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THE AUSTRALIAN SUPERANNUATION FRAMEWORK: IMPLICATIONS FOR RETIREMENT SAVINGS*

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ABSTRACT

The provision of retirement income has become a challenge for governments across the world. The population is ageing as a result of lower mortality and fertility rates: this places financial stress on government budgets as welfare spending increases, further compounded by a proportional reduction in working-age taxpayers. The Australian government has introduced a compulsory superannuation charge on employers to assist retirement savings. Even though savings in superannuation have increased significantly over the years, many will still have insufficient savings to fund their retirement. Recent changes to the superannuation framework have emphasised the importance the government places on supporting future generations of Australians in retirement.

I. INTRODUCTION

As a result of declining mortality and fertility rates in OECD (Organisation for Economic Co-operation and Development) countries the population is ageing. In Australia, it is projected that life expectancy will increase to 86 years for men and 90 years for women by the year 2047 (The Treasury 2007). The implications are that there will be a decrease in the ratio between working age Australians and retirees. This is expected to lead to higher government spending and a reduction in Gross Domestic Product (GDP) (The Treasury 2007) and compromise the living standards of Australians (Committee for Economic Development of Australia (CEDA) 2004).

Given an ageing population, adequate retirement funding is of increasing importance to individuals who will experience longer periods in retirement. At present, a means tested government provided age pension, superannuation and voluntary savings underpin Australia's retirement system. A World Bank Report (World Bank 1994) advocated a three-pillar system comprising a publicly tax-funded pension, a compulsory privately managed and funded retirement benefit scheme, and a voluntary savings component as the third pillar. It has been stated that even though the Australian retirement income system may possess some defects, it has become something of a role model for developing countries (Clare 2008a). A recent government commissioned report (Harmer Report 2009) on Australia’s retirement system has recommended that the existing three-pillar system should be retained.

In 1992 the Australian government introduced a compulsory employer superannuation system where employers are required to contribute to their employees' superannuation fund. Superannuation represents a form of saving where money is set aside by the worker and/or the employer and invested for each employee's retirement benefit. The Treasury (2002) in the first Intergenerational Report identified superannuation as one structure that can counter the impact of an ageing population. When first introduced, the Australian superannuation guarantee system required minimum employer annual contributions of three percent which was progressively increased to its current level of nine percent. Recently, superannuation stakeholder groups have suggested that a further increase in the contribution rate is necessary to ensure individuals derive sufficient superannuation savings for retirement.

The subject of ensuring adequate retirement income has attracted increasing attention around the developed world in recent years (OECD 2005; 2008a). In 2008 superannuation assets in Australia were reported to be in excess of $1 trillion (APRA 2009a). A report from the Australian Bureau of Statistics (ABS) (2008) indicates that 91 percent of employed people have superannuation coverage. However, there is still considerable doubt about whether Australians will have sufficient balances in their superannuation accounts to support them adequately in retirement (Clare 2008b). CEDA (2004) also suggests that many Australians will find that their level of savings will be inadequate for retirement. There is also growing survey evidence, both in Australia and the United States, which shows that individuals are not adequately preparing or saving for their retirement (ANZ A.C.Nielsen 2005; ANOP Research Services 2006; Helman, Greenwald, VanDerhei & Copeland 2008).

*The authors would like to acknowledge and thank the anonymous reviewers of an earlier version of this paper and the participants of the B&ESI Athens 2010 conference, for their useful and constructive comments.
More recent changes by the government to the superannuation framework such as a simplification of the superannuation system, government co-contribution, choice of fund, and superannuation tax incentives, have emphasised the importance the government places on superannuation as a mechanism supporting future generations of Australians in retirement. The discussion that follows is aimed at providing an analysis of Australia's retirement income system with a particular focus on superannuation. Thus, we provide a synopsis of the regulation, taxation, size and composition of the industry, and the types of benefit structures and the distribution of superannuation assets across those structures. We then consider the implications for retirement incomes of an ageing population and we discuss some of the initiatives taken by the Australian government to counter the adverse effects. In the final sections we briefly review the impact of the global financial crisis on the adequacy of savings to retirees, or those near to retirement; and we conclude that the government must do more to encourage vulnerable sections of the population to prepare, financially, for their own retirement.

