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We can save ourselves

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Compulsory superannuation looks set to become a keenly debated election issue.

Those who argue in favour of it say that essentially we can't afford not to have compulsory super. We've been left on our own to save for our retirement, and we're just not saving enough. The government doesn't have enough in the kitty to top us up, and will have even less in future years when even more people need it.

Other arguments in favour are that compulsory superannuation adds to the wealth of individuals and of the country. In Australia, compulsory superannuation is said to have increased the household savings rate and contributed to GDP by up to 1.5-2.0% per annum.

A flow of funds from compulsory superannuation can also bolster New Zealand's capital markets. With more capital available to be invested, more investment opportunities will become available. How many times have we heard successful New Zealand companies say they couldn't raise capital in New Zealand so they had to go offshore to find investors?

Compulsory savings also lead to improved financial literacy – when you are forced to save, you can't help but learn about it as you watch your savings grow over time.

The arguments against compulsion are that it removes choice, some people just can't afford it, it works better for men than women (who spend less time in the workforce and therefore save less over time), and it doesn't necessarily increase savings overall.

Both sides of the compulsory superannuation debate have merit. But sometimes, ideology has to be put to one side because reality demands a solution. Our reality is that we need to increase retirement savings, and we need to get on with it now rather than debating it for the next ten years.

I take quite a lot of comfort from the Australian experience, because the Australians are, broadly speaking, not too different to us and they have had twenty years to experience compulsory superannuation.

The same objections that are being mounted here were argued years ago when compulsion was first introduced in Australia. At the time Australians had, like us, generally treated their homes and businesses as their retirement assets, earmarked to be sold when they finished work.

Despite the early objections, compulsory super has been a winner, and Australians have embraced it to the extent that they are even happy to see the annual contribution lifting to 12% of their earnings



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(ours is just 2%) in ten years time. And some say it should be lifted sooner so their retirement savings can really start growing.

A 2010 ASFA study of 100,000 super fund members showed that a majority (57%) were happy with their retirement savings and believed they had saved more than they would have without it.

Twenty years on, it appears Australians have indeed developed financial literacy. Half those surveyed wished they had saved more in super when they had the chance, and said they would have started saving earlier if they'd known what they know now.

Surely there are some lessons there for us.