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Professional Pensions

Australia consults on introduction of compulsory annuitisation

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Australia is considering whether to force people to convert all or part of their superannuation benefits into retirement products to help manage longevity.

The interim findings of the Financial System Inquiry (FSI) - a government commissioned investigation into Australia's financial system led by former Commonwealth Bank of Australia chief executive David Murray - found the retirement phase of Australia's superannuation system is 'underdeveloped' and 'does not meet the risk management needs of many retirees'.

The inquiry committee is now consulting on a range of options - including mandating the use of certain sorts of retirement income products; introducing a default option for how individuals take their retirement benefits; and providing incentives to encourage retirees to purchase retirement income products that help manage longevity and other risks.

Further reading

- Lessons from Australia (1): Delivering retirement income
- Lessons from Australia (2): The challenges of complexity and lump sum retirement

The report said, during the accumulation phase, employers make contributions automatically on behalf of employees, with defaults applying to those who are less engaged with the system.

But it said this framework to guide individuals ceases at retirement - leaving many retirees unprepared to make 'critical, once-in-a-lifetime decisions' regarding when and how to draw down their savings over the remainder of their lives, and how to manage the investment, inflation and longevity risks involved.

It added risk management was a major weakness of the drawdown phase - noting that while individuals were concerned about outliving their savings, few retirees use income stream products with longevity risk protection, and there a limited choice of these products.

And it warned that the government bears significant longevity risk as means-tested state provision - the Age Pension - is available for retirees on low incomes.

Key findings included:

- A quarter of people with a superannuation balance at age 55 have depleted their balance by age 70
- Half of superannuation benefits in retirement are paid as lump sums
- The ability to use superannuation lump sums to extinguish debt can encourage higher pre-retirement consumption and borrowing
- Approximately 44% of retirees who take a lump sum use it to pay off housing and other debts, to purchase a home, or make home improvements
- A further 28% use their lump sum to repay a vehicle or holiday loan or to purchase a holiday or new vehicle.
- The number of households entering retirement with debt, particularly a mortgage, is increasing

The timing of this report comes as the UK government is looking to introduce a wide range of freedoms at retirement - and moving to the same sort of lump-sum system that Australia is now considering abandoning.

The UK government's response to the Treasury consultation, *Freedom and Choice in Pensions*, is due on Monday.

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