

For Richer, For Poorer

Retirement Incomes

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Agenda

- Introduction
- Key findings
- Household wealth at retirement
- Retirement incomes
- Positions of the cohorts
- Risks
- Housing
- Longevity
- Policy options

Introduction

The Actuaries Institute released the *Australia's Longevity Tsunami What Should We Do?* report in 2012 which raised issues related to retirement incomes

This report *For Richer, For Poorer – Retirement Incomes* is an assessment of the superannuation system

- Considers the future income of different wealth and generational cohorts
- Is the system working?
- What level of incomes can it support?
- How will future generations fare?

Key Findings

In the main the system is doing what it was designed to do

The least wealthy will continue to be dependent on the Age Pension

- The younger cohorts will be better off because of the Super Guarantee

The average subsidy paid via the Age Pension will reduce

- The proportion receiving some Age Pension will not reduce substantially
- The per person Age Pension will reduce

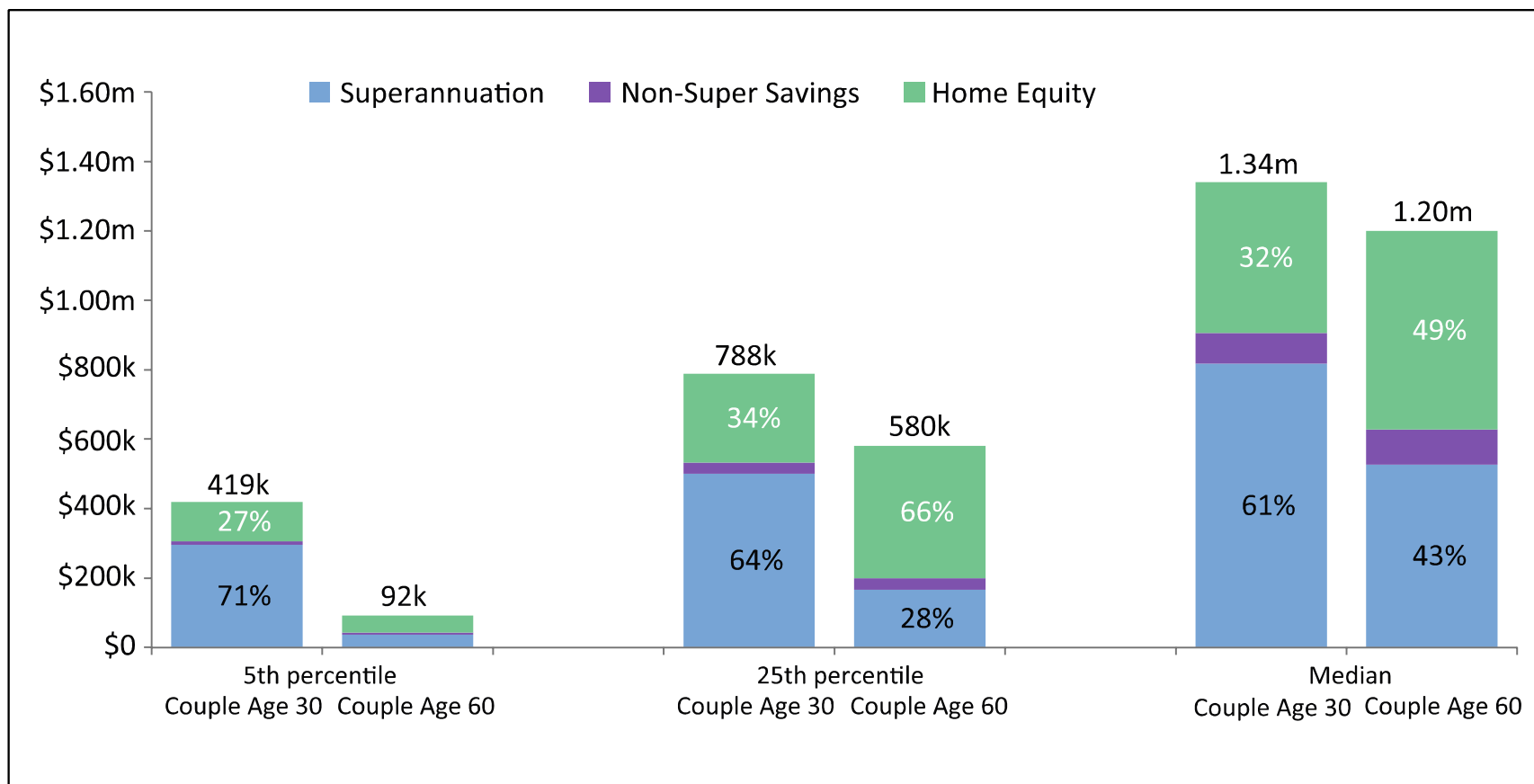
Older cohorts (current retirees) may need to access their home equity to supplement their retirement incomes

