

**SURVIVE THRIVE**



# Natural Selection

**Financial Services Forum**

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**Actuaries  
Institute**





# Retirement Incomes Australia v the Rest of the World

**Dr David Knox**











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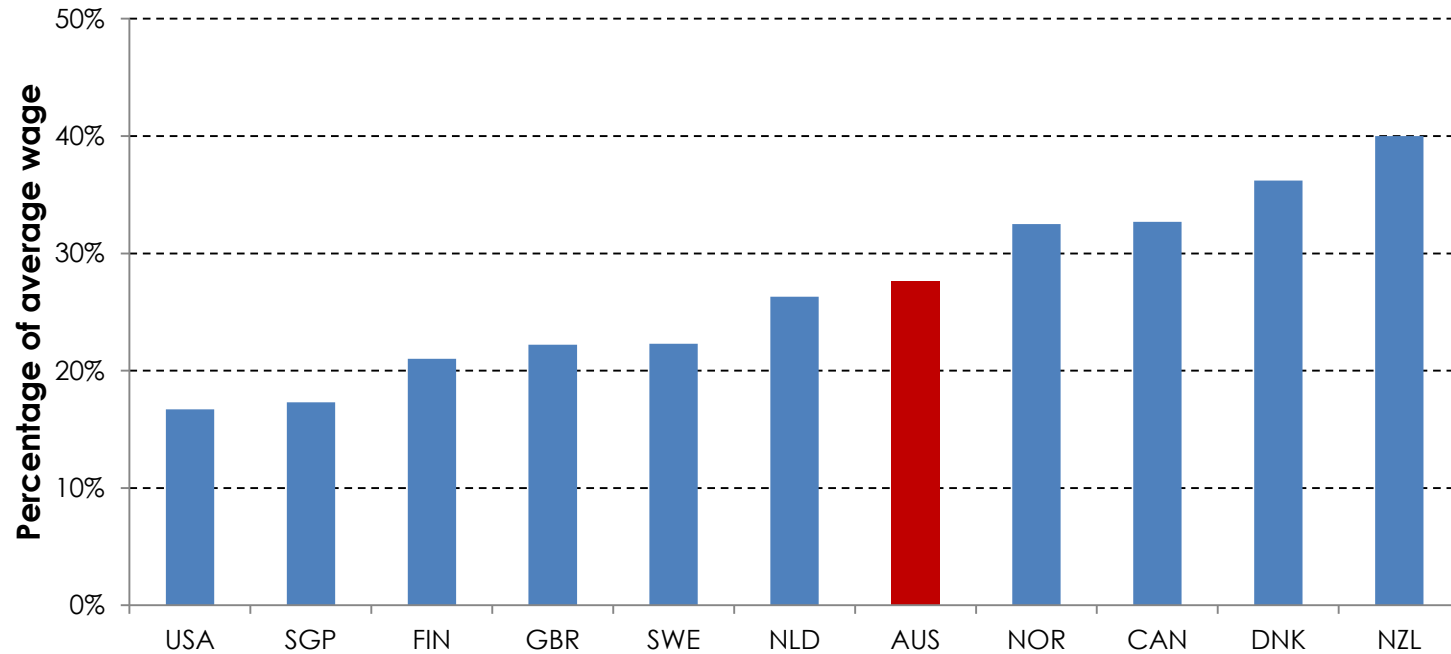
# The Rest of the World

	Country	MMGPI ranking
	Denmark	1 <sup>st</sup>
	Netherlands	2 <sup>nd</sup>
	Norway	4 <sup>th</sup>
	Finland	5 <sup>th</sup>
	Sweden	6 <sup>th</sup>
	Singapore	7 <sup>th</sup>

