

Funding the Retirement of the Baby Boomers

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After World War II the number of births per woman rose above 3.0 and remained there until 1965. The peak of 3.6 was reached in 1961. Since 1961, falling birth rates and longer life spans have combined to produce a steadily ageing population. Women today are bearing around 1.75 children on average, a substantial fall from the three children produced by women in the 1950s. An Australian man born in 1920 could expect to live until the age of 59 years, while a woman could expect to live until age 63 years. Today, the average man can expect to live until 77 years and the average woman until 82 years (ABS, 2002). Australians retiring in their 50s and 60s can now expect to spend two to three decades in retirement.

These trends mean that the proportion of the population who are aged 65 years and over will roughly double over the next 40 years, to almost one in every four Australians by 2042. At the same time, there will be almost zero growth in the number of Australians of workforce age. As a result, the elderly dependency ratio — people aged 65 years or more to the of working age (15-64 years) population — is projected to increase from 18 per cent in 2000 to over 37 per cent in 2050 (Table 1). In other words, in the future there will be fewer workers to support each retired person. The increasing elderly dependency ratio for Australia is not as severe as in some other countries (notably Italy, Germany and Japan) but it is still significant and the economic aspects are a major issue.

Table 1: Elderly Dependency Ratios, Selected Countries, 2000-2050

	2000	2010	2020	2030	2040	2050
	<i>persons 65+ years as Proportion of working age population — per cent</i>					
USA	19.0	19.5	25.6	33.6	35.1	35.5
Japan	25.0	33.8	43.8	46.0	54.3	58.4
Germany	24.0	29.6	33.0	43.3	49.6	48.7
France	24.4	25.3	32.2	38.7	43.4	44.2
Italy	26.9	31.4	37.4	49.1	64.4	65.7
UK	24.6	25.9	31.2	38.3	42.3	42.2
Canada	18.7	20.7	28.0	37.3	39.8	40.1
Australia	18.0	19.8	25.9	32.2	36.1	37.5

Source: calculations based on OECD (2000:Tables and Figures on Ageing).

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The OECD has highlighted that the growing elderly dependency ratio means that future governments in most countries will be 'hard put to finance [retirement pensions] out of pay-as-you-go contributions from people still in employment' (2000). In addition, Disney and Johnson claim that most OECD pension systems are in a state of flux, as governments struggle to meet the costs of their current retirement income systems and grapple with the issue of future costs (2001).

In addition to the increasing fiscal strain on governments through the funding of retirement pensions there is also increasing pressure from health care. Sheehan noted that per capita health care costs increase with age (especially above 50 years), and that an ageing population will add to health care costs (2002). In Australia, the combination of rising health care costs and higher demands on retirement pensions are projected to cause living standards to fall by 27 per cent below where they would otherwise be (ASFA, 2004). The same ASFA report forecasts that as the baby boomers move to retirement, higher federal taxes, lower federal spending and higher state taxes will transfer an additional \$38 billion per year to Australian households. In addition, a further cost of \$22 billion will be required from households through higher privately incurred health costs and disincentive effects from higher taxes.

Government Response

The Australian government has become increasingly concerned about the challenges of population ageing. An early policy response was the introduction of compulsory superannuation in 1992 — the Superannuation Guarantee (SG). Under the SG, employers contribute a percentage (currently nine per cent) of earnings into the superannuation accounts of their employees. Treasury officials at that time estimated that these contributions would be sufficient to provide a gross superannuation income stream of around 40 per cent of final salary on retirement at age 65 after around 40 years' contributory service (Gallagher and Preston, 1993). In other words, provided a person is employed for 40 years mostly on a full-time basis, the SG will ensure they have an adequate retirement income.

Despite this early response and accolades from the observers such as Khan (1999), Australia's solution still has problems. The assumed 40 years of contributions will not apply to all Australians and some will not have sufficient retirement savings even under the SG. The oldest baby boomers will be 60 years old in just two years time and the majority have only been contributing to superannuation for 12-15 years. This short accumulation time and the opportunity to withdraw the funds from age 55 will see most baby boomers arriving at age 65 with only meagre superannuation balances. For many of the boomers the SG is too little and too late in their working lives to make a significant difference.

