Retirement and Superannuation Policy in Australia

Dr Vince FitzGerald
Co-Chairman
The Allen Consulting Group Pty Ltd

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1. Introduction

My assigned topic for this conference is Retirement and Superannuation Policy in Australia. I was particularly pleased to see the first word in that topic, "retirement", as a policy issue in its own right. There has been much discussion and debate in Australia over the past 15 to 20 years about our system of retirement *income* provision, particularly about the core role of *superannuation* in that context — but also about the role of the age pension, which remains an important mainstay of the system.

There has been some discussion about a key issue associated with retirement which also has major financial ramifications, namely the funding of *health care costs* — which are well known to be concentrated at older ages — particularly in the context of the ageing of the population.

However, there has been relatively little discussion about *retirement itself* — what is going on in retirement behaviour, and what explains it; what issues are posed for individuals themselves, for the economy, for government finances, and so on. There should be more discussion of these issues, because there are some quite significant trends at work which have important individual and economic implications, and specifically, implications for the financing of retirement income and costs — notably health costs, which are concentrated in the retirement years.

2. Retirement

Australians are living longer, males retiring earlier

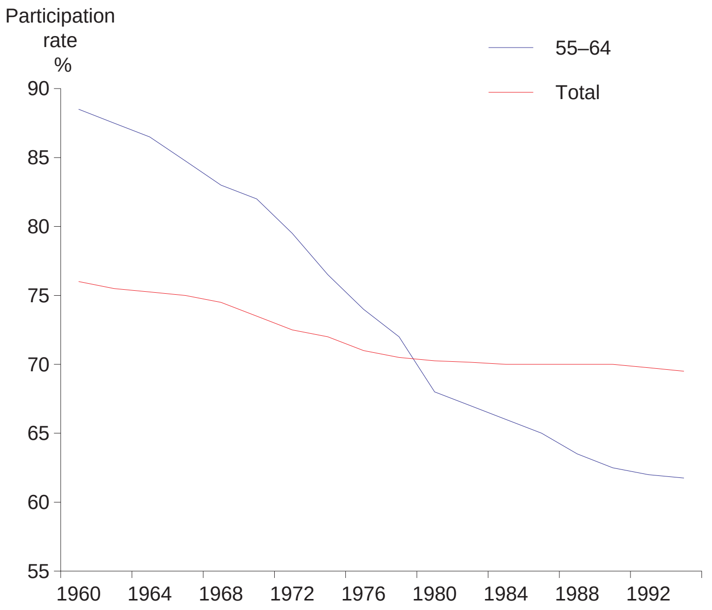
Australians, especially males, are living longer and retiring earlier. This combination of trends is not new; it has been at work for some decades. Average years of retirement doubled, to over 20 years, across the twentieth century. Australia is not alone in exhibiting such trends; they exist in all OECD countries, particularly strongly in Europe and weakest in Japan.

The trend to earlier retirement in Australia emerged in the post World War II period, and particularly in the past three to four decades. (The trend to living longer goes back much further.) As Figure 1 shows, the early retirement phenomenon is very much a *male* phenomenon. Average participation in work by males of all ages has declined slowly as a result, by contrast with a strongly rising trend in participation in the workforce by women (on average). When the comparison is made between the genders for the 55–64 age group only, however, a dramatic difference is revealed: male participation in that age range has plummeted since the 1960s; female participation has varied, but around a *rising* trend.

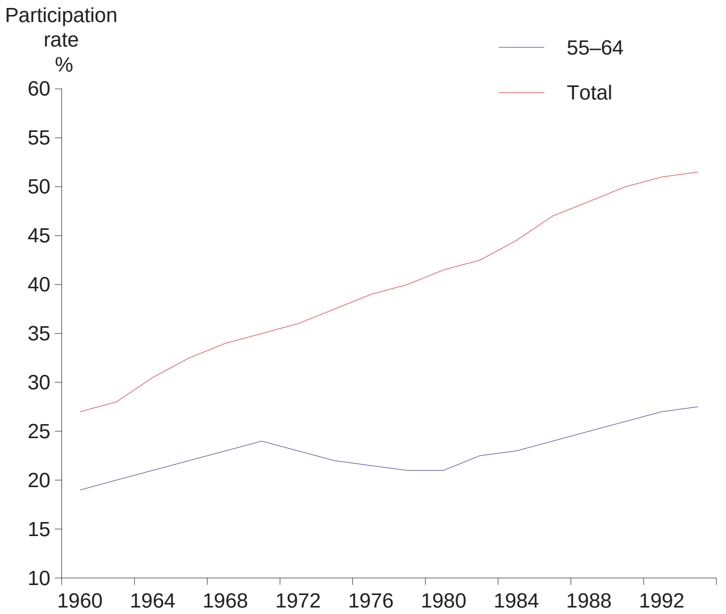
Figure 1

LABOUR FORCE PARTICIPATION RATES BY AGE AND GENDER

MALES



FEMALES



Source: D. Carey, *Coping with Population Ageing in Australia*, Economics Department Working Papers No. 217, OECD, 1999.

