

Institute of Actuaries of Australia

Super Policy Forum

The Age Pension and its Effect on our Community

To be 65 or not to be?

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Worldwide Partner

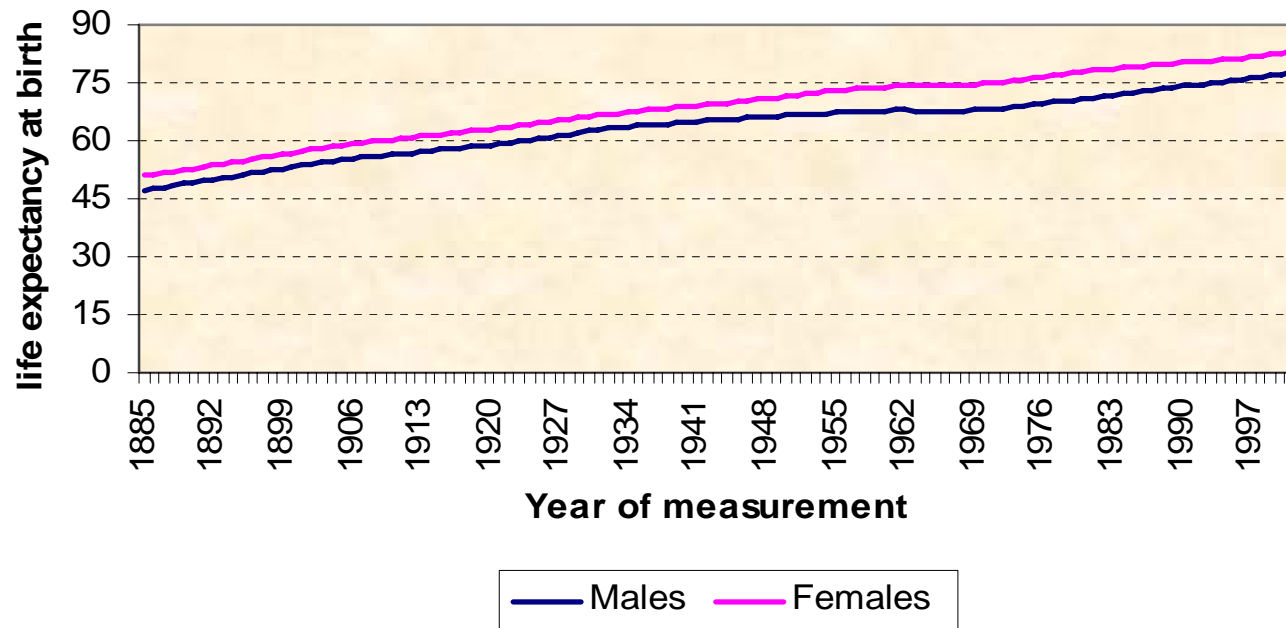
Mercer

Agenda

- Trends in pension ages around the world
- What should we do in Australia?
- How does superannuation fit in (or not)?
- Some implications for the labour force
- Let's adjust the system for long term benefits



