



**Towards A  
Comprehensive  
Income Product  
for Retirement**  
– The Australian  
Journey

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# Agenda

Where are we now?

Changing the disbursement structure

Emerging Issues

Where might we end up?

# Where are we now?

## Australia's superannuation system

# Australia's retirement financing system

## Three Pillars

1. **Compulsory superannuation contributions 9.5% rising to 12% by 2025**

2. **Additional voluntary contributions partially tax-advantaged**

3. **Government Age Pension (means-tested)**

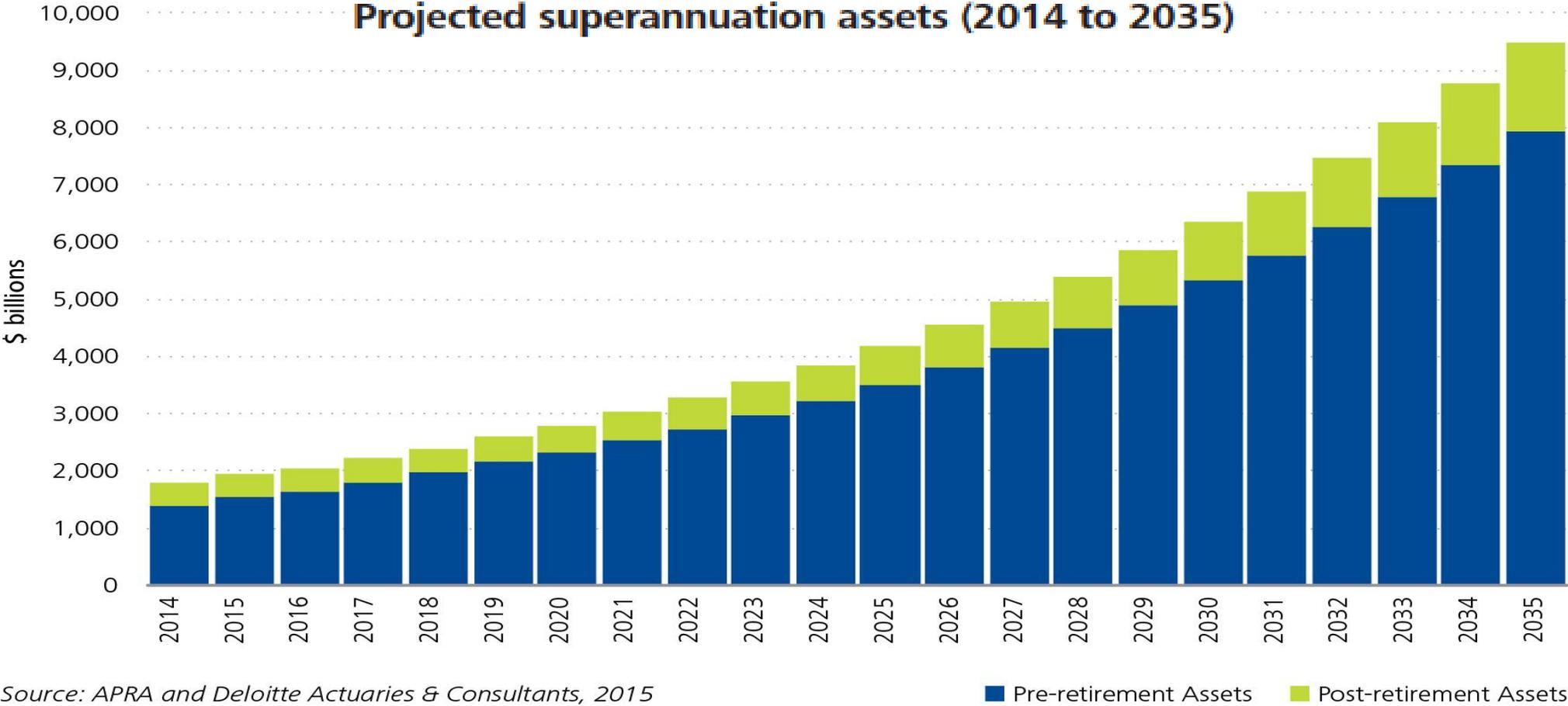
## Strengths

- Funding
- Universality
- Competing Models

## Weaknesses

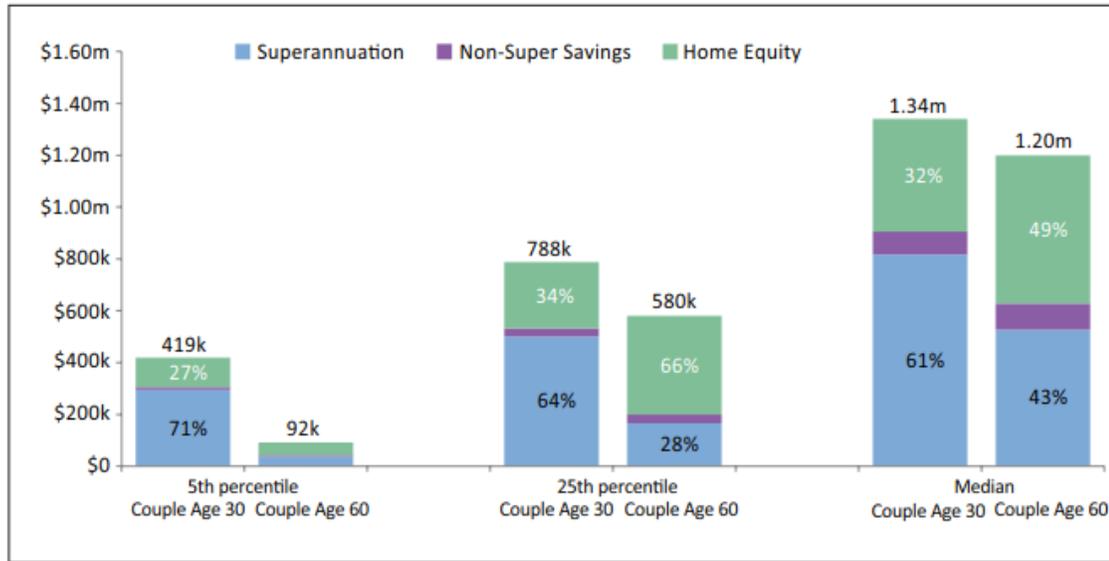
- Longevity risk not eradicated
- Level of income
- Lack of flexibility
- Lack of diversity and choice
- Inefficiency
- Complex

