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**POPULATION
AGEING
RESEARCH**

Australian retirement income system and COVID-19

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University



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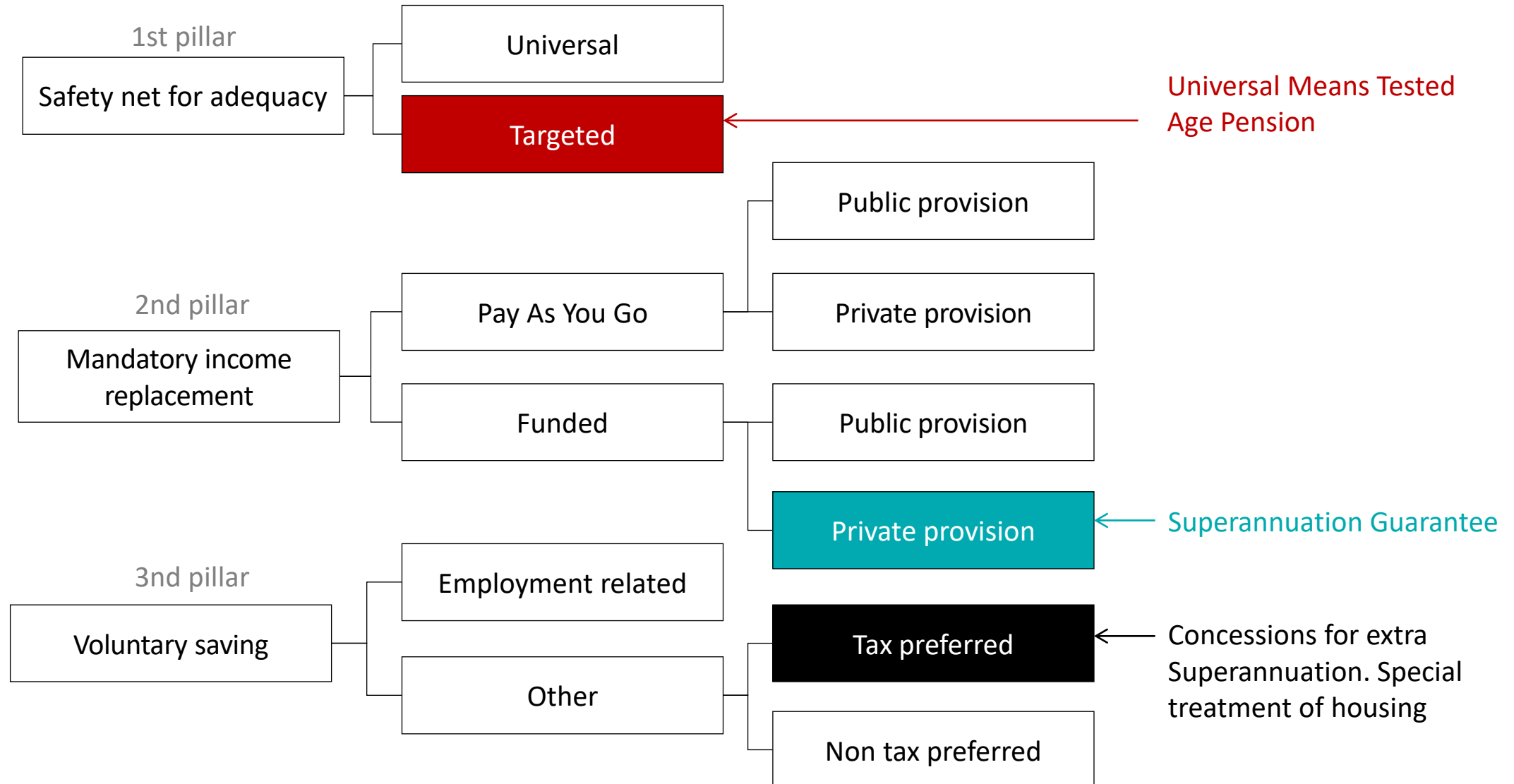
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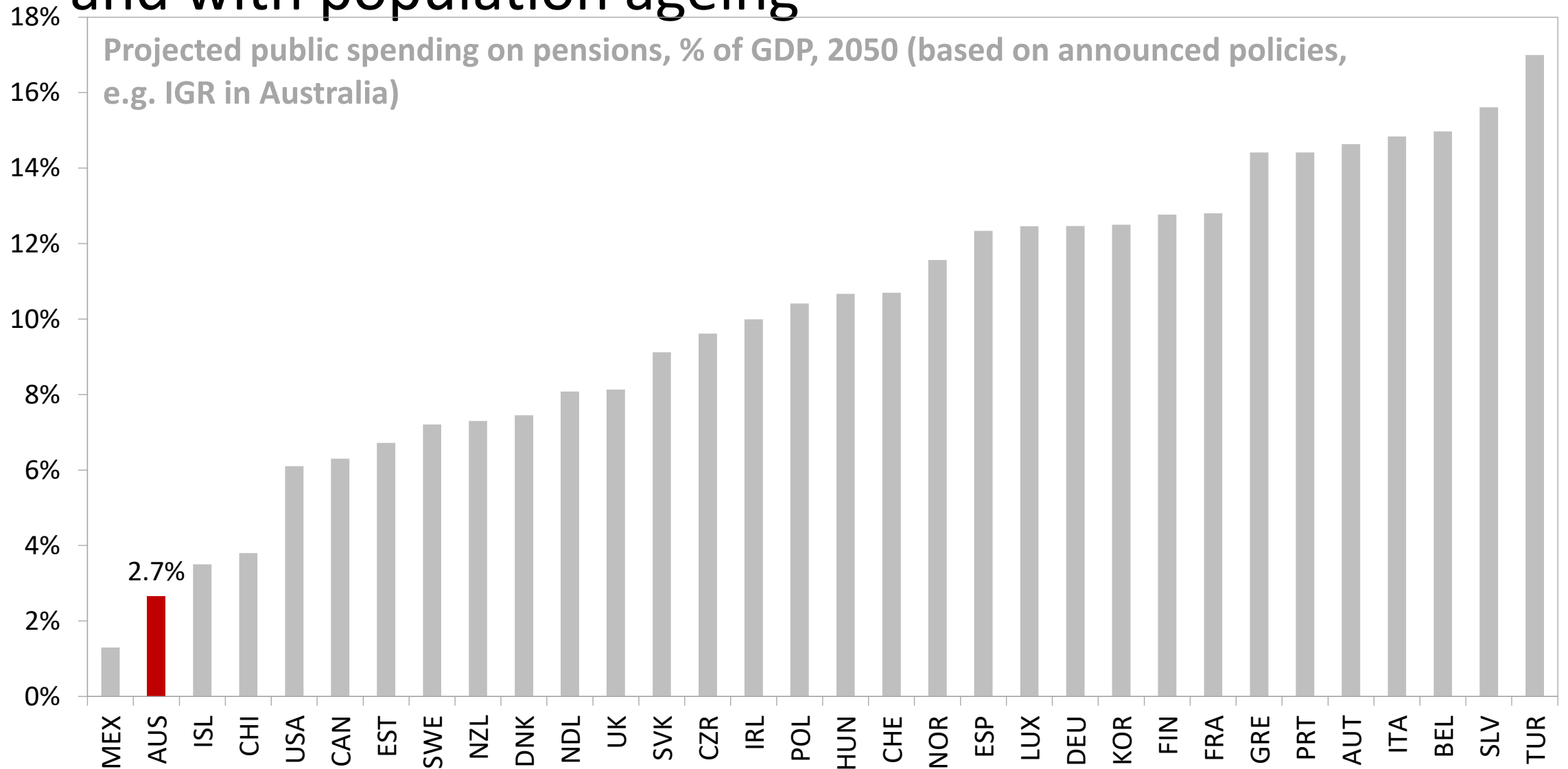
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1. Australian system overview
2. COVID-19 challenges
3. Broader challenges

