SUBMISSION

Submission to the Retirement Income Review Secretariat — Consultation Paper

3 February 2020

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Retirement Income Review Secretariat

The Treasury

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Via email: retirementincomereview@treasury.gov.au

3 February 2020

Dear Mr Preston

Retirement Income Review: Consultation Paper

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to the Consultation Paper for the Retirement Income Review.

ASFA is a non-profit, non-political national organisation whose mission is to continuously improve the superannuation system, so all Australians can enjoy a comfortable and dignified retirement. We focus on the issues that affect the entire Australian superannuation system and its $2.9 trillion in retirement savings. Our membership is across all parts of the industry, including corporate, public sector, industry and retail superannuation funds, and associated service providers, representing almost 90 per cent of the 16 million Australians with superannuation.

If you have any queries or comments in relation to the content of our submission, please contact Martin Fahy on (02) 8079 0805 or by email mfahy@superannuation.asn.au, or Andrew Craston, Director Economics, on (02) 8079 0817 or by email acraston@superannuation.asn.au.

Yours sincerely

Martin Fahy

Chief Executive Officer

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1. Executive Summary

ASFA appreciates the opportunity to provide a submission on the Consultation Paper for the Retirement Income Review. The scope of the Consultation Paper is very broad. Our submission focuses on a number of issues that are relevant for the Review Panel in building its fact base.

The Australian retirement income system is independently ranked as one of the best globally (behind only the Netherlands, Denmark) in terms of sustainability, adequacy and integrity.[1]

As a key pillar of the broader retirement income system, Australia's superannuation system holds the third-largest pool of private pension assets in the world, behind the US and the UK.[2] The system is a major source of funding for the Australian economy, including via financial institutions, the share market and private capital markets, and reduces Australia's reliance on foreign capital. It is also a source of stability for the broader financial system.

Superannuation has long delivered positive outcomes for the vast majority of consumers. In terms of net investment returns, superannuation funds have consistently outperformed the majority of other private pension systems in the OECD, across 5, 10 and 15-year time frames.[3] This has helped boost the superannuation balances and retirement incomes of Australians.

ASFA considers that by 2050 at least 50 per cent of retirees should be able to have a comfortable standard of living in retirement – consistent with ASFA Comfortable Retirement Standard level.

Achieving this milestone is contingent on the Superannuation Guarantee (SG) rate increasing to 12 per cent as legislated.

Increasing the SG rate would improve retirees' broader economic security and will mean that the cost to the budget of the retirement income system will remain affordable and sustainable over coming decades in the context of an ageing population.

Population ageing means that by 2055 there will be just under three working-age people for each person of retirement age and older, compared with over four today and around seven just two generations ago.[4]

Despite this, expenditure on the Age Pension is expected to fall from 2.9 per cent to 2.6 per cent of GDP over the period to 2054-55, assuming the SG rate is increased to 12 per cent.[5] In comparison, public pension expenditure across the OECD averages around 8.8 per cent of GDP, is projected to increase to 9.4 per cent by 2050, and increase further thereafter.[6]

The total cost of expenditure on the Age Pension and on tax concessions for superannuation are projected to rise, but only from 4.5 per cent of GDP to around 5.1 per cent of GDP.[7]

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[1] Mercer 2019, *Melbourne Mercer Global Pension Index* (https://info.mercer.com/rs/521-DEV-513/images/MMGPI%202019%20Full%20Report.pdf).
[2] OECD 2019, *Pension Funds in Figures*, Table 1 (https://www.oecd.org/pensions/private-pensions/Pension-Funds-in-Figures-2019.pdf). Data is in US dollar terms.
[3] OECD 2019, *Global pension statistics*, Table 1.1 (http://www.oecd.org/finance/globalpensionstatistics.htm). Data is for real net investment returns.
[4] Australian Bureau of Statistics (*Australian Demographic Statistics,* ABS Cat no. 3101.0 and *Population Projections, Australia*, ABS Cat no. 3222.0), and The Treasury, *2015 Intergenerational Report: Australia in 2055*.
[5] ASFA data. Also, this projection is broadly consistent with the Australian Government's *2015 Intergenerational Report: Australia in 2055* (https://static.treasury.gov.au/uploads/sites/1/2017/06/2015_IGR.pdf).
[6] OECD 2019, *Pensions at a Glance: OECD and G20 Indicators: long-term projections of public pension expenditure*, (https://www.oecd-ilibrary.org/docserver/4964368d-en.pdf?expires=1579148276&id=id&accname=guest&checksum=37E9C1D723B62A7540E8C707D5947AB7).
[7] ASFA data.

These fiscal impacts should not be considered in isolation. A broader perspective on the costs and benefits of the retirement income system would consider the positive impacts of superannuation on the living standards of Australian retirees, and the positive impacts on the Australian economy and local financial markets.

Equity should be a core principle for design of the retirement income system. ASFA finds that recent changes to policy settings have improved the distribution of government support for retirement incomes, and that government support via the retirement income system is more equitable than in many other OECD countries.

That said, there are some significant disparities in outcomes in the system. For women, despite increasing rates of workforce participation, retirement incomes are generally still lower than for men. In the lead up to retirement, the median superannuation balance for women is around $30,000 lower than for men.[8] Lower superannuation balances for women reduces their economic security in retirement.

Also, a significant minority of Australians face particular barriers to access to superannuation, which adversely affects their retirement outcomes. This includes the self-employed and gig-economy workers, and some workers on low incomes. Addressing barriers to access would help improve retirement outcomes for affected people.

The expected outcomes for the retirement income system suggest that policy settings are broadly appropriate. Further, ongoing changes to settings are likely to undermine trust and confidence in the system – which could lead to lower levels of member engagement and lower levels of voluntary savings. Retirement outcomes would be improved by initiatives to reduce the degree of complexity in the system.

[8] ASFA 2019, *Better Retirement Outcomes: A Snapshot of Account Balances in Australia* (https://www.superannuation.asn.au/ArticleDocuments/359/1907-Better-Retirement-Outcomes-a-snapshot-of-account-balances-in-Australia.pdf.aspx?Embed=Y).

2. Assessment of the retirement income system

An assessment of the performance of the retirement income system should be framed by a set of formal objectives – that is, what outcomes should the system aim to achieve for retirees over coming decades.

In this regard, ASFA has long supported a legislated objective of superannuation:[9]

> ASFA considers that the primary objective of the superannuation system is to provide an adequate income to ensure all Australians achieve a comfortable standard of living in retirement, supplementing or substituting the Age Pension.

This objective reflects ASFA's view that the Australian community deserves to be financially confident in retirement. People spend their working lifetime contributing a portion of their income to a compulsory savings system, and reasonably expect a dignified retirement commensurate with this sacrifice in return. The preservation of savings requires the community to forego expenditure today, so they can enjoy a comfortable standard of living in retirement.

Clearly, ASFA's objective is also relevant for the broader retirement incomes system, where superannuation (which accommodates both compulsory and voluntary private saving) and the Age Pension are key pillars.

ASFA has a framework for assessing the system with respect to its objective

ASFA has also proposed a set of sub-objectives or benchmarks (Figure 1), which are consistent with the overarching objective. The benchmarks have a 2050 timeframe.

Figure 1: ASFA's assessment framework

Note: As shown in Section 5, ASFA's projections are that by 2054-55 expenditure on the Age Pension will be around 2.6 per cent of GDP and expenditure on tax concessions will be around 2.5 per cent of GDP.

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[9] For more details on ASFA's position see the ASFA submission on the *Superannuation (Objective) Bill 2016*: https://www.superannuation.asn.au/ArticleDocuments/278/161223_ASFASubmission_ObjectiveofSuperannuation_SenateEconomicsCommittee.pdf.aspx?Embed=Y

The benchmarks focus on the cost of the Age Pension and tax concessions for superannuation relative to GDP, levels of reliance on the Age Pension, the level of income replacement in retirement and the percentage of the retired population living at a standard equivalent at least to the ASFA Retirement Standard 'comfortable' level (discussed in detail in Section 3). The framework recognises that improvements to the adequacy of retirement incomes over time must be delivered in a fiscally sustainable manner.

ASFA considers Australia should be progressively tracking towards these benchmarks. The performance of the superannuation system vis-à-vis the benchmarks will provide an indication of progress with respect to the overarching objective.

The framework also provides a means to assess potential policy changes. Use of the framework would help protect against detrimental changes that would erode trust and confidence, and support changes that would deliver improved retirement outcomes. More details about ASFA's assessment framework is at: https://www.superannuation.asn.au/ArticleDocuments/278/161223_ASFASubmission_ObjectiveofSuperannuation_SenateEconomicsCommittee.pdf.aspx?Embed=Y

As is the case for the overarching objective, the benchmarks and the assessment framework are relevant for the broader retirement incomes system.

The Government's proposed objective would not support dignified retirement outcomes for most

In contrast to the aforementioned objective, ASFA considers that the (primary) objective of superannuation as proposed in the *Superannuation (Objective) Bill 2016* would not lead to dignified retirement outcomes for most Australians.

The proposed objective of superannuation is:

> "to provide income in retirement to substitute or supplement the Age Pension".[10]

For many Australians, the proposed objective would anchor living standards in retirement to the Age Pension. The proposed objective implies that superannuation policy settings need not support retirement incomes that are in excess of the full Age Pension.

At the extreme, the proposed objective would accommodate policy settings where there is no benefit for an individual from increasing his/her superannuation savings – that is, higher superannuation incomes would be fully offset by lower Age Pension payments. This would be an extremely poor policy outcome. In particular, it would risk consigning a large proportion of retirees to poverty in retirement.

ASFA's approach is consistent with the Consultation Paper framework

The Consultation Paper proposes four principles by which to access the performance of the retirement income system: adequacy, equity, sustainability and cohesion.

ASFA considers that this is an appropriate framework to assess performance, and also considers that this is consistent with, although not directly comparable to, ASFA's approach. However, ASFA also considers that any assessment with respect to the four principles needs to be undertaken with reference to outcome benchmarks.

In this regard, ASFA's objective (and associated benchmarks) provides a reference point that is both achievable and consistent with community expectations. These issues are explored further in the remainder of our submission.

[10] The *Superannuation (Objective) Bill 2016*.

3. The adequacy of the system

The adequacy of the retirement income system relates to the outcomes produced by the system for Australian retirees.

In particular, the adequacy of the retirement income system is concerned with the living standards that retirement incomes support, and the extent to which living standards align with expectations. This includes providing economic security in the face of the risk of elevated expenditures in retirement – from, for example, living longer than anticipated and the possibility of expensive medical procedures.

The adequacy of the retirement income system is also concerned with the composition of retirement incomes between private savings and the Age Pension, and the degree to which retirees are self-sufficient.

The current policy settings for the retirement income system take account of adequacy only implicitly. ASFA considers that a more explicit treatment of adequacy is required to help ensure the needs of retirees are met.

- ASFA considers that the primary objective of the superannuation system is to provide an adequate income to ensure all Australians achieve a comfortable standard of living in retirement, supplementing or substituting the Age Pension.
- The ASFA Comfortable Retirement Standard is consistent with community expectations of incomes in retirement – it is what Australians want and need in retirement.
- The legislated increase in the SG rate to 12 per cent will boost incomes and economic security in retirement. It will help the system achieve ASFA's target of at least 50 per cent of Australians reaching a comfortable standard of living in retirement.
- The Age Pension will continue to play an important but diminishing role in the provision of retirement incomes.

System adequacy cannot be considered in isolation from system objectives

An assessment of the adequacy of the retirement income system needs to be undertaken with reference to appropriate outcome benchmarks.

As noted in Section 2, ASFA has long argued that the core purpose of superannuation is to provide incomes that ensure Australians achieve a dignified and comfortable standard of living in retirement, where income from superannuation savings supplements or substitutes the Age Pension.

With respect to retiree living standards, ASFA has developed a range of income benchmarks for retirees, including for a comfortable standard of living in retirement: the ASFA Comfortable Retirement Standard (ASFA Comfortable).

