

The *Ambachtsheer* Letter

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REFORMING PENSION DESIGN AND DELIVERY: LESSONS FROM AUSTRALIA

“This legislation is expected to increase competition, efficiency, and performance within the superannuation industry, and result in reductions in fees and charges for persons with superannuation...”

Choice of Superannuation Fund Act 2004

“When it was introduced, the Coalition Government represented the Choice of Fund policy as a major victory for consumers...but choice is beneficial only if people have clear notions of what they want. This is evidently not the case for many Australians”.

“Choosing Not to Choose”

Josh Fear and Geraldine Pace, November 2008

Australia as a Pensions Laboratory

Australia changed its pension system forever when it passed its Superannuation Guarantee (SG) legislation in 1992 requiring employers to make contributions (originally 3% of earnings, now 9%) into employee pension accounts. While the motivation for SG was to relieve the looming fiscal burden of supporting an aging population, the legislation also made Australia an important pensions laboratory to the world for two reasons. First, the switch from a system where employment-based pension plans are voluntary, to one where they are mandatory, allows us to observe its impact on ‘the political economy of pensions’. Second, the switch permits us to observe the evolution of a DC-based pension design and its implementation on a large scale over an extended period of time (i.e., from 1992 to 2008, a sixteen year period).

The ‘political economy’ implications of a mandatory pension system are clear. Pensions are ‘a big deal’ in Australia today, possibly ranking ahead of other financial sectors such as banking and insurance in political visibility and clout. For example,

Australia now has its own Minister of Pensions. This issue of *The Ambachtsheer Letter* focuses on the second laboratory experiment: the evolution of a DC-based pension design and its implementation on a large scale, over an extended period of time. Specifically, we report on, and interpret the findings of an important new report on this subject, “Choosing Not to Choose”, by Fear and Pace, published jointly by The Australia Institute and the Industry Super Network in November 2008.

While the report focuses on the impact (or lack thereof) of the Choice of Fund legislation passed by the Howard Coalition Government in 2004, it also offers a detailed look at the evolution of the Australian pension system since (and even prior to) the passage of the SG legislation in 1992. Our analysis places the Australian ‘lessons learned’ in an international context. These lessons go beyond understanding the consequences of offering retirement savers more choices. They also include insights into the politics of compulsion, and the evolving structure of the pension services industry.