How much money do super funds have in the pension phase? More than you might think.

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Challenger Retirement Income Research Paper

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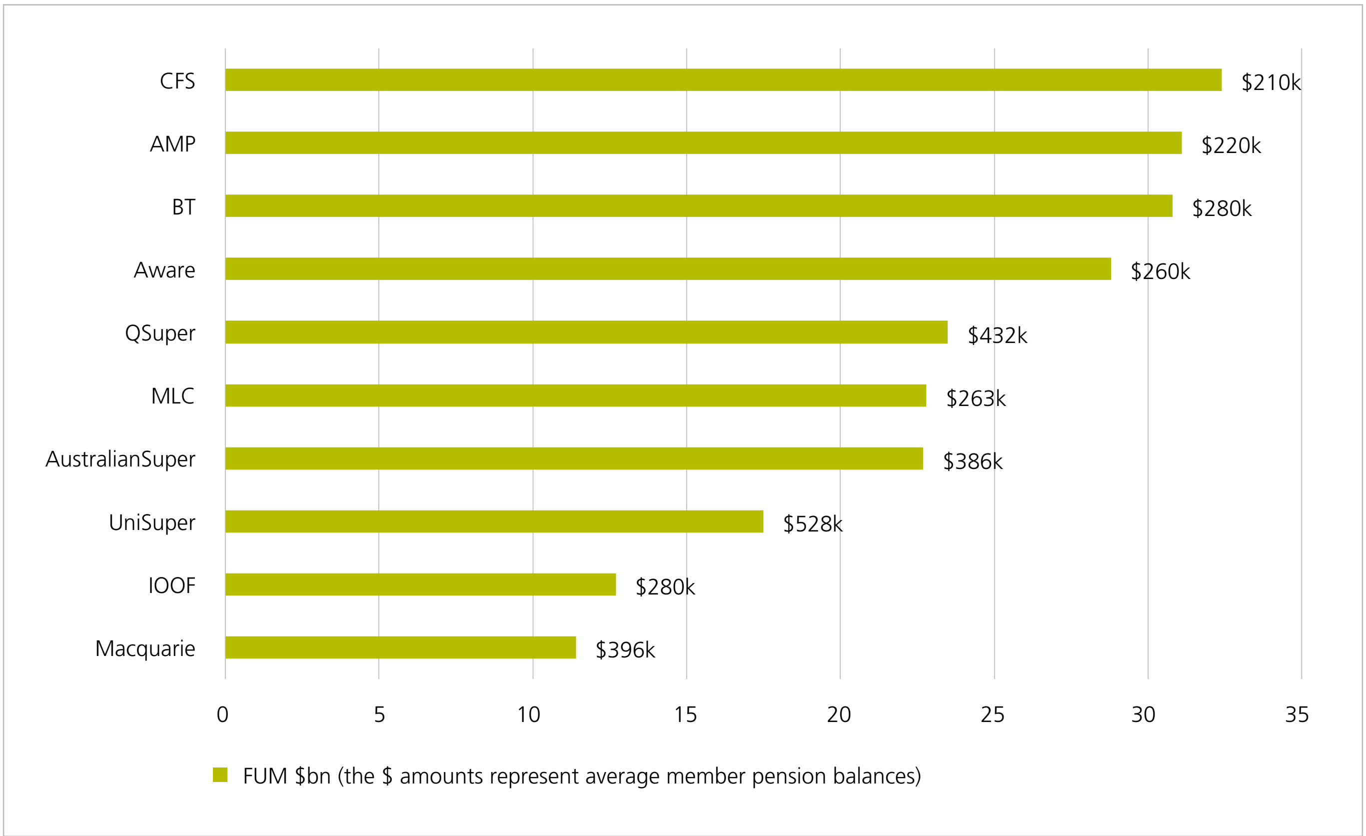
The latest APRA statistics to June 2020 show that super is delivering real scale in the pension phase.

