

Poorer retirees, higher taxes: the alternatives to 12% compulsory superannuation



Executive Summary

Superannuation has delivered more financial independence in retirement for millions of Australians, has lowered pressure on the Federal Budget, and has created a pool of savings that strengthens the economy.

This paper analyses alternative models to Australia's world-class retirement system, and analyses alternatives where the Superannuation Guarantee was reduced to 9 per cent, or where compulsory superannuation did not exist.



Superannuation is good for people's retirements

Poverty rates in retirement have decreased from 30% in 2001 to 11% in 2022, and are on track to fall further. Reducing the rate of compulsory super would increase the incidence of poverty in retirement. Abolishing superannuation would double the rates of Australians retiring in poverty.



The Federal Budget is in a stronger position because of super

Government expenditure on the Age Pension sits at 2.3%, compared to the OECD average of 9%. Reducing the rate of compulsory super would mean around 2.5% GDP expenditure on the pension, and up to 5.1% if Australia had similar retirement settings to New Zealand.



Australia's economy benefits from superannuation

Reducing the rate of compulsory super would reduce year-on-year national saving and investment, which ultimately would lead to a lower stock of productive capital, lower levels of GDP and lower average living standards. Reducing the compulsory rate from 12% to 9% would mean permanently lower GDP of around 0.5%.



Super funds are a vital funding source for the business sector

Institutional super accounts for around 30% of the stock of funding liabilities of the Australian business sector. Super investments in domestic assets total around \$1.5 trillion, including \$260 billion in domestic infrastructure and property.

Age Pension impacts

Superannuation exists to deliver income for a dignified retirement. As the system matures, super is reducing pressure on future taxpayers, including through reduction in expenditure on the Age Pension.

Australia is one of the only nations in the OECD that will see a reduction in Age Pension expenditure, despite an ageing population.

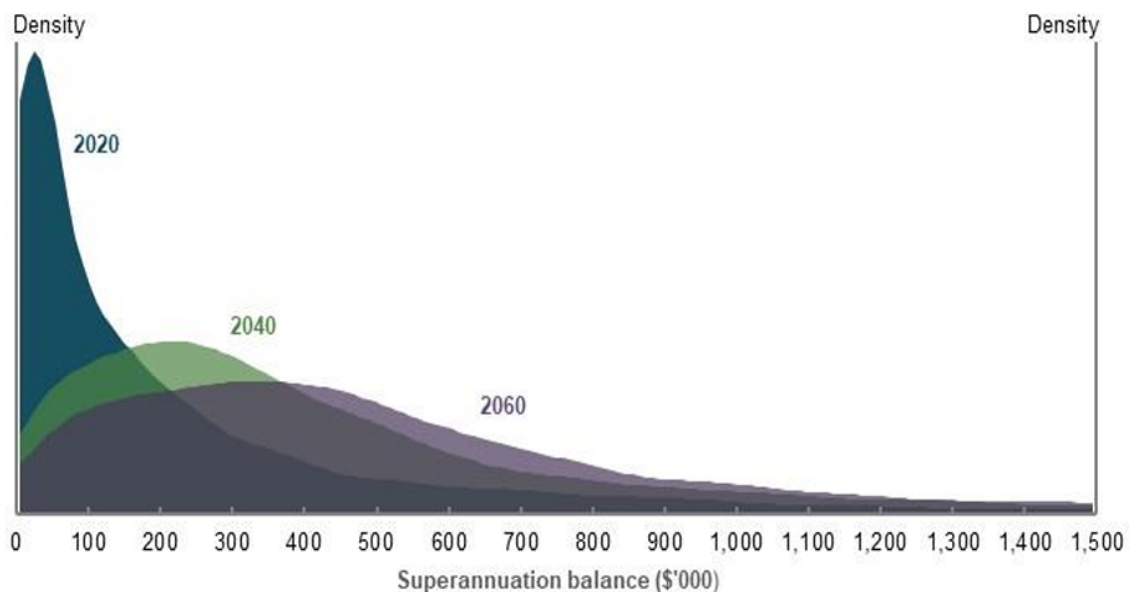
Impact of superannuation on the cost to government of the Age Pension

Compulsory superannuation has been delivering better retirement incomes for Australians while at the same time helping to contain Age Pension expenditures. Despite an ageing population structure and increases in the real level of Age Pension payments, particularly for single persons, expenditure on the Age Pension has fallen from around 2.6 per cent of GDP to around 2.3 per cent of GDP. It is anticipated that the next Intergenerational Report will indicate that there will be a further decline despite the ageing of Australia's population structure.

By 2060, superannuation balances of new retirees are on average projected to be much higher than for those who retired before them. Future superannuation balances at retirement will also be more equally distributed between retirees compared with those in 2020 (Chart below reproduced from the Retirement Income Review Final Report).

Chart 1: Projected distribution of superannuation balances at retirement

Chart 3A-10 from the Retirement Income Review Final Report



Note: Values are in 2020 dollars, combined for the three trailing years, and deflated by average weekly earnings. SG rates in the future will increase as per the relevant legislation. This involves the SG rate rising to 12 per cent by July 2025. Source: Treasury estimates for the review using MARIA.

Without superannuation, expenditure on the Age Pension would rise to around 3.3 per cent of GDP. If compulsory superannuation was at the rate of 9 per cent of wages rather than 12 per cent of wages, the expenditure on the Age Pension would be around 2.5 per cent of GDP. Given the thresholds for the Age Pension means test, additional contributions to superannuation have a bigger impact on reducing the cost of the Age Pension while still substantially increasing retirement incomes. It would be safe to estimate that the abolition of superannuation would lead to similar retirement policy settings as in New Zealand, which presently devotes around 5 per cent of GDP to the Age Pension.

Impact of superannuation on the percentage of retirees receiving the Age Pension

Compulsory superannuation is leading to a smaller proportion of the relevant age group receiving the Age Pension.

In 1997, the take-up rate for the Age Pension and the age-related Veterans Pension was 79 per cent. By 2007, this had fallen to 75 per cent. This take-up rate for the Age Pension will decrease further as superannuation balances increase and if the trend for more people to remain in paid work after age 67 continues. The decrease will be particularly marked for those in their late 60s.

