

## Superannuation: A magic pudding?

This is an updated (2013) paper originally presented to accompany a presentation to “Superannuation: The past, present and future” Conference, University of Sydney October 2010

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*The more you eats the more you gets. Cut-an’-come-again is his name, an’ cut, an’ come again, is his nature. Me an’ Sam has been eatin’ away at this Puddin’ for years, and there’s not a mark on him.*

Norman Lindsay *The Magic Pudding: The Adventures of Bunyip Bluegum*

Bunyip Bluegum’s luck was to fall in with Bill Barnacle and Sam Sawnoff, keepers of the Magic Pudding. No matter how much they ate of the pudding, there was always more, ready to be eaten. Above all was its protean character – depending on diners’ wishes it could be a steak-and-kidney pie, an apple-dumpling pudding, or even a Christmas plum pudding.

Compulsory superannuation is a real-life magic pudding. More and more can be drawn from employers to finance superannuation, and there is even more magic in its capacity to serve so many purposes.

This paper starts with a brief outline of where we now stand in relation to the superannuation guarantee levy (SGL), including the general enthusiasm for lifting it to 12 percent. It goes on to show how, over its 27 years, it has morphed in purpose. The consistent theme is about providing retirement incomes, but many secondary purposes come and go. Finally, I ask whether an objective of providing retirement incomes is obscuring a more general economic opportunity to optimize the spread of people’s income over their lifetime.

### Where we are now – the twelve percent consensus

In this paper I am dealing only with the compulsory element of superannuation, the SGL, because for most Australians it sets a floor on their contributions. They can contribute more, and, indeed, are encouraged to do so through incentives for those on low incomes through the Super Co-contribution and the Low Income Super Contribution schemes, and for those on all incomes through tax concessions for contributions up to \$25 000 on pre-tax earnings (\$35 000 for older workers).

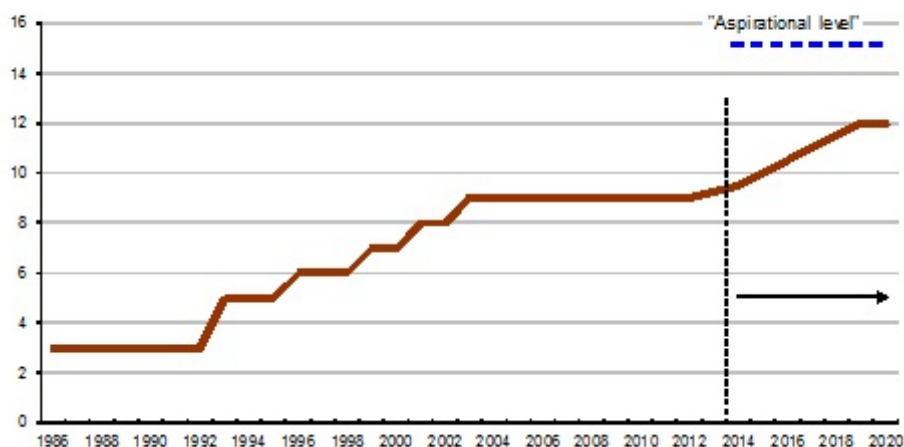
The SGL has risen from 3.00 percent at its inception in 1986 to 9.00 percent in 2003, and after legislation passed in 2012, has risen to 9.25 percent on its way to 12.00 percent by 2019 (in annual increments of 0.25 percent and 0.50 percent). The Coalition has promised, if elected, to defer the rise from 9.25 percent for two years, pushing the 12 percent level out to 2021. It has also promised to scrap the Low Income Super Contribution scheme.

There has been pressure to lift it even further. John Howard went to the 1996 election promising to lift the levy to 15 percent. When I originally prepared this paper in 2010, the ACTU had stated on its website “it is now widely accepted that a 12-15% super levy is

necessary to achieve a basic retirement income”, but that statement no longer appears. While we are now hearing fewer calls for a 15 percent rate, former Treasurer and Prime Minister Paul Keating is still an advocate for a higher ultimate rate.

