

2 September 2015

Actuaries Institute releases landmark Retirement Incomes White Paper

The Actuaries Institute today released its “For Richer, For Poorer” retirement incomes White Paper which uniquely outlines the financial risks facing future retirees based on their current age and wealth profile.

Estelle Pearson, the President of the Institute, said: “The White Paper establishes guiding principles for policymakers as they attempt to balance the fiscal pressure facing the Government and financial stress facing many Australians as they save for or enter into retirement.”

“To have an informed debate that leads to a fair and sustainable pension system, policymakers need to have a much clearer overall picture of the financial position of all Australians in retirement,” Ms Pearson said.

The White Paper – prepared by Rice Warner on behalf of the Institute - is the first in Australia to analyse a cross-section of age, gender, income and marital status inputs to build an intergenerational profile of the superannuation and retirement incomes system. It follows the ground-breaking “Australia's Longevity Tsunami What Should We Do?” report by the Institute in September 2012 which intensified the debate about longevity risk and the implications for retirees who are living longer and struggling to manage their savings.

“This significant report reinforces many of the key recommendations in the final report by the Financial System Inquiry, particularly its call for an overarching approach to retirement incomes which must include, a review of superannuation tax incentives, the fiscal sustainability of the Age Pension, and when the Superannuation Guarantee will be increased,” Ms Pearson said.

“Policymakers need to factor all of these aspects into the debate to make the right decisions about our future,” she added.

Download a copy of the White Paper [here](#).

Key findings in the “For Richer, For Poorer” White Paper include:

- Receiving at least some of the Age Pension remains very important for median wealth couples ¹ who have been the focus of policy tinkering by successive governments. As this group enters retirement, removing part-payments will jeopardise their comfortable standard of living.
- There is a strong reliance on the Age Pension for half of the population. It comprises 93% of retirement income for those in the bottom 5% income bracket, 73% for the bottom quartile and 44% for “middle Australia”.
- While those in the top quartile income bracket will easily achieve a comfortable retirement, they still qualify for part-payment of the Age Pension (16% of their income over their lifetime).
- A median couple has twice the wealth nearing retirement as a lower wealth couple (\$1.2 million vs \$580,000) but have only 50% extra annual income (\$68,700 vs \$45,900), again indicating the importance of the Age Pension in providing a base level of income for the less well off.
- Single women are likely to experience the worst outcome in retirement compared to couples and single men, with many unable to achieve a comfortable standard of living.
- There is a 50-fold difference in wealth between those in the top 5% income bracket and about to retire and those at the bottom 5%. This reduces to 10-fold for those who will retire in 30 years’ time, confirming the importance of the Superannuation Guarantee in providing an element of social equity.

The White Paper found that: “In the main, the superannuation system is doing what it was designed to do. It is accumulating assets to fund adequate retirement incomes and is reducing dependence on the Age Pension.”

“Importantly, the White Paper also shows that the least wealthy sections of the community, both now and in the future, will continue to be entirely dependent on the Age Pension to maintain even a modest lifestyle,” said David Bell, the CEO of the Actuaries Institute.

“The younger cohorts (aged 30) will be marginally better off when they reach retirement because of the Superannuation Guarantee,” Mr Bell said.

¹ The report characterises a median wealth couple as being at the 50th percentile based on Rice Warner estimates with annual income post-retirement of \$68,700 if they are now aged 60 or \$75,300 if now aged 30. Couples at the 25th percentile or higher can, based on the Association of Superannuation Funds of Australia (ASFA) measure, have a “comfortable” lifestyle. ASFA estimates a comfortable lifestyle requires total annual income of \$58,364 for a couple while a “modest” lifestyle require total annual income of \$33,766. For singles, the equivalent amounts are \$42,604 and \$23,469.

The White Paper outlines the following principles for an equitable and sustainable system.

- **Sustainability**, including a long-term regulatory outlook focused on providing retirees with a reliable, secure and adequate income flow during retirement.
- **Flexibility** within regulation to reflect individuals' different retirement income needs and varying capacity to exercise choice.
- **Equity**, particularly in relation to the combined cost to the taxpayer of the Age Pension and various tax concessions and incentives, as well as inter-generational equity.
- **Efficiency**, so that the cost to taxpayers is efficiently meeting the core objective of providing adequate retirement incomes.

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