II. REGULATION AND TAXATION OF THE SUPERANNUATION INDUSTRY

Superannuation funds are principally regulated under the Superannuation Industry (Supervision) (SIS) Act 1993. This Act comprises all the regulations that a complying superannuation fund must follow. It sets out the basic duties and responsibilities of trustees, the disclosure and regulatory reporting requirements and the roles performed by auditors and actuaries. APRA together with the Australian Securities and Investment Commission (ASIC) are charged with the primary responsibility for supervising the superannuation system through the administration of the SIS Act 1993. APRA, as prudential regulator, is responsible for supervising the banking, insurance and superannuation sectors of the financial services industry: ASIC is responsible for market integrity, disclosure and other consumer protection issues across the financial services industry. Only regulated superannuation funds are governed by the SIS Act. Superannuation funds must apply to become a regulated fund, and in return for complying with the Act the funds receive certain tax concessions. The SIS Act was amended in 1999 to provide the ATO with powers to regulate Self-Managed Superannuation Funds (SMSFs). SMSFs are a category of small superannuation fund which have fewer than five members. The ATO is also responsible for the taxation of superannuation funds.

The taxation applying to superannuation contributions, income and retirement benefits was simplified from the 1 July 2007 with the introduction of revised superannuation measures. 'Concessional contributions' are able to be made by an employer for the employee and are taxed at 15 percent when they go into the superannuation fund account. These concessional contributions include superannuation guarantee payments, other employer-based contributions on behalf of the employee including employee salary sacrifice contributions, or any other contributions for which a claim for an income tax deduction is made. Salary sacrifice is an arrangement between the employer and employee to pay a portion of the employee's before-tax salary into a superannuation account. A person is eligible to make superannuation contributions if they are under 65 years of age, or they are between 65 and 74 and can meet the work test of 40 hours work over 30 consecutive days during the financial year in which the contributions were made. Up to $50,000 of concessional contributions can be made to a superannuation account each year. The current transitional arrangements allow contributions up to $100,000 each year until 30 June 2012 if a person is aged 50 or over.

In May 2008 the Australian Government announced the Review of Australia's Future Tax System (Henry Review) and in August 2008 The Treasury (2008) released a discussion paper entitled 'Architecture of Australia's Tax and Transfer System', which was followed by a call for public submissions. As part of its terms of reference the review panel has been asked to consider enhancing the taxation of savings, assets and investments. The full review of the Australian taxation system was released at the end of 2009. ASFA's (2009) submission to the Henry Review (responding in regards to superannuation taxation), recommends maintaining investment returns in retirement tax free, and that the age at which superannuation becomes tax free be gradually raised to 65. ASFA also made recommendations for improving equity of superannuation tax for low and middle income earners, and suggested simplifying capital gains tax rules on the sale of business to encourage the transfer of lump sums to superannuation. Concurrent with the 2009-10 federal budget, the government launched a report on the retirement system prepared as part of the review of Australia's Future Tax System. The main recommendation of the report was the retention of the current system. The panel also found that the current superannuation guarantee contribution rate is adequate and recommended that it to be maintained at its current level of nine percent. It further recommended that the age at which Australians can access their superannuation (the preservation age) should be gradually increased to 67 years.
III. COMPOSITION, SIZE, STRUCTURE OF THE SUPERANNUATION INDUSTRY

The current structure of the Australian superannuation industry is summarised in Table 1. Total superannuation assets are reported to be in excess of $1 trillion, representing more than 100% of GDP. The highest level of assets is concentrated in self-managed superannuation funds ($326.4 billion), followed by retail funds with $297.1 billion in assets. Even though the corporate sector has the highest number of funds (199) it has relatively fewer assets ($326.4 billion) when compared to other major fund types. There is a proliferation of small superannuation funds: there are 401,366 self-managed funds and another 4,433 small APRA regulated funds. The Table also identifies 66 industry funds and 40 public sector funds. Both the industry funds and retail funds have significant levels of assets ($181.1 and $149.4 billion, respectively).

