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ASFA Research and Resource Centre

Superannuation and above average account balances

Ross Clare
Director of Research

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Association of Superannuation Funds of Australia

ASFA

Level 6
66 Clarence Street
Sydney NSW 2000

PO Box 1485
Sydney NSW 1005
Telephone: +61 2 9264 9300
Fax: +61 2 9264 8824 or 1300 926 484

Outside Sydney
1800 812 798

Website: www.superannuation.asn.au

The Association of Superannuation Funds of Australia Limited ABN 29 002 786 290 ACN 002 786 290

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EXECUTIVE SUMMARY

- While there can be considerable public policy focus on the number of people in Australia with relatively high income or wealth, there are only limited statistics available dealing with the number of people with significant financial assets apart from the family home.

- The latest available *World Wealth Report* prepared by Merrill Lynch and the consultancy, Capgemini, indicates that in Australia in 2010 there were around 193,000 millionaires (valued in $US) at the end of 2010.

- A significant number of the high net wealth individuals would hold some of their wealth in the form of accounts with superannuation funds. However, for the relatively few extremely or very high net worth individuals, the bulk of their wealth will be in the form of shareholdings or property.

- Newly released data from the Australian Bureau of Statistics (ABS) *Survey of Income and Housing*, which have been specially compiled for ASFA, provide considerable new information on Australians with above average superannuation balances, the demographic, and other characteristics of such individuals.

- The ability between May 2006 and 30 June 2007 to contribute up to $1 million in undeducted contributions into superannuation, resulted in extremely significant contributions being made during that period. Self-managed superannuation funds (SMSFs) were a major destination for such contributions.

- One of the urban myths that has grown over time is that due to the global financial crisis (GFC), members who had a substantial balance pre-GFC are now 30 per cent down on this balance. In reality, for a member in an average balanced investment option, their account balance would be up by around 11 per cent in total at the end of 2010-11 if they invested at the start of 2006-07, prior to the GFC and when the $1 million contributions could be made. If they invested at the end of 2006-07, they would have been down by around six per cent in total at the end of 2010-11.

- The ABS data indicate that as at early 2009, there were around 60,000 males and 30,000 females who had more than $1 million in superannuation. Almost all were aged 50 and over. ASFA Research Centre estimates indicate that around half of these accounts are held in SMSFs.

- Having $500,000 or more in superannuation was a more common occurrence, with around 316,000 individuals having such balances. The bulk of such accounts were held by males, who accounted for about 223,000 of the total. Only around 24,000 individuals aged under 50 had superannuation in excess of $500,000.

- One policy change that has impacted in recent times on both member confidence in superannuation and on the making of contributions by members, has been the introduction of annual caps on the amount of concessional (pre-tax) contributions that can be made by or on behalf of individuals.

INTRODUCTION

While one focus of policy concern and superannuation industry interest is the average superannuation account balance for various population sub-groups and ages, also of importance is the number of individuals who have achieved above average balances. This allows assessments to be drawn in regard to who has or is likely to achieve retirement savings sufficient to support a comfortable standard of living in retirement.

The percentage of the population with total superannuation in excess of $500,000 is also highly relevant to the proposed concessional contribution caps that will apply after 2011-12. The Government has indicated that it intends legislating to maintain a $50,000 a year concessional contributions cap for individuals aged 50 and over with less than $500,000 in superannuation. The current higher transitional cap for all individuals aged 50 and over is due to expire at the end of 2011-12.

The purpose of this paper is to provide information on the extent to which the Australian population currently has substantial superannuation balances. This is relevant to a number of superannuation policy settings in regard to both the level of compulsory contributions and caps on voluntary contributions. The information is also relevant to superannuation funds in their analysis of potential customers and for the design of both products and services to superannuation fund members.

SOURCES OF INFORMATION

Newly released data from the ABS *Survey of Income and Housing*, which have been specially compiled for ASFA, have allowed for an updating of information on the incidence of superannuation in the community and on the distribution of superannuation assets between individuals. An initial research report on these statistics was published by ASFA in September 2011, entitled *Developments in the level and distribution of retirement savings*.

Superannuation account balance information is collected as part of the wealth module of the *Survey of Income and Housing* (SIH). Wealth information is available from the 2003-04, 2005-06, and 2009-10 releases. It will also be available when the SIH is next run in 2011-12.

