

Mercer Super Trust - Retirement Income Strategy Summary

Purpose of Strategy

Mercer Superannuation (Australia) Limited (Trustee) has developed this retirement income strategy (Strategy) to assist with the retirement needs of Mercer Super Trust (MST) members in retirement and as they approach retirement. It considers the broad retirement income needs of MST members covered by the Strategy, not the specific circumstances of individual members.

MST members covered by the Strategy

The Strategy applies to all MST members who hold interests in MST who are aged 50 years or over.

Defining retirement income and period of retirement

For the purposes of this Strategy:

- Retirement income includes any drawdowns a member receives from their account based pension or accumulation account balance; and any receipts of the age pension where a member may be eligible based on age and relevant means tests.
- Period of retirement is from when the member substantially retires from paid work (or age 67 if earlier) to the date of death of the member.

Reflecting different needs for different cohorts of members

When forming this Strategy, the Trustee has identified the following broad group of members who may have different retirement income needs as they balance the three retirement income objectives. These membership groups, or cohorts, are:

- **Typically not eligible for age pension:** this cohort of members typically have a high socioeconomic status with an average balance of \$233k at age 65 (accumulation members), are engaged with their financial wellbeing and actively seek to grow wealth. They are generally more comfortable taking risks in pursuit of high returns.
- **Eligible for part pension with high spending needs:** this cohort typically have a middle socioeconomic status with an average balance of \$160k at age 65 (accumulation members), higher spending needs due to mortgage payments and expenses for children. They generally believe income is more important than investment growth.
- **Eligible for part pension with low spending needs:** this cohort typically have a middle socioeconomic status with an average balance of \$166k at age 65 (accumulation members), financially comfortable with low spending needs and focus on wealth protection. They generally tend to seek professional advice when investing.
- **Typically eligible for full pension:** this cohort typically have a low socioeconomic status with an average balance of \$138k at age 65 (accumulation members), live within their means and only purchase necessities. They are generally reliant on the age pension in retirement and could potentially continue working well past retirement age.
- **Risk-only Members:** The Trustee notes that there is a small portion of risk-only members within the MST pertaining to TAL Super. These members are included in the Strategy, however given these members do not have an account balance and thus will not have retirement benefits, the strategy will be different to the broader Strategy for MST.

However, the Trustee's Strategy applies at an aggregate level. MST members will be encouraged to adapt the information and guidance in the Trustee's Strategy to meet their own needs given that the Trustee holds only a portion of the data necessary to provide a tailored retirement income strategy for each individual member. The Trustee will investigate any tailoring of the Strategy to specific cohorts of members as it continues to better understand the retirement income needs of members through time.

Outline of Strategy (excluding Risk-only members)

The Trustee's retirement income strategy is to provide:

- Support for members as they approach and enter retirement;
- Appropriate retirement income solutions through the MST;
- Ongoing support for members in retirement;
- Access to personal financial advice to assist members with their retirement income decisions.

Considering each of the above elements of the Trustee's Strategy in turn below:

Support for members approaching and entering retirement

The Trustee's Strategy is to support MST members as they approach and enter retirement. The Trustee recognises the importance of assisting MST members approaching retirement consider their retirement income rather than solely focusing on their superannuation account balance.

Members need to balance the objective of maximising their retirement income in the context of desired income stability and sustainability, and access to funds as required. The Trustee recognises that members may have different retirement income needs, and each member will place different prioritisation on these objectives.

The Trustee will continue to provide:

- A comprehensive Retirement section of the MST's website, providing access to factual information and decision making support on retirement income, including Retirement Planning Tools;
- A Retirement Income Simulator made available to members that can assist them with understanding the impact of longevity and sequencing risks on the expected retirement income. The Retirement Income Simulator also has an Investment Attitude Risk Quiz to help members identify the investment risk tolerance for a typical investor with similar risk characteristics;
- Expected account balance on annual member statements to allow members to consider whether they are on track to meet their personal retirement income needs and whether any changes in retirement decisions are necessary;

- Communication to members approaching and entering retirement through the MST's contact centre, intra-fund advice and/or personal financial advice to encourage them to consider their retirement income needs, and access the Trustee's support to assist them with this. The Trustee is:
 - Providing members with automated retirement journeys at specific ages with different communication provided to members at different specific ages
 - Providing support through the MST's contact centre, to intra-fund including access advice;
 - Encouraging members to access financial advice.

The Trustee has planned to provide:

- A retirement journey pathway for Retail members as Retail does not currently have a pension product available to these members. The pathway will include the support services for members as they approach retirement. Retail members approaching retirement are encouraged to consider the factual information and Retirement Income Simulator publicly available on the MST's website;
- A dedicated Retirement Guidance Team to support members with factual information relating to retirement, age pension and superannuation topics. If members require further support, the Retirement Guidance Team can direct members to seek personal financial advice. This service is expected to further enhance the support through the MST's contact centre;
- An enhanced member journey as they transition from Accumulation to Pension phase such as streamlining the application process and providing members curated factual information through the MST's contact centre on the benefits and considerations when transitioning to Pension phase.

The Trustee will also investigate:

- How it can further support and encourage members to make necessary changes to retirement decisions to meet their personal retirement income needs such as the tailoring of communication provided to different groups of members.