Table 1 The Australian Superannuation Industry at December 2008

<table>
<thead>
<tr>
<th>Fund Type</th>
<th>Assets ($ billion)</th>
<th>Number of Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate</td>
<td>53.6</td>
<td>199</td>
</tr>
<tr>
<td>Industry</td>
<td>181.1</td>
<td>66</td>
</tr>
<tr>
<td>Public Sector</td>
<td>149.4</td>
<td>40</td>
</tr>
<tr>
<td>Retail</td>
<td>297.1</td>
<td>169</td>
</tr>
<tr>
<td>Sub-total</td>
<td>681.3</td>
<td>474</td>
</tr>
<tr>
<td>Small APRA Funds</td>
<td>2.6</td>
<td>4,433</td>
</tr>
<tr>
<td>Single-Member ADFs</td>
<td>0.1</td>
<td>120</td>
</tr>
<tr>
<td>Self-managed Super Funds</td>
<td>326.4</td>
<td>401,366</td>
</tr>
<tr>
<td>Balance of Life Office Statutory Funds</td>
<td>43.2</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,053.5</strong></td>
<td><strong>406,479</strong></td>
</tr>
</tbody>
</table>


In Australia, defined benefit, defined contribution (accumulation), and hybrid are the main types of benefit structures used in superannuation funds. The traditional plan in Australia was defined benefits, but there has been a substantial move away from defined benefit plans towards accumulation plans (Ross & Wills 2002). In the 1980s approximately 80 percent of superannuation fund members belonged to defined benefit plans (Bateman 2008). Recent data from APRA (2009b) indicate that only around two percent of members now belong to defined benefit plans, almost 60 percent belong to defined contribution (accumulation) funds and a further 38 percent are in hybrid funds (refer to Table 2.3). Bateman (2008, p. 11) suggests that 'this is largely because the superannuation guarantee is specified in terms of a defined contribution and while defined benefits can comply the regulations are more onerous. As well, employer sponsors are opting to shift the administrative burden associated with superannuation to commercial funds and to shift the investment risks back to fund members'.

As indicated in Table 2, the majority of superannuation assets are in accumulation funds ($712.4 billion) and hybrid funds ($357.5 billion). The defined benefit plans hold a total of $64.3 billion from total superannuation assets of $1.13 trillion. There is also a substantial number of accumulation funds (393,910) representing 99.95 percent of the total number of superannuation funds. This trend, involving a move away from defined benefit to accumulation funds, has also been very strong in the United States (Ross & Wills 2002). However, this is not the case in Canada and the United Kingdom where the large majority of assets and members is concentrated in defined benefit funds (Broadbent, Palumbo & Woodman 2006).

Table 2 Distribution by Benefit Structure

<table>
<thead>
<tr>
<th>Benefit Structure</th>
<th>Assets ($billion)</th>
<th>%</th>
<th>No of Funds</th>
<th>%</th>
<th>No. of Members (000)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accumulation</td>
<td>712.4</td>
<td>62.8</td>
<td>393,910</td>
<td>99.95</td>
<td>19,190</td>
<td>59.9</td>
</tr>
<tr>
<td>Defined Benefit</td>
<td>64.3</td>
<td>5.7</td>
<td>35</td>
<td>0.001</td>
<td>669</td>
<td>2.1</td>
</tr>
<tr>
<td>Hybrid</td>
<td>357.5</td>
<td>31.5</td>
<td>171</td>
<td>0.004</td>
<td>11,422</td>
<td>38.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,134.2</strong></td>
<td><strong>100.0</strong></td>
<td><strong>394,116</strong></td>
<td><strong>100.0</strong></td>
<td><strong>31,281</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>


