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National Reform Summit: Four Takeaways

While the National Reform Summit has set up a practical action plan for a sustainable retirement income system, the real work is yet to begin.

Superannuation may be forever a political battleground, but the truth is that away from the party political noise a rare consensus is growing on how to build a sustainable retirement incomes system.

At the National Reform Summit, groups from across society backed a [final statement](#) that called for a holistic approach to reforming our retirement income system to improve adequacy, efficiency, fairness and sustainability.

Will we look back on the summit as the pivotal moment when complacency and narrow stakeholder interests were overtaken by urgency and public interest? Time will tell what the lasting consequences of the summit will be. In the meantime, here are four practical takeaways from the summit.

1. **‘Retirement’ is not what it used to be:** Australians no longer hit 60 and head for the bowling green. We’re fitter, healthier, living longer and still contributing well into what used to be known as our ‘golden years’. That means there’s ample scope to increase workforce participation, which has multiple benefits - increasing individual incomes, taking pressure off government budgets and making greater use of the collective and hard-won knowledge of experienced workers. Of course, we’ll need to invest in retraining and continued education, while employers and society will need to rethink how they view older workers.



2. **Retirees are bearing too much risk:** Living longer, healthier lives comes with the expectation of higher living standards. The problem is that too many people are living overly frugally for fear of depleting their savings (what policy people call “self-managing longevity risk”). Living longer also raises the question of how to finance a suitable standard of aged care. Ensuring you can live comfortably without fear of outliving your savings points to the need for products that deliver retirement streams and provide insurance against the risk of longevity. It will also require policies that do not hinder the take-up of these solutions.
3. **Set the right objective** - Superannuation should not be about wealth creation but about ensuring people have adequate and secure incomes through all the years of their retirement. We need to formally set that as the goal of our system. We also need to make changes to ensure that all parts of the retirement system are aligned with this objective. In particular, this means ensuring that superannuation is used for *genuine* retirement income purposes.
4. **Tax concession issue is not everything, nor is it nothing** - Claims that tax concessions for super total \$30 billion and are heading for \$50 billion are exaggerated and don't help the debate. Still, it is beyond dispute that a flat 15% nominal super tax rate favours high-income earners and imposes a penalty on low-income earners, running counter to the idea of a progressive income tax system. Yes, using effective *marginal* tax rates complicates the analysis, but it doesn't change the fact that the concessions skew towards the rich and don't serve the system's objectives. While cutting back the concessions would not be a silver bullet, it would help fiscal sustainability and is a necessary condition for maintaining community support for the system.

Australia led the world in setting up the superannuation system, but increasing longevity, inadequate retirement incomes and pressured budgets mean we can't rest on our laurels.

Instead of piecemeal change, we have a chance now to take a holistic view and adopt a bipartisan retirement income reform package as part of a broader growth program.



The package would include better targeting of our scarce tax dollars, moves to encourage greater workforce participation of older people (who can contribute much longer than formerly) and initiatives to ensure funds are used for genuine retirement purposes.

Each of these changes fits nicely into the key planks of the wider economic agenda of increasing productivity, lifting fiscal sustainability and generating bold tax reform that allows government to deliver the services Australians demand.

Not adopting a clear and practical sequence of reform risks leaving Australia, as former Treasury Secretary Martin Parkinson so succinctly declared, “sleep walking into a real mess”.

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