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Deloitte report: the dynamics of a $7.6 trillion superannuation system

23 September 2013: Using a comprehensive demographic and financial analytic tool to model the future progress of the Australian superannuation industry over the next 20 years, professional services firm Deloitte has released its sixth biennial report.

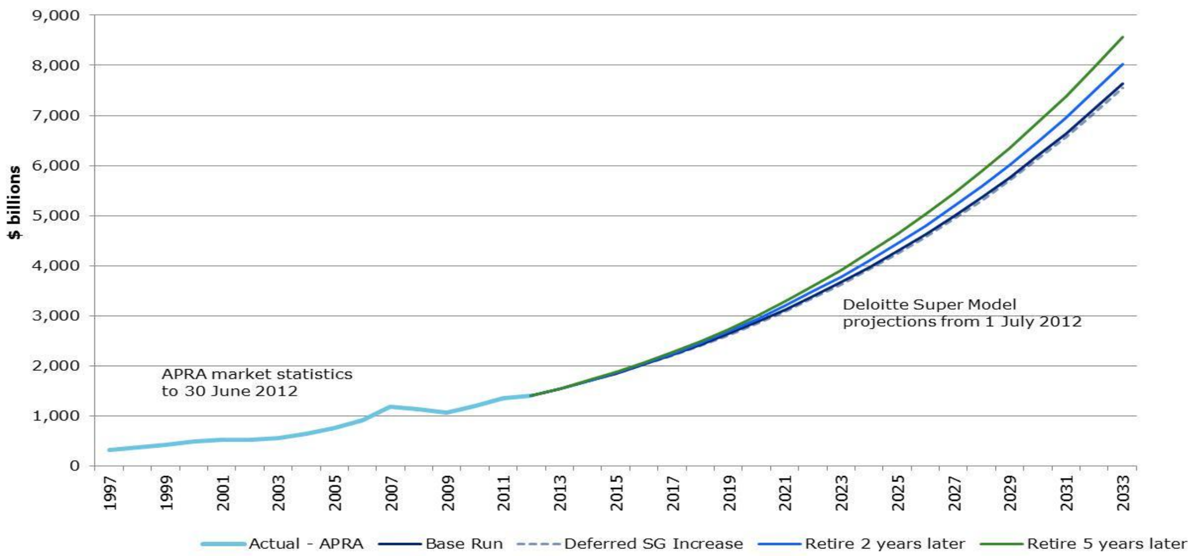
The Dynamics of the Australian Superannuation System – the next 20 years – 2013-2033 explores the growth of the system, the pre- and post-retirement sectoral battlegrounds, the impact of the Global Financial Crisis (GFC), generational shifts and the vexed question of adequacy.

With current total assets of around $1.6 trillion in the Australian superannuation system, the asset pool is projected to grow to $4 trillion in the next 10 years and $7.6 trillion by 2033. Deloitte Superannuation Leader, Russell Mason, said that in real terms this means that the contribution of superannuation assets will shift from just under 100% of Gross Domestic Product currently to 180% of GDP in the next 20 years.

"This growth is founded on the Superannuation Guarantee (SG) of 9.25% rising to 12%, on gradual population growth, as well as investment returns which are a significant contributor to growth. It is not sufficiently appreciated that net investment income is of a similar size each year to the total net superannuation contributions," Mason said.

He added that the research also showed that the Government proposed two year deferral in the SG rate increases will reduce assets by only 1% over the next 20 years.

Impact of Superannuation Guarantee (SG) to 12% (with Government's proposed two year deferral)



Source: Deloitte Actuaries & Consultants, 2013

Growth and adequacy

Mason said: “Australia’s superannuation system is the fourth largest in the world and as such is a source of pride for government and those working in the financial services industry. Its purpose is to provide the country with a pool of investible funds with the potential to generate wealth and prosperity for our ageing population.”

Deloitte Actuaries & Consultants partner Wayne Walker and a key author of the report added: “However our research is showing that despite the $7.6 trillion asset pool we project for 2033, that potential to generate wealth and prosperity may well be at risk for the average Australian.”

Walker explained that the GFC caused more than a ripple for the aggregate system, bringing lasting adversity for those on the verge of retiring as well as many currently retired Australians. He said: “Many Australians now approaching retirement have only received super for a limited portion of their working lives as our system is still maturing.

“The concern is that current policy settings, including changes to caps and drawdowns, and the SG 12% increase, will not deliver the lifestyle that the majority of those retiring in the next 20 years are seeking. The reality is that many Australians will need to work longer and where possible contribute more.

“To that end our report projects the possibility of Australians deferring retirement by two and five years respectively. The results are significant,” Walker said.

