



New analysis shows our 'lump sum culture' is an exaggeration **Colonial First State Income Stream Index launched**

Tuesday 28 April 2015: More than \$80 of every \$100 paid as a retirement benefit is taken as a pension, refuting the accepted view that Australia has a strong 'lump sum' culture.

The Colonial First State Income Stream Index, launched today, measures the percentage of retirement assets taken as account-based pensions rather than lump sum. For the 2014 financial year, the index shows 83.3 per cent of retirement assets were taken as income streams.

This contrasts with the widely held view that around half of all benefits are paid as lump sums.

"This analysis suggests that Australians' reliance on lump sums in super is an exaggeration and adds a new dimension to the debate about compelling Australians to take an income stream in retirement," said Linda Elkins, Executive General Manager Colonial First State.

"Australians are generally looking to the long term to fund their lifestyle in retirement. This is a sign of a maturing system, where – through good education and advice – people are becoming more and more self-reliant," Mr Elkins said.

"It supports the principles outlined in the Financial Services Inquiry that balance the desire to increase systemic efficiency in providing retirement incomes with a degree of individual freedom and choice.

"As the largest provider of account-based pensions in Australia, Colonial First State has vast experience in this area. The index is consistent with our observations of our account-based pension clients, who tend to be conservative and sensible in how they manage their retirement income," she said.

Research author, Michael Rice, Chief Executive Officer of Rice Warner, said the data showed a stronger preference for income streams as balances grew.

"We estimate that as the superannuation system matures, 96 per cent of all retirement payments will be taken as income streams by 2025," Mr Rice said.

"The data shows the system is generally working well. The question is not so much about whether Australians use income stream products in retirement but whether they are using the right income streams. This is certainly the emphasis of the recommendations in the Financial Services Inquiry final report," he said.

The Colonial First State Income Stream Index is derived from Rice Warner's analysis of its comprehensive dataset, comprising information from more than 10 million member records representing more than \$55 billion in assets. The index will be updated annually.

According to the report, around one-third of accounts are taken as full lump sum payments, with the rest taken either as pensions or as part-pension and part-lump sum. Of the people who opt for lump sums, Australian Bureau of Statistics data (2013) suggests they tend to use them productively: one quarter invests in their own home, 18 per cent reinvest as ordinary money and 13 per cent reinvest into another retirement scheme.

The index shows that only 28 per cent of accounts with balances of \$50,000 or less are taken as pension rollovers. However, for balances between \$50,000 and \$100,000, the split between accounts taken as lump sums and those taken as pensions is roughly even. For balances of more than \$300,000, almost 87 per cent of accounts are taken as pensions.

By gender, around 75 per cent of retirement benefits paid to men are taken as pensions, while it's around 71 per cent for women. This does not include payments to Self-Managed Super Fund (SMSFs) members, in which a very high proportion of men and women take their benefits as pensions. In retail funds, around three-quarters of all retirement payments are paid as pension payments, while in industry funds it is around two-thirds.

By State, excluding SMSFs, a higher proportion of retirement income payments were likely to be paid as pensions to people in the ACT (71 per cent), Victoria (68 per cent) and NSW (65 per cent). By contrast, less than half of retirement payments in the Northern Territory were likely to be paid as pensions. In Western Australia (57 per cent), Tasmania and Queensland (both 58 per cent), the proportion of retirement payments paid as pensions was also below the national average.

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Colonial First State Income Stream Index 2014

Overall results

The Colonial First State Income Stream Index for 2014 was 83.3 per cent of superannuation assets converted to a pension upon retirement

- The 2014 Colonial First State Income Stream Index is for the financial year ending 30 June 2014
- Only 9 per cent of assets were taken as full lump sums, 7 per cent as partial lump sums and the remaining 83 per cent was rolled over to an account based pension, suggesting the belief there is a 'lump sum culture' in Australia is an exaggeration
- However, 34 per cent of accounts were taken as full lump sums, 25 per cent as partial lump sums and 41% as an account based pension, indicating those members taking full lump sums generally have low balances
- The tipping point at which the majority of accounts are rolled over into a pension is an account balance of \$100,000-\$200,000
- Rice Warner estimates that as the system matures the Colonial First State Income Stream Index will rise to 95.5 per cent by 2025. Of those that do withdraw their super as a lump sum, most appear to use it productively, with a quarter investing in their own home, 18 per cent reinvesting as ordinary money and 13 per cent reinvesting into another retirement scheme, according to ABS data