ASFA Comfortable is an objective income benchmark that is consistent with community expectations. This means that while not all people will have an income throughout retirement that is at (or above) the comfortable level, the ASFA Comfortable is an appropriate reference for adequacy of retirement incomes.

With respect to the composition of retirement incomes, ASFA considers that policy settings should work to encourage savings through superannuation and encourage self-reliance in retirement. This implies, over time, a greater degree of self-funding among retirees – such that the Age Pension is not required for an increasing subset of the community.

As outlined in Section 2, ASFA's particular benchmarks are that by 2050:

- at least 50 per cent of Australians are able to achieve a comfortable standard of living in retirement
- less than 20 per cent of retired Australians, over the Age Pension qualifying age, rely solely or almost exclusively on the Age Pension.

The ASFA Comfortable Retirement Standard is a robust and appropriate benchmark for income adequacy

ASFA Comfortable is a widely used benchmark for income adequacy that is derived from detailed analysis of retirees' spending patterns (see Box 1 for details).

An income in retirement that is equivalent to the ASFA Comfortable level allows a typical, healthy retiree to be involved in leisure and recreational activities and to have a good standard of living through the purchase of such goods and services as general household items, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.

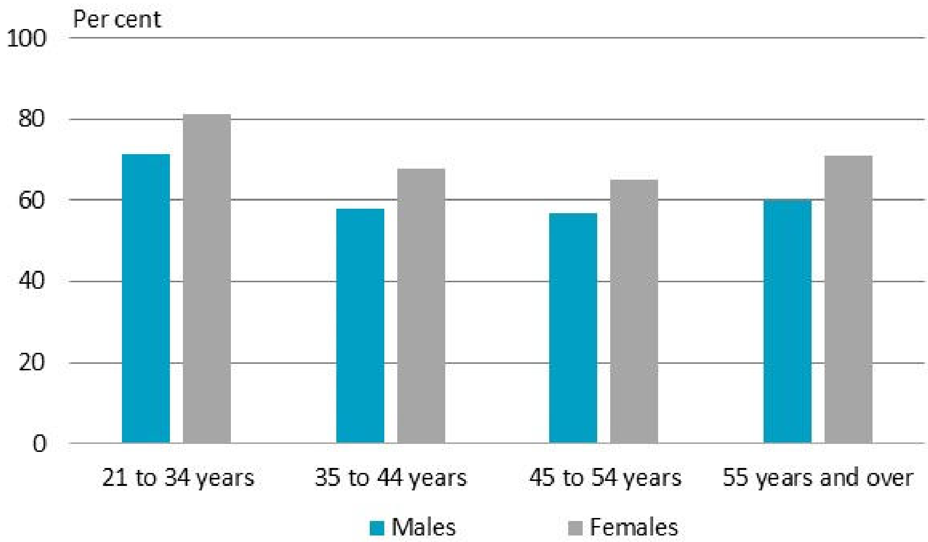
Currently, ASFA Comfortable (which assumes home ownership) is $43,787 per year (or $840 per week) for a single person, and $61,786 per year (or $1,185 per week) for a couple. The most recent update of ASFA Comfortable is at: https://www.superannuation.asn.au/resources/retirement-standard

ASFA Comfortable does not represent an extravagant standard of living for retirees

Chart 1 shows the ASFA Comfortable income level, for a single person, as a percentage of full-time average weekly earnings (after tax), for a number of age cohorts. For a single male, aged 45 to 55, ASFA Comfortable is only 57 per cent of average weekly earnings. For a single female, aged 45 to 55, ASFA Comfortable is 65 per cent of average weekly earnings.

For both males and females, ratios are relatively high for the 21 to 34 age cohort – reflecting the fact that average earnings in this age cohort are significantly lower than for older age cohorts.

Chart 1: ASFA Comfortable as a percentage of full-time average weekly earnings (after tax), by age cohort



Source: ABS Cat. no. 6306.0 and ASFA[11]

[11] Australian Bureau of Statistics, *Employee Earnings and Hours*, May 2018, ABS Cat. no. 6306.0, Table 2 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6306.0May%202018?OpenDocument).

Box 1: The ASFA Retirement Standard – details

For many years, ASFA has published annual budgets for various categories of Australians to fund their needs in their post-work years. The ASFA Retirement Standard provides budgets for both a modest and comfortable standard of living, for both singles and couples.

Although no two individuals have identical expenditure patterns, individuals, governments and policymakers benefit from having standardised benchmarks on which to base decisions. In this regard, the ASFA Retirement Standard can be used to inform judgments about what is an adequate level of income in retirement, and what level of retirement savings is required to fund adequate retirement incomes.

The composition of expenditure in the Retirement Standard budgets reflects actual spending patterns of retirees. Data is derived from a range of sources, including ABS data, data from the Household, Income and Labour Dynamics in Australia (HILDA) Survey, and feedback from focus groups.

The ASFA Retirement Standard is regularly updated and reviewed. Budgets are updated quarterly to reflect changes to the Consumer Price Index (CPI). The methodology for deriving the budgets is subject to rigorous, periodic review. The most recent review was undertaken in 2018. The review documentation is at: https://www.superannuation.asn.au/ArticleDocuments/269/2018-ASFA-Retirement-Standard-Budgets-Review.pdf.aspx?Embed=Y).

Aside from the ASFA Comfortable budget, ASFA also produces a modest budget benchmark.

A modest retirement lifestyle is considered better than could be attained on the Age Pension alone. However, a retiree with a modest retirement lifestyle would still only be able to afford fairly basic activities.

As at the September quarter 2019, the Modest budget for a single person (which assumes home-ownership) is $27,913 per year. This is higher than the equivalent Age Pension payment (maximum of $24,335 per year). The Modest budget for a couple is $40,194 per year.[12]

ASFA Comfortable includes variations for particular cohorts

In recognition that AFSA Comfortable may not suit particular cohorts of retirees, ASFA has developed variations.

Since spending requirements change as people age, ASFA has developed budgets for older retirees – for those aged around 85. Older retirees tend to spend more on assistance in the home, including for cleaning services and meals. They also tend to have increased out-of-pocket expenses for major medical procedures and for ongoing chemist and other medical expenses. On the other hand, older retirees often have reduced capacity for activity, so tend to spend less on holidays and other leisure activities outside the home. The net impact of these various factors means that the budgets for older retirees are somewhat lower. Details of ASFA's work on this is at: https://www.superannuation.asn.au/ArticleDocuments/269/ASFA-RetirementStandardOlder-Sep2014.pdf.aspx?Embed=Y

ASFA Comfortable assumes homeownership. However, around one in seven Australians aged older than 65 live in rental accommodation.[13] Given that rent is generally the largest component of retiree expenditure (for those who rent), ASFA has produced budgets for renters. The broader implications of housing tenure on retiree living standards is discussed later in this section.

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[12] ASFA Retirement Standard (https://www.superannuation.asn.au/resources/retirement-standard).

[13] Australian Bureau of Statistics, *Housing Occupancy and Costs*, 2017-18, ABS Cat. no. 4130.0, Table 2 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4130.02017-18?OpenDocument).

ASFA Comfortable has advantages over replacement rates

A replacement rate presents retirement income as a percentage of pre-retirement income or expenditure (70 per cent is a typical standardised rate). Using a replacement rate as an income benchmark recognises implicitly that no two individuals have identical expenditure patterns. However, there are significant shortcomings with replacement rates compared with absolute benchmarks such as ASFA Comfortable.

Using a standardised replacement rate as a benchmark requires a common reference point for pre-retirement income – such as, a particular age or just prior to retirement (regardless of age). However, an individual's income path over time is unique. For example, income levels can increase over time due to salary progression or drop markedly if time is taken out of the work force. This means that choice of a particular reference point will arbitrarily benefit some people, and disadvantage others.

A standardised replacement rate is not suitable for all income cohorts. In particular, for people who earn relatively low incomes during their working life, use of a standardised replacement rate is likely to set retirement income benchmarks around or below poverty thresholds – as the following example demonstrates.

For households in the lowest income quintile, and where the reference person is aged 45-55, average gross *household* income is around $22,100 per year.[14] If a replacement rate of 70 per cent is applied, this would yield an annual retirement income benchmark of only around $15,500 – which is less than the current Age Pension (a maximum of $24,335 per year).

Of course, different replacement rates can be used according to income level, however this approach introduces another layer of complexity.

ASFA Comfortable is consistent with community expectations

While it is certainly the case that not all retirees will have income in retirement that is at or above the ASFA Comfortable level, there is clear evidence that this is what a large proportion of the Australian community wants and needs in retirement.

In a recent ASFA-commissioned survey, around 80 per cent of those surveyed would like to be able to spend *at least* the ASFA Comfortable level in retirement (Table 1). Only a small minority of individuals (less than 20 per cent of respondents) considered the Age Pension, or an income just in excess of it, to be sufficient. Younger people in particular considered the Age Pension insufficient. The full set of survey results are at: https://www.superannuation.asn.au/ArticleDocuments/359/1905-ASFA_Report-Community_support_for_compulsory_superannuation.pdf.aspx?Embed=Y

The results of the ASFA survey are consistent with other publicly available research and data.

The HILDA survey dataset includes responses from people, aged 45 and over, who are not yet retired, about the level of retirement income they would require for a satisfactory standard of living (in retirement). For 2015, the average required income was $43,128 for a single person, and $62,340 for a couple. These average income expectations align closely with ASFA Comfortable. Furthermore, the HILDA researchers concluded that, based on pre-retirement spending, people do not have unreasonably high expectations of their income requirements in retirement.[15]

[14] Australian Bureau of Statistics, *Household Income and Wealth*, 2017-18, ABS Cat. no. 6523.0, Table 6.4 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02017-18?OpenDocument).

[15] Wilkins, R. 2017, *The 12th Annual Statistical Report of the HILDA Survey*, Melbourne Institute: Applied Economic and Social Research, The University of Melbourne (https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0010/2437426/HILDA-SR-med-res.pdf).

Table 1: Views on the adequacy of the Age Pension and required standard of living in retirement by gender and by age

Thinking about your eventual (or current) retirement which of the following statements is most relevant to you:	Overall	Gender		Age generation			
		Female	Male	Generation Y (38 years old & below)	Generation X (39 - 53 years old)	Baby Boomers (54 - 73 years old)	Pre-Boomers (74 years old and above)
The Age Pension alone should be sufficient for my needs	5.9%	5.0%	6.9%	5.3%	5.0%	6.5%	10.9%
I would need to spend a little more than what is provided by the Age Pension	13.7%	12.8%	14.7%	14.6%	10.6%	14.2%	20.6%
I would want to be able to spend around what is set in the ASFA Comfortable standard budgets (around $43,300 a year for a single person and $61,000 combined for a couple)	41.5%	43.4%	39.4%	43.4%	36.7%	42.2%	47.3%
I want to be able to spend more in retirement than in the ASFA Comfortable standard budgets (around $43,300 a year for a single person and $61,000 combined for a couple)	38.9%	38.8%	39.1%	36.7%	47.7%	37.2%	21.2%

Source: ASFA

Data from the *ABS Household Income and Wealth Survey 2017-18* indicate that even when allowance is made for differences in housing costs, both the average and median disposable incomes for households with a household head aged 55 to 64 are higher than the levels set by ASFA Comfortable. The circumstances of such households are directly relevant to assessing the adequacy of retirement incomes, as such households contain individuals who are approaching retirement in the not too distant future. The average disposable income for such households in 2017-18 was $105,120 and the median disposable income was $78,162.[16]

[16] Australian Bureau of Statistics, *Household Income and Wealth*, 2017-18, ABS Cat. no. 6523.0, Table 10.1 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02017-18?OpenDocument).

The compulsory superannuation system enjoys widespread community support

For individuals, compulsory superannuation has meant higher incomes in retirement, and a better standard of living, than otherwise would be the case. Enhancements to the current regime – including the legislated increases in the Superannuation Guarantee (SG) rate – will improve the wellbeing of future generations of retirees.

