THE STORY OF MODERN SUPERANNUATION
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Paul Keating's 'The Story of Modern Superannuation' tracks the twists and turns in the development of national superannuation, in a narrative that could only have been written by the person at the helm. The address provides an insight into the Keating policy mind: how long-term objectives are reached by laying out blocks in a policy construct informed by industrial and economic opportunity. The narrative records the various stages in the building of Australia's $1.4 trillion pool of superannuation savings and its impact on the living standards of Australia's retired. Paul Keating also makes note of the impact compulsory superannuation has had on the broadening and deepening of Australia's capital markets with the overall superannuation pool standing at 110 per cent of GDP.

Before 1985, Australia had relied on the taxpayer-provided age pension as its principal post-employment income system. Up until then, private retirement income under the superannuation provisions applied to the upper end of the commercial sector and to employees in the public sector. The great majority of working Australians had no viable access to the generosity of the superannuation tax provisions.

The reason for this, in part, was that superannuation was so concessionally taxed in budgetary terms, its universal extension was prohibitive. Superannuation was taxed at the marginal personal tax rate of only 5 per cent of the accumulated sum; for most people, an effective tax rate of 3 per cent. And the accumulations were not subject to preservation: they could be cashed out at any time during a working life. After paying the 3 per cent tax, a person could then, subject to the income and assets tests, apply for the age pension.

So, in 1983 as Treasurer, to lay the groundwork for the extension of the superannuation provisions to the whole workforce, I announced a radical change to the taxation treatment of superannuation generally. That change preserved the concessionality of the system to 1983 while changing the tax treatment of superannuation post-1983. This meant that those people who, for a large part of their working lives had enjoyed the concessionality of the superannuation provisions, would have those accumulations protected under a 'grandfathering' concession—that is, with no retrospectivity—while income after 1983 would be taxed on a less concessional but sustainable long-term basis. This led to what famously became the 'pre- and post-1983' tax calculations.

At the same time, I took the opportunity of introducing rollover provisions to the superannuation system. These allowed employees, for the first time, to roll over rather than cash out a superannuation accumulation as they left an employer, into what was described as an 'Approved Deposit Fund'. This protected the accumulation from immediate taxation, allowing the rolled accumulation to continue enjoying compound earnings.

Rollover vehicles or ADFs usually had the same rates of return as the industry generally. This meant that someone between jobs could maintain their superannuation coverage without having it truncated by a termination. This was especially important for women, many of whom left the workforce to have children, only to find upon their return they had disbursed their accumulation, obliging them to begin again, but from the first dollar. Having lost the compounding effects at termination, they were unlikely to build a meaningful sum into the future.

Notwithstanding that the new taxation treatment of superannuation was less concessionary than the give-away 3 per cent arrangement, it was still highly concessionary, such that it should not be available simply as a vehicle for protecting income. Accordingly, I announced in 1987 that preservation would be a condition of the concessionality of the superannuation tax provisions, meaning that for the first time,people could not, in a discretionary way, cash out a superannuation accumulation before age 55.

These changes—the new tax treatment, rollovers and preservation—laid the groundwork for the development of a universal system of superannuation coverage. A system designed to augment the age pension for income in retirement.

The first move towards universal access under the newly shaped superannuation provisions came as part of the then government's Accord with the Australian Council of Trade Unions. Led by Bill Kelty, the ACTU and its constituent unions had participated in a series of wage settlements designed to restrain wages growth following the unsustainable increases presided over by the earlier Fraser government.

Both the Labor government and the ACTU believed that the profit share in the economy had to be restored to reignite private investment. At the time, unemployment and inflation were both hovering around 10 per cent. The ACTU and its constituent unions had demonstrated complete fidelity to this undertaking, so when the ACTU approached the Conciliation and Arbitration Commission in the National Wage Case of September 1985, the government supported the ACTU's claim that three percentage points of wages should be contributed by employers to a superannuation account in the name of each individual worker. In supporting the unions before the Commission, I wanted unions to enjoy a structural or ongoing benefit in recognition of their years of wage responsibility. Bill Kelty and I were both of a mind to add the layer of private retirement incomes to the industrial agenda as part of an expanded social wage.

