

Submission to

The Treasury

Retirement Income Review

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submission

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Introduction

The Queensland Nurses and Midwives' Union (QNMU) thanks The Treasury and the Panel (the Panel) tasked with the review for the opportunity to comment on the *Retirement Income Review* (the review).

Nursing and midwifery is the largest occupational group in Queensland Health and one of the largest across the Queensland government. The QNMU is the principal health union in Queensland covering all classifications of workers that make up the nursing and midwifery workforce including registered nurses (RN), registered midwives (RM), enrolled nurses (EN) and assistants in nursing (AIN) and students who are employed in the public, private and not-for-profit health sectors including aged care.

Our more than 61,000 members work across a variety of settings from single person operations to large health and non-health institutions, and in a full range of classifications from entry level trainees to senior management. The vast majority of nurses and midwives in Queensland are members of the QNMU.

This year, 2020 will be dedicated to celebrating the International year of the Nurse and Midwife, in celebration of the 200th year anniversary of the birth of the founder of contemporary nursing, Florence Nightingale. The World Health Organisation (WHO) nominated nurses and midwives for their invaluable contribution to health care and to highlight the need for a strengthened nursing and midwifery workforce to achieve sustainable development goals (SDG) and universal health coverage. The QNMU is proud to embrace this opportunity to invest in the nursing and midwifery professions, particularly the investment into minimum safe staffing ratios and skill mix across all health sectors.

Australia's population is ageing. With this unprecedented life expectancy comes the economic, fiscal and social implications of ensuring Australia has a sustainable retirement income system. The QNMU recognises the importance of investigating the retirement incomes system against adequacy, equity, sustainability and cohesion in ensuring Australians have adequate retirement incomes.

The QNMU will provide background information to highlight our position on Australia's retirement income system. We have also answered some of the questions posited by the Panel in the review.

Background

As part of the union movement, we are proud of the role unions have played in establishing compulsory superannuation and believe it is one of the union movement's greatest achievements. Through worker-led campaigns a system of compulsory superannuation began in Australia in 1992. This compulsory superannuation has seen Australian workers now have \$2.9 trillion in superannuation assets, making Australia the world's fourth largest superannuation market (Association of Superannuation Funds of Australia, 2019 & Australian Trade and Investment Commission, 2020). We acknowledge that this is a great achievement, but we believe there is room for improvement.

Unions have also been instrumental in establishing 'profit for member funds' that are low cost, not-for-profit superannuation funds where profits are returned to members rather than shareholders or investors.

In October 2019, the national advocacy group, Women in Super (WIS), called on the Treasurer, Hon Josh Frydenberg MP to include an additional term of reference to the review that was specifically female-focused. In an open letter that was signed by 100 prominent business people, including the QNMU's Secretary, Beth Mohle, WIS stated that the gender retirement gap is well documented and improving retirement outcomes for women should be a specific objective of the review (Women in Super, 2019). Unfortunately, a female-specific term of reference was not included.

The QNMU believes that superannuation continues to be an area of concern for women and as such is of great importance to nursing and midwifery as they are distinctly feminised professions. Around 90% of nurses and midwives are female (Nursing and Midwifery Board of Australia, 2019). We acknowledge women face unique challenges when it comes to retirement savings with lower pay, time out of the workforce to raise children, caring for elders, running a single-parent household, illness and divorce being some of the many hurdles they often face throughout their lives.

Another issue to consider while reviewing the retirement income system is with people now living longer how do we support a 100-year-life? Does it mean we'll be working longer and therefore having less retirement years? Or will retirement be longer than has been before? And as life lengthens so too will the perceptions of what is 'old age' and what is young. And further yet, adjusting how people live over this long period of time will be a challenge as a 100-year life touches all aspects of life including education, work, marriage, finances and retirement. It is an issue that has not been faced before by governments, business and corporations, communities and individuals (Gratton & Scott, 2016).

Running concurrently with a longer lifespan is the change in how Australians work, the jobs they do, the hours they work and the retirement they expect to have. Gratton and Scott (2016) suggest that we are living in a time of uncharted waters in so much as the conventional structuring of our lives that is a three-staged view of life: a first stage of education, followed by a career and then retirement, may no longer be the way we live our lives. How this unfolds will influence what a good retirement looks like.

For many, the thought of planning one's financial future is unpleasant and uncomfortable and not immediately rewarding. There seems to be a reluctance to think about and plan for older age. And yet many see positive ageing and subsequent retirement as a time to pursue greater self-fulfilment as they are free from the responsibilities of work and child rearing (Royal Commission into Aged Care Quality and Safety, 2018).

Whatever way workers choose to arrive at retirement and then 'be' retired is undoubtedly changing and will continue to change. How the retirement income system supports this will be key.

