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03/02/2020

The Treasury
Retirement Income Review Secretariat
Langton Crescent
PARKES ACT 2600

Attention: Mr Robb Preston

E: retirementincomereview@treasury.gov.au

Dear Mr Preston

AustralianSuper is pleased to provide a submission in response to the Retirement Incomes Review Consultation paper.

AustralianSuper believes that the retirement income system in Australia serves our population well and for many Australians, ensures that they have dignity in retirement.

Australia's retirement income system is widely recognised as among the best in the world. The Melbourne Mercer Global Pension Index 2019 rates the Australian system in the top three globally and it is described as structurally sound with many positive features. However, like all retirement income systems, there are opportunities for improvement.

AustralianSuper believes that the primary purpose of a retirement income system is to ensure that all Australians are afforded dignity in retirement. This necessarily involves the framework generating an appropriate income for retirees, providing access to a range of concessions for eligible older Australians, and supporting consumption by retirees in retirement.

Pleasingly, we have one of the most sustainable superannuation systems in the world. Adequacy and equity on the other hand, have yet to be fully achieved in the retirement income system. This is partly because of the maturity of system, but also other socio-economic factors such as low national financial literacy levels, the rise of the 'gig economy', the $450 superannuation guarantee threshold issue, and the persistent gender pay-gap.

The focus of this submission is measures to improve both adequacy and equity.

Our key observations contained in the submission are as follows:

Purpose & Maturity

> **Dignity in retirement** - The purpose of the retirement income system should be to aim for all Australians to have dignity in retirement. This means that they live above the poverty line and can afford reasonable living expenses to provide comfort.

> **Maturity of the Retirement Income System** - The retirement income system in Australia is successful but it is not yet mature. It will more appropriately address adequacy when legislated Superannuation Guarantee contributions reach 12% and superannuation fund members experience this contribution rate for most of their working lives.

Focus on Consumer Needs – in particular, women

> **Access to basic information** - Government must ensure that Australian citizens as users of the retirement income system can access the information they need easily and at little or no cost.

> **Adequacy for women** - The issues of the gender pay gap, career breaks and longevity in retirement all serve to adversely affect womens' retirement outcomes. These issues have not been adequately addressed in the retirement income system so far and require wider long-term consideration.

System Fitness

> **Fit for Purpose** - The retirement income system, including compulsory superannuation, needs to be updated and made 'fit for purpose', including expanding its application to the gig economy (self-employed) and removing the $450 threshold for contributions.

Role & Responsibility

> **Primacy of the role of Federal Government** - Whilst the private sector and individuals both have a role to play in the retirement income system, the Federal Government is the ultimate determinant of whether Australians have comfort and dignity in retirement.

> **Responsibility of the Government** - The purpose of a retirement income system should not be tilted towards the transference of government fiscal responsibility to the shoulders of retirees.

We are available to discuss these issues with you further after consideration of our submission.

Yours sincerely

Louise du Pre-Alba

Strategic Policy Advocate

# Retirement Income Review

AustralianSuper Submission
3 February 2020

## About AustralianSuper

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. We neither pay commissions to anyone to recommend us, nor do we pay dividends to shareholders. The Fund has over 2.1 million members and manages over $190 billion of members' assets. Our sole focus is to provide the best possible retirement outcomes for members.

Members of AustralianSuper come from all over Australia and work in a very broad range of industries. Approximately 1-in-10 working Australians is a member of the Fund which means that the demographic composition of members align to those of the broader population. Just under 40% of AustralianSuper's members are women.

## Note on this Submission

In making this submission AustralianSuper seeks to answer each of the consultation questions outlined in the consultation paper, although to focus solely on those one might conclude that the Australian retirement income system performs poorly and needs an overhaul.

That is not the view of AustralianSuper. We believe that the retirement income system in Australia has produced high levels of individual saving and broad coverage at relatively low cost to the government. However, there is room for improvement.

For this reason, AustralianSuper lauds the government's Retirement Income Review as an opportunity to address system weaknesses – in particular, equity.

Our submission includes aggregate data about AustralianSuper members which is de-identified. We have not asked for this submission or any parts of it to be kept confidential, and trust that this data, covering a significant member population, is useful in the deliberations of the Retirement Income Review panel.

## Further Information

Louise du Pre-Alba
Strategic Policy Advocate

## Contents

## Background

On 27 September 2019, the Treasurer, The Hon Josh Frydenberg MP, and the Minister for Superannuation, Financial Services and Financial Technology, Senator the Hon Jane Hume, announced the Government had commissioned an independent review of the retirement income system. The Review is to report to the Government by June 2020. A consultation paper was released on 22nd November 2019 with submissions due on 3rd February 2020.

## Overview

AustralianSuper believes that the primary purpose of a retirement income system is to provide dignity in retirement by generating an appropriate income for retirees, so they can live above the poverty line and afford reasonable living expenses to provide comfort.

The retirement income system serves to smooth a person's consumption over their adult life. A person will be an adult between the ages of 20 and 90 and will use the first two-thirds of this period to save which will then be used to fund the latter third of their life when they are not working.

Theory suggests that a smoother consumption profile over a lifetime is preferable to one which has sharp drops between working and retiring and during retirement years.

Australia has a traditional three pillar retirement savings scheme with a means tested age pension and well-established superannuation system. This provides considerable advantages compared to many overseas systems.

In practice most people's retirement income will involve a combination of the Government Age Pension (GAP) and superannuation income. Age pensions are fully tax payer funded whilst super is around 75% privately funded (with Government tax concessions representing the other 25%).

The real strength of the super system is that the Government effectively co-invests alongside the individual. In effect because the individual and the Government are investing together, they have an alignment of interest. Both benefit from the investment earnings.

### System design

There are two critical design questions for the retirement income system:

1. How much retirement income is desirable?

This is the most important question for any retirement planning scheme. The higher the desired replacement rate of pre-retirement income the greater the savings task i.e. total retirement savings will need to be much higher for a replacement rate of 80% than one of 50%.

The other important factor for retirement income is the investment earnings rate. This applies to both the accumulation and retirement phases. In accumulation, the greater the amount of investment earnings, the smaller the contribution requirement, for any savings target. In retirement, the greater the investment returns the greater will be the retirement income earned on that capital.

2. Where is the saving (i.e. non-investment funding) sourced from?

Here there are effectively two choices: the individual or the government? The individual can save via the Superannuation Guarantee (SG) in the super system or outside of the super system. The government contributes through a number of different channels:

1) providing direct payments through the Government Age Pension (GAP);

2) providing superannuation tax concessions which effectively co-invest alongside the individual’s SG contribution; or

3) providing tax concessions for private savings e.g. dividend imputation.

In practice the Government makes a contribution to most Australian’s retirement income either through direct payments (GAP), super tax concessions or tax concessions on non-super savings.

The funding of an individual’s retirement savings (either GAP, their superannuation fund or via non-super private savings) will vary between the government and the individual depending on their pre-retirement income level. For low income earners the bulk of their retirement incomes will be government funded via the GAP with their super providing a modest top up, for middle to upper income earners the super system will provide the bulk their retirement income with the GAP acting as a funding source later in life and for upper income earners they will rely on their private savings as contributions to super are capped.

### Funding efficiency

A key question for the government is what is the most efficient way for them to fund their contribution to an individual’s retirement income? On first principles, the optimal funding model is one which maximises the Government contribution to a person’s total retirement income for the lowest cost. The impact of solely funding from current revenue in a pay as you go system (as is the case for the age pension) is materially inferior to funding via super tax concessions. In the super system the Government effectively co-invests (via contribution tax concessions) alongside the individual’s SG contribution and gets the benefits of investment earnings. Over time those concessions/contributions will generate four to five times their original amount in retirement savings.

### Considerations

Under the current retirement income system there is considerable overlap between each of the three tiers: GAP, super and non-super savings with different degrees of private and public contributions and an incentive for individuals to consume their super and private savings and then go on the age pension.

There is merit in more clearly defining what each tier is setting out to achieve. For example, the GAP could be thought of as an anti-destitution payment, superannuation as a system to predominantly self-fund retirement incomes to an agreed level for those on middle incomes. and those on upper incomes to predominantly fund their retirement incomes from private/non-super savings to whatever level they choose.

# The retirement income system

### 1 Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?

### Response

**Yes, there are aspects of the design of the retirement income systems in other countries that are relevant to Australia, as outlined below. However, in the main it should be noted that there has been a global shift away from defined benefit schemes and annuitized pension products.**

Unlike Australia, many developed nations have not mandated compulsory participation in private pensions. To boost the number of people who will be retiring with some form of retirement savings, Germany, the US and the UK have recently introduced automatic enrolment into occupational pension plans.

Although mandatory, the Australian system is founded on the concept that it is an individual's money. Therefore, we see factors that are less prevalent than in other jurisdictions – e.g. choice of fund / choice of investment / SMSFs.

Importantly, the Australian system is not a public system – this is about mandated individual savings – i.e. part of an individual's salary. Concept of control is important to members – and the trustee structure of superannuation is focused on fiduciary arrangements – consistent with a "members' first" mentality. Hence, it is important not just to consider the design of the system from a holistic basis, but also whether the system is meeting the needs of individuals.

We note the consultation's paper about how individuals in the same circumstance should have the same outcome. Different needs should not be used as excuse for different outcomes.

