Actuaries Institute

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Actuaries Institute says retirees will help build Australia's economy

- **Report on ageing population and investment trends follows request from the Financial System Inquiry**
- **Superannuation sector could be dominated by just 10 massive $300 billion funds**

The Actuaries Institute today issued a report, Ageing and Capital Flows, which indicates that retirees could help rebuild Australia's infrastructure in the coming decades, challenging the popular perception that the ageing population will be a drag on the national economy.

Commissioned by the Institute following a request from the Financial System Inquiry, the report predicted that savings and infrastructure development will boom as superannuation assets soar to $5 trillion (in real terms) over the next 30 years. The Financial System Inquiry, headed by David Murray, sought the Institute's advice about how capital flows may change as Australia's population ages and superannuation assets move from the accumulation to the pension phase. Consulting actuarial firm Rice Warner conducted the modelling on behalf of the Actuaries based on its annual Superannuation Market Projections.

David Bell, the CEO of the Institute, said the report predicted superannuation assets will grow to 160% of GDP by about 2040 then plateau as superannuation savings enter the pension phase. Mr Bell said the volume of accumulated capital will change over time and so will its allocation. 25% of assets are currently invested overseas but as the industry grows it is possible these allocations may increase due to a limit in equity investment capacity in the Australian market.

The report suggests that superannuants' risk aversion and preference for greater capital security (possibly including some life time annuities) will see a shift over time to more conservative investments which will boost demand for long-term defensive asset classes such as government and corporate bonds.

"This is a huge opportunity for the Government to provide investment vehicles that can drive infrastructure development over the next three decades. Recent sales of ports and freeway infrastructure have demonstrated the superannuation market's capacity and appetite for these investment classes. The good news for the nation is that retirees' retirement assets will help reduce their reliance on the Age Pension and at the same time underpin much needed infrastructure development", Mr Bell said.

According to the report, 30% of superannuation assets are currently held in pension phase by those that have retired but this will rise to 44% within 30 years as baby boomers retire.

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The report by also envisages a rationalisation of superannuation funds over the same period and noted that any concentration of funds would lead to large holdings. If the top 10 funds in 30 years held 60% of all assets, they would manage $300 billion each (in real terms), with Mr Bell noting that this market concentration is likely to raise competition concerns amongst policymakers.

The report noted a likely decline in market share of the SMSF segment from 31% of assets to 25% over 30 years largely due to higher growth in the other segments. The SMSF segment already has 50% of assets in pension phase so it will have higher drawdowns than the other segments. Other segments have larger numbers of younger members who will build their superannuation over the 30 year period.

Mr Bell said regulators will need to be vigilant that these popular funds can deliver a reliable, secure and adequate retirement income to their owners.

Key Outcomes:
The report said the ageing of the population, the concurrent maturation of the superannuation market and the structural changes within that market will produce significant systemic changes in the volume of capital and its allocation.

The key changes that can be expected over the next thirty years are:

- The assets within the superannuation industry will grow significantly in real terms from about $1.6 trillion at June 2013 to more than $5 trillion in 30 years.
- Funds will seek higher allocations of international investments.
- The huge growth will lead to a greater demand for secure investments as well as infrastructure and other growth assets.
- This asset base will also grow as a proportion of GDP from 108% in 2013 and will stabilise at around 160% of GDP in 30 years.
- This stabilisation will reflect the maturation of the market with some 44% of assets being held in the pension phase at that stage.
- The average age of retirees will rise.
- There will be a small number of large funds. It is difficult to predict the exact number, but if 10 funds had 60% of the assets, they would average $300 billion each in real terms.
- The SMSF sector will lose its share of the overall market as its large asset base for members in the pension phase drawdown their benefit during this period.

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