

THE AUSTRALIAN SUPERANNUATION SYSTEM



THIS DOCUMENT WAS PRODUCED AS A PART OF THE MELBOURNE MERCER GLOBAL PENSION INDEX (MMGPI) 2019¹.

OVERVIEW OF THE AUSTRALIAN SUPERANNUATION SYSTEM

The Australian retirement income system relies on three interacting pillars comprising of:

- the means-tested and publicly funded Age Pension;
- the mandatory employer-funded contribution known as Superannuation Guarantee (SG); and
- additional voluntary contributions supported by tax concessions and direct government support for low-income earners.

SYSTEM HIGHLIGHTS

Large in Scale | System Design and Freedom of Choice | Strong investment performance

LARGE IN SCALE Australia is the fastest growing pension market in the world². During the last thirty years, the value of total assets managed by Australian super funds has grown from A\$73 billion in 1989 to A\$2.89 trillion, as reported by the ABS in June 2019, achieving a compound annual growth rate of 13%. Australia is the 4th largest private pension system (A\$2.89 trillion), and the sixth regarding the total managed assets (A\$3.6 trillion) globally³.

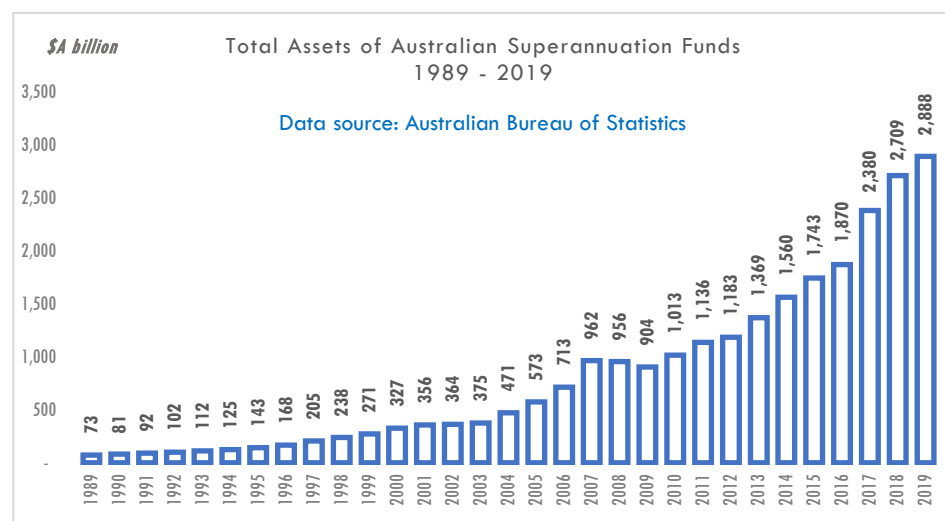


Figure 1: Total Assets of Australian Superannuation Funds

¹ The Melbourne Mercer Global Pension Index (MMGPI) Project is supported by the Victorian Government and produced in partnership with the Monash Centre for Financial Studies, Monash Business School and Mercer. Since its inception in 2009, the Index has grown from 11 to 37 retirement income systems in 2019.

² Willis Towers Watson: Global Pension Assets Study 2019

³ Australian Bureau of Statistics (2019) and Financial Services Council (2019) State of the Industry

Based on OECD's figures, Australia's pension assets to GDP ratio increased from 79% in 2010 to 137% in 2019⁴ while the average ratio of pension assets to GDP of the world's 22 largest pension markets in 2019, reported by Willis Towers Watson, was 60%⁵. Australia is also among the largest pension markets included in the Melbourne Mercer Global Pension Index (MMGPI)ⁱ.