In February 1986, the Commission found in the ACTU's and the government's favour, agreeing that up to three percentage points of wages could be vested in each employee's name through a process of award negotiation between individual trade unions, employer groups and enterprises. The negotiation involved the splitting of productivity with employers. It also went to deciding what part of the wages growth would be paid as cash—as take-home pay—and what part would be withheld by the employer as employee savings—to go to superannuation.

Objecting, employer groups took the matter of superannuation contributions in industrial awards to the High Court. The High Court subsequently cleared the way, agreeing that superannuation contributions could form part of the industrial negotiation process.

To legislatively underpin the new system, as Treasurer I introduced the Occupational Superannuation Standards Act 1987, setting for the first time separate prudential standards for the management of superannuation accumulations and their benefits. The Act also included:

(i) the vesting of benefits in the employee, not the employer, prior to retirement;
(ii) preservation of all benefits to age 55;
(iii) greater member involvement in the control of superannuation funds; and
(iv) a requirement that funds submit returns to the regulatory authority to certify compliance with the required standards.

In 1988, I outlined further sweeping change to the tax treatment of superannuation. In the 'Taxation of Superannuation' statement I announced that in future, the tax treatment of superannuation would be brought into line with the tax treatment of other forms of savings such as bank deposits. This was that income would be taxed on the way into the superannuation account, as with the after-tax income of deposits in a bank account; that earnings in the super account would be taxed as they accumulate, as interest in a bank account accumulates and is taxed; and that funds would be free to be taken out, as savings can be freely taken from a bank account.

In the statement, the new tax rates were nominated. Tax at a rate of 15 per cent was to be applied to all employer contributions and to tax-deductible contributions made by those who were self-employed. A further tax, at a nominal 15 per cent, was to be applied to the earnings within a fund. But in the same statement, I also announced the extension of the revolutionary dividend imputation system to superannuation. This was a milestone reform. It meant that the imputation credits attaching to dividends paid on equities owned by a fund could be streamed to the benefit of that fund, thereby reducing the nominal 15 per cent tax on fund earnings to something approaching an effective 5 per cent. This rate of tax on income was concessional compared with the level of tax on other forms of income.

In the same 'Taxation of Superannuation' statement, a Reasonable Benefits Limit or RBL regime was introduced to limit the total amount of concessionally taxed superannuation any one person could receive over a lifetime. This was designed to stop chief executive officers and people at the top of industry on the cusp of retirement protecting income by being awarded large sums by way of employer superannuation contributions.

The RBL was introduced as an equity measure to make certain that the concessionality of the superannuation taxation provisions were shared fairly across the community and not concentrated to the benefit of a few.

In 1990, under a new variation of the Accord, Accord Mark VI, the ACTU approached the Conciliation and Arbitration Commission to approve the industrial negotiation of a further three percentage points of superannuation contributions under the Award system—to bring the quantum under award superannuation to 6 per cent of wages. The claim was also supported by the government before the Commission. Despite this, the Commission found in favour of the employer groups, rejecting out of hand the ACTU's claim for the further Award contribution. Overcoming the affront to the Accord process, this decision caused me as Treasurer to make a commitment to the ACTU—to its Secretary Bill Kelty and its negotiator Iain Ross. That commitment was that, under the Corporations power of the Constitution, the government would legislate for at least a further three percentage points of wage-equivalent superannuation contributions to be paid on behalf of all employees. This included bringing the first three percentage points to those employees who lacked the bargaining power industrially to secure it in the first instance—in the main, part-time workers and the low-paid, a high proportion of whom were women.

I resigned as Treasurer on 3 June 1991 after challenging Bob Hawke for the Prime Ministership.

