

Summary of AMP Retirement Income Strategy

September 2024

Vision and purpose

The AMP Retirement Income Strategy (the Strategy) is comprised of the Retirement Income Strategies for the AMP Super Fund and Wealth Personal Superannuation and Pension Fund. The Strategy is issued by N.M. Superannuation Pty Ltd as trustee (the Trustee).

The Strategy aims to increase comfort and confidence for Australian retirees. Our strategic ambition is to be the leading provider of retirement solutions in Australia, and to support retirees with a broad range of guidance, support and advice to empower them to enjoy their best possible retirement. This aligns to the Trustee's vision to operate with autonomy and objectivity in providing the best possible retirement outcomes for members.

This Strategy applies to all AMP superannuation members approaching and in retirement, and more broadly to all Australians who wish to experience a more comfortable and confident retirement by joining AMP.



Target members



What is retirement?

For the purpose of this Strategy, we define retirement as the decumulation phase when members cease (or reduce) work, as opposed to the accumulation phase during a member's working life.

We understand that early retirement sometimes occurs involuntarily due to under-employment or poor health. Our primary focus however is on members who cease work from the age of 60, with a secondary focus on members who retire earlier due to total and permanent disability.

We consider the period of retirement (or decumulation) to include the entire remaining life of the member, their spouse (if applicable) and until all of their dependants attain the age of 21 (if applicable).

We generally define those approaching retirement as being age 50 and above, but we will provide solutions, guidance and support to members of any age as appropriate. For example, we will encourage Australians to begin planning for retirement before the age of 50, as well as support those forced to retire early due to other circumstances.



Member cohorts

In retirement, each member has unique needs due to their individual combination of factors such as wealth, household structures, attitudes to risk, health and lifestyle expectations. This Strategy therefore supports a 'segment of one' approach.

This approach requires a suite of flexible products that can be used as building blocks in differing proportions to suit individual member needs.

These products will be supported by a range of guidance and support tools, with appropriate financial advice available to help members select a retirement solution that is as individual as they are.

Target members



In addition, the Retirement Income Strategy for each fund differs as follows:

AMP Super Fund

These members join the fund through a number of channels, including via employers, advisers and direct. A large proportion of these members are not very engaged with their superannuation especially the younger cohort. Our engagement with this group is primarily direct to the members or via their employers, which means our solutions and support must be simple, compelling and accessible to members from a wide variety of backgrounds.

Solutions will therefore have less sophistication, catering to a broader market and with greater potential for members to make better choices.

Our solutions will provide compelling value, with members able to obtain support and advice from AMP, or their preferred adviser, where required.

Wealth Personal Superannuation and Pension Fund

These members join the fund through financial advisers and our engagement with this group is generally via their advisers. Consequently, our solutions and support must be transparent, compelling and flexible enough for advisers to tailor to meet their clients' diverse needs.

Solutions will therefore have greater sophistication, allowing a broader scope of client strategies with greater potential for ongoing adviser involvement to optimise retirement outcomes.

Our solutions will provide compelling value, with our support mechanisms primarily aimed at supporting advisers to help their clients achieve the objectives of this Strategy.

Objectives

There are three objectives outlined in the Retirement Income Covenant, and solutions must balance these objectives.

Maximising retirement income

The sole purpose of superannuation is to provide income in retirement. Consequently, the Trustee believes that maximising retirement income is the most important objective of this Strategy. We will take a number of actions to achieve this objective, including:

- ✔ Guiding members in the accumulation phase to set and achieve retirement income goals;
- ✔ Advocating to government on behalf of our members for policies that ensure retirement adequacy for the majority of Australians;
- ✔ Providing retirement income solutions that enable more confident consumption of capital, to facilitate higher drawing rates by retirees;
- ✔ Developing and maintaining calculators and tools which assist retirees to maximise their retirement income, whilst still balancing the other Strategy objectives; and
- ✔ Providing and facilitating a broad range of advice services, including intra-fund and digital advice via AMP Super, and supporting comprehensive advice from members' own financial planners.



Objectives

Managing risks to stability and sustainability of income

We acknowledge the significant risks that retirees face in managing the stability and sustainability of their income and note that typical responses to these risks (conservative investments and consumption) undermine the first objective of maximising income. AMP will better assist retirees to manage these risks through the following actions:





- ✓ Developing additional solutions that provide income for life for a retiree and their spouses, thus alleviating the greatest retiree fear of outliving their savings, and consequently facilitating higher consumption levels;
- ✓ Continuing to provide a range of investment solutions which can partially or completely mitigate investment and income volatility; and
- ✓ Assisting retirees with calculators and tools to help optimise income levels from multiple sources (including the age pension where applicable) to enable greater income stability through retirement.



