Superannuation adequacy with voluntary contributions: a comparison of living standards

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I. Introduction

Australian men and women aged 65, are now expected to live around 20 additional years (ABS 2011). Typically, most will have retired by or at this age and will require a regular and adequate income stream to support them in retirement. Currently, for the majority of retirees, the age pension forms their principal source of income. However, although the age pension prevents extreme poverty, it has been criticised for its inadequacy, especially for those who are not home owners (Saunders and Wong 2011). The Superannuation Guarantee was introduced in 1993 to increase living standards of future retirees. Much research has been conducted on the adequacy of projected and actual superannuation savings, with many different definitions of ‘adequacy’ used.

One definition of retirement adequacy is based on the life cycle hypothesis of saving (Ando and Modigliani 1963, Browning and Crossley 2001), which implies that an ‘adequate’ amount of superannuation is one that allows for consumption to be smoothed over the lifetime; that is consumption in retirement should be similar to that experienced while working. Thaler (1994) and Diamond (2011) provide some arguments for an element of compulsion in retirement savings.

In line with the life cycle hypothesis, some analyses or recommendations from financial advisers are based on replacement rates that is, the retirement income necessary to ensure a
similar living standard or level of consumption to that experienced before retirement; expressed as a percentage of income earned in the last years of working. Generally replacement rates are less than one; as working requires certain expenses to be incurred that are not necessary in retirement. For example, expensive work clothes, transport costs, and the very large expenses commonly incurred during the working years that are paid for before retirement, namely raising children and purchasing the principal place of residence. The Australian Treasury’s RIM model estimated replacement rates of between 52 and 70 per cent (Rothman 2007) dependent on working age income quintile – that is, retirement income must be 52 to 70 percent of working age income to a living standard in retirement similar to that experienced while working. These replacement rates tend to vary based on where one sits on the income distribution.

Other analyses look at what sort of goods or services retirees might need to purchase for a reasonable lifestyle and estimate the income needed to purchase those goods and services, for example (Saunders, et al. 1998, Saunders 2004). The Association of Superannuation Funds of Australia (ASFA) estimates ‘modest’ and ‘comfortable’ standards of living for retirees in good health who own their own homes. A modest lifestyle is described as “better than the Age Pension, but still only able to afford fairly basic activities”, and is currently achieved with an income of $22 585 for a single person or $32 555 for a couple. The comfortable lifestyle is described as “enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as; household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel.” It requires an annual income of $41 186 for a single person or $56 339 for a couple (ASFA 2013). These standards also estimate the lump sum required to generate this income stream.
The approach used in this analysis develops an index based on the ‘modest but adequate’ standard of living developed by the Social Policy Research Centre, comparable to ASFA’s ‘modest’ benchmark. This index shows if a household’s living standards are above or below this modest but adequate standard and by how much, taking into account household disposable income from wages, social security and superannuation, housing costs, childrearing costs and health costs, from age 22 to 95. It calculates this for each year of a household’s existence, so that living standards in retirement years can be compared to those pre-retirement. The advantage of this approach is that it shows whether a household’s superannuation is sufficient to obtain a reasonable living standard according to community standards, and also shows whether their superannuation contributions smooth consumption over the life course.

Using a specifically designed hypothetical household model – SuperMODEL, this paper seeks to explore the current adequacy of the Australian superannuation guarantee, and assesses the impact of additional voluntary superannuation contributions on living standards both pre and post-retirement. Section II summarises Australia’s current retirement provision system. Section III describes the development of SuperMODEL and its underlying assumptions. Section IV considers the adequacy of the current Superannuation Guarantee using SuperMODEL results. Section V compares this to scenarios in which households voluntarily salary sacrifice a percentage of their wages into superannuation. Delays in voluntary contributions and their impact upon living standards are also assessed. Section VI concludes.
II. Retirement provision in Australia

Australia’s retirement provision system is based on the means tested age pension, compulsory tax-preferred savings through superannuation, and voluntary savings. This ‘three pillar’ system is of a form recommended by the World Bank (1994).