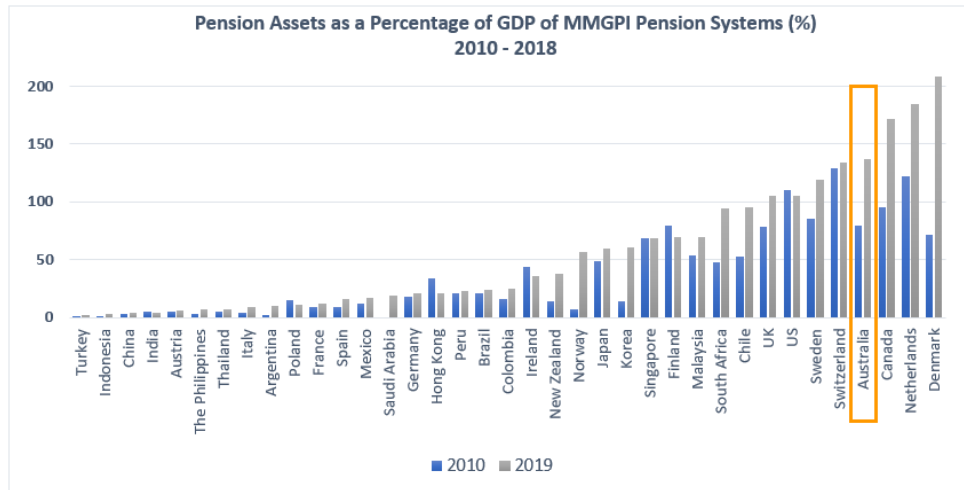


Figure 2: Pension Assets as a Percentage of GDP of MMGPI Pension Systems

The growth of pension assets as a share of GDP of Australia is keeping pace with that of the others in the top seven pension markets of the world, P7, as identified by Willis Towers Watson⁶. From 2009 to 2019, while the growth of pension assets of non-P7 MMGPI systems has been relatively modest, from 23% to 36% of GDP, the relative size pension assets to GDP of the P7 markets has almost doubled.

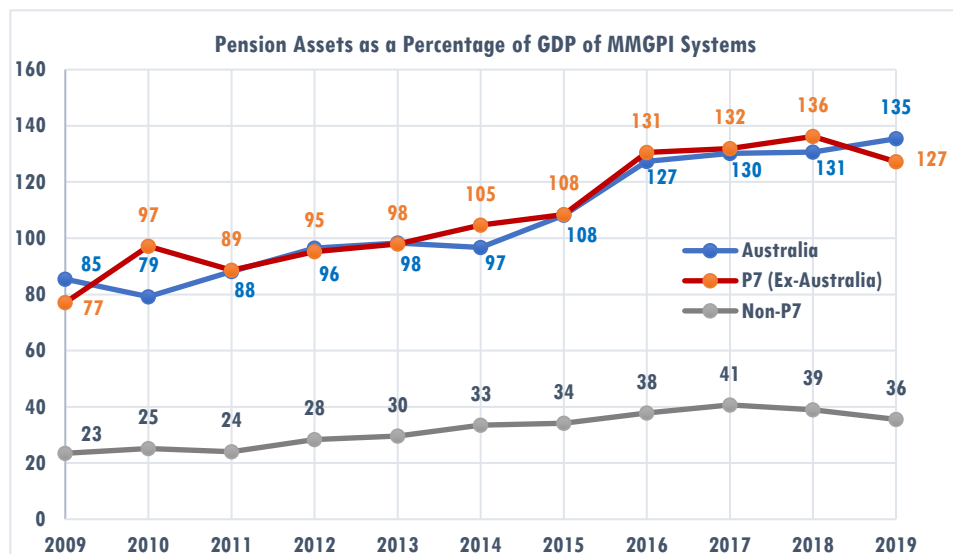


Figure 3: Pension Assets of MMGPI Systems

⁴ MMGPI dataset from 2010 - 2018

⁵ Willis Towers Watson: Global Pension Assets Study - 2019

⁶ According to Willis Towers Watson (2019), in the Global Pension Assets Study, the seven largest pension markets in the world, in terms of pension assets, are Australia, Canada, Japan, the Netherlands, Switzerland, the UK and the US, with the total assets of USD36.6 trillion.

SYSTEM DESIGN *Superannuation Guarantee*

The highlight of the Australian pension system is the Superannuation Guarantee (SG) and the freedom of choice the system provides. Fueling the growth of the Australian system is the mandatory employer SG contribution, introduced in 1992, together with a variety of other tax-advantaged voluntary contribution schemes. The current SG rate is 9.5%, which is expected to increase to 12% by 2025. After more than 25 years, great wealth has been accumulated in the system to serve Australian’s evolving retirement needs and support the resilience of the financial system and overall growth of the Australian economy.

Freedom of Choice

The Australian system allows individuals to choose between the recommended default selection, MySuper product, and other investment options with different risk profiles and investment strategies provided by superannuation funds. The option of a self-managed super fund (SMSF) is also available to those want to self-manage their retirement savings. At the end of June 2019, the total assets in MySuper products were \$755.9 billion, representing 26.3% of the total super assets⁷ where as SMSFs’ assets were A\$747.6 billion belonging to 599,678 funds⁸, see Figure 4.

