Challenger
Retirement Income Research

Super is delivering for people about to retire

In December 2018, only 45% of 66-year-olds were on the Age Pension.

...and only 25% of 66-year-olds were on a full Age Pension.

There is now more than $800 billion in the super accounts of members aged over 65, representing over 28% of total assets in the super system.

Executive summary

As our superannuation system heads towards full maturity, whether the system is truly delivering for Australian retirees has become one of the most fiercely debated topics of our time. There are almost daily news headlines, and ongoing discussion at industry and government level on this issue.

Super is working on a mass scale, even though it does leave a minority of people behind. Contrary to many opinions, super is reducing reliance on the Age Pension for the large majority of people entering retirement. The evidence for this is that the average newly retired Australian is not accessing the Age Pension at all. Only 45% of 66-year-olds were accessing the Age Pension at December 2018 and only 25% of them were drawing a full Age Pension.

Key facts

There is now more than $800 billion in the super accounts of members aged over 65, representing over 28% of total assets in the super system.

At June 2018:

Large APRA funds[1]

- there were 13 funds that each had more than $5 billion in the retirement phase (5 profit-for-member funds and 8 retail funds);
- the average balance per member in retirement in profit-for-member funds ($305,000) was nearly 20% higher than the average in retail funds ($255,000);
- these figures and their interaction with the Age Pension means tests mean that the average member in the retirement phase does not get the full Age Pension;
- there were over 1.6 million members with a retirement phase account, amounting to $457 billion in member benefits.

SMSFs:[2]

- there were 362,000 self-managed super fund (SMSF) members over 65 and they had $357 billion in assets.

1 APRA Annual Superannuation Bulletin 2018 and Annual Fund-level Superannuation Statistics 2018.

2 ATO SMSF Statistics March 2019 and SMSF Statistical Overview 2016-17.

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Superannuation is delivering for people about to retire

THE RETIREMENT PHASE

MORE THAN
$800 BILLION
IN THE SUPERANNUATION ACCOUNTS
OF MEMBERS AGED OVER 65

= **28%** OF TOTAL SUPERANNUATION ASSETS

AVERAGE BALANCE PER MEMBER IN RETIREMENT

$305,000 PROFIT-FOR-MEMBER FUNDS
20% HIGHER THAN RETAIL FUNDS

$255,000 RETAIL SUPER FUNDS

SUPER WEALTH AT THE HOUSEHOLD LEVEL

MOST PEOPLE
ENTER RETIREMENT
AS A COUPLE

$400,000
SUPER BALANCE
OF TYPICAL COUPLE
STARTING RETIREMENT TODAY

SUPER IS REDUCING RELIANCE ON THE AGE PENSION

IN 2018 ONLY **42%**
OF AGE ELIGIBLE RETIREES
WERE ON THE
FULL AGE PENSION

OVER 80%
OF 80-YR-OLDS
GET SOME AGE PENSION

New retirees in 2018

45% OF 66-YR-OLDS ACCESSING THE AGE PENSION

25% OF 66-YR-OLDS DRAWING A FULL AGE PENSION

A successful super system

The average consolidated super balance for a person with super aged 60-64 in Australia is now over $300,000. Within this age cohort, the average male balance is $336,000 and the average female balance is $278,000. In other words, average female balances in this age group, for those who had super, were around 17% less than average male balances.

This doesn't mean that super is working perfectly for everyone. Like most occupational retirement saving systems, what you retire with is very closely linked to what you put in. For this reason, there are some segments of the population, particularly those not in stable, full-time employment, for whom the system produces poorer outcomes. The Association of Superannuation Funds of Australia (ASFA) and the Australian Institute of Superannuation Trustees (AIST) have been calling for the following measures (among others) to address this issue:[3]

- Removing the $450 a month threshold for Superannuation Guarantee (SG) payments;
- Closing the gender pay gap, which translates into a super gender gap;
- Payment of SG on paid parental leave; and
- Extending SG to the self-employed, including contractors and so-called 'gig economy' workers.