The trend to earlier retirement has been made financially feasible over the past few decades by a combination of increased private provision for retirement income — through superannuation particularly, but also some other saving — and importantly also in the last two decades by more liberal social security treatment of the older unemployed.

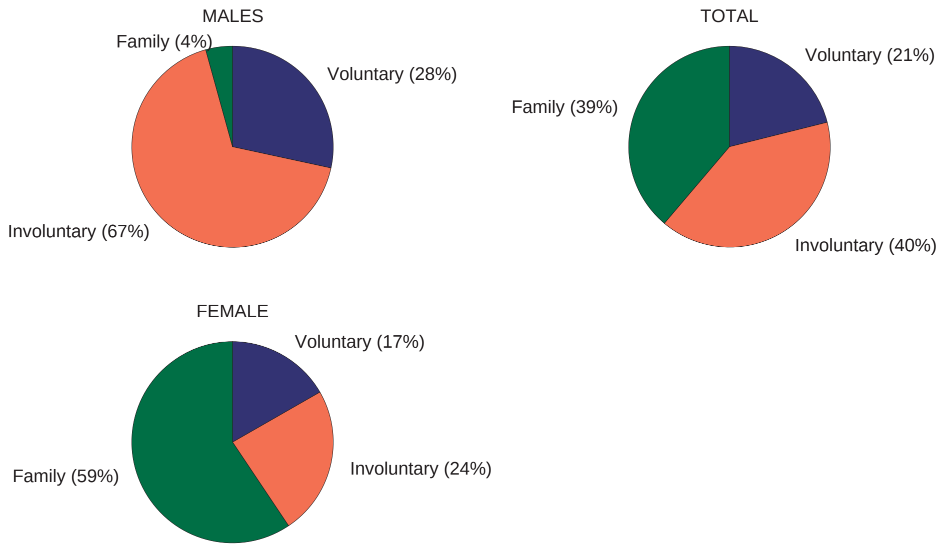
Are these trends positive or negative?

Obviously there is a positive side to earlier retirement — in that if people can freely choose their mix of work and leisure, there comes a stage in most people's lives when they prefer to enjoy significantly more leisure in the mix than they did earlier. However the available retirement choices tend to be all or nothing for most people. Many whose lives have revolved to a considerable extent around their workplaces and associated networks of colleagues and contacts would prefer to have more leisure while retaining some involvement in that context so important to them. In other words, many people would benefit in their personal lives from more flexible retirement options, but little has been done to explore how the range of choices available in this regard might be opened up. A positive development is that, on anecdotal evidence, there are signs of this happening in some limited areas (e.g. in areas of the professions).

When one digs into the figures, one finds that there are distinctly negative aspects of early retirement trends, however. On the Australian Bureau of Statistics (ABS) survey of retirement and retirement intentions conducted in late 1997, more than two–thirds of males who retired early (earlier, that is, than the traditional 'standard' age of retirement i.e. 65 years) did so involuntarily. See Figure 2.

Figure 2

REASONS FOR EARLY RETIREMENT—1997



Source: ABS, *Retirement and Retirement Intentions*, Catalogue No. 6238.0, November 1997.

It would seem from those data that whether people retire voluntarily or involuntarily, many of them are 'pushed' to withdraw from the workforce before they would ideally prefer. They may receive a redundancy payment, and in choosing them rather than younger workers to retrench, an employer would also typically be conscious that they do have both superannuation and possibly social security benefits (now more readily available for the older unemployed) to fall back on.

Explanations and economic consequences

An obvious consequence for the economy as a whole is that much productive and willing labour is not being used. Secondary consequences include lower aggregate saving, greater dependence on the social security system, higher taxes etc. There would also seem to be costs for individual employers: loss of skills and experience, particularly to the extent that these are firm–specific, loss of 'corporate memory' etc. Yet employers appear to be doing the pushing. What explains their negative attitudes? According to an OECD study by Casey,[1] typical employer attitudes include beliefs that:

- older workers are relatively costly (especially where there is a seniority element in pay scales) and productive that younger workers — including taking more time off; and

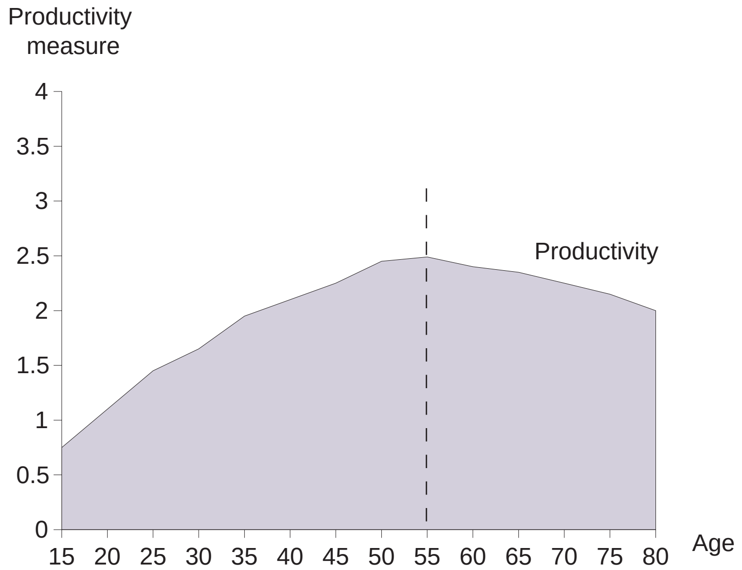
[1] B. Casey, "Incentives and Disincentives to Early and Late Retirement", OECD Working Paper No. AWP 3.3, 1998.

