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Super should serve economic and social goals

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In theory, putting your jewels in a safe protects them from theft. In practice, thieves know safes are where the jewels are kept. And if the thief has a key, you're in trouble.

That, in a nutshell, is the story of super. There are, no doubt, many twists in the saga; but all the latest episode confirms is that when they are desperate for cash, governments can be trusted to breach whatever trust we have placed in them.

To say that is not to suggest the changes announced in the budget are catastrophic. Most countries have caps they periodically revise on tax-advantaged retirement savings, or on the tax-advantaged income that can be derived from public and private pension schemes. To that extent, imposing or revising caps may be undesirable, but it is not exceptional.

Moreover, at least in terms of how saved assets are treated, the government's limits are materially more generous than those Labor has announced. For example, Labor's proposals tax all earnings in the retirement stage in excess of $75,000; as a result, a retiree with $2 million in super would (assuming, for simplicity, a 10 per cent return) face a tax bill of $18,750, which is 15 per cent of $125,000.

In contrast, the Coalition's measures would only tax earnings on the $400,000 that had to be transferred back to an accumulation account. The tax bill would therefore amount to $6000 (being 15 per cent of $40,000), which is less than one-third that under Labor. And while the government's threshold is indexed, Labor's is not.

What is disconcerting, however, is that the changes have been released without any serious modelling of how they will affect the system's long-term effectiveness and efficiency. That hardly inspires confidence; and the doubts about their impacts are made all the greater by the fact that the government's understanding of the superannuation system's purpose is so utterly confused.

That purpose, as stated in the objective the government intends to legislate, is "to provide income in retirement to substitute or supplement the Age Pension". But that is as sensible as claiming that the purpose of work is to "substitute or supplement" the dole, and that income taxes ought to be set accordingly.

In reality, super should serve both economic and social goals. It should enhance efficiency by allowing us to transfer income from working life to retirement, thus preserving living standards in old age. And every bit as important, it should encourage self-reliance, reward hard work and (let's say it, although it sounds quaint) promote thrift, underpinning a society in which people accept responsibility for the future.

Private savings should therefore not be viewed as an adjunct to the social safety net; rather, it is the public pension that ought to be seen as the residual, assisting those who have not been in a position to save for themselves.

Cast in that light, the questions the government needs to address are obvious. In a world in which interest rates are low and returns volatile, will the new caps on concessional and non-concessional contributions really permit Australians whose incomes are reasonable, but not stratospheric, to achieve acceptable replacement rates when they stop working?

How about savers who are in their 50s, and so still in their peak earning years, but whose contributions haven't yet been sufficient to ultimately make them financially secure? And where do the caps leave the many middle income families in which a spouse with few retirements savings was planning on catching up, perhaps by selling an investment property and placing the proceeds into super?

With those questions unanswered, the risk is that the changes the government has announced will take a system that is already incapable of providing adequate replacement rates and weaken it further. That would, of course, be bad enough; but what is even worse is that the government appears untroubled by the system's structural flaws.

Surely, were proof needed of A.E. Housman's contention that some "brute and blackguard made the world" — or perhaps of Hume's suggestion that it was designed by a fractious committee of demigods — our superannuation arrangements, with their cost, complexity and unpredictability, would act as good evidence. So would our taxation of superannuation, with its high effective tax rates on earnings that impede even lifelong savers from accumulating the balances they require. Yet there is no sign of any willingness to subject those arrangements to comprehensive review.

That may be because no one really believes in the system any more. Instead of being considered the cornerstone of income adequacy in old age, super has become merely a saving vehicle that is less harshly taxed than the alternatives. As for the virtue of providing for oneself, when was the last time it was mentioned with a straight face? Yes, Liberal ministers occasionally mouth the rhetoric, particularly to self-funded retirees; but it is little more than cloud-talking, in which words enter the air, form a pretty cloud, and then, lacking any force, vanish.

Rather, it is Labor that has framed the debate, to the point where the age pension, whose function was to alleviate poverty, has become the accepted point of reference. Everything else is portrayed as a "concession", as if the superannuation system's role was not to allow savers to redistribute their own income from the present to the future, but instead to help redistribute income from the people who saved it to those who would like it to spend.

Little wonder the government, having failed to change the terms of that debate, is struggling. And little wonder the savers who, were they not prevented from doing so, would provide for themselves, can look forward to ending their days as wards of the state.

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