**SUBMISSION 53**

REAL ESTATE INSTITUTE OF AUSTRALIA LTD



# REIA SUPPLEMENTARY SUBMISSION TO THE HOUSE OF REPRESENTATIVES ECONOMICS, FINANCE AND PUBLIC ADMINISTRATION INQUIRY INTO IMPROVING THE SUPERANNUATION SAVINGS OF PEOPLE UNDER AGE 40

## PROPOSAL

1. The Real Estate Institute of Australia (REIA) proposes that home ownership be formally recognised as the fourth pillar of self funded retirement and that the superannuation savings of people under age 40 be improved through the implementation of a scheme allowing early access to voluntary superannuation contributions for the purposes of generating wealth through purchasing a home.

## BACKGROUND

2. The REIA tendered a detailed submission and subsequently appeared before the *House of Representatives Standing Committee on Economics, Finance and Public Administration Inquiry into Improving the Superannuation Savings of People Under Age 40*, 14 October 2005. The Committee recognised that home ownership (or the ability to pay rent) is an important part of self funded retirement and requested that the REIA provide a proposal to allow early access to voluntary superannuation contributions for the purposes of purchasing a home.

## ISSUES

### Life Choices and Persons Under Age 40

3. It is well recognised that both social changes and housing affordability issues are resulting in a declining proportion of Australians under age 40 purchasing a home. Research conducted by the Committee for Economic Development of Australia in December 2001 shows that the proportion of persons aged 25-34 years of age either owning or purchasing their own home dropped by over 10% between 1981 and 1996. According to the Australian Bureau of Statistics, first home buyers averaged 21.8% of all dwellings financed in the 11 years from July 1991 to June 2002. This proportion dropped to 12.7% during March 2004 and has since recovered to 17.3% in August 2005, still well below the longer term average. Data presented by Treasury during the Inquiry hearing 14 October 2004 indicates that the majority of persons saving by other means, such as contributing to voluntary superannuation, appear to be predominantly in the cohort nearing retirement.

4. In order to significantly increase the retirement savings of persons under age 40 are to be significantly increased, consideration might be given to the creation of a nexus between the life choices of persons in this cohort and the commencement of wealth creation. One of the important life choices facing persons under age 40 is whether or not to purchase a home.

**Financial Planning Association of Australia Report**

5. In 2003, the Financial Planning Association of Australia (FPA) commissioned the National Centre for Social and Economic Modelling (NATSEM) to produce the report, *Development of a Medium Term Savings Vehicle: an Exploratory Analysis*, which explored the concept of allowing early access to voluntary superannuation contributions. With the agreement of the FPA to use the report, the REIA has used the NATSEM findings to develop the proposal to allow early access to voluntary superannuation savings for the purposes of purchasing a home. The full NATSEM report is included as Attachment 1. In summary, the report illustrated that:

a. Saving via tax preferred voluntary superannuation contributions significantly lifts post-retirement living standards at the cost of lower living standards during the contributor's working life.
b. Allowing access to these savings for the purposes of reducing debt prior to retirement results in a smaller decline in living standards during a person's working life while still significantly lifting post-retirement living standards.
c. An accessible voluntary superannuation savings scheme would compliment, rather than detract from, mandatory preserved superannuation savings.

**The REIA Concept**

6. An overview of the concept is presented below for the consideration of the Committee:

a. Access is for the purpose of providing or augmenting a deposit for a first home.
b. Two accounts would be set up for each contributing individual, one to hold compulsory Superannuation Guarantee contributions and one to hold voluntary superannuation. These accounts would be held separately until retirement.
c. Contributions towards voluntary superannuation could be made anytime from the age of 16 years via either direct personal contribution or salary sacrifice. Relatives of persons under 18 years of age could contribute up to $1,000p.a. on their behalf (50% mandatory, 50% voluntary).
d. Voluntary contributions would be subject to the existing 15% contribution tax.
e. Interest would be earned on voluntary contributions as per normal, but cannot be withdrawn until retirement. Any Commonwealth co-contributions would also be preserved until retirement (except possibly for persons dependent on Commonwealth housing support – this possibility requires more detailed analysis however).
f. Voluntary superannuation contributions could be withdrawn by persons over the age of 23 years for the purpose of purchasing their first home when their total account balance exceeded a minimum of $10,000.
g. The home must be owner-occupied for a period of time before sale or lease.

h. Only funds deposited after the introduction of the scheme would be eligible for withdrawal.
i. In recognition of the fact that the 15% contribution tax has already been paid, all withdrawals would attract the contributor's marginal tax rate minus 15%.
j. Funds not withdrawn prior to retirement would be rolled into the compulsory superannuation account and treated in the normal way.

**Benefits**

7. The proposal would create a nexus between superannuation savings, working life choices and self funded retirement from the time a young person enters the workforce. Allowing access to voluntary superannuation savings to purchase a home will act as a powerful incentive for young persons to voluntarily contribute to their superannuation from an early age while conferring the social benefits of home ownership on these persons much earlier. The proposal may also extend an opportunity to low income earners to purchase their own home when they would otherwise be unable to do so while saving for retirement.

8. Participation in the scheme will be likely to act to reduce pre-retirement debt levels allowing retirees the flexibility to receive a larger proportion of their superannuation benefit as a pension, rather than a lump sum, resulting in ongoing taxation benefits and improved access to social security services. In short, participants will experience a much smaller decline in living standards over their working life while saving for retirement than would be experienced if voluntarily contributed monies were not able to be used to reduce debt prior to retirement.

**Net Effect on Government Revenue**

9. Like other forms of tax advantaged retirement saving such as the Superannuation Guarantee, a scheme allowing early access to voluntary superannuation funds is likely to be a cost to the Commonwealth while the scheme matures. That is to say that the concessionary taxation of voluntarily deposited monies (and any interest earned on these monies) would result in a small decrease in Commonwealth revenue prior to these monies being withdrawn and taxed at the holder's marginal tax rate. However, once the scheme reaches maturity and a balance between participants of working age and those entering retirement is reached, the NATSEM report indicates that the Commonwealth will enjoy on-going net savings through a greatly reduced requirement to provide retirement income support.

**SUMMARY**

10. The REIA's proposal to allow access to voluntary superannuation contributions will:

a. Create a nexus between superannuation savings, working life choices and self funded retirement from the time a young person enters the workforce.
b. Result in a significant increase in post-retirement living standards while having the lowest possible opportunity cost during a person's working life.

c. Reduce Commonwealth Government expenditure on retirement income support over the longer term.
d. Maintain the raison d'être of the Superannuation Guarantee scheme.

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Attachment
1. NATSEM Report dated October 2003

ATTACHMENT 1
NATSEM REPORT
DATED OCTOBER 2003

**ATTACHMENT A**

FPA

FINANCIAL PLANNING
ASSOCIATION
of Australia Limited

# Development of a Medium Term Savings Vehicle: an Exploratory Analysis

## FULL REPORT

Prepared for the
Financial Planning Association of Australia by the
National Centre for Social and Economic Modelling

**October 2003**

NATSEM

National Centre for Social and Economic Modelling

• University of Canberra •

## About NATSEM

The National Centre for Social and Economic Modelling was established on 1 January 1993, and supports its activities through research grants, commissioned research and longer term contracts for model maintenance and development with the federal departments of Family and Community Services, and Education, Science and Training.

NATSEM aims to be a key contributor to social and economic policy debate and analysis by developing models of the highest quality, undertaking independent and impartial research, and supplying valued consultancy services.

Policy changes often have to be made without sufficient information about either the current environment or the consequences of change. NATSEM specialises in analysing data and producing models so that decision makers have the best possible quantitative information on which to base their decisions.

NATSEM has an international reputation as a centre of excellence for analysing microdata and constructing microsimulation models. Such data and models commence with the records of real (but unidentifiable) Australians. Analysis typically begins by looking at either the characteristics or the impact of a policy change on an individual household, building up to the bigger picture by looking at many individual cases through the use of large datasets.

It must be emphasised that NATSEM does not have views on policy. All opinions are the authors' own and are not necessarily shared by NATSEM.

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# Author note

This report was prepared by Kerrie Bremner, Anthony King and Annie Abello.

# Acknowledgments

This analysis concerns a proposal for a Medium Term Savings Vehicle (MTSV). The MTSV proposal was designed by the Financial Planning Association (FPA), with this modelling of the proposal undertaken by NATSEM. Suggestions regarding the modelling and comments on draft reports by Margaret Sousou and Con Hristodoulidis from the FPA are gratefully acknowledged.

# Executive Summary

This report presents results of an assessment of broad features of a proposal for a Medium-Term Savings Vehicle (MTSV) that has been designed by the Financial Planning Association (FPA).

## The MTSV proposal

A number of submissions to the recent inquiry by the Senate Select Committee on Superannuation, including that made by the FPA, proposed the introduction of a new tax advantaged medium to long-term savings vehicle to complement the current superannuation arrangements[1]. The Committee responded with the recommendation that:

> ... as means of increasing national savings and reducing the temptation for people to accumulate debt which is repaid with superannuation on retirement, the Government examine the introduction of a tax preferred medium to long-term savings vehicle which could be accessed prior to retirement for purposes such as:
>
> - health;
> - savings for a home deposit; and
> - education[2]

The FPA have been working on the design of such a savings vehicle (the MTSV) for some time. The FPA proposal is to incorporate a medium term savings vehicle (MTSV) within superannuation arrangements. Specifically, the FPA proposes that one account be set up in the superannuation fund with two components:

1. one component to receive only the voluntary contributions made by the person (VC Component); and
2. the other component to receive Superannuation Guarantee contributions made by the employer and all other Government legislated and award conditions contributed to superannuation (SG Component).

There would be one key distinction between the two components. Whereas SG funds cannot be accessed until preservation age (currently 55 years), part of the funds in

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[1] Senate Select Committee on Superannuation 2002, *Superannuation and standards of living in retirement*, p189.

[2] Senate Select Committee on Superannuation 2002, *Superannuation and standards of living in retirement*, p191.

the VC Component could be accessed at any time after the age of 23 years, subject to certain conditions.

## Modelling the MTSV

The impacts of the MTSV are examined using 'hypothetical lifetime modelling'. This entails devising 'typical' or illustrative lifetimes for people - in terms, for example, of their labour force activity and earnings - and then tracking their circumstances year by year under alternative assumptions, such as alternative lifetime saving strategies.

### *Illustrative cases*

The illustrative family type selected for this analysis is a couple with two children, with two variants distinguished by income level. Income level is related to their level of educational attainment:

- Middle Income = post-school non-degree qualifications
- High Income = post-school degree qualifications

To give an idea of the earnings levels involved, the full-time annual earnings for the Middle Income couple at age 35 are around $38,000 for the male partner and $33,000 for the female partner. The corresponding figures for the High Income couple are around $53,000 and $45,000.

### *Living standards index*

The main results from the model are obtained by comparing the family's discretionary income (income less tax, HECS, Medicare, savings such as MTSV contributions, and housing costs) with a living standards benchmark.

The living standards benchmark was derived from research into 'budget standards', which provides an estimate of the amount, needed by different family types to obtain a given standard of living - and this is an estimate that reflects changes in the family's circumstances over their lifetimes. By comparing the benchmark with the family's discretionary income, a 'living standards index' is calculated for each year of the couple's lifetime. Variations in this index under different simulations thus show the impacts on the family's living standards.

The detailed results from this study look at the living standards index averaged over five and ten year periods. Three key summary measures that are used are the average living standards index over:

- the pre-retirement years;
- the post-retirement years; and
- the whole lifetime.

### *Base assumptions*

The main modelling is undertaken using the following key assumptions:

- 1% per annum real rate of growth in earnings;
- a 4.5% per annum real rate of return on investment funds; and
- retirement benefits taken as 50:50 pension and lump sum.

### *Saving strategies*

Five different saving strategies are modelled:

(1) Saving for retirement solely through the 9% Superannuation Guarantee (the 'Base' saving strategy).

(2) Additional saving through the MTSV, with contributions of 5% of gross earnings:

(2a) MTSV with no withdrawals before retirement

(2b) MTSV with withdrawals before retirement

(3) Additional saving through a general savings/investment account (with level of contributions equivalent to that under the MTSV strategies)

(4) A 50:50 combination of strategies (2a) and (3)

### *Specific MTSV assumptions*

Specific assumptions about the MTSV that are used in this analysis are that:

- Contributions are made over the working lifetime – except when the female partner is working part-time due to the presence of young children.
- Contributions are made at the rate of 5% of gross earnings.
- Contributions are made as salary-sacrifice.
- The MTSV proposal specifies that withdrawals from the fund can be made for any 'lifestyle choice' that will reduce debt. For the purposes of this simulation, however, MTSV withdrawals are linked to extra mortgage payments. These withdrawals are made in the simulation whenever both the account has reached a minimum balance of $10,000 and there is an amount of outstanding mortgage to be repaid.

- For the purpose of modelling the benefits of the MTSV for the community and Government, the FPA decided to use the superannuation system because:
    a) The superannuation system is entrenched; and therefore
    b) Preferential taxation structures are well known and assist in the costing of the MTSV policy.

  However the FPA believes policy makers should focus on the need to introduce MTSV rather than whether the superannuation system should be the infrastructure to deliver this policy outcome.

### *Scope of the analysis*

In considering the analysis presented in this report, it is important to recognise that what is being sought is a broad assessment of the impact of the MTSV proposal, not a comprehensive and detailed evaluation of the policy proposal. The scope of this analysis is defined by the following features:

1. use of a limited number of illustrative families (with very particular characteristics);
2. comparison of the MTSV with a limited number of alternative lifetime saving strategies;
3. assessment of only certain types of impacts - mainly the impacts on living standards, though also with some limited examination of the impacts on government revenues and outlays;
4. the specific assumptions about the timing and amount of MTSV contributions and withdrawals; and
5. no consideration in this assessment to any MTSV implementation issues.

## Main findings

### *Middle Income*

The summary results for the Middle Income couple under the five saving strategies are given in figure 1. A sixth stategy - saving through the investment account with pre-retirement withdrawals - is also included in figure 1[3]. The broad picture shown by figure 1 is that, compared to the Base Strategy, the five strategies of additional savings (the two MTSV strategies, the two investment account strategies, and the 50:50 strategy) all result in:

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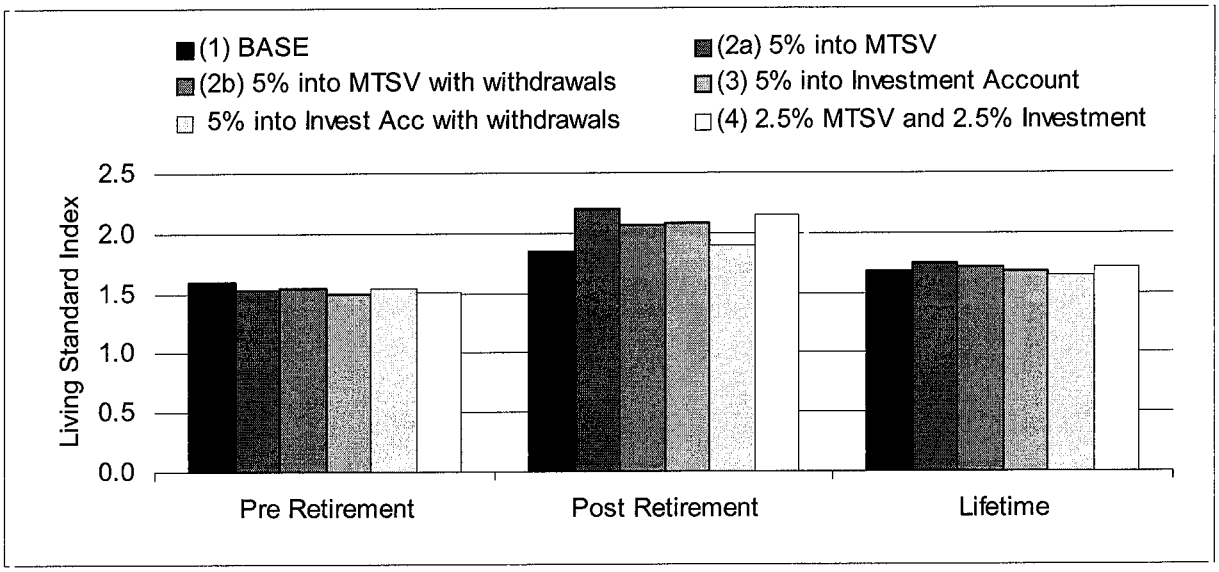
[3] The strategy of saving through the investment account with pre-retirement withdrawals is not covered in the main analysis in this report, but was introduced as an element of the sensitivity analysis. It is included in figure 1 because it usefully adds to the picture.

- a higher level of living standards in retirement;
- at the expense of some reduction in pre-retirement living standards;
- though with an overall increase in lifetime living standards (except in the case of saving through the investment account with withdrawals).

This is the basic outcome of saving for retirement and what is interesting here is to compare how the five alternative additional saving strategies perform. To look more closely at the comparative outcomes, table 1 shows the percentage changes in living standards from those experienced under the Base strategy.

Figure 1 **Summary measures of living standard index under all strategies: Middle Income case**




*Data source:* NATSEM simulations.

Table 1 **Summary measures of living standard index under additional saving strategies as percentage of Base saving strategy: Middle Income case**

| Period | Saving strategy | | | | |
|---|---|---|---|---|---|
| | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3a) 5% into Investment Account | (3b) 5% into Investment Account with withdrawals | (4) 2.5% MTSV and 2.5% Investment Account |
| | % change from Base | % change from Base | % change from Base | % change from Base | % change from Base |
| Pre Retirement | -4 | -3 | -6 | -3 | -5 |
| Post Retirement | 19 | 12 | 13 | 3 | 16 |
| Lifetime | 4 | 2 | 1 | -1 | 2 |

*Source:* NATSEM simulations.

*Pre-retirement living standards:* The saving strategies that resulted in the least reduction in pre-retirement living standards were the variants of the MTSV and Investment Account strategies that allowed withdrawals to pay off a home loan (-3%). Note that, in this simulation, the MTSV withdrawals amounted to about 30% of contributions. The Investment Account Strategy (without withdrawals) provided the lowest pre-retirement living standard (-6%) due to interest income forming part of the couple's taxable income[4].

*Post-retirement living standards:* All the saving strategies result in an increase in post-retirement living standards, with the MTSV strategy without withdrawal before retirement easily providing the largest increase in living standards in retirement (19%) - significantly higher than the base case. The outcomes for the MTSV strategy with withdrawals (12%) were very similar to that for the Investment Account strategy without withdrawals (13%). A notably low increase in post-retirement living standards (3%) was provided by the Investment Account strategy with withdrawals.

*Lifetime living standards:* The two MTSV strategies result in the largest increase in average living standards across the lifetime (4% and 2%). Due to unpreferential tax treatment, the Investment Account strategy without withdrawals did not fare so well, with the average living standard across the lifetime being virtually the same as for the Base strategy. In the case of the Investment Account strategy with withdrawals, the small increase in post-retirement living standards was not enough to offset the pre-retirement decline, and the overall impact on lifetime living standards was a small negative.

