CHAPTER 2

RETIREMENT INCOMES IN AUSTRALIA

2.1 The retirement incomes policy which operates in Australia has two components: the provision by government of an age pension funded from consolidated revenue and private superannuation plans supported by taxation concessions. There has also been a small group of retirees who have relied on investments not supported by superannuation tax concessions. For most of Australia's history since 1908, the emphasis in the area of retirement incomes has been on the age pension. Recently, however, demographic, social and economic forces have given superannuation a greater prominence, and underpin the decision of the Senate to establish a committee to inquire into superannuation.

PENSIONS

Historical Developments

2.2 A Commonwealth Government funded age pension was introduced in 1909 following the enactment of legislation in 1908 based on section 51 (xxiii) of the Constitution, which allows the Commonwealth to make laws with respect to invalid and old age pensions. This initiative superseded pension schemes which had been established as early as 1900 in New South Wales, Victoria and Queensland.

2.3 With the exception of the 1970s, for most of the period since 1909 the pension has been granted on the basis of need established by a means test which has been used to limit the availability of the benefit and to ensure that it is granted on the basis of genuine need.

2.4 Between 1920 and 1970, age pension coverage increased from 32 per cent to 60 per cent of the eligible population. During the 1970s, significant liberalisation of the means test occurred and following a number of reforms, age pension coverage peaked in 1978 at almost 78 per cent. In 1980 those in receipt of service, widow, invalidity and aged pensions accounted for 87 per cent of the eligible age group. [1]. Table 2.1 shows the trends in pension coverage for 1971-91. Liberalisation of the means test in the 1970s resulted in over 87 per cent of the population of pension age receiving a pension in some form (i.e. service, widow, invalidity or aged pension). Further changes to the means test have reduced the level of coverage to 75.6 per cent.

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1 Statistics Section, DSS *Social Security Pensioners and Beneficiaries as a Proportion of the Population and Labour Force*, Canberra 1992.

Table 2.1

PENSION COVERAGE 1971-91
(Recipients of Service, Widow, Invalidity & Aged Pensions)

Year	Pensioners of Age Pension Age as Percentage of Population of Age Pension Age %	Year	Pensioners of Age Pension Age as Percentage of Population of Age Pension Age %
1971	64.8	1981	86.2
1972	64.8	1982	85.3
1973	70.6	1983	85.6
1974	75.8	1984	83
1975	79.6	1985	80.6
1976	82.7	1986	79
1977	84.7	1987	77.7
1978	86.1	1988	78
1979	86.7	1989	76.9
1980	87.1	1990	75.8
		1991	75.6

Source: Statistics Section, Department of Social Security, Canberra

2.5 A major government initiative in the development of a retirement incomes policy to address the medium and long term needs of an ageing population occurred in 1989 with the release of the *Better Incomes: Retirement into the Next Century* statement, which endorsed the key conclusions of the Cass Review of the social security system, viz:

- *any major changes in retirement income policy need to be gradual in view of the long term expectations, plans and commitments involved;*
- *the aged pension should remain the cornerstone of equity and adequacy in the retirement income system;*
- *improvements in arrangements for retirement income will need to occur within the context of the present age pension and superannuation systems;*
- *incentives to work and incentives to save must be maintained and improved; and*
- *arrangements should be as simple as possible, consistent with the need for equity and effectiveness.*[2]

2 Minister for Social Security *Better Incomes: Retirement Income Policy in the Next Century 1989.* AGPS, p 17.

Ageing Population and Dependency Ratios

2.6 The *Better Incomes Statement* expressed a commitment to 'maintain the age pension as an adequate base level of income for older people'[3] but went on to state that persons retiring in the future would require a standard of living consistent with that experienced whilst in the workforce. The statement also signalled that one of the real challenges facing governments would be the retirement income needs of an ageing population. The Department of Social Security (DSS) submission[4] to the inquiry stated that, as the large post war baby boom generation begins to reach age pension age in 20 years' time, there will be around 4.1 million people aged 65 and over, or 17 per cent of the projected population. In the year 2031 these figures will rise to 5.2 million people or around 20.1 per cent of the projected population. This compares with around 11 per cent today, or 1.9 million people.

2.7 In a number of submissions, reference was made to aged 'dependency ratios', that is, the ratio of labour force participants to aged persons. A more complete picture of dependency can be given by using a total dependency ratio, which recognises that children, the disabled and the middle-aged who are adult care givers experience very limited labour force participation. Crude dependency ratios (those which take into account children and aged persons only) express the number of dependent persons per 100 members of the labour force and give a different view of the ageing population issue. They show that the ageing of the population is offset somewhat by a declining dependency on the part of the younger population. Table 2.2[5] shows Australia's position relative to other selected industrialised countries for 1980, 2000 and 2025. Whilst Australia's crude dependency rate is less than some of its overseas counterparts, it will increase significantly and present a major challenge to retirement incomes policy makers.