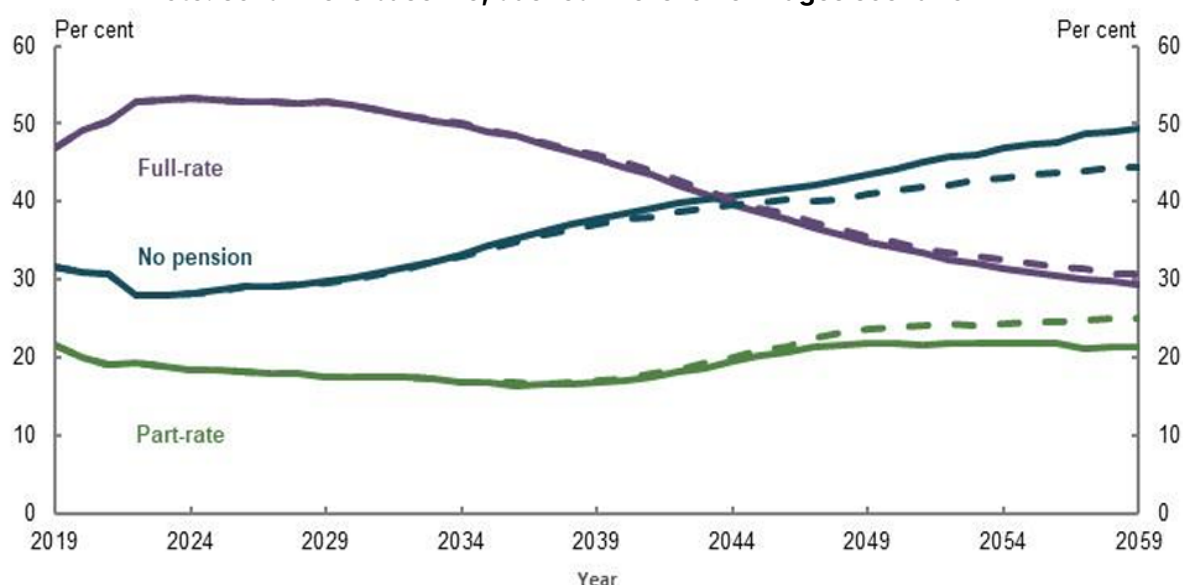
Projections in the 2020 Retirement Income Report published by the Treasury that were calculated by Rice Warner (Chart reproduced below) indicate that going forward the percentage of those on the Age Pension receiving a part Age Pension will increase significantly, with less reliance on a full Age Pension. As well, by 2059 the percentage of the age group eligible to receive the Age Pension will drop to around 50 per cent, from around 70 per cent in 2019.

These developments are largely due to the operation of the compulsory superannuation system.

Chart 2: Age Pension population projection on balances at retirement

Chart 4A-30 from the Retirement Income Review Final Report

Note: solid line is baseline, dashed line is lower wages scenario



Source: Analysis of Rice Warner estimates for the review.

In the absence of compulsory superannuation, the rate of those aged 67 and over receiving the Age Pension would be around 80 per cent, with around two-thirds of those on the full Age Pension.

If the Superannuation Guarantee were at the rate of 9 per cent rather than 12 per cent, ASFA projections indicate that around 60 per cent of the age group would be receiving the Age Pension in 2059 rather than the 50 per cent under current policy settings. As with the impact on the aggregate cost of the Age Pension, the contributions above 9 per cent have a significant impact on the take-up rate for the Age Pension.

Impacts on sources of retirement income and on rates of poverty

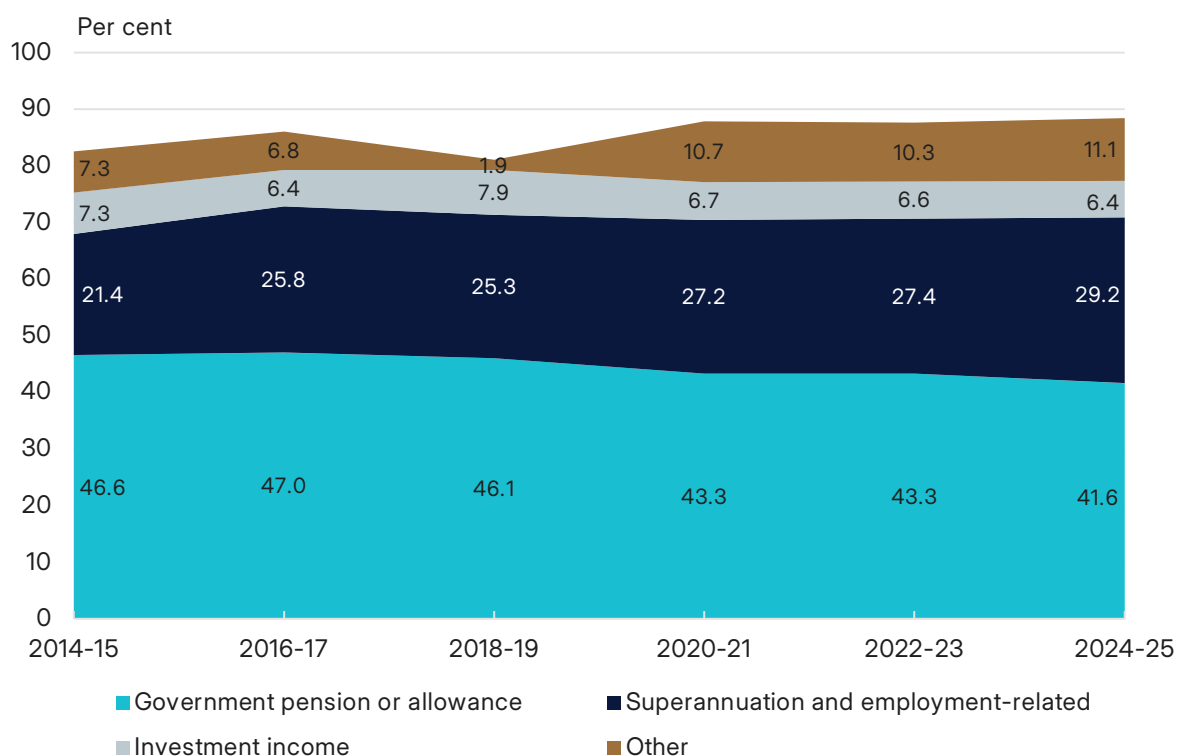
The universal nature of superannuation means that 19 million Australians now have an account. Almost all working Australians today receive super contributions.

Superannuation funds today pay \$66 billion in pension payments. There has been a substantial reduction in the incidence of poverty in retirement – with poverty among Australians 65+ falling from 30 per cent in 2001 to 11 per cent today.

Developments in reliance on superannuation

Compulsory superannuation has led to a large and growing share of retirees benefiting from superannuation as their main source of income. This has also led to a declining proportion of retirees relying on the Age Pension or other government-funded income support.

