

# Better living standards and a stronger economy: the role of superannuation in Australia

Summary Report

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Report produced by the Allen Consulting Group

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## Introduction

Superannuation delivers substantial direct and indirect benefits to the Australian economy and the individual Australians. The report provides evidence on the range of benefits that are provided. In particular, it demonstrates that superannuation:

- Benefits the Australian economy through driving economy by way of its impact on national savings and investments.
- Reinforces the government's budgetary position through reducing the amount needed to be spent on the Age Pension and by increasing government revenue through taxes collected both directly from superannuation and from the economic activity it generates.
- Benefits families through assisting them to save for retirement and enabling retirees to enjoy a better standard of living in retirement.

## Key findings

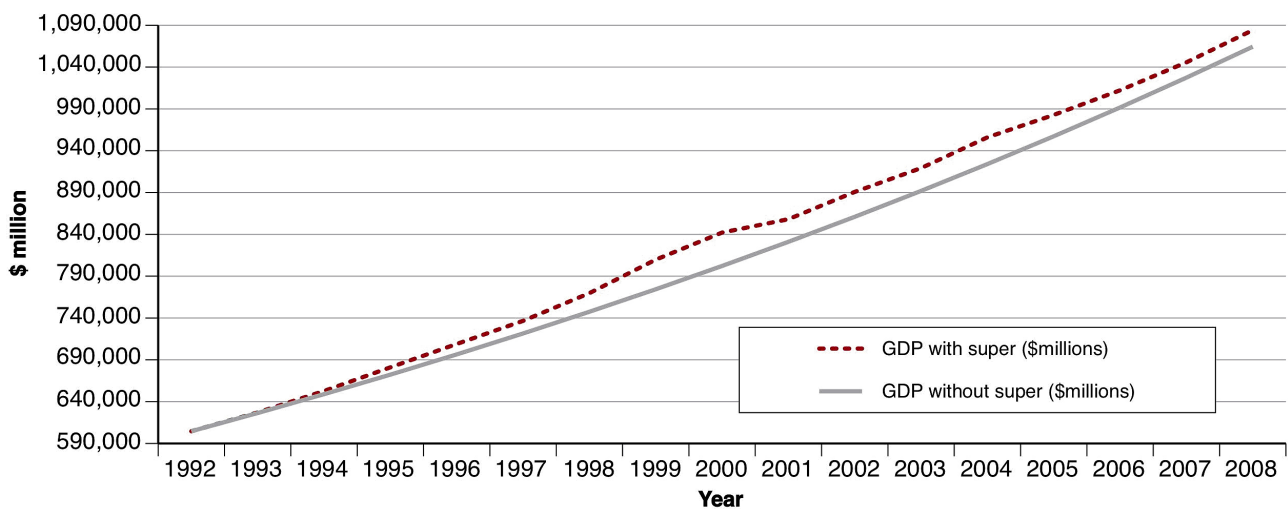
### *Benefits to the national economy*

Since the introduction of compulsory superannuation, the total pool of savings in the Australian economy has grown to more than \$1.1 trillion. The report finds that the Superannuation Guarantee has lifted the household saving rate in the range of 1.5-2 per cent of gross domestic product (GDP). Government policies encouraging superannuation have added to both household savings and wealth.

Allen Consulting used a macro-economic growth model relating GDP to the amount of capital and labour in the economy to estimate that without superannuation, investment would have been \$14 billion lower (4.5 per cent) than the \$312 billion it actually was in 2008 and the capital stock would have been almost \$144 billion less.

Based on these figures Allen Consulting estimates that without superannuation, GDP would have been 1.8 per cent lower in June 2008. This is a difference of almost \$20 billion. Without superannuation, GDP may have been only \$1.06 trillion in 2008, as opposed to the actual figure of \$1.08 trillion.

**Figure 1: GDP with superannuation and GDP without**



On a per capita basis, without superannuation, individuals on average would have been worse off in 2008 by around \$930 a year, or almost \$2,400 per household.

GDP with superannuation is projected to reach \$1.7 trillion in 2020, but would only reach \$1.6 trillion if there were not superannuation-financed investments.

Superannuation drives investment through shareholdings in Australian companies, infrastructure and venture capital. Superannuation is also increasingly supporting consumption expenditure by retiree households, with around \$40 billion a year in lump sum and pension benefits.

### *Benefits to government*

While superannuation receives tax concessions, it also makes a substantial direct contribution to the tax base. Secondly, by generating economic activity, superannuation increases tax revenue. Thirdly, superannuation eases the burden on the Government in terms of paying for the Age Pension. These three impacts — both direct and indirect — amount to just over \$15 billion (2009-10) and the sum is increasing.

**Figure 2: Superannuation's contribution to tax revenue**

	2008-09
Direct superannuation tax revenue	\$7,990 million
Tax revenue generated by economic activity from super	\$5,251 million
Savings on the Age Pension	\$1,760 million
Total	\$15,001 million

Without tax concessions, few Australians would contribute to superannuation beyond the mandatory component — thus reducing the total stock of superannuation contributions and in turn reducing superannuation-generated economic activity and increasing Government spending on the Age Pension.

The tax concessions come at a cost to revenue, but are justified because they promote better and more sustainable standards of living for the long term.

### *Benefit to Families*

Superannuation plays a key role in lifting living standards in retirement. Retirees with superannuation have a significantly higher gross weekly income than those without superannuation. Of retirees with superannuation in 2007, 60 per cent had gross total weekly income of at least \$300. In comparison, for retirees without superannuation, only 17.5 per cent had a gross total weekly income of \$300 or more.

The Allen Consulting research provides a case study of two middle-income families, one with superannuation and one without, and also a case study of two low-income families, one with superannuation and one without. These case studies clearly demonstrate the financial benefits in retirement of superannuation.

Holding all else constant, the Allen Consulting research finds that a middle-income family with superannuation is better off by around \$116,711 over the life of the family than a middle-income family without superannuation. This is principally due to the different tax treatment.

A low-income family with superannuation that makes additional contributions out of after-tax income is better off than a low-income family without superannuation by around \$148,717. This is due to the more favourable tax treatments and the government co-contribution.

The case studies above illustrate that compulsory superannuation contributions are effective in raising the standard of living for retirees. These calculations show that, for low-income families, compulsory superannuation contributions combined with the Age Pension are sufficient to fund a modest lifestyle in retirement (in terms of the Westpac ASFA Retirement Standard) for the expected duration of retirement. If low-income families make additional contributions to superannuation, a comfortable lifestyle (again in terms of the Westpac ASFA Retirement Standard) is achievable for a significant period of time.

Middle-income families who make compulsory superannuation contributions can afford a comfortable lifestyle for their full life expectancy after retirement, with the help of a part Age Pension. However, they would need to make additional contributions if they wish to extend this lifestyle beyond the average life expectancy after retirement.

Superannuation ensures that retired Australians are full participants in the Australian economy. The research highlights that retirees with superannuation have significantly higher incomes than those who rely exclusively on the Age Pension. This enables them to satisfy their needs including spending on day to day necessities as well as leisure. The Australian economy relies on the active economic participation of all citizens.