The average consolidated super balance for a person with super aged 60-64 is now over $300,000.

Current super balances are growing across all ages

At June 2017, the average consolidated account balance across the entire super system was $128,000.[4] This is a non-trivial amount of super, but it is like saying that the median age in Australia is 37 years.[5] It doesn't convey much information, particularly for those approaching retirement. Nearly everyone will start with a low balance and see it grow over time. Balances will be highest around the start of retirement and will decline as retirees spend their savings during retirement. This pattern can be seen in data recently released by the Australian Taxation Office (ATO) which break down average super balances by age.[6]

When it presents these data, the ATO identifies and consolidates super balances across all funds (APRA and SMSF) for taxpayers using individual tax file numbers (TFNs). This overcomes the problem of multiple accounts appearing to dilute members' actual super savings, which can often be spread across more than one account. The growth from 2013-14 to 2016-17, demonstrated in Figure 1, highlights how rapidly the super system is maturing.

These averages are skewed by some very high balances, especially in the retirement phase. Only one in five people aged over 75 has a super balance, so the high consolidated balances here are partially explained by a 'survivorship bias'. Those who have spent down all their super are no longer included.

The average consolidated balance for those approaching retirement (aged 60-64) was over $300,000 in 2016-17. Averages have been rising across all age groups and this will continue. Future retirees will have had more time in the system in which to build up their super at a higher average contribution rate.

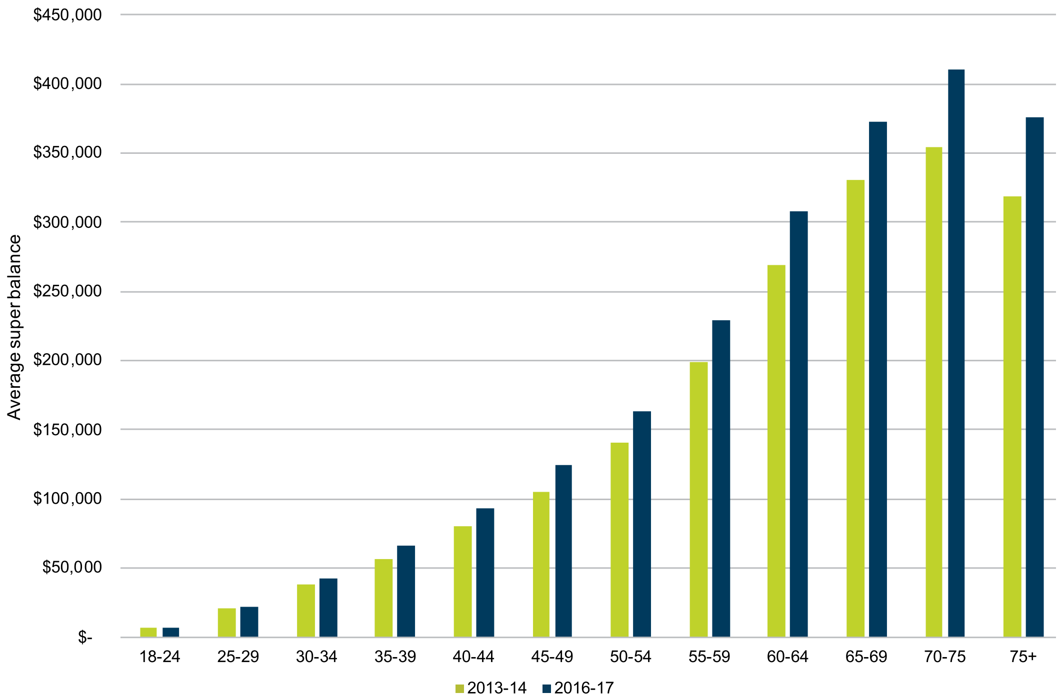
3 Available at http://www.aist.asn.au/media/1263557/pre-budget_submission_2019.pdf and https://www.superannuation.asn.au/ArticleDocuments/711/1802_ASFA_pre-budget_submission_final.pdf.aspx?Embed=Y

4 ATO – includes SMSFs and all APRA-regulated funds.

5 ABS Cat 3101.0 – Australian Demographic Statistics, Jun 2017.

6 The ATO's Taxation Statistics publication provides a range of statistics collected from various tax returns and other schedules. This includes statistics on superannuation balances matched by TFNs in the same way that they are matched and aggregated on the myGov website.

