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An adequate superannuation-based retirement income?

The ability of the current retirement-income system to produce an adequate retirement income is in some doubt. It has been argued that the current rate of superannuation guarantee contributions of 9 per cent of wages is too low for the accumulation of superannuation balances sufficient to provide an adequate retirement income for future generations of retirees. Opinion is divided on how to measure an adequate retirement income. Opinion is also divided over what the level of an adequate retirement income is, no matter how it is measured. Perceptions of the adequacy of current arrangements also depend on the acceptance of the place of the age pension and the drawdown of retirees' savings as part of their retirement income.

If the current opinions over the desirable level of an adequate retirement income are accepted, it is possible that current arrangements, including the 9 per cent superannuation guarantee contributions, will meet these standards. Any further support of the accumulation of retirement savings in the form of either additional contributions or alterations in the current superannuation tax arrangements, may be an unjustified diversion of resources. Yet certain groups, particularly women and the 'baby boomer' generation now entering retirement, may not have sufficient savings to meet these standards. The policy problem is how to implement solutions that apply to these particular groups without unnecessarily extending these solutions to groups that will not require them to generate an adequate retirement income.

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Glossary

Age-based deduction limits

Employer contributions made to a complying superannuation fund or retirement savings account are fully tax-deductible to the employer up to the age-based deduction limits.[1]

Self-employed persons (whose income from an employer is less than 10 per cent of their total income) get a full tax deduction on the first $5000 of personal contributions plus 75 per cent of the remaining personal contributions up to the age-based deduction limits.[2] The deduction limits are:

Age of employee (years)	Deduction limit 2005–06
under 35	**$14 603**
35 to 49	**$40 506**
50 and over	**$100 587**

Source: Australian Taxation Office: TD 2005/21

Deductions are restricted for employees aged 70 and over. From 1 July 2002, an employer is entitled to a tax deduction only if contributions have been made within 28 days of the end of the month within which the employee turned 70.[3]

Age-pension age

Age-pension age is currently 65 years for men and 62.5 years for women. The qualifying age for women is being progressively raised to 65 by 2014.

Allocated pension

A superannuation account from which a series of regular payments can be drawn upon in retirement. The payments must lie between specified monetary limits set by factors in the Superannaution Industry (Supervision) Regulations 1994. An allocated pension can be turned into a lump sum (i.e. cashed out or commuted) at any time and is assessed against the lump sum Reasonable Benefit Limit only.

Annuity

A contract between a provider (usually a large life insurance company or superannuation fund) and a person to receive a regular series of specified payments, at specified times, over a specified period in return for a large initial premium.

Baby boomer generation(s)

There is no one single definition of what age group is included in the term ‘baby boomer’, however it is generally taken to refer to those born between 1946 and 1964.[4]

Broken-rate pensioner

A broken-rate pensioner is an age pensioner who receives payments at less than the full rate.

Government superannuation co-contribution scheme

The government superannuation co-contribution scheme assists low to middle income earners making additional superannuation contributions. The government makes a contribution to a person's superannuation account if:

- that person makes a personal contribution to their superannuation fund or Retirement Savings Account,[5] and
- 10 per cent or more of their total income for the income year is from employment,[6] and
- their total income is below $58 000 per annum in 2004–05 and following years, and
- the person is under 70 years of age.

The government will contribute up to $1.50 for every dollar of personal contributions, up to a maximum of $1500 per income year. The maximum co-contribution reduces by 5 cents for every dollar a person's total income exceeds $28 000 (the low income threshold for 2004–05). Entitlement to a superannuation co-contribution ceases once a person's total income equals, or exceeds, $58 000 per annum. These income thresholds will not increase until the 2007–08 income year.[7]

Defined-benefit superannuation scheme

A defined-benefit superannuation scheme is one where the person's final benefit is determined by a formula taking into account their years of service, salary, or some other non-investment-related measure. Generally the benefits are not dependent on the person's contributions or the associated investment earnings of the fund. If the fund's investment earnings are not sufficient to pay the benefit, it is paid by the company, or government, that sponsored the scheme.

Income stream

A series of regular payments (i.e. a stream of income). The term is a generic one covering such financial products as:

- annuities
- allocated pensions
- growth pensions, and
- superannuation pensions.

The term 'income stream' is mainly used in the context of the social security treatment of these products.

Growth pension

See ‘Term Allocated Pension’.

Lifetime income stream

An income stream that is paid for the whole of the person’s remaining life.

Market linked pension

See ‘Term allocated pension’.

Means test

The means test in the Australian context refers to the income and assets tests that are applied to a person’s assets and non-social-security income to determine the rate at which government age pensions, working-age benefits and allowances are paid.

Preservation age

The age at which superannuation fund members can generally withdraw their superannuation benefits, providing that all other ‘conditions of release’ for superannuation have also been satisfied. For those born before 1 January 1960, their preservation age is 55. For those born on or after 1 January 1965, their preservation age is between 56 and 60, depending on the year of birth.

Reasonable benefit limit

The amount of concessionally-taxed superannuation benefits a person is allowed to receive over their lifetime is limited by reasonable benefit limits. The table below shows the lump sum and pension reasonable benefit limits. The pension reasonable benefit limit is available provided that at least 50 per cent of the total superannuation benefits received by a person are taken in the form of a pension or annuity that satisfies the pension and annuity standards.

Reasonable Benefit Limits	**2005–06**
Lump sum	**$648 946**
Pension	**$1 297 886**

Source: Australian Taxation Office: TD 2005/21

Reverse mortgage

A reverse mortgage allows a person to borrow money secured against their home, without having to pay back either the amount you borrowed or the interest due until they leave their home or die. Instead, the debt and interest builds up (or compounds) over time. They are generally restricted to senior Australians.[8]

Salary sacrifice

Salary sacrifice arrangements are where the gross salary entitlement is reduced in exchange for a lower salary together with a benefit from the employer.

Where such salary sacrifice arrangements are effective, a taxpayer (in particular a taxpayer paying tax at the highest marginal rate) may be able to reduce their tax bill. The tax benefit arises where the fringe benefit provided by the employer is taxed concessionally under the Fringe Benefits Tax (FTB) regime. As a result, although the amount of salary that has been sacrificed equals the cost to the employer of providing the benefit (and therefore is a neutral transaction from the employer's point of view, subject to any additional administration costs that, in any event, the employee could be required to pay), the cost of the benefit to the employee is less than if the employee used after-tax salary to obtain the same benefit.[9]

Additional contributions to superannuation funds, over the required superannuation guarantee amount, can be made via salary sacrifice arrangements. These contributions are concessionally taxed under the FBT regime.

Service pension

A pension paid by the Department of Veterans Affairs in recognition of past military service. This pension is not the same as the pension that may be paid by the military superannuation schemes.

Sole purpose test

The trustee of a regulated superannuation fund must comply with the sole purpose test set out in section 62 of the *Superannuation Industry (Supervision) Act 1993*. Essentially, the test requires the trustee to ensure the fund is maintained solely for one or more of the core purposes, or for one or more of the core purposes and for one or more of the ancillary purposes.

The major core purposes are:

- provision of retirement benefits, and
- provision of death benefits to the members’ dependents.

The major ancillary purposes are:

- provision of benefits on the termination of employment, and
- provision of benefits in circumstances of financial hardship or on compassionate grounds.[10]

Structural ageing of the workforce

Australia’s population is rapidly ageing. The share of the population aged over 65 years is projected to rise from 13 to 24.5 per cent from 2003–04 to 2044–45. An even bigger relative change is anticipated for the oldest category—those over 85 years. Their share is expected to increase from 1.5 to 5 per cent over this period.

Currently, there are 5.2 people in the potential workforce for every person aged 65 years or over (an aged dependency ratio of 19 per cent). By 2044–45, this will have fallen by more than half, to less than 2.4 (a ratio of 41 per cent).[11] This trend is referred to as ‘the structural ageing of the workforce’.

Superannuation

A tax-advantaged savings regime that cannot generally be accessed until the member of the superannuation fund has reached his or her preservation age (55 to 60, depending on date of birth).

Superannuation guarantee

The requirement for employers to contribute 9 per cent of an employee’s wages to a superannuation fund of the employee’s choice.

Superannuation pension

A superannuation pension is an income stream paid from a superannuation fund. Traditionally, the term has referred to pensions paid from defined-benefit superannuation schemes.

Superannuation pension tax offset (or rebate)

Where a person receives an eligible termination payment and uses it to purchase an annuity or pension from a taxed superannuation fund and the person is 55 or more years of age, the person is entitled to a tax offset, at 15 per cent, on the assessable part of the annuity or pension payment that is not in excess of the person’s reasonable benefit limit.

Term allocated pension

Term allocated pensions have a similar account arrangement to an allocated pension, but investors receive payments for a fixed period based on their life expectancy. Other points include:

- the pension’s annual income payments are worked out on the basis of the account balance at the start of the year (like an allocated pension) by a set formula (unlike allocated pensions where you can choose from a range of payment levels for a given account balance)
- there is no residual capital value at the end of the pension’s term (except in limited circumstances)
- the pension cannot be commuted to a lump sum (except in limited circumstances) which means investors cannot access any of their capital
- the pension is partially (50 per cent) exempt from the social security assets test
- the pension is assessed under the more generous pension Reasonable Benefit Limit.[12]

Executive summary

The issue

The adequacy of Australia's superannuation savings to fund both the current and future generations' retirement is a topic of ongoing concern. The common perception is that Australians, in general, have not saved enough for their retirement and that the current level of compulsory superannuation guarantee contributions made by employers on behalf of employees (9 per cent of wages) will produce an inadequate level of benefits to fund the retirement of current and future generations of retirees.

Measuring adequacy

Many issues affect this belief. Opinion is divided on how to measure the adequacy of a retirement income. Depending on the definition of what is an adequate retirement income, the current arrangements may or may not be satisfactory. The two methods for defining an adequate retirement income are:

- using the replacement rate, that is, the post-retirement income expressed as a percentage of a person's pre-retirement income (for most people this results in a lower dollar value for an adequate retirement income), or

- using a budgetary standard, that is, measuring the adequacy of a person's post-retirement income against what it may cost to live in particular locations.

What level of government support?

