24 August 2015

CommBank Retire Ready Index 2015

This report sets out the percentage of assets Australian's are likely to have at retirement relative to their retirement needs (liabilities).

The CommBank Retire Ready Index was developed by Rice Warner and is based on the data of more than 12 million Australian superannuation accounts as at 30 June 2014. The Index is a measure of the percentage of assets Australians are likely to have at retirement relative to their comfortable retirement needs. Adequacy is defined according to the Association of Superannuation Funds of Australia (ASFA) comfortable standard of living of $42,569 p.a. for a single and $58,444 p.a. for a couple

For this report, adequacy has been defined according to the Association of Superannuation Funds of Australia (ASFA) Comfortable standard of living. This currently stands at $42,569 p.a. for a single (March Quarter 2015). The results are heavily dependent on this definition of adequacy in retirement.

Headline Results

For the population at 30 June 2014, the average single citizen is expected to retire with assets equivalent to 61% of their retirement needs (above the age pension). The average couple (on similar income) will retire with 98% of their needs.

We have measured the results:

▪ using the ASFA Comfortable definition of adequacy

▪ including the recently passed Age Pension asset test changes.

Results are also shown on the old asset test parameters for comparison.

Table 1.   Comparison of 2013 & 2014 Retire Ready Index

As at 30 June	2013	2014	
	Retirement Ready Index	Pre 2015 asset test changes	Retirement Ready Index
Single	68%	64%	61%
Couples	94%	109%	98%

Results by age and gender

Table 2 shows the results of the savings gap by age, marital status and gender. Note that when calculating adequacy for couples we have assumed for simplicity that couples consist of people within the same income and age cohort. In reality, there is likely to be a wider cohort distribution for couples.

The results show that adequacy for males is generally higher than for females. Couples experience higher levels of adequacy relative to singles due to the lower per person income required under the ASFA adequacy standard.

The results below have been calculated using the ASFA Comfortable standard taking into account the recent Age Pension asset test changes.

Table 2.   Average retirement savings adequacy by age and gender including the Age Pension

Age & Gender	Singles		Couples (on the same income)	Total
	Male	Female		
25-29	63%	45%	91%	74%
30-34	76%	45%	95%	79%
35-39	85%	46%	99%	82%
40-44	88%	52%	104%	87%
45-49	84%	52%	103%	86%
50-54	86%	52%	104%	87%
55-59	81%	45%	99%	82%
60-64	62%	36%	84%	68%
Total	**78%**	**47%**	**98%**	**81%**

Table 3.   Average retirement savings adequacy by age and gender excluding the Age Pension

Age & Gender	Singles		Couples (on the same income)	Total
	Male	Female		
25-29	45%	33%	52%	46%
30-34	56%	34%	58%	51%
35-39	64%	35%	62%	55%
40-44	68%	39%	68%	60%
45-49	64%	39%	66%	58%
50-54	67%	39%	68%	60%
55-59	61%	34%	61%	54%
60-64	44%	26%	46%	41%
Total	**59%**	**35%**	**60%**	**53%**

- Factors that increase the gap for females relative to males:
  - women are expected to have lower retirement savings due to lower incomes over their working lives and career breaks during child bearing years
  - women have a longer life expectancy and therefore need to make their income last longer in retirement
- Factors that decrease the gap for females relative to males:
  - the Age Pension acts as a buffer to lower retirement assets. Women are expected to receive higher Age Pensions because of having lower assets. Table 3 shows the assets relative to needs excluding Age Pension payments. By this measure, women are worse off than men in terms of saving for the retirement needs.

- Factors that can increase the gap for younger people:

  - the main driver of reduced adequacy at younger ages is improvements in life expectancy. These offset the impact of the planned increase in SG contributions and the longer period of saving

  - assumptions on contribution levels also contribute, for example, we have assumed that younger members who have had the SG over a larger portion of their working career will be unlikely to make the large 'catch up' contributions that many older members make today.

Results by income and gender

The gap is still higher here for females because the longer life expectancy of females requires them to hold greater assets to maintain the Comfortable level for the expected duration of their life and they are projected to have lower assets than males (given lower current balances).

Table 4.   Retire Ready Index by income and gender 2014 including Age Pension

Annual Income	Singles		Couples (on the same income)	Total
	Males	Females		
under 44,400	37%	25%	64%	48%
44,400 - 55,500	78%	67%	100%	89%
55,500 - 62,900	95%	85%	100%	96%
62,900 - 74,000	99%	95%	103%	101%
74,000 - 88,800	100%	100%	116%	109%
88,800 - 133,200	123%	114%	160%	144%
over 133,200	224%	209%	294%	265%
Total	**78%**	**47%**	**98%**	**81%**

When using the ASFA Comfortable definition of adequacy, we see that the bulk of the shortfall is for people on lower incomes especially women. Those with incomes above $74,000 pa will all reach or exceed the benchmark income. This pattern of adequacy is essentially the opposite of that obtained when using a replacement measure such as that used by the FSC.

Couples will experience higher levels of adequacy as the ASFA definition of adequacy for couples is less than twice the amount for singles. Further to this, we have assumed that couples consist of two people in the same income and age cohort.

Required savings today

Table 5 and table 6 show the required savings today that a member should have in order to achieve an adequate retirement income using the ASFA Comfortable standard for a single.

