Looking at super wealth at the household level

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1. The purpose of super: transforming balances into retirement income

Australia's super system has been focused on balances and accumulation, so the Government's confirmation that the purpose of super is to provide income in retirement is much-needed. The challenge is that many people don't know how to convert their balance into reliable retirement income efficiently. As Australia's super system matures, more households will be able to sustain higher levels of spending in retirement.
We will leave a discussion about the process of converting retirement savings, both super and non-super, to a regular retirement pay cheque for another paper. In this paper, we explore the super wealth people already have.

This paper urges a fresh approach to the way data on how much super people have is recorded, presented and interpreted. This fresh approach points to a way to overcome a lot of the limitations surrounding the data currently collected and reported on so that a more accurate picture can emerge; a picture that reflects more favourably on what super has already achieved for the typical Australian pre-retiree household. We argue that reporting super wealth should follow these principles:

- some effort needs to be made to consolidate super account balance data to compensate for the fact that there are at least twice as many accounts as there are members. Otherwise, using the unconsolidated or 'raw' data conveys the impression that super wealth is lower per member than it really is;
- quoting system-wide average super balances should be avoided. There is little point in knowing the average depth of Sydney Harbour when it actually varies from between 3 metres in some places to 45 metres in others. The same applies to super. We need more specific information, such as the amount of super wealth held by a typical 60-64 year old female, rather than the average account size in a particular super fund or across the whole super system;
- in general, data based on median figures are sometimes more appropriate than average figures because the latter tend to skew the results away from a 'typical' member;[1] and
- both household and individual super wealth data should be used because individual data alone will often convey an inaccurate picture of available super wealth.

Measures of super wealth should consider the household, as well as individual account balances

1. The average and median are not necessarily the same. The average can be significantly influenced either by small numbers of very large outliers or very large numbers of small outliers. Consider a saw-mill where there are 10 workers. Nine of the workers have super accounts of $50,000 while the manager of the saw-mill has $500,000. The median super balance is $50,000, while the average is $95,000. None of the workers has a super balance of $95,000. The average does not paint an accurate picture (central tendency) of the typical super balance at the mill.

Super wealth for people approaching retirement is higher than many industry commentators recognise.

2. Data highlights

Household super wealth looked like this at June 2014 according to the most recent survey conducted by the Australian Bureau of Statistics (ABS):[2]

Age	Households with super	
	Mean	Median
50-54 years	212,306	138,165
55-59 years	331,857	181,180
60-64 years	423,042	184,189
65-69 years	392,909	206,194

Another way to look at super wealth is a 'bottom-up' approach (ie not using survey data) based on assumptions about average wage measures and time in the workforce. Using that approach, we estimate that a male working full-time on average (age-based) earnings who is retiring in 2016 (with 24 years of compulsory super) would have around $180,000 in super wealth. A female working full-time would have $150,000, due to the gender wage gap. This means that a pre-retiree household with two people should have around $330,000 in super wealth. This does not take account of broken work patterns and we deal with that issue in more detail in section 9.

Lastly, we look at Australian Taxation Office (ATO) data from 2014 that present a picture of sizeable super wealth in the male and female cohorts around retirement age.

Age	Average super wealth ($)		
	Female	Male	Persons
60-64	234,711	298,955	268,502
65-69	306,377	351,163	330,566
70-74	325,820	375,144	353,745

Source: ATO

We discuss various potential limitations around these data in the paper, but the underlying message is that super wealth appears to us to be higher than is generally acknowledged. This is good news because it means the super system is delivering its promise and that retirees have more options available to them in producing income to meet their retirement living expenses.

2. ABS Survey of Income and Housing 2013-14.

3. Key results

This paper aims to provide greater clarity on super wealth, with a particular focus on pre-retirees (aged 55-64). As part of our research, we have concluded that:

- Most pre-retirees are in a household of two or more people, so it makes sense to look at how much super those households have, rather than just what individual members have. This is because a household pools income and super wealth, approaching spending needs as a joint responsibility and;
- The super wealth of typical pre-retirees and households approaching retirement is growing and currently substantially higher than many people realise;
- The relevant 2014 data sourced from the ABS indicate that average household super wealth for the 60-64 year old age bracket was $423,000. Median households, which better reflect the typical case, had $230,000 for a couple household and $80,000 for a single household in that age cohort. It would be reasonable to assume that 2016 data, if available, would be higher – ie around $280,000 for the median couple household, and $100,000 for the median single household, but these are estimates only. Such data are not yet available.
- The data APRA and most super funds have around member balances continue to be inadequate;
- All super funds need to have data on non-super wealth and other key characteristics of their pre-retirees in order to be able to offer them retirement solutions that are in their best interests.

For women in particular, we found that:

- It is more often women who either approach retirement, or are in retirement, without a partner. Given the gender super gap, this is a key area for funds to focus on in looking after their members; and
- Twice as many men aged 55-64 have three or more accounts than women of the same age.