Chart 3: Share of retirees aged 45 and over, by main source of personal income



Source: ABS, *Retirement and Retirement Intentions*.

In the absence of compulsory superannuation, the percentage of retirees with superannuation as their main source of income would be likely to drop. ASFA estimates indicate that the percentage could fall from around 45 per cent to 15 per cent in 2060. Superannuation contributions at only 9 per cent would be likely to lead to a fall to 35 per cent, increasing pressure on the Age Pension.

Poverty rates for those aged 65 and over

Compulsory superannuation plays an important role in the avoidance of poverty in retirement. According to the Retirement Income Review, around 23 per cent of retired single women and 25 per cent of retired single men are in relative poverty, while around 12 per cent of both single men and women are in financial stress in retirement. Around 10 per cent of coupled retirees are in poverty, and 9 per cent are in financial stress. Because there are more women in retirement, there are a greater absolute number of single women than single men in poverty and financial stress in retirement.

The Age Pension is just above or just below the poverty line (depending on the definition of poverty used). In the absence of compulsory superannuation, the percentage of retirees assessed as living in poverty would increase substantially as superannuation is the main financial asset of most retirees.

Without compulsory superannuation, poverty rates could double to around 50 per cent for single persons and for couples. If the SG rate was only 9 per cent, the current rates of poverty would be static. The SG at 12 per cent would see a continued fall in poverty rates as superannuation would last longer in retirement for retirees who otherwise would be below the poverty line.

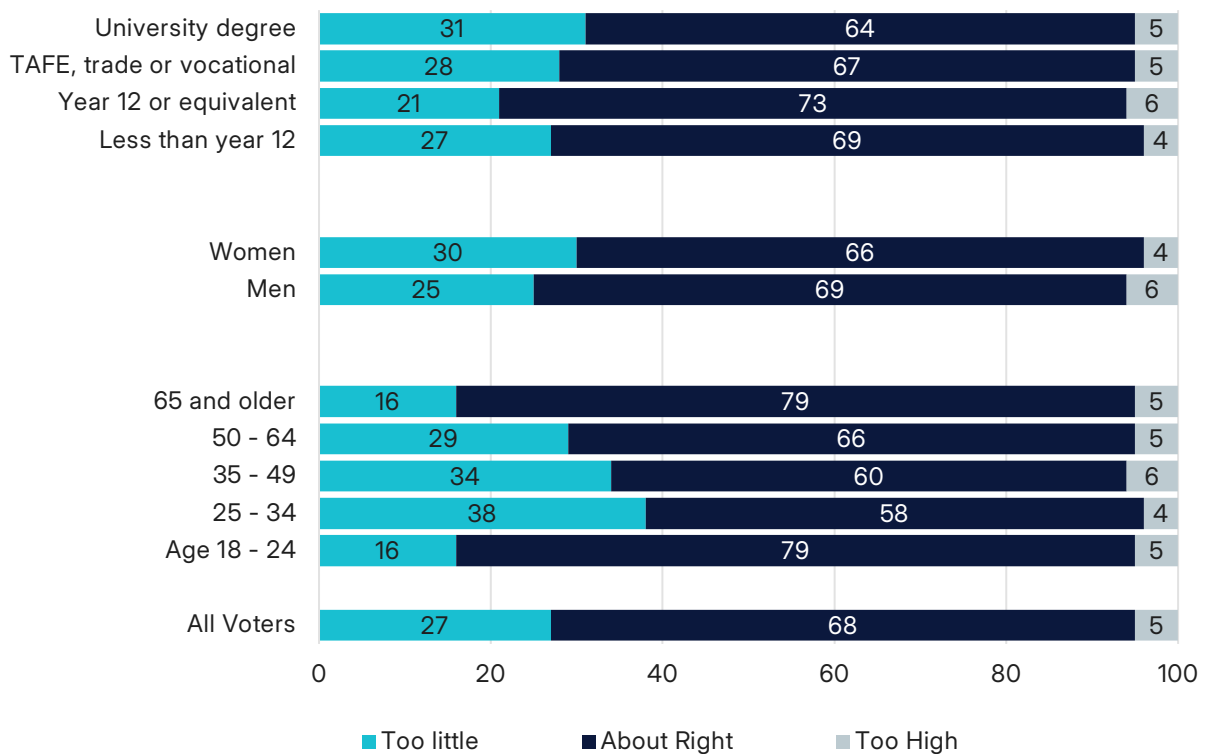
Community views on the rate of super

There is strong community support for maintaining superannuation at 12 per cent, and high levels of opposition to reducing the superannuation rate to 9 per cent, even if the difference was received as wages or income.

A 30-year-old on the median income would be approximately \$130,000 worse off in retirement if the rate of superannuation was permanently lowered to 9 per cent.