By fund type

More members of Self-Managed Super Funds (SMSFs) are likely to convert their super into a pension than members of retail and industry funds, confirming that members with higher balances are more likely to take a lump sum at retirement

- In SMSFs, 98 per cent of assets and 97 per cent of accounts are converted to pensions
- In retail funds, 76 per cent of assets and 46 per cent of accounts are converted to pensions
- In industry funds, 66 per cent of assets and 25 per cent of accounts are converted to pensions

By gender

The gap between pension take-up by men and women is relatively narrow, considering that, on average, female super balances are only 72 per cent of male balances, according to Rice Warner data

- 75 per cent of assets owned by males were taken as a pension, compared with 71 per cent for females, a gap of only 4 per cent
- The gap between accounts is even smaller at 2 per cent, with 33 per cent of males taking a pension compared with 31 per cent of females
- These comparisons exclude SMSF members, who almost exclusively convert retirement benefits to pensions, regardless of gender

By state/territory

There is a significant geographic gap of pension take-up between the states and territories

- ACT (71 per cent of assets), Victoria (68 per cent) and NSW (65 per cent) were the States with the highest pension participation
- At the other end of the spectrum, only 46 per cent of NT super assets were converted to a pension, followed by WA (57 per cent) and Tasmania and Queensland, (both 58 per cent).

By age

Pension take up across age groups is generally consistent across all age groups under 75 at around 63 per cent of assets

- There is a significant spike amongst the 60-64 year old age group with 74 per cent of assets being rolled over into a pension
- Those aged over 75 were mostly active in the workforce before the full benefits of the current superannuation system (especially the Super Guarantee and Simpler Super reforms) could take effect, which explains why the numbers in this cohort are different

Wednesday 29 April, 2015

Income streams index

Headline results

Our analysis of the proportion of benefits taken as income streams is provided below. In summary, we estimate that currently **83.3%** of benefits (in terms of assets) are taken by retiring superannuation fund members to provide an income stream.

This estimate is an update to previous research provided to ASFA and makes use of a larger dataset from our Superannuation Insights research project.

The proportions of estimated retirement benefits taken as lump sums and income streams are summarised in Table 1 according to both FUM and number of member accounts. Lump sums are able to be further divided into full and partial lump sums.

Table 1. Retirement rollovers and benefit payments - estimated split

	Assets		Accounts	
	(\$b)	(%)	('000)	(%)
Lump Sum				
Full Lump Sum	5.24	9.5	130	34.2
Partial Lump Sum	3.99	7.2	94	24.7
Subtotal Lump Sum	9.23	16.7	224	58.9
Pension				
Pension	46.14	83.3	156	41.1
Subtotal Pension	46.14	83.3	156	41.1
Total	55.36	100.0	381	100.0

Split by segment

Retirement benefits have been further broken down into market segments, as seen in Table 2 and Table 3. Table 2 percentages are asset weighted and Table 3 percentages are weighted by the number of member accounts.

Table 2. Retirement rollovers and benefit payments - estimated asset split 1 July 2013 to 30 June 2014

Market segment	Total Lump Sums	Total Pension Rollovers
Corporate Funds	23.3	76.7
Industry Funds	34.1	65.9
Public Sector Funds	16.8	83.2
Self-Managed Super Funds	2.0	98.0
Retail Funds	24.2	75.8
Eligible Rollover Funds	100.0	0.0
Total	16.7	83.3

Table 3. Retirement rollovers and benefit payments - estimated account split 1 July 2013 to 30 June 2014

Market segment	Total Lump Sums	Total Pension Rollovers
Corporate Funds	54.7	45.3
Industry Funds	75.1	24.9
Public Sector Funds	43.2	56.8
Self-Managed Super Funds	3.0	97.0
Retail Funds	54.4	45.6
Eligible Rollover Funds	100.0	0.0
Total	58.9	41.1

Split by gender

We have also estimated the income streams index split by gender weighted by both assets and accounts. Note that we have provided two tables. Table 4 shows our estimate of the index for all funds (using our Superannuation Insights sample) excluding SMSFs. Table 5 shows the overall index after adjusting for SMSF members.

