Superannuation policy for post-retirement

Examining when and how people access their superannuation

A research report by the Productivity Commission
Australia’s population is changing
People are living longer and the share of the elderly is increasing. Coming decades will see this trend continue.

The share of older Australians is increasing

Number of 65+ year olds for every ten 15-64 year olds

- 1995: 1.8
- 2005: 1.9
- 2015: 2.3
- 2025: 2.8
- 2035: 3.3
- 2045: 3.6
- 2055: 4.1

The cost of government services increases with age

$000 per person in 2011-12

- 0-4: $0
- 5-9: $0
- 10-14: $10
- 15-19: $20
- 20-24: $30
- 25-29: $40
- 30-34: $50
- 35-39: $60
- 40-44: $70
- 45-49: $80
- 50-54: $90
- 55-59: $100
- 60-64: $110
- 65-69: $120
- 70-74: $130
- 75-79: $140
- 80-84: $150
- 85-89: $160
- 90-94: $170
- 95-99: $180
- 100+: $190

Categories: Other, Health, Education, Age Pension, Aged Care
The costs associated with ageing have been explored extensively, but some questions remain unanswered:

- How well is the retirement income system placed to deal with demographic change?
- What reforms might ease pressures while delivering sustainable retirement incomes for older Australians?

The Commission has sought to advance understanding of these issues by addressing two questions:

- What might happen if the age that people can access their superannuation (the ‘preservation age’) were raised?
- Is the way people draw down their superannuation, and in particular the use of lump sums, problematic?
Along with the Age Pension age, the preservation age is considered to be an important policy lever as we transition to an older Australia.

The preservation age is currently 55 and is being raised to 60. It provides both a financial incentive and a signal that can influence some people's decision to retire.

The Age Pension age is currently 65 and is being increased to 67.

The Commission has modelled what might happen if the preservation age is increased to 65.
What if access to superannuation were delayed until 65 years?

Commission modelling suggests that on average in 2055:

- Older worker participation would increase
- Those who delay their retirement would remain in the labour force for 2 years longer on average...
- …and their superannuation balances would be 10% larger at retirement
As a result, there are two fiscal effects: higher tax receipts and lower Age Pension outlays.

<table>
<thead>
<tr>
<th>Contributors</th>
<th>2015 Prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes on concessional superannuation contributions</td>
<td>$0.1bn</td>
</tr>
<tr>
<td>Personal income tax – taxes on investment returns</td>
<td>$0.9bn</td>
</tr>
<tr>
<td>Personal income tax – wage income</td>
<td>$2.0bn</td>
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<tr>
<td>Taxes on superannuation investment returns</td>
<td>$2.2bn</td>
</tr>
<tr>
<td>Age Pension savings</td>
<td>$2.8bn</td>
</tr>
<tr>
<td>Other welfare payments</td>
<td>-$0.8bn</td>
</tr>
<tr>
<td>Net government fiscal position</td>
<td>$7.2bn</td>
</tr>
</tbody>
</table>

Annual savings in 2055

Some people work longer and so contribute more to super and delay accessing their retirement savings. They pay more income tax and tax on their savings as a result.

Greater tax revenues of around $5bn.

Reduced expenditure of around $2bn.

Some people will go on the Age Pension later as their super lasts further into their retirement. Others who retire involuntarily may call on other welfare payments.
Most of the fiscal gains from an increase in the preservation age would come from wealthier households.

Impacts by wealth quartile for households headed by:
- Single males
- Single females
- Couples
This reflects the variety of people’s circumstances:

Not everyone has a lot in super savings…

10% aged 44-54 had more than $230,000 of superannuation

15% aged 44-54 had no superannuation

Superannuation balances of those aged 45-54, 2011-12
Sometimes averages don’t tell the whole story, it’s better to look at the balance of the middle — or ‘median’ — household.

Median household superannuation and other wealth by age, 2011-12

While the average balance of a 65-74 year old is more than $300,000 the median is $0.
Of those who retire between 60-64 years, almost one-half of men and over one-third of women retire involuntarily.

Number of people retiring in 2011, by age group and reason:

- Total: 86,900
- 40-54: 30,000
- 55-59: 60,000
- 60-64: 90,000
- 65-69: 120,000
- 70 and over: 150,000

... and not everyone chooses when they retire.
Is the way people draw down their superannuation problematic?

Some argue that people exhaust their superannuation too quickly by taking lump sums at retirement...

...there have been calls to restrict lump sums

But...
Many use lump sums to invest or reduce debt and this helps see them through their retirement.

- Paid off home/paid for home improvements/bought new home: 25%
- Invested the money elsewhere/personal savings/bank: 18%
- Rolled it over/invested it in an approved deposit fund/deferred annuity or other superannuation scheme: 13%
- Cleared other outstanding debts: 11%
- Bought or paid off car/vehicle: 10%
- Paid for a holiday: 7%
- Assisted family members: 3%
- Purchased an immediate annuity: 1%

Note: the above do not sum to 100% as undecided/don’t know/other are excluded.
Most superannuation is not taken in lump sums

Total superannuation benefits over time

Value of benefits ($bn)

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>$0</td>
</tr>
<tr>
<td>2007</td>
<td>$5</td>
</tr>
<tr>
<td>2013</td>
<td>$28.6</td>
</tr>
</tbody>
</table>

Benefits by balance size

- **$0 - $50,000**: 55% Lump sum, 45% Account-based pension
- **$50,000 - $100,000**: 69% Lump sum, 31% Account-based pension
- **$100,000 - $200,000**: 81% Lump sum
- **$200,000 - $300,000**: 89% Lump sum
- **Over $300,000**: 96% Lump sum
- **Total**: 83% Lump sum

Source: Rice Warner (2015)
Where to from here?

The retirement income system has been subject to ongoing piecemeal change. But its objectives remain poorly defined.

The Commission has found:

- If the preservation age were raised to 65, some people would work longer, have more savings for their retirement and there would be fiscal gains, largely coming from wealthier households.
  - But important implementation issues would need to be considered, including a safety net for those who retire involuntarily.
- Lump sum use does not appear problematic.
- Changes to the retirement income system need to cater for the diverse circumstances of retirees as ‘one size’ does not fit all

Ideally, before any further changes are made, the system needs to be considered as a whole with a common set of objectives in mind.