In summary, for this Middle Income case:

- The MTSV strategy without withdrawals (which is essentially the same as an increase in SG superannuation) delivers the highest level of living standards in retirement for the Middle Income case.
- But this 19% increase in post-retirement living standards is at the expense of a 4% decline in pre-retirement living standards. And it should also be noted that all the additional saving strategies are producing living standards in retirement that are notably higher than those pre-retirement.
- When some of the benefits of saving are enjoyed before retirement by following the MTSV strategy with withdrawals, the balance of effects shifts. In this case, where 30% of MTSV contributions are withdrawn before retirement, post-retirement living standards increase by a lower 12%, but the drop in pre-retirement living standards is also dampened. The trade-off is between the opportunity to relieve pre-retirement debt and the level of post-

[4] The outcomes for the 50:50 Saving Strategy (4) are midway between the outcomes for the two component strategies ((2a) and (3)) and are not separately discussed here.

retirement living standards - in line with the aim of the FPA to shift the focus from adequacy in retirement to adequacy over a lifetime. That said, both variants of the MTSV strategy result in significant increases in post-retirement living standards.

- Due to non-preferential tax treatment, the investment account strategies are the least favourable. Saving through the investment account without withdrawals only manages to deliver a similar level of living standards in retirement as does the MTSV strategy with withdrawals, but without the benefits of those pre-retirement withdrawals. The investment account without withdrawals leads to the greatest reduction in pre-retirement living standards. When pre-retirement withdrawals are made from the investment account, the drop in pre-retirement living standards is moderated, though the increase in post-retirement living standards is also markedly dampened.

### *High Income*

The pattern of results for the High Income couple was similar to those for the Middle Income case, though with one notable difference. This concerns the relative outcomes for the strategies of saving through the MTSV with withdrawals and saving through the investment account. For the Middle Income case, saving through the investment account provided a similar post-retirement standard of living as did saving through the MTSV with withdrawals. For the High Income case, it provides a notably higher level of post-retirement living standards.

## Sensitivity analysis

Sensitivity analysis of the impact of the alternative saving strategies on living standards was conducted with respect to five aspects of the modelling:

- the rate of real investment earnings;
- the form in which retirement benefits are taken;
- the level of health and aged care costs in later life;
- the assumed course of home purchase over the lifetime; and
- allowing pre-retirement withdrawals under the investment account saving strategy.

### *Rate of real investment earnings*

The main outcomes for the different saving strategies were generated with superannuation funds and investment account funds earning 4.5% (in real terms) per year. Two alternative scenarios were examined - real investment earnings are lower (3.5%) or higher (5.5%).

Variation in the rate of investment earnings has a dramatic impact on living standards in retirement. The impact is not, however, uniform across the saving strategies, with greater sensitivity, as would be expected, for those strategies which involve higher levels of saving for retirement. This results in one change in the ordering of the saving strategies as the investment earnings rate is varied - as the rate increases, saving through the investment account becomes more advantageous compared to saving through the MTSV with withdrawals.

### *Form of retirement benefit*

Three scenarios of form of benefit are modelled here:

- retirement benefits taken as 100% lump sum;
- retirement benefits taken as 50:50 pension / lump sum (as in the main analysis); and
- retirement benefits taken as 100% pension.

For all saving strategies, markedly higher living standards in retirement are enjoyed if a greater proportion of the retirement benefit is taken as a pension. This is particularly the case where at least 50% is taken as a pension compared to the 100% lump sum scenario.

As indicated earlier, many people reaching retirement still have debts to pay and taking their super as a lump sum may be an attractive option for this reason. The FPA believe that an important advantage of the MTSV proposal is the ability to access funds before retirement thus allowing debt to be paid off or reduced. This in turn allows the option for a person to take the remaining retirement benefits as a pension; thus allowing them to access the greater taxation and social security advantages.

In this regard, it is interesting to note that saving through the MTSV with withdrawals, and taking the retirement benefit as a 50:50 pension/lump sum, provides for a higher level of living standards in retirement than under any of the other saving strategies if the retirement benefit in those cases is taken as 100% lump sum. The same is true for the MTSV with withdrawals and 100% pension, compared to the other strategies with a 50:50 form of benefit. The broad point is that - for the

Middle Income case, if the MTSV with withdrawals allows a significantly greater proportion of retirement benefits to be taken as a pension, then living standards in retirement will be higher despite the pre-retirement withdrawals.

While this is true for the Middle Income case, it does not also hold for the High Income case. The High Income results do, however, show the same basic pattern of an increase in post-retirement living standards as more of the retirement benefit is taken as a pension.

### *Health and aged care costs*

Introducing the possibility of higher health and aged care costs in older age had the effect of depressing all the estimates of post-retirement living standards, though had no impact on the relative outcomes for the different saving strategies.

### *Double mortgage*

A key advantage of the proposed MTSV over conventional superannuation saving is the provision for contributions to be withdrawn for specific purposes. Saving through the MTSV with withdrawals has been modelled in this analysis by linking withdrawals to outstanding mortgage payments and, as described above, this saw the Middle Income couple withdrawing about 30% of their MTSV contributions before retirement. But what if more intensive use were to be made of the provision for withdrawals?

Greater use of the withdrawal facility has been modelled here by maintaining the link between withdrawals and outstanding mortgage, but assuming that after paying off the first mortgage, the couple trade-up and take out another mortgage at the age of 50. Under this 'double mortgage' scenario, saving through the MTSV with withdrawals sees the Middle Income couple making withdrawals from their MTSV accounts right into their 60s – previously withdrawals ceased in their mid-40s when the mortgage was paid off. While the Middle Income couple under the standard mortgage scenario withdrew about 30% of their MTSV contributions, under the 'double mortgage' scenario they withdraw virtually all (98%) of their contributions before retirement.

The double-mortgage scenario has the following impacts:

- The outcomes for MTSV savings without withdrawals, in comparison with the Base strategy, are virtually unchanged.

- For MTSV savings with withdrawals, the double-mortgage scenario results in a smaller decline in pre-retirement living standards, but a smaller increase in post-retirement living standards.
- Saving through the investment account under the double-mortgage scenario results in both a slightly greater decline in pre-retirement living standards and a smaller increase in post-retirement living standards.

In summary, when more intensive use is made of the MTSV facility to withdraw contributions before retirement, then the capacity of the strategy to deliver a significant increase in post-retirement living standards (7%), while minimising the effect of saving on pre-retirement living standards (just -1%) is accentuated. By making withdrawals from the MTSV account and paying them against the mortgage, the couple has managed to maintain a 'no extra savings' living standard before retirement, but still benefits from an increase in post-retirement living standards. While virtually all the MTSV contributions were withdrawn before retirement under this scenario, the fund earnings continued to accumulate.

### *An investment account with withdrawals*

The final part of the sensitivity analysis introduces another saving strategy - saving through the investment account but with the provision for pre-retirement withdrawals - to provide a closer comparison with the MTSV strategy with withdrawals.

While the earlier comparison between MTSV saving with withdrawals and saving through an investment account showed mixed results, when pre-retirement withdrawals are also made from the investment account - under the assumptions used in this exercise - then the MTSV strategy delivers higher living standards both before and after retirement for both the Middle and High Income cases.

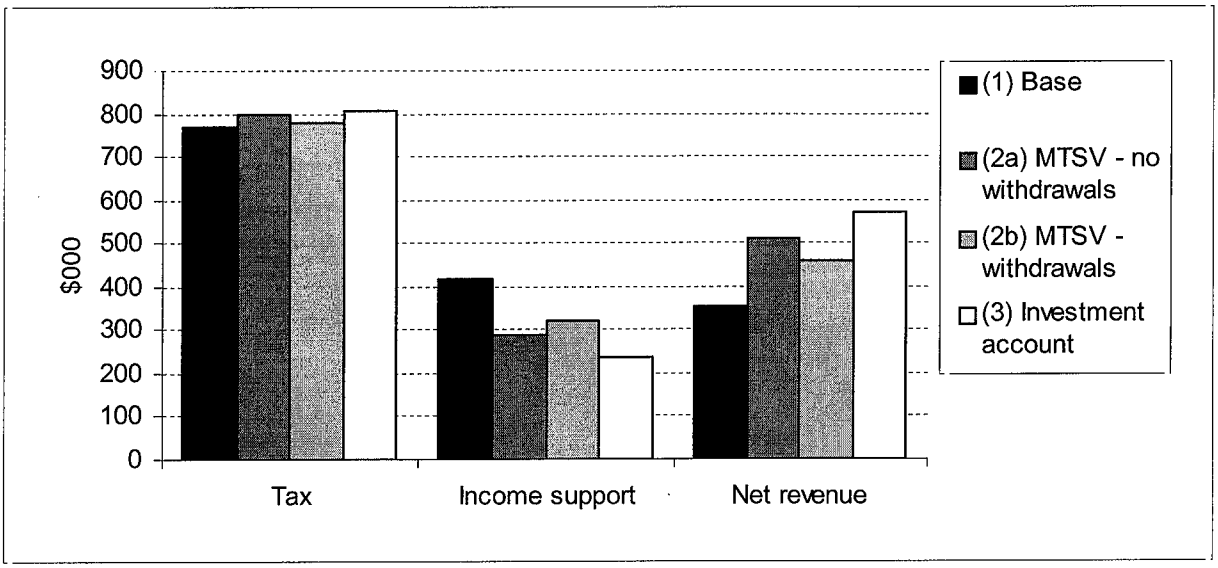
Compared to saving through an investment account with withdrawals, the MTSV strategy with withdrawals provides:

- slightly higher pre-retirement living standards (1% higher for both the Middle and High Income cases);
- notably higher post-retirement living standards (9% higher for the Middle Income case, and 7% higher for the High Income case); and
- higher lifetime living standards (4% higher for the Middle Income case, and 3% higher for the High Income case).

## Government revenues and outlays

There is relatively little variation in the total amount of tax collected over the lifetime under the saving strategies (figure 2) - though, there are differences for particular components of taxation.

Figure 2 **Government revenues and outlays under alternative saving strategies: Middle Income case**




*Data source:* NATSEM simulations.

The major difference in the impacts of the alternative saving strategies on governments revenues and outlays is in the level of income support outlays, and this is largely differences in entitlements to Age Pension.

These differences in Age Pension entitlements drive the variations in net lifetime government revenue shown in figure 2. All the additional saving strategies, with their lower entitlements to Age Pension, involve higher lifetime net government revenue than under the Base strategy. Basically, private provision for retirement incomes is replacing part of the government provision.

Among the additional saving strategies, net revenue increases as the entitlement to Age Pension falls. The Investment Account strategy results in the lowest entitlement to Age Pension and, thus, in the highest net revenue for government.

There is also a distinctive time profile to the increases in net revenue that occur with the additional saving strategies.

- The Investment Account strategy shows from the outset an increase in net government revenue over the Base strategy, as a result of the increased taxation revenue from investment earnings; then increasing sharply as the impact of reduced Age Pension entitlements comes into consideration.

- The picture is somewhat different for the two MTSV strategies. For the MTSV strategies, the concessionary taxation of the MTSV saving means that net government revenue, compared to that under the Base strategy, decreases over the pre-retirement years. Then, upon retirement, the situation is reversed. The reduced entitlements to Age Pension sharply shift the net revenue impact into the positive – albeit, not to the same extent as with the Investment Account strategy.

The aggregate implications of this profile are that introduction of the MTSV proposal would be a cost to government for many years, until the scheme matured – that is until there was a balance of people saving through the MTSV and of people retired with the benefits of MTSV saving (including the benefits to government outlays). That, though, is the basic nature of tax-advantaged saving for retirement, and is equally a feature of the Superannuation Guarantee – net costs to government in the initial years that are, however, more than offset by the benefits many years later.

## Summary

This exploratory analysis of the MTSV proposal has been conducted with a number of illustrative cases under selected scenarios and with particular assumptions about saving behaviour. It has shown that saving through the MTSV – like tax-advantaged superannuation in general – can provide for a markedly higher level of living standards in retirement, at the expense of a smaller drop in pre-retirement living standards, and an overall small increase in living standards across the lifetime.

When pre-retirement withdrawals from MTSV saving are allowed, this general pattern of outcomes can be maintained, though sacrificing some of the potential increase in post-retirement living standards for a lower reduction in pre-retirement living standards. Moreover, pre-retirement withdrawals from MTSV saving are shown to be less detrimental to living standards in retirement than similar withdrawals from saving through a standard investment account. A case is also shown where, if MTSV withdrawals reduce pre-retirement debt and thereby encourage at least 50% of the retirement benefit to be taken as a pension, rather than 100% as a lumpsum, then the pre-retirement withdrawals can lead to increased living standards in retirement.

The other side of tax-advantaged saving for retirement is, of course, losses to government revenue over the period of saving. Over a lifetime, however, these can be more than offset by higher private retirement incomes which result in higher post-retirement income tax payments and, in particular, reduced entitlements to income support in retirement. When advantage is taken of the flexibility of pre-retirement

withdrawals from MTSV saving, net government revenue falls, but it can still be considerably higher than in the case with no additional saving for retirement.

# Contents

# 1 Introduction

This is the first of three reports examining aspects of a proposal designed by the Financial Planning Association (FPA) for an Australian Medium Term Savings Vehicle (MTSV). Development of the MTSV proposal by the FPA has been motivated by the perceived situation where:

1. inadequate private provision is being made for people's financial independence in retirement; and
2. an excessive amount of superannuation benefits are being used on retirement to repay debt, rather than to fund retirement living standards.

In response, the proposed MTSV has been designed to provide an attractive savings vehicle that would assist people to reduce the financial burden of debts earlier in life, and thus enable more of superannuation funds upon retirement to be used to improve a person's financial independence in retirement. The key features of the MTSV proposal are that it provides for superannuation-style saving, in terms of concessionary tax treatment, with the added advantage that a component is accessible before retirement for withdrawal for specific purposes.

The FPA proposal is to incorporate a medium term savings vehicle (MTSV) within superannuation arrangements. Specifically, the FPA proposes that one account be set up in the superannuation fund with two components:

3. one component to receive voluntary contributions made by the person (VC Component); and
4. the other component to receive Superannuation Guarantee contributions made by the employer (SG Component).

The money in the VC Component can be accessed anytime after the age of 23 years providing there is initially a minimum of $10,000 in the account. Only personal contributions can be accessed, the interest component of the account can only be accessed at preservation age. Money accessed before preservation age would be taxed at the person's marginal tax rate for the year minus 15%.

This first report provides a broad assessment of the impact of the proposed MTSV, using 'hypothetical lifetime modelling' to examine the impacts on the living standards before and after retirement for illustrative 'Middle Income' and 'High Income' families. These MTSV impacts – with and without pre-retirement

withdrawals - are compared with the impacts under alternative lifetime saving strategies.

The lifetime saving strategies that are compared are:

(1) Base - saving for retirement solely through the 9% Superannuation Guarantee.

(2) Additional saving through the MTSV:

(2a) MTSV with no withdrawals before retirement

(2b) MTSV with withdrawals before retirement

(3) Additional saving through a general savings/investment account

(4) A combination of strategies (2a) and (3)

In considering the analysis presented in this report, it is important to recognise that what is being sought is a broad assessment of the impact of the MTSV proposal, not a comprehensive and detailed evaluation of the policy proposal. The scope of this analysis is defined by the following features:

1. The analysis is confined to a limited number of illustrative families (with very particular characteristics) and, while these have been devised as realistic cases, the outcomes can not necessarily be generalised to other family types and other circumstances.
2. Saving through the proposed MTSV is compared with a limited number of alternative lifetime saving strategies: namely, reliance on 9% compulsory superannuation, saving for retirement through a standard investment account, and a combination of MTSV and investment account saving. Other possible strategies that would be covered by a comprehensive analysis might include use of a flexible mortgage as a saving vehicle, or an investment account with withdrawals before retirement.
3. The assessment of impacts is confined to estimates on the effects of the MTSV proposal on a particular measure of people's living standards over their lifetime, with some limited examination of the impacts on government revenues and outlays.
4. The MTSV is modelled with some specific assumptions about the timing and amount of contributions and withdrawals.
5. Finally, no consideration is given in this assessment to necessary implementation issues, such as how to ensure that withdrawals from the MTSV are only made for the specified purposes.

Some background to the MTSV proposal and the detailed MTSV specifications are provided in section 2. Details of the modelling approach are then set out in section 3, including the illustrative cases, the method, the measure of outcomes, and the alternative saving strategies considered.

Results of the simulations are presented separately for each saving strategy, then in comparative perspective, in section 4. Section 5 is concerned with sensitivity analyses; looking at the impact on the analysis of alternative assumptions about investment returns, the form in which retirement benefits are taken, health and aged care cost in later life, the amount of MTSV withdrawals, and an additional saving strategy with pre-retirement withdrawals from an investment account. Section 6 concludes the report with some examination of the implications of the MTSV proposal for government revenues and outlays.

Only summary results are given in the main body of the report, with detailed results provided in appendix A.

The second report looks at the impacts under alternative scenarios for the superannuation contributions tax and surcharge, and the third report examines the impacts under an alternative scenario for Reasonable Benefit Limits (RBLs).

# 2 Medium Term Savings Vehicle (MTSV)

## 2.1 Context

The Financial Planning Association of Australia Ltd (FPA) is concerned that retirees are finding themselves in the position where an excessive amount of superannuation savings are used to repay debt and, thereby, diverted away from providing a retirement income. And a decline in cash savings over the years before retirement is seen as a reason why debts persist until retirement. The FPA believes these issues can be rectified through the provision of an attractive savings vehicle that would assist people to reduce the financial burden of debts earlier in life, and thus enable superannuation funds upon retirement to be used to improve a person's financial independence in retirement. An attractive savings vehicle would provide the incentive for people to save.

Superannuation taxation arrangements are designed to encourage people to contribute to superannuation during their working life. The major drawback to investing in superannuation, however, is accessibility. Funds are unable to be accessed before preservation age (currently 55 years) retirement except in exceptional circumstances. The FPA proposes that the creation of a savings vehicle that is attractive in the way it is both taxed and accessed would encourage an increased level of private savings. The proposal continues with the argument that access to these savings funds before retirement would assist in funding debt pre retirement, with subsequent improvement in a person's post retirement standard of living.

Through special treatment under the tax and social security rules, current policy provides incentives to encourage people to purchase income streams with their superannuation; as opposed to taking it as a lump sum. Outstanding debt upon retirement, however, may force many people to take a lump sum payment - which will provide a lower level of retirement income - in order to fund their debt. Accordingly, reduction in the debt levels of people upon retirement may allow more retirees the option to take their superannuation as an income stream.

Development of the MTSV proposal by the FPA has thus been motivated by the perceived situation where:

1. inadequate private provision is being made for people's financial independence in retirement; and
2. an excessive amount of superannuation benefits are being used on retirement to repay debt, rather than to fund retirement living standards.

A number of submissions to the recent inquiry by the Senate Select Committee on Superannuation, including that made by the FPA, proposed the introduction of a new tax advantaged medium to long-term savings vehicle to complement the current superannuation arrangements[5]. The Committee responded with the recommendation that:

> ... as means of increasing national savings and reducing the temptation for people to accumulate debt which is repaid with superannuation on retirement, the Government examine the introduction of a tax preferred medium to long-term savings vehicle which could be accessed prior to retirement for purposes such as:
>
> - health;
> - savings for a home deposit; and
> - education[6]

The proposed MTSV has been designed by the FPA to provide an attractive savings vehicle that would assist people to reduce the financial burden of debts earlier in life, and thus enable more of superannuation funds upon retirement to be used to improve a person's financial independence in retirement.

The aim of the FPA policy proposal is to implement an attractive savings vehicle to ensure a greater level of personal savings, to fund lifestyle activities today rather than later, and that flows onto a greater level of national savings and financial independence in retirement. The policy proposal will demand a change in mindset of the purpose of superannuation. Superannuation would no longer only be known for provision in retirement, but also for provision in financing lifestyle debt.

