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An article from your super fund

How does the Australian Pension System Rate Globally?

Confidence in the Australian superannuation and pension system is often eroded during times of market decline and major regulatory change. This is because members of super funds see their account balances falling as a result of market volatility or the government changes the legislation which increases the complexity of an already complex regulatory system.

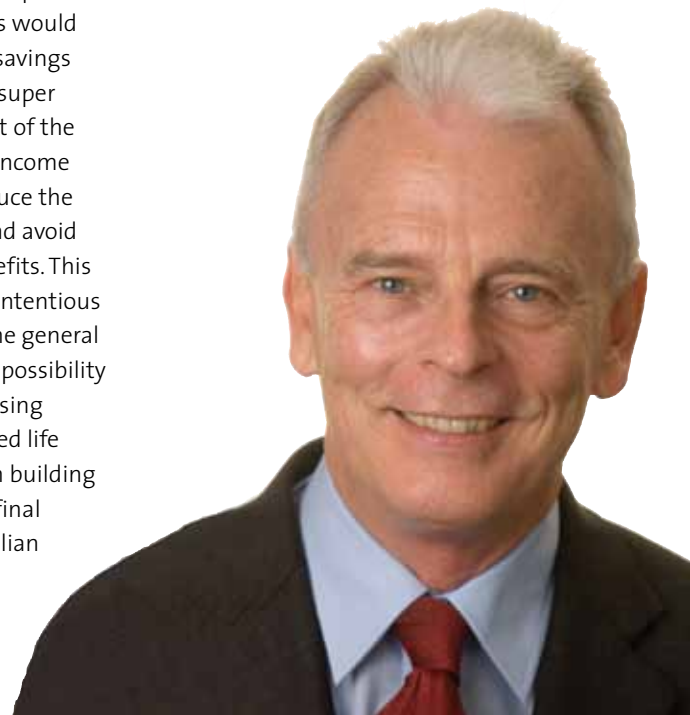
Our retirement system is based on a three-pillar approach: an age pension which is means tested and government funded; employer-funded compulsory superannuation; and private savings. In the "Melbourne Mercer Global Pension Index" which is compiled annually by Mercer, Australia was placed second in

the world behind the Netherlands. The index is based on three broad categories: adequacy or what retirees actually get; sustainability or whether the system can be maintained; and integrity or the level of trust which can be placed in the system. This is a pleasing result which should provide some comfort to those contemplating retirement as well as those who remain in the workforce contributing to our \$1.3 trillion world-class superannuation system.

The author of the report, David Knox, has noted that while our system is robust and highly ranked, there are still several areas where we could improve and possibly achieve the number one position. Increasing the compulsory employer contribution to 12% would significantly increase the national retirement savings pool. This is the government's stated policy and the original Keating plan, but it has yet to be legislated. A policy of encouraging older workers to remain in the workforce is another measure to increase the pension pool of money as these workers would postpone drawing down their savings and maintain contributions to super longer. A requirement that part of the pension benefit is taken as an income stream would also serve to reduce the pressure on the age pension and avoid the payment of lump sum benefits. This measure, however, would be contentious and perhaps unpopular with the general public, but it would reduce the possibility of a lump sum "splurge". Increasing the pension age due to increased life expectancy would also assist in building the retirement savings pool. A final measure to improve the Australian

superannuation/pension system would be to improve efficiency of super funds and reducing the costs for members. An obvious means of achieving the reduced costs would be the consolidation of superannuation funds in order to achieve the economies of scale needed for reduced fees and charges for members. This final recommendation is arguably already happening with some smaller funds seeking to merge with larger funds due to their inability to offer the cost and member benefits which the larger funds are able to offer.

In spite of the fact that the Australian pension system has been recognised as one of the world's best, there is no room for hubris or complacency. The life expectancy of males is now in the lower-80s; women's life expectancy is even higher. So the traditional idea of providing pension benefits to age 70 has become obsolete.



Other areas which should be improved include providing super for self-employed workers as well as for women who experience gaps in their contributions due to parental leave. No doubt the increased casualisation and part-time direction of the workforce will affect the quantum of super saved.

So while our achievements in the area of providing sustainable retirement benefits are considerable on the world stage, continued vigilance is essential to improve the pension system in order to achieve the dignity in retirement Australian workers deserve.



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