

The Economic Impact of Superannuation

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Superannuation is saving for retirement within a regulatory structure.

The Chatham Chest is an early example.



- Defined benefits for disabled seamen of the Royal Navy
- Paid £6 13s 4d (70% replacement) for a lost limb
- Survived 200 years
- Funded by employees and government
- Vulnerable to funding problems and misappropriation

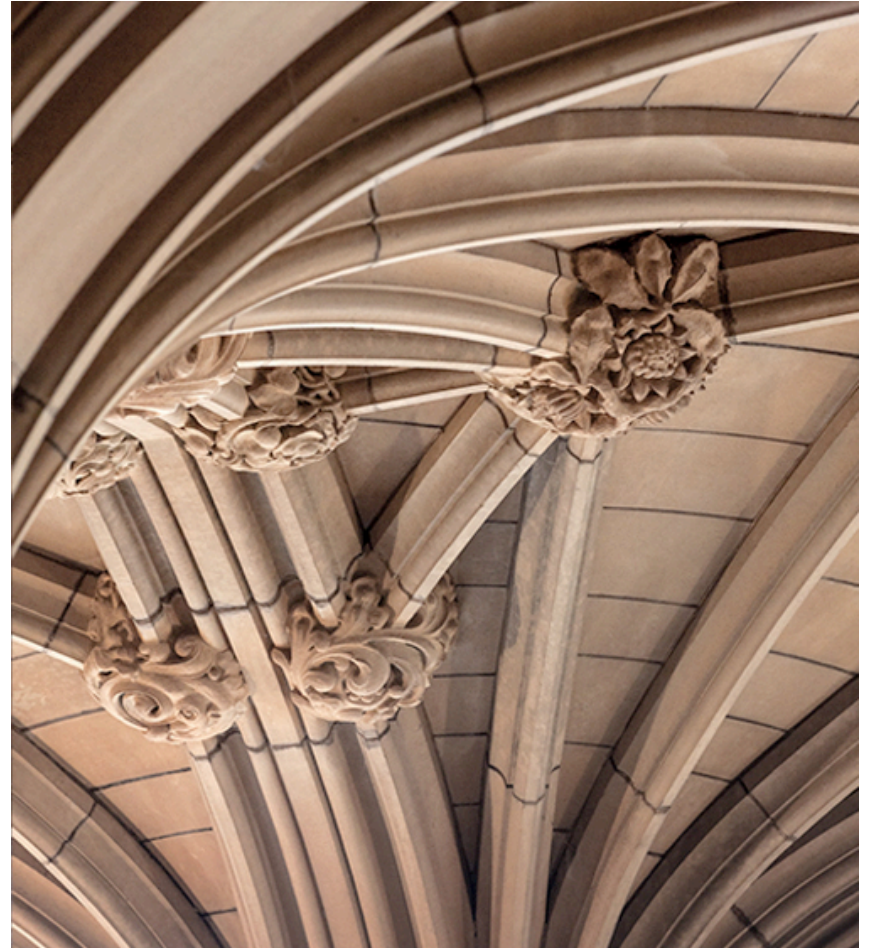
Valuable to injured seaman but little economic impact

Outline: The Economic Impact of Superannuation

- The economics of saving, investment and productive capacity
- Superannuation and the quantity of saving
 - Public sector saving
 - Private sector saving
- Superannuation and the quality of saving
 - Household allocations
 - Fund allocations
- Concluding comments



The economics of saving, investment and productive capacity



Economics defines saving as a “residual”...

Saving is the just the “leftovers” of income after consumption.

$$Y = C + S$$

Y = income

C = consumption

S = saving



But it's needed for sustainable growth...

Saving releases resource for capital creation (investment)

$$Y = C + I$$

C = consumption

I = investment

Y = income



$$C + I = C + S$$

$$I = S$$

Saving = Investment



Public surpluses and borrowing from abroad add to private saving to fund investment...

In an open economy with a public sector:

