ASIC and Australia's ageing population

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CHECK AGAINST DELIVERY

Introduction

Good evening everyone and welcome.

Tonight I wanted to do something a little different – and I wanted to talk about something that is that is critically important – and that is the issues that face us as we get older.

It is a demographic reality for Australia that we have an increasing number of retirees and an ageing of our population. The 2015 Intergenerational Report showed that by 2055, the number of Australians aged 65 and over is projected to more than double; one in every 1,000 people will be 100 years or older.

At ASIC, we recognise that this raises issues of fundamental and strategic importance to the financial services sector, the community and the economy.

In terms of financial services for older Australians:

- retirement planning is complex, requiring people to consider the long term and think conceptually about uncertain and difficult concepts, including their own health and mortality
- as people age, they may be faced with their own cognitive decline and lack the ability to make sound decisions for themselves
- older Australians may also be more vulnerable to some types of scams or elder abuse
- some older Australians may lack familiarity with the technology used to deliver financial products and services.

ASIC and other regulators at the state and Commonwealth level have a keen interest in the retirement space and ensuring the provision of financial services to seniors in an appropriate and effective way.

Tonight I would like to talk about what ASIC is doing to help in this area, focusing particularly on:

- delivering education and information
- financial advice, and monitoring products being sold to older Australians
- the input and influence ASIC can have on the development of new retirement income products
- home ownership and investment.

I will then touch briefly on the international landscape.

Education and information

Seniors are a priority audience for ASIC when it comes to financial capability – the 'money know-how' and ability to participate effectively in the market for financial products and services.

ASIC provides a range of information and tools on our MoneySmart website to support seniors, such as our retirement planner and financial advice toolkit.

We also realise that there needs to be guidance available to those who support or care for older persons and who may be making decisions on their behalf. We are developing targeted information for people who support seniors, which will be available in a few months on ASIC's MoneySmart website.

These resources will be based on research and stakeholder liaison that ASIC has commissioned and undertaken over the last year in relation to the growing 'seniors' segment of the population. It has been conducted as part of the National Financial Literacy Strategy.

In doing this work, ASIC leverages its wide range of stakeholder connections, in relation to seniors and ageing, across government and consumer groups.

In supporting this important work, I also want to mention one outcome of an enforcement action we took against the Commonwealth Bank of Australia in relation to their wholesale spot foreign exchange (FX) business. This action was finalised last year with an enforceable undertaking, including a commitment to make a community benefit payment of $2.5 million to Financial Literacy Australia for their grant program to be used towards advancing financial literacy education related to the aged care sector.

Financial advice

Ageing and retirement planning can present seniors with complex decisions that have significant consequences over long timeframes, including issues like:

- taxation, superannuation and social security issues, and how they interact with each other
- real property, estate planning and aged care issues
- sequencing risk and longevity risk, on top of inflation and interest rate risks.

We are concerned about seniors having access to quality financial advice that meets their shifting needs over the course of their retirement.

When people approach the retirement transition phase, they may well be dealing with an amount of superannuation benefit significantly larger than any amount they have deal with before.

Market shocks that occur in the 'retirement risk zone' – five to 10 years prior to retirement – can be the most damaging. There is significant sequencing risk at or near withdrawal from the paid workforce, and there is limited time available to recover.

We might wonder whether we are at the stage where all people should get financial advice as they approach retirement.

Our surveillance work in financial advice involves a number of aspects:

- The appropriateness of advice to address retirees' long-term objectives.
- Self-managed superannuation funds (SMSF): we look at how financial advice deals with the issue of the ongoing suitability of an SMSF as ageing progresses. That is, advice should not only be about the establishment of an SMSF, but also about appropriate exit strategies if a person becomes incapacitated.
- Scams, frauds and financial abuse: decent retirement nest eggs can be tempting to those who don't have senior's best interests at heart. Financial advice aside, we also know that seniors, perhaps being perceived as vulnerable, can be the target of scams and frauds, and financial abuse. We continue to focus on this area and take action where needed.

