Superannuation policy for post-retirement

Examining when and how people access their superannuation

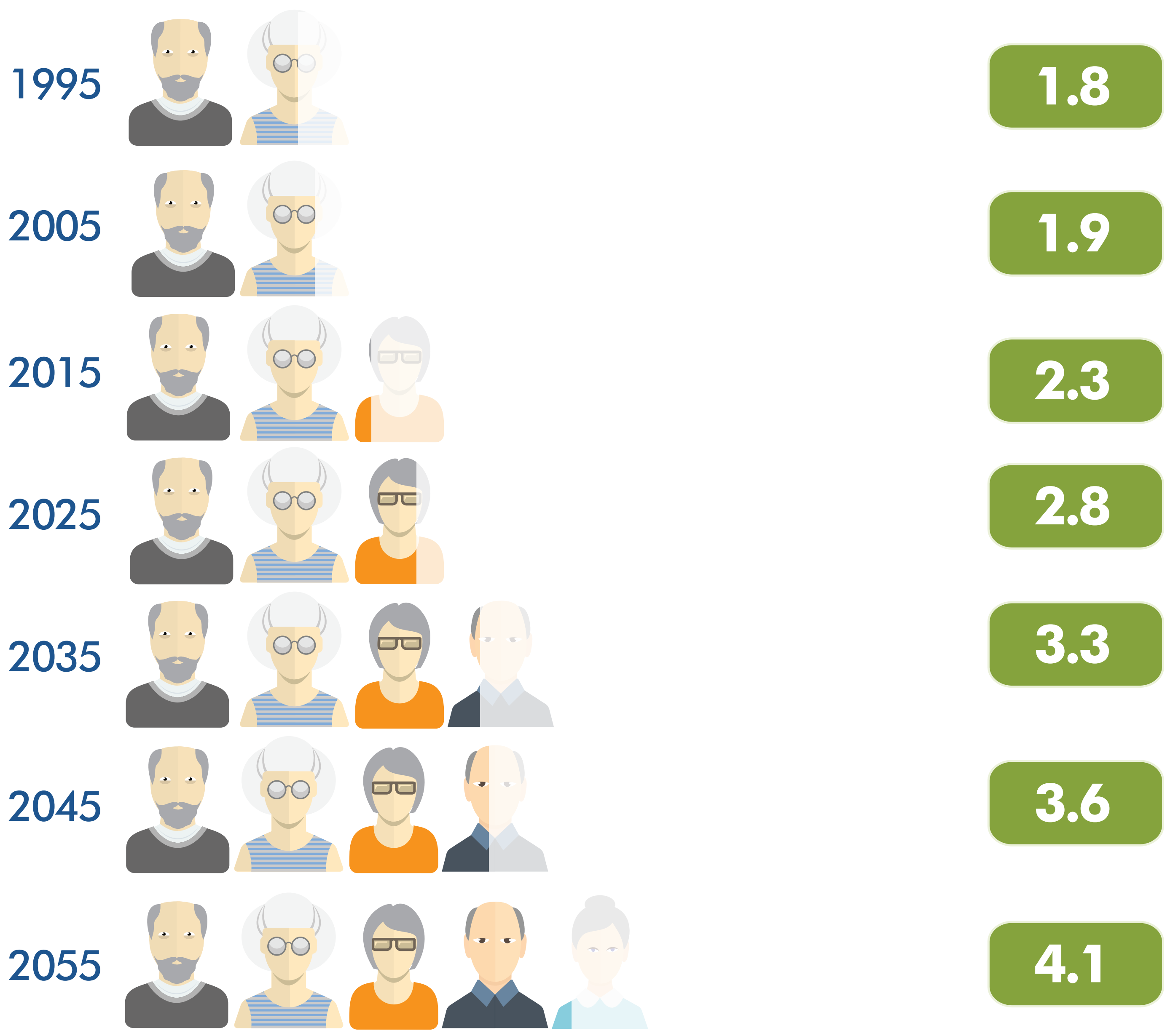
A research report by the Productivity Commission