Objectives

Providing flexible access to savings in retirement

As each retiree's situation is unique, we understand that a single solution will not suit all Australians. For example, lifetime income products must necessarily have capital access restrictions for lump-sums or bequests. In order to provide flexible access to savings in retirement:

-  We will provide a comprehensive suite of market-leading solutions;
-  We will provide product optionality wherever possible, whilst balancing the need for simple and accessible solutions;
-  Our calculators and tools will help members balance all three objectives and maintain portfolio flexibility; and
-  We will never mandate or default members into an inflexible product, nor will we guide members to allocate all their funds to an inflexible product.





To better achieve these three objectives, we will provide and facilitate a range of financial advice services to suit a broad spectrum of members.



Key strategic elements



The following diagram illustrates the key elements of the AMP Retirement Income Strategy:

-  Investments – the foundations of the Strategy
-  Sources of income – the key pillars
-  Guidance and support – critical elements provided by the Trustee
-  Advice – additional support provided or facilitated by the Trustee

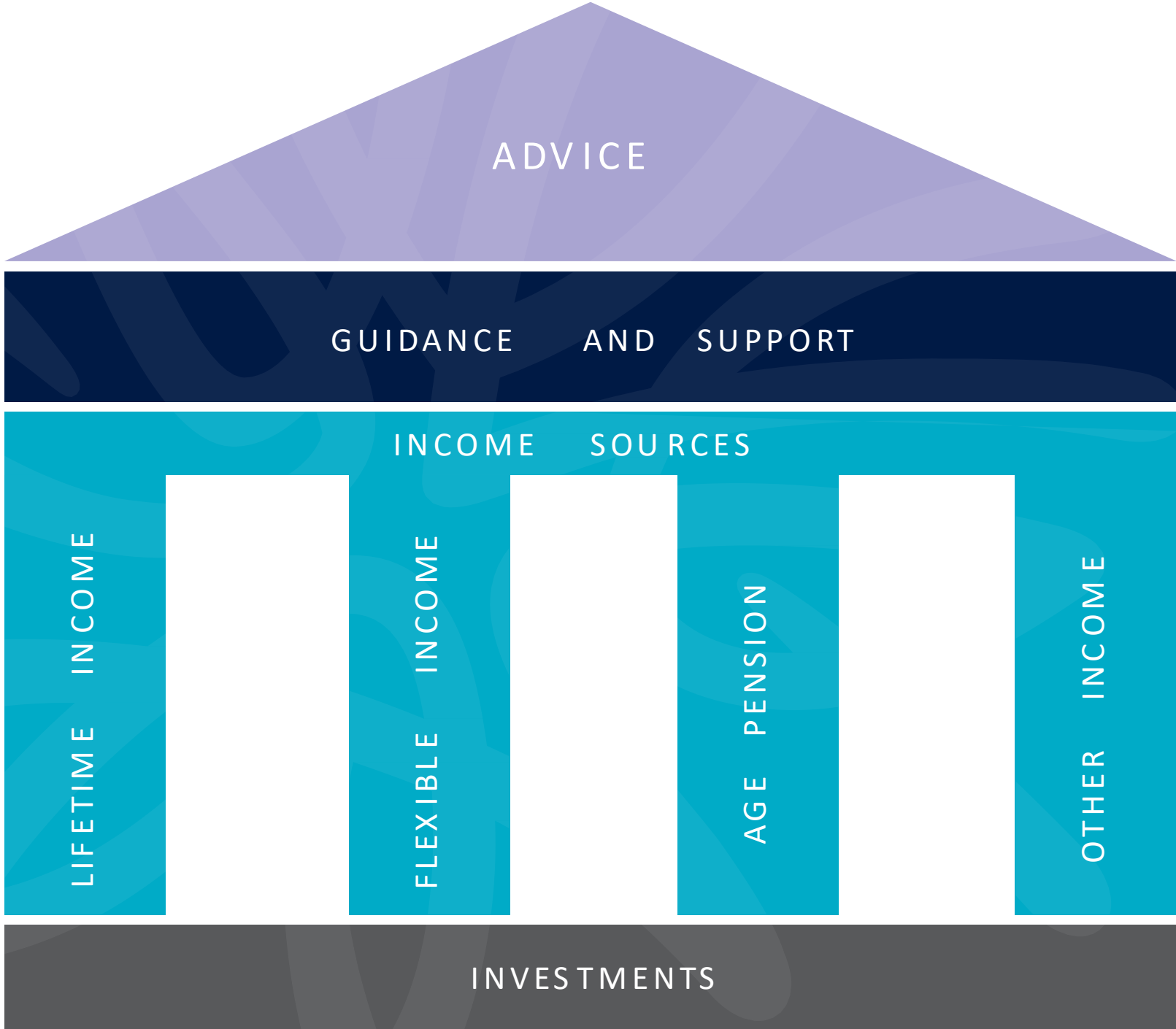


Figure 1 - Key strategic elements

Key strategic elements



Investments

A high-quality suite of investment choices is a foundational element to deliver the Strategy. Both AMP Super Fund and Wealth Personal Superannuation and Pension Fund will continue to offer an investment menu appropriate for each cohort, with a broader choice available to members in the Wealth Personal Superannuation and Pension Fund given the specific needs of that cohort. Our investment choices will cater for members who are approaching or have reached retirement in the following ways:



The default Lifestages MySuper option is a prudent choice for members in the AMP Super Fund who do not make an active investment choice, as it provides an element of sequencing risk mitigation as members approach retirement age.



Our MyNorth platform provides greater flexibility and choice, providing advisers with sufficient options to satisfy their clients' individual goals.



We also offer a range of other investment options, providing flexibility and choice as appropriate for a product set designed for members with typically simpler investment needs.



These options include the MyNorth Guarantee product as well as other investment choices which specifically cater for needs of members approaching and in retirement by protecting capital from investment shocks and sequencing risk.

Key strategic elements



Sources of income

For the purpose of the strategy, retirement income is total after-tax income that is received during the period of retirement. The optimum solution for most retirees will be to draw income from a range of sources.

Lifetime Income

Superannuation products that can provide an income over a member's lifetime are crucial to satisfy the objectives of this Strategy.

