According to its ardent supporters superannuation is one of the great political leaps forward. According to its increasingly numerous detractors, though, it's a misbegotten strategy. We assembled a roundtable discussion to explore the issues.

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The increasing priority given to retirement savings since the mid-1980s has tended to be traced to the demographic influence of the baby-boomers, and what is called the dependency ratio. Brian, what is meant by the dependency ratio, and why is it perceived to be a problem?

Brian: The dependency ratio is the population of 65 and over as a percentage of those aged between 15 and 64. It was 14.8% in 1980, is expected to be 17.5% in the year 2000 and 32.1% in 2040. In other words, the population is ageing. By about the year 2025, the number of people aged over 65 increases to around 35% of the population. At the same time there is also a decrease in the number of children in the population—a factor that's often overlooked. Because they are not income earners, of course, children are dependent on those who are income earners, in the same way that those over 65 are to some extent dependent on those who are in the taxation system.

Frances: It's also to do with the fact that people are living a lot longer, so that in fact the period of retirement is much greater than it was even 20 years ago.

Peter: I'd argue, however, that the impact on government spending of this trend has been overstated, and that we need to take into account the probability that in future
people will be working at least part-time for a longer period. And because the age pension system is targeted towards people with little other income, the cost of continuing with the present age pension system has also been overstated. The Economic Planning Advisory Council estimated a few years ago that the total increase in age pension and other related health and social welfare costs would be in the vicinity of 2-3% of GNP over the next 40 years. That's worth worrying about, but it's not catastrophic for government revenues, provided there are adequate revenue sources.

When I say to people overseas that the Australian trade union movement has pursued a big superannuation increase in the 1980s, they don't really know what I'm talking about. How would the problem of ageing normally be tackled in the European social democracies?

Frances: There's been a mixed response overseas. In Europe much of retirement income is funded through the taxation system. There is a levy on the people in employment and the people who need it receive it not on the basis of work performed, but simply by virtue of being citizens of the country. So women, for instance, who have not been in paid full-time work all their life, wouldn't receive less than people who did have paid work.
Why haven't we gone for a comprehensive social insurance system based on taxation?

Frances: Unfortunately I don't think it was politically or socially feasible back in the 1980s to organise it that way, because it would have implied increasing taxes. What was chosen was the only way it could be done at the time.

Brian: At that time we were massively deregulating all sorts of institutions and to move to a funded pension arrangement which would have involved the government as a regulator in a substantial way was against the general direction and attitude of government.

Diana: There was also a strong push from the state to increase domestic savings because balance of payments problems were developing. There was a feeling that increasing occupational superannuation could create a new pool of domestic savings.

To a degree the super push also arose out of the wages system. How did that come about?

Brian: In the early 1980s, as part of a wages claim, the building unions had sought an allowance payment, which had been refused by the National Wage Case bench. They hit upon the idea of getting employers to pay the equivalent of that wage increase into a superannuation scheme. What sprang from that, however, was the realisation that superannuation was something which the union movement should seek to involve itself in, for a broad range of social reasons. There was, as Diana says, a national savings pool to be controlled and to be developed, and there are significant infrastructure and development issues the working-class movement could have a say in.

Have other countries successfully taken this route? Will it lead to a comprehensive retirement income solution?

Diana: The system we've developed here is unique, so it's very difficult to say. In Sweden, the government established wage-earner funds where employers contributed into a collective fund, and the investment was then going to benefit workers collectively. But those funds didn't really tie into benefits for individual workers in the way the Australian system has been set up to do.

Brian: Australia also has a much more mobile workforce than most other countries. We don't have the concept of lifetime employment that the Japanese and a number of European countries have, which have tended to facilitate single-employer superannuation schemes, and therefore perhaps make the funding of other social security schemes easier.

Peter: One of the unfortunate things about the development of superannuation policy in the 1980s is that it has been cobbled together as we've gone along, and the goals set later on to justify the policy. Although I think we've gone too far down the track of occupational super to go back, there are a number of different ways of structuring that system which haven't really been explored or even publicly debated. It's just assumed that the age pension will potter along at around 25% of average earnings—which is a very low rate compared with other OECD nations—and that employers will contribute up to 9% of wages in super. There's been no exploration of the possibilities of raising the age pension a little, or of devoting some of those retirement savings to other purposes which are needed by people on low incomes throughout their lives. They're much more likely to become unemployed, to need retraining and to suffer poverty if they become ill.

Brian: Given the drift of demography that we've already acknowledged, I don't believe that we'll see any government take the decision to create a comprehensive tax-based social insurance scheme in the next decade or beyond.