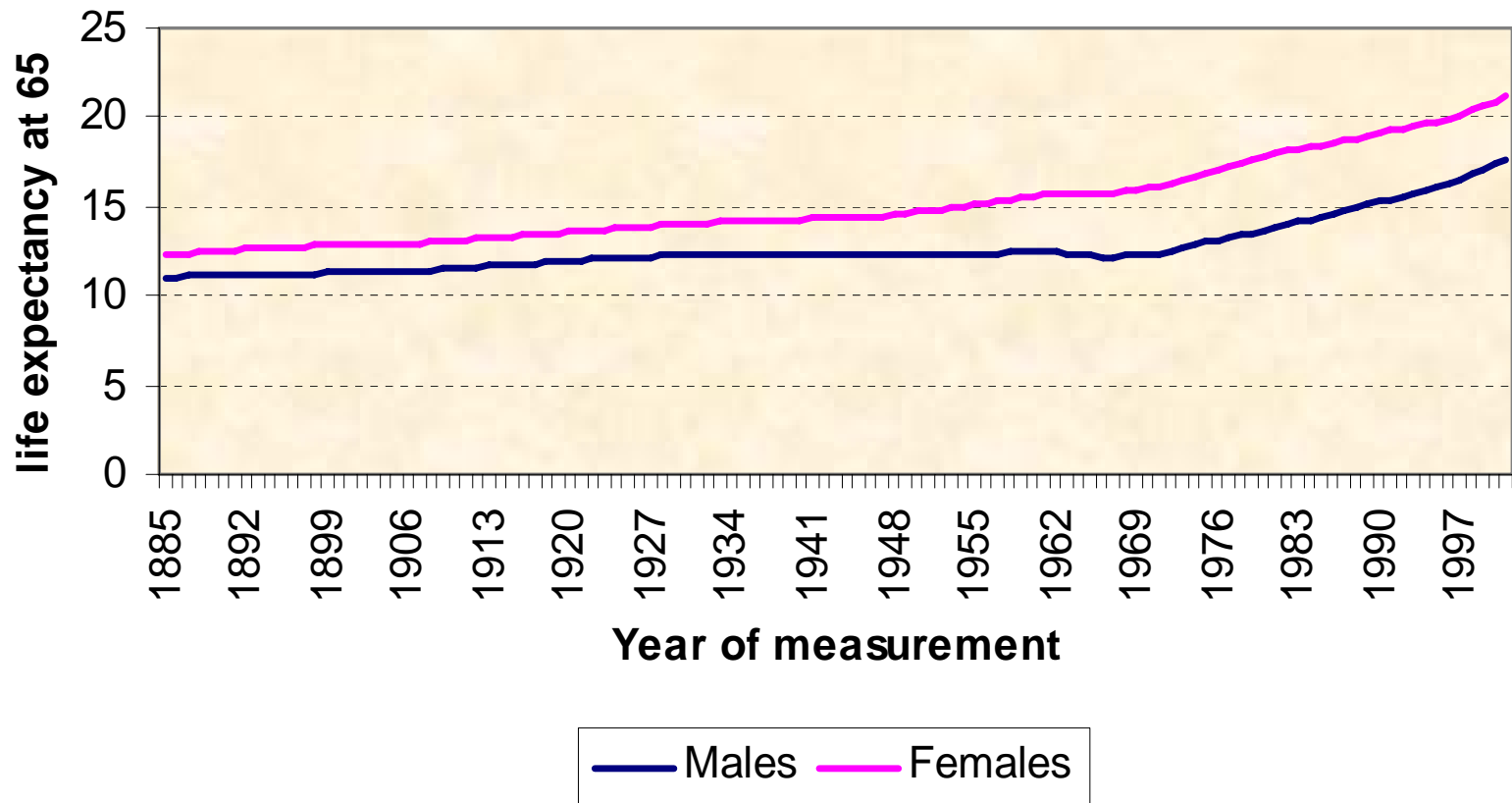
Life expectancy at birth



But the cause of the increase is not uniform at all ages



Life expectancy at age 65

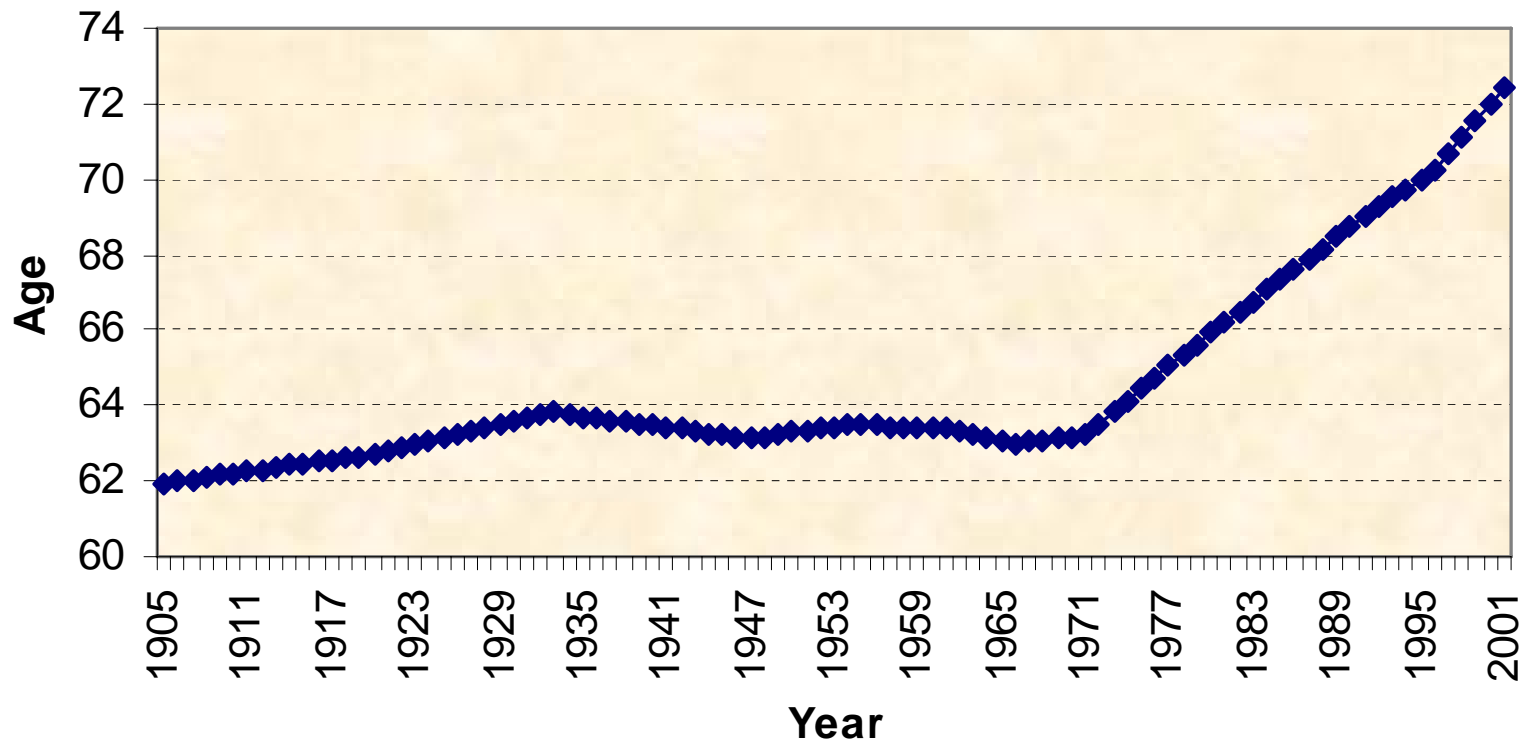