While opinion can differ over the appropriate standard to apply for defining what may be an adequate retirement income, an equally important question is the level of retirement income that should receive government support in the form of taxation concessions or additional contributions. Providing government support for a level of retirement income above these standards could be seen as an unnecessary diversion of economic resources.

Accumulating enough superannuation

A significant component of an adequate retirement income is the level of a person's superannuation benefits. The principal means by which these benefits are accumulated is through the superannuation guarantee regime, where employers contribute on behalf of their employees. This makes the patterns of employment a crucial factor in accumulating any superannuation balance, let alone an adequate one. The increased amount of casual and part-time employment, and until recently the trend towards early retirement, have restricted the accumulation of superannuation benefits; particularly for women and the baby boomer generation.

One of the effects of the structural ageing of the workforce is that the supply of labour is projected to decline relative to demand for that labour. In other words, there will be fewer workers for the available jobs. This may have two results: the opportunity for mature-age workers to remain in employment till age 65, and higher wages for all employees. Both trends, if realised, should result in the accumulation of a higher level of superannuation savings.

However, the accumulation of retirement savings on a world-wide basis, and the effects of the structural ageing of first-world workforces, may also result in a fall in the investment rate of return. In Australia, the majority of superannuation benefits are produced by the investment earnings of superannuation funds and so any fall in the overall rate of return on these investments will have a negative effect on the accumulation of superannuation benefits.

Legitimate components of an adequate retirement income

A person’s retirement income can have several components, including a person’s superannuation benefits. Other components of a person’s retirement income are the age pension and/or the drawdown of their capital. This capital can include their superannuation balances, non-superannuation assets and even their own residence (where the person owns it) through a reverse mortgage. A retiree’s receipt of the age pension and the drawdown of a retiree’s capital have been questioned as legitimate parts of what might be rightly called an adequate retirement income.

If the receipt of the age pension and the drawdown of capital in a person’s retirement income are accepted as legitimate components of an adequate retirement income, then government support for accumulating sufficient resources for providing such an income can be lower than it might otherwise be. It may be the case that, for many, no further government support to achieve this end is required.

The quick fixes

Due to their concerns about the inadequate level of retirement savings, the superannuation industry and academic commentators have advocated various policies to lift the general level of superannuation savings in Australia. Amongst these are:

- increasing the superannuation guarantee rate from 9 to between 12 and 15 per cent of wages
- reducing the rate of tax on superannuation fund income (currently 15 per cent on superannuation fund tax-deductible contributions and overall fund earnings)
- requiring additional after-tax contributions to be made by employees, and
- requiring that some or all of a person’s superannuation benefits be converted to a pension.

None of these solutions is without its problems, nevertheless lifting the rate of superannuation savings may be appropriate for some groups, particularly women and those approaching retirement who have not had the opportunity for superannuation guarantee payments to be made on their behalf over a sufficiently long period of time.

Will these solutions be appropriate for everyone?

However, it may not be appropriate to support yet other groups, particularly those who have had the opportunity to have these contributions made on their behalf for a sufficiently long period of time, or who have resources outside the superannuation system that can be used for support in retirement. Adoption of the measures may lead to a level of retirement income that is well above the level of disposable income that they may have had access to during their working lives. It is questionable whether the aim of government policy should be to support the attainment of such a level of retirement income.

Economic modelling indicates that many members of the baby boomer generation will accumulate sufficient superannuation benefits to meet the lower of the proposed standards of an adequate retirement income (that is, the replacement-rate definition of an adequate retirement income). Further, a substantial proportion may accumulate sufficient resources to meet the higher budgetary standard of an adequate retirement income under the current arrangements.

However, some older members of this generation, particularly those who do not work through to their 65th birthday (and therefore do not continue to contribute to superannuation benefits) may not be in this position. But the number of such retirees may be less than is commonly believed, as many members of this generation were not without resources before the formal introduction of award superannuation in 1986 or the commencement of the superannuation guarantee regime in 1992. Factors such as inheritances, partner's superannuation benefits, non-superannuation assets accumulated before 1986 and 1992, and access to public-service or large company superannuation schemes before these dates, limit the number of older baby boomers who may find themselves without sufficient resources in retirement.

Accordingly, the adoption of any additional policy measures to address the shortage of superannuation savings should only be applied to those (such as women and low-paid workers) whose overall resources, in combination with the age pension, are insufficient to produce an adequate retirement income. Such assessments would have to be done on a case-by-case basis. There appears to be no need to introduce blanket measures to generally increase the superannuation savings of all of the Australian population.

Introduction: Adequacy—the issue that's not going away

The adequacy of superannuation savings to fund the retirement of current and subsequent generations is an on-going concern. Recently, the government asked the House of Representatives Standing Committee on Economics, Finance and Public Administration to undertake an inquiry into improving the superannuation savings of people under age 40. The underlying concern is that "young adults may be falling short of the optimum savings level required to fund their retirement income".[13] From time to time the reports of various professional and commercial organisations also express the concerns that Australians have not saved an adequate amount for their retirement and recommend an increase in the level of compulsory superannuation savings.[14] Further, the report by the former Senate Select Committee on Superannuation, *Superannuation and standards of living in retirement*, highlighted longstanding concerns that rates of retirement savings have been low for a long period of time.[15] With increasing numbers of Australians entering retirement in the coming decades, issues surrounding the adequacy of their retirement savings are not likely to fade away.

This paper does not discuss whether the current level of retirement savings is adequate or not, but it seeks to disentangle the issues present in this debate. Nor will this paper seek to define what an adequate retirement income may be, as this definition in part rests on the reader's response to many of the issues discussed in this paper.

Some of the issues affecting the accumulation of enough savings to produce an adequate retirement income are outlined in this paper. Then it also considers whether the age pension and the draw-down of capital over a person's retirement should be considered to be legitimate components of an adequate retirement income. Some of the proposed solutions to the perceived lack of retirement savings are discussed, together with some of the problems in implementing any of these solutions.

The current system

The current aim of Australia's retirement-income system is to achieve a higher standard of living in retirement than would be possible from the publicly-funded age pension alone.[16] It seeks to achieve this outcome through three major components (or 'pillars'):

- a means-tested, taxpayer-funded, age pension
- arrangements whereby employees accumulate a superannuation benefit via the compulsory Superannuation Guarantee regime (minimum employer contributions are 9 per cent of ordinary time wages), and
- additional private savings within and outside the superannuation environment.[17] The recently implemented government superannuation co-contribution scheme is included in this category.

Much of the debate on adequacy concerns the relative place of each of these components in achieving the desired outcome.

Adequacy issues

Measuring adequacy

Generally, the adequacy of retirement incomes is measured with reference to either:

- the income per year a person may need in retirement (the budgeting approach),[18] or
- the replacement rate.

Budgeting approach

A prominent example of the budgeting approach to measuring the adequacy of retirement income has been undertaken by the Association of Superannuation Funds of Australia (ASFA). This organisation has outlined two standards of retirement income:

- a modest but adequate standard of living in retirement where the retirees can afford to participate fully in the opportunities possible in contemporary Australian society.[19] The estimated cost of this lifestyle in the December quarter of 2005, for a Sydney couple, was $24 919 per annum,[20] and
- a comfortably affluent standard of living in retirement where retirees 'engage actively in a broad range of leisure and recreational activities without having to require a rapid or substantial disbursement of assets'.[21] The estimated cost of this lifestyle, for a Sydney couple, was $46 297 p.a. in the December quarter of 2005.[22]

These living standards are above what might be termed poverty in retirement.[23] Both these standards of living assume that the retirees own their own home.[24]

Replacement rate

The replacement rate is the ratio of a person's income or spending power after retirement compared to the period just before retirement.[25] This is usually expressed as a percentage of the retiree's pre-retirement income.

Both approaches have their advantages:

- the budgeting approach emphasises the real costs faced in retirement, as well as taking account of the different lifestyles to which a retiree may aspire (that is, modest but adequate and comfortable in ASFA's terminology). It also allows for the desired level of retirement income to be tailored to the area in which the person wishes to retire, and

- the replacement-rate approach directly links the retiree's standard of living to their pre-retirement income.

Each approaches also has its weaknesses. The budgeting approach takes no account of a person's capacity to save sufficient resources to achieve the desired post-retirement income. The replacement-rate approach does not take into account the costs a person faces in retirement. It should be noted that adopting the replacement-rate approach results in a lower amount of income, in dollar terms, being considered as an adequate retirement income than the budgeting approach.

How much is enough?

Replacement rates

The former Senate Committee on Superannuation noted that there was a strong consensus amongst superannuation industry representatives that an adequate retirement income was between 60 and 65 per cent of pre-retirement gross income.[26] During the 2004 election an adequacy goal of 65 per cent of gross (pre-tax) pre-retirement income at age 65 was put forward by the Australian Labor Party. This goal translates to between 70 and 80 per cent of net (after-tax) pre-retirement income. This particular proposal acknowledged that a working life of between 35 and 40 years was required to reach this goal.[27]

One commentator has noted that, generally, people throughout their working lives do not have 65 per cent of their gross salary available for consumption.[28] So, adopting the above goal may give retirees who own their own home a higher standard of living in retirement than they may have ever experienced during most of their working lives.[29]

Budgetary standard

Rothman and Bingham, in 2004, found that the current rate of superannuation guarantee contributions, combined with a sufficiently long period in the workforce (35 years plus), produced sufficient superannuation balances for those on or below 'average weekly ordinary time earnings' (AWOTE) to provide a replacement income of between 60 and 78 per cent of average salary over the last year of work.

