21 August 2019

Actuaries Institute Green Paper urges retirement reform

- **Australian retirees will face greater diversity in wealth, health and longevity outcomes.**
- **More retirees will reach retirement age as renters, or not having paid off their family home.**
- **The Actuaries Institute believes structural reform will deliver a fairer retirement for all.**
- **Options for review should be bold and consider universal benefits, the means tests, the treatment of the family home, and an end to tax concessions for large super fund balances.**

Three of Australia's leading superannuation and retirement experts have urged the Federal Government to give broad scope to its pending review of Australia's retirement system, to better integrate the Age Pension, superannuation and aged care.

Dr David Knox, Dr Anthony Asher and Michael Rice, authors of the Actuaries Institute's Green Paper, *Options for an Improved and Integrated System of Retirement,* state that Australia's current system has obvious shortcomings: it is complex, intrusive, contains anomalies, produces perverse incentives, and is sometimes unfair.

"And, as an increasing proportion of the population move from the accumulation to the pension phase, problems that beset the system will become more apparent," the paper states.

"The best system would take an integrated view across all sources of income and expenses for retirees," said Actuaries Institute Chief Executive Elayne Grace. "This includes the Age Pension, superannuation, the family home, aged care and health costs."

"The current system, though world-leading in some respects, falls well short of that."

The Actuaries Institute believes the overarching objective of the retirement system should be to ensure that Australians can confidently live their retirement years in dignity. The system must be fair and efficient.

Right now, there is potential fiscal headroom to accommodate changes, especially when a holistic approach to retirement is taken.

The report states retirees need access to a regular income stream, savings to cover unexpected expenses, and protection against longevity, inflation and market risks, known as the 'retirement income trilemma'.

But the system must be simple to understand so that retirees who don't seek financial advice can still make smart choices.

Intergenerational fairness is crucial. The cost to government and taxpayers must be shared equitably. And there must be encouragement for those who can afford to defer consumption to do so to provide for their retirement.

Retirees should also be persuaded to spend to maintain a dignified standard of living, and not transfer wealth through large bequests to the next generation.

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There should not be incentives to ‘game the system’ and disincentives in the form of penal means tests or taxes are undesirable.

Now is the time for review. “The Actuaries Institute encourages that debate to start now,” the paper states.

“If it does not, Australians may lose the opportunity presented by the fiscal headroom of the declining Age Pension costs, and the lead time we have to prepare for known longer-term changes, such as those to patterns of home ownership and work, longevity and growing health and aged care costs.”

Age Pension costs as a proportion of gross domestic product should fall, but long-term projections show aged care is the second fastest growing category of expenditure after the NDIS, and likely to rise as longevity rates increase.

The options for reform reviewed in the paper include:

- simplifying the Age Pension, better integrating it with superannuation and aged care;
- addressing anomalies created from exempting the family home from Age Pension means testing;
- embedding automatic adjustments in the superannuation preservation age and the Age Pension eligibility age to reflect changes in longevity (although not necessarily in a one-for-one manner);
- setting targets for government expenditure for support in retirement;
- addressing tax and aged care funding anomalies; and
- co-ordinating policies for support in retirement.

These could be achieved with a simpler Age Pension means test, an option that might allow retirees to ‘buy the Age Pension’, or a simpler, combined assets and income test. There could also be a universal Age Pension and/or a concession card that allows everyone over a set age to access cheaper medical care and Pharmaceuticals Benefits Scheme drugs.

The authors also point to the perceived unfairness of the current system. “There are individual accounts, worth tens of millions of dollars that are taxed at the concessional rates for all superannuation of 15% on investment income and 10% on capital gains.” The amount held in super could be capped, or those with large balances could pay more tax.

The Actuaries Institute encourages the initial discussion of reform be kept at a high level to identify the options that have enough support to be further developed.

In summing up, and urging the government to act, Actuaries Institute President Nicolette Rubinsztein said, “There are a number of known longer-term trends: an ageing population, a maturing superannuation system, changing patterns of home ownership and work, a growing dispersion of wealth and health, and growing private costs for health and aged care.

“All of these will aggravate the inconsistencies that stem from a lack of appropriate integration between the various components and undermine the potential for a dignified life for all retirees.”

A copy of the full report can be found here.