The average APRA account balance of $42,000 is not indicative of how the super system is working

4. How much super do people really have?

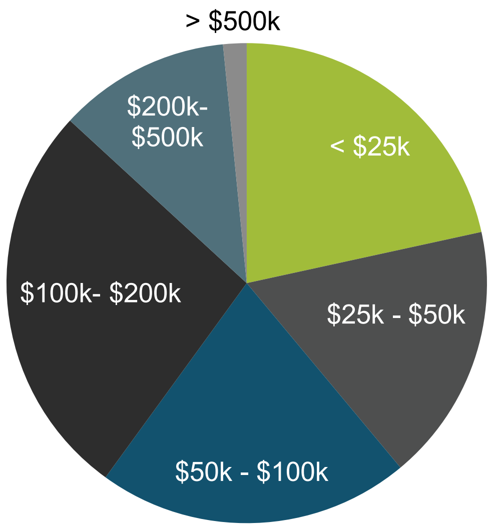
Since we published our first paper on super balances in 2012, there has been an improvement in the quality of the published data, but there is still no uniform approach to the measurement of super wealth by researchers. One improvement noted by both ABS (2016) and Willis Towers Watson (2016) is that the continuing development of super is improving the lifestyle that Australians will be able to enjoy in retirement.

The problem is that there are at least four ways of measuring the stake people have in super. APRA now publishes the average member balance for each of its regulated funds, as opposed to merely reporting account balances.

At an aggregate system-wide level, APRA estimates that the average super account balance is $64,000 and the average account balance for APRA-regulated funds is $42,000. But, are either of these estimates useful in assessing how well-prepared people are for retirement?

As with most averages, these figures hide the range of average balances across funds, as well as the range of balances within those funds. Figure 1 shows the range of average balances across funds, but much more granularity is needed to understand the relationship between super and a satisfactory retirement for each and every retiree.

Figure 1: Proportion of super system assets by average member account balance



Source: APRA June 2015, APRA-regulated funds

We think there are four ways to measure super wealth:

(1) Taking account balance data at face value, with no attempt to reflect the amount of super held by a typical person across multiple accounts and in different sectors. In this paper, we call this 'raw' account balance data.

(2) The same as in (1), but broken into age and gender cohorts so that a more granular picture emerges. This approach is more useful, but still suffers from the defect that there are many more accounts than people and so it fails to reflect true super wealth.

(3) Super wealth based on an estimated aggregate or consolidated account basis. For example, in a recent paper, Rice Warner (2016) assumed that the average person would have 79 per cent more super if they consolidated all their accounts. In other words, they assumed that each person had, on average, 1.79 accounts. This approach attempts to resolve the 'multiple accounts' problem which makes using raw account balance data unhelpful. However, this approach suffers from the defect that it is only a proxy average.

(4) Household super wealth using survey data. These data create an entirely different point of reference, but suffer from a distinct range of problems; including the quality of the survey instrument, sample size and so on. Super wealth is not a straightforward topic and many survey respondents find it difficult to differentiate between the various sources of retirement income (eg super, Age Pension and non-super savings).

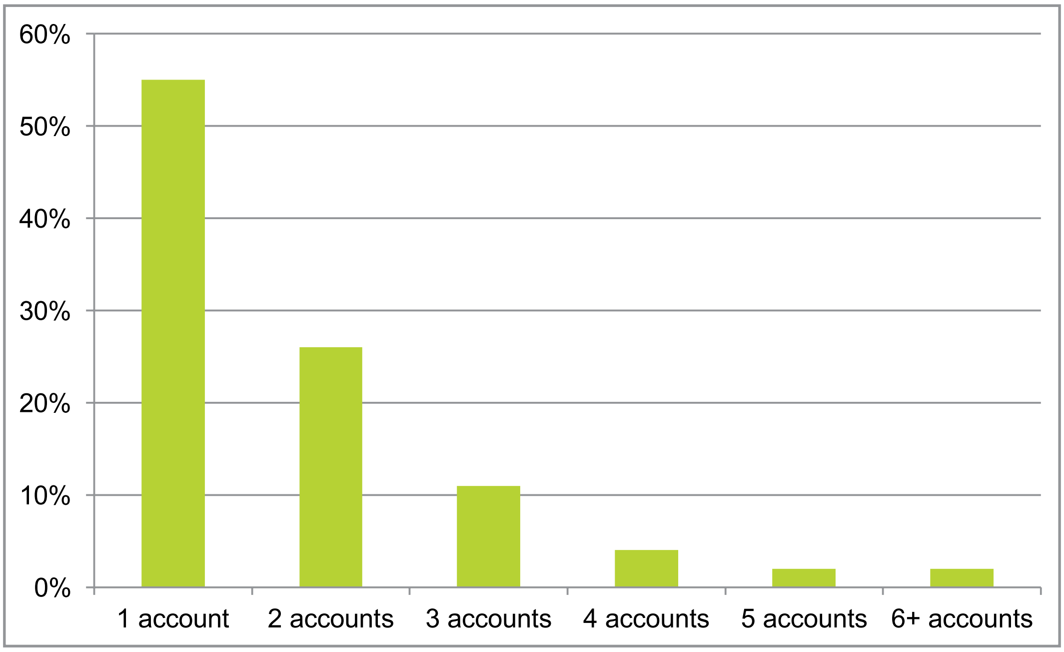
Each of these approaches conveys a different perspective on super wealth. We'll discuss each one and see which provides the best information for decision making. Let's start with the raw data.

45% of people with super have multiple accounts

5. Raw account balances

There were almost 30 million super accounts in Australia at the end of June 2015 according to APRA. This is more than the number of Australians, including children, so it is clear that many people have more than one account. According to the ATO, 45 per cent of people with super had more than one account. The distribution of accounts can be seen in Figure 2.

