THE ORFORD INITIATIVE

PROVIDING ADVICE FOR RETIREMENT; A FINANCIAL ADVISER PERSPECTIVE

JANUARY 2021 REPORT

Written by Teagan Altschwager and Jody Evans

Acknowledgments

This report presents the findings from 6 online focus groups with 35 financial advisers across Australia, exploring the process through which they provide retirement advice to their clients.

This qualitative study was conducted in 2020 as part of a 3-year research and engagement project by Melbourne Business School. The project, entitled '*The Orford Initiative: Improving the retirement outcomes for Australians by optimising their retirement income and financial security*' is funded by the Orford Foundation in collaboration with the Melbourne Business School. The project team acknowledges the invaluable support of the Orford Foundation.

Please see the Orford Initiative webpage for further information on the background, motivations, and other research conducted for this project.

Project team

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Research approach

The team adopts an engaged research approach to all projects. Engaged research is based on authentic partnerships with communities and organisations to craft a research program that creates value with and for communities or organisations and that has aligned academic outcomes.

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ORFORD FOUNDATION

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Executive Summary

This report highlights the experience of 35 financial advisers in providing retirement financial advice to clients. Based on 6 online expert focus groups, this report presents qualitative findings that unveil adviser perceptions, approaches and barriers to providing financial advice for retirement.

The **initial steps of retirement advice** entail *answering key client questions* around adequacy and longevity of their retirement savings, and *assessing needs*. Three interrelated themes of needs assessment; (1) *making projections*, mainly financial in nature facilitated through surveys and projection software, (2) conceptualising the *'future self'*, requiring a deeper dive into what life in retirement would entail, and (3) *expectation management* of clients, often requiring *education* of retirement systems and products.

Longevity is raised as a critical, yet difficult topic. Some advisers admitted to 'skirting around the subject', which can have detrimental impacts on retirees who inadequately conceptualise how long their savings need to last. Further difficulties arise in projecting life expectancy, with common 'rules of thumb' potentially underestimating longevity.

Advisers typically consulted with **couples**, however **non-partnered women** are also a key segment. **Children** participated in late stages of retirement or as a parent transitions into aged care; fears were raised of self-interest clouding this process.

Account-Based Pensions (ABP) are the most common retirement product discussed, however it is also common to construct a **portfolio** of products/investments which may include annuities. Key to this strategy is maximising age pension benefits. Three segments of advisers (fluctuating, anti-annuities and pro-annuities) formed, according to annuity sentiments and utilisation.

In determining **whether to include annuities in their advice**, advisers consider age pension benefits, the type of client (in terms of assets, capability, and risk aversion), and reflect on the unique and conflicting circumstances of 2020 (uncertainty of COVID-19 versus low interest rates).

Annuity awareness is low, particularly in comparison to ABPs, which clients perceive as an extension of super. Client annuity perceptions are influenced by capital access and interest rates.

Advisers and consumers place importance on different annuity features, in particular 'a payout at death', due to the competing priorities of income maximisation and inheritance motives respectively. Complexity is a major hurdle in the annuity offer, with advisers seeing their role as pivotal in helping clients overcome decision paralysis.

Additional barriers to providing annuity advice include; (1) *adviser-related barriers* of conflicting interests and issues in annuity understanding and implementation, (2) regulatory and government barriers, focusing on various aspects of compliance, and (3) provider or offering-based barriers, where annuity provider obligations were queried.

Three recommendations are offered:

- Consumer awareness must be addressed to bring annuities into the 'mainstream'.
- A shift in adviser mindset about annuity benefits is required.
- Government should play a major role in supporting awareness campaigns and removing inherent self-interest built into the financial sector.

Introduction

This report conveys the experience of 35 Australian financial advisers with an interest in understanding how they approach retirement advice, the products they discuss, and the barriers they face.

As discussion continues to shift in Australia away from retirement accumulation (saving for retirement), towards strategies for managing and maximising money during retirement, the role of financial advisers has never been more important. As life expectancy increases, so too does the need to carefully construct retirement assets to ensure financial security for the duration of retirement.

An annuity is one retirement income option that addresses the issue of longevity risk by guaranteeing income. While many Australians feel unprepared for retirement and worry that they will outlive their savings, the Australian annuity market remains very small.

This research aims to better understand how financial advisers approach retirement advice, and the role that annuities play therein. As major facilitators of retirement strategy and sources of knowledge for their clients, the financial adviser perspective is important in understanding the role annuities play in retirement financial advice.

This report takes a closer look at financial decision-making in retirement from the perspective of financial advisers. We seek to understand their approach, how they handle key topics like longevity risk, what products they recommend, and the role of annuity advice in particular.

Qualitative research was undertaken via online expert focus groups with 35 financial advisers across Australia.

Advisers and government are urged to consider:

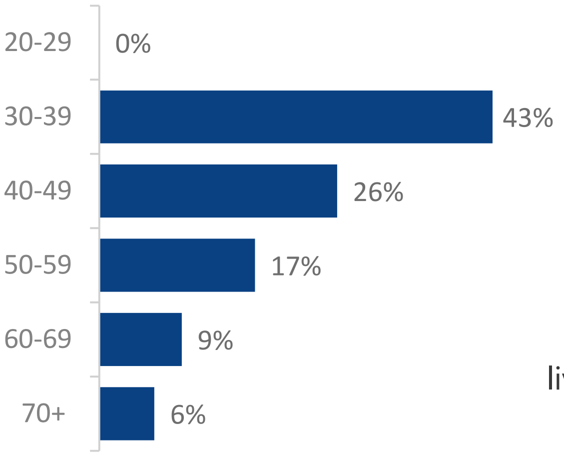
1. How to address consumer awareness and bring annuities into the 'mainstream'
2. How to shift adviser mindsets about the benefits of annuities
3. How government can facilitate awareness campaigns and initiate further reform of the finance sector to eliminate built-in self-interest

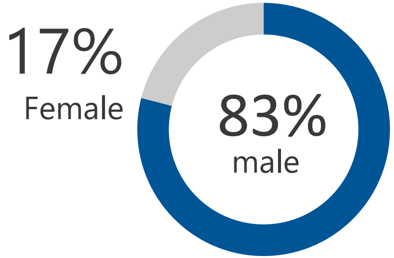
Participant Profile

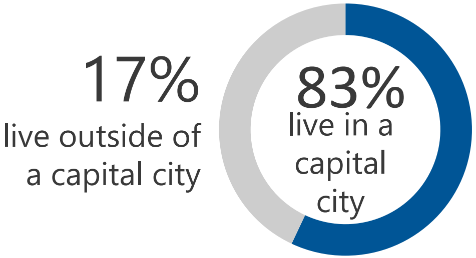
Demographics from research registration survey

A total of 35 financial advisers were recruited to participate in online focus groups via zoom. Focus groups took on average 90 minutes. Participants consisted of 6 women and 29 men, across Victoria (11), Queensland (8), New South Wales (10), Western Australia (3), ACT (1), South Australia (1) and Tasmania (1). Twenty-nine participants resided in a capital city, while 6 did not. Participants represented a mix of ages.

