Mythbusters

Myths that super will come up short

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Myth 1

Superannuation is not getting people off the Age Pension

***Fact:* Super is delivering. Since 1997, the proportion of Australians aged more than 65 on the Age Pension has already fallen from 79 per cent to 70 per cent, and will fall to 60 per cent or less over the next 40 years.**

Changes in Age Pension take up

It has been claimed that around 80 per cent of people who have reached the eligibility age for the Age Pension will receive Age Pension payments and this percentage will not change over the next 40 years or so.

This is a myth and it appears to come from a 2012 paper (**https://treasury.gov.au/publication/modelling-the-sustainability-of-australias-retirement-income-system**). This is not based on actual levels of Age Pension take-up in the community.

In reality, the take-up rate for the Age Pension is gradually declining as more people have significant superannuation balances and work past age 65.

In 1997, the take-up rate for the Age Pension and the age-related Veterans Pension was 79 per cent. By 2007, this had fallen to 75 per cent and is now around 70 per cent[1].

This take-up rate for the Age Pension will decrease further as superannuation balances increase (reinforced by a tighter asset test for the Age Pension), and the trend for people to remain in paid work after age 65 continues. The decrease will be particularly marked for those in their late 60s.

In 2025, ASFA projections indicate around 20 per cent of those aged 67 will still be in paid employment with a further 40 per cent or so self-funded (or at least not eligible for the Age Pension).

Currently, around 70 per cent of those aged more than 65 receive either a full or part Age Pension. Of those, around 60 per cent are currently on the full Age Pension. This means that 42 per cent of those aged more than 65 are on the full Age Pension. ASFA expects the 42 per cent figure will fall to around 30 per cent by 2025. By 2055, it could be down to 25 per cent or less.

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[1] In June 2016, there were around 3.7 million Australians aged 65 and over. Around 2.55 million received the Age Pension and a further 55,000 received Veterans Pensions. (Source ABS Demographic Statistics and Department of Social Services Demographic Data, https://data.gov.au/dataset/dss-payment-demographic-data).

Changes in the proportion on the full and part Age Pension

Expenditure on the Age Pension will also be kept to a reasonable level by a larger proportion of recipients being on a part Age Pension. Currently, the proportion of all people on the Age Pension who receive the full Age Pension is around 60 per cent, and the corresponding proportion on a part Age Pension is 40 per cent.

Over the next 40 years, this proportion will flip to 60 per cent part Age Pension and 40 per cent full Age Pension. This is on top of the projected decrease in the proportion of people aged more than 65 on the Age Pension.

Box 1: The Age Pension and those aged 65 and over: then, now and in the future

1997: 80 per cent on the Age Pension or equivalent, 67 per cent of those on the full Age Pension

2017: 70 per cent on the Age Pension, 60 per cent of those on the full Age Pension

2055: 60 per cent on the Age Pension, only 40 per cent of those on the full Age Pension

Myth 2

Superannuation is not improving retirement outcomes

***Fact:* Super is delivering. Over the last two years alone, the number of Australians aged 65 to 69 relying on superannuation as their main source of income in retirement has grown by 35 per cent.**

The number of people where superannuation is the main source of retirement is growing rapidly

Increasing superannuation balances is having a positive impact on more recent retirees. Around 22 per cent of people aged 65 and over have superannuation as their main source of income.

The number of people aged 65 to 69 relying primarily on superannuation has increased markedly by nearly 35 per cent in two years. At the same time, the number of people in that age group relying primarily on the Age Pension has fallen for men by around four per cent and has increased by only three per cent for women.

Table 1: Main source of retirement income

Number of persons	2013–14	2015–16
Main source of income		
Superannuation		
Males		
55 to 59 years	21,051	32,218
60 to 64 years	82,913	85,604
65 to 69 years	94,780	132,045
70 to 74 years	68,646	122,006
75 years and over	82,431	96,198
Total	**353,901**	**464,269**
Females		
55 to 59 years	22,228	18,207
60 to 64 years	56,737	63,288
65 to 69 years	85,921	108,084
70 to 74 years	48,597	69,957
75 years and over	39,517	71,319
Total(b)	**255,351**	**334,730**
Persons		
55 to 59 years	43,278	51,172
60 to 64 years	139,650	146,394
65 to 69 years	180,700	243,479
70 to 74 years	117,243	194,418
75 years and over	121,948	164,077
Total	**609,252**	**800,345**

Number of persons	2013–14	2015–16
Age Pension		
Males		
65 to 69 years	226,377	217,644
70 to 74 years	222,247	221,508
75 years and over	382,435	417,603
Total	**831,059**	**859,162**
Females		
65 to 69 years	281,688	290,190
70 to 74 years	272,448	280,636
75 years and over	523,084	541,566
Total	**1,086,259**	**1,112,195**
Persons		
65 to 69 years	508,065	508,642
70 to 74 years	494,696	501,827
75 years and over	905,519	960,864
Total	**1,917,318**	**1,973,331**

Source: Data extracted for ASFA from the ABS Survey of Income and Housing.