- Especially the longest living

Superannuation will remain an essential supplement to the Age Pension for most people

Household Wealth - 1

Projected Wealth at Age 65 – Current Dollars – couples of Median Wealth and Below



Household Wealth - 2

Projected Wealth at Age 65 – Current Dollars – couples of Median Wealth and Above

Household Wealth Commentary

Younger median and lower wealth cohorts will be better off due to superannuation

Younger cohorts expected to have lower value in own homes

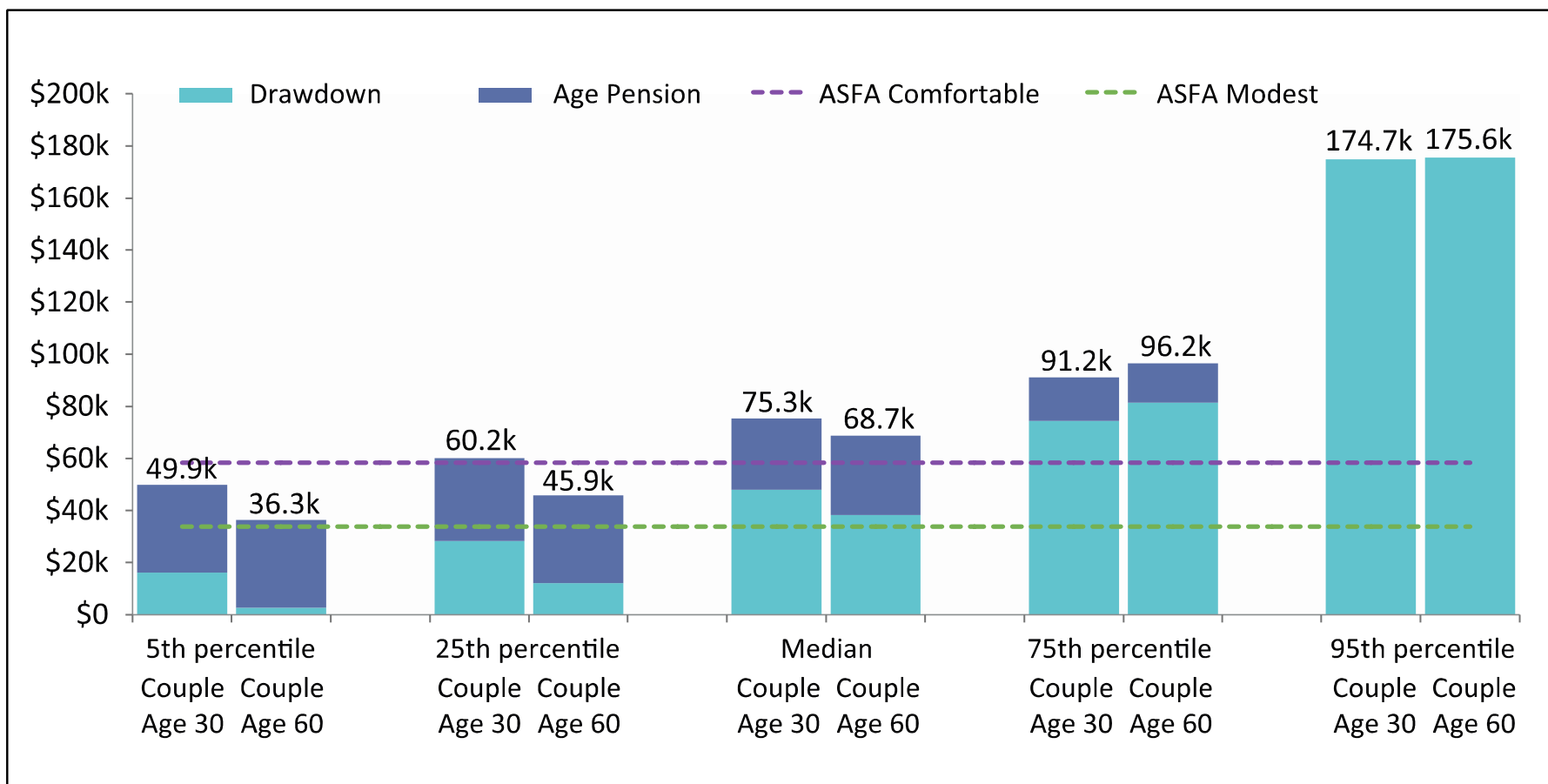
- Older cohorts have experienced doubling in real value over last 20 years due to reduced interest rates and excess demand
- Little prospect of higher house prices from lower interest rates
- Projection does not take account of intergenerational transfers that have already benefited older cohorts.

