

# **Australian superannuation: an equitable and sustainable arrangement in a post-crisis world?**

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# A five pillar system

- ❑ Publicly provided flat rate Age Pension
- ❑ Compulsory employer contributions to superannuation
- ❑ Voluntary contributions driven by tax concessions
- ❑ Home ownership
- ❑ Public assistance for age care



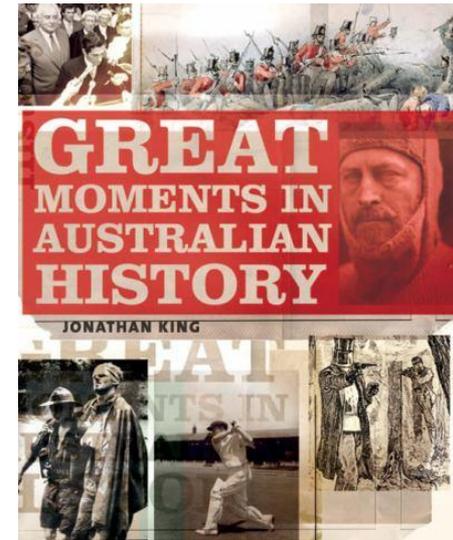
# The short answer to the question – Mostly “Yes”

- Australian system is very sustainable by world standards
- It is reasonably equitable but some improvements still possible

