

Submission to the Australian Treasury - Retirement Income Review

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Background

The coalition government has commissioned an independent review into the retirement income system. The review will focus on the three pillars of the Australian retirement income system; age pension, compulsory superannuation and voluntary savings (Australian Treasury 2019).

Issue

One of the discussion points in the review will be Superannuation Guarantee contributions and the planned increase to the percentage figure. It is my view that compulsory superannuation is one aspect that needs to be changed in order to improve Australia's retirement system.

Currently, employers must pay Super Guaranteed (SG) contributions to an employee's account of 9.5%, where an employee is over age 18 and earning over \$450 per month (Superannuation Guarantee Act (Cth) s27(2)). The current SG rate is 9.5% and is legislated to begin increasing in 2021 until it eventually reaches 12% in 2025 (Superannuation Guarantee Act 1992 (Cth) s19 (2)).

Effectively, compulsory superannuation contributions are forcing employees to direct a significant proportion of their wage to their retirement savings. This is a significant issue for low-income earning Australians who find it critical to prioritise their immediate expenditure needs over their future retirement income.

Concerns

Low-income earning Australians are at risk of entering retirement without owning a home. If they are to receive an extra 9.5% in wages (rather than in superannuation contributions) they may have the borrowing power to purchase a home, or a cash flow surplus significant enough to save for a home deposit.

Those retirees who enter retirement with their own home are at a significant advantage when compared to those who don't. This is as they are able to have somewhere to live without having to pay rent and are therefore insulated from rising housing costs. A 2018 report by the Gratton Institute has also suggested that retirees who rent are more than twice as likely to suffer financial stress, including having to skip meals and failing to pay bills on time.

Further to this, in many cases, the aged pension actually provides a higher income to some Australians compared to the income they earn whilst working. This is not the intention of the retirement income system. By continuing with SG for low income earning Australians we will

be only compounding this issue, as the compulsory superannuation system reduces working income in exchange for an increased retirement income. For low-income earning Australians, it more important to increase working income rather than to increase their retirement income.

Recommendation

I would recommend that compulsory SG contributions should be removed for low income earning Australians and should instead be paid to them in the form of wages rather than to their superannuation fund. This way, funds will be available for immediate use for day to day expenses (including home purchasing costs) rather than be preserved until retirement.

Currently Australians who earn less than \$66,667 per annum are entitled to the low-income tax offset. I would recommend that this benchmark be maintained when considering which Australians should be exempt from compulsory SG contributions. These low-income earning Australians should still be allowed to make voluntary concessional super contributions up to the concessional cap should they wish to do so. This will ensure they have access to the same tax concessions as middle- and high-income Australians.

The benefits

Low income earning Australian will now have a higher disposable income. This means more spending power in the hands of those who need it most. This will result in a gain to the real economy as funds can now be spent rather than be directed to financial institutions and preserved until retirement.

Further to this, Australians who need it most will now have an increased income that can be used to purchase and repay a home during their working life. Housing costs can be the highest living expense for retirees who rent, by having the opportunity to own a home they can be protected against these costs and direct their money towards other living expenses and avoid poverty.

Finally, retirees who have purchased a home will maintain the ability to pass on an inheritance in the form of their home upon their passing even if they have very little other financial assets. This is an important objective for many Australians.

Likely Rebuttals

There is likely to be a rebuttal argument that the aged pension is not sufficient to fund a modest retirement. However, for many low-income earning Australians, the age pension will in fact be an increase to their usual income. Further to this, it is unlikely that low income earning Australians will ever accumulate enough retirement savings to self-fund their entire retirement. They will inevitably be forced to rely on the aged pensions once their insignificant personal retirement funds are unavoidably exhausted.

It may also be argued that it is unfair to allow low-income earning Australians to receive their SG contributions in the form of wages, where this same concession is not available for middle- and high-income earning Australians. The government already provides a significant amount of benefits to low income earning Australians, in the form of tax breaks, social security,

subsidised health care and so on. The government understands the explicit need to continue to assist financially disadvantaged Australians. Removing compulsory SG contributions is another imperative way to do this.

References

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- Superannuation Guarantee Act (Cth) s19-27