The 1991 Budget process was to begin in the second week of July. The then Hawke Cabinet under the new Treasurer was of a strong mind not to proceed with a compulsory charge for superannuation. Treasury had never supported the growth of award superannuation and saw a guarantee charge as simply another cost to revenue. The intimation that the government may walk away from the earlier undertaking I had given the ACTU brought a strong rebuke from the unions.

Bill Kelty and Iain Ross made clear to Bob Hawke and to Treasurer John Kerin that if the government walked away from compulsory superannuation, to at least 6 per cent of wages, the ACTU would no longer operate general wages policy within the Accord framework.

The government was nonetheless, quite stubborn. It was listening to the Treasury.

It also suited Hawke to adopt the Treasury line; to put him at distance with me and the policy commitment I had made. It was to demonstrate that Hawke possessed an independent policy mind. So to put more pressure on the issue, on 25 July 1991 I made a comprehensive speech on superannuation to the Australian Graduate School of Management at the University of New South Wales.

The speech sketched out a future for the superannuation system under a compulsory model. In the speech, I argued the government should legislate a mandatory twelve percentage point charge to be paid by employers as part of productivity sharing under the Accord wage restraint model.

The 25 July speech, while given out of office, remains the key speech in the forward design of the Australian superannuation system. Before that time, owing to the piecemeal negotiated nature of award superannuation, it was not possible to pull all the threads together in a comprehensive policy speech. The proposed jump to a fully mandated universal scheme made such a speech conceivable.

As it turned out, the speech was widely reported, sharply lifting the bar on Bob Hawke and the government during the budget process. Hawke could feel his grip on the Prime Ministership getting a good shake and he did not want the ACTU battalions siding with me.

The Graduate School of Management speech and continued ACTU pressure from Bill Kelty and Iain Ross pushed the government over the line in confirming the undertaking I had given as Treasurer. The Budget Speech of 20 August 1991 set out a 9 per cent target for the guarantee charge but said a further 3 per cent, that is, the full 12 per cent, would be considered, including reaching it by way of tax cuts. Before the Graduate School of Management speech neither the figures 9 nor 12 were ever mentioned by the government in relation to superannuation, including by Hawke.

The Budget speech also included a line that confirmed the government had registered the fierceness of the ACTU’s warnings. It said: Improvements in superannuation will be taken into account in future Accord processes. There was no doubt about that.

Owing to the continued wage restraint by the trade unions and the structural reforms engendered by the government, trend productivity was increasing and later had more than doubled to three percentage points per annum. This meant that significant real wages growth could then be afforded, including a diversion of a substantial cash equivalent to savings via superannuation, while still underwriting a fall in unit labour costs.

I replaced Bob Hawke as Prime Minister on 21 December 1991. On 2 April 1992, an even newer Treasurer, John Dawkins, introduced the Superannuation Guarantee Charge Bill. Under this path-breaking legislation, employer contributions to superannuation would rise from four percentage points of ordinary-time earnings from 1 July 1992 to nine percentage points of ordinary-time earnings by July 2002. It is now a matter of record that that growth in contributions did occur, and that the whole system matured at nine percentage points of earnings on 1 July 2002.

It is worth reminding people that in every year the Superannuation Guarantee Charge (SGC) grew by a further one percentage point of employer contributions towards the 9 per cent target, unit labour costs fell markedly. This meant that the cost of superannuation was never borne by employers. It was absorbed into the overall wage cost. Indeed, in each year of the SGC growth between 1992 and 2002, the profit share in the economy rose. The growth in trend productivity over the period was so large it paid for generous wage settlements, including superannuation, while accommodating a higher and higher share of national income going to profits. And those wages and profits were paid consistent with an inflation rate of 2.5 per cent, on average, across the period.