$$Y = C + I + G + NX$$

C = consumption

I = investment

G = government spending

NX = net exports



$$S_p + S_G - NX = I$$

Saving = Investment

S_p = saving from private sector disposable income

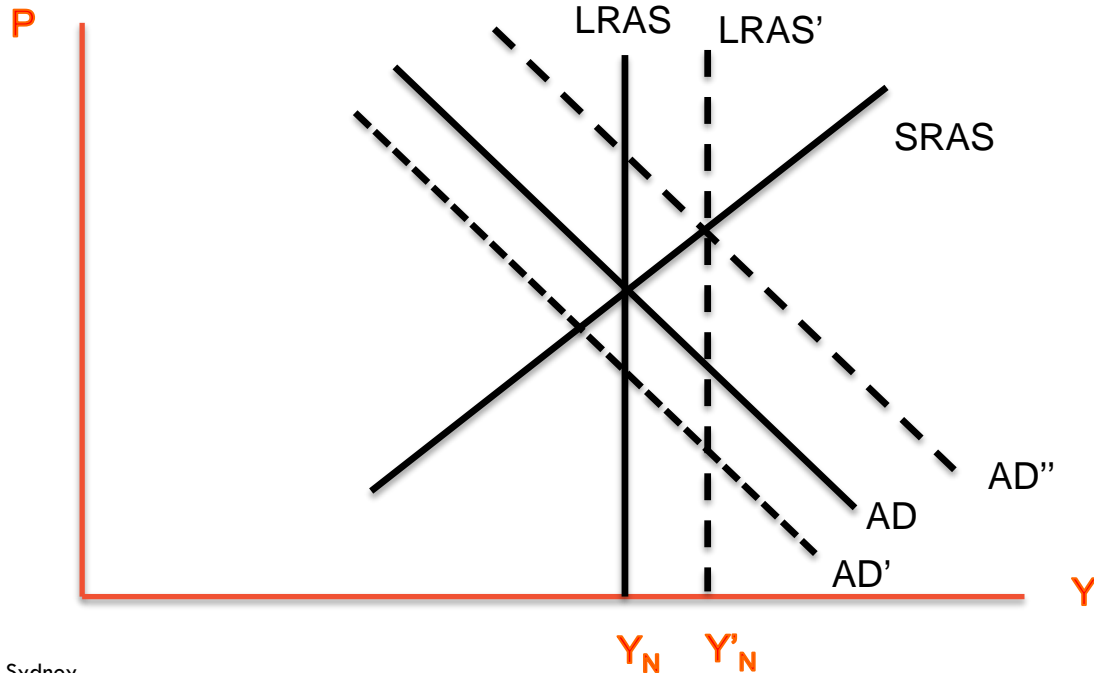
S_G = government surplus

NX = net exports

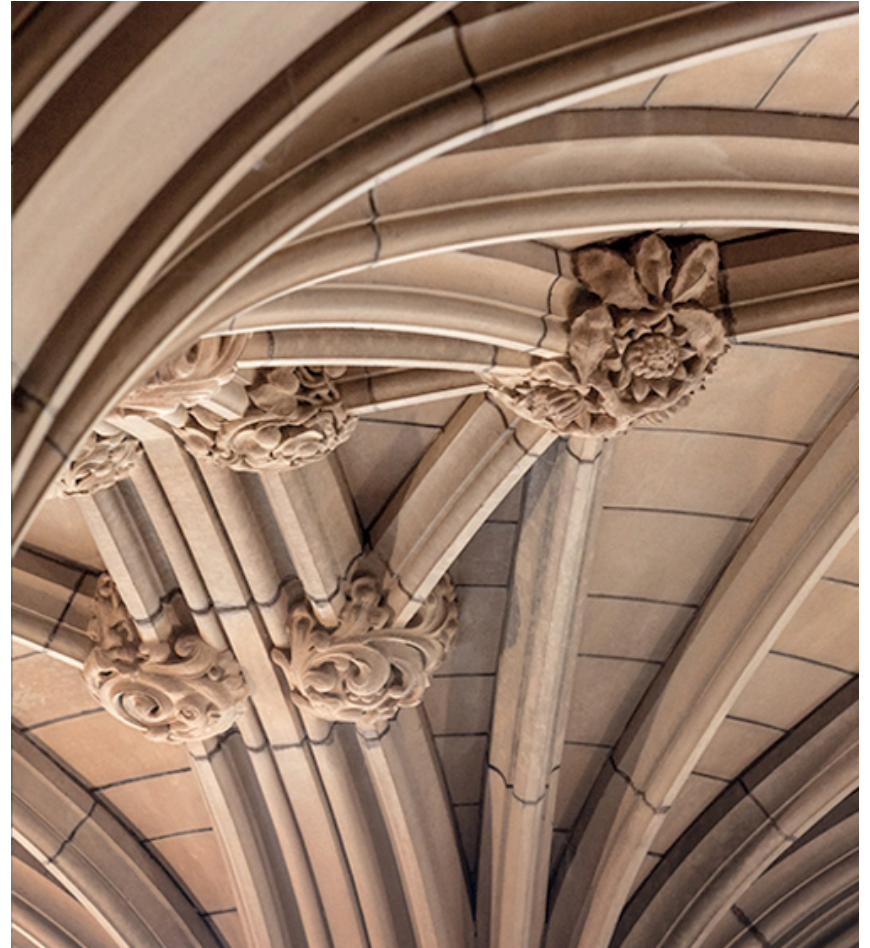


Saving is the “seed corn” that expands aggregate supply.