Figure 2: Most people have only one account, but multiple accounts are common



Source: ATO, June 2015

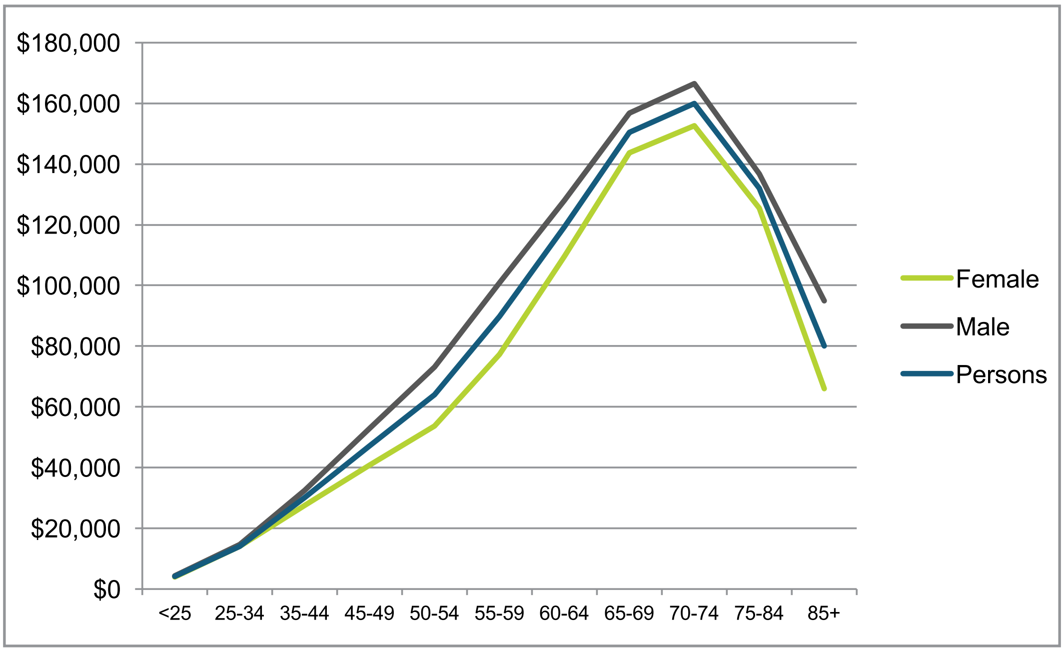
If that sounds like a lot, it's good to know that the number of accounts is falling for a variety of reasons, including fund mergers, SuperStream (and related ATO efforts) and increased member engagement. These have all played their part in consolidating accounts. The number of accounts peaked at almost 33 million in 2010, so some progress has already been made.

6. Raw account balances by age and gender

Raw data on super balances that factor in age and gender provide far more relevant information. Simply put, super balances that are averaged without this information are skewed to lower amounts, because younger members typically have more accounts with lower balances. These balances are shown in Figure 3 by age and gender.

Raw account balances vary by age and gender; they don't tell the whole story

Figure 3: Average raw member account balances by age and gender



Source: APRA 30 June 2015

6.1 The super gender gap: a more holistic picture

There is an interesting difference in this chart from other analyses of the super gender gap. These data seem to show that there is a much narrower gap than is generally thought to be the case. To be clear, there is a gap between male and female super account balances at all ages. However, the gap appears to close approaching retirement. Through this prism, the average account balance for a woman aged between 65 and 85 is only 8 per cent lower than the average balance of her male counterpart of the same age. What is happening here?

A small part of this will be because older women able to do so are contributing more than men, presumably trying to catch up. There could also be some contribution splitting to help boost lower account balances.

We think that the principal reason why the gap looks narrower is because women typically have fewer accounts; either because they have consolidated them or because they have had fewer workplaces and hence fewer different super accounts. Twice as many men aged 55-64 have three or more super accounts than women of the same age. Only 20 per cent of women in this age group hold multiple accounts, while 27 per cent of their male counterparts have not fully consolidated their super.[3]

3. ABS (Cat 6523.0) 2013-14.

In reality, the super wealth gap between the genders approaching retirement is over 40 per cent

At the raw account level, the gap between the average female and male balances (at age 60-64) looks like it is only 14 per cent. At this level, the super gender gap appears much narrower than is commonly thought. However, a higher proportion of men with multiple accounts means that when those accounts are added together, super wealth for 'the average male' is actually much higher. This is clearly a major systemic issue that is obscured by looking at super at the raw data level.

6.2 Raw balances don't tell the whole story

Raw super account balance data, even when gender and age is accounted for, do not provide an accurate picture of a person's preparedness for retirement, even disregarding non-super assets. This is because more than one account can be used to fund retirement. Raw super account data can create an entirely misleading picture of actual super wealth and, as a result, preparedness for retirement.

Regulators and policy makers should be looking at ways that this misinformation can be corrected as soon as practicable.

7. Consolidated super wealth

It is essential to consolidate data across all of a person's various accounts to determine their total super wealth.

There are two slightly different sources for consolidated data in Australia. The ABS produces estimates from household survey work, and the ATO has published additional data on consolidated super, enabled by the use of tax file numbers to link accounts.