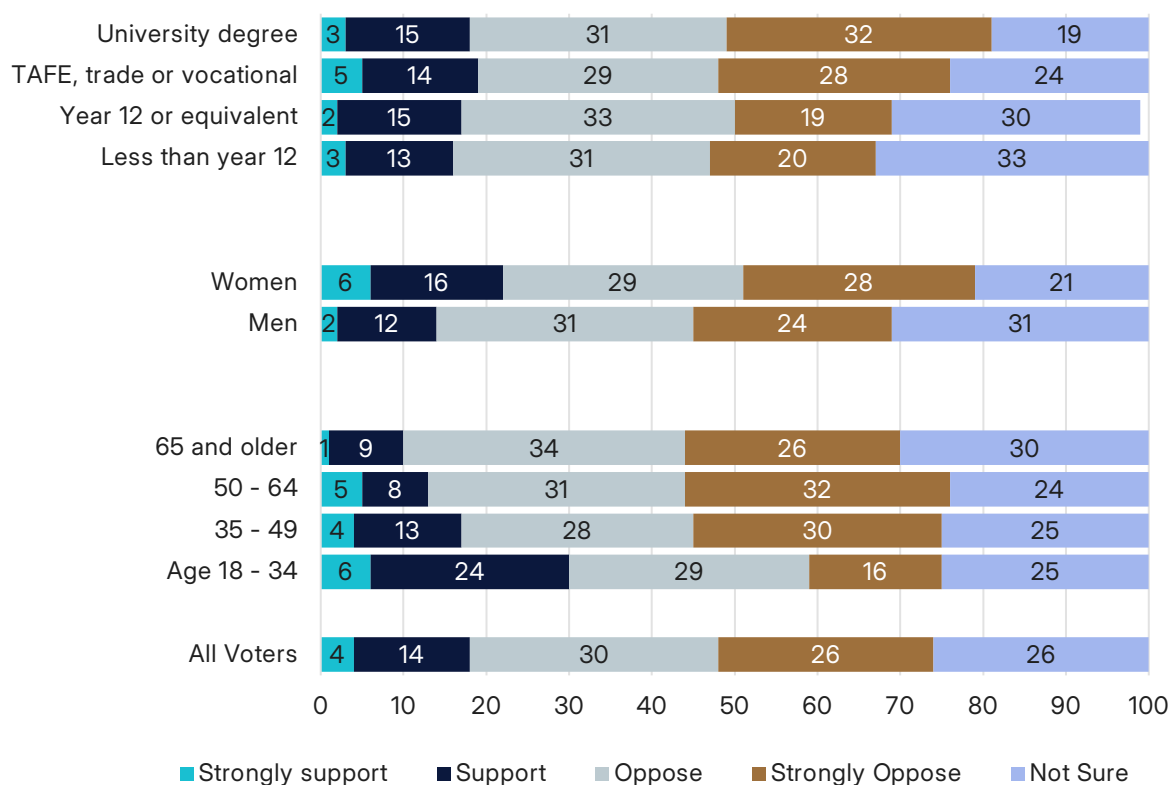
ASFA conducted a national survey in early 2026 to better understand Australians' perceptions of a range of issues related to superannuation. The results of this research indicate strong opposition to decreasing the rate of compulsory superannuation from 12 per cent to 9 per cent. The level of opposition to a lower rate increases with age and the level of educational attainment. Women also have a higher level of opposition on average than men.

Chart 4: Survey results for support for the 12 per cent SG rate (percentages)



Source: ASFA Survey on Retirement, March 2026.

Chart 5: Survey results for reducing the SG rate to 9 per cent, even if the difference was received as wages or income (percentages)



Source: ASFA Survey on Retirement, March 2026.

The macroeconomic impact of a permanent reduction in the SG rate

Over the long term, a permanent reduction in the compulsory superannuation rate would lead to lower levels of national saving and investment, and ultimately lower levels of economic output and average labour productivity. This would translate into lower average living standards for Australians.

Household and national saving

A lower contribution rate for compulsory superannuation would lead to lower levels of household and national saving.

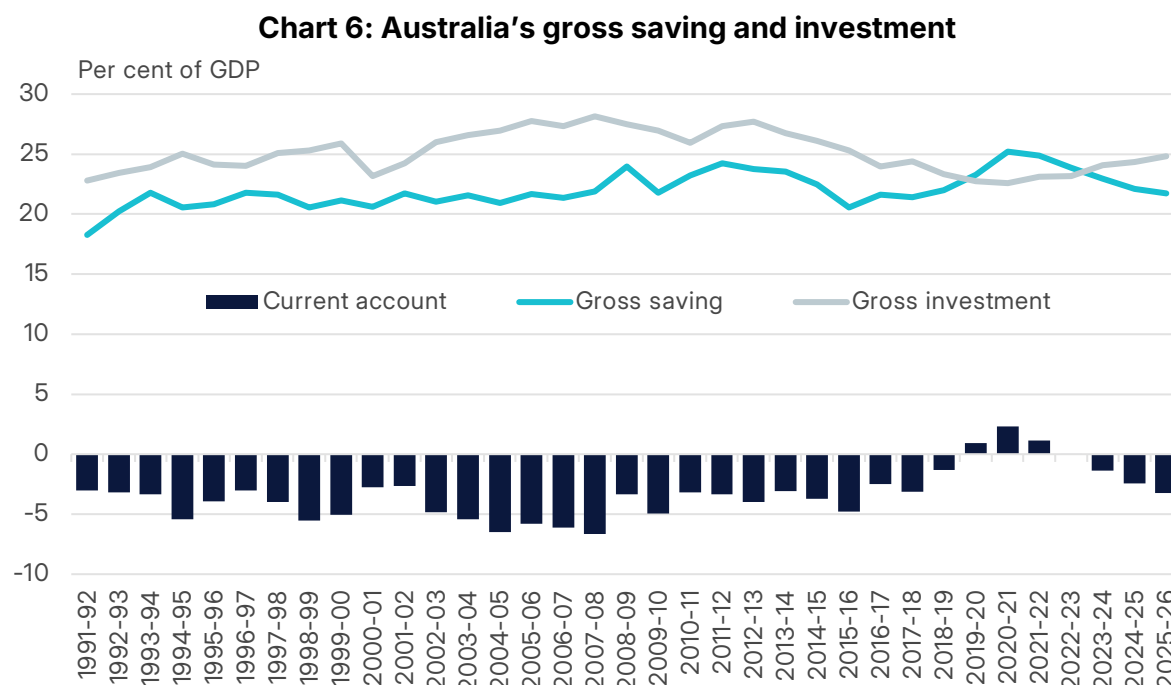
Australia's compulsory superannuation system has led to households saving a larger proportion of household income than otherwise would have been the case, year-on-year. Higher saving through superannuation does result in lower saving via other means, as superannuation is only one of a range of saving options. However, the net impact of compulsory superannuation on household saving is positive. Broadly speaking, studies find that for each dollar of saving via compulsory superannuation, net saving by the household sector is around 60 to 70 cents.¹ As would be expected, net saving in respect of voluntary superannuation is lower, but still positive due to the impact of tax concessions on saving behaviour.

- Note: using data for compulsory super contributions, and assumed parameters for the net saving effect, ASFA estimates that Australian households have accumulated around \$1 trillion in additional savings that they otherwise would not have saved – via superannuation or otherwise. This estimate includes savings via SMSFs, and the accumulating impact of investment income.²

- *Saving* is a flow concept: the difference between income and consumption within a given time period.
- *Savings* is a stock concept: the accumulation of period-by-period savings over time.

A higher level of household saving is associated with a higher level of total national saving – which is the combined saving of Australia's household, corporate and government sectors. Since the introduction of compulsory superannuation, annual national saving has averaged around 22 per cent of GDP (Chart 6).³ With respect to the effect of compulsory superannuation on national saving, widely-cited work by the Australian Treasury estimates the long-run impact (of the full 12 per cent contribution rate) to be a boost to national saving of around 3 per cent of GDP.⁴

Applying this logic in reverse, reducing the contribution rate would be expected to lower the level of national saving. For example, a permanent reduction in the contribution rate from 12 per cent to 9 per cent would be expected to reduce the level of national saving by a meaningful fraction of the 3 percentage-point impact over the long term – approximately 1 per cent of GDP.⁵



Source: ABS, *Australian National Accounts: National Income, Expenditure and Product*.