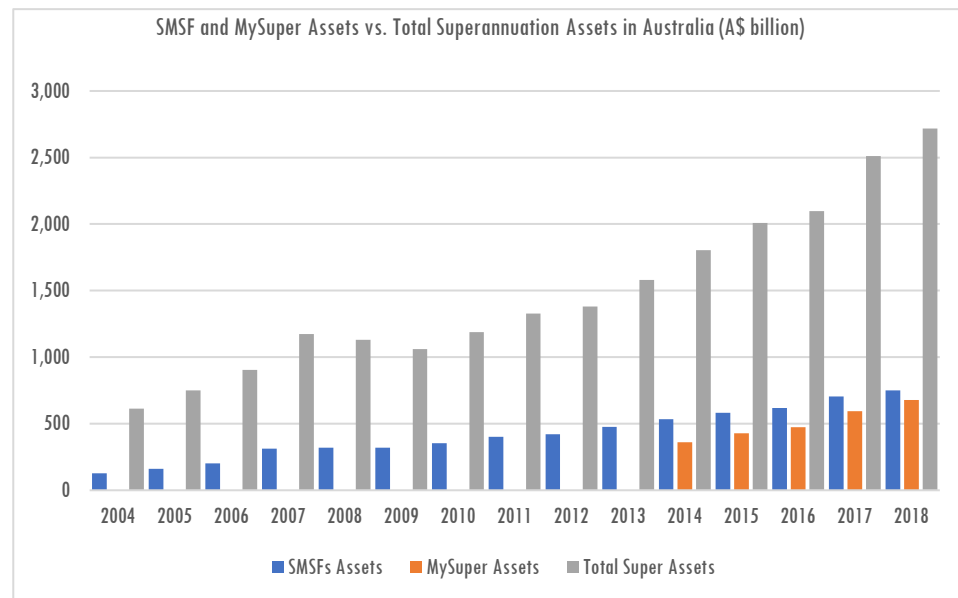


Figure 4: MySuper and SMSFs' Assets

⁷ Financial Services Council (2019) State of the Industry

⁸ APRA: Statistics - Quarterly Superannuation Performance, June 2019

**STRONG
INVESTMENT
PERFORMANCE
IN RECENT
YEARS**

According to the statistics released by the OECD, 2018 has been a good year for Australian superannuation funds, delivering 5.9% of real investment rates of return, the best performance among all MMGPI systems. Strong investment performance of the funds has been driven by a strong domestic economy and a high level of growth assets held by Australian funds.

In terms of the real annual net rate of return of funded and private pension arrangements, as reported by OECD, during the period from 2013 - 2018⁹, Australian funds have also delivered the top performance, as illustrated in Figure 5 below.

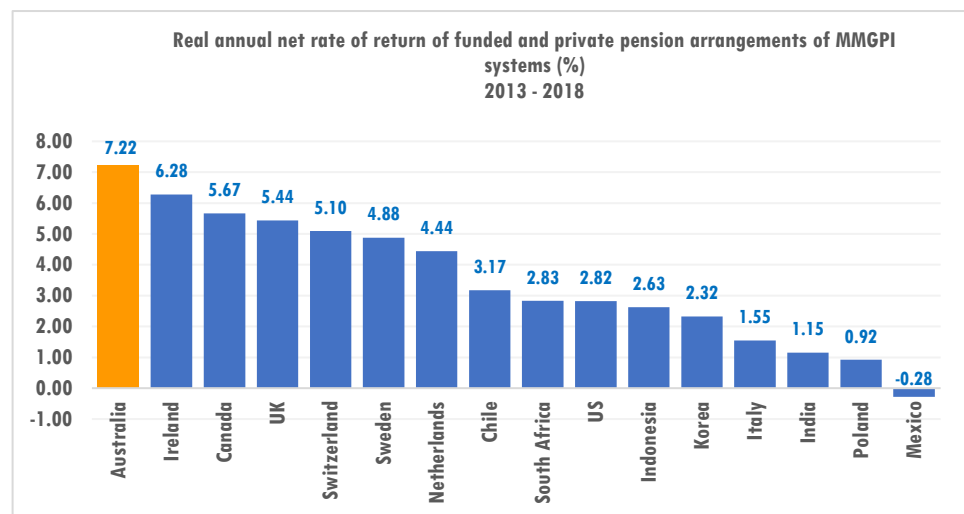


Figure 5: Investment returns of funded and private pension arrangements

MMGPI PENSION SYSTEMS

Adequacy | Sustainability | Integrity | Size

Figure 6 reveals the position of the MMGPI pension systems on a four-dimension assessment of MMGPI pension systems in terms of adequacy, sustainability, integrity and size.

