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# Projection of the Future Market for Superannuation

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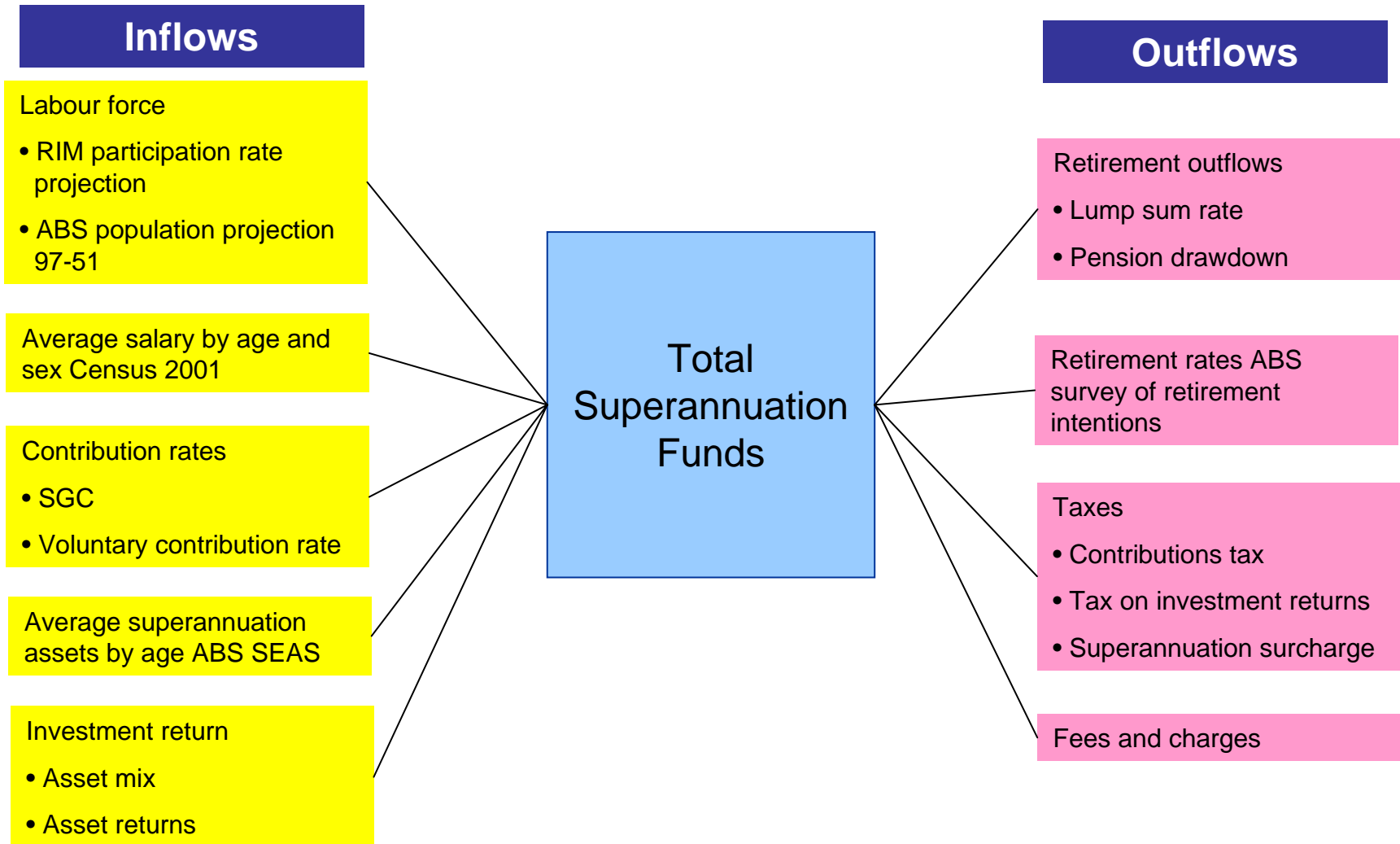
# A projection of the superannuation environment?

A projection model of the total market for superannuation funds that

- Uses projections of the labour force, salaries, economic assumptions and retirement assumptions
- Projects superannuation funds by age and by salary band
- Used to determine new business growth rates for superannuation
- Based on current market conditions and current superannuation policy settings

This presentation uses the model to look at various government policy settings and their impact on the funds in the superannuation environment

# Super model structure



# Main assumptions used

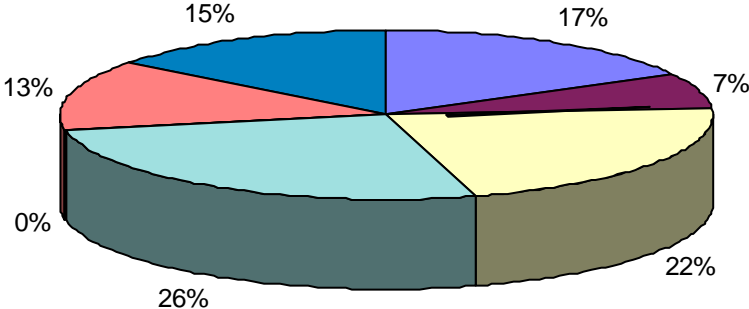
- Population projections 1997 to 2051 published by the ABS
- Participation rate of the population in the labour force – RIM study “Ageing in Australia”
- Average superannuation account balances by age and sex – ABS “Survey of Employment Arrangements and Superannuation”
- Population split into salary brackets by age and sex – ABS 2001 census
- Mortality pre and post retirement ALT 95-97
- Retirement rates – ABS “Retirement and Retirement intentions’
- Model calibrated to APRA superannuation statistics September 2003

