

# Australia: Retirement savings decimated as stock market plummets

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Hundreds of thousands of Australian retirees are beginning to feel the impact of the privatisation, over the past two decades, of their superannuation and life savings. According to a leading financial data supplier, a staggering \$1 billion per day was wiped off the value of Australian superannuation assets during October's stock market plunge and November is shaping up to be even worse. The privatisation of retirement savings is a prime example of the free-market policies that have been implemented, including in the areas of health and education, since the time of Thatcher and Reagan. Now elderly Australians and workers more broadly face the decimation of their life savings and being forced onto the subsistence-level old-age pension. The OECD estimates that a third of Australian retirees already live below the official poverty line.

Superannuation research firm, Rainmaker, has calculated that since the end of 2007, \$160 billion has been sliced from Australian retirement savings, around \$100 billion of it since June 30 this year. However, the real picture is likely to be even worse. Assets in the unlisted property trust sector (worth \$160 billion before the market collapse) are yet to be revalued. If the listed property trust sector is any guide, the losses to superannuation investment will be, for many, nothing short of catastrophic. The listed sector fell 41 percent in the year to June 2008.

The Labor government's initial line was that the credit crunch and the global financial crisis were just a blip on the superannuation radar. In June, when superannuation funds posted their biggest losses in 20 years, Minister for Superannuation and Corporate Law Nick Sherry told retirees that, overall, "they had enjoyed good growth" and should take a long term view. The markets would always bounce back, he said.

As the crisis deepened the government's line assumed a surreal edge. On October 12, panicking at the prospect of capital flight out of Australian banks, Prime Minister Rudd declared an unlimited guarantee on deposits in banks, building societies and credit unions. But the guarantee had what Rudd's ministers are now calling "unintended consequences". Investors who had been topping-up their compulsory contributions in higher-risk funds, including mortgage and property trusts, immediately tried to rescue their savings by shifting them into banks.

This run on redemptions brought immediate action from private investment giants AXA Asia Pacific, Challenger and the

Commonwealth Bank-owned Colonial. The funds simply refused to redeem \$14 billion held on behalf of 100,000 individuals, a large proportion of them retirees. Faced with the redemption freeze and the sudden decline in super assets, the government then announced that 370,000 retirees would be eligible for the pension for the first time—a derisory \$280 per week for a single person, and \$460 for a couple.

On October 20, with the market plummeting and retirees in the dark about their losses, Rudd, who shares an estimated \$60 million fortune with his wife, appeared on "Minding Your Money: An Audience With the Prime Minister", a TV special devoted to his tips on personal finance. His advice for dealing with the financial system's global collapse? "The best thing to do is have a balanced portfolio between stocks, property, and on top of that ensuring you've got sufficient holdings in cash as well." For the vast majority, with no cash and little or no super, Rudd announced a contemptible \$2,100 handout for each pensioner couple. Single pensioners, half of whom live below the poverty line according to a new OECD report, would receive \$1,400.

## A deeper crisis in mortgage and property trusts

The run on redemptions exposed a major flaw in the structure of mortgage and property trusts. Their underlying assets—residential and commercial property—are illiquid, with the result that only a small number of redemptions can occur at any one time. The investment funds, which had seen the problem coming years before, had incorporated discretionary non-redemption clauses in the fine print of their trust documents, shocking investors who discovered they were not in control of their investments at all.

But there are indications of even deeper problems in the mortgage and property trust sector, with some funds, including the \$1 billion City Pacific, freezing not only redemptions but distributions. City Pacific's funding facility ran out on October 31 and there were no immediate sources of refinance. The problem is likely to be repeated across the industry as funding terms come to an end and the drying up of credit makes rollover of the debt difficult or impossible. Again, the freeze on distributions is a disaster for retirees, most of whom invested their savings in mortgage funds as a way of securing a "guaranteed" income stream that would supplement or substitute for the pension.

