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Committee Secretary
Standing Committee on Economics, Finance and Public Administration
House of Representatives
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Inquiry into improving the superannuation savings of people under 40

Thank you for the opportunity to make a submission to the inquiry into improving the superannuation savings for people under 40.

As the Committee may be aware, AMP has made several submissions in the past to a number of parliamentary inquiries.

The main recommendations AMP has made to those inquiries include:

- The need for retirement adequacy to be addressed by encouraging people to save more
- Education and advice are central planks to the retirement incomes system that operates in Australia and more needs to be done to encourage people to improve their financial literacy and to seek advice
- Leakage at the point of retirement needs to be reduced by increasing the take up rate of private pensions.

This submission builds on those recommendations and reiterates the key issues to consider to improve the superannuation savings (and ultimately the retirement incomes) of all Australians - including those aged under 40.

From a public policy perspective, the major factors facing the sector include:

- The extent to which the existing framework should be varied or extended to encourage saving
- How as a nation we can ensure more Australians take advantage of existing arrangements and incentives
- How we elevate the financial literacy of the community
- How we provide greater opportunities for people to access affordable advice.

Research shows that many people under 40 have a major psychological barrier to saving when retirement seems a long way away and there are other competing priorities. The fact is that many people under 40 can save more and that we are well placed to encourage these people to enhance their savings though the many incentives already in place in Australia. The key issue is how we achieve this.

In this submission, we are recommending:

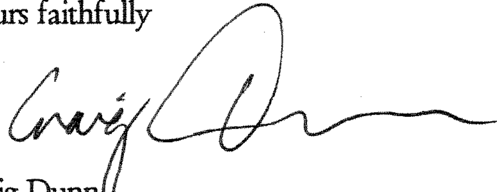
- Ways to get people to save more
- How financial advice can help close the savings gap
- How to improve the take-up of private pensions.

This submission has avoided making recommendations that involve significant additional Commonwealth expenditure. Instead we have focussed on measures that encourage people to use the existing incentives to save.

We believe that before we consider extending existing tax concessions to encourage savings, it is important that we undertake more extensive research to understand what policy changes will deliver the greatest improvements in savings behaviour for a given dollar of public expenditure.

We look forward to your final report and to continued involvement with your Committee on superannuation and retirement issues.

Yours faithfully



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Summary of AMP Recommendations

Getting people to save more

1. Superannuation should only be used to fund retirement incomes; suggestions that superannuation savings should be drawn down earlier in peoples' lives to fund other needs are inappropriate and will only serve to reduce peoples' savings for retirement.
2. Increasing the rate of Superannuation Guarantee contributions should only be undertaken with broad community support, although as a community we should continue to debate this option.
3. The introduction of a supplementary arrangement to the current Superannuation Guarantee regime that provides for a mix of compulsory and default contributions has potential merit and warrants further review. Also, increasing or even removing the Maximum Deductible Contribution limits for all ages would create an incentive for those who can, to save more.
4. Self-employed people should be encouraged to contribute more to their superannuation through improved tax incentives, more akin to those available for other working Australians. It is likely that the fiscal cost of such a proposal would not be significant.
5. A far reaching, forward looking review of superannuation taxation is required with the aim of putting more emphasis on taxing benefits than contributions, but any changes to the taxation of superannuation should preferably be neutral in terms of superannuation tax collected as a proportion of national income. Should marginal income tax rates be lowered in future, regard should be had to adjusting superannuation taxes down (ideally the contributions tax) to ensure the relative attractiveness of superannuation is maintained.
6. The co-contribution regime has proven to be successful and consideration could be given to strengthening it further, by making it age based and increasing the rate at which the Government will match contributions for those under 40.
7. No recommendations that involve a significant increase in fiscal burden should be adopted, before undertaking more research to understand which policy change(s) will deliver the greatest improvement in savings behaviour for a given dollar of public investment.

