Australia

Highlights from OECD *Pensions at a Glance 2009*

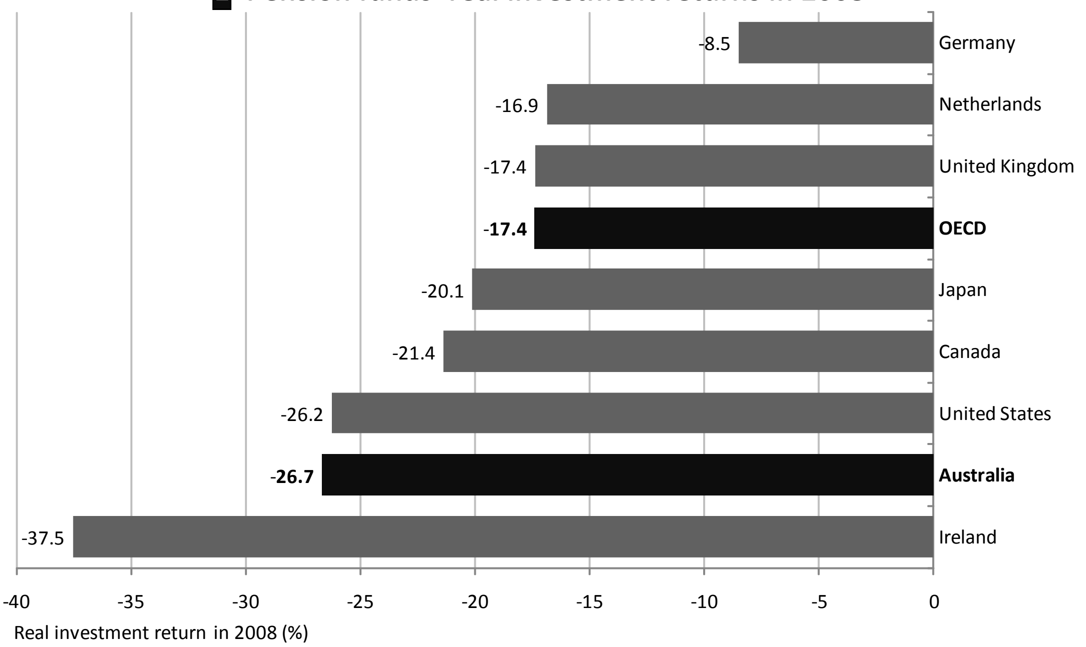
- Australia's superannuation funds have been heavily hit by the financial crisis, with real losses of 26.7% in 2008. This is the second worst investment performance for private pensions in the 30 OECD countries, after Ireland.
- More than one in four Australian seniors live in poverty on international measures. This is the fourth highest old-age poverty rate in the OECD countries and more than double the OECD average. The OECD welcomes the government's increase in the age pension to address this problem.

Pensions and the crisis

The financial crisis has hit private pension funds hard: they lost US$ 5.4 trillion in value in 2008 in OECD countries. The impact on Australia is particularly significant for two reasons.

- Private pensions and other investments provide 45% of retirement incomes in Australia, more than double the OECD average of 20%. This is a similar proportion as the United Kingdom and the United States and only a little less than in Canada and the Netherlands. Investment losses have generally hit hardest workers who are close to retirement. But many retirees in Australia are also heavily affected.
- Investment losses in Australia were particularly large because of the large share of equities in pension-fund portfolios: around 57% before the crisis hit, compared with an average of 36% in the 20 OECD countries where data are available.

1 Pension funds' real investment returns in 2008



Note: the OECD figure shown is the unweighted average. The weighted average loss is larger at 23%, due to the importance of private pensions in the United States.

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*, Figure 1.3

In its new *Pensions at a Glance* report, the OECD recommends a "lifecycle" investment strategy for private pensions. This would ensure that investments are switched towards less risky assets as people near retirement, protecting older workers' retirement incomes from volatile stock markets.

"Most people don't want to make active investment decisions about their retirement savings", said Edward Whitehouse, lead author of the OECD report. "Governments should encourage lifecycle investing because it puts people's retirement savings on auto-pilot and will protect old-age incomes from future crises", he continued. The OECD recommends that lifecycle investing should be the default investment option.