The QNMU views the retirement income system as an important part of society and a valuable component of Australia's national policy. Our retirement income system is doing well by world standards; however, we acknowledge there is room for improvement. Whatever the future looks like, an adequate retirement income system will be paramount to ensure the wellbeing, health and financial security of older Australians.

Recommendations

The QNMU recommends the following to improve the retirement income system:

- Increase the superannuation guarantee (SG) to 12% immediately.
- Remove the \$450 per month minimum earnings threshold for SG eligibility.
- Require the payment of superannuation on paid and unpaid parental leave.

The retirement income system

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

No comment.

Purpose of the system and role of the pillars

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

The QNMU suggests that to safeguard the retirement income system improving transparency across the whole sector is imperative. A system whereby consumers with an average level of financial literacy can compare like for like will help address uncertainty and allow Australians to plan for their retirement.

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

If workers wish to have a “modest” or “comfortable” retirement lifestyle that is above the Age Pension and that incorporates the benefits of the SG, then improving the understanding of the retirement income system and what that means for the standard of living in retirement may require education and retirement planning (The Association of Superannuation Funds of Australia, 2018).

In a recent study of Australian’s attitudes to intergenerational equity (Kendig, Hussain, O’Loughlin & Cannon, 2019) it was found that there is a perception that Australia is at an historic turning point in that recent and future generations are expected to have relatively worse economic prospects. However, attitudes are sympathetic to older people and do not align with governments rhetoric that expenditure on older people would have to be restrained to spare future generations from tax burdens and cutbacks on government programs (Kendig, Hussain, O’Loughlin & Cannon, 2019).

The portrayals of older Australians being an economic burden on younger generations may not reflect the truth of intergenerational equity and cloud Australia’s view of our retirement income system.

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

In our view, superannuation is a system of deferred wages designed in the first instance to benefit workers. As part of this system, the QNMU believes there are several parties involved with varied roles including unions, the government, the private sector and individuals.

One role of the unions in the retirement income system concerns superannuation. Superannuation has operated as an industrial matter for some 30 years and as such workers have been able to negotiate collectively about its operation. It must stay as an item within awards and other industrial instruments to ensure workers and their representatives able to negotiate improvements during enterprise bargaining and to protect those who remain award reliant.

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

Australia's three-pillar retirement income system is designed to ensure all Australians have some income to support them in their older age. With the publicly funded Aged Pension as pillar 1 the Aged Pension must continue to ensure Australians are afforded a basic standard of living in retirement.

With pillar 2, compulsory superannuation, the QNMU supports the Australian Taxation Office (ATO) and the introduction of the single touch payroll (STP) compliance regulation. We believe this is an important step forward in the ATO's ability to obtain real time information about an employer's compliance with their superannuation obligations. Employers must be held accountable for their employees SG contribution. Non-compliance with SG contributions has a very personal impact on affected employees

The QNMU also supports the paying of SG on the government Paid Parental Leave scheme. This scheme provides financial support for eligible parents, so they can take time off work to care for a newborn or adopted child.

Pillar 3, voluntary savings, are over and above the SG contributions and should allow workers an opportunity to achieve a standard of living in retirement that is not just reliant on the Age Pension and the SG.

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

In our view, the interplay between each pillar in the retirement income system is crucial and must encompass the answers to the question 'What does a good retirement look like?' This will then provide a focus for how the pillars must work together and what the issues are.

We suggest one approach to determining 'What does a good retirement look like?' could be to look at wages – 'Has the worker had an adequate wage so they can retire?', Has the worker

been able to save, own their own home and have enough superannuation? The answers to these questions directly relate to how the pillars will function for this individual.

The impact of wages on retirement income is not a long bow to draw. There is a significant threat to the effectiveness of the retirement income system arising from stagnation or suppression of Australian wages (Stanford, 2017). When considering the balance between the role of each pillar, recognition must be given to the fundamental link between the pillars and wage stagnation and suppression.

Stanford (2019) writes that real wages are higher than they were 15 years ago, but they are not higher than they were 6 years ago. Overall wage inflation in Australia has fallen to historic lows in recent years and there is weak growth in the average hourly wages (Stanford, 2017).

Compounding this is the repeated examples of employers not paying their workers their superannuation. The unpaid superannuation gap is getting worse, with the number of workers short-changed increasing by 90,000 more employees in just 3 years. In 2016-17, 2.85 million Australians were short-changed \$5.94 billion (Industry Super Australia, 2019). These figures are startling and point to the fact that workers are missing out on crucial retirement savings and influences the role of each pillar.

The changing Australian landscape

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

The operation of the retirement income system is undoubtedly affected by a number of different factors and trends including home ownership, the labour market and demographics.

For example, an employee's retirement income can be influenced by the type and duration of the work they perform, whether it's full time, part time or casual, the wage they earn and the superannuation fund they choose.

