Retirement and Superannuation Policy in Australia

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Presentation to 2002 Melbourne Institute Economic and Social Outlook Conference

'Towards Opportunity and Prosperity'

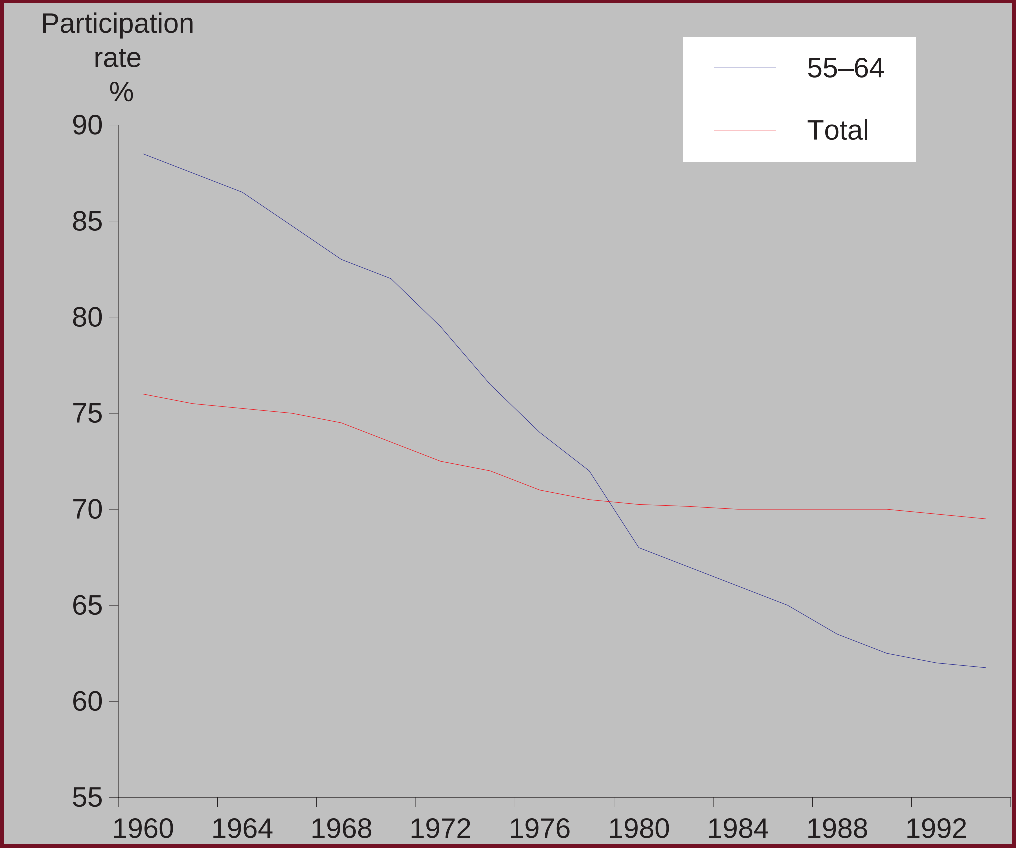
The Allen Consulting Group

Scope of paper

- Not confined to retirement incomes policy
- Will cover
  - *retirement per se*, and various policies relevant to retirement behaviour;
  - *retirement income* provision, and the *superannuation* system specifically;
  - *health costs* — which are concentrated in old age; and
  - related issues, particularly how to 'unlock' *housing wealth*.

Retirement: the dramatic (male) trend to retiring early — boon or waste?

