Australia: the current state of affairs

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Asset-driven pensions

- Global pension assets in funded and private pensions plans (2nd and 3rd pillar) amounted to US$ 60.65 trillion at the end of 2021.
- Over 90% of assets held in just seven countries:
  - North America: United States and Canada,
  - Western Europe: United Kingdom, The Netherlands and Switzerland,
  - Australasia: Australia (4% of World assets) and Japan.

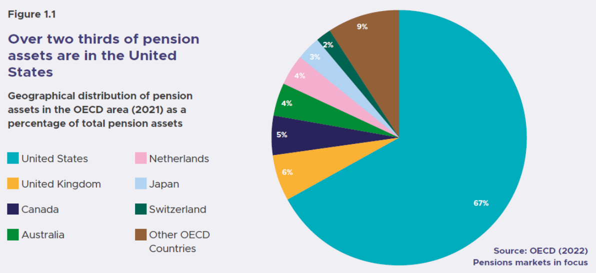


Figure 1.1

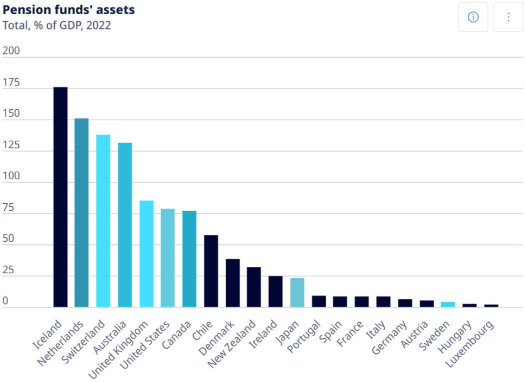
Over two thirds of pension assets are in the United States

Geographical distribution of pension assets in the OECD area (2021) as a percentage of total pension assets

Source: OECD (2022) Pensions markets in focus

Source: Pensions Policy Institute (2023).

Assets as a % of GDP

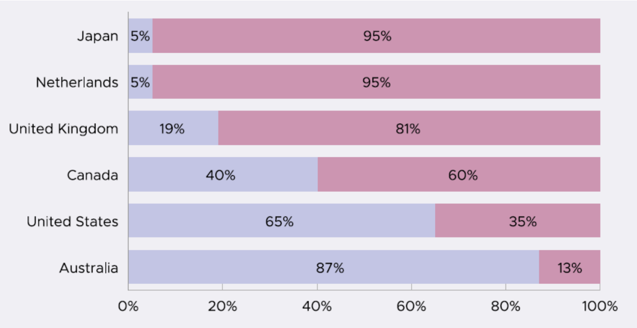


Source: OECD Statistics

From DB to DC

- Over the last 20 years, DC fund assets have grown from just over one third (38%) to just over a half (54%) of total assets under management for these countries.
- Australia and the United States have primarily DC (87% and 65% respectively).

Figure: DB (red) vs DC (blue) in 2020



Source: Pensions Policy Institute (2023).

Demographic forecasts

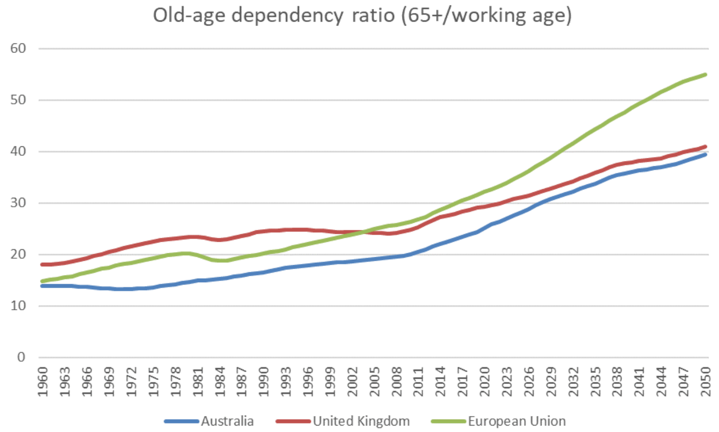


Figure: Source: World Bank (2025)

- Old-age dependency ratio is expected to double from 20% in 2010 to 40% by 2050.

Replacement rate (OECD, 2023)

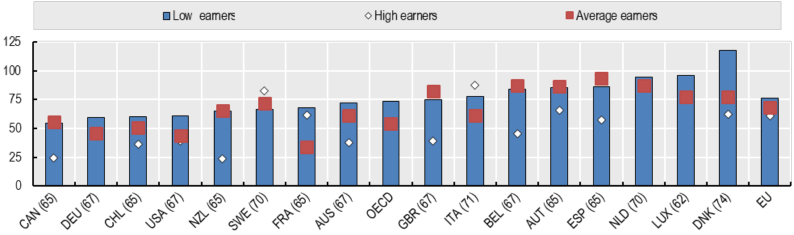


Figure: Net replacement rate for low, average and high earners

- Current design of pensions does not meet adequacy standards, especially for average to high earners.