In the recent Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry (the Royal Commission) (2019), evidence showed that some funds compete to be the nominated default fund by 'treating' those who are responsible for nominating the default fund for their employees, particularly if the default fund is not fixed by an industrial instrument (Commonwealth of Australia, 2019).

Subsequently, the Royal Commission (2019) made nominating of a default SG fund a recommendation and that a person should have only one default superannuation account.

While the QNMU supports minimising the number of superannuation funds and the consolidation of funds in principle, this must be done carefully to ensure there are no unintended consequences. Having one single default superannuation fund that is ostensibly for life, may not suit everyone as the selected fund may not fit their needs. And some people may deliberately have more than one superannuation fund for insurance purposes. With any implementation of policies such as the ‘stapling’ a person to a single default fund, relevant stakeholders must be consulted.

Home ownership is another factor that influences the retirement income system as it provides financial security in retirement. Declining home ownership will place greater pressure on other savings. This, coupled with the high costs of health care associated with living longer, demand fresh analysis of the adequacy and equity of the retirement income system (Australian Council of Trade Unions, 2009).

Principles for assessing the system

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

The QNMU believes the principles of adequacy, equity, sustainability and cohesion provides a sound framework to assess Australia’s retirement income system. Two of the principles proposed by the Panel align with the Melbourne Mercer Global Pension Index (MMGPI) which compares thirty-seven retirement systems across the world. The MMGPI has grouped what it terms as ‘desirable characteristics’ of pension systems into adequacy, sustainability and integrity (Monash Centre for Financial Studies & Mercer, 2019).

We also note that the Australian Institute of Superannuation Trustees (AIST) (2020) stated their submission to this review is framed around fairness, adequacy and member protection. The QNMU acknowledges these principles particularly member protection as an important component for consideration when reviewing retirement income system and the ‘pillar’ of superannuation.

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

No comment.

Adequacy

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

The QNMU acknowledges the balance of what industry and businesses can support with the needs of employees. An important measure of the adequacy of the retirement income system is whether all workers are covered by this system.

The retirement income system must support:

- all workers,
- all genders
- low income workers to higher earners
- Aboriginal and Torres Strait Islander peoples

Originally designed for male full-time workers, the retirement income system must now recognise that for Australia's retirement income system to be adequate, it must be inclusive of all workers.

While the coverage of the retirement income system is one measure another assessment must be the quantum of coverage reached. The system fails if the retirement income outcome is poor. This is one of the arguments for increasing the SG from 9.5% to 12% to ensure retirement income is actually sufficient.

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

We believe that no Australian should live in poverty including those in retirement. One measure to assess whether the retirement income system allows Australians to achieve an adequate retirement income is whether those who have retired are able to cover the costs of living and receive the care and support they need and are not living below the poverty line.

Certainly, current research shows that some Australians in retirement are struggling to make ends meet. Recent data (Australian Council of Social Service & University of New South Wales, 2018) suggests that until 2015, single people 65 years of age or over had significantly higher poverty rates than the wider community. Poverty rates for older people in income support households (mainly Age Pension recipients) were slightly higher than those for older single and partnered people generally and followed similar trajectories. This is consistent with the high incidence of pension receipt (77% in 2008) among people aged 65 years and over. Statistics also show that older Australians who are renting are more at risk of poverty than

those who own their own home (Australian Council of Social Service & University of New South Wales, 2018).

Another important measure of the adequacy of the retirement income system is whether retired workers can afford health care and aged care. The issue of how health care and aged care is funded for those in retirement is imperative. There must be government support for those who need care that is timely, accessible and affordable.

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

No comment.

Equity

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

The WIS (n.d.) suggest the current superannuation is inadequate and there is the need to develop a fairer superannuation system where women and low-income earners reach greater economic security in retirement. Their five-point plan to achieve this is:

1. Providing an additional annual \$1,000 government contribution into superannuation for low income earners, to better support those with inadequate retirement savings;
2. No further delay to scheduled SG increases to raise it to 12%;
3. Paying the SG on the government Paid Parental Leave scheme;
4. Removing the \$450 monthly income threshold on SG contributions to include those with intermittent, casual and insecure employment in the super system; and
5. Ongoing tracking of the gender superannuation gap and publication of a gender impact statement for any changes to Age Pension or retirement income policy.

The QNMU supports this plan for women and low-income earners when investigating the equity of retirement income system. We also suggest that any evaluation of equity and retirement income must include Aboriginal and Torres Strait Islander peoples. With lower life-expectancy than non-Indigenous people, and a pension age that is inappropriate for Indigenous peoples, this review must include retirement outcomes of Aboriginal and Torres Strait Islander workers.

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

See question 13.

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

No comment.