Further, they found that a single male retiring in 2010 and afterwards, at age 65, and couples retiring in 2007 and afterwards, both at age 65, would generally meet the 'modest but adequate' budgetary standard for 2004 outlined above.[30] These outcomes were achieved assuming access to the age pension, 35 to 40 years in the workforce and that the retirees' capital was gradually drawn down over their remaining life.[31]

These outcomes are far from being accepted by all in the superannuation industry. As noted below, some may argue that an adequate retirement income is one that is only generated by the retirees' own resources. However, they raise the possibility that the current retirement-income system, together with the recent limited augmentation from the government superannuation co-contributions scheme will, over time, produce an adequate standard of retirement income no matter which way it is measured.[32]

Capacity to save

The accumulation of superannuation balances depends on a person's capacity to save. The key determinant of a person's capacity to save is their pattern of employment. An important assumption behind most calculations of the amount of superannuation needed to fund an adequate retirement is that the person is consistently employed, and having contributions made on their behalf to their superannuation account, for between 35 and 40 years.[33]

To date, this has not been the reality. Until recently, the majority of employees appear to have left the workforce, for one reason or another, by their early 60s.[34] Only part of the workforce was covered by the productivity contributions into superannuation from 1985, at an initial rate of just 3 per cent of wages. The superannuation guarantee regime has only been in operation since 1992. Furthermore, the rate of superannuation guarantee contributions only reached 9 per cent of wages on 1 July 2002. It follows that the majority of those now turning 60 have only had, at best, 13 years where their superannuation accounts would have been receiving superannuation guarantee payments (but not at the current rate of 9 per cent of wages); or only 25 years where they were covered by some type of superannuation at all. Changes in the workforce have also meant that a significant number of this group have not had the opportunity of even 13 years of uninterrupted employment.[35] This is not to criticise the current superannuation guarantee system, but to observe that it is immature. It won't deliver its full benefits until 2037 at best (that is, 2002 plus 35 years). An adequate retirement income based on a person's own resources cannot be expected from an immature system.

Working longer

Delaying retirement from the workforce can dramatically increase a person's superannuation balances and subsequent retirement income.[36] So it is important to understand whether there are any trends that indicate whether older workers in particular may have the opportunity to extend their working lives. Recent projections of Australian labour force participation rates, carried out by the Productivity Commission, suggest that workforce participation rates, especially for those in their 60s and 70s, will rise as the population structurally ages.[37] This is not to deny that over time the overall workforce participation rate will fall, far from it; but to point out that opportunities for mature-age workers to accumulate larger superannuation balances, through delayed retirement, will most likely increase.

Recent employment trends amongst older workers indicate that this may already be occurring. Changes in the workforce participation rate for older males, traditionally seen as the group that is most likely to experience shorter working lives (and reduced superannuation balances), are an appropriate indicator of these changes.[38] The data in the following table illustrates recent changes in the employment market that may indicate growing opportunities for older workers to gather additional superannuation before retirement.

Table 1: Male Workforce Participation Rates August 2002 – August 2005

Age Group	August 02	August 03	August 04	August 05
55–59	72.1	73.3	74.6	75.8
60–64	46.7	50.1	50.9	54.7
65+	9.3	9.6	9.9	11.4*

Sources: For 2002: ABS Cat. 6203.0, Labour Force, August 2002, Table 10. For later years: ABS Cat 6105.0, Australian Labour Market Statistics, Table 1.2, August 2003, 2004 and 2005. *There was a break in the ABS series from the 2005/06 year. The ABS introduced two new categories in place of 65+, i.e. 65–69 and 70+. Figure for 'all males' 65–69 is 23.9%, and participation rate for 'all males' 70 and over, 5.9%.

The surprising result is the large jump in the participation rate for males of 65 years and above in the August 2005 figures. However, after this result is excluded, the table above indicates that there is a gradual lift in the participation rate for older males. These outcomes occurred during a time of low and falling unemployment by historical standards, and it could be argued that they are the result of a level of economic activity that may not last. Against that, these results also occurred at a time when the structural ageing of the workforce had not had a significant impact on the Australian economy, and so these outcomes cannot be attributed to the ageing of the Australian workforce. The looming shortage of labour may see participation rates for older workers further increase in the coming years, irrespective of the level of economic activity.[39] The increase in workforce participation rates for older males indicates increased opportunities for the accumulation of superannuation balances through longer working lives.

One commentator has speculated that this has been caused by the combination of the increased attention to the projected consequences of the structural ageing of Australian society outlined in the publication of two reports on the subject, older workers' realisation that their superannuation balances will not be sufficient to fund their retirement and a belated realisation by Australian business that older workers are a valuable resource that should not be wasted.[40] The general public's awareness of superannuation-related matters has also been boosted by the government's publicity campaigns for the introduction of the superannuation co-contributions and choice-of-superannuation-fund regimes. This increased awareness may have prompted older workers to take up available opportunities to extend their working lives. Perhaps reflecting these influences, ANOP Research Services has reported that awareness of superannuation issues and the potential low level of retirement savings has significantly increased over the last few years.[41]

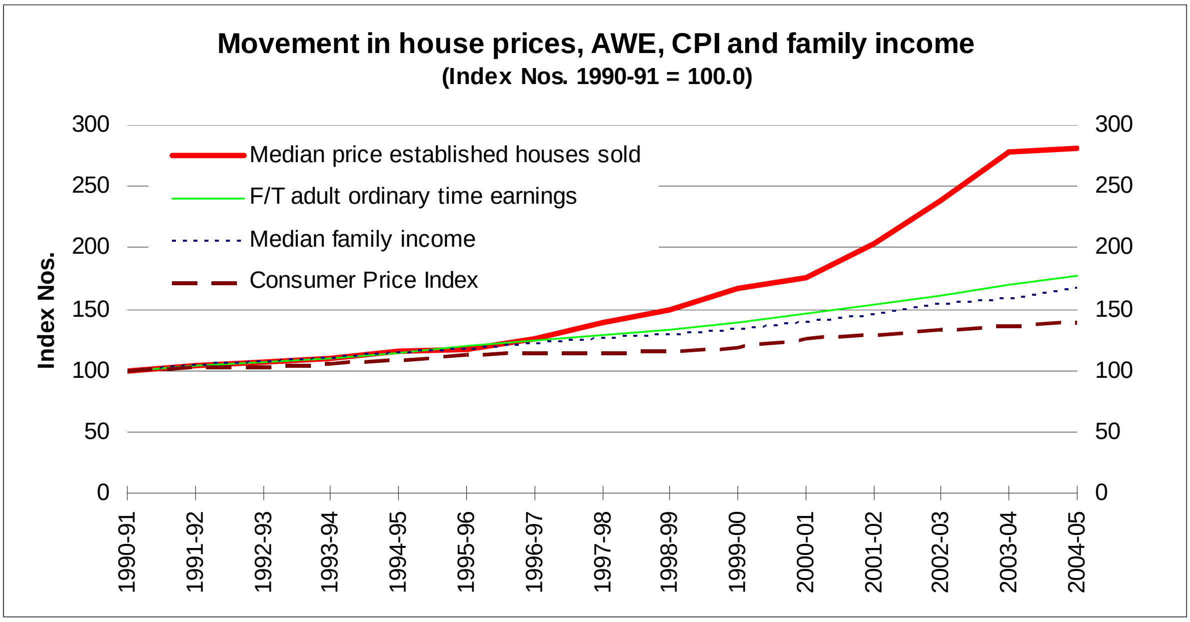
Other influences that may have contributed to these rising participation rates are:

- the trend towards delayed childbirth,[42] that is, the age at which couples are having first and subsequent children has increased. One consequence of this is that these children undertake secondary and tertiary education when the supporting parents are much older, compared to their peers in earlier generations. Thus their period of financial responsibility for their children commences later, but ends later in their lives, compared to earlier generations. Of itself, this may be an incentive for mature workers to extend their participation in the workforce

- the increase in the real price of housing has meant that home owners have taken out proportionally larger mortgages.[43] It may be the case that such mortgages have increased the time taken to secure outright home ownership. The graph overleaf illustrates these trends
  - as noted below, entering retirement with accommodation owned outright is a very financially attractive course of action, for some people
- older workers have received additional tax concessions in recent years. The Senior Australians Tax Offset and the Mature Age Workers Tax Offset have lowered the tax payable on earned income received by this group. These allowances may be incentives to continued participation in the workforce
- the introduction of the 'transition to retirement' pensions may prolong a person's attachment to the workforce. From 1 July 2005, a person who has reached preservation age may access superannuation benefits in the form of a non-commutable income stream without having to retire or leave their current employment. Further, an allocated pension taken under these provisions can be stopped at any time and restarted at a later date.[44] These measures were designed to cater for more flexible working arrangements towards the end of a person's working life.
- older workers are better educated than previous groups in this age range.[45] A higher educational level is important for participation in an economy that has a large proportion of activity occurring in the services sector. The higher educational level of older workers may lead to their continued participation in an economy with a higher level of economic activity in the service industries
- the increased number of part-time positions may allow older workers to maintain their attachment to the workforce, without the unwanted rigors of a full time position, and
- older workers may value the mental stimulation of continued work or the social benefits of remaining connected to the workplace.[46]

The points above are speculative, as there is no available research indicating that these influences are prominent in older workers' decision to maintain their connections with the workforce.

Figure 1: House Prices, Average Weekly Ordinary Time Earnings, Family Income and the Consumer Price Index 1990–91 to 2004– 2005



Sources: Average Weekly Earnings ABS (6302.0), Consumer Price Index ABS (6401.0), Median prices established houses sold – Real Estate Institute of Australia *Market Facts*, Median family income – Real Estate Institute of Australia *Home Loan Affordability Report*.

Future earning rates

The majority of a superannuation fund's benefits are made up of the fund's investment earnings. This makes the expected rates of return on superannuation investment funds crucial to the accumulation of a particular amount of superannuation savings. Necessarily, projections about what amount of capital is needed to generate an adequate retirement income assume a certain rate of return for that capital. Past rates of return have been assumed to apply into the future.[47]

However, some of the economic fundamentals underpinning this assumption are changing. The structural ageing of first-world workforces is well documented. Another equally important trend is the worldwide shift towards private savings as a major component of retirement income and the consequent increase in the amount of investment capital.[48] One of the possible consequences of these trends is that future financial conditions may be characterised by a relative scarcity of labour and abundance of capital.[49]

This labour scarcity may result in real wages rising and capital returns falling. By itself this may lead to falling general investment returns.[50] In addition, investment returns may decline when there are too few investment opportunities. As the population undergoes structural ageing, economic growth is projected to decline.[51] A decline in the rate of economic growth may lead to a relative scarcity of investment opportunities. These trends make it harder to prepare for the impact of an ageing population simply by increasing individual savings, because returns on savings may be far lower than in the past.