Multi-pillar approach: starting point

1. 1st pillar: Age Pension
    - **What**: a poverty alleviation scheme (Beverigde philosophy)
    - **When**: In 1908, the Australian Parliament passed the Invalid and Old-Age Pensions Act.
    - **Who**: men aged 65+ and women 60+ (4% of the population) unless "*aboriginal, alien or Asiatic*".
    - **How**: Residence criteria (25+ years) and means-testing (<GBP 52 income a year) & assets including the home (< GBP 310 in value) (National Museum of Australia, 2025).

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2. 2nd pillar: Superannuation Guarantee
    - **What**: tax-tax-exempt compulsory scheme.
    - **When**: in 1992. Before that, only 32% had some kind of super.
    - **Who**: everyone, mandatory scheme.
    - **How**: 3% in 1992, 9% from 2002, currently 12% of wages (SuperReview, 2024).

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3. 3rd pillar: voluntary savings, other investments and home equity.

Age Pension: eligibility and means-testing

Eligibility

- **Age requirement**: 67 age or older.
- **Residence**: at least 10 years residency.

Means-testing

- Income test: wages[1], rental income, deemed financial income.
- Asset test: market value of (financial and real estate) assets, life and pension insurance, inheritance.

  Principal residence is excluded!

  Different asset test threshold for homeowners versus non-homeowners.
- The lowest pension resulting from the income and asset test is paid.

Source: Australian Government (2025).

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[1] You can earn $300 a fortnight without this affecting your Age Pension eligibility.

Means-testing: some examples

	Home?	Full Pension: Assets <	Part Pension: Assets between	No Pension Assets >
Single	Yes	\$321,500	\$321,500–\$714,500	\$714,500
	No	\$579,500	\$579,500–\$972,500	\$972,500
Couple (combined)	Yes	\$481,500	\$481,500–\$1,074,000	\$1,074,000
	No	\$739,500	\$739,500–\$1,332,000	\$1,332,000

Source: Simply Retirement.

Age Pension: how much (2025 rates)

Fortnightly payments (Australian Government, 2025)

- Single: \$1,178.70.
- Couple (each): \$888.50.
- Couple (combined): \$1,777.00.

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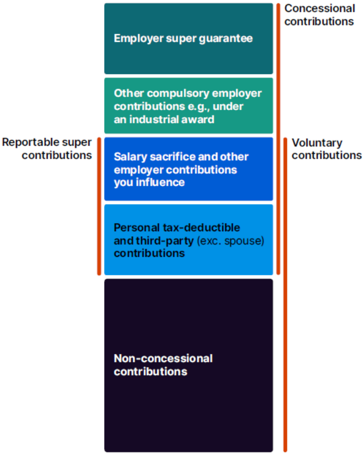
Indexation

- Payments indexed twice a year (March and September).
- Index=max(Consumer Price Index (CPI), Pensioner and Beneficiary Living Cost Index (PBLCI)) (Australian Bureau of Statistics, 2025b).

Super Guarantee: contributions



Concessional contributions

Employer super guarantee

Other compulsory employer contributions e.g., under an industrial award

Reportable super contributions

Voluntary contributions

Salary sacrifice and other employer contributions you influence

Personal tax-deductible and third-party (exc. spouse) contributions

Non-concessional contributions

<u>Source</u>: Australian Taxation Office (2025a).

- **Contribution rate**: 12%, some sectors more, e.g. education 17%.
- **Concessional gap**: 30,000 AUD yearly → paid from your gross wage.
- **Non-concessional gap**: 120,000 AUD yearly → from your net wage.

  Not allowed to make non-concessional contributions if your Super balance is >$ 2 million.

Super Guarantee: taxation

- **Tax deduction**: Up to the 2006–07 income year, super contributions were deductible for income tax purposes in the year you made them, up to certain amounts called the age-based limits. *Not anymore*.
- **Taxation**:
  - 15% on the contributions are taxed + 15% on the earnings (Australian Super, 2025).
  - Note that capital gains on other investments are also part of your yearly income and are taxed.

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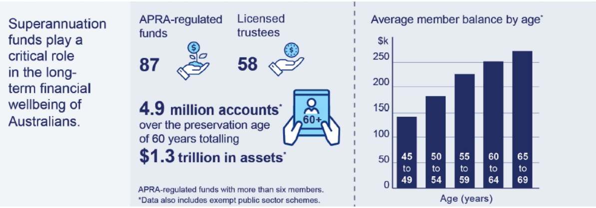
Early accessing your super (Australian Taxation Office, 2025b):

- compassionate grounds: medical treatment, death of a dependant, . . .
- medical terminal condition,
- severe financial hardship,
- temporary or permanent incapacity,
- the balance is <$ 200.