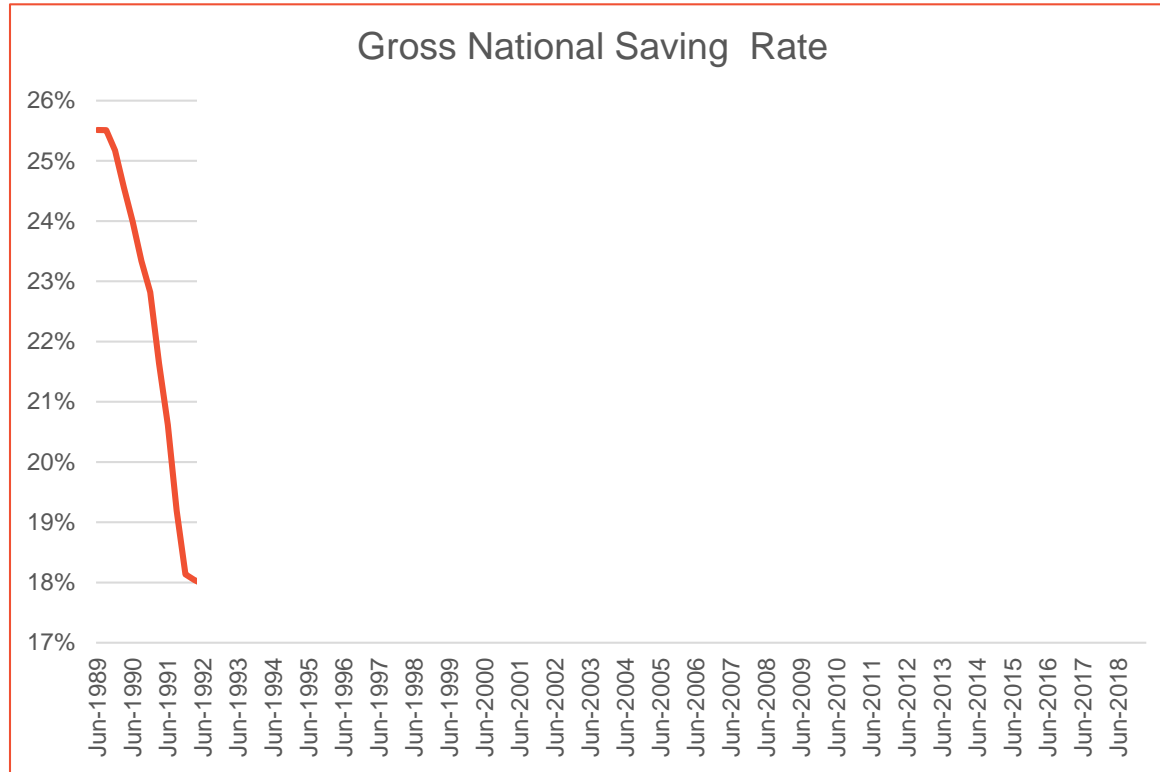
Investment expands the natural level of output



Superannuation and the *quantity* of saving



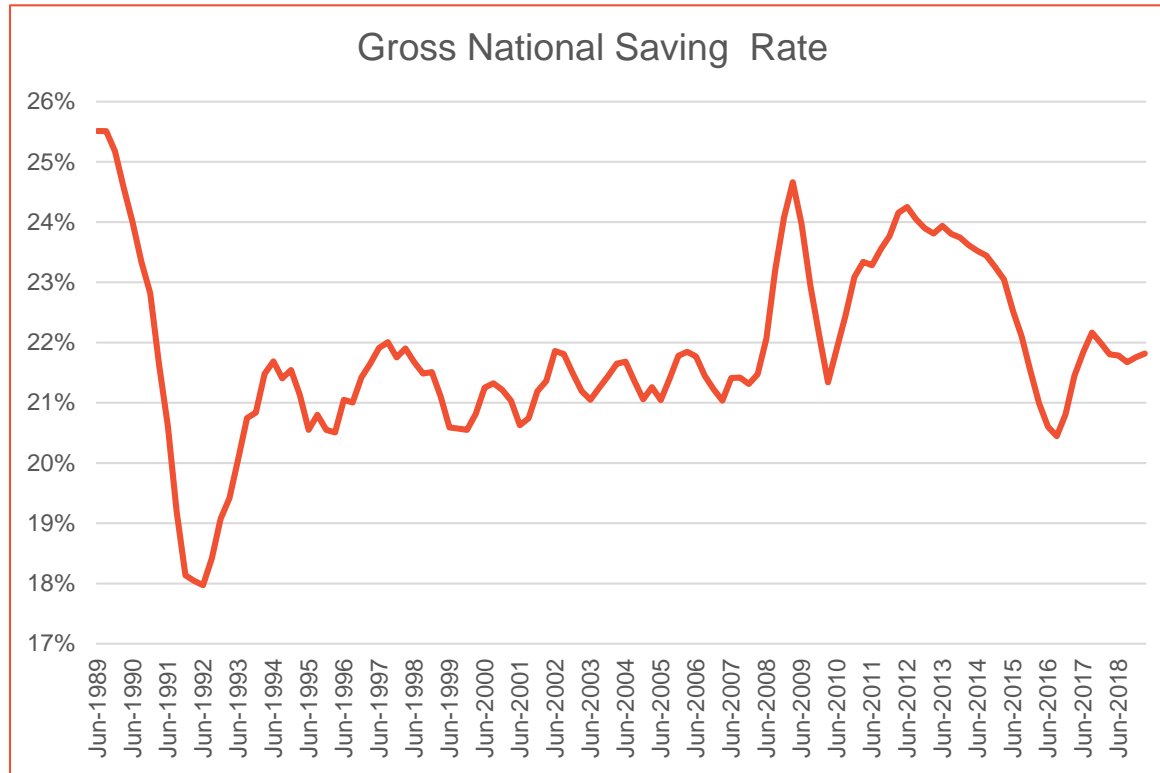
National saving has risen since the last recession.



Source: ABS

- **Gross national saving fell to 18% in 1992**
- **Rising foreign debt and concerns about limits to growth**

National saving has risen since the last recession.

