Increasing Superannuation Contributions for future health and aged care needs

NATSEM

The National Centre for Social and Economic Modelling (NATSEM), a research centre at the University of Canberra, is one of Australia's leading economic and social policy research institutes, and is regarded as one of the world's foremost centres of excellence for microsimulation, economic modelling and policy evaluation.

NATSEM undertakes independent and impartial research, and aims to be a key contributor to social and economic policy debate and analysis in Australia and throughout the world through high quality economic modelling, and supplying consultancy services to commercial, government and not-for-profit clients. Our research is founded on rigorous empirical analysis conducted by staff with specialist technical, policy and institutional knowledge.

Research findings are communicated to a wide audience, and receive extensive media and public attention. Most publications are freely available and can be downloaded from the NATSEM website.

Director: Professor Mark Evans

Increasing Superannuation Contributions for future health and aged care needs

Error! No text of specified style in document., 11 March 2014

Contents

Boxes, figures and tables
No table of figures entries found.

Author note

Ben Phillips is a Principal Research Fellow and Marcia Keegan is a Research Fellow at the National Centre for Social and Economic Modelling.

General caveat

NATSEM research findings are generally based on estimated characteristics of the population. Such estimates are usually derived from the application of microsimulation modelling techniques to microdata based on sample surveys.

These estimates may be different from the actual characteristics of the population because of sampling and nonsampling errors in the microdata and because of the assumptions underlying the modelling techniques.

The microdata do not contain any information that enables identification of the individuals or families to which they refer.

Increasing Superannuation Contributions for future health and aged care needs

Error! No text of specified style in document., 11 March 2014

Introduction

Australia, like most other developed nations, has an ageing population. While numerous factors have been raised to explain the causes of population ageing, including lower birth rates and the baby boomer cohort reaching retirement age, the main cause is longer life expectancy. When the Age Pension was introduced in 1909, the life expectancy for males was 55 and for females it was 59 – most people did not live long enough to claim the age pension. Since then, life expectancy has increased to 84 for females and 80 for males (ABS 2013), while life expectancy for people who reach age 65 has increased to 84 for men and 87 for women, which means that most people can expect to live at least another 20 years while receiving the age pension.

Generally, people living longer, healthier lives, is a good thing. However, the ageing population will have a major impact on government budgets in future years. The welfare system mostly relies on taxes from the current working-age population to provide support to young dependants, through provision of schooling and family support; and old dependents, through provision of pensions, aged care and health care. The ageing of the population means that a greater percentage of the population will be old dependents, and a smaller percentage will be working-age people who can support them. In 1991, there were 5.9 working age people for each person aged 65 and older; in 2013 there are 4.5, and this is expected to decline to 2.7 by 2051. Figure 1 shows the how the age profile of Australia's population has changed since 1991, and how it is projected to change out to 2051. The greatest growth in share of the population is seen in older age brackets – those aged 65-74 and 75+.

Figure 1 Australia's population from 1991-2051
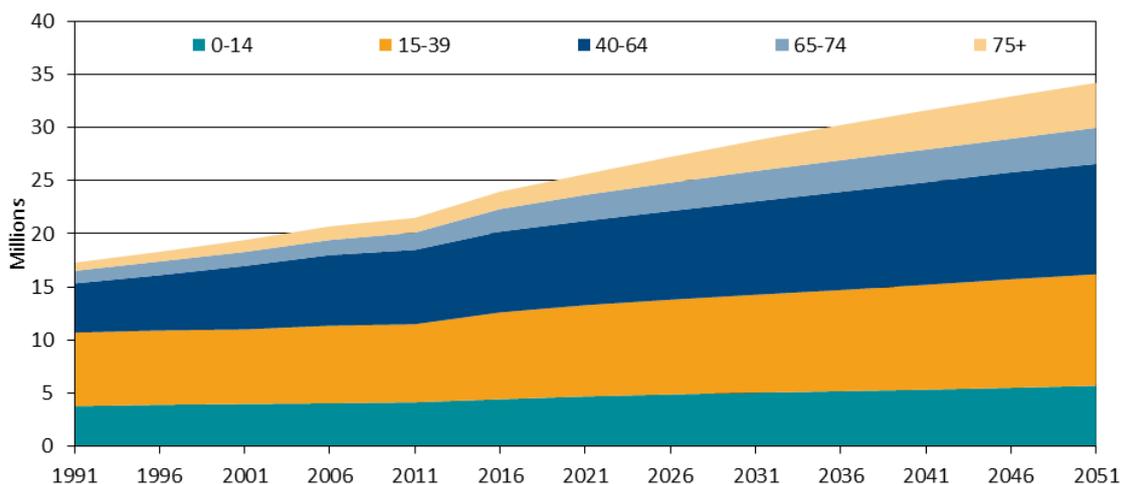
Source: (ABS 2008a, ABS 2008b)

Since 2002, the Federal Government has regularly prepared a series of Intergenerational Reports (IGRs) which project the Australian population and economy. The most recent Intergenerational Report (Australian Treasury 2010) estimates that total government spending will rise to 27.1 per cent of GDP by 2049-2050, compared to around 24 per cent of GDP now.