# Economic assumptions

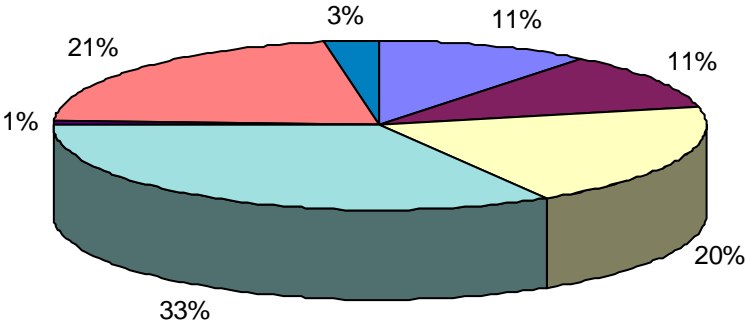
- Increase in average weekly earnings of 4%
- SGC rate 9%
- Contribution rate above SGC of between 0% and 6% dependant on salary band – set to match APRA statistics
- Transfer rate of 3.3% representing non super funds transferring into superannuation
- Implied earning rate of 9.4% pa before tax, 8.0% pa after tax

# Assets by type of superannuation fund

**Sept 1998**



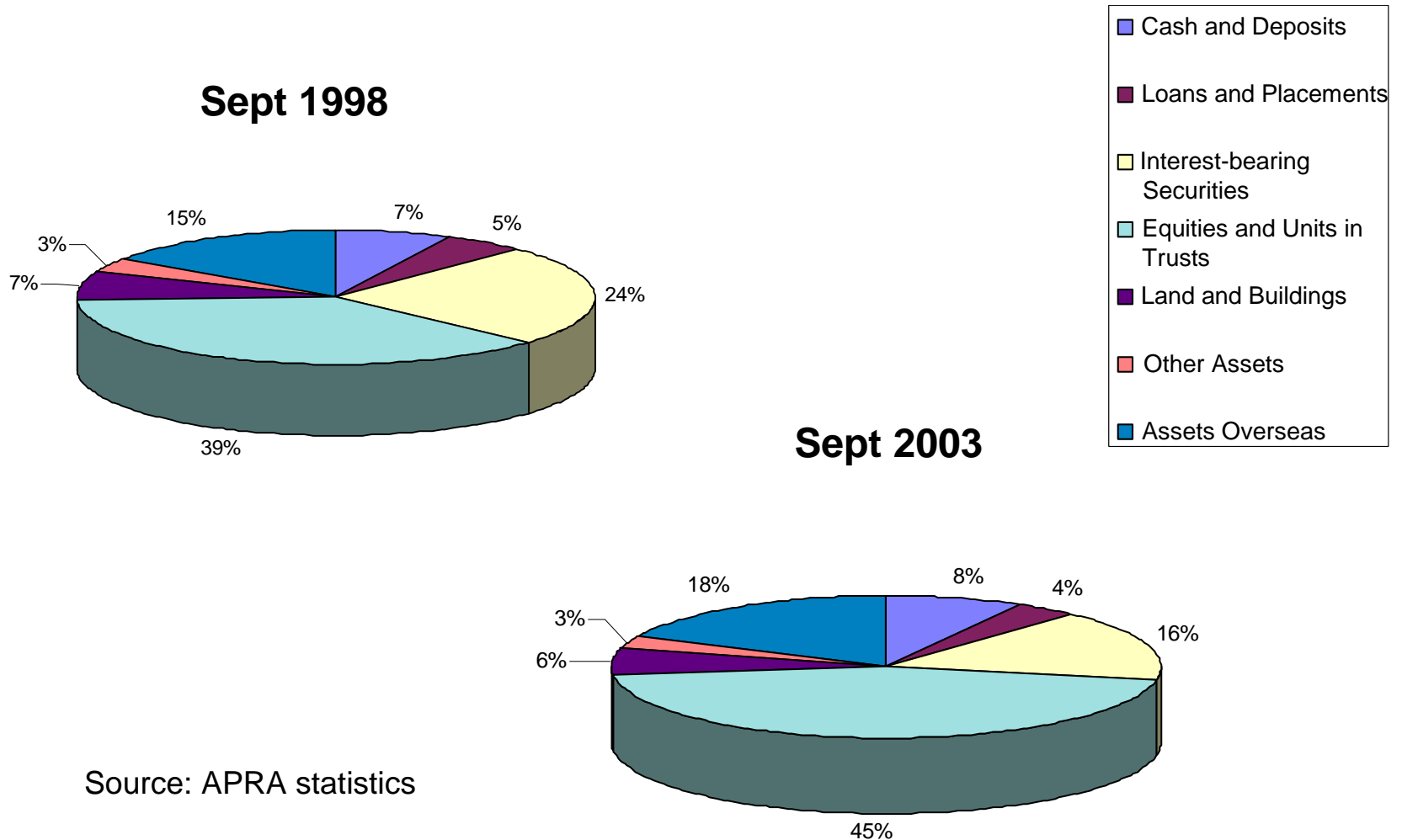
**Sept 2003**



- Corporate
- Industry
- Public Sector
- Retail
- RSAs
- Small Funds
- Balance of Statutory Funds

Source: APRA statistics

# How superannuation money is invested

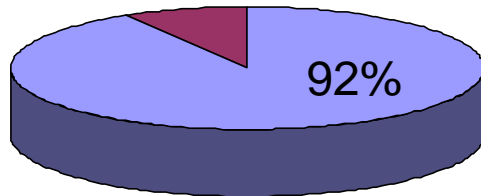




# Baseline projected growth in superannuation

- Over the next 10 years the Superannuation market is projected to grow from \$549 billion to \$1,493 billion of FuM, an increase of 270%
- This is equivalent to a year on year growth rate of 10% in nominal terms or around 7% in real terms
- Pre retirement superannuation dominates the superannuation market in the next 10 years