Most current Australian retirees who are drawing income from their super funds are using solely account-based pension solutions, mostly set at minimum drawdown.

An account-based pension drawn at the minimum will never run out (because the minimum is always only a percentage of the remaining balance), and therefore an account-based pension can provide lifetime income.

However, we do not consider that a minimum drawdown strategy provides an optimum outcome for many retirees. This is because drawing only the minimum results in under-consumption (as demonstrated by the 2020 Retirement

Income Review) and does not meet the 'Maximise income' objective of the Covenant. Therefore, we support the provision of additional lifetime income solutions that can supplement account-based pensions.

Purpose-built lifetime income products can pay either fixed or variable income for life. We consider that products which pay a variable (non-guaranteed) lifetime income present the highest value to retirees because of the avoidance of capital reserving and the ability to invest in growth assets. Such products can facilitate higher drawing rates because the risk of running out is eliminated.

MyNorth Lifetime within the Wealth Personal Superannuation and Pension Fund is a flexible and versatile example of a market-linked lifetime income

stream, and the Trustee intends to develop a corresponding suite of solutions for the AMP Super Fund that will be tailored as appropriate for its membership.

Products such as guaranteed lifetime annuities that pay fixed incomes can cater for members with lower risk tolerances. The Trustee may accommodate these products from selected partners where they provide good relative value to our members.

Lifetime income products are generally unsuitable for lump-sum payments and bequests, and they may have limited or no ability to adjust income levels over time to suit changing member needs. For these reasons, they are not suitable as the sole source of income for most retirees.

Key strategic elements

Flexible income

Retirees require flexibility to cater for planned and unplanned circumstances throughout retirement. A superannuation account-based pension provides such flexibility, and we recommend that retirees consider these products in conjunction with a lifetime income source (where available).

Used in this manner, a lifetime income product can provide for ongoing living expenses, whilst the account-based pension can accommodate discretionary lifestyle spending, lump-sums and bequests.

The Trustee will continue to provide flexible account-based pensions to members in both funds, providing flexible income payments, access to lump-sums and broad investment choice.

Age pension

The Australian age pension is a reliable safety-net or supplemental income source for the majority of retirees. Because it is means tested, it acts as an effective hedge against market and other risks, in that eligibility increases when capital is depleted through consumption or poor returns.

Though it provides an indexed income for life, the age pension alone is not intended to provide a comfortable living standard. Thus, we do not view the age pension alone as being sufficient to satisfy the need for sustainable life-long income.

