

Securing Sustainable Retirement Incomes for All Australians

**CSRI Leadership Forum
12-13 October 2016**

Summary of Outcomes

Providing Australian Policy Leadership

“It is so tremendously important that, somewhere in the Australian system, there be serious and systematic attention to putting good policy back together again.

That means, more than anything else, creating a common mindset among all the key players in the national policy debate about what are the current global economic, geo-strategic and environmental realities; what domestic policy choices those realities demand; and what solutions should be embraced in the national interest, party orthodoxies notwithstanding.

This may not be sufficient condition for quality policymaking but all past experience suggests it's necessary.”

- Gareth Evans, Chancellor of The Australian National University, Chair of the Crawford Australian Leadership Forum and a former long-serving cabinet minister in the Hawke and Keating Governments, writing in the AFR, 20 June 2016

Foreword

The effectiveness of Australia's retirement income system has been undermined by short-term, siloed thinking and a lack of clarity about purpose.

If we are to achieve higher living standards and sustainable retirement incomes for all Australians in future, we need an integrated and longer term policy perspective – one that takes into account the multitude of perspectives and that seeks to build consensus.

That is why the Committee for Sustainable Retirement Incomes (CSRI) was founded - to encourage the sharing of ideas towards building a more sustainable, efficient, equitable and adequate retirement incomes system for all Australians.

Recognising the existence of multi-disciplinary and diverse perspectives, we engaged widely with stakeholder groups to reach common ground on policy positions in the community interest. Our view of income and needs in retirement is an integrated one, taking into account the age pension, superannuation benefits, housing, health care and aged care.

The CSRI Leadership Forum on 12-13 October in Canberra brought together 150 leaders in public policy, industry, consumer groups and academia to debate how to secure a sustainable retirement incomes system, to explore alternative policy proposals and to build common ground.

The rich and vibrant discussion demonstrated the importance of these issues and the commitment of various stakeholder groups to work together.

Importantly, we agreed on the need to develop more formal arrangements for bringing together perspectives with a view to building consensus on reform. To achieve this aim, I will be consulting widely over the coming months on the shape of those arrangements.

In the meantime, here is a summary of the forum outcomes.

I welcome any comments and suggestions on these papers and ideas about the way forward.



Patricia Pascuzzo
Founder and Executive Director
Committee for Sustainable Retirement Incomes

Background

In 2015, the CSRI led a consultation process with major stakeholder groups culminating in agreement at the National Reform Summit in August 2015 on a set of principles to guide reform of the retirement income system.¹ This built on the earlier agreement reached with key stakeholder groups at the inaugural CSRI Leadership Forum in June 2015.²

Since then, and consistent with the agreed principles, the CSRI has progressed a collaborative policy development process with the aim of building consensus on sustainable retirement incomes policies that go beyond the current budget or electoral cycles.

In doing so, the CSRI sought the input, and commissioned research, from a broad range of prominent industry, consumer and academic experts in developing policies to tackle the challenges. This research was presented and debated at a series of Policy Roundtables convened by CSRI in April 2016.³

Based on the research and discussions at these roundtables and subsequent consultations with stakeholder groups, the CSRI subsequently developed four position papers:

- *A Holistic Review of the Retirement Income System – Overview and Summary*
- *Pursuing Adequate Retirement Income For All Australians,*
- *Encouraging Sustainability and Self Provision in Retirement;* and
- *Making Income the Goal - Developing the Post Retirement System.*

The CSRI Leadership Forum on 12-13 October 2016 brought together leaders in public policy, industry and academia to debate how to secure a sustainable retirement incomes system for Australia and to explore alternative policy proposals. The CSRI's policy positions were scrutinized and debated there and the outcomes of the Forum are summarised in a fifth document "*Securing Sustainable Retirement Incomes for All Australians*" October 2016.

I would like to sincerely thank all of our sponsors – **Australian National University, Dimensional, Challenger, PWC, PIMCO, King and Wood Mallesons, First State Super, TAL, StatePlus, Cbus, Link Group, Academy of the Social Sciences and Council of the Aging** - for being policy development partners in the truest sense of the word.

I would like to thank the academic and industry experts who contributed research and analysis that helped underpin the CSRI's policy positions: Siobhen Austen, Curtin University; Hazel Bateman, CEPAR; Bruce Bradbury, UNSW; Nick Callil, Willis Towers Watson; David Cox, Challenger; Suzanne Doyle, StatePlus; Phil Gallagher, Industry Super Australia; David Ingles, ANU; Hal Kendig, CEPAR; Peter McDonald, ANU; David Knox, Mercer; Graham Lennon, Dimensional; Zac May, Industry Super Australia; Catherine Nance, PWC; Rachel Ong, Curtin University; Jim Parker, Dimensional; John Piggott, CEPAR; Murray Radcliffe, ASSA, Martin Stevenson, First State Super; Ruth Stringer, King & Wood Mallesons; Darren Wickham, TAL; Peter Whiteford, ANU; Nadine Wilmot, Catherine Wood, Women in Super; Ian Yates, COTA; and Judith Yates, USyd.

