MEDIA RELEASE

Actuaries Institute says system can be improved to safeguard retirement living standards

SYDNEY, 28 March 2014: The Actuaries Institute today said that significant policy changes are needed so that Australia's financial sector and retirement income system can cope with the nation's ageing population.

In its submission to the Financial System Inquiry, the Institute said Australia faces a sharply increasing demand for acute health care and aged care. Over the next 30 years, the number of people aged 65 or over will double from 3.5 million (15% of population) to 7 million (22%) and will outnumber the under 18s. Importantly for healthcare policy-makers, the over 85s population nearly triples from under 0.5 million to 1.4 million.

"Our view is that without public policy changes demographic developments will adversely affect society's ability to finance a desirable standard of living during retirement," said Daniel Smith, the Institute's President.

"Changes to the retirement income system should not be undertaken in isolation without consideration of age pension costs, aged care costs and all sources of potential funding, including housing wealth," Mr Smith said.

Major recommendations

1. To prepare the financial system to deal with the challenges of significant demographic change, the Government should adopt a **comprehensive framework for policy formulation** to manage all issues relating to sustainable financing of our ageing population.

2. The Government should establish a **Financial System Policy Commission** whose role is to recommend comprehensive policy options on how to manage the financial system over the longer term to ensure it delivers optimal outcomes for the consumer and the nation.

3. Create an **open data regime** to allow increased access to and analysis of important government held data and modelling information to better manage macro risks to the financial system.

David Bell, the Institute's CEO, said the Financial System Inquiry represents a significant opportunity to examine and where necessary rebalance Australia's highly-respected retirement income system amid various and sometimes competing demands from retirees, governments, and investors.

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"A coherent overarching framework will allow development of an efficient long term strategy and reduce the incidence of short term policy changes," Mr Bell said, noting that there were 96 superannuation tax changes announced under the previous Government of which 75 are now set to be rescinded.

"Constant policy change creates a significant and perhaps unnecessary cost for the industry and consumers to bear," he said.

"Actuaries are well placed to comment on the financial system and provide both a 'consumer lens' and a 'provider lens' on any proposed changes given their risk management expertise and ability to find genuine insights within business data," Mr Bell added.

In its submission, the Institute said Australia's retirement income system is an increasingly important part of the overall finance sector, with retirement assets estimated to grow to $3.4 trillion by 2028 compared with $1.7 trillion currently.

"The sheer size of the system and its impacts on the wider economy as the population ages and the accumulation of retirement savings gives way to consumption in retirement require careful policy planning," it added.

"We consider that anticipated demographic changes and the resultant increases in aged care and health costs will result in an unsustainable level of government spending over time unless we establish consistent policies with agreed long term targets," the Institute said.

To ensure that the financial system "delivers optimal outcomes for consumers and the nation", the Institute recommended the establishment of a **Financial System Policy Commission (FSPC)** that would be independent of the government.

The FSPC would balance the views of multiple government stakeholders such as APRA, ASIC, RBA, Treasury, and the ATO in policy debates and also act as a "third umpire" in clarifying or resolving policy positions adopted by other regulators, the Institute said in its submission.

"It is acknowledged that the Commonwealth Treasury has the primary role in formulating financial sector policy and is the key economic adviser to the Treasurer. We are not looking for more regulation, just more efficient regulation with a long term focus," it said.

"The FSPC would not assume those roles but could function in a similar manner to the Australian Government Productivity Commission (PC) which is the Government's independent research and advisory body on all aspects of microeconomic reform," the Institute said in its submission.

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"Despite APRA regulations and very strong capital and risk management requirements for insurers, consumer concerns about counterparty risk may pose constraints for future development of lifetime annuity markets and products," it said, recommending consideration of an industry scheme, or other forms of support, to provide financial assistance to consumers that suffer any loss through counterparty failure.

"US state-based guarantee associations and the UK Financial Services Compensation Scheme are two options for consumer protection that could be explored. These guarantees may be limited to specific products or amounts so as not to impede product development of low or non-guaranteed products," it said.

Among its key recommendations, the Institute said that an "open data regime" should be promoted to increase the level of important government-held information that can be gathered and analysed to better manage macro risks to the financial system.

"Currently there is very limited data released on the insurance and banking industries and almost non-existent data on housing / mortgage markets and the broader changes in the accumulation, distribution and use of wealth that will define the financial services landscape over the coming decades," the Institute said.

"Much of this data is still displayed in 1980's style reports and simple spreadsheets, compared to where other industries are at such as communications, media, mining, energy, transport, retail etc. This review could provide the catalyst for making a transformational rather than incremental shift in the quality and transparency of important data," it added.

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