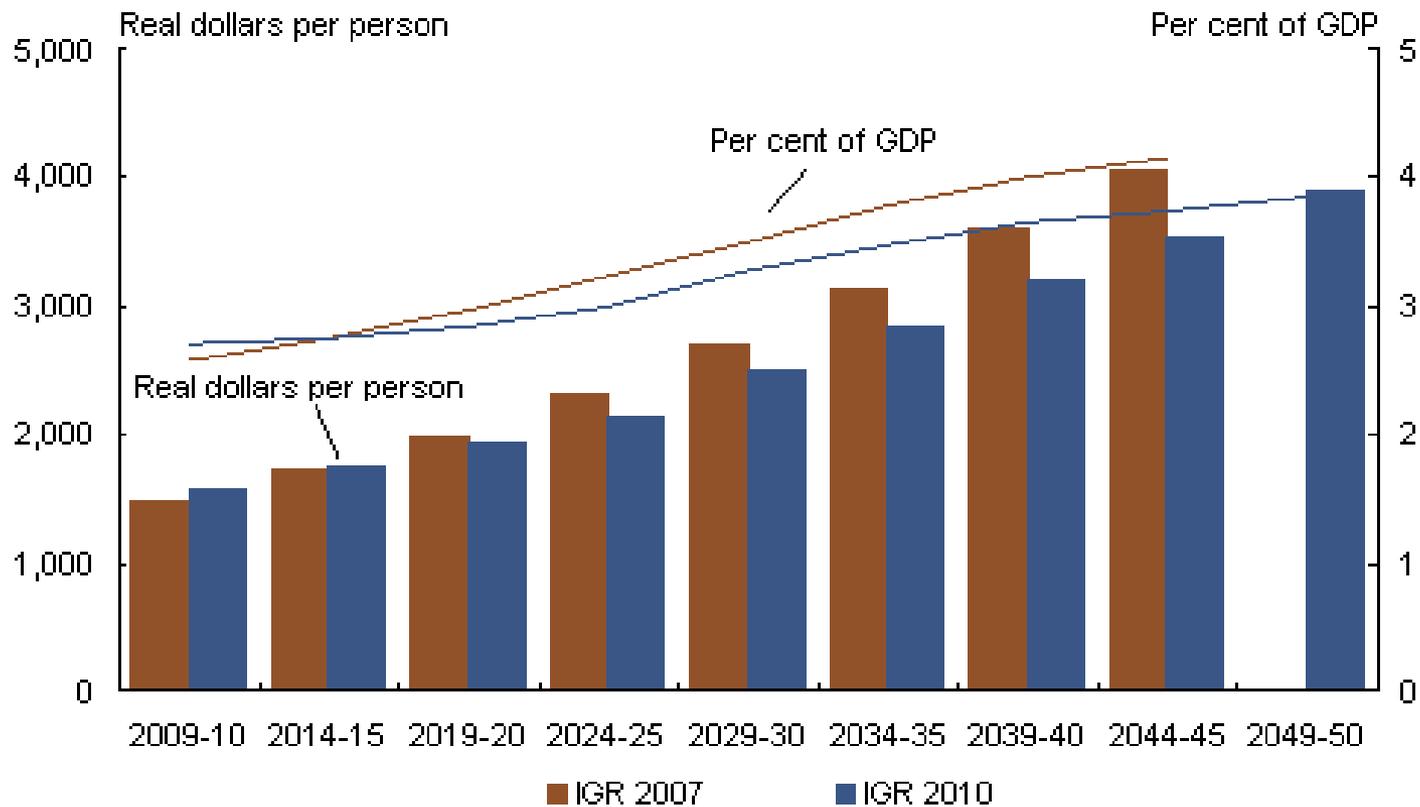


# A short history of compulsory superannuation

- ❑ Started from a base of 40% of employees covered voluntarily
- ❑ Started small, not yet really big in terms of adequacy
- ❑ Always based on the notion that it was the employee's money
- ❑ Choice and control important