Figure 1: Average consolidated super account balance, by age



Source: Taxation statistics, ATO (includes APRA funds and SMSFs)

The average retirement phase member balance across all large APRA funds at June 2018 was $281,253.

The success of super is widespread

Super's success in building up savings for retirement is not limited to one sector or only a few funds. While some funds have been particularly successful in building balances for their members approaching retirement, the rising tide of time in the system is lifting average consolidated balances across the system. The average retirement phase member balance across all large APRA funds at June 2018 was $281,253. While these are not consolidated balances, it is far less likely for a member to have multiple account-based pensions (ABPs) than it is to have multiple accounts in the accumulation phase. It is also important to remember that this figure, again, is an average of balances spread across all age cohorts in retirement. It will include older retirees who have either spent the bulk of their super or never had much in the first place. It does not convey an accurate picture of typical balances for recent retirees.

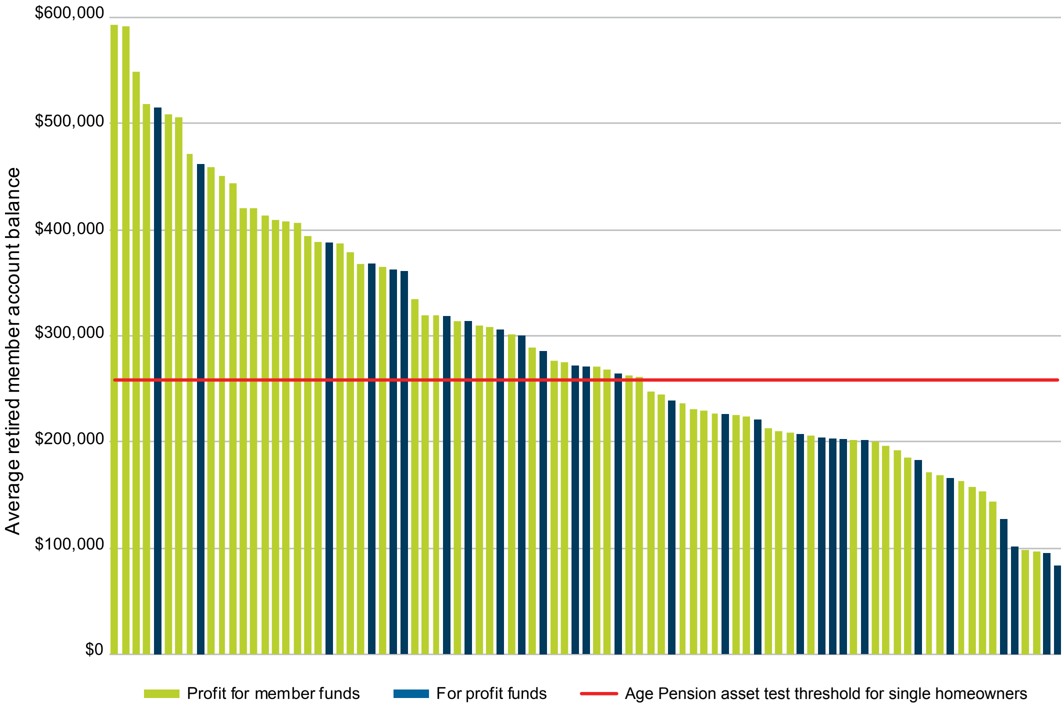
In total, large APRA funds had over 1.6 million members with a pension account, amounting to $457 billion in member benefits.