Financial advice can help to close the savings gap

8. AMP strongly supports the initiatives taken by the Government to sponsor and promote greater financial literacy. This is not a short-term fix, though, and future governments will need to maintain the same level of financial commitment.
9. Regulation of advice must ensure financial planners give quality advice to optimise their clients' savings, but it should not preclude financial planners giving cost-efficient advice to lower and middle income earners and younger people, that is necessary to encourage greater saving. A thorough cost-benefit analysis should be undertaken of the key elements of Financial Services Reform, with a specific focus on determining whether the existing regulatory framework is disadvantageous to lower and middle-income earners and to people under 40.

Improving the take-up rate of private pensions

10. Government needs to commit to developing the 'payout' phase of the Australian retirement income system to change the lump sum behaviour of retirees and to determine whether there are better ways for Australia to manage its increasing longevity risk.
11. Serious consideration should be given to strengthening the incentives for private pensions for those over 40.
12. For those under 40, research should be undertaken to consider making a private pension purchase compulsory at retirement.

Improving the superannuation savings of people under 40

1. The need to save more

There is clear evidence to suggest that too many Australians will not have saved enough over their working lives to provide an adequate retirement income, notwithstanding mandatory superannuation contributions[1]. This position is unlikely to change for several generations of Australians, including those people aged under 40 today.

In 2003, the Investments and Financial Services Association (IFSA) estimated there to be a $600 billion savings gap[2], indicating a major adequacy issue for future Australian retirees. And while the Age Pension does assist with retirement adequacy, it is and should remain a safety net, available only to those without adequate financial means.

Adequacy of retirement incomes is compounded by the issues of earlier retirement and increasing life expectancy, meaning that whatever has been saved as superannuation, needs to be spread over longer and longer periods. This could be further exacerbated if future retirees have to shoulder more of their health and aged care expenses.

As shown in various AMP-NATSEM reports (2002, 2004), outside of superannuation, many people do not have any other form of meaningful savings on which to rely. In fact, Australian household saving rates turned negative in 2001 and continue to fall. While part of this fall in household savings is likely to be cyclical, following the boom in residential retail housing prices and the consequential wealth effect, it is a concerning trend that only reinforces the need for greater saving for retirement through superannuation.

We continue to believe that superannuation is the most effective vehicle for Australians to save for their retirement. We also believe that superannuation savings should only be used to fund peoples' retirement incomes, and suggestions that superannuation savings should be drawn down earlier in peoples' lives to fund other needs are inappropriate and will only serve to reduce peoples' savings for retirement.

Why aren't people saving more?

There are many reasons why people do not save more, but academic studies have shown overwhelmingly peoples' perceptions that they can't afford to save – in the face of competing priorities – stops them saving[3]. Other psychological inhibitors to saving include people valuing their present welfare much more than their future welfare and because day to day feelings of gaining or losing are more important than peoples' long term wealth[4].

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[1] For example, see the AMP-NATSEM income and wealth report (2002) and the SSCS reports on planning for retirement (2003) and superannuation and standards of living in retirement (2002).

[2] The Retirement Savings Gap is a measure of the current shortfall in national savings between two amounts being the amount required to be saved by the nation as a whole to ensure "adequacy" in retirement, and in particular non-reliance on the Age Pension; and the amount saved in the superannuation system, and estimated to be saved in future years up to retirement by the current workforce.