This is a possible trend; it has not happened yet, and indeed there is no general agreement that it will happen.[52] To date, Australian and overseas investment markets have absorbed the increased level of retirement savings with apparent ease.[53] This may be because, generally in Australia, while superannuation has added to the overall level of national savings, it has also displaced other private savings.[54] Increasing superannuation balances may not have significantly increased the amount of savings available for investment relative to the supply of investment opportunities.[55] If the overall rate of return on retirement savings declines, it would reduce the effectiveness of any proposal to raise the general level of Australian retirement savings.

Components of retirement income

Adequate retirement: with or without the age pension?

In its submission to the Senate Select Committee on Superannuation's inquiry into Living Standards in Retirement, the Institute of Actuaries noted that:

> An appropriate objective should be to move to a position where the majority of [retired] Australians do not draw on the age pension. In the view of the Institute, this would also be consistent with one of the primary arguments for providing tax concessions for superannuation, namely the encouragement of self-provision for retirement for those able to do so.[56]

The Investment and Financial Services Association (IFSA) has noted that a desirable development in the retirement-income system would be that no more than one third of all retirees receive the full rate of age pension.[57] Recently, former Prime Minister Paul Keating also expressed concern that the current level of compulsory savings will be inadequate to sustain workers in retirement without resort to the public pension.[58] The clear implication is that an adequate retirement is one based on a retiree's own resources.

Currently, almost 78 per cent of people of age-pension age receive a full, or a partial, age pension.[59] The proportion of age pensioners receiving partial, or broken-rate, age pensions is slowly increasing, and the proportion of retirees claiming age pension is slowly falling.[60] A recent estimate has suggested that by 2050 no more than 75 per cent of people aged 65 or over will receive the age pension (or service-pension equivalent). Around two thirds of these pensioners are projected to receive a reduced pension because either their incomes, or assets, are large enough to result in reduced age-pension payments.[61] Under current arrangements the age pension will continue to be a significant component of retirees' income.

No government, and no party of any political persuasion, has supported the abolition of the age pension. Rather, the place of the age pension as a major component of Australia's retirement-income system has been reaffirmed on various occasions.[62]

Capital drawdown

One of the ways in which a dependable income can be had in retirement is by including a component of capital drawdown in the retiree's arrangements. Part of the income payments made by immediate annuities, allocated pensions and the new market-linked pensions (known also as term allocated pensions) is made up of the return of the investor's capital as well as the earnings of amounts invested in these products.

As noted above, Rothman and Bingham's estimates of the adequacy of the current retirement-income system based on the replacement rate have included the drawdown of a person's capital over their retirement.[63] While estimates may be made of how much a person may need in order to fund their retirement without resort to drawing down on their capital, the results are usually well outside the savings capacity of most individuals, particularly those with low incomes, even when allowing for the effects of both the superannuation guarantee and the government superannuation co-contributions scheme.[64] Capital drawdown is therefore likely to be a major component of retirees' income.

One of the largely un-stated bases of the age-pension means test is that it is not designed to support the accumulation or preservation of a pensioner's capital in retirement.[65] This assumption is evident in the favourable means-test treatment of income-stream products (which allow for the orderly draw down of capital) and the significant impact on age-pension entitlements of those with significant levels of assessable assets. It is interesting to note that, overall, pensioners appear to be slowly drawing down on their assets; but at a rate that is consistent with their expectations of a long life.[66]

Suggested solutions

The quick fixes

In response to the perceived inadequacy of Australian's superannuation savings, one, some or all of the following measures have been proposed:

- increasing the superannuation guarantee contribution rate from 9 to between 12 and 15 per cent of wages[67]
- the phased removal of the 15 per cent tax on superannuation-fund income (made up of both contributions and earnings) and increasing the tax on the end benefits,[68] and/or
- requiring all employees to contribute a percentage of their after-tax income to their superannuation account(s).[69]

These are not the only proposals for increasing the level of superannuation savings, but in the right circumstances these proposals would increase a person's retirement savings. Before they are adopted, however, some additional points have to be considered.

Increasing the superannuation guarantee rate

Research done by the National Centre for Social and Economic Modelling suggests that increasing the rate at which the superannuation guarantee is paid will significantly increase retirement incomes, but mainly where there is continuing full-time employment to age 65.

However, if previous trends in workforce participation continue, such as broken work patterns or early retirement etc., the Centre found that increasing the superannuation guarantee rate only produced small increases in superannuation balances, especially for the group most at risk; the rapidly greying baby boomer generation (that is, those born between 1946 and 1964).[70] As noted above, the trend towards greater workforce participation of older workers suggests that raising the superannuation guarantee rate may produce worthwhile results for this group, as they are now entering, or are in, the age groups where rates of workforce participation are rising.

Superannuation guarantee payments are made by the employer, not the employee. They are deductible against an entity's taxable income. Put another way, they are a cost to employers and potentially reduce the revenue from business taxes. Raising the superannuation guarantee rate to between 12 and 15 per cent may reduce both business profits and government revenue.

Further, there may well be a wider cost for pursuing such a course. Guest and McDonald have estimated that raising the superannuation guarantee rate to 12 or 15 per cent may cause a drop in current living standards, and possibly decrease employment due to the consequent higher cost of labour.[71]

Finally, the case for raising the superannuation guarantee rate assumes that, generally, the majority of employers are paid at the prevailing minimum superannuation rate (currently 9 per cent of wages). Treasury research suggests that, for about 27 per cent of employees, the actual rate at which these contributions have been paid is between 10 and 12 per cent of wages.[72] For many employees, increasing the legislated superannuation guarantee rate will not provide any advantage.

Reducing the superannuation fund income tax

Recently, the Minister for Finance and Administration canvassed the removal of the superannuation fund income tax, popularly known as the tax on contributions.[73] A recent survey found that reducing or eliminating this tax was a popular option for increasing superannuation savings.[74] Generally, contributions to a superannuation fund are not subject to a separate superannuation contributions tax. Rather, contributions to a superannuation fund are part of that fund's income. It is the income of the fund that is subject to tax. A superannuation fund's income is made up of both contributions and investment earnings.[75]

There are valid arguments both for and against the removal of this tax. The arguments in support of its elimination are:

- reducing or eliminating this tax will significantly improve the retirement savings of those who remain in the accumulation phase for a sufficiently long period of time[76]
- the removal of the superannuation fund income tax restores the concessional nature of superannuation for those currently on the lowest marginal tax rate (currently 15 per cent)
- while removal of this tax would increase the tax advantages available to higher income earners, there are limits on these advantages. Contributions made by salary-sacrifice arrangements (see Glossary) are tax-deductible to the employer. The current age-based limits on tax-deductible contributions per employee may limit the amounts that can be contributed a superannuation fund via salary-sacrifice arrangements in any one year, and
- high income earners are limited in the amount of concessionally-taxed superannuation benefits they can receive by the current reasonable benefits limits (RBL) regime.[77]

The arguments against the removal of this tax are:

- much of the debate about reducing the 15 per cent tax on superannuation-fund income assumes that this particular rate actually applies to all the income of all superannuation funds.[78] Calculations based on the 2002–03 Taxation Statistics suggest that the average superannuation-fund income tax in that year was about 9.9 per cent.[79] If a superannuation fund holds sufficient dividend-imputation shares and receives sufficient deductions from income as a result of holding property investments, their particular tax rates can be much lower, including zero. For the members of some superannuation funds, reducing the rate of fund income tax will be of no significant advantage
- the current estimated cost of the concessional tax rate applied to superannuation-fund earnings is currently $15.5 billion and is estimated to rise to about $18.9 billion in 2008–09.[80] One commentator has noted that this is getting close to the cost of the age pension.[81] It could be argued that the accumulation of superannuation savings already receives sufficient concessions
- as the top marginal tax rate is currently 47 per cent, repealing this tax would provide a massive tax advantage to higher income earners should they choose to contribute to superannuation via salary-sacrifice arrangements (but see above points on the limits to such advantages)
- in 2005–06, the tax on superannuation income is estimated to amount to about $5.3 billion.[82] The elimination of this tax will mean that the government forgoes a significant amount of revenue. Further, it narrows the tax base at a time when the trend in taxation reform is to widen the tax base,[83] and

- the superannuation pension tax rebate, on tax arising in respect of income from a superannuation pension, is a partial compensation for the superannuation fund income tax paid over the accumulation stage. It is also an incentive for taking superannuation benefits as a pension. While the rebate could continue to be applied if the nominal 15 per cent tax was reduced or removed, the grounds for its continued application would be that much weaker.

Making additional after-tax contributions

Making compulsory additional after-tax contributions to a superannuation fund would also increase the level of retirement savings.[84] Of all of the above options, this would cost the government the least. Again, this initiative would only be effective where the person was participating in the workforce for a sufficiently long period of time.

Compulsory pensions?

In response to the perceived low level of retirement savings, some commentators have argued that either some or all of those savings should be compulsorily converted into a lifetime annuity (pension). In its ***Planning for Retirement*** report, the former Senate Select Committee on Superannuation recommended that:

> The Government move in the future to make retirees convert a proportion of their pre-retirement savings into a complying annuity.[85]

In this report the Committee noted that the World Bank has indicated that Australia is one of only two countries with mandatory, individual superannuation accounts which allow members access to their whole fund balance as a lump sum when they retire.

Reasons for

The Committee cited a number of arguments to support this recommendation. The compulsory purchase of a retirement income stream may:

1. solve the problem of 'myopia', that is, 'myopic' people spend their savings early in retirement

2. address the lack of information people have on inflation or life expectancy, for example, when making income choices

3. be a response to the so-called moral hazard of adverse selection, that is, people will not save enough if they expect the government to rescue them in their old age

4. provide greater capital certainty in superannuation pension products and greater certainty for low-income retirees in particular in the drawdown of their assets. This need for greater certainty and security in the drawdown of assets is only increased by the increasing life expectancy of retirees

5. significantly simplify financial planning for retirees by largely removing the complexities of matching superannuation benefits with the tax and social security rules, and

6. discourage retirees from using superannuation to pay off debt on housing or credit cards, which is contrary to the intended purpose of superannuation to finance retirement as required by the sole purpose test.[86]

The Committee did not recommend that all of a person's superannuation benefits be converted into a retirement pension; indeed it saw a case for paying smaller benefits out as lump sum only. Recent support for the compulsory conversion of some or all of a person's superannuation balances to an income has come from a number of sources.[87]

Reasons against

As convincing as these points may seem, they also need some qualification. There is some evidence for the diversion of lump sums away from the purposes of providing an income in retirement. A recent study suggested that a proportion of lump-sum superannuation benefits may be diverted to pay off debt, especially mortgage debt, before entering retirement. Whether all of a person's superannuation is consumed in this fashion will depend on the balance and the debts involved. But, for the 65–69 age group, this study noted that the average superannuation balance before retirement was $116 000 and after retirement $51 000. Further, in the 50–69 age range, household ownership is very high in retirement and outstanding debts amounted to less than a quarter for the levels immediately before retirement.[88]

Some retirees' funds are being used to pay off their mortgages early in retirement. But whether this leads to less than optimal retirement outcomes is not that clear. Given the high rent levels in the private housing sector, and the fact that Social Security Rent Assistance only partly compensates for rent paid, complete home ownership and low levels of other debt in retirement is a financially sensible course to take, even if this means a substantial initial draw down of financial resources.