Governments have sought reforms to introduce greater flexibility regarding benefit disbursement arrangements. Specifically, the UK and Germany – two systems with a long-standing reliance on retirement guarantees – have reviewed or are in the process of reviewing the role of guarantees in the context of the current low interest rate environment.

The UK has a long history of mandatory annuitisation of private pensions, dating back to the *Financial Act* 1921. Prior to recent reforms, the UK pension system was designed to discourage lump-sum withdrawals and mandated annuitisation by the age of 75. Prior to 2015, retirees with balances higher than £18 000 but lower than £310 000 pounds could access their money in a lump sum only if they paid a 55% tax charge on their balance.

In 2014, the UK government announced the most extensive changes to its pension system for a century, effectively ending the regime of mandatory annuitisation. The new structure allows retirees with any size balance, to choose the best option for them.
These changes were motivated by both a belief that retirees should have flexibility to make decisions at retirement depending on their personal circumstances and a concern that annuities no longer represented value in a low interest rate environment, for retirees with a low balance.

The German pension system has also traditionally incentivised retirees to purchase products which guarantee some form of lifelong income. However, current reforms which focus on changes to the second pillar of the German system – occupational pensions - indicate that the government is seeking to introduce additional flexibility in the system by moving away from guarantees.

The Betriebsrentenstärkungsgesetz (BRSG) – or pension reform law - was introduced in early 2018. Since then, Insurer R+V and Union Investment have announced that they will use their 'Pensionsfonds' (pension funds) as a vehicle to offer defined contribution pension (DC) plans under the reform law.

# Purpose of the system and role of the pillars

## 2 Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?

### Response

**The objective of the Australian retirement income system is not well understood within the community and this is confirmed in AustralianSuper's own research, and others.**

**A keystone of the retirement income system is compulsory superannuation, which was enacted in 1992 to create a <u>universal</u> retirement income system in Australia.**

**An appropriate explanation of the objective and purpose of compulsory superannuation is contained in the second reading speech of the then Treasurer, John Dawkins for the *Superannuation Guarantee (Administration) Bill*, in this summary:**

***"The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the Age Pension alone."*** [1]

The compulsory superannuation system, as described, is a foundational component of Australia's contemporary retirement income system. It is worth noting that it is both a compulsory system and a default system for those who do not engage with it. As such it should be safe for consumers to hold superannuation interests without engaging with it. When they choose to engage with superannuation, or other foundational components of the retirement income system, such as the Government Age Pension, it should be accessible and understandable to them. It is the government's responsibility to design a retirement income system that does not exclude people because of its complexity.

AustralianSuper research confirms that consumers perceive that the system of retirement planning, superannuation and financial services in Australia is complex.

We find:

- Superannuation as retirement income is not understood, with the majority not even aware it exists as an option
- 69% of members 50 years+ and not retired are aware of retirement products (prompted awareness)
- Among the total Accumulation market this falls to 52%
- Most Australians take a lump sum withdrawal at retirement
- Among members who have over $100k in their accounts one in four were not aware they could open a Choice Income Account with AustralianSuper
- The most common use of the withdrawn funds is putting the money in a bank account (43%), term deposit (24%), paying the mortgage (23%) and everyday expenses (23%)

## 3 In what areas of the retirement income system is there a need to improve understanding of its operation?

### Response

**Consumers need help in navigating government information to decipher their Government Age Pension entitlements.**

Of most immediate need is the following:

- Awareness of and existence of basic 'ready reckoners' which will give individuals an understanding of their Government Age Pension eligibility and their potential part pension access
- Awareness of retirement income options when ceasing work.

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[1] Hansard Superannuation Guarantee (Administration) Bill 1992 Second reading at https://parlinfo.aph.gov.au/parlInfo/search/display/display.w3p;query=Id:%22chamber/hansardr/1992-04-02/0105%22;src1=sm1

- Awareness of ability to retain savings in super – there is no need to withdraw superannuation monies and place them in a bank account to manage super savings
- Financial advice itself is only part of the response and often members' needs relate to completing forms and finding information
- Awareness of government information assistance – e.g. FIS officers, Department of Human Services website, MoneySmart information, help and guidance sources on superannuation fund websites, Industry association websites, e.g. ASFA Super Guru, ISA and AIST information repositories
- The Federal Government's mooted creation of a new Consumer body would assist in providing another avenue to increase consumer awareness in this regard

## 4 What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement income?

### Response

**The Australian Government has an overarching role to monitor and determine whether the retirement income system is meeting the needs of current and future retirees.**

**The private non-government sector must uphold its fiduciary duties to members.**

**Consumers as fund members may achieve better outcomes if they are engaged with their superannuation, but they are also entitled to hold both government and the private sector to high standards of transparency, assistance and support to attain their best retirement outcome.**

The Government's role is to ensure:

- Its citizens are provided dignity in retirement
- The appropriate eligibility for the Government Age Pension (GAP) and access levels.
- The settings of the retirement income system are not so complex that consumers can't reasonably engage with it in a cost-effective manner
- Consumers have greater access to unconflicted decision-making information that informs them about government rules and available provisioning for retirement in Australia
- The retirement system is fit for purpose - that retirees are in appropriate products, those products do not fail and they meet the retirement needs of the users
- Superannuation monies are used for retirement purposes, and not for estate planning purposes, or for passing on intergenerational wealth beyond what is needed for retirement
- Financial dependants benefit from the system settings, and that they are not excluded from access to retirement monies due to product design (if they are excluded then this will potentially result in increased government funding burden for those beneficiaries when they reach retirement)
- Taxpayer expenditure on taxation concessions is reasonable and equitable across all Australians
- Taxpayer expenditure on the Government Age Pension, the complexity of means testing and provision of healthcare subsidy in retirement is reasonable and equitable across all Australians
- The superannuation system works insofar as the products will be sustainable and able to honour the product promises that are made through prudential regulation

AustralianSuper considers that the Federal Government has primary responsibility to ensure that access to the Government Age Pension is not obscured by the creation of burdensome hurdles placed upon applicants. We know that the ATO can virtually complete simple taxation returns on the information that they hold about individuals. These capabilities could be leveraged so that the same income verification processes don't become more burdensome at retirement with a different Government department. We also believe that the Federal Government is best placed to provide a tool that would allow potential retirees to consider their potential future entitlement to the Government Age Pension by demonstrating how it may interact with their present asset and income arrangements. This information should be readily available, free of charge, in a digital interactive format. It is not reasonable for those with simple asset and income arrangements to have to pay $3,000 to $5,000 for comprehensive personal financial advice to answer this fundamental question.

**The Private Sector's role is to:**

> Act in the best interests of fund members – they are fiduciaries so owe a high duty to superannuation fund members
> Design and provide superannuation and retirement products that are fit for purpose – products that are designed to further retirement income objectives, and are not so complex that consumers can't understand how they work
> Comply with all legal obligations to members under relevant superannuation and financial services laws
> Provide consumers of products not only with disclosure, but with reasonable help and guidance to enable consumers to effectively interact with their product
> Ensure that product costs are just and reasonable and that the costs of accessibility (financial product advice) are not disproportionate to the benefits that consumers will receive from the advice.
> Act with integrity, and not engage in sharp practice
> Take responsibility for thought leadership, product development, service delivery and design to meet or exceed changing needs of consumers
> Necessarily apply a higher level of corporate responsibility considering it is a compulsory system.
> Invest and engage consistent with ESG principles

**The Individuals role**

> AustralianSuper is reticent to assign responsibilities to individuals as if they are co-parties in the design of the retirement income system in Australia – they are not – it's a compulsory system.
> Superannuation as part of the retirement incomes system is a fiduciary system where the Government has decided a portion of employees' wages are to be deferred to ensure that they have dignity in retirement.
> If members decide to choose a fund or product, they take on a personal obligation to themselves, to understand the fund/product they have chosen, but this does not reduce the fiduciary obligation owed to members.
> As superannuation fund members approach retirement, it is necessary for them to gain some level of understanding of how the system will work to provide their retirement outcomes. It is at this stage they are presented with unnecessary complexities in the decision-making process

## 5 The Panel has been asked to identify the role of each of the pillars in the retirement income system. In considering this question, what should each pillar seek to deliver and for whom?

