Superannuation and the Ageing Myth

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Abstract

The ageing population rationale, which was the central plank underpinning compulsory superannuation, is flawed. The increase in individual wealth in the future more than compensates for the increasing number of older people. In addition to this, compulsory superannuation contributes to the ageing population problem because it provides less money to couples who wish to raise children and hence provides a disincentive for people to have children. The most appropriate method for dealing with the ageing problem is to encourage people to work longer - not because they need the money, but because it is good for their psyche and self-worth.

1 Introduction

Superannuation is one of Australia’s largest industries. It has grown significantly over the past decade as a result of government regulation which compels employers to pay a fixed portion, presently nine per cent, of employees' salary towards superannuation. Currently there is approximately 550 billion dollars managed by superannuation funds. Despite the size of the industry and the coercion involved in requiring people to contribute to superannuation, modelling suggests that the current rate of superannuation is not adequate to sustain a person 'properly' in his or her retirement.

The policy of compulsory superannuation, which was introduced in 1992 (when the rate was initially three per cent) was driven by a number of rationales. Previously we have argued that these rationales are unpersuasive. The main impetus was the impending aged population crisis. In this paper we examine this justification in detail and argue that it is flawed. The alarmist predictions perpetuated in the compulsory superannuation debate relating to the ageing population were unsupportable at the time they were made. They are even more clearly wrong today.

The ageing rationale in favour of superannuation is straightforward. In essence, it is the view that in the future there will be more dependant old people and hence, the proportionally fewer people in the workforce will be incapable of supporting the retirees. Accordingly, so the argument runs, retirees must support themselves by stockpiling current resources for the future.

There are several flaws with this argument:

(i) It assumes productivity per worker would remain constant in the reasonably foreseeable future. This is wrong: increases in workplace efficiencies more than compensate for the proportionally fewer people of working age.

(ii) The argument is to some extent self-fulfilling. Taking money from people during their working (child bearing) years provides a disincentive to rearing children.

(iii) The argument assumes static retirement patterns. People should not be encouraged to go from full-time work to retirement. Instead, retirement should be staggered. People should, for example, continue to work one or two days a week (mind and body permitting) until they die. This is not because of financial considerations. Rather, empirical research shows it is conducive to well being.

(iv) Forecasts regarding human longevity are inherently unreliable. It is unwise to implement wide ranging social and economic policy on the basis of such predictions unless there is a strong foundation for confidence that the policy is vital. This is not the case with superannuation.

We will now discuss the fallacies of the ageing argument in support of superannuation in greater detail. We conclude by suggesting that the superannuation experiment is flawed and should be halted before the economy is distorted any further. Superannuation policy should be radically altered. All of the money currently in superannuation should be made available, now - or at least progressively over a period of five years in order to prevent a huge injection of funds into the mainstream economy. Employers should no longer be required to put any money aside for employee superannuation. A minimum standard of living should be guaranteed for all Australians when they cease full-time employment. Prior to discussing substantive matters, for contextual reasons, we provide a brief overview of the legal framework governing superannuation.
2. Overview of Current Law and Regulation

A. An International Perspective to Retirement Funding

The World Bank regards retirement policy as being composed of three separate pillars. The first pillar is a government provided benefit, which does not correlate to how much money a retired person has contributed to the fund in their lifetime. In Australia, this first pillar is manifested in the form of a means tested pension.

The World Bank defined the second pillar as a benefit that people receive during retirement that is dependent on mandatory contributions made during their working lives. Australia’s system of individual superannuation accounts is an example of this second pillar. The second pillar can be either funded by investments or funded on a “pay as you go basis” out of taxation receipts. It should be noted that the World Bank has in recent years “narrowed” the definition of the second pillar.

The third pillar consists of the voluntary retirement savings of individuals. Every country that recognises private property has a “third pillar”.

B. Australia’s Second Pillar - Its Superannuation System

As mentioned above, Australia’s second pillar is manifested in the form of a system of individual superannuation accounts. Most Australians, predominantly through compulsory employer contribution, own money that is in one or more of these superannuation accounts. Money in these accounts is invested and usually cannot be withdrawn until the individual reaches a certain “preservation age”. When it can be withdrawn, the individual can elect to have the money as a lump sum, as a regular pension or as some type of combination.