In Australia the concept of investment choice in an accumulation fund is a recent concept. Schubert (2008) explains that ten years ago, members had no choice of where their money was invested, and that now, 90
percent of accumulation (defined contribution) funds involve some level of choice. Statistics released by APRA (2009b) indicate that 62.4 percent of all funds with more than four members now offered investment choice to their members. Schubert (2008) suggests that there can be typically anywhere between 10 and 60 choices and that there is significant emphasis on multi-management of assets, active management and diversified options. APRA (2009b) statistics show that retail funds offered the greatest number of investment choices to members, with an average of 112 options per fund. Furthermore, industry funds had an average of eight investment options per fund and the public sector and corporate funds had an average of eight and seven choices per fund, respectively. The available investment options can vary from low risk (conservative), to high risk (high growth), with a default option. All superannuation funds have a default option, which is where a member’s superannuation funds will be invested if they do not nominate an investment option. APRA (2009b) statistics indicate that at 30 June 2008, for entities with more than four members, 46.2 percent ($357.2 billion) of assets were held in the default investment strategy. The majority of the default strategy assets were held in both domestic and international equities (52 percent). The other allocations were in Australian fixed interest (11 percent), other assets (13 percent), property (10 percent), cash (9 percent), and international fixed interest (6 percent).

Another important development in superannuation fund (referred to as pension funds in some countries) arrangements in the OECD countries is the shift from defined benefit to defined contribution (accumulation) funds (OECD 2005). This shift is especially important in Australia where a majority of superannuation fund members have defined benefits (APRA 2009b). The OECD (2006, p. 1) acknowledges that ‘...the responsibility and risk for financial decisions that will have a major impact on an individual’s future life, notably pensions, are being shifted increasingly to workers and away from government and employers’. The OECD (2006, p. 3) advises governments that: “future retirees should be made aware of the need to assess the financial adequacy of their current public and private pensions schemes”. Of significance is the increasing responsibility of individuals to provide for their own retirement. The OECD (2005, p. 11) expects that ‘An increasing number of workers will have to rely on defined contributions pensions and their personal savings to finance their retirement as governments begin scaling back the benefits of state-supported social security programmes and as the number of employers offering benefits plans decreases’.

The provision of retirement income has become a challenge for governments across the world. Even though savings in superannuation have increased significantly over the years, a number of Australians will have insufficient savings to fund fully their retirement. Harding (2005, p. 2-3) suggests that ‘In essence, the poorest one-half of 50 to 64 year olds have almost no wealth to help sustain them through the decades of retirement that lie ahead of them’.

IV. IMPLICATIONS OF AN AGEING POPULATION

The second Intergenerational Report (The Treasury 2007) explains that Australia, like other OECD countries, is experiencing an ageing of its population driven by declining mortality rates. The Intergenerational Report projects future mortality rates to fall by 2047, with life expectancy to increase to 86 years for men and 90 years for women: about 25 percent of the population is projected to be aged 65 and over, almost doubling the current proportion. The number of people aged 55 to 64 is projected to increase by nearly 50 percent, over the next 40 years. The Report acknowledges the recent increase in the fertility rate, but suggests that it is still significantly below the replacement rate. The most commonly used indicators of population ageing are the proportion of the population aged 65 and over (FaHCSIA 2004). Another common measure of population ageing is the dependency ratio which is used to measure the people aged 65 and over compared to the population of working age (15-64) (FaHCSIA 2004). Harding (2005, p. 1) explains that ‘In 1960 there were about 7.3 working age Australians to help support each retiree aged 65 years and over. By 2040 there are forecast to be only 2.4 working age Australians for each retiree aged 65 and over’.