The survey data used in this report was sourced from the SIH conducted through 2009-10. Amongst many other things, respondents were asked what their current superannuation balance was, with the suggestion that they refer to the last superannuation statement they received. In many cases that statement would have referred to the account balance as at 30 June 2009. In some cases the relevant date for the information provided would be later in the financial year.

THE NUMBER OF RELATIVELY WEALTHY PEOPLE IN AUSTRALIA

While there can be considerable public policy focus on the number of people in Australia with relatively high income or wealth, there are only limited statistics available dealing with the number of people with significant financial assets apart from the family home.

The latest available *World Wealth Report* prepared by Merrill Lynch and the consultancy, Capgemini, indicates that in Australia in 2010 there were around 193,000 millionaires (valued in $US) at the end of 2010. Their combined wealth was estimated at about $550 billion.

Australia ranked around number 10 in terms of countries with the most millionaires. Australia's ranking has been helped by a strong Australian dollar but offsetting this effect on the relative ranking has been the growth in the number of millionaires in a number of developing countries with large populations. The USA, Japan and Germany are home to around 50 per cent of the world's high net worth individuals (with more than $US 1 million in assets other than their own home), with Hong Kong and India showing strong growth in the number of millionaires. As at October 2011 the Australian and US dollars were at about parity.

A significant number of the high net wealth individuals would hold some of their wealth in the form of accounts with superannuation funds. However, for the relatively few extremely or very high net worth individuals, the bulk of their wealth will be in the form of shareholdings or property. Around $155 billion is held in superannuation by those with more than $1 million in super.

The ability that applied between May 2006 and 30 June 2007 to contribute up to $1 million in undeducted contributions into superannuation, resulted in extremely significant contributions being made during that period. SMSFs were a major destination for such contributions, with over $56 billion in such member contributions made during 2006-07. This was well up on the trend level of member contributions of around $10 billion or $11 billion a year. For funds regulated by the Australian Prudential Regulation Authority (APRA) the increase was from $33.3 billion to $95.2 billion.

While a significant proportion of these contributions have remained in superannuation funds, there was also an increase in the amount of benefits paid out after 2006-07. In the case of SMSFs, benefit payments increased from around $7 billion in 2005-06 to about $17 billion a year in 2007-08 and subsequent years. For APRA-regulated funds there was an increase in lump sum benefits from $22.7 billion to $37.9 billion and an increase from $18 billion to $26 billion in pension payments.

Along with benefit payments there has also been an impact on balances of investment returns since the contributions were made. One of the urban myths that has grown over time is that due to the GFC, members who had a substantial balance pre-GFC are now 30 per cent down on this balance. This claimed estimate is often surprisingly invariant regardless of when the claim and contributions were made or account balance achieved.

Equity markets have not been kind to superannuation fund members in balanced or other investment options with exposure to equities. However, for a member in an average balanced investment option, their account balance would be up by around 11 per cent in total at the end of 2010-11 if they invested at the start of 2006-07, prior to the GFC and when the $1 million contributions could be made. If they invested at the end of 2006-07, they would have been down by around six per cent in total at the end of 2010-11.

For those superannuation fund members who invested totally in the Australian share market, they would have been up by around three per cent by end 2010-11 if they invested at the start of 2006-07, and down by around 10 per cent if they invested at the end of 2006-07.

For the current financial year to early October 2011, an average balanced fund is down by around three per cent with the average balanced Australian fund option down around seven per cent.

Of course, a member of an SMSF who did not diversify their investments could have achieved investment losses totalling 30 per cent or more but such cases would be relatively unusual. Switching to cash when equities were at their lowest value would also be another way of achieving a permanent loss of 30 per cent or more.

THE NUMBER AND DISTRIBUTION OF HIGH SUPERANNUATION BALANCES

Table 1 sets out the number of individuals with superannuation account balances within various defined bands.

The data indicate that as at early 2009 there were around 60,000 males and 30,000 females who had more than $1 million in superannuation. Almost all were aged 50 and over. There was around $155 billion in total in the accounts of these individuals.

Having $500,000 or more in superannuation was a more common occurrence, with around 316,000 individuals having such balances. Again the bulk of such accounts were held by males, who accounted for about 223,000 of the total. Only around 24,000 individuals aged under 50 had superannuation in excess of $500,000.