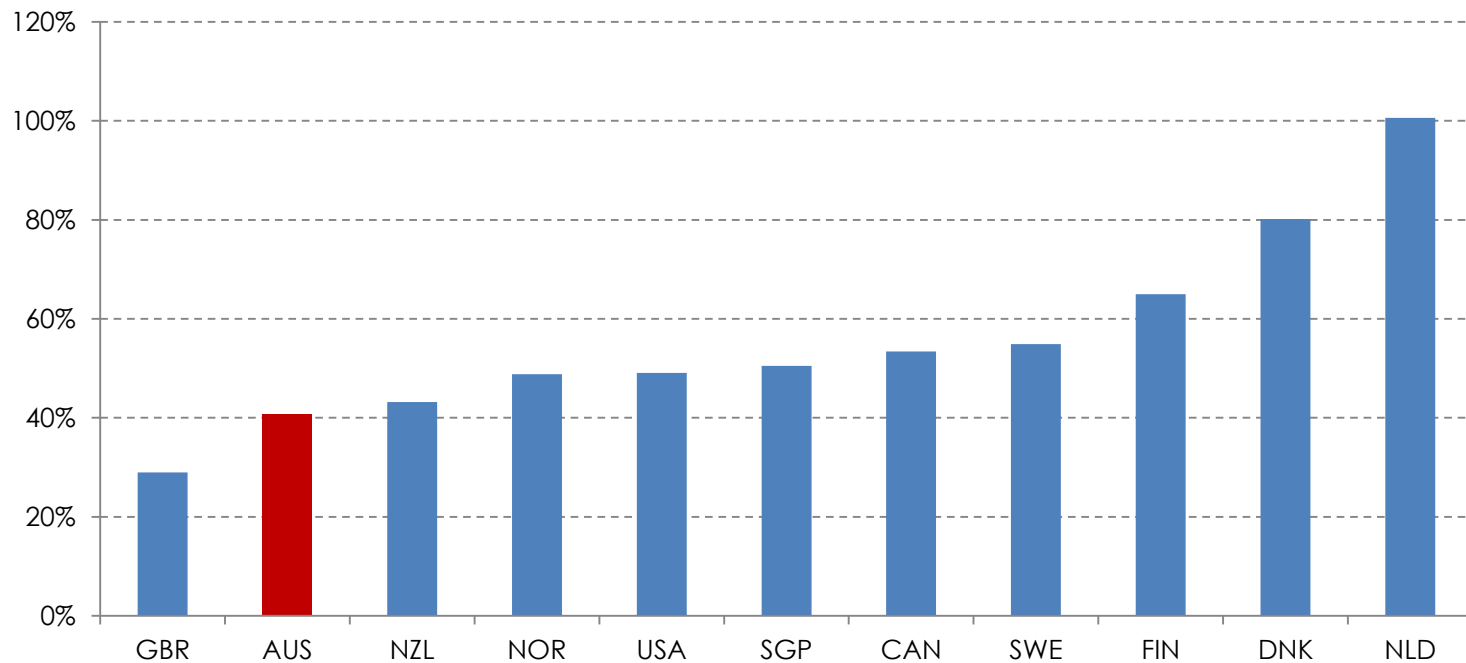
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	Singapore	7 <sup>th</sup>
	New Zealand	9 <sup>th</sup>
	Canada	11 <sup>th</sup>
	United Kingdom	15 <sup>th</sup>
	United States of America	17 <sup>th</sup>