Labour force participation by age - Males



Link to retirement Incomes policy:

Early retirement

equals

Less time to accumulate

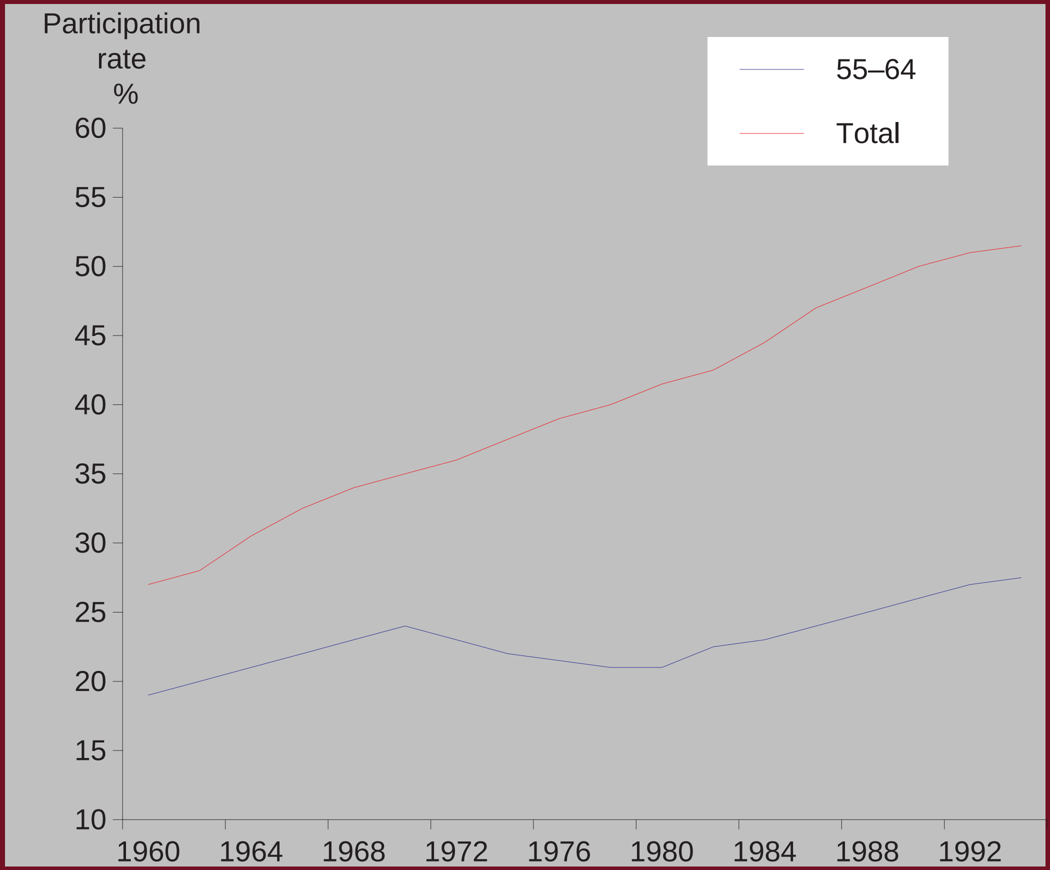
and

Longer period of dependency.

Source: D. Carey, *Coping with Population Ageing in Australia*, Economics Department Working Papers No. 217, OECD, 1999.

Females behaving differently — including older females successfully obtaining part–time work

