Abstract:

At 82.2 years, life expectancy in Australia is the sixth highest amongst the OECD (OECD, 2015). As the life median continues to rise, individuals are living with an increasing burden of disease that impacts their ability to live well at home, unaided (AIHW, 2016). It is well known that healthcare and aged care expenditure will be the largest necessary cost burden facing retirees (Productivity Commission, 2011). Australians spend more on out-of-pocket healthcare costs than the OECD average, accounting for 20% of healthcare expenditure in Australia (OECD, 2015). In 2015-16 Government expenditure on health was 10.3% of total gross domestic product, a 3% increase from the prior financial year with continual growth anticipated as baby boomers reach retirement in the coming decades (AIHW, 2017).

The future of superannuation (super) should play a more active role in easing the healthcare burden of older age through mandated investments into the Australian health and aged care sectors, with particular focus on keeping older people well and self-caring for longer. Investment in health through super can be achieved from a variety of avenues such as mandated asset allocation, impact investing and the creation of health specific investment products.

Mandated Health Asset Allocation

Firstly, it is recommended that a portion of all default super funds must be allocated to health investments. Even a small percentage of total assets can have a large, meaningful impact, when aggregated. For example, if 5% of total assets of MySuper products are mandated into the health sector, an additional $29.75 billion dollars would be invested; this is more than the total Government expenditure on aged care in 2015-16 (AIHW, 2017; ASFA, 2017). This mandated allocation should remain as a broad investment universe encapsulating medical research, aged care accommodation, health services, hospitals, health education and pharmaceuticals. In doing so, there is freedom for portfolio managers to operate within the framework allowing for competition amongst super funds. Default funds have been identified as the best avenue for most impact, given they represent 25% of industry assets at the end of the June 2017 quarter and have a greater pooled investment opportunity (ASFA, 2017).

Managed Investment Scheme

To further build on this mandated asset allocation, and to increase impact, it is suggested the Significant Investor Visa (SIV) scheme be leveraged to create a managed investment scheme with a health specific focus (Scheme). Increasing investment into the health sector will help fund breakthroughs, reduce the costs of care and medication and increase accessibility and supply of required services such as residential homes. Traditionally, investment in health has been limited as it is largely unprofitable; however, given the significant ageing population it's becoming an attractive investment thematic and can provide lucrative opportunities that have a greater good.

Initial investment framework for the Scheme should include the following components;

1. *Impact investment*: investors can pursue financial returns while also intentionally addressing social challenges with specific objectives, in this instance, health and aged care services. This investment component will have the greatest community benefit as it is targeted towards funding community initiatives for example; community based healthcare and social inclusion activities. Given the recent surge in demand for these services many state based non-Government organisations have been established and are a well-placed investment that will

have immediate impact. It is suggested an advisory board be established to oversee and determine areas of need and projects to invest in. The Board will also be able to agree on clear and measurable objectives to measure impact and determine if a return has been achieved.

2. *Income assets*: investments that provide a regular income distribution. This is an important component to include as it establishes a reliable return for investors. Investment assets could be aged care infrastructure that provides a strong rental return, for example nursing homes and retirement villages.
3. *Growth assets*: investments in growth assets within the health sector. Given the increasing attractiveness of the sector due to an influx in demand (that is expected to continue to rise).

Each of these components help meet the needs of community, individuals and ultimately reduces the financial burden of health expenditure for the Government. This framework should be revised bi-annually and continually evolved to meet the changing health and aged care needs of Australians, with an overall objective of increasing allocation to impact investing to have an even greater positive impact on community and public healthcare services. The framework should also be further refined as appropriate, given it is a pioneering scheme and unlikely to be perfect from day one, as observed with the SIV scheme and its three framework revisions (Robb, 2015).

