Economic slowdown threatens compulsory super: Howes

Paul Howes, a former union leader and now KPMG partner, fears for the superannuation system in the face of a long economic slump. Picture: Ryan Osland

- EXCLUSIVE

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KPMG partner and head of asset and wealth management Paul Howes believes a prolonged economic slowdown in Australia could seriously threaten the compulsory nature of the nation's world-leading superannuation system.

Mr Howes, a former head of the Australian Workers' Union and former AustralianSuper deputy chairman who now consults to the industry, said sharp falls in super returns flowing from ongoing global sharemarket volatility could

prompt more workers to question why 9.5 per cent of their wages was being locked away till retirement.

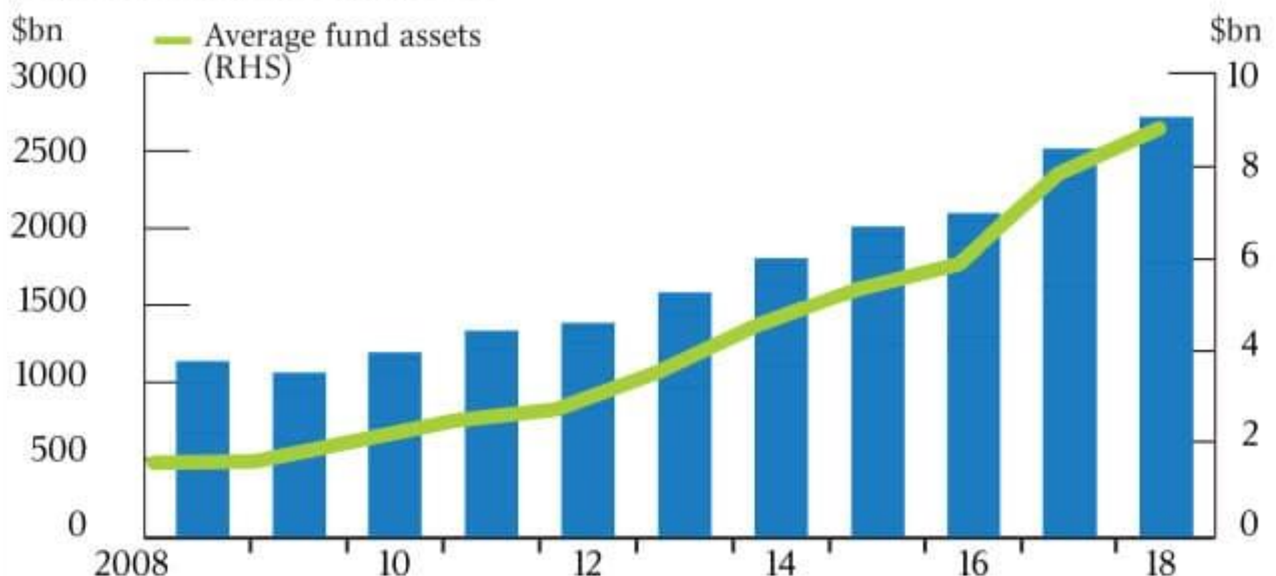
“The question we have now is: is the super system mature enough to withstand a potential backlash and loss of confidence of the membership when Australia eventually goes into recession, as it will? Because compulsory occupational super hasn’t existed when Australia has been in recession — we have no historical guide,” Mr Howes said in an interview with The Australian.

“Unless we see a substantial change in the way funds engage with their members, we could see a significant backlash around the compulsory nature of the super system that could lead to knee-jerk reactions by policymakers. If we go to an opt-in system, we risk losing an entire generation out of our retirement savings pool. I think there is a real threat around the compulsory nature of super once we factor in a potential economic downturn.”

Mr Howes said most of the graduates who had just started at KPMG in the firm’s 2019 intake had never lived through an economic downturn or a recession.

“If I think back to my time as a super trustee during the global financial crisis when we saw 1-1.5 years of negative returns, the backlash from members at the time was significant,’’ he said.

Employers have been making compulsory contributions of 9.5 per cent to employees’ super since the start of the super system in 1992. The rate is due to rise to 10 per cent in July 2021 and 12 per cent in 2025.



In April former treasurer Peter Costello said Australians would not have enough money to become self-funded retirees if they relied solely on employer contributions.

Former prime minister Paul Keating went further, saying even an increase to 12 per cent would "barely cut it".

While the Coalition government has guaranteed no new taxes on super and promised to improve the flexibility of the $1.7 trillion super system if it wins tomorrow's federal election, Labor controversially plans to close a concession introduced by the Howard government that provides cash refunds for excess dividend imputation credits.

The Australian Prudential Regulation Authority and the Australian Securities & Investments Commission are also stepping up their surveillance and regulation of the sector after being criticised in the findings of the Hayne royal commission.

"What we are seeing at the moment is a greater propensity for policymakers to use legislative intervention in the financial services sector when there are issues that generate widespread community concern,'' Mr Howes said.

"For the former Labor government it was FOFA, for the Coalition it was the advent of Hayne. Once you couple together that kind of expected community concern in an economic downturn with the greater propensity of policymakers to legislate, you have a problem.

"I hope we have a political class that are less reactive around these types of issues that don't necessarily see more regulation as the answer."

Mr Howes was speaking after addressing a business breakfast at Hamilton Wealth Management in Melbourne attended by the firm's principals, Will Hamilton and Ian Gillies. Also in the audience were JB Hi-Fi chairman Greg Richards, Flagstaff's Tony Burgess and KPMG's Rob Bazzani.

Mr Howes said the key safeguard for the super sector in any backlash against the compulsory super system would be the diversification of asset classes and investments across most major funds away from just equities.

"Member engagement is the key to addressing this issue in the longer term. Most funds have relatively disengaged membership bases,'' he said.

Earlier this year the Productivity Commission found Australians were so disengaged from their super that over one-third of all super accounts were "unintended multiples" — created when a new default account is opened for a

member when they change jobs or industries, and the member does not close their old account or roll over their existing balance.

The PC said these unintended multiples collectively cost the members who hold them $1.9 billion a year in excess insurance premiums and $690 million in excess administration fees.

“A more engaged membership base will provide a more informed audience and provide a buffer against levels of concern filtering through from the political class,’’ Mr Howes said.

By 2029, KPMG predicts the super asset pool will reach $5.4 trillion. The firm says industry funds will be the largest sector with over $2 trillion in assets, while retail and public sector fund assets are predicted to grow at half the rate of industry funds and are expected to reach $1.2 trillion and $900 billion respectively by 2029.

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Damon Kitney has spent two decades in financial journalism, including 16 years at The Australian Financial Review in a variety of writing and editing roles in Sydney, Melbourne, Canberra and Perth, including 5 ... Read more