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

We see this review as an opportunity to identify those workers who will retire with significantly less superannuation than other Australians including those on lower incomes, interrupted work patterns and those workers who have part time or casual jobs. These workers are currently disadvantaged in the amount of superannuation they can expect to receive in retirement.

The Senate Economics Committee (Commonwealth of Australia, 2016) identified that many Australian women face an insecure retirement due to numerous interrelated factors. Women are more likely to work part-time or casually, work in lower paid industries and take more breaks from paid work. Consequently, over their working life, women will earn significantly less than men. This indicates that men and women experience work differently, and the current retirement income system does not accommodate this difference. Improving retirement outcomes for women requires a multifaceted approach incorporating both long- and short-term measures to improve retirement outcomes for women (Commonwealth of Australia, 2016).

Economic disadvantage lies in the assumptions underpinning superannuation where its key feature is protracted, continuous periods of employment over which employers and workers make contributions. It is a grand design, but one ultimately failing women and those with interrupted employment.

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

According to the 2019 Melbourne Mercer Global Pension Index (MMGPI), SG is the highlight of the Australian pension system as it allows individuals the freedom of choice of super fund and investment options. Due to prolonged growth of the domestic economy, the Australian

pension system has performed consistently over the last decade however the future may not see this growth continue due to the current extraordinarily low real interest rates and high economic uncertainties (Monash Centre for Financial Studies & Mercer, 2019).

The QNMU believes that with the current SG rate at 9.5% and expected to increase to 12% by 2025, it is timely to remove the barriers to real equity in superannuation. This includes removing the \$450 a month threshold for receiving the SG. As well as examining a way in which superannuation coverage can be increased for those self-employed as currently only 27% of the self-employed made superannuation contributions in 2016-17 (OECD, 2019).

Sustainability

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

When considering the assessment of the sustainability of the retirement income system, we suggest that this focus must include the determination of what an adequate retirement income is as well as strategies to achieve a minimum level of retirement income for all Australians (Commonwealth of Australia, 2016). The Senate Economics Committee (Commonwealth of Australia, 2016) suggests that any assessment and changes to the retirement income system should be based on the principle of 'dignity in retirement'. 'Dignity in retirement' considers not only retirement income but also the standard of living for both men and women in retirement and the costs of housing, health and aged care.

With the maturing of the retirement income system, comes the need for the development of sustainability of this system to provide adequate retirement benefits. This is not accomplished in isolation but viewed holistically where economic growth over the long-term must be considered as it will have a significant impact 'on the sustainability of pensions as it affects employment, saving rates and investment returns' (Monash Centre for Financial Studies & Mercer, 2019 p.16).

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

No comment.

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

No comment.

Cohesion

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

Assessment for determining what a cohesive retirement income system looks like, starts while workers are still working and earning and preparing for retirement and then moves into retirement. The QNMU takes the opportunity again to posit the question ‘What does a good retirement look like?’ While we acknowledge this is a subjective question and a ‘good’ retirement will be different for everyone, we suggest there would be common elements. These include:

- Having good health both physically and mentally and being able to access timely and affordable health care;
- Access to aged care services when needed;
- Financial security including being debt-free and being financially comfortable;
- Access to adequate housing which may be home ownership, rental assistance or rent controlled;
- Being able to pursue recreational activities; and
- Being well connected socially and not isolated.

Assessing whether the system is cohesive includes the balance of what is important to individuals in their retirement and how the pillars interact to achieve this.

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

No comment.

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

No comment.

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

The QNMU believes this is an area that requires close examination as it is currently not well understood and/or being overlooked from a policy perspective.

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

The more that is known about Australians in retirement will afford greater insight into the system including if formal financial advice is needed. The QNMU suggest that in order to get a broader view of the retirement income system the collection of a minimum data set by

superannuation funds such as age, gender, salary, and occupation will assist in transparency of the system and provide an insight into the retirement system.

Other information on wealth that is outside superannuation such as savings, home ownership status, levels of debt etc could be obtained to gather a more holistic view of the retirement income system.

We also believe there is an opportunity to provide financial advice to workers at different life transition points. For example, financial advice could be provided to higher education students as part of their orientation. This could provide students with information about higher education contribution scheme (HECS) debt, salary sacrifice and savings. This financial advice could be tailored to inform about financial undertakings that are relevant for a student as well as providing financial information that can be drawn on in the future.

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

The evidence suggests that the proportion of the eligible population receiving the Age Pension will fall from around 69% in 2017 to around 56.6% in 2038. By 2060, the proportion of the eligible population receiving the Age Pension will fall to 45.1% (Rice, 2018). Those who are not receiving a pension may include those who are self-funded retirees and those who are still employed. This data indicates that those being supported by the Age Pension is decreasing and that there will need to be continued integration between the Age Pension and superannuation system to ensure older Australians are supported in their retirement.

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