- compared to younger workers, older workers have less up–to–date skills, may be less adaptable and less willing to learn new skills — or it may not be worthwhile to invest in their skills in late career.

Those beliefs are questionable. E.g. while older males tend to have above average absences for sickness, so do some younger groups — and young people have higher rates of casual absence.[2] Perhaps the central issue here is whether older workers are indeed less productive than younger ones. On this, the indirect evidence from what people are paid in the labour market is that productivity peaks around age 55, then declines only very slowly — see Figure 3.

Figure 3

RELATIVE PRODUCTIVITY BY AGE IMPLIED BY INCOMES OF THE EMPLOYED



Source: B. Bacon, Ageing in Australia: Some Modelling Results and Research Issues, Retirement and Income Modelling Unit, 1995.

Of course it might be argued that evidence based on pay rates is affected by traditional seniority effects in pay scales etc, even though these have waned somewhat. But there is also *direct* evidence from micro studies of worker productivity that supports the indirect evidence. A survey by Warr[3] of more than 100 research investigations into the matter found no significant difference between the job performances of older and younger workers — variations within each age group were much larger than between them.

It does seem to be true on the basis of such studies that older workers may be productive in different ways. E.g. younger people may be stronger and quicker and easier to train in new ways of doing things. But older people tend to be better at activities requiring 'crystallised' cognitive abilities — e.g. verbal skills or judgment based on broad knowledge and experience — and in 'people skills'. In short, perhaps it is employers rather than older workers who are not sufficiently adaptable — especially in the ways they use people with different types of skills and experience.

Importantly also, employers have been slow to adapt to the demand for permanent part–time work, although the rising participation of women in the workforce has stimulated the enlargement of such opportunities. Nevertheless, relatively few older people — notably in some professional areas — have realistic options for phasing into retirement.

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[2] OECD, "Absence from work reported in labour force surveys," *Employment Outlook*, 1991.

[3] P. Warr, "Age and job performance", pp 309–322 in J. Snel and R. Cremer (eds), *Work and Aging: A European Perspective*, London: Taylor and Francis, 1994.

Regulatory factors

While attitudes among employers have obviously been a central factor, along with attitudes in the wider community, there are also regulatory factors that have affected retirement patterns.

There are for example a number of regulatory definitions which determine the status of an individual for the purposes of accumulating and receiving retirement benefits, and which have the effect of forcing people into one of the black–and–white categories of non–retired and retired. The *Superannuation Industry Supervision* (SIS) legislation defines a person as "retired" if:

> "in the case of a person who has reached a preservation age that is less than 60—if an arrangement under which the member was gainfully employed has come to an end; the trustee is reasonably satisfied that the person intends never to again become gainfully employed, either on a full–time or part–time basis; or in the case of a person who as attained age 60—an arrangement under which the member was gainfully employed has come to an end or after the member attained that age".

To be “gainfully employed”, a person must work at least 10 hours per week.

It is difficult to understand the logic of such rules, heavily tied to particular ages and, more fundamentally, pushing people towards renouncing *any* active involvement in work. These regulatory definitions are quite inimical to phased retirement.

Financial consequences

One of the links to superannuation policy that is posed by these factors tending to push people into total retirement, and early retirement at that, is that a significant proportion of the funds accumulated in superannuation are only being used to bridge the gap between early retirement and the age of eligibility for the age pension — rather than contributing to a life–long flow of income throughout older age. This is obviously an issue for individual retirees, who may enjoy lower incomes both in earlier and later retirement as a result of retiring prematurely before they have accumulated enough, and have to spread the resources they do have over more retirement years. It is also an issue for future public budgets, which may therefore bear more of the cost of income support, health care and so on for people who are inadequately provided for out of their own resources. I will return to those issues in Sections 3 and 4 below.

What can we do about it?

There a number of actions, on the part of governments, employers and individuals themselves, which, if undertaken, could markedly increase the opportunities and incentives for delayed or phased retirement.