Note the rise since the 1960s

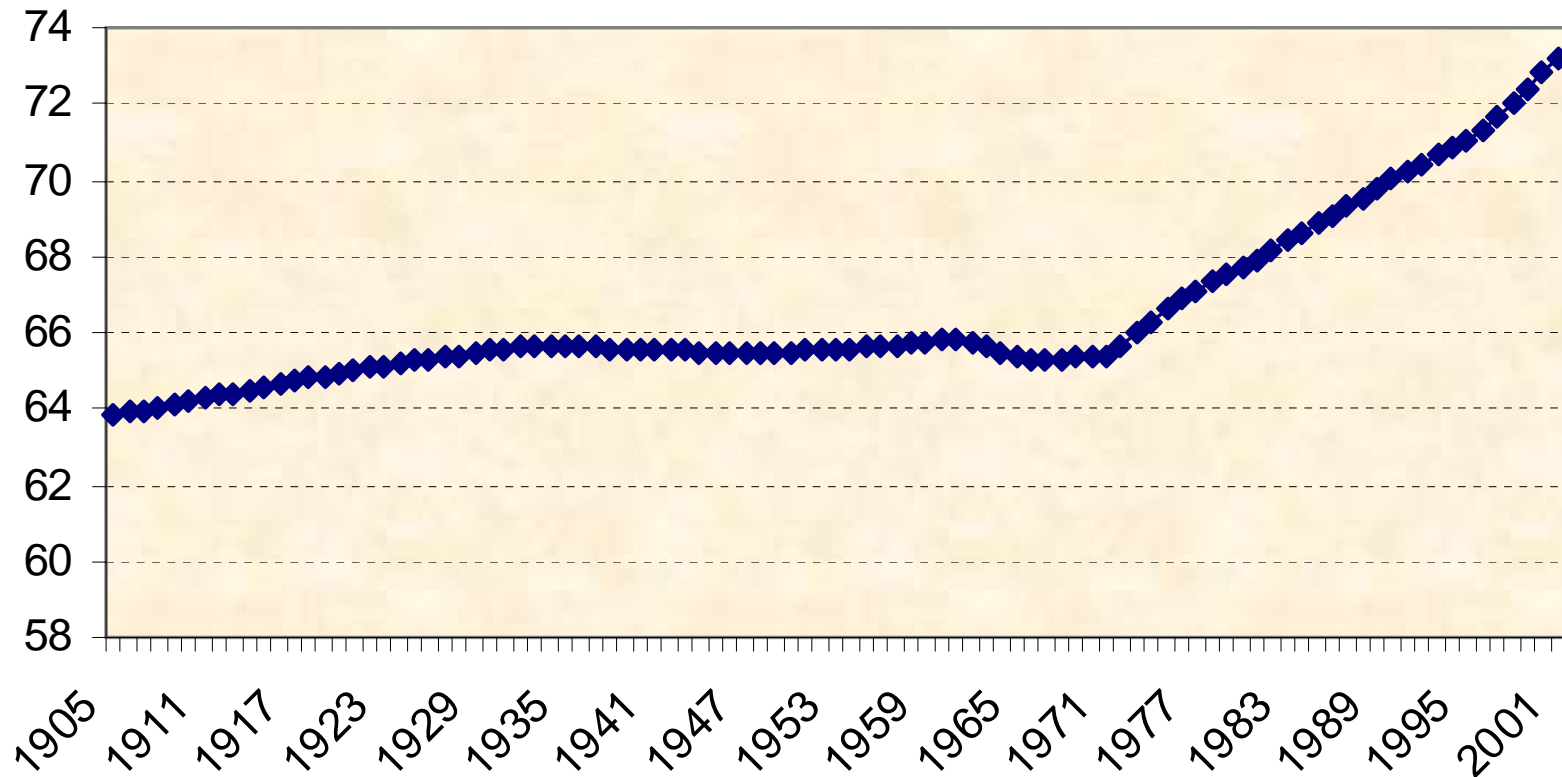


Mortality rates

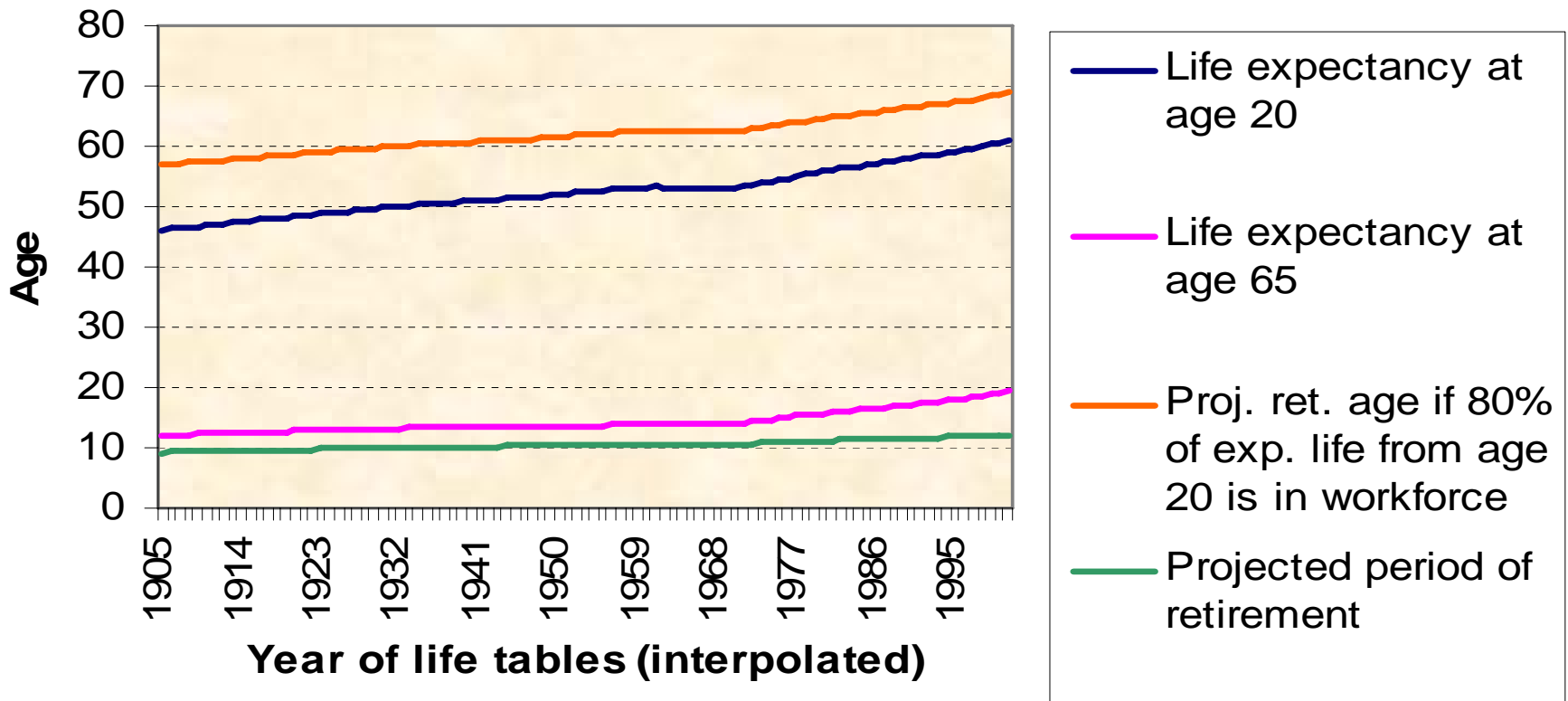
At what age is the male mortality rate = 3%?



