Retirement Income Review

FSU Submission

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Finance Sector Union

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Background and Introduction

Background - THE FINANCE SECTOR UNION

The Finance Sector Union (FSU) is a registered employee organisation representing approximately 30,000 members across the banking and finance sector throughout Australia. Our members work in banking, insurance, superannuation, financial planning and finance. Our membership is predominately female, many of whom are engaged in part-time and casual employment.

Introduction

The FSU supports the submissions of the ACTU and IFS which provide qualitative data to support their conclusions and upon which some of our conclusions rely.

The FSU submission focuses on the consultation questions on adequacy and equity using a case study methodology. We provide three case studies that reflect the matters we consider pertinent to the review of retirement incomes. Our case studies will highlight the stories of 3 individual members who are representative of different groups of FSU members and they demonstrate the different experiences of Australia's retirement income system.

Each case study will highlight the characteristics of the worker and their employment history which will allow us to consider what structural elements of the current system have contributed to their financial position in retirement. Each of the workers' who have agreed to participate in this submission would be keen to appear in person to share their experiences of retirement with the committee.

Case Study 1

Background

The first case study will provide an example of someone for whom the current policy settings have delivered an adequate retirement income.

John is in his 70s and retired at the age of 65. His superannuation was paid into a defined benefits scheme and he receives a fortnightly pension.

Employment history

John started working full time at one of the big banks when he was 27 years old and continued working full time without any large periods of time out of the workforce until retirement at age 65.

Employer Superannuation Contributions

John's employer made voluntary superannuation contributions prior to the introduction of the superannuation guarantee contribution rate (SGC) and was paid superannuation at a rate higher than the SGC for 15 years. John's superannuation went into his employer's default fund and he didn't have any interest in managing the settings of his superannuation while he was working. John's employer always made superannuation contributions and never withheld any payment.

Personal contributions

John did not make any additional contributions to superannuation during his working life.

Home ownership

John owns his own home and is not paying off a mortgage.

Retirement outcomes

John is experiencing an adequate retirement however he expects that he will need to assist his children financially as he is concerned that they will not have the same access to superannuation given their patterns of work.

Conclusions

John's demographics, that is, a person who worked in a permanent full-time job that attracted employer superannuation payments from the time he finished his schooling until the time the retired demonstrates that the current system settings are working. John owns his own home, holds private savings and enjoys a fortnightly pension payment.

Case Study 2

Background

The second case study provides an example of someone for whom the current policy settings are not working and is not delivering adequacy in retirement.

Anni is in her 60s and retired at the age of 64. She started work in Australia in 1993 by which time she was entitled to receive compulsory employer superannuation contributions. After Anni retired she was able to self-fund her retirement for a few years but is now reliant on the aged pension. Anni's superannuation went into her employer's default fund and she did not pay interest to her account and for the most part her superannuation was subject to the fund's default settings.

Employment history

Anni is an immigrant who arrived in Australia at the age of 27. Anni stayed at home to raise her children while her husband worked for the first 13 years of their life in Australia. At the age of 40 Anni entered the workforce and worked a variety of part time hours at different employers in the finance industry for a period of 21 years before retirement.

Employer Superannuation Contributions

By the time Anni entered the Australian workforce employers were required to provide superannuation contributions. Anni received employer contributions at a higher rate than the SGC for 10-15 years of her career. Anni's employers (she had more than 1) always paid her superannuation contributions when they were due and Anni never had to chase payment.

Personal contributions

During this time Anni did not make additional personal contributions to her superannuation account.

Home ownership

Anni owns her own home and is not paying off a mortgage.

Retirement outcomes

Anni and her husband had been living in a capital city but sold up and moved into a regional area due to a combination of lifestyle choice and cost of living. Anni has a very low superannuation balance because of her relatively short period of time in the labour market – due to 13 years spent caring for her children and immigrating to Australia. Anni has a small amount of private savings and investments, however they are insufficient to finance her retirement and she is reliant on the aged pension.

Conclusions

Anni's demographics, that is, a person who had large chunks of time out of the workforce caring for children, her reliance on part time work, and lack of superannuation for the period of her life spent living overseas demonstrates that the current system settings are not working. Anni has moved into a regional area with lower housing costs and owns her own home, however, her superannuation and private savings are inadequate to support her retirement, so she is reliant on the aged pension.

Case Study 3

Background

The final case study is a little different to the previous two. This case study examines the experiences of women in the era prior to the introduction of the SGC and serves as a warning to policy makers of the peril of leaving decisions about superannuation to the market or the private sector.

Leighanne started working at one of the big banks in 1982 at the age of 15. She started work alongside another 15-year-old, a boy named Ross.

Employment history

Leighanne and Ross began working at the bank at the age of 15 in 1982

Employer Superannuation Contributions

In 1982 prior to the introduction of the SGC their employer paid superannuation to all their male staff. Female staff under the age of 25 were not paid superannuation, once women reached the age of 25, if they were still employed (the bank expected that by 25 most women would be married, having children and would never re-enter the workforce) they would be paid superannuation by the bank.

Personal contributions

At this point in time – 1982- male staff members were able to make personal contributions to their superannuation accounts, however women under the age of 25 were prohibited from making personal contributions. As some point (it is unclear of the exact date) between 1986 and 1991 the prohibition of women making their own contributions to superannuation was lifted.

Home ownership

n/a

Retirement outcomes

In this scenario, in 1992 Ross left the bank, and had 10 years' worth of superannuation in his account, Leighanne had only 1. The inequity was not only in the employer contributions, but the impact of compounding means that Leighanne would never be able to make up this shortfall in her superannuation balance.

Conclusions

There have been suggestions put forward to policy makers by politicians that some people (primarily low-income earners) should be exempt from SGC. Instead, it has been suggested, that money could be used to bolster low incomes in an economic environment with very low wage growth. Low income earners are often younger workers, and the lack of superannuation contributions at the start of a worker's employment means they are less likely to benefit from compounding. This has been well documented, and we will not repeat the arguments around the benefits of compounding. Low income earners are often also women and/or people from non-English speaking backgrounds, who, again, would not be given the opportunity to receive the benefit of compounding. The private sector and the market were not able to build an equitable arrangement for superannuation prior to 1991 as the case study highlights, and FSU wants to remind the committee that leaving important policy decisions to private companies and the market to solve will mean growing inequity in a system that already has numerous inequities built into it.

Conclusion

The FSU has highlighted the stories of 3 very different finance workers and their experiences of the current policy settings with respect to superannuation. These case studies highlight 3 scenarios that the committee should keep in mind when making suggestions to amending policy settings.

1. The current settings are effective and are providing adequacy in retirement for workers who:
    i. Are engaged in continuous full-time work from the time they finish their education until retirement without large unpaid breaks in their workforce participation; and
    ii. Whose employers are making superannuation contributions at a rate higher than the SGE.
2. The current settings are not effective at providing adequacy in retirement for workers who:
    i. Are not engaged in full time work; and/or
    ii. Have long periods out of the workforce (for any reason);
    iii. Who are not paid their SGC by their employer (for whatever reason);
    iv. Who are ineligible for SGC.
3. There is a real risk to the system should it be left to the market or private sector to “choose” how to engage. The risk is higher to low income earners, who are often more vulnerable members of the community.

The FSU has not personally identified the workers in the case studies outlined above, however, each of these workers has indicated that they would like to meet with the committee to share more details of their experiences. Please contact the FSU via the contact details on page 2 of this submission to arrange a suitable time.