The median scores of adequacy and sustainability of MMGPI systems divide the space into four quadrants, with Quadrant 1 in the top right corner.

Ranked only after the Netherlands and Denmark in 2019, Australia belongs to Quadrant 1, with both *Adequacy* and *Sustainability* sub-scores higher than MMGPI-median. Most pension systems in Quadrant 1, including Australia, are relatively large in pension assets, indicated by the size of the dots, and have high integrity scores, reflected by the shades of red.

⁹ Based on the geometric mean of the real annual rate of returns of funded and private pension arrangements of MMGPI pension systems for which data from OECD is available.

Some other large pension markets, such as Switzerland, US and UK, belong to Quadrant 2 due to lower *Adequacy* sub-score.

Pension Systems: Adequacy, Sustainability, Integrity and Size

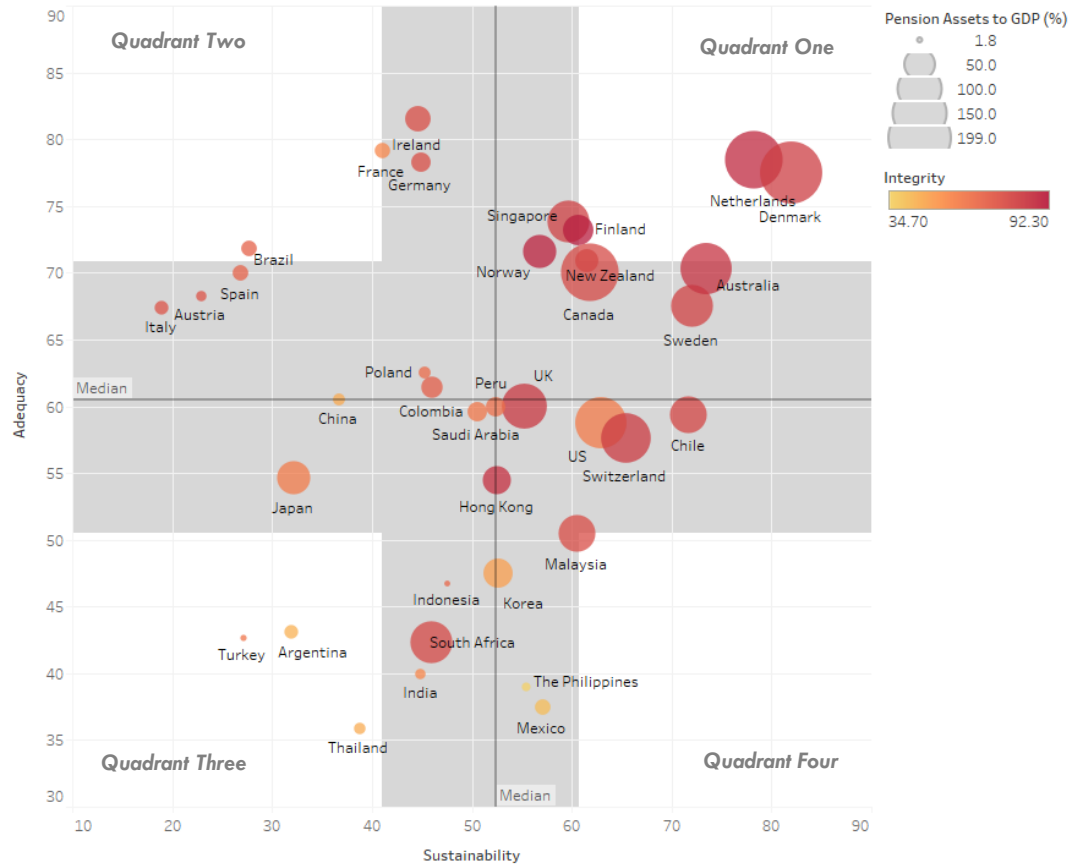


Figure 6: Adequacy, Sustainability, Integrity and Size of MMGPI Pension Systems – 2019

Putting it all together, the Australian pension system has experienced continuous growth and consistent performance over the last decade thanks to the prolonged growth of the domestic economy. However, challenges likely lie ahead for Australia to maintain its growth of the superannuation system, especially in the current environment of extraordinarily low real interest rates and high economic uncertainties.

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For more information about MCFS and MMGPI project, please visit our website.