The OECD report also argues that governments should encourage retirees to take out annuities which offer a guaranteed retirement benefit. Most Australians continue to take out pensions as lump sums and invest the funds or as income streams. Both of these can leave the value of their retirement assets vulnerable to financial-market turmoil.

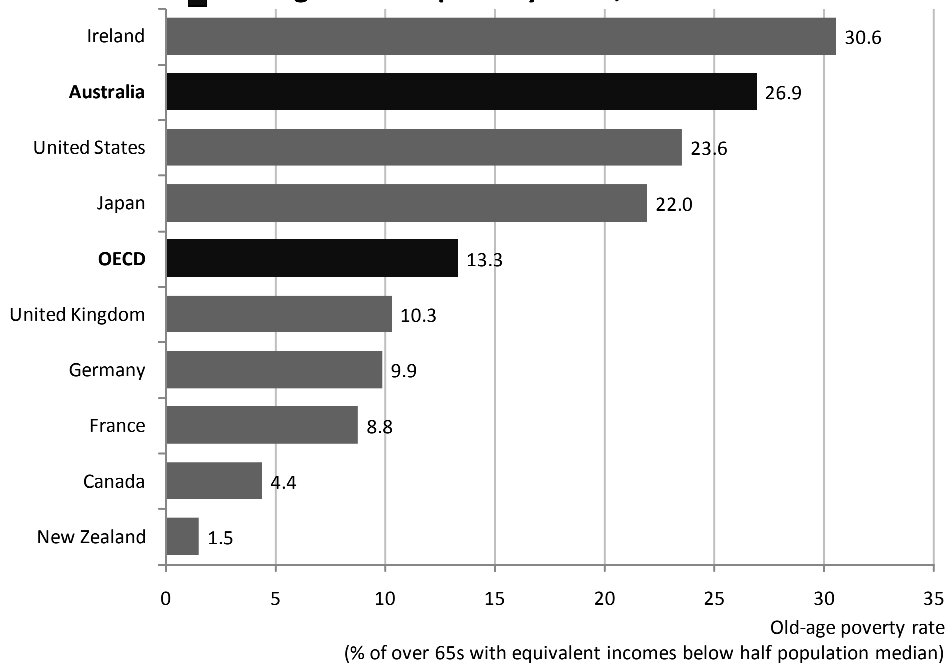
Old-age poverty

Nearly 27% of over 65s in Australia have incomes below the OECD poverty threshold (half of median household income). Only Ireland, Korea and Mexico of the 30 OECD countries have higher old-age poverty rates.

The high risk of old-age poverty in Australia is mainly due to the relatively low level of the age pension: equivalent schemes in other OECD countries are worth 25% more (compared with national average earnings) than the age pension in Australia. New Zealand's basic pension, for example, is worth 80% more relative to average earnings than the age pension.

The OECD welcomes the government's recent announcement of an increase in the target level of the age pension from 25% to 27.7% of average earnings. Edward Whitehouse, lead author of OECD *Pensions at a Glance*, said: "Australia has a very high rate of old-age poverty and the fiscal room for manoeuvre to address the problem. Public pension spending is only 3.5% of national income in Australia, compared with an average of over 7% of GDP in OECD countries".

2 Old-age income poverty rates, mid 2000s



Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*, Figure 2.5

3 Key facts

		Australia	OECD
Pension replacement rate	Average earner (%)	41.6	59.0
	Low earner (%)	67.0	71.9
Public pension spending	% of GDP	3.5	7.2
Life expectancy	at birth	81.1	78.9
	at age 65	84.9	83.4
Population over age 65	% of working age population	21.5	23.8
Average earnings	AUS$	55 200	47 600

Note: replacement rate is pension entitlement from all mandatory sources of retirement income relative to individual earnings. Calculations for a full-career worker entering the labour market in 2006. Low earner is assumed to earn 50% of the average.

Source: OECD (2009), *Pensions at a Glance: Retirement-Income Systems in OECD Countries*

Notes to editors

Pensions at a Glance 2009:
Retirement Income Systems in OECD Countries

Published 11.45am Paris time (9.45am GMT) on 23 June 2009

The report includes 17 indicators of retirement-income systems for the 30 OECD member countries plus four special chapters on (i) pensions and the financial and economic crisis; (ii) incomes and poverty of older people; (iii) recent pension reforms; and (iv) voluntary retirement savings.

279pp. ISBN 978-92-64-06071-5

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