

AUSTRALIA NEEDS A PENSION SYSTEM

“We don’t have a pension system. We have a lump sum payment system.” Nick Sherry

“A lump sum system is hardwired into us in Australia. People like lump sums.” Jeremy Cooper, Challenger

In a conference address at the University of New South Wales, Australia’s first Minister for Superannuation, former Senator Nick Sherry, discussed the major challenges facing Australia’s defined contribution superannuation system.

According to Nick Sherry the critical challenges at the moment are volatility, risk and long term performance. In his keynote address to 100 delegates attending the 20th annual Colloquium of Superannuation Researchers he discussed the impact of short term reporting. Sherry said that short term reporting is fuelling member anxiety.

“Super is long term. Members should focus on the rate of return over 20 years, not annually. The focus of reporting to members should be on long term rates of return.”

Nick Sherry also discussed a range of inefficiencies impacting on the superannuation system, including the administrative costs of electable options. He questioned the need for the “enormous range” of electable options when they are not part of the retirement system, are inefficient, and add to costs which impacts on members’ returns. There are at least 14 such options - far more than any other compulsory defined contribution system in the world. Sherry called for a debate on the need for electable options.

In his conference address, Jeremy Cooper of Challenger, concentrated on attitudes to retirement. “We treat retirement as a wealth creation phase, but we need to be looking at it more from a risk management prism where retirees protect their nest eggs from inflation, volatility and longevity risk.”

Cooper discussed Australians’ preference for a lump sum over an income stream and said as a result it would be very difficult to tackle this on a policy basis, but articulated a vision for lifetime income streams to be an integral part of retirement policy. The two-day annual conference hosted international speakers from the UK, the US, Japan, China, New Zealand and Italy, as well as industry experts and senior public servants from The Treasury and FaHCSIA. Nine CEPAR staff members were among the presenters and spoke on a range of topics from rural migration in China to the macroeconomic and welfare effects of the increase in the superannuation rate, and the long term fiscal projections of Australia’s retirement system.

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