Super reforms likely to call for a good Plan B

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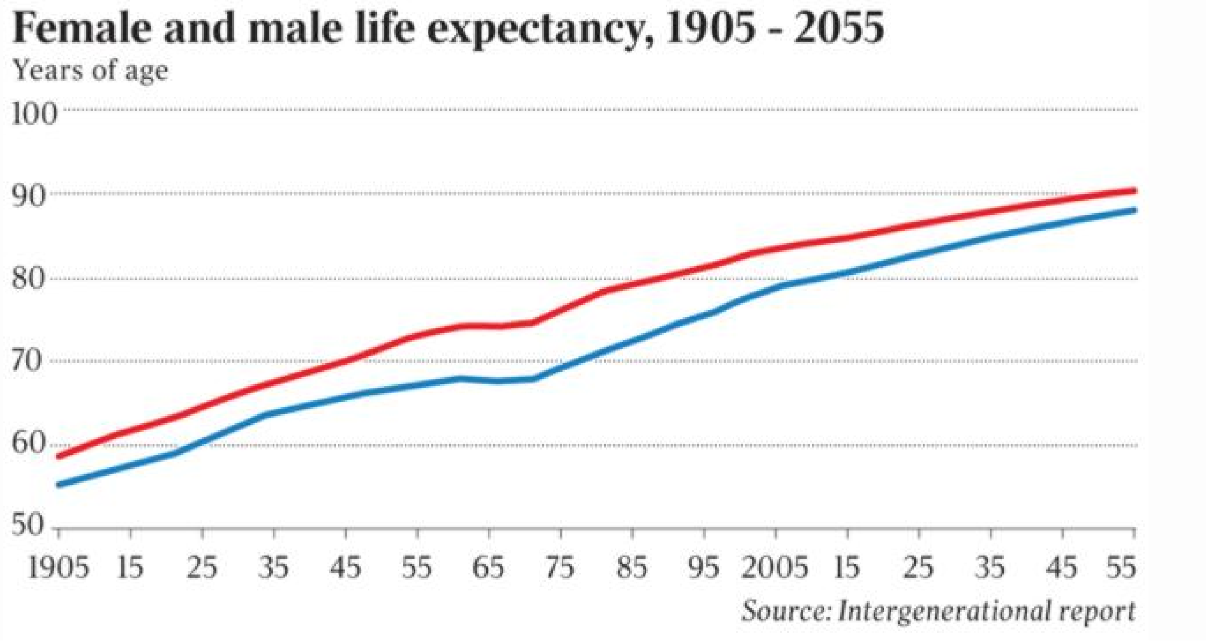

Life expectancy on the rise. *Source:* TheAustralian

Our retirement arrangements are under the spotlight. The Intergenerational Report and the Treasury paper on options for tax reform are stimulating lively discussion.

The big questions are these. Will our retirement system, as now framed, meet future needs? If not, what changes should be made? What are the prospects of these changes being implemented? And in case they're not, what is Plan B for Australians who are, or plan to be, self-funded retirees?

Our retirement system is often praised — and rightly so. There's an age pension paid from taxes; relative to most Western countries our age pension is frugal and targeted.

Employers pay a compulsory contribution (now at a minimum rate of 9.5 per cent of wages) into the individual superannuation accounts of employees.

Saving via super has tax benefits. Increasingly, we have "defined contribution" not "defined benefits" super.

In public discussions on the sustainability of our retirement system, various issues are mentioned. Let's note two of them.

● First, the government may not have sufficient tax revenue to meet the rising cost of the age pension as the population ages and lives longer. There's likely to be slower growth in the tax base, while future governments will have heavy commitments to other programs, including aged care, health, disability support and education.

● Second, the present tax incentives for super are seen as excessively generous to well-off Australians — but don't do enough to help retirement planning for most people.

The Intergenerational Report is surprisingly sanguine on the first issue.

It projects, on the basis of current policies, the federal government will face a blowout in net debt from 15 per cent of GDP at present to 60 per cent in 40 years.

However, with additional measures the government is proposing — or with new measures of a similar size — net debt would be negative, thus allowing for "future tax relief … or productivity-enhancing investments".

In my view, our public finances will be far more overstretched in coping with the ageing population. There are many reasons for this, but I'll mention two.

• The ageing of our population is likely to be much more pronounced than the report suggests — and, of course, that's good news for the many Australians who'll enjoy longer lives with good health. The projections in the report allow for improvements in longevity over time but assume improvements from medical research will continue at the past rate. In fact, they're likely to accelerate.

• The National Disability Insurance Scheme, which was supported by all members of parliament in 2013, will provide disabled people with the extra assistance they need. But its cost is likely to be much higher than projected.

The rules are framed to allow only those under 65 to sign up — after which, the scheme will provide them with lifetime support. With the population ageing, future governments will face irresistible pressures to allow people to join the scheme after they're 65.

The tax concessions on super savings certainly benefit wealthy people with large balances. But there is no pot of gold to boost future tax collections.

Instead, the federal treasury has left an unfortunate legacy for discussions on the possible tax take in coming years — and for anyone trying to estimate the impact of tax benefits provided to super.

The treasury estimate — frequently cited — is there's now a revenue loss of $32 billion a year from super tax concessions. But this figure assumes the money otherwise contributed to super would be taxed at marginal rates. It takes no account of the likely use of other ways to reduce tax.

Reforms of our retirement structure are likely to be partial, late and underfunded, and we seem set to continue down the path of too-frequent changes in the rules for retirement.

Plan B? It's for us as individuals to expect the age pension to remain frugal and means-tested, to save a bit more if we can — not necessarily all within super — do what we can to achieve better earnings on our savings, work a bit longer, and be prepared in our later years to draw on some of the value in the family home.

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