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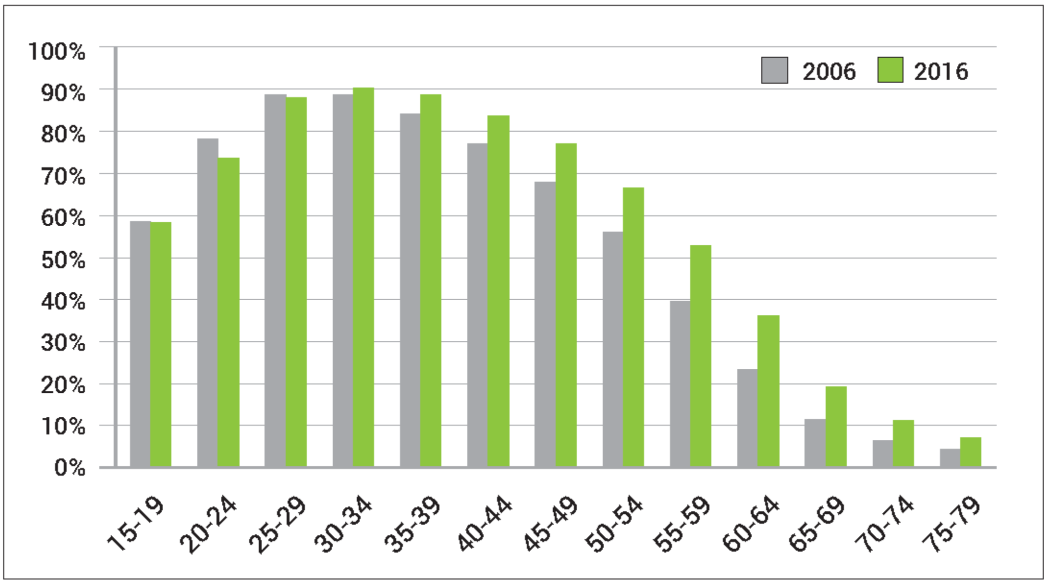
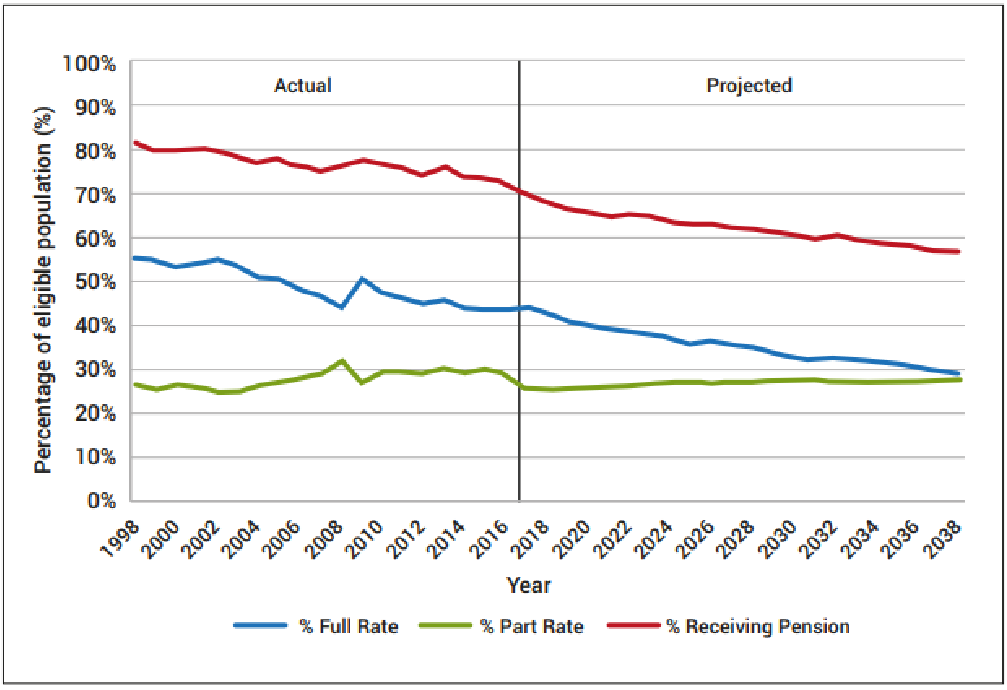
Graph 1: A growing number of people have a mortgage on their home at the time of retirement



Source: Chomik, Graham, Yan, Bateman & Piggott, 2018b, p.45 and additional data provided

Graph 4: Proportion of the eligible population receiving the Age Pension



Source: Rice Warner

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About the authors

Michael Rice is Executive Director at Rice Warner and a pioneering researcher into Age Pension dependency and trends. He is also the author of many submissions to governments, state and federal, on retirement policy.

Dr David Knox is a Senior Partner at Mercer and lead author of the Melbourne Mercer Global Pension Index. He has been a leading contributor to public policy debate across many decades and was President of the Actuaries Institute in 2000.

Dr Anthony Asher is an Associate Professor at the School of Risk and Actuarial Studies at UNSW. He is the convenor of the Actuaries Institute's Retirement Incomes Working Group, and has 40 years' experience in life insurance, investing and superannuation.

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About the Actuaries Institute
As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.

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