## 2.2 MTSV specifications

The FPA proposal is to incorporate a medium term savings vehicle (MTSV) within superannuation arrangements. Specifically, the FPA proposes that one account be set up in the superannuation fund with two components:

1. one component to receive voluntary contributions made by the person (VC Component); and
2. the other component to receive Superannuation Guarantee contributions made by the employer (SG Component).

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[5] Senate Select Committee on Superannuation 2002, *Superannuation and standards of living in retirement*, p189.

[6] Senate Select Committee on Superannuation 2002, *Superannuation and standards of living in retirement*, p191.

The VC Component would be further split into two sub-components:

a) one for non-preserved deducted funds which would be taxed at the individual's marginal tax rate for the year less 15% if accessed before retirement; and,

b) another for undeducted contributions which do not attract a tax upon withdrawal before retirement, because tax has already been paid.

There would be one key distinction between the two components. Whereas SG funds cannot be accessed until preservation age (currently 55 years), part of the funds in the VC Component could be accessed at any time after the age of 23 years, subject to the following conditions:

- A withdrawal from the VC Component can only be made once there is an initial balance of $10,000 in the account.
- Only contributions to the VC Component - not interest - can be accessed. The interest component of the account can only be accessed at preservation age.
- VC Component funds accessed before preservation age would be taxed at the individual's marginal tax rate for the year less 15% where drawn from deducted funds.

In contrast, the SG component is preserved funds, largely made up of employer contributions. Monies left over in the VC Component at retirement can be added to the SG Component with no entry tax applied.

Table 2.1 outlines which contributions can be made to each component and therefore which monies can be accessed before retirement.

Other aspects of the FPA proposal include the following points:

- All Australians from the time they are born to retirement can make voluntary contributions, VC, to their super fund regardless of whether they are in paid employment. Those children too young to work can take advantage of the recent Government's announcement that relatives can make super contributions on behalf of the child up to $1000 per annum. The FPA advocates this facility be available to children up until the age of 18 years. Regardless of how long and how much money is contributed on behalf of the child, half of the money will be placed in the SG Account and the other half in the VC Account.
- For those who are not employed, and are over the age of 16, they can contribute 10% of Average Weekly Earnings towards their VC Account. This ensures that everyone has access to superannuation, regardless of employment or wage status and age.

- For all other Australians over the age of 16 and in paid employment, they can use the salary sacrifice component, which entitles the employee to contribute pre-tax dollars to their VC account even though some may still be receiving the up-to $1000 contribution from relatives.
- The money in the VC Account can be accessed at any time to fund lifestyle expenses and does not have to be returned. In other words, the money contributed by an employee can be accessed at any time, and the money contributed by the employer, SG, can only be accessed at the time of retirement. However, every time the money is accessed, it is taxed at the person's marginal tax rate minus 15%.

Table 2.1 **MTSV specifications**
**Note: This design is for costing and illustrative purposes only. Refinements can be made to the design in consultation with other experts in the industry**

| *SG COMPONENT* | *VC COMPONENT* |
|---|---|
| *What can be contributed into the SG Account?*<br>• SG + award and enterprise bargaining agreement<br>• 100% of the recent Child contribution amount<br>• spouse contributions<br>• any extra contributions above $30,000 to the MDC level<br>• government component of the co-contribution for low income earners | *What can be contributed into the VC Account?*<br>• **Sub-Component 1**: personal deductible contributions including salary sacrifice. The contributions to this sub-component are capped at an MDC flat rate of $30,000. This amount will be indexed to AWE.<br>• **Sub-Component 2**: undeducted contributions including non employees contribution of 10% of AWE<br>• Personal component of the co-contribution for low income earners |
| *When can this money be accessed?*<br>• The money in SG Component can only be accessed at the preservation ages as outlined by the Government.<br>• Once the money is accessed, it is taxed at the rates outlined by the Government. | *When can this money be accessed?*<br>• The money in the VC Component (excluding interest) can be accessed anytime after the age of 23, and initially there must be a minimum of $10,000 in the account. After the account reaches $10,000, the whole amount can be accessed. However the next time the money is accessed, there must be a minimum of $10,000 in the account. The amount of $10000 will be indexed to AWE.<br>• The interest earned on funds of the VC component cannot be accessed;<br>• The money can only be accessed from the starting date of the policy. All money in super prior to the starting date, will automatically revert into the SG account.<br>• Every time the amount in Sub-Component 1 is accessed before preservation age, the amount accessed is taxed at the marginal tax rate, MTR, minus contribution tax (CT); i.e. Access deductible amount = MTR – 15% The MTR used to calculate the amount of tax to be paid will be the MTR for the year the money is accessed.<br>• Money accessed in Sub-Component 2,ie. undeducted contributions, pre retirement does not incur a tax, because tax was already paid before entry into the fund.<br>• Monies not accessed before preservation age, is rolled over tax free to the SG Component and taxed accordingly upon exit from the SG Component.<br>• Money can be accessed from this account to fund any lifestyle choice which may result in increased debt. |

Source: FPA

# 3 Modelling the MTSV

This section describes:

- the approach used to model the MTSV;
- the illustrative families used in the analysis;
- the way in which outcomes are measured; and
- the alternative saving strategies covered.

## 3.1 The modelling approach

The modelling approach used is 'hypothetical lifetime' modelling[7]. This entails specifying a 'typical' or 'illustrative' lifetime (see section 3.2) – with, for example, a certain labour force pattern and earnings level – and calculating year-by-year economic aspects of this lifetime under specified policy settings and assumptions about the future environment (such as the rate of growth in real earnings). The model is able to generate year-by-year results for economic aspects such as:

- the family's income, expenditure and saving;
- the family's asset accumulation and use of assets; and
- government revenues and outlays.

The model operates over lifetimes, year by year, from the age of 21. The base year for the model is 2000-01.

The model covers the following elements:

- labour force activity (with distinction between full-time employment, part-time employment);
- earnings (related to labour force activity and to age, sex and level of educational attainment);
- superannuation accumulation (superannuation guarantee contributions of 9%, MTSV account contributions, fund earnings, superannuation tax and surcharge);

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[7] The modelling approach used is the same as that used by NATSEM in some 2001 work for CPA Australia (King, A. *Superannuation – the right balance*, CPA Australia). Results from that analysis are not, however, directly comparable with the results of this analysis because of some differences in the modelling.

- social security (eligibility and entitlements – including income-testing and assets-testing – for Family Tax Benefit, Newstart, Mature Age Allowance and Age Pension);
- income taxation – including Medicare, HECS, pensioner rebate, low income aged persons rebate, and low income rebate
- housing costs (including rent, mortgage payments, repairs and maintenance, rates and insurance. All cases are assumed to purchase homes with initial value related to income, a progressive upgrade after 10 years, and mortgage over 20 years, with couples entering home-ownership at age 27);
- superannuation benefit at age of retirement (including reasonable benefit limit (RBL) and concessionary taxation provisions); and
- form of retirement benefit (Superannuation payments in the main modelling have been taken as 50% lump sum and 50% pension. Superannuation pensions and lump sums are then converted into constant income streams with no residual capital value).

Working out the impact of the MTSV over a lifetime depends very much on assumptions about not only what people's lifetimes will look like, but also about what the economic environment will look like. These estimates are based on assumptions about key economic growth rates and indexation arrangements which are set out below.

- Real earnings are assumed to grow at 1% per year
- Both super investments and non-super investments are assumed to earn 4.5% per year in real terms. They have been set the same so that comparisons of the different savings strategies are not influenced by differences in investment rates.
- The real housing mortgage interest rate is set at 3.5% per year (equivalent to a 6.5% mortgage rate if inflation is running at 3%).

With regard to indexation:

- the tax system is indexed to earnings;
- the Age Pension is indexed to earnings;
- other social security entitlements are maintained constant in real terms; and
- the RBLs and other concessionary superannuation tax thresholds are indexed to earnings.

## 3.2 The illustrative cases

The use of 'hypothetical lifetime modelling' to assess the impact of the MTSV proposal requires construction of a limited set of 'typical' or 'illustrative' lifetimes. Recent survey data on demographics, labour force activity, earnings and so forth have been utilised to construct imaginary, but hopefully plausible and realistic, lifetimes for the illustrative lifetimes. The family type selected for the analysis is a couple with two children, with two variants - middle income, and high income. These income levels are related to people's highest level of educational attainment; which is a reasonably constant characteristic across adult life:

- Middle Income = post-school non-degree qualifications
- High Income = post-school degree qualifications

The lifetime earnings profiles are thus not defined according to some fixed level or relativity (such as 100% of average weekly earnings) but, rather, reflect the observed earnings of people at different ages according to their level of qualifications. To give an idea of the earnings levels involved, the full-time annual earnings for the Middle Income couple at age 35 are around $38,000 for the male partner and $33,000 for the female partner. The corresponding figures for the High Income couple are around $53,000 and $45,000.

Other key aspects of the constructed lifetimes include:

- lifetimes are covered from the age of 21 years onwards;
- both members of the couple are assumed to be the same age;
- both members of the couple are assumed to be in the same income group (i.e. have the same level of education);
- the couple's first child is born when the mother is 27 (middle income) or 30 (high income), with a 2-year gap to the second child;
- it is assumed that the couple is married or in a defacto relationship at the start of the simulation;
- life expectancy for the couple is 82 years for the male, and 85 years for female;
- for simplicity dependent children are only covered until they reach the age of 16 years, (however it must be noted that this results in a higher reported living standards before retirement for the couple than if the cost of children past 16 years had been taken into account);
- the male partner is employed full-time from age 21 to retirement;
- the female has reduced labour force participation when the children are young; and

- the female begins to reduce labour force participation from her mid 50s.

## 3.3 Analysis of the modelling outcomes

A measure of people's living standards over their lifetime was devised in order to assess the impact of the proposed MTSV. This was done using a measure that held people's income up against the level of expenditure required to meet their needs.

A first step is to refine our definition of income by deducting 'unavoidable' costs from it. Costs that are considered to be unavoidable for this exercise are:

- income tax, HECS, and Medicare;
- MTSV and Investment Account deposits in the strategies where these are modelled; and
- housing costs (mortgage, rates, insurance, and savings towards initial 20% housing deposit.).

The income remaining after unavoidable costs have been deducted is considered to be 'discretionary income'. The amount of discretionary income then determines the standard of living the couple can afford, when it is compared to their expenditure needs.

There are many factors that affect the link between income and living standards. We need to take into account differing costs over the couple's lifetime – for example, the cost of children, of working, and of health care. In order to assess the standard of living that a certain level of discretionary income will provide, we must have some benchmark to compare it to. A good source of this information is the major 'budget standards' study that was undertaken by the Social Policy Research Centre (SPRC) in 1997-98[8]. This gives an estimate of the amount needed by different family types to obtain a 'modest but adequate' standard of living. The findings of that study are used as the basis for assessing living standards in this exercise.

The living standards benchmarks used in this study are constructed in two steps:

1. The SPRC budget standards information is used to construct a broad benchmark of the costs people need to meet. This benchmark varies during the couple's lifetime taking into consideration the number and age of the children, and labour

[8] Saunders, P. et al 1998, *Development of Indicative Budget Standards for Australia*, Policy Research Paper No. 74, Department of Social Security, Canberra.

force activity[9]. Because these benchmarks will be compared to the couple's 'discretionary' income, the benchmark does not include any amounts for housing costs, superannuation contributions or income tax.

2. Secondly, the benchmark is indexed in line with the assumed increase in real earnings over the projection period.

These steps give us a living standards benchmark that reflects changes in the couple's circumstances over their lifetimes. By comparing the benchmark with the couple's discretionary incomes, we can determine the extent to which their income will afford them a 'modest but adequate' standard of living, or the extent to which it exceeds or fails to meet this standard. For the analysis we calculated a living standards index for each year of the couple's lifetime. This is their discretionary income divided by the appropriate benchmark. If their income would just afford them a 'modest but adequate' standard of living, the index is 1.0; if not enough to afford this standard of living it is less than 1; and if more than enough for this standard it is greater than 1.

While the research into budget standards was supported by the Commonwealth government, these standards have no official status. The Commonwealth Treasury, for example, assesses adequacy in superannuation analysis by using a replacement rate which is the ratio of average expenditure in retirement to expenditure in the last years of working life. Nevertheless, the budget standards approach - which attempts to take fuller account of people's changing circumstances - received a number of favourable comments in submissions to the recent inquiry by the Senate Select Committee on Superannuation[10].

The budget standards should not be viewed as a target, but as a benchmark reference point. Accordingly we do not attempt to make assumptions in this report as to whether or not discretionary income exceeding the budget standard (indicated by a living standard index value greater than 1) is saved or spent. Nor do we attempt to model debt in any years where the living standards index falls below 1. The range of possible scenarios is too diverse to cover; people could save excess income to cover years of lower income or choose to spend it, they may go in to debt during years of lower discretionary income or lower their standard of living for that period. The juggling of discretionary income from year to year impacts on the living standard for the affected years. For this reason it is better to look at average living standard indexes over a set number of years so that peaks and troughs are smoothed out. For

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9. The annual values used are: $19 500 for the couple, $13 260, $8840 for a child under 5, $6760 for a child aged 5-12 years, $7540 for a child aged 13-16, and costs of working of $1040 for full-time work and $520 for part-time work.

10. Senate Select Committee on Superannuation 2002, *Superannuation and standards of living in retirement.*

this study we have looked at indexes calculated over five-year periods, ten-year periods, pre-retirement, post-retirement, and overall lifetime.

## 3.4 Alternative saving strategies

Five different saving strategies are modelled:

(1) Saving for retirement solely through the 9% Superannuation Guarantee (the 'Base' saving strategy).

(2) Additional saving through the MTSV:

(2a) MTSV with no withdrawals before retirement

(2b) MTSV with withdrawals before retirement

(3) Additional saving through a general savings/investment account

(4) A combination of strategies (2a) and (3)

For Strategies (2a) and (2b), contributions to the MTSV were set at 5% of gross earnings, with the same percentage of earnings devoted to the general savings/investment account under Strategy (3). Strategy (4) included a 2.5% contribution to the MTSV and a 2.5% contribution to the general savings/investment account.

A summary of the features of the saving strategies covered in the analysis is given in table 3.1.

Table 3.1 **Summary of modelled Saving Strategies**

| Saving Strategy | | Contribution to | | | Withdrawals before retirement |
|---|---|---|---|---|---|
| | | SG super | MTSV | Investment account | |
| | | % of earnings | % of earnings | % of earnings | |
| (1) | Base | 9 | 0 | 0 | No |
| (2a) | 5% into MTSV | 9 | 5 | 0 | No |
| (2b) | 5% into MTSV with withdrawals | 9 | 5 | 0 | Yes |
| (3) | 5% into Investment Account | 9 | 0 | 5 | No |
| (4) | 50:50 MTSV / Investment Account | 9 | 2.5 | 2.5 | No |

Note that the contribution rate of 5% of gross earnings is simply a rate selected for this analysis. Also note that the MTSV contributions are modelled as personal deductible contributions from salary sacrifice.

The MTSV proposal specifies that withdrawals from the fund can be made for any 'lifestyle choice' that will reduce debt. For the purposes of this simulation, however, MTSV withdrawals are linked to extra mortgage payments. These withdrawals are made in the simulation whenever both the account has reached a minimum balance of $10,000 and there is an amount of outstanding mortgage to be repaid.

# 4 The lifetime outcomes

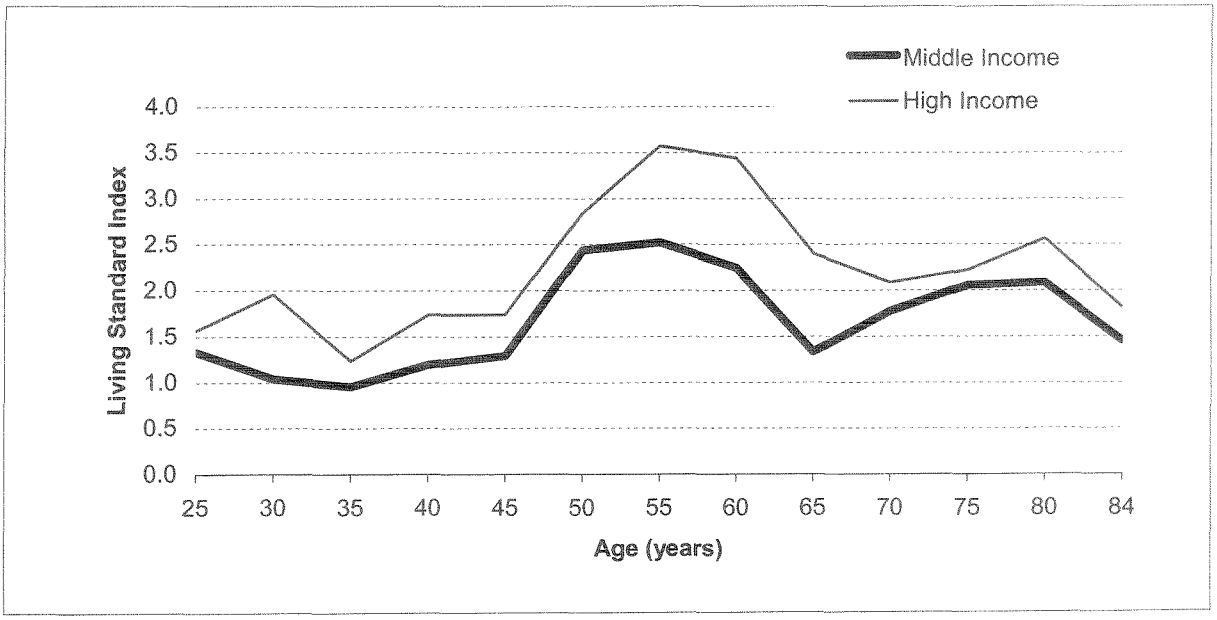
The main results from the analysis are presented in this section. The analysis proceeds through a comparison of the saving strategies set out in section 3.4, concluding with an overview of the findings. Only summary findings are presented below, with detailed tables provided in appendix A.

## 4.1 Saving strategy 1 – Base

The base saving strategy for this analysis is the case where the couple do not have any extra savings over their lifetime, other than through compulsory superannuation and home purchase. This is the strategy that will provide the first point of comparison in the analysis of the lifetime impacts of saving via the MTSV account and/or an investment account. The superannuation assumptions for the base strategy include: 9% employer superannuation, 4.5% real super fund earnings, retirement at 65 years, and retirement benefit taken as a 50:50 combination of a lump sum and a pension.

The living standards index over the lifetime for the middle and high income couples under the base strategy is shown in figure 4.1 (with detailed results in table A1 in appendix A).

Figure 4.1 **Living standard index (5-year averages[a]) for Middle Income and High Income cases under Base Saving Strategy**




[a] The 5-year averages refer to the 5 years ending with the year shown. For example, the 5-year average for age 25 is the average of the results for ages 21, 22, 23, 24 and 25. For age 84, the average is over 4 years.

*Data source:* NATSEM simulations.

In interpreting figure 4.1, it needs to be remembered that this is not a plot of the couples' incomes over their lifetimes, but of their incomes relative to their needs. Thus, for example, a fall in the index can be due to either a decrease in their income or to an increase in their needs – such as the increase in needs associated with having children. Figure 4.1 shows a measure of the couples' living standards over their lifetimes.