Individuals across all age groups with more than $500,000 in superannuation held around $300 billion in superannuation in total.

In contrast, 7.3 million individuals reported having superannuation worth between $1 and $99,999. This in total amounted to around $220 billion.

TABLE 1 - NUMBER OF PERSONS BY SUPERANNUATION ACCOUNT BALANCE GROUP (PERSONS AGED 25 TO 74 YEARS, 2009-10)

	SUPERANNUATION ACCOUNT BALANCE GROUP										
	Nil	$1 to $99,999	$100,000 to $199,999	$200,000 to $299,999	$300,000 to $399,999	$400,000 to $499,999	$500,000 to $599,999	$600,000 to $799,999	$800,000 to $999,999	$1,000,000 and over	TOTAL
	Number of persons ('000)										
MALE											
25 to 29 years	137.0	659.6	n.p	n.p	-	-	-	-	-	-	806.7
30 to 34 years	116.6	588.8	n.p	n.p	n.p	**1.8	-	n.p	-	-	737.0
35 to 39 years	161.7	552.9	45.9	11.5	**1.9	n.p	n.p	**1.3	-	-	779.1
40 to 44 years	125.2	470.8	97.8	36.3	*6.2	n.p	n.p	n.p	**1.8	n.p	743.2
45 to 49 years	138.6	407.0	107.6	55.2	26.7	14.5	n.p	*4.7	-	n.p	761.4
50 to 54 years	122.0	323.3	114.3	60.4	36.9	18.7	*14.5	*7.0	n.p	n.p	705.0
55 to 59 years	150.2	227.1	82.1	58.3	31.8	27.3	18.5	21.4	*8.5	*10.6	635.8
60 to 64 years	168.8	184.6	71.5	48.5	31.5	18.2	14.5	17.8	*8.6	24.0	587.9
65 to 69 years	213.6	99.1	46.9	23.8	13.1	*10.9	*9.2	*6.7	*2.4	15.1	440.8
70 to 74 years	220.7	41.6	22.5	n.p	n.p	n.p	n.p	n.p	n.p	n.p	331.2
TOTAL	**1,554.3**	**3,554.7**	**623.0**	**313.7**	**155.9**	**103.7**	**68.2**	**65.1**	**29.7**	**59.8**	**6,528.1**
FEMALE											
25 to 29 years	184.8	601.8	n.p	n.p	-	-	-	-	-	-	791.1
30 to 34 years	178.9	552.1	n.p	n.p	n.p	-	-	n.p	-	-	747.1
35 to 39 years	213.3	555.6	29.2	*6.1	**1.9	n.p	n.p	-	-	-	808.1
40 to 44 years	196.2	498.7	48.6	*11.0	*9.3	n.p	n.p	n.p	-	n.p	768.2
45 to 49 years	184.2	505.4	54.7	17.3	*13.6	*4.3	n.p	**2.1	-	n.p	785.7
50 to 54 years	161.7	444.8	71.8	26.3	*11.0	*5.1	*4.5	*3.5	n.p	n.p	729.8
55 to 59 years	200.3	310.9	64.3	28.6	24.3	*8.5	*5.9	**4.0	**1.6	*7.2	655.8
60 to 64 years	250.7	181.8	57.4	37.9	20.6	*12.6	10.9	*6.5	*4.4	*12.4	595.1
65 to 69 years	268.5	68.1	45.7	27.8	15.4	*7.7	*3.5	**2.7	**2.4	*4.7	446.6
70 to 74 years	258.4	47.5	16.5	n.p	n.p	n.p	n.p	n.p	n.p	n.p	357.8
TOTAL	**2,097.1**	**3,766.8**	**404.2**	**171.6**	**106.0**	**46.2**	**30.5**	**21.1**	**12.0**	**30.0**	**6,685.5**
PERSONS											
25 to 29 years	321.9	1,261.4	*11.9	*2.7	-	-	-	-	-	-	1,597.8
30 to 34 years	295.5	1,140.9	38.7	*5.2	**0.6	n.p	-	n.p	-	-	1,484.1
35 to 39 years	375.1	1,108.5	75.1	17.5	*3.8	*4.8	**1.2	**1.3	-	-	1,587.3
40 to 44 years	321.4	969.4	146.4	47.2	*15.5	*6.7	**1.2	n.p	**1.8	n.p	1,511.4
45 to 49 years	322.8	912.4	162.3	72.4	40.3	18.7	*9.1	*6.9	0.0	**2.3	1,547.1
50 to 54 years	283.7	768.1	186.1	86.7	47.9	23.8	19.0	10.5	*5.4	**3.6	1,434.8
55 to 59 years	350.5	538.1	146.4	86.9	56.1	35.8	24.4	25.4	*10.2	*17.8	1,291.7
60 to 64 years	419.4	366.4	128.8	86.4	52.2	30.8	25.4	24.2	*13.0	36.4	1,183.0
65 to 69 years	482.1	167.3	92.6	51.6	28.4	18.6	*12.7	*9.5	*4.8	19.9	887.4
70 to 74 years	479.1	89.2	38.9	28.6	17.1	n.p	*5.7	n.p	*6.5	n.p	689.0
TOTAL	**3,651.4**	**7,321.5**	**1,027.2**	**485.2**	**261.9**	**149.9**	**98.7**	**86.3**	**41.6**	**89.8**	**13,213.5**