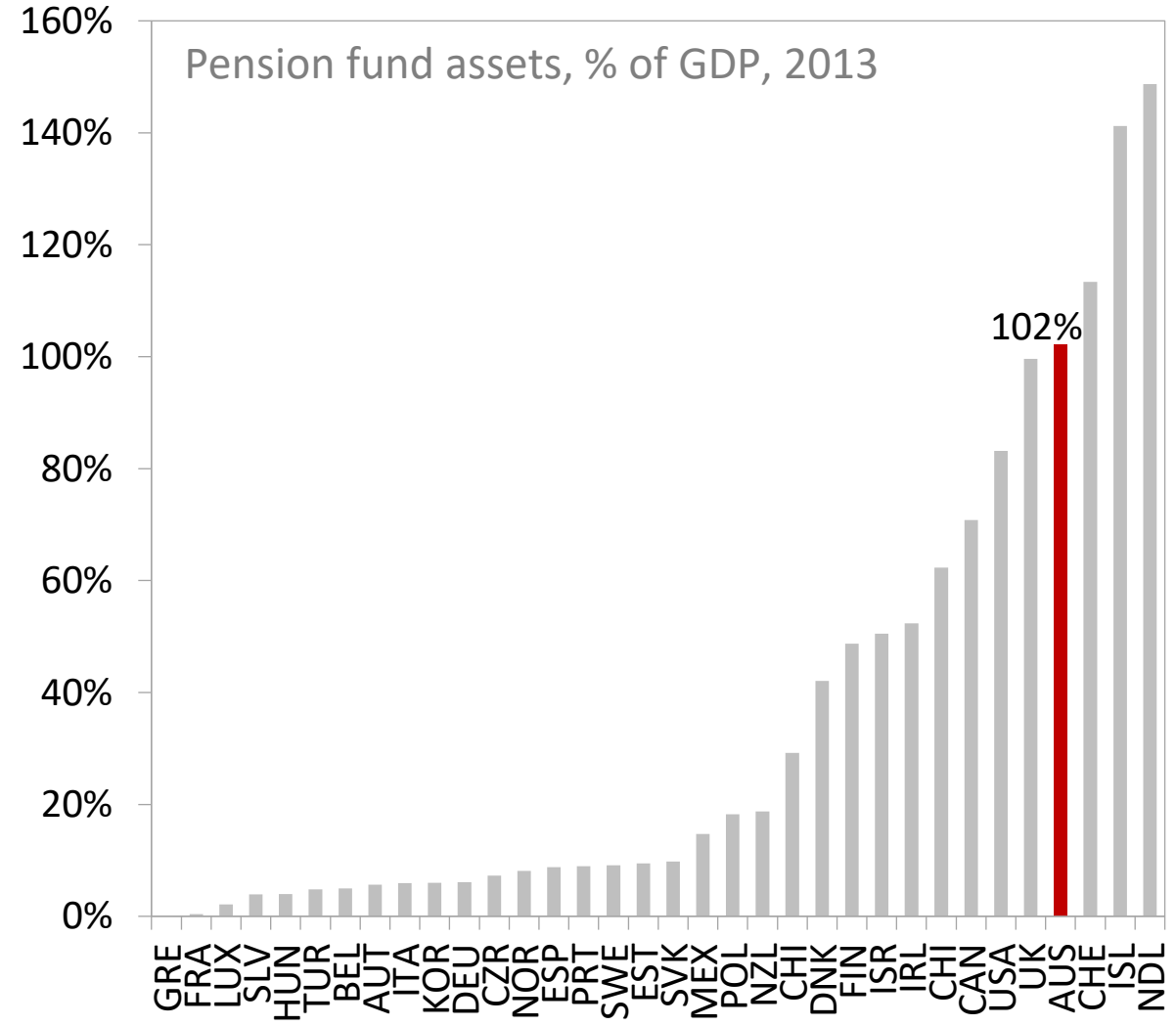
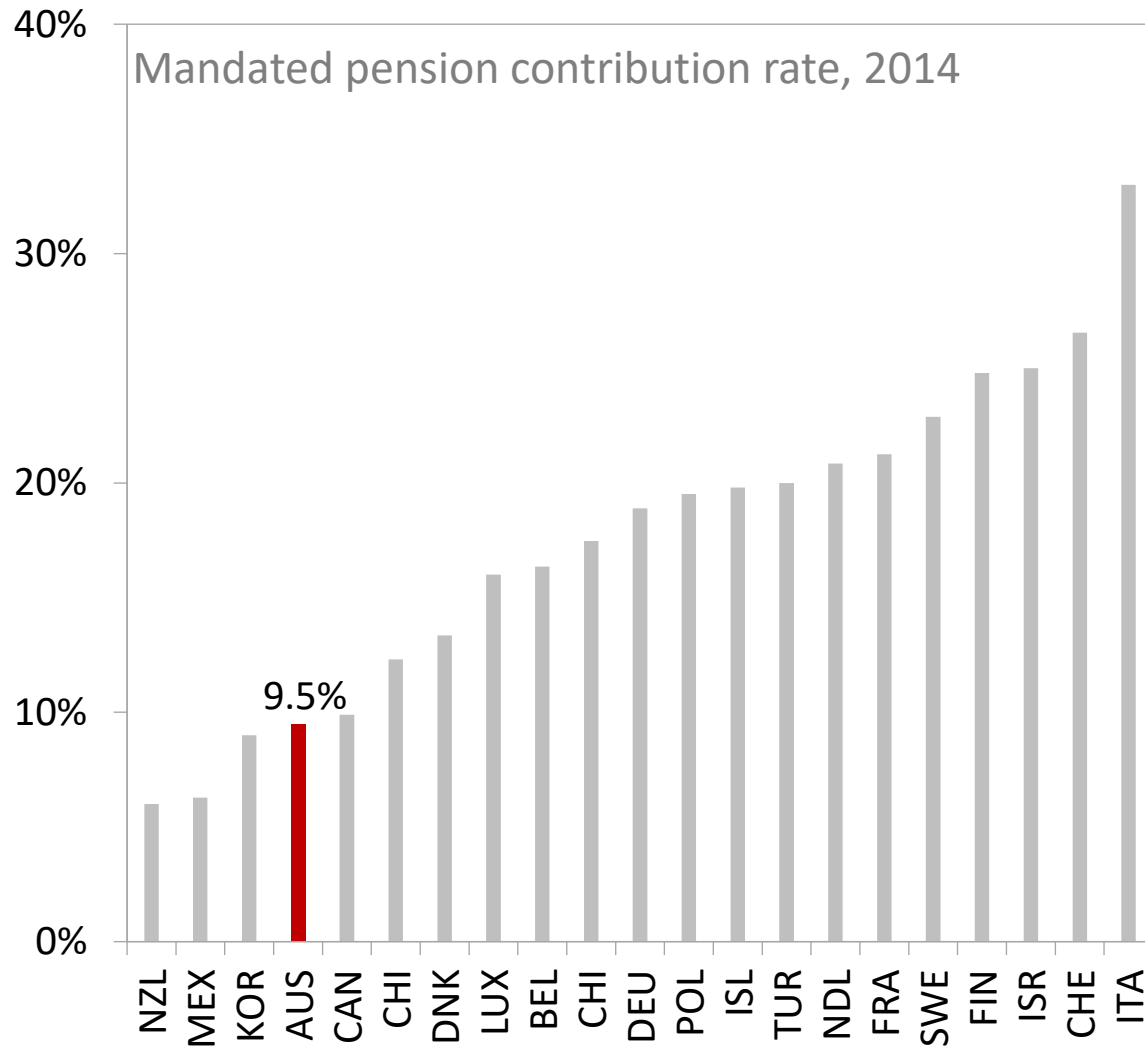
Australian system design



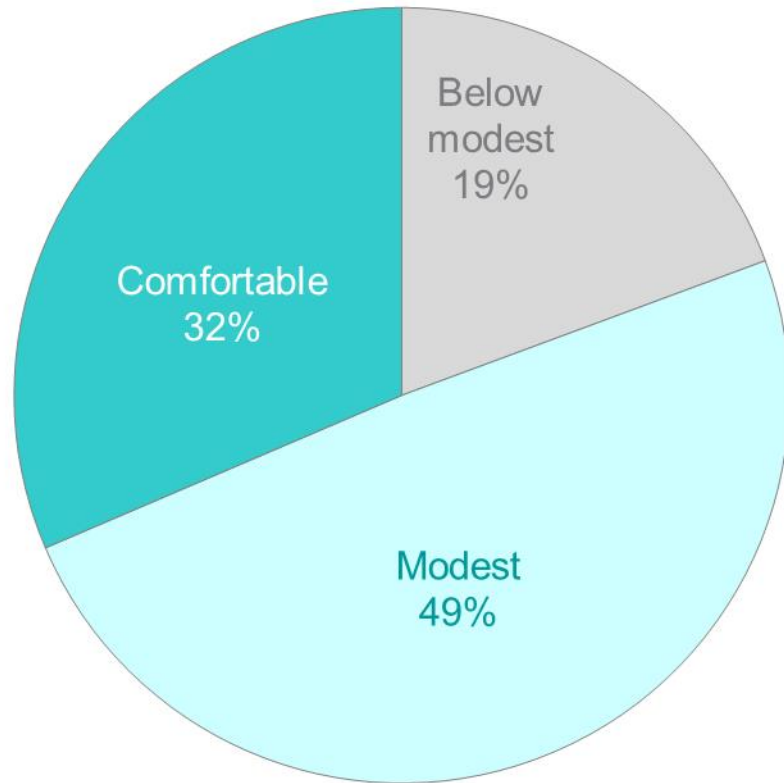
Means tested pillar drives low public spending, now and with population ageing