## Response

| **The Government Age Pension (GAP)** | |
|---|---|
| **Role** | **Challenges** |
| - Designed to provide income support to older Australians as an anti-destitution provision<br>- Means tested to ensure that only those who are in financial need receive this<br>- Does not rely upon engagement of retirees for this to work properly | The GAP is an anti-destitution provision only, and for this reason it needs to be means tested so that only those who are in financial need receive it. On a comparative basis with other countries, it can be argued that this is punitive.<br><br>There is a financial cost to the Government and to the pension user in having it means tested, and not just whether they are eligible for the pension. The financial cost to the Government is the expenditure required to develop, maintain and monitor systems and structures to means test the GAP.<br><br>There is a financial cost to the consumer who needs to navigate the complexity of these rules and may seek financial or other advice to do so, sometimes at a cost that is |

| | |
|---|---|
| | disproportionate to the benefit received. This cost can be reduced by the Government providing tools to enable consumers to directly interact with the Government to determine their future GAP entitlements. |

| **Compulsory Superannuation** | |
|---|---|
| **Role** | **Challenges** |
| - Rises above the safety net of the Government Age Pension and should ensure that all Australians are able to live in dignity in their retirement<br>- Compulsorily requires working individuals to save and make provision for their retirement years.<br>- Not designed to achieve the objective of balancing Government budgeting and reducing reliance on the Government Age Pension by the population overall. It can never do this because it is based on a percentage contribution of salary wages, which is different for all working Australians, and which means that they will all accumulate different account balances for retirement. | Compulsory super in Australia also does not deal with the issue of carer's duties and how they affect retirement balances – some jurisdictions deal with the issue of lost income due to carer's duties by way of 'carer's credits' in the provision of defined benefit entitlements.<br>This solution doesn't quite work for accumulation funds, which means that carers in our retirement income system are effectively discriminated against.<br><br>It is not universal as it does not cover self-employed, so-called gig economy workers, and those earning less than $450 per month from their employer.<br><br>Creates a lump sum at retirement that requires overt consideration for conversion to retirement income.<br><br>Question of how much is this accumulation designed to effectively augment/replace the Government Age Pension.<br><br>For this system to work effectively it must reach its full contribution rate of 12% |

| **Voluntary Savings Combined** | |
|---|---|
| **Role** | **Challenges** |
| - Designed to augment the compulsory system.<br>- Helps self-sufficiency, recognises some have capacity to save more for their retirement<br>- Those who make voluntary savings should be more predisposed to replacing their entitlement to the GAP with their superannuation savings over the long term, but they must be motivated to do this by reasonable tax concession provision, otherwise, this will not occur. | The lack of tax incentives for voluntary savings outside of superannuation means long term savings are more likely to go into superannuation.<br><br>Those who make voluntary savings should be more predisposed to replacing their entitlement to the GAP with their superannuation savings over the long term, but they need to enjoy a reasonable investment return on their monies for this to occur.<br><br>Long term low returns may act as a disincentive to invest in part in voluntary savings.<br><br>Voluntary savings outside of superannuation may be intended for retirement, but used before retirement, because there are no preservation restrictions. |

## 6 What are the trade-offs between the pillars and how should the appropriate balance between the role of each pillar in the system be determined?

### Response

**The way the GAP interacts with compulsory superannuation is the key 'trade-off' between the pillars which determines whether consumers have dignity and comfort in retirement.**

The GAP is a means-tested anti-destitution payment that is funded by taxpayers past, present and future. It is intended for those with reduced capacity to provision for their own retirement.

Taxpayers also fund tax incentives on superannuation, on both compulsory superannuation and voluntary superannuation.

Other voluntary savings do not enjoy such tax concessions and rightly so, given they can be dissipated before retirement as they are not subject to preservation rules.

The real issue when considering the trade-off between the pillars, in terms of the interaction of the GAP and superannuation, is that decumulation strategies are poorly understood and executed by consumers. Consumers need access to digital tools that give them a better understanding of how the pension taper rate affects their income levels and ultimately their dignity in retirement.

**Drawdown on Super as a Balancing Mechanism**

We note that the 'balance' between each pillar can be improved by an examination of the operation of superannuation drawdowns.

ASIC allows superannuation funds to provide projections on Member Benefit Statements. The assumptions are prescribed and cannot be changed; a significant one being to convert a projected retirement lump sum into an income stream by assuming drawdown over a 25-year period.

The one flaw in these retirement projections is that drawdowns are assumed to be on top of any Age Pension entitlements (ASIC allows an Age Pension estimate for the first year only). In practical terms, this means a member's actual retirement income can increase from year to year as the account balance reduces and the member becomes eligible for some or more Age Pension. This happens for those members projected to have no Age Pension entitlement, or a Part Age Pension entitlement in the first year after retirement.

AustralianSuper has adopted a different approach to looking at super drawdowns.

We look at the level of income (in real terms) that can be generated over a 25-year drawdown period from the Age Pension and Superannuation combined. This is a theoretical concept as members' circumstances will change over this period, but the point behind it is that members can and should control their own drawdown behaviour, and not merely follow some government mandated minimum.

More flexibility in development of digital tools would provide members with cost free access to real decision-making power to further their financial well-being in retirement.

## The changing Australian landscape

### 7 Demographic, labour market, and home ownership trends affect the operation of the retirement income system now and into the future. What are the main impacts of these trends? To what extent is the system responsive to these trends? Are there additional trends which the Review should consider when assessing how the system is performing and will perform in the future?

### Response

**There are four major macro-economic trends impacting retirement outcomes: changes in labour market dynamics, decline in home ownership, increasing mortgage indebtedness, social well-being and the impact of climate change. The retirement income system has yet to develop an appropriate level of response to these trends.**

**1. Labour market dynamics**

The ageing workforce in Australia and internationally is well documented, as is the impact on the economy. The more complex labour market issues include the changing nature of work (specifically the rise in contractors, freelancers and gig workers), the rise of platforms replacing employers, and the ongoing pay disparity based on gender.

The 'gig economy' refers to independent workers employed to complete tasks on a flexible basis, often via web-based digital platforms. Estimates vary as to the how many people are currently working in the gig economy in Australia, with anywhere from 100,000 to 4.5 million depending on the definition of flexibility.[2]

Gig workers in Australia may be considered independent contractors or sole traders and as such do not have the same protections as those considered true employees, such as minimum wage guarantees, mandatory breaks or work hour maximums. They fall into a largely unregulated employment gap. AustralianSuper has long advocated for superannuation guarantee to be extended to all paid work and that the $450/month minimum threshold should be removed so that gig workers receive super contributions from their gig 'employer'.

**2. Declining Home Ownership**

The welfare role of homeownership is an important buttress of Australian retirement income policy. However, this vision has been challenged in recent years as growing numbers of older Australians are failing to achieve outright home ownership at retirement.[3]

Secure and affordable housing is fundamental to the wellbeing of Australians. Home ownership continues to be a widely held aspiration in Australia, providing owners with security of housing tenure and long–term social and economic benefits.[4] Typically, when people retire with their home paid off, they tend to enjoy better psychological and economic outcomes in retirement.

However, we see declining home ownership rates. Home ownership rate from the 2016 Census Data shows;

> 25–29 year old's home ownership declined from 50% in 1971 to 37% in 2016
> 30–34 year old's home ownership declined from 64% in 1971 to 50% in 2016.

Worryingly, home ownership rates have also decreased among people nearing retirement. Since 1996, home ownership rates for the 50–54 age group have declined from 80% to 74%.[5] This has implications for the psychological and social well being of older Australians in retirement.

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[2] PWC (2018) The Tough Gig of Reconciling Superannuation and Task-Related Working at: https://www.digitalpulse.pwc.com.au/superannuation-gig-economy/
[3] Ong et al., (2014) Housing older Australians: Loss of homeownership and pathways into housing assistance. Journal of Urban Studies 52(16).
[4] Australian Health & Welfare Institute (AIHW) 2018.
[5] Ibid., (2019).

For women, the trend is more alarming. The Australian Housing and Urban Research Institute (AHURI) has observed that the changing circumstances and demographics of Australian women suggest there will be growing demand for housing support in the future. Underscoring the difficulties faced by non-homeowners in retirement, the National Foundation for Australian Women (NFAW) submits that the 'main group still suffering persistent poverty' in Australia were people reliant on the pension and living in private rental accommodation. This cohort, AHURI noted, was 'overwhelmingly women, especially single women.'[6]

Research by the Productivity Commission found that around 40 per cent of GAP recipients who owned their own home did not meet a 'modest retirement standard'.

### 3. Social Well-Being

Healthy aging relies on a range of behavioural and biomedical factors, one of which is social connection. The effect of being isolated from a support network increases with financial hardship, poverty, illness, disability and cognitive decline.[7]

Social isolation has been found to be a significant issue for older people and impacted many facets of their wellbeing such as:

- reduced quality of life
- decreased mental health leading to further isolation
- poor physical health limiting social interaction
- decrease in self-esteem and confidence
- increased risk of adopting behaviours such as gambling, smoking and alcohol abuse
- increased risk of elder abuse

Financial hardship and social isolation are entwined. Forced reduction in discretionary spending limited engagement in social activities which led to greater social isolation.[8]

### 4. Climate Change

In the Intergovernmental Panel on Climate Change (IPCC), outlines scientific evidence that clearly shows the links between human-caused climate change and the intensification of extreme weather conditions.

In terms of retirement wellbeing, this potentially impacts retirees who live in regional and remote areas, and face the prospects of uninsurable homes, bushfire risks and increased rebuilding costs. This is combined with an inability to bear the additional costs with increased personal effort through work, because they have retired.

As the cost of climate change increasingly impacts consumers, retirees have the least capacity to absorb these increased costs (e.g. food production costs, energy costs, relocation costs).

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[6] Australian Housing and Urban Research Institute (AHURI), *Too Big to Ignore Report—Future Issues for Australian Women's Housing 2006-2025*
[7] Ageing is Everyone's Business: A Report on Isolation and loneliness among senior Victorians. Jan 2016.
[8] Ibid.

## Principles for assessing the system

### 8 Are the principles proposed by the Panel (adequacy, equity, sustainability, and cohesion) appropriate benchmarks for assessing the outcomes the retirement income system is delivering for Australians now and in the future? Are there other principles that should be included?

#### Response

**From a consumer perspective, the principles of adequacy, equity, sustainability, and integrity are appropriate benchmarks for assessing the outcomes the retirement income system. The concept of system 'cohesion' ought to be a government benchmark. From a consumer perspective, 'simplicity' is very important.**

AustralianSuper is supportive of the contention outlined in the Consultation Paper that the retirement income framework should be designed such that all elements work together to support the retirement outcomes of individuals.