2.8 The challenge of an ageing society was taken up by the Jones Committee in its recent report on expectations of life into the 21st century[6]. Whilst that Committee's report down-played the ageing population problem, it found that the dependent elderly make heavy demands on the social welfare and health system and that, unlike the costs of caring for children, a small proportion only of the costs is met from private sources.

2.9 Other commentators[7] suggest that dependency ratios are limited because they do not take into account the differential expenditure levels of the very old and the very young, economic growth and changing expectations regarding an adequate level of retirement income.

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3 *ibid* p 3.

4 Sub No. 127, pp 2-4.

5 J H Schultz et al, *Economics of Population Ageing* 1991, Auburn House NY. pp 71-76.

6 Report of the House of Representatives Standing Committee for Long Term Strategies *Expectations of Life* Canberra, AGPS, 1992, p 61.

7 *op cit* Schultz et al, p 3.

Table 2.2

Total Crude Dependency Ratios for Selected Industrialised Countries, 1980–2025

Country	1980	2000	2025
Sweden	71	61	82
United Kingdom	69	64	78
France	65	63	79
Australia	64	59	71
United States	62	60	78
Federal Republic of Germany	60	66	87
USSR	60	70	75
Japan	57	62	78

Source: United Nations, Department of International Economic and Social Affairs, 1985. *Periodical on Ageing: 1984.* Vol. 1, No. 1. New York: United Nations.

Notes:

(i) The total crude dependency ratio is the number of 'dependent' persons per 100 persons of labor-force age and equals $\frac{(\text{ages } 0\text{-}14) + (\text{ages } 60+)}{\text{ages } 15\text{-}59} \times 100$.

(ii) Countries are ranked by 1980 total dependency ratio.

Pension Outlays

2.10 The Economic Planning and Advisory Council (EPAC)[8] estimated that age pension outlays will increase from 2.8 per cent of GDP in 1985 to 4.5 per cent in 2025 if age pensions as they are presently structured increase in line with movements in average weekly earnings. DSS analysis of the ageing population issue also indicates that the national pension bill will increase considerably. Its projections show that age pension outlays will grow from 2.5 per cent in 1991 to around 5.1 per cent in 2031 if the single pension is maintained at or around 25 per cent of average weekly earnings[9].

Current Age Pension Policy

2.11 Current government policy provides age pensions to people who have reached the age of 65 for men and 60 for women, subject to residency and income and assets tests. Pensions are also paid to the spouses and eligible carers of age pensioners[10]. The standard pension has been set at or above a level of 25 per cent of average weekly earnings and is indexed twice yearly according to movements in the Consumer Price Index.

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8 Sub No. 127, p 3.

9 *ibid.*

10 DSS Annual Report 1990 – 1991, p 81.

2.12 At 30 June 1991 there were 1.41 million persons in receipt of the age pension. The Commonwealth anticipated spending $10.36 billion on age pensions in 1991-92. To these figures should be added service pensioners in receipt of a total of $2.34 billion, resulting in overall pension outlays of $12.06 billion.

2.13 Unlike most other OECD countries, Australia does not require that retirees take retirement benefits in pension form. In recent years the Government has sought to encourage benefits in this form by having a higher Reasonable Benefit Limit (RBL) for people who take at least half their superannuation benefit as lifetime non-commutable indexed pensions or annuities.[11]

2.14 One of the problems of this policy which has been the subject of considerable attention during the Committee's hearings is the practice of 'double dipping'. Double dipping involves taking a superannuation lump sum which has received significant tax concessions, consuming it rapidly and then receiving an age pension. Whilst the evidence given to the Committee was largely anecdotal and not based on any systematic longitudinal data, 'double dipping' is common in Australia.[12] It was submitted, however, that there are legitimate uses for lump sums other than purchasing an income stream, for example, paying out mortgages and other debts. Double dipping is facilitated by the preservation age for superannuation benefits being set at a lower age than the age pension age for men (65 years) and women (60 years). It is this policy scenario which allows some retirees who retire before the pensionable age to spend their lump sums and at a later stage become eligible for the full pension[13] or a greater pension benefit than would have been available had the lump sum not been dissipated.

2.15 Retirees who take superannuation benefits not subject to compulsory preservation age before age 55 have them taxed at significantly higher rates. Award superannuation contributions and contributions for which tax deductions are allowed are subject to preservation. However, compulsorily preserved benefits can be accessed under the hardship provisions of the *Occupational Superannuation Standards Act* (OSSA), taxed at a pre 55 years rate and used for purposes other than retirement. These issues will be examined in detail in the Committee's third report.