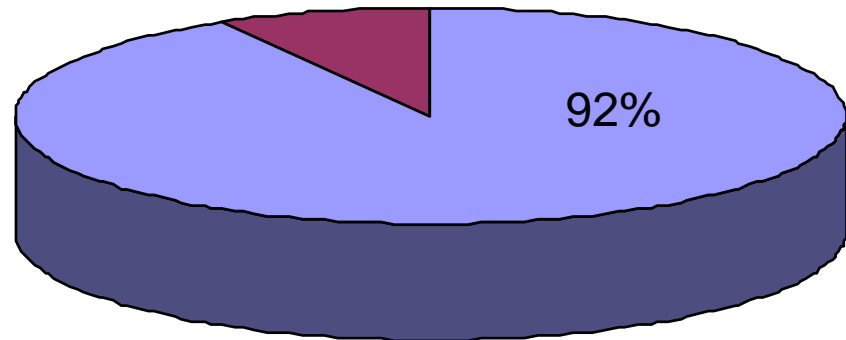
September 2003



\$549 billion

■ Pre Retirement Assets ■ Post Retirement Assets

December 2013

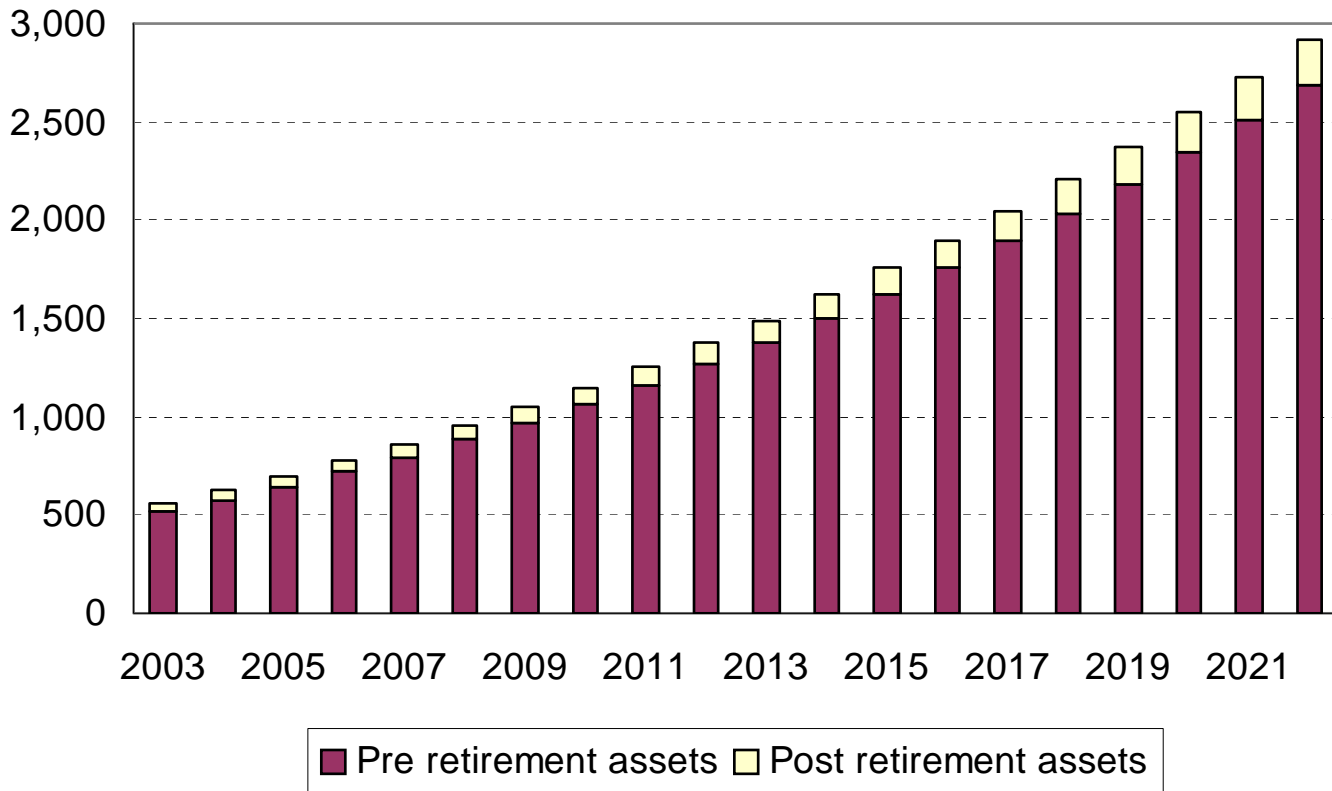


\$1,493 billion

Source: Trowbridge Deloitte Super Model

# Total superannuation funds by year

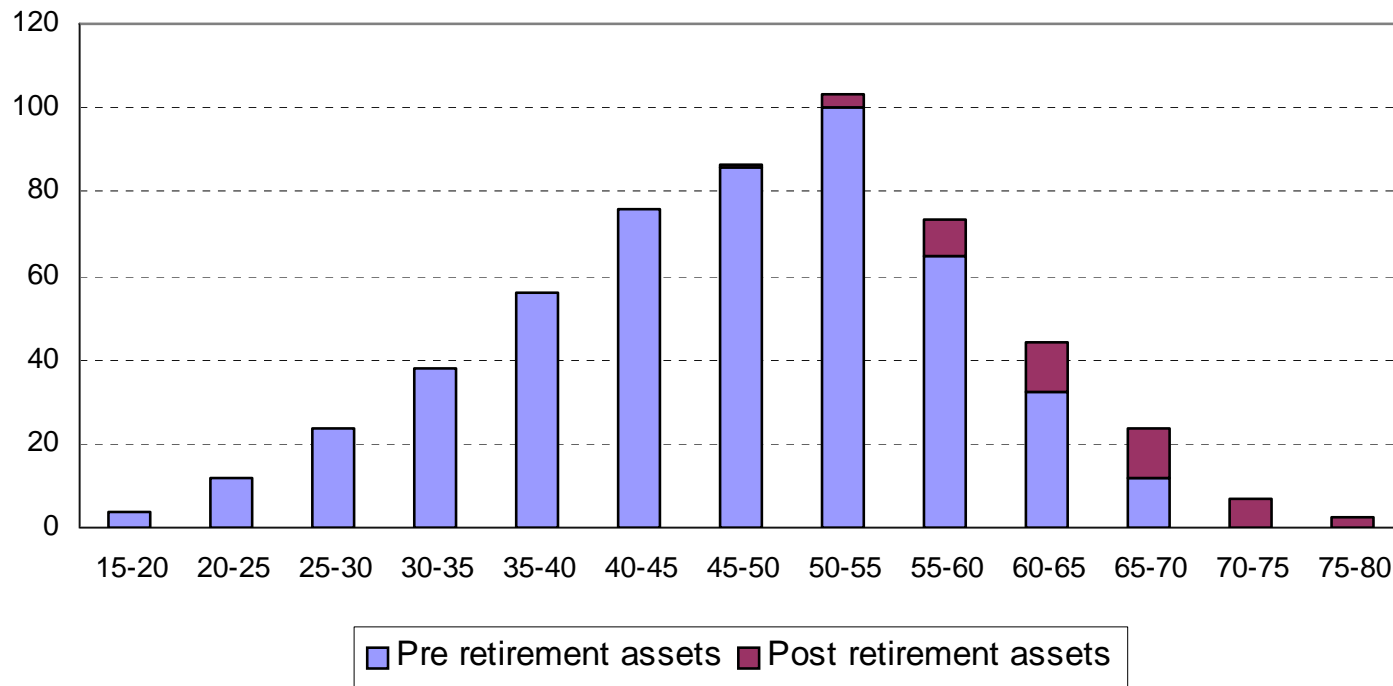
Total Superannuation Funds by Year \$ Billion