At the heart of the cohesion problem is the complexity of a range of systems that retiring consumers need to interact with, which often affect each other. Consumers are not armed with a simple process or method in which they can interact with these systems. Their options are as follows:

- Obtain and pay for personal financial advice and obtain incidental taxation advice
- Speak to a FIS officer
- Go to an accountant and obtain taxation advice and receive other advice as well (eg establishment of an SMSF and possible financial advice depending on the accountant's authorisations)
- Engage in the application process for the GAP (it might be too late to 'plan' at this stage)

Retiring superannuation fund members as consumers need to 'get an indicative picture' of where they will be to appropriately start preparing for retirement. For those with simple wealth and income scenarios, we suggest that the Government should provide an interactive digital application that answers the most fundamental of questions – "*taking into account my assets, income and my super, how much Government Age Pension will I receive when I retire?*". This is not a final question – it is a starting question for retirees – they need the answer to this question to plan their retirement. Of course, there are changes to the answer to this question if you change the variables. The Federal Government is best placed to provide such a helpful, free tool to enable its citizens to navigate the complexity of the Government Age Pension.

The concepts of 'simplicity and 'integrity', rather than 'cohesion' are of more relevance to users of the retirement income system. Note also that Integrity is a measure used to assess retirement income systems in the Mercer Global Pensions index.

### 9 How does the system balance each of the principles and the trade-offs between principles (e.g. sustainability and adequacy) under current settings? What is the evidence to support whether the current balance is appropriate?

#### Response

**The balance between sustainability and adequacy is not necessarily a trade-off under the current settings as both can be achieved with 12% SG.**

Consider the table below, based on AustralianSuper actuarial modelling, which shows projected lump sums at retirement, for both SG at 9.5% and at 12% for four cameos. The target number is $545,000, which ASFA states is the lump sum required to fund a Comfortable Retirement.[10]

[10] The ASFA Retirement Standard benchmarks the annual budget needed to fund either a comfortable or modest standard of living in the post-work years. It is updated quarterly to reflect inflation and provides detailed budgets.

| CAMEO | 1. Ave Male Member Mr Joe Average | 2. Ave female Member Ms Jo Average | 3. New member Ms Sam Starter | 4. Older member Mr Phil Planner |
|---|---|---|---|---|
| **Age** | 39 | 39 | 19 | 55 |
| **Tenure with Fund** | 8 years | 8 | 1 | 3 |
| **Salary** | $84,000 | $82,000 | $22,000 | $69,000 |
| **Balance** | $149,000 | $51,000 | $1,000 | $154,000 |
| | | | | |
| **SG Rising to 12%** | $549,000 | $331,000 | $478,000 | $283,000 |
| **SG stays at 9.5%** | $509,000 | $291,000 | $387,000 | $273,000 |
| **Difference** | $40,000 | $40,000 | $91,000 | $10,000 |
| | | | | |
| **Observations** | If the SG stays at 9.5% the average member will not reach a Comfortable Retirement but will achieve this if the SG rises to 12% | This member will not achieve a Comfortable Retirement even if the SG moves to 12% - more will need to be done (given her salary level she may be able to make additional contributions and could benefit from a lifetime contributions cap rather than an annual one which has gone unused and is not recoverable). | This member will not achieve a Comfortable Retirement even if the SG moves to 12%. They may be further impacted by career breaks, 'gig economy' work, the gender pay gap etc. | Due to the immaturity of the system even if the SG moves to 12% this member will not achieve a Comfortable Retirement However, they will still benefit from an extra $10,000 by retirement |

Above: Why 12%SG is vital. AustralianSuper internal actuarial modelling, based on four cameos.

## 'Opt-Out' Compromises Sustainability

The reason we have a compulsory superannuation system is because without it, most Australians would be unlikely to independently save for their own retirement on a regular and sustained basis. This is particularly the case for low income earners (<$50K per annum).

To allow low income earners to opt out of super today is to deal them a significant financial blow later in life. The Fund estimates approximately 47% of a national workforce of 12.9 million would be impacted (6 million people). That is 6 million low income people that would be potentially totally reliant on the Government Age Pension in retirement if not compelled to save in a mandatory system. A heavy burden on future taxpayers in an ageing population scenario.

The opportunity cost for low-income workers is also material. Based on an analysis of potential impacts and the use of cameos, we conclude that a 45-year working lifetime individual on $49,500 salary who opts out of super every year, stands to lose $409K (assuming 12% SG) over a lifetime.[11]

| | Retirement Lump Sum | | | Annual Income over 25 years | | | Increase over the Age Pension | | |
|---|---|---|---|---|---|---|---|---|---|
| **Salary** | **If opt out** | **SG at 9.5%** | **SG rise to 12%** | **If opt out** | **SG at 9.5%** | **SG rise to 12%** | **If opt out** | **SG at 9.5%** | **SG rise to 12%** |
| **$49,500** | $0 | $328,000 | $409,000 | $24,352 | $41,100 | $44,800 | 0.0% | 68.7% | 84.0% |

Above: Impact of opting out of super over a 45-year working life for a single renter. All figures in today's dollars. Source: AustralianSuper Internal Actuarial Modelling, 2019.

[11] AustralianSuper Internal Actuarial Modelling based on anonymised fund members data 2019.

## Adequacy

### 10 What should the Panel consider when assessing the adequacy of the retirement income system?

### Response

**An appropriate starting point is to consider what is a comfortable retirement and what is a modest retirement – a trusted source for this information is the ASFA retirement standard.**

There are a range of considerations, some interrelated, that impact the adequacy of the retirement income system:

- The retirement income system should be allowed to reach maturity to address adequacy. This means that Superannuation Guarantee contributions need to reach 12% and people need to be receiving them over their whole working life to achieve a comfortable retirement.
- The tax concessions provided in the retirement income system do not operate to benefit low income earners who have reduced discretionary income.
- Retirement consumption needs should not be considered in a vacuum – pre-existing debt coming into retirement is becoming the norm
- The gender pay gap and absences from the workforce impact adequacy and are further exacerbated by women living longer than men
- Universality is not working properly due to self-employed, gig economy workers not contributing sufficiently, as well as $450 threshold, and workforce absences due to carers duties
- Indigenous population is more likely *not* to reach preservation age, so question whether the system is fit for purpose for this cohort
  Extreme weather events associated with climate change may affect the financial well-being in retirement of those who will be uninsured or reside in uninsurable regions.

### 11 What measures should the Panel use to assess whether the retirement income system allows Australians to achieve an adequate retirement income? Should the system be measured against whether it delivers a minimum income level in retirement; reflects a proportion of pre-retirement income (and if so, what period of pre-retirement income); or matches a certain level of expenses?

### Response

**Government should model adequacy on consumption needs in retirement for all Australians rather than subsidising a percentage-of-salary model for all workers**

The latter model means low income earners will be aspiring to earn less than their model wages, while high income earners will be seeking continuing taxpayer subsidy for a percentage of their high income being enjoyed in retirement – this is inequitable. The taxpayer burden in super needs to be seen through the lens of minimum provision to support retirement objectives, rather than relative to wealth during employment.

Generally, AustralianSuper supports a budgetary standard (ASFA Comfortable) over a replacement rate scenario based on the following arguments:[12]

- Wages tend to fall prior to retirement as workers transition into retirement, but expenses don't fall in the same way – they fall during the middle period of retirement
- Replacement rates work best for those who work a full career in one job but may not adequately deal with those who spend part of their career working part-time, casual or are made redundant or unemployed. Actual salaries may not always be indicative of needs
- Replacement rates do not work for the poorest of our society as they do not address poverty alleviation (for example, intermittent workers may need a replacement rate more than 100%).
- Replacement rates may also entrench or replicate inequitable outcomes in retirement: For example, that males will require more income than females or home-owners may require more income than

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[12] Rice Warner, *'What is the right level of superannuation guarantee?'* Actuaries Institute Actuaries Summit 3 – 4 June 2019.

renters. Taxation of income can complicate the definition of replacement rates. While many replacement rates are defined on net income, some have been set on gross income.

**Advantages of budgetary standards**

- A budgetary standard is an appropriate measure when adequacy is focused on providing a minimum benchmark (e.g. poverty alleviation)
- Budgetary standards can more easily be linked to actual expenditure in retirement and can therefore be consistent with current retiree behaviour
- Budgetary standards are simpler for the population to understand (one number for all or differentiated on a few key segments) and are therefore easier to communicate
- Budgetary standards seek to apply a more equitable retirement outcome across different cohorts in retirement

**Super should be about targeting a dignified retirement**

At the lower end of the income scale, we have individuals who potentially see an increase from pre to post-retirement income (i.e. a replacement rate more than 100%). This would occur for individuals who are earning less than the Government Age Pension prior to retirement (at Age Pension age) and have very little super. Retiring on the Government Age Pension will not facilitate a dignified retirement.

At the high end of the income scale, targeting a replacement rate of (say) 65% is not sustainable and inequitable. An individual earning $500,000 prior to retirement should not expect to be able to accrue a retirement income of $325,000 (65% of $500,000) via the superannuation system with its attendant tax concessions. Based on AustralianSuper internal modelling this would require an account balance at retirement of around $6m to produce this income over 25 years.

With pension account balance caps at $1.6m, this would produce an annual income over 25 years of around $90,000 – a replacement rate of 18%. The additional income required to achieve $325,000 a year (to achieve a replacement rate of 66%) should be obtained from outside the super system.

