Australian Retirement Income System

Change, Key Developments – Issues and Challenges

by

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to

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Key Historical Background – Part 1

1909	•	**Age Pension** – low, flat, funded from budget, male at age 65, female 60, means tested assets and income.
1945	•	**7.5% Social Security Contributions** to National Welfare Fund (NWF) funding for Pillar I
1949	• •	End of Social Security and defunding of NWF Introduction of tax incentives for voluntary superannuation for Pillar II
1965	•	Means test reduced by 50%
1973/75	•	Means test/assets abolished for over 75's and over 70's
1983	•	Age Pension indexed at 25% of male average total weekly earnings
1985	•	Means test re-introduced for over 65's
1987	• •	3% compulsory minimum, defined contribution for all employees earning $450 a month minimum Existing fund provides plus profit for member industry funds **Note:** Defined benefit coverage of 30% of workforce, mainly public sector, large manufacturing and finance sectors, some middle and higher earnings
1988	•	15% contributions/fund earning tax
1992	• •	3% to 9% compulsory super 1992 to 2002 Super Guarantee Additional 3% - 3% employee/government contribution **announced**
1993	• • •	Super Industry Supervision (SIS) codification of UK trust common law plus extras Super minimum access age of 55 introduced Employer contributions locked in for employees

Key Historical Background – Part 2

1995	•	Pension age for women increased to 65 by 2000
1996	•	Additional 3% - 3% **scrapped**
	•	Voluntary employee contributions locked into access age
1997/98	•	Early access for hardship
	•	Access age increased to 60 if born after 1965
2003	•	**Voluntary** co-contribution for low earners $1.50 for every $1.00
2005	•	Choice of fund
	•	Transition to retirement – early withdrawal at age 55 while working
2006	•	Contribution splitting with spouse
	•	Future Fund established for closed CW government public service funds
		Note: Most defined benefits public sector and private had been closed
	•	Means test **relaxed** on age pension
	•	Tax free super at age 60
	•	Annual contributions limit
2012	•	Age pension increased to 27.7%
	•	Pension age increased to 67 by 2024
	•	Additional 15% contributions tax for high income earners
	•	9% super increased to 12% by 2019. Currently 9.5%
	•	Voluntary co-contribution for low income earners reduced
	•	15% contributions tax for low income earners abolished
2016 Package	•	See later slides

Australian System at July 1, 2017 (latest reforms start date)

Pillar 1

- Basic, flat state pension at 27.7% of male total average earnings
- Accessed at age 65.5. increasing to 67 by 2023
- Means-tested – approx. 20% no pension, 30% part, 50% full

Pillar 2

- Compulsory superannuation (SG) at 9.5% - 12% by 2021
- Commenced at 3% in 1987, 3 to 9% 1992 to 2002 and 9.5% - 12% by 2021
- Defined contribution 86% defined benefit closed to new members
- Access age 60 but transition to retirement from age 55

Pillar 3

- Voluntary contributions average 2.5% to 3% via – salary sacrifice, (post tax), co-contribution (low income earners only)
- Total $1.6m accumulation cap, including defined benefit, form July 1, 2017
- Total yearly contributions cap of $25,000 from July 1, 2017

Size

- \$2.2 trillion in system – 3rd largest in the world by size – 126% of GDP and growing at a rate of 8%

Governance

- Trustee-based for all funds under provisions of Superannuation Industry Supervision (SIS) Act
- Provisions of SIS include, licensing – prudential regulatio0n – “sole purpose test” investing diversified of interests of members as if money you own – compensation in event of theft or fraud and others.
- Australian Prudential Regulatory Authority (APRA) all funds except self-managed
- Australian Taxation Office (ATO) – self managed
- Australian Securities and Investment Commission (ASIC) – consumer protection, disclosure, financial advisers and more

Taxation

- 15% on all contributions, except low income earners it is 0
- 30% on all contributions if earning more than $250,000
- 15% of earnings effectively 6 to 8% given dividend imputation
- Zero tax on draw down in retirement
- 15% on transition to retirement and if savings greater than $1.6m

Insurance

- Compulsory minimum death and disability, can buy additional units of coverage
- Salary Continuance (Unemployment) voluntary

Retirement Phase

- No compulsory pension/annuity at retirement
- A lump sum draw down with minimums – age related percent from account at age 60
- Transition to Retirement from age 55

	No. of members '000	Assets $100m
Transition to Retirement	148	263
Account-based pension draw down	538	142
Allocated pension-usually (10-20 years)	358	75
Annuity-lifetime	14	35

Number of Funds

	2002	2011	2016
Corporate	2484	139	31
Industry	134	60	41
Public Sector	76	39	19
Retail	254	143	139
Self-managed	227,000	453,000	584,000