7.1 ATO measure of consolidated super wealth

As a first pass, let's consider what the ATO data reveal about super balances that have been consolidated across people's multiple accounts.

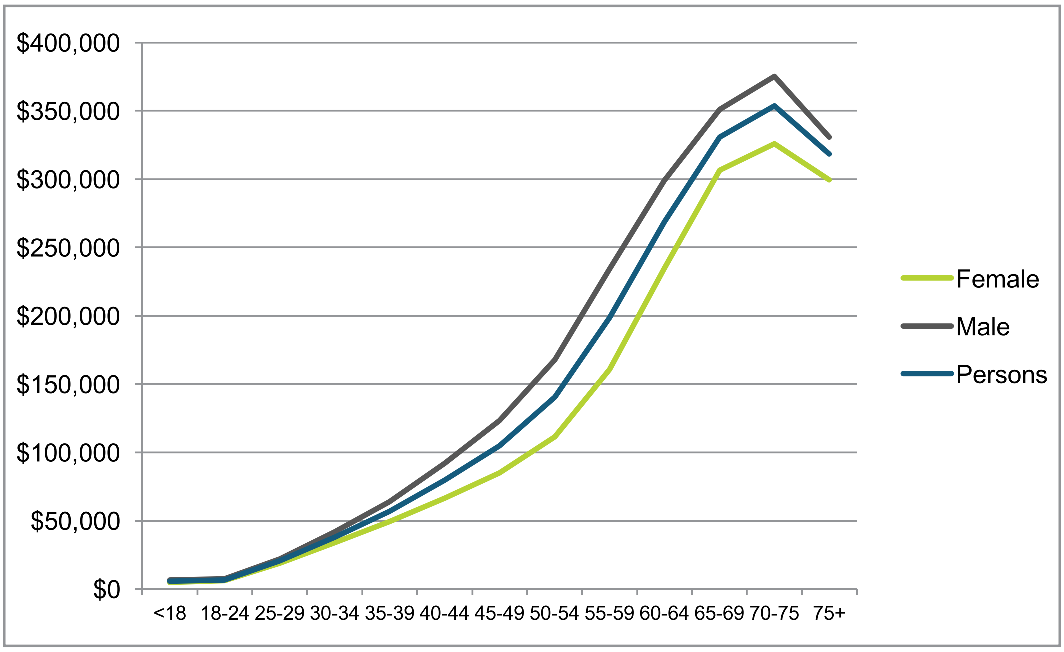
There were a total of 17,044,896 people with either a super contribution or a balance in an APRA-regulated fund in the 2013-14 financial year. Another 884,611 people had an SMSF account in that year.[4] The ATO had both an income tax return and a member contribution statement for only 12,044,847 people – only around two-thirds of the total. While it is possible that the APRA data overstate the number of people with super, this is another reflection of issues in data collection techniques.

Of the 5.5 million super accounts without a corresponding income tax return, 4.5 million had a balance of less than $50,000. Some of these are likely to end up as 'lost' accounts that might or might not be consolidated in the future.

The ATO has over 15 million consolidated balances by age. This enables a better profile of super by age. Figure 4 replicates Figure 3 but uses consolidated balances instead. The data is also provided in Table 1 on page 10.

4. Many SMSF trustee members also have an APRA regulated account so these numbers are not additive.

Figure 4: Average consolidated super wealth by age and gender



Source: ATO 30 June 2014

The average consolidated super wealth for those near retirement is around $300,000

When we compare the raw super balance data of individual accounts to the aggregate member balances, the following differences emerge:

(a) **Consolidated balances are higher**
Consolidating accounts lifts average super wealth across all ages from $64,000 (raw data) to over $108,000 (consolidated) even though the ATO's consolidated data are a year older.

(b) **The gender gap does not close as much**
Women have fewer accounts on average, so their consolidated super wealth tends to show a lower 'lift factor' than their typical male counterpart with more accounts.

(c) **Average balances do not drop off as much at higher ages**
This reflects both the inclusion of SMSFs in the ATO data and the reduction in the number of smaller balances. On average, SMSFs have older members with higher balances than members of APRA-regulated funds. Also, lower balances will be drawn down quickly and once they reach zero they are excluded from the average calculation. This has the effect of skewing the average balance size upwards.

(d) **Super wealth for pre-retirees is larger than it appears**
Average consolidated super wealth at retirement is already significant. Both men and women aged 60-64 have average super wealth of between $200,000 and $300,000. As a measure of the average, there are two cautionary observations:

In 2013-14, the consolidated average super wealth of persons of all ages was $108,000

i) **The averages are skewed upwards**

The averages are skewed upwards by people with very high super wealth (eg $10 million) so don't necessarily represent the typical person. This also skews proper analysis of super wealth across sectors, with SMSF members typically having materially larger balances than members of APRA-regulated funds of the same age. Using averages artificially pulls the two sectors together, thereby misrepresenting the actual position; and

ii) **The data exclude those with no super at all**

Comparing the ATO data with ABS population measures, around 25 per cent of women aged 60-64 appear to have no super, while only 15 per cent of men appear to be in the same position.[5] So, these figures reflect the average person with super, rather than the average person.