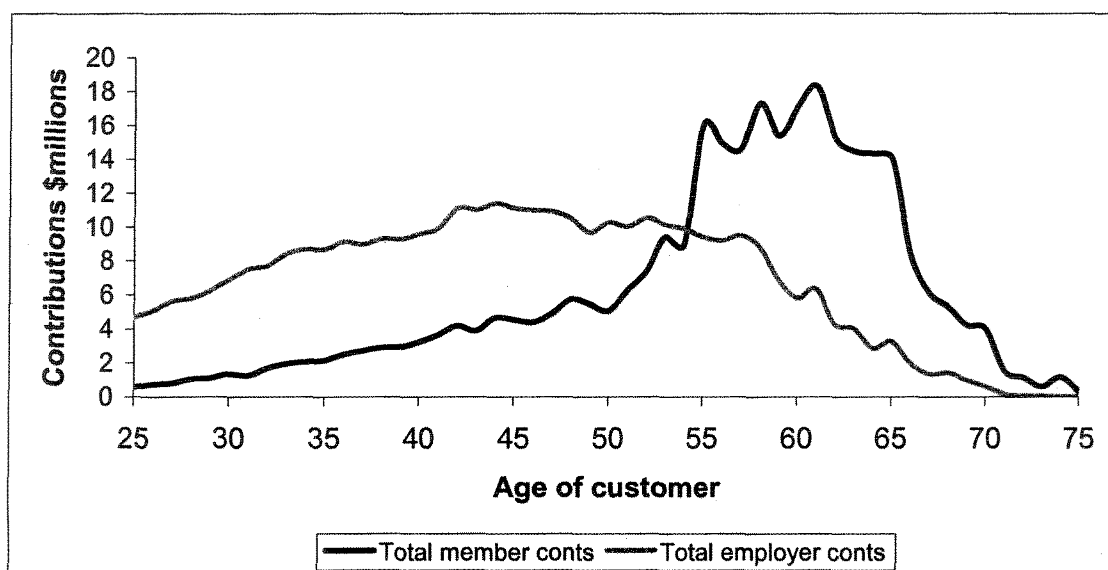
[3] See Association of British Insurers (2002).

[4] See Oliver Wyman & Company (2001).

Given these significant psychological barriers to saving, it is critical that public policy in Australia continues to promote avenues that facilitate greater saving for retirement.

Importantly, many of these barriers to saving are likely to be more prevalent among younger people. When coupled with other savings priorities and sometimes lower incomes than older people, this leads younger peoples' contributions to superannuation to be significantly lower than for people aged 40 and over. This is demonstrated in Chart 1 based on AMP's retail superannuation customers, which shows that voluntary contributions (ie, member contributions) steadily increase with age, taking off at age 50 and peaking at age 61. Younger Australians tend to rely much more heavily on compulsory saving (ie, employer contributions).

Chart 1: Total voluntary and employer superannuation contributions by ages 25 to 75 in 2005



Source: AMP Flexible Lifetime Superannuation customer contributions for 2005.

This data reinforces that the two most obvious ways to increase superannuation savings for people under 40 are to increase the rate of compulsory saving and/or to provide greater opportunities for substantially higher rates of voluntary saving. The challenges to facilitate greater voluntary saving are significant, because this can only be achieved by changing individual behaviours. The advantage of greater voluntary saving for superannuation, however, is that peoples' engagement and interest in their superannuation is likely to be much higher.

Getting people to save more

In many respects, the Australian system already has the basic tenets to achieve more saving through superannuation: compulsory or voluntary. This puts Australia in a much better position than most other developed countries. The real questions are to what extent should these be varied or extended, and to what extent could Australians benefit more from existing arrangements, were we able to improve financial literacy and offer greater access to scaleable and affordable financial advice.

Arguably, more extensive research is required to answer these questions appropriately, particularly, if greater saving is to be achieved without *substantially* extending existing tax concessions or other publicly funded incentives.

A. Increasing employer contributions

The most obvious way to increase retirement savings is to increase the level of compulsory saving made by workers, whatever their age. However, we accept that this should only be undertaken with broad community support, although it's important that as a community we continue to debate this option.

An alternative to forcing people to save more might be to adopt something similar to that recently proposed by Gruen (2005), which is a mix of compulsory and voluntary employee default contributions. Under this option, contributions to superannuation could be increased by one percent each year up until a target level of savings was met, say 15 percent. The increased savings would be in the form of employee contributions (sometimes known as salary sacrifice contributions), which would be on top of the compulsory nine percent Superannuation Guarantee (SG) contributions already in place. The increase in employee contributions would happen automatically each year, meaning that employees would not have to make an active decision to participate. However, they would be able to opt out of making all or some of these extra contributions at any time.