SUPERANNUATION

A National Superannuation Scheme

2.16 There have been a number of attempts to replace the non-contributory pension with a national superannuation scheme funded by earnings-based contributions from all employees and/or levies on employers. The first general initiative occurred in the period 1909–39 and was given impetus by the movement towards national superannuation schemes in Europe, where a number of countries were already providing compulsory pensions funded by both individual and government contributions.

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11 Sub No. 195, p 35.

12 Sub No. 127, pp 14-15.

13 *ibid.*

2.17 During this period three governments, all of them comprising non-Labor party coalitions, mooted and/or passed laws to replace the non-contributory age pension. The culmination of these initiatives was the passing of the *National Health and Pensions Insurance Act 1938* which provided for flat rate benefits funded by flat rate contributions by both employers and employees as from 1939. However, the difficult economic conditions and the onset of the Second World War resulted in the legislation not being implemented.

2.18 During World War II, Labor governments embraced the concept of national superannuation. The National Welfare Fund, established in 1943 by the Curtin Government, was designed to finance pension benefits and provide a base from which future payments could be made but had as its initial objective the financing of the war effort.

2.19 In 1945 the Chifley Government introduced an additional levy on personal income tax which, along with a payroll tax from employers, was credited to the National Welfare Fund. There was, however, no direct link between contributions and benefits and the pension continued to be allocated on the basis of the means test. The National Welfare Fund, whilst established as a means of establishing a base from which a national superannuation fund could be operated, was in practice merely an accounting device until its abolition in 1985.

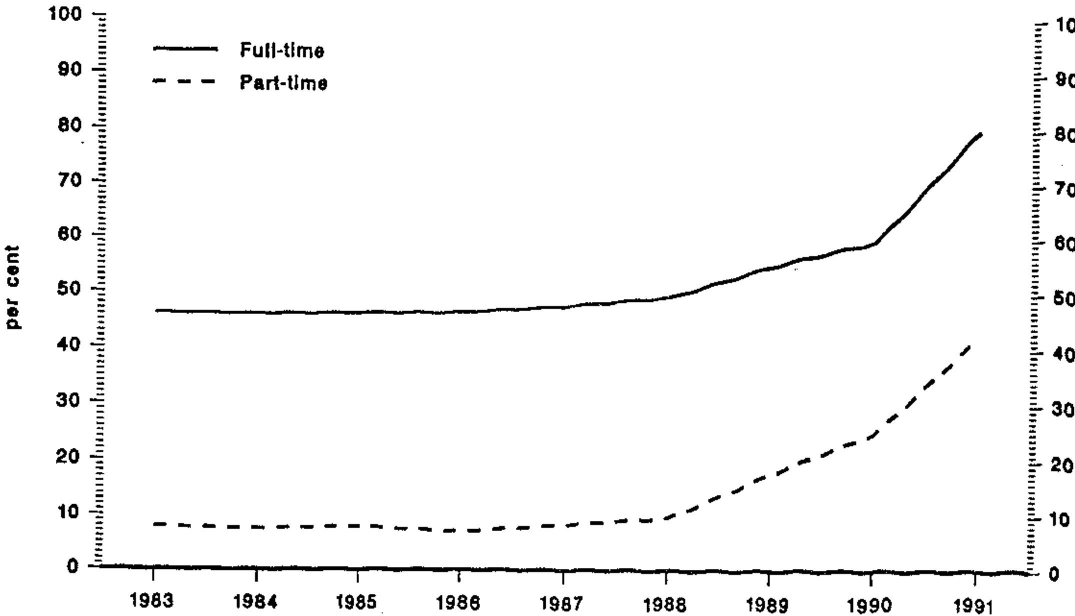
2.20 Further attempts to institute a national superannuation scheme were made in 1973 when the National Superannuation Inquiry, chaired by Professor K.J. Hancock, by majority made recommendations to the Whitlam Government which were subsequently submitted to the Fraser Government and rejected in 1979.

Award Superannuation

2.21 The first formal development in occupational superannuation in Australia is believed to have occurred in 1862 when the Bank of New South Wales introduced a pension scheme for its employees. Other advances in occupational superannuation occurred when public sector schemes for State and Commonwealth employees were introduced as early as 1884, in the case of NSW, and the first Commonwealth scheme was set up in 1922. Commonwealth involvement in encouraging employment-based superannuation in the private sector commenced in 1915 when legislation was passed allowing employers to deduct superannuation contributions against assessable income. There occurred some growth in this type of superannuation but it did not become widespread in the white collar workforce until the post-World War 2 period.

