

Institute of Actuaries of Australia

**Super Policy
Forum**

Perspectives on Adequacy

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ASFA

Agenda

- **Henry interim report**
- **Deflation assumption**
- **OECD data**
- **Harmer report**
- **How much is enough?**
- **ASFA's conclusion**

“Henry” interim report*

“The panel considers the rate of compulsory saving to be adequate. The Age Pension and the 9 per cent superannuation guarantee (when mature) can be expected to provide the opportunity for people on low to average wages with an average working life of 35 years to have a substantial replacement of their income...”

*Australia’s future taxation system, The retirement income system: Report on strategic issues, May 2009, page 2

“Henry” interim report*

“...as a consequence of the first and second pillars only, a worker on median income of 75 per cent of average weekly ordinary time earnings (AWOTE) might be expected to have a replacement rate of about 73 per cent. A worker on AWOTE might be expected to have a replacement rate of about 63 per cent.”

*Australia's future taxation system, The retirement income system: Report on strategic issues, May 2009, page 11

Deflation assumption

Table F.2: Illustrative projected replacement rates under the Age Pension and superannuation guarantee, deflated by wages and consumer prices^(a)

Income as a proportion of AWOTE ^(b)	Replacement rate by choice of deflator (per cent)	
	Consumer Price Index	Average Weekly Earnings
0.75	73.4	60.9
1.00	62.9	52.1
1.50	51.6	42.6
2.50	41.1	33.9

(a) A replacement rate compares an individual's spending power before and after retirement (that is, after tax is paid). For example, a replacement rate of 75 per cent would mean that an individual would be able to spend in a given time period \$75 in retirement for each \$100 spent before retirement. The illustrative replacement rates are projected for a hypothetical single person who works for 35 years and retires in 2035. It is assumed that at age 65 years they retire and use their superannuation guarantee benefit to purchase a lifetime annuity. In the two scenarios, the incomes used to calculate the illustrative replacement rates are deflated to 2008-09 dollars by using the consumer price index and average weekly earnings. Actual outcomes will vary depending on factors such as workforce participation, investment performance, inflation, longevity and whether an individual accesses their superannuation before Age Pension age.

(b) AWOTE is average weekly ordinary time earnings and is around \$1,150 per week (\$60,000 per year). Around half of workers earn less than three-quarters of AWOTE.

Source: Treasury projections.

*Australia's future taxation system, The retirement income system: Report on strategic issues, May 2009, page 69

Deflation assumption

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Income as a proportion of AWOTE ^(b)	Replacement rate by choice of deflator (per cent)	
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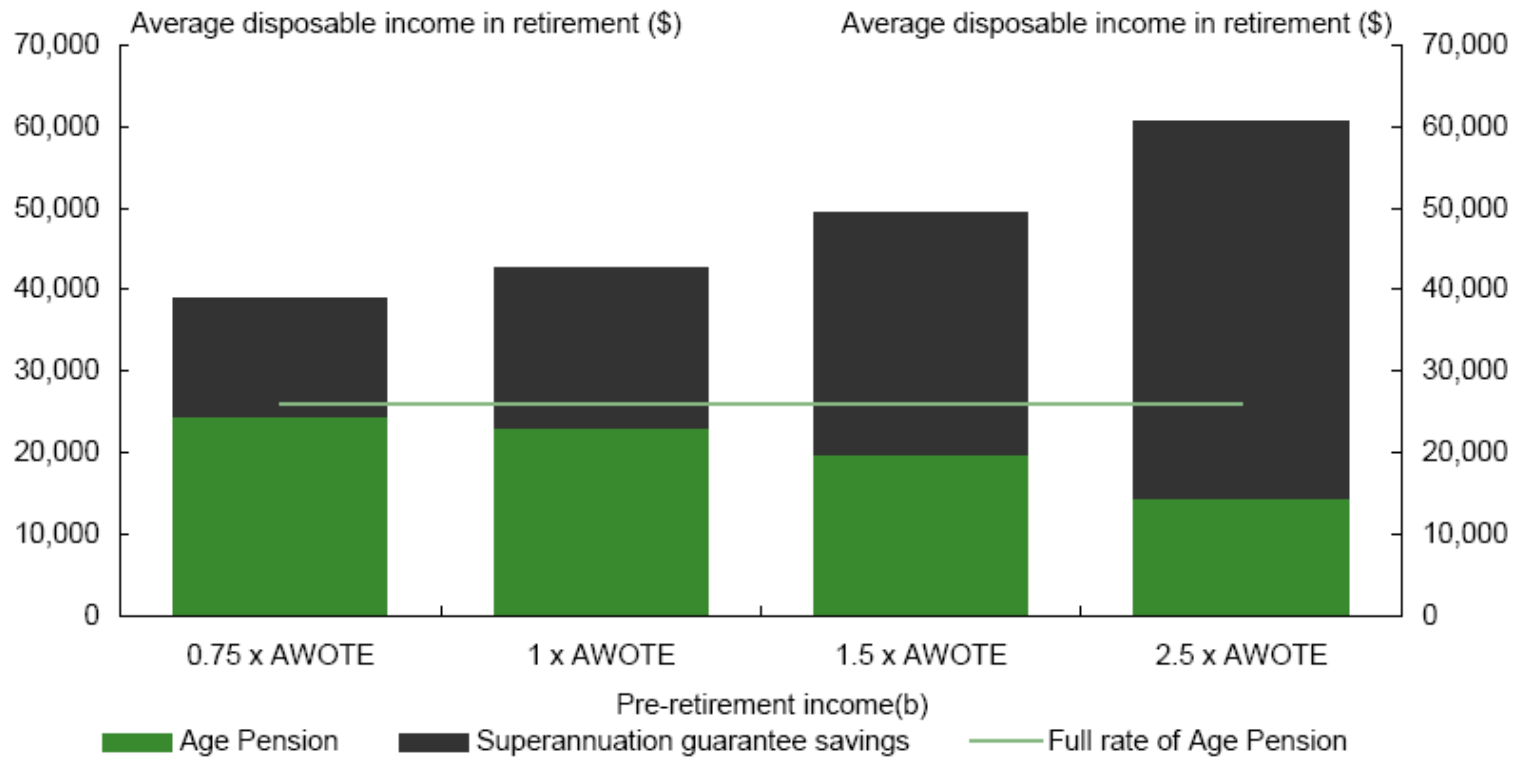
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(b) AWOTE is average weekly ordinary time earnings and is around \$1,150 per week (\$60,000 per year). Around half of workers earn less than three-quarters of AWOTE.