I suggest that categorical statements about adequacy are not particularly helpful in guiding public policy. With so many different life and workforce experiences, there is no formula determining adequacy. Nine percent would be quite adequate for many people – perhaps even more than adequate – while at the same time even fifteen percent could be inadequate, particularly if funds are invested in high-fee or excessively conservative products.

Figure 1: SGL , percent



But first, an examination of the economic functions of compulsory superannuation, for, like the Magic Pudding, it seems to have provided many different courses.

### Superannuation’s history and changing purpose

Superannuation in Australia dates from the mid-nineteenth century, when some large corporations and government departments started paying pensions to long-serving employees.

Although the need to bring pensions under common eligibility was an issue at the time of Federation (the Constitution specifically gives the Commonwealth powers over age pensions) it was not until 1908 that the Commonwealth introduced a universal age pension, replacing the pensions which some states were providing following the 1890s depression. The Commonwealth pension was unusual for its time, in that, unlike the Bismarckian schemes introduced in other countries late in the nineteenth century, it was not linked to earnings. Our public pension scheme, unlike the social security schemes in other countries, has no element of personal accounts.

This was, and remains, a defined benefit scheme (now effectively linked at 27.8 percent of male average total earnings for singles, and 41.8 percent of male average total earnings for couples), but apart from a brief period from 1973 to 1975, it has always been means tested.

By the mid-twentieth century most public servants and some corporate employees were in defined benefit schemes funded wholly or partially by their employers, but others were left out. Many employers offered membership of their schemes after some years of service, and there was not necessarily full portability if people changed employers. Such schemes were best suited to a stable workforce.

By the 1970s public policy debates became concerned with long-term retirement incomes and the budgetary stress of the age pension. In the early 1990s the Commonwealth started to make long-term fiscal projections in its *Intergenerational Reports*. The latest (2010) Report projects age pension spending to rise from 2.7 percent of GDP in 2009-10 to 3.9 percent of GDP in 2049-50. (Interestingly, this proportion is significantly down from that calculated in the 2007 Report, which saw age pension spending rise to 4.4 percent of GDP in 2046-47.)

These concerns built up from 1970 onwards, and they arose from many quarters. Female wages were rising, leading to a higher opportunity cost of having children. Fertility was falling below the long term replacement rate of 2.3 children per woman; it has hovered around 1.8 children for the last 15 years. People were living longer. Immigration, while high in absolute numbers, was much lower as a percentage of the population than in the postwar years, and by 1980 the “young” immigrants of the 1950s were ageing. As a result of all these developments the age dependency ratio was projected to rise.

In 1973 the Whitlam Government established the National Superannuation Committee of Inquiry, chaired by Keith Hancock. The inquiry reported in 1976, recommending a universal pension scheme with an earnings-related supplement, but this was not taken up; the Coalition, then in government, was to remain opposed to compulsory superannuation until 1996.<sup>1</sup>

By the early 1980s corporations (and later public sector employers) were moving from defined benefit to defined contribution schemes, shifting actuarial and investment risk on to individuals. In many cases, including in universities and government agencies, defined benefit schemes were grandfathered. By 2012, according to APRA, only 620 000 people had purely defined benefit accounts, and these were mainly current or former public sector employees.<sup>2</sup> This shift can be seen not only in the context of ageing (a defined benefit scheme wasn't very expensive when life expectancy was shorter), but also in the context of a changing economic structure towards more competitive markets, involving more labour mobility and less security for workers and their employers.

The Commonwealth's response to these emerging developments was to tighten the pension means tests in the 1980s, but it retained the defined benefit design of the age pension. The budgetary cost of age pensions, rather than provision of retirement income, was the Commonwealth's main policy concern.

But it was neither demographic pressure nor the problems of corporate defined benefit schemes which prompted the Commonwealth to legislate for compulsory superannuation for private sector employees. By 1986 the economy was in a positive feedback loop, with high inflation feeding into high wages as built into the Hawke Government's Accord, which

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1. National Superannuation Committee of Inquiry. Final Report. Part 1 (1976).

