

The New Super Landscape

– What Lies Ahead for Wealth Managers

SEMINAR



Institute of Actuaries of Australia

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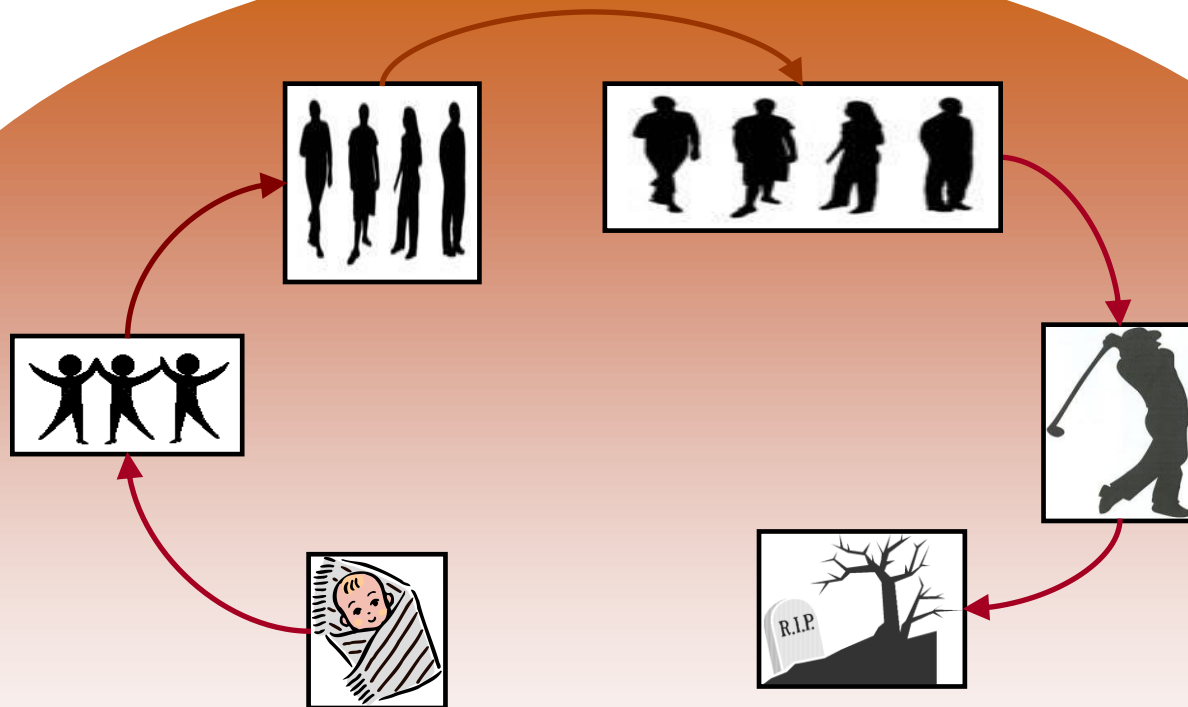
Redefining Superannuation

The unfinished agenda

Catherine Nance



Demographic drivers are a given!



- ***We are getting older***
- ***Costs are increasing, particularly in health***
- ***Productivity is falling, as less people work***