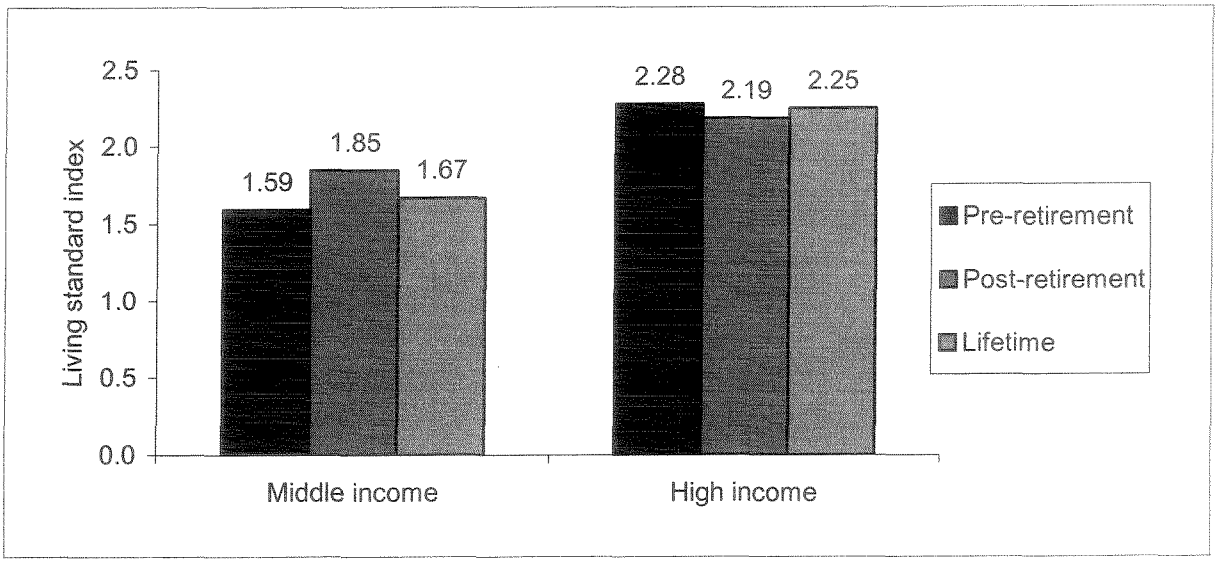
Figure 4.1 shows living standards across the lifetime to be higher for the High Income couple than the Middle Income couple, as would be expected, but both cases exhibit similar lifetime profiles. The broad pattern of lifetime living standards is driven by the following key life events/stages: having children, paying off a mortgage and retirement. Living standards are relatively low in the early years of the adult lifetime while there are dependent children and a mortgage to be paid off. When the couple are in their 40s, the children cease to be dependent and the mortgage is paid off, with a resulting sharp increase in living standards until retirement. While the retirement age is set at 65 years, the female member of the couple is assumed to gradually reduce her labour force participation from her mid-50s. So, living standards exhibit a decline from this point.

After full retirement, at the age of 65 years, the living standards indexes do not follow a smooth path, but continue to show some ups and downs. For example, the dip in the living standard index for the High Income case in the early years of retirement is the result of the means testing of the age pension. The level of the High Income couple's private retirement income and assets precludes any entitlement to age pension until they reach the age of 71 years, and then only a part-pension, before receiving a full age pension at the age of 77 years. The decline in the indexes at the end of the lifetime is due to the death of the male partner preceding that of the female partner, with the surviving partner no longer able to benefit from sharing certain expenditures.

To simplify the comparisons of lifetime outcomes in this study, three summary measures of the living standards index are used. These are the average index over the years pre-retirement, the average over the years post-retirement, and the average over the lifetime (from age 21 years onwards). These summary measures for the couples under the Base Saving Strategy are shown in figure 4.2.

Under the Base Saving Strategy, figure 4.2 shows that the combination of compulsory superannuation and the Age Pension provide the Middle Income couple with a higher standard of living after retirement than they had on average over their pre-retirement years. The reverse is the case, however, for the High Income couple. Relying on the compulsory 9% superannuation contribution, and any Age Pension entitlement, is not sufficient to provide the High Income couple after retirement with the same standard of living that they enjoyed before retirement.

Figure 4.2 **Summary measures of living standard index for Middle Income and High Income cases under Base Saving Strategy**




*Data source:* NATSEM simulations.

## 4.2 Saving strategy 2 – savings via the MTSV

Under Strategy 2, the couple saves 5% of their gross earnings and contributes these to the MTSV account. Note that in the period where the spouse is in only part-time employment due to the presence of young children, no savings are directed into the MTSV account. There are in fact two strategies here which differ according to when the MTSV funds are accessed:

- Saving strategy 2a - No withdrawals from the MTSV account until retirement.
- Saving strategy 2b - Withdrawals are made from the MTSV account before retirement.

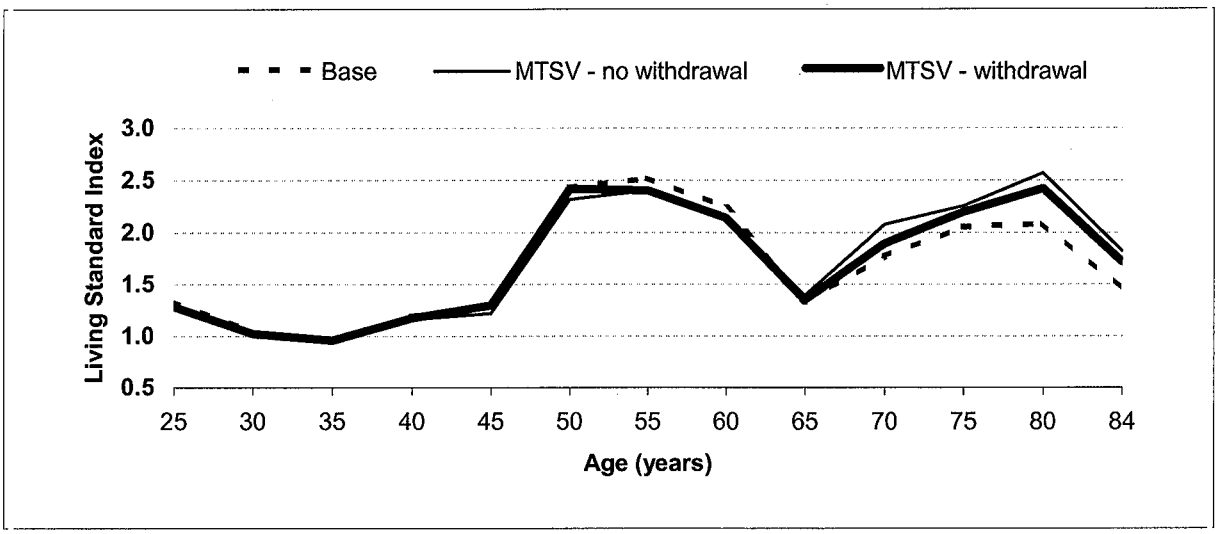
In modelling Strategy 2b, withdrawals from the MTSV account are linked to extra mortgage payments. This link to mortgage payments is only for the purposes of this simulation, with the MTSV proposal not tying withdrawals to a single specific purpose. These withdrawals are made in the simulation whenever both the account has reached a minimum balance of $10,000 and there is an amount of outstanding mortgage to be repaid. Tax is firstly paid on the withdrawn amount in accordance with the policy outlined in section 2, with the balance paid against the mortgage.

Saving an additional 5% of gross earnings in the MTSV is a major saving effort - equivalent to over half of the compulsory superannuation contribution. Over their working lifetime, the simulation has the High Income couple making contributions of around $190k (after tax) to the MTSV, with a corresponding contribution by the

Middle Income couple of around $120k. Under the rules of this simulation, with MTSV withdrawals linked to any outstanding mortgage, the High Income couple withdraw around $70k from their MTSV account - that is, about 35% of contributions. These withdrawals are made first in their late 20s, with the last withdrawal in their mid-40s when the mortgage is paid off. The Middle Income couple withdraw about $35k from their MTSV account - about 30% of their after-tax contributions - though do not have sufficient accumulated contributions to make their first withdrawal until they are in their late 30s.

The detailed living standard indexes for these two MTSV strategies are given in tables A2 (Middle Income) and A3 (High Income) in appendix A. The outcomes are illustrated in figure 4.3, in comparison with the Base Strategy, for the Middle Income case. The pattern of outcomes is similar for the High Income case.

Figure 4.3 **Living standard index (5-year averages[a]) for Middle Income case under MTSV Strategies (2a and 2b) and Base Strategy**




[a] The 5-year averages refer to the 5 years ending with the year shown. For example, the 5-year average for age 25 is the average of the results for ages 21, 22, 23, 24 and 25. For age 84, the average is over 4 years.
*Data source:* NATSEM simulations.

Looking first in figure 4.3 at the strategy of MTSV saving with no withdrawal until retirement, and comparing it to the Base Strategy, the program of savings somewhat reduces living standards before retirement but markedly increases post-retirement living standards. This is the typical simple picture of retirement savings - forgoing consumption and living standards before retirement in order to fund a higher standard of living after retirement. When withdrawals from the MTSV account are allowed before retirement, there is a smaller decrease in pre-retirement living standards and a smaller - though still significant - increase in post-retirement living standards.

The summary living standards measures for these two MTSV strategies, in comparison with the Base Strategy, are presented in figure 4.4 (Middle Income case) and figure 4.5 (High Income case). The first point to notice from figures 4.4 and 4.5 is that the average decline in pre-retirement living standards with MTSV saving is much less than the average post-retirement increase in living standards. This is the result of the different lengths of the periods before and after retirement, and of the compounding growth of the MTSV fund. The second point to note is that the increase in post-retirement living standards that occurs under these MTSV strategies is particularly marked for the High Income couple. It is more than enough in this case to see post-retirement living standards that are higher than pre-retirement living standards. The reverse was the situation for the High Income case under the Base Strategy.

In summary, compared to the base case, saving through the MTSV *without withdrawal* results in:

*for the Middle Income couple:*

- a 4% decline in living standards before retirement;
- a 19% increase in living standards after retirement; and
- an overall 4% increase in lifetime living standards.

*and for the High Income couple:*

- a 4% decline in living standards before retirement;
- a 32% increase in living standards after retirement; and
- an overall 7% increase in lifetime living standards.

Saving through the MTSV *with withdrawal,* compared to the base case, results in:

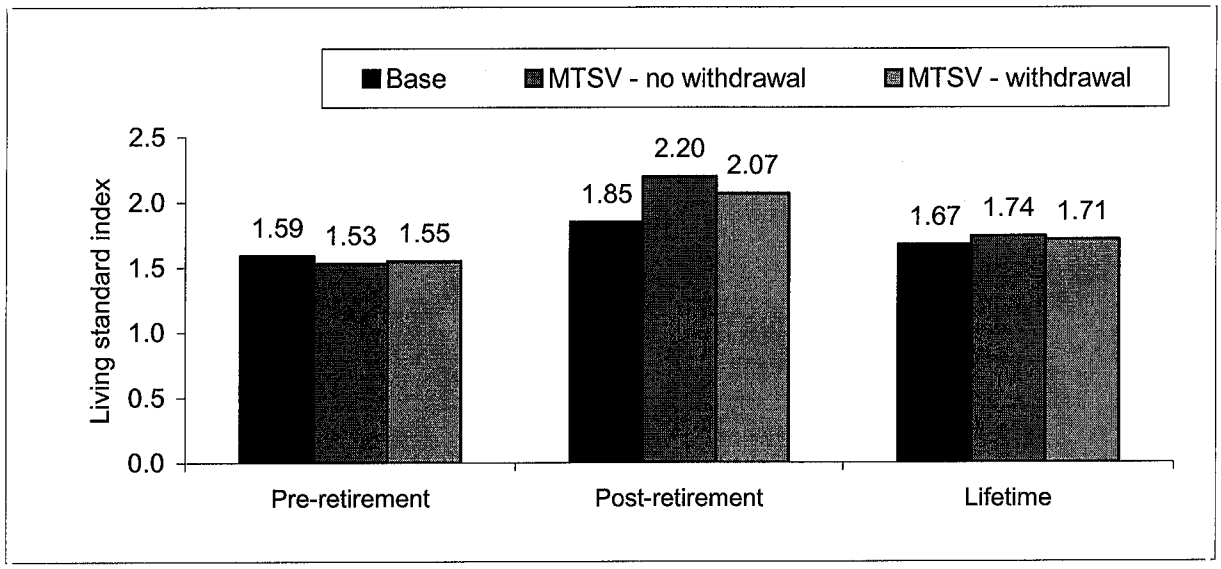
*for the Middle Income couple:*

- a 3% decline in living standards before retirement;
- a 12% increase in living standards after retirement; and
- an overall 2% increase in lifetime living standards.

*and for the High Income couple:*

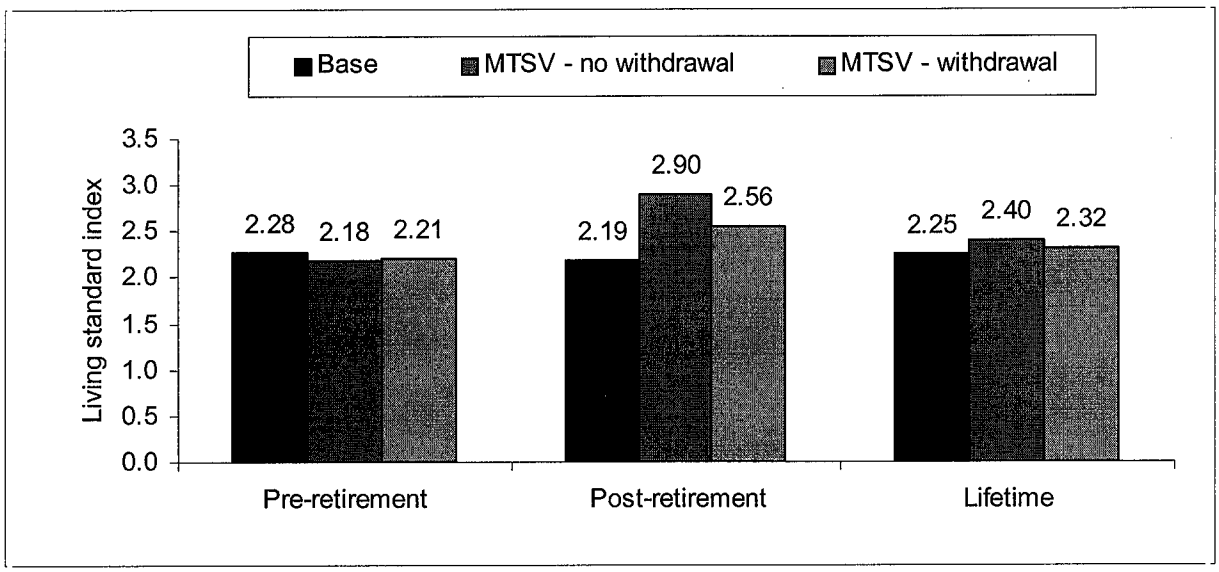
- a 3% decline in living standards before retirement;
- a 17% increase in living standards after retirement; and
- an overall 3% increase in lifetime living standards.

Figure 4.4 **Summary measures of living standard index for Middle Income case under Base Strategy and MTSV Strategies**




*Data source:* NATSEM simulations

Figure 4.5 **Summary measures of living standard index for High Income case under Base Strategy and MTSV Strategies**




*Data source:* NATSEM simulations

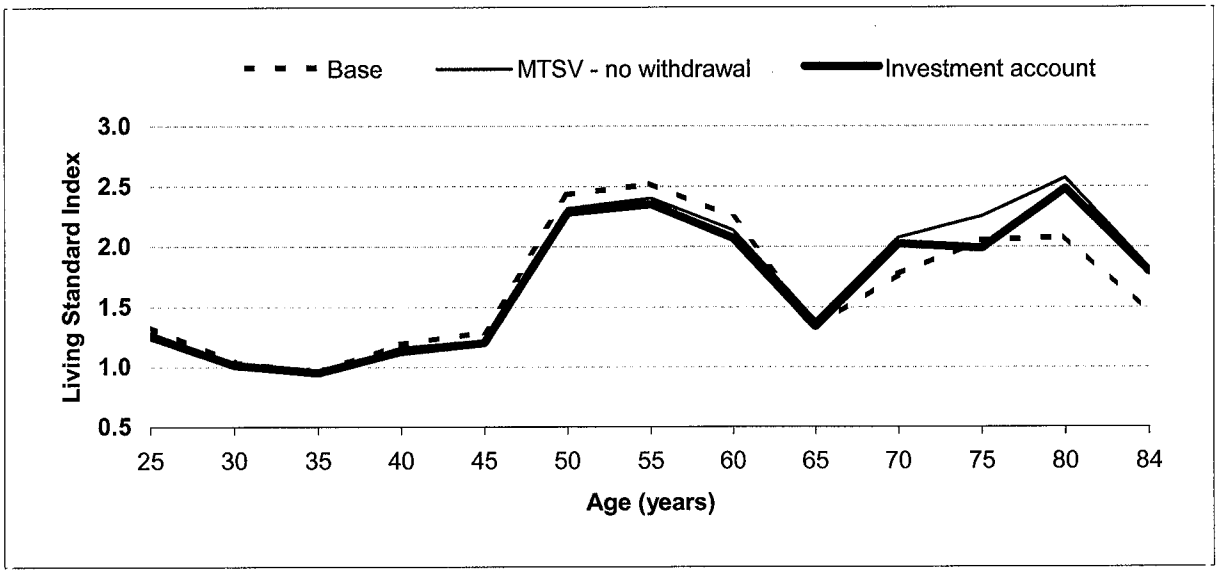
## 4.3 Saving strategy 3 – saving via an investment account

The comparison of the outcomes for the two MTSV strategies with the Base Strategy showed the impact on living standards of saving for retirement, and compared the

impacts of a saving program with and without withdrawals before retirements. It did not, however, demonstrate any particular benefits of the MTSV as a means of saving. To do this, the MTSV Strategy 2a is compared with a corresponding strategy where additional saving for retirement is made through a standard investment account (Strategy 3), which does not enjoy the particular tax treatment of superannuation. Under this strategy, as with the MTSV saving, 5% of gross earnings is set aside for the investment account. However, because tax, HECS and Medicare need to be deducted in this case, the actual amount of money that is deposited in the investment account after is less than the amount deposited into the MTSV. The MTSV contributions were not treated as part of taxable income and thus received more generous tax treatment. The MTSV contributions were also not liable for Medicare and HECS. The investment account strategy had 4.5% real earnings, the same as the MTSV account, and also included 9% SG employer superannuation.

The impact on living standards over the lifetime through saving via a standard investment account, in comparison with the MTSV Strategy (Strategy 2a) and the Base Strategy, is illustrated with the Middle Income couple in figure 4.6. The detailed living standard indexes for this strategy are given in table A4 in appendix A.

Figure 4.6 **Living standard index (5-year averages[a]) for Middle Income case under Investment Account Strategy (3), MTSV Strategy (2a) and Base Strategy**




[a] The 5-year averages refer to the 5 years ending with the year shown. For example, the 5-year average for age 25 is the average of the results for ages 21, 22, 23, 24 and 25. For age 84, the average is over 4 years.
*Data source:* NATSEM simulations

Saving for retirement through a standard investment account is shown in figure 4.6 to result in a slightly larger reduction in pre-retirement living standards than is the case with the MTSV, and a notably smaller increase in post-retirement living standards than occurs with the MTSV. This shows the impact of the various taxation

and means-testing advantages of superannuation-style saving, both while saving and after retirement.