Governments could consider the following:

(i) a thorough review of rules and restrictions relating to age or classifying people as either 'retired' or 'non retired', to reduce the barriers for people wishing to phase down from work to retirement;

(ii) reform of the age pension system, both to accommodate partial retirement without the imposition of excessively high marginal tax rates, and to improve existing incentives (the Pension Bonus Scheme) to defer accessing the pension;

(iii) taxation of superannuation primarily at the benefit stage — thereby favouring income streams over lump sums and reducing the bias towards early retirement and early access to, and use of, the full benefit; and

(iv) review of the overall 'mesh' between superannuation and age pension rules generally, with the same objective of encouraging people to use their superannuation benefit over the whole of the retirement period.

Employers and employer associations and unions could consider:

(v) active rejection of negative stereotypes which are based on generally false assumptions about the productivity, employment costs and adaptability/'trainability', of older workers;

(vi) implementation of changes to workplace organisation and practice which encourage job sharing and the creation of more flexible employment opportunities for older people, e.g. with changed roles for them compatible with 'passing the baton' to younger people; and

(vii) promulgation of positive models.

3. Adequacy of Provision for Retirement Income

A gap between expectations/aspirations and actual provision

Compounded by the trend to early retirement, the *actual* income that people have available to them once they leave full time work tends to differ markedly from what income sources people *expect,* before retirement, to be able to draw on after they retire.

Of those Australians who intend to retire within the next 10 years, the most common expected main source of income is an income stream funded by a superannuation lump sum (44 per cent in the ABS survey). Only 18 per cent expect before retirement to be reliant on the age pension after retirement. See Table 1.

Table 1

MAIN SOURCE OF INCOME AT RETIREMENT AS EXPECTED BY PRE–RETIREES

Income source	%
Pension/annuity purchased with superannuation payment	43.9
Age or service pensions	18.0
Business, property, investments	11.2
Other/don't know	11.2
Part–time work	5.6
Savings, sale of assets	3.2
Pension/annuity purchased with money other than superannuation payment	1.7
Disability support or sickness allowance	1.7
Unemployment benefits	1.4
Someone else's income	1.4
Accumulated leave/compensation	0.5
Special benefit e.g. carer's	0.1

Source ABS, *Retirement and Retirement Intentions,* Catalogue No. 6238.0, November 1997.

The widespread expectation that Australians evidently now hold, that their superannuation will provide them with the income they need in retirement, contrasts with the reality that only around *one–quarter* of actual retirements are funded by superannuation, and that a full *two–thirds* of Australian retirees are in receipt of a full rate age pension (based on the same survey).

Clearly there is a wide gap between people's expectations of the adequacy of their financial provision, for the kind of lifestyle in retirement that nowadays they aspire to, and the reality that that level of income may not be available to them — and that they may have to rely much more on the age pension than they thought.

How much income in retirement do Australians need?

Based on modelling presented in a statement published by a group of experts in 2001,[4] for an Australian male on around average weekly earnings — i.e. approximately $40,000 per annum — the Superannuation Guarantee (SG) 9 per cent contribution over 30 years will lead to a retirement income of approximately $19,000 per annum. This calculation is based on reasonable assumptions about investment returns and other factors, and the income would derive from a *combination* of the person's superannuation and a part age pension. (I will return later to the role of the age pension.) The 30 year accumulation period is much more realistic today than what might have been assumed in the past — e.g. a 40 year career leading to retirement at age 65.

Having developed a lifestyle around an income of $40,000 per annum and dropping to less than half that in retirement would come as a shock to most people, even though their expenses are typically somewhat lower once people have retired. If $40,000 is more than enough and $19,000 is too little, what is the right ballpark?

How much in enough? What people themselves think

A recent survey reported by the Association of Super Funds of Australia (ASFA)[5] asked people to estimate their own income requirements to live comfortably in retirement. In responding to the survey:

- Fewer than 5 per cent thought they could live comfortably on less than $20,000 per annum. 90 per cent said they would need $20,000 or more. In fact, 70 per cent estimated that they would need a minimum of $30,000 per annum — of which half nominated $40,000 (i.e. around average earnings) or more. 30 per cent estimated they would need at least $50,000 per year.

Based on such surveys, people's self assessed income needs in retirement appear to cluster around their pre–retirement incomes — as would be expected.

OECD 'norms'

In other OECD countries with which we like to compare ourselves, systems of retirement income provision typically achieve disposable incomes in retirement corresponding to 70 to 80 per cent of the incomes of comparable groups of people in late working life.

Nine countries' systems were examined in a recent major study of financial resources and retirement from which that finding is drawn.[6] The nine countries were the US, UK and Canada, Japan and several European countries. One remarkable finding of that OECD study is that across all of the nine countries, outcomes are very similar even though the systems differ greatly. Allowing for the fact that retired people tend to have somewhat lower expenses (e.g. work related expenses) after retirement, and home ownership tends to be higher at that stage, receiving in retirement 70–80 per cent of pre–retirement gross income means that most people in those countries experience little or no fall in their standard of living after moving out of full time work into retirement. Clearly then, most people in those countries have the means to pursue an active lifestyle in retirement, as is increasingly the dream of people in all advanced countries.

