# ‘Ever more’ super gets hoarded: Hume

Exclusive

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People need to be more confident to spend – not hoard – their retirement savings to improve living standards throughout their lives, without "ever more" compulsory super contributions, says Superannuation Minister Jane Hume.

In the strongest hint yet the Morrison government is strongly considering dumping the legislated rise in the superannuation guarantee to 12 per cent, Senator Hume said it would come at the expense of wages and that naysayers denying the cost to take-home pay were the "climate change deniers of the super system".

The pivot comes as one of Australia's most senior bureaucrats, former Public Service Commissioner Andrew Podger, flipped on his "previous advocacy" for the superannuation guarantee (SG) to rise from 9.5 per cent to 12 per cent, while calling for the government to ensure retirees draw down on their stockpile of savings. Pressing super funds to offer comprehensive retirement income products including annuities and a broader home equity release program, such as reverse mortgages or a pension loan scheme that could be deducted from deceased estates, should be pursued, Professor Podger said.

Writing exclusively in *The Australian Financial Review*, Senator Hume

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said the legislated incremental 2.5 percentage point rise in the super guarantee from 9.5 per cent over the next five years would be "taking more money away from your standard of living today so you can retire with a higher balance in the future".

Reciting findings from the government's retirement income review, she noted the "extraordinary number of retirees [that] live unnecessarily frugal lives". She said they should make the most of their assets, using programs such as the government's expanded pension loan scheme, rather than "eventually dying with the majority of their savings still intact".

"The report found that many retirees are hesitant to draw from the capital amount of their superannuation, instead drawing only the return from the investment," she said.

"Instead of increasing the balances of superannuation accounts by lifting SG, the report pointed to other methods of improving retirement savings."

Rather than increasing employer contributions, if "people made more efficient use of their retirement savings, many would have higher replacement rates than they would have with the SG at 12 per cent and drawing down their balances at the legislated minimum rate".

"So a challenge for policymakers, beyond the structural pillars of our retirement income system, is how to improve the confidence of retirees to use their savings more efficiently to enjoy a better standard of living.

"The tendency to under-consume in retirement may be driven partly out of a desire to leave a bequest, but we shouldn't underestimate the fear of outliving savings, or the anxiety about paying for future health and aged-care costs.

"But with innovative responses and continued public confidence in our retirement system, we can find ways to make the best of the assets we have: to smooth the curve of lifetime consumption and living standards, and deliver more in retirement, without needing to save ever more and consume less in our working lives."

Professor Podger, now at the Australian National University's Crawford School, said the retirement income review led by former senior Treasury official Mike Callaghan was "most likely correct" that the SG did not need to increase to 12 per cent.

"Despite my previous advocacy for the SG to increase to 12 per cent, my suspicion now is that Callaghan's conclusion will not be far out," the professor of public policy said in a short paper for the ANU's Tax and Transfer Policy Institute.

Jane Hume: Many retirees live unnecessarily frugal lives. PHOTO: ALEX ELLINGHAUSEN

The Retirement Income Review, released in November, found that the legislated increase in the SG rate from 9.5 per cent to 12 per cent by 2025, progressively beginning in July 2021, would be funded by workers and would "come at the expense of the growth in take-home wages".

**We can find ways to ... smooth the curve of lifetime consumption and living standards.**
Jane Hume, Superannuation Minister

Hence, increasing the compulsory superannuation rate could disadvantage low-income earners and cut working-life incomes by 2 per cent.

Labor, trade unions and the $3 trillion super industry have warned the government not to touch the Labor-legislated rise in the SG, which is due to edge up to 10 per cent in July.

The Callaghan retirement income review, Reserve Bank of Australia, Grattan Institute, Australian National University and Australian Council of Social Service all agree that higher super leads to lower wages growth and less consumption during people's working lives.

The Callaghan retirement review found 9.5 per cent would provide an adequate retirement income of 65 per cent to 75 per cent of pre-retirement income for middle Australia if retirees use their assets more efficiently, an income of about 90 per cent of pre-retirement income for wealthier savers and a higher standard of living in retirement than during their working life for lower income employees.

It also found people were not drawing on their savings over their retirement and instead left the bulk of their wealth as a bequest.

"A better range and use of retirement income products are on their way," Treasurer Josh Frydenberg said at the time the 650-page report was released.

Professor Podger said Mr Callaghan's report "has a very clear overall message: that we should now focus on settling the pensions phase of the system, moving on from the focus up until now on the accumulation phase".

If the government was to forgo the increase to 12 per cent, superannuation funds should introduce a "quid pro quo" that included telling their members more regularly their future expected retirement incomes, hastening a move to require funds to offer comprehensive retirement income products such as annuities, simplifying the age pension assets test to encourage saving, a "sizeable" increase in government rental assistance and a broader home equity release program, such as reverse mortgages or a pension loan scheme that could be deducted from estates upon death.

"If the funds claim they cannot offer life annuities, the government should step in and sell them," Professor Podger said.

The Callaghan report noted that a range of measures could help give people the confidence to use their assets more effectively, including focusing retirement planning on income streams rather than balances, better quality and more accessible advice and guidance, and advancing the concept of the Retirement Income Covenant so funds guide members into effective retirement strategies.

The possible mandating of annuities was also touched on.