AUSTRALIAN INSTITUTE of SUPERANNUATION TRUSTEES

SHAPING PROFIT-TO-MEMBER SUPER

AIST submission to the Retirement Income Review

3 February 2020

More than getting by…retiring to live not just subsist

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AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $1.4 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

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Executive summary

Introduction

The terms of reference for the Retirement Income Review state the importance of achieving adequate retirement incomes, fiscal sustainability and providing incentives for self-provision in retirement.

While each of these are important, it is also critical that the fact base used to assess the system addresses whether the system meets community expectations. The community has clear views on the need for Australians to have retirement income adequate for a dignified and financially secure retirement and the need for the system to be equitable. Australians also expect the system to have integrity and strong member protections.

The AIST submission addresses these wider themes. It has been prepared following extensive discussion with our profit-to-member stakeholders, incorporating their deep understanding of their members and the retirement income system. Our member funds operate under a business model that returns profit to members only and exist only to benefit members. This unique members' first culture is always the focus of our advocacy work.

AIST has also commissioned survey research of workers and retirees to assist the Retirement Income Review understand community views on the role superannuation plays in the retirement mix of Australians[1]. This research will help the Panel understand:

- What Australians expect our retirement income system to deliver both individually and for the nation
- Current lived experience and expectations for retirement
- Attitudes to reform proposals including increasing contributions and reviewing tax concessions

This submission responds to each of the consultation questions asked in the Panel's Consultation Paper from the perspective of our key themes of fairness, adequacy and member protection, and includes insights from the survey research.

[1] Retirement Review Research (2020), Qualitative and quantitative research conducted by Essential Research for AIST

Quantitative: The survey was conducted online from 7th January 2020 to 11th January 2020 and is based on 1,081 respondents. A boost sample of n=400 participants aged over 65 years was also conducted to increase the base size for retired respondents. These were excluded from the general population results, but included in retirees only tables. The inclusion of these boost results means the total for tables specific to retires is n=605. Qualitative: online focus groups, n=42 people participated in the two online focus groups, one group of retirees and one group of working Australians.

AIST has engaged with the Panel since the Review was announced and welcomes the opportunity to continue to engage with it, the Government and other stakeholders about this fundamentally important issue.

Our key themes

Our key themes are not at odds with the four principles proposed by the Panel in the Consultation Paper. We agree that the outcomes of the retirement income system (including sustainability) can only be fully and properly assessed by reference to and assessment against these themes.

Further details of our key themes are developed in response to many of the questions posed by the Panel. What we mean by each of the key themes is:

Fairness

- Targeted measures to improve retirement outcomes for cohorts with low retirement income outcomes (e.g., women, low-income earners and Indigenous Australians)

Adequacy

- The purpose of superannuation within the retirement income system is to provide adequate income to ensure all Australians achieve a dignified and financially secure standard of living in retirement, supplementing or substituting the Age Pension

Member protection

- Strengthen protections for those not actively involved in superannuation and retirement planning, while providing options for those who are

Our policy positions

The first section of this submission is an overview of our positions against each of our key themes of fairness, adequacy and member protection, seen through the prism of meeting community expectations. The second section is a response to each question in the Consultation Paper.

Meeting community expectations

AIST agrees with the emphasis in the Consultation Paper on the need to understand and address community expectations in order to maintain public confidence in the system and "develop a fact base to help the community make any decisions".

The Letters Patent for the Financial Services Royal Commission and the subsequent report by Commissioner Hayne also used the metric of meeting community standards and expectations to assess what is acceptable conduct and behaviour, and this approach should be applied to the adequacy and fairness of the retirement income system.

Research commissioned by AIST shows that the community supports an equitable, universal, compulsory retirement system that will deliver all Australians a decent, dignified life, free of financial stress in retirement.

'MY UNDERSTANDING IS THAT OUR SUPER SCHEME IS PRETTY GOOD COMPARED TO OTHER COUNTRIES. I'M SURE, HOWEVER, THAT MANY PEOPLE DO NOT HAVE SUFFICIENT SUPER TO LIVE COMFORTABLY. THE COST OF HOUSING AND THEREFORE RENT HAS BLOWN OUT SINCE THE SCHEME WAS INTRODUCED AND FOR THOSE ON LOWER INCOMES AND IN PARTICULAR WOMEN WILL NOT HAVE ENOUGH. ESPECIALLY IF THE WOMAN IS SINGLE.' – WORKING AUSTRALIAN

Research found that more than 8 in 10 Australians believe the Government should make sure that the income received from super and the Age Pension is high enough so that all Australians have a decent life free of financial stress in retirement. This finding is consistent across education levels, geographic location (state, regional/capital), and voting preference

Australians don't believe this outcome is achievable on the Age Pension alone, with 8 in 10 believing that if we did not have superannuation, older Australians would have reduced financial security on the Age Pension.

The Australian community is clear on the need for a compulsory system, fewer than 2 in 10 Australians strongly believe that they would save enough for retirement through voluntary savings alone.

The Australian community has strong views on equity with more than 7 in 10 Australians believing that the Government should make the system fairer by reducing tax concessions on super for high income earners and instead better supporting outcomes for low income earners. This is consistent across income brackets.

The promise of superannuation is for a retirement income that is more than just 'getting by' and significantly higher than that of the Age Pension. The community's understanding of our retirement income system should not be limited to the mechanics of the system and how each pillar relates to the others, it must also extend to the community's expectations of the quality of retirement we provide to our senior citizens.

This has been the motivation for undertaking community expectations research and has guided our approach to this submission.

Adequacy

- The Panel's approach to adequacy should focus on the needs of Australians who are going to primarily rely on the Age Pension or superannuation or a combination of both to fund their retirement
- The Government should introduce legislation on the objective of the retirement income system, including superannuation and aged care
- The objective should make it clear that superannuation is intended to provide a dignified and financially secure retirement income, above the level of the Age Pension
- A legislated objective should be accompanied by measures to report against the objective along with secondary objectives and principles

- AIST research has shown that even small amounts of superannuation significantly improve the quality of life in retirement, but this does not necessarily provide lifelong financial security
- AIST research confirms community expectations for a dignified and financially secure income in retirement based on absolute - not relative (and pre-retirement) - benchmarks. A new measure of adequacy between 'modest' and 'comfortable' is needed to meet this expectation
- The retirement income system should predominately assess adequacy against a benchmark based on a level of expenses, having regard to key demographic factors, such as home ownership, relationship status and location. These should be assessed on an objective and structural basis, and not on an ad-hoc basis
- Recognising these different factors Mercer have undertaking calculations of net retirement income for a range of sample members ("Cameos"). This has been developed to demonstrate how different policy changes will impact members differently
- AIST research shows Australians want the Superannuation Guarantee (SG) increased to 12%. Evidence demonstrates that this will increase overall retirement outcomes
- Over time, a good policy outcome is for the number of people receiving a part-pension to increase (with a reduction in those having to rely on the full Age Pension as their only source of income) while recognising that the majority of retiring Australians will continue to receive some Age Pension. The current Age Pension taper rate disincentivises saving and diminishes the integrity of the superannuation system and should be adjusted. There is no evidence that the gap between preservation age and pension age encourages reckless consumption in order to qualify for the pension. The Government should:
    - Reduce the taper rate to $2 per $1,000 in assets
    - Accelerate increase in SG to 12%, with an increase to 10% at 1 July 2020
- Career gaps significantly reduce lifetime savings. These should be addressed by universal (e.g., LISTO) rather than just voluntary (e.g., co-contributions) measures, and should be supplemented by compensatory measures (e.g., payment of superannuation during all periods of leave)
- Importantly, a nuanced approach must be taken when assessing the impact of individual policy settings on adequacy for various demographics. Policy settings such as tax concessions, the SG rate and the taper rate should each be considered separately against our objective of providing minimum outcomes for all Australians. Falsely conflating the impact of individual policy settings by arguing, for example, that we must accept inadequacy because increasing the SG rate reduces equity tax concessions is unnecessarily defeatist. Each of these policy settings is under our control and must be put to work individually to support equity and adequacy
- An independent advisory Retirement Income Council should be established to oversee performance and changes to the system and assess the cost of tax concessions

Fairness

- Superannuation is a national institution that provides an important financial asset and is the cornerstone for retirement for most Australians, but like most areas of social policy, there is room for improvement
- An individual's success in the labour market determines a person's retirement outcomes, fairness issues should be specifically addressed

- The retirement income system has not adequately recognised or responded to the needs of many Australians, resulting in many women, renters, Indigenous Australians, carers, single-person households and others being structurally disadvantaged in retirement. It is estimated that these demographic cohorts represent at least half the working population. These gaps in the system should be addressed by structural measures that can be assessed and addressed on an ongoing basis, rather than by ad-hoc pulling of policy levers
- The Panel should consider the impact of marital status, gender, and home ownership in assessing fairness in the system
- The Government should take immediate steps to address current problems with the fairness of the system by:
    - Targeting cohorts likely to receive low retirement incomes
    - Requiring super to be paid on all parental leave
    - Abolishing the $450 monthly threshold for SG payments and the work test that affects SG eligibility for workers under 18 (or who are private or domestic workers) who work less than 30 hours per week
    - Extending the coverage of super to independent contractors, self-employed and people on Government support payments e.g. CDP
    - Increase Age Pensioner rental assistance for non-homeowners
- While supporting an increase to pensioner rental assistance, superannuation should not be a means of resolving home ownership problems. The scale of the housing affordability problem requires a broad range of policy responses, including policy measures that do not cause house price inflation nor erode retirement savings
- The retirement age should remain at realistic levels that allow all Australians to enjoy an active retirement
- Not all Australians at or past retirement age have the same capacity to remain in the workforce, with many not able to continue working. An emphasis on encouraging older Australians to work increases the disproportionate benefits derived by higher-income earners who often have far greater opportunities to work longer in fulfilling jobs and ignores the high proportion of involuntary retirees
- The Government should ensure tax concessions support the integrity of the superannuation system for middle-income Australians
- The retirement income system provides higher benefits and levels of Government support to fulltime, male, continuously employed, higher income earners. This is exacerbated by the legacy benefits applicable to monies in superannuation prior to the 2016 superannuation reforms. While these reforms – notably the $1.6 million transfer balance cap - limited the amount of future contributions that can be made into superannuation, billions of dollars remain in very high balance accounts, especially for legacy multi-million SMSFs accumulated prior to the reforms
- Tax concessions for high net worth individuals should be reviewed, with an emphasis on existing superannuation accounts exceeding $10 million. Unless this is addressed, increasing levels of Government support will be provided to those in higher income brackets for decades to come at the expense of other cohorts

Member protection

- The Panel should identify member protection as a key principle for the retirement income system. This principle provides protections for those not actively involved in superannuation and retirement planning, while providing options for those who are
- The higher standards applicable to MySuper products and the operation of the default fund selection system are fundamental to safeguarding member protections
- Mass market advice tools are useful and may increase financial literacy and understanding but there is no evidence this alone is sufficient to protect members from predatory behaviour. A default system that screens underperforming funds, high levels of regulatory protection and effective regulators will support public confidence in the system
- Default fund selection operating under the Fair Work Commission framework, profit-to-member funds, and funds operating in the best interests of members provide fundamental consumer protections
- Additional legislative protections, improved financial advice and transition to retirement arrangements, improved and expanded member-centred information and advice (including greater access to intra-fund advice and services for vulnerable consumers) should be developed to protect members. Other measures should include:
    - Streamlined transition to retirement income stage
    - Light-touch commencement of a default MyPension
    - Comparable disclosure of retirement income product features and performance
- A single means test for the Age Pension and aged care would make it easier for individuals to understand and plan. The complexity of existing interactions means that there can be differing and inequitable outcomes
- Median superannuation balances for men and women between 55-64 are currently $183,000 and $118,556. While there is a need to further develop the retirement phase of superannuation system, determining what default retirement product is appropriate for their fund member demographics should be a matter for trustees. Members should be encouraged in retirement to commence products that meet their needs and be protected from products that are not in their best financial interests. AIST research has shown that account-based pensions are generally suitable for retirees with $250,000 or less in superannuation

Response to consultation questions

The retirement income system

Q1. Are there aspects of the design of retirement income systems in other countries that are relevant to Australia?

Reports such as the Melbourne Mercer Global Pension Index (MMGPI) comparing retirement income systems should be used in the assessment of the Australian system. The integrity measures in the MMGPI address member protection and confidence and should be included in the Panel's framework. The Panel should give further consideration should be given to an EET system of pension taxation.

Given the unique structure of Australia's retirement income system it is difficult to ascertain whether aspects of retirement income systems in other countries would be relevant or successful in an Australian context. The design of a retirement income system needs to take into account the country's specific context including economic, social, cultural and demographic differences, all of which will change over time.

Despite this, there is benefit in learning from other countries' successes and failures in the design of a retirement income system. Two relevant pieces of research are the Melbourne Mercer Global Pension Index and the Thinking Ahead Institute Global Pension Assets Study.

The Melbourne Mercer Global Pension Index[2] uses three sub-indices – adequacy, sustainability and integrity – to measure each retirement income system against more than 40 indicators. In 2019 the index ranked Australia as the third best system in the world, receiving a B+ grade. Some of the common challenges identified in pension systems around the world include increasing life expectancy, the need to encourage more savings, and increasing access to private pensions for the self-employed.

The Thinking Ahead Institute Global Pension Assets Study[3] covers 22 major pension markets and includes analysis of the seven largest pension markets. The 2018 study found that in pension design there is a continuing trend towards a defined contribution model of which Australia currently has the highest allocation to defined contribution (86%) compared to 62% in the US, 18% in the UK and 6% in the Netherlands.

Without endorsing the following, some design features of retirement income systems in other countries that may be relevant are:

- **Taxation system.** Many countries adopt an Exempt-Exempt-Taxed (EET) system of pension taxation where the contributions and investment income are exempt from taxation and the benefits are

[2] Melbourne Mercer Global Pension Index (2019). Available from: https://tinyurl.com/v8ouqtq

[3] Thinking Ahead Institute (2018), Global Pension Assets Study 2018. Available from: https://tinyurl.com/vnmu5he

taxed when received by the individual. The extra administration relating to taxation at all stages in Australia adds significant costs to industry and ultimately to members. Additionally, taxing benefits when they are received by the individual creates an opportunity to make the system more equitable and sustainable.

- **Means testing Age Pension.** Australia is the only country with the complexity of both an assets test and an income test. Furthermore, countries such as Netherlands and Denmark provide a flat Age Pension equivalent.
- **Collective Defined Contribution (CDC) schemes.** Both the Netherlands and Canada offer collective defined contribution schemes. Research by Aon Hewitt into the design of CDC plans found that as well as offering cost certainty to employers, CDC plans can provide better average pension incomes to members than conventional defined contribution (DC) schemes. In addition to this, according to Aon Hewitt CDC plans can provide members with a much better idea of their income in the run up to retirement compared to a conventional DC scheme[4].
- **Occupational categories.** An important feature of the Swedish pension system is that the same rules apply for all occupational categories and the self-employed.

[4] Aon (2013), Collective defined contribution plans: A new opportunity for UK pensions? Available from: https://tinyurl.com/vvet86n

Purpose of the system and role of the pillars

Q2. Is the objective of the Australian retirement income system well understood within the community? What evidence is there to support this?

There is no legislated objective for our retirement income system. However, the Australian community has strong views on what the objective and features of the retirement income system should be. Research commissioned by AIST shows that the community supports an equitable, universal, compulsory retirement system that will deliver all Australians a decent, dignified life, free of financial stress in retirement. Australians strongly support for both superannuation and the Age Pension, and don't believe adequate outcomes can be delivered by the Age Pension alone.

These clear community expectations should be enshrined in a legislated objective for the superannuation system. This would require policy makers to develop system settings, and private providers to deliver outcomes, that meet community expectations. Such an objective would assist to ensure trust and support for the system in an environment where retiree experiences are misaligned with expectations of retirement.

A legislated objective should be accompanied by measures to report against the objective along with secondary objectives and principles

Research of community expectations around retirement issues commissioned by AIST has found that more than 8 in 10 Australians believe the Government should make sure that the income received from super and the Age Pension is high enough so that all Australians have a decent life free of financial stress in retirement. This finding is consistent across education levels, geographic location (state, regional/capital), and voting preference.

'I THINK EVERYONE SHOULD HAVE "NICE TO HAVES" WHEN THEY RETIRE – AT LEAST EVERY NOW AND THEN. WE'VE ALL WORKED HARD ENOUGH THROUGH LIFE AND SO DESERVE THESE LITTLE "NICETIES"' – WORKING AUSTRALIAN

Australians don't believe this outcome is achievable on the Age Pension alone, with 8 in 10 believing that if we did not have superannuation, older Australians would have reduced financial security on the Age Pension.

'SUPERANNUATION SHOULD ALLOW RETIREES TO LIVE COMFORTABLY AND ENJOY LIFE AFTER HAVING DONE OUR BIT FOR SOCIETY' –WORKING AUSTRALIAN

'THE AGED PENSION WOULD NOT BE ENOUGH TO LIVE ON AS MY FOOTBALL MEMBERSHIP WOULD HAVE TO GO. THE WEEKLY COFFEE AND CAKE POSSIBLY ALSO HAVE TO GO' – RETIRED AUSTRALIAN

'IF I HAD TO LIVE ON THAT I'D FREEZE IN WINTER AND BOIL IN SUMMER! I KNOW PEOPLE WHO CAN'T AFFORD ANYTHING BUT BELOW BASIC NEEDS, THAT'S NO WAY TO LIVE!'– RETIRED AUSTRALIAN

The Australian community is clear on the need for a compulsory system, fewer than 2 in 10 Australians strongly believe that they would save enough for retirement through voluntary savings alone.

'PEOPLE MAY HAVE THE BEST INTENTIONS AND AIM TO CONTRIBUTE TO THEIR SUPER, BUT LIFE WILL INTERFERE- TOO MANY BILLS, EMERGENCY FINANCIAL EVENTS, SCHOOL COSTS AND SO ON' – WORKING AUSTRALIAN

'I DON'T BELIEVE ANYONE SHOULD BE ABLE TO OPT OUT OF COMPULSORY SUPER' – RETIRED AUSTRALIAN

The Australian community has strong views on equity with more than 7 in 10 Australians believing that the Government should make the system fairer by reducing tax concessions on super for high income earners and instead better supporting outcomes for low income earners. This is consistent across income brackets.

'I THINK THEY COULD LOOK AFTER THOSE WHO REALLY NEED IT A BIT BETTER' – RETIRED AUSTRALIAN

These findings provide a clear foundation for a widely supported objective for our retirement income and our superannuation system. Based on these community expectations, the objective for our superannuation system should be: 'To provide an adequate income to ensure all Australians achieve a financially secure, dignified standard of living in retirement, supplementing or substituting the Age Pension.'

This makes it clear that the core purpose of the superannuation system is to provide benefits to all Australians, to a level that meets community expectations over and above what the Age Pension delivers.

The objective not only enshrines community expectations for system outcomes, but:

- Guides policy development, and provides a nexus between new policy and the objective
- Ensures a non-partisan approach to policy settings
- Embeds consideration of the interaction between superannuation and other parts of the retirement income system
- Requires measures to report against the objective. AIST has developed the AIST-Mercer Super Tracker as a joint initiative with Mercer, and is an example of a tool that can be used to assess system performance against the objective[5]

Conversely there are concerns that if an objective based on community expectations isn't forthcoming – along with policy settings to achieve the objective – there may be a reduction of trust and community support for both the system and legislators. This is particularly the case if retirement outcomes continue to be inequitable and inadequate as we discuss in our response to question 12.

[5] AIST-Mercer (2016), AIST-Mercer Super Tracker: How the super system stacks up on fairness, adequacy and sustainability. Available from: https://tinyurl.com/w7v3xmf

A widening gap between community expectations of the life Australians expect to have in retirement and what they are experiencing should be of concern to policy makers. To date there has been:

- No clear articulation of an objective for our retirement or superannuation systems by Governments
- No agreed position on the interaction of the various pillars of the retirement income system
- Ongoing changes to Government policy settings without consistent, cohesive regard to systemic outcomes
- Hasty implementation of policy changes leading to ongoing uncertainty

The sole purpose test in the SIS Act sets operating parameters for superannuation but is not a proxy objective. It does not address adequacy or the interaction between superannuation and other parts of the retirement income system.

A previous Government introduced legislation for the objective of superannuation in response to a recommendation of the Financial System Inquiry but has not progressed it.

The superannuation industry proposed an alternate definition. In a joint letter[6] to the Minister for Revenue and Financial Services, AIST, ASFA, ISA and SMSFA recommended the following objective:

"*To provide an adequate income to ensure all Australians achieve a comfortable standard of living in retirement, supplementing or substituting the Age Pension.*"

Changes to the Age Pension assets test taper rate in 2017 demonstrate how the absence of an objective for the retirement income system created significant inequities for middle Australia that threaten the integrity of the system.

Ongoing ad-hoc changes to the retirement income system, including superannuation, have diminished both support and understanding of the system. Australians support Government regulation of the super system to improve equity and adequacy, and protect members, but they express ongoing concern about policy change that doesn't have a clear objective.