## 12 What evidence is available to assess whether retirees have an adequate level of income?

### Response

**There are a range of studies and ongoing data analysis by peak bodies, consulting firms, actuaries etc that measure and project the levels of income retirees have or will have. Data gathered by Government departments such as APRA, the ATO, the ABS should be more than enough to make accurate assessments.**

AustralianSuper supports ASFA's contention that a single homeowner and a couple homeowner need lump sums of $545,000 and $640,000 respectively at retirement to achieve a 'comfortable' retirement. Average super balances presently fall well short of these levels. Nor are they projected to get to these levels in the next 15 years.

The table below is from the 2019 Rice Warner Super Projections Report. Average member balances (these are balances from all sources and so aggregate multiple accounts) for 60 – 64-year olds were $258,000 in 2019, projected to increase to $474,100 (in today's dollars) in 15 years' time – still short of the $545,000 ASFA deems required for a single homeowner.

| Age group | 2019 | 2024 | 2029 | 2034 |
|---|---|---|---|---|
| | ($) | | | |
| 20 to 24 | 10,600 | 12,500 | 13,800 | 15,200 |
| 25 to 29 | 31,300 | 28,800 | 35,600 | 38,600 |
| 30 to 34 | 60,400 | 56,100 | 59,500 | 69,300 |
| 35 to 39 | 94,100 | 90,900 | 93,200 | 100,100 |
| 40 to 44 | 136,300 | 132,600 | 136,700 | 143,100 |
| 45 to 49 | 168,800 | 185,100 | 189,300 | 197,900 |
| 50 to 54 | 210,400 | 230,700 | 257,300 | 266,900 |
| 55 to 59 | 237,800 | 293,000 | 325,400 | 361,400 |
| 60 to 64 | 258,000 | 362,700 | 428,200 | 474,100 |
| **All age groups average** | **122,500** | **138,500** | **153,700** | **166,400** |

Above: Projected pre-retirement average member balances (2019 dollars)

# Equity

## 13 What should the Panel consider when assessing the equity of the retirement income system?

### Response

**The Panel should aim for a retirement income system that produces broadly equitable retirement outcomes across all retired populations. The system currently provides some divergent retirement outcomes depending on individual circumstances.**

The following factors may serve to produce divergent and potentially inequitable retirement outcomes:

- Whether a retiree is single or part of a couple
- A GAP retiree who owns their own home has much better financial outcomes than a GAP retiree who rents, particularly if the renting retiree tries to live in the city rather than regional Australia
- Percentage based tax concessions in superannuation provide a greater financial benefit to those who earn a high income compared to those on low income
- Taxation incentives in superannuation that are available to all are invariably utilised by high income earners, not low-income earners, who have less discretionary income available
- Our retirement income system recognises, and rewards time spent in paid employment and does not make provision for those who have spent time out of the workforce
- Whether an individual is an 'employee' or 'contractor' can make a material difference to financial well-being in retirement in terms of SG contributions
- Whether an individual earns more than $450 per month with one employer will determine whether compulsory superannuation contributions are made on their behalf by their employer
- An individual who invests heavily in the share market may not receive the GAP, whereas a similar investment in the family home is not considered
- An individual can obtain disproportionate taxation benefits compared to others by retaining much more than $1.6m in the accumulation phase of superannuation
- CGT exemption incentives for self-employed persons only work if a business has a goodwill value that can be sold, leaving some self-employed underfunded for retirement
- Unpaid superannuation directly affects the financial wellbeing in retirement of employees whose employers do not comply with their superannuation guarantee obligations
- An individual can utilise binding death benefit nominations to leave superannuation to adult children who are not financially dependent, where a dependent spouse may be unfunded in superannuation

## 14 What factors and information should the Panel consider when examining whether the retirement income system is delivering fair outcomes in retirement? What evidence is available to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances (e.g. women, renters?)

### Response

**Better data and more evidence is required to assess whether the current settings of the retirement income system support fair outcomes in retirement for individuals with different characteristics and/or in different circumstances.**

AustralianSuper considers that the following data points will assist Government in measuring whether the retirement income system is delivering fair outcomes in retirement:

- The age at which people are choosing to retire, and whether it is coincident on being eligible for the Government Age Pension
- The proportion of retirees who are self-funded or receiving part GAP pensioners
- The operation of the taper rate for part GAP pensioners
- How often GAP income changes per part GAP pensioner and by how much (this goes to the complexity and cost of administering the system)
- Average account balance for women at retirement, compared to men (because of the gender pay gap)
- Average account balance in accumulation phase (not converted to pension phase) when a member retires
- The impact of prior early release of superannuation benefits on member's account balance at retirement
- The proportion of the population who die before preservation age
- The proportion of the population who die after preservation age but without accessing superannuation benefits
- Proportion of population using social housing and public housing in retirement
- Mortgage default rates in retirement
- The average financial impact at retirement of being a carer
- The average financial impact at retirement for average time out of the workforce
- The number of retirees whose wealth increases after retirement
- The quantum and incidence of superannuation death benefits left to adult children who are not financial dependants
- The quantum and incidence of spouse dependence on the GAP where death benefits have been left to adult children who are not financial dependants
- General examination of poverty in retirement, especially homelessness in retirement
- Level of divorce in retirement
- Reliance upon GAP and preservation of superannuation balances for next generation
- What is the incidence of a gap in time between attaining GAP eligibility and applying for the GAP
- What is the incidence of multiple applications for GAP before a retiree obtains the GAP (goes to complexity of the system for the user, to their financial detriment)
- What is the incidence of rejected applications for GAP, and level of abandonment of this process?
- What is the level of GAP entitlements being subsumed by third party providers (e.g. Aged care system). This issue goes to the transparency and integrity of the retirement income system
- What is the level of retiree dependence on health and energy concessions, and how are they split between GAP retirees and self-funded or partially self-funded retirees?

To further consider the issue of fairer outcomes from the retirement income system for individual in differing circumstances, AustralianSuper has developed some cameos to illustrate the financial impact of the gender pay gap, and to illustrate the effect of broken work patterns on retirement balances. Consider three cameos, each with a working lifetime of 42 years.

**Cameo 1:** Male on median income of $76,700 as at August 2019 (source ABS)

**Cameo 2:** Female on median income of $65,000 as at August 2019 (source ABS) – illustrates the impact of the gender pay gap

**Cameo 3:** The same as for Cameo 2 but assume seven years out of the workforce (from age 30 to 37) to illustrate the impact of broken working patterns.

The projected lump sums at retirement are set out in the table below – figures expressed in today's dollars. Key takeaways are as follows:

- Under Cameo 1 (male on median earnings) the projected retirement lump sum is enough to support a comfortable retirement under the ASFA Standard (ASFA state a retirement balance of $545,000 is required for a single homeowner)
- Under Cameo 2 (female on median earnings) the projected retirement balance is 16% lower than that for a male illustrating the impact of the gender pay gap – and less than that required for a comfortable retirement (this is further exacerbated by longevity in retirement, which is addressed in the next table)

> Under Cameo 3 (broken work patterns) the projected retirement balance is 37% lower than that for a male with an unbroken working pattern – which illustrates the impact of both the gender pay gap and career breaks

| | Projected Retirement Lump Sum | Difference to Cameo 1 |
|---|---|---|
| Cameo 1 (male on median earnings) | $576,100 | |
| Cameo 2 (female on median earnings) | $483,900 | -16.0% |
| Cameo 3 (broken work patterns) | $362,600 | -37.1% |

The table below is used to illustrate the implications of the differences in longevity between women and men. Current life expectancies for a 67-year-old are 17.62 years (males) and 20.33 years (females). Women live, on average, 3 years longer than men. For a man to achieve a comfortable retirement over 27 years, he requires a retirement balance of $490,400. A woman will require this income over 30 years but will need to accrue $590,000 by retirement, some $100,000 more. And yet, broken working patterns, reliance on the gig economy (no super paid on less than $450 a month) and the gender pay gap work against women achieving this.

| Lump Sum required | |
|---|---|
| **Years in retirement** | Home Owner |
| **20** | $324,700 |
| **25** | $434,300 |
| **27** | $490,400 |
| **29** | $555,200 |
| **30** | $590,000 |

The general assumptions underpinning the cameos are as follows:
- Member aged 25, retiring at age 67
- Account balance at age 25 = Nil (to replicate a 42-year working life)
- Salaries assumed to increase year at 3.5% pa
- Employer contributions are 9.5% initially, rising to 12% in line with legislated increases
- Investment returns after fees and taxes are 6.5%pa (pre-retirement) and 6.0%pa (post retirement)
- Assume AustralianSuper admin fees of $2.25 per member per week plus an additional 0.11% of account balance (max $750) in the retirement phase only
- The account balance at age 67 is shown in today's dollars by discounting at 3.5% pa,
- Level income to be received from the super account and Age Pension combined over 25 years from retirement
- For Age Pension purposes we assume: Member is a single, homeowner, Age Pension rate as at 31 December 2019, increasing in line with average earnings of 3.5% pa, assets test and income tests thresholds as at 31 December 2019 increasing in line with CPI of 2.5% pa

## 15 Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?

### Response

**There is insufficient evidence to support the contention that the system encourages and supports older Australians wishing to remain in the workforce. AustralianSuper contends that more needs to be done for those approaching retirement age for them to consider working past retirement age.**

There is no comprehensive package which older Australians can refer to when considering their options and issues arising from working beyond retirement age. Older Australians who have not yet reached retirement age often find it challenging to remain in the workforce because of age discrimination.