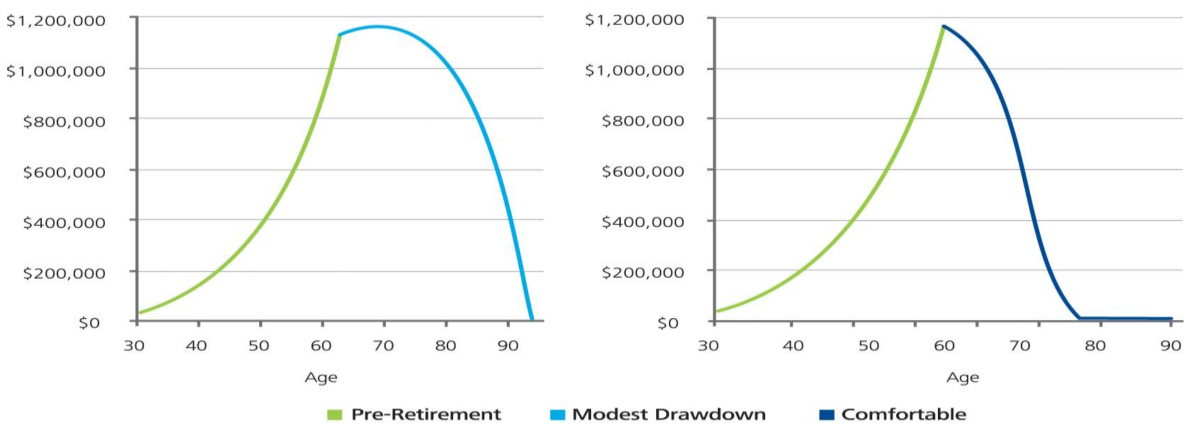
By deferring the retirement age by two years to age 67, Australia’s asset pool will increase by $400 billion. “If it were possible to defer retirement age by five years to age 70, another $1 trillion would be added to the system. This will bring the total pool of superannuation assets to $8.6 trillion,” Walker said. He added that not everyone would be able to spend extra time in the workforce and the jobs would also need to be available.

For most: super is not enough

	Modest lifestyle in retirement			Comfortable lifestyle in retirement		
	Male Age 65	Female Age 65	Couple (both 65)	Male Age 65	Female Age 65	Couple (both 65)
ASFA Standard income	$22,654	$22,654	$32,656	$41,197	$41,197	$56,406
Lump sum at retirement	$330,000	$360,000	$500,000	$590,000	$660,000	$860,000

Source: The ASFA Retirement Standard, June 2013 and Deloitte Actuaries & Consultants, 2013

Figure 17: Projected account balances



Source: Deloitte Actuaries & Consultants, 2013

For most: super is not enough

Russell Mason pointed out that the research clearly shows that many Australians will not have enough savings in superannuation alone to fund their retirement. "Increasing longevity means that half our retirees are expected to live past age 86 with a 100% increase in the number of Australians over the age of 75 in just 20 years.

"Today's average 65 year old Australian will not have enough superannuation to fully fund his, and particularly her, life expectancy," he said.

The Deloitte report also looks ahead to the younger Australians who will have received the compulsory SG contribution for a full lifetime and considers a worker currently aged 30 with a salary of $60,000 (median earnings for full-time employees aged 25-34 (ABS 6310.0) with an average current balance of $27,000 (AMP Retirement Adequacy 2012).

"Our projection estimates that this person will have $1.1 million on reaching age 65 in 2048 in future dollars," said Mason. "This account balance is expected to last to age 94 under the modest retirement standard ($22,654 pa) and to only 77 under the comfortable retirement standard of $41,197 pa.

"To afford a comfortable retirement standard covering life expectancy, a current 30 year old male would need a retirement benefit in 2048 of $1.58 million and a female, $1.76 million. To achieve this, current 30 year olds would need to make an additional contribution of 5.4% as a male and 7.5% as a woman on top of their current SG rate."

Longevity

The report identifies that currently there are four individuals of working age to each retiree. "Over the next 20 years to 2033, there will be less than three individuals of working age for each retiree," Walker said. "Given the pressures on tax collections – there will be fewer workers paying tax to fund the government's aged pension and other social security commitments – so the country will need more self-funded retirees to lessen the burden on the public purse."

The Deloitte projections show that, while the overall level of superannuation assets will grow significantly, retirement adequacy and longevity risk will remain concerns for both the government and individuals.

"Australians can take steps to improve their position through actions such as increasing contributions or delaying retirement. But these options are not available to all and they do not fully eliminate the longevity risk," Walker said.

"The projections here indicate that the government, the industry and society need to consider ways of encouraging retirees to take their superannuation as an income stream or annuity rather than a lump sum, to help address the demographic challenges of adequacy," Walker said.