According to the second Intergenerational Report (The Treasury 2007) there are currently 5 people of working age to support every person aged 65 or over, and this is expected to fall to 2.4 by 2047. Many of the concerns surrounding the issue of an ageing population are of an economic nature (Drabsch 2004). As a result of an ageing population the second Intergenerational Report (The Treasury 2007) estimates that by 2046-47, the gap between spending and revenue will grow to 3.5 percent of GDP. It is also reported that over the next 40 years, the ageing of the population is projected to slow economic growth. The impact of higher government spending and slowing GDP is predicted to send the Federal Government budget into deficit and higher taxes may have to be imposed on future generations of taxpayers. CEDA (2004, p. 1) suggests ‘The ageing of Australia’s demographics has taken on greater public policy significance, as it presents major challenges about how Australia should address the economic, fiscal and social impacts, including the impact on the future growth in living standards of Australians’.

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Earlier, the first Intergenerational Report (The Treasury 2002) identified the superannuation system as one of the structures that is in place that can counter the impact of an ageing population. The Australian government has sought to reduce future economic pressure resulting from an ageing population by encouraging the Australian public to save for retirement through mechanisms such as compulsory employer superannuation contributions, taxation incentives and superannuation co-contributions. Alliance Strategic Research (2008) suggested that because of the economic importance of superannuation savings there is considerable input into policy decisions from the finance and economic sectors and that the superannuation portfolio is placed in Treasury, rather than in the Department of Families, Housing, Community and Indigenous Affairs which has the responsibility for pensions. Therefore, the second and third pillars of Australia’s retirement income system, (superannuation; voluntary savings), will play a vital role in future in providing retirement income for a substantial proportion of the population and it will also provide a counter-balance against future government expenditure.

V. SUPERANNUATION CO-CONTRIBUTION

The superannuation co-contribution was introduced from 1 July 2003 to assist low and middle income earners to save for their retirement. The co-contribution is made by the government to an individual’s superannuation account. As part of its 2009-10 budgetary measures the Australian Government announced that as of 1 July 2009 it will reduce its matching of superannuation contributions by workers earning less than $60,342 from $1.50 for every dollar contributed to $1.00 for every dollar contributed for the years 2009-10, 2010-11 and 2011-12 income years and, a matching rate of 125 percent for the 2012-13 and 2013-14 years. Beyond this period the matching rate will revert to 150 percent.

Nielson (2005) found that the co-contribution scheme delivered a number of benefits, particularly to women and the baby boomer age group. He found that 63 percent of the beneficiaries of the co-contribution were women, and 47 percent were aged between 46 and 65. It is acknowledged by Neilson (2005) that this benefit alone will not alleviate the problem of small superannuation balances of low income earners. A recent survey of three industry funds was conducted by the Australian Institute of Superannuation Trustees (AIST 2008a). Their funds data showed that over the three years surveyed (2004-2007) participation in the co-contribution scheme increased from 6.1 to 9.9 percent. However, based on income levels, they estimated that 56 percent of the survey groups were within the eligible income range. The survey findings are summarised as follows (AIST 2008a, p. 1):

- apathy and affordability are the major barriers to participation;
- participation is skewed heavily to older workers;
- household income and dependents are key factors in participation;
- co-contribution scheme is effective in changing savings behaviour;
- high levels of awareness of the scheme generally;
- women are likely to participate and have higher awareness; and,
- better access to advice from superannuation funds required to convert positive disposition into action.

The research identified that the scheme failed to benefit many young families and those on low incomes. Those with young families or low incomes might lack the disposable income required to contribute to the scheme. The main beneficiaries of the scheme were older people with disposable income. It also shows that participation in the scheme is impacted by individual apathy. The recommendations of the AIST report (2008a, p. 1) are as follows:

- split the co-contribution scheme into $500 direct subsidy for very low income workers, and retain the existing scheme on a dollar-for-dollar basis for low and middle income earners;
- raise the phase-out range to $35,000-$75,000 income levels;
- further research required to target specific groups in awareness campaigns; and,
- government and superannuation industry to develop cost-effective limited advice channels to improve conversion of positive disposition into action.