Super Guarantee: performance

- **Total superannuation assets**: \$4,129.0 billion (APRA, 2025a)
  In 2008 ≈ 450 funds, now 87.



Superannuation funds play a critical role in the long-term financial wellbeing of Australians.

APRA-regulated funds

87

Licensed trustees

58

4.9 million accounts* over the preservation age of 60 years totalling **\$1.3 trillion in assets***

APRA-regulated funds with more than six members.
*Data also includes exempt public sector schemes.

Average member balance by age*

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[2] Except civil servant or otherwise stipulated under your enterprise agreement.

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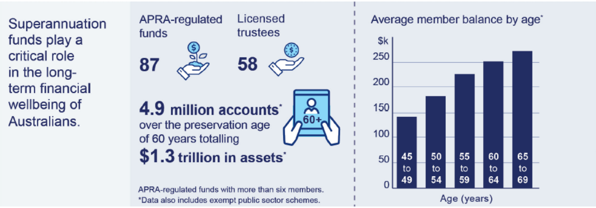

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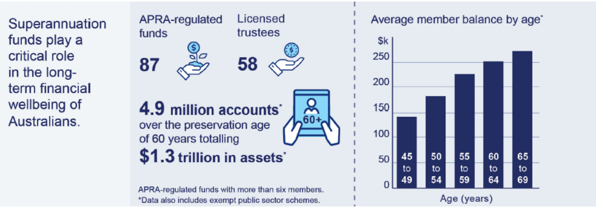

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- **Structure of the market**: freedom to choose[2]. Default proposed.
  Choice tool: Government superannuation comparison tool
- **Fees and mergers**: superannuation funds' performance is assessed on a yearly basis (e.g. low returns, high fees). If they fail:
  1. First fail: inform their members that they failed;
  2. Second fail: do not allow new members,
  3. Third fail: obliged to merge (APRA, 2025b).

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How Home Equity and Superannuation interact

- 1st pillar: principal home exempt of asset test + lower asset test (-250k with respect to non homeowners).
- 2nd pillar: 4th largest pension market **but** 2nd household debt to GDP (ca 120% GDP).

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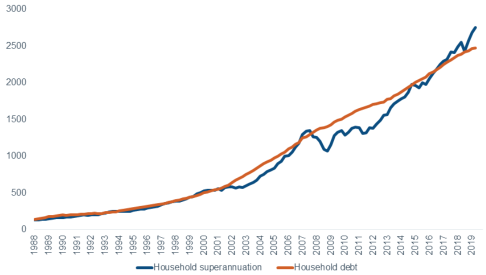
  Knowledge of big pension asset payout at retirement ⇒ accumulating higher levels of debt during their working lives (Fidelity, 2020).



The rise in superannuation assets has been offset by higher household debt

Source: Fidelity International, Reserve Bank of Australia, February 2020.

Long term sustainability of the system

- Age Pension and Super interact through the income and asset test.
- Age Pension expenditure is projected to fall from 2.5 per cent of GDP today to 2.3 per cent in 2060.

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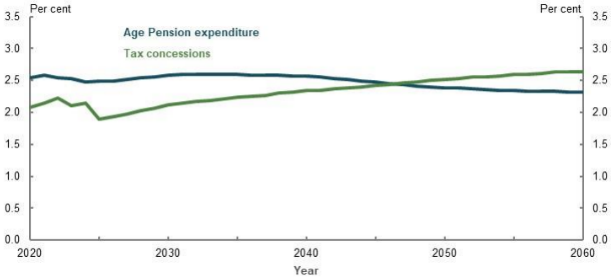
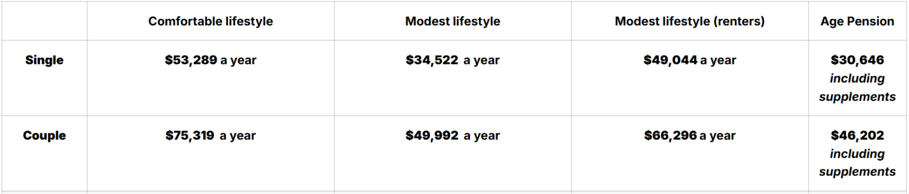
- Age Pension expenditure is projected to fall from 2.5 per cent of GDP today to 2.3 per cent in 2060.
- In contrast, the cost of superannuation tax concessions is projected to grow as a proportion of GDP. By 2050 it exceeds Age Pension expenditure savings.
- Across the income distribution, lifetime tax concession cost $>$ associated Age Pension saving (Treasury, 2021)