As seen from the market segment tables, a large proportion of SMSF members remain in their fund during retirement years and thus, heavily impact the overall figures. We have assumed that for SMSF members, gender is not a differentiator in terms of what benefits are taken. This assumption is on the basis that most SMSFs have two members who are husband and wife.

Table 4. Retirement rollovers and benefit payments broken down by gender (excluding SMSFs)

	Assets		Accounts	
	(%)			
	Male	Female	Male	Female
Lump sums	25.0	29.1	66.6	68.9
Pension rollovers	75.0	70.9	33.4	31.1
Total	100.0	100.0	100.0	100.0

Table 5. Retirement rollovers and benefit payments broken down by gender (including SMSFs)

	Assets		Accounts	
	(%)			
	Male	Female	Male	Female
Lump sums	17.8	20.7	61.7	63.9
Pension rollovers	82.2	79.3	38.3	36.1
Total	100.0	100.0	100.0	100.0

Split by state

We have also produced estimates by state including and excluding SMSFs. These estimates are shown in Table 6 and Table 7.

Table 6. Retirement rollovers and benefit payments broken down by states in terms of assets and member accounts (excluding SMSFs)

State	Assets		Accounts	
	(%)			
	Lump Sums	Pension Rollovers	Lump Sums	Pension Rollovers
NSW	31.2	68.8	73.5	26.5
VIC	28.7	71.3	70.2	29.8
QLD	37.2	62.8	74.2	25.8
ACT	26.1	73.9	70.7	29.3
WA	38.2	61.8	75.2	24.8
SA	32.6	67.4	71.5	28.5
NT	48.0	52.0	81.0	19.0
TAS	37.8	62.2	75.5	24.5
Total	31.5	68.5	72.7	27.3

Table 7. Retirement rollovers and benefit payments broken down by states in terms of assets (including SMSFs)

State	Assets		Accounts	
	(%)			
	Lump Sums	Pension Rollovers	Lump Sums	Pension Rollovers
NSW	16.0	84.0	60.0	40.0
VIC	14.6	85.4	54.1	45.9
QLD	19.4	80.6	61.3	38.7
ACT	13.1	86.9	54.9	45.1
WA	19.9	80.1	63.0	37.0
SA	16.7	83.3	56.5	43.5
NT	25.5	74.5	73.5	26.5
TAS	19.7	80.3	63.5	36.5
Total	16.7	83.3	58.9	41.1

Split by age

Retirement benefits were also split across ages for both assets and member accounts, as seen in Table 8 – excluding SMSFs.

Table 8. Retirement rollovers and benefit payments broken down by age (excluding SMSFs)

Age	Assets		Accounts	
	(%)			
	Lump Sums	Pension Rollovers	Lump Sums	Pension Rollovers
55 - 59	37.0	63.0	76.8	23.2
60 - 64	25.8	74.2	61.3	32.9
65 - 69	37.1	62.9	80.8	19.2
70 - 74	37.7	62.3	85.7	14.3
Over 75	44.5	55.5	86.4	13.6
Total	31.5	68.5	72.7	27.3

Table 9. Retirement rollovers and benefit payments broken down by age (including SMSFs)

Age	Assets		Accounts	
	(%)			
	Lump Sums	Pension Rollovers	Lump Sums	Pension Rollovers
55 - 59	19.7	80.3	62.5	37.5
60 - 64	13.8	86.2	49.0	51.0
65 - 69	19.7	80.3	66.1	33.9
70 - 74	20.1	79.9	70.3	29.7
Over 75	23.4	76.6	71.0	29.0
Total	16.7	83.3	58.9	41.1

Split by balance

Table 10 and Table 11 show the split of benefits according to the member's balance.

