

Public Policy Forum



Actuaries
Institute



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Will the current retirement system deliver?

Michael Rice
CEO – Rice Warner

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Key Decisions

- How much to take as lump sum?
- How much should they draw as a pension payment each year?
- Which fund should they use for their pension?
- What products are appropriate?
- How should they invest their benefit given the contrasting risks of liquidity and longevity – and what earnings should they expect?
- How much should they set aside as a nest egg?
- How long will their pension last?
- Should they pay for guarantees such as annuities?

Spectrum of retirement risk



Investments



Management
& agency



Longevity



Inflation



Liquidity



Budgeting



Health

Retirement Structure

- Mandatory employer contribution of 9.5% of salaries
- Voluntary contributions
- Age Pension
- Should rise to 12% - by 2025?
- Additional concessional contributions to generous levels. Very large non-concessional levels (\$180,000 a year)
- Means-tested. Available from age 65 now

Financial Statistics

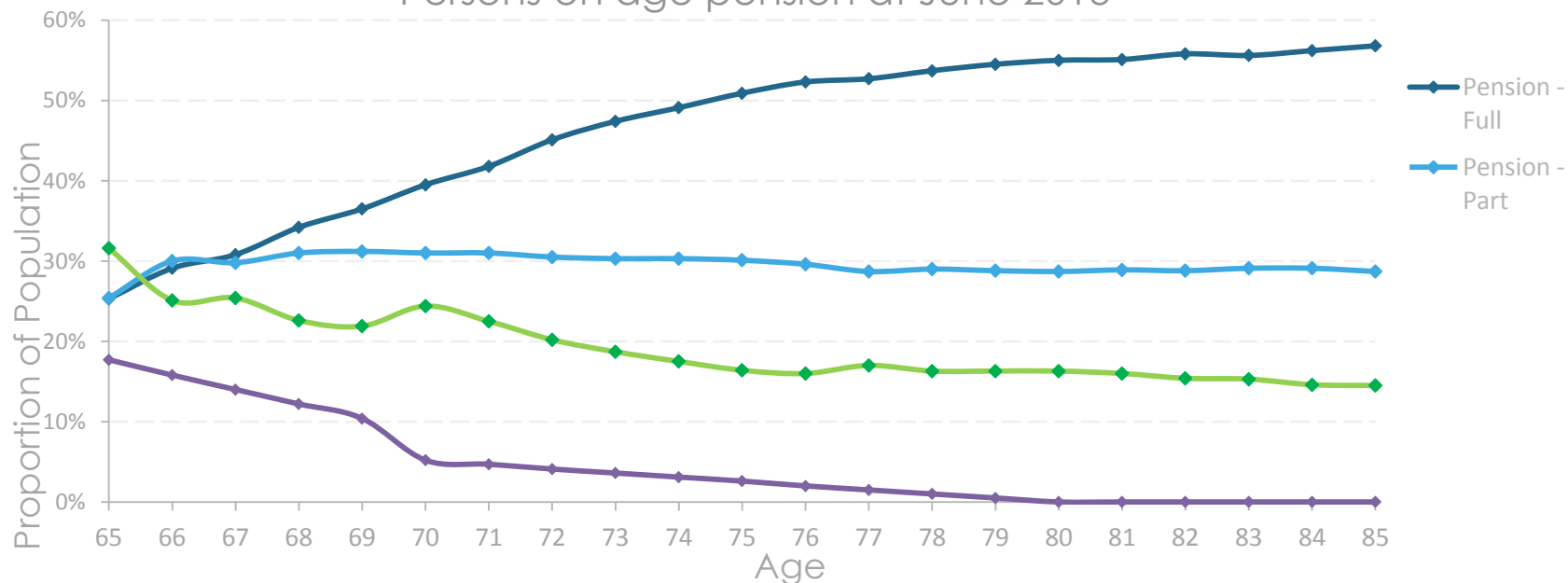
- Superannuation taxes
 - \$6.53b
- Income support for aged
 - \$40b growing to \$50 b in 4 years
- Tax concessions
 - Earnings - \$18.5b
 - Contributions – \$27.0 b

Adequacy of Age Pension

	Modest Lifestyle		Comfortable Lifestyle	
	Single	Couple	Single	Couple
ASFA Value	\$23,362	\$33,664	\$42,433	\$58,128
Age Pension	\$22,212	\$33,488	\$22,212	\$33,488
Difference	-\$1,151	-\$176	-\$20,221	-\$24,640

Age Pension Dependency

Persons on age pension at June 2013



Size of Pension market

Projection of retirement assets

Market segment	Today		In 5 years		In 15 years		Compound Annual Growth Rate (% p.a.)
	30 June 2013		30 June 2018		30 June 2028		
	(\$M)	(%)	(\$M)	(%)	(\$M)	(%)	
Not-for-Profit Funds							
Corporate Funds	3,661	0.7	5,491	0.8	0	0.0	-100.0
Industry Funds	27,034	5.5	81,061	11.7	232,923	17.8	18.9
Public Sector Funds	54,272	11.0	76,584	11.0	139,104	10.6	9.7
Subtotal	84,967	17.3	163,135	23.5	372,027	28.5	13.7
Commercial Retirement Products							
Subtotal	158,632	32.2	199,215	28.7	349,373	26.7	8.6
Self-Managed Super Funds							
Subtotal	248,528	50.5	330,846	47.7	586,168	44.8	9.1
Total retirement market	492,128		693,196		1,307,567		9.9
Retirement assets as percentage of all superannuation assets		30.4		32.7		39.0	

Projected Male retirees

Number of male retirees by age band

Age group	Males ('000)					
	2013	2018	2028	2033	2038	2043
55 - 59	19	89	58	52	51	59
60 - 64	110	230	318	255	275	270
65 - 69	252	242	350	438	403	448
70 - 74	267	336	348	429	515	501
75 - 79	158	264	347	360	428	510
80 - 84	82	126	215	286	300	360
85 - 89	44	53	85	148	199	211
90+	18	26	34	53	92	133
Total	950	1,367	1,754	2,021	2,263	2,492

Projected Female retirees

Number of female retirees by age band

Age group	Females ('000)					
	2013	2018	2028	2033	2038	2043
55 - 59	38	88	99	114	113	129
60 - 64	188	230	316	331	375	367
65 - 69	344	315	366	455	472	523
70 - 74	254	395	387	429	518	536
75 - 79	105	248	390	386	424	511
80 - 84	29	91	218	345	343	379
85 - 89	14	22	70	168	267	266
90+	8	10	16	46	116	199
Total	981	1,400	1,862	2,274	2,628	2,909

Retirement Myths

- Australians are wasteful and half of superannuation goes on lump sums
- Retirees draw down benefits quickly so they can fall back on the Age Pension
- Australians will struggle to get a modest retirement
- Retirees do not draw income products
- Lifetime annuities are a panacea and provide good value for money
- We need to reduce growth assets to protect against sequencing risk
- Superannuation is always a good investment...