The summary living standards measures for the Investment Account Strategy, in comparison with the Base Strategy and MTSV Strategy (2a), are presented in figure 4.7 (Middle Income case) and figure 4.8 (High Income case). A standard investment account is revealed as a clearly less efficient way of saving for retirement than the MTSV with its superannuation-style incentives. Indeed, for the Middle Income couple, saving through an investment account results in no significant change in average living standards over their lifetime, compared to the Base Strategy.

Compared to the Base Strategy (and with the corresponding results for MTSV saving without withdrawals in brackets), saving through the investment account results in:

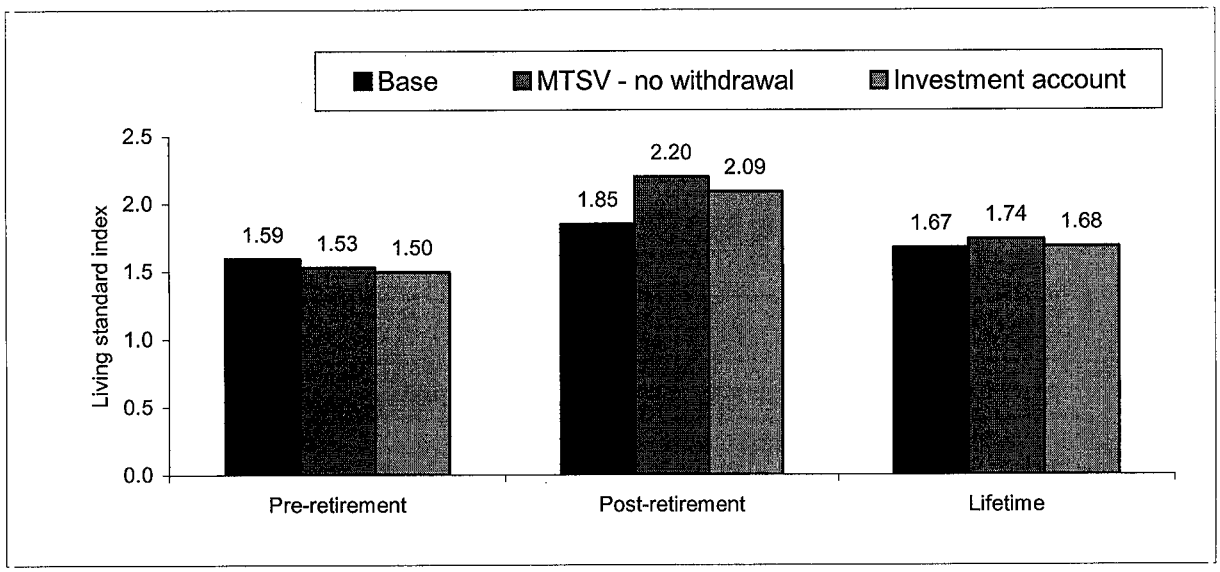
*for the Middle Income couple:*

- a 6% decline in living standards before retirement (4% under MTSV 2a);
- a 13% increase in living standards after retirement (19% under MTSV 2a); and
- an overall 1% increase in lifetime living standards (4% under MTSV 2a).

*and for the High Income couple:*

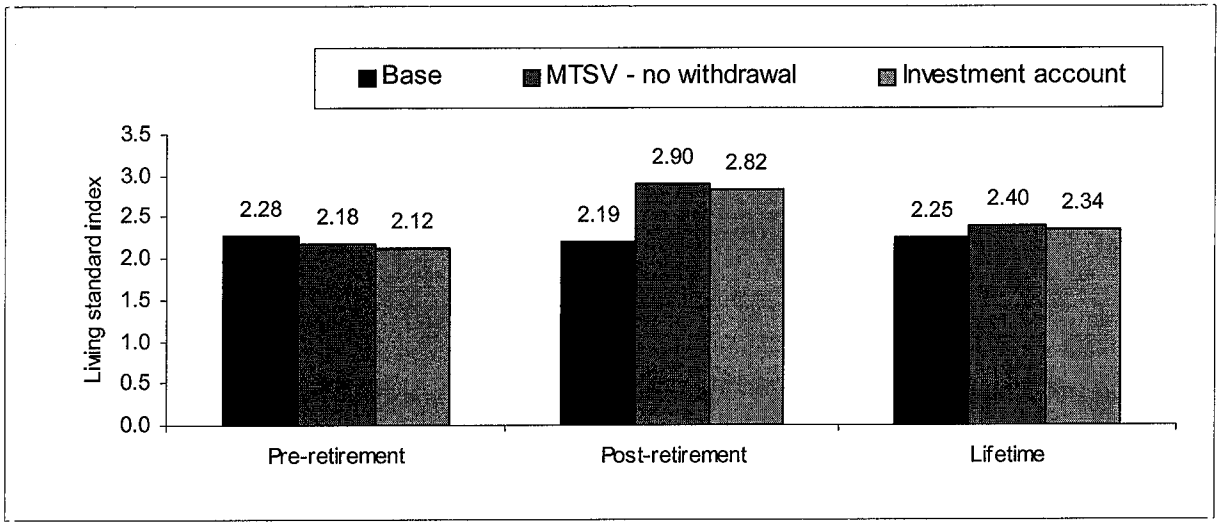
- a 7% decline in living standards before retirement (4% under MTSV 2a);
- a 29% increase in living standards after retirement (32% under MTSV 2a); and
- an overall 4% increase in lifetime living standards (7% under MTSV 2a).

Figure 4.7 **Summary measures of living standard index for Middle Income case under Investment Account Strategy, Base Strategy and MTSV (2a) Strategy**




*Data source:* NATSEM simulations

Figure 4.8 **Summary measures of living standard index for High Income case under Investment Account Strategy, Base Strategy and MTSV (2a) Strategy**




*Data source:* NATSEM simulations

## 4.4 Saving strategy 4 – saving with a combination of the MTSV and an investment account

A further strategy of interest to the FPA was one in which saving is undertaken through both the MTSV and an investment account (Strategy 4). For this strategy 2.5% of gross earnings was directed to the MTSV and 2.5% into an investment account. The contributions are taxed in the same way as in the relevant strategies above. No withdrawals were made from the MTSV until retirement. Once again real earnings for the accounts were 4.5%, there was 9% employer super contribution, and no contributions to savings while the female partner was only working part-time because of the presence of young children.

As would be expected, the results for this strategy fall midway between the results for the two alternative savings vehicles that are combined in this strategy. This is evident from table 4.1 which presents the summary measures for the living standard indexes for the combined strategy in comparison with the results for the separate means of saving. Detailed results for Strategy 4 are given in table A5 in appendix A.

Table 4.1 **Summary measures of living standard index for Middle Income and High Income cases under MTSV (2a) Strategy, Investment Account Strategy, and combined MTSV/Investment Account Strategy**

| | Strategy 2a MTSV – no withdrawal | Strategy 3 Investment account | Strategy 4 Combination of MTSV – no withdrawal and investment account |
|---|---|---|---|
| | Average living standard index | Average living standard index | Average living standard index |
| **Middle Income** | | | |
| Pre-retirement | 1.53 | 1.50 | 1.51 |
| Post-retirement | 2.20 | 2.09 | 2.15 |
| Lifetime | 1.74 | 1.68 | 1.71 |
| **High Income** | | | |
| Pre-retirement | 2.18 | 2.12 | 2.15 |
| Post-retirement | 2.90 | 2.82 | 2.86 |
| Lifetime | 2.40 | 2.34 | 2.37 |

*Source:* NATSEM simulations.

## 4.5 Overview

The results for all five strategies are brought together here using the summary measures of average living standards. The results for the Middle Income couple are presented first, followed by those for the High Income couple.

### *Middle Income*

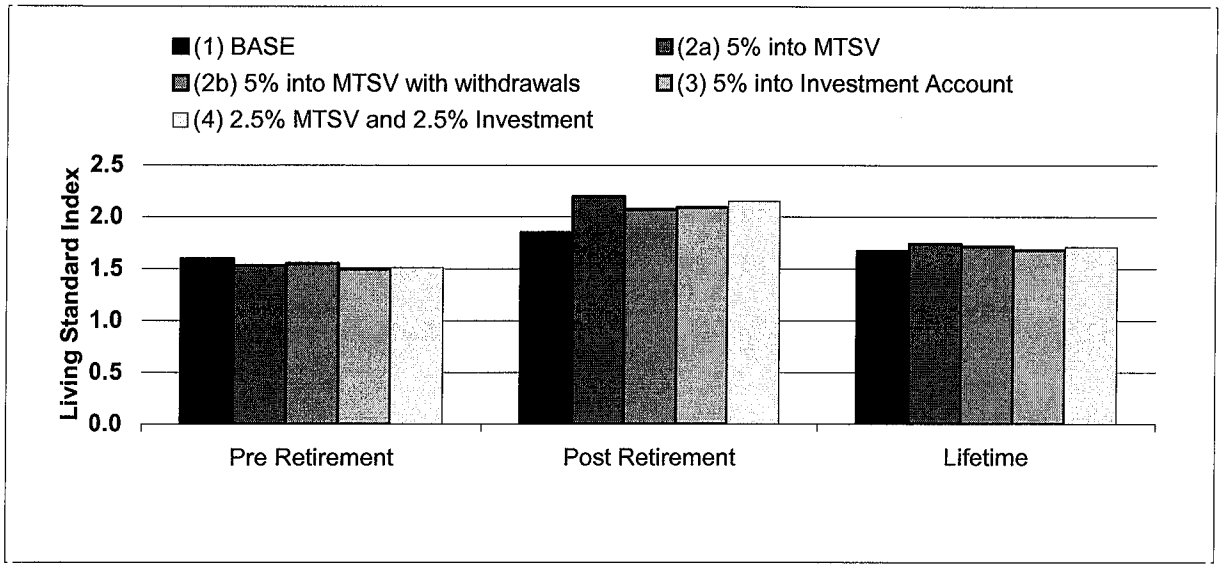
The summary results for the Middle Income couple under the five strategies are given in table 4.2 and figure 4.9.

Table 4.2 **Summary measures of living standard index under all strategies: Middle Income case**

| Period | Saving strategy | | | | |
|---|---|---|---|---|---|
| | (1) BASE | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3) 5% into Investment Account | (4) 2.5% MTSV and 2.5% Investment |
| Pre Retirement | 1.59 | 1.53 | 1.55 | 1.50 | 1.51 |
| Post Retirement | 1.85 | 2.20 | 2.07 | 2.09 | 2.15 |
| Lifetime | 1.67 | 1.74 | 1.71 | 1.68 | 1.71 |

*Source:* NATSEM simulations.

Figure 4.9 **Summary measures of living standard index under all strategies: Middle Income case**




*Data source:* NATSEM simulations.

These comparative results are summarised in table 4.3 which shows the summary living standards measures under each of the additional saving strategies as a percentage change from the Base saving strategy.

Table 4.3 **Summary measures of living standard index under additional saving strategies as percentage of Base saving strategy: Middle Income case**

| Period | Saving strategy | | | |
|---|---|---|---|---|
| | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3) 5% into Investment Account | (4) 2.5% MTSV and 2.5% Investment Account |
| | % change from Base | % change from Base | % change from Base | % change from Base |
| Pre Retirement | -4 | -3 | -6 | -5 |
| Post Retirement | 19 | 12 | 13 | 16 |
| Lifetime | 4 | 2 | 1 | 2 |

*Source:* NATSEM simulations.

For the Middle Income couple, the saving strategy that resulted in the least reduction in pre-retirement living standards was the MTSV strategy that allowed withdrawals to pay off a home loan (-3%). The Investment Account Strategy provided the lowest pre-retirement living standard (-6%) due to interest income forming part of the couple's taxable income.

All the saving strategies result in an increase in post-retirement living standards, with the MTSV strategy without withdrawal before retirement easily providing the largest increase in living standards in retirement (19%) - significantly higher than the base case.

The two MTSV strategies result in the largest increase in average living standards across the lifetime (4% and 2%). Due to unpreferential tax treatment, the Investment Account strategy did not fare so well, with the average living standard across the lifetime being virtually the same as for the Base strategy.

Comparing the two MTSV strategies - with and without withdrawals before retirement - the trade-off is between the opportunity to relieve pre-retirement debt and the level of post-retirement living standards. That said, both variants of the MTSV strategy result in significantly higher post-retirement living standards.

### *High Income couple*

Consolidated results for the High Income couple are shown in table 4.4 and figure 4.10, with summary results in terms of percentage changes from the Base saving strategy in table 4.5.

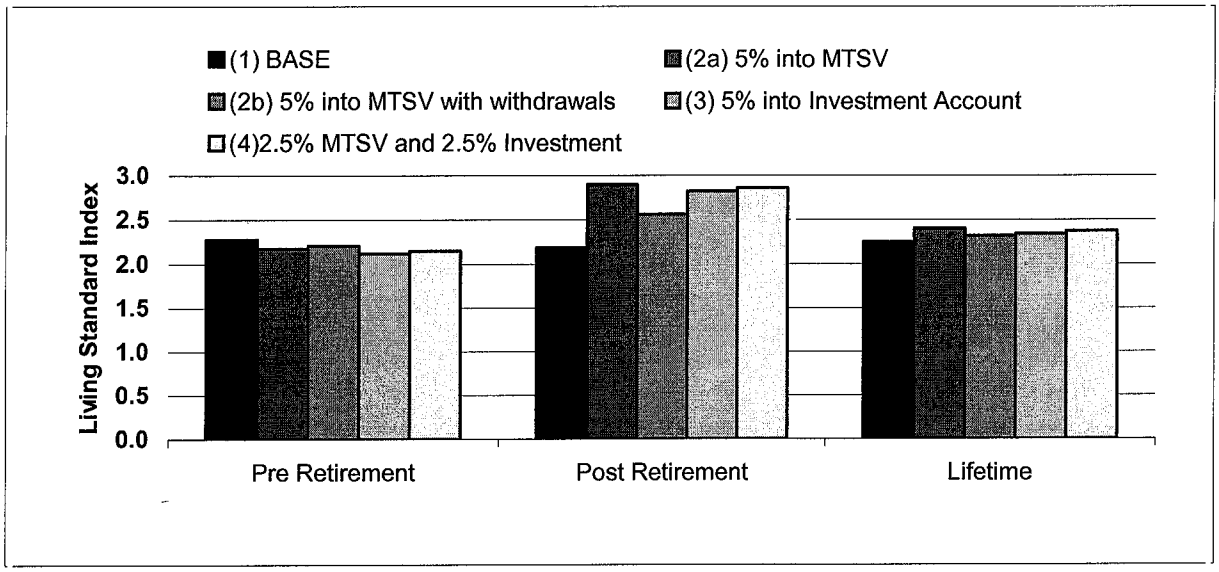
Table 4.4 **Summary measures of living standard index under all strategies: High Income case**

| Period | Saving strategy | | | | |
|---|---|---|---|---|---|
| | (1) BASE | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3) 5% into Investment Account | (4) 2.5% MTSV and 2.5% Investment |
| Pre Retirement | 2.28 | 2.18 | 2.21 | 2.12 | 2.15 |
| Post Retirement | 2.19 | 2.90 | 2.56 | 2.82 | 2.86 |
| Lifetime | 2.25 | 2.40 | 2.32 | 2.34 | 2.37 |

*Source:* NATSEM simulations.

The results for the High Income couple show the same general pattern of living standards outcomes as was seen for the Low Income couple. The MTSV strategy without pre-retirement withdrawal again provides the highest average living standard across the lifetime. The MTSV strategy with provision for withdrawal before retirement shows only a marginal decline in pre-retirement living standards (against the Base Strategy), but still provides for a marked increase in post-retirement living standards.

Figure 4.10 **Summary measures of living standard index under all strategies: High Income case**




*Data source:* NATSEM simulations.

Table 4.5 **Summary measures of living standard index under additional saving strategies as percentage of Base saving strategy: High Income case**

| Period | Saving strategy | | | |
|---|---|---|---|---|
| | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3) 5% into Investment Account | (4) 2.5% MTSV and 2.5% Investment Account |
| | % change from Base | % change from Base | % change from Base | % change from Base |
| Pre Retirement | -4 | -3 | -7 | -6 |
| Post Retirement | 32 | 17 | 29 | 31 |
| Lifetime | 7 | 3 | 4 | 5 |

*Source:* NATSEM simulations.

One difference between the results for the Middle Income and High Income couples concerns the relative outcomes for the savings through the MTSV with withdrawals and through the investment account. For the Middle Income case, saving through the investment account provided only a slightly higher post-retirement standard of living than saving through the MTSV with withdrawals, at the expense of a notably greater decrease in pre-retirement living standards and a less favourable outcome for lifetime living standards. With the High Income case, saving through the investment account provides for a 29% increase in post-retirement living standards, compared to 17% for the MTSV with withdrawals, and for a slightly higher increase in lifetime living standards.

# 5 Sensitivity analysis

Sensitivity analysis of the impact of the alternative saving strategies on living standards was conducted with respect to four aspects of the modelling:

- the rate of real investment earnings;
- the form in which retirement benefits are taken;
- the level of health and aged care costs in later life;
- the assumed course of home purchase over the lifetime; and
- the provision for pre-retirement withdrawals under the investment account saving strategy.

The results of these sensitivity analyses are presented in this section and, generally, just for the case of the Middle Income couple.

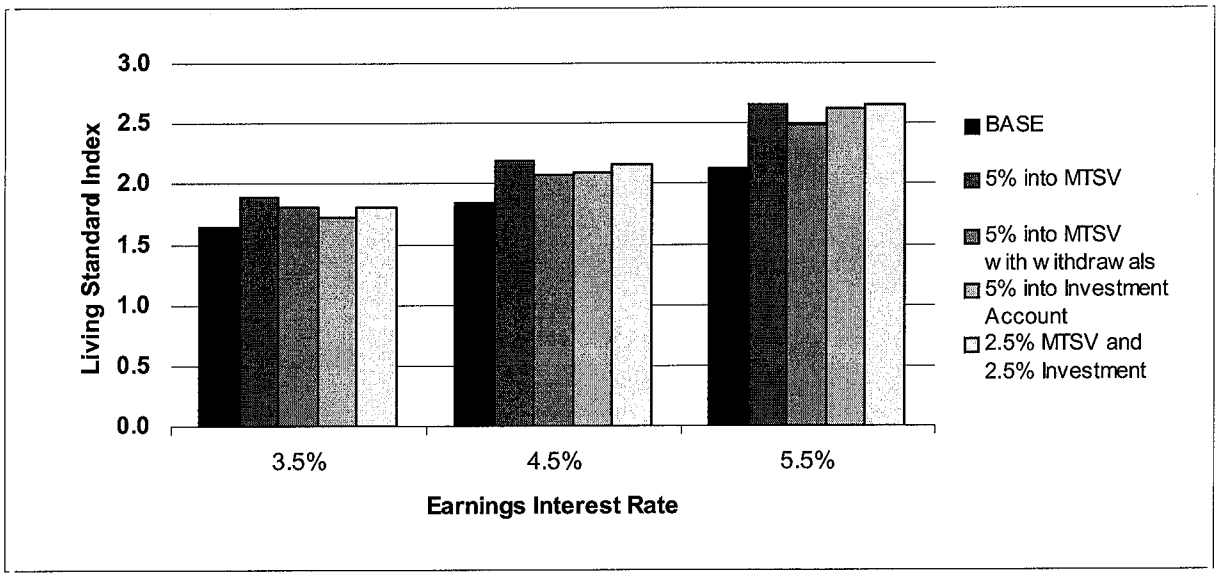
## 5.1 Real investment earnings

The outcomes for the different saving strategies described in section 4 were generated with superannuation funds and investment account funds earning 4.5% (in real terms) per year. Because projected retirement incomes - and, thereby, living standards in retirement - are particularly sensitive to this earnings rate, it is useful to also look at the outcomes if real investment earnings are lower (3.5%) or higher (5.5%).