2.22 The first survey of superannuation coverage conducted by the Australian Bureau of Statistics (ABS) in 1974 revealed that 32 per cent of all employees were covered. The next set of survey data published in 1979 saw this figure rise to 43 per cent. Figure 2.1 shows the relative growth of superannuation coverage for full and part-time employees from 1983 to 1991.

Figure 2.1



Source: ABS (Cat. No. 6344.0) – Graph courtesy of Statistics Group, Parliamentary Library.

2.23 ABS data[14] on the pattern of superannuation coverage by sex, industry and nature of employment (whether full or part-time) reveals marked differences in the spread of superannuation. For example, highest overall levels of coverage have been achieved in public administration and defence (90 per cent), communications (92 per cent), electricity and water (94 per cent) whereas the lowest levels of coverage were recorded in recreation, personal and other services (47.1 per cent), agriculture, fishing, forestry and hunting (52 per cent) and construction (61.2 per cent).

2.24 Superannuation coverage by gender data shows that female coverage has increased from 26.3 per cent in 1979 (this figure reflected full-time employment only) to 78.5 per cent (full and part-time data) in 1991 which is two percentage points less than male coverage. The part-time – full-time 1991 coverage data indicates that full-time workers (80 per cent) are twice as likely to have superannuation coverage compared to their part-time counterparts (42.3 per cent).[15]

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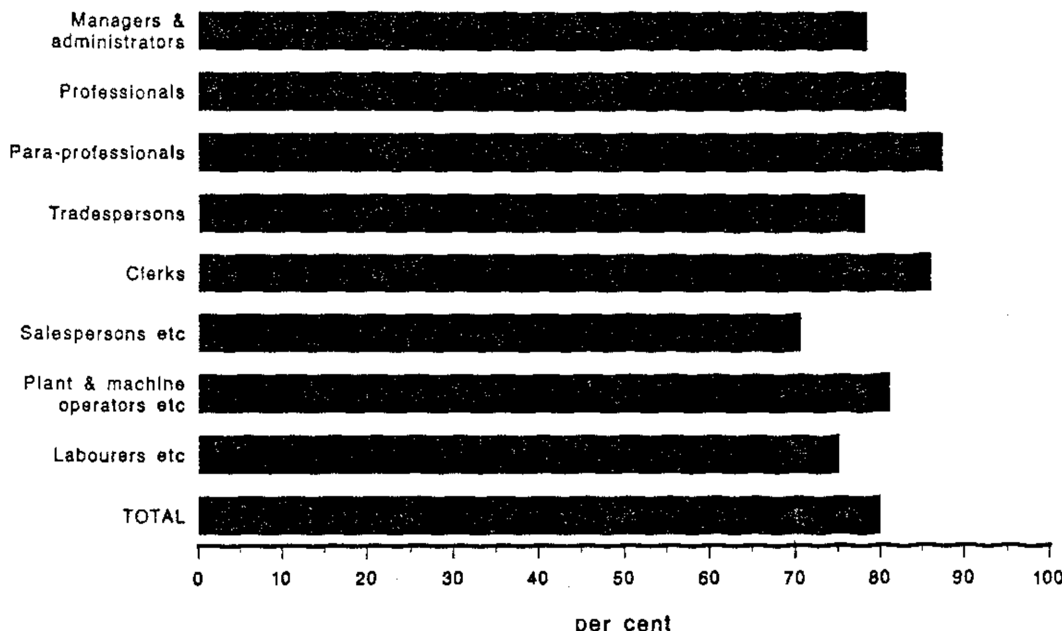
14 ABS *Employment Benefits Australia*, July 1991.

15 *ibid*

2.25 Occupational status also appears to be an aspect of coverage in which significant differences prevail. For example, ABS data[16] shows that 97.5 per cent of managers and administrators, and 94 per cent of professionals have superannuation coverage. However, only 55 per cent of sales persons are covered. Figure 2.2 shows the relative coverage of superannuation by occupational status.

Figure 2.2



Source: *Employment Benefit Australia*, July 1991, ABS (Cat. No. 6334.0) – Graph courtesy Statistics Group – Parliamentary Library.

2.26 A key development in moves to increase significantly the level of coverage of superannuation occurred in 1986 when the Australian Council of Trade Unions (ACTU) was successful in having the Conciliation and Arbitration Commission (the Commission) decide that it would formally approve agreements between employers and employees relating to contributions to approved superannuation funds resulting from wage increases up to a maximum of 3 per cent. However, the Commission at that juncture was not prepared to arbitrate on superannuation awards.