Most employers are compelled to pay a portion of their employees’ salaries into a superannuation fund. This portion has risen steadily since 1992 and is currently nine per cent. There is no policy to increase the amount beyond nine per cent. Employees also have the option of contributing further amounts of their salary into superannuation. They can do so either from their after-tax salaries, or they can “salary sacrifice” their entitlements. The latter has the advantage of the “sacrificed” component not being subject to income tax but rather is taxed at the concessional rate of a superannuation contribution. However, employees of income tax paying institutions are limited in the extent to which they can salary sacrifice their superannuation entitlements. This is because the income tax legislation does not allow an employer to claim tax deductions for employee superannuation contributions that exceed a threshold limit.

An employer’s tax position is neutral and is not dependant on whether employee’s remuneration takes the form of superannuation or a salary. This is because a tax deduction is usually available regardless of the manner in which remuneration is paid to employees. From an employee’s perspective however, superannuation is concessionally taxed in various ways.

Concessional tax treatment of superannuation

When an employer contributes money to an employee’s superannuation fund, such contributions are usually taxed at the rate of 15%. When the contributions are paid to employees that are regarded as “high income earners”, this rate rises on a sliding scale to 30%. However, the government has announced that the tax on contributions made on behalf of “high income earners” will be gradually reduced to 22.5% by the 2006-7 financial year. In general, however, this is significantly lower rate than if superannuation contributions were instead given directly to the employee as a salary, given that most workers pay a marginal income tax rate of between 31.5% to 48.5%.

Superannuation is also concessionally taxed at the fund level. When superannuation funds make a profit from their investments, the rate of tax is usually lower compared to the tax that individuals pay on their direct investments. Superannuation funds pay a tax rate of 15% on their earnings that are not “long term” capital gains. “Long term” capital gains are usually taxed at 10%. In contrast, individuals must pay tax at their normal marginal tax rate on their investment income. As mentioned earlier, this is usually between 31.5% and 48.5%.

Long term capital gains made by investors are subject to concessional treatment whereby only half the capital gain is taxable.

One area where superannuation is taxed more heavily is where superannuated money is withdrawn from the fund. Individuals over the age of 55 usually pay no tax for the first $117,567 they withdraw as a lump sum from their superannuation, and 15% on any money withdrawn on a lump sum over that amount. In contrast, when money from non-superannuation investments is withdrawn there are usually no income tax consequences.

Self-employed

Self-employed people are not legally obliged to put money into superannuation. However, if they elect to do so they will be able to claim a tax deduction in the amount of $5000 plus 75% of any amount contributed in excess of $5000. These deductions however are subject to “age based” limits.

Treatment is not always concessional - low income earners

It should be noted that while superannuation is usually concessionally taxed, this is not always the case. People earning less than $21,600 annually usually pay a marginal tax rate of 18.5% and, as is usually the case with individuals, pay no tax when they withdraw their money from an investment. This represents a lower tax rate compared to the treatment given to employer-contributed superannuation (where the fact that money withdrawn from funds can be subject to tax is added to the equation). However, this is to some extent balanced by the fact that the government will match dollar for dollar an employee’s own contribution to their superannuation funds for people earning not more than $40,000 per year. The maximum government contribution under this regime is $1000 per year. From 1 July 2004 the government will be contributing $1.50 for every $1.00 that an employee contributes, up to a maximum of $1500 per year. People earning up to $58,000 will to some extent be able to benefit from this government co-contribution.
would find it difficult to support an ageing population. Most experts agree that in 40 years time, the proportion of the population in retirement age (65 years old and over) will be twice the current rate. For the rest of history, there are unlikely ever again to be more toddlers than grey heads.

A. Sufficient Increase in Wealth in the Future

However, this does not necessarily support alarmist views regarding an impending crisis as a result of the ageing population. There are several important variables that such crude information data ignores. One of the most important is that while we are getting older and hence slightly less bodily-abled, the significance of this in terms of our capacity to support ourselves is declining in about inverse proportion to the increase in the ageing population.

Being 65 years old fifty or even twenty years ago impaired one’s capacity to make a meaningful contribution to economic output far more so than it does today. It will even be less relevant in the future. While in physics work equals force multiplied by distance, this equation is no longer an economic reality so far as human exertion is concerned. The industrialised revolution compounded by enormous technological advances has totally changed the “work” landscape and has resulted in considerable increases in work efficiencies. A process that in times gone by required considerable human exertion can now be accomplished with no more effort than a push of a button - even grey heads can do that.

