Australian Retirement Income System
Change, Key Developments – Issues and Challenges

by

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Chair, FNZ APAC

to
“Forum: Retirement Policy in the Age of Uncertainty”

at
University of Auckland, Business School, Retirement Policy and Research Centre, New Zealand

20 April 2017
### Key Historical Background – Part 1

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1909</td>
<td>Age Pension – low, flat, funded from budget, male at age 65, female 60, means tested assets and income.</td>
</tr>
<tr>
<td>1945</td>
<td>7.5% Social Security Contributions to National Welfare Fund (NWF) funding for Pillar I</td>
</tr>
</tbody>
</table>
| 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

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>1988</td>
<td>15% contributions/fund earning tax</td>
</tr>
</tbody>
</table>
| 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  
<p>| | Employer contributions locked in for employees |</p>
<table>
<thead>
<tr>
<th>Year</th>
<th>Key Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>• Pension age for women increased to 65 by 2000</td>
</tr>
</tbody>
</table>
| 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 regulation – “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

<table>
<thead>
<tr>
<th></th>
<th>No. of members ‘000</th>
<th>Assets $100m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transition to Retirement</td>
<td>148</td>
<td>263</td>
</tr>
<tr>
<td>Account-based pension draw down</td>
<td>538</td>
<td>142</td>
</tr>
<tr>
<td>Allocated pension-usually (10-20 years)</td>
<td>358</td>
<td>75</td>
</tr>
<tr>
<td>Annuity-lifetime</td>
<td>14</td>
<td>35</td>
</tr>
</tbody>
</table>
## Number of Funds

<table>
<thead>
<tr>
<th>Category</th>
<th>2002</th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>2484</td>
<td>139</td>
<td>31</td>
</tr>
<tr>
<td>Industry</td>
<td>134</td>
<td>60</td>
<td>41</td>
</tr>
<tr>
<td>Public Sector</td>
<td>76</td>
<td>39</td>
<td>19</td>
</tr>
<tr>
<td>Retail</td>
<td>254</td>
<td>143</td>
<td>139</td>
</tr>
<tr>
<td>Self-managed</td>
<td>227,000</td>
<td>453,000</td>
<td>584,000</td>
</tr>
</tbody>
</table>
## Assets $100m

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>industry</td>
<td>242</td>
<td>482</td>
</tr>
<tr>
<td>Public Sector</td>
<td>210</td>
<td>232</td>
</tr>
<tr>
<td>Retail</td>
<td>352</td>
<td>559</td>
</tr>
<tr>
<td>Self-managed</td>
<td>438</td>
<td>636</td>
</tr>
</tbody>
</table>
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
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...

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

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?!!