

Media Release

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The dynamics of a \$6 trillion superannuation system

2 November 2011: Using a comprehensive demographic and financial analytic tool to model the future progress of the Australian superannuation industry over the next 20 years, actuaries from professional services firm Deloitte have released a new report exploring a range of scenarios, with current total assets of around \$1.4 trillion in the Australian system projected to grow to \$3 trillion by 2020, \$4.5 trillion by 2026 and more than \$6 trillion by 2030.

This growth will be driven by a Superannuation Guarantee (SG) of 9% potentially rising to 12%, population growth, and the ageing population said co-author of the report, Deloitte Actuaries and Consultants partner Wayne Walker.

“The proposed increase in the SG contribution rate will gradually impact the size of the pool of total assets leading to an extra \$408 billion by 2030,” Walker said

The report, *The Dynamics of the Australian Superannuation System: the next 20 years 2011 – 2030*, explores a range of scenarios that show the comparative growth in superannuation assets by market segment, in the demographic makeup of post and pre-retirement funds, and what longevity means for retirement adequacy.

“Post retirement assets represent a large and growing pool of assets in their own right and are expected to represent almost 22% of total assets in 2030,” said Walker. “However, despite this growth, retirement adequacy will continue to be a major concern for many Australians.

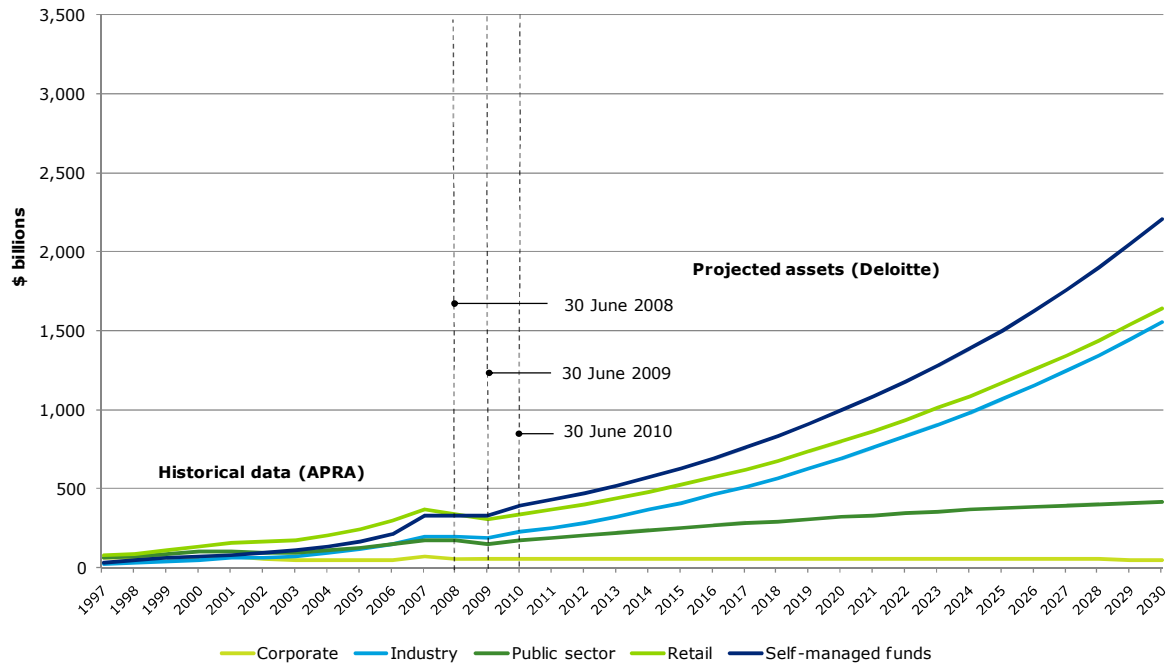
Head of Superannuation at Deloitte Australia, Russell Mason said that to put the average balance at retirement in context, the authors turned to the current Association of Superannuation Funds of Australia (ASFA) Retirement Standard, which suggests that a single male requires \$22,000 per annum for a modest lifestyle in retirement. “That means to retire on a modest lifestyle a male will require a balance of \$280,000. A female will need the higher amount of \$310,000 due to greater longevity. But our estimate suggests that the average balance for a male at retirement in 2030 will only be \$217,000 in today’s dollars, and the average amount for a female will be even less - \$139,000.”