# Projections of expenditure on the Age Pension

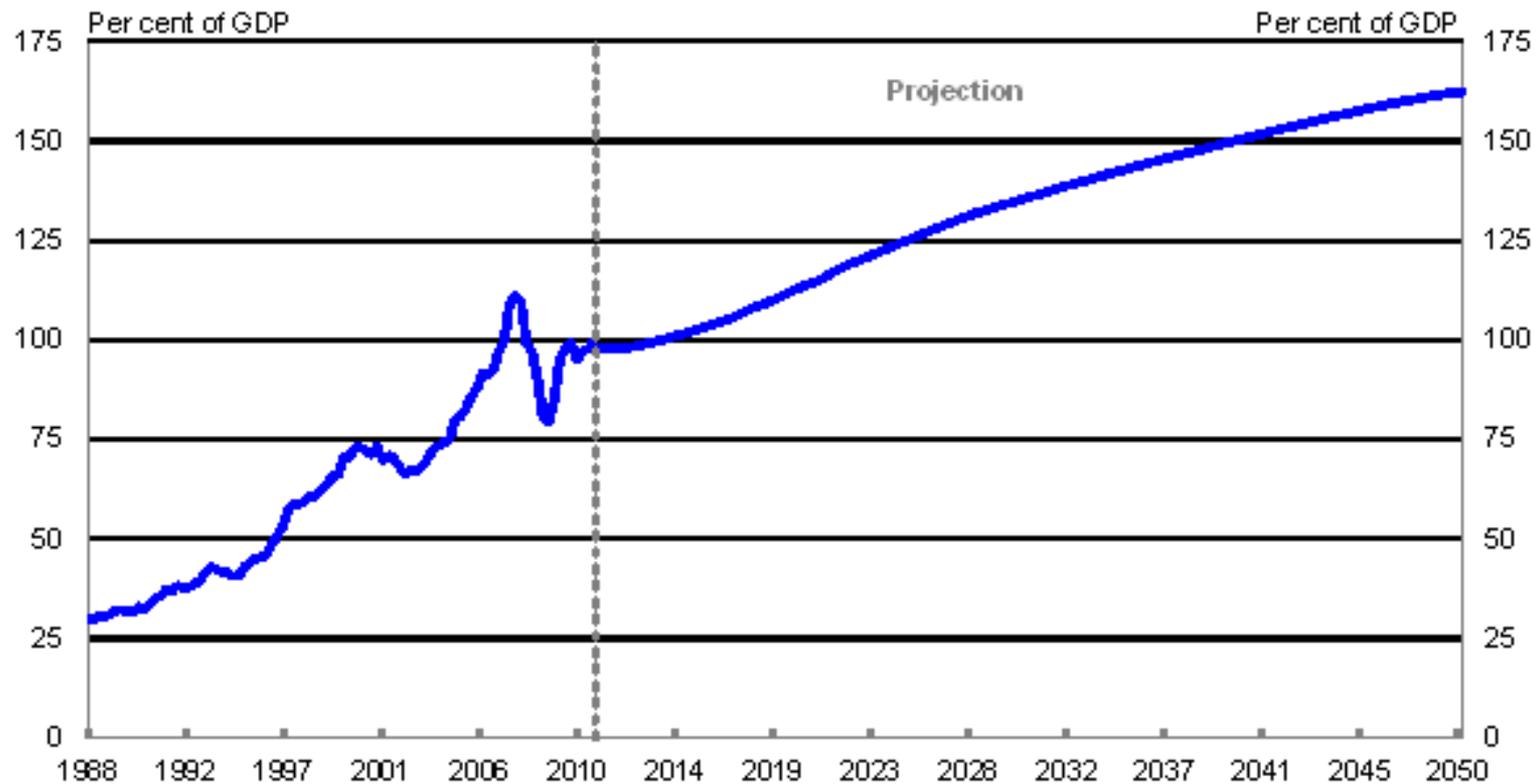


# Factors influencing Age Pension expenditure growth

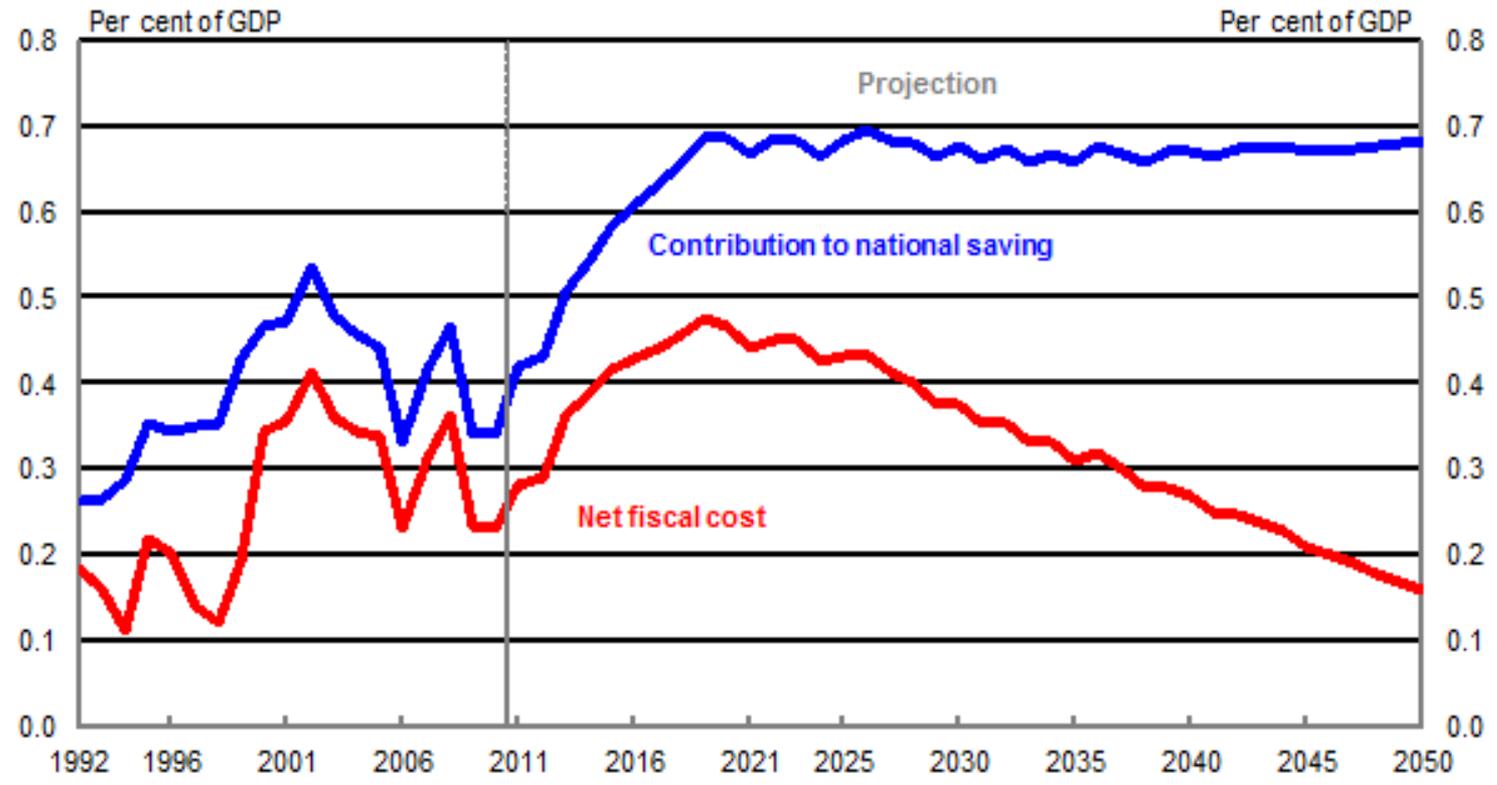
- ❑ 150% increase in number of recipients by 2050
- ❑ Fewer on the full Age Pension
- ❑ Many more on part Age Pension
- ❑ Slightly fewer with no Age Pension



# The rise in superannuation assets



# The impact on national savings and net fiscal cost



# Future retirees?



Or this?