2.27 There followed a decision in 1987 under which the (now) Australian Industrial Relations Commission (AIRC), in addition to certifying agreements and making consent awards (in cases of last resort), announced it would arbitrate on superannuation matters including disputes about the funds into which contributions should be paid. Following the

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16 *ibid.*

decisions of the Commission and the AIRC, superannuation has become an integral feature of almost all of the awards of the AIRC and the relevant State tribunals, and coverage has been extended to over 70 per cent of awards including 90 per cent of employees subject to a federal award[17]. In addition, there is a significant number of employees who are not covered by award superannuation but are in receipt of retirement income benefits from their employer.

2.28 The 1990–91 wage case included a claim by the ACTU, supported by the Government, for a further three per cent round of award contributions to superannuation. In April 1991 the AIRC adjourned the superannuation claim and requested that the Commonwealth Government convene a national conference on superannuation involving all relevant parties. Instead, the Government announced that it would instead pursue compulsory superannuation coverage by passing legislation. The Committee notes that the business community has made requests of the Government to convene a national conference on superannuation and that this opportunity has not been taken up.

Compulsory Employment Based Superannuation

2.29 In the August 1991 Budget, the Treasurer foreshadowed the Government's intention of introducing a Superannuation Guarantee Levy (SGL) commencing on 1 July 1992. In December 1991, the Treasurer issued a paper on the levy which stated that it would facilitate:

- *a major extension of superannuation coverage to employees not currently covered by award superannuation;*
- *an efficient method of encouraging employers to comply with their obligation to provide superannuation to employees; and*
- *an orderly mechanism by which the level of employer superannuation support can be increased over time, consistent with retirement income policy objectives and the economy's capacity to pay*[18].

2.30 As stated above, the SGL is designed to address inter alia the problem of non-compliance. Evidence given to the Committee by the Department of Industrial Relations (DIR)[19] was that, out of 2 880 000 private sector employees covered by awards, approximately 2 050 000 were actually receiving award superannuation. The expressed reasons for non-compliance, the monetary value of which is estimated to be accruing at a rate of $700 million per year, are threefold. First, and most significant according to DIR, is basic employer ignorance about the fact that an obligation exists. Second, there is a group of employers who understand that an obligation exists but are unable to come

17 DIR Sub No. 81, p 10.

18 Superannuation Guarantee Levy Paper, December 1991.

19 Sub No. 81. Additional evidence of 1 May 1992, pp 2-3.

to grips with its complexities and therefore do not meet their obligations.[20] Third, there is a group of employers who are aware of the obligation and its provisions but elect not to comply with the relevant award/s. The Committee only knows of one survey which has been carried out on non-compliance (the DIR Survey) and therefore it was not able to reach a conclusive view on the reasons for this problem. A number of employer organisations contested the findings, saying that the capacity to pay was an issue for firms in financial difficulties. A further reason for non-compliance, given by one employer body, is the reluctance of some employers to contribute to a superannuation fund which has been nominated by a wage tribunal and which may not be the fund preferred by the employer or employee.[21]

2.31 The Government stated that the SGL will increase breadth of coverage by encouraging employers to provide a minimum level of superannuation set initially at three per cent for small business with payrolls of less than $500 000 and five per cent for larger businesses. Those employers not providing the minimum level of coverage will be liable for a penalty to cover the superannuation guarantee shortfall, the major portion of which will be deposited by the Australian Taxation Office (ATO) into complying funds for the benefit of those employees on whose behalf it was collected.

2.32 The Government plans to increase the depth of coverage by requiring that over a period of nine years the percentage will increase to nine per cent. It is further proposed to find ways whereby employee contributions and tax cuts could be harnessed to increase the contribution level to 12 per cent by 2000-2001.

Superannuation Targets

2.33 In its hearings, the Committee sought opinions from a number of expert witnesses regarding the level of contributions which would be required to generate a retirement income consistent with predetermined living standards. Generally, the advice to the Committee was that contributions of between 10 and 15 per cent over a 40 year period were needed to generate a retirement income of between 40 and 70 per cent of final salary. There was no universal agreement on what a minimum level of desirable, let alone taxpayer subsidised, retirement income should be. Also, there was no general agreement on who should meet the costs of increased superannuation contributions and what timetable for its introduction should be adopted. This lack of consensus on a fundamental question in the retirement incomes debate illustrates the need for vigorous community discussion on this issue.

2.34 A useful starting point in such a discussion is contained in evidence given by William M Mercer Campbell Cook and Knight (Mercers) which advised that a person on average weekly earnings would need to contribute five to six per cent of salary over a working lifetime to generate income equal to the present single age pension.[22]

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20 Evidence, pp 1833-4.