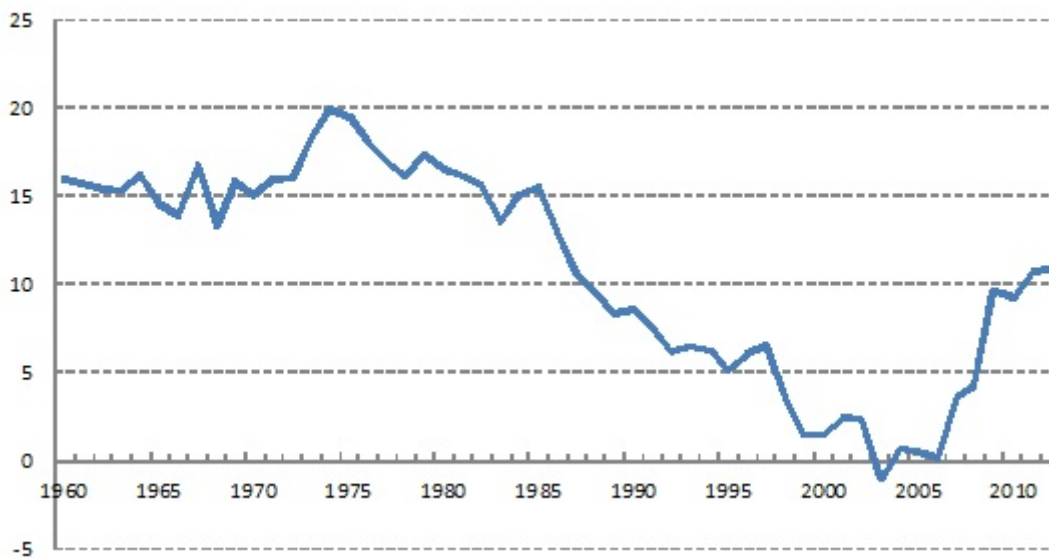
2. APRA Statistical Bulletin 2012

indexed wages to the CPI, which in turn fed into demand and high inflation. The pragmatic response, negotiated through the Conciliation and Arbitration Commission, was to award a six percent pay rise split between a three percent wage rise and three percent award-based superannuation. (Behavioral economists will note the use of the “money illusion” to make acceptable what was to become a real three percent cash wage cut.) Such a low level of contribution could never provide a useful retirement income; its purpose was to break inflation.

In 1992, however, the Commonwealth became committed to raising the rate to nine percent by 2003, and it remained at that level until the recent decision to raise it to 12 percent by 2020.

Also, there have been extra inducements, such as co-contributions and generous tax breaks on retirement incomes introduced in the 2006-07 Budget and contribution tax rebates for low income earners introduced in the 2010-11 Budget.

**Figure 2: Household saving ratio, percent**



Another consideration driving superannuation has been the need to mobilize savings. By the 1990s there was widespread concern at a low and declining level of household saving. The Fitzgerald Report on saving was released in 1993 when savings had fallen from about 15 percent of household income in the 1960s and 1970s, to 6 percent, and were clearly on the way down. At the time, and into the early 2000s, some suggested that superannuation had displaced other forms of household saving, but if it has, the effect has been minor, because household savings have risen strongly over the last ten years.

The combined effect of a current saving ratio of around 10 percent, and superannuation at 9.25 percent would see the household saving ratio back around 15 percent, assuming about half of Australians are paying superannuation. (Treasury estimates the net contribution of superannuation to national saving is only around 1.5 percent, understandably a lower number

than a household savings estimate because there would be some costs to other, non-household forms of saving<sup>3</sup>.)

Yet another intention, made less explicit, was to boost the finance sector. The finance sector put on a huge growth spurt in the mid-1980s, and has continued to grow ever since, from 6 to 10 percent of GDP – a large increase in the nation’s overheads. (See Figure 3.) While this spurt coincided with the introduction of compulsory superannuation, there were other contributing factors, in particular the Hawke Government’s substantial deregulation of the finance sector. Value-added (operating expenses plus net income) of the superannuation industry are now around \$17 billion a year (APRA figures that probably understate the industry’s costs), suggesting that at least 20 percent of the rise in the size of the finance sector is attributable to superannuation.<sup>4</sup>

**Figure 3: Finance and insurance sector as percentage of GDP**



Both main political parties seem to have an affection for the financial sector. The Coalition’s affection is stronger, as evidenced by its strong support for private health insurance, the salary packaging industry, and, specifically in relation to superannuation, its initial cool response to the Cooper Review recommendations, particularly as they relate to financial adviser commissions.