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[4] The 'Retirement Futures Forum', D. Chessell, V. FitzGerald, B. Fraser, S. Grant, D. Knox, M. Robertson, S. Ryan, I. Silk, P. Smith and G. Weaven, Statement released 19 March 2001 (through Industry Fund Services). The modelling cited here was mainly undertaken by David Knox.

[5] Source: Research for ASFA by ANOP Research Services, cited in an address by Philippa Smith to FPA Conference, November 2001.

[6] *Ageing and Income: Financial Resources and Retirement in Nine OECD Countries*, OECD 2001.

In Australia too, home ownership is a key pillar — e.g. reducing age pensioner (and superannuant) income needs. For home owners, the age pension is better than a bare ‘safety net’. However while the home is a favoured form of wealth accumulation, the wealth in it tends to remain ‘locked up’ far into late retirement. I will return to this point later.

Australia c.f. the OECD ‘norm’

Given that most Australians, while they typically own a home when they retire, have modest non–superannuation savings at that stage, clearly we do have a significant gap vis-à-vis either the OECD ‘norm’ or people’s own expectations/aspirations. Why? And what should we do about it?

In my opinion Australian governments, and other proponents of the prevailing superannuation system in Australia, based on the SG legislation, have been responsible at least in part for creating expectations of what our system will deliver that considerably exceed what it is in fact able to deliver in its current shape.

In some important respects, however, our system is a good one. Some of the countries in the OECD study have largely unfunded pension systems which will impose heavy and growing burdens on future taxpayers, implying that delivery of the present levels of benefits may not be sustainable over coming decades.

For example, according to a recent survey of pension systems published by *The Economist*,[7] Japan’s debt to GDP ratio is projected to rise from an already high 140 per cent of annual GDP to almost 500 per cent by 2050 — an important factor in that being the growth in liabilities under Japan’s current retirement income provision system. Some other OECD countries are beginning to take steps to trim their systems to improve sustainability. For example in Germany real returns on pay–as–you–go (PAYG) pensions are set to fall drastically from about 3 per cent per annum for those retiring in the 1990s to about minus one per cent per annum for those who will retire in 2040. In America there is a broadly similar outlook — if contribution rates to the US Social Security system stay the same, real returns will eventually drop to 1 per cent per annum.

In other words, ‘emerging cost’ or PAYG pension systems look like becoming increasingly overloaded over the years ahead as the ratios of older people to younger people rise in all OECD countries.

Australia is one of a number of countries which are fortunate to have adopted a largely funded system of retirement income provision — although of course the aged pension is not pre–funded, but its cost is left for future tax payers to meet on a PAYG basis. Even so, however, Australia’s superannuation assets as a percentage of GDP are considerably less than pension assets in Switzerland, the Netherlands, Britain, the United States or Canada. Pension assets in Switzerland are almost 140 per cent of annual GDP, about 115 per cent in the Netherlands and around 90 per cent in the UK. In Australia the figure is around 70 per cent. In other words, we have a system in Australia whose broad design is superior to those of the European countries which have largely unfunded systems. Our retirement income provision system may be complex, but it is of the right type. The issue is simply that we are not providing enough through it. Before quantifying that, let me divert briefly to the important role of the age pension in the system.

[7] *The Economist*, 16 February 2002.