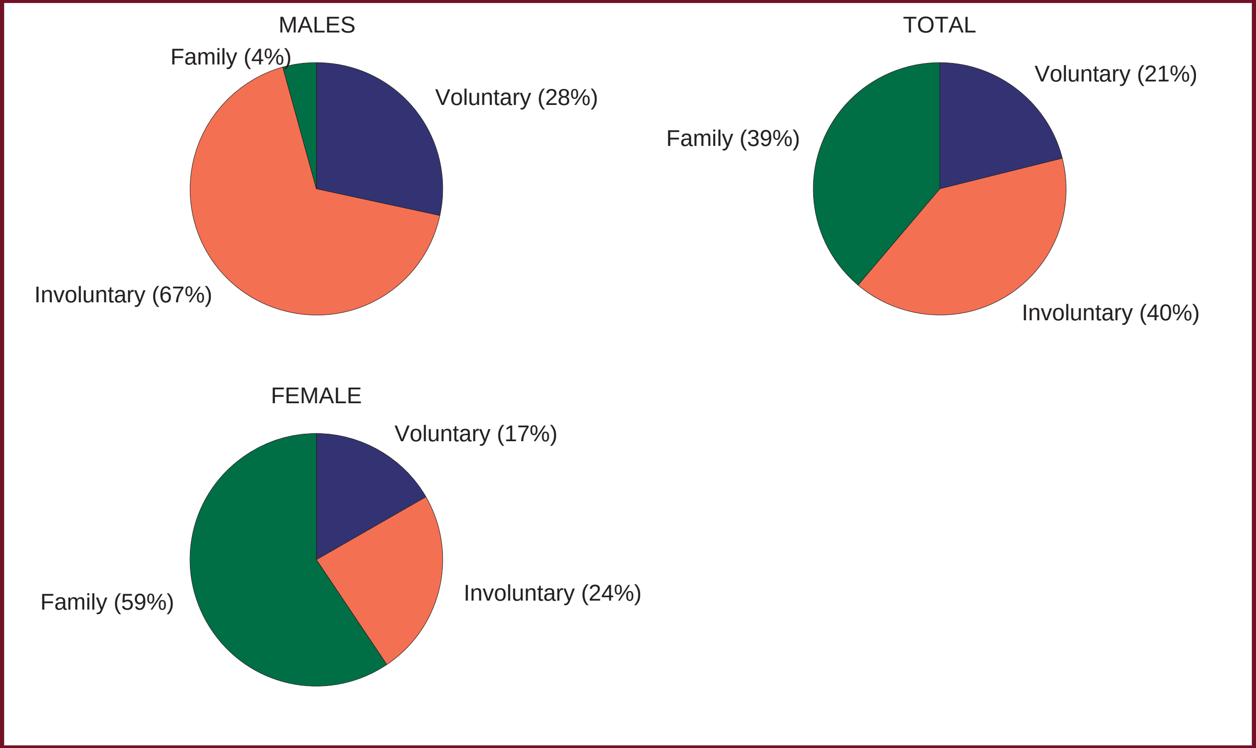
Labour force participation by age - Females



Source: D. Carey, *Coping with Population Ageing in Australia*, Economics Department Working Papers No. 217, OECD, 1999.

The harsh side: older males pushed out early rather than given choices (e.g. changed roles, phasing)