# The minimum pension

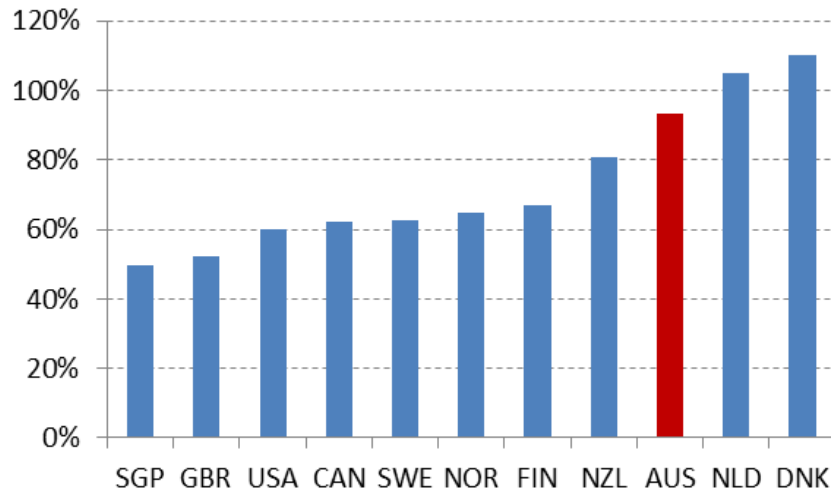


# The net replacement rate for average income earners

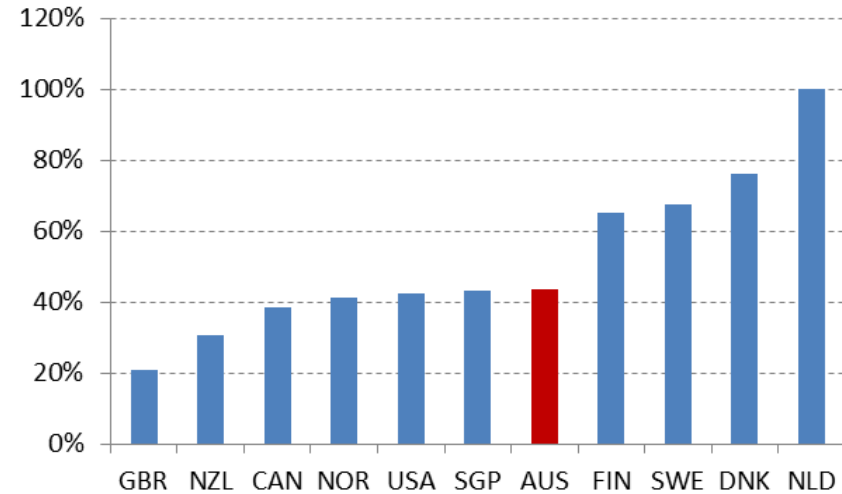


Source: OECD

# The net replacement rate for other incomes (50% & 150%)



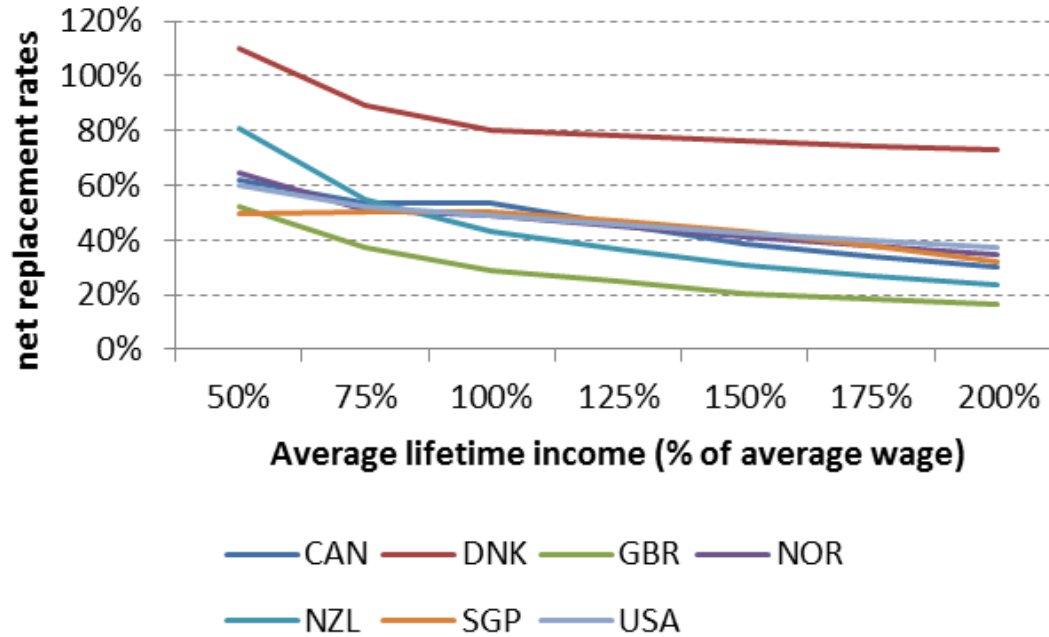
Below average incomes



Above average incomes

Source: OECD

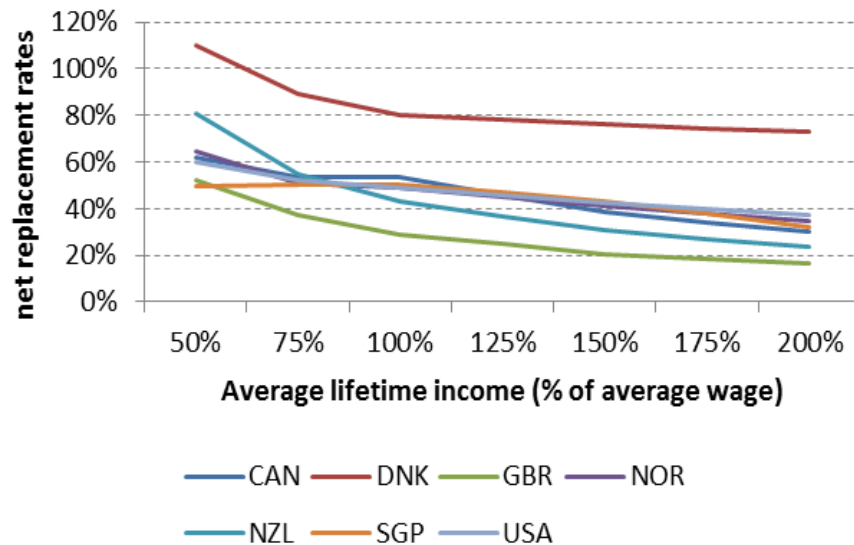
# The shape of net replacement rates across incomes



