

Super decision about earners, not managers

THE superannuation industry worked itself into a lather this week after the Government announced it had struck a deal with Clive Palmer to abolish the mining tax.

It wasn't that people in superannuation love the mining tax. It was the other part of the agreement: the delay in increasing the super guarantee from 9.5 per cent. It was going to increase to 12 per cent by 2019 but that will now be delayed to 2025. The Industry Superannuation Network, which represents the large industry funds, condemned the changes: "... The social contract between Australians and their Government ... was at risk of fraying."

Which sounds pretty serious. Will there be demonstrations in the street and civil insurrection over this? It immediately gave me visions of people dying destitute in their old age. Actuaries reached for their calculators. The trade union movement threatened industrial action. Accounting firm Deloitte assessed the damage to an 18-year-old starting out now. By the time he retires at the age of 70, he could be worse off by \$16,000, it said. So let's stop and think about that. That 18-year-old will be retiring in the year 2066. Making a whole heap of assumptions about what his earnings will be over his working life, about investment returns over the next 52 years and, more importantly, about the tax rates between now and 2066, he could be worse off by \$16,000.

But as we know, a lump sum has to support a person in retirement for many years. So let's say that lump sum gave our hypothetical 18-year-old an extra \$800 per year or \$15 per week in retirement.

Here is the dirty little secret of superannuation that nobody, not the industry, not the Government, really wants to tell you: any income you get from superannuation will trigger a clawback in the age pension. At present, you lose 50 cents of pension for each extra dollar of income you receive (subject to various thresholds).

So if our 18-year-old did get an extra \$15 per week in superannuation, he would lose \$7.50 in pension as a result. That is applying today's clawback rates. Who knows what the income thresholds and clawbacks for the pension will be in 2066? Probably more severe than they are now. Our 18-year-old is not going to see much of that hypothetical benefit.

Those Australians who rely solely on the super guarantee for their retirement will still rely on the age pension. They will need it to survive. The superannuation guarantee will not free them from the age pension. It will just turn them from full pensioners into part-pensioners.

The Government's Commission of Audit reported that over the next 40 years (assuming the superannuation guarantee rises to 12 per cent on the original schedule), 80 per cent of older



PETER COSTELLO

Australians will still rely on the age pension in retirement. The difference the super guarantee makes is to turn them from full pensioners to part pensioners.

So who wins from the superannuation guarantee? Well, the Government is a winner since it limits the amount it would otherwise have to pay if all those retirees over the next 40 years went on full pensions. Retirees are winners although not by as much as they are being led to believe. With superannuation and a part-pension, they will do better than relying on the age pension alone.

The biggest winners are the funds managers who get to manage the money flowing into superannuation accounts. Those people manage money, on behalf of employees who earn it, in the stock market and other financial products. The more they manage, the more they get paid. They were the loudest in their complaints.

OF course, there are trade-offs. When employer contributions to superannuation began back in the 1980s, it was in lieu of a pay rise. When the last government announced it was going to increase the contribution to 12 per cent, it acknowledged that employers would take that into account in future wage agreements. The super guarantee is part of an employee's overall compensation. If the superannuation rate rises that means less in wages.

That is why it is said that increasing the super guarantee "costs" the Government. If it goes to you, the Government taxes it in full. If it goes to a super fund the Government gets less in taxation.

Money that goes to super is locked up until retirement, which means an employee gets less to take home. The flip side of the doom and gloom the industry is trying to spread is that delaying an increase in the superannuation rate will give employees more disposable income. People under pressure with families and mortgages might find it useful to have a little more now than a little more locked up for later.

So this delay may suit many employees. If it doesn't, they can voluntarily increase their superannuation and get their employer to take more out of their salary for superannuation. They have choice and they have control. The industry may not like it but, then again, superannuation does not exist for those who manage the system. It's for the people who earned the money in the first place.

PETER COSTELLO IS A FORMER FEDERAL TREASURER