On guidance, we support robo-advice in increasing access to advice, but there are also risks that not all seniors will be assisted by the increase in digital accessibility of products or robo-advice.

New superannuation and retirement income products

Turning to retirement income, which was identified by the Financial System Inquiry as a critical issue.

The Financial System Inquiry recognised that managing multiple financial objectives and risks in retirement is complex, and that there were regulatory barriers to providing effective financial products for retirement.

The market for superannuation and retirement income products marketed to retirees and seniors will now be given impetus by recent Government action in relation to new types of retirement income products. New regulations have opened up the potential for new types of pooled lifetime pension products, such as group self annuitisation schemes and collective defined contributions schemes. Though it is early days, these products are aimed to help address concerns about longevity risk.

ASIC is involved in the cross-agency working group, led by the Australian Taxation Office, and also involving the Australian Prudential Regulation Authority and the Department of Social Services. The working group was established to facilitate the introduction of these new retirement income products by these agencies jointly considering how a proposed product may satisfy the relevant regulatory requirements.This should make it easier for new and innovative retirement income products to get to market.

We will also monitor these products as they come to market.

In addition to these developments with retirement income products, and following the Financial System Inquiry's recommendation, there are now Government proposals for superannuation trustees to offer comprehensive income products for retirement (CIPRs).

One of the CIPRs proposals is that super funds develop and promote a retirement income product with a longevity component to fund members in the way their superannuation benefits can be taken.

At ASIC, we have a strong behavioural economics focus, and our behavioural research and insights tell us that retirement is a rich environment for poor consumer outcomes – due to both demand and supply-side factors – and that small details in the choice environment make a big difference to behaviours.

Given the 'high stakes' nature of the decisions people make as they transition through retirement, we believe the proposals that super funds promote CIPRs to super fund members as a 'soft default' to their decision making will need:

- a robust stage of data modelling to ensure the products are being targeted to the right people
- very careful consideration and testing of the features of the choice environment, disclosure, comparability and advice elements to ensure the products will work as intended over time.

Even then, given the long-term nature of these products, ongoing monitoring will be required to further head off any adverse outcomes. This is an area we will continue to look at.

Real estate ownership and investment

The home can also be a source of income in retirement and an important financial resource in relation to the costs of aged care.

A general fall in housing property prices could have significant impacts on retirement incomes of senior Australians, at the point where they are looking at downsizing and using equity for retirement income or for aged care. A price fall would also severely reduce the equity available in a leveraged SMSF.

Reverse mortgage and equity release products vary, but can include products offering income streams in return for the capital growth of a property. However, the final overall costs of a reverse mortgage product are not known to consumers at the time they enter it, and are ultimately affected by changes in house prices.

International work

The ageing population is an international phenomenon. ASIC contributes to the work of Committee 8 (Retail Investors) of the International Organization of Securities Commissions on the vulnerability of senior investors, and what this means for regulators.

This Committee is working to produce a report with conclusions and possible recommendations about how to better meet the challenges of an ageing population.

We are also closely following international developments in peer countries.

The UK's Financial Conduct Authority (FCA) released a discussion paper on ageing and financial services last year. The FCA stated that it had a role in helping to facilitate the debate about what older people need from financial services providers and the barriers to delivering what is needed in a way that is accessible to those consumers. Its aim was to work collaboratively with others to help bring about positive change.

Conclusion

In terms of our next steps, ASIC will certainly continue its work in relation to the ageing population.

Internally, ASIC has established a Coordination Group, chaired by myself, to reflect ASIC's focus on ageing and financial services. In progressing this work, we will recognise different and ever-changing cohorts within this broad group, and seek to understand and address concerns that arise in each major stage in the retirement and ageing process.

These stages include initial decision making about commencing retirement income, the ability to continue to manage retirement income products and structures with the onset of cognitive decline, and the need to interact with aged care.

We intend to make public statements about the work we are doing – and that we may plan to do – in the coming months, to confirm our commitment to helping older Australians and address concerns faced by an ageing population.

I hope that gives you a good sense of the work we are doing across ASIC in this critical area.

I'd be very happy to take any questions.