'I AM CONCERNED ABOUT THE CERTAINTY … CONSTANT CHANGING OF GROUND RULES PARTICULARLY DRIVEN BY SHORT TERM POLITICAL INTERESTS.' – WORKING AUSTRALIAN

There have been many inquiry recommendations aimed at increasing system stability, but they have been noteworthy for their lack of effective implementation by successive Governments.

Community support and understanding of the purpose of the retirement income system is centrally important, and that support and understanding can best be earnt by increasing the stability and integrity of the system in line with community expectations of what it should deliver.

[6] Joint Industry Association Letter – Objective of Superannuation (2016). Available from: https://tinyurl.com/v7qzu6o

Q3. In what areas of the retirement income system is there a need to improve understanding of its operation?

Research commissioned by AIST[7] showed that while Australians have a surprisingly good grasp of the principles and expectations that underpin our retirement income system, some technical areas of retirement policy were not well understood, including:

- Tax settings on superannuation
- The Superannuation Guarantee rate

However, there should not be a requirement for people to understand the operation of the retirement income system in order to derive a benefit from it.

The research also showed that Australians have expectations that the Government will ensure that superannuation savings are protected, both from predatory service providers and from non-payment of superannuation by employers.

'ENSURE ALL EMPLOYERS ARE CONTRIBUTING TO THE SUPER GUARANTEE FUNDS. THINK THE GOVERNMENT NEEDS TO IMPROVE IT'S PERFORMANCE IN THIS ROLE.' – WORKING AUSTRALIAN

'THE GOVERNMENT SHOULD ENSURE IT IS REGULATED TO MAINTAIN A FAIR SYSTEM' – WORKING AUSTRALIAN

As will be outlined in our response to question 20, many people do not have high levels of financial literacy, often do not read or understand product disclosure information, and often do not understand financial advice they receive (even when they implement it).

While education to improve understanding has merit in itself, this will not improve outcomes. The focus should be on systemic solutions that improve retirement outcomes in line with community expectations.

'THE GOVERNMENT SHOULD PROVIDE MORE INFORMATION ABOUT HOW YOU CAN IMPROVE YOUR SUPERANNUATION ASSETS.' – RETIRED AUSTRALIAN

The requirement that all default employer contributions be made into a MySuper product provides protection for members who do not understand the operation of the retirement income system or actively engage with their own superannuation. The 2010 Super System Review explicitly recommended the implementation of such a default product in order to provide this protection.

For the most part, MySuper products have provided this protection and issues of fee erosion from multiple accounts and underperforming products have (and are) being addressed by various legislative and regulatory initiatives.

[7] Retirement Review Research (2020), Qualitative and quantitative research conducted by Essential Research for AIST

Similarly, the allocation of superannuation contributions into a default fund for members who do not otherwise make a choice has generally resulted in above average investment outcomes for these members. This system operates on the basis of default superannuation funds being listed in industrial awards and enterprise bargaining agreements approved by the Fair Work Commission. Although legislated on bases recommended by the Productivity Commission in 2012, improvements to FWC processes have been stalled by Government (and previous Governments), who appear to be seeking the development of an alternate model.

Navigation between superannuation, the Age Pension and other Government supports must be simple, in plain English and as user-friendly as possible. There are obstacles to this (such as different and differing forms and eligibility for the Age Pension, other Government supports and access to aged care benefits) that the Review Panel should call out for attention.

Q4. What are the respective roles of the Government, the private sector, and individuals in enabling older Australians to achieve adequate retirement incomes?

Super funds and employers are the key private sector entities in the retirement income system. Their roles, respectively, should be to maximise member outcomes and ensure SG obligations are met. These agents operate under strong regulation as is appropriate in a system that combines private savings with public support. The community sees a strong role for government in ensuring members are protected from principle agent problems, and in ensuring SG obligations are met. Principal-agent problems are addressed by:

- ***Default fund selection operating under a legislated Fair Work Commission framework***
- ***The presence of profit-to-member superannuation funds in the market***
- ***Enhanced legislative requirements for funds to operate in the best interests of members – including better regulation of choice superannuation products***

The community also expects the government to ensure age pension and superannuation settings deliver adequate, equitable retirement outcomes.

Australians value their private superannuation savings, but recognise that voluntarily savings are not a realistic prospect as a basis for our retirement income system.

Both the Government and the private sector must be accountable for retirement income system outcomes, while the Government also has wider policy concerns, including taxation and sustainability.

Achieving adequacy and equity objectives requires a legislated objective for our superannuation system, as well as high standards of member protection regulation to address principle-agent problems.

The Government is ultimately responsible for these settings and for the efficient and effective operation of the retirement income system (including the interface with superannuation) and its positioning within broader social policy.

Research shows that Australians see retirement income system outcomes and the regulation of private providers as a responsibility of Government.

'THE COMMONWEALTH GOVERNMENT SHOULD BE RESONSIBLE FOR DESIGNING, FACILITATING AND REGULATING A SUPERANNUATION SYSTEM THAT WORKS FOR THE GREATEST NUMBER OF AUSTRALIANS WHO MAKE CONTRIBUTIONS IN ORDER TO SUPPORT THEIR RETIREMENT. VERDICT - COULD DO BETTER.' – WORKING AUSTRALIAN

The involvement of the private sector in the provision of superannuation, with strong regulation in a compulsory regime, improves adequacy and reduces reliance on the state Age Pension.

Risks arise when the interests of members and agents are not aligned, and agents make decisions benefitting themselves and causing detriment to the member. This is mitigated in the profit-to-member sector by the focus on member interests and the absence of a requirement to pay dividends to shareholders, the operation of the trust structure for superannuation and through the protection of members interests by legislation and regulation.

> *'THE GOVERNMENT SHOULD MAKE IT OBLIGATORY FOR ALL FUNDS TO BE MORE TRANSPARENT WITH WHAT FEES THEY CHARGE. ENSURE ALL EMPLOYERS ARE CONTRIBUTING TO THE SUPER GUARANTEE FUNDS. THINK THE GOVERNMENT NEEDS TO IMPROVE IT'S PERFORMANCE IN THIS ROLE.' – WORKING AUSTRALIAN*

Despite private sector stakeholders, the system must exist only to support super fund members, not commercial objectives for intermediaries. While there have been proposals for APRA to license superannuation administrators and commercial clearing houses[8], employers and super funds are the key entities with statutory responsibilities in relation to superannuation.

Superannuation fund trustees, rightly, have a high level of fiduciary responsibility for their members that cannot ultimately be delegated to other parties and is subject to strong regulation. Where funds outsource functions to external providers, these are subject to APRA's Prudential Standard on outsourcing and require high levels of oversight by funds.

AIST supports fiduciary responsibilities remaining with super funds so that there is no diffusion of accountability. There are significant risks of principal-agent problems in a superannuation system with low levels of member engagement. It is important that system settings include strong obligations for the RSE trustee and high levels of regulation, supported by penalties for breaches, to mitigate these risks.

Throughout the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry[9], the Commissioner noted that that some financial institutions focused too much on the interests of the institution in seeking to achieve the 'right balance' between the institution and the super fund member. In fact, the Commissioner noted that the pursuit of members best interest was not to be balanced against the interests of the financial institution and was not to be diminished or diluted by other considerations.

Employers are required to make SG contributions for eligible employees and to choose a default superannuation fund when an employee has not chosen a fund. While employers do not have fiduciary responsibilities to their employees in relation to superannuation, the responsibility to choose a default fund is governed by law and overseen by the Fair Work Commission (FWC) in a transparent and accountable

[8] See Super System Review (2010) recommendation 6.2. Available from: https://tinyurl.com/rmgatfv

[9] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Final Report, Volume 1 (2019), 226-7. Available from: https://www.royalcommission.gov.au/sites/default/files/2019-02/fsrc-volume-1-final-report.pdf

process. The protections built into this process address the principal agent problem between employers and employees.

The roles of APRA, ASIC and the ATO as Government agencies in relation to superannuation are widely understood and accepted. In contrast, the role of the FWC, while legislated, is the subject of ongoing debate. The FWC administers the listing of default super funds in industrial awards and enterprise bargaining agreements. Listed funds must be MySuper products.

The FWC's Expert Panel must not include a particular standard MySuper product on the Default Superannuation List unless satisfied it would be in the best interest of the default fund employees modern awards apply to, or a particular class of employees, taking into account:

- The appropriateness of the product's investment return target and risk profile
- Its expected ability to deliver on the product's return target
- Fees and costs
- Net returns
- Governance practices, and
- Administrative efficiency and quality of advice.

In both 2012[10] and 2019[11], the Productivity Commission found that default superannuation arrangements for employees who derive their default superannuation product in accordance with modern awards provided market stability, and net returns of default products have generally exceeded those of choice products.

In 2012, the Commission recommended a set of factors to be considered by an Expert Panel of the Fair Work Commission as a second stage 'quality filter' when selecting default products for modern awards. The-then Government legislated these arrangements in 2013 but Governments since 2014 have prevented their full implementation.

However, in 2018, the Productivity Commission's alternative recommendation was to decouple the default fund allocation from industrial relations but to maintain the quality filter and expert panel through a new and separate process.

The explanation given for this position is that the Commission identified a minority of underperforming products listed among the majority of overperforming products in modern awards. While the overwhelming problem with underperformance lies with retail choice products, AIST also accepts that there is no place for underperforming default (MySuper) products.

Keeping default fund selection within the industrial relations system already ensures high standards of member protection, and this would be enhanced by full implementation of the stalled 2013 reforms.

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[10]Productivity Commission (2012), Default Superannuation Funds in Modern Awards. Productivity Commission Inquiry Report, Canberra: Available from: https://tinyurl.com/y8zoaa49

[11]Productivity Commission (2018), Superannuation: Assessing Efficiency and Competitiveness, Canberra https://tinyurl.com/ygheyqdu

Higher levels of member protection are also provided and reinforced by the 2019 Member Outcomes legislation and the associated APRA Prudential Standard.

Financial advisers also have a role in the retirement income system, and it is incorrect to assume that members using them or subsequently being advised to contribute to retail choice products have a higher level of understanding or engagement with the details of the system. Principal-agent problems also arise in respect of financial advisers, with the Financial Services Royal Commission[12] finding instances of arrangements that encouraged some advisers to sell products they derived a benefit from rather than give unbiased advice focused on their clients' best interests.

Research shows that Australians support a compulsory, universal system of private savings, and generally do not believe that as individuals they would be able to save enough for retirement outside the superannuation system. Only 2 in 10 strongly believe they would be able to save enough for retirement without compulsory superannuation.

This is borne out by low levels of voluntary superannuation contributions across the system (see response to question 22).

> *'I WAS NOT SAVING FOR RETIREMENT AS LIFE HAS ALWAYS BEEN A STRUGGLE SO DAILY NEEDS WERE THE MAIN THING I THOUGHT ABOUT. I AM GLAD THAT COMPULSARY SUPER CAME IN AS I HAVE A LITTLE BIT EXTRA TO HELP ME FOR A WHILE. VERY GRIM.' – RETIRED AUSTRALIAN*

> *'WORK CASUAL OR PART-TIME AND OFTEN NO SUPER IS PAYABLE ON THE AMOUNT YOU EARN AND WHAT YOU DO EARN DOESN'T ALLOW ANY LEFT OVER AFTER LIVING EXPENSES TO BE A SELF [VOLUNTARY] CONTRIBUTION.' – RETIRED AUSTRALIAN*

[12] Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry, Final Report, Volume 1 (2019). Available from: https://tinyurl.com/y93raay5

Q5. 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?

The role of each pillar should recognise existing and medium-term level of retirement preparedness among different cohorts of the population, as well as long-term considerations. The purpose of the first and second pillars must be strengthened for those tracking to a low level of retirement income in order to improve adequacy.

AIST strongly supports the multi-pillar structure of the Australian retirement income system which shares risks between Government and individuals through a combination of public provision and incentivised self-provision. The roles of each of the pillars are summarised here:

First pillar: Age Pension

- To ensure access to a safety-net income for all retiree's subject to income and assets tests
- To provide income sufficient to alleviate poverty
- Provide most of the retirement income for low income earners
- Supplement the retirement income of middle income earners
- Provide retirement income for people who have exhausted their superannuation and other savings
- Provides protection against investment, inflation and longevity risk

Second pillar: Superannuation Guarantee

- Provide an income adequate to ensure a financially secure and dignified standard of living in retirement, supplementing or substituting the Age Pension
- Supplement the retirement income of low-income and some middle-income earners
- Supplement and partially substitute the Age Pension for higher middle-income earners
- Substitute the Age Pension for higher-income earners

Third pillar: Voluntary superannuation savings

- Supplement compulsory savings where members are able to afford to do this
- Not a substitute for compulsory savings
- Available only to those who need additional superannuation savings to reach an objective benchmark of financial security and dignity

The SG is not mature, and neither the current (9.5%) nor increased (12%) rate will apply throughout a worker's career until the 2040s.

Given the long lead time to system maturity, the interaction between superannuation and the Age Pension should be considered, with regard to the existing level of retirement preparedness among different population cohorts as well as its mature state. This means policy consideration should be given to different retirement outcomes for women and those in casualised employment, and to the relatively low level of retirement benefits for current retirees.

'I THINK [SUPERANNAUTION] IS WORKING FOR THOSE OF US WHO HAVE IT, JUST NOT ENOUGH TIME FOR SOME OF US TO ACRUE ENOUGH TO LIVE ON FOR THE REST OF OUR LIVES. YES IN FUTURE GENERATIONS ONCE THEY KNOW THEY HAVE TO LIVE ON SUPER. ITS HARD FOR OUR GENERATION AS WE ONLY JOINED MID CAREERS, SO SOME OF US DONT HAVE ENOUGH.' – WORKING AUSTRALIAN

While policy debates about appropriate post-retirement products and structures are important, they should also recognise the value of existing products (eg, account-based pensions) in the context of lower levels of retirement benefits.

This position is supported by research conducted by the Australian Centre for Financial Studies[13] which highlighted that the financial position and experience of retirees is diverse. The research stated income streams from superannuation balances cannot be considered in isolation and that typical retirees with superannuation balances of $250,000 or less are likely to be either full or part recipients of the Age Pension, which to a large extent provides a form of longevity insurance. These cohorts are more likely to invest 100% of their balance in an account-based pension to ensure an adequate income and maximise flexible access to capital.

Retirees on higher balances of $500,000, are more likely to need to annuitise part of their retirement balance to protect against market inflation and longevity risk.

The research demonstrates that trustees need to know the demographics of their membership and that flexibility for funds is important.

The inclusion of voluntary savings in superannuation as the third pillar may inadvertently contribute to the high level of tax concessions available to the very high income earners, and to the flawed notion that shortfalls in retirement saving can be made up by additional voluntary contributions. Relatively few low and middle income earners have sufficient discretionary income to be able to make voluntary contributions into their super.

As highlighted in our response to question 22, the levels of voluntary contributions increase with age and income. Voluntary contributions remain low for those with a taxable income of less than $180,000 per year but significantly increase for high earners (earning above $180,000 per year).

[13] AIST and Australian Centre for Financial Studies (2015), Superannuation in the post-retirement phase: the search for a comprehensive income product for retirement. Available from: https://tinyurl.com/rh5yclr

Q6. 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?

There should be increased emphasis on housing and less on voluntary superannuation in the third pillar as this has a greater impact on the appropriate balance between the pillars. Improving coverage of superannuation for the population and throughout a person's working life will improve the fairness, adequacy and balance of the pillars.

The objective of the retirement income system is not able to be achieved by trade-offs. It is crucial that the first two pillars alone provide an adequate standard of living in retirement.

While voluntary savings both outside and within superannuation are not as significant as the other two pillars, the owner-occupied home is often the most important vehicle for voluntary savings outside of superannuation - especially for older aged cohorts.

Owning or not owning residential property has a significant bearing on retirement adequacy, but the level of financial consideration given to renters on the Age Pension is not sufficient to compensate for their additional costs (in comparison to home-owners).

Owner-occupied housing (or mechanisms to compensate for the lack of it) should be identified by the Panel as the 'real' third pillar in the retirement income system (or at least the most significant element of the pillar) and be the focus of policy consideration.

The question of trade-offs between the pillars – and with other savings vehicles - is inevitable, and the trade-off between adequacy and sustainability is of course the key tension in the retirement income system.

However, this is a matter of judgement rather than scientific certitude and will change over time. Even assessments of financial costs are essentially subjective given the base assumptions. Whoever assesses the trade-offs must make the basis for these trade-offs explicit – including implicit comparisons and value judgements - and be subject to review and scrutiny.

Mandatory superannuation coverage is not just relevant to adequacy but also needs to be considered explicitly in relation to the balance between the pillars. This is relevant to the above point about voluntary superannuation and also to the second pillar. The trade-off between adequacy and sustainability can and should also be addressed by policy decisions to extend coverage.

Even though the level of mandatory superannuation in Australia is quite high, maintaining and extending coverage should be identified as an important policy question. Lack of provision for superannuation during career breaks, increasing casualisation of the workforce and increased levels of self-employment all result in significant numbers of individuals not receiving superannuation contributions. This may result in an imbalance between the pillars. Most of the shortfall will be made up by increased reliance on the Age Pension, while some higher net worth individual will be able to call on voluntary savings.

The World Bank handbook on assessing private pensions has considered related questions, and AIST support their conclusion that policy makers should not take an overly mechanistic view in assessing trade-offs:

> *Trade-offs between the outcomes are often important when framing the recommendations arising from pension system assessments. Expert judgment is essential in making the right trade-offs. These judgments are likely to be system specific and to take account of economic and political realities as well as the practicalities of implementation. Hence it would be difficult and perhaps misleading to construct an overall index with weights for each outcome in an effort to automate or quantify the trade-offs and to make decisions on priorities.*[14]

A growing proportion of Australians will only have access to the first two pillars (Age Pension and Compulsory Superannuation Guarantee) and therefore it is crucial that these two pillars alone provide an adequate income to ensure a dignified and financially secure standard of living in retirement. The achievement of this objective is not able to be achieved via trade-offs with other pillars.

[14] World Bank (2016), Outcomes Based Assessments for Private Pensions: A Handbook, Page 10. Available from: https://tinyurl.com/u2jzdyr

The changing Australian landscape

Q7. 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?

The retirement income system has not adequately recognised or responded to a changing landscape, resulting in many women, renters, Indigenous Australians, carers and single-person households and others being structurally disadvantaged in retirement. It is estimated that these demographic cohorts represent at least half the working population. These should be addressed by structural measures that can be assessed and addressed on an ongoing basis, rather than by ad-hoc pulling of policy levers. Fulltime, male, continuously-employed, higher income earners should not be the baseline for policy formation.

Maturity of the superannuation system

Despite the maturing of the superannuation system, the proportion of retirees eligible for a full or part pension is estimated to remain fairly stable over future decades. However, it is generally accepted that a greater proportion of Age Pension recipients will rely on a part (as opposed to full) pension. As stated by the Productivity Commission in 2015:

> *Even under a 'mature' superannuation system, a fully self-funded retirement is likely to remain the province of those who were relatively well off during their working years.*[15]

Individuals who have reduced earning capacity and limited accumulation of compulsory savings throughout their working age years will continue to have that disadvantage entrenched into their retirement.

'IT [SUPERANNUATION] IS SUPPOSED TO SUPPORT YOU IN LIFE AFTER RETIREMENT, AND IF YOU HAVE BEEN FORTUNATE IN LIFE AND ACCUMULATED A SUBSTANTIAL SUM IN YOUR SUPER THERE IS EVERY POSSIBILITY THAT YOU WILL BE FINE. FOR A GREAT MANY PEOPLE THIS IS NOT THE CASE.' – WORKING AUSTRALIAN

Home ownership

Australia's retirement income system is, to a large degree, predicated on the assumption that most retirees will own their own home outright and therefore have relatively low housing costs. However, home ownership rates for older Australians, like home ownership rates overall, are trending lower, from 81% of over-65s today to a projected 55% by the middle of the century. As home ownership levels decline, however, so too will the adequacy of the Age Pension. Default settings have not been responsive to the changing demographics of home ownership. Increasing levels of mortgage debt into retirement will

[15] Productivity Commission (2015), Superannuation Policy for post-retirement. Available from: https://tinyurl.com/vczsucb

increase the number of retirees using super to pay down mortgages rather than supplementing income over the longer term[16,17,18 & 19].

Most older Australians prefer to remain in their home for as long as they can. However, as a substantial portion of household wealth is tied up in the family home, the Government has sought to incentivise downsizing (or 'rightsizing') by retirees to free up equity to support retirement income and aged care needs. From 1 July 2018, people aged 65 and older can make a non-concessional (post-tax) superannuation contribution of up to $300,000 from the proceeds of selling their home.

In the first year of operation data suggests that 4,246 individuals have used the Downsizer measure with contributions totalling over $1 billion[20].

As homeownership rates fall, the number of retirees renting privately will grow rapidly. Recent Productivity Commission research[21] adds to the increasing body of evidence that older households who rent are increasingly in rental stress and that the adequacy of Commonwealth Rent Assistance (CRA) has failed to keep pace with private market rents.

DSS payment data for the June 2019 quarter[22] shows 18.8% of single and 7.7% of partnered Age Pension recipients to be non-homeowners (327,502 individuals in total). 286,708 Age Pension-receiving households received additional CRA support. Median and average fortnightly rents paid by these households are $381.90 and $433.89 respectively, well below the figures paid by the broader over 65s demographic nationally ($530 and $566)[23]. 51% of all private renter households aged 65 or older were in rental stress in 2017-18[24].