In total, large APRA funds had over 1.6 million members with a pension account, amounting to $457 billion in member benefits.[7] This doesn't include the value of many defined-benefit pensions, where the member might have no account or access to capital, but is drawing an income stream for life. On average, these lifetime income stream payments were twice the size of payments received by members with ABPs and other pensions from their super. A majority of large APRA funds have an average retirement phase member balance above $258,500. These can be seen in Figure 2, which highlights the average balance for members in the retirement phase for each large APRA fund.[8]

7 Source: APRA, 2018 Annual Superannuation Bulletin.

8 All large APRA funds at June 2018 with members in the retirement phase are included, except for two insurance-based funds and the Commonwealth Superannuation Scheme, which has a defined-benefit (DB) pension (and hence no account balances). DB pensions also lower the average balance for some profit-for-member funds.

Figure 2: Retirement phase average member balances by large APRA fund



Source: APRA fund level superannuation statistics at June 2018.

Interaction of super balances with the Age Pension means tests

This is significant in that $258,500 is the lower threshold for the assets test for the Age Pension. Single retirees with balances over $160,000 would not be on a full Age Pension, due to the impact of the means test on the income deemed to be earned from their super. For those with balances above $258,500, the harsher assets test kicks in with the 7.8% per annum taper rate.[9] This means that the average large APRA fund member in the retirement phase does not get the full Age Pension. Averages also distort the reality that many retirees will start retirement with a higher balance than the average for retirees of all ages. This will typically mean they will get increasing access to the Age Pension as they spend their savings from year-to-year. On the other hand, there is evidence that older retirees (80+) even with relatively low balances, start to build up savings as their spending on discretionary items tapers off.[10]

The average member in retirement does not get the full Age Pension.

Figure 2 also illustrates that profit-for-member funds have a higher average member balance in retirement as at June 2018 ($305,000) than for-profit funds ($255,000). There could be a range of explanations for this, including different age profiles of retired members between the two sectors, and funds' policies around the rolling of smaller balances into the retirement phase.

The average June 2018 member balance in retirement in profit-for-member funds ($305,000) was nearly 20% higher than the average in retail funds ($255,000).

Balances at the start of retirement should be higher than these averages because retirees are required to withdraw benefits each year at the applicable age-based rates (between 4% for under-65s and up to 14% for the 95+ age group). The majority of members withdraw the minimum requirement, or close to it.[11]

9 For the purposes of the Age Pension income means test, income from financial assets is deemed to be earned at specified rates (1.75% pa or 3.25% pa) regardless of the actual income earned. The assets test reduces the fortnightly Age Pension payment by $3 for each $1,000 of assessable assets above the threshold. With 26 payments a year, this results in a reduced Age Pension payment of 7.8% of the assessed asset value.

10 Asher A, Meyricke R, Thorp S, and Wu S (2017) Age Pensioner decumulation: Responses to incentives, uncertainty and family need Australian Journal of Management, 42 (4), 583-607.

11 Sneddon, T. A, Reeson, Z. Zhu, A. Stephenson, E. Hobman, and P. Toscas (2016) "Superannuation drawdown behaviour" JASSA No. 2 2016 pp 42-53.

A typical couple would have over $400,000 in super at the start of retirement today.

Super balances at the household level

We know that most people enter retirement as a couple. As explained in a previous research paper, a better measure of how well people are financially prepared for retirement is to consider the combined super balances of a couple household just before retirement.[12] Simply adding the average balance of a male and a female is misleading because in a couple, one member often has a disrupted work pattern and a lower super balance. However, with over 80% of people approaching retirement with a super balance, the combined balance will be higher than the average male balance of $336,360.[13] Taking this figure, plus the likely balance for their partner, who has probably only been a part-time worker, we estimate that a typical couple household will be starting retirement today with more than $400,000 in super.

Who is getting the Age Pension these days?

In the debate about the ultimate objective of super being to provide retirement income, it is often assumed that a retired member will get the full Age Pension. However, in 2018, only 42% of age eligible retirees were on the full Age Pension. Again, this is an overall average and includes retirees in their 90s who have never had super. Recent retirees are much less likely to be on the full Age Pension.