If we assume that between now and 2041-42 the productivity per worker will grow at a reasonable rate, then despite a smaller percentage of the population being in the workforce, total income per capita will be higher than it is today. In other words, despite the fact that a lower proportion of the population will be working, the average income per person, whether working or not, will continue to increase.

Such an outcome is best understood by examining how a country’s GDP per capita is determined. Basically, a country’s GDP is the product of its productivity, its participation and the population age structure. Productivity is the amount produced per unit of labour, such as output per hour. “Participation” is the total number or hours worked in a week per person of working age. “Participation” is dependent on three separate factors. These three factors are the unemployment rate, the “participation rate” - a rate that measures how many people of working age either work or wish to - and the number of hours worked by those who actually work. The population age structure is determined by what proportion of the population is of working age.

The government’s recent paper on this issue projects GDP growth per capita in the next few decades to be between 1.5 - 2%. The fact that GDP per capita is projected to continue growing means that any loss in output due to the change in the age structure is projected to be more than offset by increases in productivity. The main reason productivity is predicted to increase is because of factors such as more and improved capital, and better work practices. In other words, due to increases in technology and globalisation, there will be more wealth per person in forty years time than is presently the case.

It should be noted that this increase in wealth will be even more dramatic if a greater proportion of people of working age will be in the workforce than is presently the case. In other words, if there is an increase in the “participation rate” then the increase in wealth will be even greater than currently predicted. Similarly, if a greater proportion of people who are over 64 will be in the work force, then growth will also be higher than expected.

Given that there will be more wealth per person than there is today, even without assuming any increase in the participation rate, the next issue that needs to be addressed is whether the increase in wealth per person will be sufficient to make up for the increase in resources that will be necessary due to the ageing population. In other words, will the extra income make up for the extra cost?

Extra wealth makes up for extra retirees

The answer would appear to be yes. If we assume that GDP per capita will grow at a rate of 1.5% for the next 40 years, then in 40 years there will be approximately 80% more income per person than is currently the case. Given that the increased costs associated with ageing in 40 years (if it is assumed that the current superannuation arrangements are discarded) will be (only) in the order of an additional 6.27% of GDP in expenditure, we can confidently predict that increase in wealth during this period will (by a substantial amount) more than offset this cost.

Some have argued that the increase in taxes will lead to a “deadweight loss”. In other words, when higher taxes are imposed, people will have less incentive to work due to more of their income being taxed, leading to less wealth for the whole community. If this argument has merit then it can also be argued that compulsory superannuation has a similar effect in the current workforce. This is because some people would work longer and harder if their superannuation contributions were available to them in the form of a salary.

Small GDP savings as a result of superannuation

A related rationale for superannuation was to save future government expenditure. As previously discussed, it is highly likely that in 40 years time there will be sufficient resources to cater for the ageing population. However, even assuming that this is not correct, it can be shown that superannuation by its nature does not have the ability to save large amounts of government spending. Furthermore, revenue lost as a result of the concessional tax treatment of superannuation is roughly equivalent to any likely future expenditure savings brought about by self-funded retirees.

According to the government’s Intergenerational Report, the government spent 2.93% of GDP on aged pensions in the 2001-2 financial year. The Intergenerational Report also assumes that during the 2041-2 financial year, the proportion of the population that is over 65 will be twice the current level. If we extrapolate from this, we can conclude that (all other things being constant) in percentage of GDP terms, government spending on aged pensions will double by 2042 to 5.86% of GDP.

However, the Intergenerational Report states that because of current superannuation arrangements, in the 2041-2042 financial year, the government will spend 4.59% of GDP in pensions. The reason the figure will be 4.59% rather than 5.86% is that current superannuation law will make some people who would have otherwise claimed the pension,
ineligible for the government pension in 2041-2042.

_Savings offset by money lost to concessional treatment_

This means that the current compulsory superannuation laws will result in a saving of 1.27% of GDP per year in the future. Such marginal future savings must be weighed up against the current cost of compulsory superannuation due to its concessional tax treatment.

Budget figures show that these current tax concessions cost the government approximately 10.5 billion dollars per year when compared to the situation if superannuation was paid as a salary and subsequently taxed like other income. As Australia has a GDP of approximately 700 billion dollars, this amounts to 1.5% of GDP.