Pillar 1 – the age pension
Australians aged over 65 are entitled to the Age Pension – a means tested payment of 25% of average male weekly ordinary time earnings. The means test includes both an income test and an assets test. As a result, superannuation accumulation will often result in a lower age pension. However, the means tests are more generous towards superannuation assets than other financial assets, with a certain portion of an income stream from superannuation exempted from income testing. The Intergenerational Report (Treasury 2010) expects that most people will be reliant on at least a part pension in retirement.

Pillar 2 – the Superannuation Guarantee
In 1992, the Superannuation Guarantee Act passed Federal Parliament. This defined contribution retirement income stream provided that an amount equal to a certain percentage of an employee’s wage must be placed into a superannuation account for their retirement – the Superannuation Guarantee (SG) (Bateman and Piggott 1998). The SG was initially three percent, increasing to nine percent since 2002, and recent policy changes have provided for it to be increased further. It remains at 9 percent in 2012-13, and will rise by annual increments of 0.25 percentage points, starting in 2013-14, and annual increments of 0.5 percentage points commencing in 2015-16, until it reaches 12 per cent in 2019-20. This is expected to increase the wellbeing of future retirees (Kudrna and Woodland 2013).
Numerous incentives exist to encourage people on high and low incomes to contribute extra to superannuation. These include:

- Government co-contribution for low income earners; and
- Taxation rates on contributions and superannuation earnings that are lower than the marginal tax rate on average earnings, encouraging voluntary pre-tax contributions or salary sacrifice.

**Pillar 3 – voluntary savings**

Wage and salary earners can opt to direct part of their pre-tax income into superannuation, also known as salary sacrifice. The tax rate on superannuation contributions is 15%, compared with the marginal rates of 32.5% on income over $37,000, 37% for income over $80,000 or 42% for income over $180,000. A worker can ask their employer to reduce their gross wage and increase their superannuation contributions by the same amount to reduce overall tax paid. For example, a worker earning $90,000 per year can ask their employer to pay $5000 of their wage (before income tax is paid) into superannuation, and receive the remaining $85,000 as wages minus tax. The $5000 directed into superannuation is taxed at 15% instead of the person’s marginal rate of 37%. This incentive encourages people, particularly high income earners, to make voluntary contributions to superannuation.

Furthermore, the earnings from superannuation are also subject to a lower tax rate than the marginal tax rate on the average wage. The taxation rate for superannuation returns is 15%, however franking credits and the capital gains tax discounts means the average tax paid is less than this – an average tax rate of 6.5% on superannuation earnings was estimated by Treasury (Rothman 2000).
III. SuperMODEL: assumptions and living standards

In 2012, CPA Australia (Certified Practising Accountants Australia) contracted NATSEM to simulate living standards over the life course for selected households under a number of different policy scenarios and assumptions. This was the fourth in this series of the reports (previous reports are (King 2001, Morrison and Kelly 2007, Taylor and Lloyd 2004). For this report, NATSEM developed SuperMODEL, an Excel-based model of a series of hypothetical households aged 22 in 2012, and projects their living standards under existing taxation, social security and superannuation arrangements. The base case is the policy environment that exists as of July 1 2012. The model and its assumptions and initial ‘base case’ findings are outlined below.

Model households and life cycles

Four hypothetical households are used in this analysis: males and females who have always lived alone, couples who have had children and couples who have never had children. Their characteristics are estimated from typical traits found in the Australian population. Based upon known national trends\(^1\) we have assumed the following life cycle pattern.

Individuals leave home and begin full-time work at the age of 22. Couple households are formed at age 27 for women and 30 for men. Couple households with children are assumed to have two children, born two years apart, starting when the mother is 29. In addition, couples who never have any children have also been included in the scenarios. For those women with children, they spend a year out of the labour force upon the birth of each child, re-enter the labour force working on average 19 hours each week, up until the youngest child reaches 10,

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\(^1\) The data and support for these assumptions are detailed in Working Paper X, found at www.natsem.canberra.edu.au
when they return to full-time employment. At age 60, individuals scale back to part-time work and take a transition to retirement income stream from their superannuation. They are assumed to draw down the minimum amount required for superannuation pensions (4% for persons aged 60-64, 5% for persons aged 65-69, and so forth). Compulsory contributions are taken from their wages. Both men and women are expected to enter into full retirement at 67 years, which aligns with current age pension eligibility. The additional years of life for males aged 65 currently stands at 18.7 years and the same value for females is 21.8 years (ABS 2011), so women are assumed to live to 87; men are assumed to live to age 84.