Further, a person's own house is generally an appreciating asset. If owner occupied, it is free of capital gains tax upon sale. And it may be able to be borrowed against (via so-called reverse mortgages), to fund the owner's retirement.

As noted above, for those who own their own homes upon retirement, recent evidence from the Department of Family and Community Services suggests that retirees do not, by and large, spend their retirement savings early in their retirement. Rather they appear to be preserving these amounts to produce a retirement income.[89]

Further, it is not clear that people don't save enough for their retirement. Rather, they can't save enough for retirement. This is the implicitly acknowledged assumption behind the superannuation guarantee system and to a lesser extent the government superannuation co-

contributions regime. While this does not mean that enough has been saved, it does modify the implicit moral stigma that may be read into the first and third points above.

The fourth and fifth points may be true under current tax and social-security rules, for those who choose to structure their retirement income via the use of complying pensions or annuities, and who retain adequate liquid assets in retirement.

But the actual choice of these products, and the point in the interest-rate cycle at which they are purchased, and with what proportion of superannuation assets they are purchased, are as complicated a decision as any other investment decision a retiree faces. Further, the nature of these products is that, once purchased, significant losses may be realised if they are later commuted (that is, the remaining pension entitlement is turned into a lump sum), assuming that under current tax and social-security laws they can be commuted.

For many, a decision to purchase these products is a final one, with no effective prospect of reversal should capital be needed to meet an unexpected health or other cost. This makes the decision to purchase a complying social-security-asset-test-exempt income stream a complex one, and one that is hostage to unknown future events. Such decisions are not necessarily conducive to greater certainty in retirement in every case.

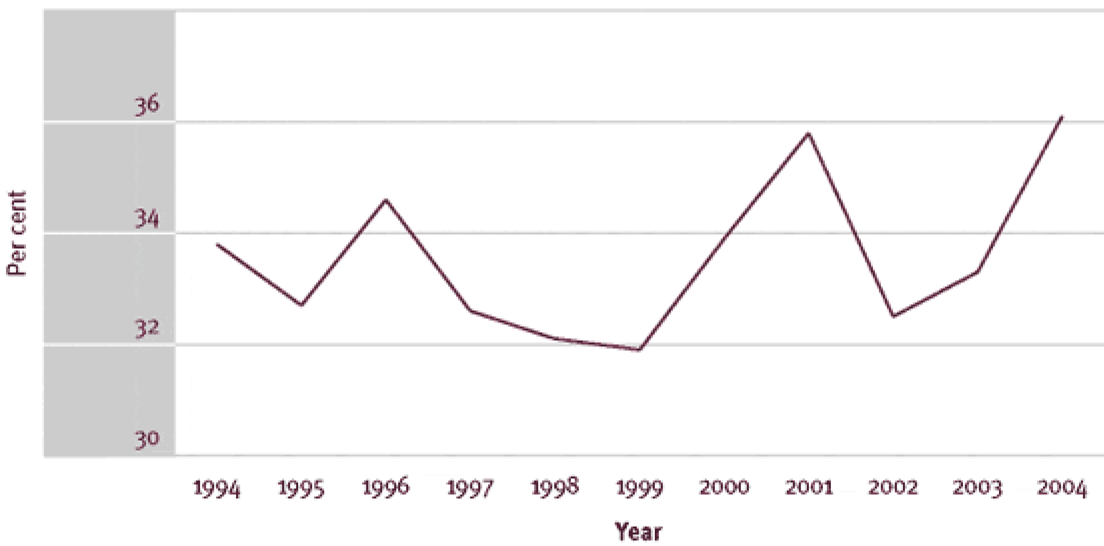
Do we need to go anywhere from here?

The success of current policy

As noted above, the key policy objective of Australia's current retirement-income system is to assist Australians to achieve a higher standard of living in retirement than would be possible from the publicly-funded age pension alone.[90] Whether this outcome is being achieved can be gauged by the number of broken-rate age pensioners commencing to receive payments. That is, how many age-pension recipients receive payments at less than the full rate.

Generally, about 95 per cent of pensioners are paid under the social-security income test.[91] For those paid under the income test, receiving a broken-rate pension generally means that they receive a higher level of income than the maximum rate of age pension. Thus any increase in the proportion of broken-rate age pensioners implies that an increasing proportion of age pensioners are receiving a higher overall income than the maximum age-pension rate. The following graph shows trends in the percentage of the age-pension population receiving a part-rate (or broken-rate) pension.

Figure 2: Proportion of Age Pension customers receiving a part-rate pension, June 1994 to June 2004



Source: Dept of Family and Community Services Annual Report 2003–04

There are many explanations for the fluctuations in this graph, such as changes in how the social-security means tests operated and changes in investment-market returns. However, the important point to note is that the overall trend is that a progressively larger percentage of pensioners are being paid less than the full rate of age pension. The precise role that superannuation has played in this outcome is not available. But because of the very high coverage of superannuation payments since 1992, it is likely that superannuation balances available upon retirement, and invested to produce an income, are a significant factor leading to the increasing proportions of broken-rate age pensioners. The government's objective for retirement-income policy appears to be on the way to being met. In view of the difficulties faced by some groups in accumulating an adequate amount of superannuation, perhaps it is time to expand the goal of retirement-income policy to providing all with an adequate retirement income.

Do we have a problem?

One approach to making sense of the above is to ask: do we have a problem? Will the current retirement-income system produce an adequate retirement income? If we accept the standards outlined above as defining what an adequate retirement income may be (that is, either the budgetary approach or the replacement rate) then, yes, we may have a limited problem. And thus we may wish to go beyond the current retirement-income system. The vital question is: how much further should the government go in supporting the accumulation of superannuation assets?

The work done by Rothman and Bingham suggests that an adequate retirement income will be achieved by those meeting certain conditions. Those conditions are a sufficiently long period of time in the workforce, having superannuation contributions made on their behalf at the prescribed rate, with an adequate return on the funds invested, then accessing the age pension and drawing down capital in retirement. The question is then, who are the groups that do not meet these conditions? The problem occurs in relation to these groups.

Women

Due to their generally interrupted working careers, and high concentration in both the casual and low-paid sectors of the workforce, women are at a significant disadvantage in accumulating sufficient superannuation balances. Analysis of the membership and account balances of four major industry superannuation funds, covering about 2.6 million employees, indicates that female account balances, and pensions paid upon retirement, are both significantly below that of male superannuation-fund members.[92] This trend is particularly pronounced for female sole parents.[93] Sole parents are likely to be a significant group within the retired community, given the generally high rates of separation and divorce currently experienced in Australian society.

While current information suggests that female sole parents are in a particularly difficult situation in respect of the accumulation of retirement savings, there are some indications that this may not always be the case. In 2003–04, 63 per cent of beneficiaries of the government superannuation co-contribution scheme were female, with an average payment to their superannuation funds of $570; while 37 per cent of beneficiaries were male with an average payment of $495.[94] There is no reason to assume that this general outcome will not be repeated in 2004–05. While there is no available information on precisely which group of females receives these payments, over time, the co-contributions scheme may increase the superannuation balances for female sole parents.

These concerns are partly based on the notion that sole female parents don’t have access to part of the accumulated superannuation benefits of their former partners. In the past, the former partner’s superannuation benefits were taken into account in the division of the property of a marriage or marriage-like relationship. However, from 2004 the former partner’s superannuation benefits are specifically able to be split between former married or de-facto partners, if these relationships end. While this development will not help the sole parent accumulate superannuation from the point at which the relationship ceases, it does also limit the scope of this particular problem.

Older baby boomers

The second group that cannot meet these conditions is those now coming up to retirement. Generally, they have retired before age 65, and have not had the benefit of superannuation contributions at current levels (that is, 9 per cent of wages) over a sufficiently long period of time. Despite the recent evidence that the current generation of retirees has more resources at their disposal than previous generations, some members of this group may not have an adequate retirement income generated by these resources as defined by the above standards.[95]

Potentially, how large is this group? To estimate this number, two assumptions have to be made:

- firstly, that only those (both single and partnered) who retire after 2010 will have the resources to secure an adequate retirement income, and
- that this group will finally retire at, or after, age 65.

Given these assumptions, this group is equal to the total population that is currently between 60 and 64. According to the Australian Bureau of Statistics, currently there are approximately 951 400 persons in this age group.[96] This group represents about 12 per cent of all potential retirees over the next 30 years.[97] This is not an insignificant number of people, but it is not the total population of retirees over the coming decades.

There are some additional factors that reduce the number of potential retirees who may have inadequate resources in retirement. A proportion of this group will have had access to superannuation benefits before the introduction of compulsory superannuation in 1985. For example, state and federal public-sector employees have had access to superannuation as a condition of employment at implied contribution rates far higher than the current superannuation guarantee rate of 9 per cent of wages. Other examples include employees in the banking sector, professionals, and employees of particular large companies, such as BHP Billiton.[98] As noted above, a proportion of this group would have superannuation guarantee contributions, not at 9 per cent, but at 10 to 12 per cent of wages. A proportion of this group may well have non-superannuation savings, or have received a significant inheritance. Therefore the number of potential retirees who may require additional assistance to accumulate sufficient resources to generate an adequate retirement income may be far less than the figure quoted above.

