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Australia Day Op-Ed Piece

A time to Reflect on What Might Have Been Advance Australia Fair and Make New Zealand Fairer

This year we expect that the New Zealand economy will grow faster than Australia's. That is good news for us but cannot mask the fact that for most of the last 40 years the Australian economy has out-performed ours year after year. As a result Australian incomes are now 30% higher than our own.

There is no one magic bullet to close that gap and, as the Hon Bill English likes to say, economic success comes from doing a lot of little things right for a very long time.

One of the big things the Australians have got right over the past 20 years is getting most working Australians contributing into a superannuation scheme to give them a comfortable income in retirement.

Australian employees started contributing into their Superannuation Guarantee Scheme in 1992, more than 20 years ago, and the total funds in their Scheme now equal \$A1.7 trillion, that is \$A1,700,000,000,000. As a result, Australians own a considerable proportion of their mining industry through their superannuation savings. They are therefore not just benefitting from the mineral royalties; they are also getting a significant share of the profits. In contrast, the majority of NZ based corporates are owned by foreigners.

We could have been in a similar position. Forty years ago, back in 1974, the New Zealand Parliament passed legislation to create our own compulsory superannuation scheme that would have seen us contributing 8% of our salaries, 4% from the employee and 4% from the employer.

A few years ago Brian Gaynor, the columnist and Executive Director of Milford Asset Management, estimated that if the 1974 scheme was still in place we would have more than \$NZ240 billion in superannuation funds now. He also said the New Zealand economy would have been transformed into a world-beater.

Unfortunately, the next Government abolished the scheme, having campaigned to do so, promising future pensioners that NZ Super would be increased by 30%. In a recent poll almost 3 out of 4 New Zealanders felt that abolishing the 1974 superannuation scheme was a mistake.

A person entering into a job in Australia this year at the average wage can expect to retire on a pension of \$A69,000 pa in 40 years time. The average New Zealander, without a superannuation scheme, will rely on NZ Super which is expected to provide \$NZ31,000 pa in 40 years time. So the average Australian at retirement will be on a pension much more than two times what someone in New Zealand will receive from NZ Super alone.

You may think what Australia does with its Superannuation Guarantee Scheme does not matter but it is another benefit for young New Zealanders moving to Australia for work. Last year, polling we commissioned revealed that 47% of New Zealanders aged 18 to 26 felt that knowing about the Australian scheme made them more inclined to work in Australia. If younger New Zealanders move to Australia to work it will make funding NZ Super even more difficult as our population ages and lives longer, so tax rates will need to rise.

KiwiSaver has been a positive change but New Zealanders in KiwiSaver default schemes are put into conservative assets which earn less and are subject to the heaviest effective income taxation. In contrast, a typical Australian default investor is mainly invested in growth assets which are more volatile year by year but, over the long haul, tend to out-perform conservative assets.

The Australians started off with a low contribution rate and now contribute 9.25% of their salaries into their super accounts. There is cross-party support for that number to grow in the future to 12%. If we don't expand the coverage of and contributions into KiwiSaver we may find ourselves still working after 70, picking up the bags of much more wealthy Australian retirees.

This year we will have the opportunity to consider how we might close the emerging pension gap with Australia. We will have a general election where the option of making KiwiSaver universal or compulsory for employees will be the subject of debate. New Zealanders believe that we should be able to save to have the comfortable retirements enjoyed by most people in other OECD countries.

A comfortable retirement should not just be for former long serving MPs or public servants or members of the now rare private sector defined benefit schemes.

This is the debate whose time has come. Most New Zealanders now support making KiwiSaver compulsory so finding out where each party stands on the issue this year will be interesting.

We send our best wishes to Australians on their national day and hope this year sees us on the way to catching them up.

Peter Neilson, Chief Executive, Financial Services Council. The FSC has not taken a position on whether KiwiSaver should be compulsory or remain voluntary.

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