The pension phase already spoke for $485bn of the $2,020bn in the large APRA-regulated fund sector along with over half of SMSF balances.[1] Including the self-managed super fund sector (SMSFs), over 30% of super was directly supporting a retirement income stream at June 2020. The weight of money in the pension phase is such that a number of large funds could spin-off their retired members into a new fund which would still be a major super fund in its own right.

Across the large APRA-regulated funds, there were more than 1.67 million pension member accounts with an average balance of more than $289,000 at June 2020. The average annual pension benefit payment from each of those accounts in 2020 was $22,362. This is clear evidence that super is already making a significant contribution to the lives of many retired Australians. We need to stop talking about a super system that "is still immature" or "has a way to go before we get meaningful balances". We've got them. After all, SG has been running for nearly 30 years and many funds are older than that.

The recent APRA data enable a comparison of the largest pension benefit payers in the country. The chart below highlights the largest 10 super funds measured by assets in the pension phase, also highlighting surprisingly large average member pension account balances.[2] These 10 funds together had over $233 billion in pension phase assets at June 2020.

Chart 1: 10 Largest super funds (ranked by assets in pension phase)



1 The ATO said, in its 2017-18 statistical overview, that 64% of SMSF assets were in pension phase in that year.

2 The data exclude government DB pension schemes such as CSS/PSS.

There are some differences in the chart worth noting:

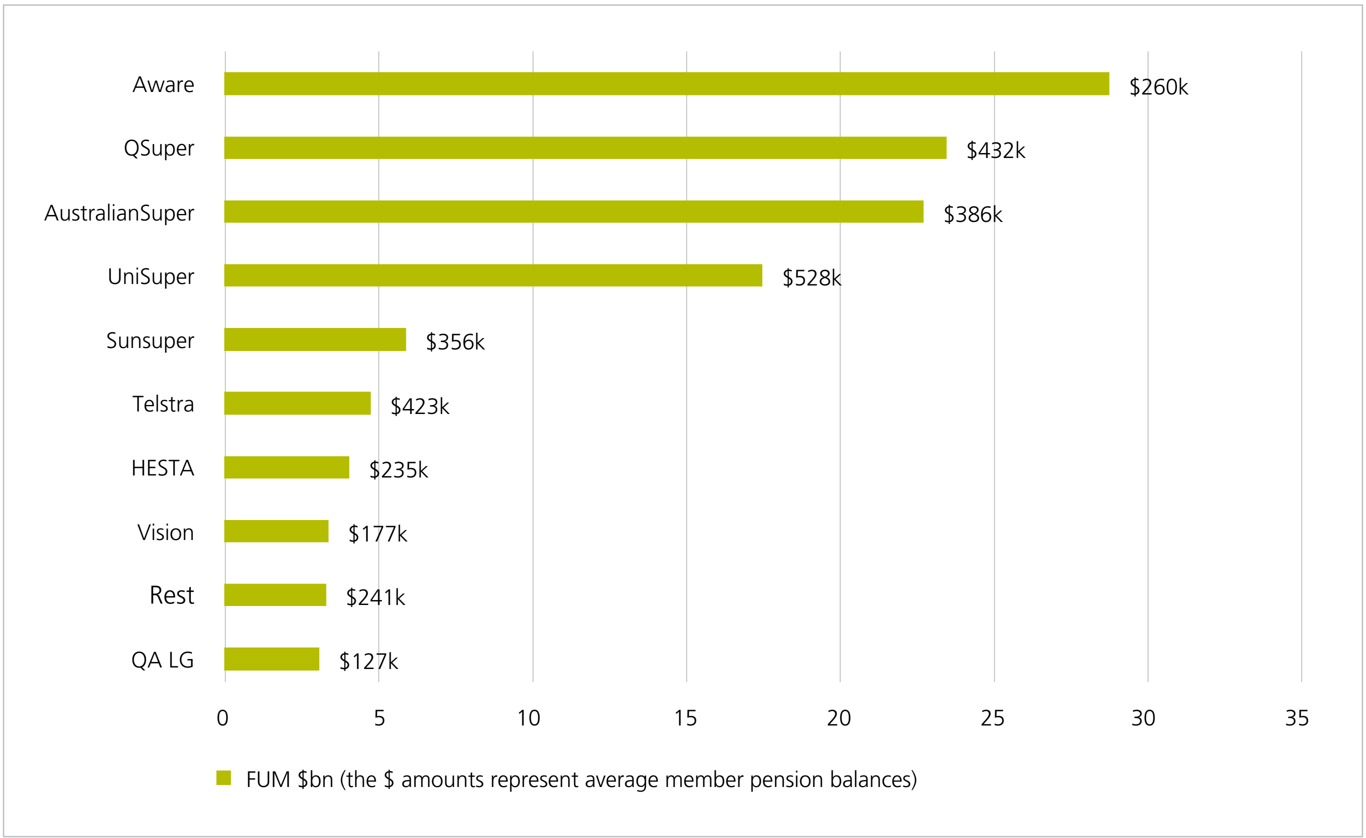
- The larger retail funds still had more pension phase assets (ie over $30bn for each of the top 3 funds ranked by pension phase assets), but this is changing. Aware, QSuper and AustralianSuper had more than $22bn in the pension phase at June 2020. This means that if the retired members of each were moved into a new super fund, each new fund would rank in the top 20 super funds based on June 2020 APRA total assets data;
- Unsurprisingly, balances for retired members are significantly higher than the average balance across funds. The average account balance for a member in the pension phase was more than $289,000 across all large APRA-regulated funds at June 2020. This is the balance that matters to members, and usually has been consolidated into a single account in preparation for retirement;
- The industry funds have larger balances in retirement than the retail funds. (This might reflect younger retired-member demographics. That is, the pension members in industry funds are likely to be a younger cohort of retirees who have spent less of their retirement savings).