Source: Trowbridge Deloitte Super Model

# Total superannuation funds by age at September 2003

Superannuation funds by age group September 2003 \$ Billion

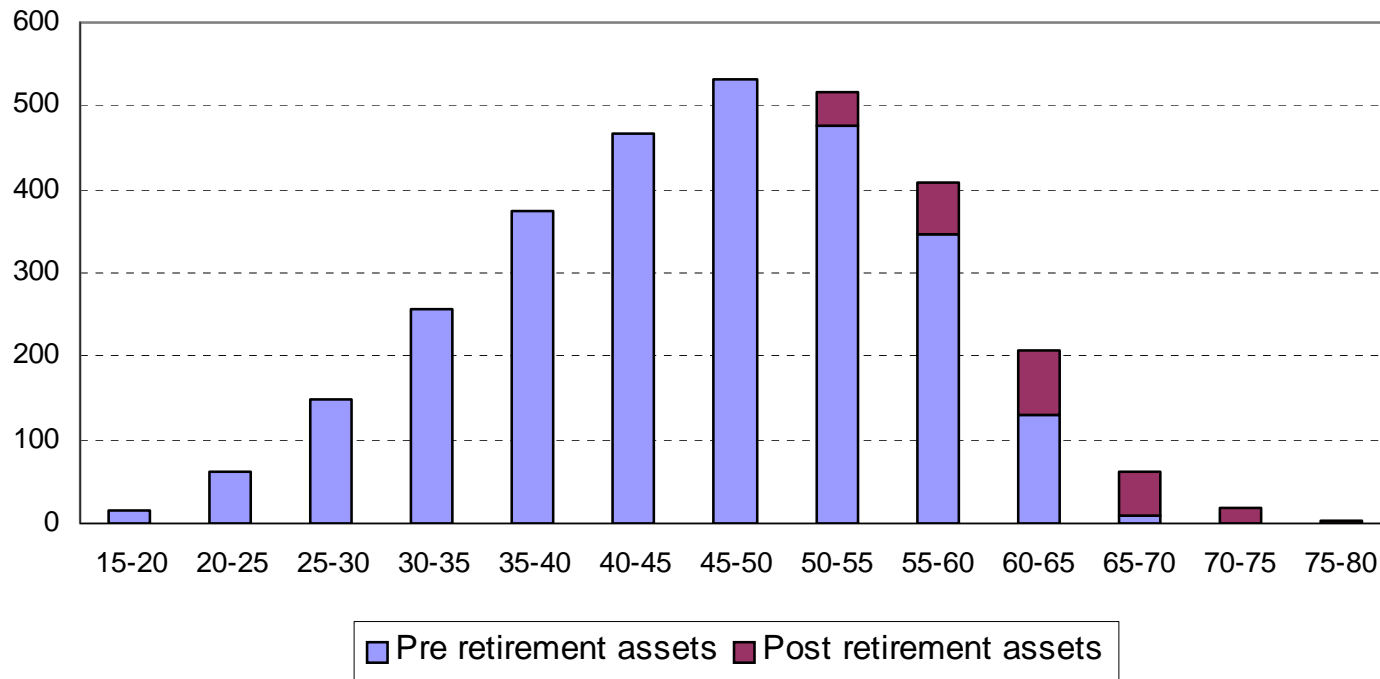


Source: Trowbridge Deloitte Super Model / Natsem

One third of superannuation assets are owned by people between the ages of 50 and 60