Given that the current tax foregone due to compulsory superannuation is in percentage of GDP, terms greater than future savings, superannuation cannot be justified on the basis of saving future government expenditure.

Thus, the reality is that the current superannuation policy will have a marginal impact on future government expenditure. The reason for this is because superannuation will have no impact on the main areas of government aged spending, such as hospital care and the Pharmaceutical Benefits Scheme. The only future spending it will substantially cut is that on government pensions.

_Criticism of the Intergenerational Report_

Some writers have criticised the _Intergeneration Report_ for being unduly pessimistic in its figures. Critics have included the view that the Report both overstates and underestimates the adverse consequences of the ageing population. For instance, it has been suggested that the report understates potential increases in the participation rate. As discussed earlier, an increase in the participation rate would make the wealth per person higher than predicted. Specifically, if it is assumed that in 40 years time the participation rates for men aged 35 and above rose to what they had previously been 30 years ago, and that the participation rates for women rose to that of Swedish women today, then there would be an even more dramatic increase in wealth per person than what has been predicted. This would considerably reduce the government burden on supporting retirees. Similarly, Ken Henry (the Secretary to the Treasury) suggests that the higher growth due to increasing “living standards” as defined by the paper.

Secondly, by the paper’s own admission, slightly different assumptions as to the events of the next 40 years will lead to an increase in “living standards” as defined by the paper.

Finally, this report states that using its own forecasting, the result of increasing superannuation contributions from 9% to 15% would be to increase national incomes by 2.5% in 40 years time. To stress the point, despite the fact that a superannuation body commissioned the report, the finding was that increasing compulsory superannuation leads to a very small rise in national incomes. If increasing compulsory superannuation from 9% to 15% leads to such marginal outcomes, then it follows that national loss in wealth from decreasing superannuation from 9% to zero would be insignificant as well.

_B. Superannuation policy is self-defeating - it contributes to lower birth rate_

Another problem with the ageing population rationale in support of compulsory superannuation is that the policy in all likelihood aggravates the problem it was meant to solve. One of the main reasons that couples do not have children or have less children is because they have insufficient means to support them. A nine per cent reduction in income can logically only compound this problem. At the time superannuation was introduced the birth rate was declining. Since then it has further declined. Australia’s birth rate is now below population replacement rate and continues to decrease. There may be several causes for this. However, to the extent that money matters in this regard, there is no greater deterrence than superannuation. The best way to encourage more children would be to give more money to people instead of taking it from them during their child rearing years.

_C. Retirement is a flawed concept - work promotes well-being_

In addition to this, the concept of a ‘retirement age’ is a flawed. Why should people retire? Where is the evidence that people would continue to have a desire to retire at the age of about 60 when this meant that they had about 30 years to live? Such an assumption is a relic of distant history: ‘a century ago most old people worked almost up to the end of their days’. Given advances in human ageing, 60 is in fact the new 45.

Government policy should encourage people to abandon the notion of retirement and to work until they no longer derive pleasure from this activity. The key thing to note about this

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approach is that it is a lifestyle policy that needs to be pursued, not an economic one.

People spend a considerable amount of their time at work and many view their job as a defining aspect of their personhood.

*Humans realize themselves through activity, and though that activity need not be work, productive work activity represents one of the major ways in which we break the bonds of solipsistic subjectivity and are able to influence the world beyond us*.\(^{5}\)

The common sense observation that employment is central to well-being is re-enforced by results of recent studies into human well-being. In one of the most interesting and important books of the late 20th century, David Myers in the *Pursuit of Happiness*\(^{72}\) draws together the results of hundreds of surveys on human well-being in search of common variables that make people happy. The studies demonstrate that despite superficial differences in lifestyle choices and the manner in which we express and project ourselves, people are all built relatively similarly in terms of the things that are conducive or inimical to human well-being or happiness. There are a number of things that promote well-being. We elaborate on these in the next section of the paper, however, for present purposes it is sufficient to note that it has been demonstrated that participating in active pursuits and projects is central to personal well-being. The single activity which most people spend their adult lives on is paid work.