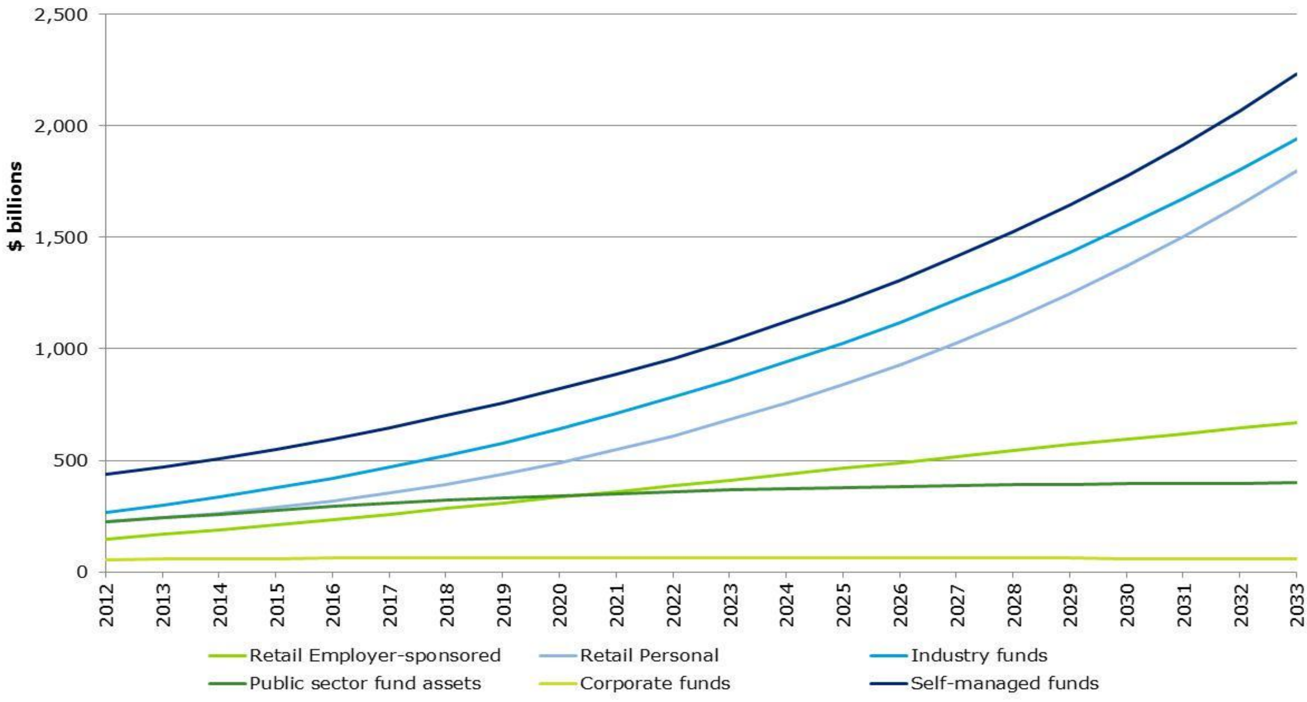
Market share by major segments

The Deloitte report shows that the restructuring and consolidation of the industry that is steadily underway will continue, with the industry dominated by Self-Managed Super Funds (SMSF), the retail giants – predominantly the large banks and life insurers - and industry funds. Corporate and public sector funds however are in relative decline.

Russell Mason said the Deloitte research showed that industry funds are expected to grow significantly over the next 20 years with their rate of growth equalling that of SMSFs over the period to 2033, with the industry fund and SMSF sector reaching $1.93 trillion and $2.23 trillion respectively.

“Our projections indicate that the total retail fund sector (that is a combination of retail employer-sponsored and retail personal) will take over from SMSFs as the largest market segment in 2019 and reach almost $2.5 trillion in assets in 2030. However SMSFs are still expected to be the largest sector by far in the post-retirement superannuation market, reaching $800 billion in 2032, and eclipsing the retail personal segment in 2017,” Mason said.

Sector growth: superannuation assets by market segment



Source: Deloitte Actuaries & Consultants, 2013

He pointed out that there is inevitably quite different member behaviours between pre- and post-retirement stages, with SMSFs ‘The home of choice’ for those retiring with significant super balances.

Mason said: “As the education of members continues to ramp up with Baby Boomers approaching retirement, the focus is shifting to tax and ‘retirement outcomes’, rather than ‘wealth creation’.

“For both business and government there is inevitably, and needs to continue to be, an increasing focus on the implications of taking significant lump sums at retirement compared to income stream products.

“Seminars and marketing material on this and other benefits of retaining balances in the superannuation system are being shared with members to help boost the retention of monies within the post-retirement superannuation space to meet longevity requirements.”

Mason said in the pre-retirement space: “Product, brand, service and My Super are all changing the basis of competition. But in post- retirement, the industry needs to continue to look at risk management and investment options, payments systems and controls, and opportunities for advice and product innovation.”

For more information on the Dynamics of the Australian Superannuation System: the next 20 years, download the Summary here or contact the authors at superdynamics@deloitte.com.au

NB: See our media releases and research at www.deloitte.com.au

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