

Retirement savings update

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EXECUTIVE SUMMARY

Newly released unit record data from the ABS Survey of Income and Housing which have been specially compiled for ASFA allow for an updating of information on the incidence of superannuation in the community and on the distribution of superannuation assets between individuals.

Average balances

Average superannuation account balances achieved by 2006 were \$69,050 for men and \$35,520 for women. These averages are well up on the balances \$56,400 for men and \$23,900 for women in 2004, with a 48.7% increase in the average balance for women and a 30.3% increase for men.

A number of factors would have been responsible for this growth in average balances, with some special factors contributing to the very strong growth in average balances for women. These factors include:

- Investment returns in superannuation funds were strong in 2004-05 and 2005-06, with average returns for balanced investment options of 13.1% and 15.1%.
- There was good employment and wages growth over the two years with average income up around 15% in total over the two years.
- Women in particular have benefited from receiving the SG full rate given that many women had no superannuation before the SG was introduced.
- Women aged between 35 and 55 increased their super from a low base.
- Up to 10% of women aged 60 to 65 may have made substantial contributions to their superannuation.
- SG compliance and enforcement improved over the two years.
- More individuals are becoming well connected to their superannuation account and are better able to report their account balance.

With average retirement payouts in 2005-06 of the order of \$136,000 for men and only \$63,000 for women it is clear that most recent retirees will need to substantially rely on the Age Pension in their retirement.

Given ongoing contributions and investment earnings average retirement payments in January 2008 are likely to have reached \$155,000 for men and \$73,000 for women. For all persons aged 25 to 64 the averages are likely to be around \$80,000 for men and \$40,000 for women.

The distribution of account balances

Between 2003-04 and 2005-06 there were considerable improvements in the coverage of superannuation in the community, and in the incidence of more substantial superannuation balances.

The percentage of males recording that they had no superannuation fell from 9.3% to 7.3%, while for females the fall was from 15.0% to 12.3%.

At the other end of the scale, the percentage of males with more than \$100,000 in superannuation increased from 7.2% to 8.4%, while for females the percentage increased from 2.8% to 4.1%. There also were increases in the proportions with balances between \$40,000 and \$100,000, with an increase to 10.1% for males from 8.3%, and to 6.4% from 4.6% for females.

Shares of superannuation assets

Given that the incidence of superannuation is higher for men and their account balances are on average higher, men held around 66% of total account balances in 2005-06 compared to around 34% for women. While on the face of it this would appear to be a very substantial disparity, it amounts to a very substantial improvement for women on the Treasury estimated share for women in 1994 of 23%. There also was a large improvement for women from as recently as 2003-04 when the share held by women was 30%.

The figures indicate that the 12.5% of the population with superannuation balances over \$100,000 accounted for 66% of the total superannuation assets in 2005-06. The 17% of men with balances over \$100,000 accounted for the bulk of this, with the 8% of women with balances over \$100,000 accounting for a share of 20% of the total superannuation assets. The share of superannuation assets of these mostly older, wealthier women was up from around 15% two years earlier.

The data clearly indicate, not surprisingly given the impact of continuing contributions and investment returns, that the relative shares of superannuation rise markedly with age. While the 26% of the population aged 25 to 34 have just 9% of total superannuation assets, the 11.6% of the population aged 55 to 59 have just over 20% of superannuation assets.

HOW ARE RETIREMENT SAVINGS TRACKING?

Average superannuation balances in Australia can be expected to continue to grow for many years as the private retirement income system matures. The Australian compulsory superannuation system is still relatively immature in the sense that many individuals have had superannuation coverage only since the commencement of industrial award based superannuation in the late 1980s and the introduction of the Superannuation Guarantee in 1992. The Superannuation Guarantee (SG) reached its maximum rate of 9% in only 2002. As a result, the majority of adult Australians still have relatively modest levels of superannuation.

It will be another 30 years before most individuals will have the full benefit of a mature SG system. Even then, a small but significant minority, principally those who have had little or no paid labour force experience since 1992 or who have cashed out their super benefit, will have no superannuation at all.

Until recently there has only been very limited data available on both the average superannuation balance for individuals and even more limited data on the incidence of superannuation and distribution by size of account balance within the community. However, the release of unit record files from the 2003-04 and 2005-06 Australian Bureau of Statistics Surveys of Income and Housing has helped fill this gap. Availability of data on a comparable basis for time periods two years apart also allows an assessment to be made of the pace at which average balances have been growing.