Complemented with DC that has modest contributions, but decent accumulations



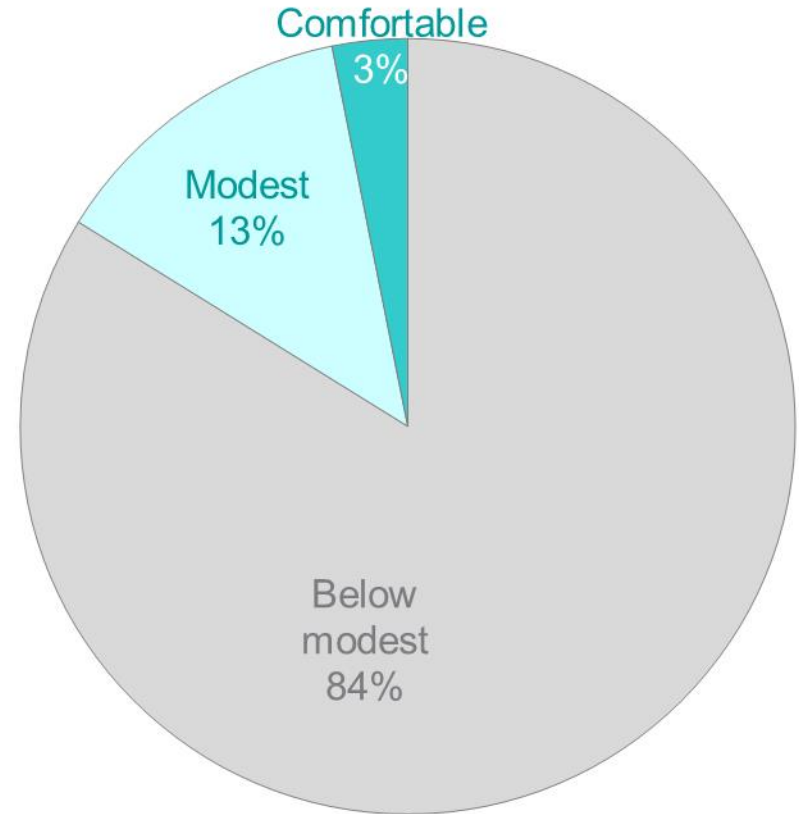
Results in adequate standards of living – But home ownership is key



Home owner couples

by living standard, 2016

(based on analysis of incomes below or above different budget thresholds)

