

MOVING THE SUPERANNUATION GUARANTEE FROM NINE PER CENT TO 12 PER CENT

In 2011, ASFA commissioned The Allen Consulting Group to prepare a report, which among other things, confirmed through modelling, the large benefits to the Australian economy of increasing compulsory superannuation from nine to 12 per cent. It is an important measure to deliver a comfortable retirement income for all Australians. It is timely to provide an extract of this report so that the community discussion is an informed one, based on facts. A copy of the full report can be downloaded from the Research section of the ASFA website.

Why an increase in the Superannuation Guarantee (SG) to 12 per cent is necessary

- The current level of contributions is not sufficient to support Australians' lifestyle expectations for their future retirement.
- A nine per cent SG will generate low retirement incomes by international standards, well below average Organisation for Economic Co-operation and Development (OECD) replacement rates for the average worker.
- Since compulsory superannuation was first introduced there has been a significant increase in life expectancy. In 1983, an Australian female reaching the age of 65 could expect to live on average for another 18 years, while an Australian male could expect to live for a further 14 years. By 2002, these figures had risen to 21 years for females and 18 years for males. Even if nine per cent contributions were sufficient when the SG was announced, these increases in life expectancy imply that a substantial increase in the rate of the SG is required.
- Survey evidence indicates that a large majority of Australians support an increase in the SG to 12 per cent.

An increase in the SG is affordable for employers

- The analysis in this report indicates that in the long-run there will be no negative impact on employers, because employers will pass on the burden of increase either in the form of price rises on the goods and services they sell, or in the form of lowered wages (or wage growth) for their employees, or both.
- Employer costs could be increased in the short-term but the impact in any given year would at most be 0.25 per cent or 0.5 per cent of wages. For a small employer with a wages bill of \$100,000 this amounts to \$250 to \$500. As well, the Government has announced a reduction in the company tax rate and also accelerated depreciation provisions for small businesses. Both of these measures will assist employers to deal with any cash flow issues.
- The economic literature suggests that an increase in the SG is likely to have no negative impact on employment by lowering the real wage, and empirical modelling appears to confirm that.

An increase in the SG is affordable for the Government

The net fiscal cost of compulsory superannuation (including the increase in the SG) is estimated by Treasury to peak at less than 0.5 per cent of gross domestic product (GDP) before gradually falling to less than 0.2 per cent of GDP. In comparison, the current fiscal cost of the Age Pension is around 2.7 per cent of GDP and this is expected to increase to around 3.9 per cent of GDP by 2050.

Impact of the increase in the SG on the economy generally

Econometric modelling indicates that an increase in the SG after 12 years (compared to the base case of leaving the SG at nine per cent) will:

- Increase investment by 1.3 per cent.
- Increase exports by 1.04 per cent.
- Increase the capital stock by 0.9 per cent.
- Have no discernable impact on the Consumer Price Index (CPI) or the level of employment.
- Increase the real wage rate by 1.06 per cent.
- Increase real GDP by 0.33 per cent (equivalent to around \$200 a year for every Australian).