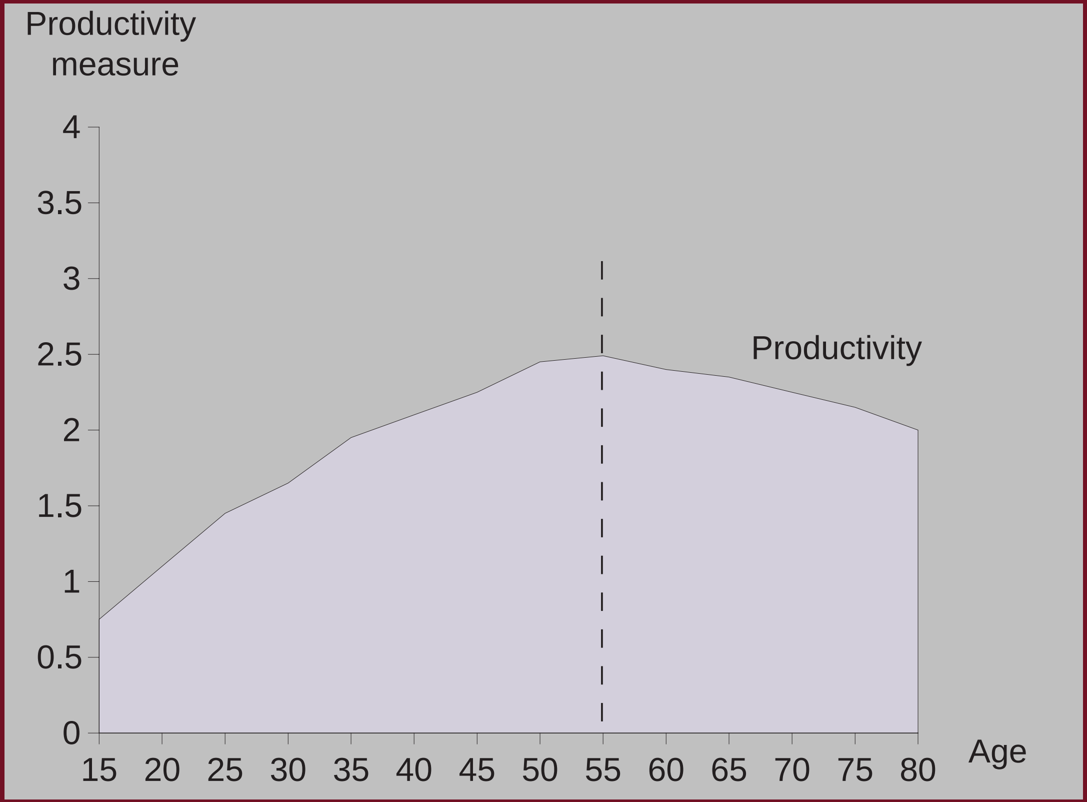
Reasons for early retirement – 1997



Source: ABS, *Retirement and Retirement Intentions*, Catalogue No 6238.0, November 1997.

Employer prejudice against older workers is poorly based — and abetted by various government rules and restrictions

Relative productivity by age implied by incomes of the employed



Source: B. Bacon, *Ageing in Australia: Some Modelling Results and Research Issues*, Retirement and Income Modelling Unit, 1995.

What can be done about it?

- Review rules and restrictions putting people into boxes: ‘retired’ or ‘non–retired’.
- Reform pension rules to encourage partial or later retirement (modest incentives exist now for the latter).
- Reform superannuation and age pension rules and taxation to shift emphasis from taking the whole of a super benefit early as lump sum.
- Promote positive employer and union policies, active facilitation of role change workplace models etc.

Retirement income provision — the large gap between aspirations/expectations and reality

