Increasing super will take $20 billion a year from workers' wages

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Stagnant wages are a big issue in the federal election campaign. So it's strange that both major parties remain committed to changes that will take more out of workers' pockets.

Even slower wage growth will be the result of increasing compulsory superannuation contributions from 9.5 per cent to 12 per cent.

Both sides of politics are committed to wage cuts that workers' can't afford, in exchange for extra super that won't help them much.

More super means lower wages

Australia's superannuation system requires employers to make compulsory contributions on behalf of their workers. Right now that contribution is set at 9.5 per cent of wages and is scheduled to increase incrementally to 12 per cent by July 2025. Federal Labor recently recommitted to increasing compulsory super to 12 per cent of wages. That's also Coalition policy.

Although the government requires your employer to pay super on top of your salary, the money doesn't usually come out of the employer's pocket.

The overwhelming evidence is that higher super contributions are paid for by lower wages for workers. The Henry Tax Review and others have shown that this is exactly what happens. The Parliamentary Budget Office came to the same conclusion just weeks ago.

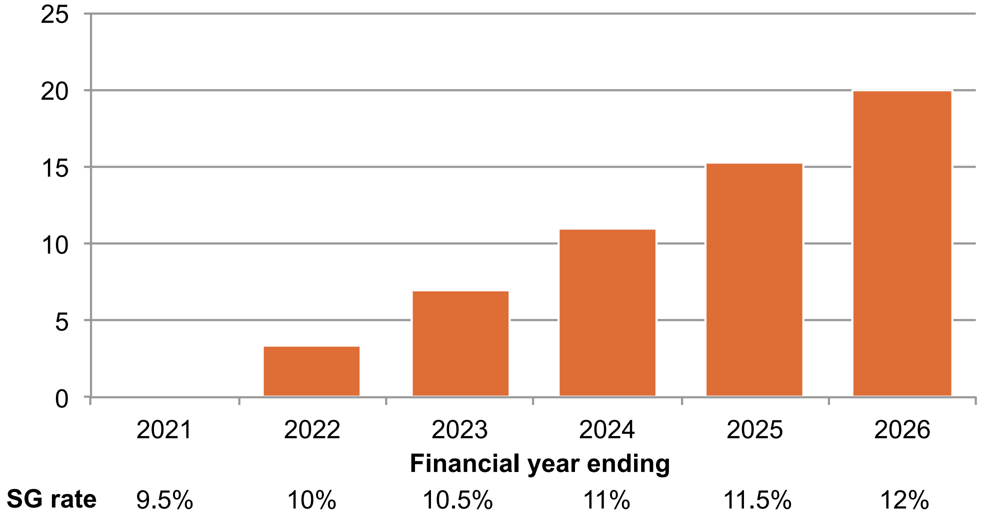
If compulsory super contributions go up, wages will be lower than they otherwise.

And the cut to wages from raising compulsory super is big. Really big. By the time it's fully implemented in 2025-26, a 12 per cent Super Guarantee will strip up to $20 billion from workers' wages each year, or nearly 1 per cent of GDP.

12% super will cost Australian workers $20bn a year in foregone wages by 2025-26

GRATTAN Institute

Foregone wages from scheduled increases in compulsory super contributions, $ billions



Notes: Foregone wages are in nominal dollars. Compulsory super contributions projected from ATO estimates using actual and forecast nominal GDP growth to 2025-26. Assumes 10 per cent of employees would not see an increase in compulsory super contributions from the rise in the Super Guarantee rate because they are paying compulsory contributions in excess of 12 per cent negotiated as part of collective agreements.
Sources: ATO, *Superannuation Guarantee Gap*; Commonwealth Budget papers (various years); Kelly (2013), *Twenty years of the superannuation guarantee: the verdict*, Melbourne Institute; Grattan analysis.

Most workers don't need more super

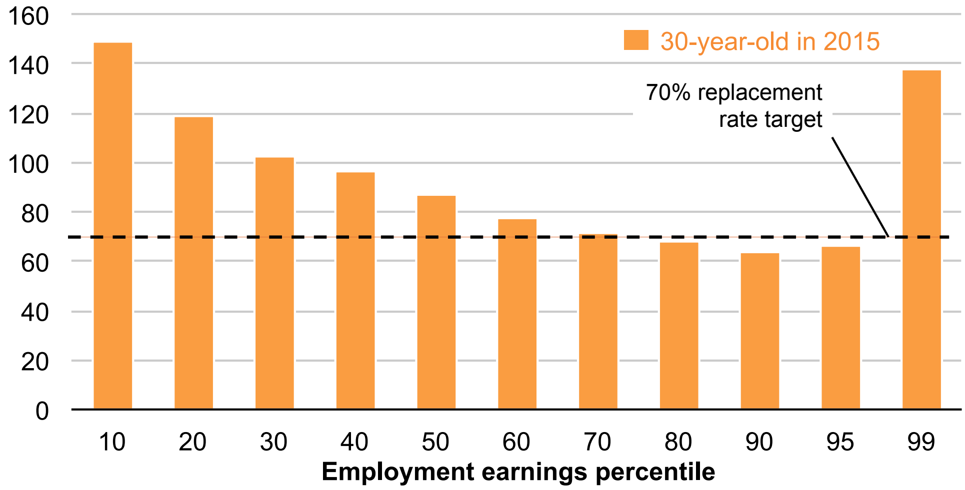
Nor are higher super contributions actually needed. Grattan Institute's latest retirement income projections show that most Australians are already on track for adequate retirement incomes.