Though the maximum amount of age pension is relatively stable, the amount of age pension received by retirees can fluctuate through retirement due to the following factors:

1. The full age-pension amount is subject to the highest of three indexation methods, so (for example) in times where wage inflation outstrips price inflation, the age pension can increase in real terms;

2. Many part-pensioners become eligible for an increasing proportion of the age pension through retirement as their assets reduce and asset-test thresholds increase;
3. Fluctuating interest rates cause corresponding changes to income-test deeming rates, which can increase or decrease age pension eligibility;
4. Major life events such as the death of a spouse or an inheritance can cause significant changes in age-pension eligibility (for example a surviving spouse may become ineligible for any age pension following the death of their partner due to their assets being subject to the lower singles asset test threshold); and
5. Legislative changes may significantly alter age-pension eligibility, such as changes to the asset or income test taper rates.

Lifetime income streams receive concessional means testing treatment when determining retirees' eligibility for the age pension. Maximising these concessions is not the primary driver behind the development of AMP lifetime income products.

However, we will assist our members to understand all benefits of such products, including how they may increase eligibility for government assistance.

Where we have sufficient member data, our guidance, calculators and forecasts will include age-pension projections.

Key strategic elements

Other income

For most Australians, their retirement income will be predominantly funded from the sources above. Retirees with assets outside of superannuation can also use these investments to provide income. AMP guidance, support and advice may include consideration of these other income sources where we have sufficient member data and when permitted by legislation.

Further, the broader AMP group will continue to provide products and services for non-super investments, such as AMP bank savings accounts and term deposits and the MyNorth Investor Directed Portfolio Service.

For many Australians, their retirement income is predominantly sourced from the age pension, which may be insufficient for a comfortable retirement. We consider that the family home can play a key role in retirement and provide an additional funding source in these situations. This can occur through downsizing or by otherwise utilising the home equity. AMP will investigate development of new solutions that recognise the role of homeownership and to better serve these 'asset-rich, income-poor' retirees.

Finally, insurances for total and permanent disability or early death can provide an important source of retirement funding for members and their beneficiaries.



Key strategic elements

Guidance and support

Some of the greatest strengths of Australia's superannuation system are the principles of universality, compulsion and preservation. However, these lead to one of the greatest drawbacks of the system – low member engagement.

The challenges faced by members in retirement are confronting and difficult. Knowing how much income can be sustainably drawn in retirement was described by Nobel laureate, William F. Sharpe, as the “nastiest, hardest problem in finance”.

AMP will guide and support members approaching and experiencing retirement in the following ways:

- ✓ We offer a free Retirement health check to members of the AMP Super Fund.
- ✓ We will continue to engage members with communications, educational material and events designed to increase retirement preparedness and improve levels of comfort and confidence in retirement.
- ✓ We are progressively focusing more attention on projected retirement incomes instead of retirement balances.
- ✓ Our products and product features will have a growing emphasis on more effectively transitioning members to retirement solutions.
- ✓ As we further develop lifetime income solutions, they will be integrated into communications, disclosure material, application processes, calculators and tools, to appropriately frame them as a core element of the trustee's retirement income strategy, and a key component of retirement income for the majority of members.



Key strategic elements



Advice

We believe that financial advice is required to deliver optimal retirement outcomes for all retirees. We also know that comprehensive personal advice will not be accessed by all retirees due to a range of supply and demand factors. AMP endeavours to provide some advice to *all* retirees through the following mechanisms:

Comprehensive personal advice



We partner with aligned and independent financial advisers, empowering them to provide high-quality advice to our members. We will provide-market-leading retirement solutions which are specifically optimised for financial advisers - providing sophistication and flexibility for their diverse client needs.

Digital Advice



we are exploring the digital advice opportunities for members. In March 2023 AMP and KPMG published an industry leading market scan of 16 digital advice providers in the Australian market. The report facilitated discussion, collaboration, and further innovation required across the industry to accelerate change needed to serve more members with affordable retirement advice. The AMP Super business has selected a strategic partner to provide interactive, personalised digital intrafund advice to members regarding retirement planning and intrafund advice.

Intra-fund and other scaled personal advice



We provide simple intra-fund advice to AMP Super Fund members at no extra charge. We do not position such services as a replacement for comprehensive personal advice, but as a supplement when complex advice/help is not desired or required by the member.

Embedded general advice



Finally, we embed help and guidance into our default products and services, which are designed to be suitable for members who have not yet engaged with an adviser or made active product choices. These default products will not be optimal for every individual but will be prudent choices for broad categories of members. These defaults are designed to protect against major risks to retirement adequacy for members and their beneficiaries.



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