Supplementary technical paper – pension drawdowns

First State Super submits this additional technical paper to the Retirement Income Review Panel. This paper examines one year of drawdowns by members in two separate environments - fortuitously providing comparisons between one largely advised group in a retirement focused environment, and another group split roughly 50:50 into DIY and advised clients.

It shows that retirees in First State Super's *Retirement Income Stream*, and in StatePlus's *Allocated Pension Plan* and *Flexible Income Plan* draw considerably above the regulated minima for drawdowns from account based pensions.

The analysis looked at respective populations of retirees, as at the beginning of 2018-19. Where a member had more than one retirement account, all their accounts were amalgamated. The average account balances for both groups were similar, between $275,000 and $300,000.

	Retired persons	% advised (est)
First State Super	20,376	40-50%
StatePlus	43,557	80-90%
Total	63,933	

1. Observations

The key finding is that at least 50% of both First State Super and StatePlus retirees draw above the minimum regulated requirement at all ages.

In total there are few significant differences between the two groups. Both display what appear to be random movements within an overall pattern of drawing above minimum regulated drawdown rates.

We hypothesise that both groups draw on average above the minima, having received advice from a financial planner — a positive influence to draw a level of income which will sustain a better lifestyle while remaining affordable.

The main differences in behaviour are:

- First State Super retirees made *"Additional drawdowns"* at twice the rate of StatePlus retirees,
- StatePlus retirees are slightly older than First State Super retirees, which drives the slightly higher average *"Actual regular drawdown"* rate shown in the table below,
- StatePlus retirees withdrew 2.5 times the amount of cash at exit and 1.5 times of cash for the year, compared with First State Super retirees.

We note that the data are for one year only and should be taken as indicative of spending patterns. For this reason, it is difficult to infer much behavioural insight from this data; longitudinal data combined with surveys would be required in order to build up a trend picture to give more insights into how retirees behaviour.

Table 1: Average retiree drawdown rates - all ages and types of drawdown[1]

Average drawdown rates all ages	Actual regular drawdown %	Additional drawdown %	Total drawdowns (excl exits) %	Cash exits %	Total amount withdrawn %	Ratio of cash withdrawn to minimum drawdowns
StatePlus	9.58	0.43	10.01	7.17	17.18	1.92
First State Super	8.75	0.90	9.65	2.86	11.38	1.93

Early retirement years

We observe higher consumption of savings in pre-retirement years and early retirement for both cohorts. In the pre-60 years, the high drawdowns are likely to be a combination of Transition to Retirement drawings and potentially re-contribution strategies. There are markedly higher *"Additional irregular drawdowns"* in the First State Super group amongst the 56 year olds. This may suggest outlier activity.

Active retirement through to 80s

"Additional drawdowns" after age 65 could be driven by expenditure as retirees adjust their income expectations in early "active retirement period" after leaving work, and could include re-contribution strategies, debt reduction, home renovation / adjustment, or income following unexpected early retirement.

We attribute this in part to initial advice settings, but also to coaching from planners on cash management and budgeting, giving them confidence with their money management.

Late age

We also observe a higher percentage of drawdowns in late age. It is difficult to tell whether this is random behaviour: it could simply be the effect of diminishing balances. While the numbers are small and not statistically significant, very late age consumption could also reflect cashing out remaining balances, exhausting the account, or final account distributions following death.

There are anomalies and outliers in drawdowns in very late age which indicate either full cash withdrawals or account closures. These data points have been removed from charts to make the general trends clearer.

2. StatePlus retirees

About 50% of StatePlus members consistently draw above the minima for all age groups except the 90s, where we see a sharp increase in cash exits with an average of 22.3% of account balance withdrawn on average. This could be either the effect of drawing cash to pay for aged care, or voluntary or involuntary cashing out of accounts.

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Activity	Description (average amounts expressed as percentage or ratio)
Actual regular drawdown	Average regular amounts drawn by retirees for the year
Additional drawdown	Average amounts drawn in addition to regular drawdown
Total drawdowns (excluding exits)	The sum of Actual Regular Drawdown and Additional Drawdown for members **who were there in the fund at both the start and end** of financial year.
Cash exits	The rate of total RIS FUM* (at beginning of the FY) being taken out as cash by members exiting the fund, paid to a member's bank account.