4. The Role of the Age Pension

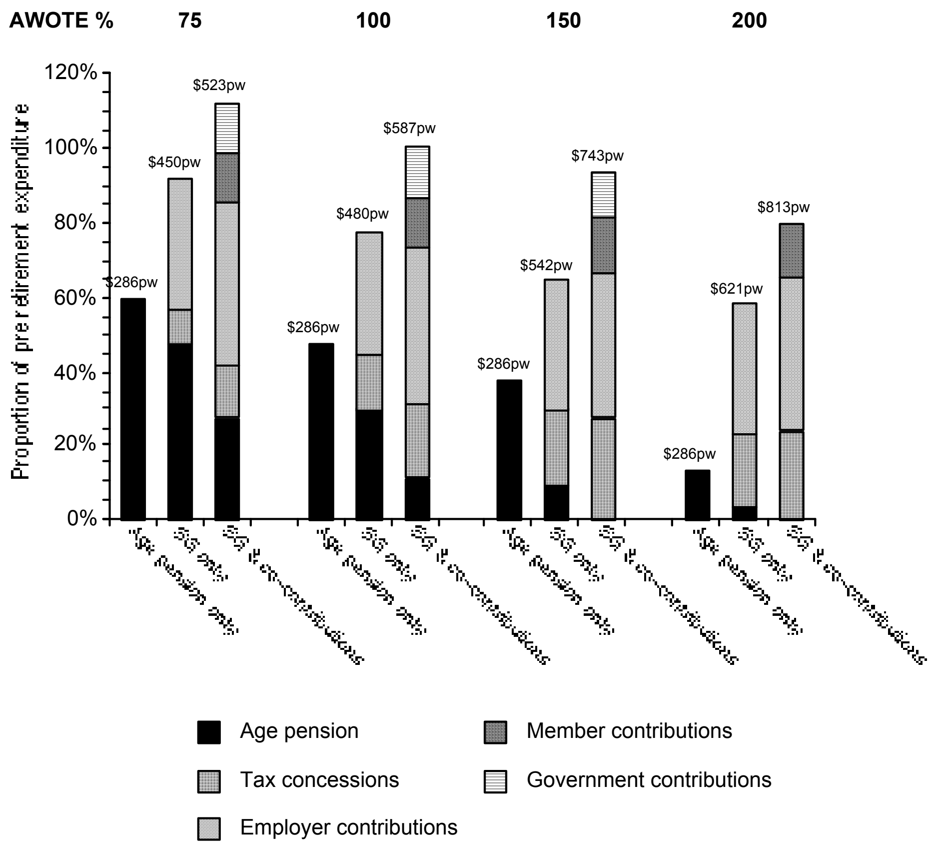
Supplement and stabiliser

The age pension acts as both a supplement and a 'stabiliser', moderating the uncertainty and risk in retirement income outcomes that would flow from market–linked defined contribution superannuation on its own. Figure 4 below was prepared under the previous Federal Government to show the combined effects on retirement income (or strictly, spending power) outcomes of its proposal for adding member contributions and government contributions to the legislated 9 per cent employer contributions.

However the figure also clearly shows how the presence of the means–tested age pension greatly moderates the effect on the *total* income of retirees of substantial differences in levels of superannuation benefits received — whether arising from different levels of contributions or from the vagaries of investment markets.

Figure 4

PROJECTED OUTCOMES FROM 1995 BUDGET PROPOSALS
(SINGLE MALE, IN SCHEME 40 YEARS FROM AGE 25 AFTER 2002)



Source: *Saving for Our Future*, Statement by the Treasurer, May 1995.

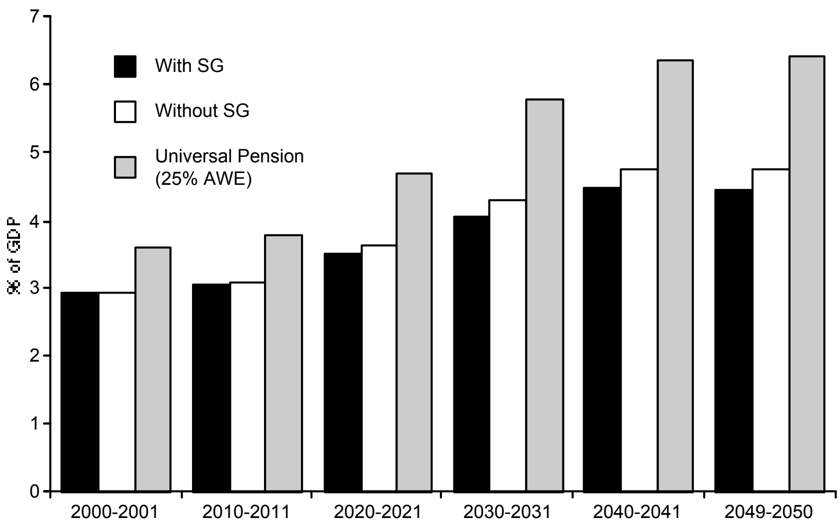
What this highlights is that one of the strengths of our retirement income provision system is that it has more than one pillar — and they do work together!

Can we afford the pension?

Can we afford the age pension pillar? Or is Australia too heading for a financial sustainability crisis? The answer to this also demonstrates how important is reinforcement among the pillars. Figure 5 below shows that without super, and giving the pension to everyone, the future costs of the system to the next generation of taxpayers would be very high. The development of a large component of funded superannuation, however (voluntary as well as compulsory), has reduced the future rise in the cost of the age pension to manageable proportions — although still significantly above present age pension costs.

Figure 5

PROJECTED COST OF THE PENSION (% OF GDP)



Note: Age plus Veteran Pensions
Source: Retirement Income Modelling Unit.

At first sight, Figure 5 seems disappointing — future budget costs are not being reduced much by the Superannuation Guarantee. However annual costs of the pension in 2040 without *any* superannuation would be roughly 3.5 per cent of GDP or about $25 billion per annum (in today's terms) higher than now, a burden which might test the limits of what future young taxpayers (and voters) would willingly bear. 'Old' (pre–SG) superannuation schemes are actually the main contributor to bringing that projected extra cost down — without the SG, they would have reduced the extra cost to about $12-13 billion more than now. The SG will bring the extra cost of the age pension (relative to now) down by only another $3 billion p.a., to about $9–10 billion more than now. That last figure, about 1.25 to 1.5 per cent or so of GDP,[8] is still significant, although it is hard to argue that it could not be managed within future Budgets and defended politically (i.e. funded in competition with the needs of younger people).

In short, the unfunded side of our retirement income provision system does not now pose a major sustainability issue.

Yes, but watch out for health costs!