# Total superannuation funds by age at September 2023

Superannuation funds by age group September 2023 \$ Billion

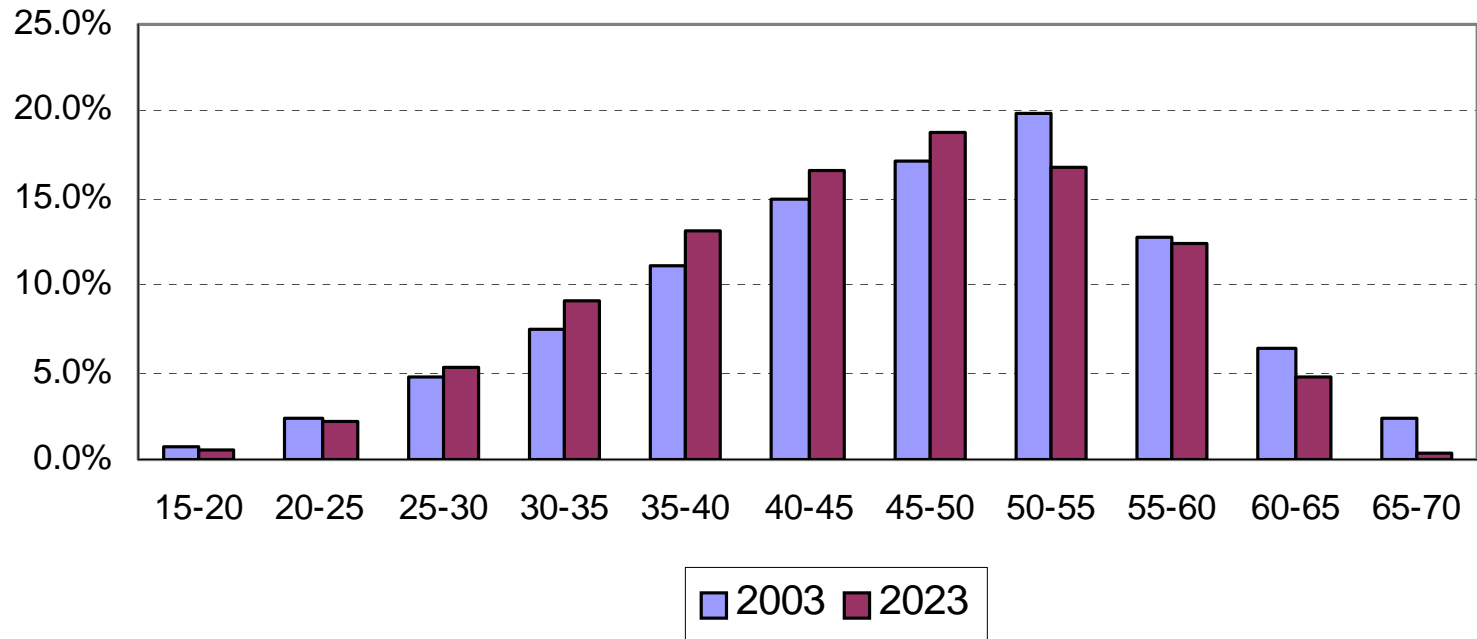


Source: Trowbridge Deloitte Super Model

Two thirds of superannuation assets are owned by people between the ages of 40 and 60

# Comparison of assets by age group pre retirement

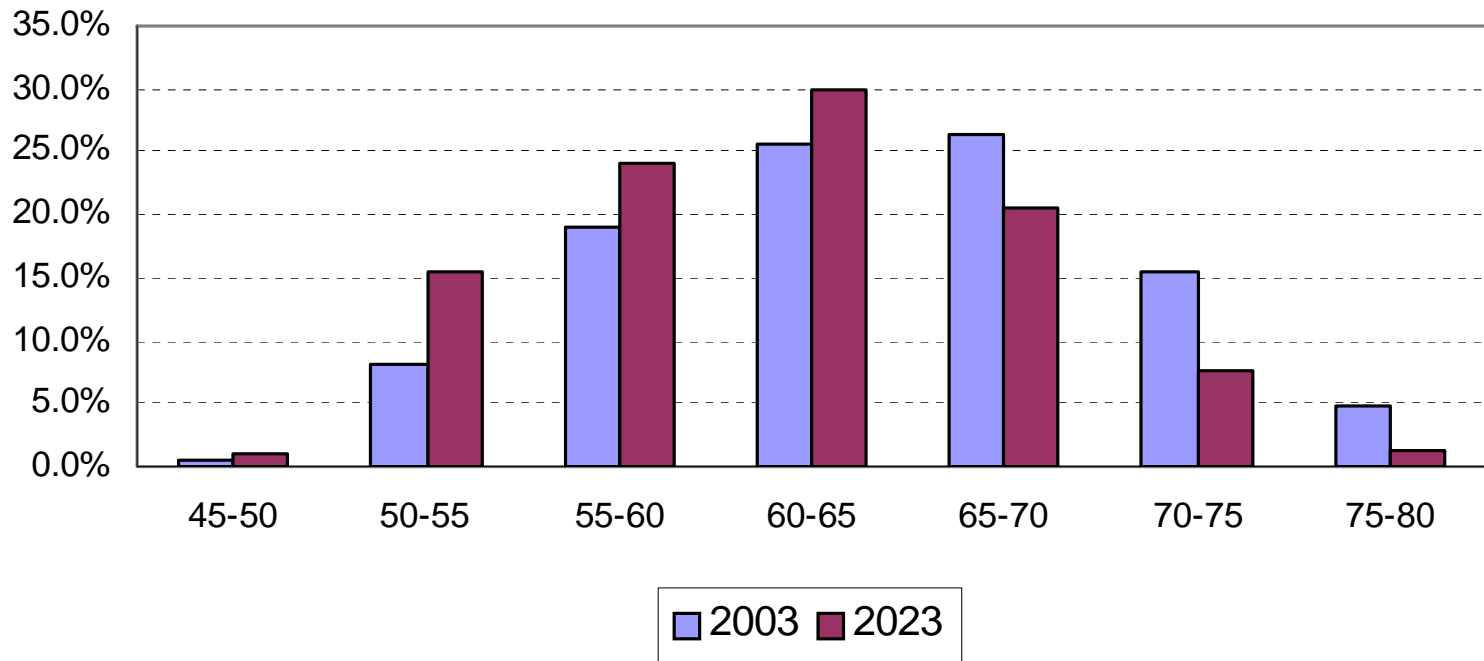
Pre-Retirement Funds by age group 2003 versus 2023