Almost thirty years on from its introduction, public support for compulsory superannuation remains high. An ASFA-commissioned survey, over 90 per cent of respondents either supported or strongly supported compulsory superannuation, with remarkable consistency across age groups and for males and females. The full set of survey results is at: https://www.superannuation.asn.au/ArticleDocuments/359/1905-ASFA_Report-Community_support_for_compulsory_superannuation.pdf.aspx?Embed=Y

The SG rate is legislated to increase

The SG rate is legislated to increase from its current 9.5 per cent to 12 per cent by 1 July 2025. As late as October last year, the government reaffirmed that it would adhere to the legislative timetable to lift the SG rate, with Senator Cormann stating that "the policy of our government is not to make any change to the timetable as legislated."[17]

ASFA has also long supported the legislated increase in the SG rate. It underpins ASFA's targets for retirement outcomes as set out in Section 2, where around 50 per cent of Australians are able to achieve a comfortable standard of living in retirement by 2050.

There is strong public support for increasing the SG rate to 12 per cent. In the aforementioned survey, around 80 per cent of respondents across a range of demographics either supported or strongly supported the increase. The full set of survey results is at: https://www.superannuation.asn.au/ArticleDocuments/359/1905-ASFA_Report-Community_support_for_compulsory_superannuation.pdf.aspx?Embed=Y

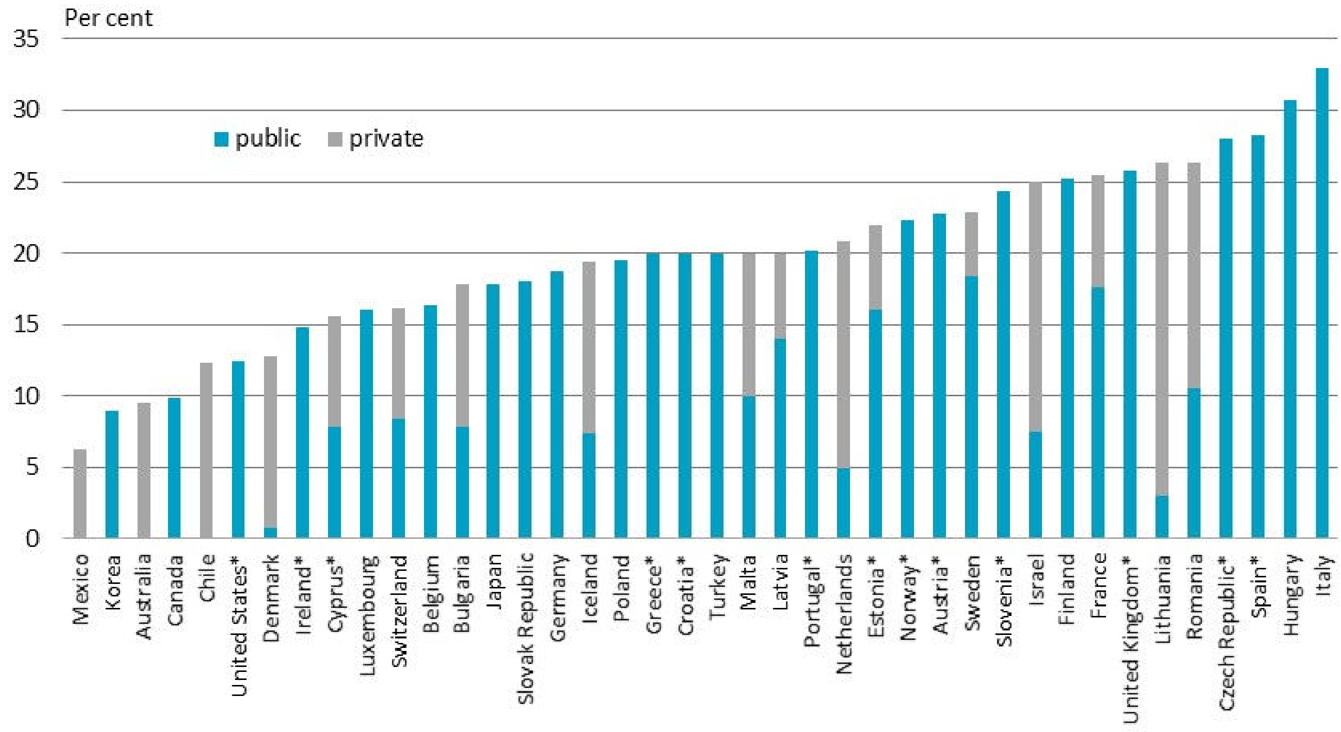
Increasing the SG rate to 12 per cent would also bring Australia more in line with pension systems in other advanced economies. Australia has one of the lowest mandatory contribution rates in the OECD (Chart 2), although in some other OECD countries social security contributions also fund other types of benefits.[18]

Achieving higher rates of SG compliance remains an important issue for Australian workers, particularly given the legislated increase in the SG rate. Unpaid SG contributions can have a significant impact on the future retirement living standards of affected employees. ASFA considers that employers should comply with their SG obligations, including paying contributions on time, and supports improvements to the regulatory framework to achieve higher compliance rates. ASFA's work on this issue is at: https://www.superannuation.asn.au/ArticleDocuments/1032/201922_SG_Amnesty_TLAB_Recovering_Unpaid_Super_Bill_2019_Senate_Economics_Legislation_Committee.pdf.aspx?Embed=Y

[17] Parliament of Australia, *Hansard, Senate Economics Legislation Committee: 2019-20 Supplementary Budget Estimates*, Wednesday, 23 October 2019 (https://parlinfo.aph.gov.au/parlInfo/download/committees/estimate/2d99de5e-efbe-4e82-91ed-1c4cbd3bc6ab/toc_pdf/Economics%20Legislation%20Committee_2019_10_23_7294_Official.pdf;fileType=application%2Fpdf#search=%22committees/estimate/2d99de5e-efbe-4e82-91ed-1c4cbd3bc6ab/0000%22).

[18] OECD 2018, *Pensions Outlook*, Figures 7.1 and 7.2 (https://www.oecd-ilibrary.org/finance-and-investment/oecd-pensions-outlook-2018/mandatory-pension-contribution-rates-for-an-average-worker-in-2016_pens_outlook-2018-graph2-en).

Chart 2: Mandatory pension contribution rates for an average worker (in 2016)



Source: OECD[19]

* includes non-pension benefits.

The legislated increase in the SG rate will improve economic security in retirement

Ultimately, the increase in the SG rate to 12 per cent will improve the economic security of retirees. The increase in the SG will support higher retiree living standards – where both incomes and expenditure needs are subject to significant downside risks.

The increase in the SG will boost retirement incomes

ASFA estimates that an individual would need a superannuation balance at retirement of around $545,000 (in today's dollars) to support a lifestyle in retirement consistent with ASFA Comfortable. The individual's superannuation balance would be drawn down over time (and eventually exhausted), and income from superannuation would be supplemented by Age Pension payments.[20]

The legislated increase in the SG rate will have a significant impact on balances at retirement. Using ATO data, wage and salary earners can be divided into equal cohorts (deciles), and wage profiles derived for each cohort. Table 2 shows projected superannuation balances, at the time of retirement, for the different income cohorts.

[19] OECD 2018, *Pensions Outlook*, Figures 7.1 and 7.2 (https://www.oecd-ilibrary.org/finance-and-investment/oecd-pensions-outlook-2018/mandatory-pension-contribution-rates-for-an-average-worker-in-2016_pens_outlook-2018-graph2-en).

[20] ASFA 2018, *ASFA Retirement Standard* (https://www.superannuation.asn.au/ArticleDocuments/269/ASFA-RetirementStandard-Summary-2018.pdf.aspx?Embed=Y).

Table 2: Balances at retirement for income cohorts (in today's dollars)[21]

Income cohort	Men		Women	
	SG rate remains at 9.5%	SG rate increases to 12%	SG rate remains at 9.5%	SG rate increases to 12%
1	265,000	310,000	265,000	310,000
2	330,000	395,000	295,000	350,000
3	385,000	455,000	325,000	385,000
4	430,000	515,000	355,000	425,000
5	485,000	580,000	390,000	465,000
6	535,000	640,000	430,000	510,000
7	585,000	705,000	475,000	565,000
8	650,000	785,000	530,000	635,000
9	735,000	885,000	590,000	710,000
10	870,000	1,045,000	690,000	825,000

Source: ASFA derived

If the SG remains at 9.5 per cent, men in the 7th income cohort and women in the 9th income cohort would be expected to reach ASFA Comfortable at the time of retirement – solely on the basis of SG contributions (the grey cells in Table 2).

Increasing the SG to 12 per cent will help workers in the middle-income cohorts reach ASFA Comfortable, by the time of retirement, who otherwise might not attain that benchmark. If the SG rate increases as legislated, men in the 5th income cohort and women in the 7th income cohort would be expected to reach ASFA Comfortable.

The starkest insight from Table 2 is the difference in retirement outcomes between men and women. If the SG rate increases as legislated, male workers who enter the workforce today and earn (male) median wages throughout their career would be expected to reach ASFA Comfortable. In contrast, female workers who earn (female) median wages would be around $100,000 shy of the benchmark. This reflects both lower current median balances, and lower projections for median wages.

It should be noted that the above results are stylised.

In reality, an individual's income can change markedly over the course of his/her working life – and, as a result, he/she can move through a number of income cohorts. However, incorporating this – and other individual-level features such as broken work patterns – requires sophisticated micro-simulation modelling that is beyond the scope of this submission.

This emphasises the need for greater transparency around Treasury's modelling of retirement incomes for this review, including with its new dynamic microsimulation Model of Australian Retirement Incomes and Assets (MARIA). At the very least, modelling undertaken for the review's final report should be accompanied by details of the underlying data and assumptions. ASFA also considers that Treasury should

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[21] The assumptions used in this analysis are as follows: A person starts work at age 19 and retires at age 67. Wage profiles for each income cohort are derived from ATO Individual Sample Files (2016-17). The SG rate increases to 12 per cent as legislated. Administration fees and insurance premia total $200 per year. Nominal investment returns are 5.7 per cent after investment fees and taxes. All figures are in today's dollars using 2.75 per cent (average weekly earnings) as a deflator.

make MARIA publicly available. Public access to MARIA would help enhance the policy debate about the settings for the retirement income system (see Appendix 1 for details).

The above results are for a single person, rather than a couple.

In order to enjoy the same standard of living in retirement, a couple requires a lower superannuation balance than two single people. For example, ASFA estimates that a couple needs a superannuation balance at retirement of around $640,000 (in today's dollars) to support a lifestyle consistent with ASFA Comfortable.[22]

While it is certainly the case that most people retire as part of a couple, many Australians reach retirement as a single person. Data from the ABS shows that for households where the reference person is aged 55 to 64, around 27 per cent of those households comprise a single person.[23]

The increase in the SG will help retirees better account for downside risks

For an individual, the retirement outcome problem is, in essence, one of managing personal assets over his/her lifecycle in order to meet potential expenditures in retirement (the discounted present value of which is the individual's liabilities at a particular point in time). This is particularly relevant for members of defined contribution (DC) funds.

In this regard, a fundamental issue is the nature of the risks faced by individuals in respect of their living standards in retirement. The legislated increase in the SG rate represents a source of insurance (but by no means the only one) against those risks.

Asset-side: investment returns

- A DC member in the accumulation phase is exposed to the risk of low investment returns on financial assets (portfolio risk). This is also relevant for a retired member with an account-based pension or similar product (the timing of returns within a person's lifecycle also matters).
- Over the last ten years, investment returns for superannuation funds have averaged 8.7 per cent (6.4 per cent in real terms).[24] [25] Looking ahead, the general consensus among investment professionals is that there is a material risk of a period of lower returns – although there is a great degree of uncertainty around the extent and duration.[26]
- If realised, the effect on retirement outcomes would generally be greater for people already retired – who would have little capacity to make additional contributions and may not benefit from any ultimate improvement in returns. For members in the accumulation phase, the level of superannuation contributions would have a greater impact on balances at retirement.