Table 5.   Required savings at 30 June 2014 by age and income, males - adequacy = ASFA Comfortable

	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
under 44,400	135,000	170,000	220,000	250,000	295,000	330,000	385,000	415,000
44,400 - 55,500	100,000	140,000	195,000	225,000	280,000	315,000	375,000	410,000
55,500 - 62,900	75,000	120,000	175,000	215,000	270,000	305,000	370,000	410,000
62,900 - 74,000	40,000	90,000	150,000	190,000	250,000	295,000	360,000	405,000
74,000 - 88,800	-	50,000	120,000	165,000	230,000	280,000	350,000	400,000
88,800 - 133,200	-	-	15,000	80,000	160,000	230,000	320,000	390,000
over 133,200	-	-	-	50,000	135,000	210,000	310,000	385,000

Table 6.   Required savings at 30 June 2014 by age and income, females - adequacy = ASFA Comfortable

	25-29	30-34	35-39	40-44	45-49	50-54	55-59	60-64
under 44,400	160,000	215,000	250,000	305,000	355,000	395,000	455,000	490,000
44,400 - 55,500	125,000	185,000	225,000	280,000	340,000	380,000	445,000	490,000
55,500 - 62,900	100,000	165,000	210,000	270,000	330,000	370,000	440,000	485,000
62,900 - 74,000	65,000	135,000	185,000	245,000	310,000	360,000	435,000	480,000
74,000 - 88,800	15,000	95,000	150,000	220,000	290,000	345,000	425,000	475,000
88,800 - 133,200	-	-	50,000	135,000	220,000	295,000	390,000	465,000
over 133,200	-	-	10,000	105,000	195,000	275,000	380,000	460,000

FSC Definition of Adequacy

The Financial Services Council defines retirement adequacy as 62.5% of pre-retirement income. If the definition of retirement adequacy used is a percentage of pre-retirement income, the ratio of likely retirement balances to requirements decreases with income. This is generally due to the fact that current mandated savings rates are insufficient to provide retirement benefits at this level. The Age Pension, however, does act as a buffer, but provides most of its benefit to those on low incomes.

In fact, when using the FSC definition of retirement, most of the retirement savings gap is attributable to those earning over $55,000. In retirement, these people would seek a high living standard and will receive less monetary assistance from the government. Below $44,000 there is no gap, and between $44,000 and $55,000 the gap is very small. This trend can be observed in table 7.

Table 7.   Retire Ready Index by income and gender for FSC definition of adequacy

Annual Income	Males	Females	Total
under 44,400	100%	100%	100%
44,400 - 55,500	99%	95%	97%
55,500 - 62,900	91%	85%	88%
62,900 - 74,000	80%	71%	76%
74,000 - 88,800	69%	62%	66%
88,800 - 133,200	67%	62%	65%
over 133,200	67%	63%	66%
Total	**79%**	**80%**	**80%**

Example of differences in adequacy definitions

Consider a 60 year old woman, earning between $62,900 and $74,000, expecting a retirement income consistent with:

- the ASFA definition of a comfortable income,
    - would require a balance of approximately $525,000 and from this;
    - would receive an income of $42,569 to median life expectancy.
- the FSC definition of an adequate retirement income,
    - would require a balance of approximately $560,000 and from this;
    - would receive an income equal to 62.5% of pre-retirement income, or $43,750 to median life expectancy.

Model Assumptions

The model begins with an analysis of the current size of superannuation industry assets and projected future superannuation contributions and assets (excluding post retirement products) arising from the current workforce. Future entrants to the workforce are not considered and the position of those over retirement age is ignored.

By combining growth of the current superannuation market with accumulated projected future contributions, an estimate of likely total future savings – or the 'Asset' in the context of this report – is determined. Furthermore, by projecting the workforce to age 67, an estimate of the number of people requiring 'adequate provision' can be determined. Age 67 is used as a proxy for retirement age, although we note that a number of individuals will formally retire before this age. This leads to an estimate of likely required savings, or the 'Liability' in the context of this report.

There are a number of items for which we have made implicit assumptions. Whilst it is impossible to provide specific details about every single possibility and outcome that affects the model, there are a number of items that deserve comment.

For instance, the model assumes that female workers will have a full history of employment, with no breaks in service for maternity leave, career breaks etc. Similarly, it assumes that those women currently off work to bear and raise children will not return. Of course, in practice, some will leave and be replaced by others

returning to the workforce. Unfortunately, there are no reliable statistics showing the extent and incidence of broken service so we have not carried out this more complex modelling. As a result, the model will overstate the Retire Ready Index for younger females.

The model projects at the individual income level rather than the household income level. Consequently, the results will include those low income 'secondary earners' who do not require an 'adequate' income stream in retirement when total household income is taken into account. This will serve to understate the Retire Ready Index, although we would expect the overall impact to be small since low income earners have a limited effect on the projection results.

Further details on assumptions used in the model are provided in Appendix A.

Appendix A   Assumptions

- Economic:
    - 7.5% p.a. gross return on the accumulation of assets
    - 4.5% p.a. increase in salaries
    - 3.0% p.a. general price inflation increase in costs
    - 1.12% expense rate, reducing to 0.65% over 15 years
    - 0.53% cost of insurance
    - 15.0% tax on all future employer contributions
    - 6.0% investment tax on the investment roll up.
- Long-term real return net of fees, insurance, taxes and wage inflation of 1.4% using the economic assumptions above:
    - This is calculated as (7.50% - 0.65% - 0.53%) x (1 - 6.0%) - 4.5%.
- Demographic:
    - Mortality in accordance with the Australian Life Tables 2010-2012 published by the Australian Government Actuary.
    - Future improvement to post-retirement mortality in accordance with the 125 year improvement rates published by the Australian Government Actuary in the Australian Life Tables 2010–2012.
- Future contributions:
    - Average current employer contribution (including salary sacrifice) of 14.0%.
    - 3.0% gradual increase of employer contribution from 2014 to 2025 (with consideration for a further four years delay).
    - Average member contribution of 3.2%.
- Retirement at age 67.