The ABC of Economics, Pension Economics Combining Super Safety Net and Senior's work in 2018 (Retirement Income around the World)

This article belongs to The ABC of Economics in 2018 :
- Repairing Australia's Vertical Fiscal Imbalance,
- Derivatives, Collateral Debt Obligations and the Glass-Steagall, Crypto-Currencies, Blockchains
- Multilateral Trade Agreements, price fixing, VL/VO
- Strategic planning, Government economics & Technology
- Public Private Partnership(PPP), Rating agencies
- Politics versus policies in 2018

Australia's retirement income system has three components: a means-tested Age Pension funded through general taxation revenue; the superannuation guarantee, a compulsory employer contribution to private superannuations savings and voluntary superannuation contributions and other private savings. Superannuation savings are encouraged through taxation concessions(1)

Retiring income systems have two phases: a **Contribution** phase and an **allocation** phase.

The contributing period/ Accumulating rights

Rights are accumulated simply by citizenship and spending time in a country, opening rightsfor example to a safety net/ pension in Australia or to a minimum resource allocation with smaller retirement income benefits such as in Germany, France(APSA) Sweden ...

Contributions are made to systems by points, or by capitalization such as our superannuation in Australia created in 1985 for example, with a portion of salaries paid into various funds, for example the industry super funds, the **rate of mandatory contributions** in Australia has not changed since 1996. Additional fiscal incentives have been provided since to topping the super up with **voluntary contributions**, these forms of super funds around the world are called super by capitalization.

Another form in the world of mandatory contributions is the national insurance scheme such as in the UK or France etc...or the **public service in Australia opening rights based on points and duration of employment**, it is common in many OECD countries France Germany Sweden etc...and in the long term can be creating sometime unfunded liabilities associated with government entities. **Australia also did have a national insurance contributing scheme** until the Menzies government decided that accumulated benefits would be directly transferred into the government ledger/ budget and replaced by the pension/ safety net system that we have now, which operates directly from the budget line while public service systems have kept running accumulating potential liabilitie though.

Occupational funds in Europe are also another form of contributions.
Occupational funds open rights to specific defined benefits such as ARRCO or AGIRC in France, and equivalent systems in Sweden Germany etc... for engineers or members of specific trades/ industries, here again it can lead to unfunded liabilities to statutory bodies such as in some European countries who have only 6 to 12 months of rollover funds available to meet their obligations extending over 20 or 40 years with retirement income paid until death.

The advantage of pension's contributing schemes is that they enables a better follow up of unemployment and under employment because people that stop to contribute due to unemployment have to register to unemployment registers in order to avoid losing part of their rights / benefits to the pension. Discrepancy exists regarding unemployment figures between countries where unemployment registration is mandatory to avoid losing social benefits including pensions, with rates between 12 to 25%, and other countries where registration is not compulsory such as Australia where rates are between 4 %and 12% only and pension benefits are not affected.

Allocating Benefits / Spending annuities

After reaching pension age contributions open right to ***retirement income payments..*** *Depending on your occupation, in some OECD countries under specific circumstances State or military service activities, type of activity etc, the retirement age can be brought forward.*

Retirement income can take the form of fortnightly payments such as with the Australian age pension/ safety net, or France APSA / minimum resources guarantee(kind of safety net), these type of means tested monthly payments are also available in many countries such as Germany, Sweden UK etc....
People having contributed to superannuation can take a lump sum or rollover, to transform the capitalization from their super into annuities.

Calculation of retirement income in Australia:

To calculate retirement income find out the value(real or virtual) of rollover payments(annuities) from accumulated super and add it to the pension after means test, one of the difficulties in Australia is to find out the Median Super payments from the average one which is distorted by voluntary contributions.

To obtain the amount of mandatory contributions, sum the figures from the ABS of yearly national contributions then work out the average annual return/ increase on these until the date chosen for retirement.