VI. ADEQUACY OF SUPERANNUATION SAVINGS

An adequate superannuation-based retirement income for Australians was the objective of introducing a compulsory superannuation contributions scheme. Nielson (2006) suggests that the ability of the current retirement income system to produce an adequate retirement income is in doubt. Clare (2008b, p. 4) states ‘...current average balances are below those which the Commonwealth Treasury projected at the time compulsory superannuation was introduced. The data also indicate that there are a number of groups with
relatively low levels of superannuation who need further assistance and encouragement to save if they are to achieve even a modest standard of living in retirement'.

We can expect a continual growth in superannuation balances for many more years as the private retirement income system matures. It is noted that the Australian compulsory superannuation system is still relatively immature and that many individuals have only had superannuation coverage since the introduction of the Superannuation Guarantee in 1992 (Clare 2008b). The Superannuation Guarantee only reached its maximum rate of nine percent in 2002 and as a result many still have modest balances in their superannuation accounts. Clare (2008b, p. 7) suggests that 'With average retirement payouts in 2005-06 of the order of $136,000 for men and only $63,000 for women it is clear that most retirees will need to substantially rely on the Age Pension in their retirement'.

Nielson (2006) acknowledges that small retirement payouts from superannuation are a result of an immature superannuation system that will not reach its full potential until 2037 at best. In the year 2037 retirees will have accumulated superannuation contributions at a rate of nine percent per annum for a 35-year period. The groups identified as having the greatest risk of insufficient superannuation savings for retirement are women, older baby boomers, low income workers, the long-term unemployed, and long-term part-time workers (Nielson 2006). Retirement saving under the compulsory superannuation system in Australia is dependent on an individual employee’s years of employment and wage level. Women are generally at a disadvantage under this system where continuous employment is often interrupted by the commitments of having a family. Olsberg (2004, p. 164) reiterates this concern and states that ‘The fundamental problem is not having enough time or money in the paid workforce. Women’s working patterns, their life long earnings and therefore, their capacity to accumulate sufficient retirement savings, are crucially compromised by interruptions to paid employment due to childbearing, child rearing and other family responsibilities’.

Baby boomers are usually defined as those born between 1946 and 1961 and who are now aged between 48 and 63 (Hamilton & Hamilton 2006). The baby boomer generation was 30-45 years old when the Superannuation Guarantee Charge was introduced in 1992. The Superannuation Guarantee places this group in a position in which they are unable to capture the full benefit of superannuation over their working lives. Preston and Jefferson (2002) suggest that most female baby boomers will not be in a position to fund their own retirement and will remain highly dependent on the aged pension. Hamilton and Hamilton (2006) identified lower income baby boomers as most at risk of having insufficient savings to fund retirement adequately. Their research suggests that many high income baby boomers have significant wealth in superannuation and in other assets and could retire early.

Low income workers, the long-term unemployed and part-time workers are also at a disadvantage under the Australian Superannuation Guarantee. Low income leads to lower employee superannuation contributions. No contributions are made during periods of unemployment, and if these periods are prolonged superannuation will not sufficiently accumulate to fund retirement. Similarly, part-time workers and casual workers will derive relatively less employee superannuation contributions when compared to those employed full-time. It is stated by Nielson (2006, p. 26) that “for these groups the age pension will always be a major component of their retirement income’.

In order to determine whether or not superannuation and other savings can adequately fund a person’s retirement we must first develop a measure. Nielson (2006, p. 6) provides the two following methods for defining an adequate retirement income:

- using a replacement rate, that is, the post-retirement income expressed as a percentage of an individual’s pre-retirement income; or,
- using a budgetary standard, that is, measuring the adequacy of an individual’s post-retirement income against what it may cost to live in particular locations.