Table 10. Retirement benefits/rollovers (excluding SMSFs)

Rollover Amount	Assets		Accounts	
	(%)			
	Lump Sums	Pension Rollovers	Lump Sums	Pension Rollovers
\$0-\$50,000	79.8	20.2	85.9	14.1
\$50,000-\$100,000	56.5	43.5	58.4	41.6
\$100,000-\$200,000	35.4	64.6	37.6	62.4
\$200,000-\$300,000	20.9	79.1	23.6	76.4
Over \$300,000	9.5	90.5	15.6	84.4
All balances	31.5	68.5	72.7	27.3

Table 11. Retirement benefits/rollovers (including SMSFs)

Rollover Amount	Assets		Accounts	
	(%)			
	Lump Sums	Pension Rollovers	Lump Sums	Pension Rollovers
\$0-\$50,000	45.0	55.0	70.5	29.5
\$50,000-\$100,000	31.4	68.6	46.4	53.6
\$100,000-\$200,000	19.0	81.0	28.1	71.9
\$200,000-\$300,000	10.5	89.5	15.8	84.2
Over \$300,000	3.8	96.2	8.8	91.2
All balances	16.7	83.3	58.9	41.1

Use of lump sums

Rice Warner was also requested to provide data on how lump sums are used. Table 12 provides this information. Further breakdowns of the data according to age and gender are shown in the subsequent tables. These figures are taken from ABS Survey data (Cat 6238.0) on the use of lump sums. Note that many participants were unable to answer questions or did not know details of the lump sums so answers should be treated with caution.

Table 12. Overall use of lump sums

Use of lump sums	(%)
Rolled it over/invested it in an approved deposit fund/deferred annuity or other superannuation scheme	12.8
Purchased an immediate annuity	1.0
Invested the money elsewhere/personal savings/bank	17.6
Paid off home/paid for home improvements/bought new home	25.1
Bought or paid off car/vehicle	10.0
Cleared other outstanding debts	10.9
Paid for a holiday	7.1
Assisted family members	3.0
Undecided/Did not know	12.0
Lump sum details not stated	0.6
Total	100.0

Table 13 shows the use of lump sums by age. Members over 60 are more likely to invest money elsewhere while those under 60 are more likely to use the lump sum to clear existing debts or mortgages.

Table 13. Use of lump sums broken down by age

Use of lump sums	Age at Retirement from the labour force					
	55 and under	55-59	60-64	65-69	70 and over	Total
	(%)					
Rolled it over/invested it in an approved deposit fund/deferred annuity or other superannuation scheme	8.5	15.8	13.5	14.2	12.3	12.8
Purchased an immediate annuity	0.7	1.2	0.7	1.9	0.0	1.0
Invested the money elsewhere/personal savings/bank	11.9	14.9	24.6	16.0	24.1	17.6
Paid off home/paid for home improvements/bought new home	30.1	23.7	21.2	25.3	27.4	25.1
Bought or paid off car/vehicle	10.8	6.9	11.5	10.1	12.0	10.0
Cleared other outstanding debts	16.4	10.8	7.8	9.4	3.9	10.9
Paid for a holiday	2.9	8.5	8.9	8.2	8.2	7.1
Assisted family members	2.8	3.7	1.8	4.3	4.3	3.0
Undecided/Did not know	16.0	13.9	8.6	10.1	7.3	12.0
Lump sum details not stated	0.0	0.5	1.4	0.4	0.5	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0

Table 14 shows the use of lump sums by gender. Males are more likely to roll over the funds into another investment whereas females are more likely to pay off the home or purchase home improvements with their lump sums.