Appropriate retirement income products

MST members are able to access retirement income from their account-based pension balance or transition-to-retirement (TTR) pension, and from their superannuation account balance if they decide not to transfer this to the tax preferred account-based pension investment options. Retail division members are able to transfer to the Allocated Pension Division (APD) in order to access an account-based pension or TTR product¹.

¹ A retirement journey pathway for Retail members will be investigated by the Trustee

Product features available to retirees

The APD platform provides the following product features to support members during retirement:

- Seamless online transfer from the Corporate Super Division (CSD) to APD including encouraging consolidation of all relevant super accounts prior to starting the pension;
- Members can choose how and when they will receive their pension payments. Members can:
 - Choose the amount of their pension payment (subject to minimum and maximums set by the Government);
 - Select the frequency of the pension payments from monthly, quarterly or annual. The pension payments are paid directly into the member's bank account. If the member is invested in more than one investment option, they can select which investment option they would like to receive the pension payments from and in what proportion;
 - Change the amount or frequency of pension payments at any time;
 - Take out extra money when required as a lump sum payment;
- Members can choose from a diverse range of investment options; and
- Members can make a reversionary beneficiary nomination on starting their account-based pension where they choose an eligible beneficiary to continue to receive (on the member's death) the member's regular pension payments. Members can alternatively make a binding death nomination where (on the member's death) the remaining account balance will be paid as a lump sum payment to the nominated beneficiary

The Trustee will investigate any potential enhancements to the product features available to retirees as part of the APD platform.

MST (excluding Retail) Retirement Income Product Offering

The Trustee provides a comprehensive suite of investment options in the APD as part of its account-based pension product to address members' different investment risk preferences. These include:

- Mercer SmartPath, a lifecycle investment option that adjusts the risk profile based on the members age;
- Diversified Options, such as Mercer Select Growth and Mercer Conservative Growth;
- Passive and Enhanced Passive Options;
- Sustainable Plus Options
- Single Sector Options; and
- Mercer Direct

The Trustee also provides a suite of investment options in the APD as part of its TTR product offering to address members' different investment risk preferences. The TTR product has a reduced investment offering for the purposes of maintaining operational efficiency. These include:

- Mercer SmartPath, a lifecycle investment option that adjusts the risk profile based on the members age;
- Diversified Options, such as Mercer Select Growth and Mercer Conservative Growth;
- One Enhanced Passive Option; and
- Single Sector Options

The MST's disclosure material provides information on the targeted long-term returns and expected volatility of each investment option.

The CSD also has a small portion of members receiving (or eligible for) defined benefit lifetime pensions.

The Trustee expects its retirement income products will be suitable as the primary source of retirement income outside the age pension for many members, and will continue to evaluate its existing retirement income products to ensure that:

- The investment menu continues to allow members to appropriately manage expected risks;
- The products:
 - Are distributed in accordance with the Trustee's product design and distribution obligations;
 - Promote the financial interests of beneficiaries as part of the Trustee's member outcomes framework obligations.

The Trustee will investigate whether its retirement income product offerings can be extended to better meet the needs of members on a cost effective and sustainable basis. In particular, the Trustee intends to research the retirement income products available in the market, and consider whether learnings from this research present an opportunity for potential future product innovation to enhance the product offerings made available to MST members. This allows the Trustee to initially focus on better understanding member's behaviours and enhancing member support to meet their broad retirement income needs prior to any upgrade to the retirement income product offering.

Ongoing support for members in retirement

The Trustee's Strategy is to support members in retirement. The Trustee will:

- Encourage members in retirement to use the material and tools on the Retirement section of the MST's website, and receive support through the MST's contact centre, as they look to manage their ongoing retirement income.
- Encourage members to utilise the Retirement Income Simulator to identify their personal retirement income needs and consider alternative assumptions and how they change the retirement journey.

The Trustee also intends to provide an enhanced retirement journey pathway for Retail members as the Retail division does not currently have a pension product available to these members. The Trustee recognises that the Retail membership is aging and will consider potential pathways for those members to transition into retirement phase.

The Trustee will also investigate:

- Including within members' annual benefit statements expected retirement income and duration of income based on current drawdown patterns. This will assist members consider their retirement income needs throughout the period of retirement;
- Whether the frequency of drawdown on account-based pensions and TTRs can be enhanced;
- Additional support provided to retirees such as supporting vulnerable members and members experiencing physical and/or cognitive decline;
- Whether it can further support MST members in retirement relating to aged care and health risks to the extent they impact expected retirement income needs. The Trustee is currently evaluating the feasibility of offering **Care & Living with Mercer** as a service for retirees in the MST.

Access to advice

Planning for and then managing income in retirement involves multiple decisions and is difficult for many members. The Trustee's Strategy is built upon support and guidance, noting many members will benefit from professional support and financial advice. The Trustee's Strategy is to encourage members to seek intra-fund personal financial advice in addition to the factual information and general advice it provides.

Risk-only members – Retirement Income Strategy

Risk-only members such as TAL Super within the MST hold an account for the sole purpose of ensuring a funding mechanism for the cost of their insurance benefits. The risk-only product does not accumulate savings that would provide retirement income and to which a retirement strategy could apply. The Trustee, in considering the Strategy for these products, acknowledges that risk-only members will likely have other sources of income derived from another superannuation fund and/or from the age pension.

As such, the Trustee's Strategy for these members is limited to education, guidance, advice and tools provided on the public section of the MST website, including the Retirement Income Simulator.