Global Crisis Fact Sheet 4

Pensions and Superannuation

What has happened?

Total estimated superannuation assets decreased by 7.6 per cent in the period October - December 2008 to $1.05 trillion. Over the 12 months to December 2008, there was a 14.8 per cent decrease. That is a loss of $183.3 billion in a year, with the biggest loss in the last three months.

During the October - December 2008 period, industry super funds' assets decreased by 8.0 per cent, but this was less than the fall in corporate funds, retail funds or public sector funds.

Industry super funds, with 17.2% of total assets (or $180.9 billion), perform better than other types on every score, but the picture is still bad. The majority of industry fund assets were managed by private finance sector firms – the people who gave us the 'Great Recession'.

For the October - December 2008 period, workers contributed $5.5 billion, and also rolled over $294 million into industry funds, and $1.8 billion was paid out in benefits. But losses on members' funds were $18.9 billion, or more than three times what was paid in. (Australian Prudential Regulation Authority *Quarterly Superannuation Performance* report for December 2008, issued March 26 2009)

Workers close to retirement are traumatised. Many are now having to put off retirement because they can't afford to retire as planned. Another group who have recently retired have seen their income dry up and have had to apply for the age pension.

Why is happening?

Some public sector workers on the old 'defined benefit' schemes are protected from the impact of the global economic crisis. Their benefits on retirement are linked to their final pay and indexed against inflation.

But most employees rely on the Superannuation Guarantee Levy of 9 per cent of wages, plus whatever they voluntarily contribute and any government co-contribution for these voluntary contributions. The benefit is entirely dependent on how their super fund performs. Most contributions are invested into the share market, with a minority placed in property or cash. The Australian and global share markets have been falling since November 2007, and are now down 40 per cent or more from that peak.

The Rudd Labor government has guaranteed bank accounts up to $1 million, but specifically said that it cannot guarantee super fund accounts, because they are 'linked to the market'.

Australian superannuation funds have lost $183 billion in 2008, even after all the contributions are taken into account.

Most super fund assets are invested in the share market by private finance sector managers.

The Australian and global sharemarkets are down at least 40 per cent from their peak of November 2007.

The Rudd government should require superannuation funds to buy Australian Recovery Bonds to help finance the re-building of a fair and green Australian economy.

Australian Recovery Bonds would have a government guarantee and pay a return of about 5 per cent per year.

Unemployment Benefit (Newstart) and all other social security benefits should be increased by at least $35 per week.

Economy Environment

In the May 2009 federal budget the government increased the single age pension by $32.49 per week and the couples pension by $10.14 per week. This was accompanied by a bad decision to raise the pension age to 67 by 2023. The pension increase is welcome, but the unemployment benefit (Newstart) was not increased.

What can we do about it?

Australian Recovery Bonds

Super funds - especially funds relying on the 9 per cent Superannuation Guarantee Levy - can be better protected from impacts of falling share markets and can play a greater role in recovering from the ongoing collapse of Australia's economy.

The Rudd Labor government will have a budget deficit of over $158 billion in the coming four years, as it works hard to build infrastructure and housing, to stimulate the economy out of recession. But there is little available loan capital on the global markets to finance this deficit.

One source of finance can be the sale of government bonds to superannuation funds.

In particular, industry super funds can be directed to buy a certain amount of these bonds. These 'Australian Recovery Bonds' would be a way for the Rudd Labor government to extend its present guarantee on bank deposits to at least a part of the super fund accounts of employees, and also guarantee a positive return, of say 5%, on that part.

If industry funds put 20% of their assets into these bonds, this would be $36 billion.

If industry super funds put 80% of all new contributions into these bonds, that would be about $4 billion per quarter or $16 billion per year.

Such a significant commitment of workers' funds, in a secure framework, would be very popular, but will be vigorously resisted by the private finance sector managers.

It would motivate employees to talk more about the type of infrastructure that is needed - allowing more effective pressure for public housing, public health, public education, public transport, water recycling and renewable energy projects.

Super funds can help underwrite a vision for a fair and green Australia.

Crackdown on Superannuation Tax Rorts

The income tax concessions for superannuation contributions are worth around $27 billion per year, which is roughly equal to the annual cost of the age pension. These concessions overwhelmingly benefit high income earners and should be cut back to help fund additional increases in the age pension and unemployment benefits.

Summary:

- Superannuation funds lost almost 15 percent of their value in 2008, despite all the members' contributions
- Many workers planning retirement have to continue working, and many retired workers have to go onto the age pension which is very low
- Social security benefits must be increased and superannuation tax concessions for high income earners should be cut
- Superannuation funds should be directed to buy Australian Recovery Bonds to help protect the value of their funds and develop a fair and green Australia.

Produced by the SEARCH Foundation. June 2009.

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