Actuaries in Superannuation with Stephen Huppert

Interview Transcript

Julia Lessing: Hi, everyone. Today we're talking about actuaries in superannuation and retirement. Joining us for this discussion is my special guest and qualified actuary, Stephen Huppert. Stephen has over 30 years of experience across superannuation, life insurance and wealth management, across a whole range of corporate and consulting roles. And these days he's helping Australians to improve their lives in retirement.

Stephen, thank you so much for joining us today.

Stephen Huppert: A pleasure and great to be asked back Julia.

Julia Lessing: It's lovely to have you back. So, Stephen, we previously had a conversation around Leadership Reflections and you are also one of the voices on our intro to the podcast. But today we're talking about the work that you're doing in superannuation and retirement, and I wondered if you could start just by telling us a little bit about what is the role of a modern actuary in superannuation?

Stephen Huppert: Thank you. When people think about actuaries and superannuation. I think, you know, certainly those in the professions have been in the profession quite a while and you think about defined benefits and that is one of the traditional roles of actuary going back 100 years or so. And we all know that in Australia defined benefits are a very small part of the superannuation industry. Still with a very long tail, but I think there might only be one or two open DB funds.

So where else do actuaries work in super? We do see a lot of actuaries in the investment teams. So, if you go to the investment teams in most of the large superannuation funds, you'll find a few actuaries there and some of them in very senior roles. There's some chief investment officers, heads of portfolio and things like that. Similarly, if you go in many of the larger super superannuation, superannuation funds now have their own actuarial department.

Julia Lessing: Oh really.

Stephen Huppert: So Australian super Aware super. A couple that come to mind where they will be doing work on insurance, product, tackling the retirement challenges and often you find in a superannuation fund and if I look back on my own career, it was often self-solving some of the complicated problems that nobody else would solve. So, they will go to the actuary typically, you know, ten, 15 years ago was going to a consulting actuary or a contractor.

Now many of the funds, the larger funds have their own actuaries as well. And more than one in some places.

Julia Lessing: There were in-house teams. So even though defined benefit schemes are very much rare these days, and in fact, many of our younger listeners may not have ever had a defined benefit scheme for their superannuation. It sounds like there's still quite a big role for actuaries in superannuation, but just in different places and in different ways.

Stephen Huppert: And this is something that the profession has been grappling with probably ever since I've been working as an actuary in superannuation of trying to define that role. For example, if I go back, I think it was about 20, 15 years ago, the Institute was looking at trying to institute Financial Condition Reports for accumulation funds, recognising the importance of a Financial Condition Report as giving you a good snapshot of the business where it is today and how it's going to look into the future.

There was a lot of pushback on that and that never happened. A few accumulation funds did commission FCRs, but I guess there was also a bit of a fear of actually trying to make work for themselves and it never really took off. But elements of what was in the old, what was in the proposed FCR and the institute had a working document out and proposed FCR.

A lot of that has ended up in some of the APRA outcome reporting, strategic reporting anyway, because I think there was a recognition that even though with an accumulation fund, the defined contribution fund, the assets match the liabilities in theory. So, it's pretty easy to manage. There's lots of other issues about looking longer term, testing out fees and various looking at retention, looking at fees, premiums, sustainability in that sense.

And even with unit pricing and crediting rates, you typically find actuaries involved with that. And the unit pricing and crediting rate functions are important functions for super funds because they connect the assets and liabilities, the members with the investments. And so often that's where you find actuaries who are bringing their focus on equity, making sure the risk of pricing or crediting rates is being managed.

So, unit pricing is another area where you often find actuaries.

Julia Lessing: Yeah. So still problems to solve that require actuaries and our analytical thinking and looking at the long term and also looking at complicated calculations and you know, things like equity around crediting rates and unit pricing as well. Okay. So that's helpful to understand we're actually where the modern actuaries play in superannuation.

Speaking of modern actuaries, Stephen, you are very prolific on social media and quite often share #Superannuation is not super yet. Can you tell us a bit about what you mean by that?

Stephen Huppert: Yeah. So, the Australian superannuation system is often praised as one of the best in the world and there's a lot of good reasons for doing that. David Knox, a well-known Australian actuary, is responsible for putting out an index each year. Mercer pension index, which rates retirement income systems around the world and Australia, often usually sits around fifth, sixth, fourth, that sort of place. We're very, very good at saving for retirement in Australia. It is compulsory.

