Superannuation Policy for Post-Retirement

When and how do people access their superannuation?

Angela MacRae
Commissioner

Productivity Commission
Australia’s population is changing

The share of older Australians is increasing

Number of 65+ year olds for every ten 15-64 year olds

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of 65+</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>1.8</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>1.9</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td>2.3</td>
<td></td>
</tr>
<tr>
<td>2025</td>
<td>2.8</td>
<td></td>
</tr>
<tr>
<td>2035</td>
<td>3.3</td>
<td></td>
</tr>
<tr>
<td>2045</td>
<td>3.6</td>
<td></td>
</tr>
<tr>
<td>2055</td>
<td>4.1</td>
<td></td>
</tr>
</tbody>
</table>

The cost of government services increases with age

$000 per person in 2011-12
Our retirement income system

**AGE PENSION**
A universal means-tested publicly funded pension
- Safety-net level of income including longevity risk protection
- Alleviates poverty

**SUPERANNUATION GUARANTEE**
Compulsory, fully funded private savings
- Employers make mandatory contributions for eligible employees
- Ensures a minimum level of employee income is saved for retirement (increasing from 9.5% to 12%)

**VOLUNTARY SAVINGS**
Voluntary private savings
- A tax-assisted means for additional self-provision in retirement through superannuation
- Also includes savings outside superannuation
Policy has not been keeping up

Note: these figures are for males only, see page 5 of the report for females.
Policy levers in the retirement income system

<table>
<thead>
<tr>
<th>Age Pension</th>
<th>Compulsory superannuation</th>
<th>Voluntary superannuation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eligibility age</td>
<td>Preservation age</td>
<td>Preservation age</td>
</tr>
<tr>
<td>Entitlement (means tests)</td>
<td>Superannuation Guarantee rate</td>
<td>Age limits</td>
</tr>
<tr>
<td>Payment level and taper rate</td>
<td>Tax treatment</td>
<td>Tax treatment</td>
</tr>
<tr>
<td></td>
<td>Drawdown rules</td>
<td>Drawdown rules</td>
</tr>
</tbody>
</table>

Access to aged care services  Levels of financial literacy
Our study’s focus

- The Commission sought to answer two questions:
  - *What might happen if the preservation age is raised?*
  - *Is the way people draw down their superannuation problematic?*
What if access to super were delayed to 65 years of age?
The PC retirement income model
What if access to super were delayed to 65 years of age?

Commission modelling suggests that on average in 2055:

- Older worker participation would increase
- Those who delay their retirement would remain in the labour force for 2 years longer on average...
- …and their superannuation balances would be 10% larger at retirement
Collectively this will have positive fiscal impacts

- Taxes on concessional superannuation contributions: $0.1
- Personal income tax – taxes on investment returns: $0.9
- Personal income tax – wage income: $2.0
- Taxes on superannuation investment returns: $2.2
- Age Pension savings: $2.8
- Other welfare payments: -$0.8
- Net government fiscal position: $7.2

Annual savings in 2055

Greater tax revenues of around $5bn
Reduced expenditure of around $2bn
Most of the fiscal gains come from wealthier households

Impacts by wealth quartile for households headed by: Single males, Single females, Couples
This reflects a diversity of circumstances.
And understanding diversity matters ...

Median household superannuation and other wealth by age, 2011-12

While the average balance of a 65-74 year old is more than $300,000 the median is $0
And understanding diversity matters ...

Number of people retiring in 2011, by age group and reason

Total: 86,900
- Involuntary - own ill health
- Voluntary

Total: 113,600
- Involuntary - ill health of spouse or family member

Total: 215,800
- Involuntary - job related

Total: 131,400

Total: 54,500

Of those who retire between 60-64 years, almost one-half of men and over one-third of women retire involuntary.
Is super draw down problematic?

Some argue that people exhaust their superannuation too quickly ... 

... there have been calls to restrict lump sums
Most super is not taken in lump sums

Total superannuation benefits over time

- Value of lump sums
- Value of income streams

Benefits by balance size

- As super balances grow, people take less in lump sums

<table>
<thead>
<tr>
<th>Balance Size</th>
<th>Lump sum</th>
<th>Account-based pension (a commonly used income stream)</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0 - $50,000</td>
<td>55%</td>
<td>45%</td>
</tr>
<tr>
<td>$50,000 - $100,000</td>
<td>69%</td>
<td>31%</td>
</tr>
<tr>
<td>$100,000 - $200,000</td>
<td>81%</td>
<td>19%</td>
</tr>
<tr>
<td>$200,000 - $300,000</td>
<td>89%</td>
<td>11%</td>
</tr>
<tr>
<td>Over $300,000</td>
<td>96%</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>83%</td>
<td>17%</td>
</tr>
</tbody>
</table>

Source: Rice Warner (2015)
Super draw down also reveals a distributional story

Share of balance taken as a lump sum

Net wealth quartiles

Per cent

2003-04 2011-12
Many use lump sums to invest or reduce debt

<table>
<thead>
<tr>
<th>Purpose</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paid off home/paid for home improvements/bought new home</td>
<td>25%</td>
</tr>
<tr>
<td>Invested the money elsewhere/personal savings/bank</td>
<td>18%</td>
</tr>
<tr>
<td>Rolled it over/invested it in an approved deposit fund/deferred annuity</td>
<td>13%</td>
</tr>
<tr>
<td>or other superannuation scheme</td>
<td></td>
</tr>
<tr>
<td>Cleared other outstanding debts</td>
<td>11%</td>
</tr>
<tr>
<td>Bought or paid off car/vehicle</td>
<td>10%</td>
</tr>
<tr>
<td>Paid for a holiday</td>
<td>7%</td>
</tr>
<tr>
<td>Assisted family members</td>
<td>3%</td>
</tr>
<tr>
<td>Purchased an immediate annuity</td>
<td>1%</td>
</tr>
</tbody>
</table>

Note: the above do not sum to 100% as undecided/don’t know/other are excluded.
Key findings

• If the preservation age were raised to 65:
  – Some people would work longer and have more savings for their retirement
  – There would be fiscal gains, largely coming from wealthier households
  – But important implementation issues would need to be considered, including a safety net for those who retire involuntarily

• Lump sum use does not appear problematic
The super to-do list: where to from here?

- The retirement income system has seen ongoing piecemeal change, but its objectives remain poorly defined.
- Any changes need to cater for the diverse circumstances of retirees as ‘one size’ does not fit all.
- Ideally, before any further changes are made, the system needs to be considered as a whole.
- Full report at www.pc.gov.au