Rothman and Bingham (2004) describe the replacement rate as a ratio of a person’s income or spending power after retirement compared to the period just prior to retirement. This figure is usually expressed as a percentage of the retiree’s pre-retirement income (Nielson 2006). The Senate Select Committee (2002) on Superannuation noted general agreement among superannuation industry representatives that retirement income between 60 and 65 percent of pre-retirement gross income was adequate. Stanford (2004) suggests that a replacement rate of 65 percent may give retirees who own their home a higher standard of living in retirement than they experienced for the majority of their working lives. (Nielson 2006, p. 29) suggests that: ‘Reasons why a family may not have access to 65 percent of its gross salary available for consumption include mortgage repayments, costs of raising children or rental costs. With the exception of the last cost, these burdens are generally not part of a retiree’s expenditure in retirement’. 
An example of the budgeting approach to measuring the adequacy of retirement income has been developed by Westpac Banking Corporation and the Association of Superannuation Funds of Australia (The Westpac-ASFA Retirement Standard). They outline two standards of retirement income as follows (ASFA, 2007, p. 1):

- modest lifestyle in retirement (better than aged-pension, but still only able to afford fairly basic activities); and,
- a comfortable retirement lifestyle (enabling an older, healthy retiree to have a broad range of leisure activities and a good standard of living).

National figures released from ASFA (2008) for the December 2008 quarter on the Westpac-ASFA retirement standard show that a couple living comfortably in retirement needs to spend $50,561, while those couples seeking a modest but adequate retirement need to spend $27,454 a year. Both these standards of living assume the retirees own their home. Therefore, the aged pension would allow a retired couple a modest but adequate standard of living. Rothman and Bingham (2004) found that the current rate of SG contributions, combined with a sufficiently long period in the workforce (more than 35 years), could produce sufficient balances for those on or below Average Weekly Ordinary Time Earnings (AWOTE) to provide a replacement income of between 60 and 78 percent of average salary over the last year of employment.

VII. RECENT DATA ON RETIREMENT AND SUPERANNUATION

The income generated from superannuation and voluntary savings will vary from person to person and will depend on savings either through a superannuation account or other non-superannuation investment assets. As previously discussed in Section 2.3, Australia, through compulsory superannuation, has made significant changes to prepare for the retirement of its ageing population. A recent Australian Bureau of Statistics Survey (ABS 2008) on Employment Arrangements, Retirement and Superannuation (SEARS) indicates that 91 percent of employed people had superannuation coverage. Given widespread superannuation coverage within the Australian population, it is important that people are adequately educated on superannuation matters. The survey also found that people who have retired more recently are less likely to have government aged pensions and allowances as their main source of personal income. The survey attributes this fall in demand for the aged pension to the increase in other income sources such as superannuation, annuities or income-streams. Importantly, of all people aged 45 years and over who intend to retire from the labour force, 43 percent reported that their expected main source of income at retirement would be income from superannuation, an annuity, or an allocated pension. However, present figures from SEARS indicate that only 21 percent of people aged 65 and over rely principally on superannuation or investment income. A comparison to the previous SEARS survey conducted in 2000 shows that people with superannuation balances over $100,000 increased from six percent to 15 percent, and people with balances of less than $10,000 decreased from 48 percent to 29 percent (ABS 2008). It is also important to note that in 2007 the mean balance for males was $72,200 and $47,200 for females with accumulation accounts: for defined benefit account holders, the mean balance for males and females was $120,700 and $80,200, respectively. CEDA (2004) reports that many Australians will find that the level of their savings will be inadequate in retirement. Some implications of inadequate superannuation balances for retirement funding are addressed in the next section.