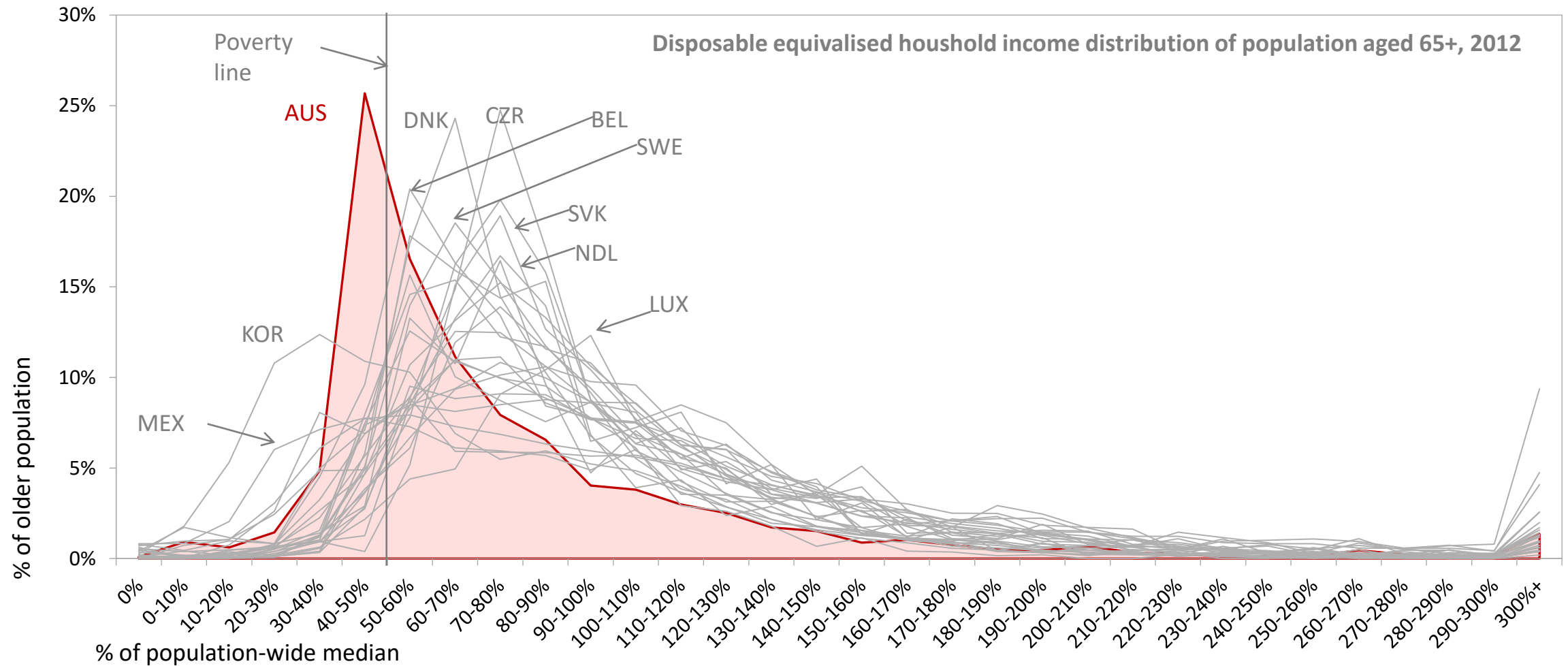


Renter couples

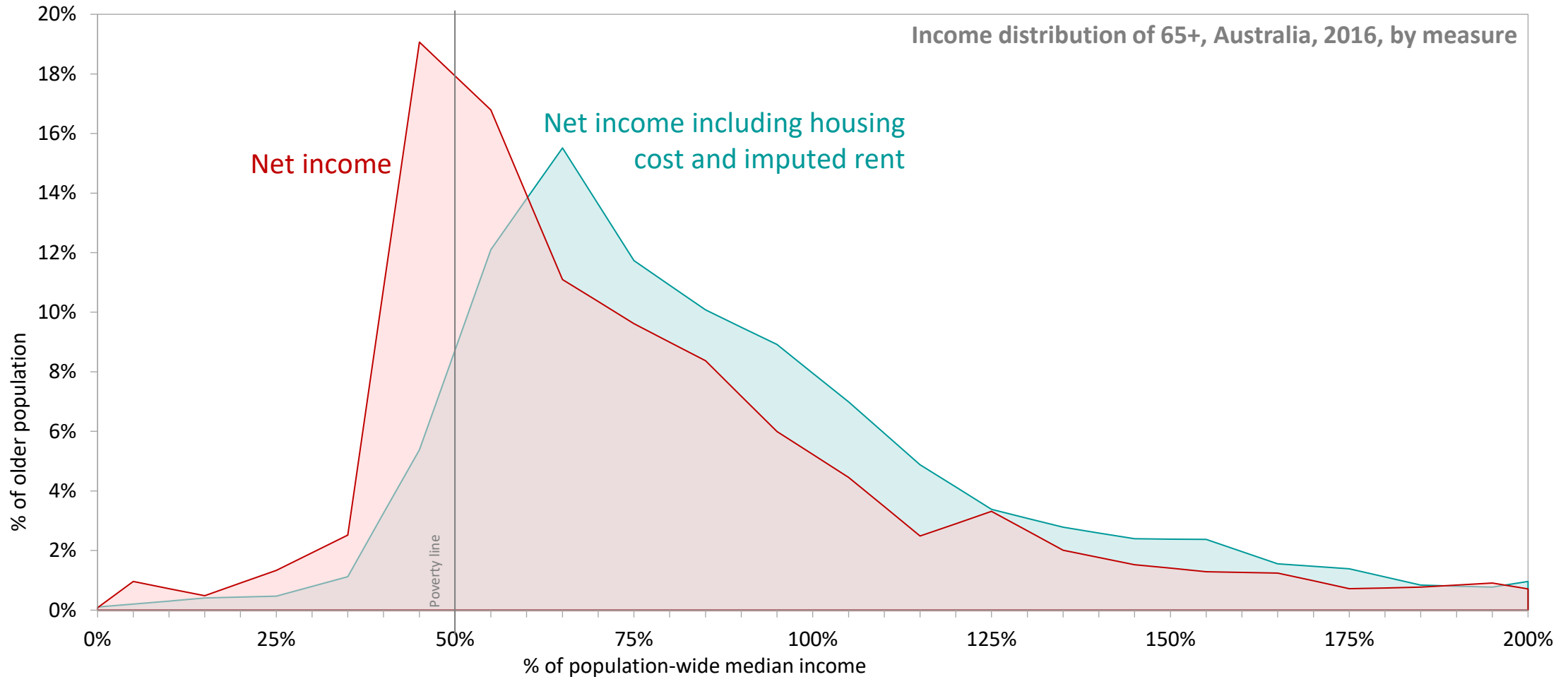
by living standard, 2016

(based on analysis of incomes below or above different budget thresholds)

Indeed, Australian old age poverty can appear high...

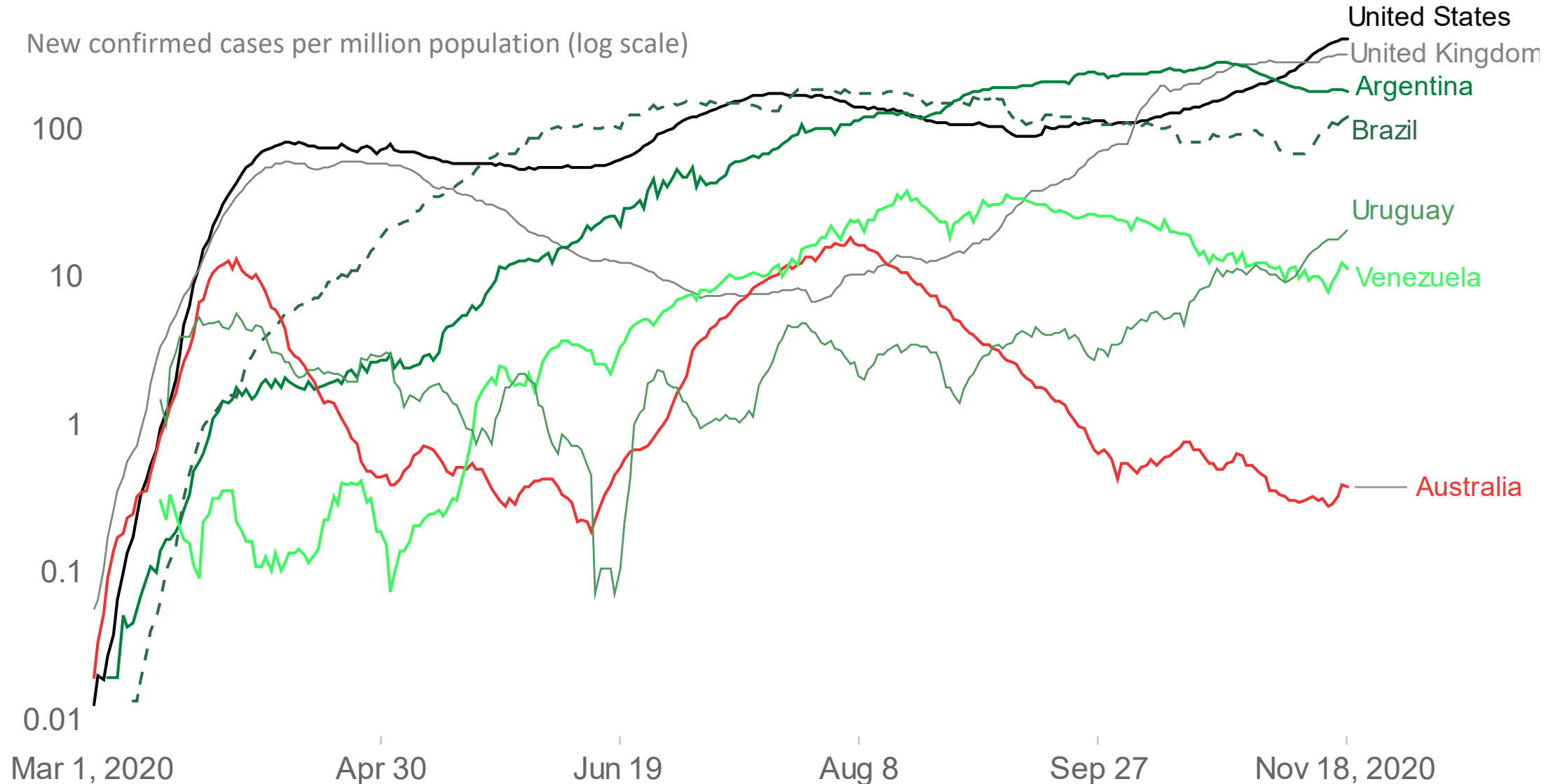


...but not when you include benefit of living rent-free in your own home

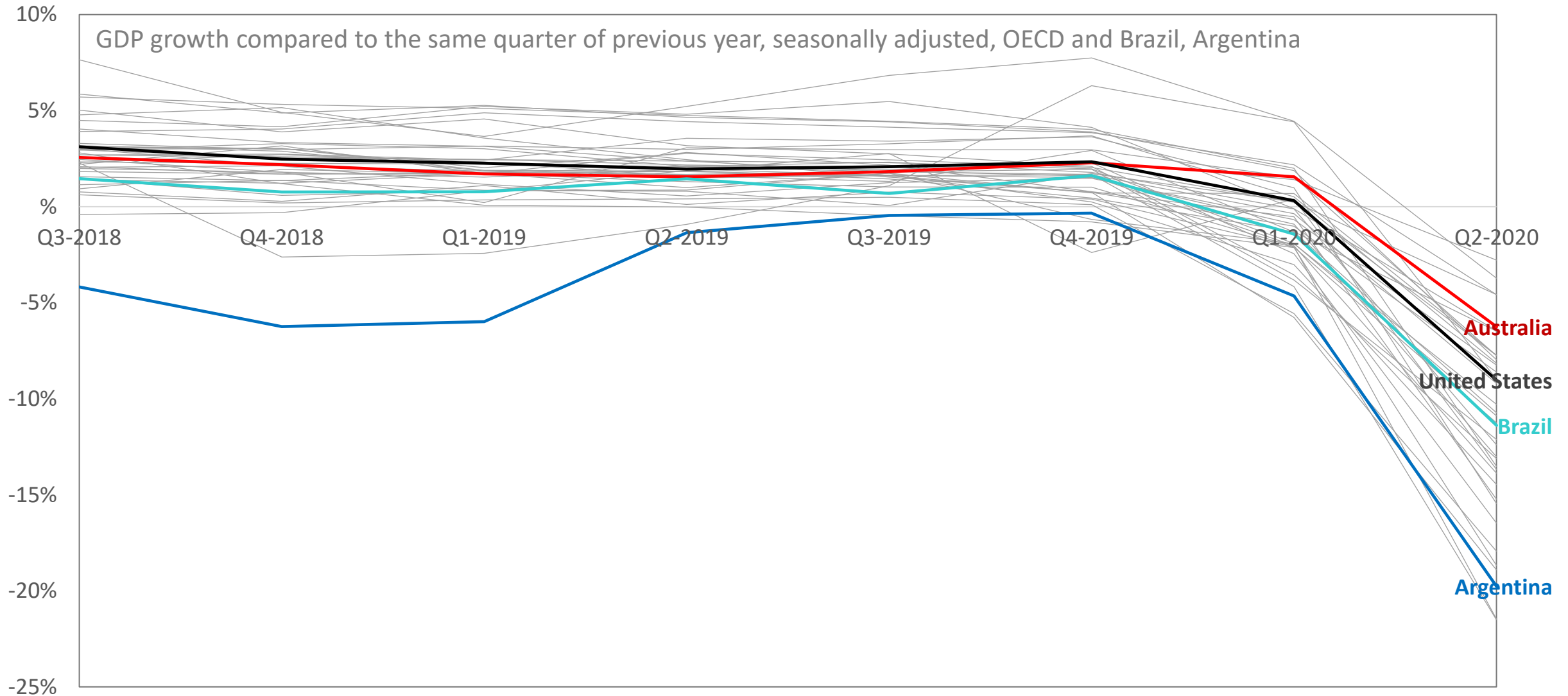


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Australia has been fortunate with spread of pandemic