Julia Lessing: We have to. We don't have a choice.

Stephen Huppert: That's right. And last year we celebrated the 30th anniversary of compulsory super and it is a milestone and we are looked at by the rest of the world, I think this is something really good. What we're not that good at in Australia is what happens once people retire. And that was even if you talk to some of the architects of the Super Guarantee system, they knew that that was one of the gaps that need to be you know, it was a work in progress and that had to be sorted out.

And I use that hashtag just to remind people that it's not super yet, it’s not finished. There's a couple of things we have to do better. One is marginal parts of the population. Last week was International Women's Day and just about every superannuation fund put out a media release and covered social media with stories about the gender gap in retirement savings.

And every year, at International Women's Day, we see the same thing about the gender gap in retirement savings. There's the Indigenous community, which there’s an interesting lawsuit going on at the moment where an Indigenous man is trying to get access to his super earlier because life expectancy of Indigenous Australians is lower than for non-Indigenous Australians. So that's a fascinating case to watch.

And again, it's something actuaries, we're experts at life expectancy and mortality tables, do we start differentiating things like conditions of release or preservation rules for communities which have a significantly lower life expectancy? That's a really fascinating case to be watching at the moment.

Julia Lessing: Really fascinating case.

Stephen Huppert: Yeah. So, there are things we can do better around some of the marginal communities for accumulation, but the big steps are in decumulation. What happens when you retire, and retirement has changed a lot. Large numbers of people retire not at the timing that they choose and so planning for.

Julia Lessing: What do you mean by that Stephen?

Stephen Huppert: It'll be redundancies. You know, they're out of a job. They can't find another job. A lot of women retire because of caregiving duties rather than choosing a retirement date of their own. So, there is a lot of evidence from the ABS that a lot of Australians don't choose when to retire.

Julia Lessing: And so, it sounds like, you know, that old idea if we retire at 60 or we retire at 65 isn't necessarily an assumption that applies to all Australians.

Stephen Huppert: Absolutely. And in fact, a lot of people aren't even aware that there is no legislated retirement age in Australia. Some countries do have one, we don't have one in Australia. The two relevant ages are the preservation age, the age you start accessing your superannuation and the age, pension age. And so those two ages are important inputs in deciding when you're going to retire and there's other lifestyle and health and other inputs as well.

Julia Lessing: Fascinating. So, we're good at accumulating our super we're good at saving for our retirement because we're made to, effectively, and we have lots of rules in place about how that works and what happens with that money and what you can do with that money. But you're saying that the challenge is there's not a lot, well, there's still some challenges to solve in terms of 'how do we then access that money?'

And so, what are some of those challenges? What are some of the big issues with the decumulation stage of retirement?

Stephen Huppert: Yeah, and it's something that I think the industry is acknowledging now that it's something it hasn't thought about too much. And the superannuation funds themselves haven't thought about it too much because of yeah, we will get 90% of our members, not 10% of our members. Last year, as well as celebrating the 30th anniversary of compulsory super, also marked the commencement of something called Retirement Income Covenant that's been inserted into the Superannuation Supervision Act.

So now a trustee from 1 July last year had to have a retirement income strategy looking at how saying how they're going to help their members into retirement and managing the various risks of retirement. Now, one could argue that isn't that what a super fund should have been doing since day one? And I'd be embarrassed if I was the super fund being told by legislation, I've got to do it, but be that as it may, all super funds and you can go to your super funds' website and find your superannuation funds retirement income strategy.

I'm a fairly lightweight and just regurgitating the legislation, but others are more significant and are talking about having different cohorts and analysing different cohorts of members and trying to recognize that everyone's a bit different when they're when they're coming into decumulation. And one of the analogies I like to use, it's a bit like going up the mountain phases of the Tour de France, where you're going up the mountain.

That's hard work, but you put your head down, you bump your pedal, you get to the top. It's all the way down where the accidents occur. It's where there's greater risk because of the curves and the slippery roads and everyone's got their own different style of coming down the mountain, whereas most people have the same old style of going up the mountain.

And it's a bit like that, when we retire, we've all got different needs, desires, emotional, psychological, financial factors that we have to think about because for 40 years we've had our purpose through our work. And for many people that becomes their social their reason for getting out of bed in the morning and when that's taken away from you and your super fund says to you, how much do you need in retirement?