Liability-side: elevated expenditures

- A retiree is exposed to the risk of elevated expenditures in retirement, including the possibility of expensive medical procedures.

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[22] ASFA 2018, *ASFA Retirement Standard* (https://www.superannuation.asn.au/ArticleDocuments/269/ASFA-RetirementStandard-Summary-2018.pdf.aspx?Embed=Y).

[23] Australian Bureau of Statistics, *Household Income and Wealth*, 2017-18, ABS Cat. no. 6523.0, Table 10.3.(https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02017-18?OpenDocument).

[24] ASFA, *Superfunds*, 13 September 2019 (https://superfunds.superannuation.asn.au/2019/09/all-time-highs-are-the-norm/)

[25] Australian Bureau of Statistics, *Consumer Price Index*, December 2019, ABS Cat. no. 6401.0, Table 1 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Dec%202019?OpenDocument).

[26] For example, see Debelle, G 2018, *Risk and Return in a Low Rate Environment*, Speech at Financial Risk Day 2018, Sydney, 16 March 2018 (https://www.rba.gov.au/speeches/2018/sp-dg-2018-03-16.html).

- The price of hospital services is outpacing general inflation – by a factor of 3 over the last 20 years.[27] Although seniors receive significant government support to cover costs, pressures on the federal budget from an ageing population may lead to pressure for greater financial contributions from users.

Liability-side: life expectancy

- A retiree is also exposed to the risk of outliving his/her savings (longevity risk).
- The life expectancy of Australians is increasing – life expectancy (at birth) for a female born today is 84.6 years, compared with 72.8 years for a female born in 1955 (would be around retirement age now).[28]

Of course, the development of retirement solutions that better account for these risks is ongoing – including products that enable people to better manage longevity risk and optimise the draw-down of superannuation savings. ASFA's work in this area is at: https://www.superannuation.asn.au/ArticleDocuments/473/1907-The_Retirement_Outcomes_Continuum_Strategic_Approach_to_Invesetment.pdf.aspx?Embed=Y

Renters need higher superannuation balances than homeowners

The above analysis of superannuation balances at retirement assumes homeownership.

Housing is the largest fixed cost in most household budgets, meaning that people with lower housing costs, such as those who own their homes outright, are able to achieve a higher standard of living than those on the same income but who live in rental accommodation. Unsurprisingly, rates of poverty are much higher for households in rental accommodation than for owner-occupier households – including for retirees.

The proportion of retirees living in rental accommodation is expected to increase. At present, around 14 per cent of retirees live in some form of rental accommodation (9 per cent in private rentals, 3 per cent in public housing and 2 per cent in other forms),[29] with rates for single retirees around double that for couples.[30] Declining rates of homeownership among younger cohorts of Australians suggest that the proportion of retirees living in rental accommodation will increase over coming decades.[31]

To achieve the ASFA Comfortable level of income, a renter in Sydney requires around $62,000 compared with $43,787 for a homeowner (average housing costs in Sydney are higher than elsewhere in Australia, so required income levels for residents elsewhere would typically be lower).[32]

This means that retirees who do not own their own home would need to accumulate more superannuation savings. ASFA research shows that instead of $545,000, a typical renter in Sydney would need to accumulate around $1 million to achieve a comfortable standard of living in retirement.[33] All else being

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[27] Australian Bureau of Statistics, *Consumer Price Index*, December 2019, ABS Cat. no. 6401.0, Table 1 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6401.0Dec%202019?OpenDocument).

[28] Australian Institute of Health and Welfare 2019, *Deaths in Australia* (https://www.aihw.gov.au/reports/life-expectancy-death/deaths-in-australia/data).

[29] Australian Bureau of Statistics, *Housing Occupancy and Costs*, 2017-18, ABS Cat. no. 4130.0, Table 2.1 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4130.02017-18?OpenDocument).

[30] Wilkins, R. and Lass, I. 2017, *The 13th Annual Statistical Report of the HILDA Survey*, Melbourne Institute: Applied Economic and Social Research, The University of Melbourne (https://melbourneinstitute.unimelb.edu.au/__data/assets/pdf_file/0009/2874177/HILDA-report_Low-Res_10.10.18.pdf).

[31] ibid

[32] ASFA 2017, 'Retirees renting need more than $1 million to be comfortable', ASFA media release (https://www.superannuation.asn.au/media/media-releases/2017/media-release-13-march-2017).

[33] ASFA 2017, 'Retirees renting need more than $1 million to be comfortable', ASFA media release (https://www.superannuation.asn.au/media/media-releases/2017/media-release-13-march-2017).

equal, achieving a higher balance would require higher contributions – however people who rent tend to earn lower incomes than homeowners.[34] ASFA's work on these issues are at: https://www.superannuation.asn.au/media/media-releases/2017/media-release-13-march-2017

The Age Pension will play an important, but diminishing role in the provision of retirement incomes

For most current retirees, superannuation supplements or substitutes the Age Pension.

Of the current group of people aged 65 and over, 70 per cent receive a full or part Age Pension:

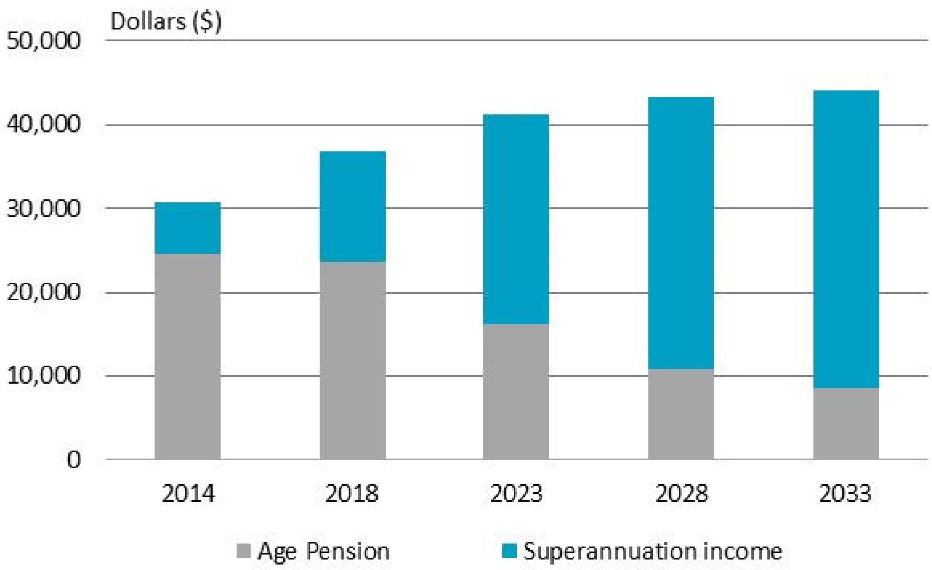
- 42 per cent are on the full Age Pension.
- 28 per cent are on a part Age Pension.

On the basis that the legislated increases in the SG occur, the proportion of people aged 65 and over receiving a full or part Age Pension will fall to 60 per cent by 2055:

- 24 per cent will be on the full Age Pension.
- 36 per cent will be on a part Age Pension.[35]

An alternative way to depict increasing degrees of self-sufficiency among retirees is shown in Chart 3.

Chart 3: Average retirement income at Age Pension eligibility age (in today's dollars)



Source: ASFA derived

Chart 3 shows that, over time, the average retiree at the time of retirement will receive a lower Age Pension in both absolute and proportional terms – due to projected increases in superannuation account balances. As above, this analysis assumes that the SG rate increases as legislated.

Taper rates and income adequacy

The Age Pension means test is a key determinant of the composition of retirement incomes (between Age Pension payments and superannuation income) throughout retirement. For example, the increase in the asset test taper rate (that took effect from 1 January 2017) means that the level of Age Pension payments

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[34] Australian Bureau of Statistics, *Household Income and Wealth*, 2017-18, ABS Cat. no. 6523.0, Table 8 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02017-18?OpenDocument).
[35] ASFA data.

reduces by a greater degree for a given increase in superannuation assets (details of this and other changes is in Section 6). If the increase in the taper was unwound, then so would the effects on Age Pension payments.

ASFA considers that increasing the SG to 12 per cent should be the primary policy mechanism to boost the adequacy of retirement savings. As a policy lever, the taper rate is more limited in what it can achieve for system adequacy. For example, in the context of the current means-test regime, relaxing the taper rate would do little for current workers on lower incomes.

In addition, the prospect of ongoing adjustments to the taper rate would embed another source of uncertainty in the system. For people yet to retire, ongoing adjustments would increase uncertainty about how much superannuation they will need for retirement. As is argued in Section 5, instability in policy settings is contrary to the principle of long-term system sustainability.

4. System equity

Broadly defined, equity relates to equality of opportunity in accessing the retirement income system, and to the distribution of government support for individuals' retirement incomes. As a general principle, the benefits provided by the retirement income system should be evenly distributed across cohorts of workers within a particular generation, and across generations.

Equity is not just a matter of fairness. Equity also promotes confidence in the retirement income system. Ultimately, this is likely to manifest itself in higher levels of public support for the system.

- A significant number of Australians face barriers in accessing superannuation, which will adversely affect their retirement outcomes.
- Recent changes to the policy settings for superannuation have improved the equity of the broader retirement incomes system.
- Government support via the retirement income system is more equitable than in many other OECD countries.

A significant number of Australians face barriers in accessing superannuation

Lack of universality of the retirement income system means there is not equality of opportunity in accessing the system. Universality should be a core public policy objective.

Certain cohorts of Australians face barriers to access to the retirement income system. This can be the result of deliberate policy decisions, or unintentional features of policy settings that may only become apparent over time. Such barriers lead to disparity in retirement outcomes. ASFA considers that no Australian should be left behind by the retirement income system and supports policy solutions in this regard.

Certain cohorts of Australians are not covered by the SG regime

The self-employed: In general, self-employed people are not covered by the SG regime and rely on voluntary contributions for accumulating superannuation savings.

Self-employed people typically have lower superannuation balances than employees across the entire age distribution. Around 20 per cent of the self-employed have no superannuation, compared with only 8 per cent of employees. The disparities between the self-employed and employees have not diminished appreciably over the past decade. Detailed ASFA research on superannuation balances of the self-employed is at: https://www.superannuation.asn.au/ArticleDocuments/359/1803-Superannuation_balances_of_the_self-employed.pdf.aspx?Embed=Y

Gig economy workers: The rise of the gig economy will lead to an increase in the proportion of self-employed persons – in particular, independent contractors. Economic activity through web-based platforms represents only a small share of the broader economy, however gig economy platforms are expanding to encompass a wider variety of professions and industries. The volume of work done, and the number of workers engaged, in the gig economy is growing fast.

In decades ahead, these trends suggest a lower proportion of jobs for which workers will be covered by the SG regime. In general, this will mean lower superannuation savings for affected workers and increased pressure on government budgets from higher Age Pension payments. Detailed ASFA research on superannuation and the changing nature of work is at: https://www.superannuation.asn.au/ArticleDocuments/359/1709_Superannuation_and_the_Changing_Nature_of_Work.pdf.aspx?Embed=Y

ASFA considers that the compulsory superannuation regime should be extended to formally include these workers.

Low income earners: Under the SG regime there is a wage threshold of $450-a-month before SG contributions become payable by employers. In general terms, the existence of the threshold penalises low-income earners, permanent part-time workers, and those with multiple jobs who receive little or nothing in the way of SG contributions.

The existence of the threshold affects roles predominantly performed by women, such as the caring professions, hospitality, retail, and cleaning. Often this affects women who desire to work casually due to child raising, or who are forced to do so through a lack of adequate or affordable childcare.

ASFA has long advocated for removing the $450-a-month earnings threshold. ASFA estimates around 365,000 individuals (220,000 women and 145,000 men) would benefit from the removal of the threshold by receiving higher retirement savings.[36]

Certain cohorts of Australians are unable to yield the full benefits of the superannuation system

People with broken work patterns: People spend periods out of paid employment, or work part-time/casually, for a variety of reasons. These include; to care for family members; illness or injury; study; redundancy; or an inability to find suitable employment.