# The savings phase of Australia's superannuation is progressing well...



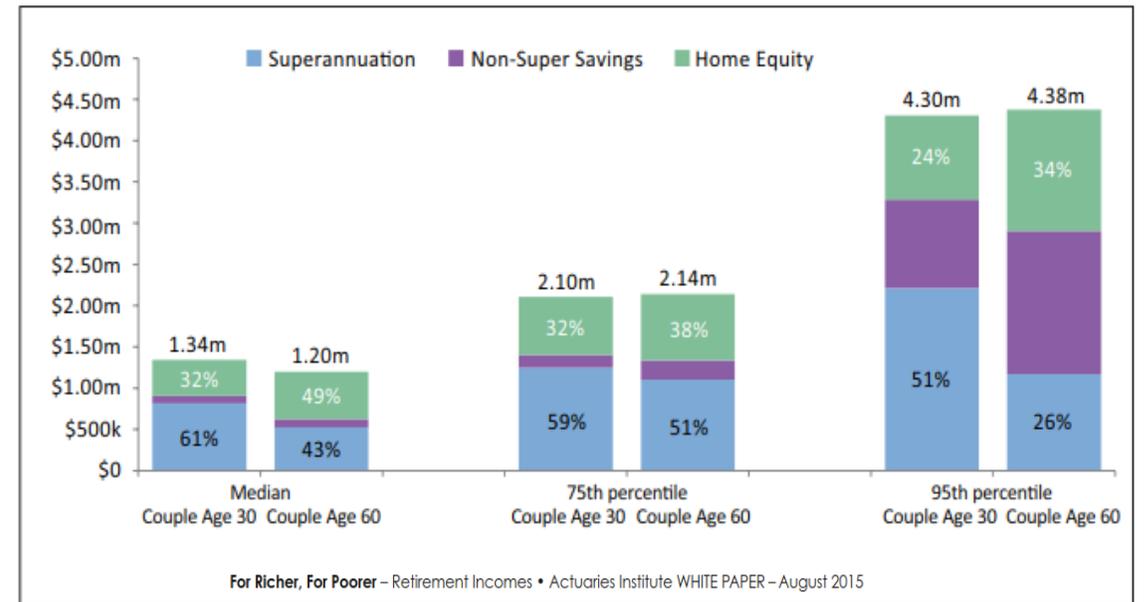
# ... making a significant impact on peoples' retirement wealth in most segments ...

Projected wealth at age 65 (current dollars) – couples of median wealth and below



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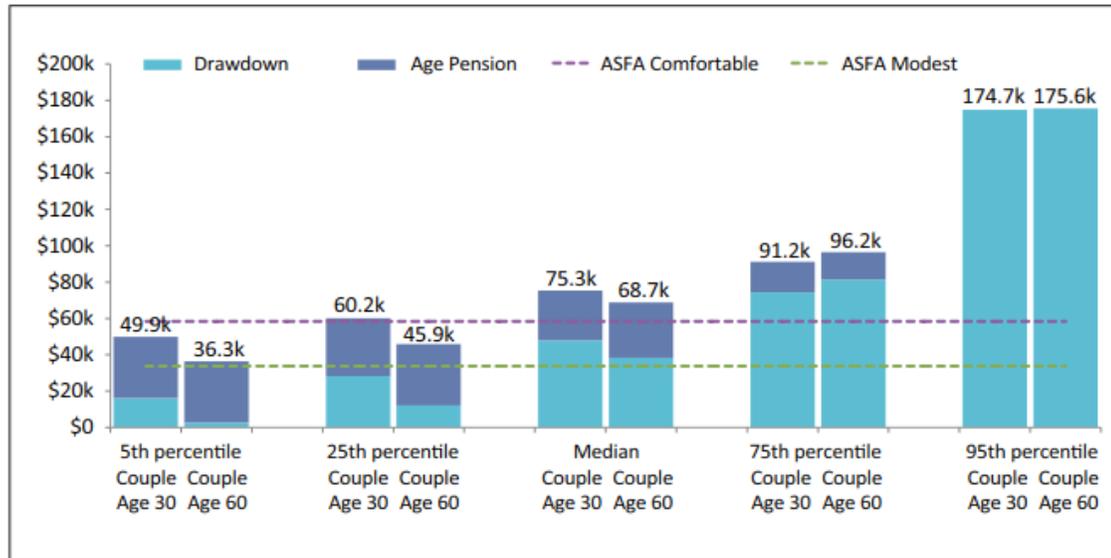
Projected wealth at age 65 (current dollars) – couples of median wealth and above



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# ... but the jury is still out on whether the disbursement phase is effective enough

Estimated annual income to life expectancy (current dollars) - couples

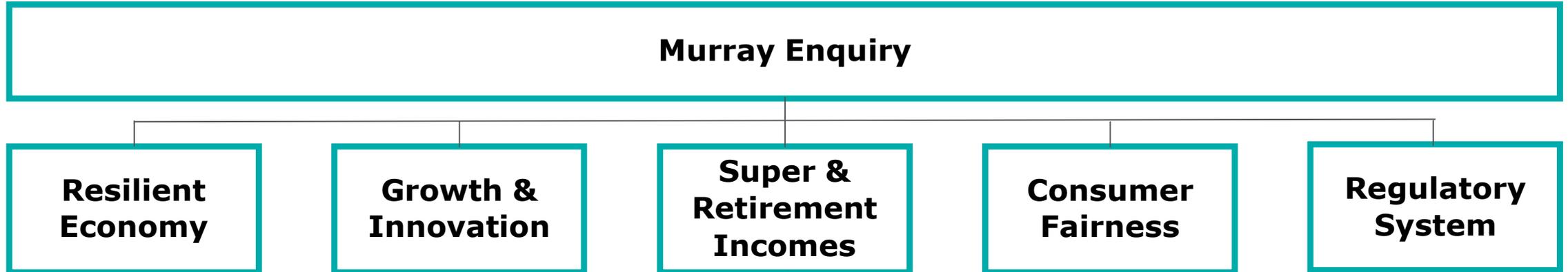


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- ? Adequacy of benefits
- ? Variability of benefits in a DC world
- ? Subsectors not well served – e.g. split couples
- ? “income to life expectancy” ???