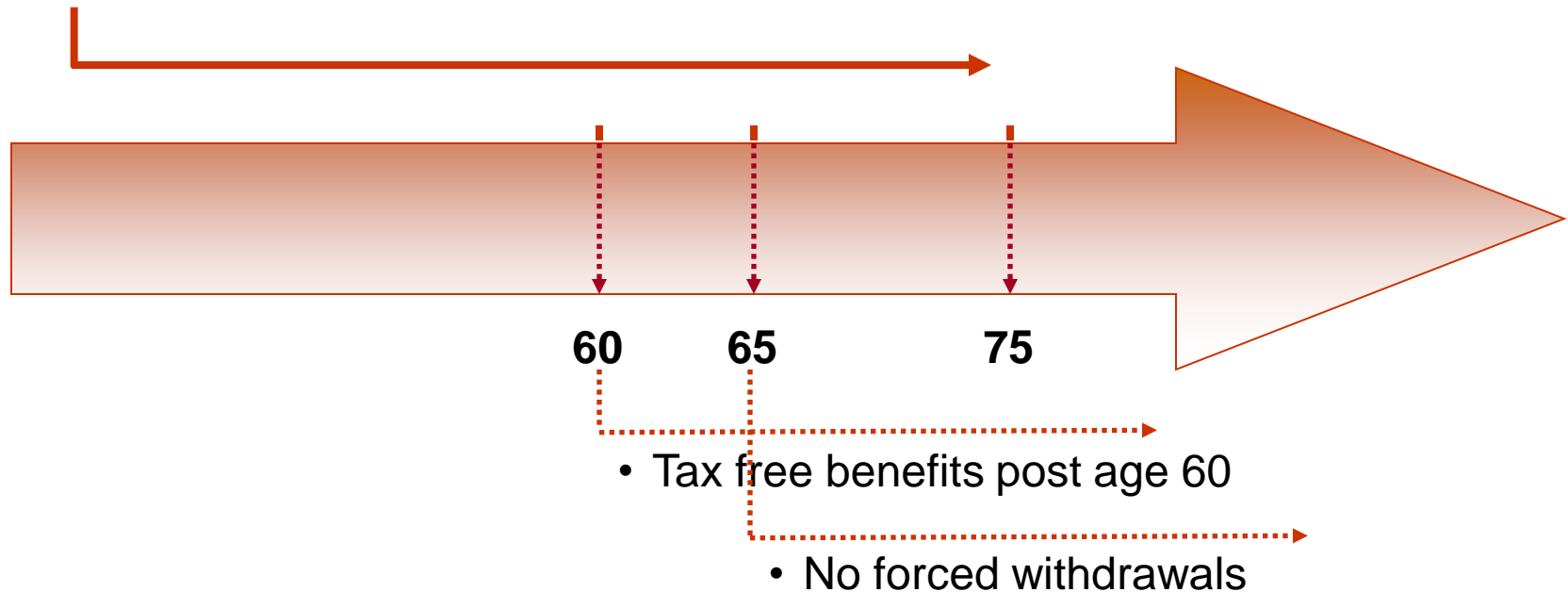
Limited range of solutions

- Less preferred options
 - Reduce government expenditure
 - Increase taxes
- More preferred options
 - Increase private savings
 - Increase retirement age
 - Use existing savings more effectively



May 2006 budget changes

- Annual contribution limits
- Can contribute to 75



Clear tax savings for Superannuation



Roadblocks to saving earlier

- Inertia
- Priority given to HECS and/or home
- Poor understanding of
 - Advantages of saving early and
 - Needs in retirement



Options to increase savings

- Auto-enrolment of member contributions
 - Basic level of 3% or 5%
 - Opt out option available
- Access to a maximum \$100,000 lifetime lump sum limit
 - From additional non-SG contributions only
 - For any purpose and all ages up to Age Pension age
 - Replaces current lump sum withdrawal rules post 60
 - Gifting rules could apply to Age Pension if ≥ 60
- Annual reporting of superannuation benefits to include equivalent lifetime income from age 65 (using government factors)

** Assumes 7% pa investment, 4.5% pa wages, 2.5% pa CPI*



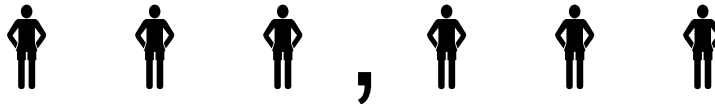
Changing workplaces

- Options to increase retirement age
- Supply and demand issues to address



Under 35s in call centre

Current workforce



Customers



New employees





Over 55s in call centre

Current workforce



Customers



New employees



Pre 65 early retirement

- Workforce participation rates post 55 need to increase
 - Average ABS retirement age is 58 (47 for females)
- Government changes to date
 - Restricted certain early retirement pathways
 - May budget changes:
 - Pre age 60: Positive impact from post 60 tax free benefits
 - Age 60-65: Questionable impact, could go either way
- Further options include
 - Changing preservation age and/or gifting rules
 - Changing tax free age from 60 to 65
 - Educate on needs



Post 65 work



85 is the new 65!

- Age pension age of 65 is out of date
- Age pension impacts 80% of over 65s
 - Income test doesn't work
 - Means test blocks earned income
 - Current Pension bonus scheme inadequate
- Insufficient incentives to remain working



Options to encourage post 65 work

- Either
 - Increase Age Pension age
 - UK model
 - Advantage higher socio-economic groups over lower
 - Improve voluntary incentives
 - Simplify asset and income means test
 - Replace Pension Bonus scheme with deferred Age Pension scheme
 - Gradually reduce Age Pension paid from age 65



More effective use of savings in retirement

- Globally increasing emphasis on dissaving stage
- Policies needs to facilitate product development
- Potential drivers of demand
 - Age Pension rules
 - Increasing numbers of single person households
 - Different stages of retirement
 - Flexibility to meet aged care costs
 - Clarity around government programs



New products

- Lifetime annuities
 - Currently unpopular as poor value for money
 - Product development may require
 - Long-term assets and reinsurance of longevity risks
 - Possibly better suited for older ages
- Home equity release / Reverse mortgages
 - Limited use health savings accounts for drawdowns?
- Long term care insurance?
- Need education and sound long-term product



Unfinished agenda

- May 2006 Budget
 - First stage of significant reforms
 - But doesn't end there!
- Favourable environment right now for further reform!

