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SUPERANNUATION DISTORTING INVESTMENT MARKETS?
WITH DR CAMERON MURRAY

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Agenda

- Flaws in Australia's superannuation system
- Market interventions
- Mispricing and Distortions to asset markets
- Lifting superannuation guarantee to 12% makes problems worse
- How to improve system
- Barriers to reform
- Discussion, Viewer questions & investment implications

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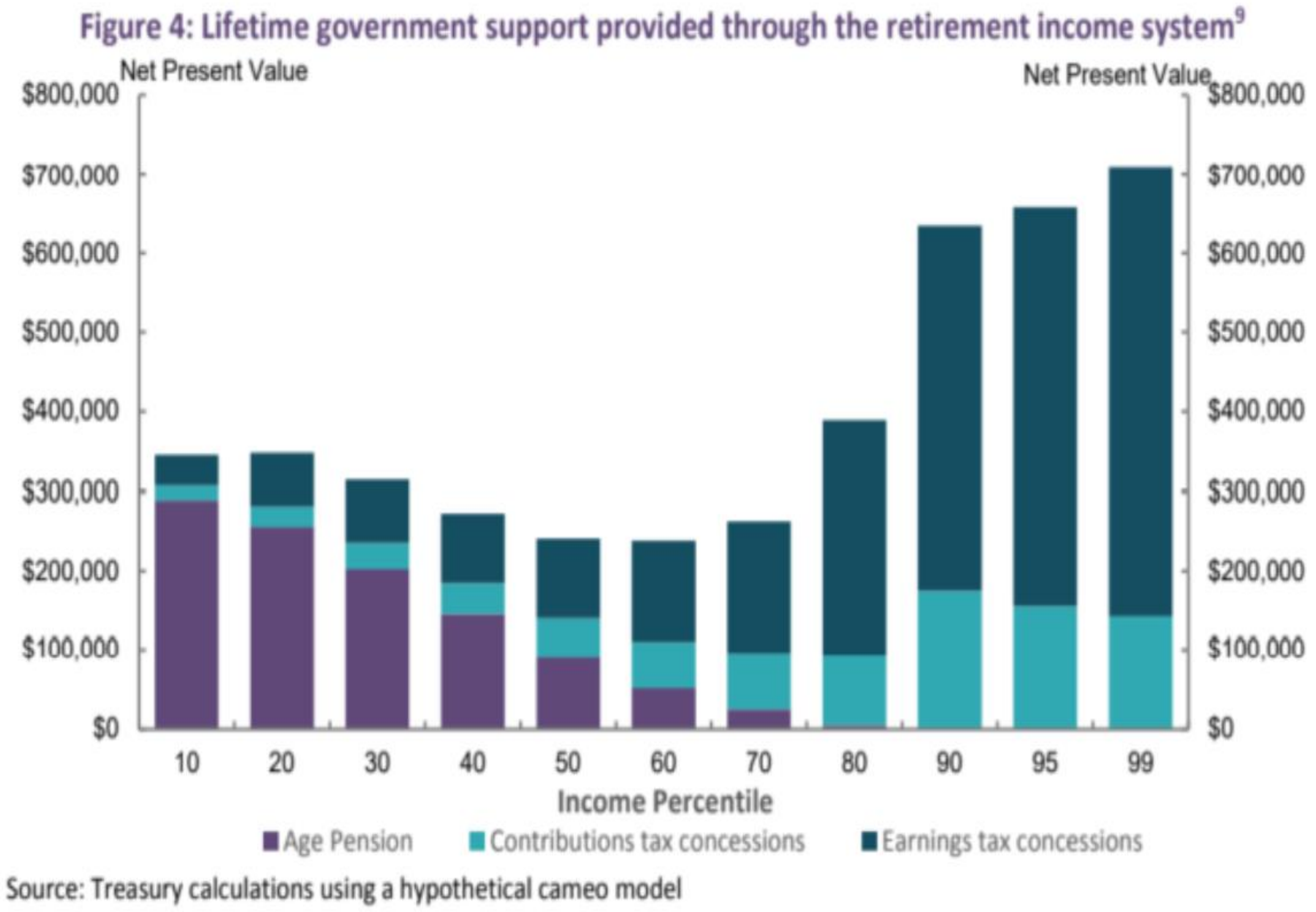
Flaws in Australia’s compulsory super system

- Super voluntary
- Super can be spent at age 60.
- Most super concessions go to high income earners
- Balances at retirement depend on how long work for