Table 14. Use of lump sums - Males and Females

Use of lump sums	Males	Females
	(%)	
Rolled it over/invested it in an approved deposit fund/deferred annuity or other superannuation scheme	18.6	14.0
Invested the money elsewhere/personal savings/bank	23.1	22.3
Paid off home/paid for home improvements/bought new home	30.7	34.4
Bought or paid off car/vehicle	13.7	12.0
Undecided/Did not know	13.9	17.3
Total	100.0	100.0

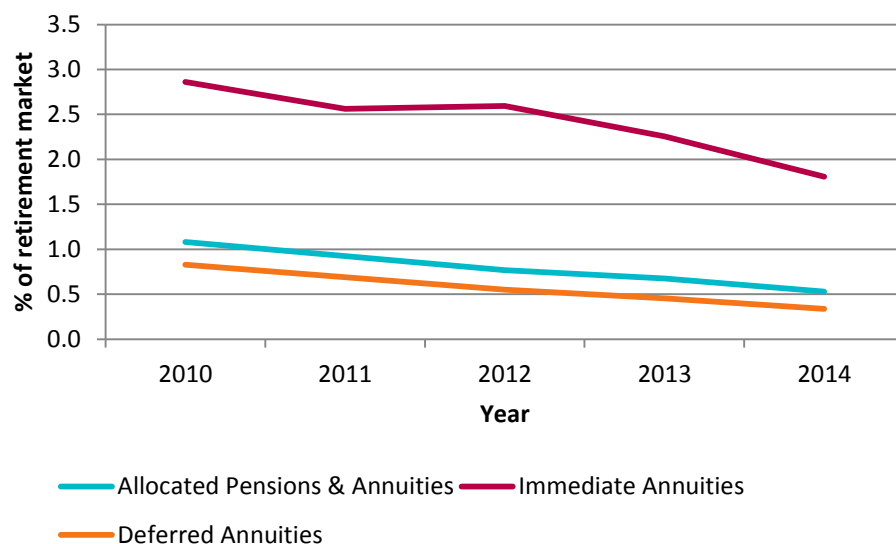
Size of the retirement market

The share of the retirement market of different income stream products (by asset volumes) from 2010 to 2014 is provided in Table 15 and Graph 1.

Table 15. Market share of income stream products from 2007 to 2014

Market segment	2010	2011	2012	2013	2014
	(%)				
Not-for-Profit Funds					
Corporate Funds	0.8	1.0	1.1	1.1	1.1
Industry Funds	0.6	0.9	1.9	2.1	2.5
Public Sector Funds	7.1	8.7	8.3	8.7	11.3
Subtotal	8.5	10.7	11.3	12.0	14.8
Commercial Retirement Products					
Allocated Pensions & Annuities	1.1	0.9	0.8	0.7	0.5
Account Based Pensions	29.4	30.9	31.3	30.9	28.0
Immediate Annuities	2.9	2.6	2.6	2.3	1.8
Deferred Annuities	0.8	0.7	0.6	0.5	0.3
Subtotal	34.1	35.1	35.2	34.3	30.7
Self-Managed Super Funds					
Self-Managed Super Funds	57.3	54.2	53.5	53.7	54.5
Subtotal	57.3	54.2	53.5	53.7	54.5
Total	100.0	100.0	100.0	100.0	100.0

Graph 1. Use of income streams from 2010 to 2014 – by assets (excluding Account Based Pensions and SMSFs)



The vast majority of products in the market are Account Based Pensions with a Public Sector or Commercial fund, or in an SMSF. Annuity type products have suffered a steady decline in market share since 2010.

Ten year projection of retirement benefits

Table 16 and Table 17 provide a ten year projection of retirement benefits taken as income streams in terms of assets and accounts. This projection has been sourced from Rice Warner's Superannuation Market Projections Model.

Table 16. Ten year projection of retirement rollovers and benefit payments- estimated asset split as at 30 June 2025

Market segment	Total Lump Sums	Total Pension Rollovers
Corporate Funds	7.5	92.5
Industry Funds	7.5	92.5
Public Sector Funds	7.5	92.5
Self-Managed Super Funds	2.0	98.0
Retail Funds	7.5	92.5
Eligible Rollover Funds	100.0	0.0
Total	4.5	95.5

Table 17. Ten year projection of retirement rollovers and benefit payments- estimated account split as at 30 June 2025

Market segment	Total Lump Sums	Total Pension Rollovers
Corporate Funds	25.0	75.0
Industry Funds	25.0	75.0
Public Sector Funds	25.0	75.0
Self-Managed Super Funds	3.0	97.0
Retail Funds	25.0	75.0
Eligible Rollover Funds	100.0	0.0
Total	19.5	80.5