21 Evidence, p 879.

22 Evidence, p 3.

2.35 The Institute of Actuaries submitted that, based on an employer contribution of ten per cent and an employee (or member) contribution of five per cent plus a real rate of return on investment income of two per cent, net of tax, and assuming current tax arrangements, the following lump sum benefits would be generated:[23]

Table 2.3

Institute of Actuaries Lump Sum Projections

Years of Contribution	After tax lump sum benefit from contributor of 15% of salary
25	4.1 years of salary
30	5.1 years of salary
35	6.2 years of salary
40	7.4 years of salary

2.36 Should the member purchase an annuity with the above mentioned lump sums the following net income streams based on a retirement salary of $35,000 would be generated:

Table 2.4

Institute of Actuaries Annuity Projections*

Years of Contribution	Gross of Tax Indexed Annual Annuity resulting from Above Lump Sums
25	31% of Salary
30	39% of Salary
35	47% of Salary
40	56% of Salary

Assumptions

(i) life-time annuity indexed to the CPI

(ii) male age 65 with a spouse age 62 (this is not substantially different to a female age 65 with a spouse age 68)

(iii) 50 per cent reversion of annuity to spouse

(iv) no guaranteed minimum payment period

(v) purchase price of $13 200 per $1 000 per annum of annuity (expenses have been ignored).

23 Sub No. 108 Appendix, pp 8-10.

2.37 The Association of Superannuation Funds of Australia (ASFA) used the Government's projected increase in compulsory superannuation contributions as per the SGL (final projection nine per cent employer and three per cent employee contribution in lieu of a wage increase) and found that the following benefits would accrue to members[24]:

Table 2.5

ASFA Lump Sum and Pension Benefits Table*

Age (as at 1991)	Benefit at 65 (before benefits tax)	
	Lump Sum (multiple of final salary)	Pension – % of final salary
Assuming a real rate of investment return of 4 per cent:		
25	9.03	60.2%
35	5.44	36.3%
45	2.94	19.6%
55	1.21	8.4%
Assuming a real rate of investment return of 2 per cent:		
25	5.91	39.4%
35	4.00	26.7%
45	2.42	16.1%
55	1.10	7.3%

**Assumptions*

(i)	Employer contributions:	9% of salary
(ii)	Member contributions:	3% of salary
(iii)	Tax on employer contributions:	15%
(iv)	Expenses and insurances:	10% of contributions
(v)	Pension annually CPI indexed:	85% pension reversion to spouse upon retiree's death

(vi) Commutation factor is 15 – i.e. if a lump sum benefit were convertible to a pension/annuity, the first annual payment would be equal to one fifteenth of that lump sum.

The Superannuation Industry

2.38 Superannuation in Australia is a most complex matter. It is provided in and outside the workplace and by a range of financial institutions. Figure 2.3 attempts to place in context the various types and classes of superannuation and other forms of retirement income.

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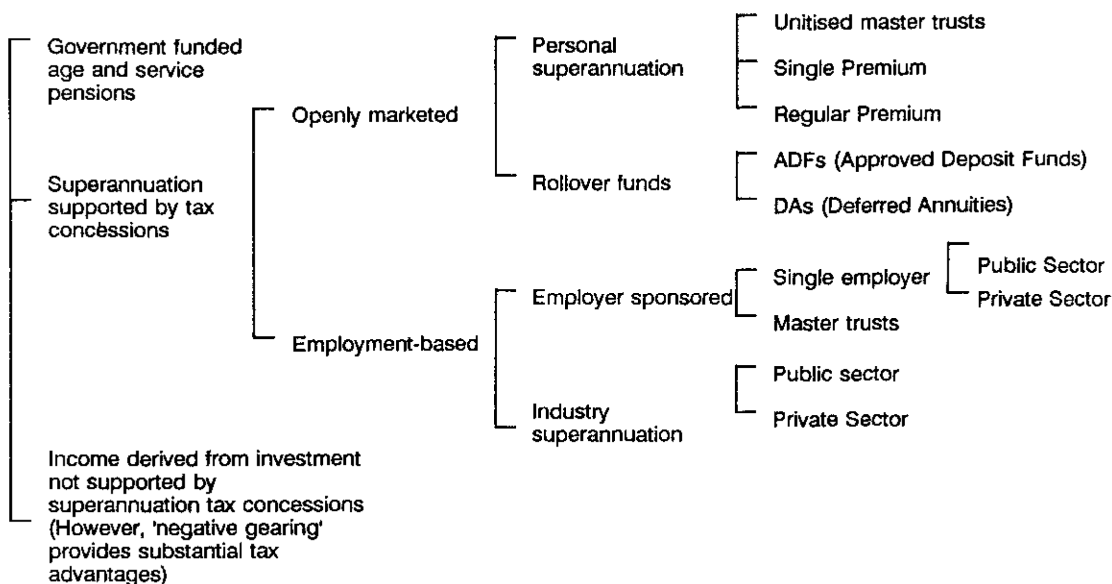
24 Sub No. 89, p 28.