Policy initiatives, such as increasing the superannuation guarantee contribution, cutting superannuation fund income tax or requiring additional after-tax contributions to a person's superannuation account, may assist some members of these groups, providing they have a sufficiently long and robust attachment to the workforce. If they retire at age 65 there are at best only five more years in which these measures may take effect. It could be argued that this is an insufficient period of time for these measures to have any appreciable impact. Further, in view of the other factors that may have increased the resources of this group, the application of any additional measures to increase their retirement income would have to be very tightly targeted so that resources would not be unnecessarily spent.

Other groups

As noted above, the adequacy of a person's retirement income can be measured in two ways, by the budgetary standard or by the replacement rate. There are several groups that may well meet the replacement-rate definition of an adequate retirement income, but whose actual level of retirement income would not meet any budgetary standard:

- low income workers
- the long-term unemployed, and
- long-term part-time workers.

Also, as noted above, Rothman and Bingham found that those on wages at or below AWOTE would accumulate sufficient superannuation balances to produce an income that met the replacement-rate definition. However, if the pre-retirement income was low enough (as it may be for these groups), the consequent retirement income may be far below the quoted budgetary standard. For these groups the age pension will always be a major component of their retirement income.

Concerns about the adequacy of retirement savings for this group rest on the assumption that they alone are responsible for generating the bulk of their retirement income. However, many in this group may be partnered, and may also have the additional resources outlined above in relation to older baby boomers. If members of this group have partners with full-time employment, the potential impact of low levels of retirement savings is far less than it might otherwise be.

When we don't have a problem

If the legitimate components of a retirement income include both access to the age pension and capital drawdown, then the projections made by Rothman and Bingham indicate that couples retiring after 2007 (both at age 65) and single people retiring after 2010, at age 65, will meet the budgetary standards for an adequate retirement income, despite only having access to the full-rate superannuation guarantee contributions made on their behalf for less than 35 to 40 years. As the increasing rates of workforce participation indicate, there are increasing chances that such persons will be able to work until they reach 65 years of age (assuming of course that they are able to do so). Further, subsequent generations of retirees will mostly have had the benefit of superannuation guarantee contributions for a sufficiently long period of time before they reach age 65 (assuming they enter the full-time workforce at ages 20–21).

Increasing the general level of superannuation savings, by changes in taxation, or contributions, for this group runs the risk of over funding. That is, if their general level of superannuation savings is increased, assuming a 35 to 40 year working life, they may retire on an income that is far above the disposable income they had access to throughout most of their working life. While there is nothing wrong with receiving as high a level of retirement income as possible, it may be an unnecessary diversion of resources for government policy to support the attainment of this goal.

The problem(s)

Once a tax break or benefit is conferred, it is extremely hard to retract. Equity considerations require that what is done for one group (those with low levels of superannuation savings or those with less than necessary time participating in the superannuation guarantee system to accumulate an adequate benefit) should be done for all groups (all those having a superannuation account). If the proper end of retirement-income policy is to ensure that all retire on an adequate level of retirement income, then what is helpful for one group to achieve that end (increasing contributions, cutting taxes etc), may well be unnecessary and wasteful in relation to another group.

This point suggests that the adoption of any additional measures to increase the level of superannuation savings should be tightly targeted to those most in need. Alternatively, they could be of short duration and not apply to later generations of retirees. It may be wasteful and unnecessary to apply them to groups that, given normal employment and investment conditions, will most likely achieve an adequate retirement income under current policy settings.

Finally, if the often-called-for measures (cutting taxes, increasing contributions, etc) are introduced, and they are targeted to the groups most at risk of not being able to accumulate sufficient resources to provide an adequate retirement income (the ageing previously low-paid baby boomers without additional resources, and sole parents) is there now sufficient time for these measures to have any significant impact? Perhaps not. To ensure that these groups can have an adequate retirement income still more radical measures may be required, such as large, once-off, government contributions to selected superannuation accounts.

Endnotes

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1. A complying superannuation fund qualifies for concessional tax rates. It is regulated under the *Superannuation Industry (Supervision) Act 1993*. Retirement savings accounts are simple low-cost, low-risk superannuation products offered by life insurance companies, banks, building societies and credit unions. They are regulated under the *Retirement Savings Account Act 1997* and have the same tax treatment as superannuation.

2. Income for the purpose of determining age-based deduction limits includes reportable fringe benefits. The limit for self-employed persons was increased from $3000 to $5000 as part of amendments to the *Income Tax Assessment Act 1936* by the *Taxation Laws Amendment (Superannuation) Act (No. 2) 2002*, with effect from 1 July 2002. For self-employed people in the 2005–06 year of income, the contributions required to be able to claim as a deduction the full age-based limit are:

   age under 35: $17 804

   age 35 to 49: $52 341

   age 50 and over: $132 449.

3. *Income Tax Assessment Act 1997*, section 26–80(2)(b).
4. G. Stevens, Deputy Governor, Reserve Bank of Australia, *Finance and the Ageing Population*, address to the Financial Planning Association of Australia, FPA National Conference 2005, 16 November 2005, p. 1.
5. A 'personal contribution' is one that the person makes from 'after tax' income and for which the person does not otherwise claim a tax deduction (*Income Tax Assessment Act 1997*, section 26-80(3)).
6. 'Total income' is defined in section 8 of the *Superannuation (Government Co-contributions for Low Income Earners) Act 2003* as the sum of a person's tax assessable income and a person's reportable fringe benefits for a particular income year. An 'income year' for taxation purposes is the 12-month period over which that person's tax liability is measured. For the overwhelming proportion of personal tax payers an income year is the same as a financial year. For the purposes of this paper the term income year is the same as financial year.
7. *Superannuation (Government Co-contributions for Low Income Earners) Act 2003*, section 10A. Thresholds will then be indexed to the yearly increase in Adult Weekly Ordinary Time Earnings estimated by the Australian Bureau of Statistics (ABS).
8. Australian Securities and Investment Commission, *ASIC launches reverse mortgage calculator for seniors*, media release, 16 February 2006.
9. *Australian Master Tax Guide*, 38th edition, CCH, Sydney, 2006, topic 31–120, p. 1639.
10. L. Leow and S. Murphy, *Australian Master Superannuation Guide 2005/06*, 9th edition, CCH, Sydney, 2005, topic 3–200, p. 50.
11. Productivity Commission, *The Economic Implications of an Ageing Australia*, Melbourne, 2005, p. 5.
12. Investment and Financial Services Association, *All About Term Allocated Pensions*, Fact Sheet, http://www.ifsa.com.au/public/content/viewCategory.aspx?id=59#Superannuation%20essentials, accessed on 6 March 2006.
13. House of Representatives Standing Committee on Economics, Finance and Public Administration, *Inquiry into Improving Superannuation Savings of People Under Age 40*, media release, 1 June 2005.
14. See, for example, Association of Superannuation Funds of Australia (ASFA), 'Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving Superannuation Savings of People Under 40', July 2005, pp. 1, 12; Investment and Financial Services Association (IFSA), *Retirement Savings Gap*, 2003. Access Economics Director, Chris Richardson, has argued that Australians need to save more for retirement, as reported in B. Dustan, 'Lazy savers face rude shock', *Australian Financial Review*, 17 August 2005, p. 38; see also Citibank, 'Retirement Index', August 2005, http://www.citibank.com.au/global_docs/pdf/Citibank_Retirement_Index.pdf, accessed on 6 March 2006.
15. Senate Select Committee on Superannuation, *Superannuation and standards of living in retirement*, Canberra, December 2002.

16. Australian Government, *A More Flexible and Adaptable Retirement Income System*, Canberra, February 2004, p. 1. Supporting comment is provided in the following documents: Senate Select Committee on Superannuation, *Superannuation and standards of living in retirement*, December 2002, p. 10; or G. Rothman and C. Bingham, *Retirement Income Adequacy Revisited*, paper presented to the Twelfth Colloquium of Superannuation Researchers, University of New South Wales, 12–13 July 2004, p. 1; more recently, Department of the Treasury, 'Submission to the House of Representatives Standing Committee Inquiry into Improving the Superannuation Savings of People Under Age 40', Canberra, 16 September 2005, p. 3.

17. Australian Government, *A More Flexible and Adaptable Retirement Income System*, op. cit., p. 1.

18. For an example of this approach, see Westpac/Association of Superannuation Funds of Australia, 'Retirement Living Standard', http://www.asfa.asn.au/guru/rpm.cfm?page=Westpac-ASFA_RLS, accessed 6 March 2006.

19. P. Saunders, R. Patulny and A. Lee, *Updating and Extending Indicative Budget Standards for Older Australians: Final Report*, Social Policy Research Centre, University of New South Wales, January 2004, Executive Summary, p. i.

20. Association of Superannuation Funds of Australia, 'Westpac-ASFA Retirement Living Standard, Detailed Budget Breakdowns, Comfortable Lifestyle and Modest Lifestyle', December Quarter 2005, http://www.asfa.asn.au/guru/detailed-budgets.pdf, accessed on 6 March 2006.

21. P. Saunders, R. Patulny and A. Lee, op. cit.

22. Association of Superannuation Funds of Australia, 'Westpac-ASFA Retirement Living Standard, Detailed Budget Breakdowns, Comfortable Lifestyle and Modest Lifestyle', op. cit.

23. For want of a better standard, poverty in retirement can be thought of as having an income equal to or less than the Henderson poverty line. According the Melbourne Institute of Applied Social and Economic Research, the Henderson pensioner poverty line for a couple in the June quarter of 2005 was $370.50 per week or $19 266 per year. (*Poverty Lines: Australia*, June Quarter 2005. In the same quarter, the maximum age pension rate for a couple was $20 480 per year. In the September quarter of 2005, the maximum age-pension rate for a couple was $21 226 per annum. Thus even the age pension is well above this notional poverty line.

24. P. Saunders, R. Patulny and A. Lee, op. cit.

25. Rothman and Bingham, op. cit., p. 3.

26. Senate Select Committee on Superannuation, *Superannuation and standards of living in retirement*, December 2002, pp. 57–8.

27 Australian Labour Party, 'Superannuation: Setting a Goal', policy paper, March 2004, p. 5.

28. Reasons why a family may not have access to 65 per cent of its gross salary available for consumption include mortgage repayments, costs of raising children or rental costs. With the exception of the last cost, these burdens are generally not part of a retiree's expenditure in retirement.