Australia's population is changing

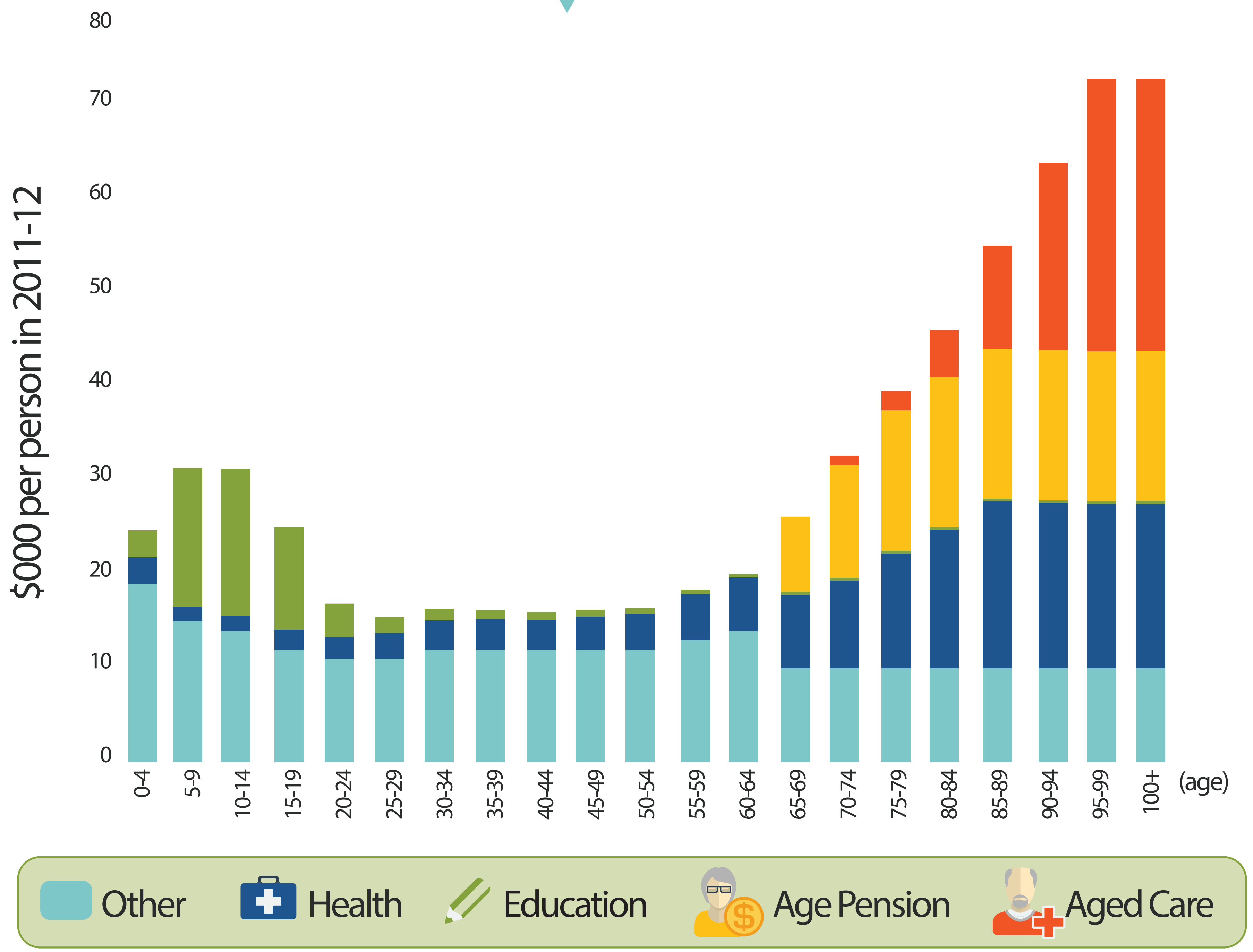
People are living longer and the share of the elderly is increasing. Coming decades will see this trend continue.

The share of older Australians is increasing

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



The cost of government services increases with age



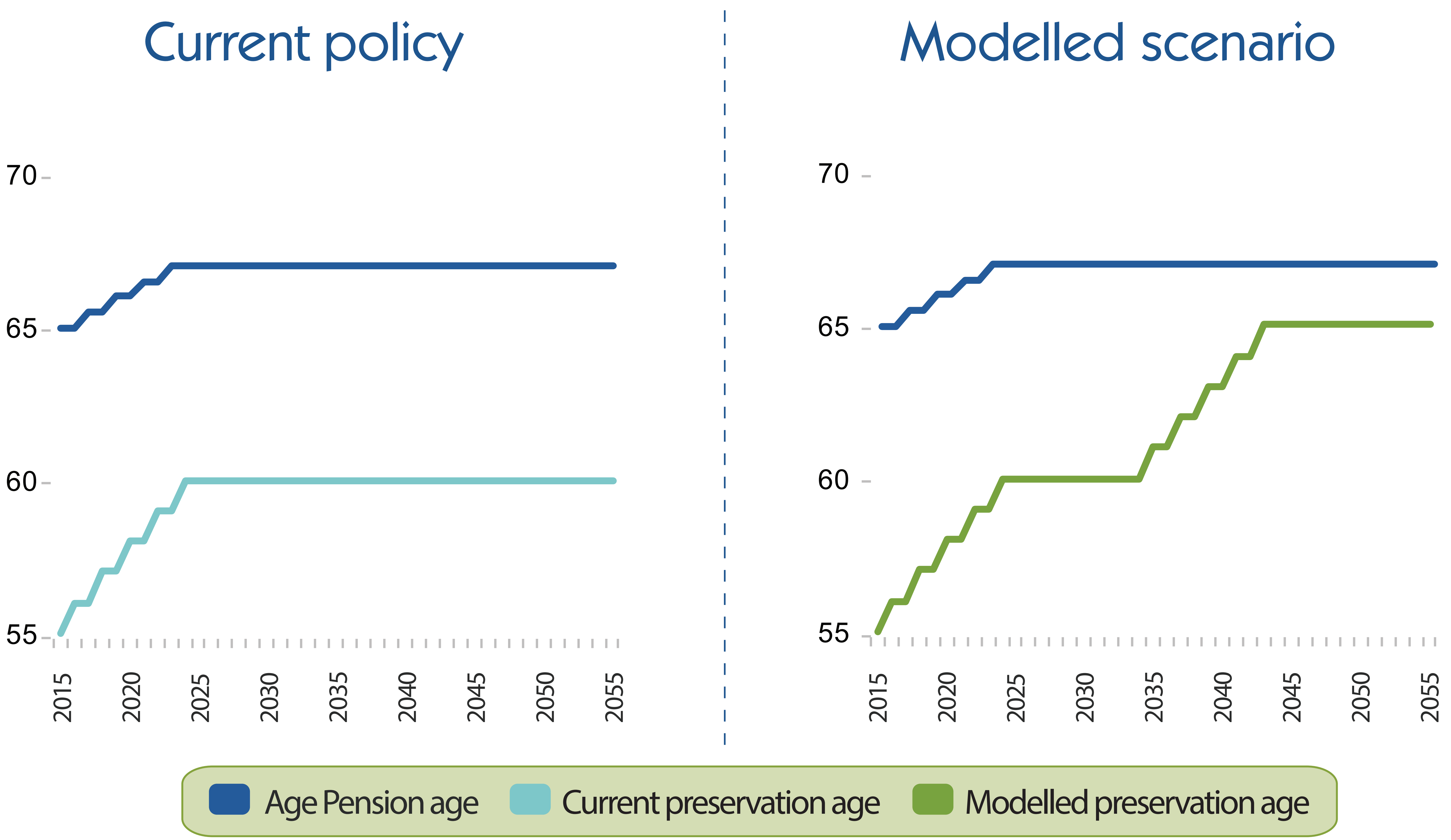
The costs associated with ageing have been explored extensively, but some questions remain unanswered:

- 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?

