FINANCIAL REVIEW

Eslake changes view on 12pc super rise

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The increase in the super guarantee should be scrapped to aid a jobs-led recovery, say experts and economists, raising further questions about Labor's dogged defence of the legislated increase despite the evidence presented by the Callaghan review's final report.

The Grattan Institute's Brendan Coates said a clear implication of the review was that the increases "should be abandoned" as the report showed workers were saving about the right amount to maintain living standards in retirement.

Mike Callaghan's report suggests workers are saving about the right amount to maintain living standards in retirement. **Michel O'Sullivan**

"Why force them to save more than is necessary?" Mr Coates told *The Australian Financial Review*.

The findings of Friday's *Retirement Income Review* final report were backed by analysis separately compiled by the Grattan Institute and the Reserve Bank that concluded that workers would pay for the compulsory super increases via lower growth in wages.

"Workers' weaker bargaining power at a time of high unemployment makes it more likely, not less, that they will pay for higher super," Mr Coates said.

"Most firms aren't offering wage rises, so why would they pass on an increase in compulsory super and still give workers the same pay rise when they don't have to?"

While the Coalition could choose to reverse the legislated increase of contributions from 9.5 per cent 12 per cent by 2025, Mr Coates said an alternative was for the increase to go ahead but to allow members to effectively opt out by cashing out the equivalent increase and paying income tax.

> **Increasing contributions would have the perverse effect [where one would] earn more when retired than working. What is the point of that?**
>
> — Saul Eslake, economist

But he said in his opinion that was "second best" to scrapping the increase and it was a mistake to characterise the latter option as "voluntary".

"The employer has to pay the contribution. It is compulsory for the employer, but it's an optout for the worker," he said.

Eslake swayed on debate

Independent economist Saul Eslake said there were not many long-held positions where he had changed his mind.

But compulsory super contributions was of one of them and he found himself "oddly in the same camp as right-wing Liberals".

"I had always been a supporter of compulsory super and generally had taken the view the more the better," he said.

Mr Eslake said he was swayed by Mr Coates' initial report, which found that the existing level of compulsory superannuation was sufficient to maintain average earnings at 70 per cent of working income, in line with developed world benchmarks.

Independent economist Saul Eslake has had his mind changed on compulsory super. **Jesse Marlow**

“Increasing contributions would have the perverse effect [where one would] earn more when retired than working. And what is the point of that?"

But he said the biggest weakness was that the increase did not deliver for women who retired with less superannuation because they earned less during their working career and worked less because they took time off to raise families.

“I don’t see how lifting the contribution rate solves that problem,” Mr Eslake said.

Wages growth 'incredibly weak'

Labor Treasury spokesman Jim Chalmers said the government's claims that an increase to the super guarantee would mean lower wages did not stack up, because wages were stagnant after the last freeze under former prime minister Tony Abbott.

Wages grew by 3.3 per cent in the six years before the last freeze, and at record lows of 2.08 per cent in the period since. The latest ABS data show wages growth at 1.4 per cent.

"It is clear that a cut to the planned super guarantee will not deliver the kind of wages growth that Australian workers need and deserve," Dr Chalmers said.

EY chief economist and partner Jo Masters said she was of the opinion that in the current circumstances it was prudent to pursue policies of "least regret".

"If the focus is on the jobs-led recovery, we need to be careful on the levers we pull that weigh on wage growth," she said.

Tax revenue foregone

Robert Breunig, director of the Tax and Transfer Policy Institute at Australian National University, said his research showed increases in compulsory super came at a cost to the wages of workers.

Analysis of tax records since compulsory super was introduced in 1992 showed that firms that paid their workers more than the legislated rate of super lifted their wages by less.

While increases might result in higher retirement incomes, they leave less disposable income to workers and their families, while also costing the government money.

"An increase in compulsory super contributions might one day reduce age pension expenditure, a question examined by the review," Professor Breunig said.

Finance Minister Simon Birmingham said the report clearly demonstrated the trade-offs between working life and retirement income.

"Superannuation is a very important vehicle in terms of protecting people in their retirement years ... but so, too, are measures such as home ownership, and of course the aged pension remaining a crucial factor in supporting those who may not be able to save effectively for their retirement through either compulsory or voluntary vehicles of saving," he said.

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