



**Actuaries
Institute**



PUBLIC POLICY STATEMENT

Securing Adequate Retirement Incomes for an Ageing Australia

AUGUST 2021

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Context

Having a robust and effective retirement income system is crucial for the wellbeing of retirees. While the current Australian retirement income system is sound and broadly sustainable, it is widely recognised there is scope for reform to improve retiree outcomes¹.

This Public Position Statement highlights key areas for reform of the Australian retirement income system identified by the Actuaries Institute ('the Institute'). The more detailed Supporting Statement accompanying this document provides additional context.

Policy Positions

The following policy positions are designed to improve the Australian retirement income system. Their intent is to create a system that is clear in its objective, is simpler, more efficient, delivers adequacy, and improves equity across and within different generations.

Set an objective

1. The retirement income system requires a clear objective:

- a. The Institute supports proposals that a clear objective should be legislated for the retirement income system as a whole, as well as for each pillar and principles for their integration;
- b. We suggest the objective should be to provide for retirees so they can have reliable, secure and adequate incomes to live with dignity in retirement; and
- c. Consideration should also be given to how Australians and their families are looked after in the event of death or disability before retirement.

Simplify the system

2. Make the retirement income system easier for individuals to understand and engage with.

The Institute supports:

- a. Simplifying the means testing of the Age Pension; and
- b. Improving the interaction between the retirement income and aged care systems.

¹ For example, the *Final Report of the Retirement Income Review, 2020* (key observation 1, p.17) and *Options for an Improved and Integrated System of Retirement*, Actuaries Institute Green Paper, 2019.

Improve efficiency

3. **Promote the efficient use of superannuation savings:** The Institute believes that there is room to improve the current system so that it more efficiently provides retirement incomes to Australian retirees for the rest of their and their partner's lives. This could be achieved by Government policies that address both supply and demand.

A) Supply side interventions

4. **Introduce a Retirement Income Covenant:** The Institute supports the introduction of a Retirement Income Covenant. Superannuation funds should be required to have an appropriately designed retirement strategy and make available to their retiring members a variety of retirement solutions appropriate to their circumstances.
5. **Encourage continued innovation in developing retirement income stream products:** The Institute supports measures that encourage uptake of lifetime income streams, as well as continued innovation and development of lifetime retirement income stream products, including lifetime annuities.

B) Demand led interventions

6. **Incentivise people who can afford to protect themselves to choose to receive their retirement benefits at least partly as a lifetime income stream.**
The Institute suggests the Government consider:
 - a. Creating financial incentives for a proportion of the individual's superannuation assets to be in a product(s) that provides a lifetime income stream (e.g. a form of lifetime annuity, pension or other form of pooled longevity protection); and
 - b. Introducing disincentives for individuals (above a threshold) to take a large proportion of these assets as a lump sum or leave them as a bequest. Consideration could be given to a phase-in period for any changes of this type.
7. **Support policies and innovations that allow retirees and pre-retirees to receive appropriate guidance on retirement matters:**
 - a. The Institute supports policies and innovations that make financial guidance on retirement more accessible and affordable, in one form or another, to the broader population;
 - b. The Institute believes that superannuation funds are well placed to, and should be required to, provide some form of guidance to all their members approaching retirement; and
 - c. The Institute believes that there is significant need for those forms of guidance that sit in the middle ground between the account-based pension (which provides little guidance to members) and comprehensive advice. Guidance needs to become more accessible and affordable to every retiree. The middle ground includes smart default, intra-fund advice and scaled/robo-advice that use limited personal information. Tools or calculators that take account of the Age Pension would support this when modelling future projected retirement income.
8. **Develop best practice in providing financial advice and guidance:**
 - a. The Institute believes financial advice and guidance should consider the impact of risks including investment risk, inflation risk and longevity risk, as well as eligibility for the Age Pension and aged care; and

- b. The Institute recommends improvement in the capability of advice/guidance tools to recognise the survival uncertainty (with allowance for likely future improvement in mortality) as well as investment and inflation risk.

Deliver adequacy

9. **Determine the level of the Superannuation Guarantee (SG) considering overall retirement adequacy:**
 - a. The Institute suggests the Government should consider the complex interactions and trade-offs across multiple dimensions when setting the ultimate SG level and seek community support for a pathway to the desired level.
 - b. The most appropriate superannuation contribution rate for most Australians to live in dignity in retirement is likely to be in the range of 10%-12% of salary (based on the current Age Pension levels and means testing rules).
10. **Support preservation of superannuation savings:** The Institute supports preservation rules allowing access to superannuation from age 60 years for those who permanently retire from the workforce.

Special consideration should also be given to Indigenous Australians including Torres Strait Islander people whose life expectancies at age 60 is about 4-5 years lower than the average Australian², to allow them access to at least a proportion of their superannuation savings earlier than age 60. This is consistent with the special consideration given to this group in the Government's aged care policy. While this does not address the issue of lower life expectancy, it reflects the fact that they may need to fund their retirement earlier.
11. **Support policies that remove disincentives for older Australians to work longer where possible:** The Institute supports Age Pension reform to remove disincentives faced by older Australians who wish to work beyond Age Pension eligibility age.
12. **Create greater flexibility for the role of the family home in retirement income provision:** The Institute supports measures which allow retirees to keep their home but access the equity to boost retirement incomes effectively.

Improve equity

13. **Address equity issues in retirement income:** While the above reforms will improve equity within the retirement income system, more should be done for specific known areas of concern. Some groups are more adversely affected than others by aspects of the design of the system, such as renters, women, carers and those not covered by the SG. This leads to inequitable retirement outcomes. To improve equity in the provision of retirement income, these gaps need to be addressed.
 - a. Subject to resolution of the issues posed by the significant variations in home values across Australia, the Institute believes that part of the value of the home above a threshold (which might be indexed) should be included in the Age Pension means test.
 - b. The Institute supports significantly increasing the rate of Commonwealth Rent Assistance or any alternative approaches that aim to improve the retirement outcomes of retiree renters and improve the equity of the system with homeowners.

² Retirement Income Review, p.338.

- c. The Institute supports the following changes discussed in the Retirement Income Review:
 - i. Include 'gig' workers and other self-employed workers in the SG system for equity reasons and in order to further reduce Age Pension costs;
 - ii. Pay the SG on employer paid parental leave and the Government's Parental Leave Pay;
 - iii. Provide systems to ensure that superannuation balances are considered appropriately in property settlements in a divorce;
 - iv. Extend the SG earnings base to include overtime; and
 - v. Ensure people receive the SG they are entitled to, such as by paying the SG at the same time as wages and better enforcing sham contracting laws.
- d. Equity issues should also be considered in the pricing of lifetime income streams to allow for underwriting factors such as health and socio-economic status that materially influence an individual's life expectancy. Indigenous Australians including Torres Strait Islander people also have a lower life expectancy than the rest of the population.

The Actuaries Institute acknowledges the traditional custodians of the lands and waters where we live and work, travel and trade. We pay our respect to the members of those communities, Elders past and present, and recognise and celebrate their continuing custodianship and culture.



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About the Actuaries Institute

As the sole professional body for Members in Australia and overseas, the Actuaries Institute represents the interests of the profession to government, business and the community. Actuaries assess risks through long-term analyses, modelling and scenario planning across a wide range of business problems. This unrivalled expertise enables the profession to comment on a range of business-related issues including enterprise risk management and prudential regulation, retirement income policy, finance and investment, general insurance, life insurance and health financing.

Our public policy principles can be viewed at: <https://actuaries.asn.au/public-policy-and-media/public-policy/policyprinciples>.



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