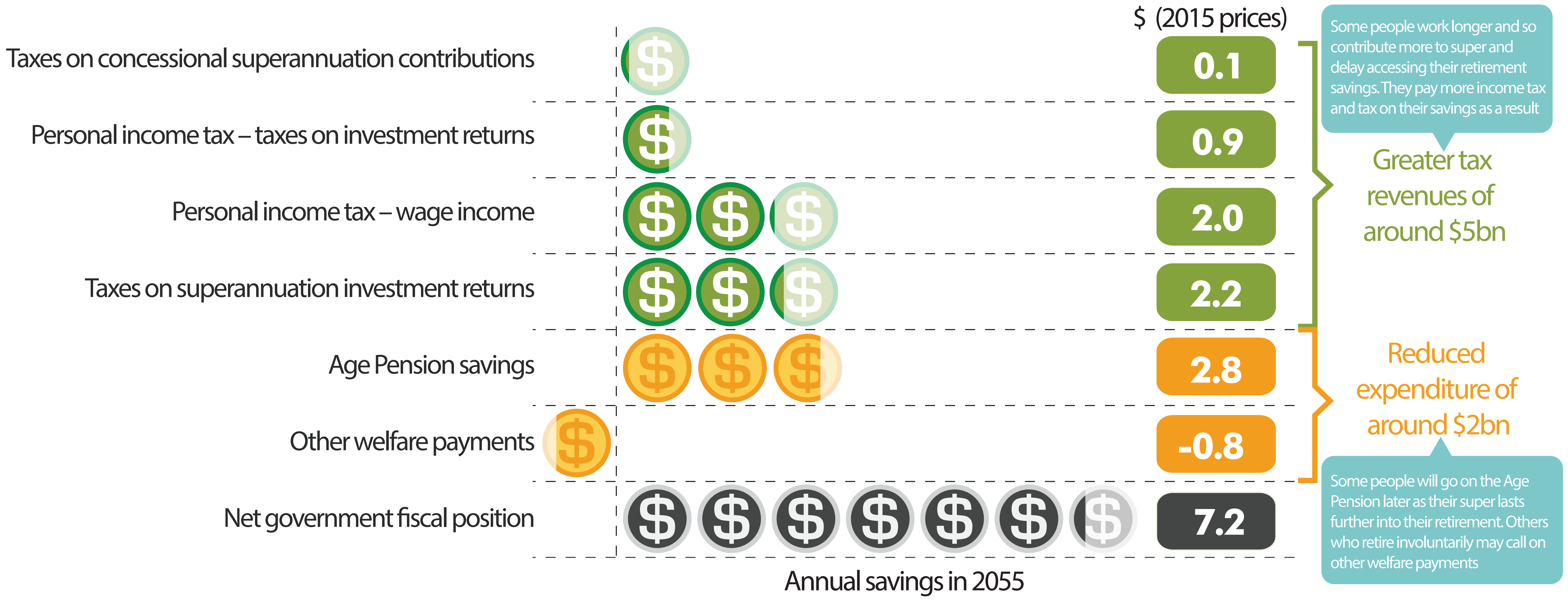
Commission modelling suggests that on average in 2055:

Older worker participation would increase

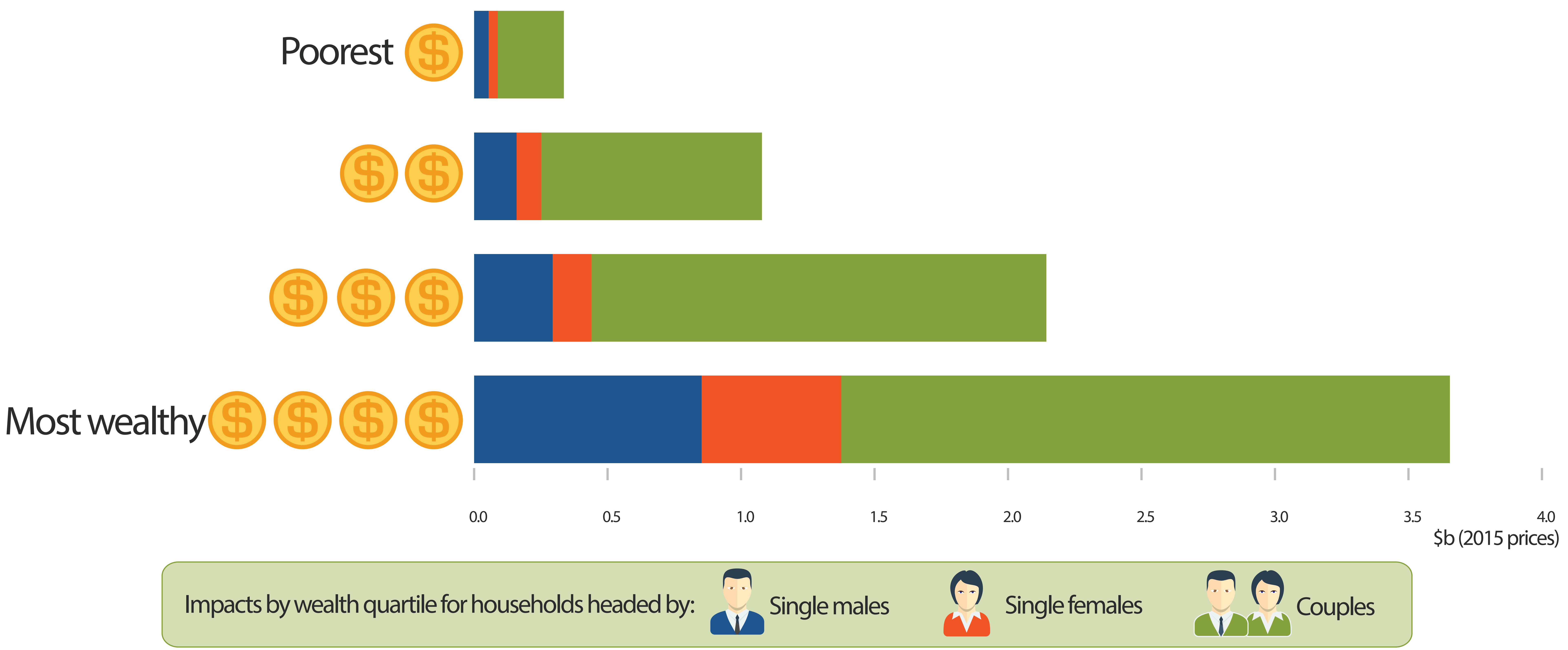
Those who delay their retirement would remain in the labour force for **2 years longer** on average…