Rental stress and instability can drive vulnerable retirees into social housing. According to Productivity Commission estimates[25], roughly half of older renters are in social housing rather than private rentals. 31% of social housing occupants are over the age of 65 and single person households, women and Indigenous people are over-represented in the tenancy figures[26], reflecting the entrenched disadvantage experienced by these demographics.

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[16] Productivity Commission (2015), Housing decisions of older Australians. Available from: https://tinyurl.com/yy5hchab
[17] Senate Economics References Committee Report (2015), Out of Reach? The Australian housing affordability challenge. Available from: https://tinyurl.com/rk6qrr9
[18] CEPAR (2019), Housing in an ageing Australia: Nest and nest egg. Available from: https://tinyurl.com/sc7l8fj
[19] The Conversation (2019), More people are retiring with mortgage debts and the implications are huge. Available from: https://tinyurl.com/quwr4z5
[20] Hon Michael Sukkar MP Media Release (2019), Downsizer contributions reach $1 billion. Available from: https://tinyurl.com/swjmg7z
[21] Productivity Commission (2019), Vulnerable Private Renters: Evidence and Options. Available from https://tinyurl.com/tals2z2
[22] Department of Social Services 2019, DSS Payment Demographics Data. Available from: https://tinyurl.com/v9bdpch
[23] Australian Bureau of Statistics (2019) 41300 Table 3, Housing occupancy and costs, 2017-18. Available from https://tinyurl.com/wmfddzt
[24] Productivity Commission (2019), Vulnerable Private Renters: Evidence and Options. Available from: https://tinyurl.com/tals2z2
[25] Productivity Commission (2015), Housing decisions of older Australians. Available from: https://tinyurl.com/yy5hchab
[26] Australian Institute of Health and Welfare (2019), Housing assistance in Australia. Available from: https://tinyurl.com/qpat3vz

As the proportion of homeowner-retirees decreases and private market rental stress becomes increasingly prevalent, demand for these services will increase. The proportion of older women experiencing homelessness is also on the rise[27].

Marital status and living arrangements

As Age Pension rates are predicated on a recipient's marital status, the impacts of living alone due to divorce and widowhood should also be considered. 45.6% of current Age pension recipients are single. Unless living with family or sharing with others, single people are likely to be living alone.

According to the Australian Institute of Family Studies (AIFS)[28], living alone is slightly more common among women than men, and the chance of living alone increases with age. Women who live alone are, on average, substantially older than men who live alone. In 2011, 39% of women who lived alone were aged over 70, compared to just 19% of men. Conversely, just 26% of women who lived alone were under the age of 50, while among men who lived alone 45% were younger than 50. Divorce and separation mainly characterise those living alone in their 60s while widowhood is more prevalent in later decades.

The number of older Australians who experience divorce in their lives will increase dramatically in coming decades as a result of the mid-1970s "divorce bulge" and structural aging of the population. While couples are increasingly less likely to divorce after age 55, the proportion of couples married for 20+ years prior to divorcing has increased in the decades since 1980. The negative economic impacts of divorce can linger well into old age[29 30].

'IT [SUPER] IS SUCCESSFUL IF NOTHING GOES WRONG, LIKE BEING OUT OF THE WORKFORCE FOR A WHILE, MARRIAGE BREAKUPS ETC..' – WORKING AUSTRALIAN

Labour market participation and income distribution

Many analyses of workforce participation, earnings and adequacy focus on "The average Australian". This fails to address that individual circumstances vary widely and strong outliers at either end of the spectrum skew averages. Income modelling that incorporates AWOTE into its base income assumptions belies the fact that the two top tax brackets of $87k and above apply to roughly one fifth of taxpaying individuals (18% in 2016-17 down from 19.2% in 2010-11)[31], while more than 40% of taxpayers have taxable incomes under $37,000.

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[27] Australian Institute of Health and Welfare (2019), Older clients of specialist homelessness services Available from https://tinyurl.com/vc3b6fw

[28] Australian Institute of Family Studies (2015) The nature of living alone in Australia. Available from https://tinyurl.com/t2gcmm7 and Demographics of living alone. Available from https://tinyurl.com/u38f63d

[29] Australian Institute of Family Studies (2010) Divorce and the wellbeing of older Australians. Available from https://tinyurl.com/vvoeqa6

[30] Australian Institute of Family Studies (2018), Media Release: Divorce legacy lingers in older age. Available from https://tinyurl.com/tjqcscg See also ABC News (2018), The financial impact of divorce lingers for decades, but are men or women bearing the brunt? https://tinyurl.com/yc6lyd8e

[31] Australian Taxation Office statistics, Available from https://tinyurl.com/vyvzk54

Working patterns for women are often also ignored in modelling assumptions. Women now account for 48% of the workforce but 52% of employed women are part-time or casual compared to 29% of employed men. This has significant impacts on women's earning potential. Indeed, the median incomes for part time workers are in the lowest quintile of income distributions.

Workforce segment		Men	Women
Total workforce	% of workforce	52%	48%
	Average income (AWOTE annualised)	$89,768	$77,210
	Median income	$66,300	$49,400
Full time employment	**% of workers of that gender**	**80%**	**52%**
	Median income	**$76,700**	**$65,000**
Employed on salary basis	% of employees of that gender	62%	46%
	Median income	$78,000	$66,768
Employed casually	% of employees of that gender	9%	4%
	Median income	$59,634	$51,948
Independent contractor	% of workers of that gender	9%	2%
	Median income	Not stated	Not stated
Part time employment	**% of workers of that gender**	**20%**	**48%**
	Median income	**$26,000**	**$29,640**
Employed on salary basis	% of employees of that gender	6%	24%
	Median income	$36,400	$37,856
Employed casually	% of employees of that gender	11%	20%
	Median income	$20,800	$19,760
Independent contractor	% of workers of that gender	3%	3%
	Median income	Not stated	Not stated

Source: ABS[32]

According to ATO data, 41.6% of taxpayers had a taxable income of less than $37,000 p.a. in 2016-17 (up from 31% in 2010-11). This figure represents the 5,779,321 individuals who were entitled to recoup contribution tax on superannuation contributions made during the income year via the former LISC scheme. Only 53% received it. As the LITSO/LISC is an automatic payment on lodgement of a tax return, significant numbers of low balance individuals are missing out on the offset by virtue of not receiving super contributions.

A further 40.3% of taxpayers fell into the middle $37,000-$87,000 tax bracket (49.1% in 2010-11 where the upper limit was $80,000), many of whom would be eligible to receive a super co-contribution, however

[32] Australian Bureau of Statistics (2019) ABS cat. no 6302.0 Average Weekly Earnings, Australia. Available from https://tinyurl.com/s2qbcbk and ABS cat. no. 6333.0 - Characteristics of Employment, Australia. Available from https://tinyurl.com/sgasbju

take-up rates relative to potentially eligible individuals is low and has been steadily declining year on year since its inception.

Financial year	LITSO / LISC recipients	% of eligible tax payers	Co-contribution recipients
2010-11			1,151,254
2011-12			1,035,797
2012-13			922,101
2013-14	2,697,975	48.3%	548,218
2014-15	3,179,845	56.7%	509,475
2015-16	3,140,275	55.3%	488,037
2016-17	3,049,764	52.8%	451,137
2017-18	3,034,107	Not available	405,659
2018-19	2,383,945	Not available	376,398

Source: ATO[33]

Broader economic trends

Australia's financial regulators acknowledge that climate change is now a central concern for the economy and financial stability. Both the Climate Council[34] and the Australia Institute[35] have modelled the economic impacts of Australian policy inaction on climate change and, consistent with international studies, found the costs to be enormous. Extreme weather and climate events will increasingly cause economic shocks that will cascade through the economy and impact the allocation of available Government funding.

On an individual basis, natural disasters and significant weather events have the potential to damage or destroy homes and businesses, displace communities, disrupt access to paid work, business closures and volunteer relief efforts and can have long-term impacts on health and wellbeing. These have direct consequences on individuals' personal savings and accumulation of super.

The indirect costs of climate change will also shift and increase spending patterns in retirement. Low income and medium income Australians will be increasingly vulnerable to climate change risks and further financial stressors, particularly those at the upper end of the age scale. Areas of concern include

- **Utility prices:** The need to own and run an air conditioner on more days through the year, and or more days required to run a heater and run utilities such as a dryer or electric blanket causing increases in expenditure.
- **Insurance prices:** Will become even less affordable as more people enter "bushfire zones" hurricane prone areas, etc. causing premiums to increase. As more areas are re-named 'bushfire zones' etc
- **Health costs:** The public health system will see more people suffering from heat related illnesses, and further increase the price of private health insurance for those who desire better care. Lung

[33] Australian Taxation Office statistics, Available from https://tinyurl.com/ry2low3
[34] Climate Council (2019), Compound Costs: How Climate Change is Damaging Australia's Economy. Available from https://tinyurl.com/svlcw2g
[35] The Australia Institute (2019), Cold shower in economics of global warming. Available from https://tinyurl.com/yx2lhcfa

and heart diseases from increased air pollution will also be impacted. Research has also shown climate change will impact crop yields to produce lower nutrient levels, which impacts health.

- **Food bills:** Increased food prices due to more frequent weather disasters including hailstorms, droughts, severe heat and heavy rainfall.

Principles for assessing the system

Q8. 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?

Q9. 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?

In addition to the Panel's proposed principles, the principle of member protection should be added - strengthening protections for those not actively involved in superannuation and retirement planning, while providing options for those who are. This can be delivered by enhanced default fund settings under the Fair Work Commission framework, improved financial advice and transition to retirement, and additional legislative protections.

The principles proposed by the Panel are appropriate for assessment of the retirement income system, and similar principles (although sometimes differently constituted) have been developed or used by other Australian and international investigations.

However, the Panel's proposed principles are incomplete because they do not cover member protection. While the equity principle is critically important, it does not fully encompass member protection. While equity includes consideration of protection and outcomes for those with the least capacity, it does not address the need for all Australians to receive appropriate protection and security from the retirement income system.

An explicit principle for the retirement income system should be to strengthen protections for those not actively involved in superannuation and retirement planning, while providing options for those who are. Ensuring effective protection of members in superannuation is a critical requirement of the retirement income system.

'THE GOVERNMENT SHOULD ENSURE THAT FUNDS ARE HONEST, FAIR, AND THAT THE COMMISSIONS FUNDS EARN ARE LOW. INTEREST MADE SHOULD BE PASSED TO THE CUSTOMER…. I THINK GOVERNMENTS DON'T PROTECT WORKERS SUPER ENOUGH.' – WORKING AUSTRALIAN

Notwithstanding the stated policy intent of successive Governments, the superannuation system and its interaction with the Age Pension system is increasingly complex and beyond the ready comprehension of even the highly financial literate. This challenges the engagement of members with the system and underlines the need for enhanced member protection measures, and the systematic recognition of the importance of these measures.

The key features of member protection in the Australian retirement income system should be:

- Effective default fund allocation for people who do not choose the fund for their mandatory superannuation contributions. AIST supports the existing system and processes oversighted by the Fair Work Commission. This system was subject to legislative enhancement following the recommendations of a Productivity Commission inquiry in 2012. However, the Government has stalled implementation of these enhancements.
- Improved and expanded member-centered information and advice (including greater access to intra-fund advice and services for vulnerable consumers) should be supported and facilitated by changes to the law.
- Streamlined transition to the retirement income stage should be facilitated:
    - Light-touch commencement of a default MyPension
    - Single asset-based means test for the Age Pension and aged care
    - Comparable disclosure of retirement income product features and performance.

Trustees should be required to develop a retirement income framework. Additional SIS Act covenants have been introduced to parliament but not legislated.

All regulators involved in oversight of superannuation should be explicitly required to protect the interests of members. It is noted that enactment of the Treasury Laws Amendment (Improving Accountability and Member Outcomes in Superannuation Measures No. 1) Act 2019 and the Treasury Laws Amendment (Design and Distribution Obligations and Product Intervention Powers) Act 2019 are significant steps in the right direction.

Member protection measures can be facilitated by FinTech innovation and the digitalisation of financial services. However, these supplement rather than substitute structural protections for members. Digital literacy has increased enormously across almost all cohorts in recent years, but it cannot be assumed there has been corresponding increases in financial literacy. Just because an individual can navigate their way around a website does not mean that they understand the concepts being presented to them and the decisions they are being asked to make.

The 2010 Super System Review concluded that:

> *Australians have contributions made to their super funds whether they like it or not. Members should not have to be interested, financially literate, or investment experts to get the most out of their super. If members want to engage and make choices, then the system ought to encourage and facilitate them doing so. If members are not interested, then the system should still work to provide optimal outcomes for them. The super system should work for its members, not vice versa.*[36]

The Government implemented most of the recommendations made by the Review, including, notably, the establishment of MySuper products based on this approach.

The other principles proposed by the Panel are not complete and balanced unless the principle of member protection is also added.

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[36] Treasury (2010), Super System Review, Final Report, Available from https://tinyurl.com/rmgatfv

In terms of trade-offs, a nuanced approach must be taken when assessing the impact of individual policy settings on adequacy for various demographics and against sustainability. Policy settings impacting sustainability such as tax concessions and the taper rate should each be considered separately against our objective of providing minimum outcomes for all Australians.

Falsely conflating the impact of individual policy settings by arguing, for example, that we must accept inadequacy because of the unsustainability of tax concessions being provided to the top income earners, is unnecessarily defeatist. Each of these policy settings is under our control and must be put to work individually to support equity and adequacy.

Adequacy

Q10. What should the Panel consider when assessing the adequacy of the retirement income system?

The Australian community expects a dignified and financially secure retirement for all Australians. The adequacy of the retirement income system must be assessed in a way that delivers on these community expectations.

Determining an adequate level of retirement income and how that should be measured, requires Australians to answer fundamental values-based questions about the type of life we are willing to accept, and believe other Australians should accept, once our working lives are over. In essence:

- What minimum standard of living should Australians reasonably expect in retirement? and
- Should all retired Australians have equal access to this minimum standard?

Australia is one of the richest countries in the world and we live at one of the richest times in human history. According to the OECD Better Life Index Australia ranks above the average for income and wealth, environmental quality, health status, housing, jobs and earnings, education and skills, subjective well-being, social connections and personal security[37].

Retirees unsurprisingly expect to live a meaningful life of dignity that allows them to fully participate in Australian society. They expect to be able to have coffee at a cafe, to afford to attend an exercise class, to have a mobile phone and an internet connection. Some retirees do relatively well, while others struggle to get by. As one of the wealthiest nations in the world, everyone deserves a level of comfort above subsistence.

Research commissioned by AIST quoted in question 2, found that the vast majority of Australians expect we should have, at minimum, a financially secure, dignified retirement - a “decent life” “free of financial stress” that allows them to enjoy life and do the things they love, not just to subsist.[38] Research by State Super[39] found that key driver of the positive feelings toward retirement was that members finally had the ‘time to do the things they wanted to do’.

‘THE ELDERLY SHOULDN’T BE STRUGGLING TO PROVIDE FOR THEMSELVES AND COUNTING EVERY DOLLAR, IT SHOULD BE COMFORTABLE!’ – WORKING AUSTRALIAN

‘WHEN YOU HAVE WORKED HARD YOUR WHOLE LIFE YOU DESERVE TO PUT YOUR FEET UP AND RELAX.’ – WORKING AUSTRALIAN

[37] OECD (2017) Better Life Index, Australia. Available from https://tinyurl.com/3hnmgmf

[38] More than 8 in 10 Australians believe the Government should make sure super and the Age Pension are set high enough that all Australians have a decent life free of financial stress in retirement, Retirement Review Research (2020), Qualitative and quantitative research conducted by Essential Research for AIST

[39] State Super (2018), Beyond Paid Work. Available from https://tinyurl.com/vc5yo23

Assessing adequacy also requires determining the extent to which we value fairness and equity of outcomes between groups of retirees.

> *'I WOULD USE THE CRITERIA THAT PEOPLE CAN RETIRE WITH A COMFORTABLE LIFESTYLE AS A SUCCESSFUL SYSTEM. BUT ALSO THAT PEOPLE CAN RETIRE AT A YOUNG ENOUGH AGE TO ENJOY SOME TIME OUT OF THE WORK FORCE.'*

Fairness is a fundamental Australian value and, unsurprisingly, research shows that Australians believe that this should be reflected in our retirement lifestyles. They are concerned with equity of outcome, pointing out that people were often disadvantaged by factors outside their control.

> *'I JUDGE OUR SYSTEM ON THE AGE OF OUR RETIREMENT. IT'S SAD THAT INDIVIDUALS WITH LOWER PAYING JOBS HAVE TO WORK UP UNTIL AT LEAST 65-67 TO ACCESS THEIR FUNDS AND EVEN THEN IT'S PROBABLY JUST ENOUGH TO LIVE OFF' – WORKING AUSTRALIAN*

As outlined in our response to question 2, Australians also believe Government support for retirement should be targeted to those who are currently experiencing inadequate outcomes.

> *'I THINK THERE SHOULD BE A MORE EVEN SYSTEM WHICH IS EQUAL FOR ALL.' – RETIRED AUSTRALIAN*

Community expectations should be taken as first principles to guide all considerations of adequacy. The setting of objectives and measuring of policy outcomes should be oriented to these expectations.

Importantly, a nuanced approach must be taken when assessing the impact of individual policy settings on adequacy for various demographics. Policy settings such as tax concessions, the SG rate and the taper rate should each be considered separately against our objective of providing minimum outcomes for all Australians.

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To deliver against community expectations around adequacy, fairness and equity, the system must perform well against objective absolute benchmarks based on living costs, rather than replacement rates that entrench inequity. This is discussed further in answer to the following question.

So, in assessing the adequacy of the system, the Panel should consider:

- Assessing adequacy based on delivering adequate minimum outcomes for <u>all</u> Australians, not only those with higher wages and full-time working patterns
- Acknowledging that demographic factors such as lack of home ownership, gender, marital status, health, occupation significantly reduce retirement income adequacy for a large proportion of Australians

- Delivering fairness and equity of outcome by assessing adequacy against objective absolute minimum benchmarks based on living costs – using replacement rates as a measure entrenches inequity and doesn't support equitable outcomes
- Legislating a robust, well-supported objective for our superannuation system that supports community expectations for our retirement income system
- Considering the impact of each policy lever against the objective individually (i.e. Tax settings, SG rate, taper rate), rather than conflating issues such as SG with issues such as tax equity. We are able to adjust each lever individually for optimal outcomes
- Targeting Government assistance to achieve acceptable retirement outcomes for all Australians (in a similar way that Medicare achieves this in the health system)
- Ensuring private providers are well regulated to deliver the objective, with strong member protections in place

Q11. 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?

Adequacy should be assessed against absolute benchmarks based on living costs and community expectations, having regard to key demographic factors, such as home ownership, relationship status and location. These should be assessed on an objective and structural basis, not on an ad-hoc basis.

It is important that both policy makers and superannuation members can objectively gauge how effectively our superannuation system is delivering on its promise to, in conjunction with the Age Pension, deliver adequate financial security for Australian retirees.

If we accept, as we have argued, that all Australians should be able to retire with dignity and financial security then an absolute retirement income benchmark is needed.

'IT SHOULDN'T RELY SO MUCH ON WHAT THE INDIVIDUAL HAS PREVIOUSLY EARNED IN THEIR LIFE BUT PROVIDE A LEVEL PLAYING FIELD FOR ALL OLDER AUSTRALIANS SO THEY'RE NOT WORRIED ABOUT MONEY.' – WORKING AUSTRALIAN

Measuring outcomes using a replacement rate, while accounting for consumption smoothing, requires us to accept:

- Some cohorts of retirees will live in poverty
- Men will have a better retirement than women
- Homeowners will have a significantly better retirement than non-homeowners
- Professional workers will have a better retirement than manual workers
- People in secure employment will have a better retirement than those in casualised industries and small business owners
- People who are healthy will have a better retirement than those who are not

These inequitable outcomes are not acceptable to the Australian community and will not support a sustainable system. An objective benchmark is required.

Currently, the commonly used benchmark for determining the income required from superannuation and the Age Pension to support an adequate standard of living in retirement is the Retirement Standard published by the Association of Superannuation Funds (ASFA) since 2004.

The ASFA Standard is based on a "budget standards" approach. That is, it indicates how much a particular household needs to achieve a particular standard of living. It is based on data around what kinds of items and activities people need to satisfy their basic needs and how much these items cost.

The ASFA Standard gives an estimate of the annual income required by single and couple retiree households to live either a modest or comfortable lifestyle. It provides this for two age cohorts, those aged around 65 and those aged around 85.

	ASFA modest lifestyle pa (65 yo)	ASFA comfortable lifestyle pa (65 yo)	Full Age Pension pa
Singles	$27,913	$43,787	$24,081
Couples	$40,194	$61,786	$36,301

*ASFA Retirement Standard for retirees aged 65-85 September quarter 2019

The ASFA Standard provides a reasonable approach for an absolute measure of adequacy. It has faced some criticisms around what is included and/or excluded from the expenditure items that underpin the standard. However, the "budget standards" approach is robust, and forms a good basis for further developing objective benchmarks address criticisms.