A wide-ranging survey of people in sixteen industrialised nations showed that people report markedly lower levels of well-being if unemployed. On average the unemployed were approximately 20 per cent less satisfied with life than white-collar workers and 15 per cent less satisfied than manual workers\(^{53}\). There are a number of reasons why work is so important to well-being. Work helps people to identify with a community; it adds purpose to life and it can enhance our sense of control\(^{54}\).

It is important to emphasise that the importance of work extends beyond its income generating capacity. As we discuss below, one of the most interesting findings of the research was that there is only a modest connection between wealth and happiness. After reviewing the relevant empirical evidence, David Myers concludes:

*So, whether we base our conclusions on self-reported happiness, rates of depression, or teen problems, our becoming better off over the past thirty years has not been accompanied by one iota of increased happiness or life satisfaction ... Once beyond poverty, further economic growth does not appreciably improve human morale*.\(^{55}\)

The government has recently announced a policy to encourage people to stay in the workforce longer so that they can better support themselves during “retirement”. This is a positive policy shift, but it has been sold the wrong way. The message should be that you will be happier if you work longer - and incidentally, you will also derive more income.

We accept that a message along these lines is at odds with the prevailing sentiment (held by most people) that leisure is preferable to work. This attitude is reflected by findings that correlate early retirement with the availability of social security benefits\(^{56}\). Thus by age 65 only 16 per cent of men are still working in America and only 4 per cent in Europe\(^{77}\).

This attitude however is wrong. It is an example of the fact that we are often unaware of the things that are in our best interests. People want spare time. However, when they secure it they generally spend it in ways that are inimical to their well-being. As is noted by Csikszentmihalyi:

*The relative poverty of experience in free time, the emptiness of most leisure ... We all want to have more free time. But when we get it we don’t know what to do with it. Most dimensions of experience deteriorate: people report being more passive, irritable, sad, weak and so forth. To fill the void in consciousness, people turn on the TV or find some other way of structuring experience vicariously. These passive leisure activities take the worst edge of the threat of chaos, but leave the individual feeling weak and enervated*.\(^{57}\)

To the extent that the notion of retirement remains part of our terminology, it should be understood in an incremental sense. People should reduce their weekly hours from say 40 to 30 at the age of 60, then to 10 to 20 hours at age 65 and 4 to 10 hours thereafter. The overriding principle is that people should be encouraged to perform the amount of hours that is commensurate with their physical and mental capacity and the satisfaction and stimulation they derive from work. Policies should be implemented to enhance the inclination and capacity for people to work longer\(^{58}\).

Moreover, it is important to note that the concept of early retirement is not one which should prove to be inordinately difficult to discount. 'The notion of retirement - an abrupt end to paid employment -is relatively recent'\(^{59}\) and hence is not an embedded part of the human psyche.

D. Long term forecasts unreliable - rapid life-expectancy increases

Moreover, it is important to note the enormous imprecision that is involved in making long term predictions relating to ageing and work productivity. This is illustrated by the earlier discussion of the *Intergenerational Report* and various subsequent papers that criticised it for being either too optimistic or too pessimistic.

There are other assumptions that are widely made today that may turn out to be incorrect. For instance, people are now living longer, and indeed considerably longer than was forecast even a few years ago. A recent Monash University study has suggested that the Australian Bureau of Statistics figures used to inform government policy in key areas such as superannuation, may have seriously underestimated life expectancy figures\(^{61}\). ABS figures show that men aged 50 in 2001 could expect to live to 77.4 and women to 82.6. New research suggests that people will live nearly 10 per cent longer - 84.4 and 88.8 years respectively.

This research illustrates the inherent difficulty in making informed predictions regarding human longevity. This point is underlined by the fact that advances in human ageing are so pronounced that some have argued that immortality no longer simply belongs to the realms of science fiction. While immortality appears to be an unrealistic claim, in reality it may turn out to be no more incredible than the notion of air travel was to people many years ago\(^{62}\).
Advances in microbiology and genetics have given new glimpses into the potential life span of a number of organisms. Cells in our bodies can be classified by longevity into two types: mortal (regular skin, muscle and nerve cells) and more or less immortal (cancer, sperm and ovum)\textsuperscript{82}. One of the main differences between the two is that the repeating deoxyribonucleic acid (DNA) strings that cap off chromosomes or telomeres do not shorten during cell division of immortal cells. Less than fifteen years ago the enzyme telomerase was discovered in a single-celled protozoan\textsuperscript{84}. It was found that this enzyme acts in immortal cells to repair the telomeres. In 1998, it was shown that activating telomerase in mortal cells gives them a longer life by knitting new DNA onto the ends of chromosomes\textsuperscript{85}. In simplified terms, telomerase seems to slow down, or sometimes turn off, the genetic clock that ticks away in each mortal cell.