To further encourage investment into the Scheme, tax offsets could be provided on returns when used for health-related expenses, for example, health insurance premiums, aged care services and residential care. In doing so, individuals are subtly reminded that healthcare is costly and needs to be paid somehow. By making it attractive to spend returns from the income component of the Scheme on common health expenses, individuals will be better placed, and likely more willing, to take on a greater share of their health expenses. Further, there is potential for a perception shift around the cost of health. Given Australia's comprehensive Medicare system, many Australians expect their health care costs to be free (AIHW, 2016). By demonstrating there is real and necessary cost involved with the level of care Australians desire, and making it easy and affordable for them to self-fund, the Government's burden will likely be reduced.

Health Annuity

An annuity is a secure investment that provides investors guaranteed regular payments in return for an initial lump-sum investment. It is suggested a health annuity investment product also be established to provide an income stream to budget for unforeseen, inevitable and often expensive health expenses during retirement. The annuity will have a dual impact as it must invest in health assets to further develop the sector and services, similar to the Scheme. An annuity provides investors security, flexibility and is a cost effective way for Australians to fund their aged care costs. To further incentivise investment into this annuity, there is scope for the Government co-contribute a capped amount given there will be significantly less reliance on Government funding during retirement as a result of increased self-funding capabilities.

Benefits include;

- Increased reputation for corporate organisations from strong investment in the community and growing expectation for corporates to be socially responsible (Deloitte, 2017; UBS, 2017)
- Increased business opportunity to specialise in health investing
- Community benefits gained from greater impact investing (SIIT, 2014)
- Reduced financial burden on Government to fund health expenditure as corporates are able to provide the needed investment (AIHW, 2017)
- Increased investment in the private health sector will indirectly benefit public services such as shorter stays in hospitals as surgeries become safer, faster and less invasive. Other potential benefits from greater investment in private health may include;
    - Breakthroughs into preventative care
    - Increased availability and supply of aged care homes and services
    - Potential for greater at-home accessibility equipment such as elevators at affordable prices, allowing retirees to live at home for longer
    - Cheaper pharmaceuticals
- At present people aged 65+ represent 12% of the Australian population yet account for 36% total healthcare expenditure. By 2030, the population of people aged 80 or more is expected to increase by over 200%, there will be major funding and service implications in the coming decades that need to be addressed (NACA, 2005). Increased funding from corporates will help alleviate some of this pressure.
- Tax offsets on financial returns from the Scheme provides greater incentive for members to invest as there is a direct benefit for them that can't be achieved through alternative investment products. This benefit will likely result in a greater willingness and ability for individuals to fund their health expenditure, making the inevitable shift of cost to individual's, from the Government, easier and more sustainable (AIHW, 2016).
- Meet demands of consumers - Australians believe their super fund can, and should play a greater role in meeting the future aged and healthcare needs of older Australians (ASFA, 2017).

When looking at the Government's revenue raising options, super appears to be the most logical option to help ease the financial burden of healthcare. There is real opportunity to have meaningful positive impact on Australian communities in a variety of capacities. This solution is multi-faceted and has broad parameters allowing for asset allocation choice and healthy competition amongst super funds. It can also be built upon and further developed as outcomes are realised. The future of super in Australia has a role to play in addressing the inevitable health cost pressures on the Government and individuals. This integration will aid the super system in achieving its objectives in providing a greater supplement to the Age Pension whilst demonstrating significant, tangible benefits for industry, Government, community and individuals. This is an important and necessary first step towards integrating health and aged care with super.

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What is the future of superannuation in Australia?