…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

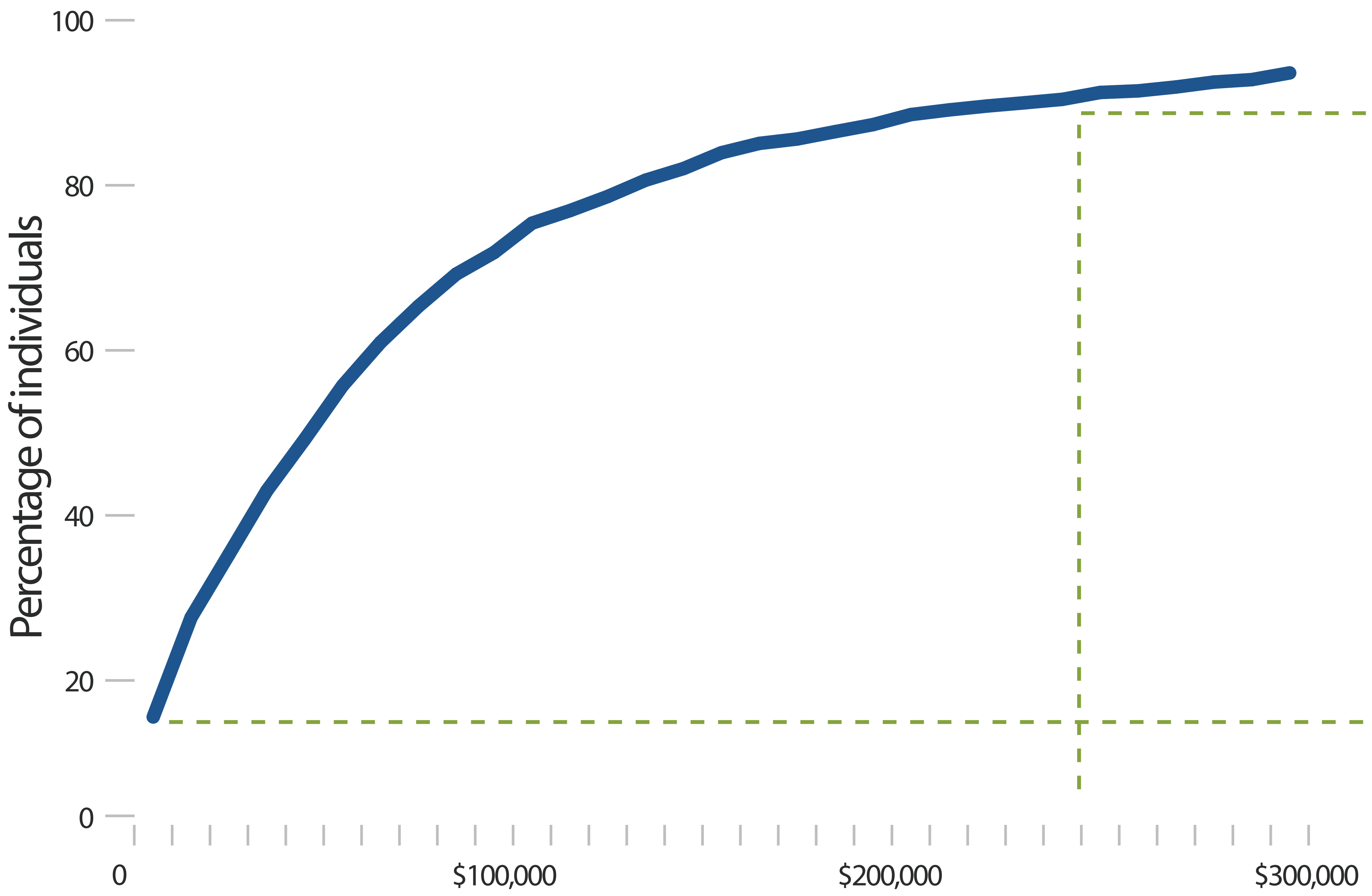


Most of the fiscal gains from an increase in the preservation age would come from wealthier households