¹ Convened by the Australian Financial Review and the Australian Newspaper, with CSRI, ACTU, ACOSS, ACCI, AiG, BCA, Council of the Aging (COTA), and National Seniors.

² Academy of the Social Sciences, Australian Council of Social Service (ACOSS), Council of the Aging, Industry Super Australia and National Seniors Australia.

³ Hosted by the Academy of the Social Sciences and StatePlus.

Leadership Forum 2016 - Summary of Outcomes

Context

Many discussions about retirement incomes policy in Australia start by asserting the superiority of our system among others in the world.

It is true that Australia's three-pillar retirement income framework has much to commend it, including a means-tested pension and fully-funded superannuation scheme with both compulsory and voluntary elements.

It is also true that our defined contribution scheme has avoided the difficulties faced by many schemes overseas in trying to meet a defined benefit promise.

But comparisons of our system with 'old world' pension systems in parts of Europe only serve to create a sense of complacency. Moreover, such comparisons bear little relevance to the outcomes faced by ordinary Australians in retirement.

The truth is our retirement system is highly complex and exposes individual Australians to significant financial risks, which they are ill-equipped to manage.

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Many older people live frugally for fear of outliving their savings, especially those without their own homes or those who are unable to keep working. Others draw down their super at an unsustainable rate.

As well, the employment-based nature of the super system has created a significant gender imbalance, that leaves women with about half the super savings of men.

At a macro level, the sheer complexity of retirement incomes policy and frequency of changes add to cost and undermine public confidence in the system.

Given the aging population, increasing dependency rates, diminishing affordability and the threat to the living standards of future generations, it is time to stand back and look at the workings of the *whole* retirement income framework to improve sustainability, adequacy and equity.

Looking Forward

Australia, like many other developed economies, faces a significant demographic challenge with an aging population and rising dependency rate.

Young people are finding it hard to secure work and get a foothold into the property market, such that this is the first generation to face the prospect of lower living standards than those enjoyed by their parents.

People need confidence in the system if they are to save for their own retirement, yet constant changes in tax arrangements only serve to undermine that. We need consistent and stable policies so people can be assured that their superannuation is safe and that they can rely on it in old age.

These factors, coupled with the need to reduce government debt and restore flexibility to fiscal policy, demand a comprehensive, coordinated and holistic rethink of retirement incomes policy.

To do this, we must ensure there is broad community consensus on the need for change and the directions for reform. This would require an improvement on the prevailing situation, in which numerous well-resourced industry groups argue their own corner with little apparent interest in

arriving at a common industry position. These voices often clash with one another and create noise in the public debate.

As well, while there are plenty of industry voices, there is no consumer body to represent superannuation members. This is despite the views of funds and their members not always being aligned. Given the complexity of the system and the information asymmetry between industry and consumers, this is a significant gap.

What is needed is both a mechanism for bringing together the various stakeholder interests (covering industry, consumer and seniors' groups) and formal structure for building consensus. Offering a possible role model in this respect is the Aged Care Alliance, established in 2000.

The CSRI to date has been the main forum for providing a holistic perspective on retirement income issues and for bringing together alternative perspectives in an effort to build common ground. Consideration should be given to how best to develop a more formalised and funded structure for this process.

The key policy reform priorities are outlined below.

Post-Retirement

The most direct way of improving outcomes in retirement is to efficiently convert superannuation balances into sustainable income streams.

This means building on the strengths of the fully-funded defined contribution system with outcomes similar to a defined benefits system.

That in turn will require a total change in narrative towards superannuation to shift the focus from the accumulation of assets to the end benefit those assets bring.

Given the diversity of retiree needs and circumstances, we are likely to need a range of Comprehensive Income Products for Retirement (CIPRS). At the same time, most members will need guidance in selecting the appropriate product.

Trustees should therefore be obliged to provide members guidance in making a selection or outsourcing that role. As this would be a form of advice, it would represent a significant shift from current trustee requirements in relation to MySuper.

The rules for scaled and intra-fund advice may need to be modified to better accommodate the provision of CIPRS and to provide trustees with a safe harbour where they diligently meet a defined set of requirements.

Member engagement and communication is also critically important if we are to ensure people have adequate incomes in retirement.

On this score, the concept of CIPRS has failed to capture the public imagination, no doubt in part due to the clumsy acronym.

To this end, the Forum supported a change in the acronym to "SLIPPeRs" – Sustainable Lifetime Income Products for People in Retirement.

What is needed is both a mechanism for bringing together the various stakeholder interests (covering industry, consumer and seniors' groups) and formal structure for building consensus.

Gender super gap

While the compulsory nature of super has greatly improved retirement outcomes for women, a significant gender disparity in retirement outcomes remains.

Men currently in pre-retirement have 80% more superannuation than women of the same age. While women have just over half the super of men, men receive twice the amount of tax concessions. This results in inferior retirement outcomes for women, with 90% having insufficient savings to live comfortably and 15% in outright poverty.

