



Institute of Actuaries of Australia

2004 Financial Services Forum ...The New Environment

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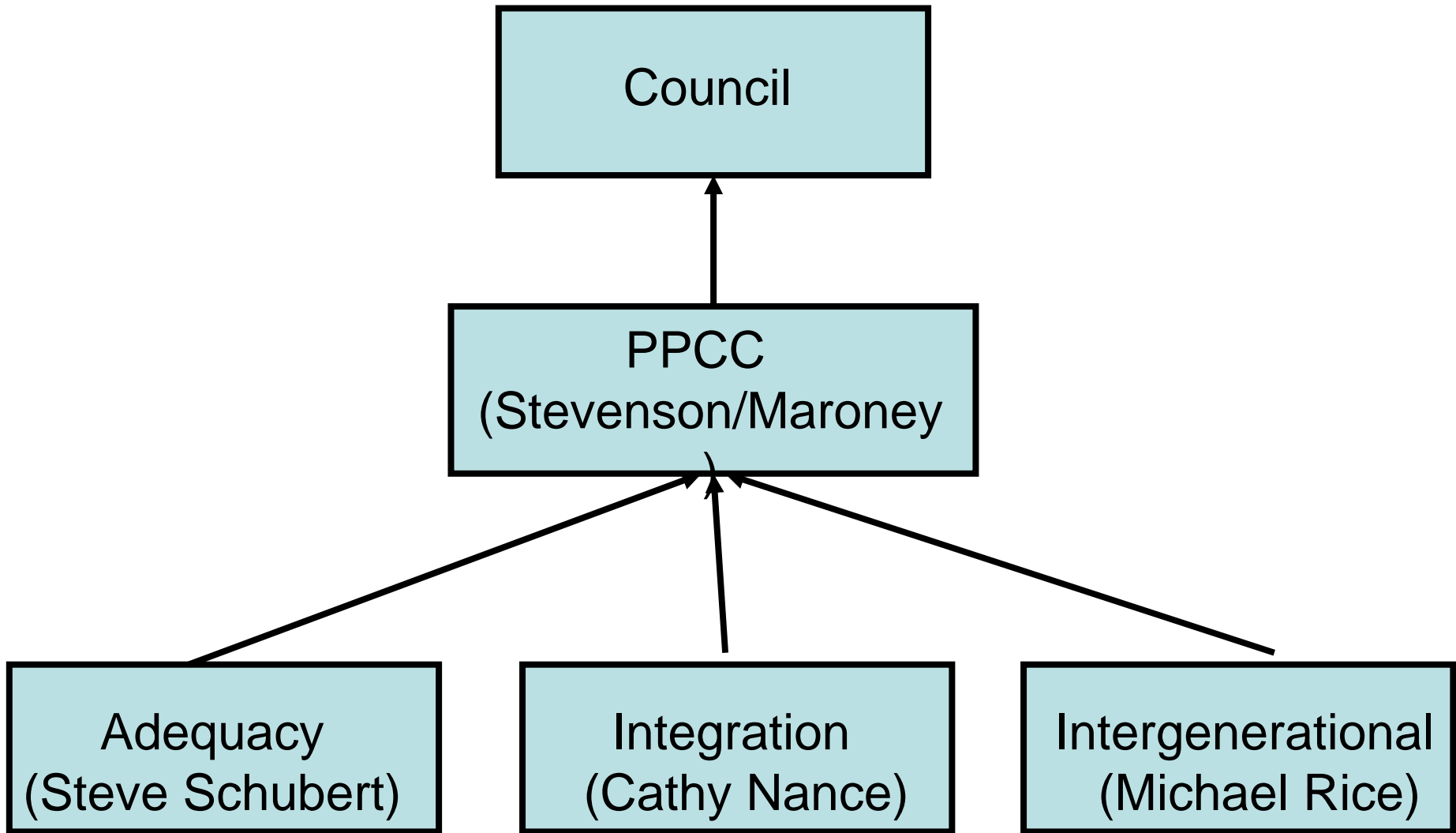
...The New Environment



Institute of Actuaries of Australia

Retirement Income Policy

John Maroney BA, FIAA



Terms of Reference

“The three Retirement Incomes Policy Taskforces will be responsible for supporting the Terms of Reference of the PPCC, and developing policy positions for the Institute on the three key issues of ***adequacy, integration and intergenerational issues.***”

Deliverables

- Summary of existing work in area
- Identification of gaps in IAA policy
- Formulation of policy framework
 - Test existing system
 - Test any IAA proposed policy
 - Test other proposed policies
- Identification of further work required
- IAA policy
 - If broad support can be obtained

Adequacy Taskforce

- Chair – Steve Schubert
- Members – Peter Larsen + ????
- Volunteers welcome
- Will consider adequacy from two perspectives:
 - Will an individual's retirement savings be adequate to meet his/her expenditure needs in retirement?
 - In aggregate, is the rate and current pool of savings adequate to produce retirement incomes in line with community expectations?

