AIST CEO Fiona Reynolds Comments on super system supposed "train wreck"

A DEEPENING global economic crisis, a steep rise in the number of people applying for the age pension and the worst returns since compulsory superannuation was introduced: these are indeed tough times for Australia's superannuation system.

But far from being the "train wreck" that Mirko Bagaric envisages (The Australian, January 19), our compulsory super system is widely recognised as having helped to keep our economy on track, in addition to its other key objective of having provided security and generational equity for millions of Australians in their retirement.

Rather than call for a dismantling of compulsory super, we have to ask ourselves: where would our nation be if it was not for the $1.1 trillion of savings in the super system?

Notwithstanding the pressures of the present financial crisis on superannuation and other global assets, the impact of compulsory superannuation in Australia has been considerable. In under 20 years, total assets under management have grown to exceed the country's GDP and our industry is now the fourth largest managed funds industry in the world.

During this time, near universal coverage has been achieved and our robust regulatory regime is now regarded as world's best practice and one of the reasons we have weathered the financial storm better than most.

For many Australians, super is now their largest asset outside the family home. Super has given us a national savings system that not only ensures a better retirement outcome for millions of Australians but is also playing an increasingly important role in much needed nation-building infrastructure investment.

But the phenomenal growth of superannuation assets in this country also means that almost every working Australian has been personally affected by the market downturn, along with the thousands of retirees who are hurting badly. Confidence in our super system is being tested, and will continue to be tested as we face the strong prospect of negative returns for the second year running.

After many years of solid returns, the average balanced superannuation fund lost nearly 20 per cent in the 12 months to the end of December, according to the latest figures released yesterday by research firm SuperRatings.

While this is a significantly better performance than that of the Australian sharemarket as a whole - which fell more than 40 per cent in the same period - there is no escaping the fact that this is a disappointing result for super fund members.

But there is also no escaping the fact that the world is experiencing the most significant economic downturn since the Depression.

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Since the start of the market downturn last year, many super funds have seen a rise in the numbers of members wanting to switch from investment options with exposure to shares to more conservative cash-based options. Switching between funds has also increased although, in both cases, the number of members involved remains low as a proportion of total membership size.

History tells us that markets eventually recover and some commentators are already starting to talk about when that might be. Those who flee growth-based investments for the perceived safety of cash and end up remaining there for their working life are destined to be disappointed with their super payout on retirement.

Modelling by Vanguard Investments shows that a $10,000 investment in the Australian sharemarket made in 1970 was worth $409,600 in November 2008, compared with $303,770 if that money had been invested in cash.

Despite the poor performance of super last year, most funds have delivered returns in excess of 5per cent per annum average in the past five years. In the case of top performing funds (the majority of which are low-fee, not-for-profit, funds and cover a large number of working Australians) returns have been in the range of 6-9 per cent in a five-year period, which compares favourably with typical fund investment objectives (outlined in every fund's product disclosure statement) in the range of CPI plus 3 to 4 per cent.

One reason that superannuation fund returns have not fallen as much as the share market is because of funds' growing allocation to unlisted assets, such as property and infrastructure. The industry regulator, the Australian Prudential Regulation Authority, has been keeping a watchful eye on the frequency and accuracy of funds' valuations of these assets, which have been the subject of some debate recently. Infrastructure investments in particular provide members a double benefit, First, the investment itself earns the fund long-term returns which have low correlations to sharemarket returns, and hence help minimise risk on the whole portfolio. But infrastructure investments also build efficiency throughout the entire economy, enhancing sharemarket performance itself.

Some commentators have focused on the Australian Government's unfunded superannuation liabilities. In fact, our unfunded liabilities are much smaller than those of many other nations. While the size of our unfunded liabilities has increased as a result of the financial crisis, this must be seen in the context of a long-term reduction since the mid-1990s, as governments have taken actions, such as the establishment of the Future Fund and transferring employees into fully funded schemes.

As many Western nations grapple with ageing populations and other demographic changes, Australia's retirement income system is envied and studied. Our system is based on three pillars: a universal means tested aged pension, a superannuation system and private savings. While many retirees are undoubtedly upset that the drop in their super balances has necessitated them having to apply for age pension relief, that the pension exists as a safety net for all Australians is a key element of a retirement income model that aims to ensure security in old age for those who need it most.

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Importantly, our compulsory super system has a history of bipartisan support. Unions conceived and campaigned to establish the system and employers came on board to support it. The Hawke-Keating government embedded the basic principles into law and the Howard government made changes to improve the governance and encourage competition. Calls to dismantle our super system to prevent a "train wreck" send the wrong signal. This would put our nation on a train to nowhere and shunt us down a dead end track.

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