



**ASFA** Conference  
Inspiring superannuation excellence

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## **ASFA 2015: KEYNOTE FIVE**

### **How do we continue to be a world-class system?**

**Pauline Vamos** (Fellow of ASFA, ASFA AIF)  
**Chief Executive Officer, ASFA**

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## Pauline Vamos speech at ASFA Conference 2015

Thurs 26 November 2015

*ASFA Emerging Leaders video plays*

Good Morning.

Isn't it fantastic to see so many great ideas coming from the younger members of our industry?

As many of you know, ASFA launched our Emerging Leaders Program just over a year ago. It has been going from strength to strength and it's wonderful to see such enthusiasm, passion and commitment from such an important ASFA community.

The video you've just viewed is timely given what I want to talk about this morning. We have just heard from members of a generation who are calling out their concerns on intergenerational equity. They see a real risk that they will bear the brunt of the economic tsunami that's rapidly approaching caused by baby boomers moving in to their late 50s and 60s.

We now understand the economic and social impact of an ageing population that is living longer than any previous generation. The Japanese economy is unable to cope, and China has reversed its one-child policy in order to ensure a productive workforce as they face a demographic cliff. At home, we have seen the predictions on the increase cost of health and age care on both State and federal budgets in the future.

There is broad recognition across the academic and policy community that the time has come to stop just talking and to start acting. These actions will frame government policy across a number of areas including the superannuation system.

We **cannot act** as we have done in the past. We need to show leadership across multiple fronts, and three in particular:

1. We must design the future policy framework
2. We must determine what the regulatory structure should be, and
3. We must decide what responsibility and accountability we will take on.

And when I say 'we' I mean each and every one of us here in this room.

The government will not provide us with a MyPension, we must do this ourselves. Getting the Post Retirement phase right and ensuring that we are not simply an accumulation vehicle, is the biggest opportunity we face. Let's not allow it to be the biggest lost opportunity.

We need to nail the financial side of retirement; we need to understand in a holistic way the financial challenges and needs of people from early active retirement to the frailty of very

old age. We need to understand age and health care policy and funding and the increasing occurrence of financial abuse. And we need to deliver products that meet those needs.

This will not be easy. In a changed and changing environment, we need to be different leaders. Our economy has moved from competition to collaboration. The consumer is firmly in the driver's seat. Many are saying that the consumer is the new CEO. The 21<sup>st</sup> century is about us doing something– it's not about 'they', about someone else, about saying 'they' will fix it. It's a whole new world, and one where we will need to go places we have never gone before in order to thrive. A new kind of leadership is one of the keys to continuing to have a world class pension system.

ASFA's role in this journey into the unknown is to support you to be the leaders you need to be and the industry to be the leader it needs to be. A great deal of your credibility can be strengthened through the role of your industry body. We serve as your voice. Every conversation we have is directed toward the continual improvement of the system so it delivers to Australians, whichever stage of life they find themselves in.

The super system is the foundation of the financial solution to retirement in Australia. Current and future governments are and will be actively looking at how much of a role it needs to play. The continued growth of the system is not assured. How people actually fund the financial costs in retirement is up for debate.

In this political context we have no choice but to rethink the interaction between the super system, the age pension, health care and aged care as well as other assets like the family home. Again this is not easy – indeed no part of retirement incomes policy is easy – because unintended consequences are hard to model and predict and the needs of retirees are not linear, nor homogeneous.

To inform the conversation, ASFA has undertaken research into health and aged care cost projections over the coming decades. This research throws a spotlight on the enormity of the problem that governments will face. Today we will also publish the outcomes from a survey which examines community attitudes to aged care issues.

The headline you need to know is that by 2055, Australian Government Aged Care expenditure is projected to rise from 0.9 per cent of GDP in 2014–15 to 1.7 per cent of GDP in 2054–55. Health care costs funded by the Commonwealth Government are also projected to more than double in real terms per person over the next 40 years.

This enormous increase in demand for aged care services will be primarily driven by two things:

1. The ageing population: by 2055, nearly 22%, well over one in five people, will be over the age of 65. That's up from 15% today; AND
2. An increase in the prevalence of dementia (342,000 in 2015 to 891,000 in 2050, or from 1.4% of the population to 2.4%)

Our ageing population will have a dramatic impact on government budgets in the coming decades, and we have an opportunity **now** to influence that budget to ensure people are well looked after throughout their life.

Between ages 25 and 58, consumption of goods and services can usually be paid for through income from employment.

Beyond those years, individual income is not sufficient to finance necessary expenditure on goods and services, so some other source is needed: private savings; transfers within households; or the government.

Importantly, it's not only the Commonwealth Government that will face a huge blow-out in costs, individuals will also be hit in the hip pocket. The projections show that consumer contributions will rise substantially as a result of changes in residential care and income testing in home-care, which commenced on 1 July 2014.

