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Superannuation at the centre of attention

One Nation is challenging the sacred cow of Treasury

Alan Moran

Getty Images

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Suddenly, superannuation has become a hot-button issue in Australia.

Germany was the first modern state to introduce old-age pensions. That was in 1889 when Bismarck required all employees to contribute to funding their retirement incomes.

Australia and Britain introduced means-tested but non-contributory pensions in 1908. Britain's was shifted to a (partial) contributory basis in 1925. In principle, Australia began moving to a fully contributory scheme in 1992.

Virtually all but the poorest of countries now have some form of old age pension.

Most nations' schemes are funded out of general taxation. Singapore, Hong Kong, Mexico, Switzerland, Denmark, and Israel, like Australia, are among the few with compulsory superannuation designed to ensure the beneficiaries, not the next generation of workers, pay for it. Even in Australia, some 56 to 66 per cent (depending on definitions) of retirees currently receive a state pension funded from general taxation.

When the Hawke-Keating government introduced compulsory superannuation in 1992, superannuation covered only about 30 per cent of private sector employees, mainly at a lower rate than the current 12 per cent (the rate was staged to increase from its initial 3 or 4 per cent). Compulsory superannuation was controversial when it was introduced; conservatives like John Howard and Tony Abbott opposed it on the grounds that it ran counter to freedom of choice. In addition, there were concerns that, with union appointees dominating industry super funds they may invest unwisely and (as has eventuated) cream off income to provide an income stream for the Labor Party.

The funds now have assets of $4 trillion – considerably greater than Australia's annual income.

Superannuation funds will always be hostage to socialistic governments that see themselves as better at directing investment than individuals and wealth-oriented managers. But few at the time of the policy's introduction raised concerns that funds would be directed toward investment areas favoured by the government itself. Recently, the Albanese government and former Victorian Premier Jacinta Allen floated such an option. Political allocation of funds would have adverse consequences for the income stream.

Industry super funds have placed financial pressure on firms they invest in to adopt Diversity, Equity, and Inclusion (DEI) policies – especially decarbonisation. Adopting such policies will generally adversely affect profitability. One Nation recognised this as a political risk with union-dominated superannuation funds, though private funds led by BlackRock and State Street have also adopted such policy; funds pressing DEI have tended to underperform their competitors, and many have abandoned it.

Having initially opposed compulsory superannuation, the Coalition came to accept it as settled policy, though in government it has occasionally delayed the staged increases.

A catalyst for the more recent revisiting of the policy has been that younger people have their savings tied up in superannuation and would prefer – or at least should have the option – to access these funds for home purchases.

In fact, house prices in Australia have not performed better than share prices over the past century, and in jurisdictions like Texas and Germany, where land constraints on new housing developments are not at Australia's draconian levels, house prices have barely kept pace with general inflation. Moreover, house prices are vulnerable to short-term tax measures. Thus, in response to what it claims are modest new imposts on owners of multiple residences, house prices in Sydney fell by 5 per cent in 2026.

In the longer term, Australia and other wealthy economies face a fertility rate of only about 1.4 children per female. If this continues, the population will halve over the next 50 years. That will likely be accompanied by reduced demand for housing and, therefore, lower prices.

But the most persuasive case for mandatory superannuation is that without it, a higher proportion of older people will demand an alternative retirement income. Both the voting power of older people and compassion for hardship will, as happened in the early part of the 20th Century, bring compelling pressure on governments to provide for retirees by increasing taxation on those earning incomes.

As with all such interventions, this will have other repercussions. For younger people, it will bring a diminished willingness to work – or at least declare incomes. And the expectation of income support in old age will discourage people in general to lower the proportion of their income they allocate to savings. Both outcomes would, overall, lower aggregate income levels.

'Moral hazard' is the term used to describe behaviour that changes when people do not face the full costs of their behaviour. If people think that the government will pick up the tab when they under-provide for their own future, they will shift their expenditure patterns more towards consumption. Mandatory superannuation is designed to counter this and, in my opinion, is preferable to placing the costs of pensions onto future generations – the more so since demographic trends are likely to reduce their numbers.

Superannuation reforms can be made: in particular, to eliminate the role of trade union custodians within funds. Trade union officials bring no expertise in fund management and, with membership covering less than seven per cent of those in the private sector, do not even have credible claims to be representative.

Other roles for government might be to ensure that there is full information available on funds' performance and objectives, though there are private sector bodies that collect and publish such information.