The primary concern is that the ASFA Standard assumes home ownership, making it inapplicable to around 1 in 5 current retirees who don't own a home. This is the very group of retirees for whom adequacy of retirement income needs to be addressed most urgently. The portion of non-homeowners is expected to increase to almost 1 in 2 retirees by the time millennials retire[40], meaning the ASFA benchmarks will be inapplicable to half the population in around 30 years' time.

'I AM WELL AWARE THAT THE PENSION IS NOT ENOUGH TO LIVE ON AND RENT, I WILL NOT BE ABLE TO LIVE ONCE MY SUPER RUNS OUT. I WILL DEAL WITH THAT WHEN IT HAPPENS.' – RETIRED AUSTRALIAN

Reducing home ownership will significantly undermine adequacy outcomes. The large and growing group of Australian renters over 65 require an additional around $10,000 per year on top of the ASFA benchmarks based on the current median rents they are paying.[41] The cost of rent places single renters who have achieved the already inadequate level of ASFA modest, well below the poverty line.

It should be noted that the reduction in home ownership is a significant issue that needs to be addressed by Australian policy makers. AIST supports this issue being addressed by appropriate policy change outside the retirement income system, and through investment in affordable housing. However, while work to address the cause of the issue progresses, housing costs continue to be a large and growing expense for retired Australians and these costs must be included in adequacy benchmarks.

A second area of criticism is that the ASFA modest standard is too low to meet community expectations for retirement lifestyle, and that the comfortable standard – which ASFA refers to as "aspirational" – is unrealistically high, particularly for those who do not own their own homes.

The fact that modest is too low as a measure of a dignified and financially secure retirement is evident in the expenditure by category that underpins the standard. The modest standard allows a single person only $91 per week to spend on groceries, a budget so tight that may require inadequate consumption of fresh food (when considering the Australian average weekly grocery spend is $254.96[42]).

Similarly, the modest standard allows lower expenditure on what should be set costs such as utilities and communications, and no expenditure on home maintenance. This type of lifestyle certainly could not be classified as dignified or financially secure, and is not in line with community expectations for retirement.

[40] CEPAR, Housing in an ageing Australia: Nest and nest egg? (2019). Available from: https://tinyurl.com/rvkpqba
[41] Australian Bureau of Statistics (2019) 41300 Table 3, Housing occupancy and costs, 2017-18. Available from https://tinyurl.com/wmfddzt
[42] Budget Direct (2019), Average grocery bill and cost of food in Australia. Available from: https://tinyurl.com/wzx9q5k

The inclusion of overseas travel in the ASFA comfortable standard has been criticised as unduly aspirational or generous. Although this expenditure can be regarded as discretionary and not part of the retirement plan for all retirees, it is appropriate for a dignified, financially secure level of retirement expenditure to include some expenditure for vacations, either domestic or international. While expenditure equal to the comfortable standard in categories such as fresh food and utilities should not be limited for a financially secure retirement, there may be scope to use the modest expenditure rate in the discretional categories such as travel and vacations.

It would be a manageable task to create a set of new, absolute benchmarks that address the concerns raised above.

For renters, retirement income higher than the comfortable standard will be needed to maintain this lifestyle.

'SUPERANNUATION SHOULD ENSURE THAT WE CAN LIVE COMFORTABLY WHEN WE'RE NO LONGER ABLE TO PROVIDE OUR SERVICES TO SOCIETY DUE TO OUR OLD AGE, MENTALLY OR PHYSICALLY.' – WORKING AUSTRALIAN

Q12. What evidence is available to assess whether retirees have an adequate level of income?

There is evidence that current retirees do not have adequate retirement income, and that the legislated SG increase is necessary to ensure more Australians lead a financially secure and dignified retirement. AIST research shows Australians support the SG increase to 12%.

Approximately 1.5 million older Australians rely on the Age Pension as their main source of income. evidence suggests that a significant number of current retirees don't have an adequate level of income in retirement. This is due to several factors:

- the Age Pension is only slightly higher than the poverty line;[43]
- the superannuation system isn't yet mature – the first cohort to have benefit from compulsory superannuation their whole working lives won't be retiring until the 2030s;
- the SG rate has been delayed in reaching a level high enough to deliver adequacy – it will now be the 2060s and 70s before retirees will have benefitted from 12% superannuation for their whole working lives;
- most Australians have been unable to compensate for inadequate superannuation and Age Pension rates through voluntary savings due to cost of living pressures – this is unlikely to change; and
- 2017 changes to the asset test taper rate undermined the value of saving for retirement and significantly reduced the income for a number of Australians – particularly for middle income Australians.

Time, along with the increase in the SG to 12%, will improve adequacy outcomes for a large number of future retirees. In addition, increasing the level of the Age Pension and extending superannuation to those who are currently excluded (i.e. those on parental leave, low incomes and the self-employed) will ensure that the system is on track to deliver on community expectations eventually.

The most compelling of the evidence for inadequate income among current retirees comes from current retirees themselves. Research commissioned by AIST found that:

- Only 4 in 10 over 65s feel financially insecure
- Half of over 65s worry that they will outlive their savings – this is more of a concern for women than men, with 56% of women concerned they will outlive their savings
- Almost half of over 65s say that retirement is more expensive than they expected

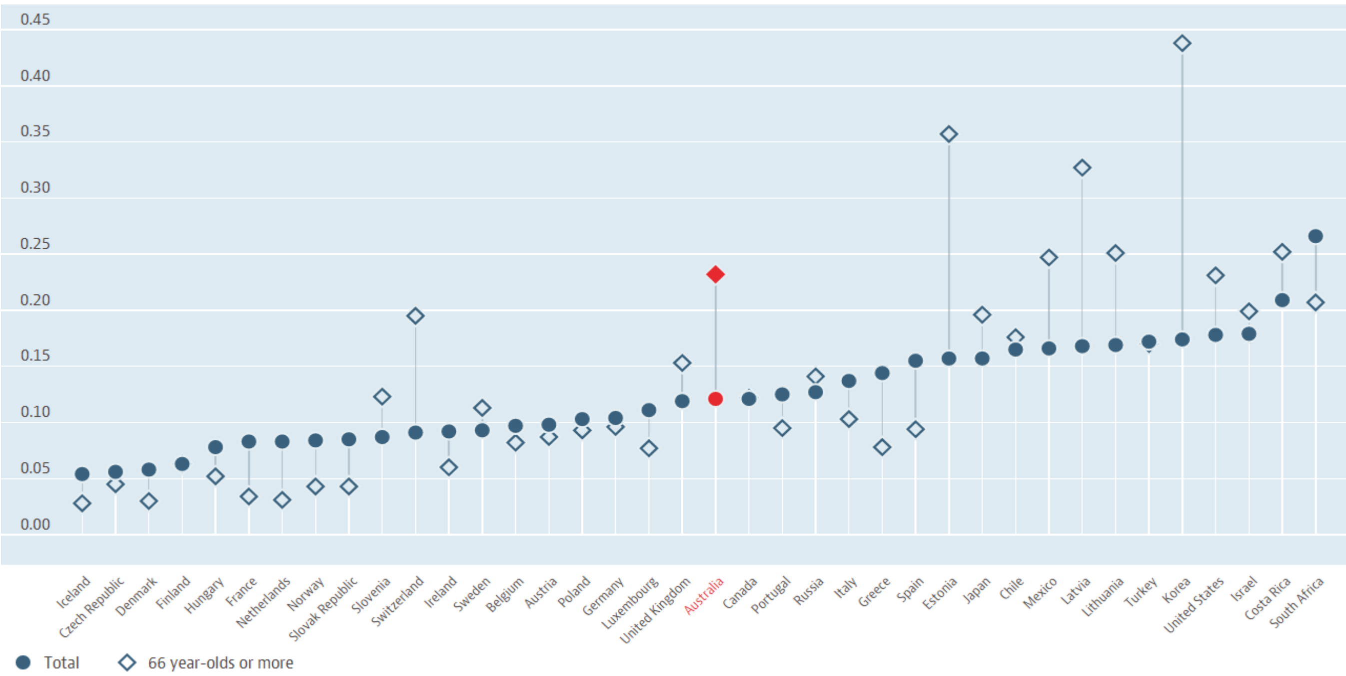
'I RELY HALF AND HALF ON THE PENSION AND MY SUPER SAVINGS. I GET BY, BUT WHEN I SEE OTHER PEOPLE GOING OUT FOR COFFEE OR LUNCH, I WISH I COULD JOIN THEM. I SIMPLY CAN'T AFFORD IT. ONCE MY SUPER RUNS OUT WHO KNOWS WHAT'S GOING TO HAPPEN. – RETIRED AUSTRALIAN

[43] ACCOSS estimates that more than 3 million Australians live below the poverty line of which 14.3% are aged over 65. Data available from: http://povertyandinequality.acoss.org.au/poverty/

These concerns are shared by those who are currently working, with 4 in 10 expecting they won't be financially secure in retirement. The concern is understandably highest among Australians on up to $52,000 per year (around median income), with more than half believing they won't be financially secure in retirement.

This is supported by OECD data that estimates that far from having adequate income, 23.2% of people over the age of 65 are 'living in poverty' whereby their income is lower than 50% of median income. This compares to 9.4% living in poverty for 18-65 year old's.

Poverty rate, Total / 66 year olds or more (Source: OECD)[44]



Current retiree experiences are also borne out in World Economic Forum analysis that has found that Australians are at risk of outliving their retirement savings, with women particularly disadvantaged due to longer life expectancies[45]. The analysis found that Australians have on average 8.5 years of savings with life expectancy past savings being 9.9 years for men and 12.6 years for women.

Rice Warner have found that an SG below 10% would result in median income earners relying on the Age Pension for most of their retirement income.[46]

Taking a contrary position, analysis by Grattan Institute suggests that Australians will achieve sufficient retirement income with a 9.5% SG rate. This is based on assumptions that are not realistic for the average

[44] OECD (2020), Poverty rate (indicator). Available from: https://tinyurl.com/h9ktpf2

[45] World Economic Forum (2019), Investing in our Future. Available from: https://tinyurl.com/rhezdun

[46] Rice Warner (2019), What is the right level of SG? Available from: https://tinyurl.com/qk49n5n

Australian including assumptions that we are single when we retire, that we don't transition to retirement, that we have unbroken work patterns, and that everyone works until the age of 67.[47]

The weakness of modelling of this type is that it relies on assumptions rather than real life experiences. As a result, it vastly overestimates current adequacy levels, effectively presuming that all Australians enjoy the advantage of secure, continuous work, physical health and home ownership. These advantages are most likely to be enjoyed by white collar men, and aren't available to a large number of Australians. The issues of inequity are discussed in depth later in this submission, but just some of the different circumstances which will impact retirement adequacy include:

- Renting/homeownership
- Single/couple
- Accumulated debt
- Cost of living differences based on living in different areas. E.g. rural and city
- Health
- Occupation
- Gender

In fact, cameos based on the representative experiences of real people show that many Australians will not even reach the minimal ASFA modest income standard, even with a lifetime of SG contributions at the current rate of 9.5%.

Mercer have undertaken calculations (on behalf of AIST) of net retirement income for a range of sample members ("cameos"). The model projects an individual's superannuation account throughout their working life and then projects the level of retirement income (including Age Pension) that the individual would receive throughout their retirement.

Each cameo is based on real-world experiences, including work patterns (age at entry, periods of full time or part time work, retirement age, age at which drawdown commences), starting salaries and promotional scales have been determined based on real-world experiences cross-checked against publicly available data. The scenarios are typical for groups of workers in these industries.

[47] Mercer (2019), A review of Grattan's work on super. Available from: https://tinyurl.com/w2jhtqh

Cameo 1 –Nurse

$1,659 pa additional income per year in retirement for a single nurse & $660 pa for a nurse in a couple

	Single Nurse		Couple (per individual)	
SG rate	9.5%	12%	9.5%	12%
Income in retirement	$27,686	$29,345	$22,553	$23,213
Income as % ASFA Modest Standard	99.2%	105.1%	112.2%	115.5%
Income as % ASFA Comfortable Standard	63.2%	67.0%	66.5%	68.5%

* Income shown is in today's dollars

Assumptions

- Enters workforce age 18
- Starting income $44,598
- Periods of part time work
- Retirement age 62
- For the modelling of couples, additional assumptions made.

Cameo 2 –Plumber

$3,322 pa additional income per year in retirement

SG rate	9.5%	12%
Income in retirement	$29,899	$33,221
Income as % ASFA Modest Standard	107.1%	119.0%
Income as % ASFA Comfortable Standard	68.3%	75.9%

* Income shown is in today's dollars

Assumptions

- Enters workforce age 17
- Single
- Starting income $24,305
- Retirement age 60
- Works in a regional area

Even receiving 12% SG for most of their working lives, these working Australians will achieve only between 67% and 75.9% of the ASFA comfortable standard, too far below the comfortable standard to ensure a secure and dignified retirement, even without overseas trips and with a reduction in expenditure on leisure items.

Without the SG increase these workers would find themselves with retirement income very close to the modest standard, which SG increase will provide a significant improvement overall, with Rice Warner finding that a SG rate of 12% would provide most Australians with an adequate retirement income.[48]

[48] Rice Warner (2019), What is the right level of SG? Available from: https://tinyurl.com/qk49n5n

According to AIST research, Australians are supportive of superannuation and the legislated SG increase, with 83% of those who are aware of the legislated change being supportive of it, and 70% of all Australians supportive of it.[49]

Moving to 12% superannuation is vital to ensure that all working Australians, not just a privileged cohort, achieve a financially secure and dignified standard of living in retirement.

Ensuring superannuation is universal by ensuring it is paid on parental leave and for excluded cohorts will also assist with improving adequacy – these proposals are discussed in the equity of this submission.

[49] Essential

Equity

Q13. What should the Panel consider when assessing the equity of the retirement income system?

The retirement income system provides disproportionate benefits and levels of Government support to fulltime, male, continuously employed, higher income earners. Despite the 2016 superannuation reforms, this is especially the case for the top 1% of income earners and legacy multi-million SMSFs accumulated prior to the reforms. In contrast, the gender gap remains significant, middle Australia in the 40th to 70th income deciles receive the lowest levels of Government support, and the Age Pension rental assistance does not correspond to actual rents.

It is widely acknowledged that the current retirement income system structurally favours higher income earners who work full-time, without breaks, for the entirety of their working life. This consequently creates several areas of inequity in the system.

When assessing the equity of the retirement income system the following should at least be considered:

Vertical equity

Vertical equity requires treating individuals according to their needs and is generally inherent in Australia's progressive income taxation system. Research by Harrison[50] identifies a key issue in terms of the vertical equity of the superannuation system is that high income earners with high marginal tax rates benefit the most from the concessional design of the taxation system.

> *'FEW PEOPLE ACTUALLY SPEND 40+ YEARS IN CONTINUOUS FULL TIME, WELL REMUNERATED, EMPLOYMENT. [THE SYSTEM] SHOULD PROVIDE FOR PEOPLE, ESPECIALLY WOMEN, WHOSE PERSONAL CIRCUMSTANCES MEAN THAT THEY COME IN AND OUT OF EMPLOYMENT...' – WORKING AUSTRALIAN*

Horizontal equity

Horizontal equity requires that individuals in similar circumstances should be treated similarly. Harrison identifies one key area that breaches horizontal equity which is the grandfathering of assets exceeding the $1.6m cap.

Superannuation tax concessions

Superannuation tax concessions – in respect of superannuation contributions, investment earnings and superannuation benefits are a form of Government support. This Government support, as well as the Government support provided via the Age Pension can – and should be – assessed for fairness and sustainability alongside each other. While superannuation is different to the Age Pension in that it is not a

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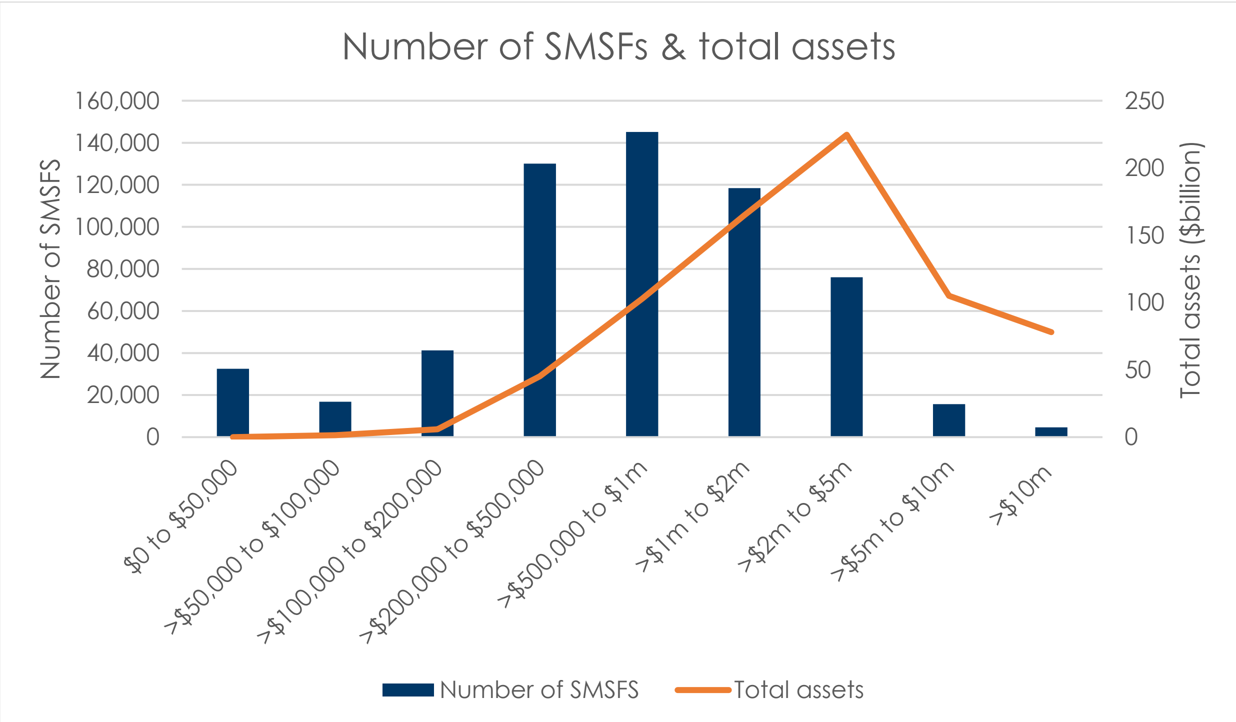
[50] Harrison, J (2018) Assessing the taxation of superannuation in terms of horizontal and vertical equity. Available from https://tinyurl.com/u9t7vlf

direct Government expense, the Government forgoes tax revenue to give superannuation a tax-advantaged status.

Unfortunately, as noted in the Consultation Paper, Treasury calculations using a hypothetical cameo model show that the current level of lifetime Government support provided through the retirement income system is more heavily weighted towards those in higher income brackets. Given that this cohort has a greater capacity to support themselves in retirement it is not only an unequitable situation but also unsustainable as the population of Australia ages.

We highlight that the May 2016 Budget made a number of significant changes to both the rate at which superannuation is taxed and how much money can flow into the concessionally taxed superannuation environment. Though these changes make it more difficult to contribute and hold significant sums of wealth in superannuation there remains a large number of high balance SMSFs which are continuing to grow in number.

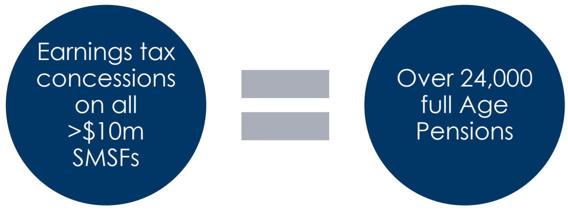
AIST analysis of ATO statistics[51] found that there are estimated to be over four thousand SMSF's with a balance over $10m, holding approximately $78b in assets (representing over 10% all SMSF assets). The ATO have confirmed that there are 22 funds holding greater than $100million and have raised concerns regarding 35% of these funds due to their use of limited recourse borrowing arrangements and non-arm's length arrangements, as well as growth rates in excess of 1,000% per year in some cases[52].



51 ATO (2019), Self-Managed-Super-Fund Quarterly Statistical report September 2019. Available from: https://tinyurl.com/utcyv7w
52 SMSF Adviser (2019), A third of high-balance SMSFs in ATO's sights. Available from https://tinyurl.com/rq9rtae

Although the May 2016 Budget changes restrict the amount that a person can hold in superannuation pension phase, there are no restrictions to how much they can hold in accumulation phase. Earnings in accumulation phase are concessionally taxed at a flat 15% and there are also no minimum withdrawal requirements. Consequently, it is estimated that these significant balances will only continue to grow.

Mercer analysis (conducted on behalf of AIST) found that the value of earnings tax concessions for every $10m SMSF would allow for 3.1 full Age Pensions to be paid, in a single tax year.



Assumptions include:

- *Annual Age Pension per annum – $24,268*
- *Net fund earning rate (excluding unrealised capital gains) – 5.00% pa*
- *Unrealised capital gain – 1.50$ pa*
- *Indexation of Age Pension – 3.25%*
- *Based on a single tax year*

Based on ATO statistics of the amount of assets held by SMSFs with a balance over $10m, it is estimated that the earnings tax concessions on all SMSFs with a balance over $10m would allow for over 24,000 full Age Pensions to be paid, at the end of a single tax year.