Chart 12. **Projected costs of the retirement income system as a per cent of GDP**



How much income/asset do I need? (ASFA, 2025)

Figure: Yearly expenditure



	Comfortable lifestyle	Modest lifestyle	Modest lifestyle (renters)	Age Pension
Single	**$53,289** a year	**$34,522** a year	**$49,044** a year	**$30,646** *including supplements*
Couple	**$75,319** a year	**$49,992** a year	**$66,296** a year	**$46,202** *including supplements*

Table: Superannuation fund level by retirement

	Couple	Single
Comfortable + homeowner	$690,000	$595,000
Modest + homeowner	$100,000	$100,000
Modest + renting	$385,000	$340,000

Accessing super

Age

- 60 years old: if you retire or leave your job.
  Work and super combination possible: transition to retirement fund.
- 65 years old: everyone

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What to do with super

- Leave it there: tax on capital earnings,
- Full withdrawal: income-dependent tax on earnings,
- Account-based pension: phased withdrawal (no tax),
- Annuity/lifetime income stream: tax differs on products.

Source: Moneysmart (2025c).

Account-based pensions: default

Age	Minimum %
<65	4%
65-74	5%
75-79	6%
80-84	7%
85-89	9%
90-94	11%
95+	14%

- Minimum % for tax purposes, no maximum,
- Full inheritance of capital,
- **No guarantees**: income depends on fund performance, past withdrawals and fees.
- Choice of investment funds during retirement.

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Interaction with Age Pension

- Withdrawals are considered in the income test,
- Balance enters the asset test.

Source: Moneysmart (2025a).

(Conventional) annuities

Options

- Term versus lifetime, e.g. Challenger
- Joint or single life
- Nominal of indexed
- Guaranteed income.
- Tax-free.
- Options to leave some capital (death benefit) or have a minimum guaranteed period.

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Interaction with Age Pension

Lifetime annuities can increase your access to the Age Pension because of more favourable treatment under the income and assets test.

Source: Moneysmart (2025b).

Retirement Income Covenant (RIC): what it is

- **When:** came into force on 1 July 2022.
- **What:** covenant placed obligations on trustees to develop retirement income strategies for members:
    - with a minimum level of income that would (subject to consideration of guarantees) generally exceed an equivalent amount invested fully in an account-based pension that is drawn down at minimum rates; and
    - which provide, in expectation, a stream of broadly constant real income for life.
- **Why:** improve design and delivery of retirement income products and pathways from accumulation to retirement.
- **Trustee duties:** consider member needs in retirement and establish a retirement income strategy.
- **Challenges:** implementation is going slower than expected. Triennal review should be finalised soon.

Source: Treasury (2021).

Comprehensive Income Product for Retirement (CIPR)

Examples include

- Allianz Retire+: Guaranteed Lifetime Income + Liquidity access + Death benefit.
- Australian Retirement Trust: Income for life + Spousal protection + Money-back protection - explicitly targeted as a pooled arrangement (mimics GSA architecture).
- MLC: GMWB + ratchet + death benefit.

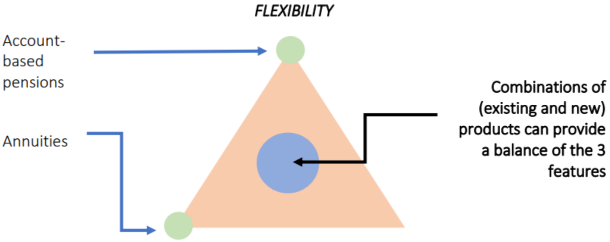
Other products that could enhance retirement outcomes:

- Long term care insurance: virtually non-existent market, most rely on government funding (Aged Care), but long waitlist.
- Reverse mortgages:
  - government offering - Services Australia: for individuals receiving age pension,
  - private partners offering - Household Capital: equity release or reverse mortgage.

Reform debates (Treasury, 2023)

- Guidance, education, and communication
- Funds assisting and defaulting members to better settings, e.g. CIPR
- Simplifying the retirement income system
- Standardised product disclosure framework + tools for comparison and performance
- Support for better longevity pricing: eventually through government-sponsored reinsurance schemes if market failure
- Standardised products

Desired features of retirement income products



Key takeaways

- Australia combines a means-tested public pension (Age Pension) with compulsory superannuation aiming to balance safety net and private accumulation.
- Superannuation scale is very large (trillions AUD) and trustee responsibilities (e.g., Retirement Income Covenant) are evolving.
- Planning matters: individuals should consider both super accumulation and Age Pension implications when preparing for retirement.

Thanks

Thank you for your attention

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