Similarly, if we look at health care in isolation across all age groups, we can see that health care for older people costs substantially more than the average person across major health programs. For instance, for both pharmaceutical benefits and public hospitals expenditure, spending on the average person aged 85 years and older is over four times the spending on the average person across all ages.

So as you can see, the challenge ahead is large!

To complement our research, we commissioned CoreData to assess community attitudes regarding access to aged care. Their findings are a wake-up call for our industry.

- The majority of people are unsure how to deal with difficult aged care issues
- Australians are looking for government support on aged care
  - The majority of respondents agreed or strongly agreed that there needs to be some reforms in government aged care policy (80.3%)
  - 80.7% believed that there is a greater role for government in helping to organise and pay for aged care
- While super funds are not currently the first port of call in regard to dealing with aged care issues, there is latent demand for advice and education on aged care to be provided by super funds:
  - Close to half of respondents thought their super fund could play a greater role in helping organise and pay for aged care
  - There is considerable demand for financial advice and educational tools and materials on aged care, with three in five likely or very likely to take these up – around 60% if they were offered by a fund

- Furthermore, close to half of respondents support a rise in the superannuation guarantee rate beyond 12% to help address the growing cost of aged care

Currently only about 8% of respondents expect support on aged care from their superannuation fund – whereas 75% expect it from their aged care provider and 55% from the government. However we will see members increasingly expect to receive support from their funds.

The community expectation that the Government will pay for aged care is clearly unsustainable.

This highlights that not only will government be looking to private sources of funding to address the cost issue, but the community actually expects their super funds to step up to the plate.

We are moving into a world where your members will expect holistic advice to address all of their financial needs in retirement. Our survey found that close to half of people thought their super fund could play a greater role in helping organise and pay for aged care.

The bar will be lifted.

People will need to have confidence that they can trust you to help them plan and manage not just their super but all of their financial needs including aged care and health care.

It is not enough to build trust at just an organisation level, we must continue to build it at an industry level – the right policy, the right shared infrastructure, the right regulation and ultimately we must deliver the best products and practices. Our man on the moon moment as an industry is the average Australian being financially confident in and through retirement. Each of you will build different space shuttles, but together we can't let any of them fail!

However, are we on the right orbit? Are we flying blind? Are we developing products that will not get to the moon? And if we are - what should we do? And finally how do we measure success for our members?

To answer these questions and more please welcome to the stage Professor Michael Drew.

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Thank you Michael

So we have examined the problem, and we have been presented with some solutions. Now it's time to act!

What are we going to advocate? What do we think the system should do? Where and how should the system interact with other systems?

For example, providers in a number of OECD countries offer private long term care insurance creating a different mix of public/private funding of health and aged care. All options need to be creatively considered and developed.

In his address to the ASFA 2012 National Conference, former Prime Minister Paul Keating called for the establishment of a Government administered longevity insurance fund to ensure the adequacy of retirement incomes in the later years of life.

He considered that privately managed superannuation currently provides a reasonable retirement lifestyle for the first half of retirement during age 60-80 when it is all about retirement lifestyle. However with increasing life expectancy, he argued that the system is struggling to meet its promises during the later stages of life (80-100) which is much more about aged care than lifestyle.

To address this longevity issue, Mr Keating recommended making it compulsory to convert part of a lump sum retirement benefit to a deferred annuity as a pre-payment that would become available from age 80.

Alternatively, Mr Keating called on the Government to increase the Superannuation Guarantee from 12% to 15% and to use the additional 3% to fund a Government-administered longevity insurance fund to cover people from age 80.

While covering the longevity risk for later in life is a classic insurance task, Mr Keating considers that the Government is in a superior position to pool risk and operate a universal social insurance scheme with a fully funded carefully constructed product.

But are there solutions that we can all collaborate on and deliver?

As mentioned our research indicated that nearly half of respondents were supportive of a rise in the SG rate beyond 12% to help address the growing cost of aged care.

We need to explore a combination of social insurance through government provision of certain health and aged care services funded out of consolidated revenue, and private contributions funded out of insurance arrangements or quarantined components of superannuation account balances.

To deliver this, new regulation, tax settings and consumer education and advice services will be needed.

So what now?

Today I am inviting you to be part of the next phase of the Australian superannuation industry as we collaborate with customers, organisations and associations to:

- build the necessary modelling
- undertake the necessary research
- design the best regulatory structures
- determine industry best practice frameworks.

Thank you for your attendance at the Conference. I would like to leave you with an observation made by Professor Drew.

We thought accumulation was hard, but it is nothing compared to de-accumulation! We have barely finished getting accumulation right – but political, social and economic reality are disrupting this and creating new opportunities.

Let's build a rocket and go to the moon together!