29 J. Stanford, 'Long-Term Issues in Superannuation: An Overview', *Australian Economic Review*, vol. 37, no. 2, 2004, p. 182.

30. Rothman and Bingham, op. cit., pp. 9, 14. The modest but adequate retirement lifestyle in Sydney was estimated to cost $16 930 for a single person and $23 550 for a couple in 2004, where both groups owned their own home outright.

31. Rothman and Bingham op. cit., p. 10.

32. To date, the coverage of the co-contributions scheme is about 10 per cent of the eligible workforce. See N. Apple, 'ACTU submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', July 2005, p. 12.

33. For example Rothman and Bingham, op. cit., p. 10, used a 35-year period in their calculations. At 9 per cent contributions, a person of current Average Weekly Ordinary Time Earnings (about $52 421 per year, ABS Cat. 6302, May 2005) would have to work for over 40 years, with a net earnings rate of 7 per cent a year, to accumulate sufficient superannuation benefits to achieve ASFA's 'comfortable' retirement income for the Sydney area. See ASFA's 'Supersmart' calculator, http://www.asfa.asn.au/calculator/rpm.cfm?page=ssp, accessed on 7 March 2006, and ASFA, *The Cost of Retirement in Sydney in 2005*, media release, 9 March 2005.

34. Melbourne Institute of Applied Economic and Social Research, *HILDA Survey Annual Report*, 2004, p. 20.

35. M. O'Brien and J. Burgess, 'Workforce Developments Affecting the Adequacy of Superannuation', *Journal of Australian Political Economy*, no. 53, June 2004, pp. 179–90.

36. V. Fitzgerald, 'Saving for retirement: How adequate is the current system?', *Australian Chief Executive*, April 2004, p. 24.

37. Productivity Commission, *The Economic Implications of an Ageing Australia*, Melbourne, 2005, pp. 77–8.

38. M. O'Brien and J. Burgess, op. cit., p. 185; B. Birrell and E. Healy, 'Baby-boomer Affluence: Myth or Reality?', *Just Policy*, no. 37, September 2005, pp. 33–40.

39. A recent report suggested that there will be approximately 195 000 positions without employees to fill them, spread unevenly across occupations and industries. See Department of Employment and Workplace Relations, *Workforce tomorrow: adapting to a more diverse Australian Labour Market*, Canberra, November 2005, p. 4, 16.

40. R. Gittins, 'Our ageing problem may be diminishing', *Sydney Morning Herald*, 27 July 2005, p. 17. The two reports are the *Intergenerational Report* (Budget Paper, no. 5, 2002–03) and the Productivity Commission's report *The Economic Implications of an Ageing Australia*, Melbourne, 2005.

41. R. Cameron and M. Gibbs, *Lessons from the Latest Super Industry Research: Attitudes to Super and Choice in Late 2005*; paper presented to the ASFA Conference 2005, 10 November 2005.

42. In 1984 the median age of pre-birth confinements for mothers was 27.6, and for fathers 30.2 years. In 2004 the median age in this series was 31.6 years for mothers and 33.6 years for fathers. Australian Bureau of Statistics, *Births*, Cat. 3301.0, 16 November 2005, p. 47, Table 7.3, Confinements, Median Age for Parents – Selected Years.

43. During the four quarters to March 1990, the weighted average price for established houses in all Australian capital cities was $133 400. The same figure for March quarter 2005 was $376 800, an increase of 182 per cent (Real Estate Institute of Australia, *Market Facts*). During the same period the Australian Bureau of Statistics Consumer Price Index (CPI) rose from 100.9 to 147.5, an increase of 46.2 per cent. Over the same period the seasonally adjusted adult ordinary-time earnings rose from $523.60 to $991.80 per week, an increase of 89.4 per cent (*Average Weekly Earnings*, ABS 6302.0). Measured against increase in the CPI or average weekly earnings, house prices have increased in real terms. In 1990–91 the average size of the loan for a first home was about $70 400. In 2004–05 this figure was $209 600 (*Housing Finance*, ABS 5609.0, electronic version). In 1980–81, on average 18.1 per cent of family income was devoted to meeting mortgage repayments; this figure was 31.8 per cent in 2004–05 (Real Estate Institute of Australia and AMP, *Home Loan Affordability Report* to December 2005).

44. Superannuation Industry (Supervision) Amendment Regulations 2005 (No. 2) and Retirement Savings Accounts Amendment Regulations 2005 (No. 1). Any type of income stream can be taken under these provisions, including allocated pensions or market linked pensions. However, they are non-commutable until the person has reached 65 and retired.

45. Australian Government, *Australia's Demographic Challenges*, Canberra, February 2004, pp. 4–5; and T. Bolton, A. Harding and S. Kelly, 'The changing face of the Australian labour force, 1985–2005: May the Labour Force Be With You', *AMP:NATSEM Income and Wealth Report*, Issue 12, November 2005, pp. 10, 19.

46. 'How to manage an ageing workforce', *The Economist*, 18 February 2006 and CitiBank, *She Who Hesitates Is Lost – Latest CitiBank Retirement Index Reveals Retirees Are Only Living on $22 000 Per Year*, media release, 31 January 2006, p. 3.

47. For example, IFSA, *Retirement Savings Gap*, op. cit., assumes a 7.5 per cent rate of return. Under current economic conditions this is an achievable target, but it may not be so in the future.

48. B. Casy, H. Oxley, E. Whitehouse, P. Antolin, R. Duval & W. Leibfritz, 'Policies For An Ageing Society: Recent Measures and Areas for Further Reform', *OECD Economics Department Working Paper No. 369*, Paris, 20 November 2003, pp. 23–4.

49. M Edey, 'Address to the Fifth APEC Future Economic Leaders Think-Tank', Reserve Bank of Australia, Sydney, 22 June 2005.

50. G. Stevens, op, cit., p. 3; M Edey, op. cit.; H. Blommestein, 'Ageing, Pension Reform, and Financial Market Implications in the OECD Area', *Centre for Research on Pension and Welfare Policies Working Paper 9/01*, Paris, 6 October 2000, pp. 14–16; R. Brooks, 'What will happen to Financial Markets When the Baby Boomers Retire?', *International Monetary Fund Staff Papers*, Working Paper 00/18, Washington, 1 February 2000.

51. Productivity Commission, *The Economic Implications of an Ageing Australia*, Melbourne, 2005.

52. There is no general agreement that overall investment rates of return will decline as a result of the increase in pension savings and the effects of the structural ageing of first-world populations. Indeed, empirical studies seeking to track the impact of past demographic changes on financial asset prices in the United States suggest that any link is quite weak. See J. M. Poterba, 'The Impact of Population Aging on Financial Markets', in *Global Demographic Change: Economic Impacts and Policy Challenges*, symposium sponsored by the United States Federal Reserve

Bank of Kansas City, 2004, http://www.kc.frb.org/publicat/sympos/2004/pdf/poterba2004.pdf, accessed on 7 March 2006.

> International diversification of capital investment could lead to an increase in returns, as rapidly-ageing countries could use capital investments in relatively younger countries to push up their average rate of return on capital. However, the scope for these international savings flows is unclear. The positive effect of international diversification on asset returns can be hindered by the detrimental impact of exchange rate risks on capital investment and, more generally, of a "home bias" in international capital allocation. Moreover, experiences with capital account liberalisation in emerging markets have been mixed. It requires a better institutional (that is, regulatory) environment, which will take time to build. Also, the demographic transition in emerging and developing countries is happening at a much faster pace than in the OECD. This indicates that these 'younger' countries will undergo a demographic shift before the OECD countries have emerged from their own demographic shift.
>
> Some authors have advocated an alternative effect arising not from saving but investment due to a severe capital shortage after 2025–30, entailing a strong upswing in the rate of return on capital. Nevertheless, their result stems from strong assumptions, according to which all the financial distress of the current PAYG pension regimes will have to be covered by tax hikes. Source: J. O. Martins, F. Gonand, P. Antolin, C. Maisonneuve and K. Yeol Yoo, 'The Impact of Ageing on Demand, Factor Markets and Growth', *OECD Economics Department Working Papers*, no.420, Paris, 29 March 2005, pp. 12–13.

The important point about these alternative scenarios is that the conditions under which they take place (such as increasing taxes, the development of robust regulatory regimes in 'younger' countries or the flow of capital from ageing societies to younger societies) are either not occurring (the flow of capital is currently from demographically younger, mainly Asian, countries to demographically older Western countries), or less likely to occur than the assumptions supporting the reduction in investment returns as savings continue to increase. Furthermore, J. M. Proterba notes that the majority of simulation studies addressing this question suggest that large changes in asset prices will occur as populations age. See J. M. Proterba, op. cit., p. 211.

53. R. Clare, *Uniformity and diversity in superannuation fund investment portfolios*, paper presented to the 13th Annual Colloquium of Superannuation Researchers, University of New South Wales Centre for Pensions and Superannuation, June 2005, p. 17. For example, the ratio of total superannuation assets to total Australian Stock Exchange market value has hardly changed from 0.776 in 1995 to 0.772 in 2005 (R. Willis, cited in B. Dunstan, 'Wanted, one superduper regulator', *Australian Financial Review*, 23 November 2005, p. 38).

54. S. Morling and R. Subbaraman, 'Superannuation and Saving', *Research Discussion Paper* 95–11, Economic Analysis Department, Reserve Bank of Australia, December 1995; Ellis Connolly and Marion Kohler, 'The Impact of Superannuation on Household Savings', *Research Discussion Paper* 2004–01, Economic Research Department, Reserve Bank of Australia, March 2004.

55. To the end of 2004, Australian investment, as measured by the percentage of GDP, was well above overall savings (D. Orsmond, 'Recent Trends in World Saving and Investment Patterns', *Reserve Bank Bulletin*, October 2005)

56. Senate Select Committee on Superannuation, op. cit., p. 11.

57. IFSA, *Retirement Incomes and Long Term Savings: Living Well in an Ageing Society*, Sydney, 2003, p. 2. In its *Retirement Savings Gap* report, IFSA noted that the definition of Australia's perceived shortfall in retirement savings was based on non-reliance on the government age pension.