In other words, had employers not paid nine percentage points of wages as superannuation contributions to employee superannuation accounts, they would have paid it in cash as wages. Otherwise, the profit share in GDP would have risen to unprecedented levels and would have shot beyond any reasonable bounds.

When you hear conservatives these days speak of superannuation as a tax on employers they are either ill-informed or they are lying. The fall in unit labour costs and the upward shift in the profit share during the period of the SGC is simply a matter of statistical record. It is not a matter of argument.

That said, not all that needed to be done had been done.

Superannuation at nine percentage points of wages, while extraordinary in western world terms, is not sufficient to reach an income replacement rate of 70 per cent in retirement. That is, for employees to enjoy in retirement an income equal to 70 per cent of their earnings before retirement.

For people on 100 to 200 per cent of average weekly earnings, nine percentage points of superannuation contributions across a working life will equate to a replacement rate of about 40 per cent in retirement, well short of the 70 per cent it should be. And given the fact that a great body of the workforce was born in the 1940s and early 1950s, there were not enough years before retirement for those people to accrue accumulations sufficient to fund a replacement income anything like 70 per cent.

So, in the Budget of 1995, the Treasurer Ralph Willis announced the government's intention of lifting superannuation contributions for all employees from nine percentage points of wages to fifteen percentage points by the same 2002 income year. In other words, seeking to frontload or boost the level of superannuation contributions to better meet the needs of the 'baby boomer' generation in retirement.

In that Budget, the Treasurer foreshadowed that the next three rounds of personal income tax cuts would be paid as savings rather than as cash—a completely new idea, one designed to bring the superannuation contributions of each employee to the equivalent of twelve percentage points of wages.

But there was a condition. It had been agreed with the ACTU under Accord Mark VIII that a new principle would be established within the wages system, whereby a co-payment would be made by each employee to their own superannuation account, matching that provided by the government by way of the tax cuts. This would amount to one percentage point of wages to be paid by the employer on behalf of each employee to their superannuation fund in lieu of one percentage point of cash which would have otherwise gone to their wage packet. This one percentage point was to have been withheld and paid over each of the three years, 1997–98, 1998–99 and 1999–2000. Three percentage points in all.

Those three percentage points of personal saving, matching the government's three percentage point tax cuts, summed up to six percentage points, bringing the overall level of superannuation contributions to fifteen percentage points, as the Superannuation Guarantee Charge concomitantly reached its ninth percentage point in the final year of its growth, 2002.

The two streams were designed to come together to be in place for that year. It is now history that the arrangement was thwarted. Had it happened, Australia would have had the foremost retirement income system in the world, one which would have met the larger requirements of the baby boomer generation, while giving young people joining the workforce at 22 a replacement rate of just on 100 per cent of average weekly earnings as they reached age 60.

It took a conservative government to sink the plan. You do not expect much from conservative governments, but you do expect them to believe in thrift. A Labor government procures the agreement of the whole workforce to save 15 per cent of its wages for retirement and a Liberal government comes along to destroy the last and vital six percentage points of it.

In the 1996 election campaign John Howard promised to maintain the value of the Keating government's 1995 Budget superannuation measures. But Howard walked away from that commitment as a 'noncore' promise in his Treasurer Peter Costello's first Budget by legislating to remove the 1995 Labor tax cuts payable to superannuation. They actually had to negotiate and legislate their destruction. Upon the withdrawal of the government's three-percentage point wage-equivalent tax cuts, the ACTU withdrew its Accord commitment to the employee three-percentage point co-payment. So, a full six percentage points of wages to superannuation was lost. Lost to the individuals, lost to the nation. Over a working life, a superannuant lost the equivalent of $300,000 in accumulation in today's dollars. And what did it save the Budget? In national savings terms, the tax cuts amounted to a bare transfer of Commonwealth savings to private savings, but preserved way into the future under superannuation's preservation provisions. Far less likely to be spent than those savings lying on the Cabinet table, waiting to be plundered by the Howard spending ministers. Which, within a year or two, they were.