The detailed results of this sensitivity analysis are given in table A6 (Middle Income) and table A7 (High Income) in appendix A. The scenarios of real investment earnings have only a minor effect on pre-retirement living standards (affecting saving through an investment account where higher earnings means higher tax), and summary results are, accordingly, only presented below for average living standards after retirement (figure 5.1 - Middle Income).

Variation in the rate of investment earnings clearly has a dramatic impact on living standards in retirement. Taking saving through the MTSV without withdrawals, for example, a 1% point decrease in investment earnings reduces living standards in retirement by 15%; a 1% point increase in the earnings rate raises them by 21%. The impact is not, however, uniform across the saving strategies. Figure 5.1 shows greater sensitivity, as would be expected, for those strategies which involve higher levels of saving for retirement. This results in one change in the ordering of the saving strategies as the investment earnings rate is varied - as the rate increases, savings through the investment account becomes more advantageous compared to saving through the MTSV with withdrawals.

Figure 5.1 **Post-retirement living standards for all saving strategies, by real rate of investment earnings: Middle Income case**




*Data source:* NATSEM simulations.

## 5.2 Form of benefit

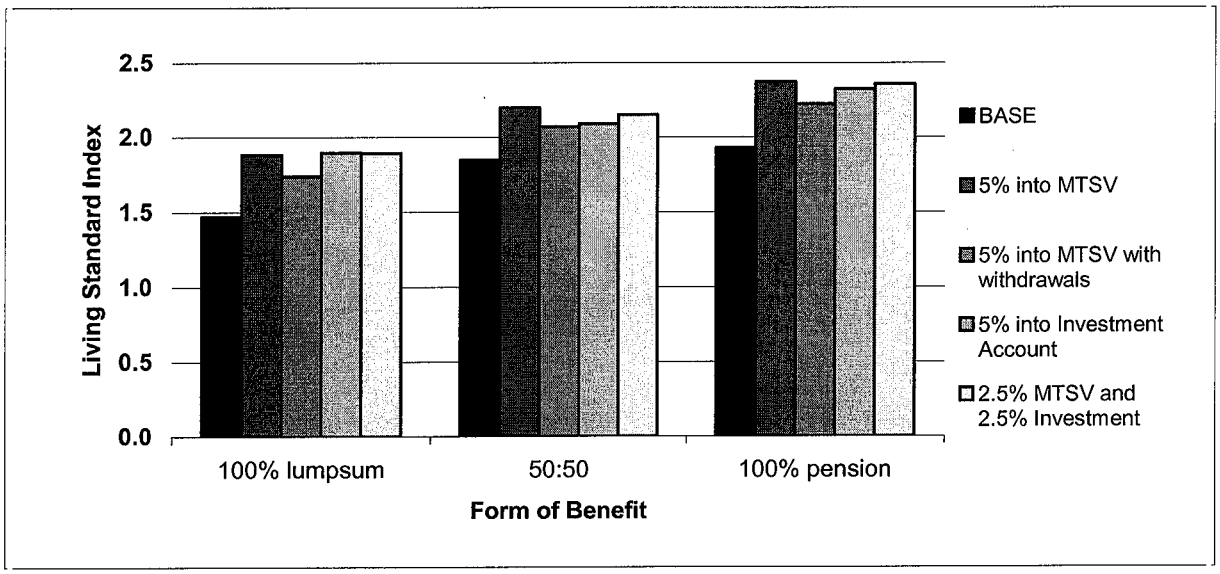
Another variation to the base scenario is the effect of the different forms in which a superannuation benefit can be taken. Lump sums and superannuation pensions have different implications for the degree of concessionary tax on the superannuation benefit and for social security means-testing. In the modelling so far, superannuation benefit was split 50:50 between a lump sum and a superannuation pension. Given the trend to date for superannuation benefits to be taken as lump sums, this is a generous assumption as it allows for greater concessionary taxation of the superannuation benefit.

Three scenarios of form of benefit are modelled here:

- retirement benefits taken as 100% lump sum;
- retirement benefits taken as 50:50 pension / lump sum (as in the analysis above); and
- retirement benefits taken as 100% pension.

The detailed results are given in table A8 (Middle Income) and table A9 (High Income) in the appendix. There is no variation in pre-retirement living standards under these scenarios, and the focus is on living standards in retirement with the results for the Middle Income case shown in figure 5.2.

Figure 5.2 **Post-retirement living standards for all saving strategies, by form of retirement benefit: Middle Income case**




*Data source:* NATSEM simulations.

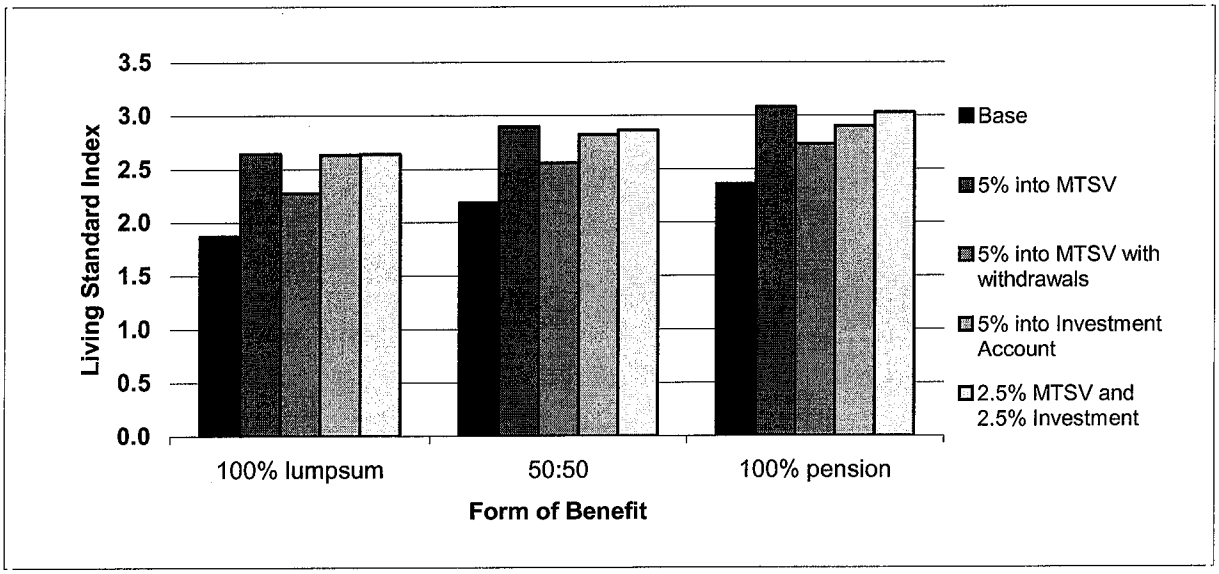
For all saving strategies, figure 5.2 shows markedly higher living standards in retirement if a greater proportion of the retirement benefit is taken as a pension. This is particularly the case where at least 50% is taken as a pension compared to the 100% lump sum scenario.

As indicated earlier, many people reaching retirement still have debts to pay and taking their super as a lump sum may be an attractive option for this reason. The FPA believe that an important advantage of the MTSV proposal is the ability to access funds before retirement thus allowing debt to be paid off or reduced. This in turn allows the option for a person to take the remaining retirement benefits as a pension; thus allowing them to access the greater taxation and social security advantages.

In this regard, it is interesting to note that saving through the MTSV with withdrawals, and taking the retirement benefit as a 50:50 pension/lump sum, provides for a higher level of living standards in retirement than under any of the other saving strategies if the retirement benefit in those cases is taken as 100% lump sum. The same is true for the MTSV with withdrawals and 100% pension, compared to the other strategies with a 50:50 form of benefit. The broad point is that - for the Middle Income case, if the MTSV with withdrawals allows a significantly greater proportion of retirement benefits to be taken as a pension, then living standards in retirement will be higher despite the pre-retirement withdrawals.

While this is true for the Middle Income case, it does not also hold for the High Income case (figure 5.3). The High Income results do, however, show the same basic pattern of an increase in post-retirement living standards as more of the retirement benefit is taken as a pension.

Figure 5.3 **Post-retirement living standards for all saving strategies, by form of retirement benefit: High Income case**




*Data source:* NATSEM simulations.

## 5.3 Health and aged care costs

Another aspect of the modelling for consideration is the effect on outcomes if health and aged care costs mean increasing overall costs for older people. The modelling so far assumes that the costs of adults do not vary with age, and the budget standards used as the basis for the living standard benchmarks in this study did not cover people over the age of 70. Our examination of this aspect is confined to the possibility of increasing health and aged care costs with age. This is handled by increasing the living standards benchmark by 1% per annum after the age of 70.

Making this adjustment to the costs of older age has the effect of reducing the living standard provided by a given level of retirement income. Table 5.1 shows the effect on retirement living standards if increased health and aged care costs after the age of 70 are factored in to the modelling. Column A in figure 5.1 gives the outcomes without the additional costs - that is, the outcomes from the modelling so far - while column B includes the allowance for increased costs.

Table 5.1 **Summary living standards for all saving strategies, with and without living costs adjusted for increased health and aged care costs after the age of 70 years: Middle Income case**

| Age (years) | BASE | | 5% into MTSV | | 5% into MTSV with withdrawal | | 5% into Investment Account | | 2.5% MTSV and 2.5% Investment | |
|---|---|---|---|---|---|---|---|---|---|---|
| | A | B | A | B | A | B | A | B | A | B |
| Pre Retirement | 1.59 | 1.59 | 1.53 | 1.53 | 1.55 | 1.55 | 1.50 | 1.50 | 1.51 | 1.51 |
| Post Retirement | 1.85 | 1.76 | 2.20 | 2.09 | 2.07 | 1.97 | 2.09 | 1.98 | 2.15 | 2.04 |
| Lifetime | 1.67 | 1.64 | 1.74 | 1.70 | 1.71 | 1.68 | 1.68 | 1.65 | 1.71 | 1.68 |

Note: A – without increased costs; B – with increased costs.
*Source:* NATSEM simulations

The effect of allowing for possibly higher health and aged care costs in later life is uniform across the saving strategies. The levels of living standards in retirement are reduced (by 5%), though the relativities between the outcomes under the various saving strategies are unchanged.

## 5.4 A double mortgage

A key advantage of the proposed MTSV over conventional superannuation saving is the provision for contributions to be withdrawn for specific purposes. Saving through the MTSV with withdrawals has been modelled in this analysis by linking withdrawals to outstanding mortgage payments. As described in section 4.2, this saw the Middle Income couple withdrawing about 30% of their MTSV contributions before retirement. But what if more intensive use were to be made of the provision for withdrawals?

Greater use of the withdrawal facility has been modelled here by maintaining the link between withdrawals and outstanding mortgage, but assuming that after paying off the first mortgage, the couple trade-up and take out another 20 year house mortgage at the age of 50. The amount of the mortgage was calculated in the same way as the first mortgage. It was calculated to be an amount that would make repayments equal to 25% of gross earnings at age 50.

Under this 'double mortgage' scenario, saving through the MTSV with withdrawals sees the Middle Income couple making withdrawals from their MTSV accounts right into their 60s - previously withdrawals ceased in their mid-40s when the mortgage was paid off. While the Middle Income couple under the standard mortgage scenario withdrew about 30% of their MTSV contributions, under the 'double mortgage' scenario they withdraw virtually all (98%) of their contributions before retirement.

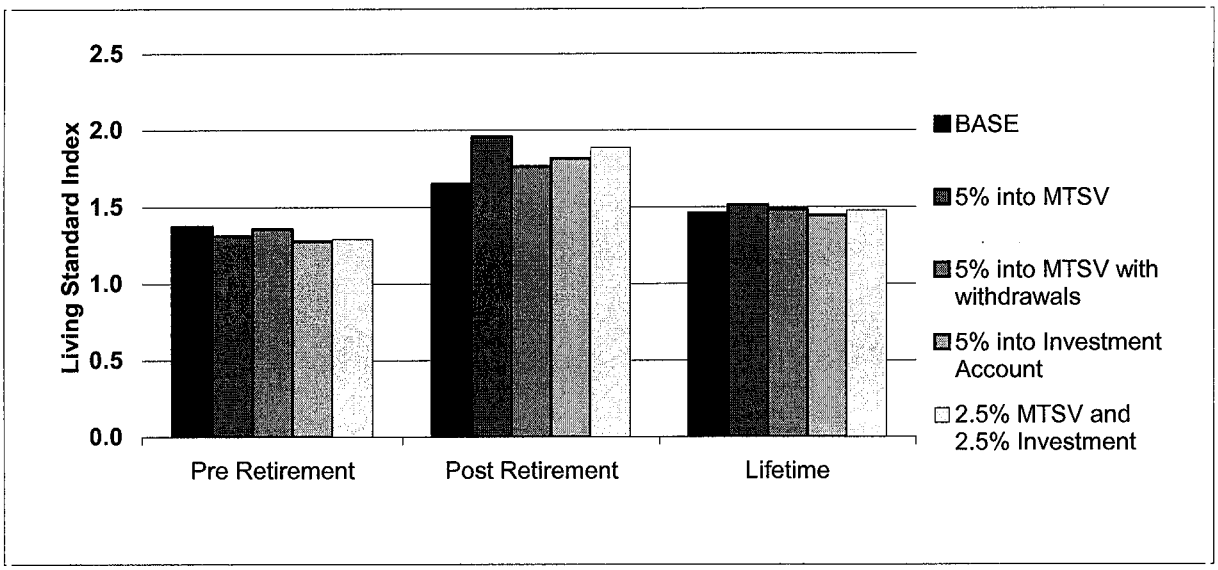
The detailed results under the double mortgage scenario are provided in tables A10-A12 in the appendix. The summary living standard measures are given in table 5.2 and figure 5.4. They correspond to the single-mortgage results that can be found in table 4.2 and figure 4.9.

Table 5.2 **Summary living standards for all saving strategies under double mortgage scenario: Middle Income case**

| Age (years) | BASE | 5% into MTSV | 5% into MTSV with withdrawals | 5% into Investment Account | 2.5% MTSV and 2.5% Investment |
|---|---|---|---|---|---|
| Pre Retirement | 1.37 | 1.31 | 1.36 | 1.28 | 1.29 |
| Post Retirement | 1.65 | 1.96 | 1.76 | 1.82 | 1.89 |
| Lifetime | 1.46 | 1.51 | 1.48 | 1.44 | 1.48 |

*Source:* NATSEM simulations.

Figure 5.4 **Summary living standards for all saving strategies under double mortgage scenario: Middle Income case**




*Data source:* NATSEM simulations.

Comparison of the results under the single and double mortgage scenarios shows the same pattern of outcomes - the same general order of relativities between the different saving strategies. Detailed comparison of the outcomes under the two scenarios is, however, made difficult by the fact that the double-mortgage scenario results across-the-board in notably lower levels of living standards both before and after retirement. With the base saving strategy, for example, the pre-retirement living standard index is 14% lower under the double-mortgage scenario compared to the single-mortgage scenario - and the post-retirement index is 10% lower.

The easiest way to compare the outcomes under the two scenarios is to look at the percentage changes in living standards from those under the Base saving strategy. Accordingly, the percentage change results from the single-mortgage scenario (from table 4.3) have been repeated in table 5.3 for comparison with the corresponding results under the double-mortgage scenario.

Table 5.3 **Summary measures of living standard index under additional saving strategies as percentage of Base saving strategy: single and double mortgage scenarios, Middle Income case**

| Period | Saving strategy | | | |
|---|---|---|---|---|
| | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3) 5% into Investment Account | (4) 2.5% MTSV and 2.5% Investment Account |
| | % change from Base | % change from Base | % change from Base | % change from Base |
| **Single mortgage** | | | | |
| Pre Retirement | -4 | -3 | -6 | -5 |
| Post Retirement | 19 | 12 | 13 | 16 |
| Lifetime | 4 | 2 | 1 | 2 |
| **Double mortgage** | | | | |
| Pre Retirement | -4 | -1 | -7 | -6 |
| Post Retirement | 19 | 7 | 10 | 15 |
| Lifetime | 3 | 1 | -1 | 1 |

*Source:* NATSEM simulations.

Table 5.3 shows that the double-mortgage scenario has the following impacts:

- The outcomes for MTSV savings without withdrawals, in comparison with the Base strategy, are virtually unchanged.
- For MTSV savings with withdrawals, the double-mortgage scenario results in a smaller decline in pre-retirement living standards, but a smaller increase in post-retirement living standards.
- Saving through the investment account under the double-mortgage scenario results in both a slightly greater decline in pre-retirement living standards and a smaller increase in post-retirement living standards.
- The outcomes for the 50:50 strategy remain broadly an average of the outcomes for the two components - saving through the MTSV without withdrawals, and saving through the investment account.

In summary, when more intensive use is made of the MTSV facility to withdraw contributions before retirement, then the capacity of the strategy to deliver a

significant increase in post-retirement living standards (7%), while minimising the effect of saving on pre-retirement living standards (just -1%) is accentuated. By making withdrawals from the MTSV account and paying them against the mortgage, the couple has managed to maintain a 'no extra savings' living standard before retirement, but still benefits from an increase in post-retirement living standards. While virtually all the MTSV contributions were withdrawn before retirement under this scenario, the fund earnings continued to accumulate.

## 5.5 An investment account with withdrawals

The previous sensitivity analysis focused on the provision with the proposed MTSV for contributions to be withdrawn for specific purposes before retirement, and examined outcomes if greater use were to be made of this facility. Continuing with this focus, it will be noticed that none of the alternative saving strategies covered in section 4 include pre-retirement withdrawals from savings. To fill this gap, saving through the MTSV with withdrawals is compared here with another saving strategy which allows pre-retirement withdrawals.