In designing the increase in employee contributions as a default arrangement, the participation rate is likely to be high. Gruen (2005) shows that where US employees are automatically enrolled in 401(k) retirement saving plans but they are able to opt out, the participation rate exceeds 85 percent. On the other hand, where employees are not automatically enrolled in the 401(k) plans, the participation rates can be much lower, somewhere between 26 and 43 percent. Whether the same impact would occur in a system that already requires nine percent compulsory saving is perhaps more questionable. Nonetheless, we believe this proposal has potential merit and warrants further review.

Getting people to save more superannuation via their employer contributions would require changes to the Maximum Deductible Contribution limits (MDCs). Currently, there are MDC limits for all ages, restricting the total value of employer contributions (SG and salary sacrifice contributions) that can be made each year by limiting their tax deductibility to the employer. The MDC for those under 35 years of age is currently limited to $14,603 and for those between 35 and 49 the limit is $40,560.

Limits on how much can be contributed to superannuation were established to prevent people abusing the tax advantages that superannuation offers. However, these limits have introduced complexity to the system and reduce the incentive to save. It would be preferable to remove any barriers to save and instead, reduce the potential tax abuse by placing restrictions on how people can access their money when they retire. In effect, moving the brake on the system from the front to the back end which, in some respects is already achieved through the Reasonable Benefit Limits (RBLs) – see page 13 also.

Another alternative to saving more might be to ensure that the existing employer contributions are as effective as possible, meaning that less tax should be taken out of the contributions before they are invested by reducing the contributions tax.

A number of submissions to the SSCS inquiry into Superannuation and Standards of Living in Retirement (2003) looked at how the contributions tax could be reduced and the likely costs to government[5].

IFSA research conducted by Access Economics (2005) shows that to achieve a significant behavioural change and create greater superannuation saving (beyond the direct effect of the cut in the contributions tax), the contributions tax would need to be reduced substantially, say from 15 to 10 percent. This reduction in tax would also produce the biggest behavioural change in both low and higher income earners relative to other superannuation tax cuts.

Such a significant reduction in tax would come at a large fiscal cost and would need to be assessed against other national priorities, including extending other, existing incentives for superannuation such as the co-contributions regime.

In submissions to previous inquiries, AMP has advocated a review of superannuation tax with the aim of putting more emphasis on taxing benefits than contributions, recognising that avenues should be explored to achieve this without causing a fall in the level of superannuation tax revenue (when expressed as a proportion of GDP).

The changing demographics of the Australian population over the next 50 to 100 years means that inevitably the amount of tax collected from superannuation will grow as a proportion of GDP and the mix of that tax base will also change substantially (across taxes on contributions, investment returns and benefits)[6]. Again, AMP believes a far reaching, forward looking review of superannuation taxation is required, but we recognise that any changes to the taxation of superannuation should preferably be neutral in terms of the tax collected as a proportion of national income. It is also important that superannuation retains its relative attractiveness; should marginal income tax rates be lowered in future, regard should be had to adjusting superannuation taxes down (ideally the contributions tax).

B. Increasing self employed contributions

Self-employed people should be encouraged to contribute more to their superannuation through improved tax incentives, more akin to those available for other working Australians. The fiscal cost of such a proposal is not likely to be significant. The self employed are currently able to contribute $5,000 to their superannuation, which is fully tax deductible, but any contribution over this limit up to the relevant MDC is only 75 percent tax deductible.