Industry fund sector

Of note is the scale of pension phase assets in the industry fund sector highlighted by the APRA data.

The chart below highlights the largest 10 industry funds measured by assets in the pension phase, also highlighting average member pension account balances. These 10 funds together had over $117 billion in pension phase assets at June 2020. The average balance for a member in the pension phase in these large funds was $326,000, which is higher than the average pension balance across all large APRA-regulated funds of more than $289,000.

Chart 2: Largest industry funds (ranked by assets in pension phase)

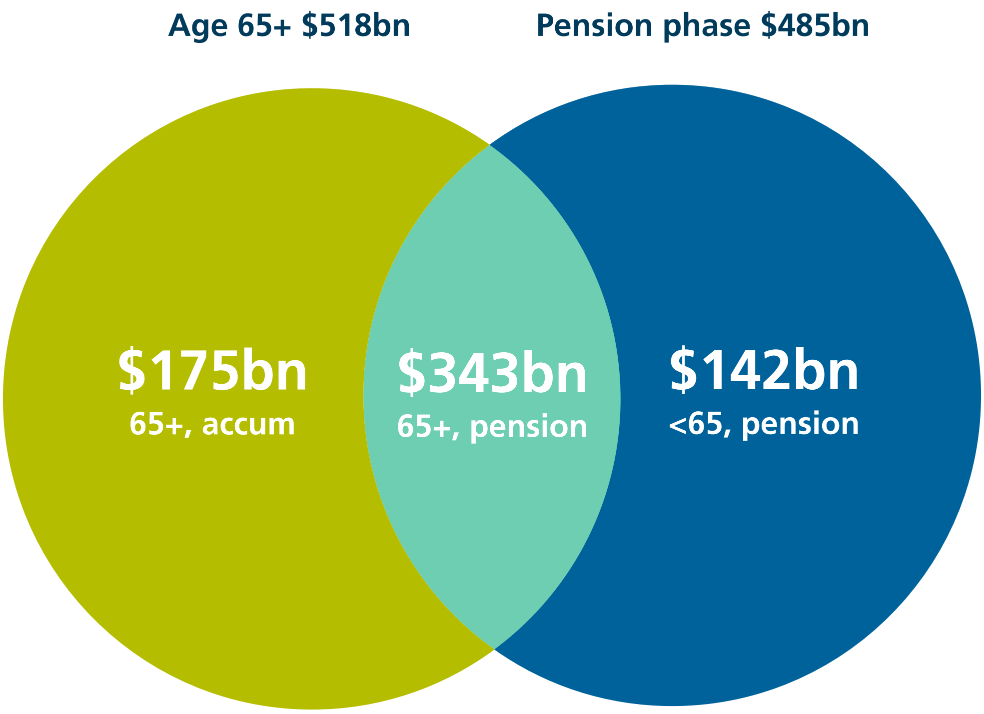


Some historical comparisons

APRA didn't publish balances in the retirement phase in 2010, but it did include data on balances by member age. In 2010, there was $139bn held by over 65-year-old members in large APRA-regulated funds. This included $13.5bn that was in industry funds.

In 2020, APRA reported $485bn in the pension phase, and $518bn for people aged over 65 in large APRA-regulated funds. By 2020, the industry fund share had increased to $124bn; an average increase of 25% p.a. over 10 years.[3]

Chart 3: Pension phase assets by age and non-pension phase assets held by over-65s



It is also notable that not all the $518bn of funds under management (FUM) for people over 65 was in the pension phase.

Only $343bn was in the pension phase for people over 65. In effect:

- $175bn of FUM was still in the taxed (ie accumulation) phase, despite all relevant members being over 65. By that age, any person can access their super (including by starting a tax-free income stream) without retiring or satisfying any other so-called 'condition of release'. The transfer balance cap (**TBC**) limits the amount a member can transfer to the pension phase to $1.6m ($1.7m from July 2021) and this will be part of the $175bn.
- $142bn of FUM was in pension phase for people under 65, of which $92bn was held by 60-64-year-olds and $29bn by those aged 55-59. Many of these could have been 'transition to retirement pensions', although people are able to access their super once they reach their preservation age (currently between 55 and 60, depending on their date of birth).[4] The other $13bn was pension benefits for members under 55 – eg disability and child pensions.