This analysis ignores the fact that some of these SMSFs may also hold a small portion in the tax-exempt retirement phase and therefore is likely to be an underestimation. Fund earnings on assets transferred into retirement phase to support a pension income stream are tax free. Given an ageing population, more Australians are expected to move into tax-free retirement phase, and this will ultimately impact on the level of tax concessions received in superannuation and sustainability of the system.

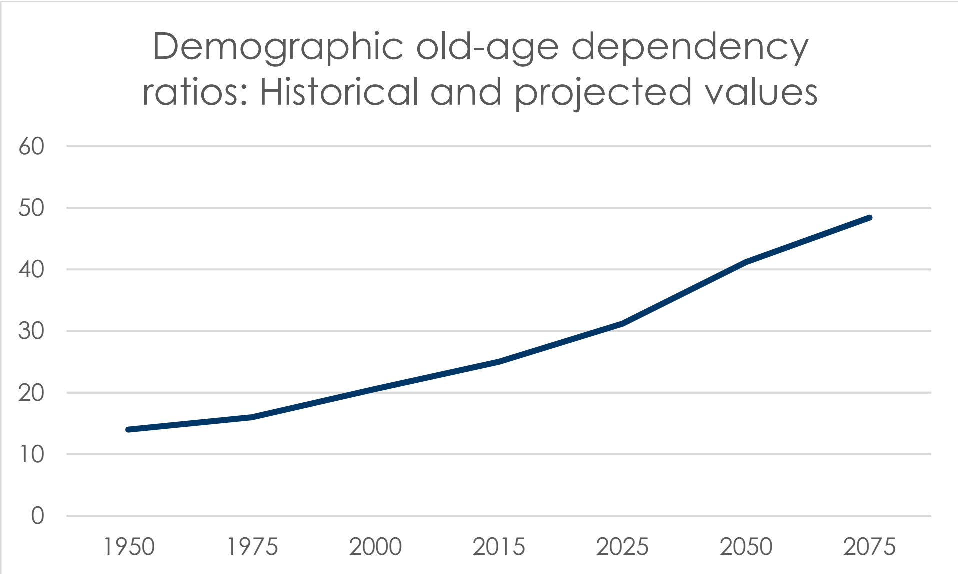
The top marginal tax rate including the Medicare levy is 47% however this analysis has conservatively estimated the tax concession is the difference between the company tax rate of 30% and the superannuation fund earning tax rate of 15%.

It is also expected that because the rate of which these SMSFs are growing is higher than the rate of increases in Age Pension, over time the figure will increase to almost 30,000 full Age Pensions per year after 10 years and to 38,000 full Age Pensions per year after 20 years.

Tax concessions for high net worth individuals should be reviewed, with an emphasis on existing superannuation accounts exceeding $10 million. Unless this is addressed, increasing levels of Government support will be provided to those in higher income brackets for decades to come at the expense of other cohorts

Intergenerational equity

AIST agrees that it is important that the retirement income system does not place an undue fiscal burden on future generations and that there should be equity between generations. This is important consideration given the previous and continued expected growth in the dependency ratio of workers.



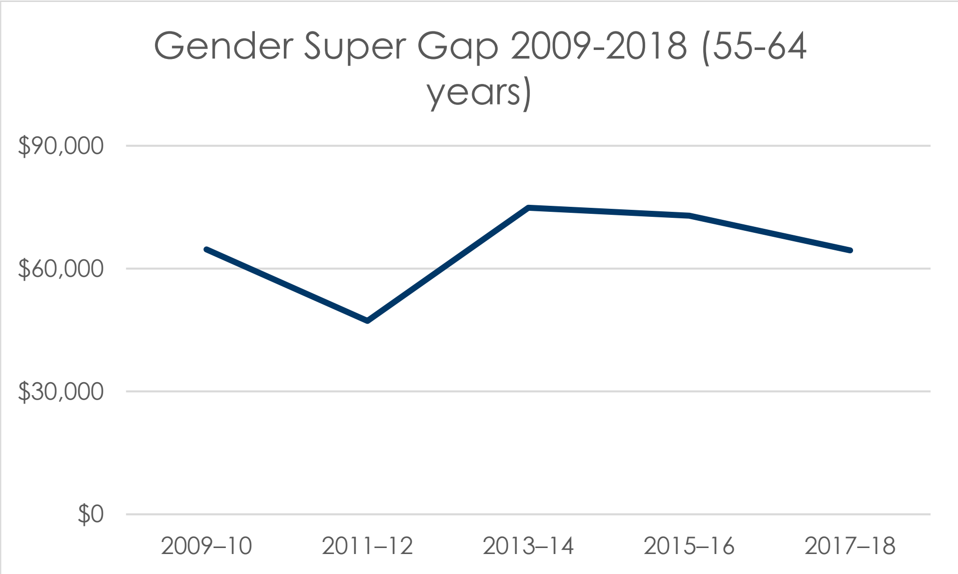
Source: United Nations, World Population Prospects – 2017 Revision.

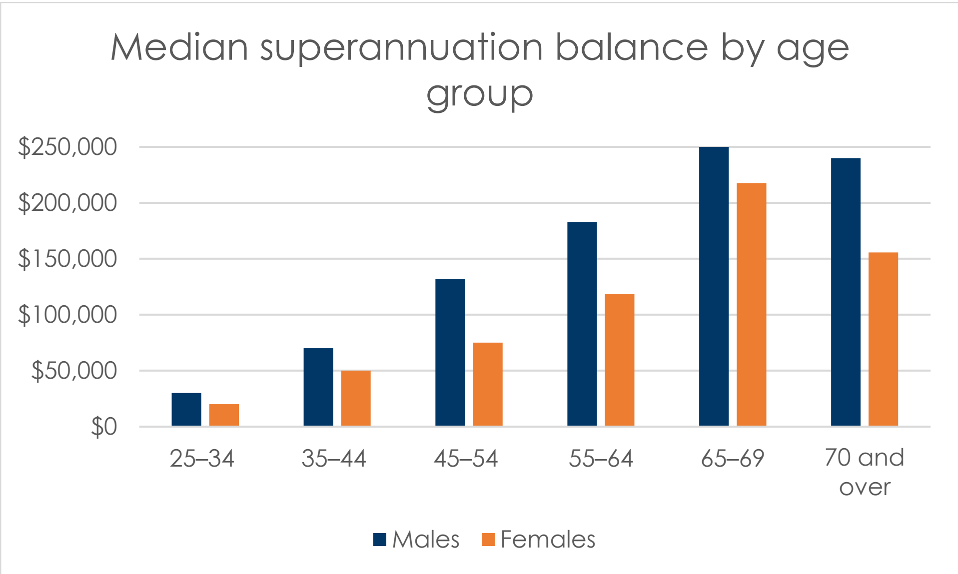
Gender equity

The superannuation gender gap – at nearly 40% of the superannuation balances of men - is of great concern to AIST. According to ABS data[53] the median superannuation balance remains substantially lower for women than men. In 2017–18, the median superannuation balance was $118,556 for women and $183,000 for men aged 55-64 years. This gap of $64,444 is at a similar level in 2009-2010 when the difference was $64,683.

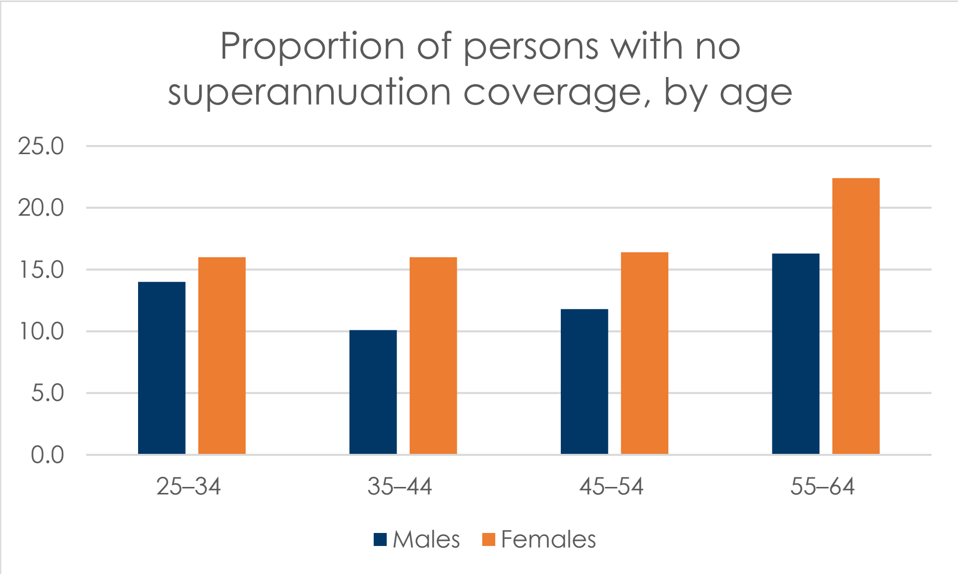
'AUSTRALIA'S OLD SUPER SCHEMES, IN TEACHING, WERE EXCELLENT FOR THE MEN BUT NOT FOR WOMEN … MOST WOMEN LEFT THE PUBLIC SERVICE SCHEMES AS THEY WEREN'T COMPULSORY. NOW THINGS ARE DIFFERENT AND WE HAVE COMPULSORY SUPER.' – RETIRED AUSTRALIAN

[53] ABS (2019), Gender Indicators, Australia, November 2019. Table 2.7 & 2.8. Available from: https://tinyurl.com/rsyeztp





This data only captures those with a superannuation account, therefore when taking into account the superannuation coverage differences the situation again worsens for women – whereby women are more likely than men to have no superannuation coverage.



Key factors that contribute to the super gender gap are:

- Women comprise just under 70% of the part-time workforce, with more (54.6%) employed part time than full time (45.38%)[54]. Women are six times more likely to reduce their work hours due to parenting duties compared to men[55].
- Women working full-time earn 14% less than men[56].
- The average working woman has 4.2 career breaks, costing their retirement balance $159,590. Top reasons for career breaks among women are maternity leave (50%) and caring for a child (49%)[57].

> *'SUPER CONTRIBUTIONS ARE NOT MEETING THE NEEDS OF LOW PAID WORKERS AND IN PARTICULAR WOMEN WHO TAKE TIME AWAY FROM THE WORKFORCE TO RAISE A FAMILY…' – RETIRED AUSTRALIAN*

AIST submits that a significant amount of work has already been done to highlight this issue yet the problem continues to exist. The 2016 Inquiry into the Economic Security for Women in Retirement[58] which made a number of recommendations that are yet to be implemented such as SG to be paid on the Commonwealth Paid Parental Leave and the removal of the $450 minimum threshold for superannuation payment.

[54] ABS (2019). *6306.0 - Employee Earnings and Hours, Australia, May 2018*. Canberra: Australian Bureau of Statistics. Available from: https://tinyurl.com/ta7cwvt
[55] Rest Super (2017), 'Making a break' A snapshot. Available from https://tinyurl.com/t8l4kxs
[56] Workplace Gender Equality Agency (2019), Australia's Gender Pay Gap Statistics. Available from https://tinyurl.com/y5a4gdm3
[57] Rest Super (2017), 'Making a break' A snapshot. Available from https://tinyurl.com/t8l4kxs
[58] Senate Standing Committees on Economics (2016), Economic security for women in retirement. Available from https://tinyurl.com/w2bsm87

Type of payment	Is superannuation paid?
Annual leave	✓
Sick leave	✓
Long service leave	✓
Parental leave	✗
Ancillary leave e.g. jury duty, defence reserve service	✗
Workers' compensation (returned to work)	✓
Workers' compensation (not working)	✗
Performance bonus	✓
Termination payments: in lieu of notice	✓

Q14. 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, etc.)?

The Panel should consider marital status, gender and home ownership in assessing fairness. Targeted measures are needed to improve outcomes for cohorts with low retirement income outcomes (eg, women, low-income earners and Indigenous Australians).

AIST agrees that equity is also about fairness of outcomes whereby the burdens and benefits of the system should not be spread too divergently across the community.

Whether the system delivers an adequate retirement outcome depends on who you are and your personal characteristics.

- Marital status
- Home ownership
- Gender
- Employment and characteristics (employed, self-employed, full-time, part-time, casual etc)
- Ability to make additional contributions and other household savings
- Vulnerability and financial hardship
- Financial literacy/literacy
- Longevity and health needs
- Aged care needs
- Insurance
- Work patterns

- Age at retirement including involuntary retirement

Australia's retirement income system implicitly assumes that the vast majority of retired people will have low housing costs – based on a presumption that most retirees will own their own homes without debt.

The 2016 Census however indicates that about 12% of people aged 65+ were renting and according to CEPAR, the likelihood of renting in retirement is higher among the less educated, single, poor, disabled and those living in rural areas[59]. Declining rates of home ownership are only likely to exacerbate this issue into the future.

It is generally understood that a household is experiencing 'housing stress' if it is paying more than 30% of its income in housing costs however in 2016, about 44% of renters aged 65-74 spent more than 30% of their income on rent, the highest rate of all age groups and the highest level over time.

Commonwealth Rent Assistance (CRA) is meant to help those that are renting however current levels differ significantly to the amount being paid in rent because the payment has not kept pace with rising rental prices. This has resulted in increasing levels of poverty among older renters. The current maximum amounts are inadequately low and are shown below (for people without dependent children):

Relationships	Maximum fortnightly payment
Single	$138.00
Couple, combined	$130.00

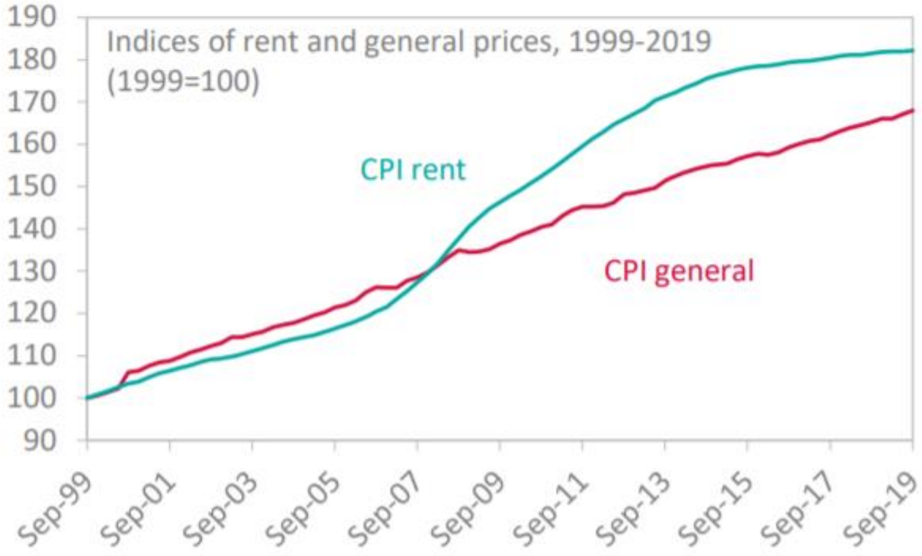
The actual amounts received as at June 2019 for those on the Age Pension are shown below:

Income units		Fortnightly rent paid	Fortnightly CRA
Number	**Per cent**	**Median**	**Median**
286,708	22.3	$381.90	$129.20

Data sourced from DSS[60]

A key reason for the difference in rent being paid and the rental assistance being received is because it is linked to increase with CPI whereas rents have generally been rising at a faster rate – as illustrated in the below chart. Lack of access to affordable rental properties is supported by Anglicare research which estimates that less than 1% of properties across the country were suitable and affordable for a single person on the Age Pension[61].

[59] CEPAR, Housing in an ageing Australia: Nest and nest egg? (2019). Available from: https://tinyurl.com/rvkpqba
[60] DSS, Payment Demographic Date (2019). Available from: https://tinyurl.com/v9bdpch
[61] Anglicare Australia (2019) Rental Affordability Snapshot. Available from: https://tinyurl.com/y4gufhal

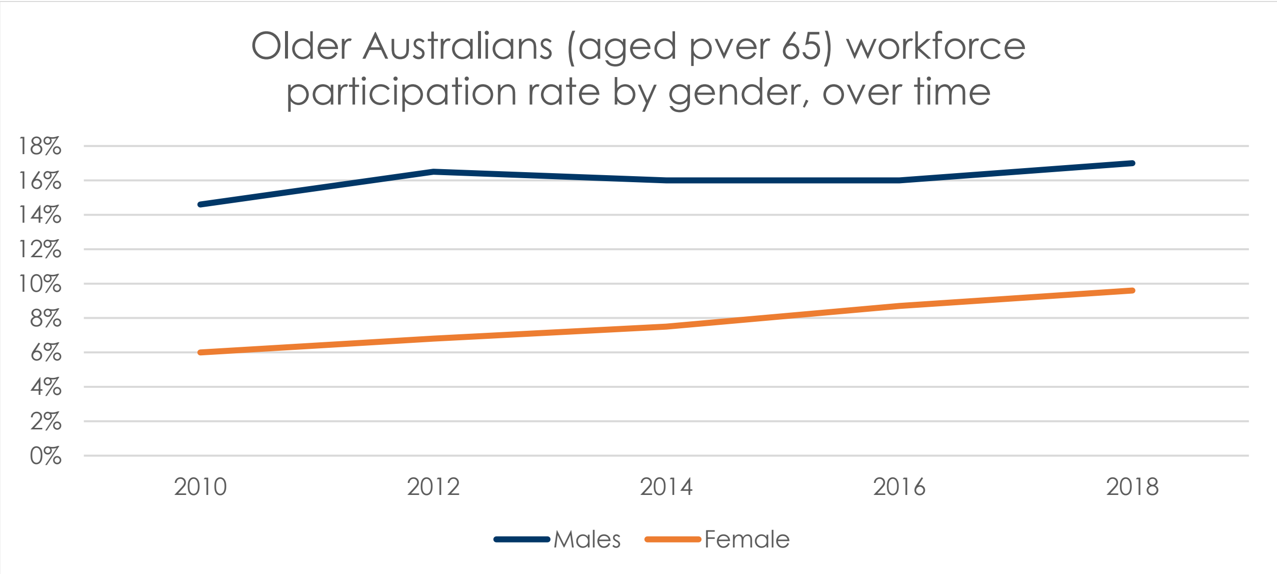


Source: CEPAR

Q15. Is there evidence the system encourages and supports older Australians who wish to remain in the workforce past retirement age?

Not all Australians at or past retirement age have the same capacity to remain in the workforce, with many not able to work until retirement age. Emphasis on encouraging older Australians to work increases the disproportionate benefits derived by higher-income earners, increases stress on low to middle income earners, and does not address the issues faced by involuntary retirees.

Evidence demonstrates that Australians are increasingly working to older ages. In January 2018, Australians aged 65 and over had a workforce participation rate of 13% (17% for men and 10% for women), compared with 8% in 2006 (12% for men and 4% for women)[62]. It is important to note that some older people are working less than they would like, among people aged 55, and over in November 2017, 6.1% of employed people were underemployed[63].



One of the ways in which the system encourages older Australians to remain in the workforce past retirement age is the Work Bonus, which was initially introduced from 20 September 2009. Effective from 1 July 2019, the Work Bonus increased from $250 to $300 per fortnight, meaning an individual will be able to earn more from work before their pension reduces. Analysis of DSS statistics shows the portion of age pensioners also receiving earnings from employment has not changed in the past 15 years.

- 2005-2006 - 4.3% of age pensioners reported working (1.2% full-time and 3.1% part time)
- June 2014 - 4.3% (103,511) of age pensioners reported employment earnings in the past fortnight

[62] Australian Bureau of Statistics (2018). ABS cat no. 6291.0.55.001, Labour force, Australia, Table 01: Labour force status by age, social marital status and gender. Available from https://tinyurl.com/swax7wy

[63] Australian Bureau of Statistics (2018). ABS cat. no. 6202.0, Labour force, Australia. Available from https://tinyurl.com/y3a458v8

- June 2019 - 4.29% (108,717) of age pensioners reported employment earnings in the past fortnight

Unfortunately, for many Australians the option to even work up to retirement age is not possible. Retirement age greatly differs on your gender and type of employment. Most Australians retire before the official retirement age, often in the event of unexpected outcomes – such as job loss or ill health.

Our system needs to recognise that there is no level playing field when it comes to working past retirement age. There is growing evidence that cohorts who are best equipped to take advantage of incentives to remain in the workforce past retirement age are white-collar, university educated, and better paid.

> *'LOOKING FORWARD TO RETIREMENT IN THE COMING YEARS WHEN MY CHILDREN HAVE THEIR CHILDREN. I WANT TO HAVE GRANDMA DUTIES, TIME TO SEW AND TO LEARN TO PLAY GOLF.' – WORKING AUSTRALIAN*

It is commonplace for specialist doctors and other highly-paid white-collar workers to continue working well into their 70s and even 80s, earning good money and enjoying the flexibility of working one day a week or on an ad hoc basis. Many in the corporate world as well as senior public servants work well past their official retirement as consultants or serving on boards.

Conversely, for skilled and unskilled manual or disadvantaged workers, a high retirement age could lead to workers remaining in unsuitable jobs detrimental to their physical or mental health[64]. Those most affected by previous increases in the official retirement age have been involuntary retirees that are forced to leave the workforce due to ill health, or as a result of retrenchment and inability to find work. As evidenced by weekly incomes in retirement, the majority of retirees in this category derive very little income from retirement portfolios and are almost completely reliant on the Age Pension.