Clearly, a significant source of the problem is the gender earnings pay gap and the fact that women take considerable time out of the paid workforce to care for others. However, the employment-based nature of superannuation and the design of the system itself perpetuates the disparity.

Policy shouldn't rely solely on women salary sacrificing to reduce the super gender gap. Nor should the system assume as the norm stable, heterosexual relationships, where couples equally share their assets, and jointly decide how those assets will be used. It is not a solution to assume the continued dependence of women on the male partners for generations to come.

In the absence of 'quick fixes' - lateral thinking about the design of the system is required to address the gender disparity in superannuation outcomes.

Sustainability

The government's superannuation package, announced in the 2016-17 budget and later revised, will go a long way towards better targeting tax concessions to those who most need them and improving the fairness of the system.

However, the long-term fiscal challenge remains and a future government is likely to revisit the cost of superannuation concessions given the size of public debt and the ongoing pressures on the budget.

Against that background, we must develop properly formulated proposals *now* to avoid the possibility of future governments implementing ill-conceived, knee-jerk responses to meet a short-term fiscal or political objective.

There is also a case on sustainability and equity grounds for including the family home in the age pension means test, so long as this can be done effectively.

While traditionally seen as a political no-go zone, the idea of applying the age pension means test to the family home above a certain threshold received 50% support in a COTA survey of seniors.

In saying this, the arrangements would need to be designed to ensure home owners have enough cash income remaining after accessing equity in their home so that they don't suffer a drop in income. And the threshold below which the home value would not be included ought to be set high enough to leave retirees with sufficient unencumbered equity to afford residential aged care when they need it.

A more pernicious issue, however, is the impact of the system on intergenerational equity. Despite higher overall levels of education, younger people now experience higher rates of unemployment, carry considerable student debt upon entering the workforce, and face interrupted careers in an increasingly casualised jobs market.

Given those factors, they tend to enter the housing market later in life, if at all, and struggle to contribute continuously to superannuation.

Trustees should be obliged to provide members guidance in making a selection or outsourcing that role. As this would be a form of advice, it would represent a significant shift from current trustee requirements in relation to MySuper.

The upshot is that the millennials face the prospect of being the first generation to experience a lower living standard than that enjoyed by their parents.

So in designing the retirement income system for the next 40 years, we must carefully consider the need for intergenerational equity.

Housing as the Fourth Pillar

The chance of retirees having an adequate income in retirement depends heavily on their ability to make sufficient contributions to superannuation and finance a home purchase over their working lives.

Home ownership is a significant determinant of adequacy and retirees derive considerable benefit from owning their own home.

While many retirees, particularly older women, have not had the benefit of contributing to super throughout their working lives, they may nonetheless have significant equity tied up in their homes. If such asset-rich, income-poor retirees could access this equity to supplement their retirement incomes, they would be able to live with greater security and well-being.

While traditionally seen as a political no-go zone, the idea of applying the age pension means test to the family home above a certain threshold received 50% support in a COTA survey of seniors.

Government policy to facilitate the development of equity release should eliminate market impediments to these products and ensure appropriate regulations are in place to protect retirees from financial abuse.

While about 85% of retirees currently own their own homes, that proportion is likely to fall in future generations as housing affordability declines and superannuation savings grow. This also needs to be accommodated in retirement incomes policy.

Elderly people who are renting privately face significant financial hardship compared with home owners and those living in public housing. Consideration should be given to an increase in rent assistance and finding offsetting budget

savings.

Aged Care

A holistic view of adequacy and sustainability of retirement incomes policies requires consideration of the growing cost and increased need for residential aged care.

Government policy aims to shift more of the cost towards consumers, but many people lack an incentive to save for aged care. Planning ahead requires them to forgo current lifestyle consumption and benefits to provide for what is seen as both a contingency and a form of healthcare that should be paid by government. Even under a mature superannuation system, most people won't have saved enough to meet their aged care costs. With 50% of retirees expected to access residential aged care at some point, aged care can no longer be considered a contingent cost.

In the meantime, there is a power imbalance between aged care providers and prospective residents. While the legislation allows consumers to choose between using assets or income to pay for care, providers hold great power in influencing the residents' choices by withholding access to meet their own commercial interests.

Consequently, there is the need to change people's attitude toward aged care from a form of healthcare to one of changed living arrangements. Greater visibility of the government's contribution is also important. Moreover, there needs to be better coordination of aged care policies with retirement income policies, most notably the treatment of housing in the means test and aged care.

Acknowledgements

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How to get involved

The CSRI seeks to engage with like-minded organisations that share the goal of improving the efficiency and sustainability of the retirement income system.

Through partnering with CSRI, you will be contributing to an important public policy initiative and securing your leadership role in the industry.

Express your interest in becoming involved by contacting:

Patricia Pascuzzo

Patricia.pascuzzo@csri.org.au

Patricia Boow

Patricia.boow@gmail.com

CSRI

T: +61 2 9275 7971

<https://csri.org.au>