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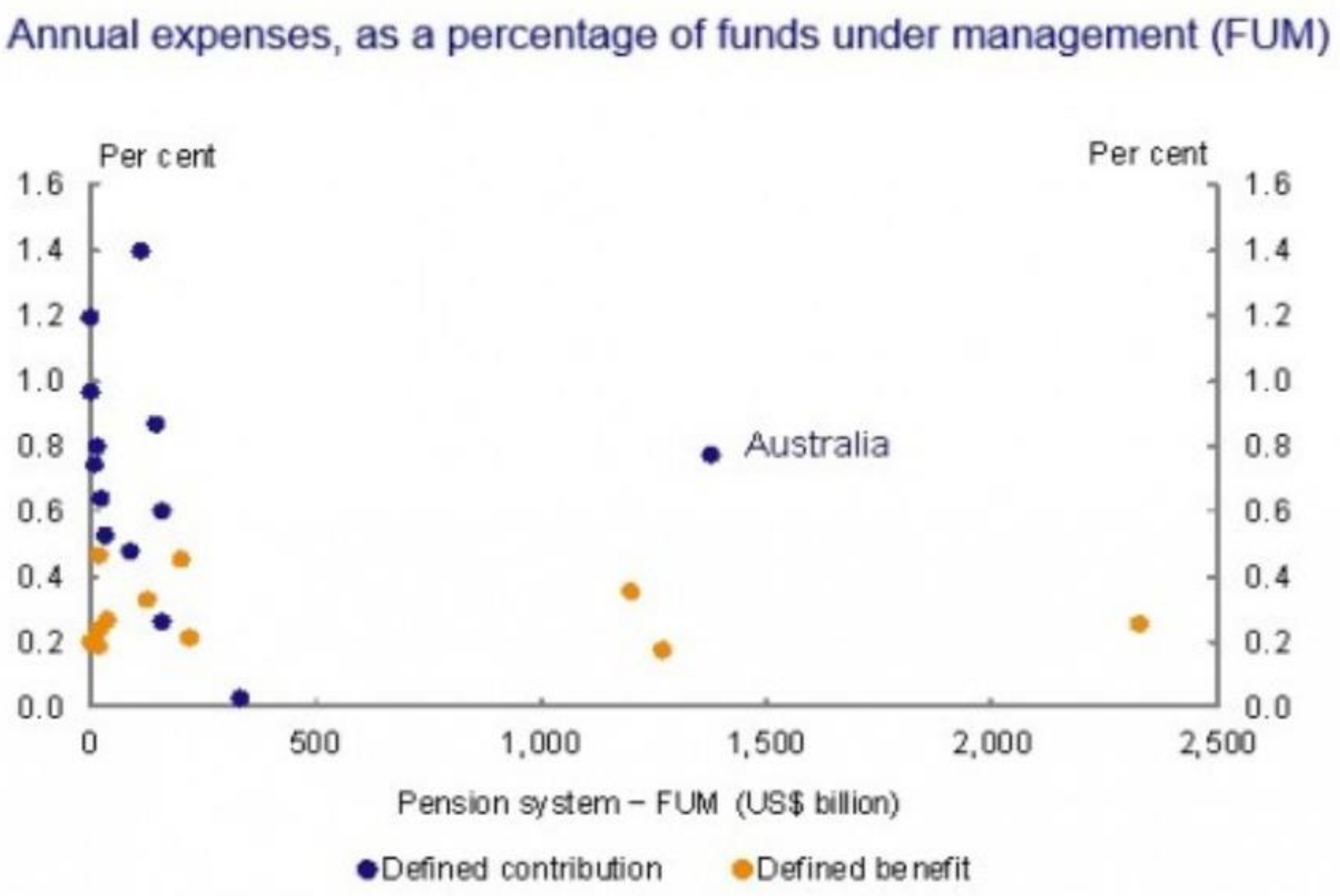
Flaws in Australia's compulsory super system

- Costs more than super saves in aged pension costs.
- Lowers wage growth.
- Management fees among the highest in world
- Market risks.
- Complicated. Least educated most at risk.