To the extent that involuntary retirement is a function of either inability to continue to do manual work,

> *'I WORK WITH CLIENTS IN THEIR 60S ON NEWSTART TRYING TO GET THEM WORK! IT'S VERY CHALLENGING AND UNFAIR AT TIMES WHEN THEY'VE WORKED ALL THEIR LIFE IN A TRADE OR SOMETHING AND HAVE LOST A PARTNER AND HAVE NO SUPER.' – WORKING AUSTRALIAN*

skill obsolescence or age discrimination, further increases to the official retirement age may extend the period of reliance on reduced income substitutes for the Age Pension and increase the potential for poverty among these members of society. Those most susceptible to this risk are those in manual jobs, those with lower levels of education, poor English proficiency and those employed in less specialised occupations.[65]

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[64] International Longevity Centre UK (2019), The EXTEND project – Exploring pension reforms, work, and inequalities. Available from https://tinyurl.com/w9gagj8

[65] AIST-ACFS Research Project (2014) Involuntary Retirement. Available from https://tinyurl.com/yx5lv389

Q16. To what extent does the retirement income system compensate for, or exacerbate, inequities experienced during working life?

How successful you are in the labour market determines how successful you are in our superannuation system. The superannuation system exacerbates inequities faced during working life, as different income levels and levels of superannuation coverage will be reflected in differing retirement incomes. Many Indigenous Australians face the highest levels on inequity.

Australia has the highest proportion of defined contribution plans in the world (86% compared to US of 62% and the UK 18%)[66]. According to the OECD, closer contribution-benefit links tend to increase the transmission of wage inequality to retirement inequality as the capacity of individuals to contribute will be reflected in the pensions they receive[67].

The OECD also found that disadvantages in health, education, employment and earnings reinforce each other and compound over people's lives. Consequently, the wide variety of health and socio-economic outcomes experienced during working life can contribute significantly to inequity in retirement.

Health inequity

According to the Australian Institute of Health and Welfare, Aboriginal and Torres Strait Islander people, people from areas of socioeconomic disadvantage, people in rural and remote locations, and people with disability experience more health disadvantages than other Australians, including higher rates of illness and shorter life expectancy[68].

Those with poorer health are likely to have lower lifetime earnings (and consequently superannuation balances), more likely to involuntarily retire[69] and to have a shorter life expectancy.

When considering life expectancy and quality of retirement an important factor for consideration is health-adjusted life expectancy which reflects the average length of time an individual can expect to live without disease or injury. A 2017 report by the Australian Institute of Health and Welfare[70] found that people in remote and very remote areas and people in the lowest socioeconomic group expected both shorter lives and fewer years in full health compared with their counterparts in major cities and the highest socioeconomic group.

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[66] Thinking Ahead Institute (2018), Global Pension Assets Study 2018, Available from https://tinyurl.com/vnmu5he
[67] OECD (2017), Preventing Ageing Unequally. Available from https://tinyurl.com/vmmfxh3
[68] Australian Institute of Health and Welfare (2018) Australia's health 2018 https://tinyurl.com/utkqp84
[69] University of South Australia (2017), Work well; Retire well. Findings from the Work, Care, Health and Retirement: Ageing Agenders project 2017, Available at https://tinyurl.com/vwmfwtd
[70] Australian Institute of Health and Welfare (2011) Health-adjusted life expectancy in Australia: expected years lived in full health. Available from https://tinyurl.com/ro3jngu

Aboriginal and Torres Strait Islander outcomes

In reflecting upon the universality of the Age Pension in light of Indigenous Australians facing lower life expectancy and worse health outcomes than non-Indigenous Australians, AIST has compared publicly available ABS population data[71], ABS Indigenous population data[72] and DSS Payment Demographic Data[73] for the June 2018 quarter.

Age Pension recipients make up 9.8% of the total population but only 2.4% of the Indigenous population.

It is notable that nearly 2.5 times more Indigenous people are in receipt of a Disability Support Pension than the Age Pension whereas the opposite is true in the total population where there are 3.3 times more Age Pensioners than DSP recipients.

Taken together these findings indicate that Indigenous persons are far more likely to become disabled before retirement age and continue to be categorised as such into their retirement years. This has a significant effect on the relevance of Preservation Age for these members who are overwhelmingly more likely to take their accrued super under permanent incapacity and other early release provisions than at retirement age.

Indigenous households also receive Commonwealth Rent Assistance at rates higher than non-Indigenous households, reflecting the entrenched disadvantage of this demographic. As much work[74] has been done on renters and the adequacy of incomes for those solely reliant on Government pensions, this further highlights the need for policy solutions to housing affordability for those who need it most.

Retirement statistics for Indigenous Australians

	Indigenous population	Total Population
Population	830,542 (3.3% of population)	24,981,326
Aged over 65	38,985 (4.7% of Indigenous persons)	3,912,591 (15.7% of total population)
Age Pension	19,921 (51% of Indigenous population over aged 65 and 2.4% of Indigenous population)	2,477,861 (63.3% of total population over aged 65 and 9.8% of total population)
Disability Support Pension	48,537 (5.8% of indigenous population)	708,423 (2.8% of total population)
Commonwealth Rent Assistance	72,981 (8.8% of indigenous population)	1,311,187 (5.0% of total population)

71 Australian Bureau of Statistics (2019) ABS cat. no. 3101.0, Australian Demographic Statistics. Table 8 Estimated resident population, by age and gender–at 30 June 2018. Available from https://tinyurl.com/yxhlk3vl

72 Australian Bureau of Statistics (2018) ABS cat. no. 3238.0, Estimates and Projections, Aboriginal and Torres Strait Islander Australians, 2006 to 2031. Table 9 Estimated resident and projected Aboriginal and Torres Strait Islander population, Series B(a), Single year of age by gender, Australia(b), 2006 to 2031. Available from https://tinyurl.com/y6n9wz27

73 Department of Social Services (2018), DSS Payments Demographics Data June 2018. Available from: https://tinyurl.com/v9bdpch

74 For more on this topic, see Productivity Commission (2019), Vulnerable Private Renters: Evidence and Options. Available at https://tinyurl.com/tals2z2 and Australian Institute of Health and Welfare (2019), Housing assistance in Australia 2019 Available at https://tinyurl.com/teog8a9

Q17. What are the implications of a maturing SG system for those who are not covered by compulsory superannuation?

Structural elements of the Superannuation Guarantee mean that the self-employed, independent contractors, CDP participants, and many low income earners and multiple job holders do not receive mandated superannuation. This increases reliance on the Age Pension. AIST research has shown that even small amounts of superannuation significantly improve the quality of life in retirement.

According to the OECD, pension systems should be designed to mitigate disparities between standard and non-standard workers in terms of coverage, contributions and entitlements so as to protect against old-age poverty, smooth the living standards upon retirement, ensure fair treatment, pool risks as broadly as possible and facilitate labour mobility across job types.

This however is not currently the case as independent contractors, the self-employed and workers receiving CDP are not covered by the SG. In addition, those earning under $450 per month with one employer do not receive compulsory superannuation. Research into community attitudes of retirement issues has shown that the community supports a universal, compulsory system, with superannuation paid on all work.[75]

'TO KEEP THE SYSTEM FAIR I BELIEVE ALL SHOULD BE COVERED BY COMPULSORY CONTRIBUTIONS WHILE EARNING A WAGE.' – WORKING AUSTRALIAN

Self-employed

Concerningly 20% of the individuals that are self employed have no super whatsoever and for those who do have super they will tend to have significantly lower balances. The average superannuation account balance for self-employed males in the 60 to 64 age cohort is around $143,000, compared with around $283,000 for male wage and salary earners. For women, the average balance for self-employed women aged 60 to 64 is around $83,000, compared with around $175,000 for wage and salary earners[76]. Additionally, only 27% of the self-employed made contributions in 2016-17[77].

This evidence suggests that the self-employed may forgo superannuation in order to invest more into their businesses. Although this is admirable, superannuation trustees have long promoted the benefits of diversification, and believe that the self-employed could similarly benefit from avoiding putting all eggs in one basket.

[75] Retirement Review Research (2020), Qualitative and quantitative research conducted by Essential Research for AIST
[76] Craston, Andrew (2018), Superannuation balances of the self-employed. Association of Superannuation Funds of Australia. Available from: https://tinyurl.com/qlhnvjd.
[77] OECD (2019), Pensions at a Glance 2019: How does Australia compare? Available from: https://tinyurl.com/wfwtqwg

As a result, if they are unable to sell or gain a return on their business when they retire the self-employed are more likely to be solely reliant on the Age Pension, giving them a lower income and consequently lower quality of retirement.

'ON THE WHOLE, SUPERANNUATION IS GOOD, BUT AS WE WERE SELF EMPLOYED, AND AT TIMES REALLY STRUGGLED FOR WORK, WE COULD NOT AFFORD TO PUT MUCH INTO SUPER' – RETIRED AUSTRALIAN

Independent contractors

According to ABS labour statistics, of the 12.6 million people who were employed in August 2018, approximately 8% were classified as Independent Contractors and of these 37% did not have sole authority over their work. However, it is important to note that a contractor is only considered an employee for superannuation purposes, and therefore entitled to super guarantee contributions, if they are paid 'wholly or principally for labour'.

The difference in benefits between employees and independent contractors has led to an increase in what is known as sham contracting, where employers may deliberately disguise an employment relationship as an independent contracting arrangement, instead of hiring the worker as an employee of the business or company to avoid superannuation obligations. For example, Cbus estimated that in 2013 alone $261m was lost in contributions due to sham contracting[78].

Community Development Program participants

The Community Development Program (CDP) commenced operation 1 July 2015. The stated purpose of the program is to provide work and support to job seekers located in remote Australia. As at 1 January 2016, approximately 35,000 people were participating in the programme of which 80% identify as Aboriginal or Torres Strait Islander. CDP participants with activity requirements are expected to complete up to 20 hours per week of work-like activities. The program is also common in regions that have high unemployment rates – up to 51% when averaged across states and can be higher at a local level[79].

AIST is concerned that under the program workers have no right to access workers compensation arrangements or holiday pay and they are not paid superannuation.

We believe that superannuation is a universal workplace entitlement and therefore should be paid to individuals accessing the CDP program. This is particularly the case when you consider that many participants are First Australians and suffer disadvantage. CDP workers are no different to any other Australian worker and should be afforded the same rights and protections as other Australians in the workforce.

[78] Cbus (2015). Superannuation Guarantee non-compliance. Available from: https://tinyurl.com/hgtpoog
[79] The Australia Institute (2018). The Community Development Program, remote Australia's Work for the Dole scheme. Available from: https://tinyurl.com/vqv8pl8

Multiple job holders

We highlight that in 2016-2017 approximately 2.1 million people (15.6%) of those who worked held more than one job at a time and that a higher number of these multiple job holders were female (53.7%). This has increased by 17% from approximately 1.8 million people (14.4%) in 2011-2012.

In female dominated industries where working for several employers is common (such as retail, hospitality and health sectors), many employees are excluded from the SG system because the $450 monthly threshold applies only to a single employer, and not on a combined income level. For the 2.1 million multiple job holders, the median employee income in 2016-2017 in a first job is $27,479 and in a second job it was $4,802 which equates to approximately $400 per month[80].

Case study of a multiple-job holder	
Employee income first job	$30,000
Employee income second job	$4,800
Total income	$34,800
Total superannuation contribution	$2,850 (8%)

Given that SG payments are payable on the entire income for employees earning over $450, the current threshold creates a stark contrast of outcomes for employees that may be earning only slightly different incomes. This contrast is amplified where the individual may be working two or more jobs each earning under $450 per month.

Case study of two employees		
Employee monthly income in single job	$449	$450
Annual income	$5,388	$5,400
SG p.a.	$0	$513
Estimated balance at retirement*	$0	$24,869

*Assumptions based on using ASIC Moneysmart Retirement planner

As the percentage of Australians holding more than one job increases, so too does the likelihood that at least one job will pay under the $450 threshold. AIST strongly believes that it is time to remove the $450 monthly threshold which is greatly reducing the level of retirement adequacy for a growing number of Australians.

The $450 minimum monthly threshold was originally introduced because of the administrative burden to employers responsible for administrating small amounts of superannuation however advances in technology and payroll systems mean that this reason is no longer valid. Advances also include the introduction of SuperStream standard for processing superannuation data and payments electronically.

'MY MAJOR SUGGESTION: ALL THOSE WHO EARN ANY MONIES – NO MATTER WHAT THE AMOUNT IS, PART TIME, CASUAL OR FULL TIME - FROM A REGISTERED COMPANY MUST BE ENTITLED TO A SUPER PAYMENT AS WELL. THE CURRENT THRESHOLD OF $450 IS COMPLETE NONSENSE!' – WORKING AUSTRALIAN

[80] Australian Bureau of Statistics (2019), ABS cat. no. 6160.0 Jobs in Australia, 2011-2012 to 2016-2017. Available at: https://tinyurl.com/u47j7lu.

It is noted that the Productivity Commission,[81] which recommended this independent inquiry into the retirement income system, specifically called for a review of the distributional impacts of the non-indexed $450 a month contributions threshold.

[81] Productivity Commission (2018), Superannuation: Assessing Efficiency and Competitiveness, Canberra https://tinyurl.com/ygheyqdu

Sustainability

Q18. What should the Panel consider when assessing the sustainability of the retirement income system? **Q19. 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?**

Tax concessions should be targeted to support cohorts likely to receive low retirement incomes and to support the integrity of the superannuation system for middle-income Australians. Tax concessions for high net worth individuals should be reviewed, with emphasis on existing superannuation accounts exceeding $10 million.

Unless this is addressed, increasing levels of Government support will be provided to those in higher income brackets for decades to come. The Age Pension taper rate should be changed to $2 per $1,000 of assets to increase Government support for those on the 40th to 70th income percentiles. An independent advisory Retirement Income Council should be established to oversight performance and changes to the system, and assess the cost of tax concessions.

Governments must take a long-term and transparent approach to sustainability, integrated with other criteria of the retirement income system and, implement systematic change in a careful, considered and evidenced-based way.

AIST accepts that sustainability of the retirement income system is a key criterion (although it is not the major focus of our submission) and that the inter-relationship and trade-offs with other criteria should be a significant focus for Government. It is self-evident that policy decisions addressing sustainability should also be required to consider the impact on adequacy, fairness and member protections in the system.

For reasons of both community acceptance and sustainability, there should be limits to Government support for the retirement income system for high net worth individuals. Support should be targeted to those who need it most to achieve a dignified, financially secure retirement, both lower and middle income earners. Government support should not be available where this level of retirement lifestyle has already been achieved.

As noted earlier in our submission, this is in line with the expectations of Australians from all income brackets[82], with 7 in 10 Australians believing that the Government should reduce tax concessions on super for high income earners and instead better support outcomes for low income earners.

[82] Retirement Review Research (2020), Qualitative and quantitative research conducted by Essential Research for AIST

While superannuation provides benefits to all working Australians, the system is designed for people who are on the 40th to 80th income percentiles to be partly or wholly self-reliant in retirement. Despite this (and partly as a result of the 2017 Age Pension taper rate), those on the 40th to 70th income percentile receive significantly less lifetime Government support though the retirement income system than any other income cohorts.

> *'THE WEALTHIER PEOPLE UTILISE THIS TO AVOID TAX AND ACCRUE EXTRA SAVINGS. I THINK A SLIDING SCALE SYSTEM - THE SAME PRINCIPLE AS INCOME TAX LEVELS WOULD BE A MORE FAIR METHOD.' – WORKING AUSTRALIAN*

As shown in the table below SG contributions and earnings are taxed at a flat rate of 15%, this gives rise to a tax benefit that is larger for higher income earners with higher marginal tax rates.

Personal income tax rates and superannuation tax rates

Income range	Personal tax rate %	Super contribution tax rate %	Superannuation earnings tax rate %
0 – $18,200	0	0*	15
$18,201 – $37,000	19	0*	15
$37,001 – $90,000	32.5	15	15
$90,001 – $180,000	37	15	15
$180,001 – $250,000	45	15	15
$250,000 and over	45	30	15

* If earning $37,000 or less a year, a LISTO payment (15% of the concessional super contributions) may be payable.
**Rates are for 2019-2020 and do not include the Medicare levy of 2%

As noted in response to question 22, data shows that the higher income cohort also have a greater capacity to undertake voluntary savings. This is supported by Treasury Maria modelling which shows that the balances of higher income Australians will grow more than lower income Australians[83]. Consequently, unless this problem is addressed, increasing levels of Government support will be provided to those in higher income brackets.

Poorly targeted tax concessions increase the cost of the system to Government and impact on the sustainability of the system. This issue has been extensively acknowledged, in particular by the Financial System Inquiry[84] which stated 'Individuals with very large superannuation balances are able to benefit from tax concessions on funds that are likely to be used for purposes other than providing retirement income, such as tax-effective wealth management and estate planning.'

> *'THIS FACILITY [TAX CONCESSIONS] SHOULD BE REMOVED FOR HIGHER INCOME EARNERS AND THEN THE TAX GENERATED COULD BE USED FOR LOWER INCOME WORKERS.' – WORKING AUSTRALIAN*

Change to the Age Pension assets test is an example of sustainability being addressed without sufficient regard to other factors. Hasty changes provided a revenue gain for the Government but removed many middle-Australians from Age Pension eligibility, increased the inequity of the retirement income system and

[83] Treasury (2019), Accumulation of superannuation across a lifetime. Available at https://tinyurl.com/ubuhf9u
[84] Treasury (2019), Financial System Inquiry Final Report. Available at https://tinyurl.com/rw6pwnt

undermined the value of super for those considering making extra contributions. These changes are discussed in more detail elsewhere in this submission.

In order to provide greater equity of Government supports and to maintain the integrity of and support for superannuation, the sustainability of the retirement income system should be aimed at delivering on community expectations by targeting Government support to where it is needed to provide adequate outcomes.

A sustainable system with strong community support cannot continue to disproportionately benefit very high net wealth individuals. The net present value of Government supports – mainly superannuation – remains highest for the top 1% of income earners despite the 2017 changes to superannuation tax arrangements.

There is no policy justification for maintaining the current inequitable distribution of Government supports, and we disagree with those in the superannuation industry who call for the maintenance of the status quo.

'IT DOES SEEM FLAWED TO BENEFIT THE RICH.' – WORKING AUSTRALIAN

The consultation paper has already identified this and AIST calls on the panel to conclude that the level of Government support for the top 1% of income earners should be the focus of future measures to increase the sustainability of the system and that it should be dealt with in parallel with a change to the Age Pension taper rate to $2 per fortnight per $1,000 of assets (in place of the current $3).

If these matters are not addressed, the retirement income system will play an increasing role in wealth inequality. The Productivity Commission has found[85] compulsory superannuation is a reason why wealth inequality is lower in Australia than in most other developed countries, but this will be diminished if the inequitable distribution of Government supports is not addressed.

Treasury is well-placed to undertake modelling on this, and this should be incorporated into the Panel's report and the modeling for the Intergenerational Report later this year.

The basis and use of modelling should be transparent, and external parties should be able to use the model. Treasury's cohort projection model of the Australian population - which tracks accumulation of superannuation, estimates non-superannuation savings and calculates pension payments and the generation of other retirement incomes - would be enhanced if it was publicly available for use and assessment.

The 2015 Intergenerational Report claimed[86] that its ability to estimate improvements in retirement income and assets make it superior to trend projections of age-related pensions or those using a coverage rate approach, and this should be the subject of independent verification.

Public confidence is supported by careful and considered decision-making, and long-term implementation of major change. Government articulation of the retirement income system objective will aid confidence in

[85] Productivity Commission (2018), Rising Inequality? A stocktake of the evidence. Accessed at https://tinyurl.com/rdny5zn
[86] Treasury (2015), 2015 Intergenerational Report, Australia in 2055. Available at https://tinyurl.com/tdwvzd6

the system, especially if governments confirm that the Age Pension will continue to be there for all those who need it, and that there is at least progress towards improving superannuation outcomes for all, especially those who don't own their home.

Public confidence in the retirement income system is diminished by the complexity of the system (especially the interrelationship of different factors and impacts on tax treatment and eligibility); poorly articulated or understood changes; and partisan debates.

A solution to this problem could be the establishment of a Retirement Income Council for the whole retirement income system as an expert, impartial and member-focused body.

This could be modelled on the previously proposed Council of Superannuation Custodians. Responding to a proposal made by the then Government in 2013, AIST called[87] for the establishment of such a council and for it to be enshrined in law.

This council could be charged with developing, recommending and monitoring an adequacy, sustainability and consumer protection benchmarks in order to provide proper focus on the key drivers of the retirement income system.

This council could be charged with developing, recommending and monitoring adequacy, sustainability and consumer protection benchmarks in order to provide proper focus on the key drivers of the retirement income system.

The Charter Group appointed by the Government in May 2013 developed and recommended a Charter of Superannuation Adequacy and Sustainability. It also called for the development of an appropriate structure for a Council of Superannuation Custodians[88].

The recommendations of the Charter Group are readily applicable to the retirement income system, and AIST calls on the Panel to conclude that consideration should be given to such a charter and council for the whole system.

