

Media release

BetaShares advocates for a universal pension funded by superannuation contributions

A proposed model developed in collaboration with The Monash Centre for Financial Studies (MCFS) of Monash University

SYDNEY, 4 February 2020: BetaShares, a leading Australian ETF provider, has proposed that the Federal Government adopts a system that could provide a pension to all Australians in retirement age, funded partially by superannuation contributions. The proposal was made in the company's submission to the Australian Treasury as part of its consultation with market participants on the Retirement Income Review.

BetaShares' Senior Investment Specialist, Dr Roger Cohen, confirmed in a recent collaboration¹ an anomaly in the current retirement system known as 'the retirement trap'. This trap catches Australians of retirement age with savings of between ~\$350,000 and ~\$600,000, who find that increasing and investing their savings can result in lower levels of retirement income due to the progressive reduction of age pension entitlements. The system implicitly encourages these retirees to spend additional savings or redirect them towards exempt assets like their homes, instead of choosing to invest them to generate income and capital growth.

In its submission, BetaShares proposes to eliminate both the income and asset tests, making the age pension available to all Australian citizens. Dr Cohen argues that this policy would encourage Australians to save more, as opposed to the current design where for certain balances additional savings are discouraged due to the effect of losing pension entitlements.

"With a universal pension in place, an Australian retiree can choose to spend or save additional income or assets based on their personal circumstances, without that choice being distorted by the structure of the system," Dr Cohen said. The universal pension would be partially funded by streaming a portion of compulsory superannuation contributions into defined benefit schemes.

The proposed model and its funding

BetaShares proposes the Federal Government design a system where: 1) the Age pension is universal (i.e. the income and assets tests are discarded); 2) the pension is funded by individuals as much as possible; 3) no individual is worse off in the new system than in the current one; and 4) the financial burden on the Government is reduced.

¹ <https://www.betashares.com.au/files/collateral/BetaSharesTheRetirementTrap.pdf>

These guidelines for an innovative retirement income model were first described in an analysis titled '*Pitfalls in the Retirement System and some thoughts about Risk, Reward and Remediation*²', a recent collaboration between BetaShares and The Monash Centre for Financial Studies (MCFS) of Monash University.

Under the proposed model, compulsory superannuation contributions would be streamed into **defined benefit** schemes (to fund the universal pension) and **defined contribution** schemes (much the same as those which currently exist). This streaming would be based on age, income, asset balances and other factors. Where a retiree has not fully funded their pension through their defined benefit contributions, the shortfall would be funded by the Government³. Within defined contribution schemes, individuals would still have flexibility and choice as to where their contributions are directed and how they are invested.

"Australia is well-positioned to implement a best practice universal pension within its retirement income system. Where the universal pension has failed elsewhere, that failure has primarily been due to problems around ensuring that it is funded at sustainable levels. Despite this, a full or partial universal pension is a successful part of the retirement system in many countries including The Netherlands, New Zealand and some Nordic countries," Dr Cohen said.

"A benefit from a fiscal perspective is that the current cost of the retirement system could be reduced due to efficiencies from a highly simplified system, where pooled defined contribution schemes are set up using best of breed technology and practice" he added.

BetaShares' CEO, Alex Vynokur, said: "As a leading provider of low-cost, transparent investment solutions in Australia, we engage with a broad range of clients, many of whom are retirees or nearing retirement.

"We're are pleased to make this submission and welcome a constructive debate in order to improve the current system and make it better aligned with the interests of all retirees."

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Media enquiries:

James Mitchell
Honner

² https://www.monash.edu/_data/assets/pdf_file/0008/2044943/Pitfalls-in-the-Retirement-System-and-Some-Thoughts-about-Risk-Dec-6.pdf

³ It is not envisaged that retirees would fully fund their pension as a priority. Rather, funding of both the pension and the defined contribution component of superannuation would occur simultaneously with the split determined by age, earning capacity and other factors. The new design would ensure that retirees are at least no worse off than they are in the current system.

james@honner.com.au

T +612 8248 3743 | M +61 423 720 757

About BetaShares

BetaShares is a leading Australian manager of exchange traded products ("ETPs") which are traded on the Australian Securities Exchange. BetaShares offers a range of ETPs which cover Australian and International equities, cash, currencies, commodities and alternative strategies. BetaShares currently has approximately \$10.5 billion in assets under management.

BetaShares is owned and managed by its Australian based management team along with a strategic shareholding from Mirae Asset Global Investment Group, one of Asia's largest asset management firms. As at December 2019, Mirae manages over US\$130 billion.

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