When a person enters full retirement at age 67 they are assumed to take 50% of their superannuation as a lump sum if they have less than $200,000 in superannuation; or 20% if they have more than $200,000 in superannuation. They are assumed to spend it in such a way that it will not affect their age pension entitlement via the assets test.

For each of these four household types, we estimate their likely outcomes based on whether they earn a low income (a little over the minimum wage), a medium income (median weekly earnings) or a high income (75th percentile of weekly earnings). Table 1 provides an illustration of earnings for these household types when they are aged in their mid-thirties, when couples with children have their wives working part-time.

<table>
<thead>
<tr>
<th>Household type</th>
<th>Low</th>
<th>Middle</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Male</td>
<td>$38,409</td>
<td>$64,748</td>
<td>$85,340</td>
</tr>
<tr>
<td>Single Female</td>
<td>$37,994</td>
<td>$54,226</td>
<td>$75,421</td>
</tr>
<tr>
<td>Couple without children</td>
<td>$76,403</td>
<td>$118,974</td>
<td>$160,761</td>
</tr>
<tr>
<td>Couple with children</td>
<td>$57,406</td>
<td>$91,861</td>
<td>$123,050</td>
</tr>
</tbody>
</table>

**Note:** Household income is measured when single men and women, and the male in couple households are aged 34 years.

**Source:** Authors’ calculations from the ABS Survey of Income and Housing, 2009-10, inflated to 2012 dollars using Average Weekly Earnings.
Assumptions regarding the life cycle of hypothetical households, economic conditions, tax rates and growth rates are shown in Table 2.

**Table 2  Model assumptions**

<table>
<thead>
<tr>
<th>Event</th>
<th>Men</th>
<th>Women</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leave home and enter full-time labour force</td>
<td>30 years</td>
<td>27 years</td>
</tr>
<tr>
<td>Couple formation</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>22 years</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td></td>
<td></td>
</tr>
<tr>
<td>First child</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>32 years</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>29 years</td>
<td></td>
</tr>
<tr>
<td>Second child</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>34 years</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>31 years</td>
<td></td>
</tr>
<tr>
<td>Life Expectancy</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Men</td>
<td>84 years</td>
<td></td>
</tr>
<tr>
<td>Women</td>
<td>87 years</td>
<td></td>
</tr>
<tr>
<td>Partial Retirement Age</td>
<td>60 years</td>
<td></td>
</tr>
<tr>
<td>Full Retirement Age</td>
<td>67 years</td>
<td></td>
</tr>
<tr>
<td>Lump sum taken at full retirement age</td>
<td>50% of balance for those with less than $200K, 20% for those with more than $200K</td>
<td></td>
</tr>
<tr>
<td>Income stream from superannuation</td>
<td>Minimum superannuation drawdown rates (i.e. 4% and gradually increasing)</td>
<td></td>
</tr>
<tr>
<td>Superannuation tax and earning rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>On employers contribution (SG)</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>On employees salary sacrifice contribution</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>On super fund earnings</td>
<td>6.3% average rate</td>
<td></td>
</tr>
<tr>
<td>Growth rates</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Real superannuation earnings rate (annual)</td>
<td>3.8%</td>
<td></td>
</tr>
<tr>
<td>CPI</td>
<td>2.5%</td>
<td></td>
</tr>
<tr>
<td>Real wages growth (annual)</td>
<td>1.5%</td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Various national statistics and trends from the ABS and other reliable data sources and literature. See technical notes for further information.

**Measuring income adequacy**

The Social Policy Research Centre (SPRC) has calculated the expenditure required to reach a ‘modest but adequate’ living standard for several household types (Saunders, et al. 1998, Saunders 2004). Note that the age pension alone, with a home owned outright, is insufficient to ensure a ‘modest but adequate’ standard of living. These living standards are applied in SuperMODEL to compare adequacy pre and post-retirement. These living standards take into account differences in people’s circumstances before and after retirement – for example, it is assumed that retirees do not need to pay costs associated with going to work or raising children. The living standards are based on typical situations and do have limitations, including an assumption that people are in reasonably good health upon retirement. Costs of housing are estimated separately, to allow an assessment of the different income needs of renters and home owners.