For financial reasons many of the baby boomer generation believe they will have to continue to work up to and beyond the retirement age (Hamilton & Hamilton 2006). Recent data from the SEARS survey indicate that 64 percent of all employed people intend to retire between the age of 60 and 69, whereas 24 percent intend to retire aged 70 years or over (ABS 2008). These statistics indicate that there is still a substantial number in the population who intend to work to retirement age and beyond. Other policies that have been advocated by superannuation and industry commentators to support superannuation savings further in Australia are summarised by Nielson (2006, p. 7) as follows:

- increasing the superannuation guarantee rate from nine to between 12 and 15 percent of wages;
- reducing the tax rate on superannuation fund income (currently 15 percent on superannuation fund tax-deductible contributions and overall fund earnings);
- requiring additional after-tax contributions to be made by employees; and
- requiring that some or all of a person’s superannuation benefits be converted to a pension.

Schubert (2008) also explains that Australia’s defined contribution system is funded, market-based, and nearly universal and suggests that it is widely acknowledged as a model for other countries. The immediate impact is on those who are retired and living off their investment income and those older workers (baby boomers) on the verge of retirement. Many retired persons have witnessed a dramatic fall in their income and investments. This has recently placed more demand on the aged pension as more retirees become
eligible for payments as a result of either falling asset values or lower income (or both). Others looking to retire in the near future are contemplating delaying their retirement and continuing to work because of the losses they have recently incurred in their superannuation accounts. ABC News (2009) reports that research firm TNS has found that in Australia 44 percent of baby boomers are postponing their retirement because of the global financial crisis. The OECD (2008b, p. 2) has reported that "the impact of the financial crisis for people who belong to defined contribution funds depends on their investment choice and the member's age". Baby boomers with high exposure to equity investment are the most affected.

The financial crisis has highlighted the need for superannuation fund members to understand that negative returns occur and usually have a relatively short-term impact and that superannuation funds have a long-term investment goal and investment performance should be judged on this basis. The OECD (2008b, p. 2) emphasises that '...in the context of the financial crisis and the rapid growth of defined contribution plans, effective financial education programmes and information disclosure have become more important to the well-functioning of the private pension system'.

As a result of negative sentiment there have been increasing levels of superannuation fund members switching from growth and balanced options to cash (AIST 2008b). The superannuation fund members who have chosen to make the switch to more conservative investment options are at risk of missing higher positive returns when the markets ultimately recover. A superannuation education framework is necessary to ensure that individuals become informed on investment matters relating to their superannuation. It is therefore important to assess the existing framework and the mechanisms by which superannuation fund members become informed on these matters.

VIII. CONCLUSION

Australians governments past and present have all emphasised the importance of retirement saving through the introduction of the superannuation guarantee and other measures to encourage and facilitate the retirement savings process. Incentives via concessional taxation of superannuation contributions and income indicate the government’s commitment to the superannuation system. However, it is strongly recommended that specific groups be specifically targeted by governments and superannuation funds through both an awareness campaign and education programs that are tailored specifically for these specific groups. The literature identifies younger adults as having low financial awareness when it comes to retirement savings (ANZ 2008). It is acknowledged that there are difficulties associated with getting young individuals to adequately engage with their retirement savings because they perceive retirement to be something that is far too distant to consider and therefore place less value on it. The government has instigated a taskforce to report on how education programs can better assist individuals in saving for retirement and, through the Australian Taxation Office, it has also instigated a program that allows individuals to search for any lost superannuation. However, more needs to be done by relevant stakeholder groups to ensure that younger Australians have an improving awareness of the importance of managing their superannuation. More needs to be done to ensure that younger groups understand that they will experience a less than comfortable retirement lifestyle if they do not generate the necessary savings. The future benefits associated with the adequate management of their superannuation funds throughout their working lives needs to be stressed to this group. Further, the government and the superannuation industry also needs to pursue and inform those less financially educated individuals on the need to plan for retirement with specifically targeted information and educational programs.

REFERENCES


Superannuation Guarantee (Administration) Amendment Regulations 2005 (Cwlth).

Superannuation Industry (Supervision) Act 1993 (Cwlth).