Diana: But the vast majority of the population are not going to accumulate a significant amount in their superannuation funds, and so there is still going to be a large proportion of the population which will be totally dependent on the age pension, or at least a top-up of the age pension. So there are going to be people who will be demanding that political parties look at the age pension.

Brian: I don't think that's going to happen. Part of the theory behind the current model is to increase the real value of the pension in the long-run. The aim is to provide a sufficient retirement income to effectively take many people out of need for the pension system. But you can only do that once you've got the demographics working your way. Once you start to decrease the number of people who rely on the pension, both in percentage and in real terms, then you can start to focus on the problem of being able to increase its real value.

Diana: Another area which hasn't been adequately discussed is the possibility of redistributing income so that the inequalities of people in their working lives could perhaps be changed somewhat in retirement. Because the system is set up on an earnings-related model it means that if you have a poor time of it during your years in the workforce, you're going to have a pretty awful time of it in retirement too.

Peter: The Australian age pension system, because of its low rates and its income and asset tests, is one of the cheapest in the OECD. I really don't think there's a serious cost problem with a moderate increase in the age pension. The cost of the tax concessions for occupational super is already almost half the annual cost of the age pension, and will increase over the years. If we're concerned about the efficiency of government spending, whether it's going to those who need it and whether it's actually boosting national savings, then the tax concessions for occupational super fall down on both counts. A large proportion of those concessions are going to people who don't need them to subsidise their retirement incomes and they're going to people who are going to save in other forms anyway. According to the Treasury figures a person on three times average weekly earnings now gets a retirement income subsidy worth roughly three times that which a person on half of the average weekly earnings gets, and that includes the age pension. That's outrageous.
Frances: I was surprised at the extent to which both the Government and the Opposition had taken notice of ACoss's views on tax concessions. They've both cut out concessions for employees, although they're there for self-employed people, and they are both trying to slot in a tighter system of tax concessions on employer contributions. So my impression is that they are actually trying to be fairer on this.

Brian: It's important to realise the numbers involved in expanding the pension system. A two per cent increase in the share of GDP going to the pension system would add about another $7 billion to the government deficit before you've even touched the size of the pension. By increasing the pension from 25% of average weekly earnings to 35%—a figure that's commonly mentioned—you would probably treble the budget deficit. I can't imagine that there will be a government brave enough to do that for the sake of social security expenditure.

**'Increasing the pension to 35% of average earnings would treble the budget deficit'**

We're changing the superannuation system from a voluntaristic one based on tax concessions to a compulsory one. We've talked about the merits of that. The next logical question seems to be how much money we are accumulating, and who controls it.

Frances: It's growing very rapidly now, especially since the introduction of the Superannuation Guarantee Charge (SGC), which provides that every employee in Australia—not just people covered by awards—are to get at least three per cent put aside for them for super. It's more likely to be around $400 billion by 2000. That money is being invested by the trustees of the various funds—half employer-appointed and half employee-appointed—with the advice of the investment experts, who mainly come from the insurance industry.

Why would an employer be on the fund's trustees if workers are the contributors?

Frances: Because company funds were traditionally employer funds, the employers have always in some sense believed that it's their money, even though once it's in the funds it belongs to the member. The employers still have a very strong sense of their rights to direct where this money goes. And in fact that has always been accepted as fair. It was interesting to see the Law Reform Commission question exactly this point, and they're not exactly regarded as a radical organisation.

We've got some notion of who controls the money. Have we got any notion of what we should be doing with it?

Peter: There's not much point boosting national savings if they're not being invested in the economic development of Australia, both in the interests of the nation, and in the interests of fund members directly—because their returns depend very much on domestic economic growth. There's an ongoing debate as to whether government has a role in directing investment, given their contribution through tax concessions. My feeling is that it's a blunt instrument, and perhaps those arguments put the cart before the horse. If the tax concessions weren't so excessive in the first place, then the government would have the money itself to invest as it wished.

**Playing the devil's advocate for a moment, as a potential retiree with money in super, there would seem to be three possible directions for that money:** I could give it to the government and hope that there's a good rate of return in infrastructure; I could give the money to a private investing agency like an insurance company or a firm of investors to invest willy-nilly; or I could invest through my trustees in the economic development of Australia. It seems to me that I would be as happy living off the products of rentier capitalism, invested all around the world, as I would be off Australian infrastructure. I would want the highest rate of return whether it's in government infrastructure, Australian investment or Rio Tinto Zinc. Would that not be a valid argument?