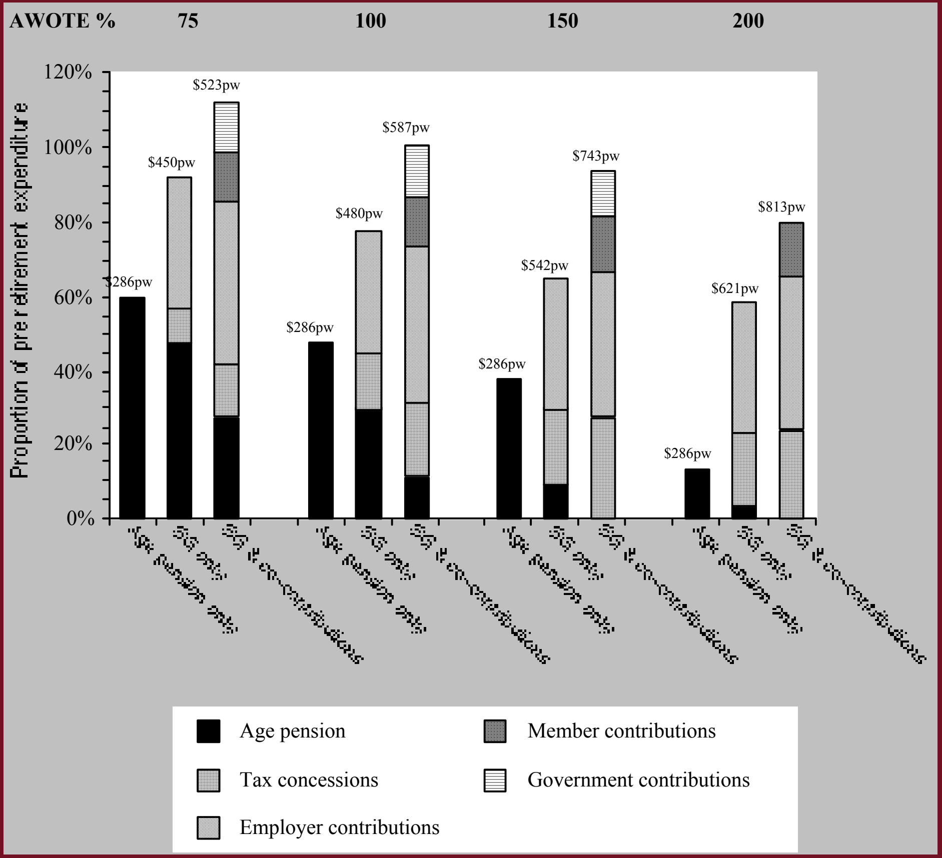
- 44 per cent of pre–retirees surveyed by ABS expected super to be their main source of income in retirement; only 18 per cent expected the age pension to be.
- After retirement, only 25 per cent have enough super for that to be their main income source; *two-thirds* end up relying on the age pension as their mainstay.
- 90 per cent of people assess they will need $20,000 p.a. or more in retirement — most assess somewhere near their pre–retirement income, i.e. towards $40,000 for someone on AWE.
  - **But a person on AWE contributing for 30 years on the full 9 per cent SG will achieve *less* than $20,000 p.a.**
  - **For most, the gap will be wide.**

OECD comparisons

- Retirement income systems in a range of OECD countries target 70-80 per cent gross income replacement i.e. similar spending power in retirement (when expenses tend to be lower) c.f. pre–retirement
  - **although achievement will be difficult in unfunded 'PAYG' systems (e.g. Japan, Germany, US Social Security system).**
- Australia has the right *type* of system — i.e. a substantially *funded* system. Our problem is that we are not putting enough into it.

The age pension plays a key stabilising role and will remain an important ‘pillar’