At the same time, biogerontologists have been able to show that genetic factors play a large role in the ageing rates of whole organisms. By selectively breeding longer-living fruit flies, researchers were able to dramatically increase their life span\textsuperscript{86} and in longer living earthworms, a longevity gene was successfully isolated\textsuperscript{87}. Although other factors such as the environment and metabolic capacity do play a role, the signal importance of genes is only beginning to be understood\textsuperscript{88}.

The very existence of genes that can be controlled suggests that isolating a few critical processes or genes may be enough to slow or halt aging and extend the life span of organisms. Experiments with yeasts, worms and fruit flies have borne out these hypotheses\textsuperscript{89}. While the research has not moved beyond these relatively simple organisms, there is a degree of optimism amongst scientists that the preliminary findings on aging mechanisms may soon apply to more complex organisms. Thus, there seems to be increasing scientific consensus about increased longevity and potential immortality. Even if immortality is not the ultimate outcome, it will result in a greatly increased life expectancy.

In order to punctuate the point at hand, it is not necessary to convince readers that immortality is likely in the foreseeable future. Rather, it is sufficient to note that future predictions of human span are inherently imprecise and are getting even more unreliable. Long-term government policy, which has significant societal and economic ramifications, should not be implemented absent of a sure footing for the premises underpinning the policy. This is not the case with the ageing rationale for compulsory superannuation.

4. The New Zealand Example

Recently, the shadow Treasurer of the Australian Labor Party, Simon Crean, has suggested that Australia adopt a New Zealand style system\textsuperscript{90}. Specifically, he said that the budget should “…put aside funds to deal with clearly defined future fiscal pressures - in other words superannuation for the nation”\textsuperscript{91}. In the same speech he also referred to countries such as New Zealand that did this as adopting “international best practice”\textsuperscript{92}. This part of the paper will examine how the New Zealand system operates and whether Australia needs to implement it. It needs to be clarified that the Australian Labor Party has suggested that Australia adopt the New Zealand system on top of its current compulsory superannuation system, rather than instead of it\textsuperscript{93}.

A. Details and History of the New Zealand law

New Zealand does not have an individual compulsory superannuation scheme. Rather, it has a non-means tested pension\textsuperscript{94}. In other words, New Zealand has no “second pillar”. Instead the emphasis is on a first pillar that is to be available to all of its citizens regardless of their income or wealth\textsuperscript{95}.

In 1997, New Zealanders were asked to vote in a referendum on whether a superannuation scheme similar to Australia’s should be introduced. The public overwhelmingly rejected this, with 92.8% of the population voting against it\textsuperscript{96}.

New Zealand does have the New Zealand Superannuation Act 2001. This section of the paper will discuss how this legislation “encourages” governments to set aside a certain amount of money every year into a fund. The intention of putting this money away is to ensure that in the future, New Zealand can continue to have a non means tested pension despite its ageing population. History of the New Zealand Superannuation Act

On 28 November 2000, the minority ruling Labour government introduced the New Zealand Superannuation Bill\textsuperscript{97}. The aim of the proposed legislation was to pre-fund the increased expenditure that will result due to higher pensions from an ageing population\textsuperscript{98}. The proposed legislation did not aim to pre-fund any other types of expenditures that would result from the ageing population, such as higher health costs\textsuperscript{99}.

This Bill was subsequently sent to the Finance and Expenditure Committee during late 2000\textsuperscript{100}. This Committee reported on the Bill on 12 June 2001\textsuperscript{101}. With the support of some of the other minority political parties, the Bill was passed by the New Zealand parliament in October 2001\textsuperscript{102}. The Bill was opposed by the Greens and National parties\textsuperscript{103}. The Greens opposed the legislation on the basis that the government was overstating the impact of the ageing population\textsuperscript{104}. Furthermore, the Greens felt that there were inconsistencies in setting money aside to fund future pensions while not setting funds aside for other areas of expenditure that would increase in the future, such as health and education\textsuperscript{105}.