And you're worrying about what you're going to do when you get up tomorrow. It's hard to reconcile those two. So, one of the big challenges we have when we are coming into retirement is how do we look at individuals individually? And we're saying back to the, you know, what are actuaries doing in super funds. There's a number of super funds now that have actually had actuaries doing a lot of work around the retirement income strategies and identifying sort of cohorts that they can start having similar strategy or similar conversations with.

And, you know, people with a certain balance eligible for age pension, you'll have a different conversation when people are financially wealthy in retirement and have got a balance of $600,000 and won't be using the age pension. So, actuaries are looking at ways of how you can cut and slice the membership at retirement and apply different strategies to those different cohorts and I know that there's also actuaries working on developing some sort of index.

How do you measure outcomes in retirement? Measuring outcomes in accumulations, easy. Net performance, investment performance, right. But when you when you're in retirement, have you got the right income? Have you got liquidity? What are your needs? They're all very different. So, there are a couple of superannuation funds that have their actuaries looking at developing sort of trying to develop single indices or retirement readiness scores over time, expected outcomes in retirement, that sort of thing.

So yes, there are significant roles for actuaries around some of these big, big problems around retirement.

Julia Lessing: Yeah. I can imagine that there would be opportunities for actuaries because part of our training is around looking at that long term. What happens over a long period of time, not just in the, the immediate, you know the next couple of years. And I guess to, to follow on from your mountain analogy, you know, we all kind of go up the hill in the same way because it's pretty much prescribed how we go.

We might go up at different speeds. We might be on different bikes. We might stop our journey for a little bit because we might have caring responsibilities. But I guess working out when it's time to go back down and what that looks like. And then for those of us who have gotten to the top of the hill and maybe don't have a very big superannuation balance because they've spent most of their lives doing other things or riding a different kind of bike up the hill, you know what happens there and how do you segment people into different kind of cohorts?

So, you talked about you know, you talked about women with caring responsibilities. You talked about people who might be eligible for the age pension. How, how like what? What do we mean by retirement outcomes? How what sort of things do we need to consider when we're looking to sort of segment people into cohorts and think about sort of tailoring different strategies?

Stephen Huppert: Yeah, and that's one of the problems that superannuation funds are now grappling. Some have been doing it even before the Retirement Income Covenant was prescribed, but certainly since that the good funds are all trying to tackle that and thinking about, you know, what are the attributes we need to think about when we're thinking about products, how you speak to those members, what are they needs so, you know, again, one of the big challenge for superannuation funds is a more of a whole of person or even a whole of household view because you might have a 55 year old female with a small balance because they've had lots of work breaks, but their husband might have a significant balance.

So how do we get that information, get data about individuals? That's not data we have in our fund. That's one of the challenges. What assumptions can you make? And it's very, very dangerous making certain assumptions based on only information the super fund knows.

Julia Lessing: Absolutely the difference between an individual and a family view. I mean, that's a challenge across lots of industries, isn't it? Because how do you define a family?

Stephen Huppert: That's right. And that's getting more difficult now too. And, you know, when we talk about the gender gap or the gender challenges of retirement and a lot of those challenges fall on females and we all know that, you know, a lot of the superannuation gap is driven by the by the wage gap, that's the main driver, and broken work patterns.

So, they're the two key ones. But even things like homelessness for Australians over 55 is higher for women than men. So, there's a whole lot of other challenges for older women. If you're on your own, women live longer, are they going to know, likely outlive more, more than likely outlive their partner, so there are a lot of challenges.

And for a superannuation fund, what does a super fund do about those challenges? Because they're not purely financial product driven. 'Is it the role of a super fund to try and help address those challenges?' is a question as well being asked because superannuation funds have to work under what we call the sole purpose test that the money in the fund can only be used for retirement benefits and there's also a member's financial best interest requirement within the legislation.

So, you know, decisions the super fund makes to spend its money on things has to be in the member's best financial interest. So, if they're addressing some of the emotional or other needs of a member in retirement, are super funds allowed to do that or not? So, we're still working through those things and the regulators are still working through those things.

And I think actuaries are in a good place to be able to help with those challenges because, you know, actuaries working in life insurance and general insurance and other areas always are at the interface of legislation and financial products and managing the business. And again, the interaction between legislation, social policy, product development, product pricing, product management, investment management, capital management, they're all issues that super funds are grappling with.

And if you just look at those issues without calling them superannuation issues, they're exactly what actuaries are doing in life insurance and general insurance.