A recent AMP-NATSEM report on small business (2005) showed that small business operators often have lower savings in superannuation than other working Australians. Many small business operators rely almost entirely on the value of their businesses for their retirement savings. But relying on the value of the small business alone to fund their retirement can be risky, particularly for sole traders whose own knowledge and skills are often their businesses' chief assets. When they retire, the value of their businesses

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[5] AMP's submission suggested that the contributions and earnings taxes be eliminated and all benefits be taxed at marginal tax rates. However, to ensure funding to the government continues in the short term, a 10 percent withholding tax would be charged on contributions.

[6] Access Economics (2004) forecasts superannuation taxes to increase from 0.75% of GDP in 2002-03 to 1.1% of GDP in 2103-04, reflecting increases in earnings and benefits taxes.

often falls significantly, meaning that they could have much lower retirement savings than anticipated.

Small business operators should be encouraged to diversify their retirement savings and invest in other assets through the use of superannuation.

At a minimum, the contribution threshold receiving a full tax deduction should be indexed to wages growth, just as other superannuation thresholds are. Ideally, 100 percent tax deductibility should be made available for all contributions up to the relevant MDC, assuming these remain in place.

C. Voluntary contributions

Voluntary contributions to superannuation make up an important element to Australia's retirement incomes policy.

The co-contributions policy has been a welcome introduction to encourage more people, in particular those outside the workforce, to make superannuation contributions.

As noted above, analysis of AMP's retail superannuation customers reveals that compulsory contributions make up the bulk of the contributions made by those under age 45. Voluntary contributions, while being made at younger ages, are relatively low in value. After age 45 voluntary contributions start to become the most important type of superannuation contribution. This trend is confirmed by the recent release of co-contribution data by the Government, showing that almost half of those receiving a co-contribution in 2004-05 were between 46 and 65 years of age.

Arguably, younger people are less capable of making voluntary contributions given there are more competing demands on their disposable income (for example, paying mortgages, schooling children). There is an opportunity cost to this, though, because younger people unable to make additional superannuation savings miss out on the benefits of compound interest over the long term.

It is a desirable public policy position to encourage greater voluntary savings into superannuation by younger people to help them save more for their retirement. Changing the (voluntary) savings behaviour of younger people, however, may require a stronger savings incentive than the current co-contributions regime. This regime could be strengthened by making it age based and increasing the rate at which the Government will match contributions for those under 40. Interestingly, research commissioned by the Association of British Insurers (2002) showed that matching contributions (or co-contributions as referred to in Australia) were slightly more popular for 18 to 34 olds than for any other age group. They were also more popular among the self-employed.

Recommendations

1. **Superannuation should only be used to fund retirement incomes; suggestions that superannuation savings should be drawn down earlier in peoples' lives to fund other needs are inappropriate and will only serve to reduce peoples' savings for retirement.**
2. **Increasing the rate of Superannuation Guarantee contributions should only be undertaken with broad community support, although as a community we should continue to debate this option.**

3. The introduction of a supplementary system to the current Superannuation Guarantee regime that provides for a mix of compulsory and default contributions has potential merit and warrants further review. Also, increasing or even removing the Maximum Deductible Contribution limits for all ages would create an incentive for those who can, to save more.
4. Self-employed people should be encouraged to contribute more to their superannuation through improved tax incentives, more akin to those available for other working Australians. It is likely the fiscal cost of such a proposal would not be significant.
5. A far reaching, forward looking review of superannuation taxation is required with the aim of putting more emphasis on taxing benefits than contributions, but any changes to the taxation of superannuation should preferably be neutral in terms of superannuation tax collected as a proportion of national income. Should marginal income tax rates be lowered in future, regard should be had to adjusting superannuation taxes down (ideally the contributions tax) to ensure the relative attractiveness of superannuation is maintained.
6. The co-contribution regime has proven to be successful and consideration could be given to strengthening it further, by making it age based and increasing the rate at which the Government will match contributions for those under 40.
7. No recommendations that involve a significant increase in fiscal burden should be adopted, before undertaking more research to understand which policy change(s) will deliver the greatest improvement in savings behaviour for a given dollar of public investment.