There is growing public interest and debate on the issue of adequacy

- Early debate was on adequacy of savings rates (eg SG)
- More analysis now of adequate retirement incomes
- Prolific spread of web-based modelling tools
- Reliance on life expectancies and average returns etc means modelling may be too simplistic
- Once individuals realise their “reasonable expectations” won’t be met it is too late

The IAAust can make a material contribution to this debate

A number of groups have considered adequacy of retirement incomes

- Senate Select Committee
- ALP “65 at 65”
- Social Policy Research Centre of Uni of NSW
- National Centre for Social and Economic Modelling
- Retirement Income Modelling Unit in Treasury
- HILDA survey

To what extent should the IAAust conduct its own research in this area versus drawing on existing research?

A number of issues affect adequacy in the savings phase

- Period and amount of saving
- Early drawdowns on non-preserved savings
- Tax on savings
- Impact of savings vehicle including fees, relative returns
- Impact of investment markets

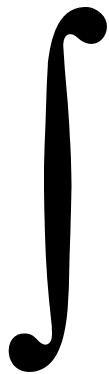
Actuaries have a clear skill in modelling these effects

There are also issues in the drawdown phase

- Longevity
- Tax and social security integration
- Ongoing impact of fees and returns
- Is expenditure constant over the post-retirement period?
- What factors can lead to marked changes in expenditure between otherwise similar individuals?

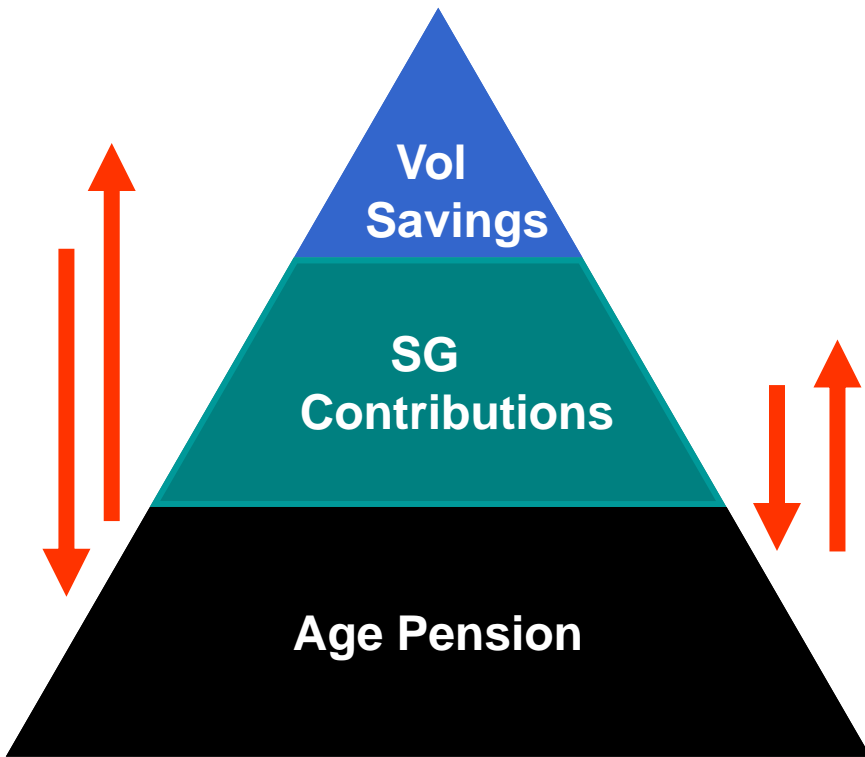
Actuaries have skills here but they could be supplemented by others

Retirement Incomes Policy:



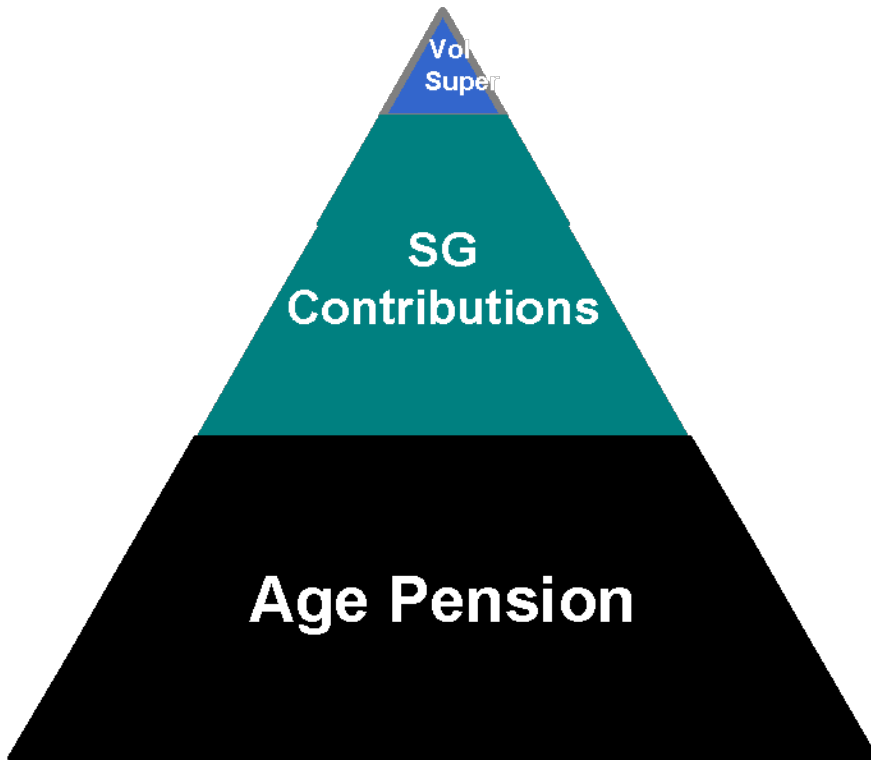
Integration Taskforce

Integration



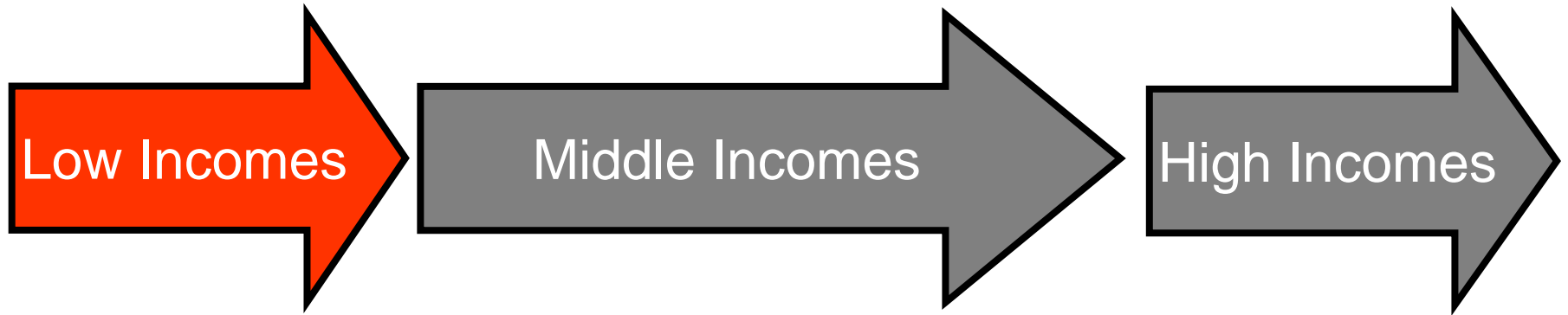
- Getting the links right *between*
- Age Pension pillar *and*
- The two savings pillars

Why is integration important?



