Paying for privilege of losing cash not so super for workers

Peter Costello

One of the accounting tricks the government announced in the midyear review was to take over inactive superannuation accounts and treat them as government revenue. If you have an account with less than $2000 and your fund cannot contact you – perhaps you have changed jobs and address – the Tax Office can take the money.

The Tax Office is supposed to find you and "reunite" you with your lost superannuation. But the government is banking on a very large number not being found.

Under this proposal, the government will raise $555 million before June 30 next year. If the average in those accounts is $500, that would mean 1 million "lost" accounts. Some people will have multiple accounts. Could it be that hundreds of thousands of Australians don't care enough to "reunite" with their super?

More than likely a lot of these will be young people with part-time jobs where superannuation is compulsorily deducted from their wages. As they move through several different jobs, their contributions are paid to several different industry funds. They move house. If they ever get "reunited" with their super, they can't take the money because it can't be drawn down until they are 55. So they don't bother chasing it and fees start to run down the balance. Now the government can take the remainder in an attempt to balance its budget.

This week, I saw the annual statement of one 18-year-old who had $60 taken out of wages for superannuation contributions. That paid for $26 of life insurance premiums, $17 in government tax and $17 for "administration fees". After earnings, the preserved retirement benefit for this employee is $1.52. In other words, the whole transaction was run for the benefit of the government and the fund. Thankfully the superannuation contribution was only 9 per cent of wages. Soon it will go higher. These are compulsorily taken from the wages of low paid and part-time workers. It is never going to fund their retirement.

The reason there is no great outcry about this system is that so many well-paid people profit from it. The people who do the best are the funds' managers. They are allocated money by the super funds to invest in stocks and bonds. The more money they manage, the more they get paid. They also get bonuses if they "outperform" the industry average.

The average return of industry super funds last year was 0.61 per cent, considerably less than you would have got by putting your money in the bank. Over the past five years, the average return was -0.17 per cent, less than you would have got by putting your money under the mattress. On average, people who had money in these funds went backwards and paid fees for the privilege of losing their own money.

Next come the people employed in the industry. They get well paid for administering the schemes and allocating money to funds' managers. They report to trustees who are largely appointed through connections to employers or trade unions, which gives the whole enterprise a bit of bipartisan political cover.

The newsletter of the largest industry fund, Australian Super, which was recently posted out to all members, tells us what a great job the Superannuation Minister, Bill Shorten, is doing by getting the amount of money deducted from wages for super to increase from 9 per cent to 12 per cent. And it has a flattering profile of union leader Paul Howes, who is described as a "public figure, prolific writer and keen tweeter". In her recent book, former Bennelong MP Maxine McKew described him as "the latest look-at-me, available-any time-anywhere commentator" and Australian Super helpfully tells its readers how to follow Howes on Twitter.

This kind of publicity is gold for union officials who need to run for election and eventually want to get into Parliament. It is all paid for out of members' contributions and need never be treated as electoral funding.

The retirement standards of people do not depend on what is put into these funds. It depends on what will come out. And if returns stay at recent levels, all people are doing is putting in larger sums to chase little or no return.

Even today, industry funds are quoting retirement benefits based on 4.5 per cent real per annum returns. That is not the world of recent years. It is high time there was a thorough and open examination of returns in this industry. There has been too little critical scrutiny. We should remember that the system is not there for the benefit of those who work in it but for those who fund it out of their hard-earned wages.