3 Source: APRA 2020 Annual Superannuation Bulletin.

4 Reg 6.01 *Superannuation Industry (Supervision) Regulations 1994* (Cth).

Why leave super in the accumulation phase once you reach 65?

This is a good question when retirement savings left in accumulation are subject to a 15% earnings tax. Starting an income stream, including an annuity, reduces tax to zero.

Chart 3 shows that there was over $175bn of super assets owned by over-65s who were still in the accumulation phase at June 2020. According to APRA data, there were over 1.2 million member accounts (around 1,212,000) in this category. This equates to an average member balance of over $143,000.

Explanations for why those assets had not been moved to the pension phase could include assets related to:

- members who had a balance above $1.6m and thus were required to maintain the excess balance in the accumulation phase;
- members who had not retired. Many people are working longer. The age pension entitlement age is already 66 and increasing to 67 by 2023 and, of course, people are living longer and want to work longer;
- members who were unaware of that the pension phase was tax-free or unaware that there was a distinct pension phase for their super. This leads to the question whether funds were being diligent enough in informing members about their retirement income options; and
- lost accounts.

Important note

All the data used in this paper have been extracted from APRA's *Annual Superannuation Bulletin* June 2020 edition and *Annual Fund-level Superannuation Statistics* report June 2020 edition, issued on 29 January 2021 and 16 December 2020, respectively. The validity of the conclusions we have drawn depend on those data being accurate and our assumptions about what they reflect being correct.

The information in the report has been compiled by the Challenger Retirement Income Research team.

Jeremy Cooper

Chairman, Retirement Income
02 9994 7178
jcooper@challenger.com.au

Aaron Minney

Head of Retirement Income Research
02 9994 7107
aminney@challenger.com.au

44789/0221