Source: OECD



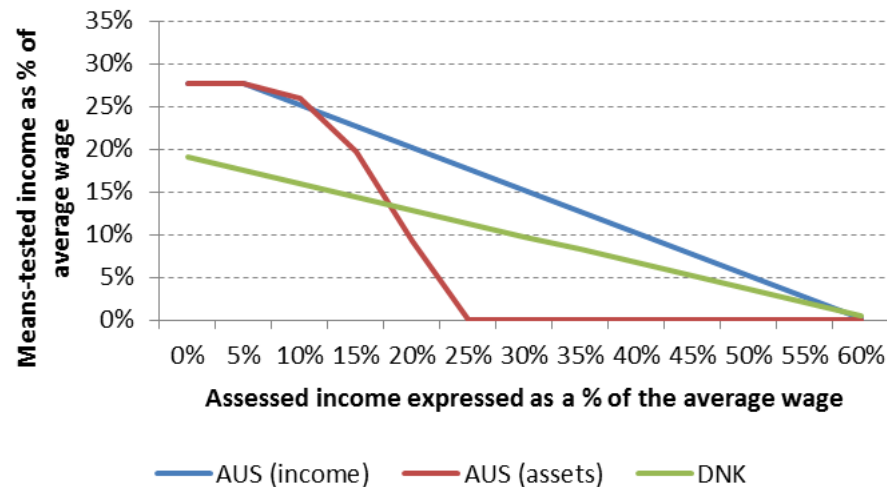
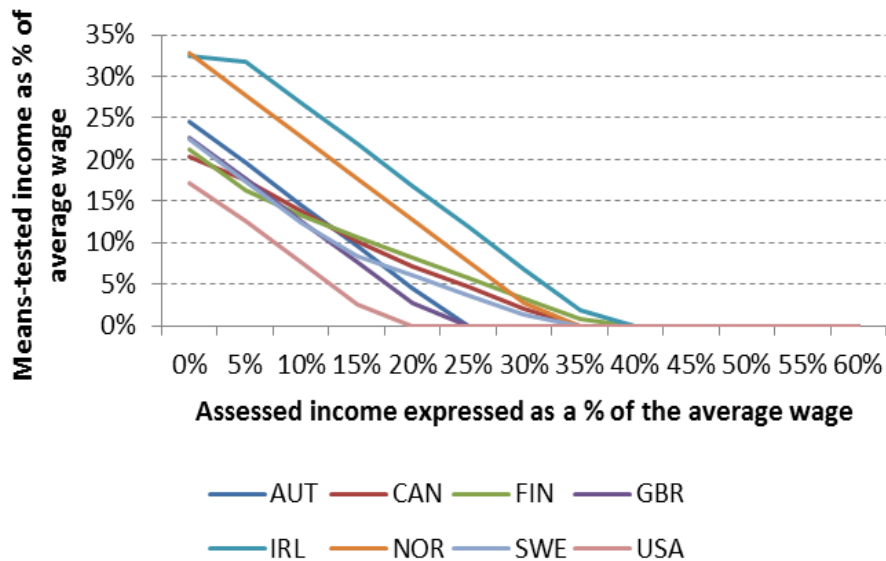
# The shape of net replacement rates across incomes