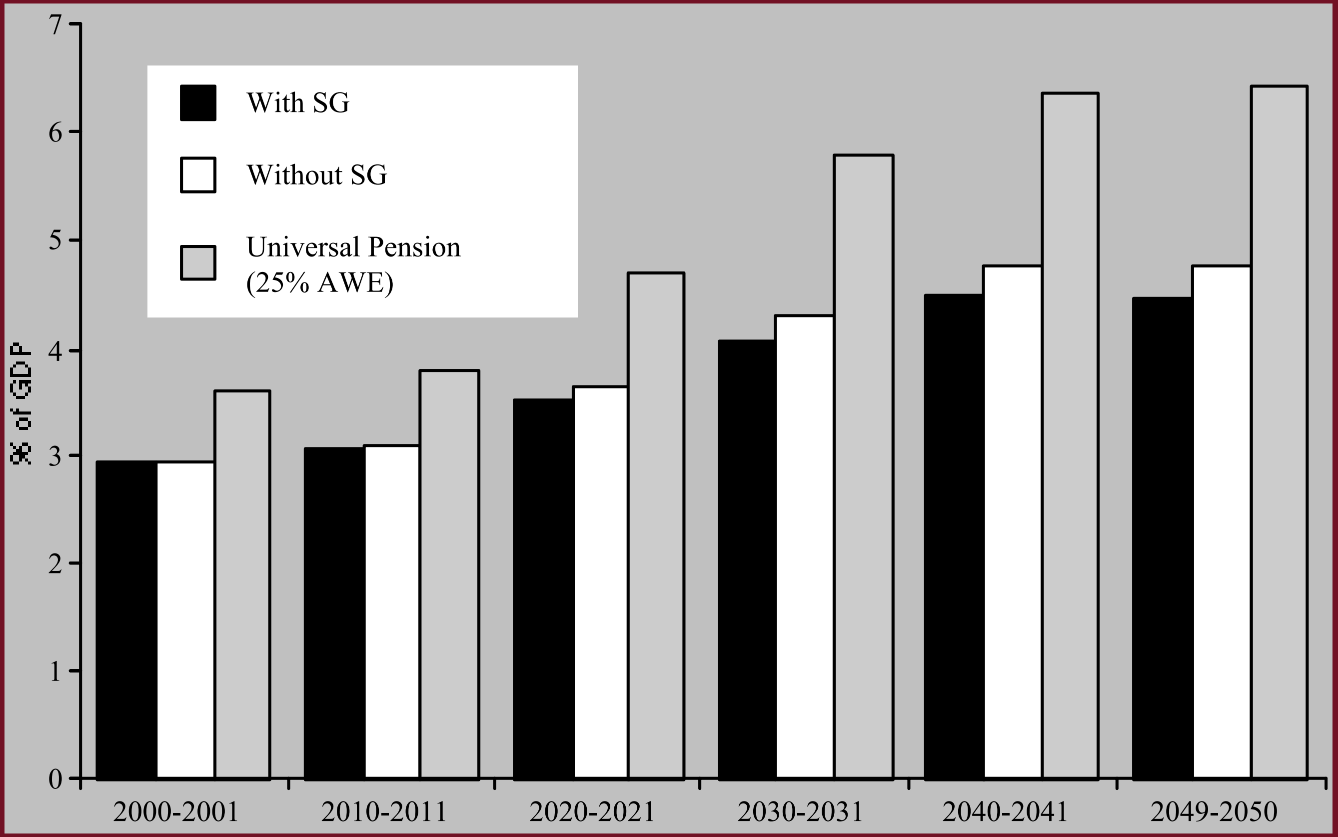
Projected outcomes from 1995 budget proposals
(single male, in scheme 40 years from age 25 after 2002)



Source: *Saving for our Future*,
Statement by the Treasurer, May 1995.