Table 2: StatePlus drawdowns 2018/19 summary

Age group	Minimum regulatory drawdown rate %	**Actual regular drawdown %**	Additional drawdown %	Total drawdowns before exit %	Cash exits %	Total amount withdrawn %	Ratio of cash withdrawn to minimum drawdowns
55-64	4	**5.70**	2.90	8.60	3.00	11.60	2.90
65-74	5	**6.10**	1.50	7.60	1.20	8.80	1.76
75-79	6	**6.90**	0.70	7.60	1.30	8.90	1.48
80-84	7	**8.10**	0.60	8.70	3.20	11.90	1.70
85-89	9	**10.20**	0.30	10.50	5.50	16.00	1.78
90-94	11	**10.60**	0.00	10.60	11.70	22.30	2.03

Chart 1 shows that while StatePlus retirees draw above the minima on a regular basis, *"Additional drawdowns"* decline as a percentage from the early 60s. *"Actual regular drawdowns"* display a relatively smooth pattern implying the setting of a target income level.

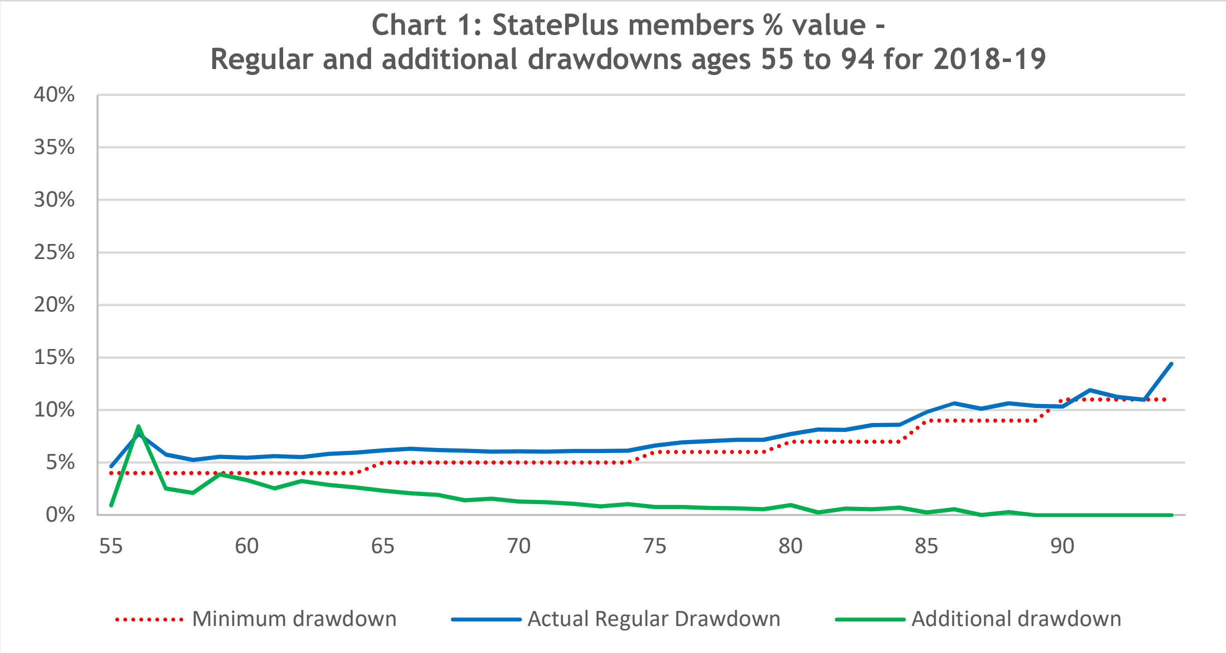
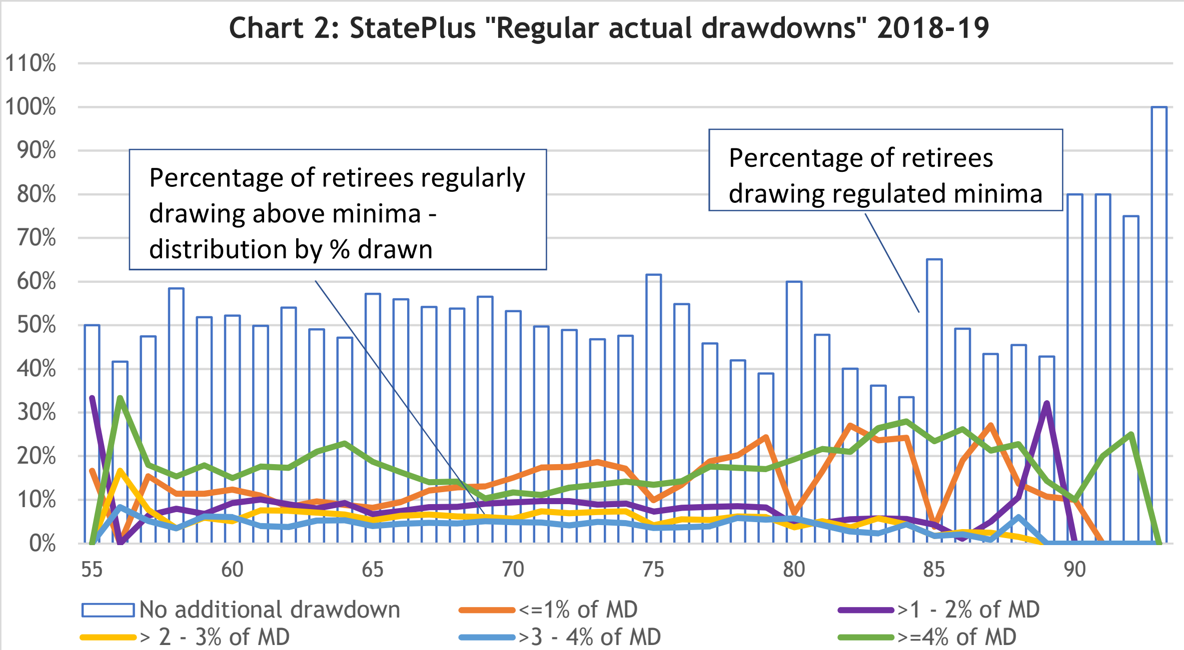
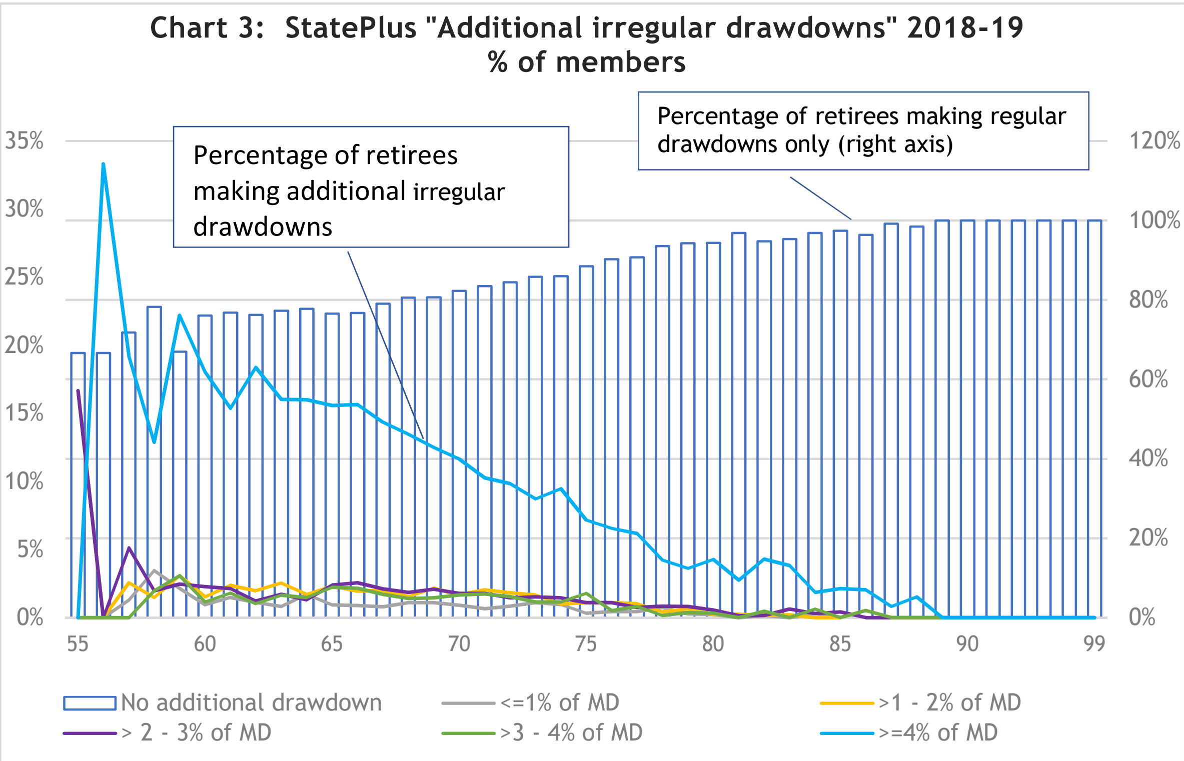