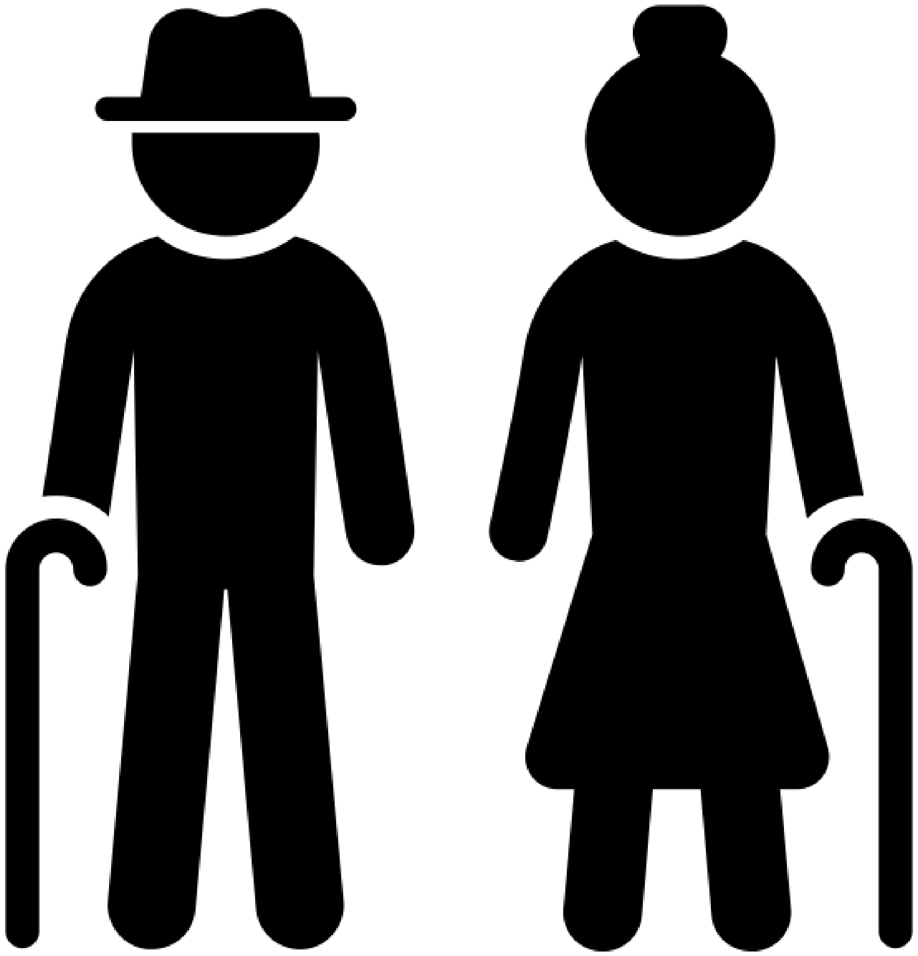
Maggie O’Neill
UBS Asset Management

6th highest life expectancy in OECD

Health biggest expense