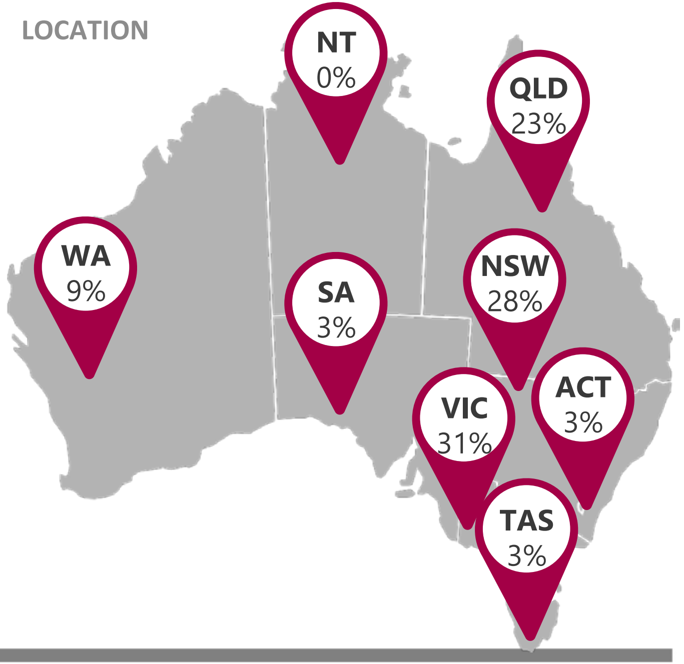
AGE







LOCATION

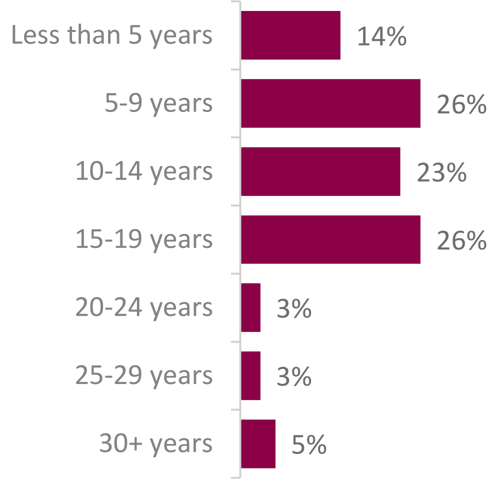


Participant Profile

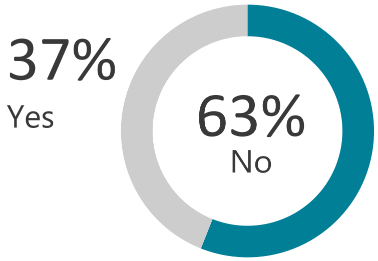
Professional characteristics from research registration survey

Participants represented a diversity of professional characteristics: 40% had less than 10 years experience, 49% had 10-19 years experience, and 11% had 20+ years experience; 37% worked for a licensee that also offers its own retirement products. For 80% of respondents, specifically providing retirement advice was a significant part of their role (they provided retirement advice 60% of their clients or more).

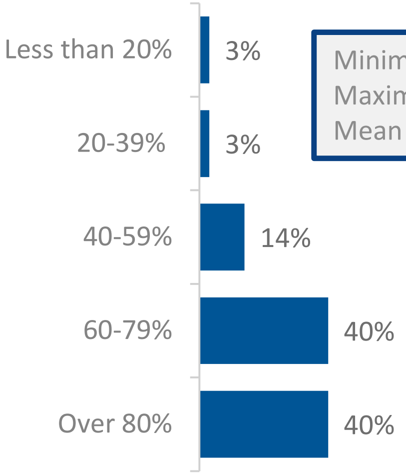
YEARS AS A FINANCIAL ADVISER



DOES THE LICENSEE YOU WORK FOR ALSO OFFER ITS OWN RETIREMENT PRODUCTS?



WHAT PERCENTAGE OF CLIENTS WOULD YOU GIVE RETIREMENT SPECIFIC ADVICE TO?
(ESTIMATED PERCENTAGE FROM 0-100%)



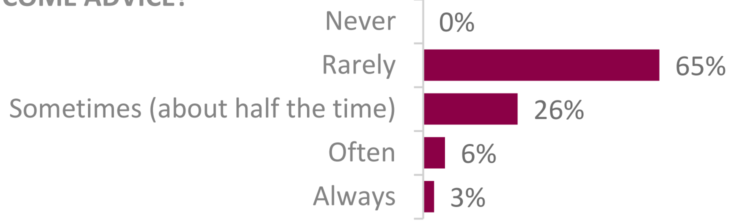
Minimum	14%
Maximum	100%
Mean	71%

Participant Profile

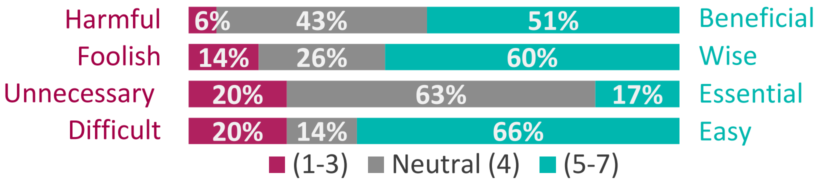
Frequency of annuity advice and attitudes from research registration survey

Participants exhibited diverse behaviours and attitudes towards annuities. Sixty-five percent ‘rarely’ included annuities as part of their retirement income advice, while 9% ‘often’ or ‘always’ included annuities. Participants rated their personal attitudes towards annuities, as well as rated what *they believed their clients* general attitudes are towards annuities. The key difference is on the metric of difficulty; 66% of advisers rated annuities as ‘easy’, while 48% of advisers believe their clients find annuities ‘difficult’. We compared these findings to the same attitude measures used in a previous survey of 930 Australians aged 50+ (Altschwager and Evans, 2019); compared to adviser perceptions of client attitudes, consumers in this study feel more *uncertainty* rather than *negativity* towards annuities, particularly in terms of their difficulty. They also rate annuities as more ‘essential’, while advisers perceived their clients to be uncertain or to perceive them as unnecessary.

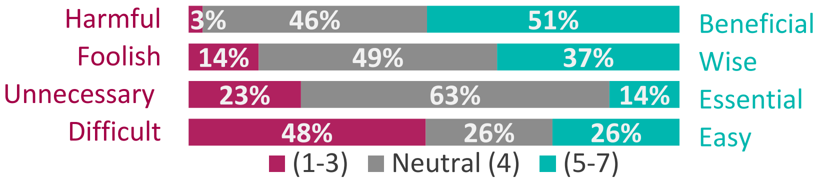
HOW OFTEN DO YOU INCLUDE ANNUITIES AS PART OF YOUR RETIREMENT INCOME ADVICE?