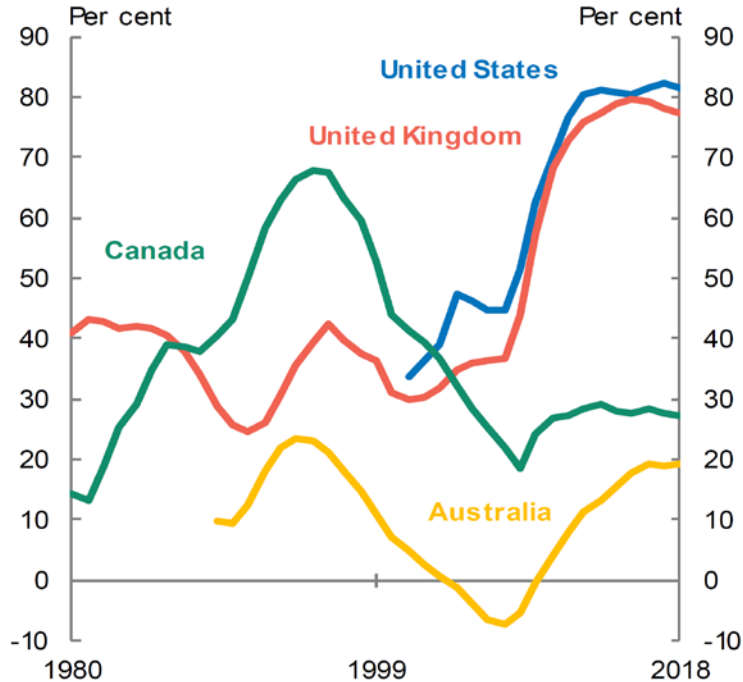


Source: ABS

- Saving recovered to 21-22%
- Rose rapidly during the Global Financial crisis
- About 1.5 percentage points due to Superannuation

Public saving has fallen back to recession levels.

General government net debt as a share of GDP

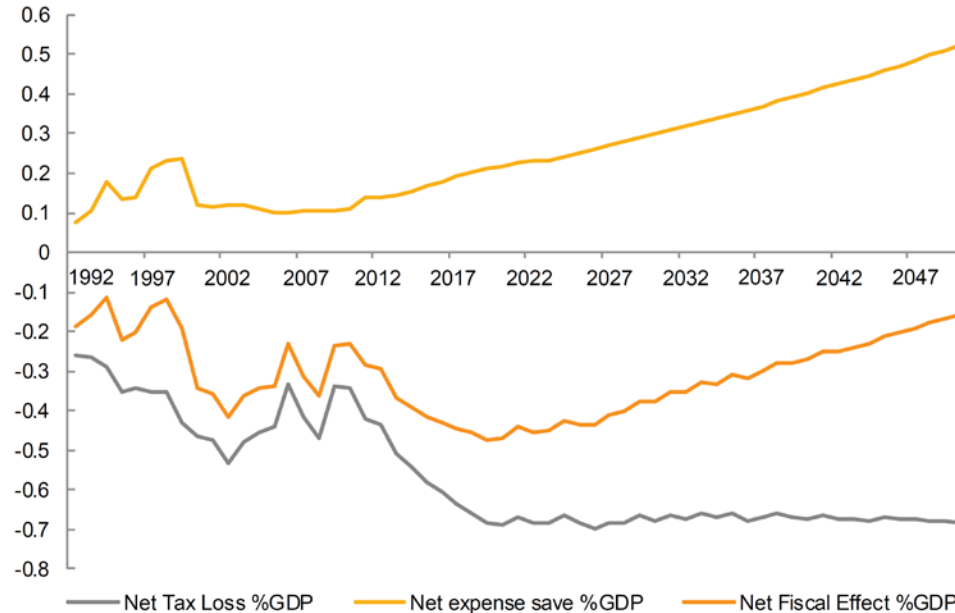


- Rising government debt in 1990s
- Reversed in 2000s
- Rose rapidly around the Financial Crisis
- Signs of recent slowing in public sector borrowing

On balance, the SG probably lowers public sector savings.

The net effect of SG tax concessions and reduced Age Pension payments is difficult to estimate.

Reduction in taxes and Age Pension outlays from SG; Estimate by Super Charter Report, 2013

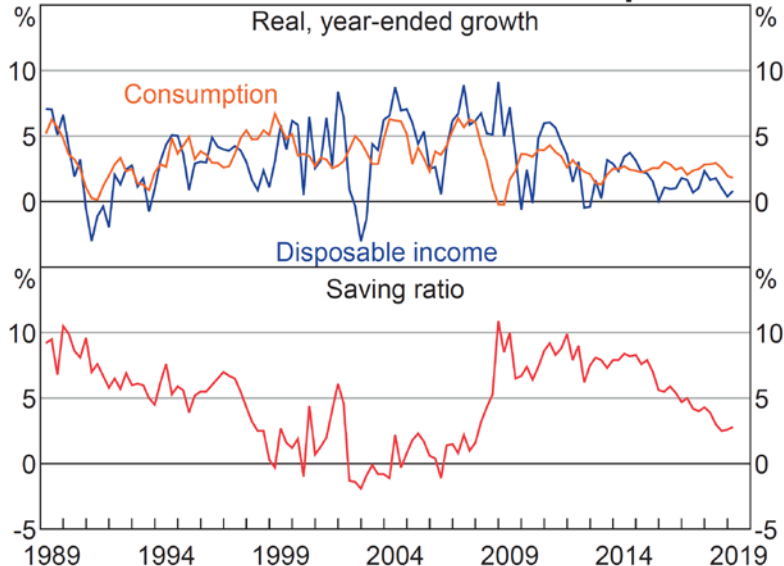


Source: Australian Government the Treasury

Private sector savings: household saving tracks disposable income

The SG has added to household wealth by increasing financial assets.