For subsequent generations, the SG will assist many to have adequate retirement incomes but others face a different issue. While those coming after the baby boomers may well have 40 years of SG contributions during their working life and the minimum age at which they can withdraw funds (the 'preservation' age) has been increased to 60, changing labour force patterns may impact on their

superannuation. Recent labour force trends show growth in part-time, contract and casual employment and little growth in full-time employment. These trends could see future generations of workers spending less time as employees and more time in positions where superannuation contributions are not compulsory. The shorter periods of SG contributions may reduce their superannuation savings.

Projections of accumulated superannuation in coming decades suggest the problem of low retirement savings is particularly acute for women (Kelly, Harding and Percival, 2002; Kelly, Percival and Harding, 2002). While the poor financial situation in retirement for women has long existed, the increasing prevalence of marriage breakdowns and the changing gender roles are making individual financial independence more important. Many women in the baby boomer group have interrupted labour force careers as a result of child-bearing and child-rearing and, when in the labour force, are more likely to be employed in casual, part-time and low-paying positions. The results of these differing gender labour paths are that the average baby boomer woman has less than half the accumulated superannuation of her male counterpart. While labour force participation for women has increased in the last decade, according to projections undertaken at the National Centre for Social and Economic Modelling (NATSEM) the future still looks bleak and women's financial situation in retirement only improves marginally (Kelly, 2002).

In recent years the Australian government has recognised that the SG alone will not address the costs associated with population ageing and has begun raising public awareness of the issue. In the 2002-03 Budget the government issued the *Intergenerational Report* (IGR), and this was followed in February 2004 by the government issuing a new report aimed at stimulating further debate on policy change, *Australia's Demographic Challenges*. In the IGR, Treasury projected future taxation revenues and future outlays on social programs, assuming that the current structure of these programs remained broadly unchanged. The IGR found that spending on health and aged care would account for much of the projected rise in Commonwealth spending over the next four decades. The projected growth in health and aged care spending was particularly strong, rising from 4.7 per cent in 2001-02 to 9.9 per cent of gross domestic product in 2041-42.

The IGR projected that Commonwealth spending would exceed the amount raised in taxes by around 5 per cent of gross domestic product by 2041-42, with the Commonwealth budget starting to slip into the red from around 2017 onwards.

To put this into perspective, if we had a budget deficit of around 5 per cent of GDP today, then we would have a deficit of around \$40 billion instead of the forecast surplus of 4.6 billion. ... The sorts of expenditure cuts required to achieve a 5 per cent reduction of GDP could include the entire amount allocated to health (Treasury, 2004:25-26).

The *ASFA-Access Economics 2004 Intergenerational Report* (ASFA, 2004) paints a gloomier picture. It modelled the impact on State governments in

addition to the Commonwealth government and found that the shortfall increased from 5 to 7 per cent of GDP when the State-level impacts were included.

The SG was introduced in 1992 to help people contribute to the cost of their retirement and reduce the strain of the public purse. However, it has since become apparent that the costs of the baby boomers in retirement will require more than just employer contributions of up to 9 per cent being put into superannuation.

Baby Boomer Savings

There are currently 2.7 million people in Australia aged 50-64 years. This important group consists of pre-retirees and others already in voluntary or involuntary retirement. Recent research (Kelly and Harding, 2002) found that typically they own their home and are married, but have no dependent children at home. Many have been forced out of the labour force or have retired voluntarily, while others are shifting to part-time work. Only one-quarter of men stay in full-time employment until the traditional retirement age of 65. The rate for women is even lower. Details of labour force status by age are provided in Table 2.

Table 2: Labour Force Status of 50-69 year olds, 2002-03

<i>Labour Force Status</i>	<i>Age of the person</i>			
	<i>50-54</i>	<i>55-59</i>	<i>60-64</i>	<i>65-69</i>
	<i>Per cent</i>			
<i>Males</i>				
Employed Full-time	74.8	55.4	27.1	11.1
Employed Part-time	7.2	10.8	15.5	7.7
Unemployed	2.3	4.1	1.8	
Not in the labour force	15.6	29.7	55.6	81.2
<i>Females</i>				
Employed Full-time	36.4	23.5	9.2	2.4
Employed Part-time	28.7	21.5	14.4	7.2
Unemployed	2.8	1.5	0.5	0.5
Not in the labour force	32.1	53.5	75.9	89.8

Source: Kelly, Farbotko and Harding (2004:Table 2).