* estimate has a relative standard error of 25% to 50% and should be used with caution

** estimate has a relative standard error greater than 50% and is considered too unreliable for general use

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cells with (-) either have a zero balance or have been rounded to zero

The stage of life an individual is at is strongly correlated with superannuation balance. Having an account balance under $100,000 is relatively common for those aged under 35, with higher balances becoming more common for older age groups. However, there are significant numbers of individuals aged 50 and over with little or no superannuation. Older age cohorts are more likely to have never had super and some in these age groups would have had superannuation only since compulsory superannuation was introduced.

The various statistics indicate that the high net worth market is relatively limited in Australia in terms of the number of individuals with more than $500,000 or $1 million in superannuation. Many such individuals also have their own SMSF rather than having an account in an APRA-regulated fund. Statistics from the Australian Taxation Office indicate that in 2009-10, 26.7 per cent of all 423,000 SMSFs had total assets exceeding $1 million, and 10.2 per cent had total assets exceeding $2 million. Given that many SMSFs have more than one member, the proportion of individuals in SMSFs with account balances in those ranges would be significantly lower. The figures suggest that up to half of those in the population with a superannuation account in excess of $1 million are in an SMSF.

In this context, a challenge for APRA-regulated funds is to deliver advice and other value added services to the numerous individuals with relatively modest account balances.

AVERAGE INCOMES OF THOSE WITH HIGH ACCOUNT BALANCES

Relatively high net worth in terms of superannuation account balance is not necessarily related to very high current annual income.

Table 2 sets out average income for individuals with superannuation account balances within the various bands.

It is not until you reach the group with account balances exceeding $1 million that there are average incomes significantly exceeding $100,000 a year. Only a relatively small minority of account holders with above average account balances are on the top marginal personal income tax rate of 45 cents in the dollar. There are significant numbers of individuals who have incomes below $80,000 a year and are on the 30 cents in the dollar tax rate. In particular, the average income of women with account balances over $500,000 is around $70,000 a year while the majority of such women have an income level below that figure. Average income figures are higher than medians given the effect of a relative few very high income earners.

TABLE 2 - GROSS YEARLY PERSONAL INCOME BY SUPERANNUATION ACCOUNT BALANCE GROUP (PERSONS AGED 25 TO 74 YEARS, 2009-10)