Table 1: Consolidated average super wealth by age and gender

Age	Average super wealth ($)		
	Female	Male	Persons
<18	4,761	6,814	5,794
18-24	6,004	7,528	6,789
25-29	18,804	22,064	20,504
30-34	33,726	41,873	37,990
35-39	49,534	63,791	56,983
40-44	66,508	92,279	79,847
45-49	85,091	123,265	104,799
50-54	111,587	168,010	140,634
55-59	160,946	234,123	198,748
60-64	234,711	298,955	268,502
65-69	306,377	351,163	330,566
70-74	325,820	375,144	353,745
75+	299,387	330,591	318,571
All ages	91,418	123,614	108,239

Source: ATO – 30 June 2014, excludes balances where age or gender not known

These ATO data provide a better picture of what people have accumulated in super (across multiple accounts in many cases). However, they still fall short of painting a true picture of super-based retirement finances because they relate only to individuals, not households. We will explore this point in more detail in section 8.

5. At some ages, the ATO reports more males of a certain age than the ABS counts, indicating that not all accounts are likely to be fully consolidated. The proportions of the population we have identified as having no super are only approximations.

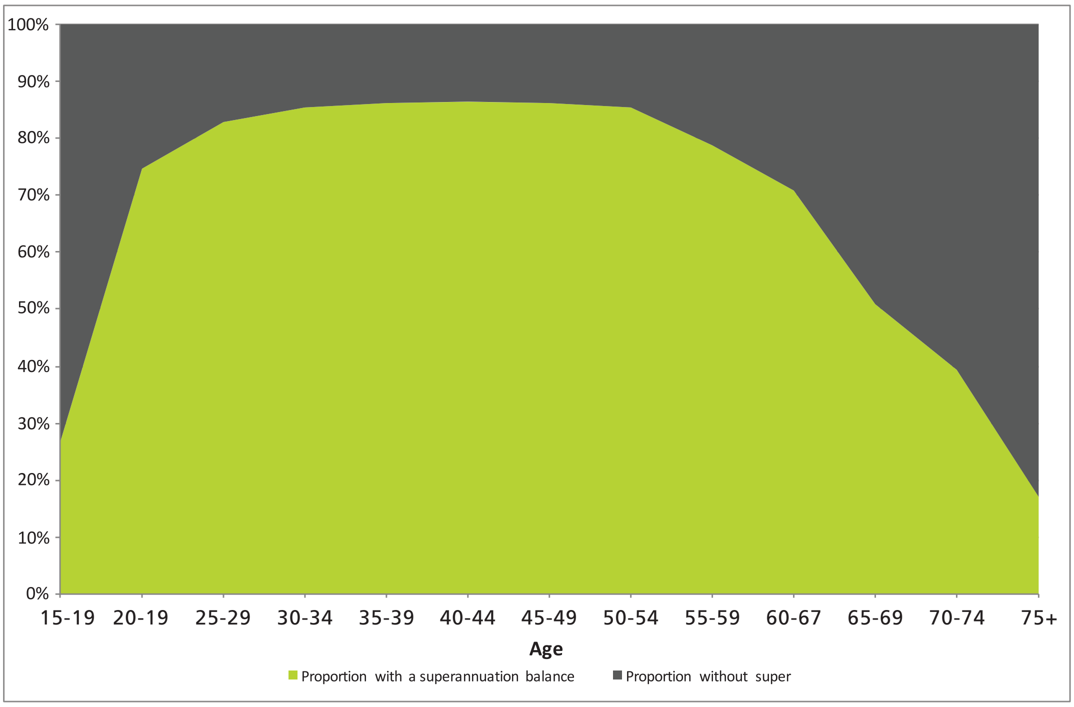
7.2 The alternative ABS measure of personal super wealth

85% of the working-age population has some super

The ABS has previously published data on households, but recently released additional data on personal super assets.[6] This included an estimate of the number of people with super balances by age.

Seventy per cent of the Australian population aged over 15 has a super balance. For those in their prime working years, as can be seen in Figure 5, the proportion is closer to 85 per cent. Many older people did not have the opportunity to accumulate any super prior to retirement, which explains the decline in the number of people with super at older ages. As the system continues to mature, the decline is likely to be less pronounced.

Figure 5: Proportion of Australians with super, by age, 2013-14



Source: ABS

6. Additional data for ABS Cat No 6523.0 release on 21 April 2016. Data on additional age breakdowns has been obtained on request.

Median super wealth representing the 'average person' is over $150,000 in the 65-74 year age group

Table 2: ABS measure of average personal super wealth

Age	Average personal super wealth		
	Women ($)	Men ($)	Persons ($)
20-24 years	5,269	8,417	6,860
25-29 years	18,651	20,879	19,812
30-34 years	31,365	40,607	36,185
35-39 years	42,057	61,778	52,198
40-44 years	64,383	93,058	79,053
45-49 years	80,685	135,340	108,271
50-54 years	100,931	167,568	134,480
55-59 years	153,351	275,987	216,490
60-64 years	215,120	376,901	302,385
65-69 years	249,187	354,619	305,361
70-74 years	319,919	308,903	313,443
75 years and over	144,508	293,503	235,727
All ages	83,111	134,799	109,902

Source: Calculation based on supplied ABS data

The ABS has also made available an estimate of median super wealth across wider age bands. These data are in Table 3 and are a better indication of the super wealth of the average person with super. The figures are not skewed by very large balances, and they exclude responses from people with no super at all. The inclusion of data relating to people with no super tends to skew the picture of the financial predicament of the typical pre-retiree. While those with no super clearly need to be taken into account by policy-makers, different policy instruments are likely to be appropriate.