Labor too is enchanted by the sector. With an exquisite sense of timing, just ten days after Lehman Brothers filed for bankruptcy in 2008, the Minister for Financial Services announced the establishment of The Australian Financial Centre Forum, a Government “initiative to

3. Budget Paper #1, s012-13, P 4.9

4. A “back of the envelope” estimate. The finance sector’s growth since before compulsory superannuation is 6 percent of GDP. With GDP of \$1.5 trillion, that the sector is now \$90 billion larger than it would have been had it stayed at a 1970s proportion of GDP. At \$17 billion, superannuation accounts for about 20 percent of this growth.

position Australia as a leading financial services centre”.<sup>5</sup> The Forum reported in 2010, stating that Australia’s superannuation system “has resulted in Australia having one of the largest and most sophisticated funds management sectors globally.”<sup>6</sup> On release of the Forum’s Report, the Johnson Report, the Minister said “Promoting Australia as a financial services hub has been one of the key priorities for our Government since coming to office.”<sup>7</sup> (Presumably the Government has in mind the economic successes of other financial services hubs, such as the UK and Iceland?)

There are some explicit statements on the purpose, or at least the consequences, of encouraging investment through superannuation. In the 2010-11 Budget Papers, it is stated that the boost in superannuation, through increasing domestic saving, will help reduce our current account financing risks.<sup>8</sup> The 2012-13 Budget Papers emphasize the role of superannuation in the related roles of boosting national saving and making domestic funds available for investment. Compulsory superannuation is described as “a key structural driver of Australia’s national saving rate”<sup>9</sup>.

In a major speech to a superannuation conference earlier this year, Bill Shorten, then the Minister for Financial Services and Superannuation, brought the focus back to retirement incomes, outlining three planks of retirement income policy as envisioned by the Hawke Government:

- The age pension – to provide a minimum level of income support – but one which is inevitably hostage to political whims and budget constraints of the Government of the day;
- Universal, mandated superannuation for the middle classes with a goal of a replacement rate of 70 percent of pre-retirement incomes;
- For those with the means, voluntary savings above and beyond superannuation. This was to be concessionally taxed within a reasonable benefit limit.<sup>10</sup>

So we see that compulsory superannuation has served many policy ends – breaking an inflationary feedback loop, boosting saving and investment, supporting the financial sector, reducing long-term fiscal pressure, protecting our current account, and, almost as an *obiter dicta*, providing retirement incomes. With so many claimed benefits it is possible that policy makers see boosting superannuation as unquestionably desirable, and it is unlikely to have

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5. Press release by Assistant Treasurer and Minister for Competition Policy and Consumer Affairs, 26 September 2008.

6. *Australia as a Financial Centre: Building on our Strengths* Report by the Australian Financial Centre Forum November 2009.

7. Minister for Financial Services, Superannuation and Corporate Law interview with Alex Symonds, SKY Business Friday, 15 January 2010.

8. Budget Paper # 1, 2010-11, Page 4-21.

9. Budget Paper #1, 2012-13, Section 4 “Building resilience through national saving”.

10. Minister for Financial Services & Superannuation Address at the Conference of Major Superannuation Funds Brisbane 22 March 2013.

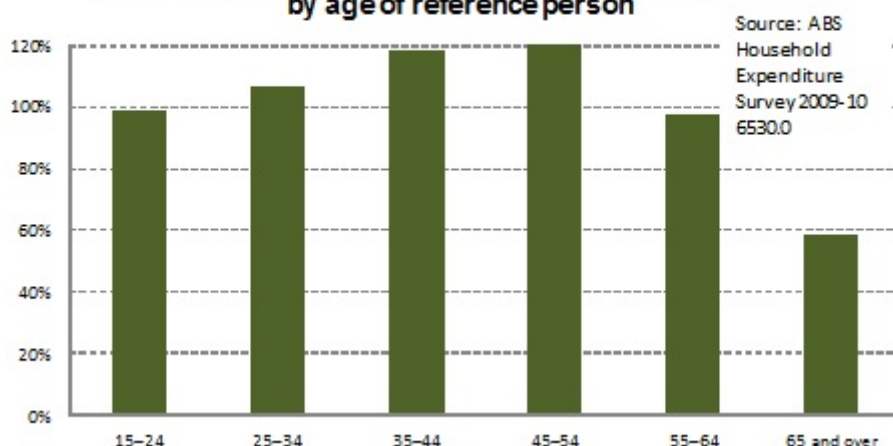
many critics. With such a large compulsory diversion of workers' income, however, it is useful to look more closely at what most would see as the purpose of superannuation.