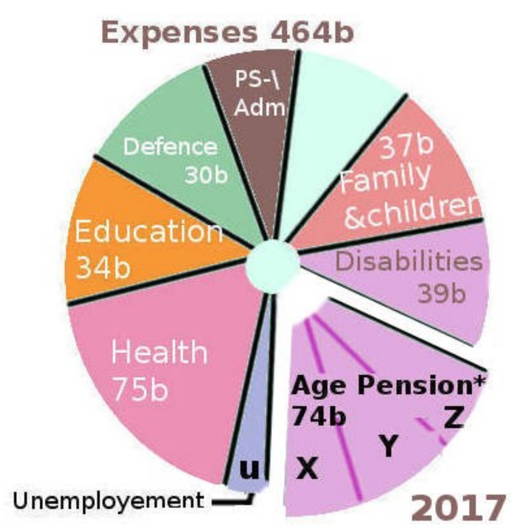
In 2017 Median accumulated super is between 200 and 250k for males and 30% less for females, the average accumulated super which includes voluntary contributions is 20% higher.

The national accumulated Super is $2 trillion, APRA funds returned an average interests of 8.5% in 2015.

The average combined Super(*) + Age Pension fortnightly income for a couple given the new Means Testing and Asset test, retiring in 2017-2018, is:

$2500 made of Pension $1250(625x2)+ Super $1250, the median is $1940 made of Pension $1100(550x2) + Super $840 (480+360), see below for the detail.

The Median Retirement income amount including voluntary senior's work related income per couple is lower than France, Germany, Norway, Sweden, but identical to UK Canada US and higher than half of the other OECD Countries, the Australian Super System will iron out some differences with France and Germany from 2025-30 because our Super started only in 1985.



Above the Age pension portion in the 2017 budget.
People on the safety net / age pension are divided into 3 categories::
X- people on the safety net deriving all of their retirement income from the pension 30% in 2015

Y- people on the safety net deriving most of their retirement income from the pension 40% in 2015

Z- people on the safety net deriving some retirement income from the pension 30% in 2015
- Self funded retirees not on the safety net made 15% of retirees in 2015, 30% in 2025(*), 50% in 2035 (*)
- 70% of retirees in 2015 depended on the age pension as principal source of income(PSI), they will account for 50% of retirees in 2025(*), and 25% in 2035

(*)broad estimates after super rollover with 25 years annuities, see detail here after. Assuming rollover with annuities is implemented fully, or virtually, means tested for super funds above 100k and derivatives do not crash the system! See below for detail.

Means testing and flexible retirement

Means testing differs considerably between retirement schemes in various countries.

In countries such as France and Germany the high level of contributions enables benefits from the age pension not to be means tested. The retiree work's related income and other source of income are taxed normally but not means tested in Pension Payments, in other countries such as Sweden, Denmark, Italy, Spain ...it is means tested sometime with different rates between senior's work related income and investment's income.

- The Age Pension of Australia is really a safety net because **any type of income is mixed into a giant means tested bag(see **)** including work related income(minus a complex and insignificant work bonus) without nearly any differentiation from the source of income. All incomes including deemed income from term deposits affect pension payments the same way(see **).

Mixing work related income with other income in means testing penalizes senior's incremental /progressive retirement. Australia work bonus whizzbang does not replace proper policies for senior's flexible retirement, paper work is at the opposite of the Swedish government business card model, a thing new retirees discover with a lot of discomfort before disappearing into cash hand out small jobs for many to survive, specially for some retirees having migrated later in their life from OECD countries and having paid into very high contributing scheme overseas specially built to enable them working in retirement without penalties or Means Testing.

Christian Porrter's 18th century absurd Data Matching Russian Roulette's mistakes have caused considerable stress amongst elderly people attempting to do the right thing instead of going onto the black economy, all this because of a lack of co-ordination between Centrelink and the Tax Office which should have automatically retained interactively the means test.

see Saturday paper: Martin Mc Kenzie-Murray "An artless system that aggressively demands fictional debts from our most vulnerable people has, unsurprisingly caused considerable misery" .. and brought a sword of Damocles over elderlies for the rest of their life and a promotion to Attorney General for Mr Porter.