Periods of lower or no superannuation contributions will lead to lower balances at retirement. For affected people, the impact on retirement outcomes would typically be less for those who retire as part of a couple, rather than as a single person.

Table 3 suggests that there are at least 1 million Australians experiencing a break in work at any point in time. The data also suggest that around three-quarters of those are women. The table also shows that carers – for children and/or other family members – represent a very large proportion of those experiencing a break in work, and that women are over-represented among carers.

ASFA considers that the SG should apply in all circumstances where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation.

[36] ASFA 2019, Strengthening Australia's Superannuation System: ASFA's proposed toolkit for the Government (https://www.superannuation.asn.au/ArticleDocuments/359/200319-ASFA-Core-Policies-2019.pdf.aspx?Embed=Y).

More broadly, ASFA considers that increasing the SG rate to 12 per cent, as legislated, would help people with broken work patterns accumulate higher balances than otherwise would be the case.

Table 3: Reasons for not working, or not working more, by labour force status

Thousands of persons

<table>
<tr><th rowspan="2"></th><th colspan="3">Not in labour force</th><th colspan="3">Unemployed</th><th colspan="3">Part-time, but would work more</th><th colspan="3">All categories</th></tr>
<tr><th>male</th><th>Female</th><th>total</th><th>male</th><th>female</th><th>total</th><th>male</th><th>female</th><th>total</th><th>male</th><th>female</th><th>total</th></tr>
<tr><td>Caring for children</td><td>441</td><td>38</td><td>480</td><td rowspan="2">18</td><td rowspan="2">5</td><td rowspan="2">23</td><td rowspan="2">15</td><td rowspan="2">3</td><td rowspan="2">18</td><td rowspan="3"></td><td rowspan="3"></td><td rowspan="3"></td></tr>
<tr><td>Looking after ill or disabled person</td><td>189</td><td>87</td><td>275</td></tr>
<tr><td>Own injury or illness</td><td>37</td><td>46</td><td>83</td><td>26</td><td>33</td><td>59</td><td>7</td><td>9</td><td>17</td></tr>
<tr><td>All reasons</td><td>667</td><td>171</td><td>838</td><td>44</td><td>38</td><td>82</td><td>22</td><td>12</td><td>34</td><td>734</td><td>221</td><td>955</td></tr>
</table>

Source: ABS[37]

Economic insecurity of women: While the phenomenon of experiencing time out of the workforce is not confined to women, caring for children, and on occasion for parents or other family members, is most often performed by women. As noted above, for those who receive paid parental leave, the SG does not apply to replacement income. Furthermore, people returning from parental leave (generally women) frequently return to the workforce on a part-time basis, especially on the birth/adoption of a second or subsequent child.

Women are much more likely than men to be working part-time. Almost half of employed women work part-time (43.4 per cent), compared with 16.0 per cent of employed men. For employed women with a child aged 5 or under, 59.3 per cent work part-time, compared with 7.6 per cent of fathers of young children.[38] More details of ASFA's work on the economic insecurity of women is at: https://www.superannuation.asn.au/ArticleDocuments/359/1805-Women_Security_Retirement.pdf.aspx?Embed=Y

ASFA considers that policies to boost the superannuation savings of low-income earners and people with broken work patterns would particularly help address the economic insecurity of women in retirement.

[37] Australian Bureau of Statistics, *Participation, Job Search and Mobility,* February 2019, ABS Cat. no. 6226.0, various tables (https://www.abs.gov.au/Ausstats/abs@.nsf/0/6A38AB9379F0EFF9CA257FD8001293DE?OpenDocument).

[38] Australian Bureau of Statistics, *Gender Indicators*, November 2019, ABS Cat. no. 4125.0, Table 1.9 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6226.0Feb%202019?OpenDocument).

Recent changes to the policy settings have made the distribution of government support more equitable

All Australians receive financial support for their retirement from the Commonwealth government through either the Age Pension, tax concessions to fund their own retirement through superannuation, or a combination of both. ASFA supports equity in the distribution of that support.

ASFA research shows that recent changes to policy settings have made the distribution of government support more equitable, and that with the current settings in place, this will improve over time.

The May 2016 Budget changes have reduced the overall amount of tax concessions for superannuation contributions and investment earnings by around $2.5 billion a year. As well, there has been a substantial change in the distribution of the tax concessions by income tax rate band. The changes reduced the proportion of the concessions going to those with an income in the top income tax band by 15 per cent. In the future, the reduction in contribution caps will limit balances that can be accumulated, further reducing the proportion of the tax concessions benefitting upper income earners.

The bulk of the concessions (around 40 per cent of the total concessions) go to those in the $80,001 to $180,000 income band, with the proportion increasing by around 2 percentage points as a result of the 2016 Budget changes.[39]

That said, there are a small number of very wealthy individuals who continue to receive the full benefit of superannuation tax concessions. For such individuals, consideration could be given to whether current policy settings are appropriate.[40]

Government support via the retirement income system is more equitable than in many other OECD countries

OECD analysis highlights the equity of Australia's retirement income system compared with other OECD countries.

The OECD estimates tax benefits as the present value of taxes saved over a lifetime, due to concessional tax treatment, expressed as a percentage of the present value of contributions (Chart 4). On this basis, Australia sits in the middle of the pack. However, what is most stark about the OECD analysis is that, unlike most other countries, the estimated tax benefits are the same for average-income earners, high-income earners (four-times average earnings) and low-income earners (60 per cent of average earnings).[41]

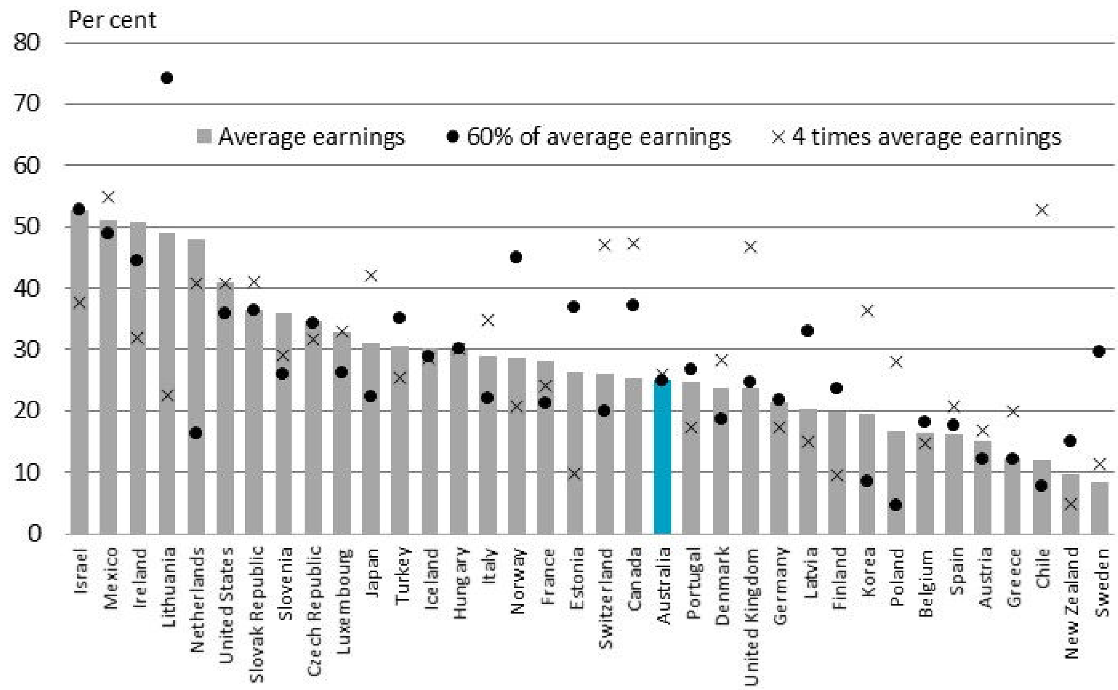
[39] Forthcoming ASFA research paper.

[40] ATO 2019, Individual Sample Files 2016-17 (https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Taxation-statistics/Taxation-statistics-2016-17/?page=11).

[41] OECD 2018, *OECD Pensions Outlook 2018* (http://www.oecd.org/finance/oecd-pensions-outlook-23137649.htm).

Chart 4: Overall tax benefit for individuals, by income level

Present value of taxes saved over a lifetime, as a percentage of the present value of contributions



Source: OECD[42]

In Australia, the various measures that limit the tax advantage accruing to upper income earners (such as contribution caps, and Division 293), together with the Low Income Superannuation Tax Offset, have been very effective in bringing about what is in effect flat taxation rates for superannuation. Redistribution and more general vertical equity goals in Australia are pursued effectively through a personal tax system with progressive tax rates and also through a flat rate and means tested Age Pension system.

5. The sustainability of the system

The sustainability of the retirement income system is an intertemporal problem.

Individuals accumulate savings via superannuation during their working life to help fund their income in retirement, where that income can comprise a mix of Age Pension payments and income from superannuation savings.

If the current cohort of workers save at lower rates, then the fiscal cost (for government) of superannuation tax concessions will be lower – in relation to workers' pre and post-retirement phases. In contrast, the fiscal cost of Age Pension payments will be higher – but this will be realised only during workers' retirement years.

Over coming decades, the ongoing ageing of Australia's population will exacerbate any budget pressures from higher Age Pension payments – by 2060, ongoing population ageing means that by 2055 there will be just under three working-age people for each person of retirement age and older, compared with over four today and around seven just two generations ago.[43]

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[42] OECD 2018, *OECD Pensions Outlook 2018* (http://www.oecd.org/finance/oecd-pensions-outlook-23137649.htm).

[43] Australian Bureau of Statistics (*Australian Demographic Statistics,* ABS Cat no. 3101.0 and *Population Projections, Australia*, ABS Cat no. 3222.0), and The Treasury, *2015 Intergenerational Report: Australia in 2055*.

From a societal perspective, if younger generations are faced with an increasing burden of supporting the incomes of retired Australians (through the tax system), then this could increase pressure on the implied inter-generational social contract.

Beyond the fiscal implications, a broader perspective of sustainability considers the long-term cost effectiveness of the retirement income system. This approach accounts for the fiscal cost of tax concessions and the fiscal benefit from reductions in Age Pension payments, but also the benefits for Australian retirees, the Australian economy and local financial markets.

Sustainability is a function of the approach to retirement income policy making. Taking a long-term perspective on the objectives and outcomes of the system necessitates a long-term approach to policy making, rather than ongoing tinkering with settings. A likely outcome of a long-term approach would be increased confidence and trust in the system, which would promote member engagement and support higher levels of voluntary savings through superannuation.

- Australia has one of the most fiscally-sustainable retirement income systems in the world. Population ageing and its fiscal implications are an issue for many countries across the world, however Australia is better placed than most other advanced economies.
- On a year-by-year basis, the fiscal cost of the retirement income system will be affordable and sustainable over coming decades.
- The fiscal impacts of the retirement income system should be considered within the context of the broader costs and benefits of the system – which include improvements to the living standards of older Australians, and the numerous benefits for the broader economy.
- System sustainability is also a function of the stability of policy settings – which need to be consistent with long-term objectives.