This reflects the variety of people's circumstances:

Not everyone has a lot in super savings…



Superannuation balances of those aged 45-54, 2011-12

10% aged 44-54

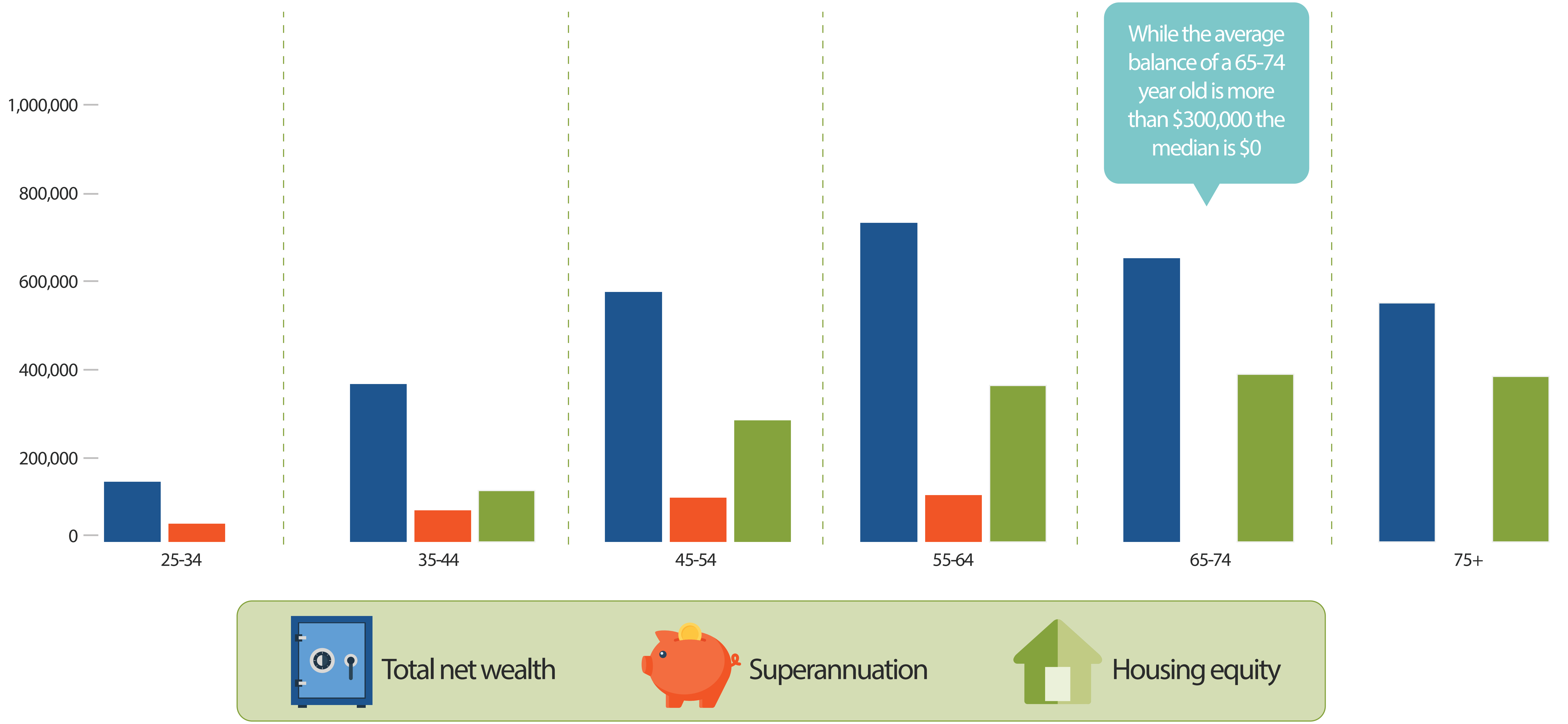
had more than $230,000 of superannuation

15% aged 44-54

had no superannuation

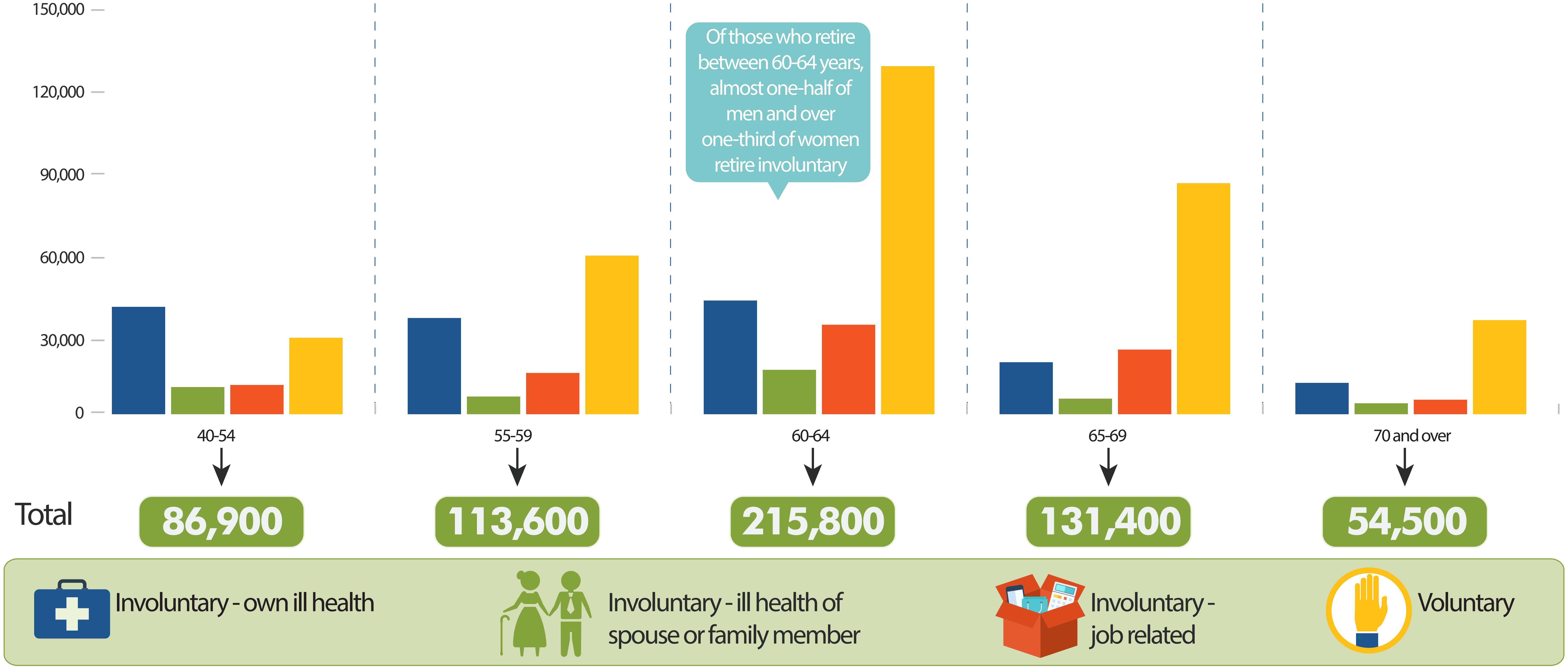
Sometimes averages don't tell the whole story, it's better to look at the balance of the middle — or 'median' — household