Household Income and Consumption*



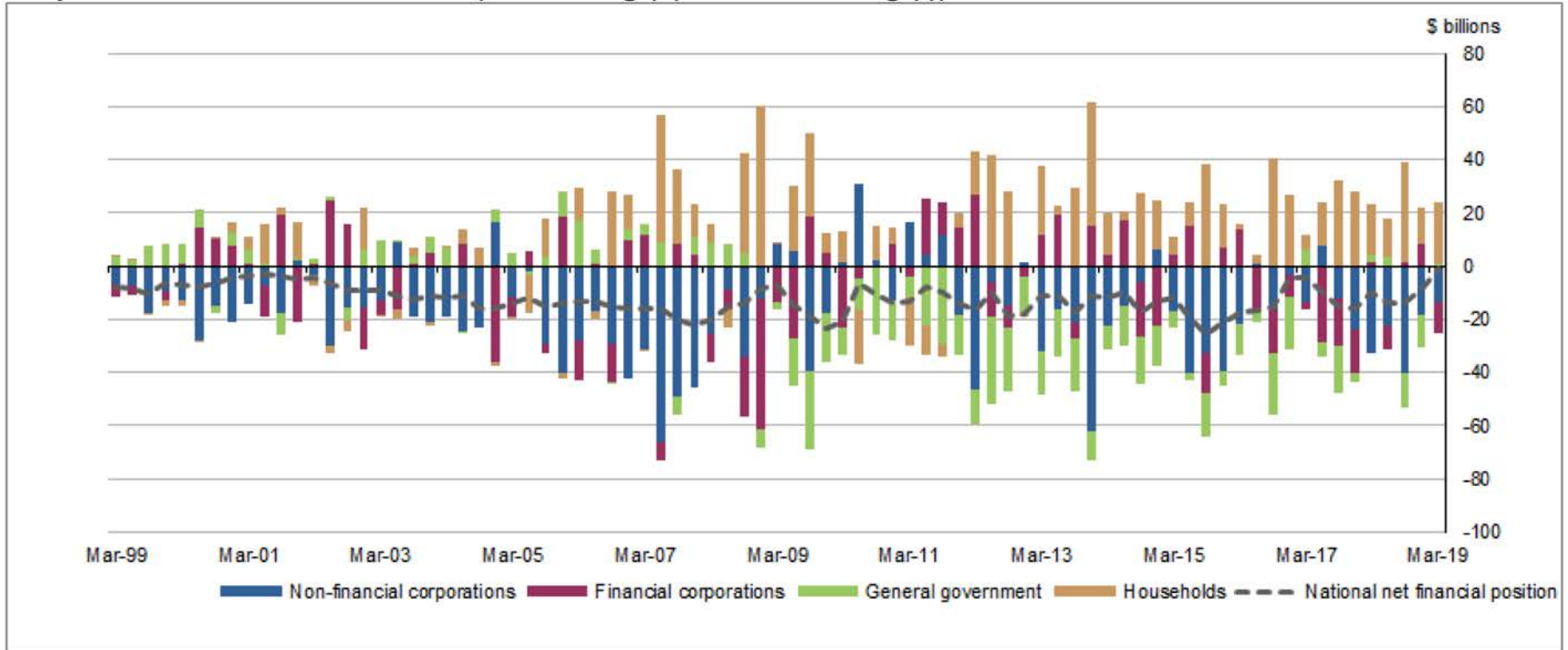
* Household sector includes unincorporated enterprises; disposable income is after tax and interest payments; saving ratio is net of depreciation

Sources: ABS; RBA

- **Net increase in wealth associated with SG**
- **50-90 cents of each SG dollar added to household wealth**
- **Disposable income growth very low since 2014**
- **Associated decline in household saving ratio**

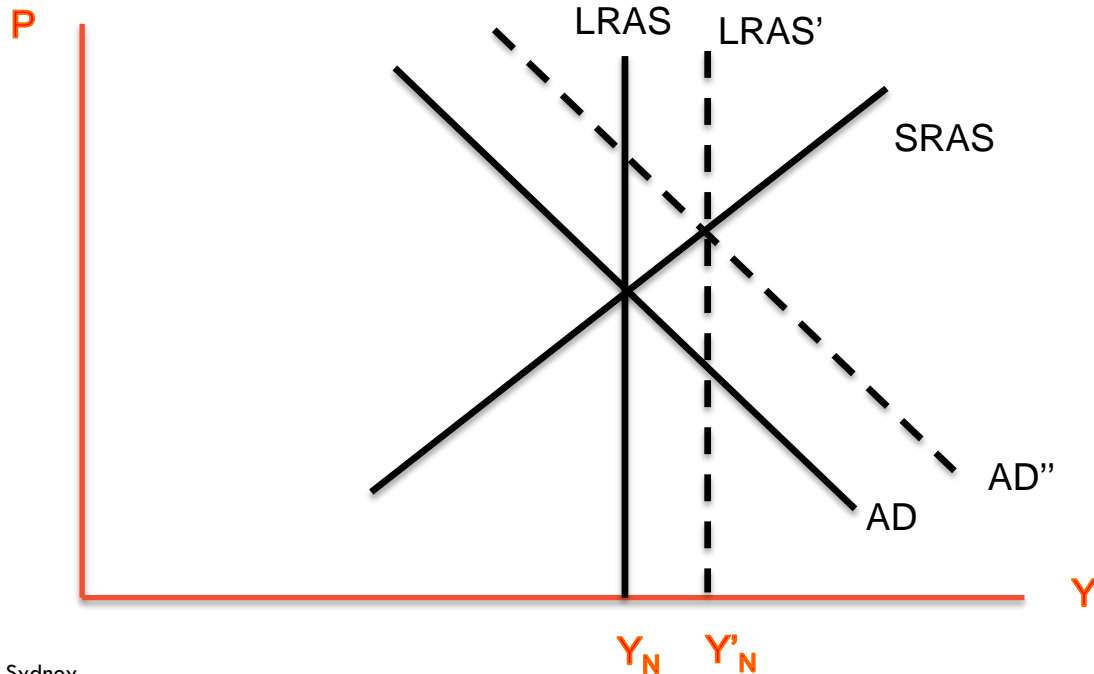
On balance, the SG probably raises private sector saving

Net financial position (net lending (+)/net borrowing (-))



A higher quantity of saving expands aggregate supply.