58. Paul Keating, *Enhancing Savings in the Asia Pacific*, address to the Melbourne Financial Services Symposium, 9 March 2005.

59. Age-pension age is currently 65 for males and 62.5 for females. The female age-pension age will slowly increase to 65 by 2014. H. Lim-Applegate, P. McLean, P. Lindenmayer and B. Wallace, *New Age Pensioners – Trends in Wealth*, paper prepared for the Australian Social Policy Conference, Sydney, 20–22 July 2005, p. 5.

60. ibid., p. 13.

61. ibid., p. 3.

62. Recently, see Australian Government, *A More Flexible and Adaptable Retirement Income System*, op. cit., p. 1. The continuing place of the age pension as a major component of the retirement income system receives bipartisan support, see Australian Labour Party, 'Superannuation: Setting a Goal', March 2004, p. 6.

63. Rothman and Bingham, op. cit.

64. Using ASFA's 'Supersmart' calculator (http://www.asfa.asn.au/calculator/rpm.cfm?page=ssp, accessed on 7 March 2006), a person on current average weekly wages ($52 421 per year, ABS 6302, May 2005) would have to contribute about 20 per cent of their salary (9 per cent SG contributions and 11 per cent own contributions) for 30 years to achieve a retirement income of $43 900 per year in today's dollars. This is still below ASFA's current 'comfortable' retirement income (for the Sydney area) of about $45 000 per year. See ASFA, *The Cost of Retirement in Sydney in 2005*, media release, 9 March 2005.

    This target is not impossible, just very difficult. The task is progressively more difficult for those on lower incomes where the cost of living takes up a higher percentage of their income. These figures include a person's entitlement to an age pension upon retirement, but not the effect of the government superannuation co-contribution regime. To date, the coverage of the co-contributions scheme is about 10 per cent of the eligible workforce (N. Apple, 'ACTU submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', July 2005, p. 12).

65. See comments by the Hon. Peter Costello, Treasurer, Transcript of interview with John Laws, 2 February 2006; this is supported by the author's own experience when working in the Seniors and Means Test Branch, Dept. of Family and Community Services.

66. Lim-Applegate et al., op. cit., pp. 21–2.

67 ASFA, 'ASFA State of Play–Issues and Policy', October 2004, p. 6; in a speech to the Melbourne Financial Services Symposium on 9 March 2005, the former Prime Minister, Paul Keating, also called for the SG contribution rate to be increased to 15 per cent of wages. The proposal to lift the total percentage of a person's wages paid into their superannuation account was first put forward by the then Keating government. This proposal was later abandoned by the Howard government.

68 Various organisations, 'Call for Super Action', April 2004, p. 7, http://www.actuaries.asn.au/PublicSite/pdf/040428callforsuperaction.pdf, accessed on 7 March 2006; and IFSA, *Retirement Incomes and Long Term Savings*, op. cit., p. 9; more recently, Australian Industry Group, 'Submission to the House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', 22 July 2005, pp. 2–3; or ASFA, 'Submission to House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', July 2005, pp. 19–20; and Industry Funds Forum, 'Submission to House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', pp. 16–17.

69. See L. Bator, 'Submission to House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', 20 July 2005, p. 5; ASFA, 'Submission', op. cit., p. 12; Australian Bankers Association, 'Submission to House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', July 2005, p. 19; or Nicholas Gruen, 'Designed defaults: How the Backstop Society can failsafe Australians' superannuation', [Labor] *Progressive Essay Series*, 15 September 2005.

70 S. Kelly and A. Harding, 'Funding the Retirement of the Baby Boomers', *Agenda*, vol. 11, no. 2, 2004, p. 108.

71 R. Guest and I. McDonald, 'Superannuation, population ageing and living standards in Australia, *Economic Analysis and Policy*, vol. 32, 2002, pp. 19–34.

72. C. Bingham, Retirement and Income Modelling Unit, Treasury, *Impact of Private savings and longer careers on retirement incomes*, paper presented to the Eleventh Colloquium of Superannuation Researchers, University of New South Wales, 7 and 8 July 2003, p. 6.

73. Senator the Hon. Nick Minchin, *Speech to the Federal Young Liberal Convention*, Sydney, 22 January 2006 and media releases nos. 05/2006 and 06/2006, 22 and 23 January 2006.

74. R. Cameron and M. Gibbs, op. cit., pp. 19–20.

75. *Income Tax Assessment Act 1936*, section 278 and *Income Tax Rates Act 1986*, section 26.

76. ASFA, *Super Effect of Contribution Tax Removal*, media release, 28 January 2006.

77. Modelling undertaken within the Parliamentary Library suggests that if a person on average wages contributes to a superannuation fund, at a level equal with their age-based limit on tax-deductible contributions each year, the amount of their benefits exceeds the likely reasonable

benefit limit long before they reach their superannuation preservation age (that is, the age at which they can receive their superannuation benefits).

78. For example, IFSA, *Retirement Savings Gap* report, assumes that a 15 per cent tax applies to superannuation contributions, and not to the entire income of a superannuation fund.
79. Australian Taxation Office, *Taxation Statistics 2002–03*, Canberra 2005, p. 101. Calculation is based on $54.7bn total fund income and total superannuation-fund tax liabilities of $5.4bn in 2002–03.
80. Treasury, 2005 *Tax Expenditures Statement*, December 2005, p. 113.
81. Brian Toohey, 'Minchin's idea is not so super', *Australian Financial Review*, 29 January 2005, p. 63.
82. The Hon. Peter Costello MP, Treasurer, *Mid-Year Economic and Fiscal Outlook*, 2005–06, Table 7, Australian Government general government sector revenue, p. 20.
83. Brian Toohey, ibid.
84. Australian Bankers Association, op. cit., p. 10; 3 per cent additional contributions from after-tax wages may cause a 4–5 per cent drop in the person's standard of living, but cause a 27 per cent increase in their retirement benefits over a sufficiently long period of time.

85 Senate Select Committee on Superannuation, *Planning for Retirement*, Canberra, July 2003, p. 157.

86 Senate Select Committee on Superannuation, ibid., p. 158. The Committee relied heavily on World Bank, Pension Reform Primer, *Annuities: Regulating withdrawals from individual pension accounts*, included as Appendix 8 of the Committee's report.

87. S. Kelly and A. Harding, op. cit., p. 110; and H. Bateman, 'Retirement Incomes for an Ageing Australia', *Economic and Labour Relations Review*, January 2005, pp. 302–3; and Australian Chamber of Commerce and Industry, 'Submission to House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40', August 2005, p. 8.

88 S. Kelly, C. Farbotko and A. Harding, 'The lump sum: here today, gone tomorrow', *AMP–NATSEM Income and Wealth Report*, issue 7, AMP Ltd, Sydney, March 2004.

89. H. Lim-Applegate et al., op. cit.
90. Australian Government, *A More Flexible and Adaptable Retirement Income System*, op. cit., p. 1. Supporting comment is provided in the following documents: Senate Select Committee on Superannuation, *Superannuation and standards of living in retirement*, December 2002, p. 10; or G. Rothman and C. Bingham, 'Retirement Income Adequacy Revisited', paper presented to the Twelfth Colloquium of Superannuation Researchers, University of New South Wales, 12–13 July 2004, p. 1; more recently, Department of the Treasury, 'Submission to the House of Representatives Standing Committee Inquiry into Improving the Superannuation Savings of People Under 40', 16 September 2005, p. 3.
91. Department of Family and Community Services, *Occasional Paper No. 7, Income supported customers: A statistical overview 2001*, Table 3: Age pension customers: Characteristics by sex, June 2001.

92. D. Olsberg, 'Women, Superannuation and Retirement: Grim Prospects Despite Policy Changes', *Just Policy*, no. 35, March 2005, p. 33.
93. D. Loxton, 'What Future? The Long Term Implications of Sole Motherhood for Economic Wellbeing', *Just Policy*, no. 35, March 2005, p. 42. A recent report has noted, 'Despite this clear upward trend, however, employment rates for lone parents still lag considerably behind overall employment rates for working age females. For example, in June 2005, the employment rate for females aged 15–64 stood at 65.0 per cent, 11.4 percentage points above the rate recorded for all lone parents with dependants.' (Department of Employment and Workplace Relations, op. cit., p. 8).
94. The Hon. Mal Brough MP, Minister for Revenue and Assistant Treasurer, *Super boon for Women, Baby boomers and Low Income Earners*, media release, 12 September 2005. These figures were released well after the close of the 2003–04 financial year, when most of the tax returns would have been processed (this is necessary for the assessment and payment of co-contributions) and co-contributions payments made in respect of that year. Accordingly, these figures are highly reliable. See also Australian Taxation Office (ATO), *Super Co-contributions Annual Report 1 July 2004 to 30 June 2005*, 24 August 2005, covering the 2003–04 financial year.
95. CitiBank, *She Who Hesitates Is Lost – Latest CitiBank Retirement Index Reveals Retirees Are Only Living on $22 000 Per Year*, op. cit., p. 1. According to Citibank's research, in November 2005 the average retiree only received $22 380 a year in retirement income. This is below ASFA's budgetary standard for an adequate but comfortable retirement income in the Sydney area, but it is still above the Henderson poverty line for age pensioners and above the maximum age-pension rate at the end of 2005.
96. ABS, *Australian Labour Market Statistics* (cat. 6105.0), October 2005, 'Table 1.2 Labour force Status, Age by social marital status', p. 39.
97. ibid. There are approx 7 991 400 persons aged between 35 and 65. The calculation is the number currently aged between 60 and 65 (951 400) as a percentage of this number.
98. Superannuation benefits were not entirely absent from Australia before the introduction of compulsory superannuation in 1985. By 1974, 32.2 per cent of wage and salary earners were covered by superannuation, comprising 40.8 per cent of male wage and salary earners and only 16.5 per cent of females. After the 1986 National Wage Case, there was a rapid increase in superannuation coverage so that in the four years after the introduction of award superannuation (in 1985), superannuation coverage grew from around 40 per cent of employees to 79 per cent. In the private sector, coverage grew from 32 per cent in 1987 to 68 per cent in 1991 ('Towards Higher Retirement Incomes for Australians: A History of the Australian Retirement Income System Since Federation', Treasury Economic Roundup, Winter 2001, pp. 75–6).

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