Superannuation is delivering more self-funded retirees and higher retirement incomes. The number of persons with superannuation as their main source of income rose over 30 per cent between 2013–14 and 2015–16. The average superannuation balance of those mainly relying on superannuation rose from $407,000 to $470,000 over the same period.

Myth 3

Superannuation is not helping contain Age Pension expenditures

***Fact:* Both Treasury and The Organisation for Economic Co-operation and Development (OECD) projections indicate that Age Pension expenditures as a percentage of GDP are not expected to increase over the next 40 years. Increasing superannuation balances offset the impact of an ageing population structure.**

Compulsory superannuation has been delivering better retirement incomes for Australians while at the same time helping to contain Age Pension expenditures. Despite an ageing population structure and increases in the real level of Age Pension payments, particularly for single persons, expenditure on the Age Pension has remained largely unchanged at around 2.6 per cent of GDP. Without superannuation, expenditure on the Age Pension would rise to around 3.3 per cent of GDP.

Both Treasury and OECD projections indicate that Age Pension expenditures as a percentage of GDP are not expected to increase over the next forty years. Increasing superannuation balances offset the impact of an ageing population structure.

Table 2: Age Pension expenditure

Financial year	Expenditure	Proportion of GDP
2011–12	$34,697,500,000	2.3%
2012–13	$36,283,600,000	2.4%
2013–14	$39,393,964,000	2.5%
2014–15	$41,367,056,000	2.6%
2015–16	$43,222,700,000	2.6%
2016–17	$44,467,760,000	2.6%
2017–18 estimate	$45,473,840,000	2.6%
2018–19 projection	$47,678,000,000	2.6%

Source: Department of Social Services statistics, Budget Forward Estimates.

Myth 4

Australians have most of their savings outside of superannuation and therefore superannuation is not important for most people

***Fact:* For the great bulk of households (90 per cent or more) superannuation together with owner occupied housing are the dominant forms of saving to support living standards in retirement.**

The need to look at the median rather than mean for superannuation as a financial asset

Some commentators, such as the Grattan Institute, have claimed that other financial assets are more important, with the following an example of such a claim in a recent Grattan Institute report:

"Many commentators equate retirement savings with superannuation. But superannuation savings (pillars 2 and 3) are the least important part of Australia's retirement incomes system. While Australians save in a variety of ways, super is only 15 per cent of the wealth of most households. And while homes are a large part of accumulated wealth, households of all ages, incomes and wealth typically have other investments that are greater than their superannuation assets. For older households, assets other than super are often even larger than the value of homes."

However the Australian Bureau of Statistics (ABS) figures prepared especially for ASFA, indicate that superannuation is the major financial asset of retiree households and also of households before retirement.

The Grattan Institute report appears to have averaged totals for various types of assets across all Australians rather than looking at what median Australian or most Australians hold in the form of savings and wealth.

James Packer's and Harry Triguboff's wealth when averaged across the population does not assist others in achieving their retirement income goals.

Some of the components of household wealth, such as motor vehicle and household contents, are also incapable of providing income in retirement. You cannot eat the furniture or even rent it out.

The ABS data indicate that for households with the head aged 15 to 64, superannuation is the most commonly held asset apart from bank accounts and motor vehicles. Other assets (apart from owner-occupied property) are held by only a relatively small proportion of households.

In fact, superannuation makes up the bulk of household wealth if you exclude owner occupied housing, contents of dwellings and private motor vehicles. The claim that households often have relatively large assets in other asset classes is inaccurate as the figures are more like one in 30 households or one in 50 households having investment properties or private trusts.

While the self-reported value of the contents of dwellings and motor vehicle vehicles (rather than their actual market value) can be substantial, they do not generate income in retirement and actually require maintenance and expenditure.

For the great bulk of households (90 per cent or more) superannuation together with owner occupied housing are the dominant forms of saving to support living standards in retirement.

HILDA data supports the role of super in retirement

Projections based on The Household, Income and Labour Dynamics in Australia (HILDA) data on the assets and income for individual households confirms this analysis, (**https://www.towerswatson.com/en-AU/Insights/IC-Types/Survey-Research-Results/2014/03/Australia-View-Retirement-adequacy-the-need-to-look-deeper**).

This projects the retirement income for a representative sample of the Australian population covering 11,815 persons aged 25 to 64. The analysis takes into account compulsory superannuation, voluntary superannuation, the Age Pension and other retirement savings (excluding the family home) in these projections.

At the 25th percentile level (the bottom 25 per cent of the income distribution) the Age Pension is projected to be the most important element of retirement income, followed by superannuation with income from other savings a distant third. At the 75th percentile level superannuation is projected to form the great bulk of retirement income with the Age Pension and income from other assets each playing relatively minor roles.