	SUPERANNUATION ACCOUNT BALANCE GROUP										
	Nil	$1 to $99,999	$100,000 to $199,999	$200,000 to $299,999	$300,000 to $399,999	$400,000 to $499,999	$500,000 to $599,999	$600,000 to $799,999	$800,000 to $999,999	$1,000,000 and over	TOTAL
	Average gross yearly income ($)										
MALE											
25 to 29 years	39,718	55,836	110,520	n.p	-	-	-	-	-	-	53,669
30 to 34 years	42,904	65,790	101,229	99,237	n.p	123,858	-	-	-	-	63,732
35 to 39 years	54,043	69,544	125,932	151,956	*129,697	*92,305	*122,974	*151,038	-	-	71,276
40 to 44 years	46,624	65,714	113,065	156,216	174,245	*113,684	n.p	*197,635	*133,746	-	74,651
45 to 49 years	42,172	56,306	107,609	157,259	121,813	153,855	128,244	*129,172	-	**336,519	74,017
50 to 54 years	*56,108	52,198	88,962	119,118	107,407	143,077	140,315	215,302	*300,424	**143,725	75,408
55 to 59 years	35,634	46,703	75,688	92,052	99,094	83,075	100,299	127,559	101,766	225,039	64,152
60 to 64 years	24,576	41,093	57,811	60,169	75,248	73,397	62,788	*143,761	*84,073	*226,836	54,638
65 to 69 years	22,369	31,345	34,194	44,468	37,740	77,499	*90,678	67,326	*54,621	115,543	34,144
70 to 74 years	17,676	28,241	26,453	40,473	36,425	37,645	*46,531	*91,597	80,804	*160,189	25,920
TOTAL	**35,958**	**58,293**	**87,803**	**107,283**	**95,275**	**101,173**	**97,971**	**133,994**	**125,144**	**191,057**	**62,398**
FEMALE											
25 to 29 years	26,890	45,019	*65,680	*47,959	-	-	-	-	-	-	40,868
30 to 34 years	23,989	43,134	*93,106	*50,655	*71,014	-	-	n.p	-	-	39,518
35 to 39 years	28,582	44,664	61,997	57,268	*92,977	*150,737	n.p	-	-	-	41,451
40 to 44 years	31,000	41,619	68,138	96,240	86,682	*77,332	**74,913	n.p	-	n.p	42,087
45 to 49 years	23,722	39,645	66,616	66,387	87,069	*87,817	*153,696	*70,259	-	n.p	40,070
50 to 54 years	17,348	37,538	73,406	56,935	70,138	65,990	97,883	110,745	**80,399	n.p	38,775
55 to 59 years	16,621	33,005	51,971	48,282	70,373	*47,325	*57,321	*60,326	*33,117	90,076	33,116
60 to 64 years	15,341	26,079	30,369	34,160	45,077	36,414	42,831	53,908	52,026	*111,787	25,948
65 to 69 years	16,112	24,475	32,779	38,968	*54,702	34,719	*79,187	*40,358	**97,449	*38,823	23,489
70 to 74 years	16,261	25,766	39,279	30,321	*51,483	*30,053	**76,653	**29,246	51,513	86,870	21,405
TOTAL	**21,134**	**40,116**	**56,108**	**48,730**	**65,439**	**51,499**	**73,825**	**65,085**	**59,662**	**88,382**	**36,314**
PERSONS											
25 to 29 years	32,352	50,676	99,153	*42,456	-	-	-	-	-	-	47,331
30 to 34 years	31,451	54,826	98,482	88,092	75,922	123,858	-	n.p	-	-	51,543
35 to 39 years	39,561	57,074	101,081	119,272	111,281	*106,297	*94,534	*151,038	-	-	56,091
40 to 44 years	37,085	53,320	98,161	142,293	121,773	95,506	90,356	*190,477	*133,746	n.p	58,100
45 to 49 years	31,646	47,077	93,803	135,579	110,113	138,821	138,464	*110,957	-	**251,455	56,776
50 to 54 years	34,016	43,709	82,960	100,266	98,838	126,439	130,267	180,632	*279,886	*134,626	56,774
55 to 59 years	24,769	38,787	65,265	77,658	86,641	74,550	89,918	116,936	90,694	170,161	48,394
60 to 64 years	19,057	33,643	45,590	48,749	63,312	58,228	54,260	119,757	*73,336	187,626	40,205
65 to 69 years	18,884	28,546	33,496	41,500	46,895	59,793	87,502	59,536	*76,271	97,290	28,782
70 to 74 years	16,913	26,921	31,873	35,512	44,776	34,671	50,825	*82,615	66,926	*130,337	23,575
TOTAL	**27,444**	**48,941**	**75,332**	**86,583**	**83,203**	**85,856**	**90,503**	**117,101**	**106,307**	**156,727**	**49,201**

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** estimate has a relative standard error greater than 50% and is considered too unreliable for general use

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These figures have implications for both the capacity to make concessional contributions to superannuation and the amount of tax concession that is received from making such contributions. They indicate that only a minority of those with balances over $500,000 have sufficient income to make concessional contributions in excess of $25,000 a year and that in many instances the tax concession received is no more than 15 cents or 22 cents in the dollar of such concessions.