Chart 2 shows the distribution of drawdown rates by age of retiree, and the percentage drawing at each level of drawdown. In the pre-60 years, there is considerable drawdown activity with nearly 35% of retirees drawing at or above 4% above the minimum rate. There is a spike in withdrawal activity at preservation age 56 (cash withdrawals and leaving the fund).

Without surveying, it is not possible to understand the destination of this money (debt retirement, move to SMSF, travel, early retirement, small accounts etc). There is surprising volatility in the 80+ groups with increases in regular drawdowns above the minimum, reflecting relatively small numbers at this age.



By age 86, most StatePlus retirees are making fewer *Additional irregular drawdowns*, and none from age 89.



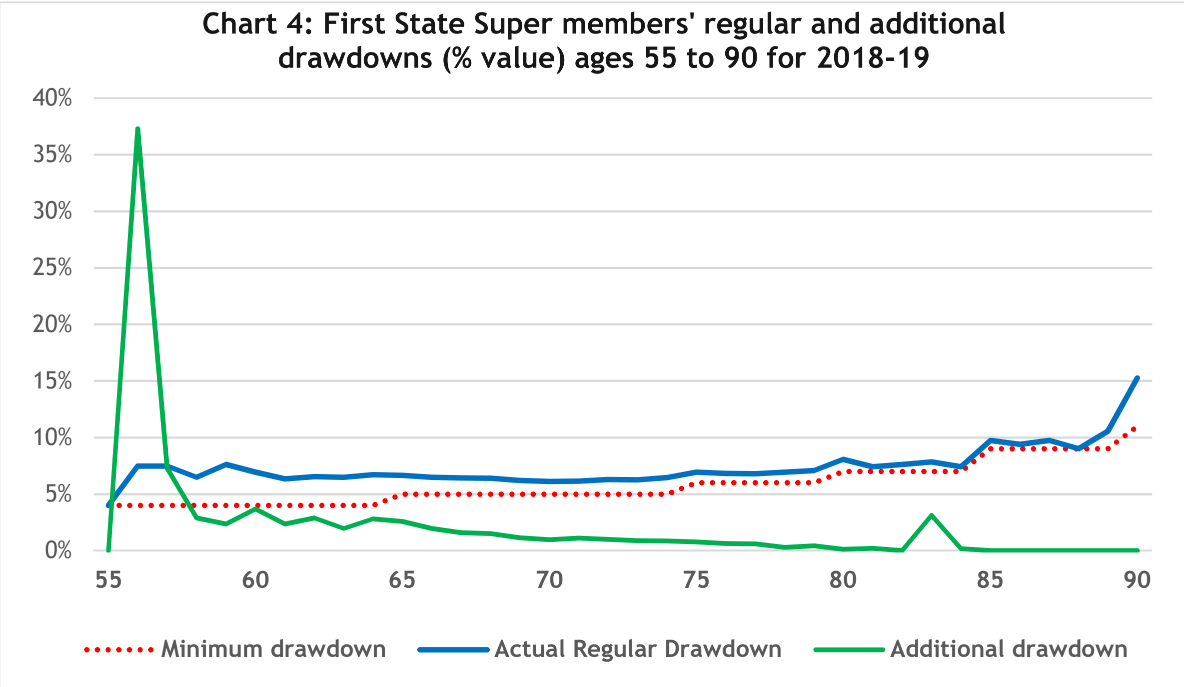
3. First State Super retirees

Approximately 60% of First State Super retirees draw the minimum. As noted with StatePlus retirees, many of these retirees draw above the minimum rate, across for all age groups. These retirees show an even higher peak in additional drawdowns pre-age 60, particularly drawdowns at age 56 prior to exiting the fund – potentially by a relatively small number of individuals reaching preservation age.

