

Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

31 May – 2 June 2011

Question No: BET 278

Topic: Retiree savings

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Senator Cormann asked:

Senator CORMANN: Has Treasury undertaken any analysis to estimate the number of Australian retirees whose private retirement savings become exhausted and who consequently become totally dependent on the age pension? Do you have some numbers around that?

Mr Murphy: Probably there would be but it is not with the Markets Group; it would be in—

Mr Lonsdale: It would be Revenue Group—Mr Phil Gallagher.

Senator CORMANN: So I have to wait till October now.

Mr Lonsdale: We are happy to take that on notice if you like.

Senator CORMANN: I really appreciate that.

Mr Lonsdale: It would be useful to clarify the question. There are a large number of retirees—80 per cent of retirees are on the age pension, either full rate or part rate. Most retirees are on the age pension at some time in their retirement. So it would be very useful to clarify the information that you are asking for.

Senator CORMANN: I would be interested to get a better understanding as to what Treasury's expectations are in the context of things like the intergenerational report work and so on as to how that is going to track into the future and how people who might start off with substantial private retirement savings are not able to manage them so that they last for all of their life. You do have the market risk and the longevity risk, which I think sounds terrible—it is the risk of growing old, I guess. People in this industry have strange terminology. But never mind. I am interested to get a bit of a sense as to what your modelling and your expectations are, how that will track and how annuities fit into the overall retirement policies brain work.

Mr Lonsdale: We can see what is available.

Senator CORMANN: Thank you.

Answer:

Treasury last analysed the cohort transition onto age pension in December 2008 as background for Australia's Future Tax System Review. The estimates come from RIMGROUP, the whole of population actuarial increment and decrement model which is used for the IGR age pension projections. Results for the baby boom cohort aged 65-74 in 2020 are presented below. The projection would be different if conducted now because of policy changes.

RIMGROUP Run Dec 2008	Cohort increase in full rate pensioners		
Year	2020	2030	2040
Age Group	65-74	75-84	85 and over
Proportion who are full-rate pensioners	27%	39%	58%