These issues have been considered comprehensively in the 2016 report by the then Age and Disability Discrimination Commissioner, Susan Ryan, entitled, 'Willing to Work: National Inquiry into Employment Discrimination Against Older Australians and Australians with Disability' (2016).[14] Susan Ryan specifically commented at the launch of the report that the "Australian Bureau of Statistics data shows that while people aged 55 years and over makeup roughly a quarter of the population, they only make up 16% of the total Australian workforce. This age cohort is the fastest growing in Australia…and will remain so for the foreseeable future."[15]

The problem with underemployment of older Australians occurs *prior* to reaching retirement age, so that it brings on their retirement prematurely. Many older Australians want to work right up to and beyond retirement, however, ageism and social prejudice inhibits this objective and deprives the Australian economy of the experience and productivity of a significant portion of the Australian population. Data elicited in the 'Willing to Work' report from November 2015 showed that labour force participation declines with age:

> 73.8% of Australians aged 55-59 were participating in the labour force
> 56.5% of 60-65 year olds were participating
> Only 12.7% of those aged 65 years and over were participating in the labour force.[16]

In 2016-17, the most recent published figures from the Australian Human Rights Commission indicate that 58% of complaints made by people over the age of 45 about age discrimination related to the area of employment.[17] This is despite discrimination in employment being against the law in Australia since 2004.[18]

It is encouraging that some of these perceptions may be moving a little. The Australian HR Institute in association with the Australian Human Rights Commission recently conducted a survey and issued a report," Employing *Older Workers"* (2018),[19] which generally indicates a more positive outlook on older workers, but this is based on the perceptions of those workers as respondents.

Concerningly, 56% of those same respondent organisations do not have a transition-to-retirement strategy in place.[20] Having a transition to retirement strategy (an employment transition strategy rather than a superannuation transition to retirement strategy) is a means for an employer to consider, acknowledge and plan for an older population as a part of its workforce. It is the foundation stone to making the workplace ready for those workers who wish to work past retirement age.
Employers should be able to offer older employers an employment transition process that allows older workers to remain in and engage in employment in a different way relative to their current employment conditions. A Government sanctioned employment transition strategy should allow older workers to change their employment conditions without fear of retrenchment or pressure to resign/retire.
An effective employment transition strategy would be one that:

> Is protected by Government support as a means for organisations seeking to comply with the *Age Discrimination Act 2004 (Cth)* and manage the differing needs of older workers
> Consciously allows older workers to reduce hours, mentor younger workers, capture existing experience and knowledge and utilise it more effectively within an organisation
> Enables more expansive and flexible working from home strategies
> Provides a government subsidy incentive for transitional training in new technology for older workers (in the same way that youth apprentices are supported)
> Provides flexible workplace and part time strategies and consideration of preventative health leave relevant to older workers

[14] https://www.humanrights.gov.au/our-work/disability-rights/publications/willing-work-national-inquiry-employment-discrimination
[15] Ibid on key points page
[16] Australian Bureau of Statistics, *Labour Force, Detailed — Electronic Delivery, November 2015* (Cat. No. 6291.0.55.001).
[17] Australian Human Rights Commission, *2016-2017 Complaint Statistics* (2017) https://www.humanrights.gov.au/sites/default/files/AHRC_Complaints_AR_Stats_Tables%202016-2017.pdf
[18] The *Age Discrimination Act 2004 (Cth) makes it against the law to treat peoples unfairly based on age, including in employment – i.e., obtaining employment, terms and conditions of employment, training, promotion, and dismissal.*
[19] https://www.humanrights.gov.au/our-work/age-discrimination/publications/employing-older-workers-2018
[20] Ibid (dot point 7 on key findings at a glance)

## 16 To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

### Response

**The retirement income system does little to compensate for inequities experienced during working life. Rather, it tends to exacerbate inequities experienced during working life.**

As superannuation contributions are based upon a percentage of employment income, the retirement outcomes of individuals are largely determined by their workforce remuneration, their time in the workforce, the quality of their superannuation investments, and the timeliness of their employer's contributions into superannuation.

Where any of these variables are adversely affected, they directly contribute to reduced retirement outcomes. These variables can be adversely affected by:

- Employment discrimination in the form of the gender pay gap
- Carer duties leading to less time in the workforce
- Being employed in an industry with low pay
- Being employed on a part time or intermittent basis
- Being paid less than $450 per month per employer
- Working in the gig economy where the lines between being a contractor or employee are not clear to participants
- Being self-employed and not making enough superannuation contributions during your working life
- Being self-employed and relying upon the future goodwill of your business to be contributed into superannuation
- Lack of enforcement of employer SG responsibilities

## 17 What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

### Response

**The implications for those who are not covered by compulsory superannuation are potentially dire in retirement.**

In a maturing SG system for those who are not covered by compulsory superannuation, the implications are that individuals would have to rely on either Pillar 1 or Pillar 3 of the retirement income system, namely the Government Age Pension or voluntary savings.

Those who earn less than $450 a month from one employer are shut out of the compulsory superannuation system. These are low income earners and the compulsory superannuation system is the key means by which low income earners can aspire to achieve a dignified retirement in Australia. This is clearly an unfair outcome of Australia's retirement income system which condemns a population cohort who can reasonably be the 'working poor' to living just above the poverty line in retirement.

While self-employed people have access to voluntary savings measures and tax effective strategies for contributing to superannuation, the voluntary nature of this engagement does not ensure adequacy of retirement benefits and provides no certainty that this population cohort will be self-funded in retirement.

The trend to be underfunded in self-employment will increase because of the expansion of the gig economy in Australia, and the lack of clarity around the employed/self-employed status of many gig economy workers.

The notion that self-employed workers will fund their own retirement through incentives such as tax concessions presupposes that they have discretionary income to avail themselves of those tax concessions. A low-income earning gig economy worker will not be able to do so.

## Sustainability

### 18 What should the Panel consider when assessing the sustainability of the retirement income system?

### Response

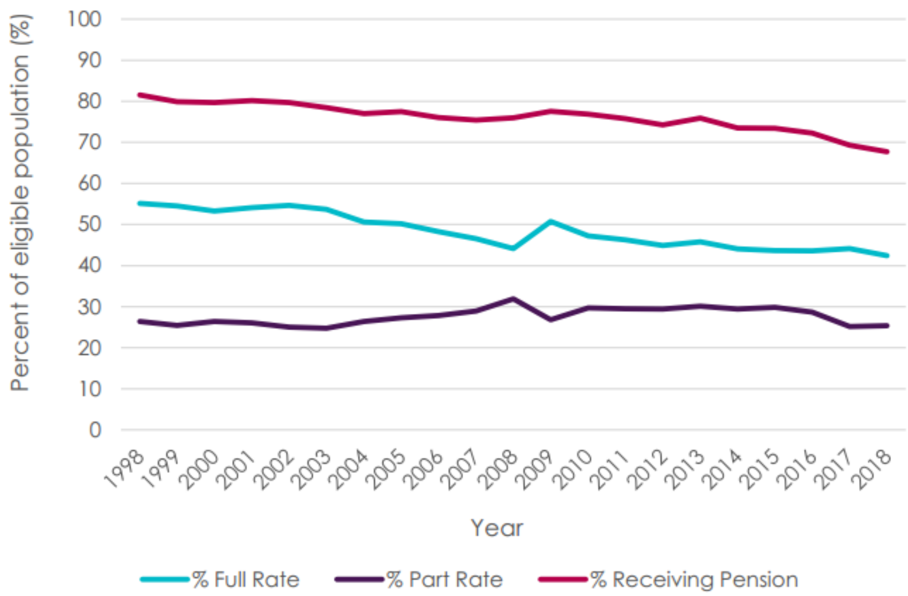
**When considering the sustainability of the retirement income system overall, the future costs of the Government Age Pension must be measured against increases in Superannuation Guarantee contributions which will serve to offset future GAP costs. The provision of tax concessions in superannuation also needs to be considered within this construct rather than as a standalone government 'burden.'**

Government Age Pension costs were projected to *rise* from 2.9% of GDP in 2001-02 to 3.6% in 2021-22 and then to 4.6% of GDP in 2041-42. This projection was made at a time when the SG was about to increase to 9% (30 June 2002).[21]

Actual Age Pension costs at 2018 were 2.67% of GDP and so are *lower* than 2001-02. Changes to the SG since then (up to 9.5%) and various changes to means tests and contributions tax (LISTO at one end, Div. 293 at the other), contributions caps, etc have all contributed to a different result.