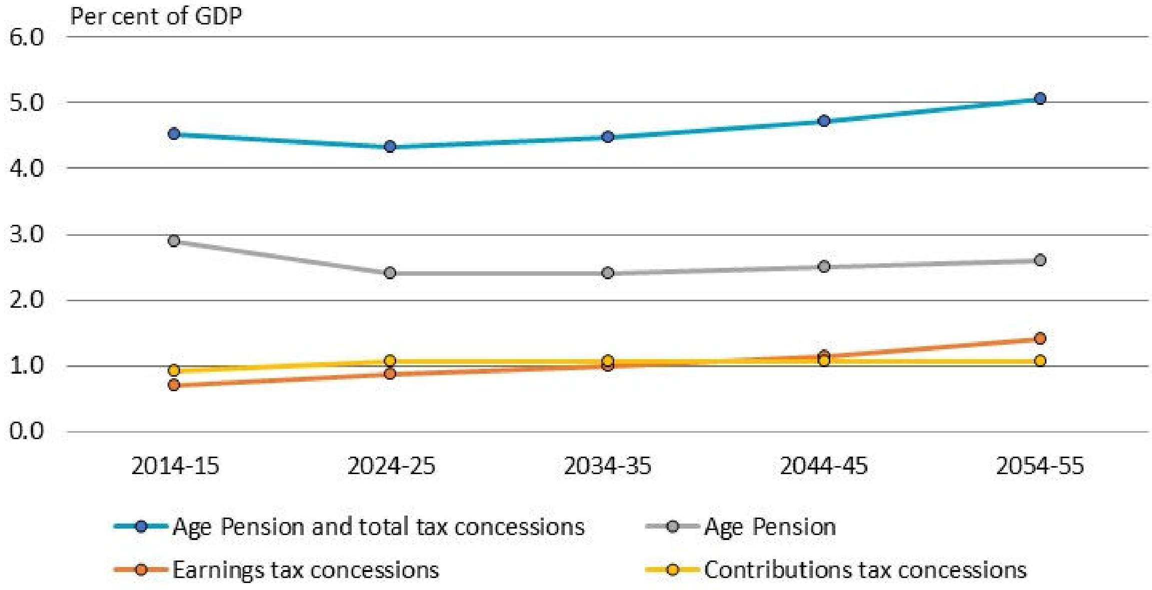
The annual fiscal cost of the retirement income system will remain affordable and sustainable

Commonwealth expenditure on the Age Pension is expected to remain relatively stable, at low levels, over coming decades. Age Pension expenditure will be contained due to higher superannuation account balances at retirement, and the operation of the Age Pension means test.

ASFA projects that expenditure on the Age Pension will fall from 2.9 per cent to 2.6 per cent of GDP over the period to 2054-55, assuming the SG rate is increased to 12 per cent. This is consistent with the Australian Government's own projections (Chart 5).[44]

[44] ASFA data. Also, this projection is broadly consistent with the Australian Government's *2015 Intergenerational Report: Australia in 2055* (https://static.treasury.gov.au/uploads/sites/1/2017/06/2015_IGR.pdf).

Chart 5: Projected fiscal cost of the retirement income system



Source: ASFA derived

For superannuation contributions, the concessional caps are working to limit total tax concessions, as is the additional tax charged on contributions made by individuals with income of $250,000 or more a year. The fiscal cost of tax concessions for superannuation contributions will remain stable at around 1 per cent of GDP once the SG rate reaches 12 per cent. SG contributions make up the great bulk of concessionally-taxed contributions.

As the superannuation asset pool increases, the aggregate value of the tax concessions on investment earnings will increase somewhat. More assets – backing complying retirement incomes – will be tax free, but there will be a smaller proportion of assets in very high account balances due to the long-term impact of contribution caps.

Overall, the total cost of expenditure on the Age Pension and on tax concessions for superannuation are projected to rise, but only from 4.5 per cent of GDP to around 5.1 per cent of GDP. This is remarkable given the expected ageing of Australia's population.

Government support for retirement incomes is affordable now and in the future.

In contrast, the Commonwealth government faces significant long-term fiscal challenges from escalating future health and aged care expenses. Based on the government's own figures, health care expenses paid for by the Commonwealth government are projected to rise from 4.2 per cent of GDP to 5.7 per cent (by 2055). Aged care expenditure is projected to rise from 0.9 per cent of GDP to 1.7 per cent of GDP.[45]

Australia is facing far lower fiscal pressures than most other OECD countries

The cost to government of Australia's retirement income system will remain more affordable than for most other OECD countries. Australia, both currently and in prospect, has among the lowest levels of public expenditure (in terms of per cent of GDP) on income payments to the aged in the world.

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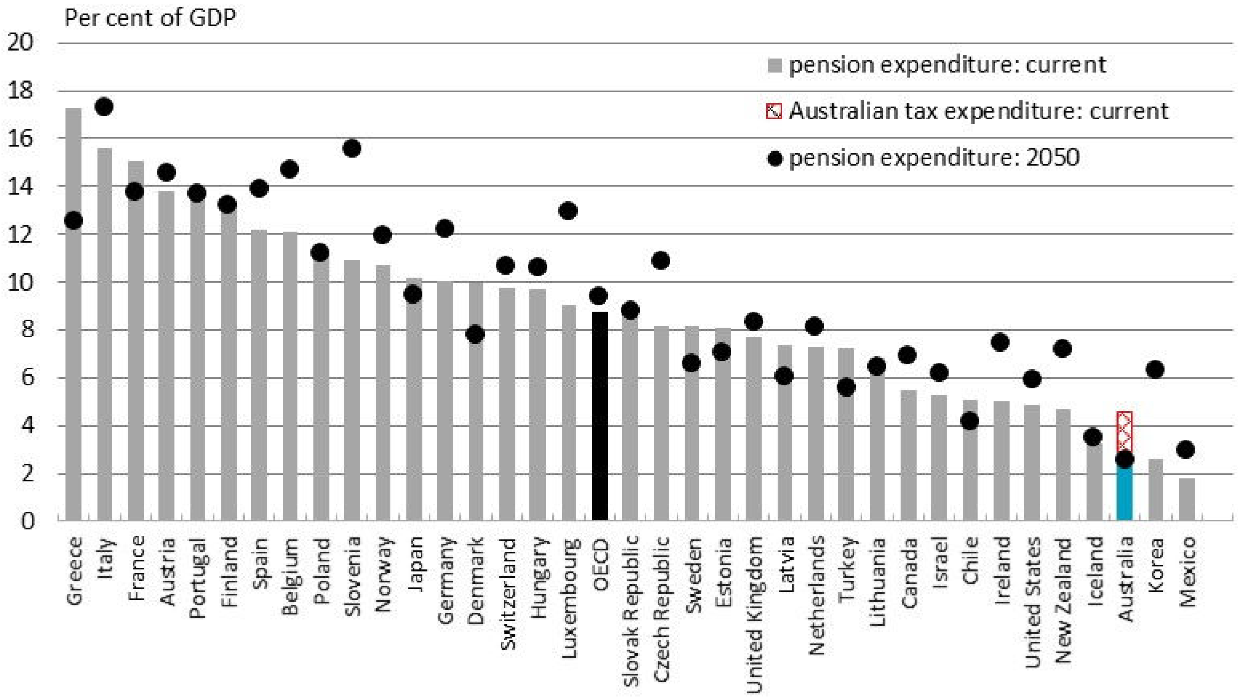
[45] The Commonwealth of Australia, *2015 Intergenerational Report: Australia in 2055* (https://static.treasury.gov.au/uploads/sites/1/2017/06/2015_IGR.pdf).

Across the OECD, expenditure on public pensions averages 8.8 per cent of GDP, is projected to increase to 9.4 per cent by 2050, and increase further thereafter. Some European countries already have four times the level of Australian expenditure, with this projected to rise further. Those countries where expenditure on public pensions is expected to increase (in the absence of reform) include Canada, Germany, New Zealand, the United Kingdom and the United States.[46]

Many OECD countries offer favourable tax treatment with respect to retirement savings made through private pension plans – including Australia. It is difficult to compare countries' tax expenditure figures because their magnitude depends on the specific tax benchmark used. However, even when only the cost of Australia's superannuation tax expenditures is included (Chart 6), the broader cost of Australia's system to the government is still remarkably low.

Chart 6: Public expenditure on pensions for OECD – with tax expenditures for Australia only



Source: OECD and ASFA calculations[47]
Note: 'Current' figures are for the period 2015-16.

The cost-effectiveness of the retirement income system provides a broader perspective than the annual fiscal cost

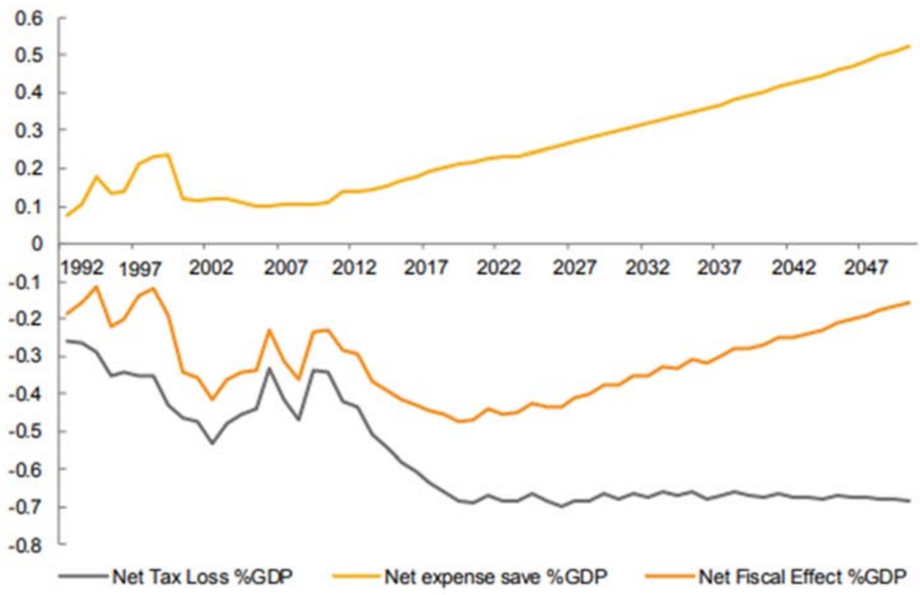
An alternative approach to sustainability considers whether the system is cost-effective, over the long term. While this question can be, and is typically, approached in narrow fiscal terms, a broader perspective suggests greater benefits.

Some preliminary work in this area was undertaken by the government-appointed Superannuation Charter Group almost a decade ago, which focused on the direct impacts on the budget from the SG regime (Chart

[46] OECD 2019, *Pensions at a Glance: OECD and G20 Indicators: long-term projections of public pension expenditure*, (https://www.oecd-ilibrary.org/docserver/4964368d-en.pdf?expires=1579148276&id=id&accname=guest&checksum=37E9C1D723B62A7540E8C707D5947AB7).
[47] OECD 2017, *Pensions at a Glance 2017.*

7). The Charter Group report suggested debate around the cost-effectiveness of the retirement income system would benefit from a broader perspective.[48]

Chart 7: Net fiscal effect of the SG regime



Source: Superannuation Charter Group

In this regard, an assessment of the broader costs and benefits of the retirement income system would require consideration of:

- The direct impacts on the Commonwealth's finances – that is, the fiscal cost of tax concessions compared with the fiscal benefits of reductions in Age Pension payments, including with respect to voluntary savings.
- For individuals, the improvements in living standards in retirement compared with lower pre-retirement utility due to deferred consumption.
- Identifiable benefits for the Australian economy and local financial markets.[49]

A broad-based assessment of this type would require sophisticated modelling that is beyond the scope of this submission.

There are numerous broad benefits of the superannuation system

ASFA has undertaken work that identifies the numerous broad benefits of superannuation – for the Australian government, the Australian economy and the broader Australian population. Overall, these benefits will only grow as the compulsory system matures.

As well as boosting household wealth, compulsory superannuation has diversified households' balance sheets. Through institutional superannuation funds, members gain exposure to assets they either would not have access to or, if they did have (potential) access, this would be at higher prices. This is particularly the case for households in the low to middle-income/wealth cohorts. Compared with before the SG regime, households outside the wealthiest 10 per cent now have a broad asset base outside the family home and

[48] The Australian Government the Treasury 2013, *A Super Charter: Fewer Changes, Better Outcomes: A report to the Treasurer and Minister Assisting for Financial Services and Superannuation* (https://treasury.gov.au/sites/default/files/2019-03/super_charter_report.pdf).
[49] Ibid.

bank accounts. This change has improved the prospects for higher risk-adjusted, long-term returns for households.[50]

Compulsory superannuation has led to higher levels of national saving than otherwise would be the case. The legislated increase in the SG rate would be expected to boost national saving further. Higher levels of national saving facilitate and support higher levels of fixed capital investment in the Australian economy, which in turn results in a larger capital stock/productive capacity. Ultimately, this means higher levels of GDP, higher levels of aggregate productivity and higher living standards for the broader Australian population.[51]

Compulsory superannuation provides stable sources of funding for domestic infrastructure projects. At present, APRA-regulated superannuation funds have investments of up to $70 billion in domestic infrastructure.[52] Australian funds continue to invest in both green and brown-field infrastructure opportunities in Australia. With respect to the latter, funds' participation in asset recycling initiatives helps governments to unlock their balance sheets and fund new infrastructure projects.