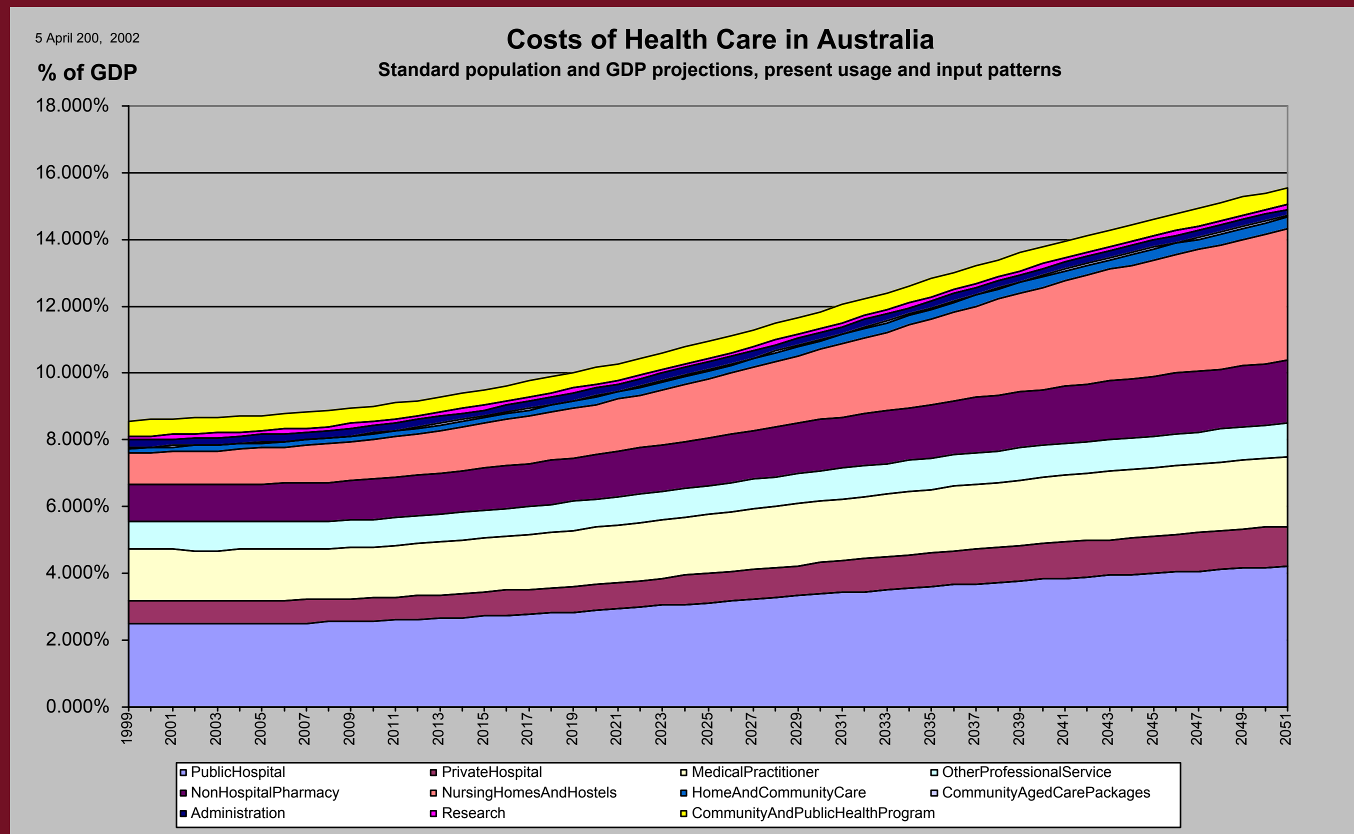
Thanks to the growth of super, the pension looks reasonably affordable in the future …

Projected Cost of the Pension (% of GDP)



Note: Age plus Veteran Pensions
Source: Retirement Incomes Modelling Unit

… but health costs are another matter. Estimates of increase range up from +3 % of GDP (DHAC figure)



Source: Preliminary results from Allen Consulting/Stafford McKenzie modelling project.

Reforming superannuation

- *Adequacy* is the key issue
  - **we need to lift contributions for most people (the broad low to middle income group) to at least 12 per cent.**
- Adequacy is not the only issue, however
  - ***simplification* — primarily, reform of the taxation structure, both to simplify and to improve incentives — would assist adequacy, by**
    - encouraging more voluntary contributions — another key 'pillar'
    - potentially increasing the proportion of each pre–tax dollar that goes into the fund (lower contributions tax), and leaving in the fund more of the accumulating returns (lower earnings tax). Practical transition schemes exist to overcome 'grandfathering' complexities.

Voluntary contributions will not close the gap for low to middle income earners.

- Reforms could include some combination of
  - **phasing in obligatory individual (member) contributions of say 3 per cent alongside the employer 9 per cent**
  - **extending government co–contributions (in terms of eligibility)**
  - **reducing upfront taxation**
    - shifting tax back to benefits — the best place to deal with equity, progressivity etc *and* the best place to tax from an incentive viewpoint.

Other areas for policy

- There is a good case for pre–funding (along super lines) to help meet ***future health costs***
  - **e.g. instead of being for general retirement income purposes, an additional member contribution could go into a ‘health care account’ in the system**
    - from which to pay either a direct patient contribution to public (or private) health care or health insurance premiums.
- Another aspect of interest is ***unlocking housing wealth***. Housing is the ‘fourth pillar’ — home ownership greatly improves retirees’ income adequacy. But:
  - **how to unlock some of the wealth locked up in retired people’s houses,**
  - **while meeting their important requirements and aspirations, including re bequests of the family home?**