Table 3: Median personal super wealth

Age	Median personal super wealth		
	Women ($)	Men ($)	Persons ($)
15-24 years	2,000	3,000	2,100
25-34 years	18,000	20,000	20,000
35-44 years	35,000	50,000	43,000
45-54 years	50,000	90,000	69,000
55-64 years	80,000	150,000	105,900
65-74 years	152,200	160,400	155,000
75 years and over	95,100	121,100	106,900
All ages	30,000	46,000	37,000

Source: ABS, as at 2013-14

7.3 Reliability of data

There are different issues with each source. Being survey-based, the ABS data are subject to the usual statistical confidence levels and an underlying range of possible outcomes. The ATO figures are subject to reporting lags which means that at the time of publication, long after the measurement date, the information is still incomplete. At this stage, it is difficult to know if there are any biases in the ATO data and, if there are, how to adjust for them.

The ABS household estimates can also be applied at a personal level to calculate average super wealth. While this will be subject to sampling biases (because it is survey-based), the estimates will account for the entire population. The ATO data in Table 1 are subject to potential biases from late reporting.

Super wealth should be considered at a household level for retirement planning purposes

8. Household super wealth

APRA and the ATO are able to provide data on super accounts and balances because the information is collected for a statutory purpose. There is no equivalent statutory directive for the production of data at the household level. As a result, household level data comes from surveys. Typically, the ABS provides the broadest measure with its surveys, but other measures such as those provided by the Household, Income and Labour Dynamics in Australia (HILDA) and National Centre for Social and Economic Modelling (NATSEM) surveys deliver additional useful insights.

8.1 Households in retirement

The composition of people in a household changes over a lifetime. Generally, by the time the parents are retired, the children have left home and there is some stability, while both remain alive. Not every retiree is in a couple relationship; so it is worth first considering what households look like around the point of retirement and what they look like later.

The 2011 census in Australia recorded 21.5 million Australians across 9.1 million households. Clearly, most people do not live alone, but 24 per cent of classified households consist of a single person. Older people are more likely to be in a single person household as the data in Table 4 indicate. Sixteen per cent of people approaching retirement are living alone.

Table 4: Proportion of people living alone in a household, by age

Age	% of people living alone
18-59	9%
60-64	16%
65-69	19%
70-74	22%
75-79	26%
80-84	32%
85+	34%

Source: ABS TableBuilder, 2011 census

75% of pre-retirees are not living alone

Considering Table 5, we can see that leading into retirement, at ages 60-64, roughly half the population is in a couple-only household. Before retirement, many couples still have some children living with them. At older ages, the dependency is likely to invert with children looking after their elderly parents. Only a small proportion of older people are in a non-couple multi-person household.

These numbers are consistent with the data on marital status; with 75 per cent of men aged 60-64 in either a formal or de facto marriage. Sixty-eight per cent of women of the same age are also in married status. This strongly supports the use of both individual and household super wealth data to get a more accurate picture of retirement income adequacy than reliance on data for individuals alone.

Table 5. Proportion of people living in a shared household, by age

Age	Couple only	Couple with children	Other multi-person household	Total couple households
18-59	18%	45%	14%	77%
60-64	49%	18%	9%	75%
65-69	53%	12%	9%	74%
70-74	53%	9%	8%	70%
75-79	48%	8%	7%	63%
80-84	39%	6%	6%	51%
85+	22%	4%	5%	31%

Source: ABS TableBuilder, 2011 census

Note: We have excluded single parent households from multi-person households. At younger ages, these have similar characteristics to a lone person household, while at older ages are likely to reflect a family with an aging parent or grandparent.

Different types of households will have different per capita income needs. This is reflected in the Age Pension payments. The base Age Pension payment for a single person is around two-thirds of the combined rate for a couple, not half. The difference effectively represents the economies of scale realised when living expenses are shared with another person. This sends a strong price signal when looking at retirement income adequacy. Using this rule of thumb, a single female with $200,000 in super (all other things being equal) would be in the same position as a couple sharing $150,000 each. By the same logic, she would enjoy a lower standard of living than a couple sharing $200,000 each in super.

8.2 Household wealth and super

Data on household wealth are available from the ABS' Survey of Income and Housing every two years. This survey also include information on super wealth. Additional data from the ABS has been used to consider not just the average super wealth in households, but also the range of household super wealth.

We can use the ABS data to estimate the value of super assets at the household level. Table 6 provides the estimate of the mean and median for household super wealth. It shows the numbers for all households, as well as the numbers for only those households that have some super. We believe it's important to make this distinction because it provides a clearer picture of what is happening. Daley et al (2016) make the important point that there are retirement savings outside super. However, the median balance is a lot less than the mean balance in their report.

