38 Ashworth Ave
Belrose
NSW 2085

29 September 2023

To Superannuation Objectives

I have been looking at various motivations and explanations for retirement schemes, and have prepared the document overleaf from my research.

I think it has some relevance to the legislation of an objective of the Superannuation system in that some care should perhaps be taken that the legislation does not restrict the ability of employers to "facilitate generational change" and of governments to use the superannuation system for macro-economic purposes when appropriate.

Yours sincerely

Anthony Asher

Objectives of retirement systems

Retirement provision differs significantly between societies. Institutional structures are path dependent, depending on a range of changing motivations and political views, and evolving in response to demographic and economic changes. O'Barr and Conley (1992), in their trustee interviews, noted the power of 'creation myths' in explaining behaviour. Trustees and advisors may well frame their role as a consequence of a variety of historical objectives that can be recognised, or from the initial motivations given for the compulsory Australian superannuation system.

1. Poverty relief and redistribution

Perhaps the most obvious objective is poverty relief for the elderly whose health, wealth and family support has failed. In the first century New Testament, there is reference to widows being enrolled and receiving after the age of 60[1]. Church based support for the needy appears to have dominated provision in Europe until the late nineteenth century, but it was by no means all voluntary. Stenton (1971) reports central government enforcement of tithes (inter alia for the poor) as early as the tenth century in England, while centrally enacted Poor Laws, which replaced the tithes after Henry VIII's confiscations in the fifteenth century, were providing benefits to the majority of those over 70 into the early twentieth century (Johnson,1993). Most early efforts at poverty relief appear to have differentiated between the deserving and others, and stigma continues to attach to welfare benefits (Hernandez et al., 2007). The provision of universal minimum pensions in the developed world – the "zero" pillar of World Bank typology – can be seen as fulfilling the need to provide for the needy.

Barr and Diamond (2006) suggest that redistribution or social solidarity are central to retirement provision. As reported in Australian Senate Committee (2004): "'Poverty' and 'inequality' are distinct concepts although the terms are often used interchangeably." Absolute poverty will mean physical deprivation, but relative poverty may lead to psychological and social deprivation so both are of concern.

For the lowest quartile or more, the Australian Age Pension should cover basic physical needs, for homeowners at least, and provides for significant redistribution. For middle wealth cohorts, the means tests undo some of the redistributive benefits, while superannuation tax concessions for wealthier groups undoes some of the redistributive effects of progressive rates of taxation.

2. Facilitating generational change

The second set of objectives is institutional: on the one hand, the promotion of loyalty, and on the other the facilitating of transitions from one generation to another. The largest early pension systems were for the military as successful states require mechanisms both to promote loyalty and ensure older soldiers retire without a fight. Hopkins (1980) reports that Roman soldiers were entitled to a retirement bounty, which he estimates accounted for about 15% of pay in the first century AD. Gonzalez (1989) suggests that one reason for the growth of monasteries in the middle ages was to provide a place where older leaders could make way for the younger generation. The same argument is made for the introduction of company sponsored pension schemes. Blackburn (2003) quotes social reformer, and chairman of the eponymous family company, Seebohm Rowntree, who argued that pensions paid from a fixed retirement age are likely to be cheaper than retaining older staff at wages that no longer reflect their productivity. Similar arguments were also made for the introduction of the centrally controlled, earnings related, pensions introduced in Bismarck's Germany (Scheubel, 2013).

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[1] 1 Tim 5:9

The loyalty argument has been totally abandoned in Australia given that employees have the right to choose their own superannuation fund. The argument for generational change is vulnerable to accusations of unjust age discrimination. At the macro level, the international research reported by Gruber and Wise (2008) seems clear that old and young workers complement rather than substitute each other when it comes to employment rates. At the micro level, Axelrad et al. (2021) consider the reasons many employers are reluctant to employ older people, suggesting that they are largely justifications for unfair discrimination. Macnicol (2006) is less sure that the discrimination is unfair because capabilities must ultimately decline and older workers need to be phased out at some point.

More subtlely, Serfling (2014) finds that older CEOs appear more risk averse and their firms are less innovative and earn lower returns. Institutional dynamism requires the leadership baton to be passed to younger generations at some point. A large international consulting firm, with which I am familiar, has a policy of compulsory retirement in order to make way for younger partners.

3. Individual provision

Finally, pension arrangements are also be made by individuals with higher incomes who would otherwise not accumulate sufficient capital during their working lives to support them in old age at the level to which they have become accustomed. Voluntary institutions with this objective can be traced back to mutual "fraternities", that Richardson (2005) shows were well established in rural England from the eleventh century, and as provisions provided by the medieval guilds in many European cities (Renard, 1919). Sibbett (2000) reports that one of these led to the first English Widow's fund at the end of the seventeenth century, followed by individual savings policies provided by Life Insurance companies, which were initially mutual organizations.

4. Facilitating macro-economic policy

One of the objectives of introducing compulsion into Australia's superannuation system in the early nineties was to allow Australia's economy to grow without building up an unsustainable foreign debt (Dawkins 1992, Drew and Stanford 2003), while the 'coherent and equitable framework' would permit a higher standard of living in retirement. Arguments that compulsory saving increases local investments are still made (ASFA, 2015, Anthony and Lu, 2020).

Another important objective was to reduce inflationary demand by diverting wage increases into superannuation contributions. Wright (2014) describes this result of the "Prices and Incomes Accord" which was an agreement between unions and government. In a mirror image, the early release scheme reported by Bateman et al. (2023) provided emergency demand stimulation during the CIVOD-19 shutdown in 2020.

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