Review of Australian Superannuation System

In this paper we study on many aspects of the Australian superannuation (private pension) plan design from an investment and protection perspective in order to identify lessons that can be learnt and applied to Korea’s defined contribution system. This includes an overview of the three tier retirement income system, default policy settings and regulation of the superannuation system. Our key findings and suggestions are:

First, Australian superannuation system—a defined contribution plan under trust law—suggests that the decision making structure is very important. We need an organization that can represent the interests of the participants under the contract-type governance.

Second, default settings and member inertia are important elements of the Australian system. The supervisory authorities have introduced a default option, i.e. MySuper. The MySuper designation applies to simple, low-cost investment products that can be easily compared across different providers, based on standardized public disclosures. Korean policy authorities should suggest guidance on default investment option such as target return, risk and performance relative to relevant industry benchmark over uniform time frames.

Third, superannuation which provides group insurance (death, permanent disability) within the fund is considered a cost-effective system despite the controversy. In Korea, when establishing a small-medium-enterprise pension fund, it is necessary to use default insurance products to meet the demand of the emergency money of the participants and to prevent early withdrawal.