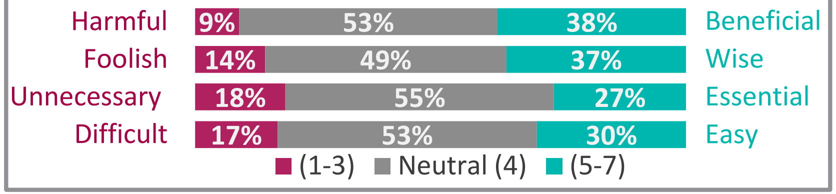
ADVISER ATTITUDES TOWARD ANNUITIES (n=35)



ADVISERS’ PERCEIVED CLIENT ATTITUDES TOWARD ANNUITIES (n=35)



CONSUMER ATTITUDES TOWARD ANNUITIES (survey n=930)

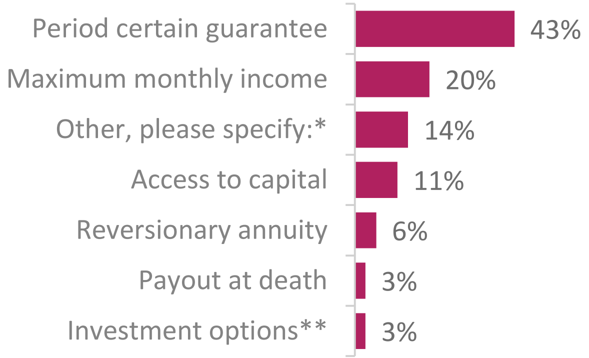


Participant Profile

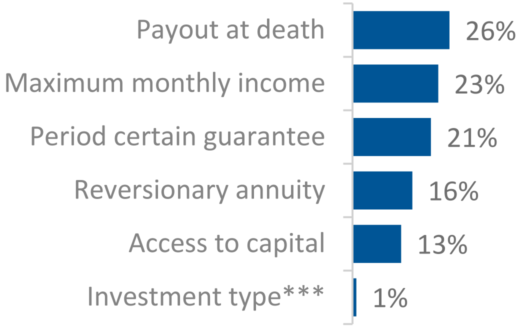
Importance of product attributes from research registration survey

Participants were asked what they believe to be the most important lifetime annuity feature. We compare these results to similar consumer ratings from a previous Orford Initiative choice experiment of 538 Australians aged 50+ (Altschwager and Evans, 2020a). There is a notable differences in attribute ratings; *payout at death* is the most important attribute in the consumer choice experiment, but rates second to last by advisers. The discrepancy in these ratings are discussed on page 22. Similarities in preference are also apparent; consumers and advisers both rate maximum monthly income highly (2nd), and investment options/ type are least important.

MOST IMPORTANT ANNUITY ATTRIBUTE TO RETIREES (SELECT ONE) (ADVISERS, N=35)



RELATIVE ATTRIBUTE IMPORTANCE (CONSUMER CHOICE EXPERIMENT, N = 538)



Other, please specify* = Two 'other' options identified: Centrelink benefits/ concessions (3); Certainty of income/ meet income needs (2)

Investment option** = ability to pick between capital guaranteed and investment linked annuities

Investment type*** = capital guaranteed versus investment linked option

Retirement Advice: the Initial Steps

Adequacy and longevity: key questions from clients about retirement are ‘do I have enough money’ and ‘is it going to last’?

In an initial client consultation, key questions about retirement are raised. Common topics relate to adequacy and longevity;

“The main question going into retirement for clients is around that, ‘Do I have enough? Is it going to last?’. Those types of questions, how you deliver that kind of income.” (Adviser 6, Group 1)

Interestingly, this sentiment resonates across income groups. For example,

“The number one question, even from clients with substantial wealth, is, ‘Will I have enough money?’... Clients that have a significant asset base tend to spend a lot of money. So, they still worry about having enough money to fund an expensive lifestyle.” (Adviser 19, Group 4)

In contrast, while Adviser 31’s client base is not high net worth individuals, this key question remains;

“The conversation mainly is about, ‘Will the money last?’. Because of their positions, it's not so much about the legacies - whilst I imagine they would like to leave one, they are not often the clients that have that sort of nest egg. Mainly it's about how long it's going to last them, ensuring that they don't outlive their money effectively.” (Adviser 31, Group 6)

Clients often aske generic questions around income adequacy; ‘*how much is enough?*’. This may stem from superannuation balance estimates reported in the media and/or superannuation funds;

“People say, ‘I've heard you need a million dollars to retire’. There's that magical number that's around the place and I often have people ask, ‘Do I really need a million dollars?’ because a lot of people fall well short of that.” (Adviser 2, Group 1)

Others ask how their retirement balance compares to others in order to gauge their financial position. This applies to both superannuation balances and level of spending during retirement;

“Number one questions are, ‘Have I got enough?’ and, ‘Am I normal? Am I near what everybody else is doing?’ It's funny, they're so concerned about what everyone else is spending, yet whatever you want to spend, that's your number.” (Adviser 25, Group 5)

Finally, for those with time to implement a saving strategy for retirement, they frame the question as ‘(when) can I afford to retire?’;

“‘Can I afford to retire?’ is a big one. People have an idea of when they want to retire, and they've got this lump sum, but what does it mean? That's when the conversation starts about adequacy.” (Adviser 3, Group 1)

Retirement Advice: the Initial Steps

Several key, interrelated themes relate to the process for assessing client needs. The first focuses on making *projections*.

Financial projection approach

Advisers prioritise establishing current cash flow or assisting clients to create a comprehensive budget, and using that to predict future spend and behaviour. Projections show longevity of funds, investment options, and associated products;

"There are questions which [determine] whether you recommend a product. Some of the difficult questions are about health, family health history and longevity. Another is to ascertain the amount they think they require in retirement and split it up between wants and needs and then match the product, the age pension and an annuity to their needs. There are questions about sequencing risk and longevity risk. On a scale, how important do you consider them and depending on those answers, we recommend and justify the inclusion of an annuity in the statement of advice." (Adviser 24, Group 4)

Projections are created using 'fact find' surveys (as Adviser 24's quote demonstrates), and projection tools/ software;

"We ask family history, health.. I add 10 years above life expectancy, then I'll put it in the projection tool. Based on their risk profile, the income they're drawing and the money they have, also it will build in Centrelink… They might have other expenses like aged care, or renovations of the house… If the projection tool shows me the client is not going to have enough money to last them until the end, then we have a different conversation – 'Should you invest at a higher risk level, which potentially will give you a better return and help you to achieve your retirement goal." (Adviser 14, Group 3)

Extant research supports the role that technical tools play in enhancing adviser capabilities to provide advice across various scenarios. This can help clients reach their retirement goals, however only if that advice is followed.

Advisers are cautioned that an overreliance on jargon or highly technical information can lead to confusion and disengagement (Vlaev et al. 2015). *How* projections are presented also has an impact; Adviser 14's strategy of visual presentations and graphs are preferable to ensure information is intelligible to clients (Vlaev et al. 2015).

"It's a strong approach, especially when the customer can see visually on the graph how much they'll have until which age and how much they've got left. That gives them a clear picture of their retirement and helps them to make the decision." (Adviser 14, Group 3)

Retirement Advice: the Initial Steps

Conceptualising the ‘*future self*’ and life in retirement.