Super wealth is most relevant at the point of retirement because that is what will determine how much income can be generated throughout retirement

Table 6: Household super wealth

Age	All households		Households with super	
	Mean ($)	Median ($)	Mean ($)	Median ($)
20-24 years	16,492	9,000	19,463	15,745
25-29 years	36,394	25,200	40,545	31,510
30-34 years	62,646	43,392	67,243	51,518
35-39 years	80,762	55,000	88,071	64,022
40-44 years	116,256	74,000	128,233	90,819
45-49 years	163,909	100,000	177,052	117,343
50-54 years	196,382	120,000	212,306	138,165
55-59 years	294,172	135,000	331,857	181,180
60-64 years	355,054	110,000	423,042	184,189
65-69 years	257,773	52,671	392,909	206,194
70-74 years	223,277	*	414,278	183,135
75 years and over	74,127	*	261,796	*
All ages	159,869	52,691	199,407	86,302

All data is sourced from the ABS Survey of Income and Housing 2013-14. Some has been published in Cat No 6523.0 with additional age breakdowns

* The ABS considers that these estimates are not reliable, but are included in totals where appropriate

8.3 A clearer picture of super wealth across households

It is also important to acknowledge the wide range of experiences across households. Average balances data are instructive across the system for some purposes, but the median household super wealth, as shown in Table 6, is a more useful indicator for the typical household. The wide range of balances has been highlighted by several reports, including the Association of Superannuation Funds of Australia (ASFA) (2011a, 2011b, 2014, 2015) and the Australian Institute of Superannuation Trustees (AIST) (2015b). The key data points in these reports are the raw average account balances of pre-retirees without any consolidation. Such data have the potential to misinform policy makers, researchers and fund executives/trustees on how financially prepared (or unprepared) their members will be in retirement. Given that the primary purpose of super is to provide retirement income to supplement or replace the Age Pension, this could have a significant future impact.

System-wide super balance averages without reference to age and gender and relying on raw account data, are often quoted, but are misleading and uninformative. It is like saying: "The average temperature in Australia is 19°C." without reference to location, season or time of day.

For example, through the prism of raw account balance data, the average person had only $64,000 in super wealth in 2014. On the other hand, of all households with super using data from the ABS 2013-14 survey of income and housing, the median pre-retiree household had $184,189 and the average household in that age cohort had $423,042.

There needs to be a move towards the use of more accurate consolidated and household super wealth data that present a clearer picture of the success of the super system.

9. Projected super wealth in the future

Previously, in a report issued by Challenger (2012), we considered the use of average wages as a proxy in estimating the growth of super wealth in the future. This was also considered in AIST (2015b) which also incorporated an appropriate tax treatment. We can take this a step further by considering several cameos:

(a) A male working full-time for 40 years;

(b) A female working full-time for 40 years;

(c) A 'mother' who takes maternity leave and then works mostly part-time;

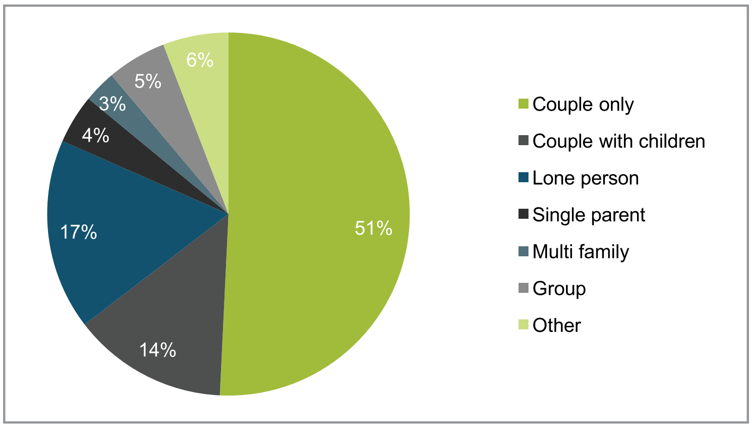
(d) 'Parents' being a couple household consisting of a male working full-time and a mother, assuming the children have left home before retirement; and

(e) A couple with no children where both partners have worked full-time for 40 years.

These cameos would cover a large proportion of the population. As can be seen in Figure 6, around two-thirds of 65-year-olds are living as a couple (some with children). Just over one-fifth are living alone or as a single parent, so are reliant on a single income. Women outnumber men in this latter situation.

Different households will accumulate super savings differently

Figure 6: Distribution of household arrangements for 65-year-olds in Australia



Source ABS: 2011 Census Tablebuilder

To project the super wealth for the different household categories, we have taken average wage measures from the ABS. These have been set by gender and we have also adjusted the average measure of wages to reflect the life-cycle pattern that is evident in all employees' earnings by age category [ABS Cat No 6206.0]. The profile adopted (relative to gender specific full-time earnings) is provided in Table 7. In addition, the mother is assumed to have two years out of the workforce between ages 30 and 35 for childbirth and the assumed primary care-giver role. She also moves to part-time with an assumed increase in hours (still part-time) as children age.