Various analyses have been conducted of the effect of ageing on health care costs, including the part paid for by taxpayers. A recent study in depth by the Commonwealth Department of Health and Aged Care (DHAC) concluded that:

[8] See G. Rothman, "Projections of Key Aggregates for Australia's Aged", Retirement Income Modelling Unit Conference Paper 98/2, The Treasury, Canberra, 1998.

> "Given the size of the Australian population as it is today, if its demographic composition were the same as it is projected to be in 2051 then, very nearly, an extra $17.07 billion in today's dollars would be needed to maintain the same level and quality of the three health services as they exist today. This view of the costs due to ageing is isolated, deliberately so, from the tricky issues that have been side–stepped by the assumptions underlying the analysis presented in this paper, particularly those issues related to possible increases in costs due to a larger number, greater variety and complexity of future procedures."[9]

The above estimate of an increase of $17 billion is over 3 per cent of GDP — more than twice as big an issue as the prospective rise in the public costs of providing retirement income per se. (May I note that some colleagues and I have been conducting a major modelling study of future health costs which is to be published in coming months. Preliminary results are very broadly consistent with DHAC's, but suggest that the Department's estimate is conservative.)

The projected increase in health care costs associated with ageing is a key matter to consider in assessing what we should do about the adequacy of retirement income provision in Australia. It certainly suggests that we should not be thinking about closing the retirement income adequacy gap by substantially increasing the age pension. Indeed the implication is that future retirees may have to be asked to provide for more of their health care costs, increasing the need for increased superannuation provision.

5. Reforming Superannuation

Adequacy not the only issue

Addressing the adequacy gap is not simply a matter of mandating higher superannuation contributions. Perhaps if more people understood the facts, and the system were not so complex, people would voluntarily save more money for their retirement through superannuation or other means. Having ensured a good safety net, government could take a 'consenting adults' approach.

Voluntary saving, whether through superannuation or other means, is the fourth — and weakest pillar. Only upper income earners tend to have substantial non–superannuation financial savings. Capital gains tax relief has increased the attractiveness of equity holdings, both outside superannuation and within, but has probably favoured increased non–superannuation financial saving by the well off. But government does not need to be particularly concerned about the adequacy of retirement provision by the well off. The government's focus on this adequacy issue needs to be on low to middle income earners, for when voluntary saving contributes relatively little to retirement provision. To increase their provision, increased mandatory contributions seem more likely to be effective.

The purist public policy case for mandatory superannuation contributions is based on intergenerational equity. People now in the workforce and able to make provision themselves (except possibly those on low–incomes) should not expect the next generation to pay high taxes to take their incomes in retirement up to well above 'safety net' levels — when they could have provided more for themselves.

Although they do not make an overwhelming case, the projections of higher future taxpayer costs for the age pension alone suggest that there are some intergenerational equity grounds for either mandating an increase above the present 9 per cent or funding a government co–contribution out of taxes paid by today's generation. I think that there is also a sort of paternalistic case for government taking a hand in the matter, a case which appears to have wide support. (The case would not extend to high income people, but to the broad low to middle income group in the community.)

It appears from surveys ASFA has conducted that many Australians like the fact that 9 per cent employer super contributions are compulsory — on the basis that if it were not required to, they almost certainly would save too little and too late.

[9] Commonwealth Department of Health and Aged Care, "The Ageing Australian Population and Future Health costs: 1996–2051", Canberra, mimeo, 1999.

There is also a case that government has had a major hand in creating the expectations that super at the current levels cannot deliver.

From 9 per cent to what?

Achieving a substantial step up in the level of superannuation provision will require changes in some or all the major parameters of the system that government policy sets — the level of compulsory contributions, the taxation treatment, and the other features of the system that affect its attractiveness and the incentives it presents. Nevertheless, I believe that an increase in compulsory contributions is fundamental. Both to avoid adding to employment on–costs and to highlight individual responsibility, this should be as member, not employer, contributions. I will come to *how much* below.

Apart from introducing compulsory member contributions:

- Government could consider making co–contributions alongside member contributions (as the previous government proposed) — perhaps as a substitute for an income tax cut. One of the present Government's recent election initiatives was a co–contribution of up to $1000 alongside contributions by low income earners. This could be built upon.
- Alternatively, and possibly more effective in encouraging voluntary contributions, the Government could reduce taxation on superannuation, particularly up–front taxation. Australia is unique in the world in taxing each of contributions, earnings and benefits, and of these, up–front taxation — at the point of the decision to contribute (or not) — probably has the greatest effect in deterring people from doing so. Without this tax, a full dollar of pre–tax earnings would go into the fund. In this regard, the Government's election proposal to reduce the superannuation surcharge is welcome, but the best result would be to eliminate it altogether, with its equity objectives addressed by modifying taxation at the benefit stage to make it more progressive.
- Finally, government can *improve incentives* in other ways, especially by making the system less complicated and more 'user friendly'.

