

The Centenary of Superannuation in Australia - 2008.

By now many of you will have noticed the classic TV ad showing the 'evolution' of the Australian Football League (AFL) celebrating 150 years of the sport in 2008. Many of you in NSW and beyond will realise it is the Centenary Year of the NRL (Rugby League) in Australia this year. It is also the Centenary Year for Swinburne University of Technology, Ballina Golf Club, Harvard Business School and Holden (GMH) is celebrating 60 yrs in 2008 – but I'm not sure how many are aware of the importance of 2008 for the Superannuation industry in Australia?

Australia in fact boasts one of the oldest regulated pension or superannuation benefit industries in the world. Beaten really only by the world's first system of compulsory national insurance against disability due to accidents at work and sickness introduced by German Chancellor Bismarck in 1884 - it was not until 1889 the scheme was extended to include old-age pensions, payable at 70ⁱ - and our neighbours 'across the ditch' who introduced superannuation legislation into New Zealand in 1898.

Alfred Deakin, then Australian Prime Minister and leader of the 'Protectionist Party' was responsible for the introduction of the '*Invalid and Old Age Pensioner Act 1908*' which gave rights to workersⁱⁱ The year 1908 was politically interesting as a great Labor Prime Minister from Queensland, Andrew Fisher, shared governance of the nation in the same year, and went on to enact the '*Commonwealth Bank Act 1911*', and was responsible for the '*Commonwealth Workmen's Compensation Act 1912*' which provided compulsory accident insurance and compensation for federal and territory employees.ⁱⁱⁱ

But what is more interesting, if you are an Australian, is to see how early we were in terms of innovation and leadership in superannuation which arguably continues today? As you can see below Australia was a very early adopter and significant in encouraging responsible action toward retirement benefits savings for workers.

Table 1 – Date of introduction of Superannuation or Pension regulations.^{iv}

<i>Nation</i>	<i>Year of Superannuation or Pension Legislation introduced</i>
<i>Germany</i>	<i>1889</i>
<i>New Zealand</i>	<i>1898</i>
<i>Australia</i>	<i>1908</i>
<i>United Kingdom</i>	<i>1908</i>
<i>France</i>	<i>1919</i>
<i>Netherlands</i>	<i>1919</i>
<i>Chile</i>	<i>1924</i>
<i>Canada</i>	<i>1927</i>
<i>United States</i>	<i>1935</i>
<i>Japan</i>	<i>1941</i>
<i>China</i>	<i>1951</i>
<i>India</i>	<i>1952</i>
<i>Singapore</i>	<i>1953</i>

Today Australia’s pension system has two components, a means –tested age pension, plus the superannuation guarantee (currently set at 9% of wages), a compulsory contribution to a private pension plan. These plans are mainly defined-contribution plans. The age pension is paid from age 65 for men. Women’s pensionable age – currently 62.5 will increase gradually to become 65 from 2013. The minimum age for withdrawing superannuation guarantee benefits is currently 55, increasing to 60 by 2025.^v

Superannuation funds or Pension funds are one of the largest and fastest growing investors in global capital markets. Pension funds play a dual role, helping people save for old age and reduce the risks they face, while at the same time allocating capital efficiently across firms in order to ensure innovation and growth.^{vi} Pension funds as they are known globally account for some 25% of the assets of OECD equity markets and some 10% of bond markets. Over the 10 years 1994- 2004 they accounted for a growth from USD\$6tri to USD\$15.6tri, making a growth rate of 10% pa compound. By 2006 the total OECD pension market had grown to USD\$24.6 tri^{vii}

In terms of Pension fund assets and their relative percentage of GDP the following table will highlight that Australia is among the top contributors. This looks set to continue for the next 10-20 yrs due to the unique economic role Australia maintains as an exporter of commodities, minerals and education to the region.

Table 2 – Pension fund assets - as percentage % of GDP.^{viii}

<i>Nation</i>	<i>% of GDP as at 2006</i>
Netherlands	130.0
Australia	94.3
United Kingdom	77.1
United States	73.7
Canada	53.4
Japan	23.4
New Zealand	12.4
France	1.1

Source: OECD Global Pension Statistics, 2006

Another fact is that even though Australia has 20.4 million people, it still boasts the fifth largest accumulation of superannuation assets in the world. This figure places Australia as a nation of substance and assists in our credit worthiness and social responsibility measures. This remarkable accumulation is one that has really taken on a new momentum since 2002 when the Superannuation Guarantee Levy was increased to 9% pa of the wages of workers in the nation. This, combined with four recent years of double digit equity market returns, has accelerated the industry’s growth significantly. However, given the recent market volatility, which expresses itself by lower portfolio returns and the shifting demographic make-up of Australian society over the next 30 years, we recommend that the Superannuation Guarantee levy be increased to 15% pa.