Table 7: Relative wages by age

Age Category	FT Male	FT Female	Mother
25-30	0.9	1.0	1.0
31-34	0.9	1.1	0.5
35-44	1.1	1.1	0.5
45-54	1.1	1.1	0.8
55-64	1.0	1.1	0.7

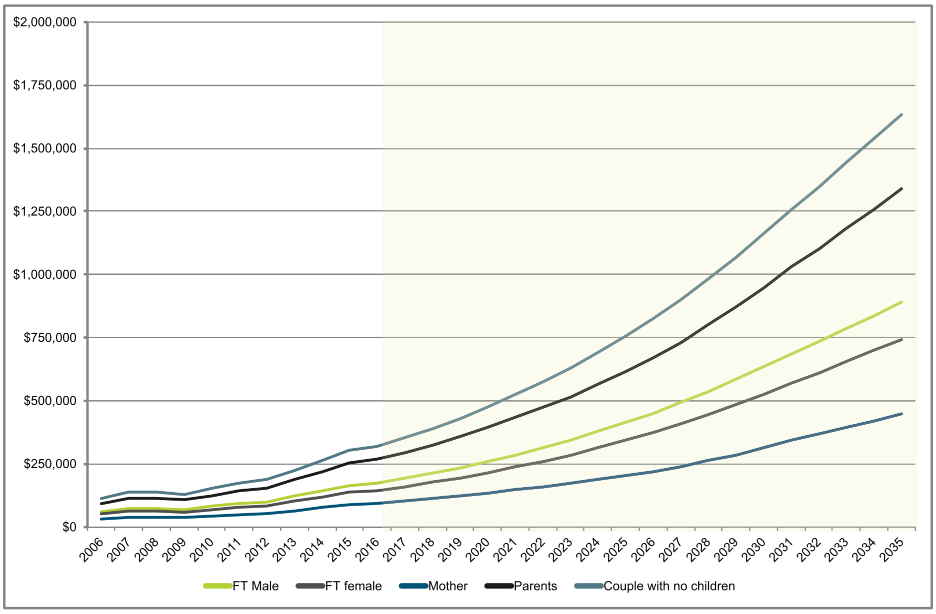
The estimates of super wealth at retirement in 2016 are broadly consistent with the averages reported earlier. They are below the average figures from the ABS, but only slightly above the reported medians where published.

Average super wealth at retirement will continue to grow. Half the couples currently aged 50 are on track to have more than $1 million in their combined super at retirement in 2032

A full-time male on average (age-based) earnings who is retiring in 2016 (with 24 years of compulsory super) would have around $180,000 in super wealth. A full-time female would have $150,000, due to the gender wage gap. Women with a broken work pattern, the 'mothers' in our cameos, would have almost $100,000 on average. Using these assumptions a pre-retiree household with two people would have around $280,000.

Of most importance is the increase in super wealth at retirement as the system continues to mature. This can be seen in Figure 7 across the five household cameos. By the time some people are retiring with 40 years of compulsory super, in 2032, an average two-person household is likely to have more than $1 million at retirement, but these will be 'future dollars' that will not have the same purchasing power as $1 million today. One group of households that will suffer relative to the rest of the population will be those of divorced women living alone at the point of retirement. In the absence of a suitable family law settlement involving the couple's super, these women will have less super at retirement and will likely find it difficult to have a comfortable lifestyle.

Figure 7: Projected future super wealth at retirement (nominal dollars)



Source: Challenger

10. Concluding observations

- Household wealth (and super) is generally the appropriate prism to look through to consider if people are prepared for retirement, rather than individual super balances. This is because most retirees live in households that pool their resources to meet their combined expenses.
- There is diversity in households, and in household wealth.
- For the majority, the super system is working. Households approaching retirement now have a significant level of their wealth in super that can be used to fund spending in retirement.
- Super wealth will continue to grow, in real terms, as the system matures.

11. Important action items for super funds

The data explored in this paper give rise to a number of important questions for trustees and senior management of super funds:

- How accurate are the data they are using in considering the optimal retirement outcomes for their members?
- Are they looking at raw data that include multiple accounts across the pre-retiree cohort, or are they looking at consolidated data that might paint a materially different picture of the super wealth of pre-retiree members?
- Do they have the data, advice network and technology to find out whether pre-retirees are planning to approach retirement alone or as part of a household and to measure their combined non-super financial wealth? If the answer to any of these questions is in the negative, the fund might be misreading the financial position and needs of their pre-retiree and retiree members.

Important note on the scope of this research

This paper interprets available data on super balances. It presents a typical two person retiree household as having advantages in terms of pooling resources and sharing living costs. We are using ‘household’ in the same sense as the Australian Bureau of Statistics; being a household of one or more persons, at least one of whom is aged 18 years and over, usually resident in the same private dwelling. We are working with data currently available. Future pre-retiree households might involve more singles. We are aware of the female super gender gap issue, the wide ranging commentary on this topic and the difficulties facing many women who enter retirement on their own, especially when households break up. Being primarily focused on analysing available data, the many social and policy issues that arise from the data are outside the scope of this paper.

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Glossary

In this paper:

APRA means the Australian Prudential Regulation Authority.

average refers to the statistical measure of the mean balance which is the sum of all balances, divided by the number included in the average.

consolidated or **aggregate** means a view of a person's super wealth that is based on the sum of all of their account balances (if more than one).

household means one or more persons, at least one of whom is aged 18 years and over, usually resident in the same private dwelling.

median refers to the statistical measure of the middle outcome. 50 per cent of the population will have a balance above the median and 50 per cent of the population will have a balance below the median.

pre-retiree refers to a person who is aged between 60 and 64.

raw data means data about account balances that have been supplied direct from a super fund to APRA without any attempt to consolidate multiple accounts held by the same person.

SuperStream is the name given to a range of measures aimed at improving the back office of the super system introduced with the Stronger Super reforms. The main measure was the introduction of electronic data and payment standards for all payments and rollovers in the super system.

super wealth means the sum total of all a person's superannuation accounts, whether in the same or different funds.

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

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