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

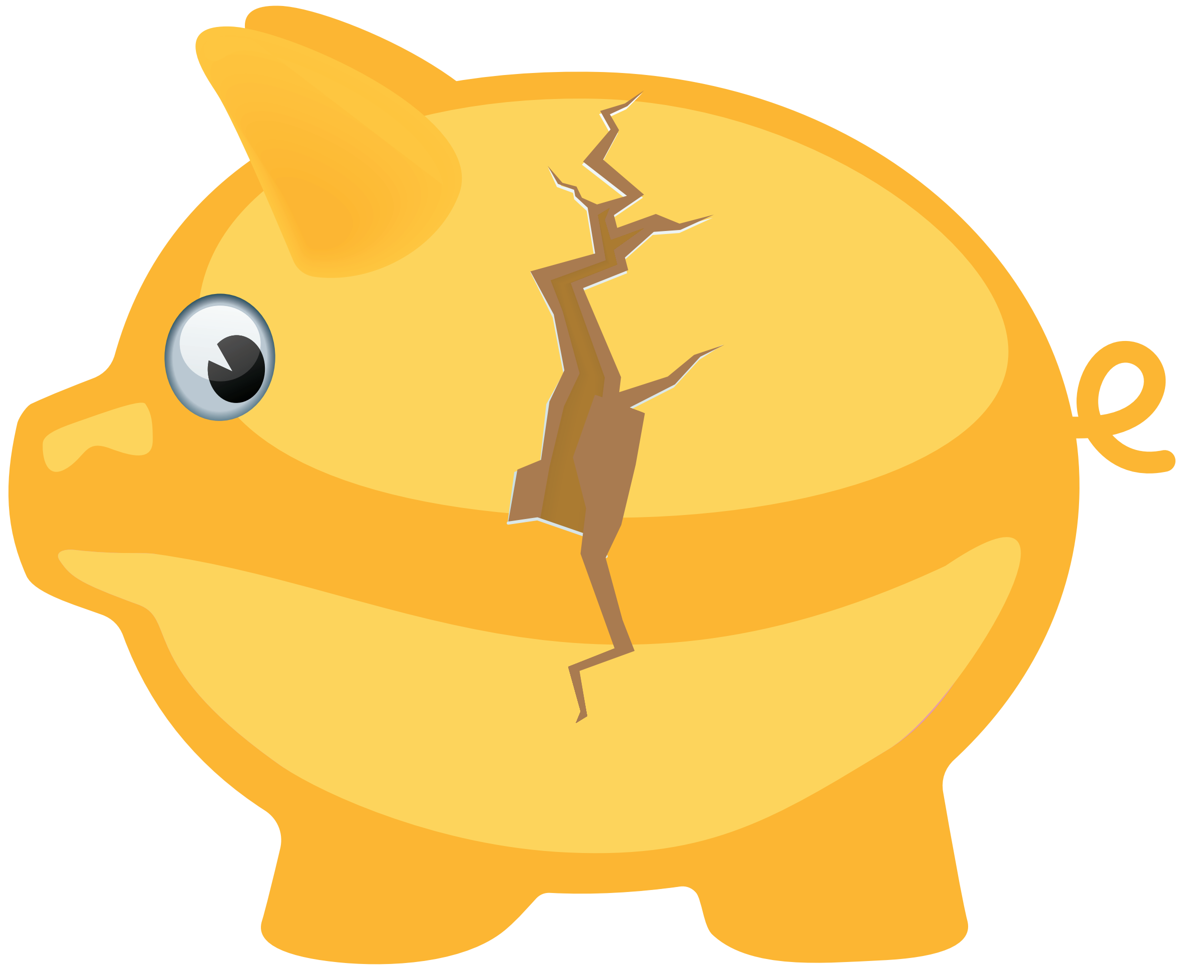


… and not everyone chooses when they retire

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



Is the way people draw down their **superannuation problematic**?