Total health spend $170 billion and rising

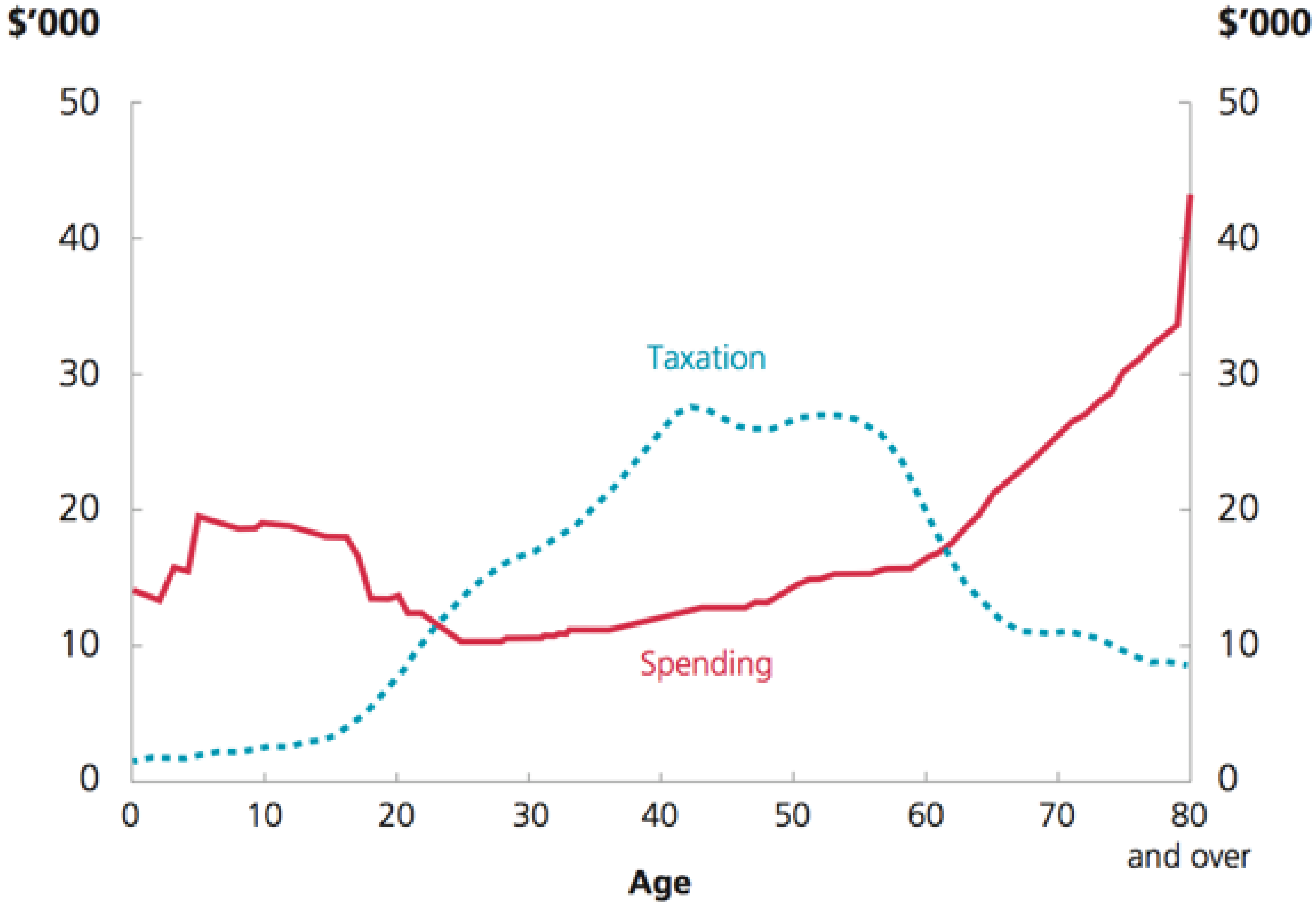
80% of retirees won’t have enough to live on



