
CHAPTER 3: RATIONALE FOR THE SGL

3.1 Occupational superannuation in the form of a federal award entitlement dates from the decision in the 1986 National Wage Case to include a superannuation component in federal awards, the component to be three per cent of salary. In the 1990-91 National Wage Case the Australian Council of Trade Unions (ACTU) argued for a further three per cent round of award contributions. The Government supported the ACTU's claim, noting that:

occupational superannuation is a key element in the Government's retirement income policy of encouraging retirement provision by employees during their working lives to achieve adequate living standards... [And] the key to providing better income for the growing number of old people in the future is to increase savings now. Improved access to superannuation is the best way of achieving this.¹

3.2 In April 1991 the Australian Industrial Relations Commission adjourned the superannuation claim and requested the Government convene a national conference on superannuation involving all relevant parties. The business community requested the Government convene a national conference on superannuation, but instead, the Government announced that it would pursue compulsory superannuation coverage by passing legislation.

3.3 The Superannuation Guarantee Bills give legislative backing to the Government's policy. The rationale for the Bills is outlined in the Second Reading Speech on the *Superannuation Guarantee (Administration) Bill 1992*, during which the Treasurer, the Hon John Dawkins MP, stated:

... there is an on-going need to ensure that as many Australians as possible have access to superannuation. There is also a need to increase the average level of superannuation savings for each individual, if these savings are to provide an adequate level of retirement income. Consistent with these goals, the Superannuation Guarantee Levy was announced in last year's budget...

The levy... will provide a coherent and equitable framework in which retirement incomes objectives can be progressed. It will ensure that, by the beginning of the next century, virtually all employees will be accumulating substantial superannuation savings to help fund their retirement income.

The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the age pension alone. The increased self-provision will also enable future Commonwealth governments to improve the retirement conditions for those Australians who were unable to fund adequately their own retirement incomes.

Lastly, self-provision will increase the flexibility in the Commonwealth's Budget in future years, especially as our population ages, and will increase our national savings overall, thus reducing our reliance on the savings of foreigners to fund our development.

¹ Quoted in the attachment to SG sub no. 4.

3.4 In evidence to the Committee, the Treasury expanded on the rationale for the Bills. Treasury Secretary, Mr A Cole, stated that the SGL contribution standard of 12 per cent of earnings over 40 years was 'a sensible and appropriate objective for various reasons':²

First, the current levels of self-provision in retirement are far too low...

Secondly, the present low average levels of superannuation support in the work force, particularly in the private sector, hold out little promise of significant improvements for future retirees...

Thirdly, the long period that it typically takes to accrue retirement benefits necessarily means a correspondingly greater urgency for action now...

Fourthly, the demographic structure of the Australian population is going to age markedly... [and] delays in increasing the present inadequate levels of superannuation support will exacerbate the difficulties in meeting the retirement income needs of an ageing population.

Finally... it is also my judgement that the pace of adjustment towards the SGL's interim target is calibrated pretty well, having regard to the current economic position and prospective developments.³

3.5 Mr Cole added that:

... the SGL will be of greatest benefit to those principally low paid workers who currently have no superannuation support, or whose only superannuation is provided under an industrial award...

... the impact of the SGL on retirement income is very progressive, with the greatest proportion of increases going to low income earners with the lowest levels of existing superannuation support, and absolutely nothing going to those who are already adequately covered by existing superannuation arrangements.⁴

3.6 Treasury, in additional evidence, provided the Committee with details of its modelling which assumed shorter periods of employment than 40 years and the retirement income benefits which might accrue. These issues are canvassed in Chapter 4.

3.7 A large number of submissions to the Committee's on-going inquiry supported the principle of compulsion to achieve long-term retirement income objectives.

3.8 The Life Insurance Federation of Australia (LIFA) supported the Treasury arguments, noting in particular that 'the superannuation guarantee will provide the savings discipline which is presently lacking'.⁵

² SG evidence, p 5.

³ *ibid*, pp 5-6.

⁴ *ibid*, p 6.

⁵ *ibid*, p 134.

3.9 Similarly, the Association of Superannuation Funds of Australia (ASFA) endorsed the Treasury comments, and added that 'the broad approach embodied in the super guarantee legislation is the most practical way forward'.⁶

3.10 Mr Block, who is a member of a superannuation working party of the Committee for the Economic Development of Australia, supported the SGL because of 'the need to build national savings and, in the process, build retirement income'.⁷ This support 'is essentially based on the view that it [the legislation] will assist marginally in increasing national saving⁸ which is a pre-requisite for faster economic development'.⁹

3.11 Two prominent academics who appeared before the Committee supported the Superannuation Guarantee Bills. The academics were Associate Professor Knox and Professor Piggott. The latter commented in relation to savings:

... it is reasonable to expect in the longer term that the fiscal implications of an ageing population will be much less severe with the SGL than without it. It is in this important sense that the SGL can be seen to help our national saving performance.¹⁰

3.12 The ACTU strongly supports the SGL. In relation to compulsion, the ACTU noted award superannuation has meant that '79 per cent of the work force are covered' by superannuation, including '72 per cent of all women workers'.¹¹ This led the ACTU to conclude that:

For those workers, the women and the lower paid, compulsion has worked and delivered benefits where a system based on incentives has failed.¹²

3.13 The extent of the additional coverage due to the SGL and the size of the superannuation savings is substantial: virtually all employees are to be covered under the SGL, and the additional superannuation contributions are estimated to rise from \$328 million in 1992-93 to \$4795 million in 2000-01 (present value dollars).¹³

3.14 The following chapters examine these and other aspects of the Superannuation Guarantee Bills in more detail. Chapter 4 considers the Bills in relation to appropriate superannuation targets and Chapter 5 sets out additional information on compliance and coverage. Chapter 6 provides greater detail on the economic impact of the Superannuation Guarantee Bills and Chapter 7 considers their interaction with the social

6 *ibid*, p 135.

7 *ibid*, p 78.

8 *ibid*.

9 *ibid*, p 80.

10 *ibid*, p 167.

11 *ibid*, p 44.

12 *ibid*.

13 SG sub no. 32, p 6.

security system. Chapter 8 deals with the effect of the Bills on State and Territory governments.

3.15 The considerable number of amendments put to the Committee are listed in chapter 9. The Committee's recommendations are in Chapter 10. A special section titled *Minority Reports* follows Chapter 10. The first minority report is by Senators Alston and Watson and the second minority report is by Senator Kernot.