Chapter 5

Adequacy for Baby Boomers

Introduction

5.1 The Committee was concerned that the impending retirement of the large 'baby boomer' generation raised important adequacy questions. This is because this cohort is the last that will not have the benefit of a full working life under the compulsory superannuation system and, other savings aside, is therefore likely to fall well short of the target level of 70-80 per cent of pre-retirement expenditure in retirement. They are also likely to fall short of the current Treasury projection of 60 per cent of pre-retirement expenditure for those on average earnings in the wider population.

5.2 The Committee sought suggestions from key witnesses about how to address this issue.

Options to improve adequacy

5.3 A number of the proposals to improve the adequacy of retirement incomes generally, as discussed in the previous chapters, will also have the potential to assist the baby boomers to achieve adequate incomes in retirement. These include reducing front-end taxes, contributing non-superannuation assets to superannuation, removing the work test for making voluntary contributions and expanding the co-contribution concept.

5.4 Elaborating on the first two of these suggestions, IFSA pointed out that they do not seek to find new money but maximise what someone has available to contribute.[1]

5.5 In addition ISFA suggest that the removal of the surcharge, the removal of the annual deductible contribution limits, and the recognition of growth pensions would also assist the baby boomer cohort in the adequacy context.[2]

5.6 Mr Kelly from NATSEM contributed to the baby boomer issue at the Canberra roundtable discussion on 8 October 2002, indicating that it was more important to encourage the 'baby boomers' to stay in work as a means of boosting their retirement savings:

> I have also looked at increasing the superannuation guarantee to 15 per cent and I have found that it does not make a substantial difference because

1 *Submission* 70, IFSA, p 2-3.

2 *Submission* 70, IFSA, p 2-3.

> people are still taking early retirement, which almost negates it. So the priority is to encourage people to stay in employment and to look at ways for them to do so. The superannuation accumulation phase is more important than whether it should be nine or 15 per cent.[3]

5.7 AMP provided the following suggestions to assist baby boomers:

- promoting voluntary savings measures;
- extending the co-contributions, with appropriate changes to end benefit tax arrangements to require that the benefits of the co-contributions are taken as income streams and not lump sums;
- breaking the nexus between employment and superannuation.[4]

5.8 In its supplementary submission, AMP advised the Committee that:

> To help baby boomers meet their retirement goals, voluntary saving measures should be promoted.
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> Firstly, AMP supports the proposal to extend the co-contribution to middle income groups (up from the $32,000 limit). …
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> If the Government wanted to provide additional incentives for baby boomers compared to what is offered to the rest of the population, consideration could be given to easing the eligibility for the co-contributions for this group, or by increasing the level of co-contribution (such as having the maximum contribution eligible for the co-contributions being, say, $1,500 for people between 40 and 50 and $2,000 for people over 50). This is similar to the recent changes introduced in the US where the amount people can put into their Individual Retirement Account or 401(k) is higher for people aged over 50.
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> The effect of this policy would also flow through to women rejoining the workforce or older self-employed people playing catch-up with their retirement savings.
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> …
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> AMP propose that any new incentives provided to baby boomers by the Government (for example, the co-contribution) be contingent on people having to take that proportion of money as an income stream at retirement.

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3 *Committee Hansard*, 8 October 2002, p. 690. In a paper presented at the Tenth Annual Colloquium of Superannuation Researchers in July 2002, *Projecting the impact of changes in superannuation policy: a microsimulation approach,* Mr Kelly et al indicated that according to NATSEM modelling, increasing the SG to 15 per cent in 2003 would not impact on age pension outlays until 2025.

4 *Submission* 64, AMP, pp. 16-17.

> AMP also notes that the current proposal to enable a couple (or de facto) to split superannuation contributions provides a strong incentive to take a lump sum at retirement. The intent of the policy is to enable a single income family to take advantage of two superannuation tax free thresholds and RBLs (2 x $105,843 and 2 x $562,195). Yet the policy effectively reduces any incentive to take the superannuation benefit as an income stream, because it enables a family to take over $200,000 as a **tax free** lump sum at retirement.
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> AMP also suggests that the nexus between employment and superannuation be broken for the purpose of making undeducted (personal) contributions so that any adult (18 to 75) can contribute to superannuation.[5]

5.9 In response to questions from the Committee about whether there should be any special arrangements to help boost the savings of those currently aged over 45, ASFA submitted that it 'would not favour a differential superannuation tax based on the age of the member' and that its preference is for measures that impact on the entire population.' ASFA submitted that:

> This would introduce a whole new layer of complexity to record keeping and accounting. It also needs to be kept in mind that funds do not have records of the age of some fund members, and there is no independent validation of the birth dates that are recorded. In addition not all persons aged over 45 are relying on compulsory superannuation alone. Around 40% of the population had superannuation prior to the SG, with a fair proportion of these in relatively generous defined benefit schemes and/or have a substantial proportion of their superannuation benefits payable as a lump sum of which only 5% forms part of their taxable income in the year the benefit is taken.
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> While ASFA in general welcomes any measure that would improve adequacy of retirement incomes its preference is for measures that impact on the entire population that is receiving the benefit of superannuation contributions.[6]

Committee view – adequacy for baby boomers

5.10 Given that the compulsory superannuation scheme has only been in operation since 1992, the Committee notes that most baby boomers may not have the benefit of a full working life under the compulsory superannuation system and, other savings aside, that their incomes in retirement are likely to fall well short of the consensus target level of 70-80 per cent of pre-retirement expenditure (approximately 60-65 per cent of gross pre-retirement income). They are also likely to fall short of the current Treasury projection of 60 per cent of pre-retirement expenditure for those on average earnings in the wider population.

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5 *Submission* 127, AMP, pp. 2-3.

6 *Submission* 108, ASFA, p. 18.

5.11 The Committee also notes, however, that a number of the proposals to improve the adequacy of retirement incomes generally also have the potential to assist the baby boomers to achieve an adequate income in retirement. These include gradually reducing front-end taxes (a targeted reduction in the contributions tax for those over 40 would be particularly helpful to baby boomers), contributing non-superannuation assets to superannuation and removing the work test for making voluntary contributions. In addition, the expansion of the co-contribution concept, with appropriate changes to end benefit tax arrangements to require that the benefits of the co-contributions are taken as income streams and not lump sums, and providing incentives to extending an individual's working life, are also likely to assist.

5.12 The Committee is aware that the Senior Australians Tax Offset (SATO),[7] which was introduced in the 2001 Budget, is also considered to be a relevant transitional arrangement affecting the 'baby boomers'. This is because the non indexation of SATO will see it effectively phase out after 15 years as the indexation of the age pension rebate overtakes the frozen SATO level.

7 The SATO provides additional tax rebates to 'self-funded retirees' so that couples can receive $58,000 per annum and pay no tax.