In 2018, only 42% of age eligible retirees were on the full Age Pension.

A closer examination of data provided by the Department of Social Services reveals that the majority of people who are in their first year of age eligibility for the Age Pension are not accessing any. Data from December 2018 indicate that only 45% of recently age eligible Australians (i.e. those aged 66) were getting any Age Pension. What's more, only 25% of this age cohort were accessing a full Age Pension. The breakdown for this is shown in Figure 3.[14]

This is to be compared with the 72% of all age eligible retirees who get some form of Age Pension (including those receiving another DSS income support payment, or a Department of Veteran Affairs Service Pension) or Income Support Supplement.

Over 80% of 80-year-olds get some Age Pension.

This proportion increases with age up to age 80 where Age Pension access peaks. Over 80% of this age cohort get some form of Age Pension. The apparent success of super in building savings at retirement is likely to be delaying Age Pension access for most people. As super balances continue to grow, most retirees can expect to spend longer in retirement before they receive any Age Pension.[15]

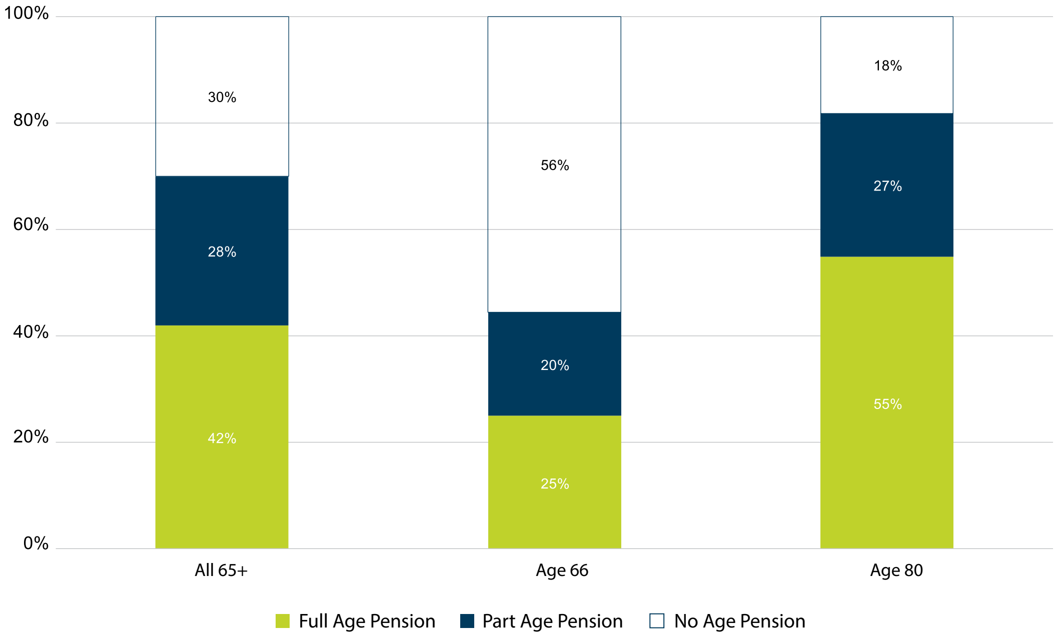
12 Challenger Retirement Income Research (2016) Looking at super wealth at the household level <https://www.challenger.com.au/-/media/Challenger/Documents/Thought-leadership/Looking-at-super-wealth.pdf>

13 Source ATO Taxation Statistics 2016-17 Table 23

14 These additional data have been supplied by the Department of Social Services on request.

15 Some people over 65 are continuing in employment and so while age eligible are neither retired nor receiving an Age Pension.

Figure 3: Age Pension access at selected ages at December 2018



Source: Calculations based on ABS and supplied DSS data.