The main increase in expenditure is expected to come from health care, followed by age related pensions and aged care. Health expenditure is projected to rise from 4 per cent of GDP to 7.1 per cent of GDP by 2049-50. Age Pension expenditure is projected to rise from 2.7 per cent today to 3.9 per cent in 2049-50, and aged care expenditure is projected to increase from 0.8 per cent of GDP to 1.8 per cent of GDP.

1.1   Current Superannuation System and budget savings

The current superannuation system in Australia is yet to reach 'maturity' with many Australian retirees either never accumulating superannuation or only accumulating over the final years of their employment phase. In spite of the superannuation system remaining in the 'accumulation' phase Australia's superannuation system is already saving the Federal budget significantly in terms of pension payments.

The main ways in which the super system saves the Federal budget is through the assets and income testing arrangements within the Age Pension. Earnings from superannuation are included in the pension income test and the superannuation asset is included in the pension assets test.

For 2013-14 NATSEM estimates that the savings related to the Age Pension from the existing pension assets and pension related income streams totals $5.7 billion per annum. Of this saving, $3.1 billion relates to payments to pensioners and the remainder to persons aged over 65 who otherwise may receive an Age Pension if they did not have super assets or superannuation income. These numbers relate to a base Age Pension of around $36 billion in 2013-14.

Most of the growth into the future for these estimates relates to an increasing population aged 65 and over with only a small contribution from a larger pool of superannuation – once we remove the existing super assets and incomes from part pensioners they move close to or to full pensions.

By 2020, the savings (in today's dollars) amount to $7.6 billion per annum and by 2030 the savings total $11.1 billion[1].

Table 1 Annual Age Pension savings from pension assets and pension related income streams

Year	Age Pension Savings ($ billion)
2013-14	$3.1
2020	$7.6
2030	$11.1

---

[1] The estimates are based on the underlying assumptions of growth in super assets and expected growth in the pension into the future used in the Treasury IGR 2010.

Increasing Superannuation Contributions for future health and aged care needs

Error! No text of specified style in document., 11 March 2014

All these estimates assume that the removal of super would not alter the savings and investment behaviour of consumers. It would be expected that there could be significant substitution into other investment vehicles for the purpose of developing retirement incomes. The modelling of such a change in investment behaviour is not modelled in this simple analysis nor are the impacts of concessionary personal income taxation for compulsory super contributions which would partly offset the pension savings.

The estimates are most reliable for the current period. Projections into the future have much less accuracy given the uncertainty around superannuation investment and related returns, population growth and the trajectory of the Age Pension system.

1.2   Age pensions

The age pension, payable to Australians aged 65 and over subject to means and residency tests, makes up the largest share of income support payments paid by the Federal Government. The increasing burden of age pensions on the Federal budget was raised as an issue in previous IGRs (Australian Treasury 2002, Australian Treasury 2007). As a result of this, in 2009, Prime Minister Kevin Rudd announced that the age pension eligibility age would be increased from 65 to 67 between 2017 and 2022. In spite of this, the number of people of eligible age to receive the Age Pension is projected to increase by around 150 per cent between 2009-10 and 2049-50 (Australian Treasury 2010).

Increasing superannuation wealth is projected to reduce the Age Pension burden. As the superannuation system matures, and people retire with higher superannuation balances, more retirees will be ineligible for a full or part age pension due to the income and/or assets tests. The IGR projects that the proportion of retirees receiving a full Age Pension will remain the same at just over 20 per cent, but the proportion of retirees who only receive a part Age Pension due to means testing is projected to increase from 30 per cent to almost 50 per cent.

Increasing Superannuation Contributions for future health and aged care needs

Error! No text of specified style in document., 11 March 2014

References

ABS 2008a, Australian Historical Population Statistics, Cat. no. 3105.0.65.001, Australian Bureau of Statistics, Canberra.

ABS 2008b, Population Projections, Australia, 2006 to 2101, Cat. no. 3222.0, Australian Bureau of Statistics, Canberra.

ABS 2013, Deaths, Australia 2012, Cat. no. 3302.0, Australian Bureau of Statistics, Canberra.

AIHW 2013, *Health expenditure Australia 2011-12*. Australian Institute of Health and Welfare, Canberra.

ASFA 2013, *The ASFA Retirement Standard, September 2013*. Association of Superannuation Funds of Australia, Sydney.

Australian Treasury 2002, 'Intergenerational Report 2002-03' 2002-03 Budget Paper No. 5, Department of Treasury, Canberra. http://www.budget.gov.au/2002-03/bp5/html/01_BP5Prelim.html#P42_796

Australian Treasury 2007, 'Intergenerational Report 2007', Department of Treasury, Canberra. http://www.treasury.gov.au/igr/IGR2007.asp

Australian Treasury 2010, *Australia to 2050: future challenges (Intergenerational Report 2010)*. Canberra.

Nielson, L. 2010, Chronology of superannuation and retirement income in Australia, *Parliamentary Library Background Note 1 June 2010, 2009-10*, Canberra, http://www.aph.gov.au/binaries/library/pubs/bn/eco/chron_superannuation.pdf November 8, 2013.