Superannuation needs to take account of needs across the lifecycle

Submission to the Senate inquiry into the
Minerals Resource Rent Tax Bill 2011 and related bills

Submitted by

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A key proposal in this set of bills is that the rate of the superannuation guarantee employer contribution be gradually lifted from 9 to 12 per cent. This submission argues that superannuation contributions impose large burdens on young families at a time when they can least afford them. While this is a minor problem when the contribution rate is low, increasing the rate means that complementary measures are required to improve the match between retirement saving and costs across the life course.

Even though the superannuation guarantee is paid by employers, it is generally agreed by analysts that the cost of the employer contribution ultimately falls on wage earners via reductions in wage increases. This means that, while superannuation saving addresses one important issue of lifecycle resource transfer (low incomes in retirement), it exacerbates another. Uniform rates of contribution increase the financial stresses faced by families during the household formation stage of life.

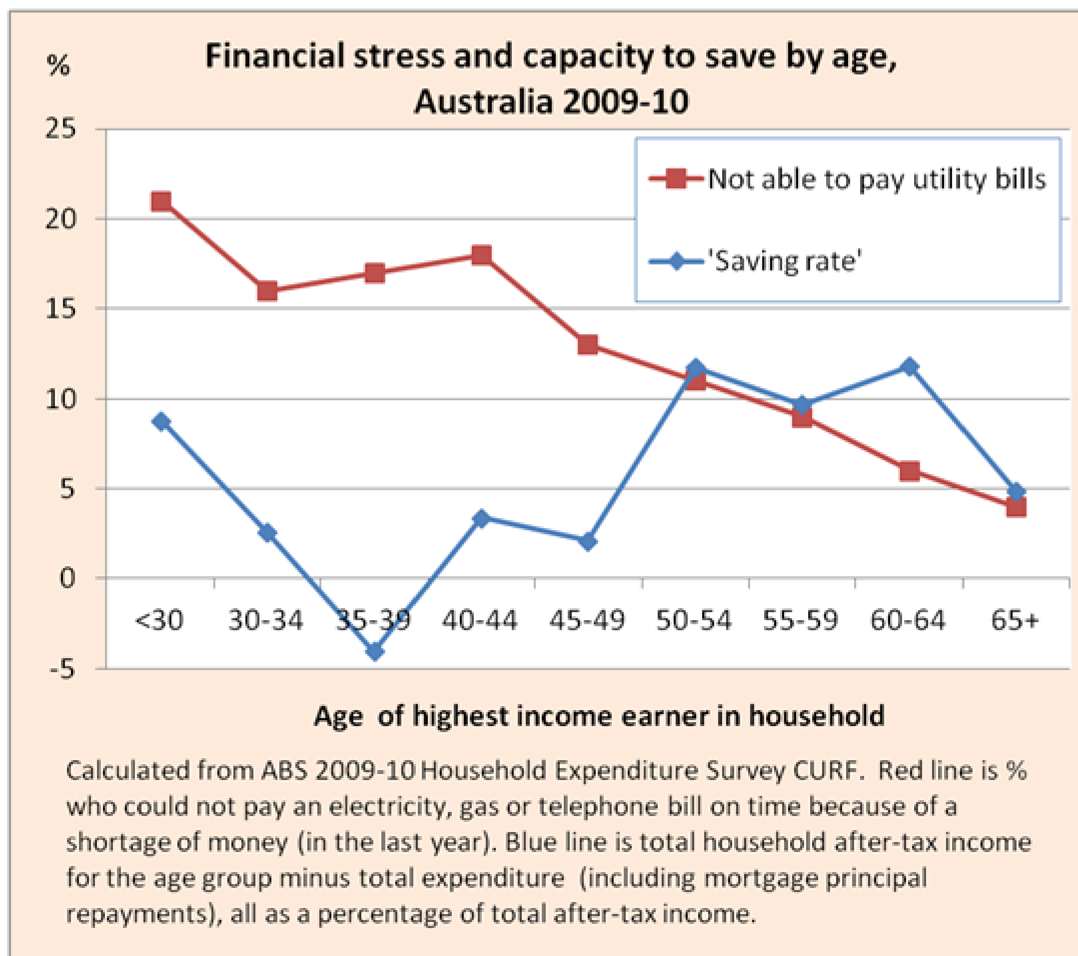
The mismatch between superannuation contribution patterns and financial stress across the life course is illustrated in the figure below. The red line shows the percentage of households where people report being not able to pay utility bills on time over the previous year (people were interviewed across the 2009-10 financial year). These results are grouped by the age of the highest income earner in the household (using the ABS 'household reference person' gives very similar results). This measure of financial stress is highest for those aged under 45, then declines steeply, even past retirement.

Measures of financial stress such as this are an imprecise indicator. They might reflect changes in resources relative to needs over the life course, but could also reflect other factors that change with age such as financial management skills or increases in aversion to the risk of utility disconnection.

A more direct measure is the 'saving rate' shown as a blue line in the figure. This is the excess of disposable income over expenditure (as a percentage of disposable income). This is imprecise because of measurement error in both income and expenditure. It also omits key components of wealth accumulation such as capital gains, home purchase and superannuation itself. Because of this, the saving rate shown here should thus be considered as in addition to that due to existing employer super contributions and home purchase.

Nonetheless, it is a useful indicator of how capacity to increase saving varies across the lifecycle. Those aged under 30 are currently high savers, but this drops dramatically when people reach their 30s and start taking time off work to care for children, purchase goods for children and purchase housing. This is despite the substantial cash and service transfers that governments make to people with children in their household. Using this saving measure,

saving capacity only increases again once people reach their 50s. Even in retirement, it is not as low as in the 30s and 40s.



In the context of the public discussion about superannuation options, most people paying attention are probably aged above 50. For the average pre-retirement person aged over 50, a larger contribution to super probably makes sense (unless they have some other preferred form of saving). But younger families might start to pay attention to this policy decision when they find a reduced growth in their pay packet.

Are the family formation years really the best time to be saving additional money for retirement – particularly when many are already saving via home purchase?

What options are available to lessen this burden on young families? Within the current system, it is not practical to simply reduce the contribution rate for the young (or any other demographic group). Since employer contributions are effectively incorporated into wages, this would mean different wage rates for different employees. However, there are a range of secondary mechanisms that could be employed.

One that is often mentioned is to allow people to access superannuation balances for house purchase. This has been criticised as undermining the life course saving objective of superannuation, but can also be seen as a mechanism to redress a key flaw in the superannuation saving model. However, while this might make sense in the context of our current housing markets, housing is not the best means of saving for retirement. It is hard to

liquidate and increases the amount of wealth passing to the next generation rather than being used for consumption in old age (I have written elsewhere on this. See tinyurl.com/BruceBradbury for references).

If we don't wish to encourage housing investment, there are nonetheless other potential strategies. We could allow access to super for other life course-related expenditures such as childcare fees or to supplement paid parental leave. Finally, one could simply allow people under certain ages to receive payouts from their super fund. This submission does not address the tax implications of this, but there are a number of options possible, including measures that would 'claw back' some or all of the tax concessions associated with the original contribution (this approach would increase government revenue).

The plan to increase the super guarantee to 12 per cent now makes the task of addressing these life course implications of superannuation more important than ever.