Amongst the OECD average, the Australian Safety net has a marginally higher median safety net based on half the minimum Australian wages which replaces well a minimum resource allocation such as in Germany and France(APSA) or Ireland which have much smaller retirement income benefits however the Australian safety net does not compare well with the non-means tested Pension systems by points of France and Germanywhich have higher non means tested medianretirement income.

- Incremental/ flexible retirement/ work for seniors was introduced in many OECD countries between 1980 and 1990 after 2010 for the UK. France and Germany always had some flexible/ progressive retirement and no means testing on most pensions with 30% of Seniors between the age of 65 and 72,earning some work related income there by choice.

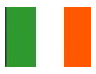
CANADA: The pension system offers a flat-rate benefit, whichcan be topped up with an income-tested benefit,earnings-related public schemes and voluntary private pensions.

FRANCE: In the private sector, the pension system has two public mandatory tiers: a **defined benefit pension and occupational schemes** based on a points system. The **defined- benefit scheme** also has a means-tested minimum contributory pension (minimum contributive). In addition there is a targeted minimum income for the elderly (APSA).

GERMANY:

The pension system offers a flat-rate benefit, which can be topped up with an income-tested benefit, **earnings-related public schemes and voluntary private pensions.**

The statutory public pension system has a single tier and is an earnings related PAYG system. Calculation of pensions is based on pension points. If individual old-age provision from all income sources is not sufficient, additional means-tested benefits can be claimed from social assistance.



IRELAND:

The public pension is a basic scheme paying a flat rate to all who meet the contribution conditions. There is also a means-tested pension to provide a safety net for the low-income elderly. Voluntaryoccupational pension schemes have broad coverage: over half of employees.

ISRAEL:

The state pension comprises a universal insurance pension combined with means- tested income support. Until 2008 voluntary contributions were common but as of 1 January 2008 mandatory contributions to defined contribution pension funds have been introduced.

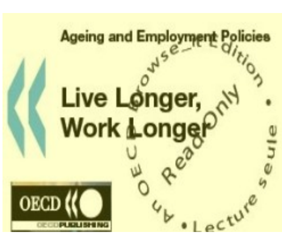
SWEDEN:

The national retirement pension consists of a pay-as-you-go notional accounts system and a mandatory funded defined contribution pension and a defined benefit pension- income-tested top-up. **Occupational pension plans with defined benefit and defined contribution elements have broad coverage.**

UK: The public scheme has two tiers, (a flat-rate basic pension and an **earnings-related additional pension**), which are complemented by **a large voluntary private pension sector**. The public scheme is currently being reformed into a flat-rate basic pension. An income-related non-taxable benefit (pension credit) targets extra spending on the poorest pensioners.

US:

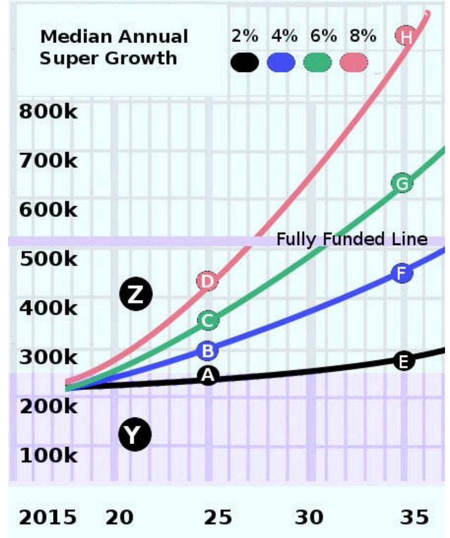
The publicly provided pension benefit, known as social security, has a progressive benefit formula. There is also a means-tested top-up payment available for low- income pensioners.



Note(1) : Documents consulted, above, and Pensions at a glance, Retirement Income in the OECD and G20 Countries 2014-2015

(**) If you have been working overseas prior to coming to Australia, **Australia Means Test everything, here and abroad, without any distinction including defined benefits schemes overseas from "most" (Western like) countries(*), ie having some relations with Australia, you may have to accept it, including the context mentioned.**

(*) - If you worked at the UN or were part of a UN Mission prior to coming to Australia you and your partner may have been covered by the UN Charter, check with Centrelink for the outcome.