# A wide ranging review of the financial system (The Murray Inquiry) pointed to retirement income problems...



## Findings:

- **Operationally inefficient due to a lack of price based competition**
- **Superannuation assets are not being efficiently converted into retirement incomes due to a lack of risk-pooling and over-reliance on account based pensions**

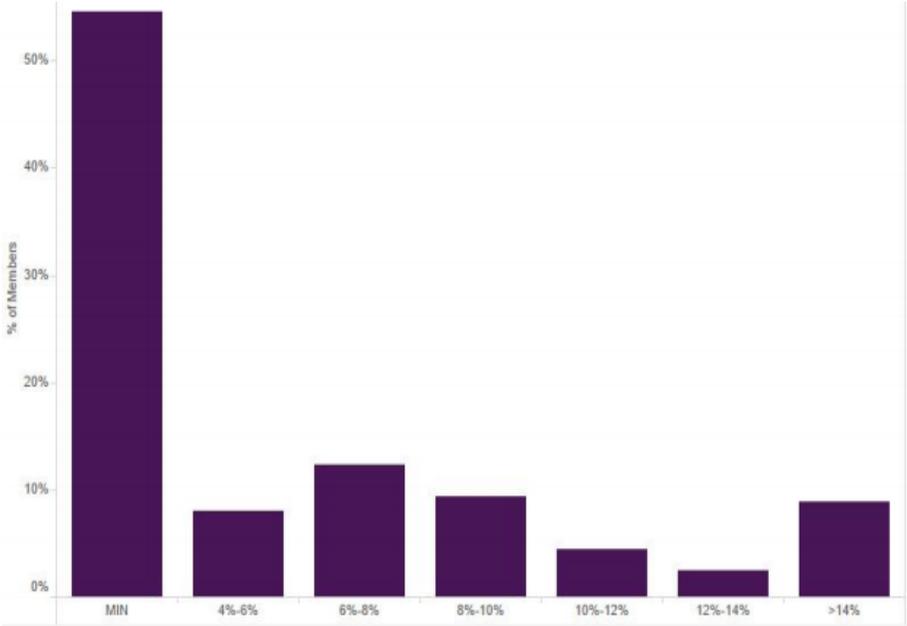
## Key recommendations:

- **Formalise the objective of the superannuation system as providing income for retirement**
- **Introduce a competitive process for allocating new members to funds**
- **Require trustees to pre-select a comprehensive retirement income product**

# Changing the disbursement structure

# Retirees' are overwhelmingly withdrawing the minimum amount from their account-based pensions...

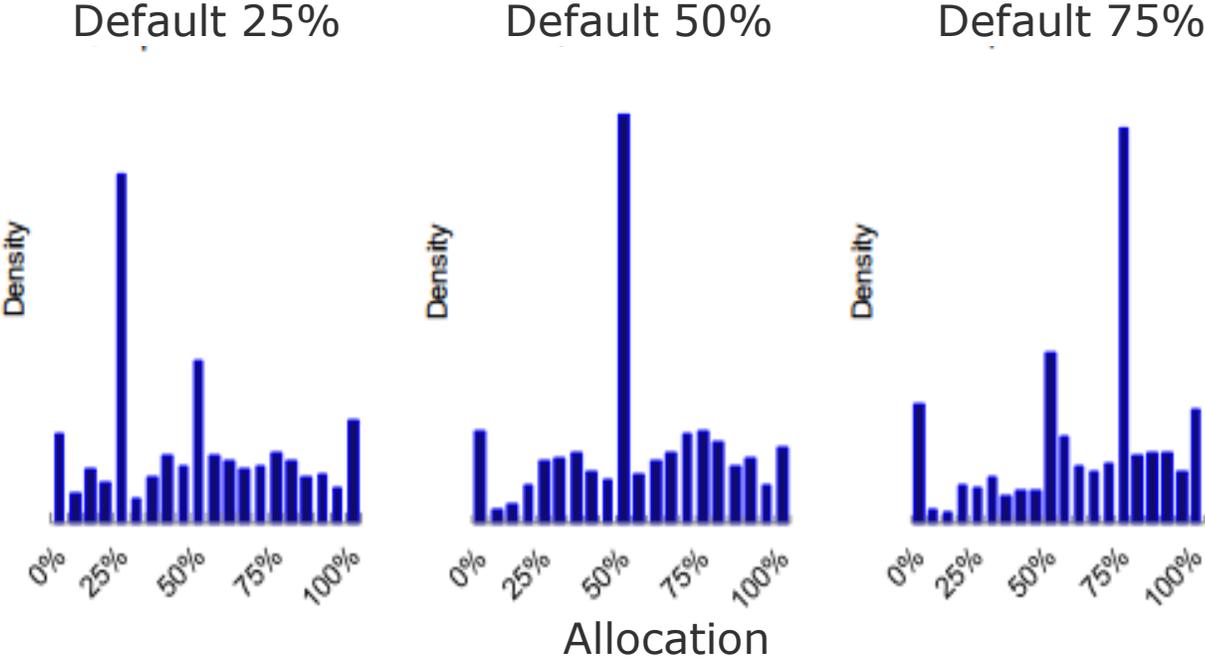
## Distribution of account-based pension drawdowns



Source: Rice Warner

- **Default behaviour?**
- **Self-Insurance?**
- **Bequest Motive?**

## Academic study shows that the 'default' option will drive consumer choice



Source: Bateman et al

## ... illustrating why the Australian government is reconsidering its approach

- **Inefficient system**
- **Lack of Risk pooling**
- **... Pre-select a comprehensive income product**