Refer to the charts below from the Actuaries Institute showing the decline in the proportion of the eligible population receiving the Government Age Pension – and forward projections of the trend.[22]

**Proportion of the eligible population receiving the Age Pension**



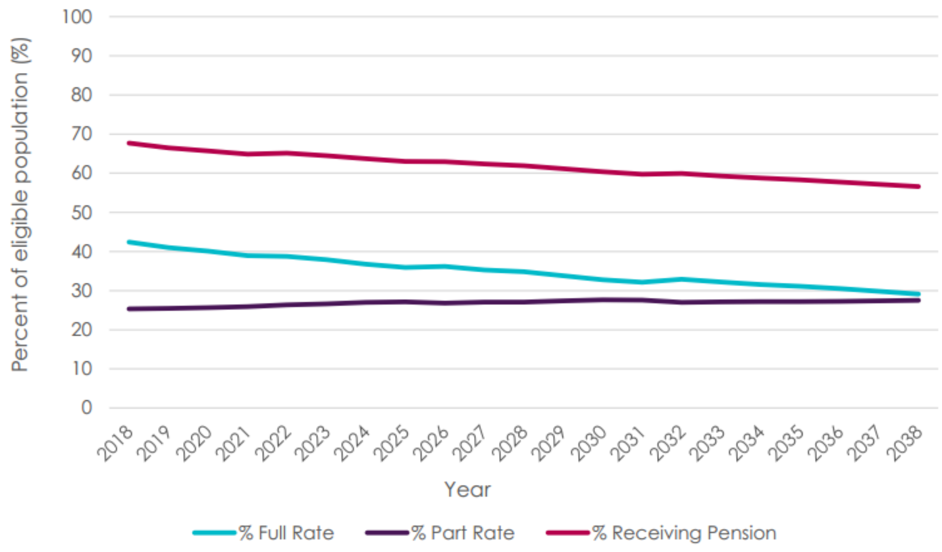

**Comment**

> The proportion receiving a full Age Pension has fallen from 80% to under 70%.
> Driven by:
  - Tighter means testing
  - Growth of super balances and high real returns

[21] Federal Government 2002-2003 Intergenerational Report Budget Paper No.5 at https://treasury.gov.au/sites/default/files/2019-03/2002-IGR-report.pdf

[22] The Age Pension in the 21st Century, Financial Services Forum Actuaries Institute 2018.

**Projected proportion of the eligible population receiving the Age Pension**




Above: Source: Rice Warner, 2018

**Comment**

- It will keep falling from 68% in 2018 to around 57% in 2038
- The cost will fall too from 2.6% of GDP in 2018 to around 2.5% of GDP in 2038

Note that the cost of concessions and the generosity of the Age Pension are independent policy parameters which can be adjusted independently of the SG level. Encouragement to save for retirement needs to be balanced against the taxpayer burden to provide concessional taxation treatment for those already able to provide for their own retirement.

## 19 What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?

### Response

**Measures that provide income to low-to-middle income earners have the greatest impact on fiscal sustainability, but also on equity and fairness of the retirement income system.**

The following measures are examples of reforms that would improve the equity and fairness of the retirement and income system for lower income earners and account balance holders:

**Low Income Superannuation Tax Offset (LISTO)**

Conceivably, with the current LISTO cap of $500, if an individual earns under $37,000 and contributed up to the $25k cap, they could be worse off for contributing to super to some extent. I.e. there would be some income (up to the $18,200 threshold) that would be tax free which if they were to contribute would be taxed instead at 15% (having exceeded the current LISTO cap).

On this basis, the $500 cap on the eligible LISTO amount for low income earners should be removed.

**Government Co-Contributions**

The Government co-contribution entitlement amount should be increased to encourage low income earners to voluntarily contribute and build greater superannuation balances. This will enable low income earners to have increased savings in superannuation.

In the past, the co-contribution benefit has been as high as $1.50 for every $1 (up to $1,500) however was reduced in 2009 to $1 for $1 at the time of the Global Financial Crisis.  The current benefit is now only $0.50 for $1 up to $500 (has remained since 2013). The government co-contribution amount and threshold should be restored to previous levels.

## 20 How can the overall level of public confidence be assessed? What evidence is available to demonstrate the level of confidence in the system?

### Response

**The overall level of confidence can be assessed through surveys to gauge how people think and feel and through data analysis about what they actually do. A longitudinal approach would enable the correct identification of trends to better inform future decision making.**

**The level of public confidence in the retirement income system is low.  However, support for the Superannuation Guarantee system is high, and consumers generally acknowledge that they would not make this financial provision for retirement without compulsion.**[23]

AustralianSuper, in partnership with Monash University, has sought to determine the level of confidence members have as they approach and during retirement.

The AustralianSuper-Monash Retirement Confidence Index (AMRCI) longitudinal study is now in its second wave, having commenced in 2017. In the study, ‘confidence’ in the context of retirement refers to ‘feeling ready and prepared in retirement or to retire’.

We found that the average AustralianSuper-Monash Retirement Confidence Index is 65 in both 2017 and 2018. The average male AMRCI is 66 and the average female AMRCI is 64. Retirees have an average AMRCI of 67 whereas non-retirees have an average AMRCI of 63. Both these differences are statistically significant.

Our research shows higher financial literacy, financial skills and savings behaviour are positively associated with confidence in retirement. Evidence also points to a strong negative association between financial anxiety and financial literacy and money management. Moreover, financial illiteracy and financial mismanagement lead to foreseeable risk of considerable debt and related psychological difficulties and this, in turn, prevents individuals from effectively engaging with and administering their finances.

[23] ASFA (2019). Community support for Compulsory Superannuation. Ross Clare, Director of Research at: https://www.superannuation.asn.au/ArticleDocuments/359/1905-ASFA_Report-Community_support_for_compulsory_superannuation.pdf.aspx?Embed=Y

# Cohesion

## 21 What should the Panel consider in assessing whether the retirement income system is cohesive?

### Response

**The Panel should consider the lack of universality, 'gaps' in the system and incentive traps.**

It is difficult to consider the current scheme as cohesive when we have:

> **Gaps in the system** - we always speak about the 'universality of superannuation', however, the coverage gaps create serious inequities in retirement. The biggest gaps are no compulsory super for the self-employed, gig economy contractors, and those earning less than $450 a month. We don't compare well internationally.[24] Approximately 68.5% of working Australians (15-64) are covered by super. This compares unfavourably with other countries with mandatory schemes
  - Israel (94.2%)
  - Netherlands (88.0%)
  - Iceland (87.9%)
  - Finland (84.1%)
  - Denmark (83.3%)

> **Superannuation monies disappearing through cracks in the system** – unpaid superannuation is not being adequately policed, although there have been some recent legislative measures to address this in part.

> **Incentive traps** – there are some anomalous incentives in the retirement income framework that need to be addressed:
  - asset test taper rate (see below)
  - asset/income tests thresholds (see below)
  - deeming rates (historically low interest rates, yet deeming rates have been reduced ever so marginally and late – prior to the change effective 1 July 2019 lower rates were 1.75% (now 1%), and the higher rates were 3.25% (now 3%))
  - potential promotion of CIPRS to those who die early (this has the potential to be Australia's pension mis-selling scandal).

**Analysis of The Age Pension Assets Test Taper Rate – Balance Between the Pillars**

The impact of the Asset Test taper rate on the GAP is best illustrated with two charts. One illustrating the impact of the current taper rate (a reduction in the GAP of $3 per fortnight for every $1,000 of assets above the lower threshold). And another with a taper rate of $1.50 (the rate prior to 1 January 2017).

The chart shows the additional annual level income from the GAP and super drawdowns combined (over a 25-year drawdown period – the period ASIC mandate superannuation funds use for projections on Member Benefit Statements) that can be expected for an additional $5k saved at retirement.

The shape of this graph is interesting and has the following callouts:

> For account balances up to approx. $185,000, every additional $5k saved will generate an additional $267 a year over 25 years

> For account balances from $185,000 to $265,000 the impact of an additional $5k falls from $267 a year to $237 a year – this is the first downward curve and illustrates the impact of the Income Test which bites first

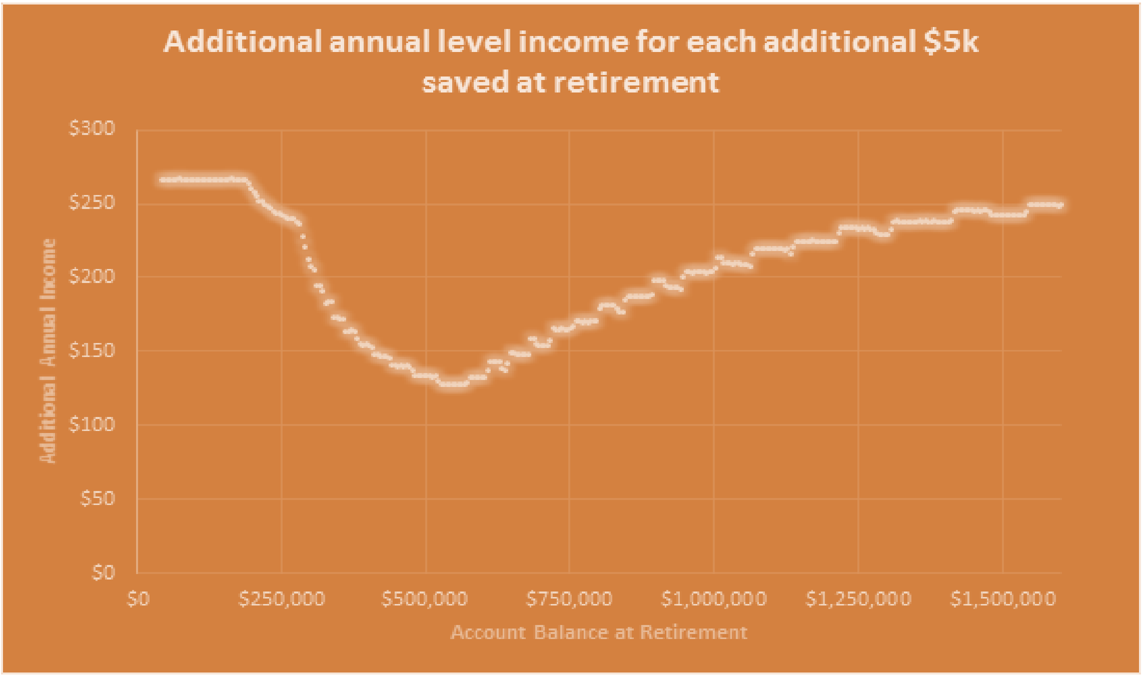
> From $265,000 account balances onwards, the shape of the downward curve alters (and is steeper) as the Assets Test takes over from the Income Test – the impact of an additional $5k on retirement income continues to fall, but bottoms out at $570,000 (where an additional $5k generates an additional $128 income a year over 25 years)

> From $570,000 account balances onwards the $5k impact begins to increase as reliance on the Age Pension lessens

[24] OECD *Pensions at a Glance* 2019.