Myth 5

Australians would be much better off in terms of investment performance and final retirement savings if their superannuation was invested by the Future Fund or the like, rather than by superannuation fund trustees

***Fact:* The costs and net returns of the Future Fund are similar to those for superannuation funds.**

While there is always room for improvement, the scope for a substantial increase in net investment returns is far less than some commentators claim. If there was some 'special sauce' that could be used to enhance investment returns, while at the same time reducing risk and fees, then every fund and investment manager would be keen to spread it thickly on their offerings. Even if there was a secret recipe, it would only be a matter of time before others would largely replicate the approach.

Investment managers and super fund trustees have no aversion to success. If they witness it, they will do their best to replicate it. Staff also move between funds and investment managers.

The reality is, there are no easy options to boost net returns while at the same time limiting volatility. Furthermore, focusing only on the minimisation of fees would run the risk of reducing net investment returns over the longer term. Net returns over the medium-to-long term are what really matter.

This sometimes gets lost when rather simplistic comparisons are made between funds.

Much of the recent debate around super fund fees in Australia has relied on partial and mostly non-comparable data of funds in other countries. There are significant structural differences between private pension systems that impact the administrative and operating costs of funds.

In particular, there are markedly different cost structures between a private pension system that is dominated by single employer-sponsored defined benefit funds, mostly invested in bonds and fixed interest, and a system, such as Australia, which has multi-employer sponsored defined contribution funds with a high proportion of assets in equities and unlisted investments.

Past comparisons using OECD data tend to show Australia down the league table in terms of average investment returns. This has been largely the result of the OECD five and 10 year figures having substantial periods of low equity returns. More recent figures, which include 2016 and 2017, move Australian funds to near the top of the table.

Closer to home, the Future Fund is a perfectly good sovereign wealth fund, indeed an excellent one, but this does not make it a natural candidate as the investment manager for default super or all super investments.

The Future Fund is well managed in terms of its investments and has delivered good returns, particularly, reducing the volatility of returns from year to year. However, its outperformance of the average super fund is nowhere near what is claimed by some commentators.

It should be noted that the Future Fund was mostly in cash and Telstra shares during a large part of the GFC. This complicates ten year comparisons with funds that had a full allocation to equities over the ten year period. There is also the matter of the Future Fund not being subject to any taxation.

Superannuation fund returns during the accumulation phase are published on an after-tax basis. Both these factors need to be taken into account when analysing the relative investment performance of superannuation funds.

Looking forward, there may be very limited scope for the Future Fund to predict the start of the next major downturn of equity markets and to convert a large part of the equity holdings of the fund into cash, or the like.

On a five year return basis and adjusting for taxation, $1 invested into the Future Fund in June 2012 would have returned $1.67 at June 2017. Comparatively, the average super fund would have returned $1.64. Scores of super funds have also performed more strongly than the average.

It's also interesting that in the Future Fund's latest annual report, both direct and indirect investment costs have been fully disclosed. For 2016–17, they add up to around 160 basis points, which is higher than most super funds on a comparable basis.

There is nothing necessarily wrong with higher investment costs. What is important, as the Future Fund knows, is performance in terms of increasing investment returns and reducing volatility. Superannuation funds are producing good returns on average for their members.

Myth 6

Saving outside of superannuation will deliver better retirement outcomes

***Fact:* Returns in superannuation tend to be higher than outside of superannuation over a 10-year period.**

It needs to be remembered that superannuation is not an asset class in itself. However, it has a number of features that make it the best retirement savings option for almost everyone:

- concessional tax treatment of superannuation leads to more savings being invested and higher after tax investment returns from all forms of investment, compared to the same investments being directly held by individuals
- individuals in APRA-regulated funds also benefit from access to well diversified investment portfolios, including asset classes that can only be accessed by larger, professional investment managers, and from fees that are generally lower than in managed investment schemes offered directly to the public
- compulsory contributions and default investment options mean that people actually save for retirement, with only a small minority likely to voluntarily save at any significant level for retirement in the absence of compulsion.

The 2017 Russell Investments/ASX Long-term Investing report illustrates how a diversified multi-asset strategy cushions investors against year-on-year changes to returns and spreads risk even further by providing opportunities to diversify beyond traditional asset classes into alternative assets.

The following table, drawn from that report, further illustrates how investment returns through superannuation are higher than the returns for investments held by individuals outside superannuation.

This holds regardless of whether the individual is on the top or the lowest marginal tax rate. Individuals investing through superannuation also benefit from the concessional treatment of superannuation contributions where the contributions are generally taxed at a flat rate of 15 per cent rather than at the individual's marginal tax rate. This can substantially boost the amount invested, particularly for those on the top marginal personal tax rate.

Table 3: Annual returns over the 10 years to December 2016

Asset class	After tax return at the lowest marginal tax rate	After tax return at the top marginal tax rate	Return if held through superannuation
Australian shares	4.7%	3.0%	4.9%
Residential investment property	7.2%	5.8%	7.2%
Australian bonds	5.0%	3.3%	5.2%
Global bonds	3.9%	6.0%	6.3%
Cash	2.3%	1.5%	2.3%
Global shares	3.5%	2.5%	3.6%
Global listed property	2.1%	1.2%	2.2%

Source: 2017 Russell Investments/ASX Long-term Investing report.