Given that 50 percent of the population is expected to live beyond the standard 85 years of age for a male and 88 years for a female, co-author of the Report, Deloitte Actuaries and Consultants’ partner Stephen Huppert explained: “We believe that a single male retiring with an account balance of \$217,000 and taking an income stream of \$22,000 per annum has a 78% chance of outliving his retirement benefit¹.

“Clearly Australians will be relying on the age pension for some time into the future. So it is important that any proposals to deal with the ageing demographic consider the Superannuation system and the Social Security system in unison,” Huppert said.

¹ Based on the current Australian Life Tables, ALT 2009

Fund change



Source: APRA & Deloitte Actuaries & Consultants, 2011

The industry is not a homogeneous pool of money

The Report projects that recent strong growth in industry funds, master trusts and Self Managed Super Funds (SMSFs), will continue at the expense of corporate and public sector funds.

“We forecast that corporate plan numbers will continue to fall, though in many cases they will be replaced by company specific arrangements in master trusts and industry funds,” said Mason. “This transfer ‘from one pocket to another’ manifests itself in a relatively high growth rate in the retail employer-sponsored and industry segments.

“Public Sector funds are expected to continue to grow at a reasonable rate over the 20 years, but corporate funds will remain flat.

“At the same time industry fund growth will continue at high levels and has overtaken retail personal business as the second largest segment. While the industry fund segment at 2010 is still significantly smaller than retail, when you combine retail personal and retail employer sponsored, we estimate the retail and industry segments to be around \$1.5 trillion in 2030.

“The model projects that SMSFs will continue to remain a popular superannuation option overall with its assets reaching \$2 trillion by 2030. This is however almost one trillion dollars lower than in our 2009 projection, which is almost entirely due to the introduction of lower concessional contribution limits.

“We estimate that if the caps had remained at their pre 2009 budget levels, the projected SMSF assets would have been \$3 trillion,” said Mason.

Generational change and future retirement patterns

“Since our previous Deloitte Super Dynamics report in 2009, Generations X and Y continue to progressively claim a bigger piece of the superannuation pie,” said Walker. “Over the next 20 years, the share of assets held by Generations X and Y will grow from about 46% in 2010 to become the dominant superannuation customers with 84% of all assets in 2030.”

“Given the significant growth in post-retirement assets as the Baby Boomers retire and Generation X approaches retirement, the impact on asset allocation and the degree of volatility which these retirees will be prepared to accept will be a game changer for the industry.

“As these two cohorts move from primarily growth oriented investments in portfolios to ones with much less ability to withstand negative returns, these more informed members will attach more importance to capital protection and income,” Mason explained.

Huppert added that the combination of longer life expectancy and volatility in the investment markets is raising the risk that retirees will run out of money before they die. “This presents an opportunity for the industry to think innovatively and find new solutions to what will become an increasing challenge,” Huppert said.

“The Australian Superannuation system is still dominated by lump sums, but we are seeing an increasing proportion of retirees opting for an income stream. It is expected that this trend will continue, presenting a challenge for funds to provide services and pension benefits for members as they approach and transition into retirement,” he said.

“Government understands the challenges facing Australians as they approach retirement,” said Walker. The decision to increase the Superannuation Guarantee to 12% and lift the qualifying age for the age pension to 67 years, are intended to help Australians provide for their own retirement – by saving more and working longer.

“Our analysis suggests that addressing adequacy in retirement is still a work in progress. More needs to be done,” he concluded.

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