Domestic investment and the current account

A lower level of national saving would necessarily mean a combination of lower (domestic) new fixed capital investment and a wider current account deficit, than otherwise would be the case.

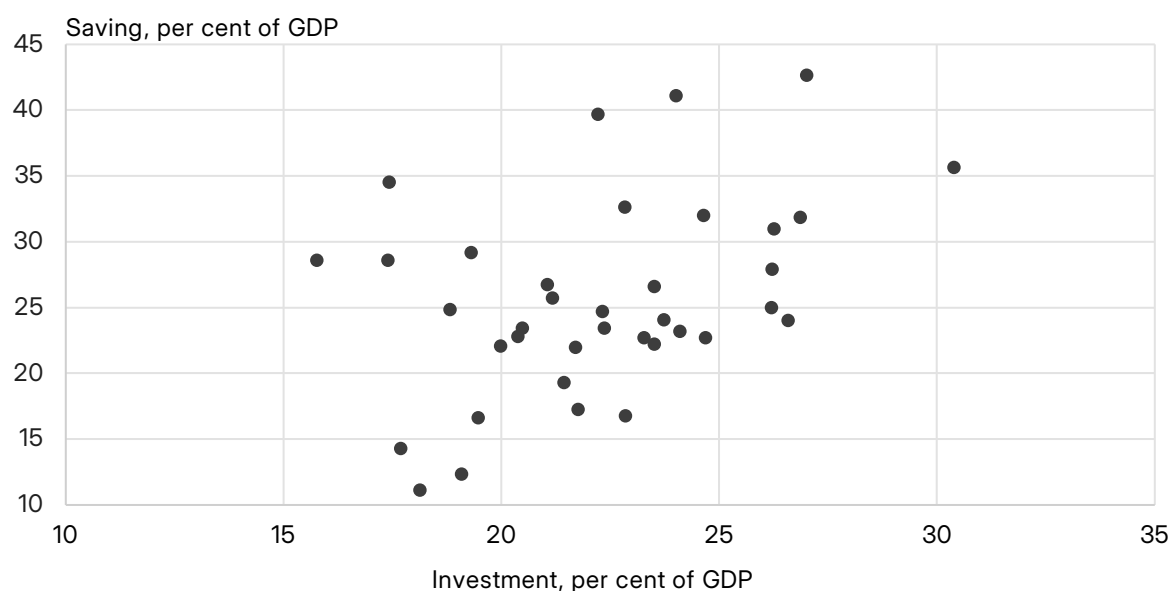
- Historically, Australia generally has had more abundant domestic investment opportunities than could be funded from (historic) levels of national saving.
- As such, Australia has typically been reliant on foreign sources of saving to fund the shortfall.
- This is reflected in Australia's tendency to run current account deficits rather than current account surpluses – where the current account balance during any period is equivalent to national saving less domestic investment.

Under standard 'textbook' assumptions that apply to a small, open economy (such as Australia), a decrease in the level of national saving would lead to a wider current account deficit than otherwise would be the case, rather than lower investment. For instance, if it is assumed that the country is a pure price taker in international capital markets, then the quantity of domestic investment would depend on the internationally determined price of capital, not the level of national saving.

However, the more realistic case is where Australia is not a pure price taker. A lower level of national saving (as a share of GDP) would be expected to lead to lower domestic demand for a range of domestically issued financial instruments. For capital-raising entities (e.g. businesses), the general cost of capital would likely rise – as would the required rate of return on investment projects. A higher required rate of return would be expected to lead to lower new fixed capital investment by capital-raising entities.

The relative magnitude of the two potential impacts (on domestic investment and the current account) is an empirical question. Internationally, there is a robust cross-country correlation between current levels of saving and investment (Chart 7), notwithstanding that this ignores optimisation by countries of saving, investment and consumption through time.⁶ A reasonable assumption is that around half of the decrease in national saving would be reflected in lower domestic investment. A permanent reduction in the contribution rate from 12 per cent to 9 per cent would be expected to reduce national investment by around 0.5 per cent of GDP (and by 1.5 per cent of GDP if the rate was reduced to zero).

Chart 7: Gross saving and national investment for all OECD countries, 2024



Source: IMF, *World Economic Outlook Database*.

Capital stock and economic output

The compounding effects of lower year-on-year domestic investment would lead to a lower stock of productive capital than otherwise would be the case. Assuming the same mix of technologies, this means a lower level of long-run GDP than otherwise – by around 0.5 per cent – with a similar impact on the level of measured labour productivity.⁷

Ultimately, lower measured labour productivity would be reflected in lower real wages for workers, and thus lower average living standards for the Australian population. While short-term movements in real wages tend to lag productivity gains, over the long-term wages and productivity tend to move in tandem. Ignoring any distributional aspects of the translation of lower productivity to lower real wages, **ASFA estimates that for a worker on average full-time wages today, the loss of productivity would be equivalent to around \$600 per year, in today's dollars.**⁸

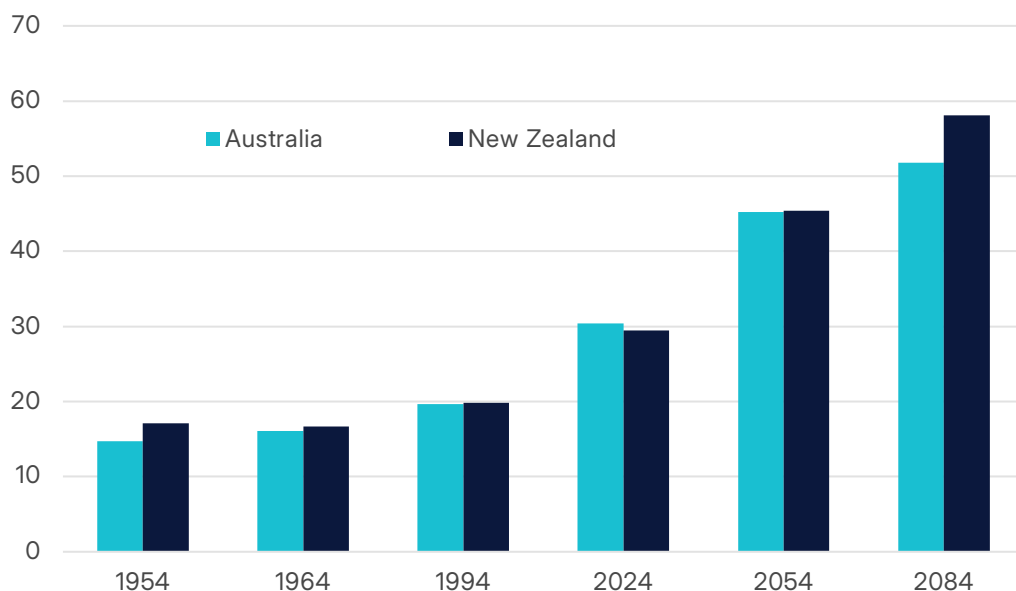
What could Australia look like without compulsory superannuation?

