

# Vantage Point

Mini briefs from the Global Aging Institute in partnership with The Terry Group and Athena Actuarial Consulting

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## How Super Is “Super”?

The administration appears to be looking at Australia’s retirement system as a possible model for reform. The Australian system, which combines a means-tested government floor of old-age poverty protection with a large, mandatory, and fully funded employer pension system known as “Super,” indeed has much to recommend it. As a practical matter, however, it is not a system that the United States could easily adopt.

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In remarks at a December press conference, the President suggested that the administration is looking at Australia’s retirement system as a possible model for reform of the U.S. system. The Australian system, which combines a means-tested government floor of old-age poverty protection with a large, mandatory, and fully funded employer pension system known as “Super,” indeed has much to recommend it. As a practical matter, however, it is not a system that the United States could easily adopt.

In this issue of *Vantage Point*, we offer a brief overview of Australia’s retirement system. We also explain why, despite the system’s many attractive features, it fails to provide a workable model for U.S. retirement reform.

### A FUNDAMENTALLY DIFFERENT SYSTEM

Australia’s retirement system is fundamentally different from the U.S. system—and indeed, from most other retirement systems. To begin with, Australia is one of just a handful of developed countries that do not have a contributory, earnings-related government pension program like Social Security. Instead, the only government pension program provides a means-tested flat benefit financed from general revenues.

This floor of old-age poverty protection, known as the Age Pension, was established in 1908. It currently pays benefits to Australians starting at age 67, provided that they have been residents for at least ten years and meet the required income and asset tests. The full-rate Age Pension for a single individual is equal to roughly 30 percent of the average wage. This amount is reduced if beneficiaries have significant assets or income, and falls to zero for individuals with incomes equal to roughly 60 percent of the average

wage. Couples collect a benefit that is about 150 percent of the individual benefit.

Along with the Age Pension, there is a mandatory employer pension system known as the Superannuation system, or Super for short. The system dates to 1992, when the government imposed the Superannuation Guarantee, which requires all Australian employers to contribute a share of workers' earnings to a "superannuation" fund, superannuation being the Australian term for pension. Although some employers sponsor defined benefit pensions, the vast majority of Super participants have defined contribution accounts.

The government has gradually increased the mandatory employer contribution to Super over time, from 3 percent of wages in 1992 to 12 percent in 2025. Workers can also make additional voluntary contributions to their Super accounts. Low- and middle-income workers who do so may be eligible for government matching contributions called co-contributions.

Coverage under Super is now nearly universal, and superannuation assets are growing rapidly. As of the end of 2024, they totaled \$2.4 trillion in U.S. dollars, or 135 percent of GDP. As a share of GDP, this makes Super the seventh largest funded pension system in the OECD. In dollar terms, it ranks fourth, after only the United States, Canada, and the United Kingdom.<sup>1</sup>

## **SQUARING THE CIRCLE**

What makes the Australian system attractive is that it minimizes the fiscal burden of population aging without sacrificing retirement income adequacy. Few

countries have been as successful as Australia at squaring this circle.

Let's start with fiscal burden. Despite an aged dependency ratio that is on track to increase by more than 50 percent over the next forty years, the government projects that spending on the Age Pension will actually decline slightly as a share of GDP, from 2.3 percent in 2022–23 to 2.0 percent in 2062–63. The reason is that, as Super matures and account balances grow, a smaller share of the population that would otherwise be eligible for an Age Pension will qualify for one. The share that qualifies has already declined from nearly 80 percent in the late 1970s to 64 percent in 2022–23. The government projects that it will continue to decline, falling to around 50 percent by 2062–63. Meanwhile, of those qualifying for an Age Pension, the share receiving a full-rate pension will drop from three-fifths to two-fifths.<sup>2</sup>

Now let's consider income adequacy. While a few other developed countries, including France, Italy, and Sweden, have enacted cost-cutting reforms that have flattened the projected growth in government pension spending as a share of GDP, the improvement in fiscal sustainability comes at the expense of declining replacement rates.<sup>3</sup> In Australia, thanks to Super, replacement rates are due to rise as the population ages, not fall. According to government projections, the Age Pension and Super combined should provide full-career, average-earning workers retiring in 2060 with replacement rates of between 80 and 90 percent, far above the replacement rates provided by government retirement programs in most other developed countries.<sup>4</sup> By way of comparison, the U.S.

<sup>1</sup> *Pension Markets in Focus: Preliminary 2024 Data* (Paris: OECD, June 2025).

<sup>2</sup> *Intergenerational Report 2023: Australia's Future to 2063* (Canberra: Commonwealth of Australia, 2023).

<sup>3</sup> *2024 Ageing Report: Economic and Budgetary Projections for the EU Member States, 2022–2070* (Brussels: European Commission, April 2024).

<sup>4</sup> *Retirement Income Review, Final Report* (Canberra: Commonwealth of Australia: June 2020).

Social Security system provides a replacement rate of roughly 40 percent for average-earning workers.

