FOR IMMEDIATE RELEASE

November 24, 2016

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Keeping it Simple on Super

The superannuation sector's push to include a reference to retiree living standards in the proposed legislated objective for super could prove counter-productive for most Australians, an independent think tank has warned.

The Committee for Sustainable Retirement Incomes (CSRI) says the industry's insistence on a "comfortable" income target is unrealistic, puts pressure on the federal budget and threatens the living standards of people still in the workforce.

"The legislation setting an objective for super is not the place for audacious goals that lock governments into putting retirement income provision ahead of other important policy aims," CSRI executive director Patricia Pascuzzo said.

The federal government this week passed into law the reduction in super tax concessions that it first unveiled in the federal budget in May. But still in question is its plan to set an objective for super as providing income in retirement that substitutes or supplements the age pension.

Representative bodies, including both the retail and industry funds, are arguing for a more prescriptive definition that incorporates references to a "comfortable" income in retirement and an increase in the compulsory contribution rate to 15%.

However, Ms Pascuzzo said while it is legitimate for the industry to set aspirational growth targets, research shows most people would struggle to reach the sector's standard of a comfortable retirement income.

“The realistic goal is for compulsory super to support retirement income for the majority at a level above the pension but less than pre-retirement income, given that expenses are generally lower in retirement.”

Under Association of Superannuation Funds of Australia (ASFA) benchmarks, a couple would need an annual income of $60,000 to enjoy a “comfortable” lifestyle in retirement. For singles, this is around $43,000. The benchmarks for a “modest” lifestyle are $34,000 for a couple and $24,000 for a single person.

However, Ms Pascuzzo said research shows that even for people on incomes of two and a half times the national average currently legislated mandated savings would be insufficient to achieve ASFA’s ‘comfortable’ living standard.

And for those on lower incomes, achieving the comfortable retirement target would require sacrificing current consumption to achieve higher living standards in retirement than during their working life.

“Low-income people with dependent children and with more pressing immediate needs would face an intolerable burden,” she said.

The superannuation guarantee, introduced in 1992, increased to 9.5% of the ordinary time earnings of employees from 2014/15. If the budget permits, the government plans to increase it by 0.5% each year from July 1, 2018 to July 1, 2022, at which time it would be 12%.

Historically, super increases came from wage increases and played an important role in addressing inflation growth. According to Ms Pascuzzo, increases in compulsory contribution should also be graduated in line with capacity to pay.

Further “ Capacity to pay means that employees should still receive net income increases and that labour costs are growing no faster in real terms than national productivity increases.”

Ms Pascuzzo said, research suggests a 12% contribution rate would be adequate for a large proportion of those on below-median earnings to achieve an income of 65% of pre-retirement income (a commonly used benchmark internationally).

Based on this benchmark, people on disposable incomes of less than $44,000 (the majority) could realistically aim for retirement income of about $29,000 - above the age pension and broadly in line with the ASFA’s “modest lifestyle” standards.

However, with the increase to a 12% compulsory contribution rate contingent on other economic factors, Ms Pascuzzo said the policy focus for now should be on making the most efficient use of existing and new superannuation savings at currently legislated rates.

This includes the more effective translation of super balances into sustainable retirement incomes throughout retirement and the interaction with policy settings around housing and aged care.