Projections are only as meaningful as the quality of information used to create them;

- **Respondent fatigue:** fact find surveys are extensive and as clients grow tired the quality of their responses may decline (Lavrakas, 2008).
- **Social desirability bias:** client’s may feel inclined to provide inaccurate responses - to save face, provide socially acceptable answers, or answer in accordance with that they believe the adviser wants to hear (Neuman 2006).
- **Comprehension issues:** clients may not understand questions (especially technical) or accurately conceptualise answers (e.g. their spending needs) (Lavrakas, 2008). They might guess or provide inaccurate answers if they feel uncomfortable asking for clarity.

Going beyond surveys, many advisers incorporate financial, lifestyle and emotional components to help clients image their *future self*.

Life in retirement approach

Research advocates for incorporating emotional and values-based elements into the retirement planning discussion as this helps clients foster an emotional connection to the plan (and the adviser), resulting in greater plan commitment (Sharpe et al. 2007). This strategy requires clients to delve deeper into what their retirement might entail, to better conceptualise their needs;

“I don't encourage them to talk of what things cost, [but] in terms of what they want to do, how they want to fill their time, what do they seek enjoyment and fulfilment from, how do they apply the expertise they built over their career and put that towards a different purpose? The parallel conversation of that is, ‘What will we need financially to facilitate the way you imagine retirement?’.” (Adviser 5, Group 1)

This strategy encourages clients to conceptualise their life in retirement; research advocates for strategies that aid in conceptualising retirement as people suffer from a ‘sense of disconnect’ with their future selves, i.e. they cannot imagine themselves far into the future. This has negative impacts on retirement decision-making, including their willingness to save for retirement (Hershfield et al. 2011). While Hershfield et al. (2011) focused on novel and technology-intensive interventions (creating digital avatars showing the participant an aged rendering of themselves), they recommend any exercise that enables the individual to bring to mind their ‘future self’ – e.g. writing a letter to their future self. An approach advisers use for conceptualising retirement is explaining the various stages of retirement, and the different lifestyle and financial requirements therein;

“I’ve heard the term 'a retirement smile’. In the first 5-10 years you spend a lot more, in the middle you might get that rocking chair and the kids come visit you… In the third phase the aged care costs kick up. He drew it on the board and clients go, ‘That makes sense’.” (Adviser 4, Group 1)

Retirement Advice: the Initial Steps

Focus on *expectation management* and client education.

ASFA retirement standards are also used, both in reference to financial projections (page 11), and to help clients picture their retirement lifestyle and associated spending;

"The ASFA retirement standard gives a modest and comfortable retirement guide. That's useful for a client who is pretty green and doesn't know what income level is reasonable." (Adviser 12, Group 2)

However, some question their usefulness;

"There's plenty of numbers thrown around, 'What is a comfortable lifestyle?' from ASFA, etc., but they're crap. It's going to depend on the individual and their personal financial situation." (Adviser 34, Group 6)

Expectation management and education approach

Advisers focus on ensuring expectations are achievable and realistic, both in a general sense of what their life could look like financially in retirement, as well as the performance and yields of their investments over the course of retirement.

"A realistic conversation about what's achievable - often [clients] come in with expectations and might not be able to meet them. So, there's a lot of conversation around that, making sure we know exactly what they want." (Adviser 2, Group 1)

As Adviser 11 explains, setting investment expectations too high could lead clients to question the quality of advice provided;

"We used to be quite specific around asking people whether they wanted their capital to maintain or to grow in line with inflation. Though that's a very nice goal, we found we were making a rod for our own back, where it mis-sets expectations. I think that total return investing rather than, 'I should spend my [investment] income and the capital should do its own thing and be sacrosanct' - that idea dies even when you're in one of the highest yielding countries in the world… So long as you are able to leave some legacy, not die with your last cheque bouncing, and know that [spending down capital is] going to be a gradual thing." (Adviser 11, Group 2)

Education depends on the client's existing level of knowledge and interest in financial topics, however generally focuses on broadening their knowledge of the options available given the client's current position, and in pursuit of their particular goals. Education also plays a role in re-adjusting client's expectations and explaining what is feasible for them in retirement (and why);

"It starts with a conversation around, 'Tell me what you know about how the super system works… about account based income streams', or, 'Have you thought about how much income you're looking to achieve in retirement?' … If a couple have $1M in super and they want $100,000 a year, then we've got a problem. We've got to draw down at 10%. We know that 5% is sustainable, and then it's having a conversation around trade-offs – 'How would you feel if you ran out of money? Is that a big concern? Would you consider downsizing your home to add capital back into the mix?'." (Adviser 9, Group 2)

Retirement Advice and Decision-making

The role of longevity and mortality are difficult, yet incredibly important, topics within retirement planning discussions.

Difficulties in discussing longevity

Advisers shared various difficulties in broaching the subject of longevity. A key issue is the tendency for clients to underestimate their life expectancy;

“Getting the client to think about how long they're going to be alive for, and that we do have an aging population in this country. A lot of clients underestimate how long they're going to live for. So, it's really planting that seed early on that, if they are reasonably healthy in their early sixties, they've got a pretty good chance of making it well into their eighties.” (Adviser 33, Group 6)

Adviser 32 refers to the longevity conversation as ‘hard’ and ‘overwhelming’,

“Statistics say you've got a 50% chance of living beyond 100 if you're living now. That gives a lot of my clients a shock. The investment timeframe often is longer than the client expects… I find it a bit harder to - it's overwhelming - talking with older clients to get them to realise that, ‘You’re likely to live beyond what you think’.” (Adviser 32, Group 6)

Other recognise that the life expectancy discussion can be daunting, and needs to be handled sensitively;

“It's a sensitive conversation if you're concerned that someone will run out of money. You need to be quite blunt if you want to change the client's behaviour.” (Adviser 19, Group 4)

Several advisers admit they use projection jargon to ‘skirt around’ this difficult subject;

“To broach the subject of life expectancy, I skirt around it a little bit. We use projection jargon, ‘What happens if you do this... You see the graph go here and here’… I kind of leave it to clients to [raise it]. We do touch on it but I probably don't delve into it as much as [others].” (Adviser 4, Group 1)

While the difficulties of this discussion are acknowledged, inadequately addressing longevity means that retirees may not sufficiently deal with this issue,. This will have serious and detrimental consequences for their wellbeing if they outlive their retirement savings.

Uncovering the client’s perspective of longevity is essential, as they can be diverse and result from various factors (from lack of knowledge to fear or anxiety), and each will require a different response rather than one uniform approach to discussing longevity (Asebedo, 2017).

Engaging in this difficult conversation, and tailoring an approach in response to client perceptions or concerns, will foster increased client trust and respect.

Retirement Advice and Decision-making *continued.*

The role of longevity and mortality are difficult, yet incredibly important, topics within retirement planning discussions.

Approaches to discussing longevity

A common approach to raising longevity is to discuss with reference to the client's parents (are they alive/ at what age did they die), and many include family history as part of their financial projections or within their initial consultations;

"A client says they don't think they're going to last too long but their parents are still alive in their nineties. I say, 'Your Dad is pretty active at 87 and you think you're only going to go to 85?'. Clients respect when you give them direct information. I always talk about life expectancy tables. Half of the people live longer than what it says in this table. We can't just plan to 85, you've got to add several years onto that." (Adviser 25, Group 5)

A key reference within the longevity discussion are life expectancy measures.