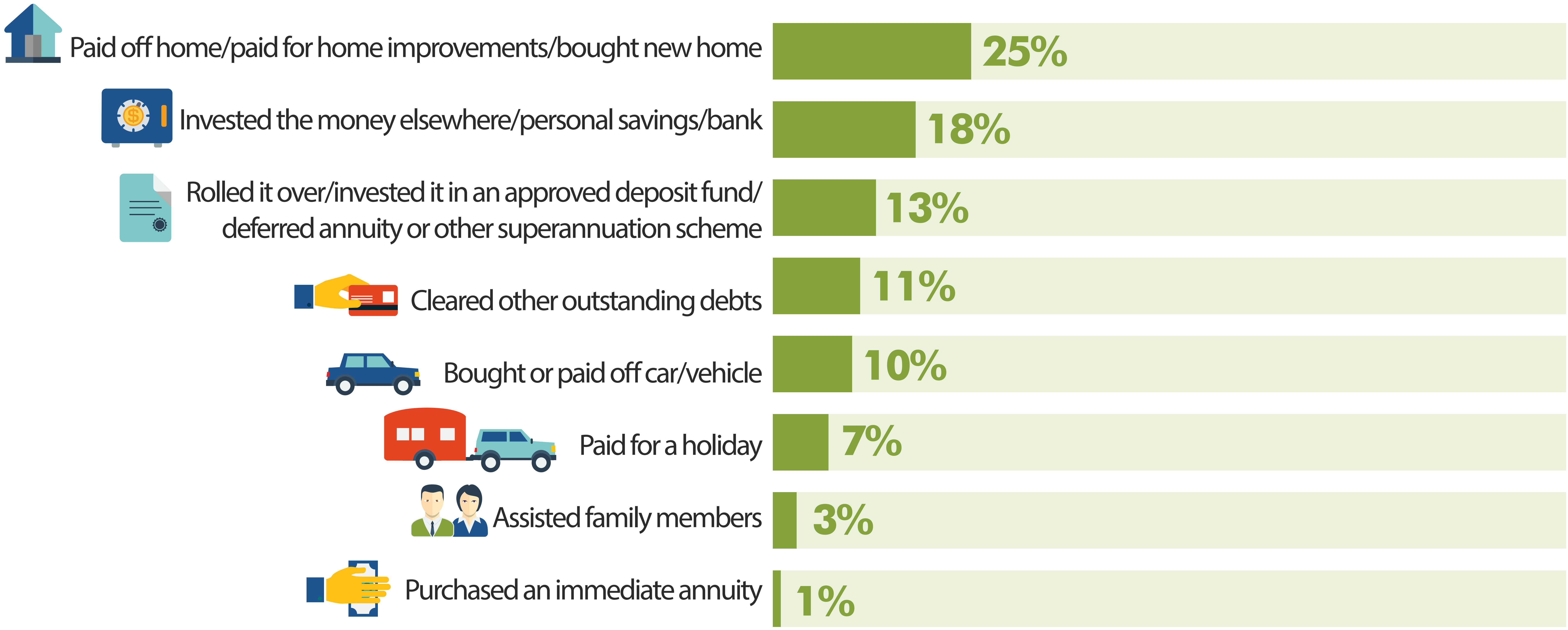


Some argue that people exhaust their superannuation too quickly by taking lump sums at retirement...

...there have been calls to restrict lump sums

But...

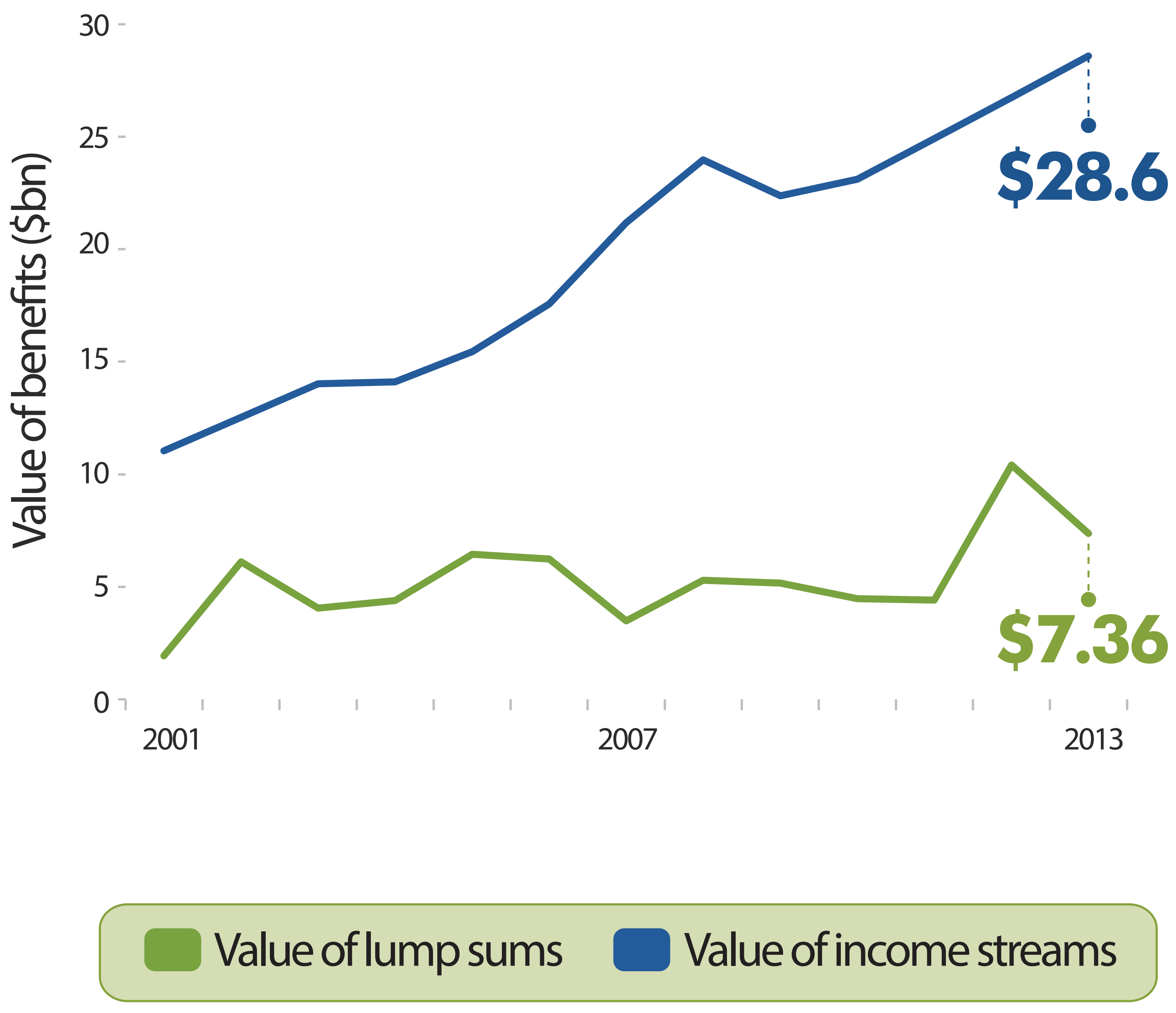
Many use lump sums to invest or reduce debt and this helps see them through their retirement