The latest SPRC ‘Modest but adequate’ living standards have been uprated to 2012, using average weekly earnings growth rate, and are displayed in Table 3. These living standards vary by family type, with couples with children pre-retirement requiring a greater annual wage to meet a modest but adequate living standard.

**Table 3  Annual average “modest but adequate” cost of living, July 2012, excluding housing**

<table>
<thead>
<tr>
<th>Family Type</th>
<th>“Modest but adequate” standard ($ per annum)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pre-retirement (average 22-66 yrs)</td>
</tr>
<tr>
<td>Single (Male or female)</td>
<td>$24,740</td>
</tr>
<tr>
<td>Couple with two children (no children upon retirement)</td>
<td>$52,170</td>
</tr>
<tr>
<td>Couple with no children</td>
<td>$37,337</td>
</tr>
</tbody>
</table>
Note: The modest but adequate standards have been updated using changes in the Average Weekly Earnings. Average Weekly Earnings are used instead of changes in the Consumer Price Index, to gain a more accurate reflection of the costs of achieving an acceptable living standard.

Source: Authors calculations from SPRC living standards. See Saunders et al. (1998) for more details

To estimate adequacy pre and post-retirement, a simple adequacy index is calculated by dividing the appropriate living standard by the amount of estimated discretionary income; that is, total income (including earnings, government benefits and superannuation income) less taxes, personal voluntary superannuation contributions and housing expenses. If their income just affords a ‘modest but adequate’ level the index will have a value of one – that is the cost of living will be equal to the income of that particular family type. An index value above one denotes a more luxurious standard of living is possible and values below one indicate that the household would be required to live more frugally.

Figure 1 depicts the living standards of a handful of selected households using the modest but adequate standard. An older single male with the age pension as his only primary source of income with a small top-up from his superannuation lives below the modest but adequate standard. A middle-income working couple with children and a mortgage, can expect to an adequacy index of 1; a retired couple without children who own their own home and who have made voluntary salary sacrifice contributions have replacement rates above the modest but adequate standard – 1.26; and a single, high income female divorcee who has entered into a mortgage later in life can expect to experience an adequacy index of 1.7.
It must be noted that if a household falls below the modest but adequate standard for a period of time, this does not mean that they are in poverty or cannot survive financially. The standard provides for many items that are not strictly essentials, such as occasional meals out, travel, new clothes and leisure activities; and purchases that can be deferred if money is tight, such as replacing whitegoods and cars. These are things that families can go without, but if forced to go without them for extended periods, they may have difficulty participating fully in their community.
IV. The current picture of superannuation adequacy

**Living standards under the base case (no salary sacrifice)**

Under the base case, which covers all taxation and superannuation policies implemented in 2012-13, all hypothetical households have higher living standards during their working lives than during retirement. As one would expect, couples without children have the highest living standards during their working lives, as they have two incomes and do not have the expense of children (Figure 2). All households achieve at least a modest but adequate standard of living, with the exception of low income households, whose living standards range from 0.84 to 0.94. Couples without children have the highest living standards during working age and retirement, at 2.26 and 1.32 respectively. This is because they have the benefit of two incomes pre-retirement, without the costs of raising children, so their living standards pre-retirement are comparatively high.

**Figure 2 Living standards under the base case**

![Living standards chart](image)

*Source: Author’s calculations*
V. Superannuation adequacy with salary sacrifice

Paul Keating, who introduced the Superannuation Guarantee in 1992, has on several occasions argued that the current SG is inadequate and should be increased to 15 per cent (Stafford 2008). He believed that compulsory contributions should come from employers, employees and government contributions. As the base case shows, even 12% SG contributions are insufficient to generate living standards equal to that achieved before retirement. This scenario considers the impact on living standards and replacement rates of voluntarily salary sacrificing a portion of income into superannuation.

