welcome to brighter

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Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

Economics.sen@aph.gov.au

Dear Sir/Madam

Improving consumer experiences, choice, and outcomes in Australia's retirement system

Mercer is delighted to make a submission into this inquiry into consumer experiences, choice, and outcomes in Australia's retirement system.

Who is Mercer?

Mercer believes in building brighter futures by redefining the world of work, reshaping retirement and investment outcomes, and unlocking real health and well-being. Mercer's approximately 25,000 employees are based in 43 countries and the firm operates in 130 countries. Mercer is a business of Marsh McLennan (NYSE: MMC), the world's leading professional services firm in the areas of risk, strategy and people, with 85,000 colleagues and annual revenue of over $20 billion. Through its market-leading businesses including Marsh, Guy Carpenter, Mercer and Oliver Wyman, Marsh McLennan helps clients navigate an increasingly dynamic and complex environment.

Our focus

The Terms of Reference for this inquiry are very broad as is appropriate for a review of consumer experiences, choice and outcomes in Australia's retirement system. However, this submission will concentrate on paragraph e), namely "policy options available to support greater choice and quality of life in the retirement income system". In particular, we will consider the balance between superannuation and housing and the potential to use insurance to pay for aged care costs.

Superannuation and home ownership

Both superannuation and house purchase represent long term investments. In the case of superannuation, money is invested over decades to provide financial benefits at and/or during retirement after an individual has ceased work (partially or fully). In contrast, home ownership is normally achieved by an individual borrowing money (e.g., through a mortgage) and repaying this loan through their working years.

In both cases, money earned through employment (in most circumstances) is used to generate an outcome that provides financial well-being in retirement.

One of the strong characteristics of the Australian retirement system is that the accrued superannuation benefits are preserved until retirement (i.e. a condition of release) or age 65.

We have conducted a review of the regulations relating to the top dozen pension systems in the 2023 Mercer CFA Institute Global Pension Index. After excluding Australia (which came in 5th out of the 47 systems covered), nine of the remaining eleven systems have a minimum age to access benefits from private pension plans (except for cases of death, invalidity and financial hardship). These access ages range from 55 to 62. In the other two systems, a minimum access age exists for most pension plans, or a significant tax penalty applies for early access.

Hence, the concept of preservation is a common feature of the best retirement systems in the world. Furthermore, the average level of home ownership in these countries was 68.6% compared to the Australian figure of 66.0%. The average level of home ownership across the 47 countries in the Index was 67.4%. Interestingly, in 15 of these countries, preservation rules did not exist.

Although this study does not represent every retirement system, the suggestion from this data is that preservation of superannuation during the working years does not have an adverse impact on the level of home ownership in the society.

Another approach is to have two or three distinct saving pots within the system.

For example, the Central Provident Fund in Singapore has three different accounts:

- An Ordinary account that can be used for retirement, housing, insurance and investment
- A Medisave account that can be used for hospital expenses and medical insurance
- A Retirement account

While this approach might appear attractive, the total contribution for an employee aged 55 and below is 37% of the individual's wage compared to the current SG contribution of 11% in Australia.

Another example is from South Africa which has legislated to introduce a two pot retirement system for retirement contributions after 1 September 2024. Two thirds of the contributions will remain invested (i.e. preserved) until retirement whereas one third of the contributions will be in a savings fund and available to be withdrawn for emergencies once a year. Note that this savings fund is designed to help cover emergencies and its purpose is not to provide a home deposit.

The above comments highlight the fact that around the world, retirement systems have a clear focus on providing benefits for retirement. Mercer agrees with this focus and does not support the idea that superannuation money should be available for housing (other than the First Home Super Saver scheme which is focused on voluntary superannuation contributions).

Insurance for aged care costs

As populations age around the world, aged care costs are becoming more important for both governments and individuals. It is therefore natural to consider whether an insurance arrangement is feasible to spread the long term costs of aged care through some form of insurance or financial arrangement.

However, before considering this opportunity, it must be recognised that aged care costs are very difficult to predict over the longer term for several reasons, including:

- The long term nature of any arrangement means that we are looking decades ahead
- Life expectancy is continuing to increase and, with the potential of medical breakthroughs, this is likely to continue
- Community expectations of the standard of aged care have increased and this trend is likely to continue
- Medical expenses tend to rise at a greater rate than CPI

These uncertainties make it difficult for actuaries to price the associated risks, develop a product at a price that will be attractive to consumers and allow insurers to make a profit for shareholders who have contributed the required capital to back the product.

One option could be a forced savings product, alongside the SG contributions which are primarily used to provide retirement income. However, unlike retirement, which most Australian workers will experience, many Australians will not enter an aged care home although an increasing number will be provided with home care support. Hence, such an arrangement is unlikely to be popular with the community.

Our view is that the better direction is to change the funding approach of aged care as the Aged Care Taskforce has recommended through the replacement of lump sum deposits with regular consumer payments. We also recommend aligning the aged care means tests with those used for the Aged Pension to simplify the system.

Naturally, we would be very happy to discuss any of our comments with the Committee as you carefully consider these matters. Please do not hesitate to contact us.

Yours sincerely,

Dr David Knox AM
Senior Partner