Julia Lessing: Right, right. So, looking at longevity risk, looking at, you know, differences between customers or differences between people and what does that mean in the context of regulation? What does that mean in the context of the business? And how do we make sure that we're designing a solution that addresses all of those requirements in in those multiple contexts?

Stephen Huppert: And I think, you know, we mentioned equity a little bit previously, and I think equity is a really important one because, you know, again, I think back to my days working in a mutual life insurance, you know, the actuary was there to represent the policyholders' views. And similarly, you know, in a super fund, we've got the member views and who's representing the member and remembering that super funds are collective investment vehicle.

So, in a collective investment vehicle there are always these a clash of interests. You know, you're not going to solve every single individual's needs within a collective investment vehicle. So again, I think the actuary is really well placed to think about the principles of equity. How do we make decisions about pricing products, about accessibility to financial advice, and those sort of things, and making sure who pays for it?

How do we make sure it's done equitably? Things like tax allocation, super funds are taxed at a fund level. How do we make sure that equity is equitably allocated down to the member level? So, there's a whole range of problems that super funds deal with on a day to day basis where the actuarial skillset can be applied.

Julia Lessing: And I imagine even with those questions of 'how do you do the right calculation of the tax', we've also got those layers of constant legislation change and changes in regulations and tax brackets and tax rules. And, you know, every day there's something in the press around what the next government is suggesting in terms of an election promise and what we might be doing to address some of these issues as they come through.

Stephen Huppert: And one of the things I've seen more recently is actuaries applying their craft to longevity risk. So, you know, most people probably aren't aware that superannuation funds don't really manage longevity risk. You talk about actuaries, their long term thinking most Australians when they retire they use an account-based pension and that will run out, when that runs out. There's no investment or longevity protection in there. Risk is transferred to the individual.

Julia Lessing: Right.

Stephen Huppert: And actuaries should be experts at risk transference and managing risk. And so there's four or five new retirement income products in Australia that have only been launched in the last 3 years and actuaries have been at the centre of all those products. Q super was the first one. Generation Life, AMP and Allianz just launched one just last week and actuaries have been at the centre of that product development in the industry to try and tackle that problem.

Again, coming back to the decumulation problem, how do you help people efficiently draw down their money and protect them against running out if that's a fear of theirs.

Julia Lessing: Absolutely. And for those who have small balances, when they get the top to the top of the mountain was, you know, where's the incentive for them to not just spend that small balance and then go on the age pension? So how do we do that and how do we then entrust everybody to their life savings effectively that they've been required to save over their working lives and make it last?

Stephen Huppert: And one of the issues is that, most of us see superannuation, the compulsory contributions as part of our salary package, now. And when you get a job it's quoted 'including super' so it's seen as 'your money' and yet to really protect against longevity risk the solutions are pooled solutions and we have to start thinking about how do we use mortality credits and the fact that some people die earlier, some people die later.

And so, the new products that are coming along have elements of pooling in it, which again the actuaries are very good at solving the technical challenges. But what we need to get better at is being able to communicate the value of pooling, which is right back in history to the value of insurance.

So, you know, you hear people saying, well, I didn't claim on my car insurance last year, what a waste of money. Well, it actually wasn't. You were paying for your cover. You were using it, but in a very abstract way. We've also got to think about insuring your long life in a very similar way.

Julia Lessing: Yeah, that's a good way to look at it. So, you know, because back in the days when we had defined benefit schemes, that's why the actuaries were at the centre of it. We were pooling that longevity risk and making sure the funds were sufficiently funded to continue paying out to people for however long they did live.

Whereas now if we're putting it in the hands of the individual, how does that individual make those decisions about how quickly or how slowly to spend their money to make sure that it lasts as long as they need it?

Stephen Huppert: So yeah, it's like we are asking every individual in Australia now to become defined benefit actuaries.

Julia Lessing: For one person.

Stephen Huppert: Yeah, I guess I haven't thought of that way, but that's it. Yeah.

Julia Lessing: Yeah. Requiring Australians to be actuaries. An interesting challenge. So okay, so we've talked about the role of the modern actuary in superannuation, we've talked about some of the big challenges within superannuation and retirement incomes today that need the input of an actuary. You describe your role these days as being passionate about helping Australians improve their lives in retirement.

So, can you tell us a bit about how that's reflected in your work today?