Some calculations and conclusions about quantum

A range of calculations were published by the 'Retirement Futures Forum' in 2001 indicating that merely to achieve a retirement income of 60 per cent of pre–retirement salary (still below the OECD 'norm'), a person on an income around the average would need more than 15 per cent contributions over their working life.[10] That work showed, however, that the gap would be narrowed considerably by removal of the up–front tax on contributions — this would substitute for approximately 2 per cent additional contributions, or more for some people.

My view is that we need to be thinking about compulsory member contributions of 3 per cent, their effect augmented by some combination of reduced up–front taxation and government co–contributions which broadly matches that for low to middle income earners.

Other reforms to super

One of the main reasons for limited interest in voluntary contributions to superannuation among low to middle income earners is that the system is extremely complex in its details. (For high income earners, the surcharge outweighs those issues.) Because the complexities have arisen from frequent decisions by politicians to change the rules, there is also an air of political risk. More fundamentally, of course, people do not like to see their money locked away for decades.

[10] Statement 'Retirement Futures Forum'.

The complexity arises from three basic causes:

- Short–termist political views of Australia's public finances have put present needs far ahead of future needs. Treating super as a honey pot has led to the bringing forward of taxes from the benefit stage to the earnings and contributions stages.
- Poor tax design and an obsession with limiting access to 'concessions' have led to limits being imposed on both contributions and benefits.
- Finally, the Australian obsession with 'grandfathering' has kept alive old rules alongside new ones.

Simply to move the point of taxation back to the benefit stage would address all of the above and also help address issues referred to earlier associated with early access to the full benefit as a lump sum. Taxation of all withdrawals under the ordinary income tax rules (except for a moderate lump sum), with no taxes on contributions or earnings would also present powerful incentives.

It is widely perceived that that sort of reform is impossible — or would impose intolerable adjustment burdens on the Budget. The latter perceptions are largely held by those who have not yet made the transition from cash to accrual budgeting concepts. However a number of practical proposals have been worked out which would achieve the desired results of simplifying the tax structure — including effectively disposing of grandfathering — and moving to the ideal 'expenditure tax' (i.e. benefit stage taxation) design.

These proposals[11] basically calculate people's tax liabilities under the old system as of a transition date, with these then paid to the government in instalments over a reasonable period. All new contributions are purely under the new system. A range of complexities such as the surcharge, RBLs etc could then go.

In short, we are not stuck with the present complex design. We can both lift our compulsory superannuation saving and do it through a much more 'user friendly' and effective system that attracts increased voluntary saving as well.

6. Provision for Health Costs

Given that increases in future health costs (relative to now) relate so closely to ageing, and that they seem unreasonably large to leave to the future taxpayer, it seems fairly obvious to me that the same kind of more to pre–funding of future needs that superannuation embodies could contribute to resolving that issue as well.

I have written separately on this,[12] but the basic ideas are simple:

- using the now ubiquitous superannuation system for funds collections, administration and investment, phase in modest contributions to 'health care accounts' within that system;
- subsequently phase in user contributions for health care that would be affordable from those accounts. These contributions would go into health care either via the public system or the private system.

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[11] See for example, S. Doyle, G. Kingston and J. Piggott, "Taxing Super", *Australian Economic Review*, Vol. 32 No. 3 (September 1999), p. 127, and Institute of Actuaries of Australia — Simple Superannuation (Tax Reform) Taskforce, "Discussion Paper on Superannuation Tax Reform and Simplification", mimeo, 1998.

[12] See for example, my paper "Ideas for the Funding of Health Care in the Context of the Ageing of the Population", in R. Galbally and J. Krupinski (eds), *Reform, Redesign or Revolution: Health Agendas for the 21st Century*, Australian International Health Institute (University of Melbourne), 2000.

Such arrangements would contribute materially to intergenerational equity, sustainability of funding for ageing–related public expenditures — and for security in retirement. Retirees would be more confident that one of the greatest sources of financial risks to them was covered, and that the system itself was more secure.

7. Unlocking Housing Wealth?

As noted in passing earlier, housing continues to be Australian households' preferred form of wealth accumulation, but it is wealth that tends to stay 'locked up' until very late in life (when some people may downsize). Indeed in many cases all of it passes to the next generation as bequests.

This is not to underestimate the significant role that housing plays as one of the 'pillars' of retirement provision, even if never 'unlocked'. Home owners enjoy lower expenses and a better standard of living, whether they are pensioners or superannuants.

However, the fact remains that many retirees appear 'wealth rich and income poor'. That is, they appear more constrained in what they can spend than if they could access, in some acceptable way, the wealth in their homes. Mechanisms so far offered in the marketplace — such as reverse mortgages — have not gained much acceptance, seemingly because they do not meet some important requirements that people have. For example, why not offer arrangements allowing people to access part of the value in a family home but still bequeath it intact, albeit with a moderate debt attached? This is, of all the topics I have touched upon, not so much a policy issue but an issue of the ability of the financial sector to develop the right product! Progress on that front would however, make a very useful contribution to policy too.