### A sole purpose test, but what is that sole purpose?

It is easy to define the purpose of superannuation in terms of providing retirement income. If, because of individual under-saving for retirement (well-researched by behavioral economists) and longer life expectancy, we can expect retirement incomes to be very low, then encouraging or compelling people to invest in superannuation is a worthwhile policy objective. Some may say it's an unnecessarily paternalistic intervention, while others will point to the *ex post* utility of past decisions which, in an unregulated environment, we would not necessarily have made at the time.

But, almost by definition, retirement income comes at a cost to pre-retirement income – an opportunity cost. While there is no one objective standard of retirement income as a proportion of pre-retirement income (figures of 60 percent and 70 percent are often used, and 70 percent appears in Shorten's statement), it is reasonable to suggest that there comes a point where people may make too great a transfer to their retirement income. In economic theory (and in common sense) there is an optimum distribution of lifetime income. When it drops precipitously in retirement it is clearly sub-optimum, but it is also sub-optimum if it is too heavily skewed to our later years. Any search for a formulaic optimum is futile, not only because of individual differences, but because of the very significant philosophical problems in using discounting for long-term personal intertemporal tradeoffs.

**Figure 4: Household consumption expenditure as percentage of average lifetime consumption expenditure by age of reference person**



Our needs fall in retirement: the ABS household expenditure survey shows that consumption expenditure in households with a reference person over 65 is only 59 percent of average lifetime consumption. (See Figure 4.) There are qualifications in interpreting this data. Being a snapshot, the older people surveyed by the ABS probably had lower lifetime earnings than those now in middle age will have; older households are more often single households; consumption may be constrained because of inadequate savings. But, even among households

in the highest income group, who may be assumed to be less financially constrained, there is the same fall in consumption. Also, these figures do not include mortgage re-payments, which for many people fall to zero at some point in their lifetime. When contribution rates and account balances are low, provision of retirement income is a self-evident goal. But can we overshoot?

## Retirement income or optimizing lifetime income?

The provision of retirement income is the usual way we see superannuation, but a more practical (and economically efficient) objective may be to optimize lifetime income (or, more strictly, consumption opportunities).

When we were clearly in a situation of too little saving for retirement, improving retirement income was a quite adequate objective. But are we pushing past the optimum point?

I have been studying superannuation in this context, and some years ago developed a spreadsheet model to look at the effects of different superannuation contribution rates, earnings, fees and other variables, such as co-contributions. My initial concern was the opportunity cost of fees, and it was easy to demonstrate the pernicious effects of percentage-based fees, but it has also been useful in terms of modelling policy changes. It is on the Web and is named [supermodelv5.xls](#). Alongside is a snapshot of the main part of the user's screen. All figures are in real terms.

The user can change all the white cells, including the tick boxes. In the case in the illustration, I model someone who graduates at age 22, works until retirement at age 65, with a salary steadily rising in real terms from \$58 000 to \$98 000 (average of full time adult earnings of \$78 000). She has two years on reduced pay, and also has the benefit of a small \$50 000 inheritance (or other windfall) at age 40. Above all, she is in a reasonably low-cost fund, with fees at 0.8% of its balance.