2. Financial advice can help to close the savings gap

Since the introduction of the compulsory superannuation, employers have been reducing their involvement in providing retirement saving schemes for their employees by moving away from offering defined benefit plans to defined contribution plans. As a result, employers are no longer sharing in some of the financial risks with employees (contribution rates, investment choices and investment returns, payout levels, etc). Choice of fund, the licensing of superannuation trustees and potential industrial relations changes to awards, may all serve to further remove employers from active involvement (and risk taking) in the retirement savings of their employees.

The increasing use of defined contribution plans in superannuation has meant that Australia's retirement incomes policy has moved to a position where the overall responsibility for retirement saving and the associated outcomes now rest squarely with the individual.

For example, one of the biggest responsibilities that people in defined contribution plans face is choosing their investment strategy. And while there is a minimum level of saving specified by the SG, the individual is ultimately responsible for determining how much they will need for their retirement, when they will retire, what assumptions they will make about future inflation and how long they think they will live.

If the individual fails to account properly for any of these factors, their capacity to adequately fund their future retirement consumption is put at risk, and they are more likely to rely on Government support. It is not clear, however, that many Australians fully realise the fundamental shift in the retirement incomes framework to the point where they, as individuals, are now clearly responsible for the various factors that contribute to the adequacy of their retirement savings. The ANZ literacy survey (2003) highlights this fact with only 37 percent of respondents having thought about planning for their retirement.

Education and financial advice, therefore, have a critically important role to play if the Australian retirement incomes system is to work to its full potential. If there is not sufficient financial literacy so that individuals understand their roles and responsibilities, or if individuals are not able to access financial advice to support the choices they make or understand the incentives that are available to them, Australia's superannuation system risks being sub-optimal and will not maximise the retirement incomes for individuals.

AMP strongly supports the initiatives taken by the Government to sponsor and promote greater financial literacy. This is not a short-term fix, though, and future governments will need to maintain the same level of financial commitment.

Financial planners act as key savings agents

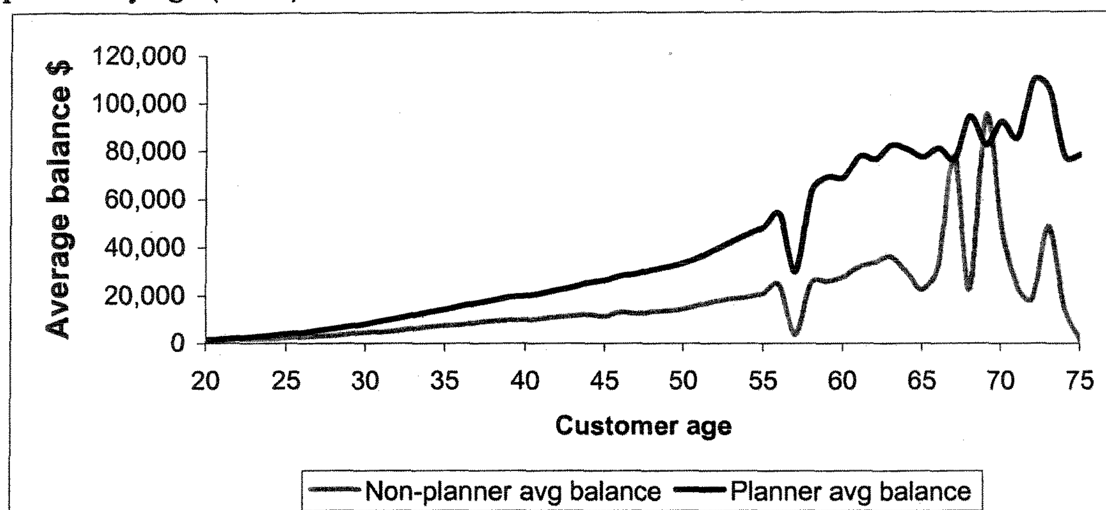
Access to financial advice can help to close the $600 billion savings gap that Australian's currently face. Research from the UK shows that:

> *there is a direct causal link between the availability of advice and saving levels: more advice means more saving (Oliver, Wyman & Company 2002 p. ii)*

The same research showed overcoming psychological barriers to saving will not be achieved simply by any combination of financial education, tax incentives and simplified products alone. The UK research also showed that 46 percent of households in the £9,500 - £13,500 income band would not have saved or invested at all in the absence of advice. This drops to 24 percent for all households with incomes greater than £35,000.