Wealth

Superficially, it appears that baby boomers have saved substantial wealth that is likely to help them through retirement. It seems that a generational shift in wealth has occurred over the past 15 years. The estimated share of total household wealth held by 40-54 year olds increased from 33 to 38 per cent between 1986 and 2003. The share of total wealth held by older Australians has also increased while that held by 25-39 year olds declined from 27 to 19 per cent in the same period

(Harding, Kelly and Bill, 2003:12). Indeed, these trends recently caused the Governor of the Reserve Bank (Macfarlane, 2003) to warn that:

If we are not careful, there is potential for conflict between the generations. The young may resent the tax burden imposed on them to pay for pension and health expenditure on the old. This will particularly be the case if they see the old owning most of the community's assets.

Table 3: Distribution of Assets, Persons 50-64 years, January 2002

	<i>Cash deposits</i>	<i>Shares</i>	<i>Home (net)</i>	<i>Rental Properties (net)</i>	<i>Super'n</i>	<i>Total Wealth</i>
<i>Estimates (\$'000s)</i>						
Q1 (poorest 25%)	3	0	23	0	21	47
Q2	7	1	83	2	37	131
Q3	14	4	137	12	57	223
Q4 (richest 25%)	55	77	265	52	111	559
Average						
all 50-64 year olds	20	21	127	17	56	240
all adults	14	14	77	10	35	149

Source: Kelly and Harding, 2002:9.

Note: The estimates are for *each person*. The average home equity of couples has, for example, been divided equally between them.

The family home is the most significant asset held by the average family. The equity in the home is a major contributor to the differences in wealth between the young and the old. As shown in Table 3, NATSEM estimated that the average 50-64 year old had accumulated \$240,000 of assets in January 2002; this is about two-thirds higher than the national average. Equity in a person's home stands out as a major difference between 50-64 year olds and the adult population as a whole — with an average home equity of \$127,000 for 50-64 year olds versus an average of \$77,000 for all Australian adults. This difference reflects the older age group having a combination of higher overall ownership rates, a higher proportion owning the home outright and smaller mortgages where they still exist. Not surprisingly, the superannuation held by 50-64 year olds is considerably above the average. For many in this group, the years of contributions make this a sizable asset with an estimated average of \$56,000 for all 50-64 year olds.

But this analysis also immediately reveals two major problems facing 50-64 year olds. The first is that more than half of their total wealth is tied up in the family home. It is clearly going to be difficult to tap into this source of wealth to finance day-to-day living expenses in retirement. Although we can expect the

rapid development of reverse mortgages in the future to help older Australians to do this, many will remain reluctant to run down their housing equity.

A second major problem is that while \$56,000 of superannuation is a significant asset, it will not be sufficient to provide a comfortable living in retirement. Most financial planners suggest that a retirement income of 60-65 per cent of final full-time salary is required for a comfortable standard of living in retirement.¹ This equates to around \$30-35,000 per year or around \$600 per week. Assuming that average retirees do not use their superannuation payout for other purposes, a \$56,000 lump sum paid by a 65 year old male into an allocated annuity will provide an income of only \$100 a week up to age 80 (just short of an average 65 year old male's life expectancy). In other words, it will provide a supplement of \$100 to the pension, giving a total income of around \$300 per week — still well short of the suggested \$600 to be comfortable. If the retirees choose to retire early and spend the lump sum, then they can look forward to many years on the very modest standard of living provided by the Age Pension with no supplementation.

The situation for women is worse than for men (Kelly, Harding and Percival, 2002; Kelly, Percival and Harding, 2002). Although not shown in the table, the average superannuation of males (around \$80,000) is more than two and a half times that of females (around \$30,000). This reflects the lower earnings, the greater likelihood of part-time employment, the disrupted work patterns and the higher incidence of non-participation in the labour force of baby boomer females.