Stephen Huppert: Yeah, it's a good one. So, I think we talked about last time I have a portfolio career at my stage of life and I have consulting under my own brand and I'm part of a range of organizations. And you know, if I look across the types of roles I do at the centre of it is almost always around how we are helping the members of super funds.

And so, if I'm advising a superannuation fund on their admin, it'll be how are we getting the best outcome for members? And it's coming back to the real purpose of superannuation, which is being debated at the moment by lots of people. So, it's thinking about that. How do we help people get a better outcome in retirement in a broad a way as possible?

So, one of the jobs I have is part of Optimum Pensions, which is a small retirement product development business where, you know, three of us are actuaries, a couple of them aren't. And we've designed a new retirement product, which is being offered by Generation Life. Think of Optimum Pension as a bit like an architectural firm where the architect will have the plan and the builder will build based on that plan.

Julia Lessing: Right? So, you've designed the solution.

Stephen Huppert: And then we want to help super funds and life insurance companies build that solution for their members. That's one of my jobs. You know, I do work around data analytics because recognizing that, you know, good application of data analytics in superannuation, especially at the retirement phase, is critical to be able to target appropriately, to be able to understand what the members want, what they're doing.

So, you know, data analytics is critical. So, if I look at all the bits and pieces that I'm doing across my portfolio, there are elements of members retirement outcomes in all of that.

Julia Lessing: Yeah, I can see how there's so many different problems and challenges to tackle within the superannuation space and how exciting for you to be able to contribute in that way where you're designing new solutions that can be used by Australians to help in their retirement. And yes, it sounds like really rewarding work.

Stephen Huppert: It is. And you know, one of the reasons I've enjoyed working in superannuation for as long as I have, because there's a real intersection of financial services, public policy and adequacy, you know, dignity in retirement for everybody. And you know, as you said, we all have superannuation, so it's not some sort of abstract financial conversation. It is a very real conversation and working in superannuation, you're really at the crossroads of those things.

It's not just about a financial product, say, in the last few weeks. It's a very important part of public policy as the, you know, everyone's arguing about different elements of the tax.

Julia Lessing: Absolutely. Especially as we get to this end, where unlike 30 years ago when compulsory superannuation came in and everyone was just starting to accumulate their balances, many people have been accumulating their balances for their whole working lives now or a significant proportion of them. So, we’re not talking about small amounts of money or little funds tucked away, we're talking about sizable balances that Australians are accumulating.

Stephen Huppert: We are. I remember, you know, when superannuation came in, I started on 3%, now it's up at ten and a half per cent. But if I think about people starting work today at ten and a half per cent of their salary going into their super fund and that's going to go to 12% for forty years. That is a significant amount of money.

There's well over three and a half trillion dollars sitting in superannuation. It's somewhere between 180 200% of GDP. And so, it is very important for the economy as a whole at a macro level and for individuals when they're coming up to requirement at a micro level. And you know there are places in superannuation where you can work at whatever level you want at that macro or at the micro level and that's what one of the things I like about it.

Julia Lessing: Amazing. So, it sounds like there's lots of opportunities, for actuaries to contribute in this space. Stephen, if you had one top tip for actuaries who were maybe younger actuaries who were considering which practice area to go into or maybe mid- or senior-career actuaries who are looking for a change and interested in superannuation, what would you suggest that they do to help make that decision?

Stephen Huppert: Yeah. And I think, you know, thinking back on the sort of the last bit of the conversation around that intersection of public policy, financial product, there are so many different problems to solve. And I think a really good quote, which I often fall back on, is from the Nobel Prize winner William Sharpe. And most of us are familiar with the Sharpe ratio.

Whether we use it or not, we've learned it.

Julia Lessing: We have.

Stephen Huppert: When he was asked, when he was looking at this problem of, you know, how much can I withdraw from my pension fund and have enough to last for my lifetime? And how do I do it in an efficient way? He called that the single, nastiest, hardest problem in finance. And I think that really just comes to show actuaries are good problem solvers.

No one's got the answer to that problem. There are lots of products that are starting to address that problem, but it is a problem that needs to be solved both here in Australia and globally.

Julia Lessing: Some big, nasty problems to solve and actuaries are well placed to assist. Stephen, thank you so much for your time today. It's been really interesting hearing how you're helping Australians to improve their lives in retirement and why you think superannuation is not super yet. Thanks so much for joining us.

Stephen Huppert: It's a pleasure and it's good to be part of such a great podcast series that you've been putting out too. So, well done.

Julia Lessing: Thanks, Stephen.