Sound policy is behind a secure retirement
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TODAY, the Morrison government is releasing a 600-page review into Australia's retirement income system.

The review was established following a recommendation by the Productivity Commission. It was conducted by an independent three-person panel, chaired by Mike Callaghan AM, a distinguished former Treasury official and member of the International Monetary Fund's Executive Board.

The review looks at the three pillars of the retirement income system: the age pension; compulsory superannuation; and voluntary savings, including home ownership.

It's the first comprehensive review of the retirement income system since compulsory superannuation began in 1992.

Most significantly, the review finds Australia's retirement income system is "effective, sound and its costs are broadly sustainable" leaving it "well-placed to deal with economic volatility and the challenge of an ageing society."

The review notes the average age today of Australians in retirement is 62-65, with women typically retiring one to three years earlier than men.

People are staying in the workforce for longer, with the participation rate of people in work aged 60-64, increasing by 22 per cent in the last two decades.

With people living and working longer, the question is whether the three pillar system delivers an adequate level of income in retirement and is sustainable for public finances.

First, the age pension.

Currently 71 per cent of people aged over 65 receive pension payments, with 60 per cent of those receiving the full rate. This comes at a cost of $46bn a year, the equivalent of 2.5 per cent of GDP.

As a proportion of GDP, the cost of the age pension moderately reduces over the next 40 years to 2.3 per cent as the superannuation system matures.

The review finds over the last decade increases in the age pension has outstripped growth both in wages and inflation and "has kept pace with community standards."

As a proportion of gross earnings, Australia's pension rate is in the top quarter of OECD countries.

As the review points out, this does not factor in the substantial additional support provided to retirees through our wider transfer, health and aged care systems.

With retirees on lower incomes receiving a higher pension rate, the review finds the age pension has helped reduce income inequality among retirees, provided a buffer against market downturns, and acts as a form of longevity insurance for those who outlive their savings. In a time of economic uncertainty, a "sound and sustainable age pension" is not only important, but reassuring for those approaching and in retirement.

Second, compulsory super.

At $3 trillion Australia's pool of superannuation savings is the fourth largest in the world and will only grow over time.

As a result, the cost of superannuation tax concessions also increases lifting as a proportion of GDP from 2.1 per cent to 2.7 per cent by 2060, comprising a greater cost to GDP at that time than the age pension. Around 90 per cent of employees are covered by compulsory super and the superannuation guarantee (SG) is legislated to increase from 9.5 per cent today to 12 per cent by 2025.

The review concludes "maintaining the superannuation guarantee rate at 9.5 per cent would allow for higher living standards in working life" — the argument being "the weight of evidence suggests the majority of increases in the SG comes at the expense of growth in take home wages".

This is the trade-off the Governor of the Reserve Bank and the Grattan Institute among others have alluded to. The report determines a replacement rate of 65-70 per cent of pre-retirement income achieves "a reasonable balance between living standards in working life and retirement".

For most people, this benchmark does not require in the review's view an increase in the SG. Instead a more effective use of accumulated

savings in retirement can have a larger impact on people's retirement incomes than increasing the SG.

In this respect the review finds "most retirees die with the bulk of their wealth intact".

Third, voluntary savings and home ownership.

The review finds 76 per cent of Australians over 65 own their home and that on average equity in the family home is that individual's largest asset.

Homeowners not only have lower housing expenditure and therefore higher disposable incomes but they are also less likely to find themselves in financial stress or poverty in retirement. This is why encouraging and enabling home ownership is so important as a source of financial security.

To this end the Morrison government continues to expand the First Home Loan Deposit Scheme and the First Home Super Saver Scheme and HomeBuilder. There are of course many Australians who rent in retirement and for them assistance is available.

This comprehensive and independent assessment of our retirement income system should give Australians confidence that our framework is fundamentally sound and sustainable. As with every big and complex system, there is always room for improvement.

The findings in this review will help inform future public policy making and enhance retirement outcomes for all Australians.

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