"Getting the client to think about how long they're going to be alive for, and that we do have an aging population in this country. A lot of clients underestimate how long they're going to live for. So, it's really planting that seed early on that, if they are reasonably healthy in their early sixties, they've got a pretty good chance of making it well into their eighties." (Adviser 33, Group 6)

While advisers acknowledge the difference between life tables and actuarial assessments of life expectancy (for example the previous quote), many use a 'statutory life expectancy +5 years' rule of thumb.

"I say [to clients], 'This is your statutory life expectancy. Don't write it in your diary.' When we do projections, generally you do statutory life expectancy plus five years as a margin of error." (Adviser 5, Group 1)

It is vital to acknowledge the limitations of a singular focus on life expectancy measures, given the unprecedented life expectancy increases over the past few decades (Cocco and Gomes, 2012). The pace at which life expectancy has risen has been largely unexpected, with subsequent fears that life expectancy still underestimates reality (Cocco and Gomes, 2012).

Forward-looking projections (rather than life expectation metrics based mainly on historical data; Cocco and Gomes, 2012), and both acknowledging and educating clients on the limitations/ proper interpretation of life expectancy metrics (Asebedo, 2017), are essential components of constructing a more accurate picture of longevity.

Retirement Advice and Decision-making

The decision-making unit: advisers typically consult with couples, and single women are another key client group.

Decision-making as a couple

Advisers typically consult with couples, however individual roles within the couple vary; some speak of traditional gender roles where a male would take the lead on financial decisions;

*"Most of the conversations happen with the male of the couple - I deal with a lot of farmers and they might feel they've controlled the purse strings. Part of the conversation has always got to be that average life expectancy for a woman is 5 years longer. So, **it's important both partners be drawn into the retirement conversation.** I've had two clients pass away recently and have been survived by their wives. In one case, the surviving partner has had virtually nothing to do with the administration of their investments."* (Adviser 5, Group 1)

This quote also highlights the importance of both partners being present and active contributors to decision-making. Most advisers actively encourage both partners to be involved.

Others shared that it is often women who initiate conversation with a financial adviser;

*"I'm generally dealing with couples but interestingly, one of the biggest driving forces is the female in the couple. I'm having conversations with a wife or female partner saying, 'I'm having to drag a male partner to this process. He thinks he can do it. He can't, we need to start preparing and understanding where we're up to.' Probably two-thirds are the driving force to start the conversation and **even where I've got individual clients, I've got more female clients, especially where they're non-partnered, that are starting these questions earlier**."* (Adviser 34, Group 6)

Decision-making as a single

The previous quote highlights the second key client segment, **non-partnered women**. While Adviser 34 implies that their non-partnered female clients are more proactive in seeking advice and wanting to take control of their finances and retirement, a large portion of non-partnered women seeking advice are doing so in response to being widowed or divorced. These women are in a very different and unique situation, as they are more likely to be new to financial decision-making, with a strong reliance on financial advice.

"Most are widowed or divorced. I've got quite a large retirement base of single females… Some are saying, 'My husband used to do this for me'. A lot really struggle with it all so that's probably why they seek advice, because they're not as financially savvy, that generation." (Adviser 2, Group 1)

The previous quote from Adviser 34 also speaks to the idea of men 'going it alone' when it comes to financial advice for retirement. This can be problematic if they lack the financial literacy to implement adequate retirement income strategies.

Retirement Advice and Decision-making

The decision-making unit: adult children are usually only involved in specific circumstances.

Decision-making with adult children

Advisers assert that adult children usually are *not* involved with their parents' financial decision-making for retirement, unless there are particular circumstances that prompt them to do so. This might involve decisions late in retirement or relating to aged care;

"I had two situations this year where adult children came for the conversation. It's when they've needed to put someone into aged care and it's accelerated that input in needing to be aware of the financial situation of the parents." (Adviser 6, Group 1)

Some advisers raise the difficulties that can arise from children being involved in the conversation;

"If you're doing aged care, you're probably talking to the children more often than the parents. I find that's very difficult because the children often don't get on. Unfortunately, the main thing that's on the minds of most children is, 'Will there be any money left?'. They're more concerned about that than they are about their parents. That's a sad thing but it's the real world." (Adviser 28, Group 5)

Other situations in which a child is more likely to be involved include when a parent is widowed and/or a child is reliant;

"When there's only one person in the couple - the partner has passed away - sometimes they do rely on their adult children and we have seen a few cases where the children have not married and continue to live with their Mum. Mum feels, 'My son is there with me', but Mum is also spending for the son… We have seen a tendency where the child tries to steer the client away because they think the planner is asking too probing questions." (Adviser 17, Group 3)

Another reason is if there is a family business or succession planning as part of the decision-making;

"Occasionally, you get adult children involved if there's a business or succession planning." (Adviser 35, Group 6)

The quotes from Advisers 28 and 17 both highlight instances where the involvement of the child may be problematic; in one other case an adviser was prompted to contact a seniors abuse line due to concerns of financial abuse from the child;

"I had one [client] where there is a substantial inheritance waiting and I'm concerned - to the extent we rang the seniors abuse line to get some advice because there's some stuff going on that I'm not happy with, but it's really hard. Certainly at the moment because we can't sit with people. It's a very difficult conversation. For those old [clients], we generally are talking with children and there's that concern - what are they more worried about: the parent or the money?." (Adviser 27, Group 5)

Retirement Advice and Decision-making

Common retirement products include Account-Based Pensions and a portfolio approach of combined products and investments.

Account-Based Pensions (ABP)

Advisers most frequently discuss an ABP strategy with clients;

“Majority would be a run of the mill ABP strategy. That seems to be the main one because of the flexibility. They're not locked in for any period of time and there's choice of underlying investment options. There's some selection that the client seems to like and we can tailor a monthly pension payment to suit their objectives.” (Adviser 33, Group 6)

Combined approach

A common strategy is a combination of products/ investments, which may include annuities;

“The previous firm I worked at was fond of using annuities as a partial strategy with clients. So, not necessarily investing all of their retirement savings but having a percentage of assets in an annuity to provide some continuity, security, that consistent income stream being paid.” (Adviser 19, Group 4)

This strategy is consistent with the ‘portfolio approach’ identified in the recent *Annuitant experience* report (Altschwager and Evans, 2020b). In fact, according to Adviser 8, annuities should be utilised to provide a base income for unavoidable expenses, and ABP for discretionary income;

“ABPs are only designed to get to life expectancy. With the extra drawdowns they make you take as you age, they are designed to run out. They're pretty good because investment returns are pretty good but having an income stream like an annuity to provide the base income to pay car registration, the power, groceries - that $20,000 a year you can't avoid spending - that's the role of an annuity, that base money you can't run out of. The ABP should fund discretionary income.” (Adviser 8, Group 2)

A number of advisers explain that they construct this portfolio for greater expense earlier (consistent with the first ‘stage’ of retirement discussed on page 12), which also aides in maximising aged pension benefits;

“If somebody wants to buy a boat or a caravan or a world tour, we make sure they have enough money to do that first when they are younger. They don't want to do these things post-70, or very limited. Any big expenses, we try to get them to spend their money now so they can get more Centrelink benefits for asset and income testing.” (Adviser 13, Group 3)

Additional products/approaches

Other individual approaches less frequently mentioned include;

- Transition to retirement strategies
- Investment bonds or Shares
- Trusts and company structures when the client is unable to contribute to super
- Age pension (as large part of income)
- Several advisers assisted their clients with their Defined Benefit (DB) income streams.