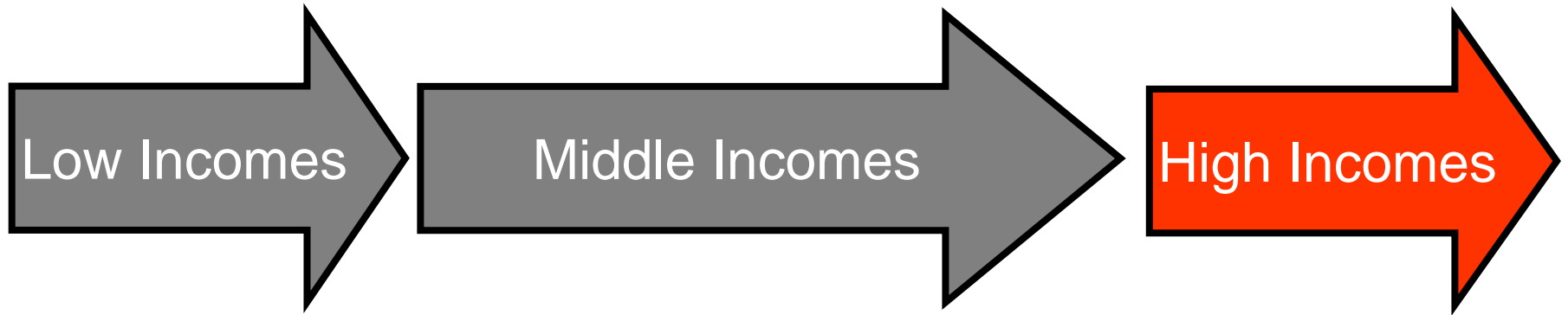
- 80% of retirees rely on all or part of Age pension now
- 75% of retirees will still rely on Age pension in 2050
- Median worker expected to rely on Age pension:
 - For half their retirement income
 - For 20-30 years

Problems with current system



- Low income groups
 - If aim is poverty protection
 - Age pension is low
 - Possibly 15%-30% low for singles and 5%-15% low for couples

Problems with current system



- High income group
 - If aim is not to pay it??
 - Financial planning industry, DIY funds?, etc
 - Exclusion of family home, regardless of value
 - Political and fairness issues in making changes here

Problems with current system



- Middle income group
 - If aim is
 - To encourage people to save more during working life
 - To encourage people who can, to work longer
 - Remove financial incentives to retire early
 - Existing system has problems

Problems with current system



- **If Median worker saves extra 5% now**
 - Extra savings largely go to buying the Age Pension they would have got anyway
- **If Median worker works part time post retirement**
 - Effective marginal tax rate is 60%
- **If a person defers retirement and Age pension**
 - Government profits from current pension bonus scheme
 - Person is worse off
- **A person can retire early, spend all or part of their super and be no worse off!**
 - Home equity issue

Problems with current system

- Other problems
 - Overly complicated income and assets test
 - Inconsistent treatment of different types of income
- With popularity of allocated and growth pensions
 - Government will increasingly wear longevity risk
 - Good or bad??
- Financial pressures on economy from ageing population
 - More need to better target the Age Pension \$
- To change the system requires long lead times

Challenges

- Integration is difficult problem to solve
- Australia fairly unique in having means tested Age Pension
 - Not a lot of relevant lessons from OS
- Proposed changes are likely to be:
 - Hotly debated
 - Political
- Need to define direction of change required
- Small incremental changes more likely than major changes

Current membership

- Tracey Polldore
 - Mellon Melbourne
- Jim O'Donnell
 - AMP Sydney
- Howard Pitts
 - Mercer Sydney
- Tim Furlan
 - Towers Perrin Sydney
- Geoff Baars
 - NMG the world?
- Cathy Nance and Alison Murphy
 - PWC Perth

Inter-generational Taskforce

- Members:
 - Richard Cumpston,
 - Geoff Dunsford,
 - Richard Madden
 - Michael Rice (Chair)

- **Volunteers very welcome**

Objectives

- Analyse Treasury's IGR (Budget 2002)
- Scope research required in this area
- Commission or undertake relevant projects
- Develop annual targets for achievement over next three years

Proposed Scope

- Focus on 40 to 50 year time horizon
- Test changes in government policy
- Consider impact of social & economic change
- Consider government fiscal policy options
- Concept of inter-generational equity
- Avoid overlap with other task forces – but analyse long-term impact of their proposals

Issues

- Government Budgetary Policy
- Government Balance Sheet (unfunded liabilities)
- Government borrowings/investments
- Population Policy
- Retirement “balance” between public & private sectors
- Inter-generational Conflict

Data & Assumptions

- Population
- Economic
- Social & Environmental
- Taxation & Welfare

Conclusion

- Questions
- Comments
- Discussion
- ...planning the way forward...