Her retirement accumulation will be \$660 000, not a king's ransom, but adequate to provide an income of \$50 000 a year over her expected 21 years of remaining life. I have

|    | A                                                               | B | C                                   |
|----|-----------------------------------------------------------------|---|-------------------------------------|
| 1  | <b>Superannuation model</b>                                     |   |                                     |
| 2  |                                                                 |   |                                     |
| 3  | <b>Contributor inputs</b>                                       |   |                                     |
| 4  | Commencing age                                                  |   | 22                                  |
| 5  | Finishing age (60 to 70)                                        |   | 65                                  |
| 6  | Commencing salary (\$'000)                                      |   | 58                                  |
| 7  | Final salary (\$'000)                                           |   | 98                                  |
| 8  |                                                                 |   |                                     |
| 9  | Age of break from full time workforce                           |   | 25                                  |
| 10 | Years out of full time workforce                                |   | 2                                   |
| 11 | Fraction employed in those years                                |   | 20%                                 |
| 12 |                                                                 |   |                                     |
| 13 | Lump sum contribution at age                                    |   | 40                                  |
| 14 | Amount \$'000                                                   |   | 50                                  |
| 15 | Check if contribution is tax deductible (e.g. salary sacrifice) |   | <input type="checkbox"/>            |
| 16 |                                                                 |   |                                     |
| 17 | <b>Policy inputs</b>                                            |   |                                     |
| 18 | SGL rate                                                        |   | 9.3%                                |
| 19 | Contribution tax                                                |   | 15.0%                               |
| 20 | Earning tax                                                     |   | 15.0%                               |
| 21 | Low income contribution (\$500 max)                             |   | <input checked="" type="checkbox"/> |
| 22 | Co-contribution                                                 |   | <input checked="" type="checkbox"/> |
| 23 |                                                                 |   |                                     |
| 24 | <b>Fees and earnings</b>                                        |   |                                     |
| 25 | Fund earning rate (real)                                        |   | 5.0%                                |
| 26 | Fees as % of accumulation (incl trails)                         |   | 0.8%                                |
| 27 | Annual fixed fees                                               |   | \$0                                 |
| 28 |                                                                 |   |                                     |
| 29 | <b>Outputs</b>                                                  |   |                                     |
| 30 | Accumulation at age 65 \$'000                                   |   | 664                                 |
| 31 | Years of life expectancy at age 65                              |   | 20.6                                |
| 32 | Annuity income over 20 years, \$'000                            |   | 49.8                                |
| 33 |                                                                 |   |                                     |
| 34 | Annuity income as % of lifetime average salary of \$75 773      |   | 66%                                 |
| 35 | Annuity income as % of final gross salary of \$ 98 000          |   | 51%                                 |
| 36 | Annuity income as % of final net salary of \$ 72 323            |   | 69%                                 |
| 37 | Annuity income as % of adult full time earnings                 |   | 64%                                 |
| 38 |                                                                 |   |                                     |