Table 3: First State Super drawdowns 2018/19 summary

Age group	Minimum drawdown %	**Actual regular drawdown %**	Additional drawdown %	Total drawdowns before exit %	Cash exits %	Total amount withdrawn %	Ratio of cash withdrawn to minimum drawdowns
55-64	4	**6.60**	2.70	9.30	3.40	12.70	3.18
65-74	5	**6.40**	1.50	7.90	1.00	8.90	1.78
75-79	6	**6.90**	0.60	7.50	1.10	8.60	1.43
80-84	7	**7.70**	0.60	8.30	1.40	9.70	1.39
85-89	9	**9.60**	0.00	9.60	7.40	17.00	1.89
90-94	11	**15.30**	0.00	15.30	Not enough data	Not enough data	Not enough data

Chart 4 shows the spike at age 56 in additional cash withdrawals. First State Super retirees regularly draw above the minima in early years but at a lower rate from age 80 onwards, except for those aged 89 and 90 (which show regular rates of 10.6% and 15.3% - and leaving the fund).



In Chart 5, over page, we see that actual regular drawdown patterns by First State Super retirees are higher than those of StatePlus members in the early years, and decline more steeply in later years. This may be an effect of fewer of these retirees being advised, but there is insufficient data to support this idea.

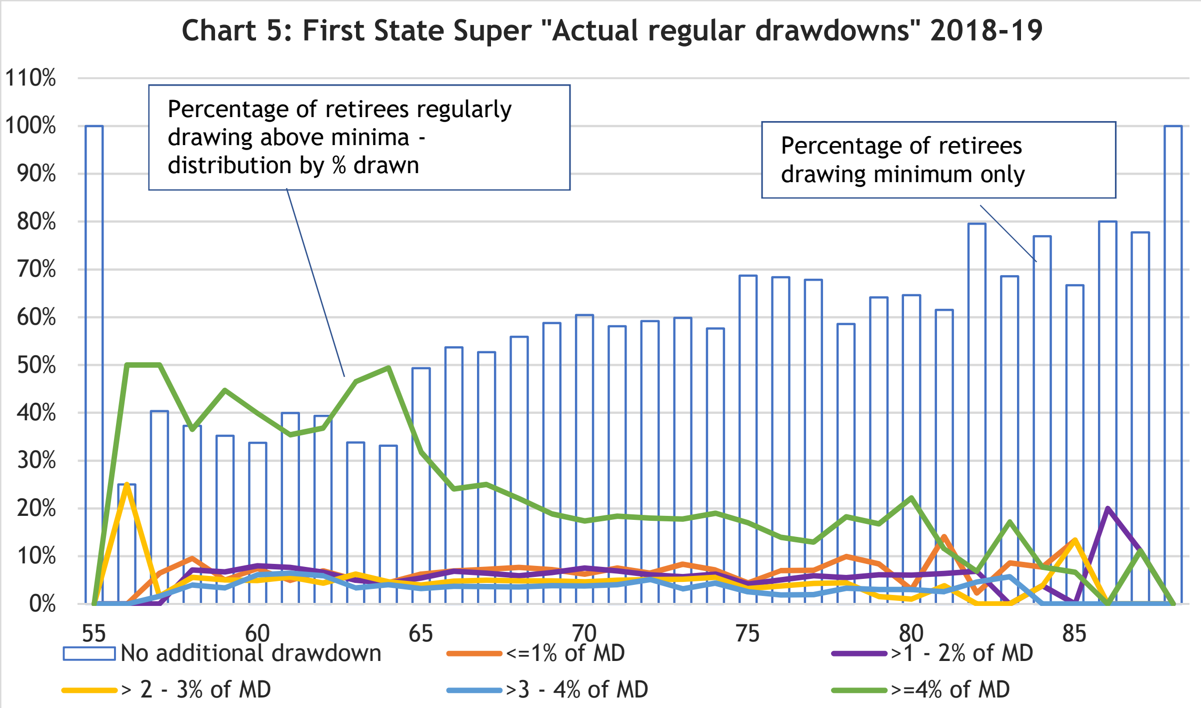


Chart 6 shows that, in terms of additional irregular drawdowns, First State Super retirees show greater volatility than StatePlus retirees, particularly for amounts of 4% or greater. This may reflect cash emergencies or challenges with planning and budgeting. We observe that from age 82 very few First State Super retirees' make additional irregular drawdowns and none from age 85.