**Murray Financial System Inquiry**

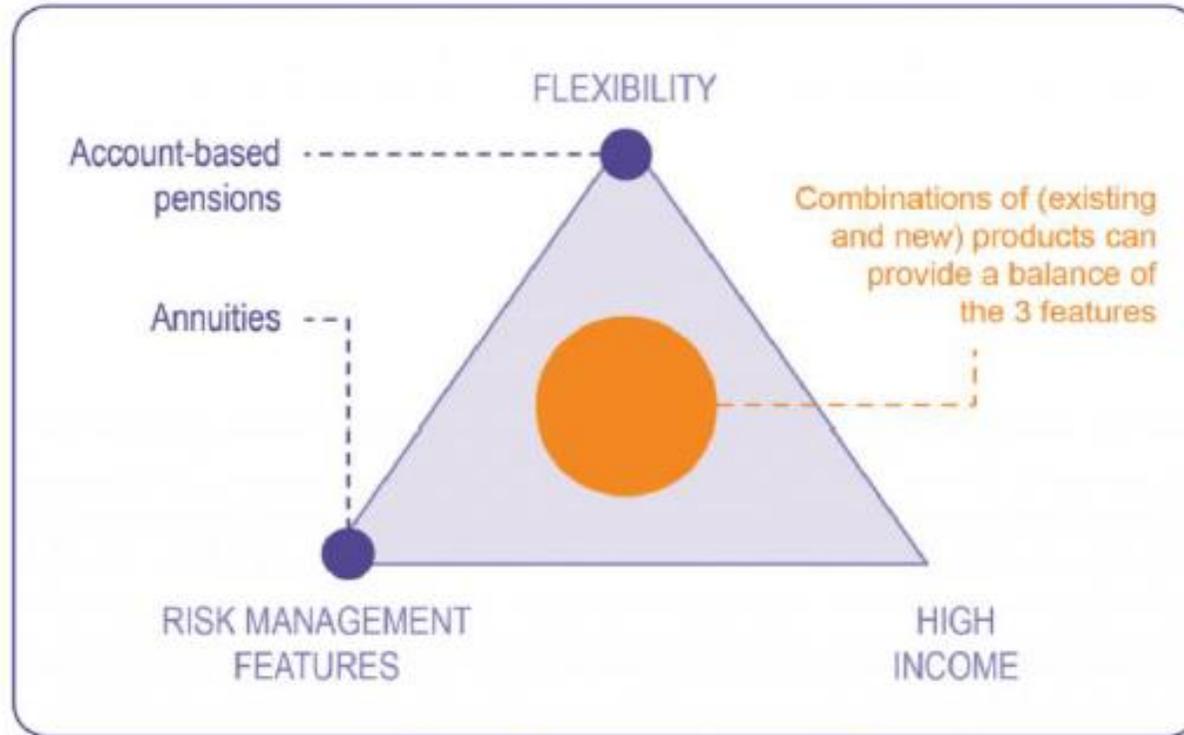
**Development of the framework for Comprehensive Income Products for Retirement**

**Review of retirement income stream regulation**

- **Account-based pension drawdown rates are appropriate**
- **Tax exemptions should be extended to income-paying products**



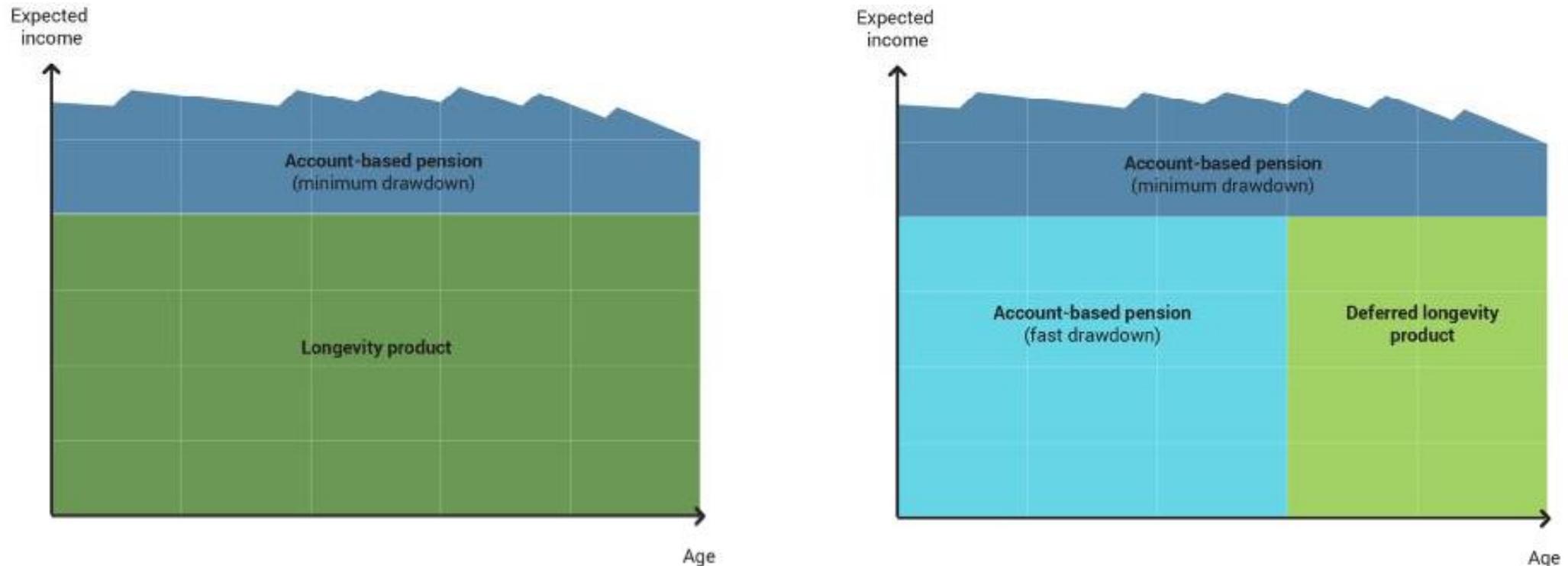
## Towards comprehensive income products for retirement... The search is on!