The data in the following tables were specially compiled for ASFA by Dr Simon Kelly of the National Centre for Social and Economic Modelling (NATSEM). The data for 2006 have not previously been released in any publication by the Australian Bureau of Statistics or otherwise.

AVERAGE RETIREMENT SAVINGS BY AGE GROUP

As shown by Table 1 below, average balances achieved by 2006 were \$69,050 for men and \$35,520 for women. These averages are well up on the balances \$56,400 for men and \$23,900 for women in 2004, with a 48.7% increase in the average balance for women and a 30.3% increase for men.

A number of factors would have been responsible for this growth in average balances, with some special factors contributing to the very strong growth in average balances for women. These factors include:

- Investment returns in superannuation funds were strong in 2004-05 and 2005-06, with average returns for balanced investment options of 13.1% and 15.1%.
- There was good employment and wages growth over the two years with average

income up around 15% in total over the two years.

- Women in particular have benefited from receiving the SG full rate given that many women had no superannuation before the SG was introduced.
- Women aged between 35 and 55 increased their super from a low base.
- Up to 10% of women aged 60 to 65 may have made substantial contributions to their superannuation.
- SG compliance and enforcement improved over the two years.
- More individuals are becoming well connected to their superannuation account and are better able to report their account balance.

TABLE 1: AVERAGE SUPERANNUATION BALANCE, 2005-06

Persons aged 25-64 years

Superannuation Group	Nil	Low	Middle	High	Overall
Male					
25-34	\$0	\$14,070	\$54,190	\$139,180	\$19,780
35-44	\$0	\$17,060	\$61,400	\$194,600	\$46,890
45-54	\$0	\$16,900	\$66,800	\$278,160	\$93,920
55-59	\$0	\$17,010	\$64,970	\$338,120	\$126,090
60-64	\$0	\$16,320	\$70,870	\$373,980	\$135,810
All	\$0	\$15,750	\$63,090	\$288,070	\$69,050
Female					
25-34	\$0	\$11,980	\$55,260		\$14,060
35-44	\$0	\$13,440	\$61,020	\$188,470	\$25,580
45-54	\$0	\$14,300	\$62,760	\$252,780	\$48,250
55-59	\$0	\$14,130	\$64,450	\$280,550	\$58,760
60-64	\$0	\$15,980	\$67,110	\$281,840	\$62,600
All	\$0	\$13,220	\$61,800	\$253,600	\$35,520
Persons					
25-34	\$0	\$13,010	\$54,560	\$161,970	\$16,920
35-44	\$0	\$15,090	\$61,270	\$192,750	\$36,150
45-54	\$0	\$15,380	\$65,100	\$270,000	\$70,820
55-59	\$0	\$15,430	\$64,730	\$319,350	\$92,460
60-64	\$0	\$16,160	\$69,560	\$340,000	\$99,430
All	\$0	\$14,400	\$62,590	\$276,860	\$52,200

Notes: Low balance is defined as less than \$40,000, High balance is over \$100,000 and (logically enough) Middle balance lies between High and Low.

It is possible that the figures in the table underestimate superannuation balances as they are based on information from household interviews. Some individuals are not aware of their current superannuation balance or underestimate their balance. However, the data in the table are for those aged 25 to 64. Inclusion of those aged less than 25 and those 65 and over reduces the overall averages significantly, by around 25%. As well, as noted above the 2006 data are likely to reflect individuals better connecting with their superannuation. The proportion of individuals reporting that they had no superannuation dropped from 24.3% to 19.6% over the two year period. This change would reflect both reality and perceptions.

The figures in the table are averages and distributions for all persons in the various age groups. Medians (the point where 50% of those surveyed have a balance above the amount and 50% below) are considerably below the average figures given that a significant proportion of each age group has nil or little superannuation. For instance, the median for all males is \$24,000 compared to an average (mean) of \$69,050.

The calculation of average balances for only those with superannuation would result in somewhat higher figures due to the exclusion of the substantial proportion with nil superannuation. The percentage with no superannuation varied between males and females, with around 14.5% of males reporting nil superannuation, and 24.5% of women with no superannuation. Around 55% of females in their 60s reported having no superannuation. This would be a result of some in the age group never having had super, while others would have had some superannuation but had taken their benefit from the superannuation system. This figure is down significantly from the 65% figure applying in 2004.

The average balance for those aged 60 to 64 is a reasonable proxy for average retirement payouts given that most individuals retire at or around their early 60s.