Lower increase seen for wealthier cohorts because older cohorts have had good superannuation

Some offset between superannuation and non-superannuation assets for younger wealthy, but still better off due to superannuation

Retirement Incomes

Income to life expectancy, couples, current dollars



Retirement Incomes Commentary

The combination of the Three Pillars is necessary to provide an adequate and equitable outcome

Wealthier – 75th percentile and higher

- 95th percentile don't and won't receive any Age pension
- Can all maintain an ASFA Comfortable income
- Will general have aspirations in excess of this
- Younger worse off due to longer life expectancy

Median

- Expected to maintain an ASFA Comfortable income
- Younger cohorts better off because of SG

Poorer – 25th percentile and lower

- Largely or totally dependent on Age Pension for ASFA Modest income
- SG has major impact

Retirement Positions

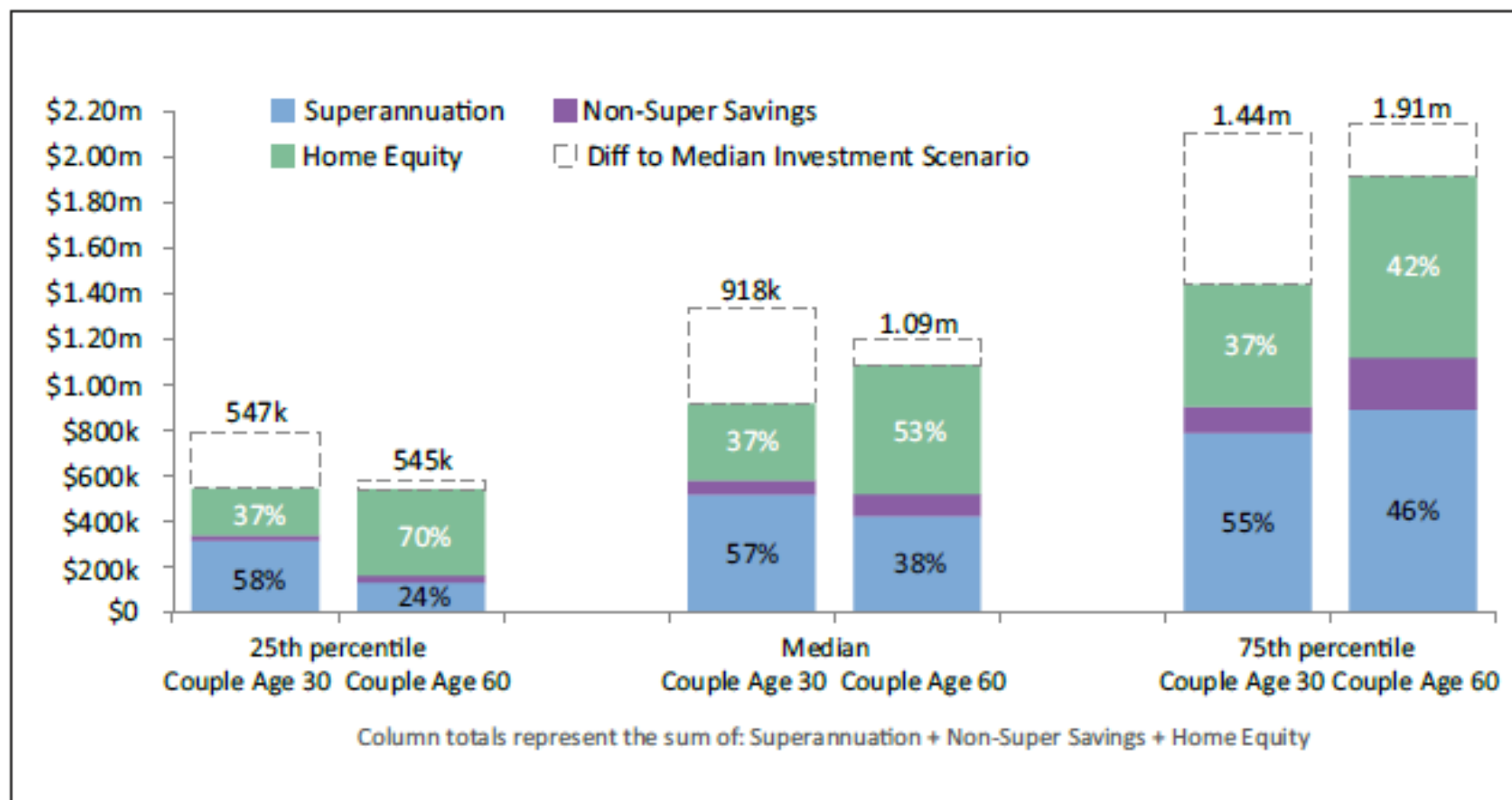
Wealth	Younger Cohorts	Older Cohorts
75th percentile and higher	Sufficient resources. Will be able to sustain a Comfortable income in retirement, but will generally have aspirations above the Comfortable standard based on income levels prior to retirement.	Sufficient resources. Will be able to sustain a Comfortable income in retirement, but will generally have aspirations above the Comfortable standard based on income levels prior to retirement.
Around 50th percentile	<p>Can sustain Comfortable income for life expectancy. The main risk is dealing with longevity, health and other personal risks.</p> <p>Greater superannuation assets. Lower housing and non-superannuation assets.</p> <p>Longer life expectancy for which to provide an income.</p>	<p>Can maintain Comfortable income for life expectancy. The main risk is dealing with longevity, health and other personal risks.</p> <p>Lower superannuation and other non-housing assets. Significant housing assets.</p> <p>Shorter life expectancy, but still lengthening.</p>
25th percentile and lower	<p>Heavily dependent on Age Pension.</p> <p>Modest assets to supplement Age Pension.</p> <p>Can expect income between Modest and Comfortable.</p>	<p>Entirely dependent on Age Pension.</p> <p>Virtually no assets to supplement Age Pension.</p> <p>Can expect Modest Income at best.</p>

