-isms" such as racism, sexism, and, potentially, ableism. However, outgoing age discrimination commissioner Kay Patterson (2023) states, "Ageism is the least-challenged and understood form of discrimination".

There are issues to be addressed by a range of different stakeholders, including:

- Government and public policy makers: consider public policy changes to encourage redefining retirement. Do we need a National Longevity Strategy (Williams, n.d.) to complement the Intergenerational Reports?
- Businesses and other organisations: consider the changes required to fully appreciate mature workers. Is ageing part of your Diversity and Inclusiveness agenda?
- Superannuation funds: consider treating your retiring and retired members as more than just a retention opportunity. Profit-to-member Trustee Boards typically include representatives of employees, that is, members in the accumulation phase—is there a place for retiree representation?

## 7.2 Retirement Funding and Planning

As retirement continues to evolve, so must retirement funding and retirement planning.

Let's stop talking about Australia's three-pillar system and change the conversation so that extended work patterns (Pillar 4) and home equity (Pillar 5) are given appropriate standing. We raise some of the questions regarding Pillar 4 above. What public policy settings are required to encourage Pillar 5? It is about time that superannuation funds and financial planners include these pillars in retirement planning conversations, where appropriate.

A different way to think about retirement planning is to consider the question posed by Joseph Coughlin (2018): "Who teaches you how to live in retirement?"

Keep that question in mind when considering:

- How do we help trustees manage the best financial interests duty and balance the tension between their Retirement Income Covenant obligations and how financial advice is regulated?
- How do we enable a more holistic approach to retirement planning, covering both financial and non-financial dimensions?

We call for a well-defined HGA Framework that trustees can manage and that enables retirees to readily access the Help, Guidance and Advice they need, when they need it, in a format that makes sense.

Is it time to be bold with advice reforms, including finding a new home for financial advice legislation rather than the complexity of the *Corporations Act 2001* advice provisions?

## 7.3 Retirement Reimagined

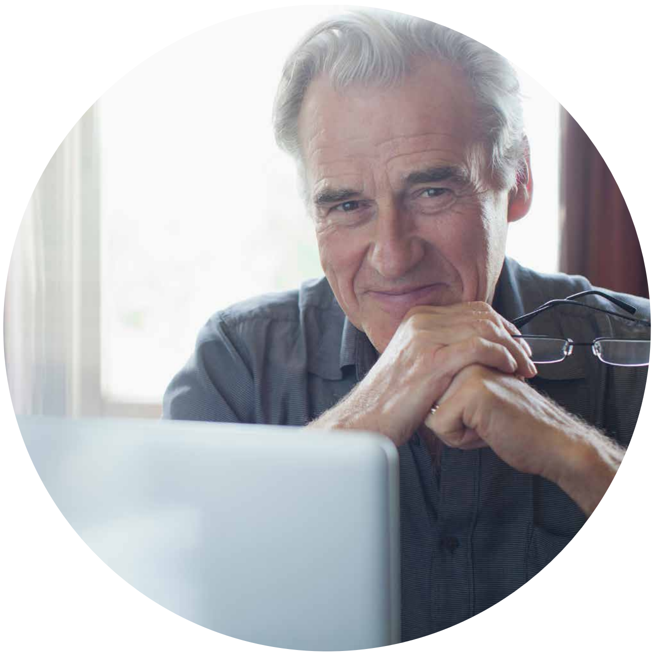
Sixty years ago, President John F. Kennedy said, "It is not enough for a great nation merely to have added new years to life — our objective must also be to add new life to those years" (Kennedy, 1963).

That call to action is even more relevant today. It all comes back to the individual and understanding how they view retirement. Only then can we improve our ability to serve them in a way that helps them each achieve what's most important to them and their families.

Retirement is an important life transition and brings new possibilities and new questions. We have shown that any conversation about retirement needs to look beyond the traditional focus on products and solutions. This is true for parts of society — governments, businesses/organisations, and individuals.

Our aim for this paper is to provoke conversations about the evolving nature of retirement and how actuaries and others can help society be better prepared for the future of retirement. A good starting point is to ask the question: what does Retirement Reimagined really look like?

> What does Retirement Reimagined really look like?



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