With average retirement payouts in 2005-06 of the order of \$136,000 for men and only \$63,000 for women it is clear that most recent retirees will need to substantially rely on the Age Pension in their retirement. This is confirmed by other ABS figures from the survey indicating that around 70% of income units headed by a person aged 65 and over rely on the government pension as the principal source of income. Only 21% of that age group rely principally on superannuation or investment income.

Average balances will rise in the future as the compulsory superannuation system matures. In addition, cohorts of women with more paid labour force experience than their mothers and grandmothers will move through the system. These effects are already starting to show up in the data. However, early retirement, retrenchment and withdrawal from the paid labour force for family and other reasons also will have an impact.

The recent downturn in investment markets also has had an impact, although not yet apparent in the ABS survey figures. However, over the medium to longer term investment returns on superannuation accounts are likely to average around 7% per year. In the more immediate period, from July 2006 to end-January 2008 investment returns for a typical balanced fund have been around 11% in aggregate despite the recent downturn.

Average balances also are likely to have been affected by the small minority of individuals making substantial contributions in the runup to the 30 June 2007 cut-off for making personal contributions of up to \$1 million. However, the impact of this factor on the aggregate figures would be less than 2% of the average balance. As well, only a tiny minority of account holders made such contributions.

All that said, given ongoing contributions average retirement payments in January 2008 are likely to have reached \$155,000 for men and \$73,000 for women. For all persons aged 25 to 64 the averages are likely to be around \$80,000 for men and \$40,000 for women.

DISTRIBUTION OF SUPER BALANCES BY HOUSEHOLD

Most retirees are in households made up of more than one person, but a significant minority of retirees are single, divorced or widowed persons. There are about 700,000 households where the reference person is aged 65 or over where there is a couple only (1.4 million people in total), with about 740,000 single persons living alone aged 65 or over.

As indicated by Table 2, average balances per household tend to be not quite twice the average balance held by an individual the same age as the reference person for the household. Around 63% of households with a reference person aged 60 to 64 have balances less than \$100,000. On the brighter side, the increase in the average balance for such households was around 40% in the two years to 2005-06. Both strong investment earnings and younger age cohorts moving through the system appear to have contributed to this outcome.

It should also be noted that many households have a mixture of generations, with the superannuation of a 30 year old child not available to their 62 year old parent.

TABLE 2: AVERAGE BALANCE PER PERSON AND PER HOUSEHOLD, 2005-06

Age of reference person	Per Person	Per household
25-34	\$16,920	\$35,610
35-44	\$36,150	\$64,670
45-54	\$70,820	\$122,710
55-59	\$92,460	\$154,270
60-64	\$99,430	\$172,710
All	\$52,200	\$94,140

THE DISTRIBUTION OF SUPERANNUATION BALANCES

Between 2003-04 and 2005-06 there were considerable improvements in the coverage of superannuation in the community, and in the incidence of more substantial superannuation balances. **The percentage of males recording that they had no superannuation fell from 9.3% to 7.3%, while for females the fall was from 15.0% to 12.3%.**

At the other end of the scale, the percentage of males with more than \$100,000 in superannuation increased from 7.2% to 8.4%, while for females the percentage increased from 2.8% to 4.1%. There also were increases in the proportions with balances between \$40,000 and \$100,000, with an increase to 10.1% for males from 8.3%, and to 6.4% from 4.6% for females.

However, considerable disparities between individuals remain. While the average balance for men aged 60 to 64 was \$136,000 nearly 70% of men in that age group had balances of less than \$100,000. Just over 80% of women aged 60 to 64 had superannuation balances less than \$100,000, with around 75% of women having less than \$40,000 (Table 3). However, over the last two years the number of women aged 60 to 64 with more than \$100,000 in superannuation has increased by around 60%, albeit from a low base.

The ABS figures indicated that in 2005-06 there were 905,000 males and 435,000 females with more than \$100,000 in superannuation, up from the 760,000 males and 300,000 females two years earlier.

There also are differences in the average balance between men and women even amongst those who had more than \$100,000 in superannuation. More specifically, for males in the 60 to 64 age group with more than \$100,000 in super, the average balance was around \$374,000 while for the women in that age group with more than \$100,000 in super the average was \$282,000. It is the significant minority of men with large superannuation balances that leads to the average for men overall being larger than that for women.