Source: AIHW, 2016; ASFA, 2017

Some context…

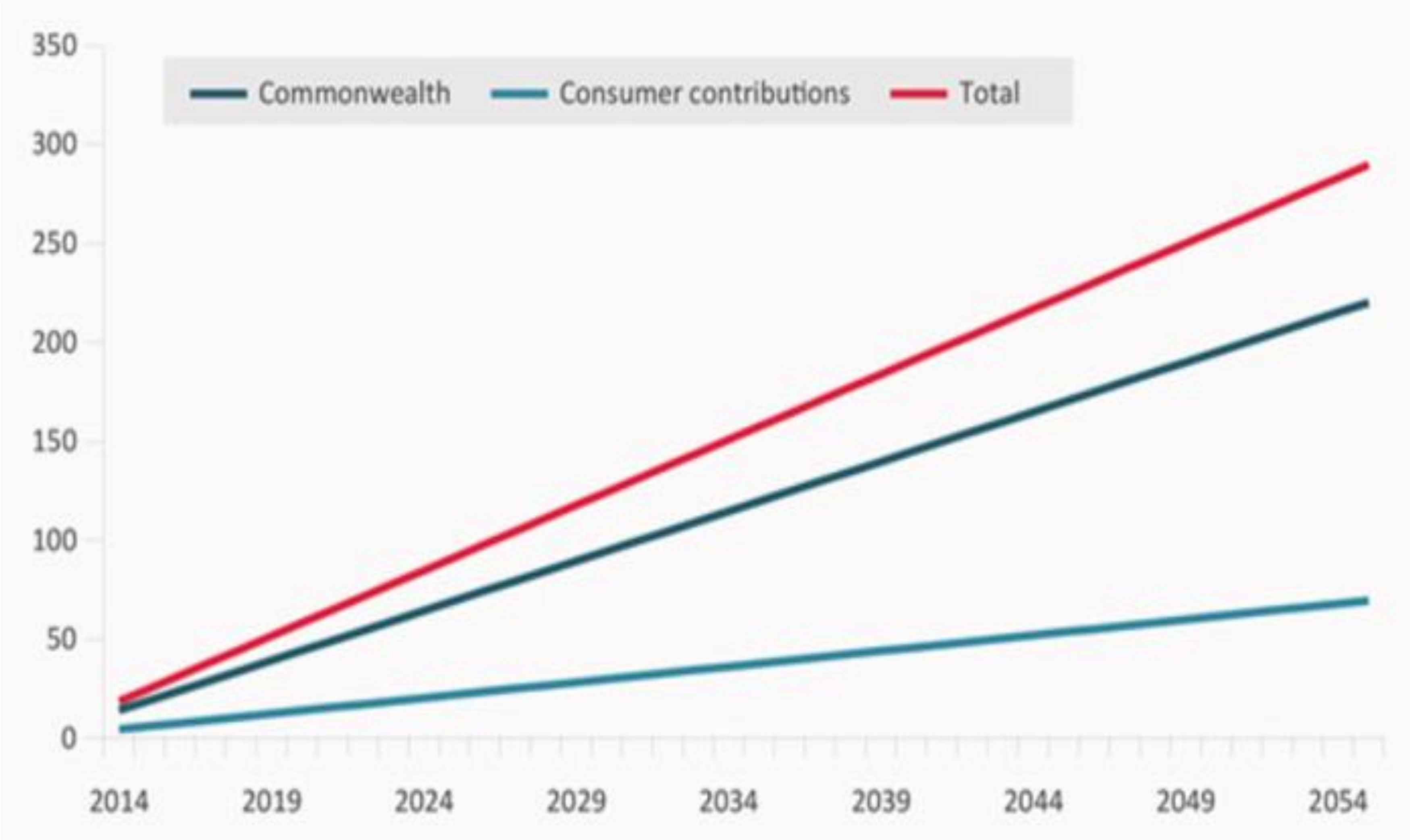
Total government spending and taxes per person per year by age



Source: 2015 Intergenerational Report

Some context…

Forecast expenditure on aged care by the Australian Government by consumers



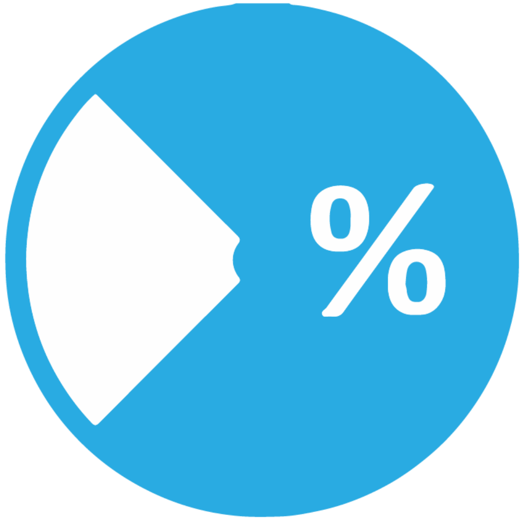
Source: 2015 Intergenerational Report


Superannuation
Care &
residence

a holistic approach

SUPER + HEALTH = FUTURE

Super should invest in the Australian health and aged care sectors.