Figure 2.3



2.39 The superannuation fund to which an individual belongs largely depends on employment status. There are two broad categories of superannuation schemes, namely, openly marketed (or publicly available) schemes and employer sponsored (or employment based) superannuation. Under current legislation superannuation funds which comply with the regulations administered by the Insurance and Superannuation Commission (ISC) are eligible for tax concessions on superannuation contributions, fund income and benefits paid, which in the *1991 Tax Expenditure Statement* were estimated to be $3.6 billion.

Openly Marketed Superannuation

2.40 Openly marketed superannuation schemes fall into two classes. The first, **personal superannuation**, is usually taken up by the self-employed or those employees whose employer does not offer superannuation as part of an employment package or, in cases where it is provided, it is insufficient to fund retirement.

2.41 Contributors to personal superannuation can choose to contribute by way of single premium or pay on a regular premium basis (super savings plan). Traditionally, life offices, friendly societies and firms offering unitised trust arrangements have been the major offerers of personal superannuation, although more recently banks have taken an increasing interest.

2.42 **Rollover funds**, the second form of openly marketed superannuation, were introduced to encourage persons changing employment or opting for early retirement to

preserve superannuation entitlements until retirement age is reached. These funds are operated by banks and other financial institutions **(Approved Deposit Funds – ADFs)** and life offices **(Deferred Annuities – DAs)** and deposits are restricted to **Eligible Termination Payments (ETPs).** ETPs include payments made to employees when leaving employment. They can include payments from a superannuation fund or any other inducements to retire early but exclude accrued annual and long service leave. Rollover funds receive concessional tax treatment in that the tax liability is deferred until retirement age.

Employment Based Superannuation

2.43 Employer sponsored superannuation and industry award schemes constitute this class of superannuation. Employer sponsored schemes can be both contributory (where both employer and employee contributions are made) or non-contributory (where only the employer contributes). These funds have trust deeds which establish whether the scheme is a defined benefit or defined contribution (or accumulation) scheme. In the case of **defined benefit schemes,** it is usual for the employee to make a contribution based on a percentage of salary and for the employer to bear the risk in that a certain benefit as defined in the trust deed is payable to the employee on retirement. Rates of return on fund earnings, and other factors such as the number of contributors who leave the fund early and are not paid their full actuarial entitlement, can result in the fund accruing an actuarial deficit or surplus in which case the employer has certain rights and/or duties under the relevant trust deed to adjust contributions to balance assets and liabilities. This matter is further commented on in Chapter 6.

2.44 **Defined contribution** (or accumulation) schemes entail employees and employers making pre-determined contributions, usually based on a percentage of wages, into a fund which grows according to the success of investment activities. At certain intervals, usually 12 months, member accounts are credited with a proportion of investment income. Therefore, the size of the accumulated funds on retirement is difficult to estimate with a high degree of precision, although actuarial models can give useful approximations of final accumulated funds. The great majority of award-based industry schemes are accumulation, or defined contribution, schemes.

Master Trusts

2.45 Current regulations mean that a complying fund can have any number of members. In the interests of efficiency many funds elect to use the services of experts to assist in the administration of the fund and funds management. To this end, some employers, especially those operating small businesses, enter into **master trust** arrangements in which the administration and management of funds is handled by an independent trustee appointed by the promoter of the fund. Master trusts are offered by life insurance firms, banks and other specialist financial institutions. There is a range of master trust products available including those which allow contributors to elect their own risk and return profiles under which funds can be invested.

2.46 Another option available to employer based funds is to conduct their own fund administration and trustee responsibilities, but contract out the investment of member funds by placing funds in **a pooled superannuation** trust (PST). PSTs only accept funds in amounts above a set threshold level, for example $50 000.

Public Sector Superannuation

2.47 Public sector funds, which have a membership of approximately two million employees, constitute a significant component of employer sponsored superannuation. These funds are usually established under statutes of parliament rather than trust deeds but have trustees appointed to administer each scheme. They are subject to Commonwealth regulations relating to superannuation funds, are government guaranteed in respect of benefit payments and, in most cases, are unfunded. An unfunded scheme is one where an employer has not contributed to match liabilities as they accrue. The level of unfunded liabilities[25] for public sector superannuation schemes has been estimated to be approximately $80 billion[26].

Industry Schemes

2.48 Industry schemes were established in response to decisions of the various wage tribunals to award workers a three per cent wage equivalent in the form of employer contributions to occupational superannuation funds to provide new or improved benefits in certain industries. These funds are usually administered by trustees nominated by the peak union and employer organisations.