Source: Treasury projections.

*Australia's future taxation system, The retirement income system: Report on strategic issues, May 2009, page 69

Chart 4.2: Illustrative projected average disposable income in retirement under the Age Pension and superannuation guarantee^(a)



(a) Figures relate to retirement income in the year 2035, expressed in 2008-09 dollars. The illustrative real retirement incomes are projected for a hypothetical single person who works for 35 years. It is assumed that at age 65 years they retire and use their superannuation guarantee benefit to purchase a lifetime annuity. The illustrative average retirement incomes are deflated by the consumer price index. Projections are of disposable income, after tax and means testing are taken into account. Actual outcomes will vary depending on factors such as workforce participation, labour income patterns, investment performance, inflation, longevity and whether an individual accesses their superannuation prior to Age Pension age. In the chart the full rate of pension is shown as \$26,000 compared with the existing rate of about \$15,000. This reflects the modelled annual 1.6 per cent increase in the value of the pension, reflecting wage related indexation.

(b) AWOTE is average weekly ordinary time earnings and is around \$1,150 per week (\$60,000 per year). Around half of workers earn less than three-quarters of AWOTE.

Source: Treasury projections.

*Australia's future taxation system, The retirement income system: Report on strategic issues, May 2009, page 25

OECD data

		Australia	OECD
Pension replacement rate	Average earner (%)	41.6	59.0
	Low earner (%)	67.0	71.9
Public pension spending	% of GDP	3.5	7.2
Life expectancy	at birth	81.1	78.9
	at age 65	84.9	83.4
Population over age 65	% of working age population	21.5	23.8
Average earnings	AUS\$	55 200	47 600