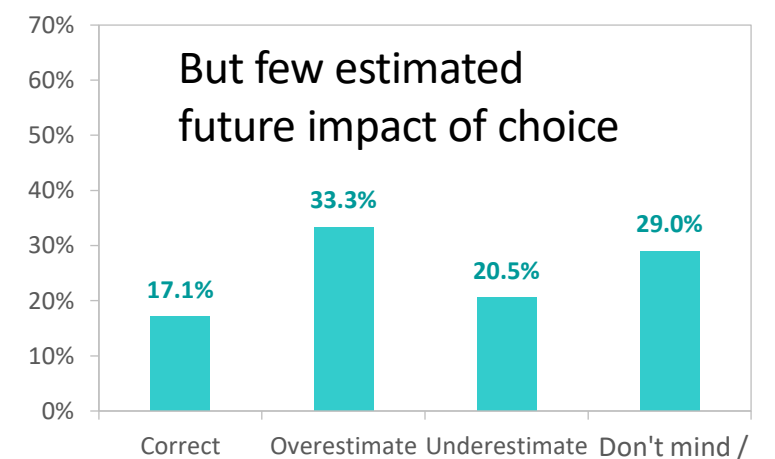
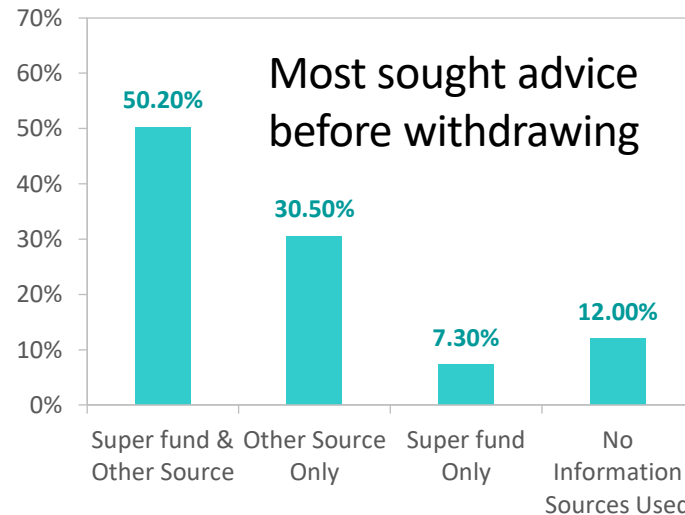
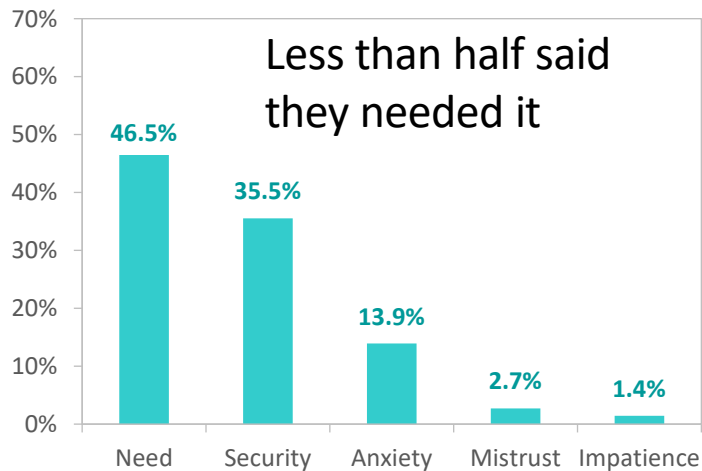
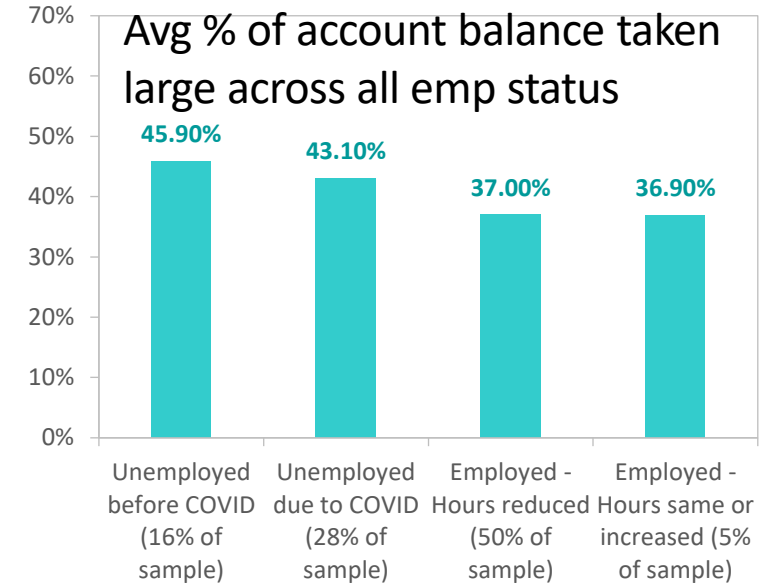
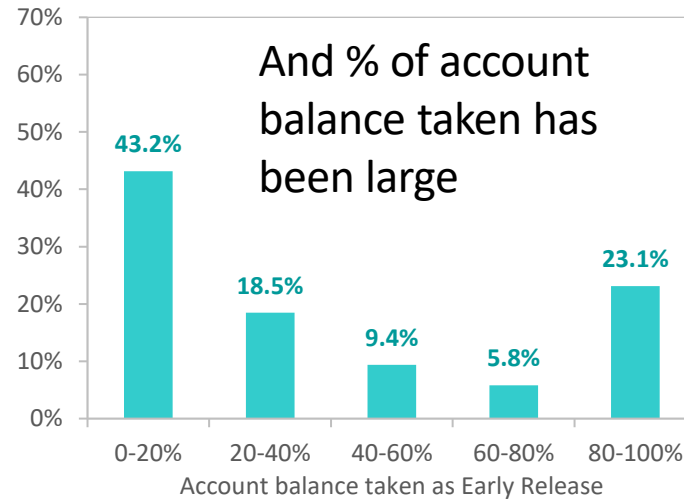
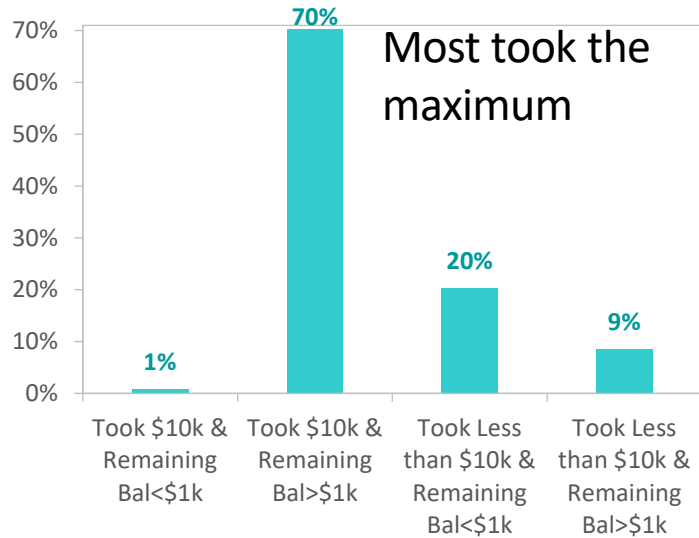