Assets owned by younger age groups grow as a percentage of the total in the next 20 years. Older age groups are less important

# Comparison of assets by age group post retirement

Post-Retirement Funds by age group 2003 versus 2023



Assets owned by younger retirees become more important in the next 20 years. Older retirees become less important

# Asset projection

- **Pre Retirement Assets**

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<b>Age Group</b>	<b>2003 Proportion</b>	<b>2013 Proportion</b>	<b>CAGR (%)</b>
10 - 20	0%	0%	8%
20 - 30	7%	7%	12%
30 - 40	18%	21%	12%
40 - 50	31%	32%	11%
50 - 60	35%	31%	9%
60 - 70	9%	8%	9%
	100%	100%	10%

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- **Post Retirement Assets**

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<b>Age Group</b>	<b>2003 Proportion</b>	<b>2013 Proportion</b>	<b>CAGR (%)</b>
50 - 60	24%	31%	12%
60 - 70	52%	56%	10%
70 - 80	23%	13%	3%
80 - 90	0%	0%	
	100%	100%	9%

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# Tax Scenario illustrations

Key scenarios around tax we have illustrated are:

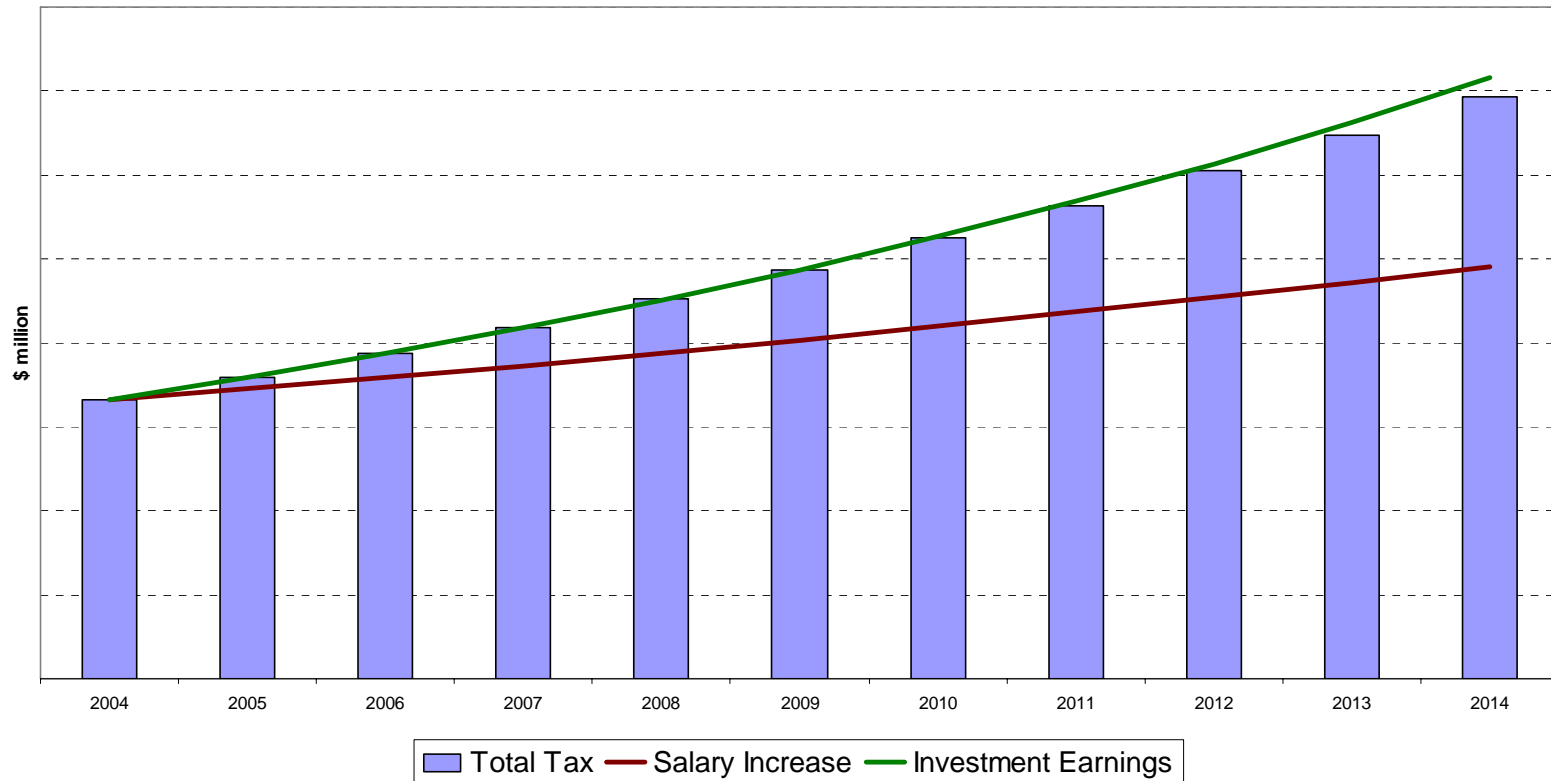
1. Contributions tax moves to 13% from 2004
2. Contributions tax moves to 13% from 2004, and then reduces gradually to 0% by 2012
3. Zero investment tax from today