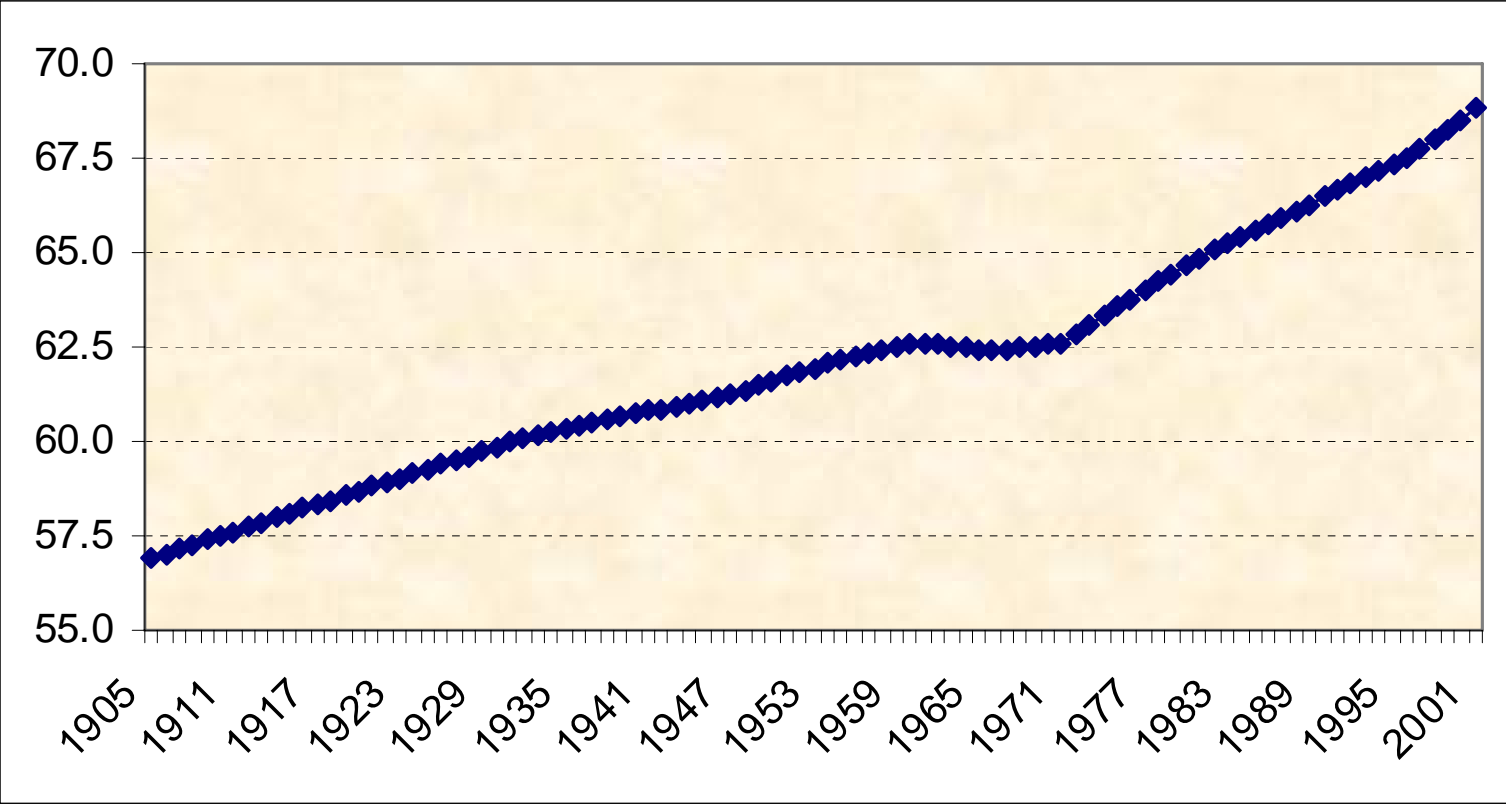
A constant life expectancy of 12 for males



Constant ratio of working life : retirement



Projected retirement age for 20% of the life expectancy at age 20



Is it time to reconsider the pension age?

- Pension ages are on the increase
 - *USA*: increasing Social Security age from 65 to 66 (2009) and then to 67 (2027)
 - *UK*: increasing State Pension age from 65 in 2024 to 68 in 2046
 - *Germany*: increasing pension age from 65 in 2012 to 67 in 2029
 - *Denmark*: increasing from 65 to 67 and then linking eligibility age to changes in life expectancy at age 60
 - *Japan*: increasing access age to earnings-related component from 60 to 65