Source: OECD



# The impact of means testing





## Some lessons for Australia

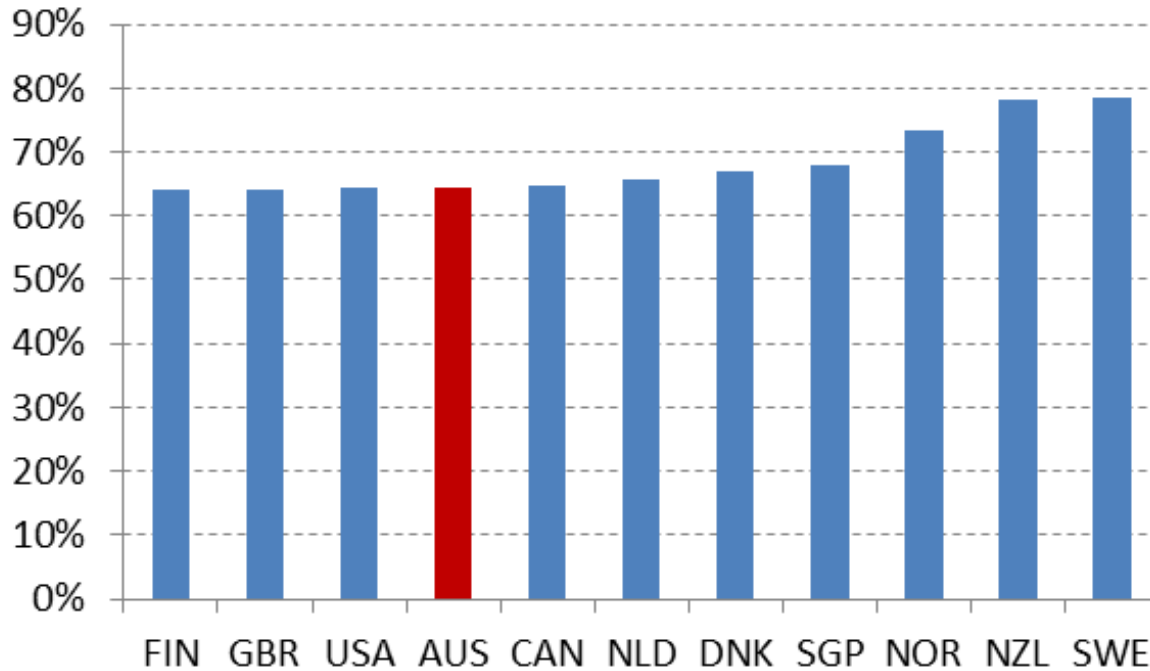
- All other countries use an income test only
- The income test is normally harsher than 50% but not as harsh as our assets test
- Most countries do not have an income test free zone
- Excluding Denmark, there is no means-tested pension when assessed income is greater than 40% of the average wage for a single person

# The tax structures for funded pensions



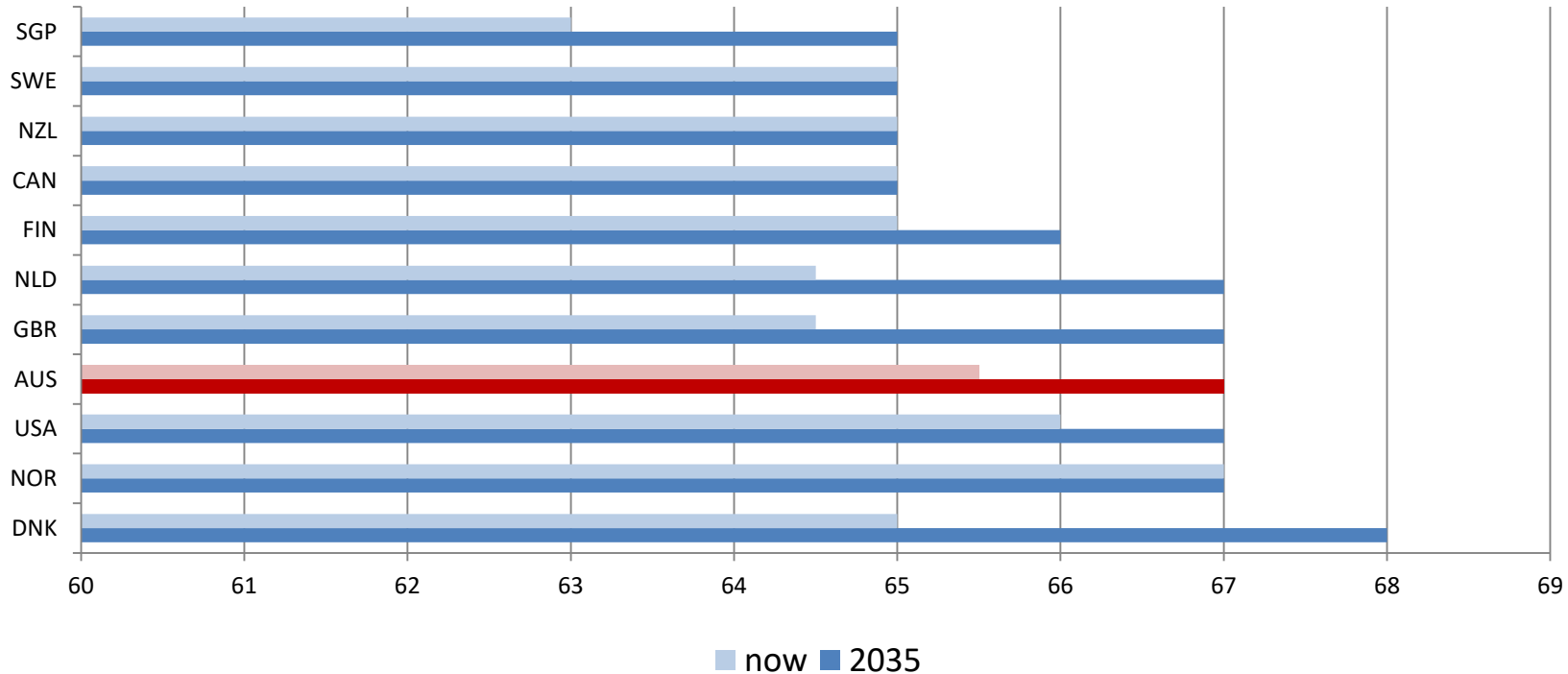
Country	Code	Contributions	Investments	Benefits
Australia	ttE	taxed at low rate	taxed at low rate	Exempt
Canada	EET	Exempt	Exempt	Taxed as income
Denmark	EtT	Exempt	taxed at low rate	Taxed as income
Finland	EET	Exempt	Exempt	Taxed as earned income
Great Britain	EET	Exempt	Exempt	Taxed as income
Netherlands	EET	Exempt	Exempt	Taxed as income
Norway	EET	Exempt	Exempt	Taxed as income
New Zealand	TTE	Taxed as income	Taxed	Exempt
Singapore	EEE	Exempt	Exempt	Exempt
Sweden	EtT	Exempt	taxed at low rate	Taxed as earned income
USA	EET	Exempt	Exempt	Taxed as income