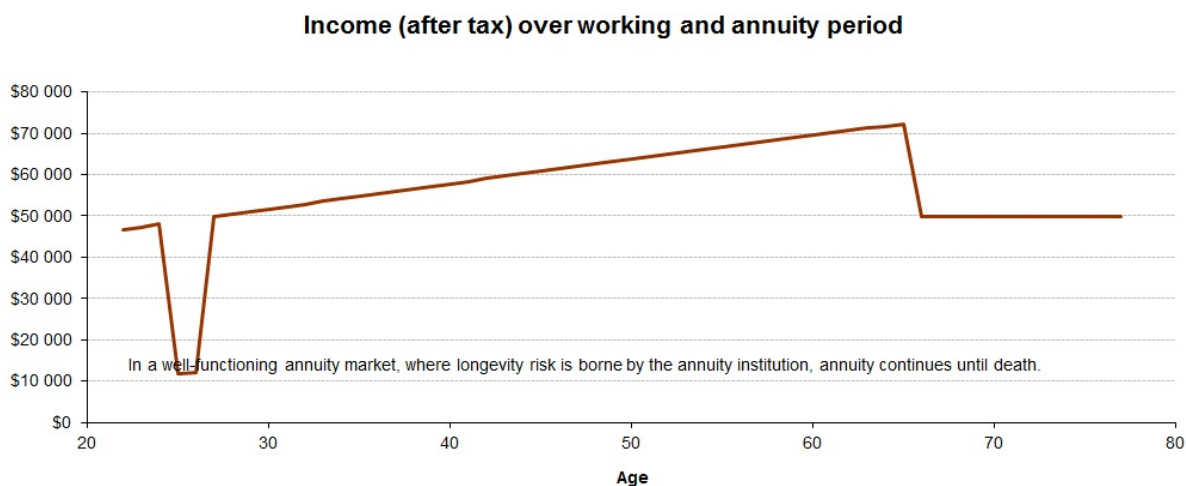


assumed those reasonable fees continue into the retirement phase, and that there is a well-functioning annuity market. (The quality of annuities is a policy issue I urge superannuation advocates to pursue, for at present fees are high, and commercial providers are making claims about “longevity risk”, while neglecting to acknowledge that this risk is hedged against their life insurance business, where longevity is a benefit. But that is an issue for a different forum.)

The model has a graphical output, illustrated below for the individual in question.

For that individual, there may be a case for increasing her contribution to 12 percent: in that case her retirement income would rise to \$62 000. If she were in a high-fee fund, she would certainly need 12 percent contributions and more, for if one plugs in a fee level of 2.0 percent into the model with a 12 percent contribution rate, her retirement income is only \$42 000. That is much *less* than her retirement income in a low-fee fund with only a 9.25 percent contribution rate.

Such modelling illustrates a risk in a policy of raising the SGL rate to 12 percent or even beyond: it could be entirely absorbed by fees. It would have been very poor policy had the Government simply raised the contribution level without also introducing reforms such as *MySuper* and regulations on commissions.



One of the most sensitive variables is the break from the workforce at an early age, possibly for childbearing, but also possibly for study, or, for people in industries with fluctuating fortunes, unemployment. Those breaks, because of compounding, have a surprisingly large effect on the final outcome.

The other sensitive variable is the lump sum – an inheritance perhaps. Even a small inheritance, or perhaps a gift to adult children or grandchildren, has a great benefit if it comes at an early age. The implications for intergenerational equity are significant. And the implications for wealth distribution could be even more significant. Policymakers and academics seem to leave inheritances and other wealth transfers in the “too hard” basket. While there is a fair deal of concern about income inequality, wealth inequality, which is

much more enduring, gets little attention, even though it is being driven by factors strongly influenced by government policy – house prices and superannuation.

Another finding to emerge from the model is that for many, by any reasonable criterion, a 9.25 percent or even a 9.00 percent contribution rate is reasonable, provided they are in a low-cost fund. Those with continuous employment up to age 65 do well out of the present scheme, particularly if their lifetime earnings are fairly flat – as may apply to tradespeople and certain professionals. By contrast, those who start on low incomes and move up through the ranks, such as lawyers who start as clerks making the coffee and retire as SCs, lack the benefit of early contributions, although co-contributions and tax rebates can be of significant help. (For those who rise through the ranks, co-contributions and tax rebates are a publicly-financed windfall.) Those who take early breaks, for childbearing, study or other purposes, pay a high price, as do those with broken employment or who take early retirement. An inheritance of a gift from a parent is of tremendous help, particularly if it is made at an early age.

In terms of public policy, then, I am arguing against the “one size fits all” constraint built into lifting the SGL rate to 12 percent. For many, it will skew lifetime income away from the time when they most need it – in their middle ages from age 35 to 55 – to the time when they least need it. Some of the burden will be borne by their own children growing up in a cash-constrained household, and some will be borne by increased debt for people’s mortgages and, if they are hard pressed enough, debt for cars and other household items. Some will use credit cards to support sustained debt. Also, without a buffer of liquid savings, people are vulnerable to contingencies, such as the need for emergency travel, or the need to take unpaid leave, and they have to cover themselves with high-cost insurance policies for other contingencies because they have no capacity for self-insurance or for buying low-cost policies with high deductibles. In short, they become heavily dependent on the financial sector, putting money into the sector with superannuation and insurance, and taking money out in the form of loans.

The beneficiary of this churning is the financial sector. People are forced to cast aside Polonius’s common-sense advice, to “neither a borrower nor a lender be”: we become both, one by force of circumstance, the other by legislation.