A typical way of estimating the benefits of Australia's compulsory superannuation system would involve comparing the current system with a hypothetical scenario where Australia had not ever introduced compulsory superannuation. New Zealand provides a real-world comparison.

From a broad, political-economy perspective Australia and New Zealand are very much alike. Both are small, open economies with similar institutional arrangements in respect of the structure and functions of their governments; their common-law based legal systems; and their approaches to economic development and management.

Australia and New Zealand also have very similar trends for age demographics. Chart 8 compares the *old-age to working-age ratio*, which is defined as the number of individuals aged 65 and over, per 100 people aged between 20 and 64. Since 1954, the ratios for Australia and New Zealand have been almost identical. Looking ahead, OECD projections have New Zealand's ratio rising above Australia's only beyond 2054.

Chart 8: Old-age to working-age ratio



Source: OECD, *Pensions at a Glance 2025*.

Both Australia and New Zealand also have a three-pillar retirement income system comprising, a government-funded pension, compulsory private saving, and voluntary private saving. However, system design differs in fundamental respects that have

significant implications for adequacy and sustainability of retirement incomes – which are outlined below.

Government-funded pension: While Australia’s Age Pension is subject to comprehensive means testing (with respect to assets and income), New Zealand’s government-funded pension is based on residency criteria only – it is not means tested.

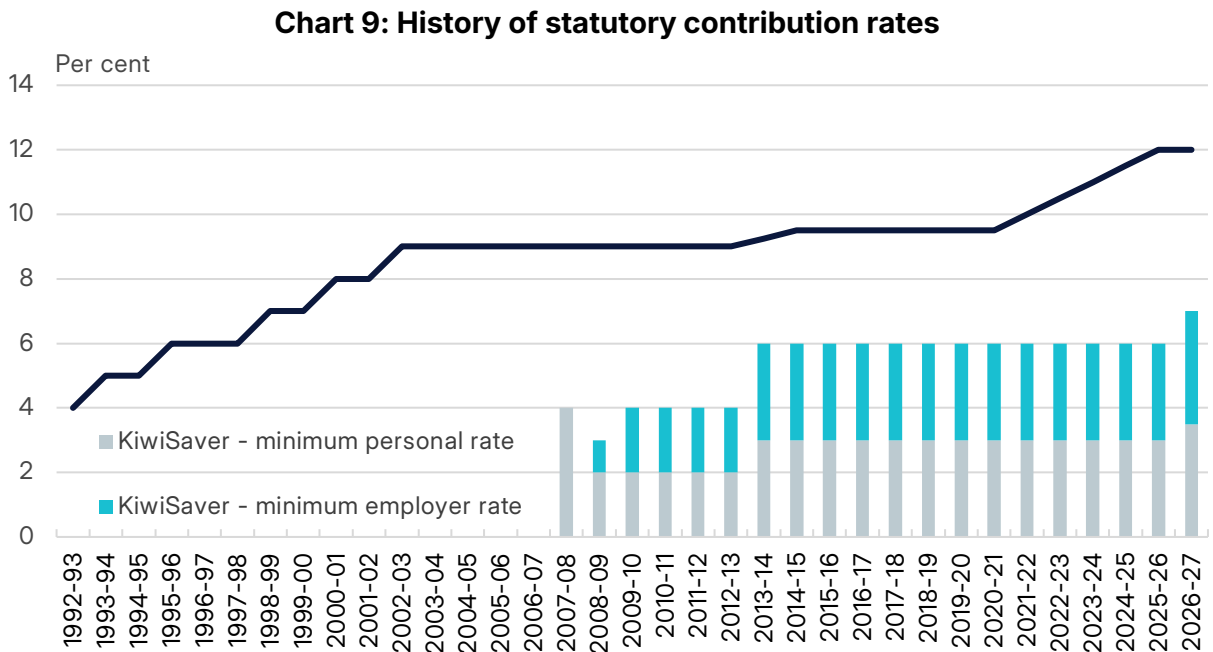
Private (superannuation) saving: Australia’s compulsory superannuation system has been in place since 1992, and covers all wage and salary earners (with very few exceptions). New Zealand’s KiwiSaver began in 2007, can best be described as quasi-compulsory, and has lower statutory contribution rates.

A key difference in system design is that Australia’s superannuation system has a greater degree of compulsion.

- Australia’s compulsory superannuation system means that all wage and salary earners receive contributions (to their superannuation fund), from their employer. Key exceptions include employees who are under 18 *and* who work 30 hours or less in a week; and people who are genuinely self-employed (sole traders and partners with no employer).
- In New Zealand, people have to opt in to KiwiSaver. Once in, people cannot opt out but can halt contributions – specifically, those who have been a KiwiSaver member for at least 12 months can put a stop on contributions for a period of three months to five years.

Contribution rates in Australia have been far higher, for much longer (Chart 9).

- In Australia, for all wage and salary earners, the statutory contribution rate is now 12 per cent of pre-tax wages/salary.