Risks

Wealth	Younger Cohorts	Older Cohorts
75th percentile and higher	Exposed to investment risk on substantial asset holdings.	Exposed to investment risk on substantial asset holdings.
Around 50th percentile	<p>Dependent on own assets for income so exposed to longevity risk, investment risks and inflation risks.</p> <p>Likely to have lower housing assets because of access and potential future yields.</p> <p>Public policy risk of higher taxes to support current retirees while receiving less social security support when they retire.</p>	<p>Dependent on own assets for income so exposed to longevity risk, investment risks and inflation risk.</p> <p>Significant housing assets, but must be able to release value.</p> <p>Public policy risk of reduced benefits.</p>
25th percentile and lower	<p>Small exposure to investment risks because of modest balances and reliance on Age Pension.</p> <p>Public policy risk of reduced benefits.</p> <p>Significant risk from reduction in indexation of Age Pension.</p>	<p>Little exposure to investment risks because of small balances and significant reliance on Age Pension.</p> <p>Public policy risk of reduced benefits.</p> <p>Smaller risk from reduction in indexation of Age Pension.</p>

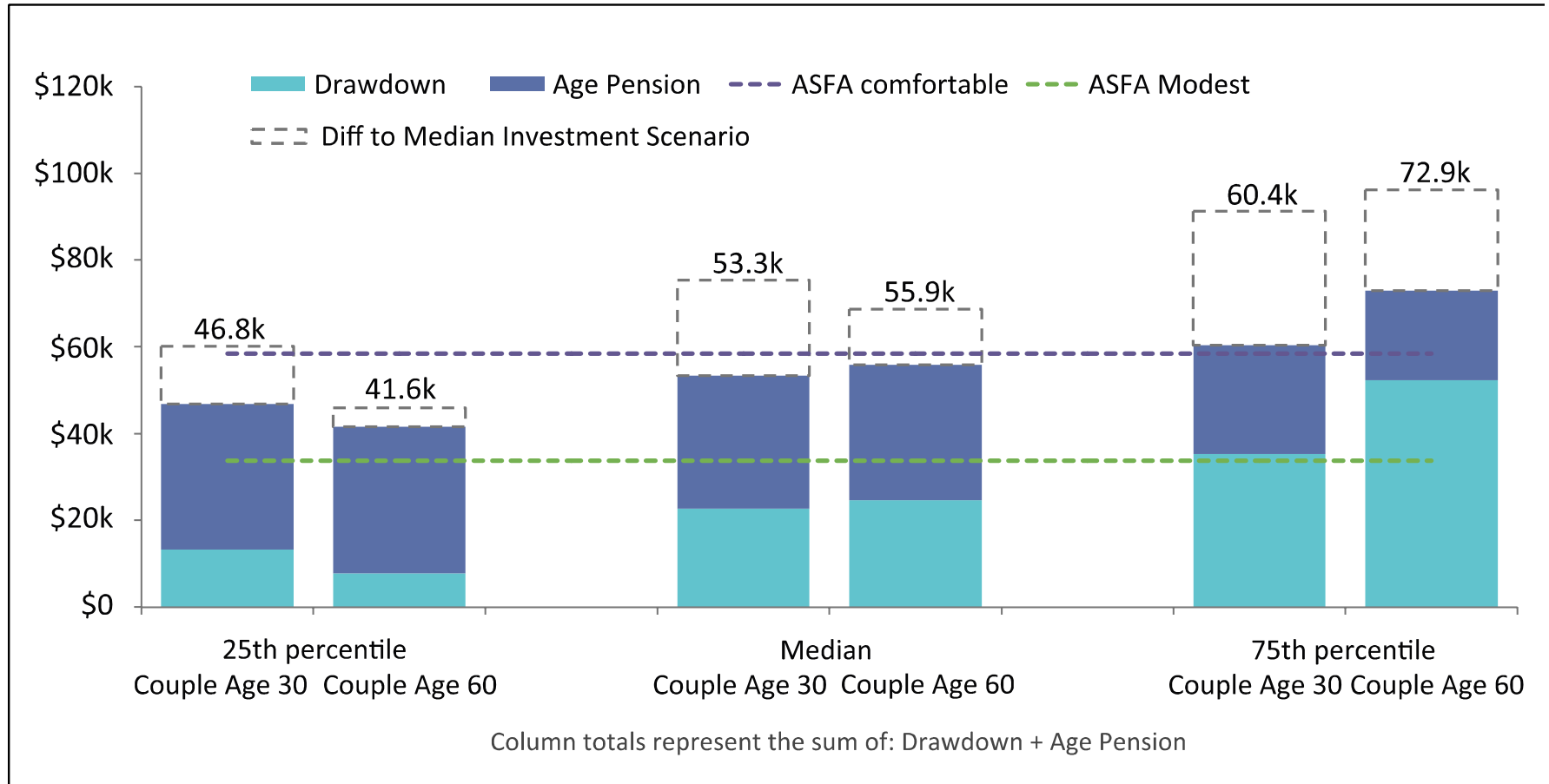
Investment Risk - Assets

If returns at 5th percentile of scenarios



Investment Risks- Income

If returns at 5th percentile of scenarios



Housing

Home ownership at retirement of older cohorts based on reliable statistics

Home ownership at retirement for younger cohorts must be estimated

Projected from Savings Rate devoted to housing and growth rate of housing value (wage inflation)

Older cohorts have already benefited from housing transfers from prior generations

Younger cohorts will also benefit from these transfers, but there is no reliable method to model them

Housing assets at retirement are probably underestimated

Housing represents a significant proportion of accumulated assets

