Reflections of the Australia retirement system

Steve Utkus
Principal, Vanguard Center for Retirement Research
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What if Congress…?

- Repealed the Social Security system – and replaced it with a flat-dollar, means-tested benefit?
- Introduced a mandatory 12% contribution (by employer or employee) to a private savings plan?
- Ended ERISA and the employer-centric retirement system?
- <u>And</u> broadened the income tax base, raised the top rate to 45%, limited top-income retirement tax benefits, and introduced a VAT – all to pay for the above and universal health insurance

<u>Welcome to Australia!</u>

A lesson for US analysts

- Concerned with fiscal sustainability? You see a means-tested state pension and a large private, funded pension system.

- Concerned with universality and greater equity? You see universal coverage and compulsory employer-provided pensions.

- But the reality is more complex. It's the system—not the pieces. Australia is a combination of market-centric and social democratic elements.

So, absent a revolution in US retirement policy, what lessons might we learn from Australia? And what might we avoid?

Lessons to consider

Compulsory private savings	What level of compulsion should exist—and in what form?
Rise of the superfund as “pension bank”	Is the US system too employer-centric?
A much less leaky bucket	Is the US DCIRA system too flexible?

Lessons to avoid

Default funds and market risk	Should pre-retirees have 70% of assets in equities?
Rising longevity risk (due to means-testing)	Should retirees have little or no annuity income?
Inattention to costs	Shouldn't a compulsory system be driving down costs faster?