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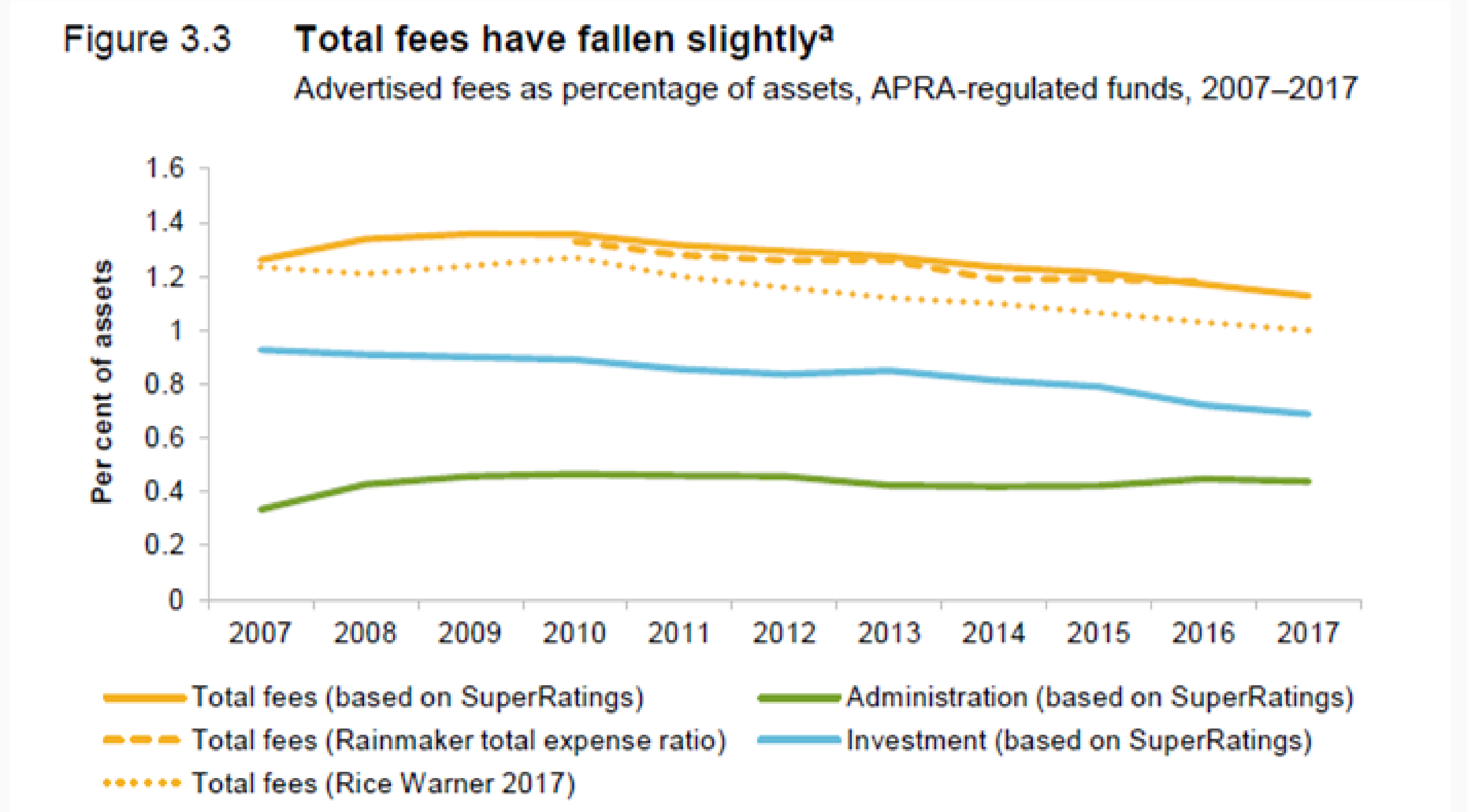
Flaws in Australia's compulsory super system



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Market Intervention

1. No licences. Fewer competitors = lower prices?
2. Creating oligopolies
3. Legislated performance / weeding out underperformers is a guarantee for market performance

Mispricing & distortions to asset markets

Harvard/Yale Model has been bought hook, line and sinker.

Performance not what it used to be.

	5 Years	10 Years	15 Years	20 Years	25 Years
Yale University	3.3%	11.0%	11.8%	13.5%	13.2%
Harvard University	1.7	9.4	9.6	11.9	11.5
All endowments	3.8	6.8	5.6	7.7	8.4
All active balanced mutual funds	5.1	6.0	4.9	7.0	7.9
60% stock/40% bond benchmark	5.9	7.4	5.7	7.6	8.3

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Mispricing & distortions to asset markets

- Unlisted asset pricing
- Infrastructure
- Franking Credits
- Financial services = higher profits at risk
- Growth assets in a low return world?
- Aussie vs international shares
- Ethical vs Non-ethical