Estimated 2025-2035 growth in Super

Above Australian Median accumulated super (not the average one), with growth scenario between 2 and 8% until 2035, for each scenario the retirement income below combines estimated annuities after rollover(real or virtual) over 20 years or 25 years with two possible interest rates paid on the capital during the payment of the annuities, 2.5% and 5% (see below).

ABCDEFGH dates of retirement show estimated retirement income after means testing combining age pension/ safety net with Super annuities.

Z is the portion of median super income annuities higher than the Pension Payments,

Y is when these are lower, ie when the PSI(principal Source of Income) is the Safety Net/ Age Pension and it will remain so until 2025 for nearly half of retirees(1).

Estimates 2025

Acc	Weekly		OneP	Sgle		OneP	Sgle
Super	Super	2.50%	Age		5.00%	Age	
2025	Annuities	Intrst	Pens		Intrst	Pens	
LM	Low Med						
240k	2% Growth	A					
	20 years	293	**243**	**339**	**364**	**207.5**	**303.5**
1	25 years	249	**265**	**361**	**345**	**217**	**313**
296k	4% Growth	B					
	20 years	361	**209**	**305**	449	**165**	**261**
	25 years	306	**236.5**	**332.5**	426	**176.5**	**272.5**
358k	6% Growth	C					
	20 years	437	**171**	**267**	543	**118**	**214**
HM	25 years	371	**204**	**300**	515	**132**	**228**
432k	8% Growth	D				2	
	20 years	518	**130.5**	**226.5**	655	**62**	**158**
	25 years	440	**169.5**	**265.5**	622	**78.5**	**174.5**

2025 Calculation of retirement income

In 2025 the main retirement income is still the age pension for many(1)(A). Only people/ couples with combined super retiring on a 5% interest during the payments of the annuities and with a combined accumulated super close or above 432k are getting close to be fully funded in 2025(2)(D) though the total retirement income for these nearly fully funded couples will be around $1400-1600 a week for a fully funded couple(622superx2 +OnePartPension(oneP) 78.5*2) over 25years or around $70-80k a year for a couple, $800 a week for single($655 Super +$158) over 20 years is nearly fully funded.

You will also need a return of 5% after rollover payment of the annuities and super growth of 8% average until 2025 to reach the super balance of between 450k and 500k on your own.

If all goes well by 2035 half of retirees having a median super between 450k and 950k(G,H, above) with 4 to 6% minimum growth rate become fully funded as long as no one move the posts between time!!.

Estimates 2035

Acc	Weekly		OneP	Sgle		OneP	Sgle
Super	Super	2.50%	Age		5.00%	Age	
2035	Annuities	Intrst	Pens		Intrst	Pens	
280k	2% Growth	E					
	20 years	342	**218.5**	**314.5**	425	**177**	**273**
	25 years	290	**244.5**	**340.5**	403	**188**	**284**
438k	4% Growth	F					
	20 years	534	**122.5**	**218.5**	664	**0**	**153.5**
	25 years	453	**163**	**259**	630	**0**	**170.5**
641k	6% Growth	G					
	20 years	782	**0**	**94.5**	861	**0**	**0**
	25 years	664	**0**	**153.5**	817	**0**	**0**
932k	8% Growth	H					
	20 years	1137	**0**	**0**	1413	**0**	**0**
	25 years	966	**0**	**0**	1342	**0**	**0**

2035 Calculation of retirement income

Looking after Super in Australia:

Industry super funds(*) work exclusively for the benefits of their members, members can look at the annual Statement to find out the general sector where investment goes.

Banking Super Funds(**) Banks work also for their shareholders and you still don't know most of the time where the capital is invested, beware of unregulated non-banks.

SMSF Self managed Super Funds enable to track investments through the portfolio equities etc...but you will need a financial adviser and being able to measure risk and return including about your adviser!

(*) Regulated by APRA (**) May be regulated by APRA, beware, regulations changing all the time may render investment not risk free in case of GFC 2.0

Warning – Margin of errors:

These are predictions only

The RateCity web site was used to calculate annuities at 2.5% and 5% interest, and the formula used to evaluate the age pension weekly payments is the 2015 formula excluding assets test.