Access to these assets is essential to maintain adequate retirement incomes especially for the older cohorts.

Longevity

The impact of improving longevity is seen for the younger, wealthier cohorts who will accumulate similar retirement assets to the older cohorts, but need to fund an income for longer

The reliability and quantum of retirement incomes will be improved by some means of mortality/longevity pooling

Potential solutions were outside the scope of the paper

Meeting the Challenges

The Institute believes that there are policy changes that should be considered to improve the system

Determining the needs of those in retirement

Encourage higher voluntary savings by building higher levels of engagement with members

Financial Risk Management

- Encouraging long term investment strategies whilst managing investment risk
- Providing insurance or longevity pooling against the longevity risk

Using housing equity as part of the retirement solution

Public policy – building a sustainable and equitable retirement income system

Public Policy Options

Reforming the Age Pension :

- Keep indexation tied to wages
- Review eligibility and means tests

Reforming the tax treatment of concessions on contributions and earnings

- Lifetime concessional contribution caps?
- Tax rebates against marginal rates rather than concessional tax rate?

Taxing investment earnings in retirement

- Possibly reducing overall rate to below 15%

Encouragement for later retirement

Taxing of bequests

Other Recommendations

Provide incentives to take retirement benefits as incomes

Increase the preservation age

Extend MySuper regime to retirement products

Remove impediments for older Australians wanting to work

Remove legislative barriers to developing income stream products

Link changes to Age Pension eligibility to improving longevity

Review and improve efficiency of the Retirement Income System



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