Source: Treasury consultation

- **Increase standard of living**
- **Increase the availability and choice of products**
- **Increase efficiency of the system**
- **Easier Transition to Retirement**

# So what might a comprehensive income product for retirement look like?



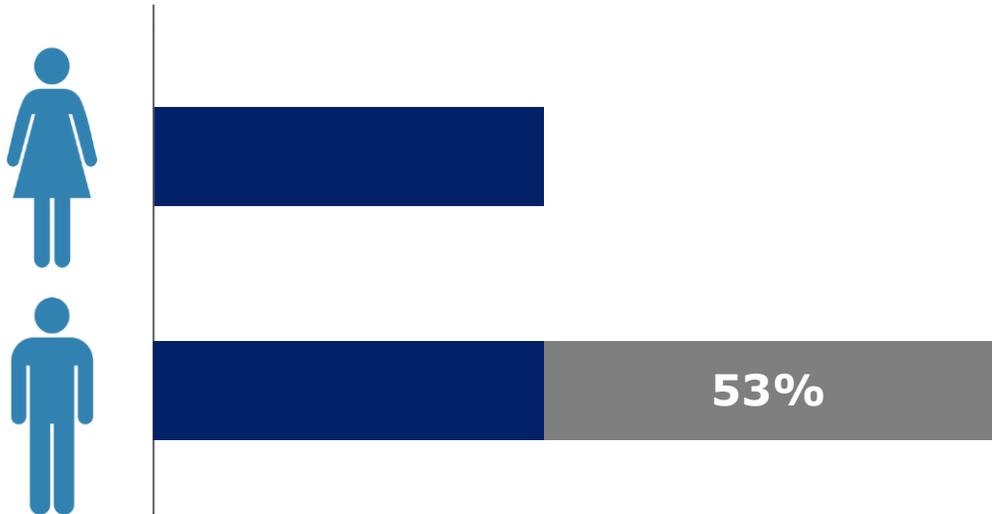
Source: Treasury Consultation

- A blend of (new and existing) products to achieve:
- A guaranteed minimum level of income
- A real income stream (in expectation)
- Flexible access to capital when required

# Emerging Issues

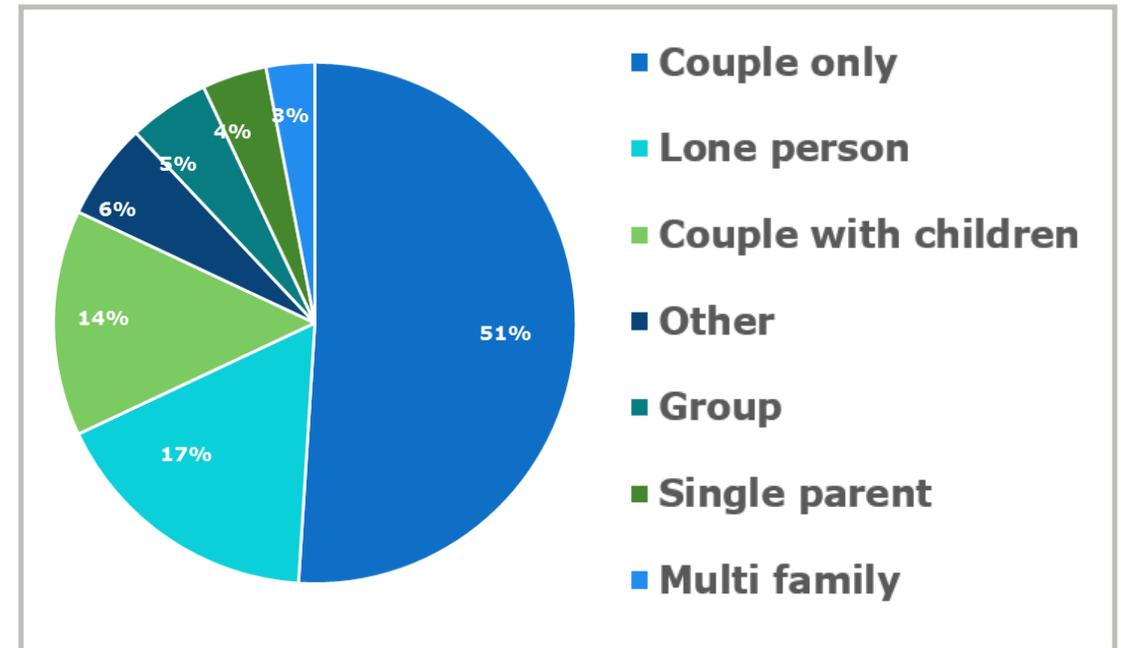
# One size cannot fit all

## Average female and male superannuation account balance 'gap' at ages 60-64



Source: The Association of Superannuation Funds of Australia

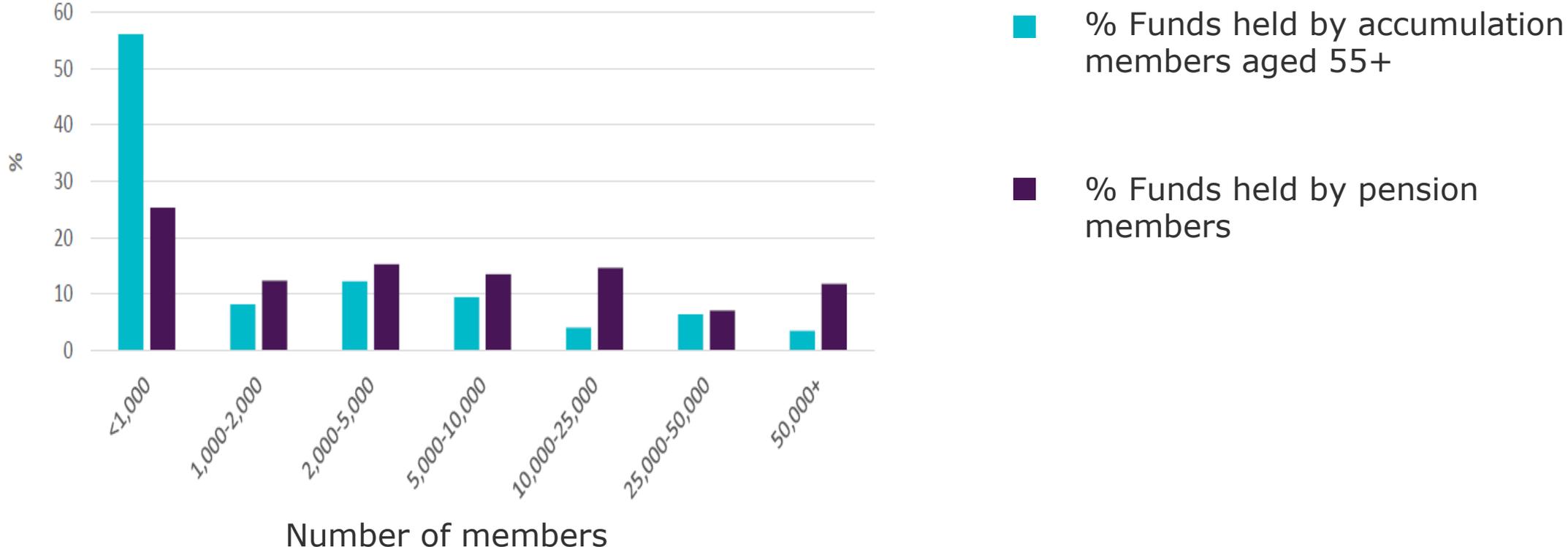
## Composition of households entering retirement



