

An International Viewpoint, Bringing the Global Pensions Community Together - Event 1 Australia

These events are aiming to reflect the approach to pensions in other countries. Sometimes the same terminology is used in other countries to describe a different concept than that which we understand it to mean in the UK. Where possible we have tried to clarify this.



The Pensions Policy Institute (PPI) held a seminar on the 8 September 2020, sponsored by **MFS Investment Management**, Gold Supporting Members of the PPI, with special guest Nick Sherry who gave insight into recent developments with the Australian pension system, as well as the impact on pension saving of COVID-19. The event took place virtually with around 50 attendees.

This is the first of a series of internationally focussed virtual events, exclusively for PPI Governors and Supporting Members. Each event features a leading expert sharing their country's experiences of retirement income and saving, any recent reforms, and offer the opportunity for attendees to ask questions and learn from a different perspective.

Madeline Forrester, Head of Global Consultant Relations, MFS Investment Management & PPI Council Member, chaired the event.

Following welcoming remarks and housekeeping from the Chair, **Joshua Barton, Managing Director, Relationship Manager and Head of Institutional Sales - Australia / New Zealand, MFS Investment Management** formally welcomed everyone to the event. Below is his transcript:

"I am Josh Barton, Managing Director of Relationship Management & Head of Institutional Sales based in Melbourne.

We are delighted to be sponsoring this series of international discussions comparing and contrasting some of the different approaches to Pension Provision around the Globe.

For our guests who are not based in the UK, The Pension Policy Institute (PPI) is an educational, independent research organization, with a charitable objective to inform the policy debate on pensions and retirement income provision. The PPI operate at the heart of the UK pensions policy world, and they look to facilitate impactful conversations. The PPI's objective is to inform and promote the long term thinking that is vital to pensions provision, but sometimes hard for elected officials with short term mandates to achieve.

Like the PPI, MFS bases our findings on thorough, long term research and analysis, and collaborative discussions. We hope these discussions will create an opportunity for us all to learn more about best practice globally, and how that might be helpful as we look at our specific regional environments and the challenges and opportunities we face. We'd like this to be a truly interactive session so that we can learn not just from the PPI; but also from each other.

After six years as Retirement Commissioner for New Zealand, Diane Maxwell will deliver candid reflections of preparing for an ageing population, the tensions between public and private provision in a world of low interest rates and high government debt, and the question of how politicians navigate unpalatable policy choices in the face of growing pensions and health spend.

Thank you very much for attending, and I hope you find the discussion both useful and rewarding."

Expert presentation

The Chair then invited the guest expert, **The Honourable Nick Sherry BA, FAIST, GAICD & PPI Governor** to speak on the current experience of the Australian superannuation system.

Nick outlined the recent reviews and inquiries that have impacted the provision of superannuation funds in Australia recently. These include the recent Royal Commission report on misconduct in the financial sector, the Productivity Commission's report on Superannuation, the release of heatmaps from the regulator which compare levels of charges and returns from Superannuation

Funds, and the retirement income review to be released shortly which may lead to the Australian government making changes to savings in the next Budget.

Nick set out the major developments that have occurred over the last few years, including elements that would be explored further throughout his presentation. Developments he identified included:

- Banks divesting from superannuation, which started before the release of the Royal Commission into misconduct, but has accelerated as a result of it. He gave examples of major banks who were divesting, as well as of a major freestanding superannuation wealth provider who is struggling to survive following scandals highlighted by the Royal Commission report.
- The publication of heat maps of the performance of MySuper default funds (those that employers are able to use as their default provider), which colour code the returns and fees all funds with a license to operate as a MySuper default fund. This is intended to be expanded to other providers who are not licensed default funds.
- fund mergers, and
- The raising by the Productivity Commission of the possibility of a reduction in the number of licensed default funds to ten. He thought it unlikely that the Government would limit the number to ten. However he noted that there was talk within government of making the government Future Fund a single default fund.

Nick gave information on the asset growth of the superannuation system, growing from AUS\$1.3 trillion in 2011 to AUS\$3 trillion by the end of 2019, but falling back to AUS\$2.7 trillion in the early part of 2020. But that in terms of GDP, the assets in the pension system in Australia are 150% of GDP. He discussed the contributions to superannuation schemes, noting that on top of the compulsory 9.5% contribution there are on average 4.4% voluntary contributions.

He then went on to discuss the change in the number of funds. This included the shrinking number of corporate superannuation funds (those that are single employer), from around 2,500 in 2002 to 18 remaining in 2020. Other types of funds also reduced in number, with the exception of the self-managed fund, where the individual manages their own fund which grew rapidly from just over 200,000 in 2002, to just over 500,000 in 2013, but growth has slowed, with just under 600,000 individuals managing their own fund in 2020. He explained that achieving a larger scale was a driver in the reduction in numbers as funds consolidate.

Nick then went through the impact of COVID-19 on employment and specifically how it impacts pensions. He explained that the Australian government's first

stimulus measure to alleviate hardship was to allow early access to the superannuation scheme. He mentioned that people under 35 tended to be much more likely to take the hardship early access. Which is partly due to the hospitality and entertainment sectors being very heavily affected and are more likely to employ people under 35.

Nick also explained how the Australian system deals with inactive accounts. Any member pots of less than AUS\$ 6,000 which have had no contributions in 16 months are referred to the tax office. The individual is identified using their tax file number, and then their current (or most recent) superannuation scheme is identified and the inactive fund is automatically consolidated.

Question and answer session

Madeline Forrester then opened the session to the audience to ask questions of the guest speaker, **Nick Sherry**. This portion of the event was held under the Chatham House Rule.

Questions included expanding further on some of the issues raised in Nick's presentation. Topics that were discussed included:

- the wealth and gender distribution of people who make additional voluntary contributions,
- what is happening with the state pension in Australia at the moment,
- deeper discussion of the drivers behind the auto-consolidation policy and the role of SuperStream,
- whether there are differences in the incentives as a result of the Australian tax system, in which pay-outs are tax free rather than contributions,
- what might be the knock on impact on the economy and on government finances of the early access.

Closing remarks

Madeline Forrester then invited Joshua Barton and Nick Sherry to make closing remarks and closed the meeting.

Event series kindly sponsored by:



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