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SUPER SLIDE IS POOR POLICY FOR THE FUTURE

Greens' and Grattan Institute's 'solutions' would leave us with more age pensioners

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Superannuation is our only truly intergenerational policy. It is designed to cushion Australia against the cost of an ageing population. It is not there to fill a short-term budget problem or a tax reform fiddle.

As it is an intergenerational policy, there are three questions that should be front of mind when considering changes. These are: What is the problem we are trying to solve? How do we measure success? And on whom should we focus taxpayer resources?

The problem we are trying to solve is managing adverse demographic change. We have a rapidly ageing community.

According to last year's Intergenerational Report, the proportion of working-age people to retirees will have fallen substantially — from 7.3 working Australians per retiree in 1974-75 to an estimated 2.7 per retiree — by 2050.

The shrinking of the tax base will be exacerbated by our over-reliance on personal and company taxation. Income and corporate taxes in Australia make up about 60 per cent of revenue compared with an average of 34 per cent across the OECD.

Former federal treasurer Peter Costello often spoke of Australians fast approaching "our date with demographic destiny".

If the reform malaise continues, we will need more retirement savings, not less. Across time, the government will have a smaller resource base. Future governments will do less and less as a greater share of revenue is directed towards supporting the aged.

This means we need more self-provision, more private savings. This is why we have super. We are only part of the way on the super journey.

To be self-sufficient in retirement, modelling from Rice Warner Actuaries shows most people need to save close to 15 per cent across a lifetime of work. Typically this is 40 years. For many Australians this will entail a 12 per cent compulsory contribution and another 3 per cent in voluntary savings.

We have had super for 25 years. It has been at 9 per cent of salaries since 2002. Once it reaches 12 per cent in 2025, the first Australians who will have had 12 per cent super for their working lives will be retiring in 2065.

This takes us to the second point: how to measure success.

Across the longer term, the marker of superannuation working is whether we have a lower overall reliance on the age pension. Last year's Intergenerational Report shows that by 2050, 80 per cent of us will be taking a pension. It is true that during the next 35 years fewer Australians will take a full pension, but 80 per cent still will take some form of pension.

Eighty per cent of people taking a pension after 70 years of compulsory super does not pass the pub test. For this reason we need to increase our savings rates with a view to getting pension reliance down.

Third, the targeting of taxpayer support for super must be consistent with the objective of more self-sufficient Australians. Unfortunately, proposals put forward by the Grattan Institute and the Greens do nothing for middle Australia — those with the greatest capacity to reduce their reliance on the age pension.

These proposals to raid super instead see private retirement savings as a source of revenue to fund pet projects and policies that would increase pension reliance.

Policies that raise revenue by taxing retirement savings will have the biggest impact on middle Australia, undermining the nest eggs of average Australians and the objective of superannuation.

Australians earning between $37,000 and $180,000 pay 15 per cent tax on their super contributions. Under the Greens' super tax policy everyone earning more than $100 000 would end up paying 22 per cent or 30 per cent on mandatory contributions — a tax increase of 50 per cent to 100 per cent for much of middle Australia.

The Greens' policy does nothing for people who could actually become self-sufficient in retirement. In fact, it would send middle Australia backwards.

The Grattan Institute, on the other hand, proposes penalising any Australian who hopes to catch up on a shortfall in savings by dramatically lowering the cap on contributions.

Grattan's proposal is patently unfair to women and carers who need higher caps to make larger contributions later in life.

The fact remains that lower superannuation savings would force more Australians on to the age pension, pushing the cost of an ageing population on to future generations.

The age pension is costing taxpayers $44.7 billion each year — far more than the superannuation system — and is growing at 7 per cent a year.

Lower superannuation savings would increase the cost of the age pension and have minimal impact on plugging the budget hole.

The aim of tax reform cannot be to increase the size of the welfare state, but this is exactly what the proposals from Grattan and the Greens would deliver.

An intergenerational perspective shows Australia cannot sustain a multi-billion-dollar pension bill with a diminishing number of taxpayers.

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