As the number of retirees on the age pension is expected to more than double from the present three million to seven million by 2025, the national budget will be put under stress as the intergenerational burden falls more substantially on Generations X and Y. And they will have John Howard and Peter Costello to thank for it.

The point is the Labor government in which I was Treasurer had the foresight, as far back as 1983, to see that the demographic bulge in the Australian population beginning in 2010 and rising through 2030 was a major problem, and that something substantial had to be done in dealing with it. And done early. Fortunately, the action taken since 1985–86 in increasing award then mandatory contributions to superannuation, now to a level of nine percentage points of wages, will save future generations from the budgetary stress that would otherwise have been occasioned by the sole call on the age pension system. We have at least got that far.

But as I said earlier, nine percentage points is not enough. The universal system, now too little too late for the baby boomers, has to rise to at least twelve percentage points to reach a 70 per cent replacement rate for their children, Generations X and Y. This can be done. But we have to begin with the extra three percentage points virtually immediately.

Right now Peter Costello is out encouraging people in the top decile of incomes to invest up to $1 million in superannuation before 30 June of this year. The great body of working people got next to nothing from the Howard government's recent superannuation changes—with their superannuation contributions jammed at 9 per cent. Now Costello is abandoning the Reasonable Benefits Limits by allowing retirees over 60 years to invest up to $1 million in superannuation and take the benefits tax free. There is no doubt about the Tories: devoid of imagination or policy ambition, they always look for the main chance—to look after the wealthy.

The fact is, the Howard government despises superannuation. The idea that organisations of working people should manage large sums of money in the economy is anathema to it. If it could have gotten rid of the Superannuation Guarantee Charge, it would have. Fortunately, it did not get control of the Senate until well after the SGC had topped out at 9 per cent.

Superannuation, with the SGC contributions, is now an accumulation of just on $1 trillion in national terms. Let me repeat that: $1 trillion for just the twenty million of us. That pool of savings has transformed the Australian capital markets and has dramatically reduced the cost of capital in Australia. Even at 9 percentage points, the pool when fully mature should top out at 200 per cent of GDP. A remarkable number. But the donkeys of the Liberal Party, understanding none of this, would destroy mandatory superannuation if they had had half a chance.

In 1989 my then colleague Brian Howe and I outlined the Labor government's retirement income policy. In a document, Better Incomes: Retirement Income Policy into the Next Century, we explained we were moving Australia towards a retirement income system based on three pillars:

- (i) a taxpayer-provided age pension, the basic anti-destitution payment;
- (ii) a mandated fully funded, privately managed occupational contribution scheme, superannuation; and
- (iii) a voluntary retirement savings system of discretionary superannuation contributions encouraged and supported by the concessionality of the tax system.

That system will work for Australia. It establishes a working interface between the age pension and superannuation savings, with an asset taper withdrawal of certain sums of pension for every $1000 of assets. Based on the current age pension, a single retiree would lose all entitlement to the public pension should their assets (excluding their home) exceed $494,000 or, in the case of a couple, $785,000. Who could object to that? This interface between the age pension and privately provided superannuation works efficiently and is fair.

The challenge with superannuation can be summed up in one word: adequacy. The mandatory system must rise to a minimum 12 per cent of wages if we are to have a mature scheme. And, with that, any hope of shuffling the baby boomers through without inordinate stresses on the Budget onto those younger Australians who will have to fund it. And young Australians need the 12 per cent of wages working for them, and they need it from age 22 all the way to age 60.

As with all things, something on this scale requires imagination. It also requires conscientiousness and for leaders and ministers to take responsibility. We have already left most comparable countries well behind. But to add to mandatory superannuation from here will require an extra dimension. It will require the defeat of the Howard government. Only a Labor government will return to the as yet unfinished retirement and savings agenda. But the years are ticking by, and with each one we lose the compounding effect on the savings and the wider opportunity to set the nation up for the future.