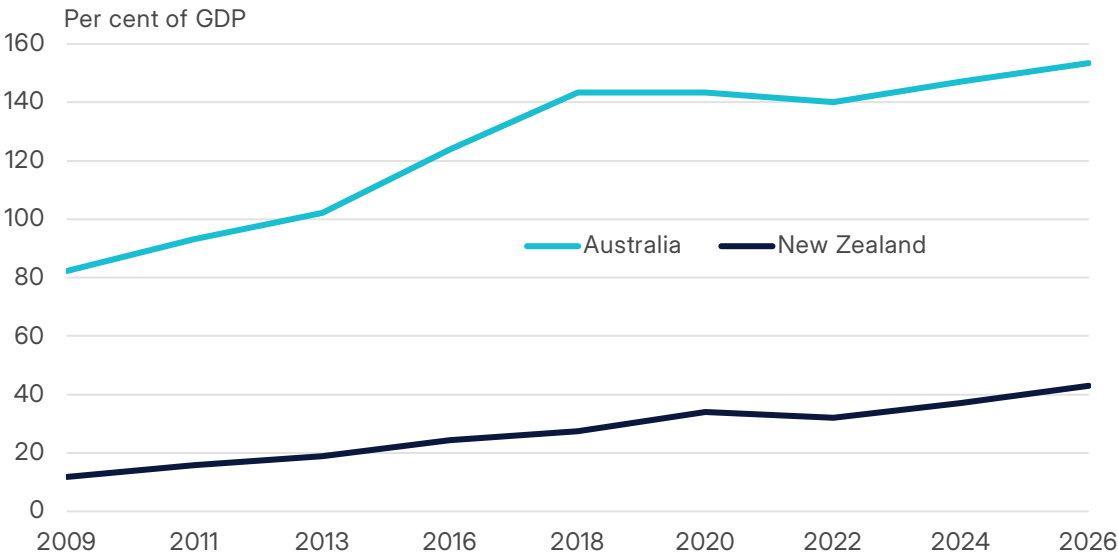


- New Zealand’s system is more complex. For those who opt in, the statutory minimum personal contribution rate is currently 3.5 per cent (on pre-tax

earnings), which employers are required to match – for an effective minimum contribution rate of 7 per cent. While the upper cap on personal contributions rate is 10 per cent, employers are not required to match beyond 3.5 per cent.

The fact that Australia’s compulsory system has been operating for a longer period, with higher contribution rates, is reflected in the quantum of total system assets (as a share of GDP). As of the end of June 2026, Australian superannuation assets totalled 152 per cent of GDP compared with 43 per cent of GDP for New Zealand (Chart 10).

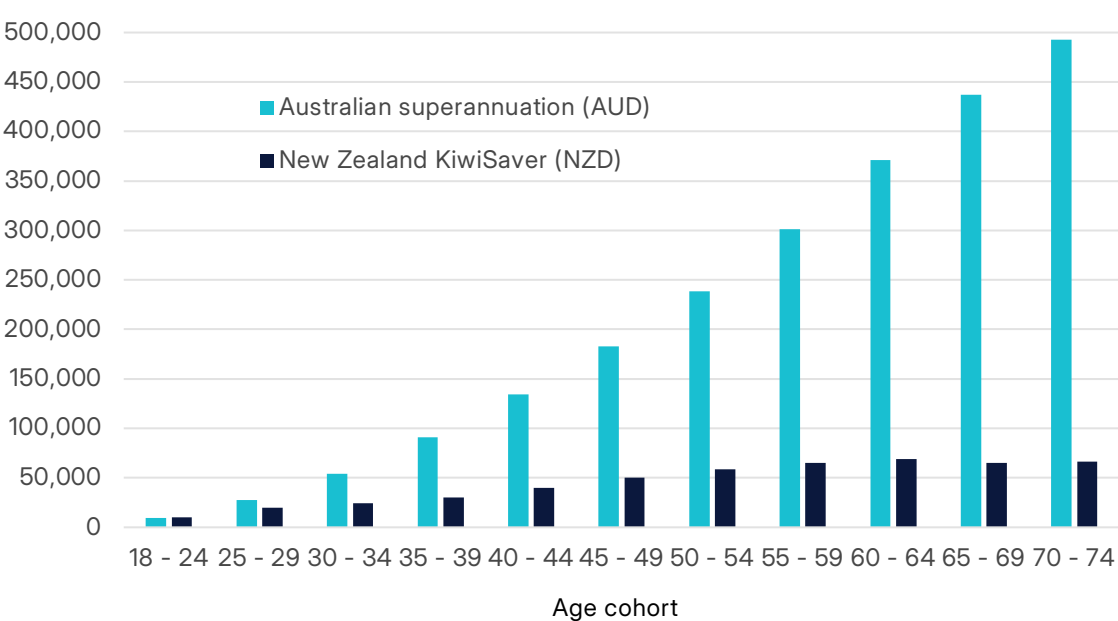
Chart 10: Total superannuation assets



Source: OECD, *Pensions at a Glance*, various editions.

Australia’s higher level of total assets is reflected in higher average superannuation balances for members across all age cohorts (Chart 11).

Chart 11: Average superannuation balances (2024)*



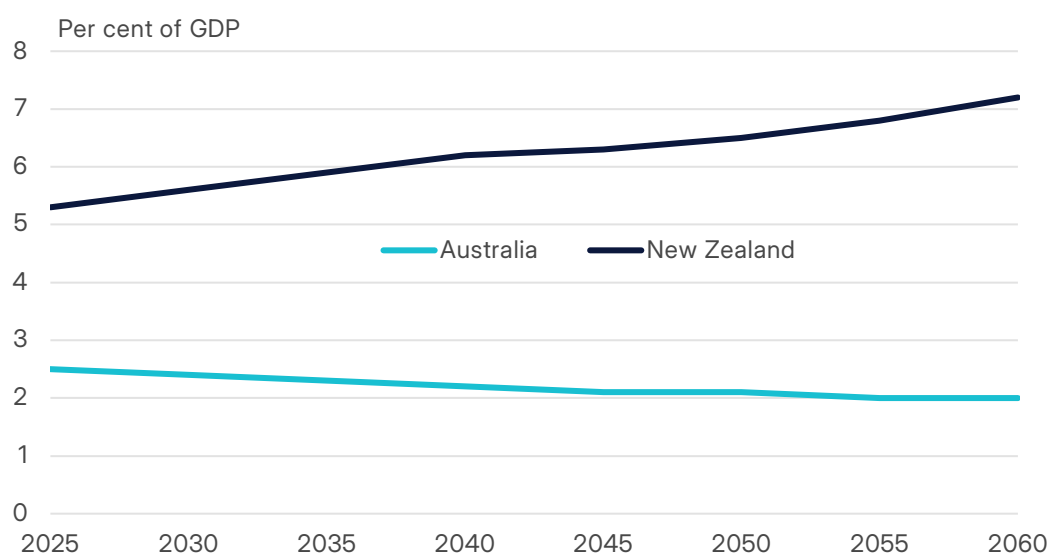
Source: ATO and the NZ Retirement Commission.⁹

*30 June for Australia, 31 December for New Zealand.

The differences in average balances, between Australia and New Zealand, are larger for older people – largely explained by the relative maturity of the Australian system. Someone who was aged 70 in 2024 was 53 when KiwiSaver was introduced, but 38 when Australia introduced compulsory superannuation. In addition, as depicted in Chart 9, the pace of the increase in statutory contribution rates – from inception – was faster in Australia.