To be sure, the Australian retirement system has its problems. Super's withdrawal rules in particular have drawn criticism from pension experts for not properly assuring retirement income protection. One issue is the early age at which account balances can be tapped. Australians may begin to withdraw funds from their Super accounts at age 60—or even sooner if they were born before July 1, 1964. This low “preservation age” may encourage workers to retire early, leaving them at risk of inadequate income late in life. Another issue is the lack of any annuitization requirement. A little over half of Super benefits are currently paid as partial or full lump sum withdrawals, which may also put workers at risk of inadequate income late in life.

The lack of an annuitization requirement also creates incentives for workers to game the retirement system by disposing of lump sum withdrawals from Super in ways that help them qualify for the Age Pension. All of this means that a significant share of workers may fail to realize the lofty replacement rates that Australia's retirement system is designed to deliver.

While these problems are real, they could be resolved by raising Super's preservation age and requiring at least partial annuitization of account balances. They are bugs, not fundamental features, of Australia's retirement system.

### THREE KEY FEATURES

From a retirement policy perspective, meeting the aging challenge means maintaining or improving the living standard of the old without overburdening the young. The fact that the Australian system does this so effectively is one reason why it comes in near the top of most retirement system rankings. In the latest Mercer-CFA Institute Global Pension Index, for

instance, the Australian system ranks seventh out of the fifty-two systems surveyed, while the U.S. system lags far behind it in thirtieth place.<sup>5</sup>

The effectiveness of the Australian system owes much to three key features. The first is its separation of the goals of poverty protection and income replacement, which many countries, the United States included, try to achieve through a single government pension program. By handling poverty protection through a dedicated means-tested program like the Age Pension, Australia is able to target government support more efficiently. At the same time, because there is no redistribution within Super, Australia's separate income replacement program, benefits are directly proportional to contributions. Many retirement policy experts believe that this reduces labor-market distortions and improves work incentives.

The second key feature of the Australian system is that its income replacement component is fully funded. At the macro level, funded retirement systems not only take pressure off government budgets, but also create large pools of investible savings. At the micro level, they enjoy a rate of return advantage over pay-as-you-go systems in aging societies. When countries are demographically young and economically growing, pay-as-you-go systems, whose implicit rate of return is equal to the growth rate in taxable payroll, can deliver higher replacement rates at any given contribution rate than funded systems can. But as populations age and workforce and economic growth slow, the rate of return advantage shifts decisively to funded systems.

The third key feature of the Australian system is that its income replacement component is not only funded, but mandatory. Purely voluntary pension systems never achieve anything close to universal coverage.

<sup>5</sup> Mercer-CFA Institute Global Pension Index 2025 (New York: Mercer, October 2025).

And while requiring autoenrollment can substantially boost coverage, as New Zealand has shown with its KiwiSaver scheme and the United Kingdom has shown with its Nest pensions, this sort of “soft-compulsion” always falls short of a hard mandate.

## A BRIDGE TOO FAR

While Australia's retirement system has many attractive features, importing it to the United States would pose daunting challenges.

Congress now finds itself incapable of grappling with the relatively minor parametric reforms that would be required to avert Social Security's impending insolvency. It is difficult to imagine it undertaking a wholesale restructuring of Social Security that turns it into a general-revenue-financed floor of old-age poverty protection. The transition, moreover, would involve large costs over many decades, since the Social Security benefits of current retirees, as well as some substantial share of the benefits that have already accrued to current workers, would still need to be paid. All of this seems a bridge too far.

It may of course be that the administration is only interested in importing some version of Super without restructuring Social Security. Yet even assuming it is possible to overcome America's long-standing aversion to a private employer pension mandate, it may not be possible to have the one without the other. Australia's Age Pension is a general-revenue-financed program whose cost is falling, while Social Security is a payroll-tax-financed program whose cost is rising. Adding anything close to an additional mandatory 12 percent in labor costs on top of the existing FICA tax would compel many employers to cut wages and might deter job creation. Yes, some European countries impose even higher labor costs to finance their government pension systems. But while they may be willing to accept the economic trade-offs, it is doubtful that America would.

It is true that Australia had to overcome considerable political obstacles to establish Super. The Superannuation Guarantee was championed by Australia's Labor Party, which worried that workers were over-reliant on means-tested government benefits that might have to be cut as the population aged, but opposed by the Liberal Party, which preferred to keep the employer pension system voluntary. However, Australia faced none of the fiscal and economic obstacles to establishing a mandatory employer pension system that the United States would face. When Super was launched, the only government pension program was the general-revenue-financed Age Pension. There was thus no transition cost and ample room to raise labor costs.

So we return to where we began. Australia's retirement system has much to recommend it. It also offers some useful lessons about the potential benefits of separating poverty protection and income replacement, the importance of increasing funded retirement savings, and the advantages of mandates in expanding coverage. But America is no more likely to adopt the Australian system than it is to replace the bald eagle with a koala or kangaroo as its national emblem.

## ABOUT VANTAGE POINT

*Vantage Point* is a sister publication of *Critical Issues*. Both publications explore the demographic and economic trends reshaping America and the world, and in particular the future environment for retirement and health care. While *Critical Issues* offers in-depth analyses of these trends, *Vantage Point* features mini briefs on important new developments.