Investment expands the natural level of output

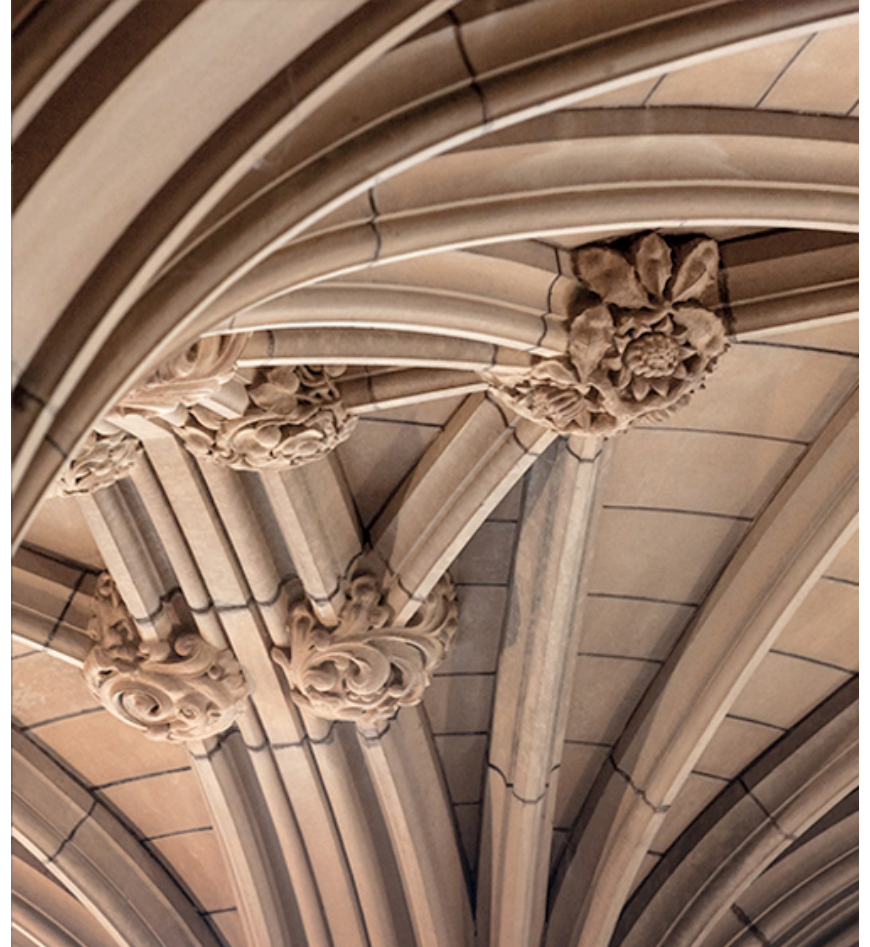


Summary: Superannuation has supported higher national saving since 1992.

Quantity of saving

- Investment, productivity, economic capacity depends on adequate saving
- Low domestic saving means borrowing from abroad; higher foreign debt
- SG partly seen as antidote to low national saving rate in early 1990s
- National saving ratio has recovered. What was impact of Superannuation?
 - SG probably reduced net public saving
 - SG probably raised net household saving
- SG saving has contributed to expansion of productive capacity

Superannuation and the *quality* of saving



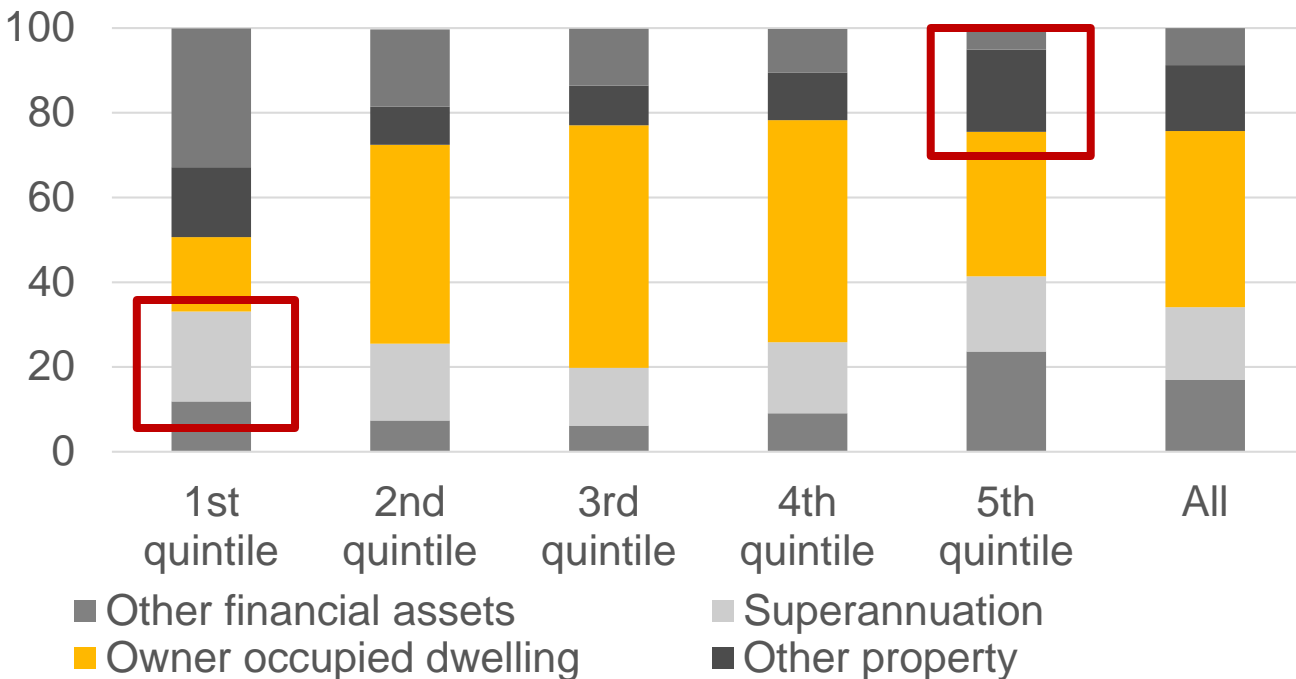
How has superannuation affected the *quality* of saving?