... and therefore also the economic impact



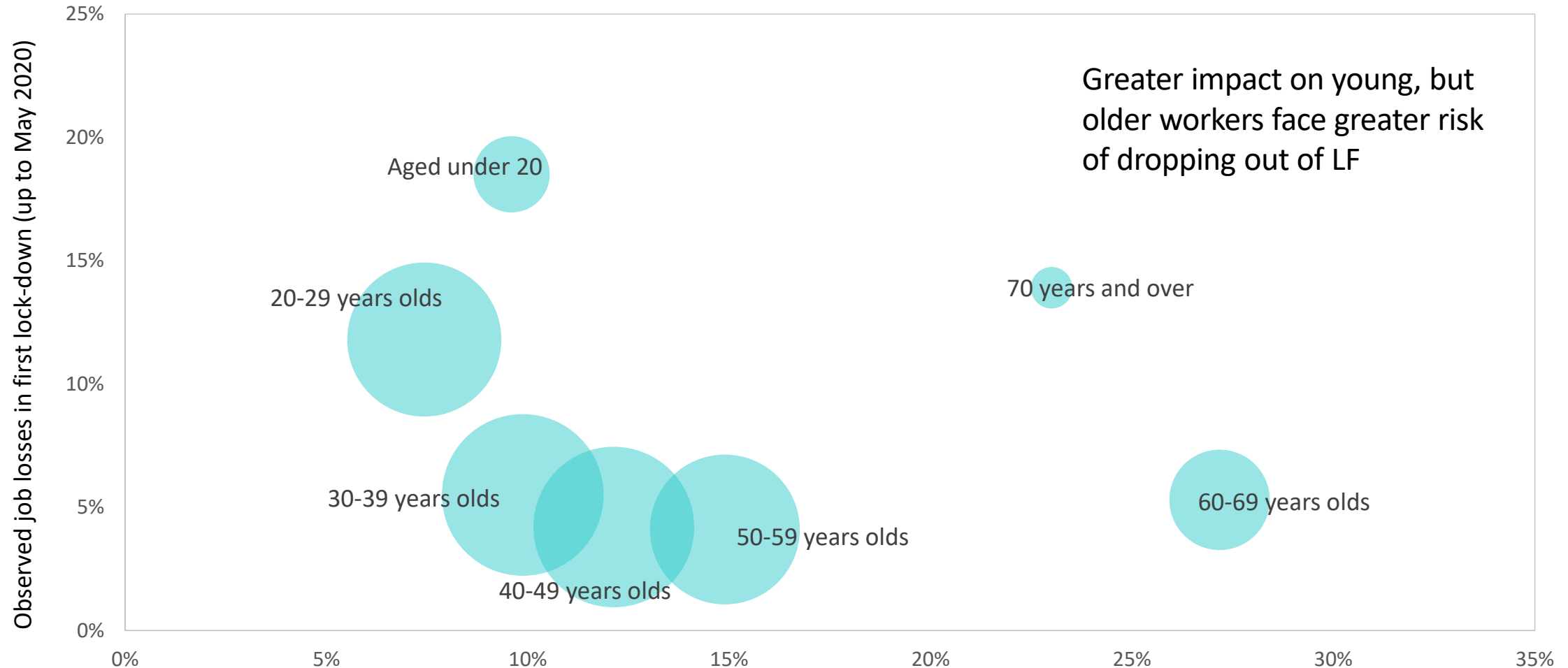
But risks to retirement income system remain:

1. Early withdrawal of savings



But risks to retirement income system remain:

2. Early withdrawal from labour force



Typical discouragement rate after unemp. (estimated as % who drop out of labour force one year after being unemployed, based on 11 years of data)

But risks to retirement income system remain:

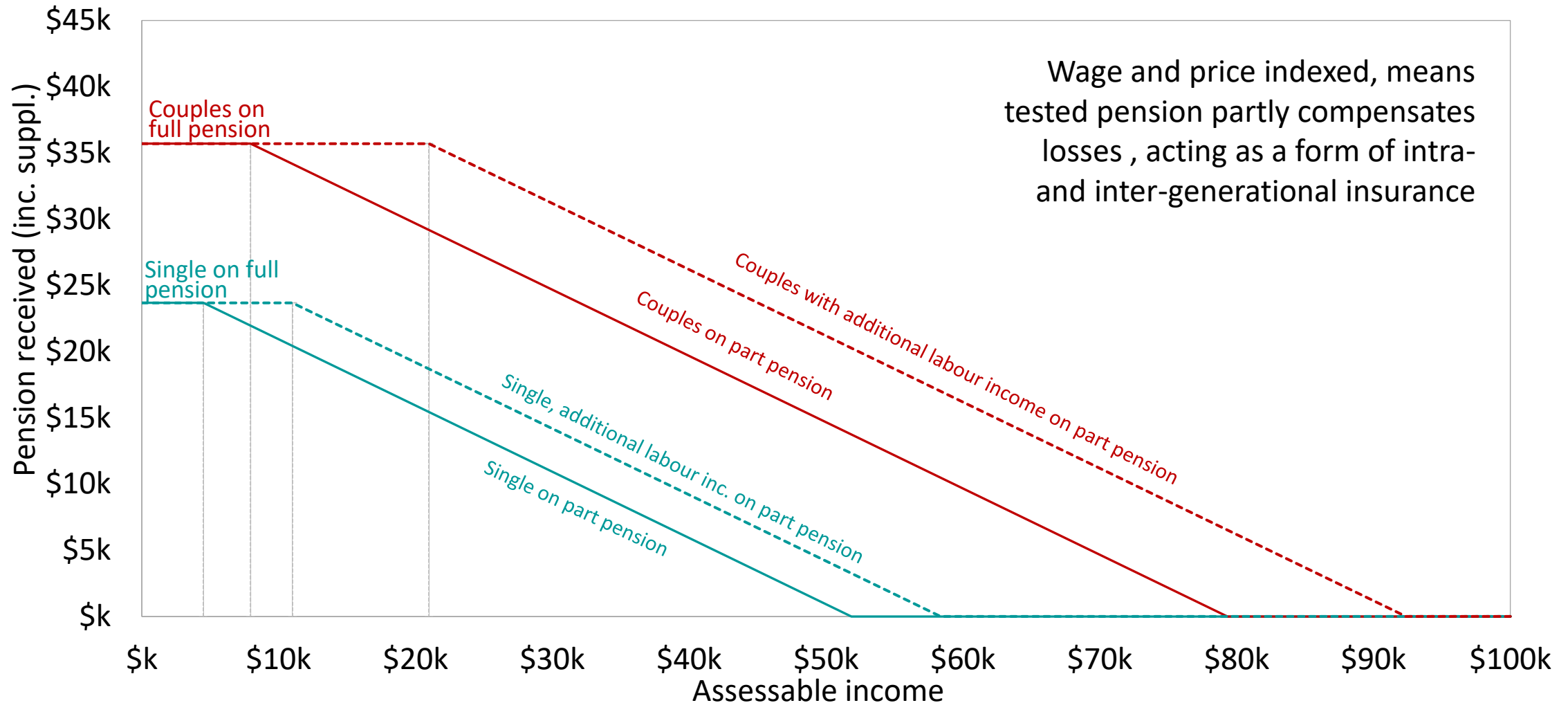
3. Asset prices shocks (back on track + lifecycle inv)

Median retail MySuper (investment default) cohort performance, 31 Oct 2020

	Median Growth Assets	1 Mth (%)	3 Mths (%)	FYTD (%)	CYTD (%)	1 Yr (%)	3 Yrs (% pa)	5 Yrs (% pa)	Since Jan 2014 (% pa)
1990s	89	0.4	1.2	2.1	-4.0	-2.3	4.9	5.9	6.4
1980s	89	0.4	1.2	2.1	-4.0	-2.4	4.8	6.0	6.5
1970s	88	0.4	1.2	2.0	-3.9	-2.1	4.7	5.7	6.2
1960s	67	0.3	1.0	1.9	-2.7	-1.3	4.4	5.2	5.8
1950s	47	0.3	0.9	1.7	-1.4	-0.3	4.1	4.3	4.9
1940s	43	0.2	0.8	1.6	-1.0	-0.2	3.9	4.0	4.5
MySuper Growth	71	0.5	1.7	2.5	-2.2	-0.4	5.1	6.5	6.9

But risks to retirement income system remain:

4. Low interest rates and lower contributions



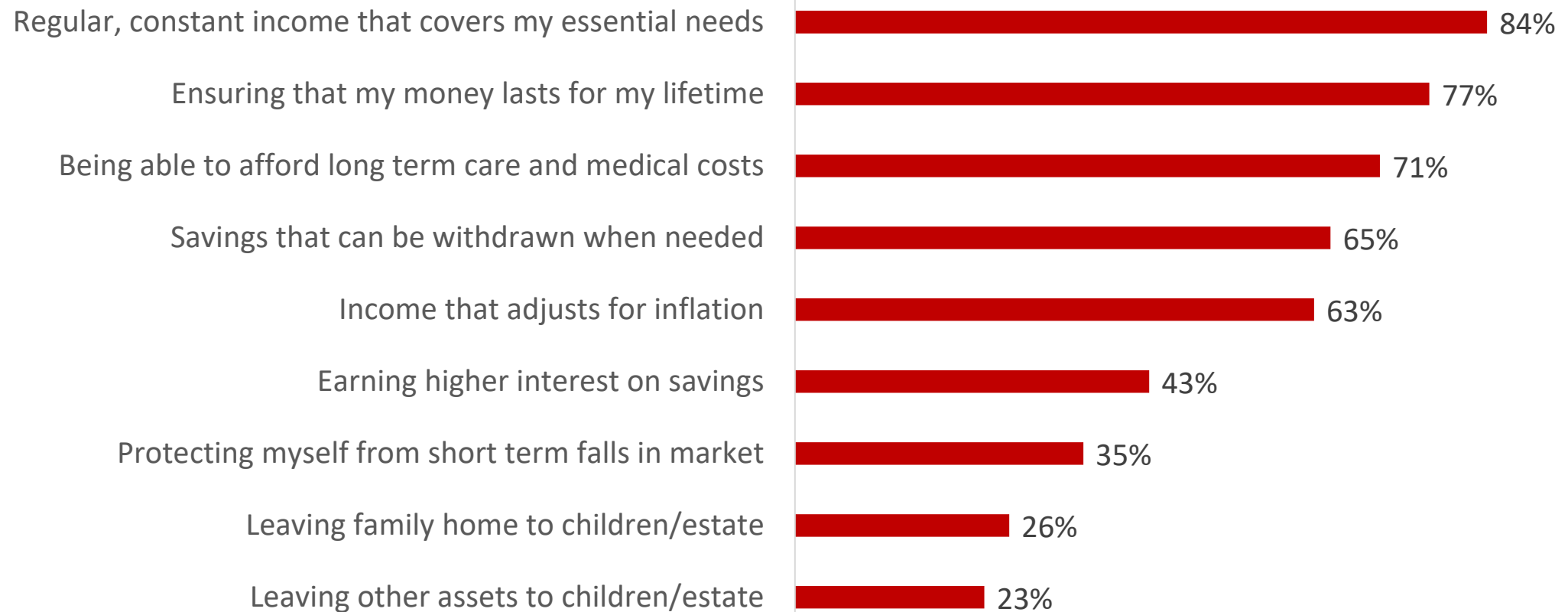
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Choice architecture is the main challenge, and has resulted in poor choices, high fees

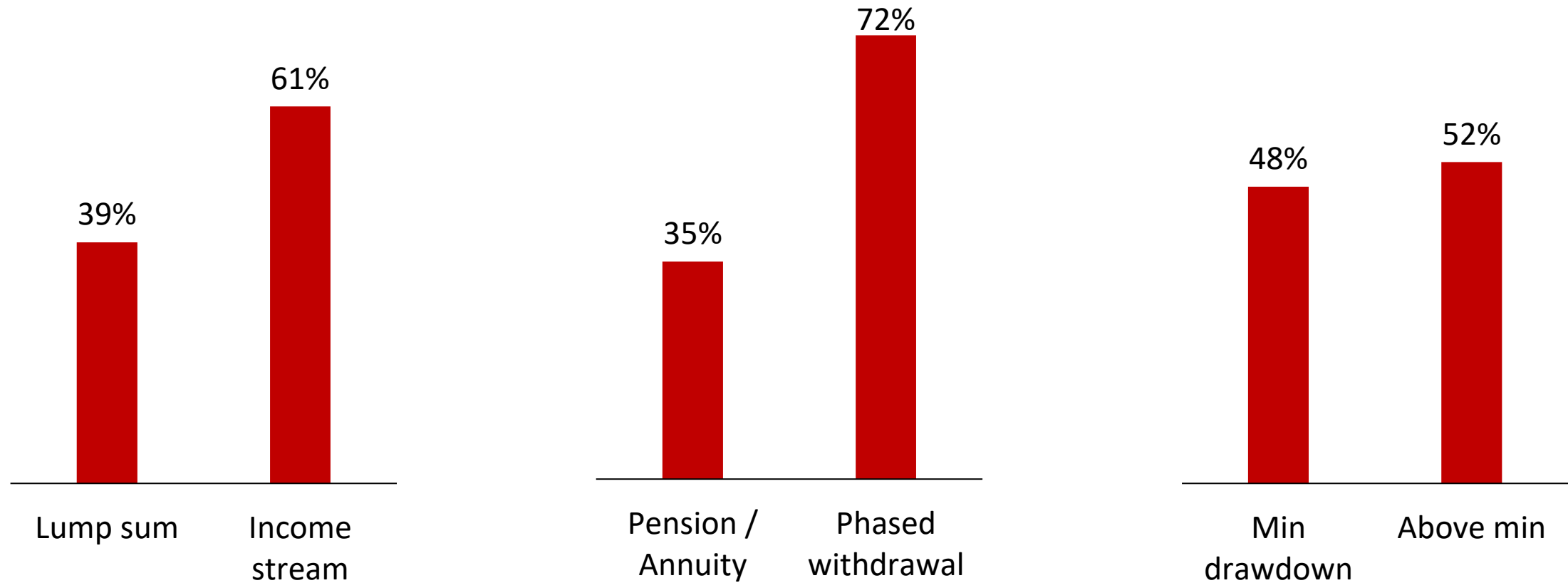
	No soft or hard compulsion ^a	Default	Tax preference only	Mandated / highly restricted choice ^b
Enrolment				AUS, CHI, DNK (ATP), DNK (OCCUP), EST, HUN, ISR, MEX, NOR ⁸ , POL, SVK, SWE (PPM)
Contribution				AUS, CHI, DNK (ATP), DNK (OCCUP), EST, HUN, ISR, MEX, NOR, POL, SVK, SWE (PPM)
Allocation	SVK	AUS, CHI, DNK (Occup.) ³ , MEX, EST, HUN, NOR, SWE (PPM)		DNK (ATP), ISR, POL
Provider	CHI, EST, SVK	AUS, POL, MEX, ISR		DNK (ATP), DNK (Occup.), HUN, NOR, SWE (PPM)
Advice	AUS, CHI, DNK (ATP), DNK (OCCUP), EST, HUN, ISR, MEX, NOR ¹ , POL, SVK, SWE (PPM)			
Early Retirement Option	CHI ¹ , MEX ⁶			AUS, DNK (ATP), DNK (OCCUP), EST, HUN, ISR, NOR, POL, SVK, SWE (PPM)
Benefit	AUS, DNK (Occup.) ³ , MEX ⁷ , SVK ⁹			CHI, DNK (ATP), EST ⁴ , HUN, ISR ⁵ , NOR ⁴ , POL, SWE (PPM)

People say they want certainty of income...