Summary

The super system is working to deliver significant consolidated account balances to Australians as they approach retirement. Members across a wide range of funds have retirement savings that can support a more desirable lifestyle in retirement than has previously been achievable. This level of higher savings will result in some receiving only a part Age Pension, leaving many others without access to any form of secure, lifetime income in retirement. The next phase for large APRA funds will be to make it easier for their members to convert an appropriate part of their savings into secure, lifetime income to compensate for their reduced access to the Age Pension.

The information in this report has been compiled by the Challenger Retirement Income Research team.

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Data Appendix

Data interpretation issues

In this paper, we examine how well super is working for typical Australian retirees by analysing available data. These data are too often misinterpreted with the wrong conclusions drawn from them. A common mistake is to assume that system-wide averages will illuminate the circumstances of, for example, the 60-65 age group. Many members also continue to have more than one super account, and those accounts have to be identified and consolidated in order to see how much super people really have. Lastly, a great number of commentators overlook the fact that a large majority of Australians (around 70%) start retirement in a couple household and so the super balances of the household are more relevant than individual balances.

If the super balances in this paper sound higher than expected, there is a good reason for this. A lot of data used by the super industry do not take account of multiple accounts. In this paper, we use ATO data that identify multiple accounts held by the same taxpayer and present their super balance on a consolidated basis (i.e. as if they had combined all their super in one account). This is the only way account balance data should be analysed when assessing adequacy. One thing to note, however, is that these data only record people with super. Those with no super are excluded. Data that include so-called 'zero balances' tend to distort the picture. Consider data that include the total population of the 85+ age group (over 500,000 people). The overwhelming majority of this age group never had super or have withdrawn and consumed it. Including them in research that seeks to ascertain whether super is creating adequate retirement incomes merely distorts the conclusion.

Age Pension payment rates and recipients by age

	Rate of payment - Recipients						
Age	**Full rate**	**Part rate – income test**	**Part rate – assets test**	**Part rate – total**	**Zero rate**	**Un-determined/ manual rate**	**Total**
65.5	24,693	10,631	4,901	15,532	119	27	**40,371**
66	61,243	32,414	15,487	47,901	435	108	**109,687**
67	66,051	36,052	18,475	54,527	505	137	**121,220**
68	72,020	37,774	20,684	58,458	471	153	**131,102**
69	74,705	36,144	22,133	58,277	387	194	**133,563**
70	78,090	36,274	22,840	59,114	345	205	**137,754**
71	83,088	37,000	23,602	60,602	283	208	**144,181**
72	82,340	35,540	22,769	58,309	202	200	**141,051**
73	74,860	29,866	19,530	49,396	150	174	**124,580**
74	75,992	29,046	18,904	47,950	124	171	**124,237**
75	73,860	27,186	16,827	44,013	103	158	**118,134**
76	70,458	25,626	14,507	40,133	76	131	**110,798**
77	68,816	24,133	12,957	37,090	61	163	**106,130**
78	68,698	23,646	11,370	35,016	49	126	**103,889**
79	64,963	22,668	10,222	32,890	46	135	**98,034**
80	62,379	21,491	9,095	30,586	39	122	**93,126**
81	58,955	20,138	8,257	28,395	27	101	**87,478**
82	54,858	18,058	7,183	25,241	19	108	**80,226**
83	50,119	16,610	6,246	22,856	18	106	**73,099**
84	45,377	15,266	5,457	20,723	13	95	**66,208**
85	40,861	13,847	4,944	18,791	15	105	**59,772**
86	36,432	12,662	4,300	16,962	<5	n.p.	**53,481**
87	32,490	12,002	3,649	15,651	n.p.	n.p.	**48,229**
88	29,951	11,130	3,404	14,534	9	75	**44,569**
89	24,174	9,495	2,735	12,230	9	69	**36,482**
90	20,486	7,952	2,195	10,147	6	70	**30,709**
91 & over	57,807	25,199	5,609	30,808	23	220	**88,858**
Total	**1,553,766**	**627,850**	**318,282**	**946,132**	**3,543**	**3,527**	**2,506,968**

Source: Department of Human Services Administrative data (DSS extract ISSD) as at 31 December 2018.

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