Most workers today can expect a retirement income of at least 87 per cent of their pre-retirement income if compulsory super contributions are left at 9.5 per cent. That's well above the 70 per cent benchmark endorsed by the OECD, and more than enough to maintain pre-retirement living standards. Modelling commissioned by the super industry that suggests otherwise is based on flawed assumptions.

A 9.5% Super Guarantee provides adequate retirement incomes for most Australians

GRATTAN Institute

Replacement rates, by employment earnings percentile, CPI deflated, per cent



Notes: Models retirement income of a person born in 1985, who works uninterrupted from 30 to 67, and dies at age 92. Assumes wages growth falls by the amount of any Super Guarantee increase. Includes savings outside super. Employment earnings adjusted to account for movements up and down the earnings distribution. Retirement savings drawn down over 26 years to leave a small bequest in addition to the home. Assumes voluntary super contributions partially offset lower compulsory contributions if Guarantee remains at 9.5%.
Source: Grattan Retirement Income Projector.

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Even workers in their 40s and 50s today – many of whom didn't benefit from the present high rate of compulsory super contributions for their entire working lives – can expect a retirement income of more than 70 per cent of their pre-retirement incomes.

Many low-income Australians will get a pay *rise* when they retire, through a combination of the Age Pension and their compulsory superannuation savings. A full-time worker on the minimum wage can already expect a retirement income 20 per cent higher than their after-tax wage when working.

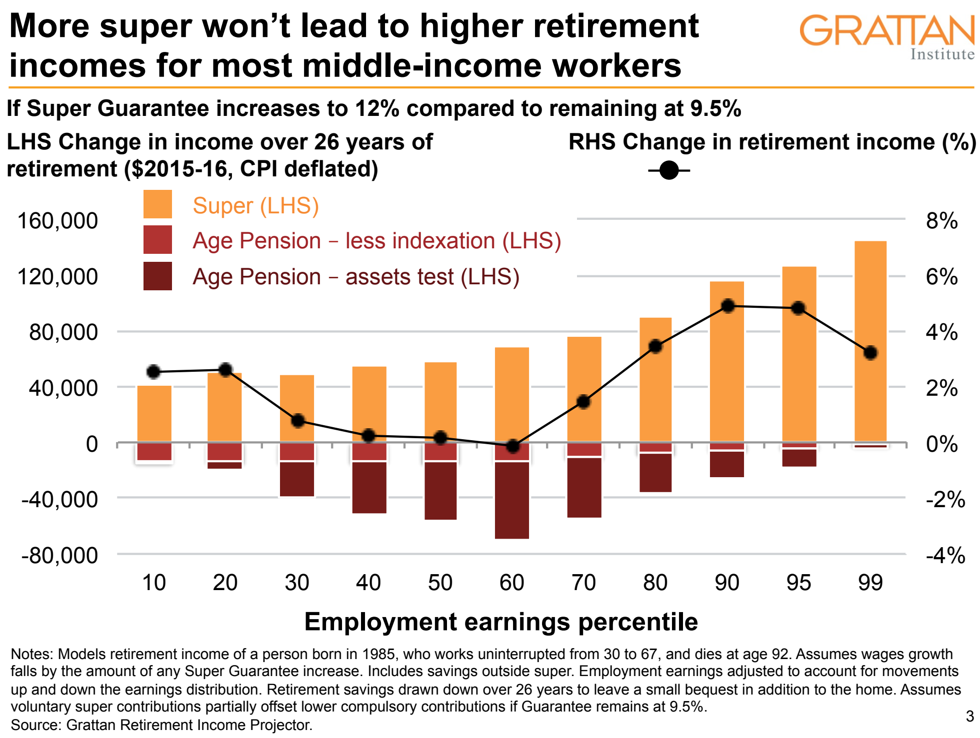
Therefore, forcing low-income workers to save even more for retirement, while reducing their incomes while working, will only make them worse off.

More super won't lead to much higher retirement incomes

Superannuation lobby groups are pushing the major parties to lift compulsory super contributions to 12 per cent as soon as possible. Industry Super Australia points to the higher super balances workers will have at retirement if compulsory super contributions are increased.

But it's a misleading story. More super at retirement is only useful if it actually translates to higher incomes in retirement. And for most low- and middle-income earners, it won't help much.

For most Australian workers, lower Age Pension payments would largely offset the increase in income from super savings, leading to little or not increase in their retirement incomes.



What's more, the Age Pension is indexed to wages. Since more super will suppress wages growth, pensions would grow by less too, hurting both retirees in future and retirees today. Australians receiving the Age Pension should be the most fervent opponents of a lift in compulsory super contributions.

Increasing compulsory super would primarily boost the retirement incomes of the top 20 per cent of Australians who gain access to extra super tax breaks, while costing the Budget more than $2 billion a year.

More super doesn't even save the budget money for a very long time: super tax breaks will exceed any decline in pension spending until at least 2060.

On super, both Labor and the Coalition should think again.