Source: Australian Bureau of Statistics: 2011 Census Tablebuilder

# For small-medium sized funds, post-retirement assets are about to grow rapidly

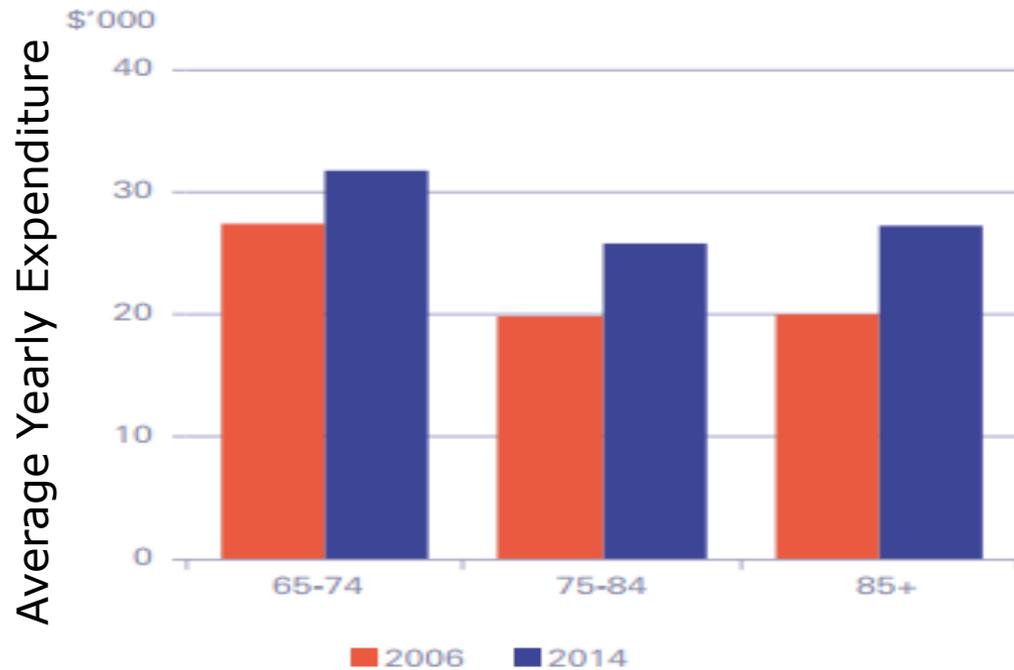
### Distribution of superannuation wealth by fund size



Source: Rice Warner

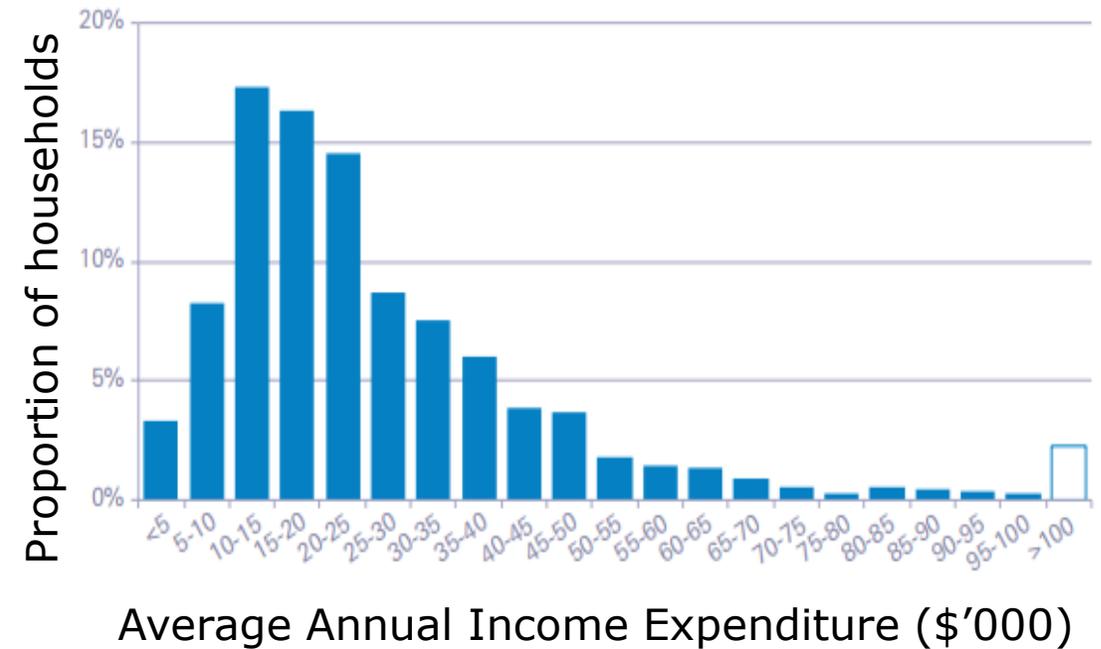
# How much income do you really need, anyway?

## Average Retiree Expenditure



Source: Australian Institute of Superannuation Trustees, Australian Centre for Financial Studies