Ultimately, in a retirement income system that is more reliant on a government-funded pension, the long-term fiscal burden will tend to be greater. Based on current settings, OECD projections show that the fiscal cost of Australia's Age Pension – which is already very low by international standards – is expected to decrease over coming decades from 2.3 per cent now to around 2 per cent of GDP by 2060. In contrast, the fiscal cost of New Zealand's government-funded pension is expected to continually rise – from around 5 per cent of GDP now, to around 7 per cent of GDP by 2060 (Chart 12).

Chart 12: Projections of public expenditure on pensions



Source: OECD, *Pensions at a Glance 2025*.

The trajectory of New Zealand's pension expenditure is a function of its ageing population coupled with its universal pension. Having a more mature superannuation system – such as Australia's – would allow for means testing of pension payments, which would reduce the fiscal burden of pension expenditure.

In this regard, New Zealand's retirement income system provides an illustrative counterfactual for Australia. That is, in the absence of a mature compulsory superannuation system, total superannuation assets and average balances would be far lower than is currently the case. This implies a far lower trajectory for future incomes from superannuation, and a greater role for the Age Pension in supporting retirement incomes.

Conclusion

Australia's superannuation system is helping build and preserve savings for retirement, turning those savings into income when Australians stop working, while building greater financial security and independence later in life.

Superannuation reduces pressure on the Federal Budget, strengthens the economy through investment in Australia, and contributes to rising productivity and living standards. Lowering the rate of superannuation would increase rates of poverty in retirement and have substantial economic repercussions.

Australia's superannuation system delivers against its objective. Savings are preserved to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

The outcomes	The evidence
Preserve savings	\$4.8 trillion is now held in Australia's superannuation system.
Deliver income	Super funds paid around \$66 billion in pension payments in a year, or \$2.52 billion each fortnight.
A dignified retirement	Relative poverty among Australians aged 65+ fell from around 30% in 2001 to 11% in 2022.
Alongside government support	Around 56% of Australians aged 65+ rely on a full or part Age Pension, down from around 70% in 2019.
Equitable	Super reaches around 19 million Australians. Reforms including super on government-funded Paid Parental Leave are helping close longstanding gaps in retirement savings.
Sustainable	Australia spends just 2.3% of GDP on public pensions, with Age Pension expenditure projected to fall towards 2% of GDP or even lower over coming decades despite an ageing population.

Compulsory super has become one of Australia's great public policy achievements.

Its first and most important job is delivering better retirement outcomes for Australians. It is helping people build more of their own savings and providing income, security and independence when they stop working.

For taxpayers, greater private retirement savings are reducing reliance on the Age Pension and helping Australia manage the fiscal challenge of an ageing population.

For the economy, those same savings provide long-term capital for Australian businesses, infrastructure and productive investment.

The minimum rate of superannuation only reached 12 per cent in 2025. As more Australians spend their working lives receiving compulsory super, the benefits will continue to grow – for retirees, for taxpayers, and for the Australian economy.

¹ For example, see Ruthbah, U. and Pham, N. (2020), *Household Savings and the Superannuation Guarantee*, Monash Centre for Financial Studies, prepared for the Australian Treasury: Retirement Income Review.

² See ASFA (2025), *The Impact and Opportunity of Superannuation on Australia's Productivity*.

³ ABS, *Australian National Accounts: National Income, Expenditure and Product*, March 2026.

⁴ Gruen, D. and Soding, L. (2011), *Compulsory Superannuation and National Saving*, Australian Treasury, Economic Round-up 2011/3. ASFA estimates that since the introduction compulsory super, the boost to national saving has averaged around 1.8 per cent of GDP – that is, over the period when the contribution rate started at 3 per cent (4 per cent for 'large' employers), and increased to 12 per cent over three decades.

⁵ While the impacts are likely to be non-linear, linearity is assumed for simplicity.

⁶ IMF, World Economic Outlook Database. The cross-country correlation between gross saving and investment, since 1980, averages 0.53.

⁷ The estimated effects below are for the long-run impacts of the compulsory superannuation system (that is, from 0 per cent to 12 per cent compulsory contributions). The impact of reducing the contribution rate from 12 per cent to 9 per cent are pro-rata. It is assumed that for every dollar of compulsory contributions, household saving is 60 cents higher than otherwise (see footnote 1). While this translates into higher household saving, the effect on national saving is less than one-for-one – in particular, higher household saving leads to lower (less than proportionate) government saving that otherwise. Overall, the maximum impact on national saving of compulsory superannuation is assumed to be an increase of 3 per cent of GDP (consistent with Gruen and Soding – footnote 4), noting that the estimated average impact since the start of the compulsory regime is 1.8 per cent of GDP (footnote 4). For the translation of national saving to domestic investment, it is assumed that for every additional dollar of national saving, domestic investment is 40 cents higher (which is more conservative than implied by footnote 6). Higher domestic investment, over time, results in a higher stock. In respect of the translation to GDP, higher capital stock is reflected in the flow of capital services. Other components are assumed unchanged (for example; internal rate of return on capital services, multi-factor productivity, labour supply). The effects are confined to the market sector of the Australian economy (the non-market sector is unaffected). As of June 2026, the level of labour productivity and GDP is estimated to be 2.3 per cent higher (than in the absence of compulsory superannuation). This estimated impact does not include any 'second-round' effects – so should be interpreted as an upper bound. That said, the estimated impact also does not include the effect of institutional superannuation as an active allocator of funding and risk in the Australian economy – which facilitates the flow of funding to its (potentially) most productive ends. All else being equal, the active role of institutional superannuation, in this regard, would lead to a more optimal allocation of financial capital than otherwise, and higher aggregate labour productivity for the Australian economy.

⁸ The estimated effects below are for the long-run impacts of the compulsory superannuation system (that is, from 0 per cent to 12 per cent compulsory contributions). The impact of reducing the contribution rate from 12 per cent to 9 per cent are pro-rata. For May 2026, average full-time earnings equated to just under \$109,000 per year (ABS, Average Weekly Earnings). Assuming that productivity growth is fully reflected in real wages, current annual nominal (pre-tax) earnings are almost \$2,500 higher than in the absence of compulsory superannuation.

⁹ New Zealand Retirement Commission, KiwiSaver Balances at 31 Dec 2024 (<https://retirement.govt.nz/policy-and-research/kiwisaver>).