Scenario	10 years		20 years	
	% change	\$bn change	% change	\$bn change
Contributions tax to 13% from 2005	+1%	13	1%	42
Contributions tax reduces to 0% by 2012	+4%	57	+8%	263
Zero investment tax	+10%	155	+18%	551

Source: Trowbridge Deloitte Super Model



# Superannuation Tax Projection – total tax paid



Tax take increases roughly in line with investment earnings (faster than increases in AWE)

# Other policy settings

Key other scenarios we have illustrated are:

1. SGC increases to 12% by 2009 (1% increase every two years starting in 2005)
2. Contributions tax moves to 0% by 2012 and contributions above SGC increase by 0.5% pa to 2012
3. More retirees extend their retirement ages to 70
4. More retirees take income products rather than lump sums

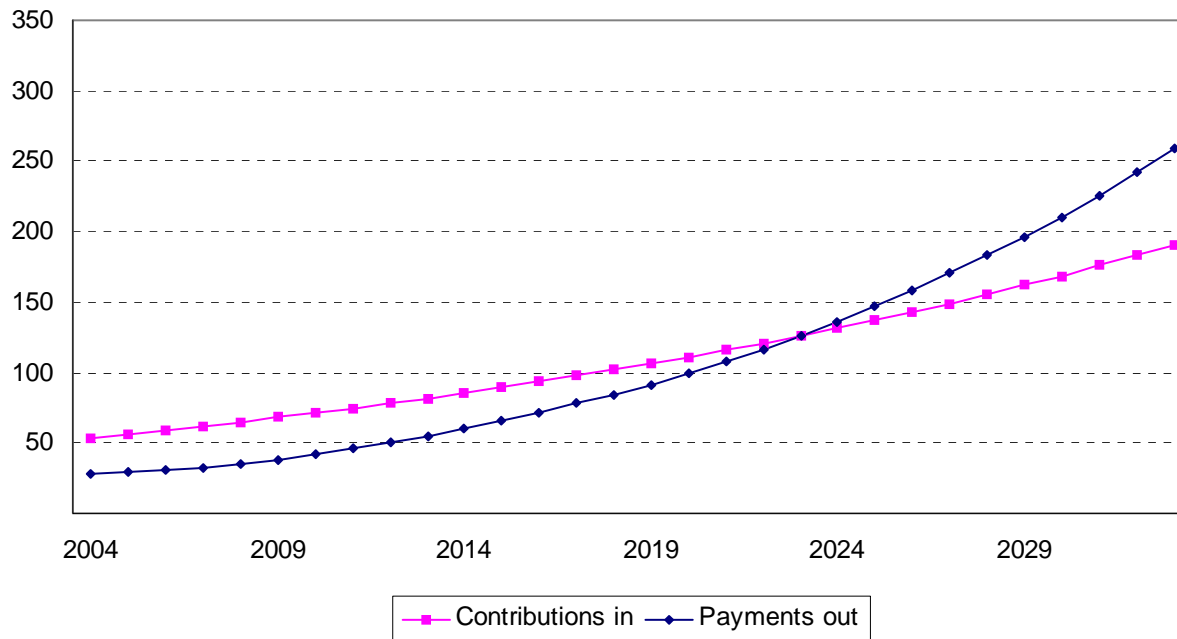
Scenario	10 years		20 years	
	% change	\$bn change	% change	\$bn change
SGC increases to 12% by 2009	+7%	98	+12%	387
Contributions tax reduces to 0% by 2012 and contribution rate above SGC increase by 0.5% per year to 2012	+12%	173	+24%	760
Extending retirement age to age 70	+1%	8	+1%	18
Proportion of retirees taking lump sum benefits reduces by one third	+5%	72	+6%	187

Source: Trowbridge Deloitte Super Model

# Superannuation projected inflows and outflows

- Contributions in = SGC contribution + voluntary contribution + transfers into superannuation – contribution tax
- Payments out = pension payments + lump sum payments