Gender difference provides some insight into an even more serious issue than low average superannuation balances: the estimates of *average* wealth disguise the fact that the wealth distribution is highly skewed. From Table 3, the least wealthy quartile of 50-64 year olds has accumulated only an estimated \$47,000 in total wealth (\$21,000 superannuation and \$23,000 home equity). That is, the poorest one-quarter collectively holds only five per cent of the total wealth of 50-64 year olds. The wealth of the richest quartile averages more than \$500,000 and collectively owns almost 60 per cent of the total wealth of this age group.

These figures suggest that perhaps three-quarters of Australians in this age group have not yet saved sufficient resources to finance a comfortable retirement. Despite having insufficient funds, this age group are retiring early (see Table 2). This early retirement (or forced redundancy) has reduced the current average retirement age for men to 58 years and 41 years for women. In the period before becoming eligible for the Age Pension (65 years for men and 62.5 years for women) some are spending their modest lump sums on paying off their mortgage and other debts, subsequently facing the prospect of a couple of decades of retirement on the age pension without any top up from their own resources. About half of all early retirees had zero or negligible superannuation by the time they qualified for the Age Pension (Kelly, Farbotko and Harding, 2004).

¹ This of most financial planners was also accepted by the Senate Select Committee on Superannuation. The committee noted the high degree of consensus amongst industry experts that the desirable target for a person on average earnings should be a replacement rate of 70-80 per cent of pre-retirement expenditure. This equates to about 60-65 per cent of gross pre-retirement income (Dunsford and Rice, 2004).

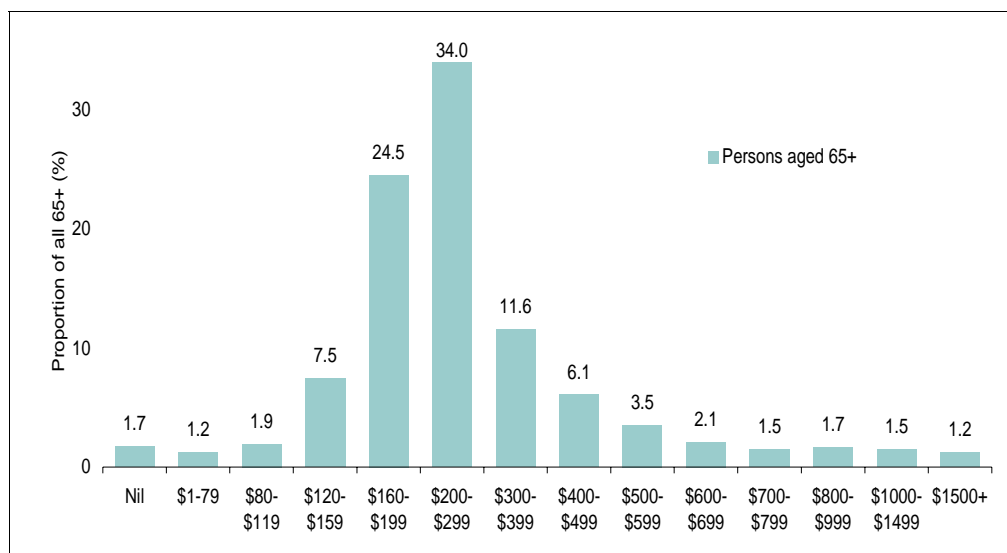
The purpose of superannuation is to increase self provision in retirement and therefore reduce the fiscal burden on younger generations. Superannuation was not designed to allow people to access early retirement. Financing voluntary early retirement through the drawdown of superannuation and then asking taxpayers to fund the remainder of their retirement years is not fair on future taxpayers. The generations coming after the baby boomers will be required to save for their own retirement through the SG and they will not be able to access it until at least age 60. At the same time these post baby boomers will be asked to pay increased taxes to support baby boomers during retirement. The Treasurer (2004) agrees that this is unfair on future generations; he recently asked:

As our retirement income system matures, is it fair to allow those with superannuation assets to retire early, run down their assets and then rely on taxpayers to fund the major part of their retirement? This is an important issue that we will need to consider very carefully.