Voluntary pre-tax contributions

Salary sacrifice is a useful vehicle for people on middle to high incomes to smooth out their living standards over their working lives. When they are earning a wage, in general they are reasonably well off, and can afford to save a little more to ensure a more comfortable retirement. The preferential taxation treatment of salary sacrifice superannuation contributions mean a person on a medium or high income can have a higher retirement living standard with little reduction in disposable income during their working life.

Figure 3 shows the impact of salary sacrificing an additional 3 per cent of pre-tax income into superannuation, from age 22 onwards. While a person is working full-time, this creates a negligible reduction in living standards (typically a decline of 0.01 basis points at most in the adequacy index). This is because the 3% pre-tax salary sacrifice only amounts to a decline in net income of around 2%. Also, when a person transitions to part-time employment at age 60, the part-pension they draw from their superannuation is higher than it would be under the base case. Retirement living standards with a lifelong 3% salary sacrifice are between 4 and 8 basis points higher than the base case.
Although most households notice similar falls in their adequacy index as a result of salary sacrifice, wealthier households experience a greater increase in their retirement wellbeing.
This is because a 3% salary sacrifice into superannuation equates to a higher dollar amount for high income earners than low ones, which means a greater increase in their retirement superannuation balance. Low income households are better off making after tax voluntary contributions rather than pre-tax contributions; this is because they face a low marginal tax rate and thus receive little or no tax benefit for salary sacrificing, and their after-tax contributions attract the low income earners’ co-contribution.

The adequacy index of single high income males and medium income couple households with children over their life course who salary sacrifice three per cent of their income into superannuation while working is illustrated in Figure 4. This chart shows the adequacy index, or household’s standard of living, taking into account their financial responsibilities, for each year of their lives. It allows a ready comparison of the years in which the household is worst off, and the years in which they are best off.

Additional salary sacrifice amounts do make the average household slightly worse off during their working life, however it can also be seen that it pays off in the long run with the adequacy index rising in retirement by a greater amount than it falls while salary sacrificed contributions are made (Figure 5).
Impact of delaying voluntary contributions

Despite the benefits to retirement living standards of making voluntary superannuation contributions early in life, many households do not consider this option until closer to retirement. Expenses such as mortgage payments and children often take priority early in life. As Figure 4 demonstrates, for some households retirement is not the period of life when they are most financially stretched.

Impact of delaying pre-tax contributions

Salary sacrificing or making voluntary superannuation contributions is often not considered by people aged in their twenties and thirties. Young people often perceive retirement as something far into the future, to be worried about later. However, salary sacrificing into
superannuation earlier in life means that much less must be contributed each year to achieve a better retirement living standard.

Clearly those who start salary sacrificing into superannuation early in their lives will have better retirement living standards than a person who starts in their 40s or 50s. If a person or couple, at age 52, wishes to achieve the same retirement living standards they would have had if they had commenced salary sacrificing at age 22, they will need to salary sacrifice up to 17.5 per cent of their annual income into superannuation from age 52 until retirement. If a person decides to salary sacrifice from age 42, then will need to salary sacrifice around 7 per cent of their income to achieve the same retirement living standard. Figure 5 shows the percentage of household’s earnings that would need to be salary sacrificed to achieve the same retirement living standards as sacrificing 3% of income from age 22, by age of salary sacrifice commencement.
Starting voluntary contributions early means that the superannuation saved has more time to generate earnings, which means that fewer total contributions need to be made over the life course for the same retirement living standard. For example, Figure 5 shows that a medium income couple with children must make voluntary contributions of 16% of their income if they start salary sacrificing at age 52, to receive the same retirement income they would have received if they had sacrificed 3% of their salary for their whole working lives. To achieve this retirement living standard, assuming all other factors are held constant, they will need to contribute a total of $994 000 if they start salary sacrificing 3% at age 22, compared to $1 113 000 if they start salary sacrificing 16% at age 52.

Making small but steady superannuation contributions throughout one’s life might seem to be the most optimal way to smooth consumption over the life course, but depending on circumstances, it may mean saving when times are tough to have more money in times of...
comparative plenty. Figure 6 shows the living standards over the life course of a medium income homeowner couple with two children, if they salary sacrifice 3% from age 22, or 16% from age 52 (which will give them similar standards of living in retirement). When their children are young, the wife reduces her working hours and their mortgage is new and expensive, this family struggles financially, spending several years living below modest but adequate standard. The family’s living standards increase as the wife returns to full time work, and again as the children leave home. The period of the couple’s life when their living standards are the highest is in their 50s – the children have left home and the mortgage is comparatively small – for most of this period the couple’s adequacy index is at around 2 or higher.