Or this for older retiree leisure?



Or this?



Or this for older retirees?



# The value proposition

Value	Value Focus	Image Driver	Image
<b>Popular with the community</b>	How it rates in polling	Responsive to community needs	On the side of the voter
<b>Equitable</b>	Fair for all groups	Caring	Looks after the poor and needy
<b>Affordable</b>	Cost	Low cost to government	Responsible economic manager

# Investment risk

- ❑ 90% of fund members are in DC schemes
- ❑ Also impact on employer sponsors of defined benefit schemes
- ❑ Most DC fund members have 70% exposure to equities



# The global financial crisis

- ❑ Average negative return of 12.8% in 2008-09
- ❑ Average annual of -0.7% over five years to June 2012
- ❑ Average annual of 7% over 20 years



# Investment returns in 2012

- ❑ 10.5% return for balanced fund in calendar 2012
- ❑ 3.8% return for cash option
- ❑ 12% for high growth option
- ❑ Members who did not shift investment option now ahead compared to pre-GFC



# Fund member responses to investment returns

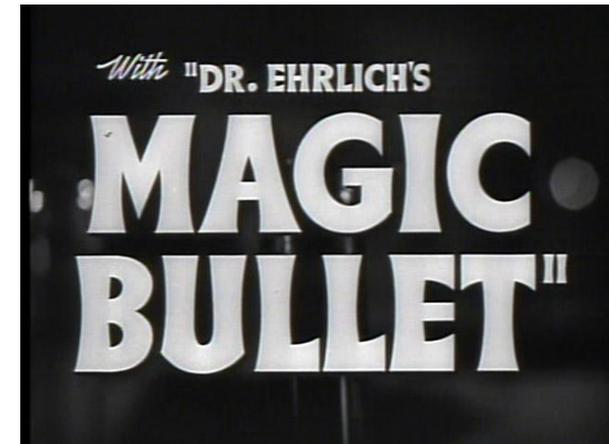
- ❑ Member satisfaction tracks with a lag investment returns
- ❑ Not much switching between investment options
- ❑ Voluntary contributions down
- ❑ Not much takeup of capital protected investments

Good Average Poor



# Is there a “magic bullet” to fix investment returns?

- ❑ Capital guarantees are costly
- ❑ Not a good time to switch to bonds
- ❑ Life cycle investing sounds good in theory, but practice less inspiring
- ❑ Nobody is willing to pay for new DB schemes



# Too few comfortable in retirement in Australia?

- In 2009 only 60,000 males and 30,000 females with \$A1 million plus in super out of 14 million with superannuation
- 223,000 males and 93,000 females with more than \$A500,000
- Less than 10% of people aged 60 to 64 with \$A500,000 plus



# The harsh reality

- ❑ In 2009 the average (mean) super balance was \$A198,325 for males aged 60 to 64 and \$A112,630 for females
- ❑ The median super balance for the 60 to 64 year olds was only \$A58,630 for males and \$A9,770 for females



# Current retirement incomes

- In 2009 the average (mean) annual income was \$A33,500 for males and \$A26,940 for females
- The median amounts were \$A20,800 for males and \$A19,700 for females
- Around 80% relied on Age Pension for more than 50% of their income



# Who are missing out or have less?

- Women
- Self employed
- Divorcees
- Indigenous Australians
- Older age cohorts
- Generally not good for older female self employed divorcees



# NPV of tax concessions and Age Pension

Decile	\$m Women	\$m Men	\$m Total
1	\$1,750	\$1,600	\$3,350
2	\$1,700	\$1,600	\$3,350
3	\$1,650	\$1,600	\$3,300
8	\$1,850	\$1,950	\$3,800
9	\$1,850	\$2,050	\$3,950
10	\$1,800	\$2,450	\$4,250
All	\$17,500	\$18,050	\$35,550



# Current and recent government initiatives

- ❑ Phased increase in compulsory contributions to 12%
- ❑ New tax rebate for lower income earners
- ❑ Contribution caps
- ❑ New “MySuper” default product
- ❑ Reform of financial planning



# Challenges remaining

- ❑ Better transition to retirement income streams
- ❑ Dealing with longevity
- ❑ Improving confidence in system
- ❑ Addressing the gaps
- ❑ Making financial advice more affordable and accessible