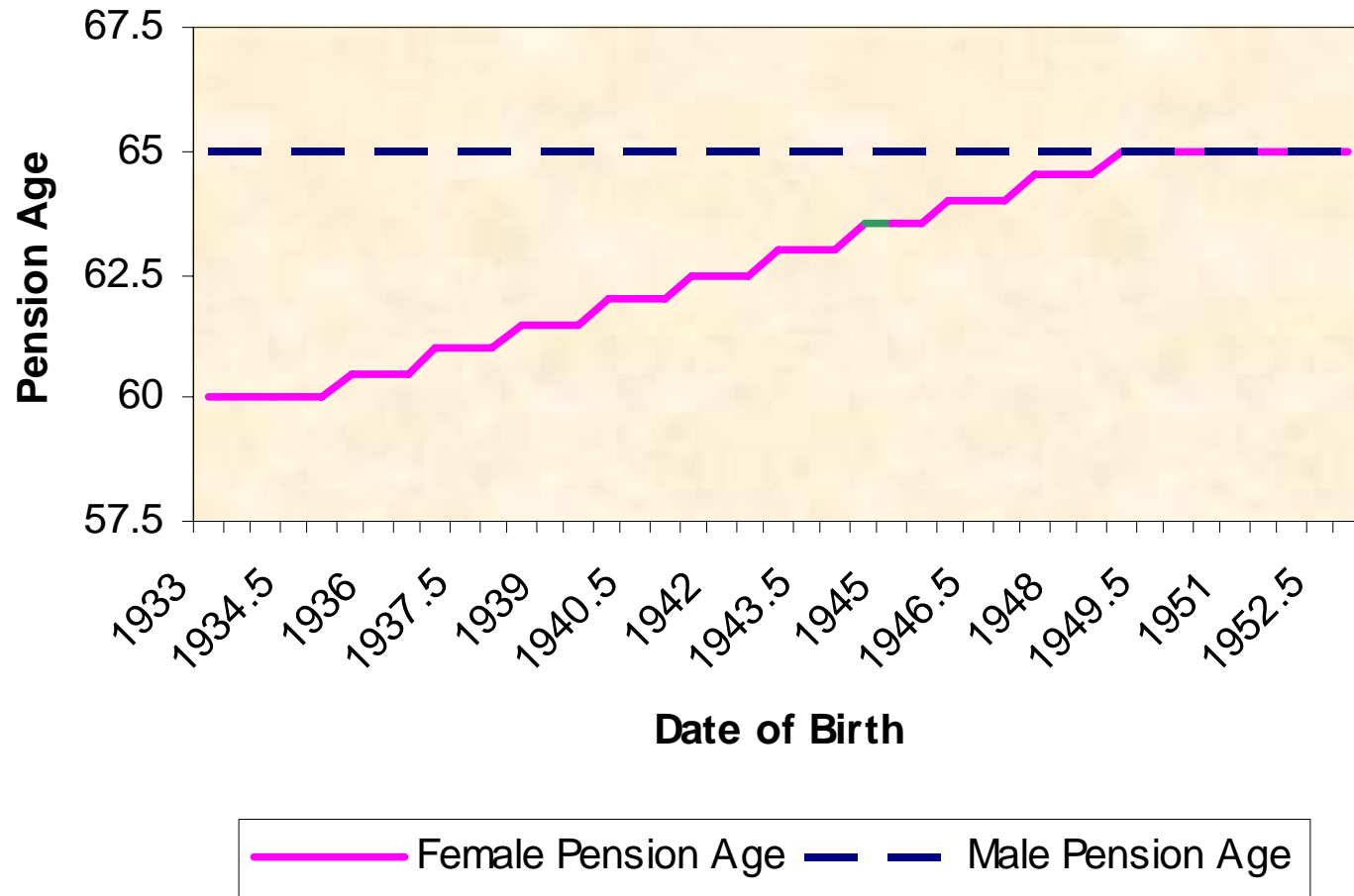


Some commentary

- **“increasing pension eligibility ages will improve financial sustainability and retirement incentives”
OECD**
- **“The American Academy of Actuaries believes that a financially sound Social Security system must accommodate future increases in longevity. ... The time to enact this change is now.”**

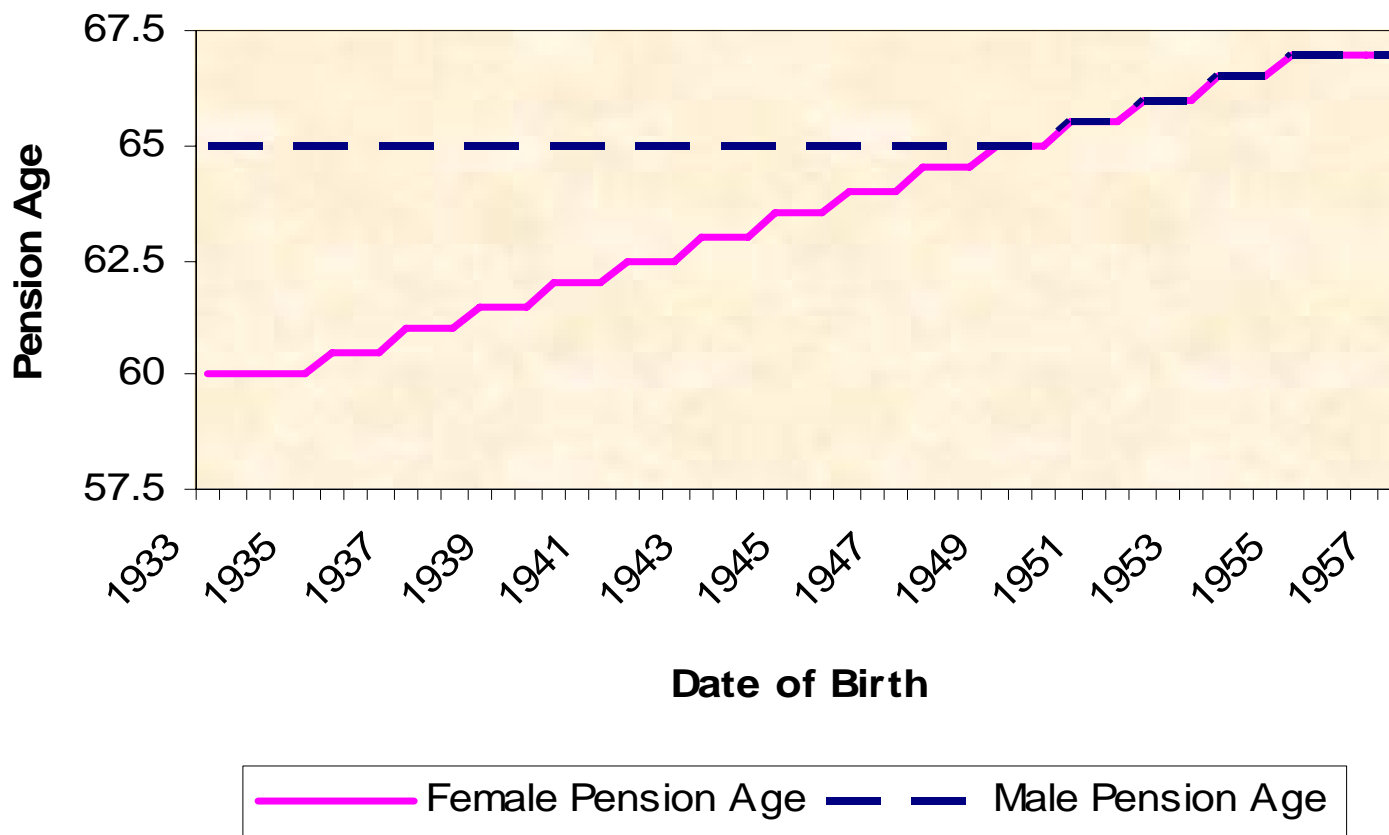


What is happening in Australia?