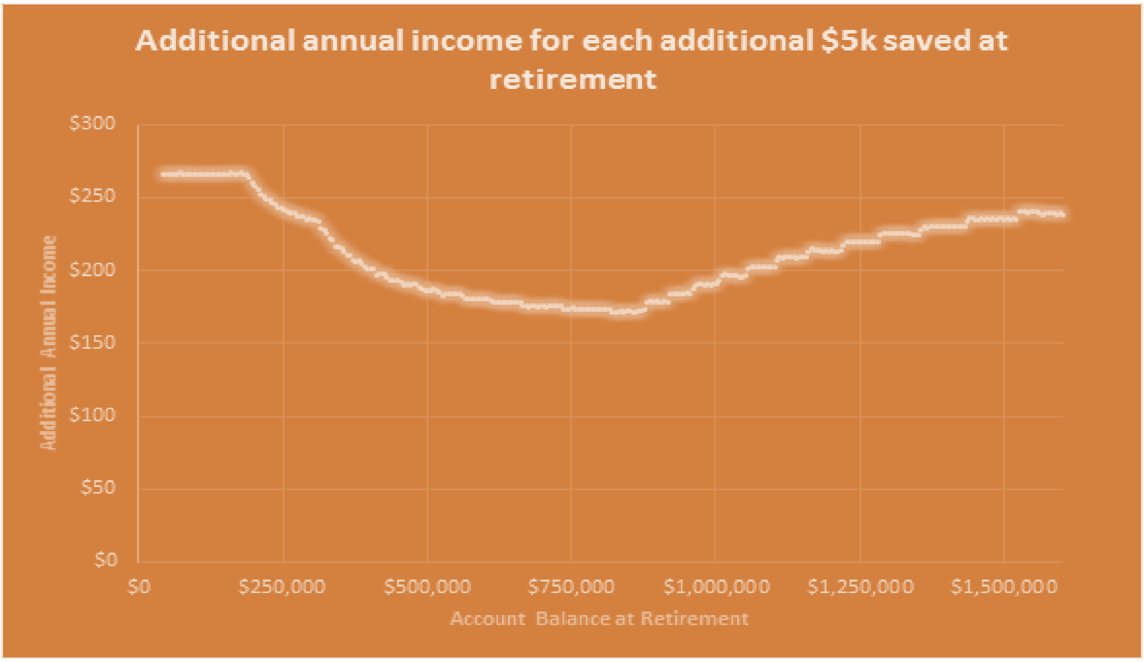
The downward curve U-shape is clearly where "Middle Australia" is impacted and is used as powerful evidence to suggest that Australians with account balances in this range gain very little by making extra contributions to the super system.

Indeed, the graph shows that those with lower account balances get the most bang for their "additional retirement savings buck", which they should. Higher account balances do better because they are largely self-funded retirees –until maybe the last few years of the 25-year period. But everyone benefits from saving more in super.




Above: Additional annual level income for each additional $5,000 saved at retirement ($3 taper rate)

The chart below shows a taper rate of $1.50. Note the "U" shape is less pronounced. It bottoms out at an increase of $172 (up from $128 in Chart 1). Clearly there is more incentive for middle Australia to save more under this scenario.




Above: Additional annual level income for each additional $5,000 saved at retirement ($1.50 taper rate)

**Analysis of the indexation of the Assets / Income Test thresholds.**

The Assets Test and the Income Test thresholds are indexed to price inflation (CPI – we assume 2.5%pa long term), whereas the Age Pension itself is indexed to Wage Inflation (we assume 3.5%pa long term).

There is a disconnect between these two indexation approaches which shows a lack of cohesiveness, and the impact is not well understood by many.

The practical impact is that *the real value* of these thresholds reduces over time. Much in the same way that bracket creep impacts personal tax rates (different indexation here, but similar outcome).

This is best illustrated by an example.

> Consider a single homeowner, 67 years old with an account balance of $500,000
> Under the Assets Test a single home owner will get:
  - A full GAP if assets are $263,250 and under
  - A Part GAP if assets are under $574,500
> With $500,000 in super (and ignoring any other assets), this individual will qualify for a Part GAP (the annual amount is around $5,800 compared to a Full GAP of $24,352)

Now consider an individual who is 27 years old. Let's say their retirement projection – which could be the retirement projection that is on their annual member statement – shows an estimated retirement lump sum at age 67 of $500,000. Same as the person above. Just 40 years later.

This is $500,000 in today's dollars of course. Commentators look at this and will say that the member (who is also projected to be a single homeowner) will receive a Part Age Pension at retirement of $5,800. This is **incorrect**.

In 40 years' time the limits will have changed – see the table below:

| | | Future $s | Today's $s |
|---|---|---|---|
| Lower Threshold | $263,250 | $706,843 | $178,529 |
| Upper Threshold | $574,500 | $1,542,569 | $389,611 |

The lower and upper assets test thresholds will have increased with price inflation of 2.5%pa from $263,250 and $574,500 respectively to a very impressive $706,843 and $1,542,569 respectively.

However, when these are brought back into today's dollars they are not so impressive – they are lower at $178,529 and $389,611 respectively. Critically, the individual projected to have $500,000 in 40 years' time will not qualify for an Age Pension at all. Very different to the person retiring today with $500,000.

This is deliberate government policy designed to reduce reliance on the Age Pension over time, and it clearly goes together with the taper rate.

## 22 - Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?

### Response

**The retirement income system in Australia does not effectively incentivise savings decisions by individuals across their lifetimes. Low income earners cannot take advantage of the tax concessions available because of reduced discretionary income. The system does not acknowledge that there are varying income pressures over an individual lifetime.**

Those on low income, that need it most, cannot afford to save, no matter the incentive, and are also likely to have lower financial literacy and understanding of the system. Measures should be in place to automatically tip the balance – LISTO is good but should go further to consider the effective tax rate LITO and LMTO provide over $37,000.

Co-contribution is a good scheme but has been progressively cut back since its inception and has low value, as well as being utilised less by those with less discretionary income.

**Households**
There is low alignment between the taxation/superannuation system and the retirement system (i.e. Government Age Pension assessment). Some incentives exist for households – e.g. spouse contribution offset, but it is modest and not well understood. Spouse splitting is a way of evening up accounts, but is not an incentive to save as the contributing spouse is subject to the same cap.

Incentives provided for savings occur at incongruous times during a consumer's lifetime. Taxation incentives provided for low income earners may not be used simply because low income earners have reduced discretionary income. Similarly, they may not be utilised by those with greater mortgage burdens.

Tax incentives in retirement are little understood except for 'tax free super' at age 60.

## 23 What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?

### Response

**AustralianSuper as trustee of Australia's largest superannuation fund is principally focussed on ensuring that our members achieve their best possible retirement outcome**.

We do not actively measure behaviour around all aspects of the retirement income system, such as variations of level of voluntary savings outside of superannuation.

## 24 What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?

### Response

**The outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are not well understood by superannuation fund members.**

Extensive qualitative research conducted by AustralianSuper reveals that when asking consumers about their needs in retirement, Australian retirees, and pre-retirees do not proactively mention aged care. Funerals and wills were also seldom mentioned spontaneously.[25] Australians are reluctant to plan for aged care with two thirds of retirees not having thought about it.[26]

## 25 What evidence is there that Australians can achieve their desired retirement income outcomes without seeking formal financial advice?

### Response

**We have not elicited member data on this issue specifically.**

Fund members do contact AustralianSuper seeking financial advice to achieve their desired retirement outcomes. Fund members may not actually contact AustralianSuper for financial advice if they feel they have achieved their desired retirement outcomes without needing advice to do this.

Our data reveals that:

[25] AS retirement CVP research
[26] *2017 Retirement Income Report, Investment Trends*

- Around 50% members draw down at the minimum rate
- In August 2019 approximately 20,000 members were linked to registered advisers (external advice):
  - 19% were pension members and 81% were accumulation members
  - Among accumulation members, the largest portion are in the Planner segment (43%)

## 26 Is there enough integration between the Age Pension and the superannuation system?

### Response

**There should consumer accessibility, and better information-sharing (provided members give permission) between Centrelink and superannuation funds to provide members with information to help understand their future Government Age Pension entitlements.**

The system is complicated and not well understood. Q21 documents the punitive nature of the taper rate and the disconnect between Age Pension increases (increase with wage inflation) and Asset / Income Test thresholds (increase with price inflation).

AustralianSuper (via its administrator, LINK) must report directly to Centrelink (electronically) on all pension accounts. Information-sharing (with member consent) with Centrelink could provide the Fund with details of Members' payment amounts which would enable the Fund to better guide members.