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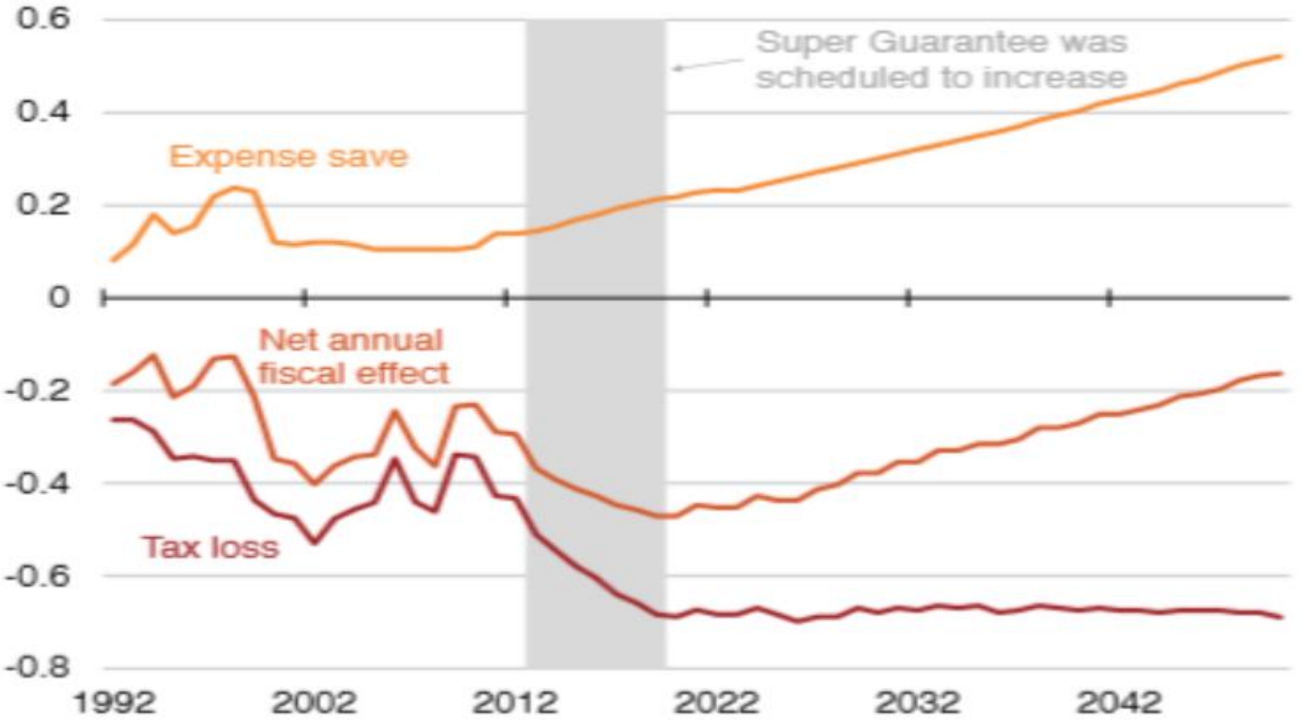
Lifting super guarantee to 12% would make distortions worse

1. Reduce disposable income via lower wage growth
2. Cost extra $2b a year
3. Increase inequality
4. Does not address underlying problems

Figure 9.5: Lifting the Super Guarantee to 12 per cent costs the Budget – in both the short and long term

Per cent of GDP



Sources: Cooper Review (2013, figure 2.1), Treasury (2010, p. 42) and Treasury (2014, p. 17), Grattan analysis.

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Alternative to lifting super guarantee to 12%

Make concessions more progressive: 15% flat tax on contributions/earnings with a flat-rate refundable tax offset.

Current Compulsory Superannuation Arrangements

Taxable Income	Tax on this income (excluding Medicare Levy)	Tax Paid on Super Contributions / Earnings	Super tax concession received
0-$18,200	Nil	0%*	0%*
$18,200-$37,000	19c for each $1 over $18,200	0%*	19%*
$37,001-$90,000	$3,572 plus 32.5c for each $ over $37,000	15.0%	17.5%
$90,001-$180,000	$20,797 plus 37c for each $1 over $90,000	15.0%	22.0%
$180,001-$250,000	$54,097 plus 45c for each $1 over $180,000	15.0%	30.0%
$250,000 and over	$85,597 plus 45c for each $1 over $250,000	30%**	15.0%**

** Includes rebate from Low income super tax offset.*

*** Under Division 293, an additional tax of 15% is charged on an individual's taxable concessional contributions above the $250,000 threshold.*

Proposed Compulsory Superannuation Arrangements

Taxable Income	Tax on this income (excluding Medicare Levy)	Tax Paid on Super Contributions / Earnings	Super tax concession received
0-$18,200	Nil	-15.0%	15.0%
$18,200-$37,000	19c for each $1 over $18,200	4.0%	15.0%
$37,001-$90,000	$3,572 plus 32.5c for each $ over $37,000	17.5%	15.0%
$90,001-$180,000	$20,797 plus 37c for each $1 over $90,000	22.0%	15.0%
$180,001 and Over	$54,097 plus 45c for each $1 over $180,000	30.0%	15.0%

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Barriers to reform

1. The superannuation industry
2. ALP tied heavily to union-owned industry super funds. Labor also created the system.





Investment Implications:

- Issues with alternative asset pricing: private equity, venture capital, unlisted assets, illiquidity
- Probably going to get worse before it gets better
- Slow moving, super funds more of a passenger than a driver
- There are exploitable pricing anomalies - but probably without instant gratification

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Viewer question of the week:

Which would prefer - 2.5% pay rise in the hand or in your super?

Drop your answers in the comments

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