THE FUTURE FOR RETIREMENT INCOMES

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Intergenerational Report

- Ageing of the Population - Increasing Budget Deficits
- Expenditure on Age and Service Pensions
  - 2.9% GNP in 2001/02
  - rising to 4.6% GNP in 2041/42
- The proportion of people over age 65 who receive full or part Age or Service pensions will reduce only marginally -
  - from 83% in 2001/02
  - to 78% in 2041/42

if no changes made to current government rules
Possible Solutions to Increasing Budget Deficits

- Increase taxes in future years
- Borrow to meet deficits
- Increase Super Contributions
- Restrict Age Pension benefits
  (Note Part Pension and fringe benefits can be paid to those with million dollar houses and a million dollars of super)
- Increase Age Pension age
- Reduce other Government Expenditure
Concept of Retirement

- Fixed Retirement age has ceased to exist
- Age Pension age - No further *Obligation* to work
- Prior to Age Pension age - Unemployment benefits if qualifying
- Early Retirees - should not be Double Dipping
- Encourage Later Retirement:
  - Suggest: Exempt part earnings from personal exertion
  - Pension Bonus Scheme - Inadequate
Adequacy of Retirement Incomes

• Government Focus: Incomes from Age Pension age
• Meet Reasonable Expectations
• Focus on immediate pre retirement living standards
• General model assumes no dependents
• General model assumes home paid off at retirement
• NATSEM study benchmark costs
• NATSEM study Living Standards Index
<table>
<thead>
<tr>
<th>Annual Amounts in 000’s</th>
<th>Couple with Dependent Children</th>
<th>Couple as “Empty Nesters”</th>
<th>Couple Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gross Income</strong></td>
<td>$77.3</td>
<td>$75.2</td>
<td>$37.6</td>
</tr>
<tr>
<td>- Tax</td>
<td>$16.3</td>
<td>$16.3</td>
<td>0.0</td>
</tr>
<tr>
<td>- Voluntary Super</td>
<td>0.0</td>
<td>$7.5</td>
<td>0.0</td>
</tr>
<tr>
<td>- Housing Costs</td>
<td>$15.7</td>
<td>$15.7</td>
<td>$2.7</td>
</tr>
<tr>
<td><strong>Discretionary Income</strong></td>
<td><strong>$45.3</strong></td>
<td><strong>$35.7</strong></td>
<td><strong>$34.9</strong></td>
</tr>
<tr>
<td><strong>“Benchmark” Costs</strong></td>
<td><strong>$39.1</strong></td>
<td><strong>$23.5</strong></td>
<td><strong>$21.2</strong></td>
</tr>
<tr>
<td><strong>Living Standards Index</strong></td>
<td><strong>1.16</strong></td>
<td><strong>1.52</strong></td>
<td><strong>1.65</strong></td>
</tr>
</tbody>
</table>

50% of Pre Retirement Gross Income adequate in retirement
### Government Pillar - Move to Safety Net?

**Pensions expressed as % MTAWE**

<table>
<thead>
<tr>
<th>Safety Net</th>
<th>Current</th>
</tr>
</thead>
<tbody>
<tr>
<td>Compulsory Super buys</td>
<td>Compulsory Super buys 20%</td>
</tr>
<tr>
<td>Age Pension Supplement:</td>
<td>Age Pension 26%</td>
</tr>
<tr>
<td>(26% - 20%)</td>
<td>Means Test Reduction:</td>
</tr>
<tr>
<td>(6%)</td>
<td>40% (20% - 7%*)</td>
</tr>
<tr>
<td><strong>Total Pensions</strong></td>
<td><strong>Total Pensions 41%</strong></td>
</tr>
</tbody>
</table>

* Income assumed exempt for means test purposes
Suggested Model

Basic Principles

• Accept “3 pillars”
• Focus on Adequacy of Incomes from Age Pension age
• Sufficient flexibility to cover wide range of personal circumstances
• Addresses Ageing of the Population Budgetary Issues
• Access to Super prior to Age Pension age limited to excess over that required to purchase Age Pension
• All benefits from tax favoured super taxed at marginal rates (less rebates)
Suggested Model

(Ultimate) Features

• Government Pillar - Move to Safety Net
• Separate Accounts for Compulsory and other Superannuation, from decision date
• Compulsory Super buys (part or full) Age Pension

• Tax favoured Super limited only by RBL’s
• Tax Relief for all Super Contributions including Voluntary from Employees/Self Employed
Suggested Model

Transitional Arrangements
General Approach

• Maintain Accrued Benefits under Superannuation arrangements
• Maintain pensions payable to current retirees - both government and private
• Transition expectations in respect of Government pensions for those close to retirement
• Apply “broad equity” to achieve significant administrative improvements.
Suggested Model

Transitional Arrangements

Features

• Establish separate Member’s Compulsory Super account from “decision date”
• Benefits from (separated) Compulsory Super Account used to buy part or full Age Pension
• Means test applies only to that part of the Age Pension not purchased by Compulsory Super benefits
• Access age to non Compulsory Super Account benefits on current terms, increased from current 55 to Age Pension age by 2019 - i.e. full effect for those currently under age 50.
## Suggested Model

Specimen Results for range of “Couples” after 45 years. Assumptions in Paper

<table>
<thead>
<tr>
<th>Earnings % MTAWE</th>
<th>Dependent Children</th>
<th>Empty Nesters</th>
<th>Retired</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Current Rules 9% SG Contributions</td>
<td>Suggested Model SG Contributions 9%</td>
<td>Suggested Model SG Contributions 10%</td>
</tr>
<tr>
<td>100%/75%</td>
<td>1.17</td>
<td>1.61</td>
<td>1.67</td>
</tr>
<tr>
<td>150%/100%</td>
<td>1.63</td>
<td>2.43</td>
<td>2.08</td>
</tr>
<tr>
<td>75%/50%</td>
<td>0.78</td>
<td>1.04</td>
<td>1.41</td>
</tr>
</tbody>
</table>

*Increase in Voluntary Contribution rate from 10% to 14% of earnings in 10 years prior to retirement, to match “Empty Nester” Living Standards Index.
## Suggested Model

Specimen Results for range of “Singles” after 45 years. Assumptions in Paper

<table>
<thead>
<tr>
<th>Earnings % MTAWE</th>
<th>Working – assumed No Dependents</th>
<th>Current Rules 9% SG Contributions</th>
<th>Retired Suggested Model SG Contributions</th>
</tr>
</thead>
<tbody>
<tr>
<td>100%</td>
<td>1.22</td>
<td>1.44</td>
<td>1.21</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.29</td>
</tr>
<tr>
<td>150%</td>
<td>2.00</td>
<td>1.76</td>
<td>1.71</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.82*</td>
</tr>
<tr>
<td>75%</td>
<td>0.78</td>
<td>1.26</td>
<td>1.18</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.18</td>
</tr>
</tbody>
</table>

*Increase in Voluntary Contribution rate from 10% to 14% of earnings in 10 years prior to retirement, to match “Empty Nester” Living Standards Index.
Next Steps for Ageing Australia Committee

• Consider Input from Concurrent Session
• Develop Social Security Integration Paper for IAAust discussion
• Confer with Health and Superannuation Committees to obtain input
• Further Test Model - more examples, range of economic assumptions
• Estimate Budget impacts
• Consider inclusion of other aspects - e.g. tax, aged care and other health issues, dealing with investment risks, financial planning, lump sums v pensions, simplicity, education.
• Prepare Senate Select Committee Submission on “Retirement Incomes in an Ageing Australia Environment”.