The decade-long boom in the listed and unlisted mortgage and property trust sector (\$200 billion had been invested before the crash) was a product not only of the fear of penury on the old-age pension, but of government and media spruiking of the property market. Retirees were told the boom would never end. Property and mortgage trusts were touted as “bricks and mortar” and thus a much safer bet for the risk-shy.

However, as the investment freeze is now demonstrating, there was nothing concrete about property and mortgage trusts. They constitute the most leveraged sector of the Australian investment market, with a large portion of the borrowing coming from overseas. With the desiccation of credit making it virtually impossible for property trusts to find new finance, the full impact has yet to be felt. Signs of collapse in the value of commercial property, in turn aggravated by the collapse of the mortgage funds that supplied much of its capital, will intensify the problem.

### **The golden circle and old-age poverty**

The policies of the decade-long Liberal government, led by John Howard and removed from office in November 2007, are partly responsible for the scale of the superannuation crisis. In the dying days of the boom, Howard offered the electorate unprecedented tax incentives to invest in “super” causing a sudden exodus of household assets into super funds. Some \$381 billion, about a third of the total \$1.19 trillion superannuation asset pool, was added in the years 2005 to 2007.

However, while the Liberal government was responsible for ramping-up household exposure to the global market in the moments before the inevitable crash, it was the Labor Party that played the critical role in establishing the preconditions for the current crisis. Labor’s policy of privatising retirement savings was part of its broader agenda of opening the public sector, including welfare, to the free-market. The current Rudd government’s downplaying of the effect of the global financial collapse on retirees is an attempt to distract workers from making their own assessment of Labor’s role.

In 1984, as part of Mark II of their “Accord”, the Hawke Labor government and the Australian Council of Trade Unions collaborated to compel employers to make a superannuation contribution for each worker equal to 3 percent of that worker’s wage. But the employer contribution was a sleight of hand. The compulsory contribution, which was increased to 9 percent by 1996, became a routine basis for agreements between employers and unions that suppressed wages. In reality, the “contribution” amounted to forced savings coming straight out of workers’ pockets. The aim was to shift responsibility for funding retirement from government to workers themselves.

The effect has been to compulsorily funnel a growing pool of workers’ income into local and foreign capital markets, including through union-controlled industry super funds, which were established

at the time of the Accord. And unions were not only the handmaidens of privatised retirement, but collaborators with capital. In June 2007, before the global financial crisis intensified, union funds controlled \$200 billion in worker savings. At the same date, Australian superannuation investments had topped \$1 trillion, a figure equal to 120 percent of the country’s GDP.

The compulsory super system devised by the Hawke-Keating Labor government was built on the fantasy of what treasurer, later prime minister, Paul Keating called “the golden circle”. Compulsory superannuation contributions would create a flood of capital into Australian investment banks via the union funds. These funds and banks operating in the newly de-regulated landscape would be free to punch above their global weight. Thus the compulsory acquisition of workers’ income and the spectacular rise of institutions such as Macquarie Bank were intrinsically linked. Macquarie, fed on superannuation capital, was the darling of the Australian stock market. In the last 12 months its shares have dived 70 percent.

In the golden circle scenario, Australia would be a regional financial hub and workers, attracted by the prospect of steady gains in the ballooning equities market, would make voluntary contributions above the compulsory level. The result would be low interest rates and steady, unstoppable growth in household wealth. That wealth would re-feed the capital and finance sectors.

One little-discussed factor that was integral to the “golden circle” concept was the impoverishment of pensioners. The old age pension had to be no more than a subsistence-level “safety-net” for those excluded by unemployment from superannuation’s “dream run”. If workers could rely on a publicly-funded pension to save them from poverty, there would be less incentive to put any additional personal savings into a super or investment fund. In other words, the steep rise in poverty among elderly pensioners has been an essential precondition for the expansion of Australian finance capital. With many retirees now being forced onto welfare because of financial ruin, Labor’s “golden circle” has consigned hundreds of thousands to a future of hardship and poverty.



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