As part of their investment decisions, superannuation funds are increasingly integrating environmental, social and governance (ESG) factors – such as risks around climate change. ESG factors have been shown to impact on the risk and returns of investments and, generally, a positive relationship has been shown to exist between integrating ESG factors in the investment process and financial effects[53]. More broadly, greater integration of ESG factors is likely to lead to real investments that are more environmentally and socially sustainable.

Details of the benefits of the superannuation system for households, the Australian economy and local financial markets is at: https://www.superannuation.asn.au/ArticleDocuments/359/1506-Super_tax_concessions_and_economy.pdf.aspx?Embed=Y

Details of ASFA's work on environmental, social and governance factors in superannuation context is at: https://www.superannuation.asn.au/ArticleDocuments/473/1910-ESG_Factors_in_a_Superannuation_Context.pdf.aspx?Embed=Y

Sustainability requires stability in policy settings

Superannuation is compulsory and a key part of the financial system, therefore regulation is important. However, excessive regulation – and unduly frequent changes to the regulatory framework and tax settings – adversely affects efficiency, productivity and innovation. As the pool of private savings grows, there will be an ever-increasing temptation for future governments to change tax settings in particular.

Fund members bear the cost of policy instability. Higher compliance costs for funds from excessive regulation will ultimately pass through to members as higher fees and/or lower returns. And ongoing changes to settings can increase the complexity of the retirement income system for members, reduce member engagement and undermine public confidence in the system – all of which risk harming retirement outcomes.

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[50] ASFA 2015, Superannuation and the Economy (https://www.superannuation.asn.au/ArticleDocuments/359/1506-Super_tax_concessions_and_economy.pdf.aspx?Embed=Y).

[51] Ibid.

[52] APRA, *Quarterly Superannuation Performance Statistics*, September 2018 (https://www.apra.gov.au/quarterly-superannuation-statistics).

[53] ASFA 2019, *Environmental, Social and Governance (ESG) Factors in a Superannuation Context* (https://www.superannuation.asn.au/ArticleDocuments/473/1910-ESG_Factors_in_a_Superannuation_Context.pdf.aspx?Embed=Y)

Achieving stability in policy settings requires a set of clear measures to track success in achieving objectives over the long run and to test whether prospective policy proposals are consistent in achieving the objective (as set out in Section 2).

Requiring policy to be consistent with long-term objectives is appropriate given the long-term nature of superannuation savings. In this regard, ASFA considers that policy decisions around retirement income should be removed from the annual budget cycle and tax expenditures statement. We believe such an approach would provide a higher degree of stability, integrity and accountability in relation to superannuation policy. It would guard against short-termism and drive transparent, consistent in decision making. A likely outcome of this would be increased confidence in the system, which would promote member engagement and encourage voluntary saving.

ASFA supports periodic assessments of how the system is tracking. As recommended by the Financial System Inquiry, one approach is to incorporate periodic reviews in the Intergenerational Report (IGR), which is produced by the government every five years. The IGR assesses the long-term sustainability of current government policies and how changes to Australia's demographics may impact on economic growth, the workforce and public finances over the next 40 years. Measuring the progress of the system against a broader set of measures within the IGR falls within its broad remit and would add value to its conclusions. Alternatively, government could perform a separate review in tandem with the IGR process. Whatever the mechanism, commitment to a process of ongoing measurement and review is required.

6. System Cohesion

ASFA agrees with the Consultation Paper that the retirement incomes framework should be designed such that all elements work together to support the retirement outcomes of individuals. Moreover, particular policy settings should not counteract each other and limit retirement incomes.

A broader concept of cohesion includes how the retirement incomes framework interacts with other settings and systems, and how this affects the broader outcomes of individuals. In this regard, consideration could be given to whether the sole purpose test for superannuation, in its current form, is appropriate for the future retirement income system.

Interactions with the retirement income system can be complex. It may be difficult for individuals to make decisions that optimise their retirement outcomes and broader welfare. Complexity can have the greatest impact on those that need the most assistance.

- The current settings for tax concessions and the Age Pension are broadly appropriate. Further tinkering could adversely affect retirement outcomes.
- As the population ages the cost of individual contributions to health and aged-care services will rise – necessitating better integration of services with the retirement incomes system.
- As the population ages the necessity for quality advice services will only increase, however cost is a barrier to the widespread take-up of personal advice, and digital advice services are nascent.
- Reducing complexity will enhance consumer outcomes.

System settings are broadly appropriate, but finely balanced

With reference to the Consultation Paper principles, over the last few years a range of measures have made the retirement income system more equitable and sustainable. These measures include:

- much tougher contribution caps for both concessional and non-concessional contributions
- higher rates of tax on the superannuation contributions of upper income earners
- a tighter means (income and assets) test for the Age Pension
- the introduction of the $1.6 million transfer cap.

ASFA considers that the current settings are broadly appropriate.

A further winding-back of the current settings could mean that, for some workers, increased savings via superannuation may not lead to an improvement in retirement incomes. This would be an extremely poor policy outcome that would have negative repercussions for the retirement outcomes of Australians.

The impact of recent changes to the Age Pension assets test

The changes to the assets test (that took effect from 1 January 2017) were:

- an increase in the assets test-free areas to provide additional assistance to pensioners with relatively low asset holdings
- an additional increase in the assets test-free areas for non-homeowners;
- an increase in the assets test taper (or withdrawal) rate for assets above the new free areas from $1.50 to $3.00 per fortnight for each extra $1,000 in assessable assets.

These changes were estimated to decrease expenditure on the Age Pension over the period of the Forward Estimates by around $2.4 billion. Around 100,000 persons were expected to lose entitlement to the Age Pension, around 330,000 were expected to receive less Age Pension, while around 50,000 were expected to receive a larger Age Pension.[54]

Following the changes, the number of Age Pension recipients fell from 2,570,072 in December 2016 to 2,494,060 in March 2017, a fall of 3 per cent. The number of full rate Age Pensioners rose marginally, from 1,507,071 to 1,548,590, a rise of around 3 per cent.[55]

For pensioners with assets above the assets test-free areas, their pension payment is reduced at a relatively high rate as assets increase. Above the free areas, people with higher levels of assets are expected, under the new arrangements, to draw down on those assets to support themselves in retirement.

Some commentators argue that over a certain range of assets held by retirees, additional private savings will lead to a reduction in retirement income, given the impact of those additional assets on Age Pension entitlement. It has been argued that this leads to a disincentive for additional retirement savings.

However, while the withdrawal rate of the Age Pension is higher than it was before 1 January 2017, calculations that take into account drawdown of superannuation savings clearly indicate that additional private savings will lead to higher retirement incomes (which are a product of investment returns, any receipt of the Age Pension and the drawdown of the capital).

ASFA calculations suggest that over the range of assets subject to the assets test withdrawal rate, an additional $10,000 of retirement savings will lead to additional retirement income of around $300 a year. Most of this comes from the drawdown of the capital, as a reduced Age Pension is offset by any additional investment income associated with the retirement savings amount.[56]

This analysis assumes that superannuation assets are drawn down such that super assets are exhausted by age 92. Specific draw-down rates are not set for the retirement period (and would be higher than the required minimum rates).

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[54] The Commonwealth of Australia 2015, *Budget 2015-16: Budget Paper No. 2* (https://archive.budget.gov.au/2015-16/bp2/BP2_consolidated.pdf).
[55] DSS Payment Demographic Data (https://data.gov.au/dataset/ds-dga-cff2ae8a-55e4-47db-a66d-e177fe0ac6a0/details).
[56] ASFA data.

There is a need for better integration of superannuation with aged care and health care services

ASFA considers that at the core of any set of objectives must be the requirement that all Australians have a dignified and comfortable standard of living in retirement. It could be reasonably argued that just providing replacement income for the segment of retirees who are lucky enough to remain healthy and free from significant aged-care costs would fall short of achieving this objective.

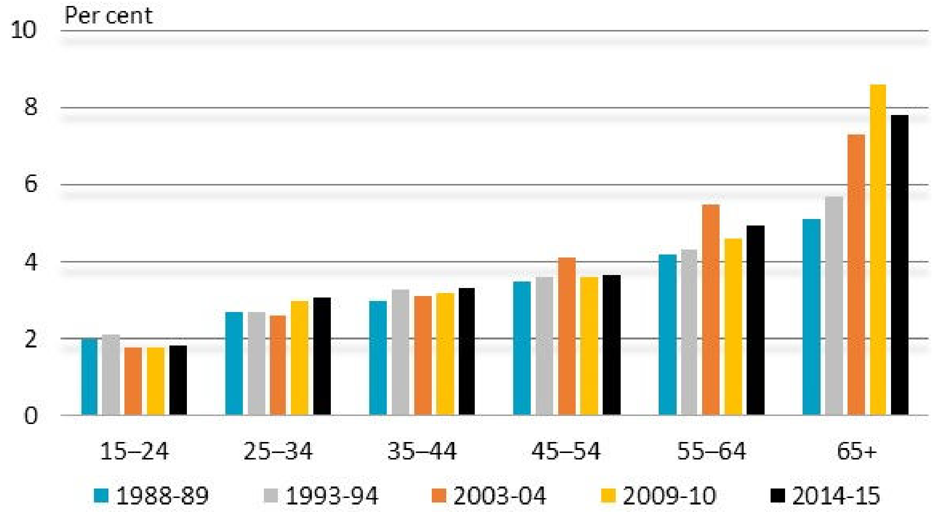
In the coming decades, all levels of government will face growing fiscal pressures as the population ages and expectations for greater government support of ageing-related programs increase. This is a function of the increase in the real cost of many age-related services, and the projected massive increase in the absolute number of older Australians and their percentage share of the overall population.

This is likely to lead to pressure for individuals to make greater contributions to the cost of provision of aged-care and health services.

As demonstrated in the Government's Intergenerational Report, the amount of Commonwealth expenditure on aged-care is forecast to increase markedly,[57] and that in the absence of policy change, the gap between Commonwealth expenditure and consumer contributions (on their current trajectories) is projected to widen.

In the case of health care, older people spend a greater, and increasing proportion of their income on health services than younger people and this proportion has been rising over time (Chart 8).

Chart 8: Household expenditure on medical care and health expenses as a percentage of total household expenditure, by age of reference person



Source: IGR and ABS Cat. no. 6530.0[58]

ASFA's detailed work on this is at: https://www.superannuation.asn.au/ArticleDocuments/359/ASFA_Aged-care-health-and-super_Nov2015.pdf.aspx?Embed=Y

[57] ASFA 2015, Discussion Paper: *The Future Interaction of Superannuation with Aged Care and Health Care* (https://www.superannuation.asn.au/ArticleDocuments/359/ASFA_Aged-care-health-and-super_Nov2015.pdf.aspx?Embed=Y).

[58] The Commonwealth of Australia 2015, *2015 Intergenerational Report: Australia in 2055* (https://static.treasury.gov.au/uploads/sites/1/2017/06/2015_IGR.pdf) and Australian Bureau of Statistics, *Household Expenditure Survey*, 2015-16 (https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6530.02015-16?OpenDocument).

Advice: the gap between what is accessed and what is required

Decisions concerning retirement outcomes are complex, and most individuals lack the financial expertise required to self-govern their retirement savings effectively. As members approach retirement, the financial decisions they need to make are significant – some of which may be irreversible. As Australia's population ages, the necessity for quality advice services will only increase.