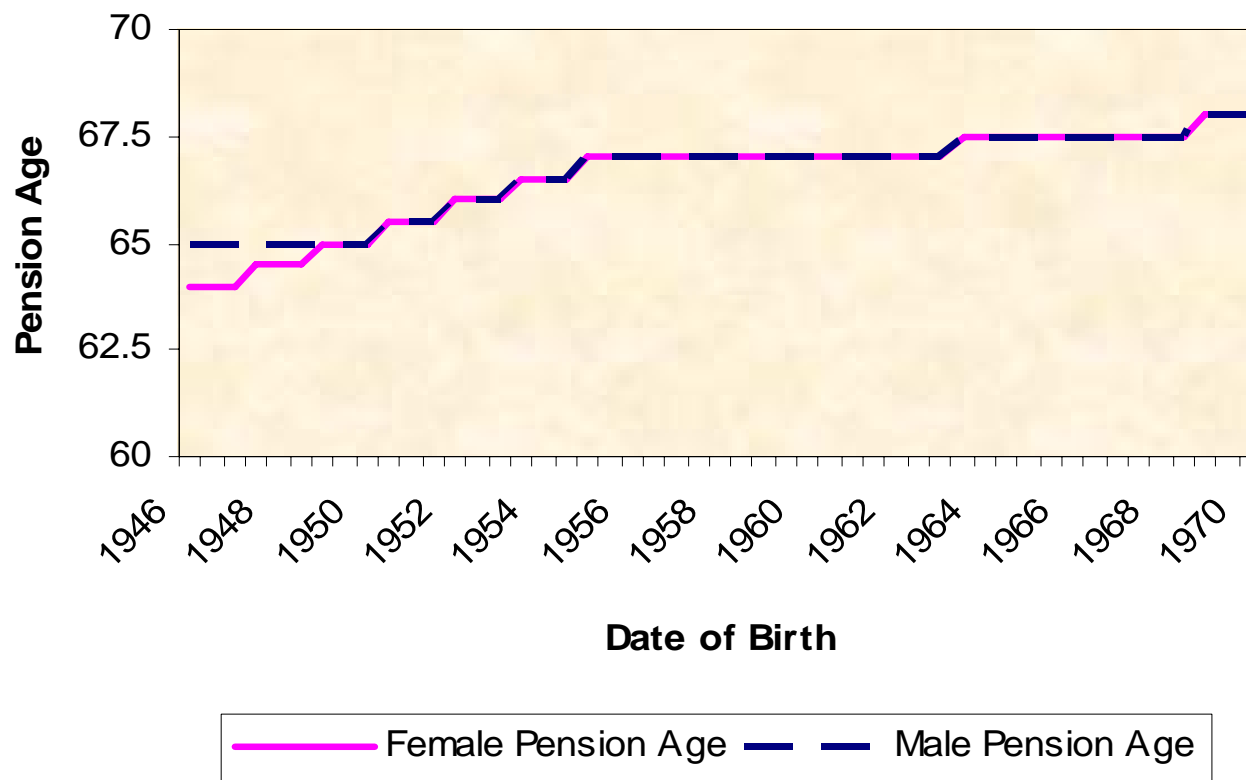
What should we do in Australia?

Step 1 – announce a gradual increase to age 67



What should we do in Australia?

Step 2 – adjust the pension age with 50% of any change in life expectancy



Some effects of a higher pension age

- **Age 65 would no longer be “the age”**
- **A more dynamic approach to the concept of retirement**
- **Encourage later retirement**
- **Improve the sustainability of our retirement income system**
- **Some net savings – approx \$800 mill pa**
- **An increase in the number of Disability Support Pensioners**



Superannuation

- **An integral part of our retirement “system”**
- **What are the current rules?**
 - **Preservation age increasing from 55 to 60 in 2024**
 - **Benefits are tax free after age 60**
 - **Contributions are permitted to age 65 w/o a work test**
 - **SG required for employees under age 70**
 - **Spouse contributions permitted if spouse under age 70, subject to the work test after 65**
 - **Co-contributions available if employee aged 70 or less at end of FY**
 - **Contributions can be made up to age 75, subject to the work test**