TABLE 3: DISTRIBUTION OF SUPERANNUATION BY AGE GROUP AND GENDER, 2005-06

Level of super		Nil	Low	Middle	High	Overall
		% of Pop'n	% of Pop'n	% of Pop'n	% of Pop'n	% of Pop'n
Male	25-34	1.3	10.0	1.6	0.2	13.1
	35-44	1.7	6.9	3.5	1.6	13.7
	45-54	1.6	4.6	3.3	3.2	12.7
	55-59	1.3	1.5	1.1	1.9	5.8
	60-64	1.4	0.9	0.7	1.4	4.4
	All	7.3	23.9	10.1	8.4	49.7
Female	25-34	2.1	10.1	0.8	0.1	13.1
	35-44	3.1	8.3	1.9	0.7	14.0
	45-54	2.7	6.5	2.4	1.5	13.1
	55-59	2.1	1.9	0.9	0.9	5.8
	60-64	2.4	0.8	0.4	0.8	4.4
	All	12.3	27.5	6.4	4.1	50.3
Persons	25-34	3.3	20.1	2.4	0.3	26.1
	35-44	4.8	15.2	5.3	2.3	27.6
	45-54	4.3	11.1	5.6	4.8	25.8
	55-59	3.4	3.4	2.0	2.8	11.6
	60-64	3.8	1.7	1.1	2.3	8.9
	All	19.6	51.5	16.5	12.5	100

While the abolition of taxes on benefits received by those aged 60 and over from a taxed fund provides a welcome boost to retirement living standards it is of direct relevance to between 20% and 25% of those currently retiring as only a minority of retirees have potential lump sum benefits in excess of the tax free threshold applying to such benefits (\$135,590 in 2006-07).

As the SG system continues to mature the percentage benefiting from the abolition of taxes will increase. Another advantage of the abolition of taxes on benefits received from a taxed fund by those aged 60 and over is that it leads to much greater simplicity of the system. Public opinion polling undertaken by ANOP for ASFA indicates widespread community for the Simpler Super package of measures.

SHARES OF TOTAL SUPERANNUATION BY AGE AND GENDER

Given that the incidence of superannuation is higher for men and their account balances are on average higher, **men held around 66% of total account balances in 2005-06 compared to around 34% for women** (Table 4). While on the face of it this would appear to be a very substantial disparity, it amounts to a very substantial improvement for women on the Treasury estimated share for women in 1994 of 23%. There also was a large improvement for women from as recently as 2003-04 when the share held by women was 30%.

While improvements for women in superannuation coverage and average balance were recorded across the range of age groups, the most significant increases recorded were for older women.

The percentage share figures also clearly demonstrate the build-up of superannuation assets with increasing age. The age group 55 to 59 appears to be the one where holdings of superannuation peak.

TABLE 4: SHARES OF SUPERANNUATION BY AGE GROUP AND GENDER, 2005-06

Level of super		Nil	Low	Middle	High	Overall
		% of Super	% of Super	% of Super	% of Super	% of Super
Male	25-34	0	2.7	1.6	0.6	4.9
	35-44	0	2.3	4.1	6.0	12.4
	45-54	0	1.5	4.2	17.3	23.0
	55-59	0	0.5	1.3	12.2	14.0
	60-64	0	0.3	1.0	10.3	11.6
	All	0	7.2	12.2	46.4	65.8
Female	25-34	0	2.3	0.9	0.3	3.5
	35-44	0	2.1	2.2	2.5	6.8
	45-54	0	1.8	2.9	7.4	12.1
	55-59	0	0.5	1.2	4.9	6.6
	60-64	0	0.2	0.5	4.5	5.2
	All	0	7.0	7.5	19.7	34.2
Persons	25-34	0	5.0	2.5	1.0	8.5
	35-44	0	4.4	6.3	8.5	19.2
	45-54	0	3.3	7.0	24.7	35.0
	55-59	0	1.0	2.5	17.1	20.6
	60-64	0	0.5	1.5	14.8	16.8
	All	0	14.2	19.7	66.1	100

The figures in Tables 3 and 4 indicate that the 12.5% of the population with superannuation balances over \$100,000 accounted for 66% of the total superannuation assets in 2005-06. The 17% of the male population with balances over \$100,000 accounted for the bulk of this, with the 8% of the female population with balances over \$100,000 accounting for a share of 20% of the total superannuation assets. The share of superannuation assets of these mostly older, wealthier women was up from around 15% two years earlier.

The data clearly indicate, not surprisingly given the impact of continuing contributions and investment returns, that the relative shares of superannuation rise markedly with age. While the 26% of the population aged 25 to 34 have just 9% of total superannuation assets, the 11.6% of the population aged 55 to 59 have just over 20% of superannuation assets.