Which statements about retirement financing were ranked 'very important'



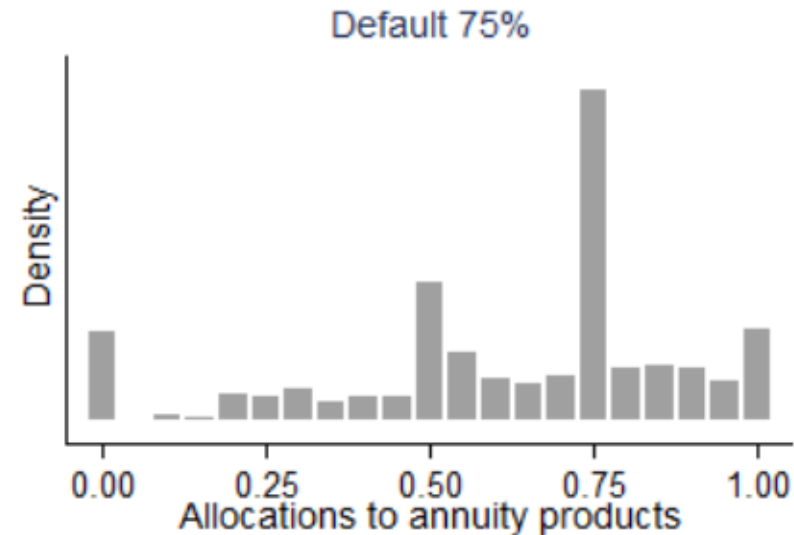
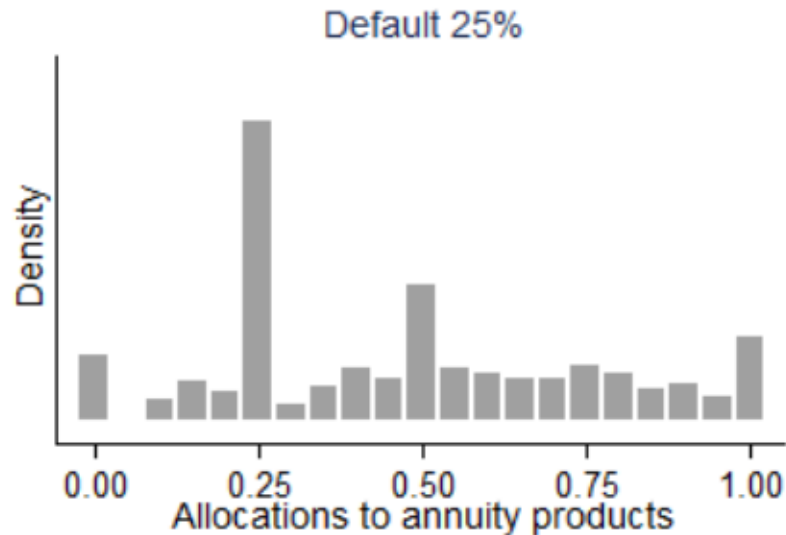
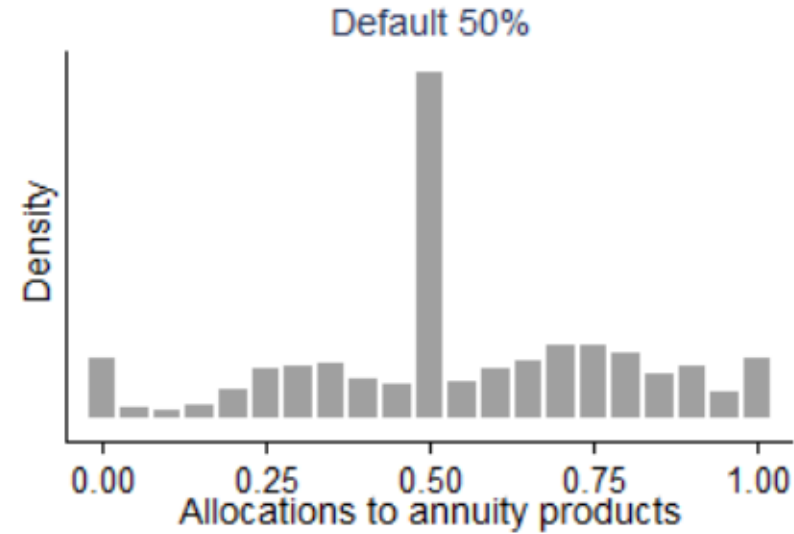
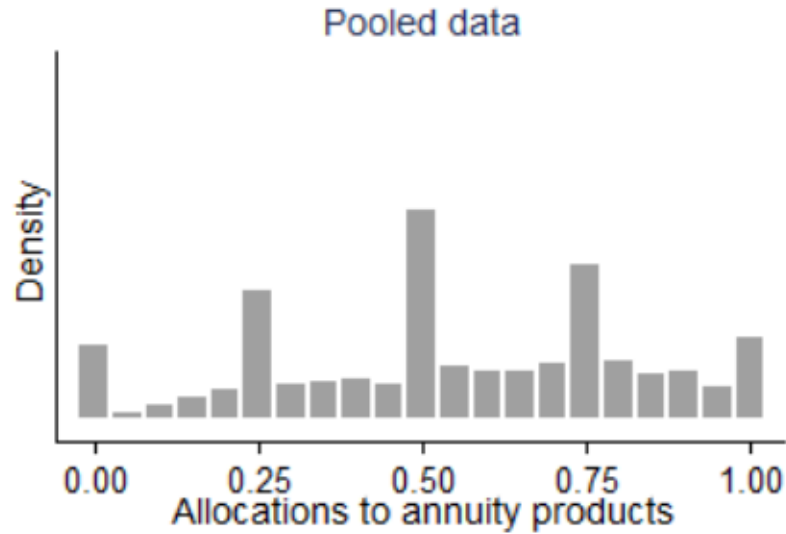
But many take lump sums and avoid annuities



Past approaches only get you so far

- Consumer choice needs education & knowledge (e.g. school curriculum), but this only gets you so far
- One solution is better presentation of information at point of choice (e.g., product disclosure and how risk is explained/illustrated)
- Some will delegate choice, via financial advice, which can be low quality and conflicted. Needs separation of advice and providers
- Another solution is to reduce complexity, cost, and power of advice, e.g., by way of defaults...

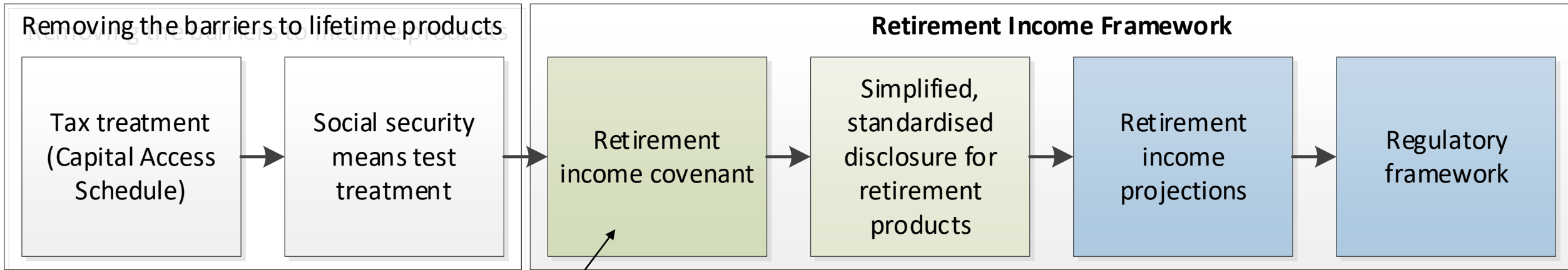
Defaults work for those who don't choose (and those that do)



But product mix is wide, with different risk profiles, and government hesitant being prescriptive

	Longevity	Investment risk	Inflation risk	Liquidity risk	Timing (or sequence) risk	replacement rate (or price) risk	counter-party (or provider) risk
Phased withdrawal (min)	LOW	LOW	LOW	HIGH	HIGH	HIGH	HIGH
Phased withdrawal (min-max)	LOW	LOW	LOW	MED	HIGH	HIGH	HIGH
Immediate fixed-income fixed-term annuity	LOW-MED	HIGH	LOW	LOW	LOW	MED	MED
Immediate inflation-indexed fixed-term annuity	LOW-MED	HIGH	HIGH	LOW	LOW	LOW	MED
Immediate fixed-income life annuity	HIGH	HIGH	LOW	LOW	LOW	MED	LOW
Immediate inflation-indexed life annuity	HIGH	HIGH	HIGH	LOW	LOW	LOW	LOW
Immediate variable-income life annuity	MED	LOW	MED	LOW	LOW	LOW	LOW
Immediate variable-income guaranteed annuity	HIGH	MED	MED	LOW	LOW	LOW	LOW
Group self annuitisation	MED	MED	LOW	LOW	LOW	HIGH	HIGH
Deferred inflation-indexed annuity	HIGH	HIGH	HIGH	LOW	LOW	MED	LOW
Phased withdrawal + Deferred indexed annuity	HIGH	MED	MED	MED	MED	HIGH	MED

So policy focus in Australia is to combine flexibility and paternalism



One flagship policy is requirement to offer a product with:

- (1) *broadly constant income*
- (2) *some longevity insurance*
- (3) *some access to capital*



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