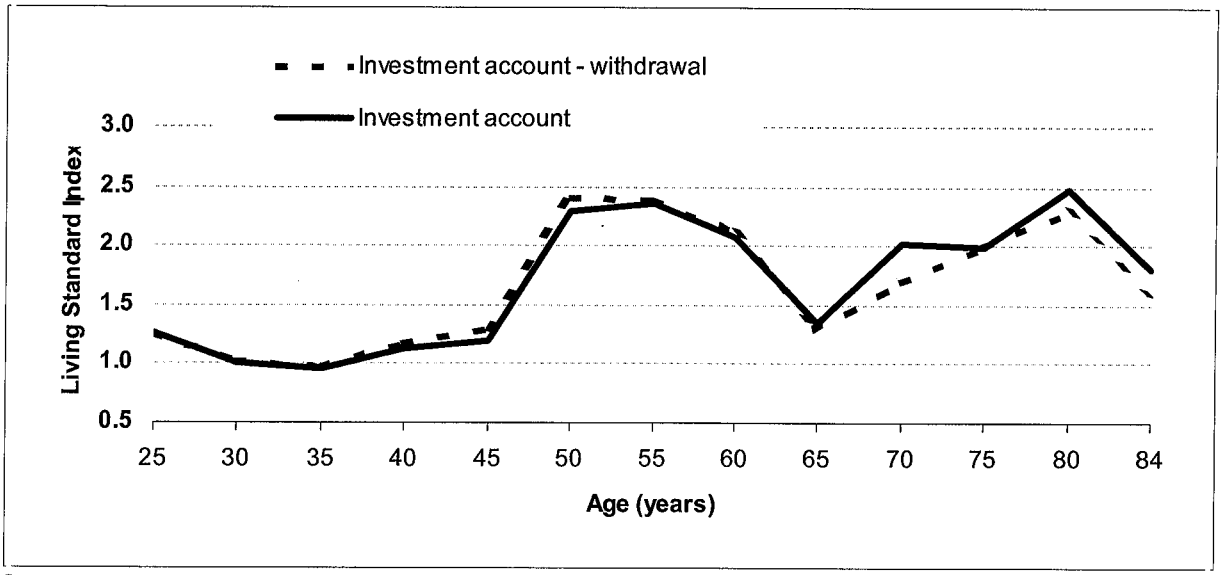
The alternative saving strategy with withdrawals is developed from the strategy of saving via an investment account (see section 4.3). In this case, withdrawals from the investment account are made before retirement and, to maintain comparability with the way in which MTSV withdrawals were modelled (see section 4.2), these withdrawals are linked to the mortgage. Specifically, any savings which would have been placed in the investment account are instead used for mortgage repayments as long as there is an outstanding mortgage. Furthermore, any accumulated savings in the investment account at the start of the mortgage are also devoted to mortgage repayments. Reflecting the nature of withdrawals from an investment account, these withdrawals are not subject to the same restrictions which apply to MTSV saving in this modelling. Thus, it is not necessary to wait until a given balance has been accumulated before a withdrawal can be made, and both the principal and interest components can be withdrawn.

This particular way of modelling pre-retirement withdrawals from the investment account results in a similar amount of additional mortgage repayments as under the strategy of MTSV saving with withdrawals. The time profiles of the withdrawals are, however, different with the withdrawals occurring earlier when made from the investment account than when made from the MTSV.

The detailed results for this strategy of saving through an investment account with withdrawals are given in table A13 in appendix A. The effect of allowing withdrawals from the investment account is shown in figure 5.5 which compares the living standards indexes over the lifetime for the investment account strategies with

and without withdrawals. By using savings to pay off the mortgage earlier, there is a noticeable increase in pre-retirement living standards. But this has been at the expense of saving for retirement, and there is a marked negative impact on living standards in retirement.

Figure 5.5 **Living standard index (5-year averages[a]) for Middle Income case under Investment Account Strategy with and without withdrawals**




[a] The 5-year averages refer to the 5 years ending with the year shown. For example, the 5-year average for age 25 is the average of the results for ages 21, 22, 23, 24 and 25. For age 84, the average is over 4 years.
*Data source:* NATSEM simulations

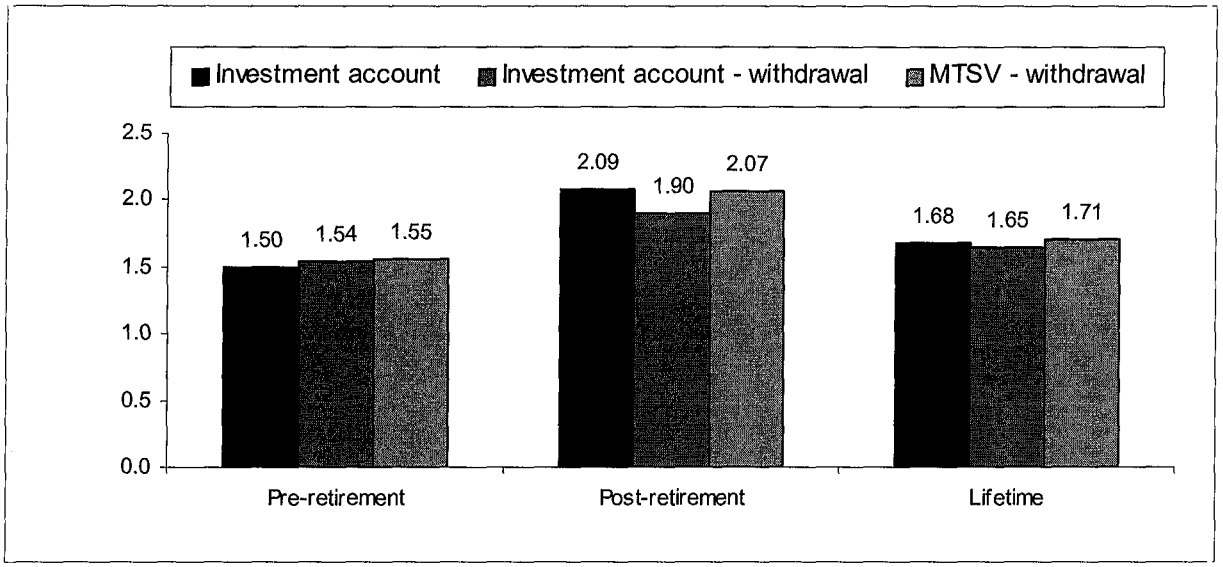
The main comparison here, however, is with saving through the MTSV with withdrawals. In section 4 it was found that saving through an investment account delivered higher post-retirement living standards than MTSV saving with withdrawals for both the Middle and High Income cases, and higher lifetime living standards for the High Income case. But how does saving through an investment account compare if it is also subject to withdrawals? The new comparison is shown for the Middle Income case in figure 5.6, and for the High Income case in figure 5.7.

For both the Middle and High Income cases, allowing withdrawals from the investment account increases pre-retirement living standards and decreases post-retirement living standards. But the increase in pre-retirement living standards is not quite enough to match the level enjoyed under the strategy of MTSV saving with withdrawals. Moreover, the reduction in post-retirement living standards leaves them below those that prevail under the MTSV strategy with withdrawals. Overall lifetime living standards are also below those for the MTSV strategy.

In summary, while the earlier comparison between MTSV saving with withdrawals and saving through an investment account showed mixed results, when pre-retirement withdrawals are also made from the investment account – under the

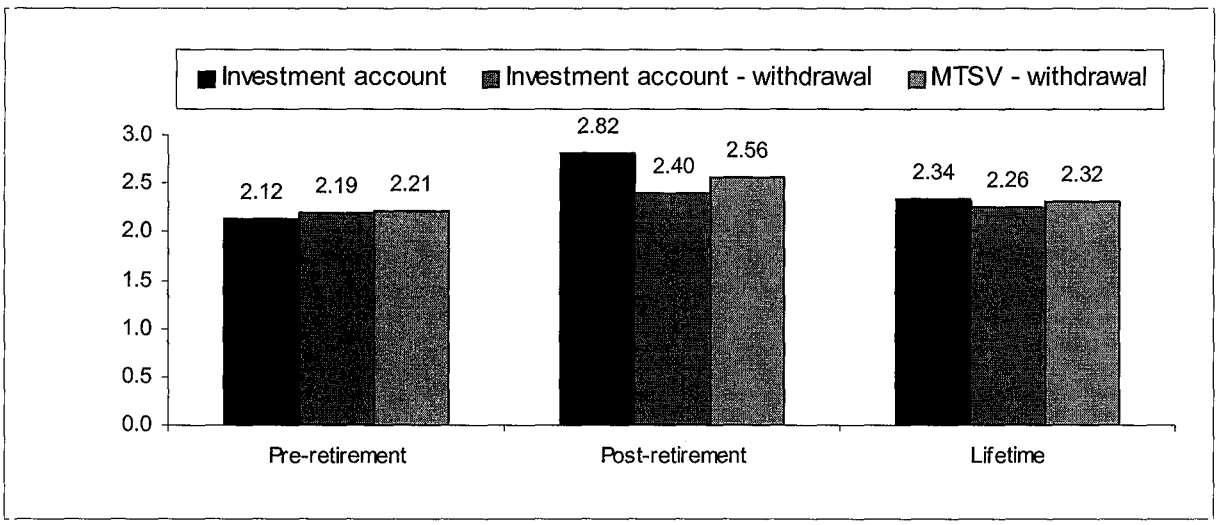
assumptions used in this exercise – then the MTSV strategy delivers higher living standards both before and after retirement for both the Middle and High Income cases.

Figure 5.6 **Summary measures of living standard index for Middle Income case under Investment Account Strategy, Investment Account Strategy with withdrawals, and MTSV (2b) Strategy.**




*Data source:* NATSEM simulations

Figure 5.7 **Summary measures of living standard index for High Income case under Investment Account Strategy, Investment Account Strategy with withdrawals, and MTSV (2b) Strategy.**




*Data source:* NATSEM simulations

Compared to saving through an investment account with withdrawals, the MTSV strategy with withdrawals provides:

- slightly higher pre-retirement living standards (1% higher for both the Middle and High Income cases);
- notably higher post-retirement living standards (9% higher for the Middle Income case, and 7% higher for the High Income case); and
- higher lifetime living standards (4% higher for the Middle Income case, and 3% higher for the High Income case).

# 6 Government revenues and outlays

The modelling used to calculate living standards over the lifetime includes consideration of a number of government taxes and outlays. It is thus possible to also compare the saving strategies according to these impacts on government. In doing so, it should be noted that this can only be a partial assessment of the impacts on government, which is confined to those elements included in the modelling. It does not include, for example, the impact on GST revenues or on capital gains tax. That said, the major elements of tax-transfer payments are included.

This analysis of impacts on government taxes and outlays is confined to the Middle Income case, and does not cover the '50:50' saving strategy since the outcomes for that strategy tend to be simply a midpoint of the outcomes for the two component strategies. The detailed results of this analysis are given in table 6.1.

Table 6.1 **Components of government revenues and outlays under alternative saving strategies: Middle Income case**

| Revenue/outlay component | Saving strategy | | | |
|---|---|---|---|---|
| | (1) Base | (2a) 5% into MTSV | (2b) 5% into MTSV with withdrawals | (3) 5% into Investment Account |
| | $000 | $000 | $000 | $000 |
| **Tax revenue** | | | | |
| Tax on SG contributions & earnings | 109 | 109 | 109 | 109 |
| Tax on MTSV contributions | 0 | 21 | 21 | 0 |
| Tax on MTSV earnings | 0 | 25 | 16 | 0 |
| Tax on MTSV withdrawals | 0 | 0 | 5 | 0 |
| Tax on retirement benefit | 5 | 21 | 14 | 5 |
| Income tax[a] – pre-retirement | 656 | 615 | 615 | 693 |
| Income tax[a] – post-retirement | 0 | 5 | 1 | 0 |
| Total tax | 771 | 796 | 782 | 807 |
| **Income support payments** | | | | |
| Pre-retirement | 19 | 26 | 26 | 18 |
| Post-retirement | 397 | 261 | 294 | 217 |
| Total income support payments | 416 | 287 | 320 | 235 |
| **Net revenue** | 355 | 509 | 461 | 572 |

*Note:* **a** Includes Medicare and HECS

*Source:* NATSEM simulations.

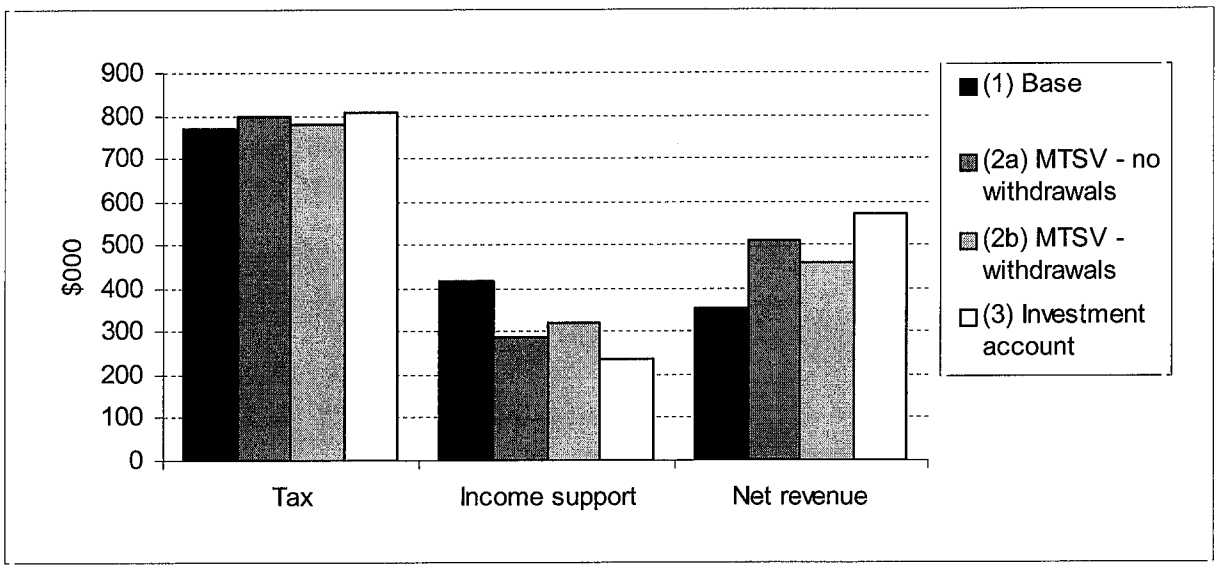
Working through each component, table 6.1 shows:

- With each saving strategy involving the same 9% contribution to compulsory (SG) superannuation, there is no difference across the strategies in revenue from taxation of SG contributions and earnings.
- The next three elements - taxation of MTSV components - clearly apply only to the two MTSV Strategies (2a and 2b). The level of MTSV contributions, and thereby the tax on contributions, is the same under both of the MTSV strategies. The MTSV strategy with withdrawals, however, results in lower fund earnings, and thus lower tax on MTSV interest, but does have the additional tax on withdrawals.
- The different levels of taxation of the retirement benefit across the strategies depends on the amount of superannuation and MTSV accumulated at retirement. These amounts are lowest (and the same) for the Base and Investment Account Strategies, and highest for MTSV saving without withdrawals.
- By far the largest taxation component covered in table 5.1 is income tax paid before retirement. Compared to the Base strategy, the amounts of income tax collected are lowest under the two MTSV strategies since the 5% MTSV contribution is not counted as taxable income. Saving through the investment account results in the highest level of pre-retirement income tax because it includes taxation of the investment earnings.
- Post-retirement income tax is a small element that varies according to the level and form of private retirement income. It only figures for the two MTSV strategies.
- Turning to the outlays, variations in the level of pre-retirement outlays on income support (Family Tax Benefit) are due to means-testing and the differences in taxable incomes. Thus the two MTSV strategies, which have the lowest taxable incomes, have the highest entitlements, while the Investment Account strategy, which has the highest taxable income, has the lowest entitlement.
- Finally, there is considerable variation evident in the large component of post-retirement outlays on income support (Age Pension). These entitlements depend on both the level and form of private retirement incomes. Thus, entitlements are lower than those under the Base strategy for all the additional saving strategies, and lowest for the Investment Account strategy which does not enjoy the same degree of concessional means testing that the MTSV strategies receive.

The broad picture of the impacts on government revenues and outlays is obtained by summing the components of table 6.1. These subtotals are included in the table and

are also shown in figure 6.1. The first point to note is that there is relatively little variation in the amount of tax collected over the lifetime under the four strategies. The major difference between the strategies is in the level of income support outlays, and this is largely differences in entitlements to Age Pension. It is these differences in Age Pension entitlements that drive the variations in net lifetime government revenue shown in figure 6.1 and in the bottom line of table 6.1. All the additional saving strategies, with their lower entitlements to Age Pension, thus involve higher lifetime net government revenue than under the Base strategy. Basically, private provision for retirement incomes is replacing part of the government provision. Among the additional saving strategies, net revenue increases as the entitlement to Age Pension falls, with the highest net revenue accordingly seen for the Investment Account strategy.

Figure 6.1 **Government revenues and outlays under alternative saving strategies: Middle Income case**



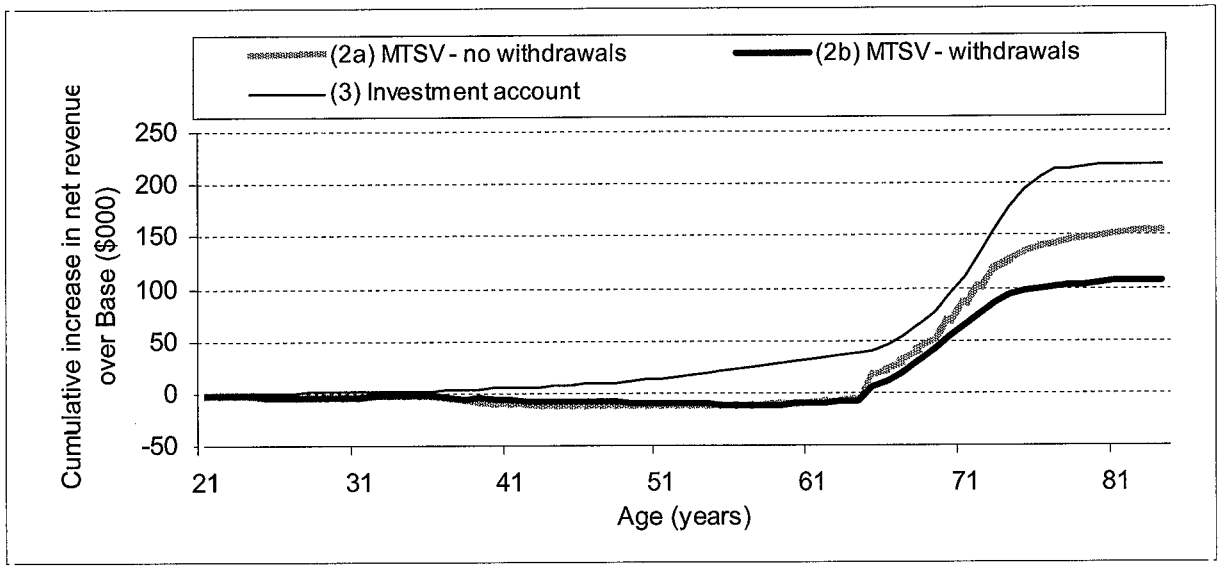

*Data source:* NATSEM simulations.

While all three additional saving strategies covered here generate higher lifetime net revenues for the government than does the Base strategy, there is a distinctive time profile to these increases in net revenue. This is shown here in figure 6.2 by plotting, for each additional saving strategy, the cumulative increase in net government revenue over that received under the Base strategy.

Figure 6.2 shows that the Investment Account strategy shows from the outset an increase in net government revenue over the Base strategy. This is the result of the increased taxation revenue from investment earnings. The net revenue advantage of this strategy steadily increases over the pre-retirement years, before increasing sharply as the impact of reduced Age Pension entitlements comes into consideration. The picture is somewhat different for the two MTSV strategies. For the MTSV

strategies, the concessionary taxation of the MTSV saving means that net government revenue, compared to that under the Base strategy, decreases over the pre-retirement years. Then, upon retirement, the situation is reversed. The reduced entitlements to Age Pension sharply shift the net revenue impact into the positive - albeit, not to the same extent as with the Investment Account strategy. The aggregate implications of this profile are that introduction of the MTSV proposal would be a cost to government for many years, until the scheme matured - that is until there was a balance of people saving through the MTSV and of people retired with the benefits of MTSV saving (including the benefits to government outlays). That, though, is the basic nature of tax-advantaged saving for retirement, and is equally a feature of the Superannuation Guarantee - net costs to government in the initial years that are, however, more than offset by the benefits many years later.

Figure 6.2 **Cumulative increase in net government revenue over Base saving strategy: additional saving strategies, Middle Income case.**




*Data source:* NATSEM simulations.