Retirement Advice and Decision-making

Three key segments of advisers emerged according to their sentiments toward annuities.

When discussing annuities specifically, advisers have varying sentiments, which can be categorised into three segments (listed in order of size).

1. Fluctuating segment

This segment wrote more annuities in the past, however less now due to Centrelink changes and/or current interest rates;

"Before I was selling a lot of lifetime annuities with a 15-year guaranteed period - you don't forego your capital and still get a Centrelink benefit. Now the government changed the rules, those annuities no longer have any Centrelink benefit - asset reduction only applies to life annuities where clients forego their capital… whereas ABP can give them the same average return of 5-6%, even with a conservative risk profile and clients keep their capital… How can I convince them to go into [an annuity]? In the last 12 months, I haven't sold any." (Adviser 14, Group 3)

2. Anti-annuity segment

This segment write few annuities. They believe annuities do not meet needs, aren't attractive, and are confusing to clients;

"We want it to be as simple as possible. It's confusing enough for a lot of our clients trying to understand the whole system and if they go into a product they don't fully understand, it can create a significant issue for them… The annuity world at the moment, interest rates are so low, retirements are so long, it just seems to be unable to meet [client] needs and their outcomes." (Adviser 35, Group 6)

The current interest rate environment in particular is seen as a significant limitation;

"Particularly with interest rates as low as what they are - I'm sure most people would agree that the appeal of using annuities is far more limited these days." (Adviser 15, Group 3)

3. Pro-annuity segment

This segment write annuities for numerous clients. Lifetime annuities seem more common than fixed term or deferred annuities;

"We've recently been doing a fair bit of lifetime annuities. I haven't used term annuities because you can get a better rate with term deposits but I let clients dictate the conversation. You raise the idea of guaranteed income for life and if it's something that resonates with them, we explore it further… we'd do 30-35% life annuities." (Adviser 4, Group 1)

One adviser uses an annuity 'stacking' approach to mitigate client fears of needing access to capital;

"Say we want a client to have $125,000 in annuities. Rather than one at $125,000, you do five annuities of $25,000, and the client knows if they need to liquidate, they've got the option to liquidate one or two and not be faced with the decision of liquidating all." (Adviser 9, Group 2)

Consumer Sentiment Toward Annuities

Advisers consider raising annuities with clients predominantly if there are positive Age Pension implications, and if they are working with particular 'types' of clients.

Age Pension implications

The dominant criteria for raising annuities is for the uplift in social security entitlements;

"On the business of an annuity paying 2% - if you look at somebody who has a [full or part] pension, a well-structured annuity will return them a hell of a lot more than 2% [due to the pension uplift]. Plus they'll be on guaranteed income from the annuity and Age Pension. They don't have to worry about the market or COVID-19." (Adviser 28, Group 5)

In fact, a number of advisers said they would *only* mention annuities if there are pension benefits;

"It comes down to Age Pension entitlements. The interest rate is getting much lower, so lifetime annuities are becoming less attractive. Unless there is a significant increase to age pension entitlements, I wouldn't be easily bringing [annuities] up." (Adviser 18, Group 3)

Client Type

Advisers are clear about the 'type' of person an annuity issued to:

- Those in a particular assets range (particularly if it has positive pension implications);

"There's people with a certain amount of assets that you can significantly improve their age pension. It depends on how much they've got as to whether an annuity makes sense." (Adviser 8, Group 2)

- Those who cannot handle their own investments;

"There is a guarantee where a person doesn't have to worry about how well their investments are going because most people, irrespective of how intelligent they are, get to a stage where they can't handle their own investments or monies for that matter. They need support and some degree of certainty even for a base income." (Adviser 16, Group 3)

- 'Nervous nellies' - risk averse, conservative;

"I bring it up [with] nervous nellies about their money lasting long enough if they're really nervous. Even if they end up dismissing it, you've got to have the annuity discussion." (Adviser 1, Group 1)

Environmental Factors

2020 provides an interesting dynamic for annuities – while some look for capital guarantee products in times of uncertainty, low interest rates hinder annuity demand. Adviser 34 believes that providers fuel consumer demand during market volatility;

"Annuities pop their head up funnily enough during volatile market conditions because companies ramp up marketing to push the idea of income consistency during volatile times. [Clients are] coming from a position of fear and it's usually during times like we've had in the last 6 months… They like the idea of consistency of income, but you tell them what the income levels are on annuities and suddenly, 'That's not great, that's pretty poor'." (Adviser 34, Group 6)

Consumer Sentiment Toward Annuities

Advisers report low annuity awareness with their clients, with interesting comparisons made to consumer awareness of Account-Based Pensions and Defined Benefit schemes.

Annuity awareness

Awareness of annuities tends to be low, however some clients are familiar with Challenger's ads;

"You generally have to explain [annuities] to them. They know it's some sort of income stream product but in terms of mechanics, they don't understand how it works. They might have seen the TV ad where they're pitched as a conservative vehicle… They don't really have an idea what else is involved or what other advantages or disadvantages apply." (Adviser 33, Group 6)

Comparison to Account-Based Pensions

Some advisers believe annuities suffer from not being 'mainstream' like ABPs; if people heard more about annuities, and they were better integrated in retirement discussions, clients might be more open to consider annuities;

"[Annuity] isn't as mainstream as what they've got defaulted through their accumulation phase with super. It's probably not coming up in their peer group either… people pick up cues from those conversations... If it became ingrained in the options available further to an ABP, then no doubt I think people would become aware of it and there would be more potential demand." (Adviser 12, Group 2)

Further, advisers explain that clients often perceive ABPs as 'an extension of super', whereas annuities are a completely different concept to grasp;

"ABP are an extension of superannuation. [Clients] are typically continuing to invest in the types of investments they've been investing in and knowing its market linked, what is changing is their risk profile, and switching from capital growth to an income focus. They've got some knowledge around what their superannuation has been in. Switching to an annuity is something very, very different from what they're used to." (Adviser 34, Group 6)

Comparison to Defined Benefit schemes

As further support for this idea, Adviser 29 explains that people in historically DB industries have a better understanding of annuities;

"We have a lot of people in sectors where there are existing defined benefit schemes. Because of those, our clients often tend to be significantly more familiar with [annuities]. If I drew a line between the people from those sectors - selling them an annuity is far easier than the other segment who come from sectors that have a much lower knowledge of it… Either [because of] the complexity or just the security of it, of knowing somebody who retired from one of the old schemes where you're on a very good wicket. Those clients like to try and replicate something [like a DB]." (Adviser 29, Group 5)

Consumer Sentiment Toward Annuities

Client perceptions of annuities are influenced by money being locked away and low interest rates. They consider annuities with reference to providing inheritance and rate features differently to advisers.