Are additional saving efficiently allocated to productive investment?

- Productivity economic capacity depends on adequate saving
- Savings need to be directed to productive uses
- What has been the impact of Superannuation on the allocation of saving?

Private savings: SG affects household portfolio allocation

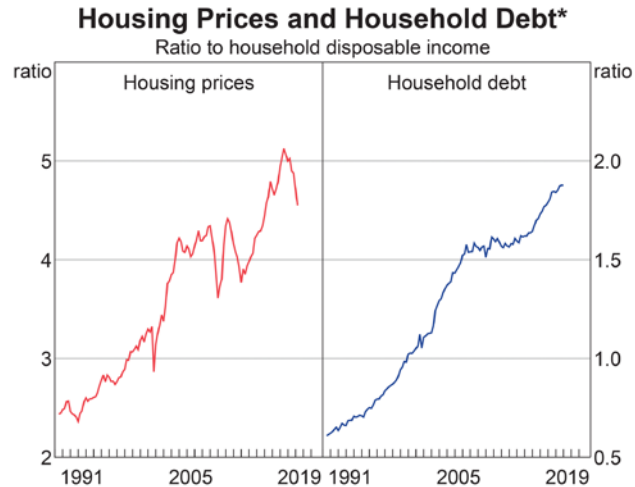
Household assets by asset class allocation; ABS Household Income and Wealth, Australia 2015-16



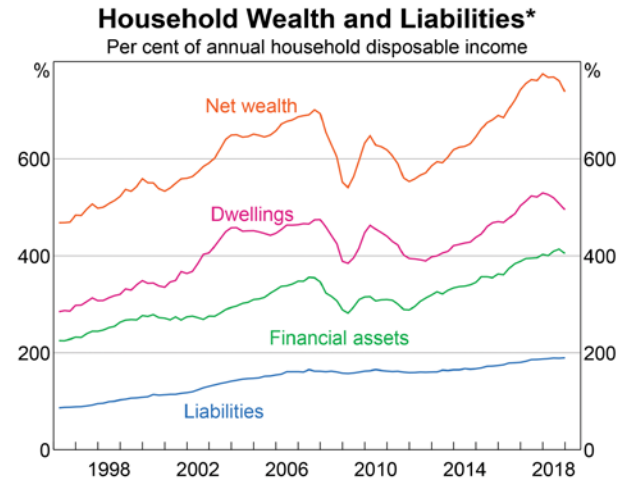
- Low wealth households have higher allocations to financial assets through SG
- Mid-wealth households have large allocations to residences
- High wealth households have more assets outside superannuation system

Private saving: Higher debt can “work-around” compulsory saving

Debt has surged relative to incomes; gearing levels have risen.



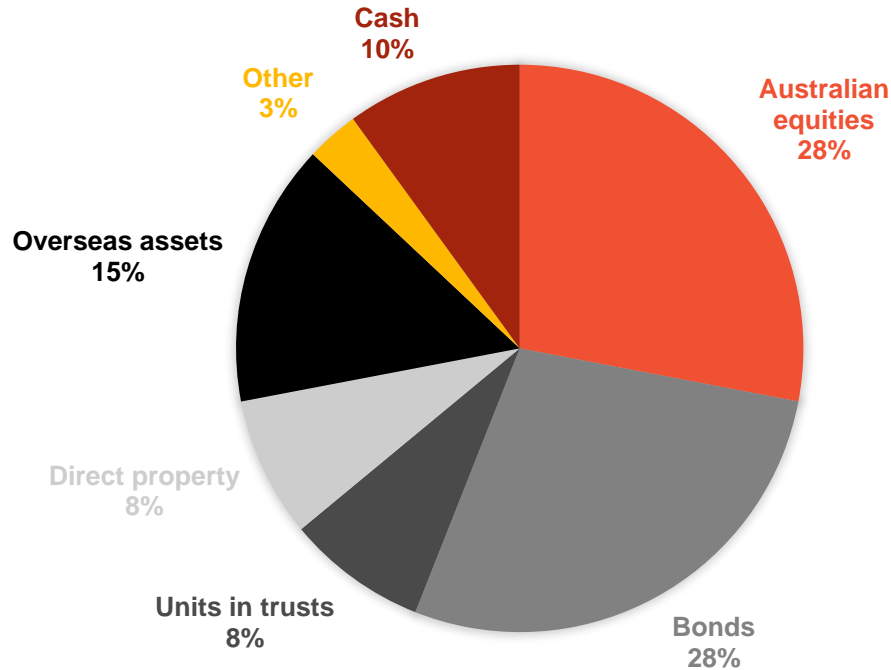
* Household disposable income is after tax, before the deduction of interest payments, and includes income of unincorporated enterprises
Sources: ABS; CoreLogic; RBA