Mandated Asset Allocation

Managed Investment Scheme

Health Annuity

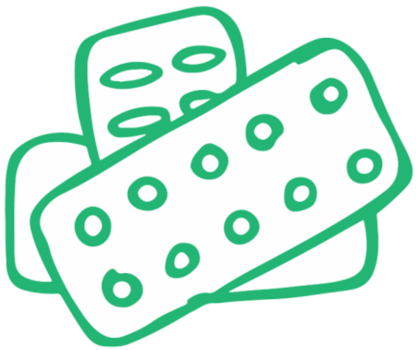
Health investment universe

Care

Hospitals

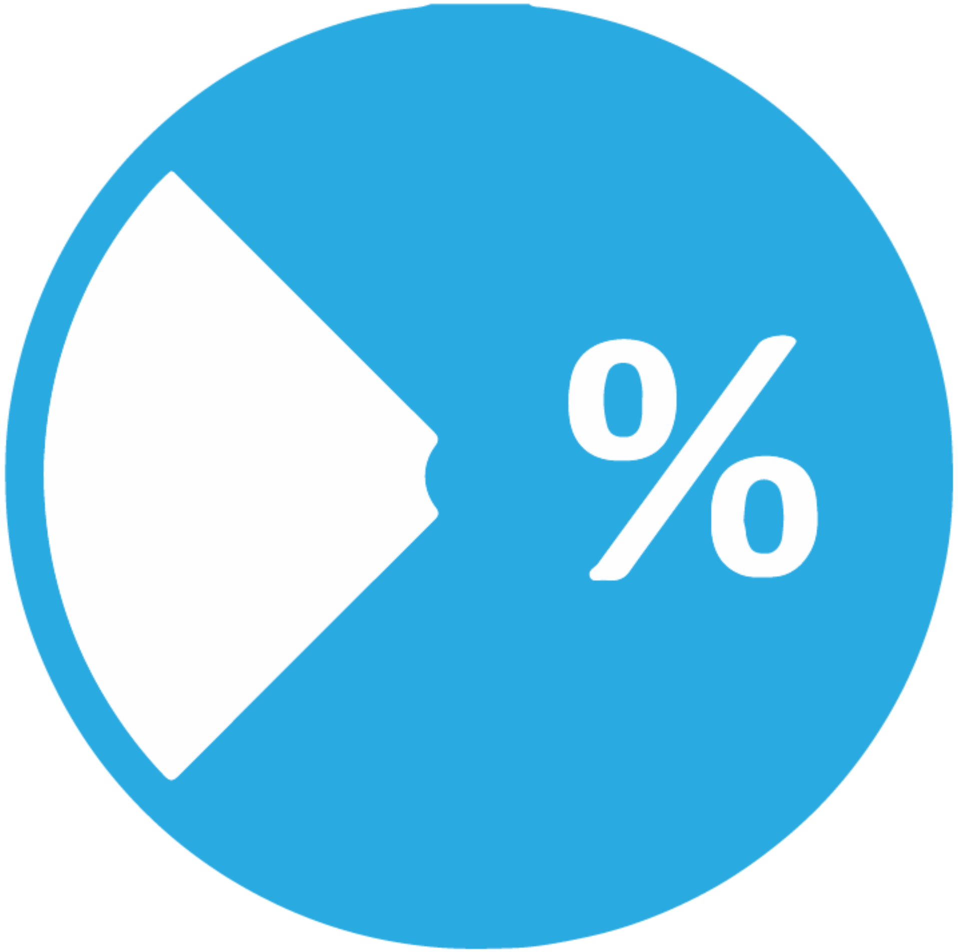
Medical technology

Residential



Pharmaceuticals

Research



Mandated Asset Allocation

25%

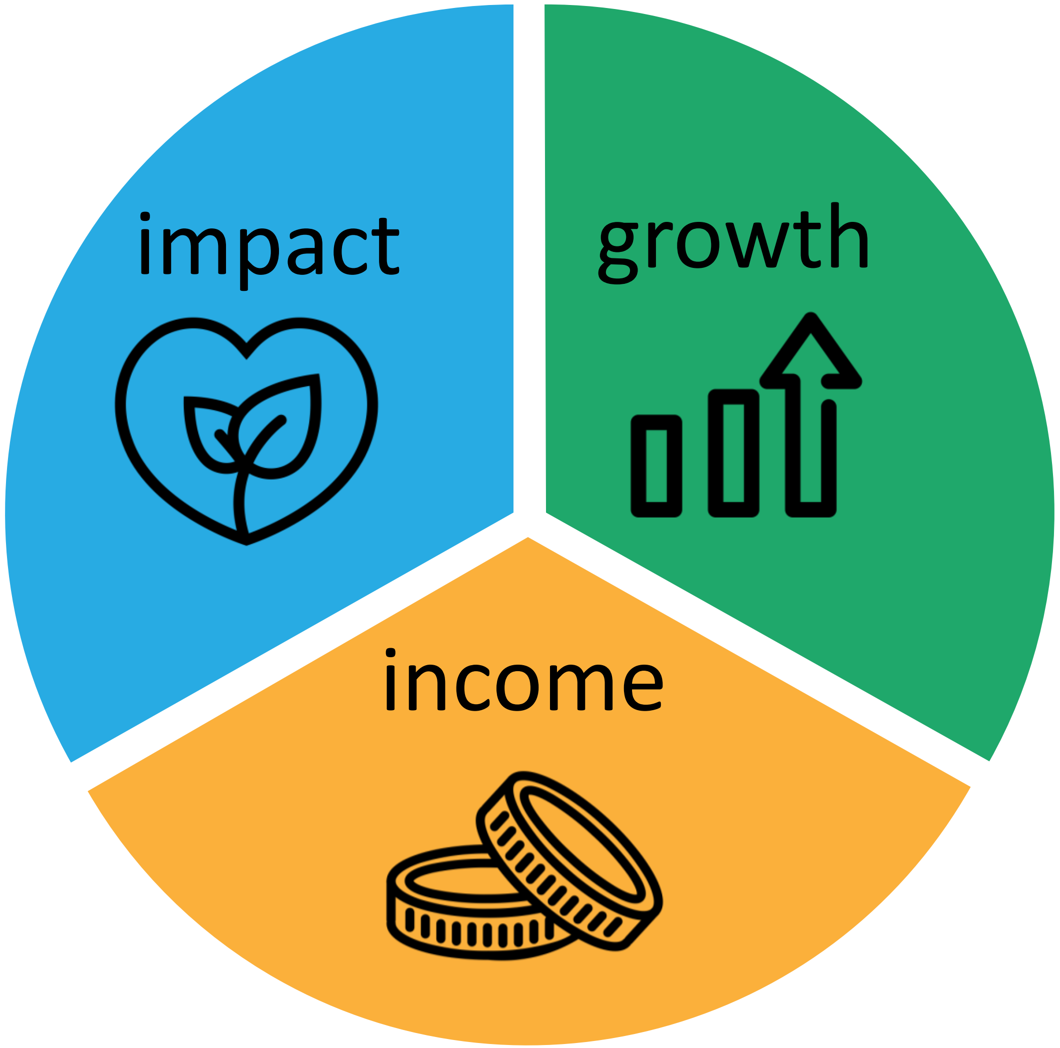
MySuper

$2.3 trillion

x 5% = $29.75 billion

Source: ASFA, 2017

Health Specific Managed Investment Scheme



Investors pursue financial returns while also intentionally addressing social challenges with specific objectives, in this instance, health and aged care services

impact

tax offsets for health-related expenses.

health insurance premiums, aged care services and residential care.

income

Investments in growth assets within the health sector. Given the increasing attractiveness of the sector due to an ageing population, capital growth can be realised

growth

Health Annuity

Why health?

Benefits include:

- ✓ Brand equity
- ✓ Business opportunity
- ✓ Community benefit
- ✓ Reduced Government burden
- ✓ Perception shift
- ✓ New marketplace
- ✓ Meets super objectives
- ✓ Consumer demand
- ✓ Decreased burden on public health services

a holistic approach

SUPER + HEALTH = FUTURE