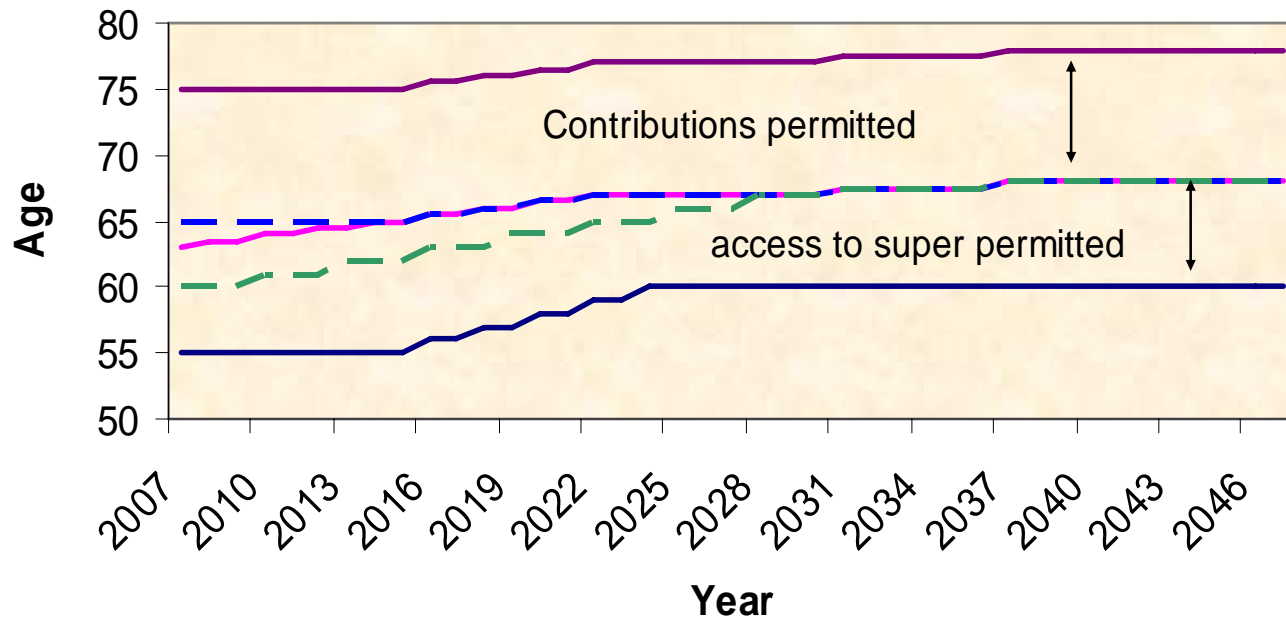


Suggested improvements

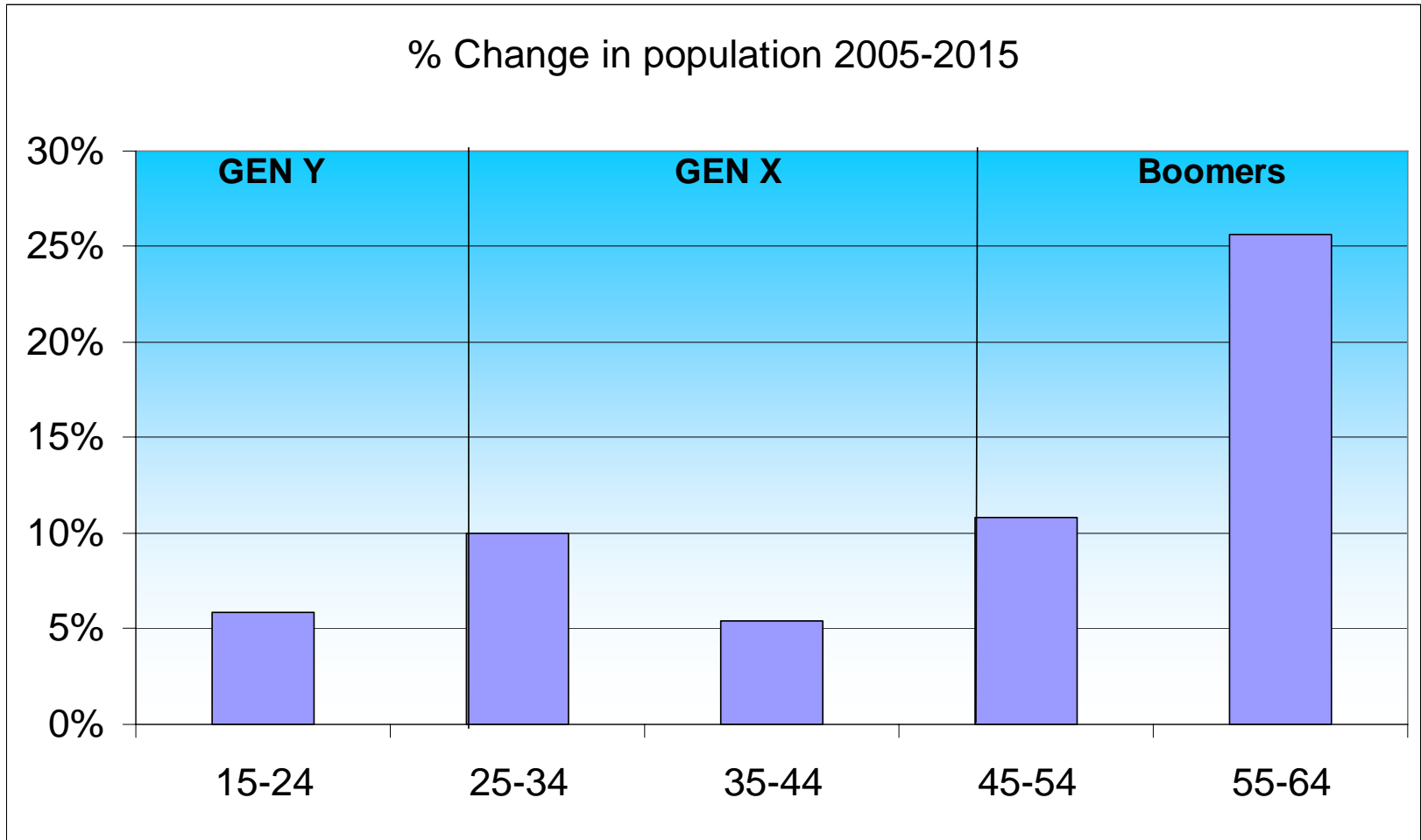
- **Permit all contributions and require SG contributions for**
 - **employees, employers and the self-employed**
 - **if they are no more than the 10 years older than the (indexed) pension age**
- **Preservation age of 60 remains**
- **Gradually increase the tax free age from age 60 towards the pension age**
 - **Encourages later retirement**
 - **Improves sustainability**
 - **Retain \$140,000 (indexed) tax free from age 60**



How it might hang together?



The population is changing now



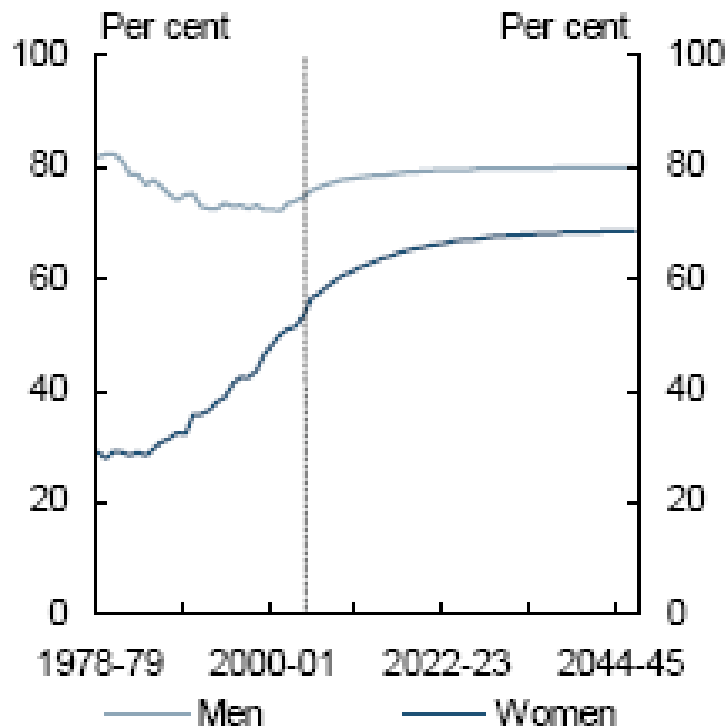
Implications for the economy

	2002/03 to 2007/08	2007/08 to 2012/13
Population Growth	1.5% pa	1.4% pa
Labour Force Growth	1.7% pa	1.2% pa
Participation Rate Change	+0.5%	-0.7%