Substituting retirement income system for superannuation, the relevant recommendations from the Charter Group would be:

- That there should be legislation establishing a Retirement Income System Council that would administer a Retirement Income System Charter
- That the Council perform an advisory function only and that it has no regulatory powers, but does have the power to initiate its own inquiries into matters connected with the Charter principles
- That the Council be independent of Government
- That the Council consult widely with stakeholders on proposed changes to the retirement income system

[87] AIST (2013), Charter of Superannuation Adequacy and Sustainability and Council of Superannuation Custodians. Available at https://tinyurl.com/vw89akw

[88] A report to the Treasurer and Minister Assisting for Financial Services and Superannuation by the Charter Group (2013) A super charter: fewer changes, better outcomes. Available at https://tinyurl.com/qtnxkcw

- That, where appropriate, the Council recommend that there be a lead time between a legislative change and it taking effect
- That the Council derive and administer an appropriate benchmark for assessing the cost of tax concessions available to superannuation and the impact of future policy or rule changes on the cost to the budget
- Each report of the Council on proposed change to the retirement income system would clearly certify whether or not the Council considered it complied with the Charter principles
- That the Council establish and administer a confidence index that measures people's satisfaction with the retirement income system.

'[THE GOVERNMNET] SHOULD BE APPOINTING GENUINELY INDEPENDENT OVERSEERS OF THE SUPER INDUSTRY .' – WORKING AUSTRALIAN

Q20. How can the overall level of public confidence be assessed? What evidence is available to demonstrate the level of confidence in the system?

Community confidence is reliant on the Government ensuring that the system is making progress toward delivering community expectations for retirement. The public must have confidence that the system delivers on adequacy and is strongly regulated. . Research confirms members show confidence in the profit-to-member super sector. This is because the structure of profit-to-member funds has largely avoided the principle/agent problems that are evident in other sectors.

Mass market advice tools (eg, online) will increase literacy and understanding but research shows this will not protect members from principle/agent problems that undermine member retirement outcomes. Strong regulatory settings are required, including a default system that screens underperforming funds and a system that has high level of transparency.

Australians have strong views as to what retirement should look like and the Government's role in delivering this. Despite Australians' low level of engagement with their own superannuation, awareness typically increases in later life as balances grow and members get closer to retirement age. Retirees overwhelmingly expect their superannuation savings to provide their primary means of support beyond any Age Pension entitlement, well beyond any other form of savings or investments[89]. Australians overwhelmingly support compulsory saving via the SG and raising the SG to 12%[90] [91].

'I ALSO THINK [THE GOVERNMENT] SHOULD BE RESPONSIBLE FOR … MONITORING WHETHER OR NOT THE AMOUNT WILL BE FEASIBLE FOR THE INDIVIDUAL IN THEIR LATER YEARS OF LIFE. IF IT'S NOT ENOUGH TO LIVE ON, THEY OF COURSE SHOULD PROVIDE A BASE LEVEL INCOME THAT COVERS NECESSITIES, APPROPRIATE HOUSING IF NECESSARY AND FURTHER INITIATIVES TO ENSURE QUALITY OF LIFE FOR OLDER AUSTRALIANS.' – WORKING AUSTRALIAN

Among those with super, members are increasingly showing higher levels of satisfaction with industry funds relative to their retail counterparts[92]. Similarly, APRA data demonstrates strong member flows from the retail to industry fund sector in the wake of negative press surrounding the Financial Services Royal Commission. Likewise, the creation of new SMSFs has slowed and SMSF trustees are increasingly considering divesting into traditional super funds[93].

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[89] Mercer (2019), Great Expectations – Attitudes and Behaviours amongst Australian Retirees. Available at https://tinyurl.com/smkayo5
[90] AIST (2019), Government must not renege on 12% Superannuation Guarantee. Available at https://tinyurl.com/tn7vlp6
[91] Industry Super Australia (2019), Public attitudes towards increasing the super guarantee. Available at https://tinyurl.com/uzezmlj
[92] Roy Morgan (2019), Satisfaction with performance of Industry Super Funds remains ahead of Retail Funds. Available at https://tinyurl.com/svj24wq
[93] Vanguard (2019), Insights from the 2019 Vanguard / Investment Trends SMSF survey. Available at https://tinyurl.com/vt28yhm

'IT IS VERY CLEAR THAT UNION OR INDUSTRY BASED SUPER SCHEMES PROVIDE THE BEST RETURNS FOR THEIR MEMBERS RATHER THAN BIG PROFITS FOR THEIR SHAREHOLDERS.' – WORKING AUSTRALIAN

Australians are increasingly turning to their super funds to obtain financial advice and funds are responding with innovative solutions to help members look after their financial wellbeing. As changes in adviser standards drive many private advisers to leave the industry, the demand for cost-effective, trustworthy financial advice is expected to boom as more people approach retirement.

A 2018 survey found that people want help with their retirement planning and that there is an increased willingness to seek advice from superannuation funds. Survey respondents listed 'My Superannuation Fund' as the most likely place to look for help when deciding what to do regarding their pension and retirement[94].

Super funds are increasingly taking on this challenge. From mobile apps and web-based income simulators, investment seminars and workplace visits, informative newsletters and other fund communications, funds are broadening their focus as trustees of members' savings to improving members' overall financial literacy and understanding of their super[95].

Despite this, many Australians lack confidence in their capacity to afford a financially secure retirement. This is reflected in research commissioned by AIST outlined elsewhere in this submission, showing that almost half of current and future retirees don't expect to be financially secure in retirement.[96] Retirees. Ongoing research commissioned by Qantas Super[97] and AustralianSuper[98] finds that retirement confidence remains poor, particularly for women.

As noted in our response to question 20, current intra-fund advice prohibitions make it hard for members to access retirement advice at a cost that is collectively charged and the definition should be broadened to allow this. Access to collectively charged retirement advice is of growing importance because members are often unwilling or unable to pay for advice while at the same time there is a growing need for quality retirement advice as more members approach retirement.

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[94] State Street Global Advisors (2018), Global Retirement Reality Report 2018: Australia Snapshot. Available from: https://tinyurl.com/w884fcv
[95] See Rice Warner (2019), Funds fail on advice outcomes. Available at https://tinyurl.com/s5aprjs and CEPAR (2019), The impact of projections on superannuation contributions, investment choices and engagement. Available at https://tinyurl.com/ve4oqhq
[96] Retirement Review Research (2020), Qualitative and quantitative research conducted by Essential Research for AIST
[97] Qantas Super (2019) Qantas Super CSBA Retirement Confidence Index. Available at https://tinyurl.com/ugvclfh
[98] AustralianSuper & BehaviourWorks (2018), A holistic look at what makes a 'good' retirement. Available at https://tinyurl.com/v9zwuz4

Cohesion

Q21. What should the Panel consider in assessing whether the retirement income system is cohesive?

AIST generally agrees with the criteria for cohesion listed in the consultation paper, especially that good outcomes should be achieved for the disengaged. MySuper and the operation of the default system are fundamental to safeguarding member protections. Recent changes to the Age Pension asset test tape rate undermine the value of voluntary savings.

Generally, AIST agrees with the cohesion considerations listed in the consultation paper. These being:

- Incentives in the system and how they work to encourage individuals to save for their retirement as opposed to superannuation being used as a tax minimization tool for wealthy individuals
- Interaction with other systems including the employment system and social security system
- Superannuation should not be viewed by Governments as the solution to social, structural or systemic problems in society. Governments must work to identify and address the issues that result in individuals needing to access their superannuation early. Superannuation should only be accessed prior to retirement as a last resort. The Panel needs to consider how the impact of initiatives to address other systemic problems (e.g. health and housing) impact retirement outcomes.

Q22. Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?

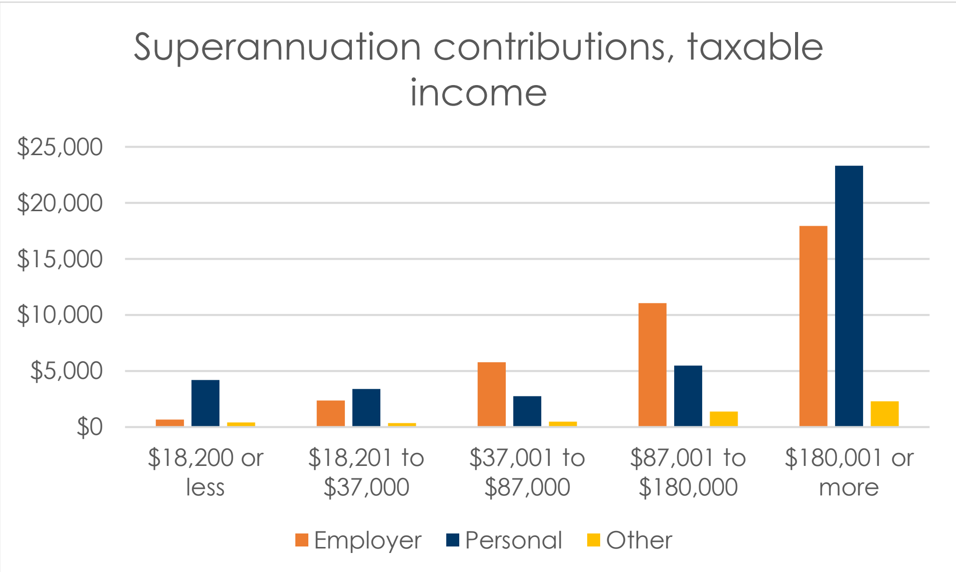
Career gaps significantly reduce lifetime savings. These should be addressed by universal (eg, LISTO) rather than just voluntary (eg, co-contributions) measures, and should be supplemented by compensatory measures (eg, payment of superannuation during all periods of leave).

Compulsory superannuation contributions play a key role in ensuring that individuals and households contribute across their lifetimes. An understanding that the compulsory SG rate is inadequate has seen the compulsory rate increased alongside policies to encourage more voluntary retirement savings through tax incentives.

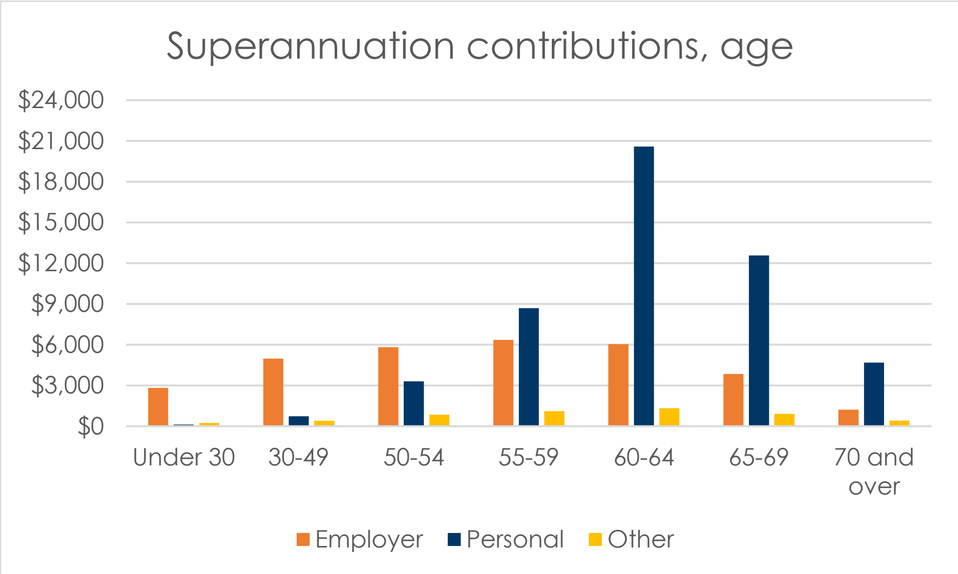
'EVEN WORKING FULL TIME ON A LOW WAGE, IT'S EXTREMELY HARD TO HAVE SAVINGS IN THE FIRST PLACE LET ALONE PUT ASIDE MONEY FOR MY SUPER' – WORKING AUSTRALIAN

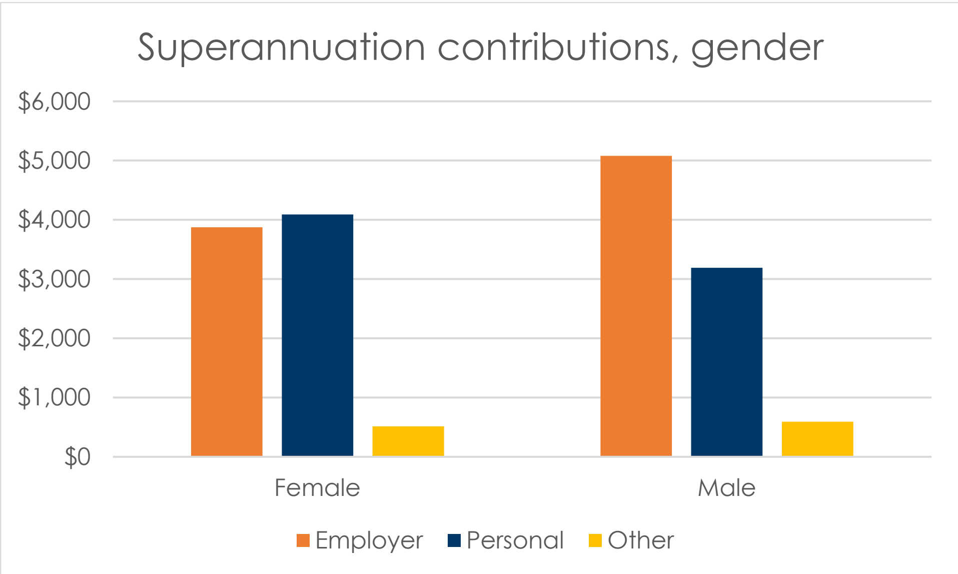
Data published by the Australian Taxation Office[99] provides information about the value of contributions to superannuation and the broad characteristics of individuals who had superannuation contributions in 2016–17. The data shows that:

- the average level of voluntary contributions generally increases with age and income
- women on average have lower employer contributions than men but on average make higher personal contributions



[99] ATO (2017), Taxation Statistics 2016-17, Individuals - Table 23. Available from: https://tinyurl.com/repr6kn





Given the difference compound interest makes, a contribution made at a younger age will have a more significant impact than making contributions in later years. Assuming retirement at age 65, and a real return of 4% net per annum over inflation, an additional dollar contributed at age 25 yields $4.80 inflation adjusted at retirement, but a one dollar contribution at age 50 only yields $1.80 at retirement.

This means that catching up contributions later in working life is a relatively inefficient way of saving, despite the fact that it fits modern lifestyles as well as household income and expenditure patterns. The best way therefore to ensure that individuals save across their lifetimes is to increase SG.

This is supported by learnings from recent retirees. A recent survey on what advice they would give to people that are currently working found that the most common pieces of advice was to start saving *earlier* (69%) and to speak to your superannuation fund *earlier (72%)*[100].

'I WISH I HAD THOUGHT MORE CAREFULLY ABOUT SUPER EARLIER IN THE PIECE BUT INCOME LIMITED MY CHOICES ANYWAY.' – WORKING AUSTRALIAN

The current SG arrangements for individuals under 18 should therefore be revised. AIST recommends removal of the work test that affects SG eligibility for workers under 18 (or who are private or domestic workers) who work less than 30 hours per week. Denying contributions for a large cohort of workers aged under 18 has a long term impact on adequacy in the future and also has an impact on their engagement/knowledge of superannuation.

Given such low levels of voluntary savings, it is also unrealistic to expect that shortfalls resulting from career breaks will be addressed by voluntary saving. Even a short period out of the workforce can have a significant impact on retirement outcomes. Approximately 64% of women have taken a career break, compared to 49% of men[101].

Career breaks include periods of unpaid work which are excluded from the economy and consequently not recognised nor rewarded by the retirement income system. According to PWC[102] the value of unpaid childcare makes it Australia's largest industry, larger than any in the formal economy. Women also make up 72% of unpaid work, conducting 76% of childcare, 67% of domestic work, 69% of care of adults and 57% of volunteering.

[100] State Street Global Advisors (2018), Global Retirement Reality Report 2018: Australia Snapshot. Available from: https://www.ssga.com/investment-topics/retirement/australian-retirement-survey.pdf

[101] Hays (2019), Diversity and Inclusion Report. Available from https://tinyurl.com/u6ol8sp

[102] PWC (2017). Understanding the unpaid economy. Available from: https://tinyurl.com/v8qpfar

Q23. What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?

Super should not be viewed as a solution to social problems like aged care and housing. While there is a case for the retirement income system to do more to help renters in retirement (though an increase to the Age Pension rental supplement), the scale of the housing affordability problem requires a broad range of policy responses, including policy measures that do not cause house price inflation nor erode retirement savings. There does not seem to be a relationship between compulsory and voluntary superannuation levels.

Relationship between housing and superannuation

There is a clear link between deteriorating housing affordability and the adequacy of Australia's retirement income system. While evidence does not suggest this is currently the case, there is a growing risk that an increasing proportion of new retirees will use some or all of their accumulated superannuation savings to repay mortgage debt – leaving them more reliant on the Age Pension and furthermore that an increasing proportion of retirees will be living in privately rented housing.

Research by Saul Eslake (2017)[103], commissioned by AIST, identified a clear link between deteriorating housing affordability and the adequacy of Australia's current retirement income system. The report raises a number of concerns about the impact of Australia's falling home ownership rates on the retirement wellbeing of future generations. These included concerns:

- That an increasing proportion of new retirees will use some or all of their accumulated superannuation savings to discharge their outstanding mortgage debt, meaning that a higher proportion of retirees may remain wholly or partially dependent on the Age Pension than currently assumed and
- That an increasing proportion of retirees will be living in privately rented housing, spending a higher proportion of their income on rent, potentially generating political pressure for increases in the level of Commonwealth Rent Assistance, in the Age Pension itself, or both.

Relationship between compulsory superannuation savings and voluntary savings

There is significant evidence that compulsory superannuation savings have increased wealth and do not result in reduced voluntary savings.

- Fung (2014) found employer contributions have neither reduced consumption nor changed wealth accumulation patterns – suggesting employer contributions represent largely new savings[104].

[103] AIST (2017), No place like home: The impact of declining home ownership on retirement. Available from: https://tinyurl.com/ve8kvw6
[104] Feng, J (2014), Saving for Retirement: An Investigation of Contributions to Superannuation in Australia. Available from: https://tinyurl.com/tf2mjz5

- Shanker and Vidler (2014) found that an increase in the compulsory rate seems to be carried over entirely into an increase in total contributions; either because individuals make voluntary contributions without any consideration of how much their overall savings ought to be, or because the compulsory rate influences the subjective evaluations of savings preferences (effectively anchoring bias)[105].
- RBA research in 2017 found that Australia's compulsory superannuation increased household wealth while voluntary saving also increased slightly[106].

[105] Vidler, S & Shanker, A (2014), Offsets to compulsory superannuation: do people consciously choose their level of retirement saving? Available from: https://tinyurl.com/rsx3ks4
[106] Connolly, E (2008), The Effect of the Australian Superannuation Guarantee on Household Saving Behaviour. Available from: https://tinyurl.com/ulxs26n

Q24. 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?

A single means test for the Age Pension and aged care would make it easier for individuals to understand and plan. The complexity of existing interactions, mean that there can be differing and inequitable outcomes.

There is limited evidence available on how the retirement income system interacts with other areas is well understood.

One particular area that AIST believes needs improvement is the interaction is between the Age Pension and aged care.

The means tests for the Age Pension and aged care are both structured differently. While both have an income and assets test, the thresholds and tapers differ. This complexity makes it exceptionally difficult for individuals to plan for and understand what their level of income in retirement will be.

Given that some assets are assessed under both tests, while other assets are assessed only under the assets test, the current two-part system means test results in people receiving different levels of Government payments even though they have the same level of wealth.

It is noted that that the Henry Review also found that inconsistencies in scope between the income and assets tests that reduced system coherence and resulted in an unequal treatment of pensioners with similar levels of private means[107].

A single asset test would also address issues that have been raised regarding the way in which the deeming rates have not tracked changes in official interest rates.

Another interaction that is less understood is the impact of childcare costs on women's workforce participation rates and consequently their retirement outcomes. Women's workforce participation rate is, in part, linked to the degree of financial support for childcare. The International Monetary Fund has noted that if the price of childcare is reduced by 50%, the labour supply of young mothers will rise in the order of 6.5%-10%.

[107] Henry et al (2009), Australia's Future Tax System: The retirement income system. Available from: https://tinyurl.com/w9k6mbz

Q25. What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?

There is no evidence to suggest that financial advice will provide a systemic solution for retirement income adequacy. The Financial Services Royal Commission confirmed many retail advisers were providing advice to benefit themselves rather than their clients. The FOFA requirement to act in members' best interests may lift standards, but streamlined transition to retirement products and processes are required. AIST research has shown that account-based pensions are generally suitable for retirees with $250,000 or less in superannuation.

We acknowledge that there are a number of measures/proposals to educate and assist consumers to navigate the superannuation system, including MoneySmart and the proposed Consumer Advocacy Body for Superannuation. AIST welcomes measures which enable members to make more informed decisions about their super. This is particularly important given Essential research that highlights a large cohort of Australians are still misinformed about how their super fund is performing and what type of fund they are in[108].

However, responsibility should not be passed onto individuals to educate themselves in order to navigate such a complex and compulsory system. Member protection is needed through a strong default system and product regulation.

