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The argument for dismantling compulsory super is simplistic and foolish

By Theo Marinis

The latest wisdom to emerge from the Banking Royal Commission is to mount a case against compulsory superannuation. This is about as clever as attacking motherhood.

As a nation, our retirement savings pool is around $2.7 trillion and growing daily. Based on ABS data released late in 2015 relating to the 2013/14 financial year, super savings at retirement for the average male and female were approximately $321,000 and $180,000 respectively (with the gender gap attributed to lower pay rates and shorter careers).

Compulsory super in Australia is young; introduced by the Keating Government in 1992 with an initial contribution rate of 3.0% of employment income, 26 years later the contribution rate is just 9.5%. Back in the days of private defined benefit funds, employers would stash away 15% to 20% of an employee's income in order to fund around 60% to 75% of their final wage for life. Clearly, we still have a long way to go to reach that point.

Prior to Paul Keating's initiative, superannuation (or, in fact, dignity in retirement) was the preserve of an elite segment of the population comprising mainly former public servants, members of the military, school teachers, bankers, academics and insurance workers. If you worked at the brewery, you might get a free case of lager on your way out the door on your last day, but that was all.

So, what is the benefit today of having a robust $2.7 trillion industry?

Apart from the obvious security it provides to the wage earner, the role of super in removing cost from the public purse is significant.

As a young Centrelink FIS Officer in the 1990s, I recall that approximately 94% of retirees drew an age pension and for most it was the FULL age pension. Today, that figure is 80%. Whilst this is a relatively small decrease in the number of **retirees reliant on the age pension**, this outcome just points to the fact that we have not yet had a generation of workers who have been able to put away a decent percentage of their **lifetime** salary into super, and still nowhere near 15%+ per annum.

There is no basis therefore, in the argument that the cost of super is not providing adequate savings to pension outlays.

Even though the super system is still far from maturity, with around 80% of retirees still receiving part age pension support, a retiree couple with a combined average super balance of approximately $500,000 is already saving the government up to $21,000 p.a. in age pension outlays.

Over time, the public purse will see even more significant increases in pension outlay savings as the full effect of the current (but still too low) 9.5% SG contribution rate plus compound interest is able to be measured from day one of our millennials joining the workforce.

From the standpoint of an economist, the other aspect is that there are more benefits to be gained by allowing retirees to maintain their spending power, given that their total retirement income (part age pension and part self-funded retirement) is greater than the age pension.

Cashed up retirees can still afford to pay their health insurance, buy cars, go to restaurants, enjoy holidays and even the odd bottle of wine … instead of rusting away on the couch or growing vegetables to save money (rather than for the fun and exercise).

No one talks about the savings to health outlays as more people can afford to keep paying for private health insurance.

Apart from adding up to a better quality of life, increased consumption means a significant multiplier effect on the economy, not the least of which includes increased tax revenues and reduced pressure on the public system, as more people can afford to keep paying for private health insurance.

Despite the pressure of our ageing population on public health spending, no one talks about the health outlays afforded by a robust super system – or the cost ramifications if 94% of retirees were still on FULL age pensions (as was the case 26 years ago) and could not possibly afford private health insurance.

I am drawn to the agency that good retirement savings gives older Australians. They can decide how to see out their days – and where.

Then of course, there is the superannuation industry. We have heard horror stories from the commission about fee gouging, exploitation and selfish acts from professionals who do know better, and such behaviour deserves to be criminalised.

Such stories, however, do not do justice to the full superannuation story. There are far more industry participants who support the integrity of the superannuation system, not the least of which means charging fair fees for the work entailed in creating that system. Australia's superannuation system has been reported as being the third best by world standards – and whilst we should be aiming for the best, being third is a pretty good starting base for further improvement.

The reality is that people will not voluntarily save for their own retirement.

Now we are hearing from the purveyors of simplistic arguments that Australia should deconstruct its compulsory super system and return to the bad old days. The reality is that people will not save for their own retirement unless it is mandatory. We have conducted the experiment over the last 200 years of experience in this country, and the data is in.

A further aspect of the folly of this argument lies in the fact that those calling for dismantling of the compulsory super system are only calling for the dismantling of its compulsory nature. They want people to choose to invest in super on the premise that forcing someone to save for retirement (when they would be better off saving for a home) is not the 'right thing to do'.

Ironically, those advocating for abolition of compulsory super from their (high paying) ivory towers will continue to benefit from super. If the super system is indeed broken, that it should remain for a pampered few has no argument based in logic.

Yes, superannuation was always a big picture reform – but the benefits for Australia as a nation are enormous. We do, and will have the capital to invest in nation building projects, we will be a significant source of capital for other countries, and we will benefit from the dividends interest they will pay. The national budget will get an economic holiday that Keating could only have dreamed of.

Yes, we need to change the culture of the superannuation industry from profit motive to service motive. We need to pare back costs, and we need to speed up our compulsory super contributions until they reach 15% or greater. It would be foolish, however, to dismantle our system just when it is actually giving older Australians the dignity in retirement that our grandparents could only have dreamed of.

Once we have a full generation of Australians who have saved 15% of their income for their entire working lives, as a nation we have the potential to be economically bullet proof. I anticipate that we will achieve that position at about the point when my grandchildren are retiring.

And whilst I began this article with a motherhood analogy, let's not forget how superannuation (despite a past track record of being more generous to males) is also working to give females in retirement financial independence from their partners. There is a long way to go in that regard too, but super is (and will increasingly) work to create financial equality for older Australians.

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For further information, please contact:

MARINIS
FINANCIAL GROUP

Theo Marinis B.A., B.Ec., CPA., CFP®
Financial Strategies (SA) Pty Ltd
Trading as Marinis Financial Group
T 08 8130 5130
F 08 8331 9161
E admin@marinisgroup.com.au
W marinisgroup.com.au
A 67 Kensington Road
NORWOOD SA 5067