Income

Currently over 70 per cent of people aged 65 and over live on incomes of less than \$300 per week. The high proportions in the \$160-199 and \$200-299 ranges suggest that the principal source of income for these people is government cash benefits (Figure 1). In January 2004, the Age Pension provides \$226.40 per week for a single person and \$189.00 for each member of a couple — that is, about \$12,000 for a single person and \$20,000 for a couple each year.

Figure 1: Weekly Income, Persons 65 or more years, Australia, 2001



Data source: Special tabulation for NATSEM from ABS Census 2001 data.

In contrast, a recent study found that a single person would spend around \$16,930 per annum on a 'modest but adequate' lifestyle in retirement — a more comfortable lifestyle would cost \$32,800 (Saunders, Patulny and Lee, 2004). These figures assume the retiree owns their own home. For a couple the figures are \$23,550 and \$43,350 respectively. Similarly, as stated earlier, most financial planners suggest \$30-35,000 is required for a comfortable lifestyle in retirement for the average person. The results in Figure 1 imply that about 90 per cent of current retirees are surviving on an income of less than 'modest but adequate'. For the next generation of retirees (those aged 50-64 with only slightly increased levels of superannuation savings by retirement and who have enjoyed a very high standard of living in their working years) this standard of living in retirement may not be acceptable. An improvement to a modest or comfortable standard will require a contribution from the retiree's private savings. Unfortunately, as we saw above, one thing that the baby boomers have not done well is to voluntarily save for their retirement. The superannuation that they have saved will provide a small supplement to the pension, but only if it is not exhausted before the official retirement age is reached. The self-funding of early retirement could easily result in little superannuation remaining at age 65, let alone at age 80 or 90.

Possible Solutions

It seems clear that baby boomers should not rely on government to finance large increases in the age pension and to meet all of their health and aged care demands, given the fiscal pressures that government will be facing.

It could be that the baby boomers are not worried about how they will survive in their retirement — they're banking on inheriting a small fortune from their aged parents. Unfortunately, research by Harding, Kelly and Bill (2003) has shown that inheriting a fortune is unlikely. They found that generation-skipping, an uneven wealth distribution, a reduced bequest ethic and parents spending it on themselves or on their own health and aged care costs, are all working against a big inheritance.

With little in the way of current savings and inheritance unlikely to provide retirement incomes for many, the government will be looking hard at how private contributions can be increased, taxes can be increased or outlays can be reduced. Discussion of some of the possible options follows.

Increasing Retirement Savings

The 1992 introduction of compulsory superannuation was the first major initiative from the government to increase the private retirement savings of Australians, but almost continual 'tweaking of the system' has occurred since that time. The release of the government's *Australia's Demographic Challenges* paper acknowledges the need for further changes and reflects the government's preference for increasing private contributions to superannuation.

Greater labour force participation

As only about half of all 50-64 year olds are working (Table 2), there is scope to lift the labour force participation rate. The Treasurer's speech at the release of *Australia's Demographic Challenges* showed the government's intention to introduce policy initiatives to encourage people to remain in the work force until age 65. This longer participation in the workforce would help superannuation balances to continue to grow from age 55 to age 65. More importantly, it would stop superannuation being drawn down in the period before official retirement.

For many, therefore, there will be pressure to work longer. For some this will not be possible, because of ill health. By age 55 to 64, about two-fifths of low-income Australians suffer from at least one major health problem (Walker *et al.*, 2003). Even for middle to higher income Australians, about two-thirds suffer at least one major health problem at ages 55 to 64. The Treasurer (2004:3) has explicitly identified the critical importance of health in trying to increase the labour force participation rates of those in their 50s and 60s, and flagged a shift towards 'preventative health' and a renewed focus on living a healthy lifestyle.

Apart from ill health, many other Australians in their 50s and 60s have been forced out of work through unemployment caused by the rapid economic restructuring of the past decade. While many of these have found it very difficult to find new work, this should become easier in the future, as labour force shortages intensify. This will be one result of the lower number of new workforce entrants in the future, due to the decline in fertility rates. While business will face strong economic imperatives to employ mature age workers, this will also be facilitated by a campaign to shift business thinking. The Prime Minister has begun to exhort business to 'change its attitude' towards the employment of mature age workers, arguing that if workers wish to remain beyond what are now regarded as customary retirement ages then business and government should do everything possible to support them (Howard, 2003).