# Labour force participation rates for 55-64 yo

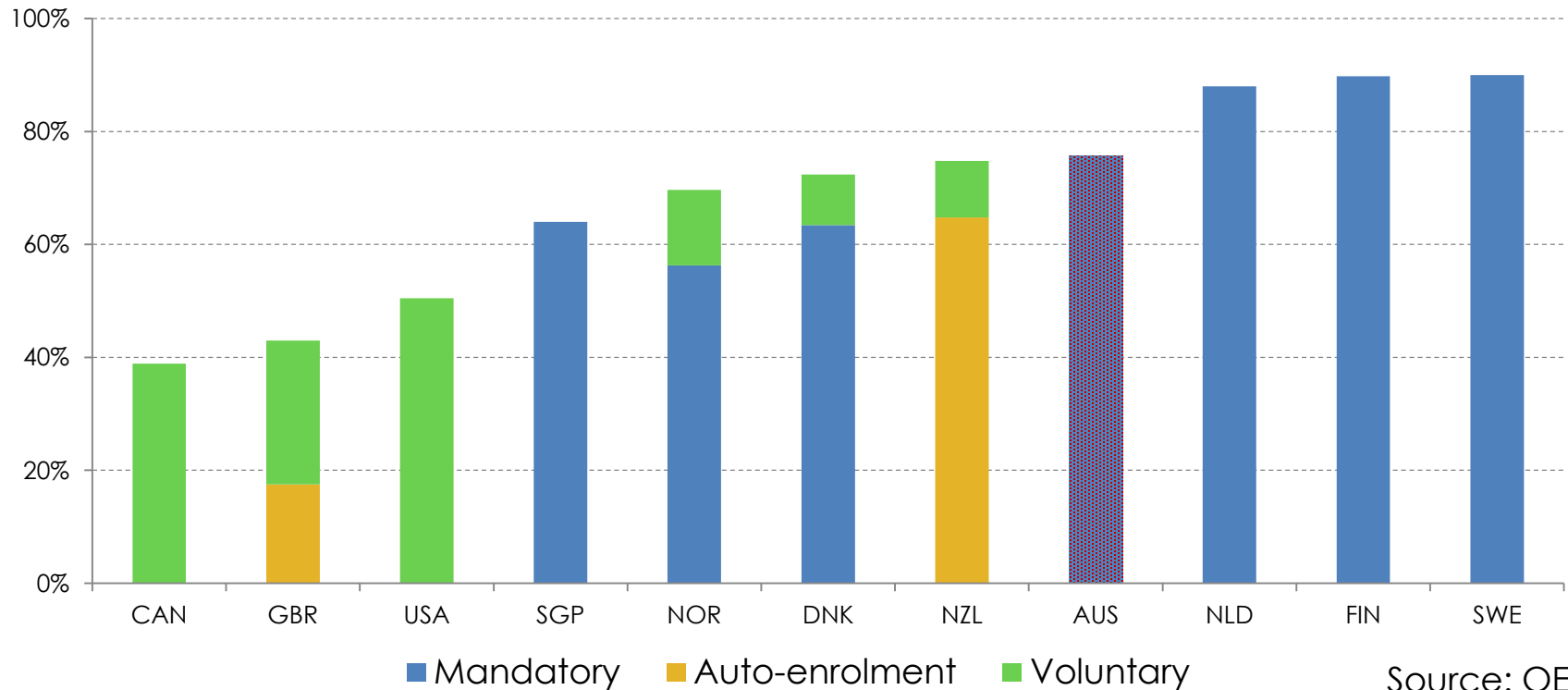


Source: ILO