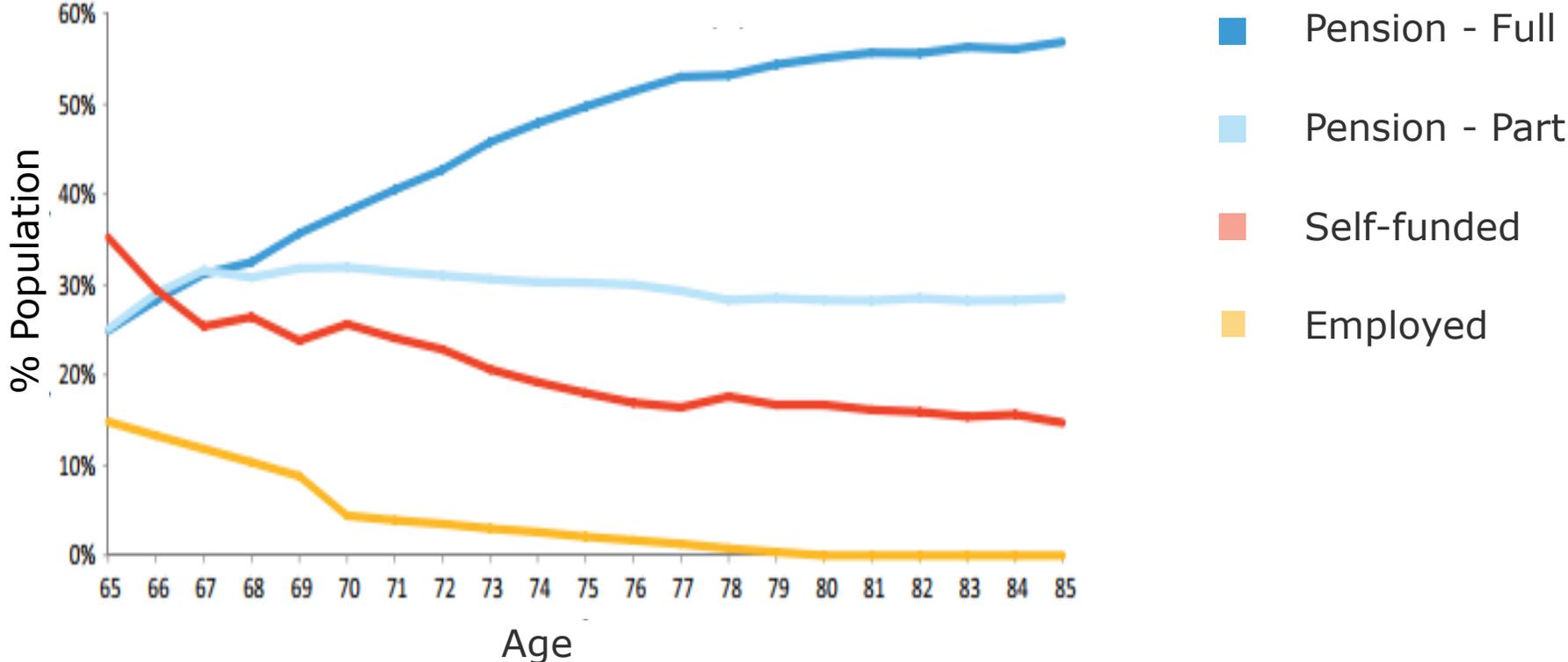
## Distribution of annual average household expenditure for households 65+ in 2014



Source: Australian Institute of Superannuation Trustees, Australian Centre for Financial Studies