**Figure 6 Living standards of a medium income homeowner couple with two children over the life course, by age at which salary sacrifice commences**

![Graph showing living standards over the life course](image)

*Source: Author’s calculations*
This suggests that the best way for this household to smooth their consumption over the life cycle is to wait until their 50s to contribute extra to superannuation, even though this means having to make higher payments overall. This is the time of their lives when they can most afford to make additional contributions. Even though much larger contributions are necessary if a person starts salary sacrificing later, delaying voluntary contributions may smooth a person’s living standards throughout their life, particularly if they are paying off a house or have children.

Naturally, this depends on the circumstances of the household. Couples who do not have children and rent their whole lives smooth their living standards more if they start salary sacrificing small amounts at age 22, as shown in Figure 7. This is because they do not have the hefty cost of children and they are not saving through purchasing a home.

**Figure 7 Living standards of a low income renter couple with no children over the life course, by age at which salary sacrifice commences**

![Figure 7](image)

*Source: Author’s calculations*
These findings have important implications for current policy and practice around superannuation, especially in relation to incentivising voluntary contributions and concessional contributions caps. Recently, the government halved the concessional contributions cap from $50,000 to $25,000. While this policy may save money in the short term, removing incentives to make voluntary contributions at a time when individuals are most able to do so in order to prepare for privately funded retirement is a policy that requires revisiting. Recent announcements have proposed increasing these caps slightly for those aged over 50, but at the time of writing these changes have not been approved by Parliament. The further these changes are delayed, the further away a comfortable retirement for many people approaching this phase of their life.

VI. Conclusion

This paper briefly describes the current system of retirement income provision in Australia, in the form of superannuation saved throughout the working life and drawn down as an income stream in retirement to provide an adequate standard of living for retirees and smooth income over the life cycle. SuperMODEL is based on four hypothetical households at three income levels, entering the labour force in 2012 based on the proposed legislative system in place at July 1, 2012. It aims to test adequacy of superannuation savings under this legislative framework under two tests – whether retirees achieve a ‘modest but adequate’ standard of living in retirement; and whether their living standards in retirement are less than their living standards while working.

This model shows that under a 12% SG, households do not save enough to have the same standard of living in retirement that they do while working. However, medium and high
income households will achieve a living standard that is at least ‘modest but adequate’. Low
income earners, will not achieve this modest but adequate standard in retirement; however,
single low income earners only just reach this standard while working.

One method promoted to improve living standards in retirement is salary sacrifice into
superannuation, which reduces tax for medium an high income earners and provides higher
replacement rates for all households. High income earners benefit most from this strategy.
This paper compared the impact on living standards of salary sacrificing into superannuation at
3% of salary from age 22 until retirement, finding this increases retirement living standards
considerably, with a very small (and for some high income households, barely noticeable)
reduction in living standards while working.

Starting salary sacrifice later in life means that a greater percentage of income must be
sacrificed to achieve the same retirement standard of living. Households that delay salary
sacrificing until age 42 must sacrifice 6.7% to 7.9% of income to achieve the same living
standard as sacrificing 3% from age 22; households that wait until they are 52 must sacrifice
between 14.5% and 17.5%. However, delaying salary sacrifice until aged in the 40s or 50s may
be a sensible option for some households. For a couple family with children who are also
saving through a home purchase, the lowest living standards they experience over their lives
are not during retirement, but in their 30s, when their mortgage is new and expensive, there
are children to support and one parent is working reduced hours to care for them.

This paper finds that while increasing superannuation to 12% will not provide any of the
hypothetical household types with the same standard of living in retirement that they did
while working, all except the lowest income households will have at least a modest but
adequate standard of living. Salary sacrificing 3% will increase retirement living standards, but
not to the same level experienced while working. Although delaying salary sacrifice may result
in needing to put more money overall into superannuation, it may be justified on the grounds that late in the working life is the time when a household has money to spare.

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