# Retirement or pension eligibility ages



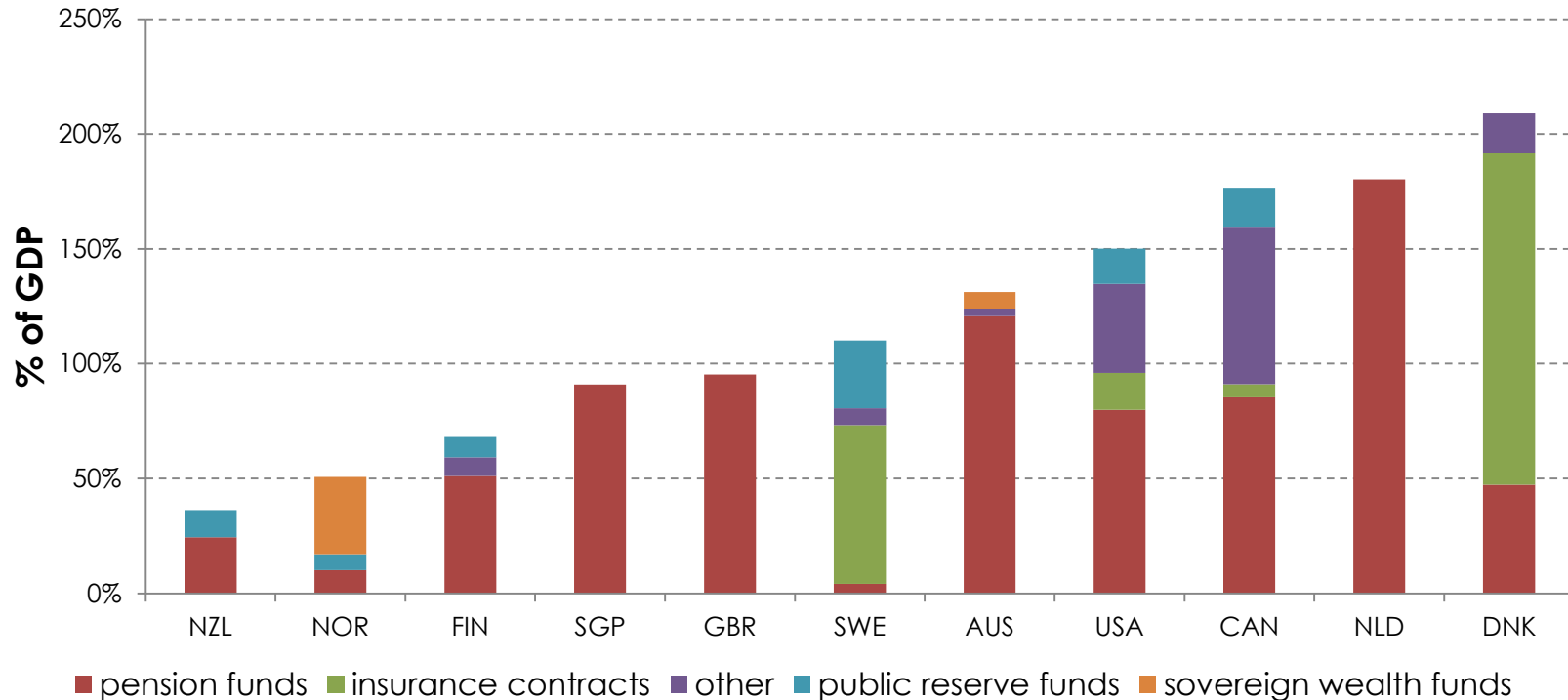
# Coverage in private pension schemes of 15-64 yo