# Detailed tables

Table A1 **Base saving strategy: living standards index over lifetime, Middle Income and High Income cases**

| Age (years) | Middle Income (average 1.67) | | | High Income (average 2.25) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.33 | | | 1.56 | | |
| 26 – 30 | 1.04 | 1.18 | | 1.96 | 1.76 | |
| 31 – 35 | 0.95 | | | 1.23 | | |
| 36 – 40 | 1.19 | 1.07 | | 1.73 | 1.48 | |
| 41 – 45 | 1.29 | | 1.59 | 1.74 | | 2.28 |
| 46 – 50 | 2.43 | 1.86 | | 2.84 | 2.29 | |
| 51 – 55 | 2.52 | | | 3.57 | | |
| 56 – 60 | 2.24 | 2.38 | | 3.44 | 3.50 | |
| 61 – 65 | 1.33 | | | 2.40 | | |
| 66 – 70 | 1.77 | 1.55 | | 2.08 | 2.24 | |
| 71 – 75 | 2.05 | | 1.85 | 2.22 | | 2.19 |
| 76 – 80 | 2.08 | 2.07 | | 2.56 | 2.39 | |
| 81 – 84 | 1.45 | | | 1.81 | | |

*Source:* NATSEM simulations.

Table A2 **MTSV Saving strategies 2a and 2b: living standards index over lifetime,**
**Middle Income case**

| Age (years) | 5% into MTSV (average 1.74) | | | 5% into MTSV with withdrawals (average 1.72) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.28 | | | 1.28 | | |
| 26 – 30 | 1.02 | 1.15 | | 1.02 | 1.15 | |
| 31 – 35 | 0.95 | | | 0.95 | | |
| 36 – 40 | 1.16 | 1.06 | | 1.17 | 1.06 | |
| 41 – 45 | 1.22 | | 1.53 | 1.29 | | 1.55 |
| 46 – 50 | 2.32 | 1.77 | | 2.42 | 1.86 | |
| 51 – 55 | 2.40 | | | 2.40 | | |
| 56 – 60 | 2.14 | 2.27 | | 2.14 | 2.27 | |
| 61 – 65 | 1.39 | | | 1.35 | | |
| 66 – 70 | 2.08 | 1.73 | | 1.90 | 1.62 | |
| 71 – 75 | 2.25 | | 2.20 | 2.20 | | 2.07 |
| 76 – 80 | 2.57 | 2.41 | | 2.42 | 2.31 | |
| 81 – 84 | 1.82 | | | 1.72 | | |

*Source:* NATSEM simulations

Table A3 **MTSV Saving strategies 2a and 2b: living standards index over lifetime,**
**High Income case**

| Age (years) | 5% into MTSV (average 2.40) | | | 5% into MTSV with withdrawals (average 2.32) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.49 | | | 1.49 | | |
| 26 – 30 | 1.87 | 1.68 | | 1.87 | 1.68 | |
| 31 – 35 | 1.22 | | | 1.25 | | |
| 36 – 40 | 1.64 | 1.43 | | 1.69 | 1.47 | |
| 41 – 45 | 1.65 | | 2.18 | 1.77 | | 2.21 |
| 46 – 50 | 2.71 | 2.18 | | 2.79 | 2.28 | |
| 51 – 55 | 3.41 | | | 3.41 | | |
| 56 – 60 | 3.28 | 3.35 | | 3.28 | 3.35 | |
| 61 – 65 | 2.49 | | | 2.40 | | |
| 66 – 70 | 3.00 | 2.75 | | 2.59 | 2.50 | |
| 71 – 75 | 2.91 | | 2.90 | 2.52 | | 2.56 |
| 76 – 80 | 3.17 | 3.04 | | 2.90 | 2.71 | |
| 81 – 84 | 2.37 | | | 2.10 | | |

*Source:* NATSEM simulations

Table A4 **Investment Account, Saving strategy 3: living standards index over lifetime, Middle Income and High Income cases**

| Age (years) | Middle Income (average 1.68) | | | High Income (average 2.34) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.25 | | | 1.45 | | |
| 26 – 30 | 1.01 | 1.13 | | 1.86 | 1.65 | |
| 31 – 35 | 0.95 | | | 1.22 | | |
| 36 – 40 | 1.13 | 1.04 | | 1.63 | 1.42 | |
| 41 – 45 | 1.20 | | 1.50 | 1.62 | | 2.12 |
| 46 – 50 | 2.28 | 1.74 | | 2.65 | 2.13 | |
| 51 – 55 | 2.35 | | | 3.31 | | |
| 56 – 60 | 2.07 | 2.21 | | 3.16 | 3.24 | |
| 61 – 65 | 1.34 | | | 2.37 | | |
| 66 – 70 | 2.03 | 1.68 | | 2.95 | 2.66 | |
| 71 – 75 | 1.99 | | 2.09 | 2.84 | | 2.82 |
| 76 – 80 | 2.48 | 2.23 | | 2.97 | 2.91 | |
| 81 – 84 | 1.79 | | | 2.40 | | |

Source: NATSEM simulations.

Table A5 **50:50 Saving strategy 4: living standards index over lifetime, Middle Income and High Income cases**

| Age (years) | Middle Income (average 1.71) | | | High Income (average 2.37) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.27 | | | 1.47 | | |
| 26 – 30 | 1.02 | 1.14 | | 1.86 | 1.67 | |
| 31 – 35 | 0.95 | | | 1.22 | | |
| 36 – 40 | 1.14 | 1.05 | | 1.64 | 1.43 | |
| 41 – 45 | 1.20 | | 1.51 | 1.63 | | 2.15 |
| 46 – 50 | 2.30 | 1.75 | | 2.68 | 2.16 | |
| 51 – 55 | 2.38 | | | 3.36 | | |
| 56 – 60 | 2.10 | 2.24 | | 3.22 | 3.29 | |
| 61 – 65 | 1.37 | | | 2.43 | | |
| 66 – 70 | 2.06 | 1.71 | | 2.98 | 2.70 | |
| 71 – 75 | 2.10 | | 2.15 | 2.88 | | 2.86 |
| 76 – 80 | 2.54 | 2.32 | | 3.08 | 2.98 | |
| 81 – 84 | 1.82 | | | 2.39 | | |

*Source:* NATSEM simulations.

Table A6 **Summary measures of living standard index for all saving strategies under alternative real rates of investment earnings: Middle Income case**

| | Earnings interest rate | | |
|---|---|---|---|
| | 3.5% | 4.5% | 5.5% |
| | Average living standard index | Average living standard index | Average living standard index |
| **Pre-retirement** | | | |
| Base | 1.59 | 1.59 | 1.59 |
| 5% into MTSV | 1.53 | 1.53 | 1.53 |
| 5% into MTSV with withdrawals | 1.55 | 1.55 | 1.55 |
| 5% into Investment Account | 1.50 | 1.50 | 1.48 |
| 2.5% MTSV, 2.5% Investment | 1.51 | 1.51 | 1.51 |
| **Post-retirement** | | | |
| Base | 1.65 | 1.85 | 2.12 |
| 5% into MTSV | 1.88 | 2.20 | 2.66 |
| 5% into MTSV with withdrawals | 1.81 | 2.07 | 2.48 |
| 5% into Investment Account | 1.73 | 2.09 | 2.62 |
| 2.5% MTSV, 2.5% Investment | 1.80 | 2.15 | 2.65 |
| **Lifetime** | | | |
| Base | 1.61 | 1.67 | 1.76 |
| 5% into MTSV | 1.64 | 1.74 | 1.88 |
| 5% into MTSV with withdrawals | 1.63 | 1.71 | 1.84 |
| 5% into Investment Account | 1.57 | 1.68 | 1.84 |
| 2.5% MTSV, 2.5% Investment | 1.60 | 1.71 | 1.86 |

*Source:* NATSEM simulations.

Table A7 **Summary measures of living standard index for all saving strategies under alternative real rates of investment earnings: High Income case**

| | Earnings interest rate | | |
|---|---|---|---|
| | 3.5% | 4.5% | 5.5% |
| | Average living standard index | Average living standard index | Average living standard index |
| **Pre-retirement** | | | |
| Base | 2.28 | 2.28 | 2.28 |
| 5% into MTSV | 2.18 | 2.18 | 2.18 |
| 5% into MTSV with withdrawals | 2.21 | 2.21 | 2.21 |
| 5% into Investment Account | 2.14 | 2.12 | 2.10 |
| 2.5% MTSV, 2.5% Investment | 2.16 | 2.15 | 2.14 |
| **Post-retirement** | | | |
| Base | 1.86 | 2.19 | 2.67 |
| 5% into MTSV | 2.36 | 2.90 | 3.62 |
| 5% into MTSV with withdrawals | 2.12 | 2.56 | 3.15 |
| 5% into Investment Account | 2.22 | 2.82 | 3.58 |
| 2.5% MTSV, 2.5% Investment | 2.29 | 2.86 | 3.60 |
| **Lifetime** | | | |
| Base | 2.15 | 2.25 | 2.40 |
| 5% into MTSV | 2.23 | 2.40 | 2.63 |
| 5% into MTSV with withdrawals | 2.18 | 2.32 | 2.50 |
| 5% into Investment Account | 2.16 | 2.34 | 2.56 |
| 2.5% MTSV, 2.5% Investment | 2.20 | 2.37 | 2.60 |

*Source:* NATSEM simulations.

Table A8 **Summary measures of living standard index for all saving strategies under alternative forms of superannuation benefit: Middle Income case**

| | Form of benefit | | |
|---|---|---|---|
| | 100% lump sum | 50% lump sum 50% pension | 100% pension |
| | Average living standard index | Average living standard index | Average living standard index |
| **Pre-retirement** | | | |
| Base | 1.59 | 1.59 | 1.59 |
| 5% into MTSV | 1.53 | 1.53 | 1.53 |
| 5% into MTSV with withdrawals | 1.55 | 1.55 | 1.55 |
| 5% into Investment Account | 1.50 | 1.50 | 1.50 |
| 2.5% MTSV, 2.5% Investment | 1.51 | 1.51 | 1.51 |
| **Post-retirement** | | | |
| Base | 1.47 | 1.85 | 1.93 |
| 5% into MTSV | 1.88 | 2.20 | 2.37 |
| 5% into MTSV with withdrawals | 1.74 | 2.07 | 2.22 |
| 5% into Investment Account | 1.89 | 2.09 | 2.32 |
| 2.5% MTSV, 2.5% Investment | 1.89 | 2.15 | 2.36 |
| **Lifetime** | | | |
| Base | 1.55 | 1.67 | 1.70 |
| 5% into MTSV | 1.64 | 1.74 | 1.79 |
| 5% into MTSV with withdrawals | 1.61 | 1.71 | 1.76 |
| 5% into Investment Account | 1.62 | 1.68 | 1.75 |
| 2.5% MTSV, 2.5% Investment | 1.63 | 1.71 | 1.77 |

*Source:* NATSEM simulations.

Table A9 **Summary measures of living standard index for all saving strategies under alternative forms of superannuation benefit: High Income case**

| | Form of benefit | | |
|---|---|---|---|
| | 100% lump sum | 50% lump sum 50% pension | 100% pension |
| | Average living standard index | Average living standard index | Average living standard index |
| **Pre-retirement** | | | |
| Base | 2.28 | 2.28 | 2.28 |
| 5% into MTSV | 2.18 | 2.18 | 2.18 |
| 5% into MTSV with withdrawals | 2.21 | 2.21 | 2.21 |
| 5% into Investment Account | 2.12 | 2.12 | 2.12 |
| 2.5% MTSV, 2.5% Investment | 2.15 | 2.15 | 2.15 |
| **Post-retirement** | | | |
| Base | 1.87 | 2.19 | 2.36 |
| 5% into MTSV | 2.65 | 2.90 | 3.08 |
| 5% into MTSV with withdrawals | 2.27 | 2.56 | 2.73 |
| 5% into Investment Account | 2.63 | 2.82 | 2.90 |
| 2.5% MTSV, 2.5% Investment | 2.64 | 2.86 | 3.03 |
| **Lifetime** | | | |
| Base | 2.15 | 2.25 | 2.30 |
| 5% into MTSV | 2.32 | 2.40 | 2.46 |
| 5% into MTSV with withdrawals | 2.23 | 2.32 | 2.37 |
| 5% into Investment Account | 2.28 | 2.34 | 2.37 |
| 2.5% MTSV, 2.5% Investment | 2.30 | 2.37 | 2.42 |

*Source:* NATSEM simulations.

Table A10 **Double mortgage scenario**
**Summary measures of living standard index**
**Base saving strategy**
**Middle Income case**

| Age (years) | Middle Income (average 1.46) | | |
|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.33 | | |
| 26 – 30 | 1.04 | 1.18 | |
| 31 – 35 | 0.95 | | |
| 36 – 40 | 1.19 | 1.07 | |
| 41 – 45 | 1.29 | | 1.37 |
| 46 – 50 | 2.30 | 1.80 | |
| 51 – 55 | 1.87 | | |
| 56 – 60 | 1.60 | 1.73 | |
| 61 – 65 | 0.84 | | |
| 66 – 70 | 1.79 | 1.32 | |
| 71 – 75 | 1.81 | | 1.65 |
| 76 – 80 | 1.77 | 1.79 | |
| 81 – 84 | 1.11 | | |

*Source:* NATSEM simulations.

Table A11 **Double mortgage scenario**
**Summary measures of living standard index**
**Saving strategies (2a) and (2b) - MTSV**
**Middle Income case**

| Age (years) | 5% into MTSV (average 1.51) | | | 5% into MTSV with withdrawals (average 1.48) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.28 | | | 1.28 | | |
| 26 – 30 | 1.02 | 1.15 | | 1.02 | 1.15 | |
| 31 – 35 | 0.95 | | | 0.95 | | |
| 36 – 40 | 1.16 | 1.06 | | 1.17 | 1.06 | |
| 41 – 45 | 1.22 | | 1.31 | 1.29 | | 1.36 |
| 46 – 50 | 2.18 | 1.70 | | 2.28 | 1.79 | |
| 51 – 55 | 1.75 | | | 1.78 | | |
| 56 – 60 | 1.50 | 1.62 | | 1.54 | 1.66 | |
| 61 – 65 | 0.82 | | | 0.92 | | |
| 66 – 70 | 1.85 | 1.34 | | 1.72 | 1.32 | |
| 71 – 75 | 2.16 | | 1.96 | 1.98 | | 1.76 |
| 76 – 80 | 2.27 | 2.21 | | 2.00 | 1.99 | |
| 81 – 84 | 1.48 | | | 1.29 | | |

*Source:* NATSEM simulations

Table A12 **Double mortgage scenario**
**Summary measures of living standard index**
**Saving strategies (3) – Investment account,**
**and (4) – 50:50 Investment account / MTSV**
**Middle Income case**

| Age (years) | 5% into Investment Account (average 1.44 ) | | | 2.5% MTSV and 2.5% Investment (average 1.48) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.25 | | | 1.27 | | |
| 26 – 30 | 1.01 | 1.13 | | 1.02 | 1.14 | |
| 31 – 35 | 0.95 | | | 0.95 | | |
| 36 – 40 | 1.13 | 1.04 | | 1.14 | 1.05 | |
| 41 – 45 | 1.20 | | 1.28 | 1.20 | | 1.29 |
| 46 – 50 | 2.15 | 1.67 | | 2.17 | 1.69 | |
| 51 – 55 | 1.70 | | | 1.72 | | |
| 56 – 60 | 1.43 | 1.56 | | 1.46 | 1.59 | |
| 61 – 65 | 0.76 | | | 0.79 | | |
| 66 – 70 | 1.70 | 1.23 | | 1.74 | 1.27 | |
| 71 – 75 | 1.81 | | 1.82 | 1.99 | | 1.89 |
| 76 – 80 | 2.23 | 2.02 | | 2.28 | 2.13 | |
| 81 – 84 | 1.45 | | | 1.48 | | |

*Source:* NATSEM simulations

Table A13 **Investment Account with Withdrawals: living standards index over lifetime, Middle Income and High Income cases**

| Age (years) | Middle Income (average 1.65) | | | High Income (average 2.26) | | |
|---|---|---|---|---|---|---|
| | 5 year average | 10 year average | Pre and Post Retirement | 5 year average | 10 year average | Pre and Post Retirement |
| 21 – 25 | 1.25 | | | 1.45 | | |
| 26 – 30 | 1.01 | 1.13 | | 1.86 | 1.66 | |
| 31 – 35 | 0.97 | | | 1.27 | | |
| 36 – 40 | 1.17 | 1.07 | | 1.71 | 1.49 | |
| 41 – 45 | 1.29 | | 1.54 | 1.77 | | 2.19 |
| 46 – 50 | 2.42 | 1.85 | | 2.78 | 2.27 | |
| 51 – 55 | 2.39 | | | 3.39 | | |
| 56 – 60 | 2.11 | 2.25 | | 3.24 | 3.32 | |
| 61 – 65 | 1.29 | | | 2.33 | | |
| 66 – 70 | 1.70 | 1.50 | | 2.43 | 2.38 | |
| 71 – 75 | 2.00 | | 1.90 | 2.33 | | 2.41 |
| 76 – 80 | 2.29 | 2.14 | | 2.74 | 2.53 | |
| 81 – 84 | 1.59 | | | 2.04 | | |

*Source:* NATSEM simulations.

**Bryant, Sharon (REPS)**

**From:** Bryant, Sharon (REPS) on behalf of Committee, EFPA (REPS)
**Sent:** Monday, 31 October 2005 4:44 PM
**To:** 'Mat Munro'
**Subject:** Supplementary Submission acknowledgement REIA

Dear Mr Munro

Thank you for your supplementary submission, dated 25 October 2005, to the Standing Committee on Economics, Finance and Public Administration on the inquiry into improving the superannuation savings of people aged under 40.

The committee will give careful consideration to the matters you have raised in your submission. I will contact you again if the committee requires further information from you or would like you to attend a public hearing.

Please note that, in accordance with the rules of parliament, you should not withdraw, alter, publish or otherwise disclose your submission without first receiving the committee's approval. However, provided that it is presented in a different form, you may use or publish the information your submission contains.

The committee usually releases to the public the submissions it receives. If you do not wish all or part of your submission to be made public, please advise me in writing (by fax, e-mail or post) by **Monday 7 November 2005**.

Information about published submissions and the committee's program of public hearings will be posted on the committee's website at http://www.aph.gov.au/house/committee/efpa/super/index.htm as it becomes available.

If you have any questions about the inquiry, please contact me on (02) 6277 4587.

Yours sincerely

Sharon Bryant

*Sharon Bryant*
Inquiry Secretary
House of Representatives Economics Committee
Parliament House CANBERRA ACT 2600
Tel: 02 6277 4587
Fax: 02 6277 4774

-----Original Message-----
**From:** Mat Munro [mailto:mathewmunro@yahoo.com.au]
**Sent:** Tuesday, 25 October 2005 11:09 PM
**To:** mathew.munro@reia.com.au; Committee, EFPA (REPS)
**Subject:** UPDATE!! REIA Second Submission

Dear Sharon,

(please disregard the incorrect REIA email address on the previous email)

Please find the Real Estate Institute of Australia's further developed Superannuation Access concept attached for the consideration of the Committee, as requested 14 October 2005.

Thank you for the opportunity to explore this proposal as part of the Inquiry.

Regards,

Mathew Munro
Policy Manager
Real Estate Institute of Australia
02 6282 4277
mathew.munro@REIA.com.au

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## Bryant, Sharon (REPS)

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