# What about the age pension and other state benefits?

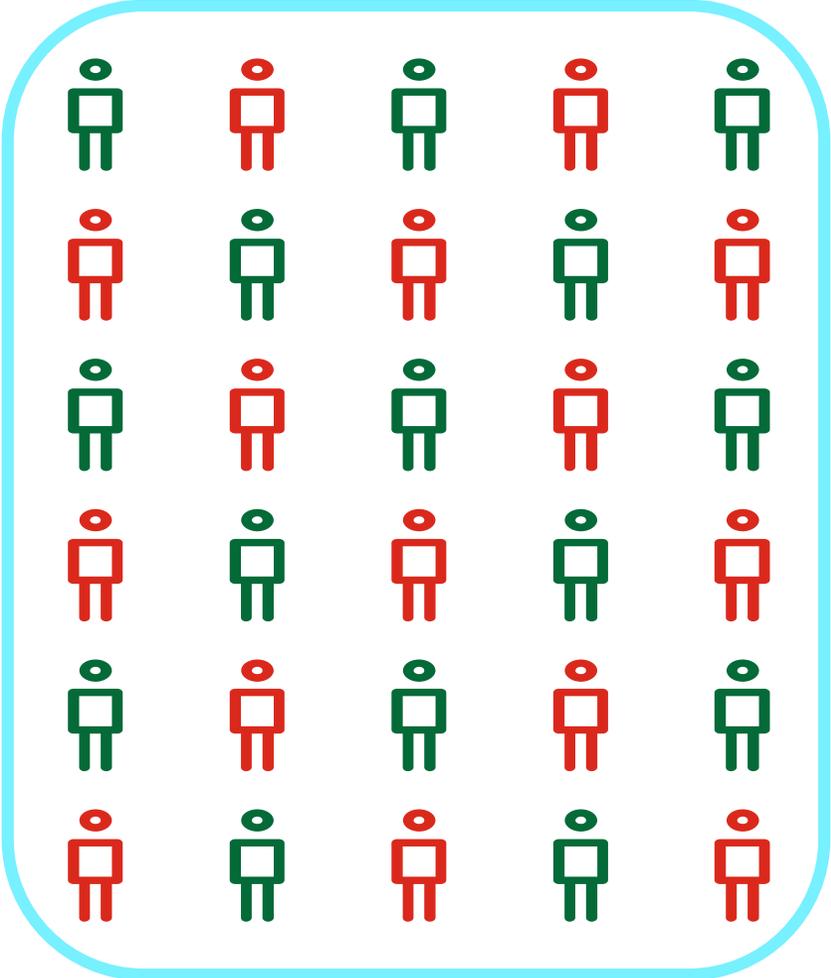
## Reliance on the age pension



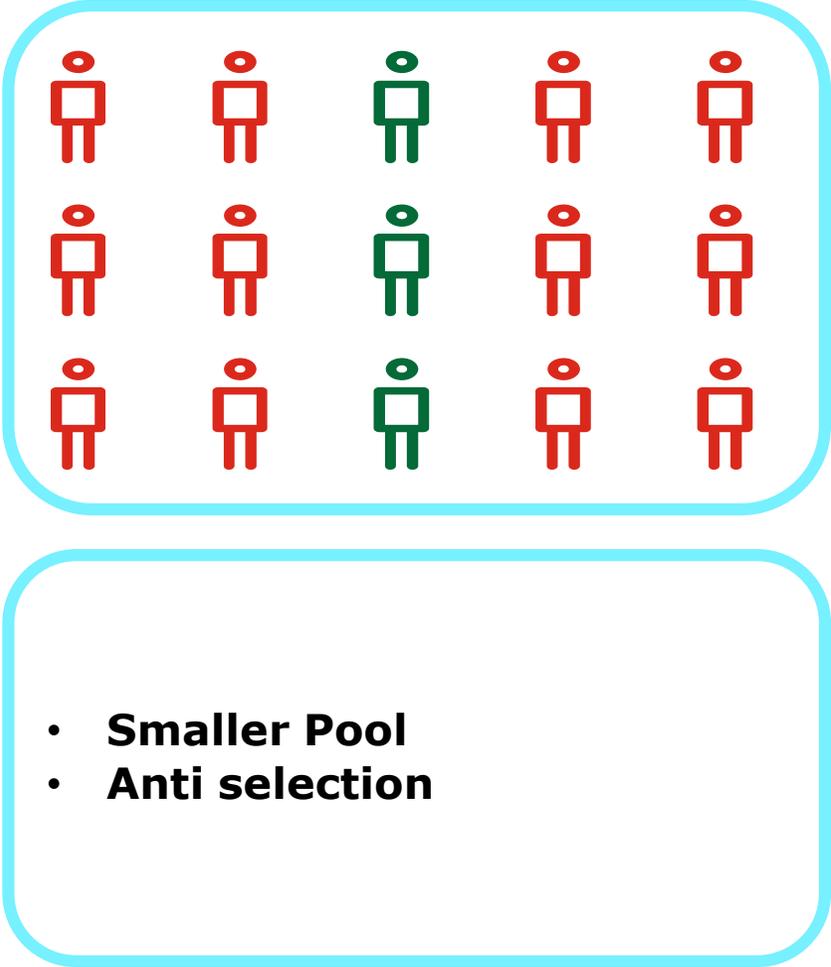
Source: Actuaries' Institute

# Can a voluntary system work?

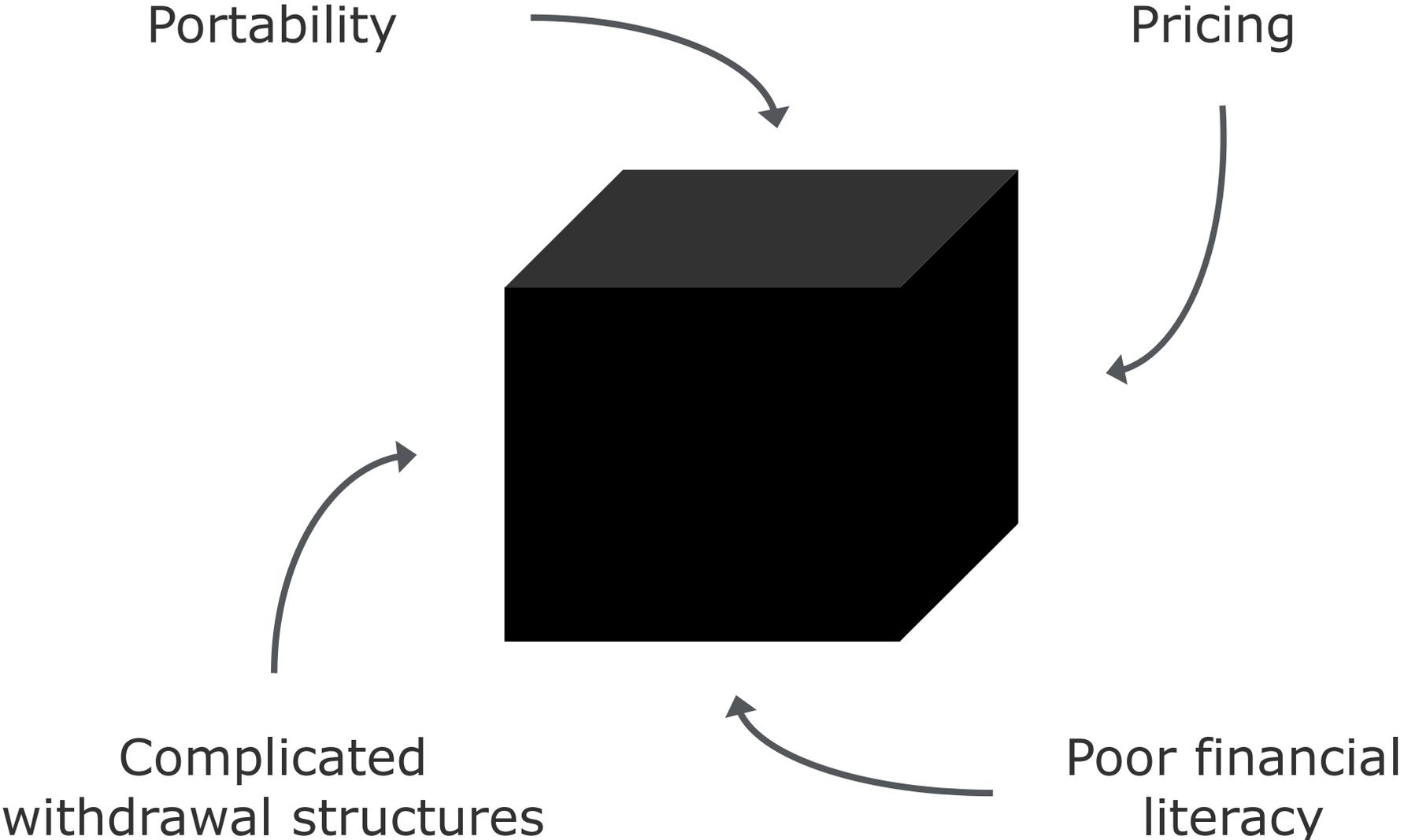
## Compulsory



## Voluntary



# Transparency



**So, where might we end up?**

## Some guesses...

- Compulsion to enter into a CIPR? - no
- Will need multiple forms of CIPR
- We may also end of with a degree of compulsion e.g. x% to an annuity, compulsory longevity pools?
- Some framework likely where trustees must develop products
  - Meet broad interests of members
  - Obtain a safe harbour
  - Conditions and limitations likely – e.g. protection of low-balance members
- Likely to require strong levels of disclosure
- No legislation is proposed to be introduced prior to mid-2018
- Response will need to consider interaction with age pension etc

There appears to be relatively widespread consensus that if it CIPRs are introduced, it should combine some form of account-based pension and some form of longevity product as a framework



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