The National party opposed the legislation on the grounds that there was insufficient independent evidence that the fund would deliver a positive effect on economic growth\textsuperscript{106}. Furthermore, they felt that projections that the fund would subsidise pensions at a maximum of 14% did not justify its existence\textsuperscript{107}.

Details of the New Zealand legislation

The relevant legislation states that as a general rule, every New Zealander who is 65 or over is entitled to receive a “superannuation” entitlement (i.e. a pension payment)\textsuperscript{108}. However, this entitlement is subject to fulfilment of a residency test\textsuperscript{109}. The legislation ensures that the rates of these entitlements do not fall outside a range of set percentages of average ordinary time weekly earnings\textsuperscript{110}.

The legislation explicitly sets up the “New Zealand Superannuation Fund”\textsuperscript{111}. It states that the government is to make annual “capital contributions” to the fund\textsuperscript{112}. The legislation specifies the formula for calculating the size of these capital contributions\textsuperscript{113}. This calculation take into account
how much money the New Zealand government will have to pay in pension entitlements in the next 40 years. While the government is not obliged to deposit this amount into the relevant Fund, if it chooses not to do so in a given year, then it must disclose this fact in an annual report prescribed under the Fiscal Responsibility Act 1994\textsuperscript{114}. Withdrawals from the account to fund pension entitlements are only allowed from the year 2020 onwards\textsuperscript{115}.

The legislation states that the fund must be invested on a prudent, commercial basis\textsuperscript{116}. Its guardians are required to invest its money in a way that will maximise returns while at the same time not prejudicing New Zealand’s reputation\textsuperscript{117}.

B. Should Australia follow New Zealand’s Example?

As previously discussed, current forecasts indicate that there will be more than enough money in the future to fund the ageing of the population in Australia. Just as this leads to the conclusion that compulsory superannuation at a personal level is unnecessary in Australia, it also leads to the conclusion that a New Zealand type fund is unnecessary. It is both unnecessary to incorporate it on top of, or instead of, the current superannuation arrangements. The fact that Australia’s pension is, unlike New Zealand’s, means tested, only makes this argument stronger.

However, if it is assumed that there is an ageing crisis on the horizon and Australia was to choose between having the current system of personal superannuation accounts or the New Zealand system, then the New Zealand system appears to be the preferable option. The major reason for this is that running a system where everyone has their own superannuation accounts leads to a much higher fee structure than the New Zealand system. It has been argued that the substantial fees payable on private superannuation accounts is not due to excessive profit making by those that run superannuation accounts, but rather due to the large costs of running individual superannuation accounts\textsuperscript{118}. Specifically, the cost of hiring managers, keeping individual records, and the extensive cost of marketing all add up to large amounts of money\textsuperscript{119}. One leading commentator has estimated that the average Australian will be over $500,000 poorer than they otherwise would have been due to fees on superannuation funds\textsuperscript{120}.

Another advantage of the New Zealand system is that it is more equitable than the Australian one. This is because the New Zealand system strives to guarantee a minimum retirement income for all\textsuperscript{121}. This is in contrast to the Australian compulsory superannuation system that gives people a retirement income that is proportional to their lifetime income.

A counter argument is that any government fund could be “raided” by future governments, meaning that such a fund would not achieve its aim of helping to fund the ageing of the population\textsuperscript{122}. Specifically, it has been pointed out that since the New Zealand National and Green parties oppose the legislation, they could repeal the New Zealand Superannuation Act when they are in power at a future time. Whilst this is a possibility, it is arguably worth the risk when compared with the high fee Australian type system. Moreover, there have been thousands of legislative changes to the Australian superannuation scheme over the past decade. Many of these have served to erode the sums that people had hoped to be available in their retirement. Thus, whatever government model is chosen it is never the case that it is beyond alteration by future governments.