Table 3 – Top Pension/Superannuation Fund Nations – Assets Under Management and Population Est. – 2006/07^{ix}

Nation	Total P/S AUM \$USD in Trillions	Population in Million - 2007 Est.^x	GDP USD\$ Trillion - 2007 Est.^{xi}	Annual Growth Rate - 2007 Est.^{xii}
United States	9.721	301	13.8	2.2%
United Kingdom	1.831	60.1	2.76	2.9%
Japan	1.020	127.4	4.35	1.9%
Netherlands	0.861	16.6	0.755	3.5%
Australia	0.688	20.4	0.890	4.0%
Canada	0.679	33.4	1.4	2.7%

Having said this, the rate of growth of Australian Superannuation funds looks set to expand exponentially in the next decade and according to KPMG, this number is now estimated to grow to approximately A\$3,300 Billion by 2017.

Table 4 – KPMG – Australian Superannuation Asset Growth Estimate - 2017^{xiii}

	2006	Est. 2007	Est. 2017
Number of Funds with assets more than A\$50 million	338	293	100
Superannuation assets	A\$921.5Bn	A\$1,153.5Bn	A\$3.3Tri

** Source: The figures are based on APRA Insight – Celebrating 10 years of superannuation data collection 1996 – 2006, APRA June 2007 Quarterly Superannuation Performance and KPMG projections.*

This means that apart from the challenges of regulatory impediments, demographic shifts, fund draw-downs, portfolio performance and volatility of returns, appropriate and sustainable asset allocation and the general macroeconomic uncertainty that the superannuation industry must navigate, it looks like the industry will continue to expand, and take on an even more relevant and important role within society.

We should therefore be celebrating the Centenary of Superannuation in Australia because of the good service that it has and will continue to provide to our society. After all it is an industry that has become one of pride, leadership and professionalism.

So, celebrate 2008 and the first 100 years of the Australian Superannuation industry as we work smarter and harder to ensure that the Australian Superannuation industry stays at the forefront of the challenges that institutional investors, employers and employees are sure to face in the next 100 years.

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ⁱ Ed's. G L Clark; A H Munnell; J M Orszag; *'The Oxford Handbook of PENSIONS AND RETIREMENT INCOME'*
Chapter 3 Pat Thane 'The History of Retirement' p40. Oxford Press 2006

ⁱⁱ National Museum of Australia – Canberra – www.nma.gov.au

ⁱⁱⁱ ibid

^{iv} Ed's. G L Clark; A H Munnell; J M Orszag; *'The Oxford Handbook of PENSIONS AND RETIREMENT INCOME'*
Chapter 4, C Arza; P Johnson 'The Development of Public Pensions From 1889-1990's p54-55. Oxford Press 2006

^v Edward Whitehouse *'Pensions Panorama – Retirement- Income Systems in 53 Countries'* The World Bank Washington D.C.
2007 p53.

^{vi} T Padoa-Schioppa; Richard Portes; (Respective Presidents of publishers) *'Dealing with the New Giants: Rethinking the role
of Pension Funds – Geneva Reports on the World Economy 8 - 2006'* Foreword ICMB and CEPR

^{vii} Ed's Jean-Marc Salou; J Yermo *'Pension Markets in Focus – November 2007, Issue 4'* OECD 2007

^{viii} Ed's T Boeri; L Bovenberg; B Coeure; A Roberts *'Dealing with the New Giants: Rethinking the role of Pension Funds –
Geneva Reports on the World Economy 8 - 2006'* Extract Fig. 1.1 p1 ICMB and CEPR

^{ix} Ed's Jean-Marc Salou; J Yermo *'Pension Markets in Focus – November 2007, Issue 4'* OECD 2007

^x CIA *'The World Fact Book'* www.cia.gov

^{xi} ibid

^{xii} ibid

^{xiii} Sean Hill etal *'Super Funds to reach \$3.3 Trillion by 2017 – but be aware the fall'* Extract, KPMG Media
release Dec 2007 www.kpmg.com.au