Given low levels of financial literacy, proliferation in the number of choice superannuation products and poor data, we must be realistic about what we expect members to understand in relation to their superannuation. Evidence shows that even when members do exercise choice of fund they are more likely to end up worse off in retirement.

In 2018, the Productivity Commission Inquiry into Superannuation: Assessing Efficiency and Competitiveness[109] found that:

> *"In the choice segment, a proliferation of little used and complex products — some tens of thousands — increases fees without boosting net returns, and makes effective decision making elusive for most members. There is evidence that some members who use these products are unwittingly buying a degree of control over their super at the price of materially lower retirement incomes."*

ASIC research[110] has confirmed that disclosure alone can be ineffective in influencing behavior and, in some instances, disclosure and warnings can contribute to consumer harm. The research found that *'when disclosure is used to address problems it is ill-suited to solve, it can place an unrealistic and onerous burden on consumers – for example, expecting them to overcome complexity and sophisticated sales strategies.'*

[108] Essential Research (2019), Understanding the decision-making process of retail fund members. Available from: https://tinyurl.com/s85wccl
[109] Productivity Commission (2018), Superannuation: Assessing Efficiency and Competitiveness. Report No. 91, Productivity Commission Inquiry Report, p. 11. Available from: https://tinyurl.com/ygheyqdu
[110] ASIC & AFM (2019), Disclosure: Why it shouldn't be the default. Available from: https://tinyurl.com/ryry8lp

Given the complexity of the retirement income system, access to high quality financial advice is growing in importance. Unfortunately, a series of high-profile advice scandals has destroyed public confidence and

> *'PEOPLE ARE RELUCTANT TO GO TO FINANCIAL ADVISERS AS THEY AREN'T ALL TRUSTWORTHY BUT YOU SHOULD ASK FRIENDS AND OTHERS.' – RETIRED AUSTRALIAN*

trust in the financial advice industry. These scandals are a legacy of an environment in which product issuers paid financial advisers to sell their financial products and an inadequate regulatory framework which failed to protect consumers from these conflicts of interest.

The Future of Financial Advice (FOFA) requirements and also the new requirements of the Financial Adviser Standards and Ethics Authority may lift standards, but streamlined transition to retirement products and processes are required.

As noted in our response to question 5, AIST and ACFS research[111] has shown that account-based pensions are generally suitable for retirees with $250,000 or less in superannuation whereas retirees on higher balances of $500,000 or more are more likely to need to annuitise part of their retirement balance.

There is a need to further develop the retirement phase of the superannuation system in the best interest of members. AIST believes that the subject of a default retirement product should be a matter for trustees, who are in the best position to determine what is in the best interests of their members.

Where members do require advice, it is most likely to be needed at retirement stage. Current intra-fund advice regulations make it hard for members to access retirement advice at a cost that is collectively charged. As argued above, intrafund advice should be broadened to help members access quality advice.

The value of good quality financial advice being provided by superannuation funds is demonstrated in the Value of Advice[112] report which found that those people who received financial advice:

- 77% believed advice had helped them feel prepared for retirement
- 72% believed they had a better understanding of what to expect in retirement
- 80% believed advice had given them more peace of mind
- 75% believed the advice they received was worth more than the cost

In addition to advice, members need their super funds to be able to provide basic, unconflicted factual information and guidance. Where members have common needs, this can be provided most cost-effectively as basic information under general advice laws. Examples of member services categorised as general advice include:

- Retirement planning seminars
- Online calculators
- Call Centres
- Newsletters and research reports

[111] AIST & Australian Centre for Financial Studies (2015), Superannuation in the postretirement phase: the search for a comprehensive income product for retirement. Available at https://tinyurl.com/rh5yclr
[112] SunSuper (2019) The value of advice. Available at https://tinyurl.com/sq5bguq

Q26. Is there sufficient integration between the Age Pension and the superannuation system?

No. Over time, a good policy outcome is for the number of people receiving a part-pension to increase while recognising that the majority of retiring Australians will continue to receive some Age Pension. The current Age Pension taper rate disincentivises saving and diminishes the integrity of the superannuation system, and should be adjusted. There is no evidence that the gap between preservation age and pension age encourages reckless consumption in order to qualify for the pension.

The integration between the Age Pension and the superannuation system should be considered in the context of the overall objective of the retirement income system. While criteria for the Age Pension impact on the superannuation system and visa versa, this is not the same as integration.

Changing particular requirements (such as the pension age or the assets test for the pension) will have an impact on the number of people on the pension and the associated cost to Government but does not address whether Australians are receiving an adequate income in retirement.

According to the 2015 Intergenerational Report[113]

> *In 2013-14, about 70% of people of Age Pension age were receiving the Age Pension. Of these pension recipients, around 60% receive a full rate pension. Under the 'proposed policy' scenario, the proportion of people of Age Pension age receiving the Age Pension is projected to fall to around 67% by 2054-55.*

Changes to Age Pension eligibility via adjustments to the assets test taper rate have had impacts on the number of people in receipt of a pension. A year after the changes were made, 63.3% of Australians aged over 65 were in receipt of an Age Pension while the proportion of full rate recipients remains unchanged at 61.7%[114].

This is a low figure compared to other OECD countries and is sustainable by global comparisons. Australia now ranks third highest on sustainability measures when benchmarked against other global pension systems[115], demonstrating that Australia's compulsory savings system is reducing the economic drag of a wholly publicly funded pension system.

Dr David Knox, author of the Melbourne Mercer Global Index, says that it's not enough for a system to be sustainable or adequate; an emerging dimension to the debate about what constitutes a world class system is "coverage" and the proportion of the adult population participating in the system.

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[113] Treasury (2015), 2015 Intergenerational Report, Australia in 2055. Available at https://tinyurl.com/tdwvzd6
[114] Department of Social Services (2018), DSS Payments Demographics Data June 2018. Available at https://tinyurl.com/wbvhq3m compared to Australian Bureau of Statistics (2019), 3101.0 - Australian Demographic Statistics, Mar 2019. Table 8 Estimated resident population, by age and sex–at 30 June 2018. Available at https://tinyurl.com/roxhyfq
[115] Mercer (2019), Mercer Melbourne Global Pensions Index, Available at https://tinyurl.com/y2b9gtzx

> *In some countries, broad coverage has been successfully accomplished through compulsory workplace pension systems or, in some cases, auto-enrolment arrangements. However, with changes in the way people are working around the world, we need to ensure these schemes include everyone so that the whole workforce is saving for the future. This includes contractors, self-employed, and anyone on any income support, be that parental leave, disability income or unemployed benefits*.[116]

The Intergenerational Report further acknowledges that

> *As Australia's superannuation system matures, and compulsory contributions increase, many Australian workers will retire with much larger superannuation balances. The proportion of part-rate pensioners relative to full-rate pensioners is expected to increase. The proportion of retirees receiving any pension is not projected to decline.*

It comes down to the question of whether the purpose of superannuation is to **substitute** or **supplement** the Age Pension.

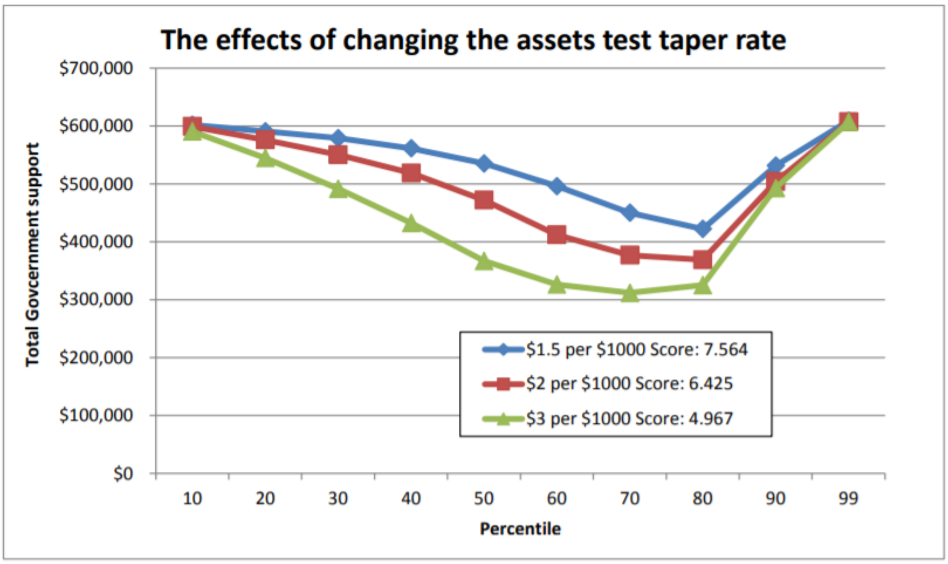
Assets test

The Age Pension taper rate currently disentivises saving in superannuation.

The changes made by the Government as part of the 2015-16 Budget to increase the taper rate from $1.50 to $3.00 (which became effective as of 1 January 2017) substantially reduced net Age Pension payments to the majority of recipients. In particular these changes reduced the partial Age Pension significantly for middle-income households.

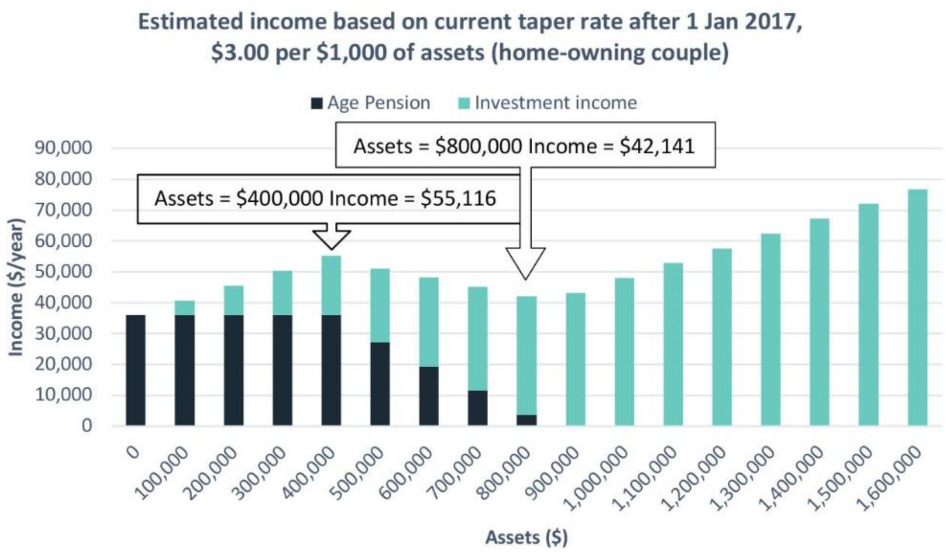
Research by AIST and Mercer at the time found that the fairness in the level of Government support was significantly impacted by this change. The modelling showed that the new taper rate would cut the level of Government support for average income earners by up to 40%, removing incentives for voluntary saving both in and outside of super, and threatening the integrity and sustainability of Australia's super system.

[116] Mercer (2018), Media release: Global Pension Index reveals who is the most and least prepared for tomorrow's aging world. Available at https://tinyurl.com/v83x8ws



The perverse disincentive that resulted from the changes in the taper rate for individuals to save for their own retirement was explored by Asher and Ravin in 2018[117] who found that the assets test creates a trough in income between about $300,000 and $700,000 in assessable assets. The authors noted that within this range, annual income **declines** with increasing assets because the income from the marginal assets (whether returning 3% p.a or 5% p.a) is less than the Age Pension foregone.

These findings are also supported by National Seniors Australia and are highlighted by the chart below.



Source: National Seniors Australia[118] and based on investment income on assets of 20% bank deposit @2%, 80% LICs @5.5%.

[117] Asher and Ravin (2018), The Age Pension means tests: contorting Australian retirement. Available from: https://tinyurl.com/unaaanc

[118] National Seniors Australia (2019), Reduce the asset test taper rate. Available from: https://tinyurl.com/t5uyhkg

The graph shows that under the changed taper rate, a home owning couple with $400,000 in assets would receive an income of approximately $55,000, whereas a couple with $800,000 in assets would only receive an income of approximately $42,000. This situation not only penalises individuals for saving for their retirement but encourages and rewards individuals to adapt their spending in order to increase Age Pension entitlements.

Cameo 3 highlights the unfair impact of the current taper rate. At current levels of savings, the taper rate reduces income by $856 per annum. Whereas at an increased saving level of 12% the taper rate has reduced income by $1,901 per annum, a 51% penalisation.

Cameo 3 –Teacher

Unfair taper rate penalises increase SG saving by 51%

Scenario	Income in retirement (in today's dollars)
9.5%	$40,965
9.5% and reduced taper rate	$41,821 (+856)
12%	$43,005 (+$2,040)
12% and reduced taper rate	$44,906 (+$1,901)

*Current taper rate is $3.00 per $1,000 assets

**Reduced taper rate has assumed $2.00 per $1,000 assets

Assumptions
- Enters workforce age 22
- Single
- Starting income $65,751
- Part time service periods
- Retirement age 67

Pension Age

In September 2018, the Prime Minister Scott Morrison MP announced[119] that the eligibility age for the Age Pension will not be increased to 70 years as previously announced. The current increases to 67 years by 2023 will continue but will than stay at 67 years.

At the time, Deputy Prime Minister Michael McCormack MP said changing the Government's previous policy was a "pragmatic, sensible move".

> "*I think if you are a tradie, or a brickie or a shearer in rural and regional Australia you don't want some suit in Canberra telling you are going to have to work until you're 70. It's hard, back-breaking work what a lot of our people do and I think being told that they are going to have to work until 70 I think was probably a step too far*."[120]

Treasurer Josh Frydenberg MP has also ruled out raising the pension age as part of the Retirement Income Review[121].

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[119] ABC News (2018), Scott Morrison scraps Government plans to raise pension age to 70. Available at https://tinyurl.com/qtcerw2
[120] ABC News (2018), Scott Morrison scraps Government plans to raise pension age to 70. Available at https://tinyurl.com/qtcerw2
[121] Sydney Morning Herald (2019), Frydenberg: Pension age won't be raised to 70. Available at https://tinyurl.com/wxn2a92

Given the clear policy direction from the Government that the pension age will not be part of the Retirement Income Review, AIST will not be addressing the pension age further in this submission, other than in relation to the preservation age.

AIST agrees with the Government that there is no need to increase the eligibility age for the Age Pension, and that diminished capacity (as well as lack of opportunity and caring responsibilities) is a factor in support of this.

Preservation Age

The gap between pension age and preservation age will reduce to 7 years by 2024 (see table below). AIST calls on the Review Panel to recognise the changing nature of the relationship between them and conclude that the existing schedule of preservation ages:

- Supports retirement adequacy for a significant cohort of Australians, and
- Does not have a significant bearing on the sustainability of the retirement income system.

Notwithstanding the Government's policy announcement on pension age, both it and preservation age are in the process of change, although with differing timetables. Pension age will increase to 67 by 1 July 2023, while all people born after 1 July 1964 will be 60 and able to access their superannuation if they meet a condition of release from 1 July 2024.

The interaction between pension age and retirement age means that the difference between the two has varied between 7 and 12 years since 2013[122]. The changes to preservation age were announced in 1997, while the changes to pension age were announced in 2009.

While implementation of these changes has taken over a decade, it is wrong to suggest (as some have done) that there has been little change to pension eligibility since 1908.

When the current timetables for changes to preservation and pension age are completed, the difference between them will be 7 years. This is a gap of 3 years *less* than was the case before the changes took place.

There should be a gap between preservation age and Age Pension age in order to allow for the reasonable expenditure of superannuation savings by those in a position to do so.

Some commentators, politicians, inquiries and governmental bodies have expressed the concern that people will consciously increase their consumption in the gap years in order to qualify for the pension. This is the policy-makers' version of an "urban myth".

In 2003, the then Minister for Finance and Assistant Treasurer, Senator Helen Coonan said

> "*The Government is opposed to people frittering away money set aside for retirement and then seeking to double dip into the pension when they reach the required age*" [123]

[122] Women could receive the Age Pension upon turning 60, however, female pension age was progressively increased from the 1990s until it aligned with the male pension age in 2013.

[123] Senator Coonan media release (2003), Federal Government is closing the gap between Pension age and Superannuation access age. Available from: https://tinyurl.com/qpgxaej

However, this is not supported by the evidence. There was no evidence of "frittering" then and there has been none since. The evidence points to the opposite conclusion: the evidence points to frugality in retirement. There is also no evidence that increased retirement consumption is an emerging trend.

This is recognised in the commentary on page 24 of the Consultation Paper:

> *Research shows that many retirees 'default' their income from superannuation at or near the minimum drawdown rate. … This may result in retirees having higher overall retirement income at a time when they are less likely to have significant expenses, and lower income when retirees are more active and may wish to have higher expenditure*.

This is supported by analysis of member level experiences and behaviours by Vanguard using First State Super, Sunsuper and VicSuper data which found that pensioner members withdrew only 10% of aggregate available account balances in 2018[124] and further by a CSIRO-Monash working paper which found that most retirees with account-based pensions withdraw close to the minimum allowable amount from their superannuation each year[125].

AIST calls on the Panel to review the evidence and conclude that there is no evidence to support the myth of self-funded retirees "frittering" away their savings in order to get access to the Age Pension.

However, policymakers cannot have it both ways. Governments should not prevent people from accessing their retirement saving when they are active and have significant expenditure needs in retirement from age 60, while at the same time complaining that (the same) people are not drawing down sufficiently quickly on those savings.

Most importantly however, further increases in the preservation age would be inequitable. An increase would have less impact on people in high-paying jobs who are more likely to work longer regardless of the preservation age, and have higher retirement incomes when they do retire.

The impact of a later preservation age would be disproportionately felt by people in lower-income brackets. They are more likely to face involuntary retirement and be less likely to rejoin the paid workforce. A later preservation age means they would be unable to access their superannuation in circumstances where they need the income to subsist but are not yet old enough to get the Age Pension.

Many people in these circumstances would have to seek other, lower and more restrictive forms of Government support.

Date of birth	Preservation age	Pension age	Difference (years)
Before 1 July 1952	55	65	10
1 July 1952 - 31 December 1953	55	65.5	10.5
1 January 1954 - 30 June 1955	55	66	11
1 July 1955 - 31 December 1956	55	66.5	11.5
From 1 January 1957	55	67	12

[124] Vanguard (2019), How Australia Saves: A report on superannuation data. Available from: https://tinyurl.com/r68ugym
[125] CSIRO-Monash Superannuation Research Cluster (2016), Superannuation drawdown behaviour: An analysis of longitudinal data. Available from: https://tinyurl.com/v9yjwms

Before 1 July 1960	55	67	12
1 July 1960 – 30 June 1961	56	67	11
1 July 1961 – 30 June 1962	57	67	10
1 July 1962 – 30 June 1963	58	67	9
1 July 1963 – 30 June 1964	59	67	8
From 1 July 1964	60	67	7

‘PEOPLE DON'T DESERVE TO LIVE OUT 95% OF THEIR LIFE WORKING, THAT'S NOT WHAT LIFE IS ABOUT AND IT'S ONLY FAIR THAT ONCE WE HAVE DONE OUR TIME AND WE'VE GONE ROUND THE BEND AND OVER THE HILL THAT WE'RE ABLE TO ENJOY OUR LIFE NO MATTER WHAT JOB WE PREVIOUSLY HAD..’ – WORKING AUSTRALIAN

Different outcomes:

Headwinds and tailwinds in the journey to a financially secure retirement

Employment and characteristics

Low income earners

40% of taxpayers earn less than $37,000 p.a.

20% of taxpayers earn less than $18,000 p.a.

Part-time employees

33% of workers work part-time

48% of working women are part-time

$28,496 median part-time earnings

No superannuation guarantee coverage

$450 if you earn less than $450 per month

Self employed and contractors not subject to the compulsory super rate

High income earners

20% of taxpayers have taxable incomes above $87,000 p.a.

Full-time employees

80% of male workers are employed on a full-time basis

$76,700 is the median full-time earnings for men

$65,000 is the median full-time earnings for women

Superannuation guarantee coverage

Award or agreement mandates minimum employer superannuation

Housing

Mortgage debt

>10% of Australians have mortgage debt at their time of retirement

Renting

4x Median rents paid by over 65s are more than 4 times higher than the maximum rate of rent assistance

31% of social housing occupants are more likely to be women and indigenous people

50% of social housing occupants are more likely to be women and indigenous people

Fully paid mortgage

Retirees who own their home outright have less expenditure on housing

Working patterns

Unstable work patterns

Unemployment or under-employment

Career breaks

94% of parenting payment recipients are women

72% of parenting payment recipients are single mothers

Caring for family members

70% of carer payment recipients are 73% of carer allowance recipients are female

Early or involuntary retirement

Older workers who can't find paid work

Acquired disability or ill health

Care obligations

Unbroken work patterns

40 years in paid work

Retiring at or after pension age

Award or agreement mandates minimum employer superannuation

Social

Vulnerable

Indigenous Australians

Disabled Australians

Privilege

Well educated Australians with good earning capacity

Beneficiaries of large inheritances

Marital status

Single

46% of current Age Pension recipients are single

Living alone

More women than men live alone

Women who live alone are substantially older than men

The main drivers of living alone are divorce and widowhood

Divorced

Divorced people are substantially less well-off and more reliant on the Age Pension than married couples the same age

Couples

It is more cost efficient to live as a couple rather than a single person