Senate Standing Committee on Economics

ANSWERS TO QUESTIONS ON NOTICE

Treasury Portfolio

Budget Estimates

1 June – 3 June 2010

Question: BET 384

Topic: **Increase in Superannuation Guarantee**

Hansard Page: Written

Senator EGGLESTON asked:

1. The budget papers suggest that the increase in the superannuation guarantee will boost GDP by 0.4 per cent. Does this finding assume that the extra 3 per cent amounts to additional saving, or do some people reduce that they would otherwise save in response to the increase to the statutory rate of superannuation?
2. I just want to explore some of the effects of an increase in the superannuation guarantee from 9 per cent to 12 per cent.
   a) Last week, Dr Henry confirmed that most analysis indicates that an increase in the superannuation guarantee will, in the long run, cause take home wages to be lower than they otherwise would. What would be the likely effects on wages in the short run? That is, would wages adjust quickly or would the increase superannuation payments be made out of business earnings during a transition period?
   b) In your view, does the Government's proposed increase in the superannuation guarantee make the tax system more or less progressive?
   c) Has Treasury analysed the effects of a higher superannuation guarantee on the size of retirement benefits relative to earnings during one's lifetime? That is, is there a risk that a 12 per cent guarantee may be "too much" saving for some such that there retirement will be higher than they desire, or even higher than their income while working?
   d) Has Treasury analysed the behavioural response to an increase the superannuation guarantee? That is, does a higher rate of the superannuation guarantee reduce the private savings that some would otherwise make? If so, what is the magnitude of this effect and over what income groups is it prevalent? Are these behavioural responses reflected in the Treasury's estimates of future savings and, in particular, the size of superannuation assets under management?

Answers:

1. Treasury modelling projects an increase in national saving of around 0.4 percentage points of GDP resulting from the gradual rise in the superannuation guarantee to 12% together with the measure to retain the higher cap on concessional contributions for most persons aged 50 and over. This modelling allows for some offsetting reduction in private saving outside of superannuation because of the increase in compulsory saving. The offset factor used (30%) is in line with the results of Treasury and Reserve Bank analyses.

2a) Treasury is not aware of any studies that definitively answer this question. The short run impacts will depend on the circumstances of individual enterprises.

2b) Treasury has not modelled changes in progressivity. The primary aims of the policy are improved retirement incomes and higher national savings and these have been modelled.

2c) Treasury has modelled improvements in relative retirement benefits (replacement rates) for a range of hypothetical individuals. There is no definitive agreement as to what is 'too much'.

2d) This is covered in part in question 1. Treasury modelling does allow for some offsetting reduction in private saving outside of superannuation because of the increase in compulsory saving. The private saving offset factor used (30%) is in line with the results of Treasury and Reserve Bank analysis. This offset is applied in the national saving analysis and does not impact on the projection of superannuation funds under management. There are strong indications that the offset is higher for high income groups but for most analyses an average rate is used.

It should be noted that in estimating the increase in superannuation fund assets, the increase in SG is applied only where required. For example, where the sum of employer and voluntary contributions is already at 12% or more, no increase in superannuation contributions is assumed.