Retirement Income Review

November 2020

Entrust

Commissioned in September 2019, the Federal Government released the findings from its independent Retirement Income Review on Friday, 20th November 2020. The report assesses the performance of the retirement income system, which encompasses three pillars: compulsory superannuation, a means-tested age pension and voluntary savings (including home ownership). While the report does not make any recommendations or policy changes, it considers the incentives for people to self-fund their retirement and the fiscal sustainability of the system. We summarise some of the key takeaways.

The review covers the current state of the retirement income system and how it will perform in the future as Australians live longer. Its findings are that 'the retirement income system is effective, sound and its costs are broadly sustainable'. However, the report highlights that further attention is required in particular areas.

Super Guarantee Level

Employers currently pay 9.5% of workers' ordinary earnings into super. This is scheduled to rise to 10% in July 2021 and eventually reach 12% in 2025. Widespread commentary, including from the RBA, indicate that increasing the superannuation guarantee (SG) would have a negative effect on wages growth.

The report comments that increases in the SG rate will result in lower wage growth and would affect living standards during working life. Accordingly, a more efficient use of savings in retirement can have a bigger impact on improving retirement income than increasing the SG rate. Alternatively, a larger take up of the use of voluntary super contributions can provide flexibility throughout the working years.

Drawdown Rates

It has been noted that a significant number of retirees leave the bulk of the wealth they had at retirement to the next generation. This is despite the fact that superannuation savings are designed for the purpose of retirement income (and not purely for wealth accumulation). This may pave the way for a review of the mandated minimum drawdown rates to accelerate consumption.

Home Ownership

The report indicates that retiree renters can be worse off in retirement as measured by financial stress levels and standards of living. Given the importance of home ownership to the financial security of Australians in retirement, the Government has demonstrated support measures to allow more people to buy their first home sooner.

For those retirees that have a large proportion of their wealth tied up in the family home, accessing home equity is an avenue to supplement income. This generally involves borrowing money against the home's equity position.

The Age Pension and Other Support

The Government Age Pension provides a strong safety net to those who retire with small superannuation balances and assists to reduce income inequality. Low-income retirees generally receive the largest Age Pension payments.

However, superannuation tax concessions are skewed to high-income earners which can lead to higher superannuation balances. This can mean that the wealthy receive higher Government support over their lifetime than other groups.

Conclusion

In summary, the review highlights the need to improve the population's overall understanding of the retirement system, which has become very complex. The observations outlined in the report will be used to inform government policy and provides some clues on the potential focus areas.