Cost is a barrier to the widespread take-up of personal advice. And as new regulatory and structural changes flow through the industry, the costs of operating a financial advice business will rise. This is likely to price out lower-income clients and lead to a decline in the number of advisers in the market.[59] Research by Rice Warner shows that even now many people are becoming increasingly unwilling, or unable, to pay for advice.[60]

Overall, this means that financial advice models will need to continue to evolve to respond to cost pressures and offer much-needed services.

It is likely that digital forms of advice will become more widely available – facilitated by ongoing advancements in technology and data analytics (which is itself an emerging field).

That said, there are a number of major challenges for funds (and relevant service providers) in the development of non-traditional forms of advice:

- The quality of advice is a function of the information upon which it is based. Funds (or service providers) will need to improve the scope and quality of their data regarding members' personal preferences and circumstances.
- Funds (or service providers) will have to improve their data analytics capabilities to process member information and derive more sophisticated insights about their members.
- Funds will need to ensure advice services are well integrated into the fund's broader retirement income solutions – that emphasise financial outcomes and income replacement.

The nascent state of these services is reflected in the findings of a recent ASIC survey – which reported that only 1 per cent of respondents had used digital advice, although 19 per cent said they were open to it.[61]

Reducing complexity will enhance consumer outcomes

Undue complexity, particularly where this relates to consumers' direct interactions with the retirement income system, can adversely affect retirement outcomes.

Many retirees' experience of accessing the Age Pension is challenging

While retirement income for most Australians will include the Age Pension, accessing and navigating Centrelink can be challenging.

A comprehensive survey of seniors undertaken by National Seniors Australia concludes that the current generation of senior Australians face unnecessary hurdles in accessing the Age Pension entitlements.[62]

The survey found that most seniors seek assistance when applying for the Age Pension, rather than attempting to apply independently. Fully 82 per cent of respondents who commented on their Age Pension

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[59] McCartney, J. 2019, 'Advice within super – the licensees of the future', *Superfunds*, 3 October (https://superfunds.superannuation.asn.au/2019/10/advice-within-super-the-licensees-of-the-future/).
[60] Rice Warner 2019, *Funds Fail on Advice Outcomes*, 28 November (https://www.ricewarner.com/funds-fail-on-advice-outcomes/).
[61] ASIC 2019, *Financial Advice: What Consumers Really Think*, August (https://download.asic.gov.au/media/5243978/rep627-published-26-august-2019.pdf)
[62] National Seniors 2018, *The Centrelink Experience* (https://nationalseniors.com.au/uploads/05180000PAR_CentrelinkReport_FNWEB_REV190618.pdf)

experience in the survey mentioned seeking or obtaining assistance from either Financial Information Service (FIS) Officers (provided free by Centrelink), financial advisors or planners, or friends or family.

However, seeking support did not guarantee a satisfactory experience. Of those who commented, 43 per cent were dissatisfied. The leading causes of dissatisfaction, where dissatisfaction rates were greater than 50 per cent, include long wait times for assistance, insufficient numbers of FIS Officers, and the quality of available information.

The study concluded that the system improvements underway at Centrelink do not appear to adequately address these issues. Firstly, improvements are primarily focused on digital enablement that replaces costly face-to-face services, and, secondly, Age Pension applicants do not appear to be prioritised for improvements in the short or medium term.

Eligibility criteria for superannuation contributions are complex

An individual's eligibility for contributing to superannuation can be complex in many instances, and individuals may need to seek advice in this regard.

Eligibility for contributions varies according to age. The current settings are summarised in Table 4, which shows whether certain types of contributions are allowable for each age cohort.

Table 4: Age-based eligibility for contributions

Member age at time of contribution	Employer contributions		Member contributions		
	Mandated employer	Voluntary employer	Made by the member	Made by someone other than the member	Down-sizer contributions
	Superannuation guarantee contributions Superannuation guarantee shortfall components Contributions made under certified agreement or award	Salary sacrifice contributions Contributions in excess of SG FHSS contributions			
Under 65	Yes	Yes	Yes	Yes	No
65 to 69	Yes	Work Test / Work Test Exemption (WT / WTE)	WT / WTE	WT / WTE	Yes
70 to 74	Yes	WT / WTE	WT / WTE	No	Yes
75 and over	Yes	No	No	No	Yes

There are a number of additional complexities regarding superannuation contributions.

- Bring-forward arrangements are dependent on age, time periods, total superannuation balance and contribution caps. For example, individuals are only eligible to make carry-forward concessional contributions where their total superannuation balance is below $500,000 (before the start of the financial year). There are also distinct carry-forward rules for non-concessional contributions, which are based on an individual’s total superannuation balance and the proximity of their total balance to the transfer balance cap.
- Work test and work test exemption requirements are contingent on an individual’s total superannuation balance.
- Income thresholds that determine eligibility for certain Government contributions mean that such contributions are limited according to an individual’s total balance and the amount of non-concessional contributions they have made during the year.

Limited retirement product options also present complexities

A number of industry consultation processes have taken place recently including the development of a framework for Comprehensive Income Products for Retirement (CIPR) products.

A number of considerations may affect the introduction of these products, including the level of income per household, financial literacy, fund size and complexity, sufficient access to superannuation product information and advice (especially for vulnerable customers), lack of consistent data collection, and cost of implementation.

Appendix 1: Consultation paper analysis revisited

ASFA considers there should be greater transparency around Treasury's modelling for this review.

The need for greater transparency is made clear by the following analysis, which reveals that Treasury modelling of the distribution of government support for retirement incomes – via tax concessions and the Age Pension – is very sensitive to (reasonable) assumptions.

Analysis of government support is sensitive to assumptions

The Consultation Paper suggests that the absolute level of total government support (in pre-retirement and retirement) varies markedly across wage/salary deciles. In particular, the Consultation Paper suggests that the absolute level of total government support is highest for high income earners, and lowest for middle income earners. This is shown in Chart 4 on page 18 (the Consultation Paper Chart).[63]

However, the analysis that is reflected in the chart is very sensitive to changes in assumptions. Slight variations in assumptions can result in starkly different results and conclusions. Indeed, with different but still reasonable assumptions, it is likely that government support can be shown to be quite evenly distributed across cohorts of workers.

By way of demonstration, ASFA has reproduced the Consultation Paper Chart and applied different – yet reasonable – assumptions to derive a revised chart. It should be noted that ASFA's reproduction of the Consultation Paper Chart is not exact. The Consultation Paper provided some, but not all, of the required assumptions. 'Missing' assumptions were made consistent with assumptions used in other Treasury work on retirement incomes, including recent research utilising Treasury's new MARIA model. As such, the charts should be considered illustrative of the effect of changes in assumptions on modelling results, rather than precise estimates. ASFA's reproduction of the Consultation Paper Chart is below (Chart 9).

For Chart 10, two assumptions have been changed:

(1) Deflator: For the Consultation Paper Chart (and thus for Chart 9), all series appear to be discounted to their present value using the growth in the GDP deflator, notwithstanding that wage growth assumptions appear to be used for many nominal series in the Treasury modelling (that is used to derive the Consultation Paper Chart). For Chart 10, wages growth is used.

(2) Age Pension thresholds: Consistent with standard Treasury practice, the data in Chart 9 incorporates the assumption that Age Pension thresholds are indexed to the Consumer Price Index. For Chart 10, thresholds are indexed to wages (in reality, it would be expected that thresholds would grow at rates somewhere between inflation and wages growth over the long term).

[63] The Australian Government the Treasury 2019, *Retirement Income Review: Consultation Paper* (https://treasury.gov.au/sites/default/files/2019-11/c2019-36292-v2.pdf).

Chart 9: Lifetime government support provided via the retirement income system
Reproduction of Consultation Paper chart - baseline assumptions

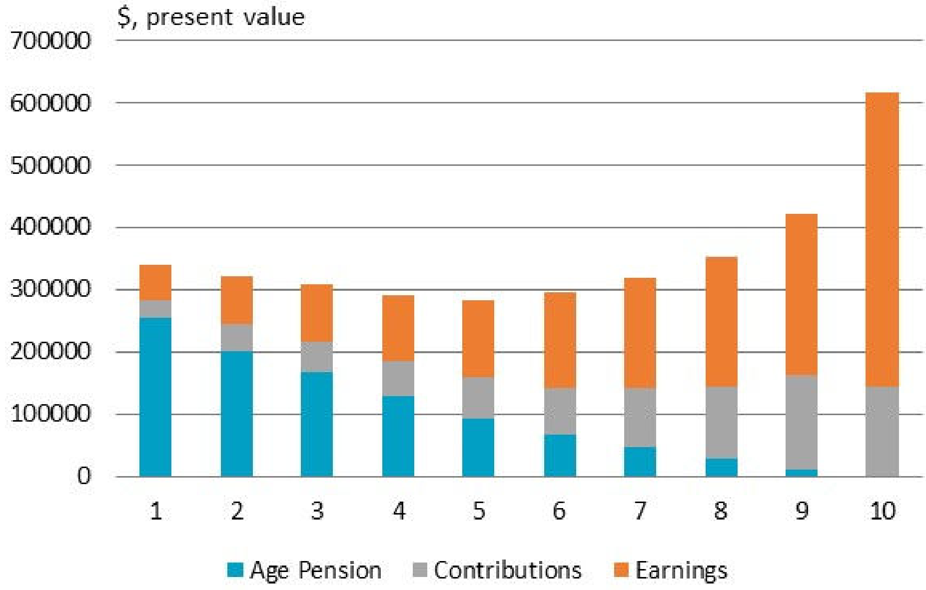
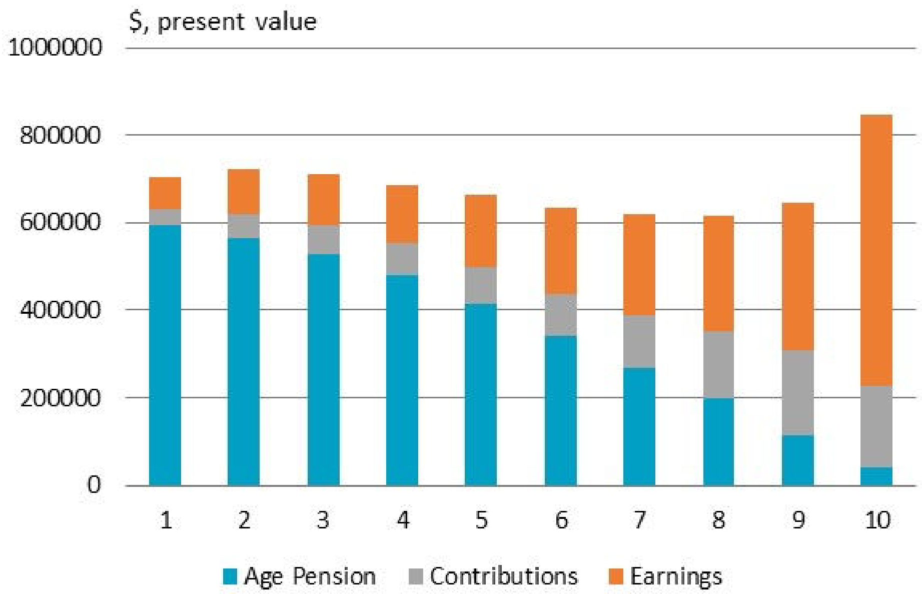


Chart 10: Lifetime government support provided through the retirement income system
Reproduction of Consultation Paper chart - Age Pension thresholds indexed to wages, and present value calculated using wages growth



Source: ASFA derived

Across income cohorts, the bars in Chart 10 are more similar in magnitude than in Chart 9. This means that the present value of government support as depicted in Chart 10 is far more equitable than in Chart 9.

Also, across income cohorts, the relative size of the Age Pension component (the blue section of the bars) is greater in Chart 10 than Chart 9. That is, the present value of government support via the Age Pension is relatively greater in Chart 10.