2.49 Most industry funds are defined contribution, or accumulation, schemes. In 1991 approximately 2.3 million employees were members of industry schemes.[27]

2.50 There are also a number of award superannuation schemes in the public sector which were set up following the three per cent award superannuation decisions of the Commission, the AIRC and State wage tribunals. According to an ASFA survey, over one million public sector employees belong to this category of superannuation fund.

The Growth and Composition of Superannuation Funds

2.51 Government policy changes, the advent of award superannuation and changing community expectations regarding the need to contribute to retirement have had a significant impact on superannuation fund assets, which have grown from $32.6 billion in 1983 to a current level of $140 billion and are estimated to reach between $300 and $600 billion by 2000.[28] Figure 2.4 shows this trend. A more precise estimate of the level of funds in the year 2000 can only be made when a long term earning rate firms and longer term government policy regarding taxation and compulsory contributions is finalised.

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25 A small number of private sector employer sponsored superannuation funds have unfunded liabilities.

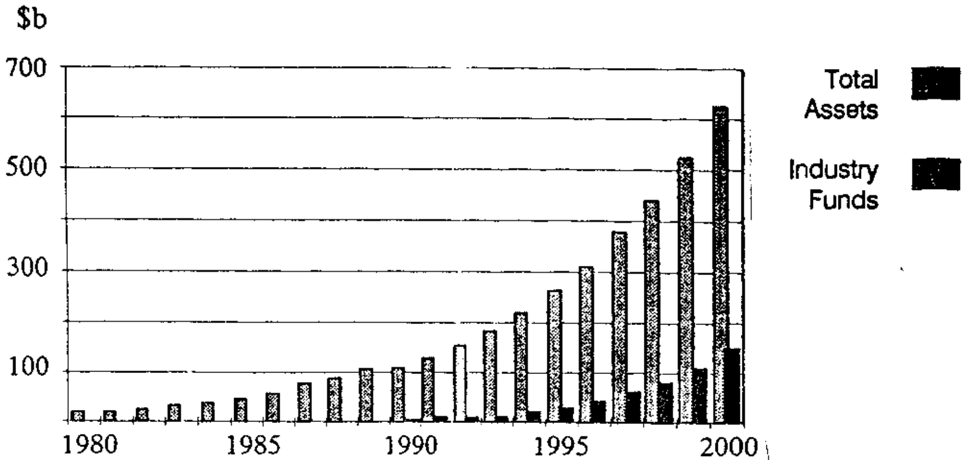
26 *Superfunds*, November 1991, pp 18-21.

27 *Superfunds*, September 1991, pp 15-16.

28 ISC Submission, No. 151, p 15.

Figure 2.4

Superannuation Industry – Asset Growth 1980-2000



Graph courtesy of Colonial Mutual Investment Management – Infrastructure Development Corporation. (Attached to Submission No. 210.)

2.52 Dr Vince Fitzgerald of the Allen Consulting Group has conducted research into the growth of the components of superannuation stocks based on 1991 Budget policies. He estimates that in 2010 superannuation assets will total approximately $1 400 billion in current dollars, or 7.5 per cent of current GDP, compared with five per cent in 1991.

2.53 The composition of investment for Australia's superannuation assets as at 31 March 1991 appears in Table 2.6.

Table 2.6

Superannuation Fund Assets, 31 March 1991	Percentage %
Short term and liquid assets	11.25
Loan, placements	6.96
Fixed interest securities	20.81
Equities, units in trust	32.56
Land, buildings non financial assets	14.92
Overseas assets	13.45

Source: ABS data, but taken from V W Fitzgerald *Australia's Superannuation Savings: Nestegg or Honey Pot?* October 1991, p 44.

2.54 A breakdown of superannuation assets by financial sectors as estimated from ISC and ABS statistics as at June 1991 appears in Table 2.7.[29]

Table 2.7

	$ billion
Private and public sector superannuation funds	68
Life Offices (including annuities)	59
Approved Deposit Funds	8
Total	135

2.55 Evidence given to the inquiry indicated that fund assets were concentrated in the larger funds, for example, in 1987/88, according to ISC data, the largest 462 funds had an average level of assets of $58 million whereas 99 per cent of funds had on average assets of approximately $145 000[30].

Conclusion

2.56 In the chapters which follow, the Committee addresses in greater depth a number of the issues and trends raised in this introduction. The need for an enhanced regulatory environment more attuned to the needs of the industry and its participants is one of the key themes which emerges. Another theme is the need for consumers of superannuation to have their interests protected and upheld to ensure that the system meets their retirement income needs. Finally, the report examines the need for increased competition in the superannuation industry and makes recommendations to foster competition in the context of the rapid growth of superannuation funds.

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29 *ibid.*

30 *ibid* p 15.