Assets $100m

	2011	2016
Corporate	54	56
industry	242	482
Public Sector	210	232
Retail	352	559
Self-managed	438	636

Reforms Since 2009 – Part 1

2009 Cooper Review – Inquiry into operational efficiency of the system.

2011 My Super

- Low cost standard default investment option
- Trustees can be sued individually
- APRA power to issue limited licences
- New Best Interest of Member Test

Super Stream

- Standardised coding, recognition of member fund to fund plus transfers
- Electronic contributions to funds
- Permitted use of Tax File Number master ID by super fund for accounts

Reforms Since 2009 – Part 2

2009 Joint Parliamentary Inquiry into Financial Advice

2012 Future of Financial Advice (FOFA)

- Accountants licensed under Advice Laws
- Advisers act in ‘best interests of members or client’
- Commissions banned/standard fee template annually
- Opt in to advice every 2 years

2015 Professional Standards for Financial Advisers

- Life Insurance – commission and remuneration restrictions on
- Australian Securities and Investment Commission – added funding

Reforms Since 2009 – Part 3

2016 Budget

- Pension – means-test tightened 326,000 pensioners lose all/part of pension January 1,2017
- Cap of $1.6m on super accumulation, 15% tax on if above
- $25,000 year max contributions cap
- Yearly $100,000 **after** tax contribution limit if less than $500,000 in super
- 15% tax on transition to retirement pension
- 30% contributions tax if earning more than $250,000 a year
- Retirement income Products – still to be announced

Trends and Outstanding Issues - Part 1

Fund Amalgamation

- 2950 in 2002 to 230 today to 100 in 2020?

Trustees

- Far greater oversight – licensed – training – reporting – Independent arms length contract and benchmarking – individually liable

Intermediaries

- Advisers far greater oversight – no commissions – best interest of member

Investment

- Predominately equities (domestic/offshore) 46%, infrastructure/property 14%, unlisted 8% including default My Super
  - 25% of assets in My Super
  - 22% off-shore – increasing
  - More ‘in house’ investment

Trends and Outstanding Issues - Part 2

Pension Phase – draw down parameters still outstanding

Technology

- Digital/app access now widespread 'engagement' seen as vital particularly in lead up to/in retirement when individual must make decision i.e. investment base, length of draw down and age pension outcome

Fees

- Far great transparency and coming down from 1.2% (old default) average to .65 - .85 My Super – scale, opt in advice pay a fee for, in house scale/bulk tendering for investment, admin, advice

Trustees

- 1/3 independent and a chair

Trends and Outstanding Issues – Part 3

Default

Currently
Many large employers, particularly with closed corporate funds to retail master trust via tender i.e. AMP, Mercer, NAB/MLC etc.

Majority of employers, industrial award/agreement to an industry fund, public service, a legislated fund for the sector

Proposed by Productivity Commission

Model 1 – Assisted employee choice
New employees pick a fund from short list 4-10 high quality funds selected by independent group of experts – if no selection a last resort fund

Model 2 Assisted employer choice
Employers would select from long list of My Super funds – stronger rules to prevent inducements. Large companies could still negotiate

Model 3 Multi-criteria tender
Central tender to select 5-10 funds, assessed on multiple characteristics determined by a government appointed panel

Model 4 Fee based auction
Auction based on total fee 1-5 selected. Minimum criteria to be met

Trends and Outstanding Issues Part 4

System cost still increasing fast…

	15/16	18/19	19/20	Increase yearly	%
Age pension (after new means test)	43	-	52	2	4.6
Super Tax Concessions	34b	42	-	2.7	7.6
After new tax/limits	34	40	-	1.7	5.5

Costs still increasing well above economic growth of 2 to 3% **despite** Australia having a strong growing population, high migration, and lower aged population.

More reform inevitable!

Trends and Outstanding Issues – Part 5

Yes – Its very very complicated

The Age Pension itself is simple – flat rate, simple regular indexation, paid from budget, 20 year residency
but everything else……………………….!!

Means test – assets (excluding family home) and income tax – declarable – tracked – gifting rules…etc., etc.

and super!!

Choice of Fund…about 20% including self managed do so

Choice of Investment - most have a default plus 5 to 10 many have hundreds

Insurance – basic death and disability plus ass on cover and opt in salary continuance (unemployment)

Rolling Together - multiple accounts consolidation

Trends and Outstanding Issues – Part 6

Contributions

- salary sacrifice
- Splitting contributions with a partner
- Co-contribution for low income earners
- Spouse contribution
- Post tax voluntary contributions
- Children's accounts

Estate Provision - Beneficiary

Early Access - In event of hardship or compassionate grounds

Transition to Retirement - Draw down from age 55 but still work

Lump Sum - At retirement – what do I do?!!

Stay within the lifetime and annual caps - $1.6m and $25,000 respectively

Taxation – what do I pay – when – grandfathered?!!