The point is that financial planners not only help individuals to optimise their savings, but also for many people, financial planners encourage people to save - and to save more. Based on AMP's customer data, Chart 2 demonstrates how much more those customers with planners save relative to those without a planner.

Chart 2: Average superannuation account balances for those with and without a planner by age (20-75) in 2005



Source: AMP Flexible Lifetime Superannuation member's account balances September 2005.

Based on our own research of consumers conducted in 2003, AMP also found that, among 600 households with an average annual income under $65,000, those with a financial planner were significantly better off, with more assets and financial security, than those without a planner[7]. People in these households also felt more confident and secure generally and arguably this was because of the advice they received from their financial planner.

However, it is becoming increasingly uneconomic to provide savings advice to some groups in the community due to the complex rules and the regulatory burden for financial planning and the giving of advice. This has also been true in other markets; again the Oliver, Wyman & Company (2002) research in the UK showed that while increased regulation of advisers benefited consumers in some respects by improving the quality of advice, it has also made it increasingly uneconomic to provide advice to lower and middle income households.

In other words, there must be a proper balance; regulation of advice must ensure financial planners can give quality advice to optimise their clients' savings, but it should not preclude financial planners giving advice to lower and middle-income earners to encourage greater saving.

The increasing cost of advice is also an important issue for people under 40. In this age group, financial planning tends to focus on family budgeting, encouraging greater saving through their workplace superannuation, and ensuring adequate risk protection through insurance and the effective management of debt. These are all critical issues for younger Australians and their families, especially in a society that is under-insured[8], where many people are spending more than they earn and where debt levels are at record highs[9].

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[7] A caveat on the research findings is whether or not those with more assets went to see a financial planner or whether seeing a financial planner resulted in them accumulating more assets? Nevertheless, the research findings are interesting, and significant, in that these very substantial differences in wealth arise in households of similar income levels.

[8] See Rice Walker Actuaries (2005).

[9] See AMP-NATSEM (2004).

Many Australians, however, seem to have a very narrow view of the benefits of financial planning, often limiting their view of such benefits to advice on optimising savings. So many younger Australians, with limited savings, don't see the need for financial advice, find it difficult to value advice and are less likely to pay reasonable fees for advice. This has meant historically, that the costs of advice have tended to be embedded in the cost of products recommended by planners. And while these fees have not been as transparent as they are today, this form of remuneration has led to greater access to advice and increased levels of savings. Indeed, Oliver, Wyman & company (2002) estimated that banning commissions in the UK would reduce annual savings by as much as £4 billion.

The private sector is well placed to provide financial planning and advice. However, it is important that excessively costly regulation does not preclude advice being given to people under 40, and to people on lower and middle incomes.

If the private sector is unable to recover the costs of providing education material and specific advice to customers, government will have to fill this gap. However, it is not clear that government could provide this in a more effective and efficient way than the private sector.

AMP strongly supports the principles underlying Financial Services Reform (FSR), and the current refinements being made to reduce the regulatory cost of giving advice. Research undertaken recently by the CPA (2005) demonstrates a significant proportion of consumers have clearly seen an improvement in the quality of advice they receive from their financial planner since the introduction of FSR. We are concerned, however, that the refinements to FSR may not go far enough. In our view, a thorough cost-benefit analysis should be undertaken of key elements of FSR with a specific focus on whether the existing regulatory framework is disadvantageous to lower and middle income earners, and to people under 40.