Diana: You might not be very concerned about where your money's going, but if your children are never going to work in this country because there are no jobs, then you might think quite differently. One solution would be to find some model whereby low income earners' money is invested in very secure blue-chip securities and maybe you have a higher income invested in superannuation, some of your money can go to socially responsible investment. The important thing is to have some investment to create employment-generating opportunities in Australia.

Brian: In the early stages of industry super we had to make an assessment about what to do with the money. We had to deliver a competitive interest rate, otherwise the marketplace may well have devoured us, and that's probably taken us down a path of very traditional investment models.

**Peter:** There's also a direct impact on working people if governments don't have the money to provide services. Retirement living standards depend on a great deal more than income. They will increasingly depend on access to health-care services, so that you can live at home and be more active in the community for longer; and on the ability to re-educate or retrain yourself to make a career change later in life. All of these things are services provided by government. One of my worries is that if too much government money is invested in retirement incomes only, then governments in future are going to ask retirees to pay for these services which are currently provided free or at low cost. So people may be wealthier in income, but they'll have a lot of other expenses.

If we want to increase people's access to their savings, what should they be able to use them for?
Peter: In the battle to increase national savings clear that people earning less than average earnings are the ones not saving at the moment. The fact is that they generally can’t afford to save. So if they’re going to be forced to save, then it has to be for purposes which will really benefit them. It’s hardly in the interests of low-income earners who have just purchased a house, just had children, and rely on one income, to be putting aside money for retirement. They need it now. If someone on a lower wage suddenly finds themselves unemployed, they also need the money now. There is a problem with giving people early access to savings which are tax-assisted. It has to be very carefully structured, so that there are only limited purposes for which people can call upon the money—and I suspect it ought to have been saved for a certain period of time before it attracts a tax-concession. But it’s really not in the interests of low-wage earners to make their contribution to the national savings effort if the system isn’t more flexible and tailored to their needs.

Frances: I agree with Peter on this. When a person retires, that person must have a secure home to live in, and some income. In fact the ACTU has a policy that every member of a fund should be able to take out a sum of money after a certain number of years of membership to use as a deposit on their house. That money isn’t a loan as such, because if and when the house is sold, a certain amount of money comes back to the fund, plus a proportion of any profit. How does any low-paid worker, certainly in the large capital cities, ever get the deposit on a house? This is an ideal way to do it, via the super system.

Peter: A lot of them can’t afford it, and that’s why I think access needs to extend beyond the home loans.

The single greatest contributor to poverty for retirees is not owning their own home, is it not?

Peter: That’s correct. Something like 55% of people on the full pension are non-homeowners. It would be a politically popular decision to make home loans or deposit loans available through super and because of that governments of any persuasion will probably do something along those lines. But I must admit I have a mixed reaction to it. It has the potential, as we’ve seen with a lot of retirees, to make them asset-rich and income-poor, and I’m not sure that that’s necessarily in their interests. It also helps to abrogate the government’s responsibility for public housing. I’m concerned that we’ll see the government move away from socially desirable housing projects and developments, and they’ll use the income from superannuation funds as a means of doing that.

Frances suggested that we would have up to $400 billion in superannuation funds accumulated by the year 2000. From my rough recollection of the amount of shares traded on the Australian stock exchange, that would mean that the superannuation funds could buy all of those shares and have money left over.

Brian: Companies can issue enough equity to absorb ten times over the demand from super funds. The individual superannuation funds won’t regularly own more than around 10-20% of companies.

The superannuation industry has always had a horrible vision of a backroom meeting at the ACTU where industry fund X, Y and Z got together and said, we’ve each got 30% of BHP, that means we own it. Why shouldn’t or wouldn’t that happen?

Diana: If it meant that you got more accountability in some of these publicly-listed companies that could only be a good thing. In Britain, there are quite a number of pension funds which are now making demands that the directors of public companies be more accountable. Funds have recently called the boards of directors to account for giving themselves hefty wage-rises at a time when the rest of the workforce is having to adopt wage restraint. So these active interventions by superannuation funds could only be a good thing, surely.

The notion of corporate citizenship has come onto the agenda after the excesses of the 1980s. If you look at the UK and America, ethics in business is a big movement. Charities, universities, consumer groups, want to see how they can use their investment power to influence their companies. I remember as a student 20 years ago fighting to ensure that the university took its money out of South Africa. But we’re talking about billions of dollars now. Surely now we don’t need to ask them to change their behaviour, we have the power of dictating to them.

Peter: I don’t think such a thing is likely to happen by stealth. There would be a huge political struggle around it, involving the international as well as national markets. If a bit more accountability and democracy are achieved, then that’s good, but I don’t think it’ll get very far without major political change.