Factors influencing client perceptions

Key factors influencing annuity perceptions include the idea that money is 'locked away', and low interest rates, consistent with academic research on perceived annuity concerns (O'Meara et al. 2015);

"There's key triggers - the capital being taken away - that's a trigger. Second, they ask what rate would be locked in, so cash rate conversation comes into it. Third, they're probably [comparing] an annuity to what they know of financial markets or how their super has performed. There's a conversation to be made on the gap between an annuity rate that's locked [and super]." (Adviser 12, Group 2)

However, some advisers believe that client perceptions are based on dated annuity products, with faults that modern annuities have overcome;

"One of the biggest misconceptions is [clients] don't understand the modern annuity is much more flexible than it used to be." (Adviser 9, Group 2)

Important product features

As highlighted in the participant profile (page 9), older Australians in a previous study rate 'payout at death' as the most important lifetime annuity feature, while advisers rate it 6th (of 7 features). In reference to the divergent ratings, advisers explain that this difference arises from their strategy purely for 'income maximisation', while clients also consider inheritance implications;

"Clients want some sort of capital guarantee at death. The hard thing for us as advisers, we look at it as a solution to an income problem, whereas clients - they think about themselves and their income needs, but they view everything as something to pass onto their children. As soon as you say, 'This would purely provide for your income needs', it's like, 'But what about our kids?'. Telling them this will disappear as soon as they're gone, it doesn't strike the right chord." (Adviser 20, Group 4)

This is consistent with academic research, where a common barrier to annuity purchase is the decrease in assets available to bequest (O'Meara et al. 2015), making death benefits a valuable feature.

Annuitant satisfaction

Despite these barriers, advisers agree that clients who take out an annuity ae happy with the decision;

"Especially during COVID, I've had lots of comments that, 'I'm really glad we did that annuity', because when they go through uncertainty. Most people who take out an annuity generally are happy they've made that decision. That's the feedback I've always received from people with annuities for many years - once they're in it and they see the benefit longer term, they are glad they've made that decision." (Adviser 2, Group 1)

Consumer Sentiment Toward Annuities

Client comprehension is seen as a major hurdle for annuities, with the role of advice in the annuity purchase process seen as vital.

Product complexity

Advisers see product complexity and explaining annuities to clients as a major hurdle;

"Complexity is probably the biggest hurdle… There's a lot of misinformation as well. I saw a lady two months ago. We had four different conversations because - she likes talking at barbecues and everyone, because they didn't understand it, thought it was a bad idea… We had to keep going over it." (Adviser 4, Group 1)

Decision paralysis and the role of advice

In the focus group, advisers were shown a brief research presentation of previous Orford Initiative findings, in particular the *'Allocating retirement funds and annuity attribute preferences; findings from 2 choice experiments'* report (Altschwager and Evans, 2020a). findings - the idea of 'choosing not to choose' and Advisers reflected on one of the decision paralysis - and argued that this highlighted the importance of advice. Advisers can take clients through complicated and difficult product decisions and give them confidence in making good choices;

"I say to clients that I see my role as helping you make better decisions than you would make on your own, so you're more likely to achieve what you want. I think all that [finding] proves is that people need advice and advisers. It's our role to demystify and communicate complex things clearly but accurately and help people understand them. That's a huge part of the job." (Adviser 8, Group 2)

In fact, some advisers argue that it is dangerous to allow people to purchase an annuity without advice;

"I think it would be dangerous to allow people to just go and buy an annuity. If I was an annuity provider, I wouldn't let the public come in and buy them because I'd be too worried about being sued when they came and said, 'I didn't realise what the features were. I didn't realise this is what was going happen.' You need somebody there to put the figures on paper and to say, 'This is good for you. It will make your life better'." (Adviser 28, Group 5)

Adviser 25 agrees, sharing that they had enough trouble themselves understanding the complexities of annuities that they did not know how a client could make this decision of their own accord;

"To be honest, I had trouble and I've been doing it for long enough to get how they work… there is a bit of complexity there between deferred and lifetime and the various labels they put on. Different providers put different labels on things. So, I don't understand how any reasonably educated, financially literate person could have any chance of going to a provider and walking out with an annuity off their own steam. I don't know how they could." (Adviser 25, Group 5)

Barriers to Offering Annuities

Adviser-related barriers were identified as hindering annuity advice – these included conflicting interests, and difficulties in understanding and implementing annuities.

Conflicting interests

Findings in this report suggest people have difficulty making annuity decisions alone, with the role of advice crucial in decision-making. However, advisers share that when a client has purchased an annuity, they are no longer able to add value;

"The higher proportion of funds in an annuity, the less strategic opportunity there is for an adviser to add value. If you recommend early in somebody's retirement predominantly an annuity and boosting Centrelink entitlements - your ability to add value after that is limited. We don't charge for an ongoing service. We have to justify people coming back for a review." (Adviser 15, Group 3)

Some advisers argue that they can replicate annuity outcomes, with the added benefits of transparency, control, and capital access;

"As an adviser, I can't justify why am I not able to create a similar [portfolio] - 30% shares and 70% fixed income – and long term we'd pretty much get the same return [as annuity]. It's more transparent. You get the benefit of capital access. You can structure whatever you want and cash out whichever portion you want." (Adviser 32, Group 6)

This is problematic as the barrier is not driven by superior consumer benefit, but rather by *lost opportunities for the adviser*. The potential that offering annuities is 'not in the adviser's interest' poses a major conflict within the sector requiring attention.

Implementation and understanding

The second barrier relates to adviser difficulties in understanding and implementing annuities;

"Almost every time I wrote an annuity, I had to get help [from provider] to make sure I had everything completed correctly. I could have easily picked the wrong thing and even though I was doing it quite a bit – I was writing 2-3 annuities a month – I still felt nervous every time and needed help because it was complicated." (Adviser 19, Group 4)

Some believe that advisers and consumers share misunderstandings of annuities, limiting their use;

"Most people - including advisers - don't see [annuities] as a good investment so they ignore it... but the problem is that it's not really an investment. It's a guaranteed income which, if you want that, you pay a price. It's hard to compare that with other investments as they're entirely different... There's a need to re-educate about annuities. I don't think they're well understood." (Adviser 16, Group 3)

Finally, one adviser posits: 'do we as advisers discount annuities because they are too hard'?'

"I wonder if we, as advisers, discount [annuities] because we know they're complex... are we too quick to take it off the list because of FASEA requirements etc.?" (Adviser 3, Group 1)

Barriers to Offering Annuities

*Regulatory and government barriers a*re also identified, focused on various aspects of compliance.

