What Australia would be like without super

Theo Marinis discusses the importance of super by looking at how society might look without it.

Superannuation exists for two reasons, in my view – to provide dignity in old age and to reduce pressure on the federal budget. Which of these is more important is a matter of contention (and here I need to disclose that I fall into the dignity camp).

Australia has almost $3 trillion in super, making us the fourth largest holders of pension funds in the world. However, there is increasing noise that our super system is too generous (and therefore, too costly in terms of incentives offered to long-term savers) and should be wound back.

What the anti-super rabble forgets is that in 'pre-retirement savings system Australia', there were very few older people living in financial dignity. Those worn-out cardigans and the back yard 'mini-farm' memories of your grandparents did not mean they were the first hipsters!

According to Q Super (based on ABS figures), the average superannuation balance for people aged 15 and over in 2015/16 was $158,700 for men and $105,400 for women. In just two years, this has increased to $168,500 for men and $121,300 for women. If this trend continues, there may be even more older people living in financial dignity in years to come.

More importantly, we should consider what these funds can mean in retirement. The research from Q Super and the ABS also showed that for people over 75, the average superannuation balances are $376,200 for men and $270,300 for women. When we debate the generosity of our super system, one argument to consider is what benefit this (approximately) $650,000 in retirement savings delivers to an 'over 75' home-owning couple (and remember, these statistics translate into real people – our Granny, Nonna, Papou or Opa). These savings can, in fact, deliver dignity and some agency in how they live their lives.

Despite the "lies, damn lies and statistics" sprouted by the anti-super brigade, superannuation also already delivers very significant age pension savings to the government. As average superannuation balances increase, we can only expect these savings to the government to increase.

Based on the combined super balance of the 75-year-old couple mentioned above (and say $50,000 in other assets excluding their home) under Centrelink's asset test, their combined Age Pension reduction, and therefore, the savings to the social security system, would be approximately $23,830 per annum.

Yet by drawing the prescribed annual minimum of 6 per cent from an Account Based Pension (although they are not limited to this minimum amount) they will be self-funding annually, $39,000 of their retirement income. Add to this figure around $12,752 per annum in combined Age Pensions, and the system has delivered them $51,752 per annum in retirement income. Hardly a gravy train, yet still a retirement with dignity.

If their super savings are drawn down to around $340,000 (in reality most people are conservative, and do not usually draw more than the minimum income to preserve their capital for as long as possible) under the present rules, the couple in this example would then be entitled to a full combined Age Pension of around $36,600 per annum.

This combination of super and full age pension will give that couple an annual base net income of around $57,000 tax free (the equivalent of a gross annual wage of $72,500) which is a fantastic backstop for those who have paid tax throughout their lives, fought for our freedom and built our infrastructure.

Bear in mind too, every day, the Australian super pool is increasing (being tipped to hit $10 trillion over the next twenty years) and the opportunity for a massive change is upon us. Within two decades, more than 90 per cent of the working population will have contributed to super for their entire working lives. In another decade after that, contributions will have paid been at the rate 12 per cent of annual wages – contrast that with those of us my age who, in 1988, started contributing at just 3.0 per cent of their annual salary!

Driving this inexorable growth in long-term savings, there are at present a range of incentives to help Australians achieve their maximum allowable $1.6 million individual Transfer Balance Cap (TBC).

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Yet despite the incentives, the achievement of this target is virtually impossible for the average wage earner. The false argument against super is that we, as a nation, are too generous in foregoing tax in exchange for long term savings – when in reality, it is only the wealthy who are really able to take the maximum advantage. The 75-year-old couple we considered earlier, with just over $600,000 in long term savings is not rich, and they are largely self-funding at this stage.

When I left Centrelink in 1997, around 94 per cent of the Australian population over 65 were receiving the Age Pension. The remaining 6 per cent of self-funded retirees were generally former politicians, bank and insurance executives, or public servants. Today, only 66 per cent of older Australians receive the age pension[3] and many of them are only part pensioners, as per the example above.

Imagine the liability that would exist now if super did not exist.

By not having to pay full Age Pensions for our retirees, our current super system has the potential to deliver billions of dollars in savings to the Federal Budget. In addition, it has created a pool of cashed up citizens who are capable and to some extent, prepared to 'SKI' (Spend the Kids Inheritances) by travelling, eating out, being entertained and buying better aged care experiences. Rather than this portion of the population being an economic burden on society, they are currently (and will continue to be) a major stimulator of growth.

In addition to the economic benefits, this group has revolutionised the cost of long-term savings (and therefore the entire financial services industry) by driving costs down every year.

The super revolution has also created massive employment in the financial services industry, with significant technological (and policy) innovation – primarily because in the 1980s Paul Keating and Bill Kelty imagined a future where workers could retire with the same benefits as public servants. A growing pool of super savings now drives Australian funds to invest more in overseas assets, with the resultant benefits of diversification and economic strength.

For the future, as approximately five million Baby Boomers eventually expire, the knock-on to the next generation will also see an unprecedented tsunami of wealth transferred to Gen X, Gen Y and some Millennials. In addition, there will be potential for a budget 'boon' as the optional and misleadingly named 'Death Benefits Tax' is collected (note that this tax liability is optional because it can be eliminated with careful planning via 'cash out and re-contribution' strategies).

We are living longer – and better. Who wants to be old, sick, and poor?

The policy aim should be for each individual to achieve their maximum (indexed) $1.6 million TBC, which will eventually mean that very few Australians will require, or in fact, be eligible for government support in old age.

In today's dollars, this $1.6 million per person, at a conservative 5.0 per cent per annum return (the actual 30-year rate of return on a balanced portfolio has been around 7.8 per cent per annum) will provide couples with annual tax-free spending power of $160,000, a very dignified retirement and the increased spending power to stimulate substantial employment growth.

Australia without superannuation would be a very different and much poorer nation, characterised by federal budget blow-outs and struggling retirees.

Perhaps we all need to go back and re-watch Frank Cappra's "It's a Wonderful Life!" (even if you only just viewed it at Christmas time) to realise, like George Bailey in that classic movie… how fortunate we are.

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