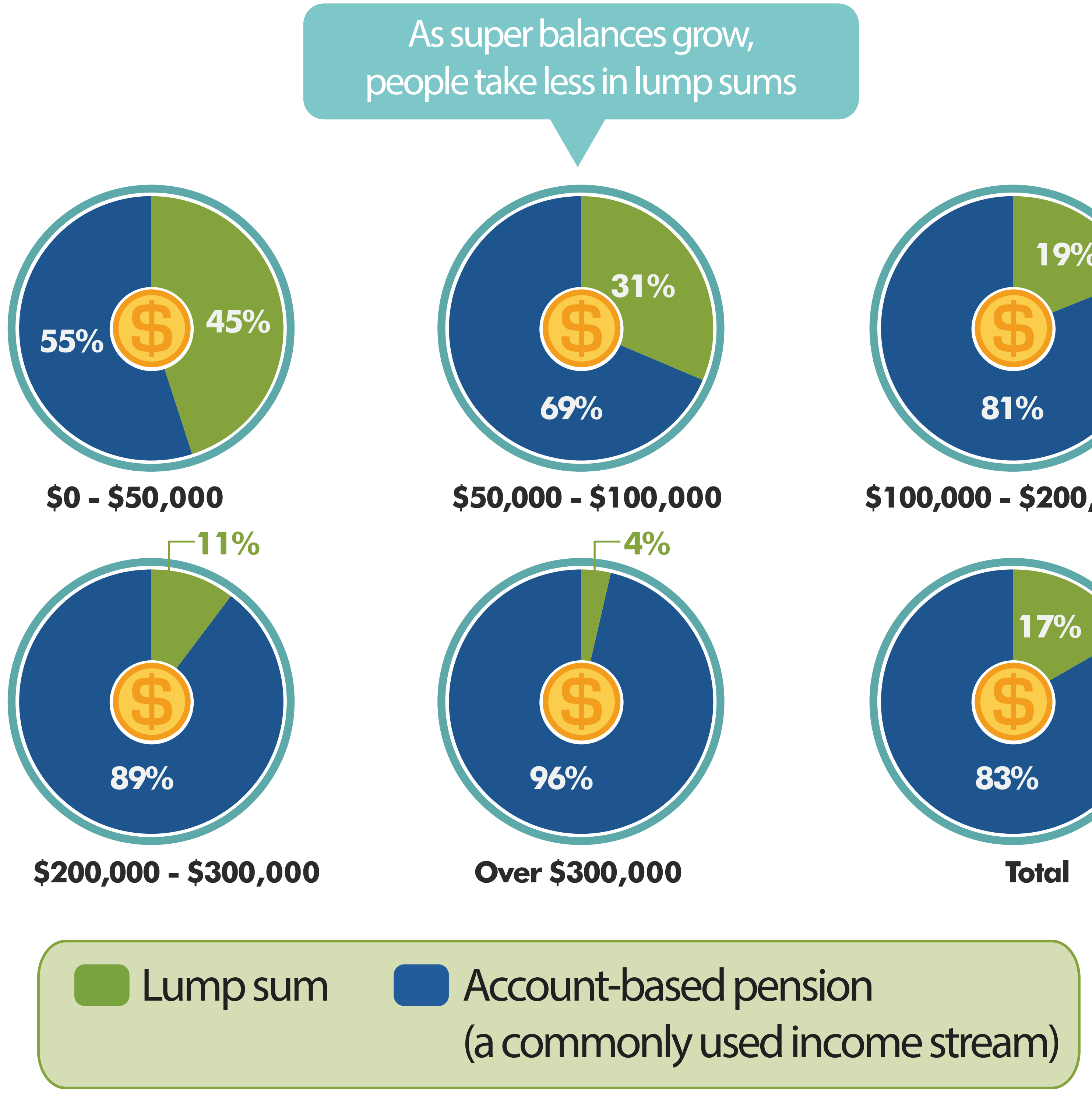
Note: the above do not sum to 100% as undecided/don't know/other are excluded

Most superannuation is not taken in lump sums

Total superannuation benefits over time



Benefits by balance size



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.