Brian: That’s right. One of the focuses of the Coalition’s policy now is to try to downgrade superannuation, and it’s partly because of their concerns about what the future holds.

The trade unions and the community in general have been on a steep learning curve about retirement incomes and superannuation. Entering this field has had a big effect on our culture and our views. But what effect has it had on the traditional providers, the AMP, National Mutual and so on? Has their culture changed?

Frances: It has to some extent, although not enough. A lot of it is token gestures. I suppose we can be arrogant enough
to say that we have influenced them to decide that trade unionists and workers actually have brains, and that they care about many of the same things that insurance companies care about—although not all.

I think we need to pursue this question of ownership and control. Despite their rhetoric about individuals taking back control of their lives, there's nothing in the Liberals' policy as democratic as the way in which the developments of the last seven years have opened up superannuation. Before the recent developments, superannuation was something that the employer gave to you as a gift, and it was something you knew nothing about and certainly didn't have any control over.

Brian: The Coalition's policy is in fact entirely regressive. The Coalition would put absolute limits on superannuation now, and would do their best to unwind what has been done so far. The Liberals' policy is really one of stopping the average person improving their lifestyle and their relative income position, which superannuation has the potential to do.

Diana: That's one of the reasons why we have to be very clear about identifying that employees have a share of the action in industry funds, because the trustees of industry funds are in fact directly representing the employees. If we move towards a system where the superannuation funds are run by the banks, there will be no accountability for the employees in the funds.

Diana: One thing we haven't talked about is that women continue to be seriously disadvantaged in this system. Because the system is earnings-related and dependent upon how long you're in the workforce, the fact that women are always in the lower sectors of the workforce and tend to have broken patterns of employment means that women will never accumulate a sufficient amount of money for their retirement. So we've got to be demanding that the government look at some way either to give graded tax benefits for the first 10 years of employment, or some other means of addressing the inequity of women in superannuation.

Brian: Don't you think that some aspects of a family model, and I use the word loosely, are now underlying part of the government philosophy?

Diana: Yes, but that sort of family model is not the model that most Australians live under now.

Brian: I take the point that there are some single women who bear children and leave the workforce, and they are an increasing group, but there is still a large percentage of single people who don’t leave the workforce. And within the family model there is now much more accountability on equality in divorce.

Diana: But the amount of money the woman is going to get on retirement is still going to be precious little.

Brian: I don't disagree that the model is loaded somewhat towards males, and not just somewhat, but I think we should also acknowledge that we have come a fair way towards redressing some of the imbalance.

Diana: In the past women didn't get anything.

Frances: I know from my own experience. I was out of the fulltime workforce for seven years and then came back in my 40s, with no super at all. Women previously had nothing, unless they were tied to a man who lived as long as they did or who left them a certain amount of money. Women will work more during their working lives, and will earn more, but they'll never make it up completely. The only way is to make sure that the age pension is subsidised properly to allow for the fact that women have worked throughout their lives, though not necessarily in paid work, let alone well-paid work. The pension system has to be kept viable and with a structure that builds up the money for the people who actually still need it. And they'll be women.

There's an attempt by the industry at the moment to blur the distinction between industry funds and general products that they're bringing on to the market. These general products, which they are portraying as offering freedom of choice, in fact offer you the ability to sign away whatever ownership and control you've got.

Frances: The argument about freedom of choice is ridiculous anyway. The Opposition like to imply that freedom of choice means freedom of choice for the member. When you question them, it turns out that what they really mean is freedom of choice for employers to decide where they will put the money. For instance, the state government of NSW slotted specific legislation on freedom of choice of superannuation fund into their industrial relations act.

That would mean, wouldn't it, that an employer who is making a compulsory contribution can decide which fund to make that contribution to, whereas the model promoted by the ACTU argues that the fund that the employer should contribute to should be specified? That is, it should be an industry fund.

Frances: Yes, and there are very good reasons why this should be so. An employee changes jobs six times in a lifetime on average, and the idea is that an employee will have an account throughout their working life into which the superannuation payments will be made. From the employer's point of view, they want to write out one cheque every month for superannuation to the industry fund. So the whole idea of freedom of choice from the employer point of view is crazy, because the employer is not going to write 100 or 1,000 superannuation cheques every month.

Brian: Freedom of choice is a really dangerous marketing tool at the moment. At present a number of institutions are coming up with some very slick marketing campaigns which do not disclose fees or the range of costs. People end up buying what is really an inferior product.