Compliance limits advice and engagement

Compliance issues are raised as a major barrier, particularly for annuities. Subjectively an annuity could be beneficial for a client, however it appears less attractive from a stringent and purely quantitative evaluation (e.g. rate comparisons);

"Compliance is killing us. The advice we give is quite subjective as to what is best for the client. I like to think that I'm the best person to judge what is right for the client, but there is a lot of ticking-the-boxes from the dealer. That has been a challenge for recommending annuities, especially given the low interest rates. Whether we think it's good for the client or not, you have to spend hours to justify your advice." (Adviser 7, Group 2)

Further, the ability to provide clear advice is seen to be at odds with the required *statement of advice*;

"You can give presentations and have discussions with clients but the document you're legally obliged to give them is the statement of advice – and it does not work. It ranks 0/100 in it's ability to impart an argument of why a particular course of action is worth pursuing. It's set out in a way that a regulator understands. In providing value to clients, when we talk about articulating and explaining complex issues, it does not work." (Adviser 5, Group 1)

Compliance requirements (FASEA 2019) state that a product cannot be offered when people don't fully understand it, which can make annuities difficult due to their inherent complexity;

"We have to make sure clients understand before we put them in [an annuity]. That's a challenge in itself because it's difficult for us to recommend from a compliance perspective if they don't understand what they're going into." (Adviser 2, Group 1)

Advisers recommend government backing

Advisers suggest that if government wants people to take annuities, they must offer further incentives to compensate for low rates. Government-backed or annuities facilitated through the Future Fund are suggested strategies;

"The solution to [provider credibility concerns] and the rates problem is for somebody like the Future Fund to offer an annuity. You have the perception of government backing… Without tier capital being locked in for rates and allowing you exposure to equities." (Adviser 24, Group 4)

This idea parallels government-supported annuity systems discussed in a recent report on *annuities across international markets* (Altschwager and Evans, 2020c). For example, Switzerland has fixed nationwide annuity conversion rates to ensure citizens are receiving consistent and attractive annuity returns. Further, Singapore's publicly managed Central Provident Fund provides life annuities and government guaranteed interest rates that strengthen retirement savings.

Barriers to Offering Annuities

Provider or offering-based barriers are also identified, namely around the size and structure of the Australian annuity market.

Implications if providers do not meet obligations

A key question raised by clients (and advisers) is, ‘What if an institution doesn’t meet their annuity payments?’;

“There is credit risk with putting all your capital with one institution. If a body ran into problems and there was even a rumour that they weren’t going to make their annuity payments, it would be the end of the market in Australia. We're in the hands of APRA and the actuaries, that they are sustainably pricing and keeping an eye on the credit worthiness of annuity providers.” (Adviser 8, Group 2)

This fear is exacerbated by the fact that the market is monopolised in Australia;

“What about providers who were there in the good old days… Now there is only one, Challenger, but recently Allianz have come with a new product. There has been very little product development in Australia.” (Adviser 17, Group 3)

Advisers argue that more innovation is needed in retirement income stream products, given the increasing threat of longevity risk;

“It's about trying to take away longevity risk. It’s a space that really needs to be explored because there is a high risk that life expectancies keep increasing and you end up with a decent portion of people who are outliving life expectancy and outliving their funds as well… If the right incentives were in place for people to have things that did actually give them some longevity protection but didn't tie them into something as restrictive as annuities often are.” (Adviser 15, Group 3)

Annuity allocation restrictions

Finally, one adviser raised an issue around annuity investment restrictions imposed by their firm. In response to the research presentation during the focus group, where in one choice modelling experiment the ‘annuity’ segment allocated almost 60% of their retirement savings to various annuity products), Adviser 24 shared that their firm has a blanket policy that no adviser can allocate more than 30% of a client’s money into an annuity;

“We have an inhouse business [policy] that you can recommend no more than a third of the money off a client's retirement and estate put into an annuity. So, I'm a bit surprised with the client expecting two-thirds of their money going into a product of that nature. It doesn't happen often. It never happens, it's no more than one-third.” (Adviser 24, Group 4)

While there appears to be no FASEA restrictions of this nature (FASEA 2019), it is interesting that firms impose their own restrictions on asset allocation. Further consideration should be given to the rationale behind such policies, especially if they undermine consumer demand.

Implications

This research report highlights the process through which financial advisers offer advice for retirement, the various strategies and products they use, and the issues and barriers they face. We distil these findings to three key implications, offering consumer, adviser, and government focused recommendations:

1. Consumer awareness must be addressed

Echoing findings from the recent *annuitant experience report* (Altschwager and Evans, 2020b), the lack of consumer awareness of annuities is a key issue that must be addressed. Adviser insight that people in historically DB industries (and thus had some exposure to the annuity concept) have a more positive and open mindset to annuities provides further evidence of the potential benefits of enhancing awareness. In comparison to the familiarity and ease associated with 'mainstream' products like Account-Based Pensions, annuities are unknown, which can cause feelings of uncertainty and scepticism. Awareness is the first step in bringing annuities into the mainstream retirement product space. However, advisers and government both have a key role to play to facilitate this shift.

2. A shift in adviser mindset about annuity benefits

The findings also highlight that often consumers *need* financial advisers to help them make annuity decisions. Current mindsets and conflicts of interest may prevent advisers from recommending annuities to clients. The dynamics need to be altered whereby advisers feel they can offer annuities to appropriate candidates. This requires;

- A shift in understanding the role and value of annuities. Advisers raise low interest rates as a key deterrent of annuities. Annuities are not intended as an investment, and thus should not be simply compared to other investment returns.
- A heightened sense of urgency to protect against longevity risk. If predictions that life expectancy is still underestimated (e.g. Cocco and Gomes, 2012) are true, there are growing threats that more retirees will outlive their retirement savings, with irrevocable detriments to their financial security and wellbeing at the most fragile stage of life.
- Removal of adviser self-interest. Retirement decisions should be made on the basis of client needs and outcomes, rather than benefits (or lost opportunities) to the adviser.

3. Government's role to facilitate necessary changes

Government has a key role to play in both amplifying consumer awareness of annuities, and in removing barriers from the adviser perspective.

A major barrier is adviser self-interest. While considerable strides have been made in recent years to improve ethical compliance and standards in financial industries (FASEA, 2019), the dynamic remains where offering 'set and forget' products like annuities will never be in the adviser's own interest. This inherent conflict built into the financial advice industry remains a major problem.

In building consumer awareness of annuities, there is evidence from other countries that the efforts from government and industry can have a greater combined impact than either party could achieve alone. In countries like Denmark and Singapore, both highlighted in the *annuities across international contexts* report (Altschwager and Evans, 2020c), broad government and industry communication efforts were made to inform the public about annuities. These initiatives led to greater public buy-in and annuitisation rates.

Conclusion

In conclusion, this report highlights the experience of 35 Australian financial advisers, to understand their approach to providing clients with financial advice for retirement.

This report sought to unveil adviser perspectives and approaches to advice, common products and strategies followed, and the circumstances in which annuities are recommended to clients. Client awareness, perceptions, and comprehension of annuities are also addressed. Additional barriers to offering annuities are identified.

Three key implications and recommendations are offered:

- Consumer awareness must be addressed to bring annuities into the 'mainstream'
- A shift in adviser mindset about annuity benefits is required
- Government needs to play a key role in supporting awareness campaigns and improving the inherent self-interest built into the financial sector

Further information about the Orford Initiative

To find out more about our previous research, please visit the Orford Initiative webpage:

https://go.mbs.edu/orford/

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