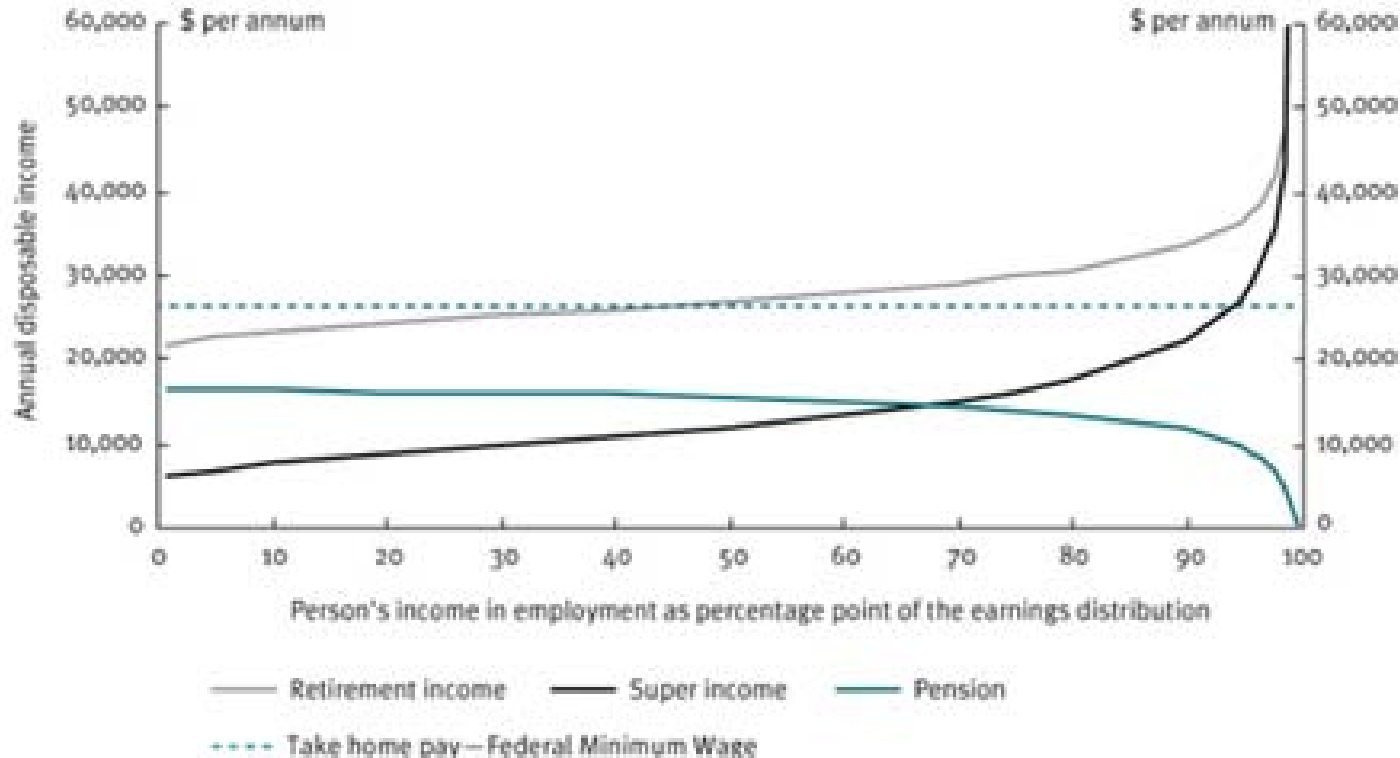
Note: replacement rate is pension entitlement from all mandatory sources of retirement income relative to individual earnings. Calculations for a full-career worker entering the labour market in 2006. Low earner is assumed to earn 50% of the average.

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*

*OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*

Harmer* report

Chart 1 Retirement incomes—contribution of the Superannuation Guarantee and Age Pension (modelled results under full superannuation guarantee)



Notes: Model parameters at Appendix E. Average annual retirement income is given in earnings discounted terms, that is, relative to the income of employed people.

Source: Review modelling.

* Australia's future taxation system, Pension Review Report, February 2009

How much is enough?

- **Australians think they will need \$40,000 a year in retirement***
- **Westpac-ASFA Retirement Standard**
(March 09)

	Modest lifestyle single	Modest lifestyle couple	Comfortable lifestyle single	Comfortable lifestyle couple
Total per year	\$19,533	\$27,547	\$37,822	\$50,771

The Westpac ASFA Retirement Standard figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.

* Opinion polling for ASFA, NcNair Ingenuity research, Sept 2008

Table 1: Budgets for various households and living standards

	Modest lifestyle single	Modest lifestyle couple	Comfortable lifestyle single	Comfortable lifestyle couple
Housing – ongoing only	\$70.69	\$73.11	\$93.91	\$96.33
Energy	\$12.99	\$15.47	\$14.21	\$16.70
Food	\$70.91	\$149.24	\$140.67	\$198.31
Clothing	\$14.60	\$25.19	\$30.83	\$56.23
Household goods and services	\$49.57	\$52.50	\$88.10	\$93.21
Health	\$13.04	\$24.57	\$54.92	\$108.01
Transport	\$71.51	\$72.31	\$109.13	\$109.93
Leisure	\$44.86	\$74.27	\$143.51	\$206.04
Personal care	\$26.42	\$41.64	\$26.42	\$41.64
Gifts and/or alcohol and tobacco			\$23.65	\$47.30
Total per week	\$374.60	\$528.30	\$725.36	\$973.68
Total per year	\$19,533	\$27,547	\$37,822	\$50,771

The Westpac ASFA Retirement Standard figures in each case assume that the retiree(s) own their own home and relate to expenditure by the household. This can be greater than household income after income tax where there is a drawdown on capital over the period of retirement. Single calculations are based on female figures. All calculations are weekly, unless otherwise stated.

ASFA's conclusion

- **9% is not enough**
- **We need 12% compulsory super**