

# How to fix retirement super

**Submission to the Treasury consultation on best-practice principles for superannuation  
retirement income solutions**

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We welcome the opportunity to make a submission to Treasury's consultation on best-practice principles for superannuation retirement income solutions.

### Australia makes superannuation too complex for retirees

Most people find retirement planning stressful, despite typically having saved enough for a comfortable retirement. Few retirees draw down on their retirement savings as intended, and many are net savers. This is turning Australia's multi-trillion dollar compulsory superannuation system into a massive, taxpayer-subsidised inheritance scheme.

For most Australians, retirement represents a big life change. Instead of being paid a wage, retirees must draw an income from their savings, together with the Age Pension. They must do this while managing the uncertainty of how long they will live and how their investments might perform, as well as navigating the complex interactions of their savings with the means-tested Age Pension. And they have to try get value for money from their super fund.

This puzzle is too hard for retirees to solve alone. Many other countries automatically offer retirees an income that lasts the rest of their lives, but Australian retirees get little guidance about how to use their super. While we're working, key decisions about our super are typically made for us, such as how much to contribute and how those savings are invested. But once we retire, the super system casts us adrift.

The little guidance retirees do receive is unhelpful, steering them into account-based pensions, which require them to manage their spending to avoid the risk of outliving their savings. Half of those using an account-based pension draw their super at the legislated minimum rates, leaving two-thirds unspent by average life expectancy. And despite the higher stakes, account-based pensions are less well-regulated than the products offered to working-age Australians.

### Best-practice principles are not enough – bolder change is needed

The proposed best-practice principles for retirement income solutions are, in many ways, a step in the right direction. But this approach – trying to steer funds towards producing better outcomes with high-level, non-binding guidance – will ultimately fall short. More structural change is needed to ensure the system fully delivers on its promise of more comfortable retirements.

Our recent report, [\*Simpler super: Taking the stress out of retirement\*](#), proposed four key reforms to fix retirement super.

First, rather than steering retirees into account-based pensions drawn at the minimum, retirees should be guided – by both the government and their super fund – to use 80 per cent of their super balance exceeding \$250,000 to purchase an annuity. Retirees' remaining super would be drawn via an account-based pension, giving them flexible access to capital.

This reform could boost retirees' incomes by up to 25 per cent, while also ensuring that the bulk of retirees' incomes – irrespective of their super balances – would be guaranteed to last for the rest of their lives. Having most of their income guaranteed for life would mean less stress and more spending for retirees.

Second, the federal government should directly offer retirees a suite of annuities called 'Lifetime Super'. This should include a simple lifetime annuity as the baseline offering, as well as alternatives such as investment-linked annuities. These annuities should be priced at fair and sustainable rates and managed by an independent agency.

People struggle to understand annuities, which can make it difficult for retirees to scrutinise products for their value and make rational decisions. And annuities are typically 'one-shot games' – a retiree typically cannot switch to a better deal if they see one. Designing a

wholesale market that overcomes these issues would be challenging. Government-provided annuities are the best option.

Third, the federal government should establish a free guidance service that ‘sums-the-parts’ of the retirement income system for retirees. That service could be directly administered by government, or the government could fund third parties to provide it, as already occurs with the *PensionWise* retirement advice service in the United Kingdom. A government-funded guidance service would be less likely to be conflicted than the advice offered by super funds, and therefore more likely to be trusted by many retirees. It would be much better placed than super funds to help couples plan their retirement income, and to service people with diverse linguistic or other needs. It could consolidate existing government services, integrate with the myGov online portal, and also assist retirees to apply for the Age Pension.

Fourth, the regulation of retirement super is too light. The government should direct the Australian Prudential Regulation Authority (APRA) to performance test account-based pensions, and develop product assessments for account-based pensions and private lifetime-income products. The government should also create a Top 10 list of the best super funds, and then steer retirees towards those funds.

### The principles can be improved

While not enough to fix the system’s flaws, implementing best-practice principles could lead to improvements for retirees. But two key considerations are missing and should be included.

First, the principles do not provide the structural guidance towards annuitisation that the system needs. Account-based pensions drawn at the minimum draw-down rates is the dominant outcome because that is what the system guides people towards. A principle that directs funds to guide retirees towards annuities above an explicit balance threshold could help fix this. Of course everyone is different, but not so different

that some more guaranteed income is not, at least, the right starting point for most.

A principle under the banner of ‘Constructing retirement income solutions that meet member needs’, which encourages funds to incorporate an 80 per cent allocation (above the threshold) to lifetime income as a ‘first-offer’ for balances larger than \$250,000, could help achieve this.

Second, there are no principles re-enforcing the importance of the value-for-money retirees get from their funds. A major failing of Australia’s super system since inception has been the neglect of market design. This led to a proliferation of small-scale, high-fee funds. The hard work fixing this policy failure for working-age super continues. While a best-practice principle alone cannot solve this problem for retirement super, it would be better than the principles being silent on this critically important question.

A principle under the banner of ‘Designing the elements of a quality retirement income solution’ that encourages funds to ensure the fees and performance across their retirement offerings represent value could help achieve this.

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