Superannuation advocates argue that superannuation gives people an opportunity for gearing: funding of mortgages and car loans is at lending rates, while superannuation includes equities which earn a premium. This argument had its attraction up to 2008, when short- and medium-term superannuation returns were very high, but it has lost its appeal since. For the argument to hold, the long-term equity premium would have to be high enough to cover both borrowing fees and superannuation fees, and to compensate for the low yield of cash and fixed interest in superannuation accounts, for only 50 percent of superannuation assets are in equities (with another 10 percent in property which may enjoy some premium).<sup>11</sup> A back-of-the-envelope calculation suggests that these fees come close to wiping out any equity premium.<sup>12</sup>

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11. These are 2012 figures, from the APRA Annual Superannuation Bulletin 2012.

12. According to Elroy Dimson, Paul Marsh and Mike Staunton in *Triumph of the Optimists: 101 years of global investment returns* (Princeton 2002), the long term equity premium over bonds is 5.6 percent. If only half of superannuation is in equities then its weighted premium is 2.8 percent. If fees each way are 1.0 percent, the net premium reduces to 0.8 percent. This is before taking into account a possible

## **Not just cash, but also equity and real resources**

Public policy has been very much focussed on income adequacy in retirement and I am suggesting there should be a broader concern to do with optimizing lifetime income. But there are two other considerations worthy of attention.

The first is about considerations of equity in our retirement years. Two people – close friends, siblings, neighbours – may have very similar incomes and lifestyles up to retirement, but, because of differences in their superannuation arrangements, may find their means in retirement are vastly different. This is a consequence of shifting a large amount of investment risk on to individuals.

The policy response is to point to the pension as a safety net for those who have not done so well with their superannuation, but it is possible that there will develop such a spread in retirement incomes, and that the mean retirement income will come to be so high, that there will be huge political pressure to lift the age pension beyond its present 28 percent of AWE benchmark.

The second is about physical resources, particularly housing and related amenities. It will do us little good in our old age if we have high superannuation balances if the amenities we need are in short supply. If we cannot drive or climb stairs we may find our housing and spatial design to be quite inappropriate.

The market is too slow to correct these imbalances. There needs to be attention not only to dollar amounts, but also to real resources with long lead times, and that means policy attention to town planning, housing standards, and other resources with long lead times, such as the aged care workforce. While the monetary side of financial adequacy has to remain a Commonwealth responsibility, issues of real resource planning have to involve cooperation at all three tiers of government – particularly local government because of its role in spatial planning.

## **Conclusion**

My purpose in this paper has been to send a warning to those who are enthusiastic about the SGL and any other measures to boost superannuation. We need to consider carefully the opportunity cost of compulsory superannuation, and to bear in mind that those with a stake in the financial sector stand to benefit strongly from any rise.

Many people, perhaps even a majority of the workforce, will need contributions higher than 9.25 percent, but many do not: they (and their children) will bear the net cost of a skewed lifetime income.

There are policy solutions worthy of examination. Perhaps there could be an “opt out” of the 12 percent rate, dependent on evidence of a financial plan having been developed. Perhaps the rate could automatically fall back to 9 percent or even lower once people achieve a certain account balance judged actuarially to be adequate for their age. Perhaps mortgage

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conservative equity mix in superannuation and the fact that the work of Dimson et al covers the 100 years to 2000, just before the “tech wreck” and well before the Global Financial Crisis.

repayments, up to a pre-determined sum, could be given priority over superannuation contributions. Perhaps the subsidies for low-income earners could be re-directed to supplementing the age pension, reducing the churning through the tax system and private accounts. Perhaps, in light of the inequities we have built into the taxation of superannuation (which I have not covered in this paper), we can even embark on fundamental re-design. Such options need consideration.

Above all, governments need to bear in mind the purpose of superannuation – to apply to their own policymakers a “sole purpose test”. It is to provide retirement income, with the qualifications that it should not skew lifetime income and that it should be kept low cost. It should not be treated as a magic pudding. To extend the metaphor a little further, we should not let its minders nibble too much of the pudding – magic has its limits – and there is little sense in going hungry for an extended period and then to gorge ourselves to the point of illness. The beauty of Lindsay’s magic pudding is that it was available when Bunyip Bluegum, Bill Barnacle and Sam Sawnoff needed it.