Many baby boomers will not want to retire and will want to continue in the labour force, albeit in a less demanding role perhaps working part-time or in a lower level position. Not surprisingly, the government has started campaigning for flexible job opportunities and the employment of mature-age workers. As the Treasurer (2004:5) argues, 'We need to move away from concepts of early retirement and compulsory retirement at a set age'. To this end, the government is proposing changes to superannuation to allow anyone under the age of 65 to make contributions to a superannuation fund and simplify the superannuation contribution and cashing rules for people between the ages of 65 and 74 years.

Increasing the SG contribution rate

Many commentators believe one way to ensure an adequate retirement income for the baby boomers is to further increase the compulsory employer contribution to 15 per cent from the current 9 per cent. However, calculations by NATSEM cast some doubt on the likely effectiveness of this proposal (Kelly, Harding and Percival, 2002). Most observers have based their projections on continuing full-

time employment until age 65 and, under this assumption; the increase in the contribution rate does provide significantly increased retirement income. However, NATSEM has modelled the likely future behaviour of the baby boomers based on recent labour force participation trends and found that increasing the SG would only provide a small increase in the superannuation balances. The current trends towards early retirement and reduced hours prior to retirement would effectively negate the increased contribution rate. Thus, increases in the SG rate will only make a substantial difference to the retirement incomes of the baby boomers if they can be persuaded to remain in the workforce for longer.

Reducing superannuation taxes

It is well known that superannuation is taxed at three points under current arrangements - contributions are taxed on entry, earnings are taxed and superannuation withdrawals are taxed. The removal or reduction of any of these taxes would increase the funds available to be used in retirement. Dunsford and Rice note that the contribution tax on superannuation contributions effectively reduces the SG contribution rate, already argued as being too low, from 9.00 per cent to 7.65 per cent (2004). The detrimental long term effect the tax is having retirement savings should result in the government removing or at least reducing the contribution tax of 15 per cent. Further reduction in the superannuation surcharge tax is another area that is a likely candidate for change.

The dilemma for the government is to balance short-term budgetary requirements with the longer-term goal of self-provision in retirement. Concessional taxation of superannuation is already viewed as an expenditure (that is, as a cost to government). However, the Association of Superannuation Funds of Australia (ASFA) view it differently and estimate that the government collected taxation revenue of \$50.5 billion between 1989-90 and 2002-03 through a combination of taxation on fund earnings, taxation of contributions and taxes on the superannuation business of life companies (ASFA, 2003). ASFA argue that if these taxes had been left to grow in their member accounts, an extra \$78 billion would be available for private contributions to the cost of retirement.

Reducing superannuation fees and charges

In recent years, fees and charges associated with management of superannuation funds have attracted close scrutiny. In the 1990s, when returns of superannuation funds were above 10 per cent, management fees were not questioned but the recent poor performance of most funds has led many people to question whether the management fees are justified. The government opposition spokesman on superannuation has on numerous occasions expressed his concern at the level of fees and charges (particularly entry and exit fees of retail superannuation funds) and the impact they are having on the accumulation of retirement savings (Crean and Sherry, 2003). The entry and exit fees associated with retail superannuation funds can be expected to come under the microscope in the near future.

The basis of most fund management fees is currently the value of the accumulated superannuation (that is, the annual fee is a percentage of the funds being managed). The recent poor performance of most funds will increase pressure on fund managers to change to performance-based fees rather than the amount being managed. Such a change would shift the focus of managers from increasing the size of the assets to ensuring maximum returns for the client.

Increasing government revenue

In the IGR, the Treasury noted that to prevent the budget moving into deficit ‘future generations of taxpayers would face higher taxes ... or governments would need to reduce the projected growth in spending’. Despite frequent claims to the contrary, Australians are not particularly highly taxed. OECD Revenue Statistics show that taxation revenue as a percentage of GDP is lower in Australia than in most of the other developed OECD countries.