Superannuation projected inflows and outflows \$ billion - main run

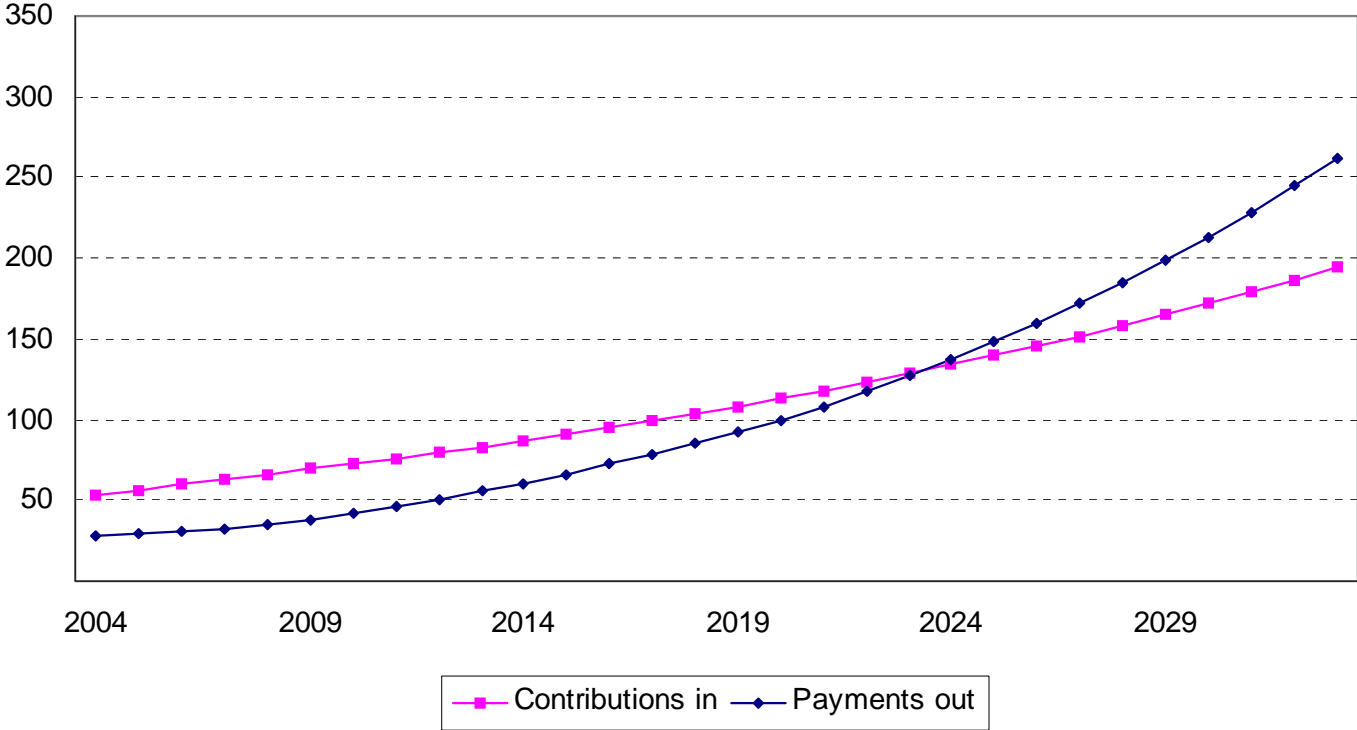


Source: Trowbridge Deloitte Super Model

# Superannuation projected inflows and outflows

- Sensitivity – Contributions tax of 13% from 2004

Superannuation projected inflows and outflows \$ billion - 13% Cont Tax

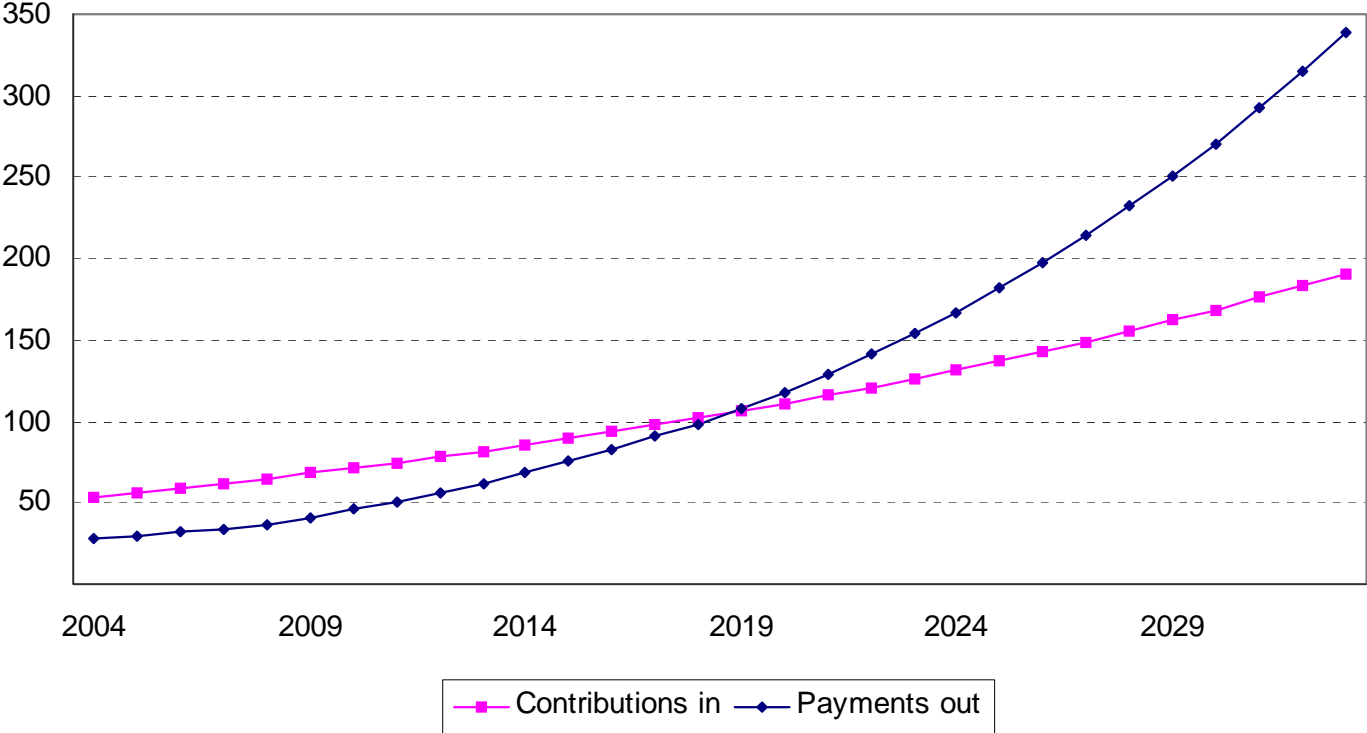


Source: Trowbridge Deloitte Super Model

# Superannuation projected inflows and outflows

- Sensitivity – no investment tax

Superannuation projected inflows and outflows \$ billion - 0% inv tax



Source: Trowbridge Deloitte Super Model