It should be standard practice that whenever significant new regulation is introduced, that a post-implementation review be undertaken to assess its impact on the community, both benefits and costs.

Recommendations

8. **AMP strongly supports the initiatives taken by the Government to sponsor and promote greater financial literacy. This is not a short-term fix, though, and future governments will need to maintain the same level of financial commitment.**
9. **Regulation of advice must ensure financial planners give quality advice to optimise their clients' savings, but it should not preclude financial planners giving cost-efficient advice to lower and middle-income earners and younger people, that is necessary to encourage greater saving. A thorough cost-benefit analysis should be undertaken of key elements of Financial Services Reform, with a specific focus on determining whether the existing regulatory framework is disadvantageous to lower and middle-income earners and to people under 40.**

3. Improving the take up rate of private pensions

Encouraging people to save more for their retirement will have limited economic benefit if leakage from the system at the point of retirement is not addressed. As reported by APRA (2004), 77 percent of retirement benefits are paid out as lump sums.

If retirees are not required to take their saving in the form of a private pension (income stream), there is a real risk that people will outlive their financial resources during retirement and end up being supported by the Age Pension. This problem is exacerbated by the prospect of retirees living for longer. Interestingly, at a time when Australians are living longer and longevity risk is greater, the take-up of lifetime annuities (which protect against this risk) is the lowest it has been for many years[10]. We are concerned that longevity risk does not attract adequate attention, in the public policy debate relating to retirement savings.

The 'payout' phase of Australia's retirement income system has been developed to date on an ad hoc basis and it is not sufficiently integrated with the accumulation phase. There is an opportunity for government to review and develop policies on how superannuation savings should be used in retirement. The recent OECD report on Ageing and Employment policies in Australia (OECD 2005) supports the need for a wider debate about how income streams should be encouraged.

Mandating a private pension purchase, as recommended by the SSCS (2003), would markedly improve the overall economic and individual benefits from the system. For those over 40, no doubt there is political difficulty in mandating an income stream and for this group a much stronger and integrated package of tax and social security benefits is needed to encourage the take up of income streams over a lump sum.

However, for those under age 40, mandating a private pension purchase at retirement could be phased in over time, perhaps as a trade-off to providing other government incentives to this age group to save more.

The over 40s group

The introduction of growth pensions and transition to retirement pensions will go some way to improving the income stream product range that retirees can choose from. However, there is still a long way to go in developing appropriate incentives to ensure that people take income streams over lump sums.

For example,

- The amount that can be taken as a tax-free lump sum (currently set at around $128,000) should be reduced in value or at least the indexing of this threshold to wages growth should be stopped.
- The reasonable benefit limits (RBLs) regime needs to be simplified and the levels at which they cut in need to be reviewed to make the rules simpler for people to understand, and to strengthen the incentive to take an income stream. AMP is currently working through several RBL scenarios and would be happy to share these with the Committee at a later date.

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[10] Changes in September 2004 to the Age Pension Assets and Income test from a 100 percent exemption to 50 percent have significantly reduced the incentive for retirees to purchase genuine lifetime pensions. Monthly lifetime annuity sales have dropped from $51 million in June 2004 to just 3 million in June 2005.

The under 40s group

Consideration should be given to making the purchase of a private pension at retirement compulsory for those currently under 40. However, before such a policy decision can be made, more research is required to determine which type of pension should be made compulsory, and whether there should still be an option for taking lump sum amounts (for example, the first $80,000 of savings could be taken as a lump sum).

Recommendations

10. **Government needs to commit to developing the 'payout' phase of the Australian retirement income system to change the lump sum behaviour of retirees and to determine whether there are better ways for Australia to manage its increasing longevity risk.**
11. **Serious consideration should be given to strengthening the incentives for private pensions for those over 40.**
12. **For those under 40, research should be undertaken to consider making a private pension purchase compulsory at retirement.**

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