Compulsory super not enough to avoid full pension

Rick Cosier

There has been much Cuffelinks coverage of the government's proposed superannuation changes. Whilst this is a pressing matter now, it is disguising the major issues facing us in the future.

According to the ABS, there were 3 million Australians aged 65 or over in 2015. The National Commission of Audit statistics show that 2.4 million people claimed the age pension in 2014, with over half of them receiving the full pension. By 2050, the ABS figures indicate there will be about 8 million Australians aged 65 and over.

It is widely assumed that most of these people will be self-supporting because of the super guarantee charge (SGC). I would suggest this may be extremely optimistic.

Reality at the coalface

I am the listed financial adviser on a number of workplace superannuation plans. Five of them have a relatively young workforce where the average member age is 30. The average super balance is about $30,000 and the average salary is around $60,000. The 9.5% SGC creates $5,700 of annual super contributions. If their salary rises in line with CPI, and the SGC percentage doesn't change and they do not make any additional contributions, how much super will they have by 2050 if we assume an average annual return of 7.5% (which is optimistic, and it's likely to be far less)?

According to the Colonial First State superannuation calculator, a person with this background (let's call him Joe) will accumulate $343,000 in today's dollars in 2050 when he is age 63. Will Joe carry on working? An ABS study in 2012–13 (the Multipurpose Household Survey) found that the average age at retirement for recent retirees (those who had retired in the previous five years) was 61.5 years. The study also found that the average intended retirement age for current workers was 63.4.

My experience is that until their late 50s, most people envisage working to 65 and beyond. By the time they reach 60, practically everybody is counting the days to retirement. At that age, hardly any of them were still in well paid, full-time jobs. Consequently, finishing full-time work at 63 is a realistic outcome.

Still rely on the full age pension

Let's say Joe is married to Josephine who is the same age. It is unlikely that Josephine will have accumulated the same amount of super as Joe. According to the Workplace Gender Equality Agency, in 2015 the average woman retired with 53% less super than the average male. ABS stats confirm these percentages. On this basis Joe and Josephine will have a combined balance of about $500,000 in super at age 63.

Let's assume they live in their own home, have a small amount of cash and no other assets. The Association of Superannuation Funds of Australia (ASFA) reckons that a couple needs $59,160 a year for a comfortable lifestyle. Joe and Josephine can't claim the age pension until they are 67 so if they don't have any non-super investments, part-time work and drawing down on their super are the only options for the four years after retirement. If we assume they can both find part-time work earning $20,000 a year (on which they will pay no tax), they need to draw down $10,000 a year each from their super to achieve the ASFA target.

If they do this, they could still have $500,000 super by the time they fully retire aged 67. At this stage, they will receive about $15,320 a year in age pension based on the new assets test rules scheduled for introduction on 1 January 2017. If they fund the remaining $43,840 a year ASFA target from their super, their age pension will steadily rise until they are about 76 when they qualify for the full age pension of $31,200 a year.

The only way that Joe and Josephine will not be a burden on the state and draw a full pension is if they make salary sacrifice contributions or accumulate assets outside super. The number of 30-year-olds that salary sacrifice is virtually zero. Generally speaking, they have much more debt than previous generations. They start work later, get married later, have children later, and buy a home later. The result is that as they progress through life, cash flow gets less and less.

In my experience, hardly any households comprising two workers, children and a mortgage have a spare dollar. Loan repayments, child care costs and spending patterns suck it all up. In this environment, it is difficult to see how they can make significant contributions to super to supplement the SGC. Worse still, many households are already dependent on some kind of lump sum injection to pay off their debts when they retire.

When are politicians going to wake up to the fact that it is going to be impossible for the budget to finance 8 million Joes and Josephines to receive the full age pension at age 76. The benefits of superannuation need to be explained and marketed to a disbelieving nation. The continuous negative publicity is doing great harm, and it will not end well.

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