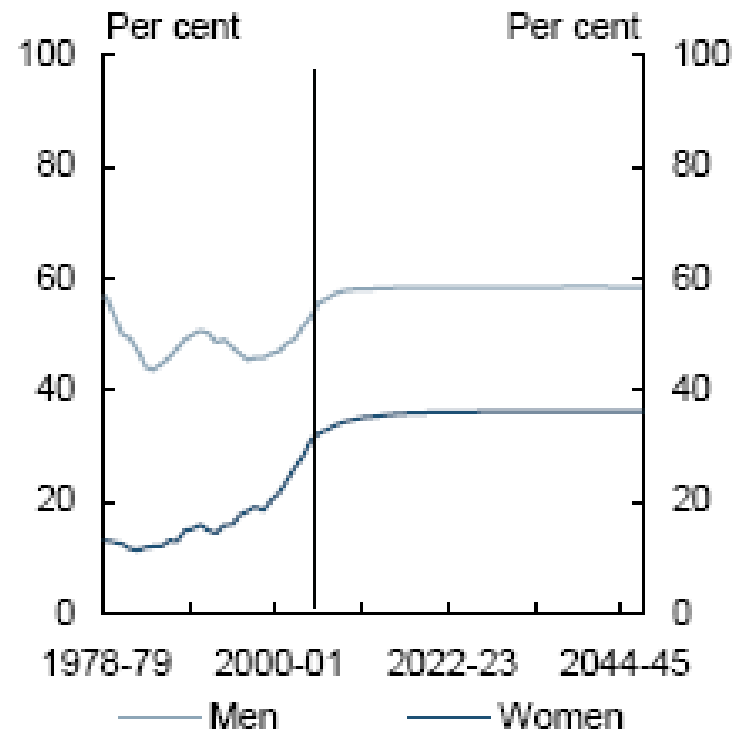


Government projections

Age 55-59

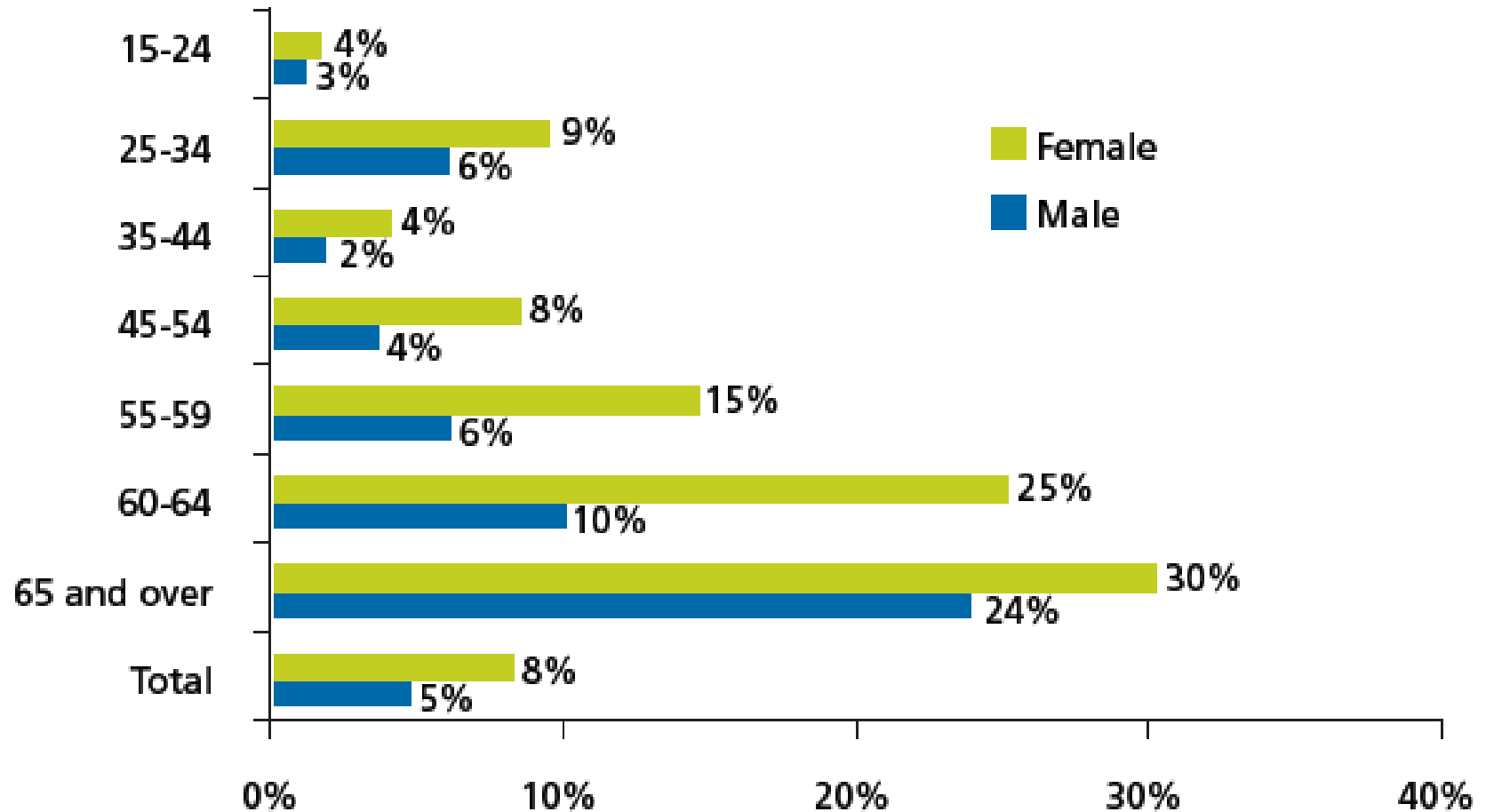


Age 60-64



The labour force is changing too!

2007/08 to 2012/13



To conclude

- **Let's increase the pension age**
- **Let's ensure that the super ages and regs provide a clearer picture**
- **The results will be:**
 - **A more dynamic system**
 - **A clearer incentive to work later**
 - **The retirement income system will be more sustainable**
 - **Super is more likely to provide adequate retirement incomes due to deferral**
 - **Protection for those who are unable to work**



And now ...

- Let's announce it **now** so that there is sufficient time for individual planning and community expectations
- The sooner we do it, the sooner behaviour by **all** stakeholders will change