OnePartPension=(($295-((WSA-71)/2))+59(OneP)

Single Pension==(($391-((WSA-71)/2))+59

WSA=Real or Virtual Weekly Super Annuities after Rollover.

Method of Calculation to find out mandatory Contributions making the real median accumulated super until 2010 is listed below:

Average Mandatory contributions per year 1985 $1700, 1986 $1800 etc...from ABS average weekly income with yearly return of 6% compounded monthly $1752, $3710 etc... to accumulate a Total Benefit Fund of **$149k** for a typical pension made of $6000 of account fees .

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1985-1.7k-86-1.8k-87-1.9k-88-2.0k-89-2.1k-90-2.1k
$1752-$3710-$5912-$8373-$11048-$13888
1991-2.2k-92-2.3k-93-2.4k-94-2.4k-95-2.5k-96-2.5k
$17002-$20406-$24131-$28086-$32384-$36947
1997-2.6k-98-2.6k-99-2.7k-00-2.7k-01-2.7k-02-2.8k
$41890-$47138-$52820-$58853-$65258-$72157
2003-2.9k-04-3.0k-05-3.1k-06-3.2k-07-3.2k-08-3.5k
–$79580-$87572-$96155-105366-$115146-$125837
2009-3.5k-$137188-2010-3.6k-TotalAccumulated:$149350
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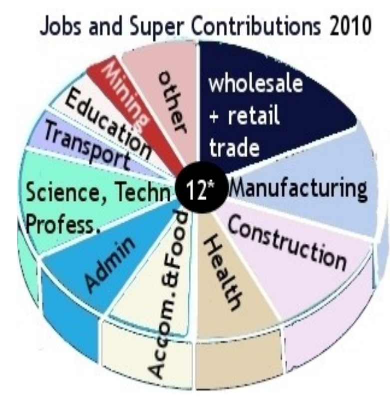
The Australian total super mandatory contribution paid in 2010 was $36b for 10m workers and **a worker's average annual mandatory contribution of** ***3.6k.*** *(ABS Figure 2010)*



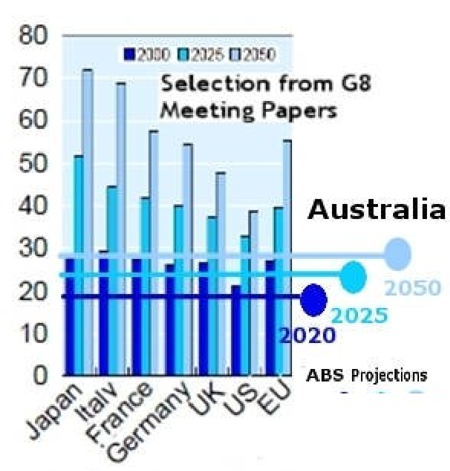
Mandatory contributions are very well spread across all industries

The 1980s Hawke-Keating labor economic reforms introduced the market currency and the super that feeds the market loop with investments and tax concessions helping to support the local economy, many other economic reforms generally associated with right wing political parties and policies were introduced also by the Labor tandem Hawke-Keating, these policies are defining today modern economic Australia and have helped Australia to escape GFC 1.0, most notably with Australia opening to the Asian economies through construction and mining investments.

The accumulated Australian super funds of $2trillion started in 1985 constitute today a pool of resources enabling Australia to control a significant part of its investments given Australian Super is the third largest super fund by capitalization in the OECD(not including Norway) and the first in the OECD equal with the USA on a per capita basis.

USA 60% of the OECD share $US20trillion, populat 350m

UK 10% of the OECD share or$US2trillion, populat 70mAustralia 6%, population 25m, followed closely by The Netherlands and Japan



Ratio 65 over 20-64

From 2035 Aged Care becomes a bigger issue than retirement income, limiting funding available for other social benefits forcing the creation of a more flexible senior's work related system to offload some of the costs but ...

...Australia has better demographics than most OECD countries thanks to its successful migration program andthis will delay reforms implemented in other countries