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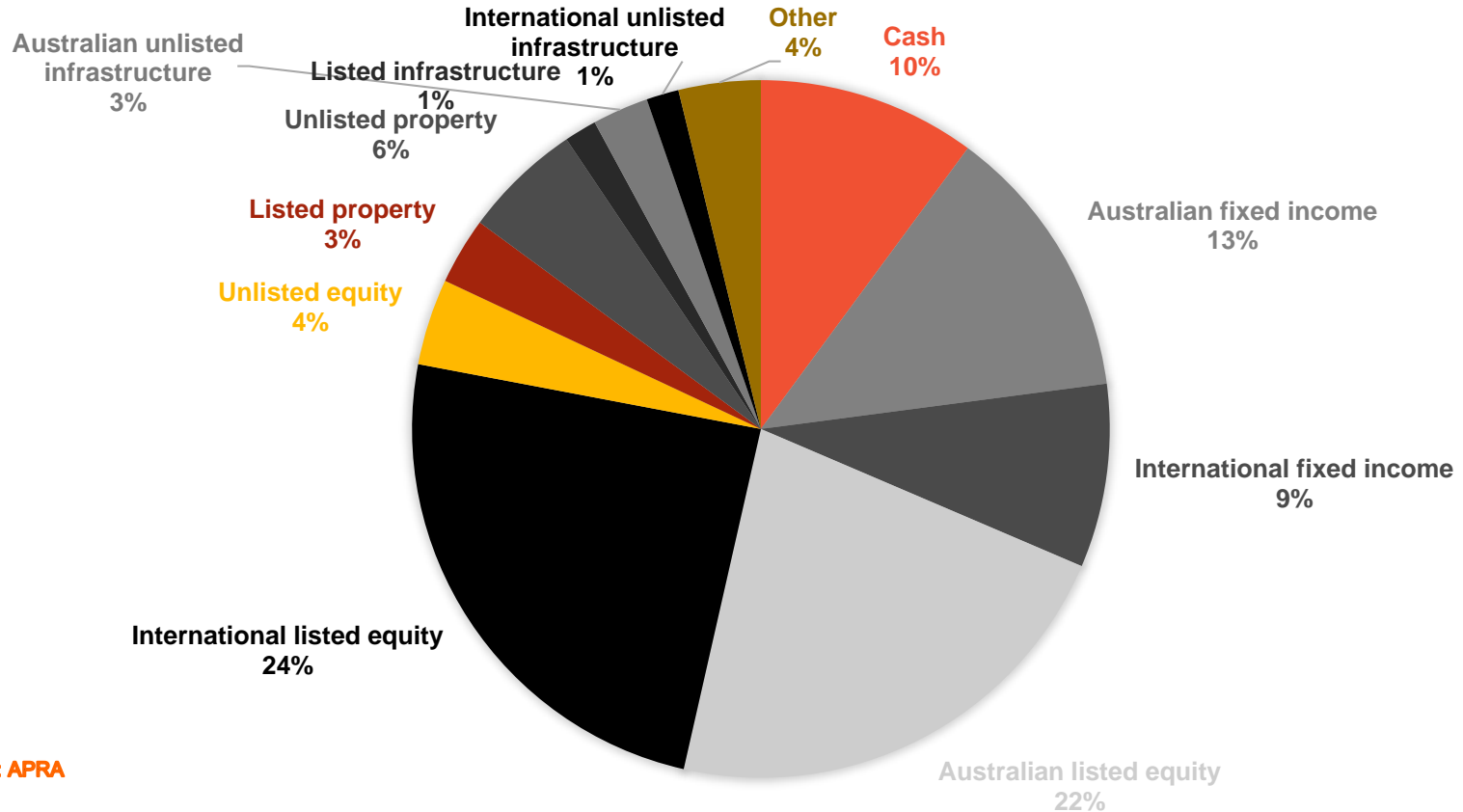
Superannuation portfolios, 1995: local, conservative

“Overwhelming majority of assets are invested within Australia” 85%



Source: APRA

Superannuation portfolios, 2019: international; alternatives



Source: APRA

Variations in fund performance raise concerns about quality investment of savings

Savings raises economic productivity when directed to efficient capital creation

- Excessive fees
- Prudential constraints
- Liquidity
- Frictions: trade wars; geopolitical risks

Economic impact of superannuation

- Quantity questions:
 - Should superannuation be used for Aggregate Demand management?
 - No, but in the short run, timing of consumption shocks matters
 - How much saving should be “forced” and how much should be “boosted”?
 - Incidence of higher SG uncertain – people need flexibility
 - Encouragement of voluntary saving
 - Coherence between tax, transfer and superannuation systems

Economic impact of superannuation

- Quality questions
 - Lend to ventures that will raise long run productive capacity
 - Human capital
 - Education and training
 - Health and well being
 - Mobility
 - Physical capital / technology
 - Social licence of superannuation depends on member outcomes