5. Conclusion

The ageing population rationale, which was the central plank underpinning compulsory superannuation, is flawed. The increase in individual wealth in the future more than compensates for the increasing number of older people. In addition to this, compulsory superannuation contributes to the ageing population problem because it provides less money to couples who wish to raise children and hence provides a disincentive for people to have children. The most appropriate method for dealing with the ageing problem is to encourage people to work longer - not because they need the money, but because it is good for their psyche and self-worth.
References

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5. World Bank, “Averting the Old Age Crisis” (1st ed, 1994).
6. Ibid.
7. Ibid.
12. Ibid.
14. “Income Tax Assessment Act 1936” (Cth) s 82AAC(2A) - (2C).
15. “Income Tax Assessment Act 1997” (Cth) s 8-1 and “Income Tax Assessment Act 1936” (Cth) s 82AAT(1).
24. “Income Tax Assessment Act 1936” (Cth) s 82AAT(1).
25. “Income Tax Assessment Act 1936” (Cth) s 82AAT(1).
29. “Superannuation Budget Measures Bill 2004” (Cth).
34. Ibid.
36. Ibid 4-5.
37. Ibid 4-5.
38. Ibid 4-5.
39. Ibid 4-5.
40. Ibid 6.
41. Ibid 4-5.
43. This is less than the GDP per capita predicted by the “Intergenerational Report”. This growth rate assumes no increase in the “participation rate”.
44. The calculation for this is ((1.015 to the power of 40)) minus 1)
45. Commonwealth Treasury, “Intergenerational Report 2002-3, Budget Paper No 5” (2002) 59. This figure is obtained by adding the 5 percentage points increase in GDP that would be required if current superannuation arrangements were kept intact and adding to this 1.27% in GDP that will no longer be saved due to superannuation arrangements being scrapped.
46. James Doughney, ‘The myths of Australia’s ageing crisis’, “The Age” (Melbourne), 5 March 2004. Thus, Australia will not have to increase taxes to fund the ageing population, even if compulsory superannuation was abolished. It has been argued that because of international competition for skilled people, Australia needs to be careful regarding increasing its taxes in order to fund an ageing population (Commonwealth Treasury, “Australia’s Demographic Challenges” (2004) 25). However, because nearly all developed countries will have a substantially older population in the future (‘Forever young: A survey of retirement’, “The Economist” (London), 27 March - April 2004, 9) it is highly likely that they will also have to increase their taxes. Furthermore, most other developed countries will need to increase their taxes by a much higher rate than Australia (Ibid).


49. Ibid.

50. Ibid.


53. It should be noted that the calculations of the cost of superannuation tax concessions may not be fully accurate over the long term: Commonwealth Treasury, “Tax Expenditure Statement 2003”, Appendix B (2003) 156.


56. Ibid.

57. Ken Henry, ‘Address to the Melbourne Institute’s 40th Anniversary Dinner’ (Speech delivered at the Melbourne Institute, 7 February 2003).


60. Ibid.

61. Ibid 3.


63. Ibid

64. Ibid 20.

65. Ibid 31-32.

66. Ibid 29.

67. Ibid 32.


70. Economist, ibid, 4.


73. Ibid, 128.


76. Some of these reasons are discussed in Jonathan Gruber, David A Wise (eds), “Social Security and Retirement Around the World” (1999).

77. Economist, above n 4.

78. As cited in Myers, above n 75, 136.


80. Economist, ibid, 4.


84. See Jeffrey Kluger, ‘Can We Stay Young’ (Nov. 25, 1996) “Time” 70.


88. See, for example, S M Jazwinski, ‘Longevity, Genes and Aging’ (1996) 273 “Science” 54.


91. Ibid.

92. Ibid.

93. Ibid.

94. Susan St John and Larry Willmore, ‘Two legs are better than three: New Zealand as a model for old age pensions’ (2001) 29 World Development 1291.


96. Susan St John and Larry Willmore, ‘Two legs are better than three: New Zealand as a model for old age pensions’ (2001) 29 World Development 1291.

97. “New Zealand Superannuation Act 2001” (NZ) Legislative
history.


99. Ibid.

100. “New Zealand Superannuation Act 2001” (NZ) “Legislative history”.

101. Ibid.


103. Ibid. It should be noted that the Greens did support the portion of the Bill that legislated minimum pension payments, but did not support the portion of the bill that established the pre-funding of future pension payments.


105. Ibid.

106. Ibid 11-12.

107. Ibid, l.


112. “New Zealand Superannuation Act 2001” (NZ) s 42.

113. “New Zealand Superannuation Act 2001” (NZ) s 43.

114. “New Zealand Superannuation Act 2001” (NZ) s 44.

115. “New Zealand Superannuation Act 2001” (NZ) s 47.


119. Ibid.


121. Susan St John and Larry Willmore, ‘Two legs are better than three: New Zealand as a model for old age pensions’ (2001) 29 World Development 1291.