While no government likes talking about tax increases, organisations such as the Australian Council of Social Service (ACOSS) regularly issue blueprints for taxation reform. Its latest prescriptions for the Federal Budget include quarantining negative gearing, tightening the tax treatment of discretionary trusts and removing the FBT concession for company cars (ACOSS, 2004).

Australia is unusual among OECD countries in taxing neither wealth nor wealth transfers, by gifts or inheritances, via a broad-based wealth tax. ACOSS (2004:19) has suggested the imposition of a five per cent ‘windfall’ tax on large transfers of wealth, whether by gifts or inheritances, with provisions to protect family farms. Similarly, while the family home has always been considered a sacred cow in Australia, it would be possible to include it in the capital gains tax base, possibly with a generous exemption level that ensured that only large gains on luxury homes were snared within the net. The indirect tax base can also be expanded. The 10 per cent GST rate is relatively low by international standards. Other options might include special earmarked taxes or levies, like the Medicare levy, to fund particular needs such as aged care or pharmaceuticals.

A final option would be to remove or reduce the subsidisation of pharmaceuticals, aged care and health care. While such an option would be very unpopular with voters, it could save the government a considerable amount and needs to at least be considered in the near future.

Reducing Government Outlays

Better targeting of the age pension

Earlier discussion in this paper suggested that the majority of baby boomers reach retirement with little in the way of savings, except for their family home. As the home is exempt under the pension means test, it is difficult to see the proportion of people qualifying for the pension dropping significantly from current high levels for some decades. The lack of an upper limit on the value of the home is well

known and exploited by some retirees to qualify for the pension — a person can own a million dollar mansion with no impact on pension entitlements.

Some commentators have suggested capping the value of the means-test exempt portion of the family home and treating the value above this limit as an assessable asset (Kelly, 2003; Dunsford and Rice, 2004). This would avoid penalising persons for living in a modest home and holding the rest of their assets in a form that generated retirement income. The introduction of such a significant change to the means-test of the pension might require such provisions as current older Australians being exempted; a significant lead time (say 5-10 years) being given to allow people to assess their situation; and that the value of the home only be assessed upon initial pension application and if a pensioner changes address.

Reverse equity loans would also make better use of the significant equity that older Australians have in their home. A reason for their unpopularity in the past has been the impact that conversion of home equity into cash would have on a retiree's pension entitlements. Changes to the pension means test to exempt funds raised through reverse equity loans would significantly change this situation.

Income streams versus lump sums

At present most superannuation is received as a lump sum. People are encouraged to convert this to an income stream through a range of preferential taxation treatments and preferential pension means testing. Despite these incentives, most take the lump sum and consume it in the first few years of retirement.

It is hard to argue for conversion of small superannuation balances into income streams. However, with future increases in balances and mounting fiscal pressure on the government purse, greater incentives to use superannuation for its intended purpose need to be considered. Superannuation is given special taxation treatment because it will be used to supplement or replace a taxpayer-funded public pension; not to allow people to buy a new car on their 55th birthday.

Further changes to superannuation and taxation legislation to encourage more retirees to take their superannuation as an income stream seem inevitable.

Conclusion

Most baby boomers have not yet saved sufficiently to ensure a comfortable retirement. While the SG has led to increased retirement savings by many baby boomers, it is too little and too late, especially for early retirees. Increasing the SG contribution rate is not the solution unless the baby boomers can be persuaded to stay in the labour force for much longer, otherwise the low participation rates by those in their 50s and 60s mean that there are not sufficient years of working left at the higher SG rate to make much difference to the average baby boomer.

Clearly, no matter what the contribution rate, there will be strong pressure on baby boomers to work longer than many of them currently anticipate doing. This will not only provide them with a more comfortable retirement but will also ease the fiscal strains upon a worried government.

As a society we may need to redefine the whole notion of retiring at 65 years or earlier. In the past many Australians retired at age 65 and then died not long afterwards. Early retirement seemed a sensible alternative in a society with high unemployment, as it opened up job opportunities for younger workers. But in a world of labour force shortages, when many Australians can expect to live in reasonable health into their late 70s, it may not be desirable or even possible to sustain retirement at age 65 or earlier for such large groups of the population.

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