Source: OECD



# Available assets to pay pensions

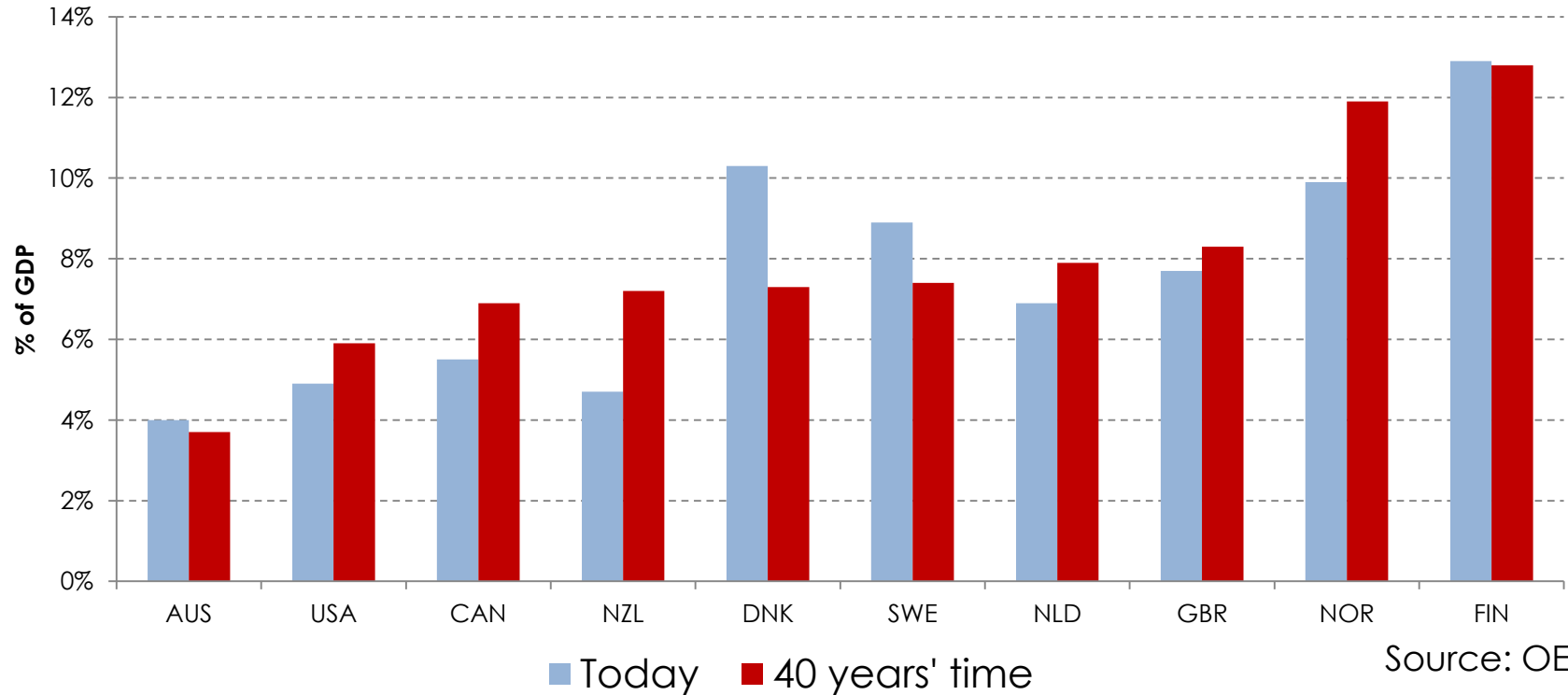


Source: OECD

## Net real returns to 2016

Country	5 year period	10 year period
Australia (†)	5.8%	2.9%
Canada	6.9%	3.5%
Denmark (†)	5.1%	3.8%
Finland	5.3%	na
Netherlands	6.7%	3.8%
Norway	4.6%	2.9%
Sweden (†)	6.5%	na
USA	3.7%	-0.3%










# Government expenditure on age pensions



# Requirements on the form of benefits

<b>Australia</b>	nil
<b>Canada</b>	Pension plans 100% income but not for individual RRSPs
<b>Denmark</b>	Occupational pensions - above a minimum, life annuities;
<b>Finland</b>	Income streams are required - fixed term (min 10 years) or lifetime
<b>Great Britain</b>	nil
<b>Netherlands</b>	100% to be taken as income with profit sharing
<b>Norway</b>	100% to be taken as income until at least age 77
<b>New Zealand</b>	nil
<b>Singapore</b>	Life annuity up to a maximum level to provide a basic income
<b>Sweden</b>	100% - life time annuities or variable annuities
<b>USA</b>	nil

# Conclusions relevant for Australia

Topic	Judgement
Minimum pension	
Net replacement rate for average earner	
Shape of NRRs across income levels	
Means test effects	
Taxation system	
Pension eligibility ages	
Coverage of pension system	
Funded assets available	
Public expenditure	
Benefit format	Coming?

## A way forward

- A universal pension equal to 10% of the average wage
- An income tested pension equal to 17.6% of the average wage

### Advantages

- Boosts NRR for average income earner
- Removes current incentive to rearrange affairs
- Removes any means test impact on many retirees
- Simplifies means test with a single income test
- No impact on full rate pensioners

# Question 1

- <https://api.cvent.com/polling/v1/api/polls/sp-prifpy>



# Question 2

- <https://api.cvent.com/polling/v1/api/polls/sppywphh>