

Function Summary

Reflections on the Australian Superannuation Income System The facts, the fiction and the future

Key Points made by Dave Knox and Tony Cole included:

1. Australia has a "world-leading" system for retirement income made up of the three tiers: age pension, SGC and voluntary contributions.
2. There are two other unacknowledged tiers: employment during retirement and bequests. The latter may be very important because the oldest generation have lived longer so that their children (who are retirees coming up) are likely to get their parents' wealth in the retirees' retirement.
3. The system has flaws - such as three stages of tax (in, during and out), which muddy the incentives. The three tiers also operate largely independently.
4. Whatever the drawbacks, the present system has seen assets in super grow over 1986 to 2001 from 20% of GDP to 80% of GDP, mostly through high real rates of return in the 1990s and with some help from tier 2, the SGC.
5. The shape of the super industry will become very different once the baby boomers start to retire and make withdrawals. Neither David nor Tony spelt this out but it would seem to be a crucial issue for current fund managers.
6. The SGC of 9% is effectively only 6-7.5% net of taxes and costs, and that is not enough to ensure everyone will retire on an adequate income.
7. For adequate retirement income the current system needs to have people working a continuous 40 years, not live longer than present longevity, and returns must stay as high as in the 1990s. None of these look likely to hold.
8. Other possible issues: does the system need a safety net, perhaps against fraud? If so, what scope for an insurance scheme? Should we bias tax support for super towards the young so that they start early?
9. Some possible anomalies:
 - a. Beware of retiring to get a lump sum and then working more than 10 hours a week as a supplement because an aggressive ATO could enforce the law, declare the lump sum not an ETP and claw back the tax.
 - b. Current pension rules allow pensions to be received with the relatively low retirement income which could be derived from a lump sum around 200k. The pension diminishes after that, disappearing altogether above the sort of income a lump sum of 400k will generate. The effect therefore is to make for very little gain to someone who accumulates some or all of the extra 200k to get to around 400k.

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