



24 August 2020

Email: prebudgetsubs@treasury.gov.au

2020-21 Pre-Budget supplementary submission

The Australian Institute of Superannuation Trustees (AIST) 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 \$1.5 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST advocates for financial wellbeing in retirement for all Australians regardless of their gender, culture, education or socio-economic background. Through leadership and excellence, AIST supports profit-to-member funds to achieve member-first outcomes and fairness across the retirement system.

AIST welcomes the opportunity to provide a supplementary submission for the 2020-2021 Budget. Our previous [submission](#) presented our view of the longer term issues facing the superannuation system, accompanied by recommendations to improve fairness in the system.

Overview

While Australia continues to grapple with the uncertainty of life under COVID-19, the nation's health is, and should be, always front-of-mind. However, given the significant long-term financial impacts, our supplementary submission focuses on the impact COVID-19 has had on widening an already unevenly distributed retirement savings gap. While the full impacts of COVID-19 on retirement savings are still uncertain, evidence shows that the financial burden of lost retirement savings will most heavily impact those least able to afford it – those already experiencing disadvantage and the many Australians who were already facing a retirement savings shortfall.

To better understand the COVID-19 retirement savings gap, AIST commissioned Mercer to model the estimated impact of early release and reduced superannuation guarantee payments on superannuation retirement balances. This analysis used data provided by AIST member funds, Treasury's most recent estimate of the total payments and ATO data provided to the Senate Select Committee on COVID-19 to model the:

- Total impact of COVID-19 early release payments and associated lost earnings on superannuation balances at retirement and

- The additional impact of lost employer superannuation contributions for the individuals that applied for early release due to the impact of COVID-19¹.

The analysis found that the estimated impact on retirement balances in today's dollars is over \$100.2 billion. As show in the figure below, this equates to \$83.8 billion in lost investment earnings and an estimated \$16.4 billion in lost superannuation guarantee contributions.

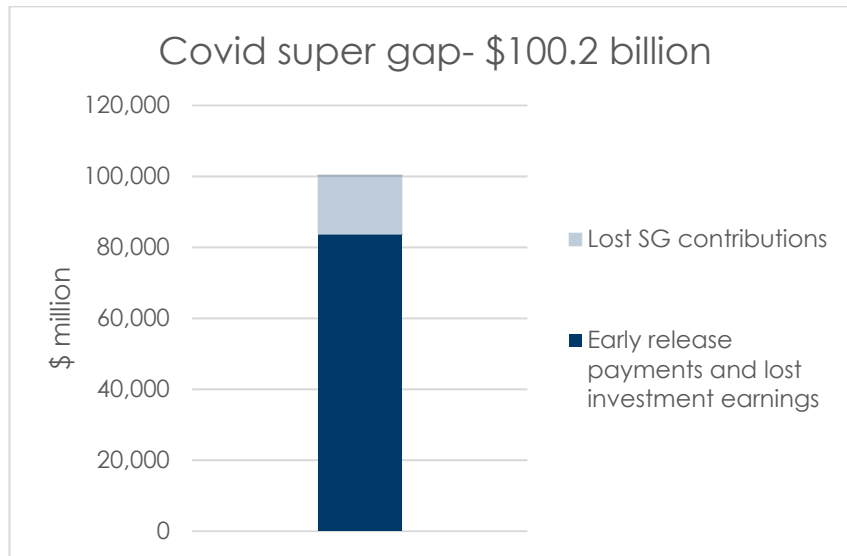


Figure 1: Mercer analysis of the Covid super gap

Additional analysis by AIST of the cohorts of members that made an early release application shows that these lost retirement savings are not distributed evenly across the population. The burden of the Covid super gap will be borne by women, low paid workers and those in already insecure employment – those who can least afford it:

- Members that made an application for early release were already falling behind in retirement savings against those in the same age cohort who didn't make an application.
- Members that made an early release application disproportionately represented members aged under 35, meaning increased loss of compound earnings.
- Women withdrew more of their superannuation than men on average, accounting for a higher portion of their already lower balance.

The loss of retirement savings for these Australians will be further compounded by the fact that those making early release applications have lost income and in many cases their jobs, and the

¹ Suspension of employer super contributions is based on a high level estimate of reduction in income levels due to COVID-19 for persons that made an early release of super application.

superannuation guarantee payments they would have been receiving had they remained employed.

Resultantly, the early access scheme, while providing some breathing space for government, has caused a devastating compounding of factors resulting in a Covid super gap for the lowest-paid working and most vulnerable Australians that they are unlikely to ever be able to recover from without targeted policy intervention.

Closing the COVID-19 retirement savings gap will require a commitment from government, employers and individuals. It is crucial that the response ensures the long-term consequences of the virus are minimised, and the responsibility for closing the gap is not borne by those who can least afford it.

Australians value equity, and as a nation we should not tolerate the sharp increase in inequity that working Australia's Covid super gap represents. Australians believe that all retirees in Australia deserve to have a meaningful life of dignity which allows them to fully participate in Australian society.

AIST has previously commissioned survey research of workers and retirees to understand community views on superannuation and financial security in retirement. This research 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. Our supplementary submission includes insights from this survey research and AIST analysis of early release of superannuation data.

Addressing the Covid super gap will not only ensure Australians aren't penalised in retirement for an economic downturn driven by a health crisis that they had no control over, it will also reduce the extent to which they are required to rely on the taxpayer-funded age pension in retirement.

In speaking with working Australians, 8 in 10 of those surveyed believe that if we did not have superannuation, older Australians would have reduced financial security on the Age Pension.

'IF I HAD TO LIVE ON THAT [AGE PENSION ALONE] 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

To address the Covid super gap, AIST recommends:

- A one-off Government contribution to the super accounts of low-income earners (those earning less than \$39,837) who accessed their super early and were eligible.
- Increasing the Government superannuation co contribution rate and threshold.
- The removal of the \$450 minimum SG threshold and super on paid parental leave.

In addition to these measures progressing the superannuation guarantee increase according to the legislated timetable will be important to addressing the Covid super gap, particularly for the hardest hit younger cohorts.

Early access to superannuation

APRA data as at 16 August shows that over \$31.7 billion of early release super has so far been paid to approximately 3.1 million members (plus 1.2 million repeat applications)², and is now forecast to reach \$42billion. This is substantially higher than original Treasury estimates.

Consequently, early access to superannuation is now estimated to be the most significant stimulus measure introduced by the Government. Unfairly, those most unable to afford it are doing the heaviest lifting in supporting the economy.

McKell Institute analysis found that not only does the amount expected to be withdrawn from superannuation exceed the total paid in JobKeeper and JobSeeker respective so far, it also exceeds the costs associated with expanding JobKeeper to casual workers. An expansion of government support would have reduced the need for these workers to draw down their retirement savings.

The early access to super scheme has forced many Australians to choose between poverty now or poverty in retirement.

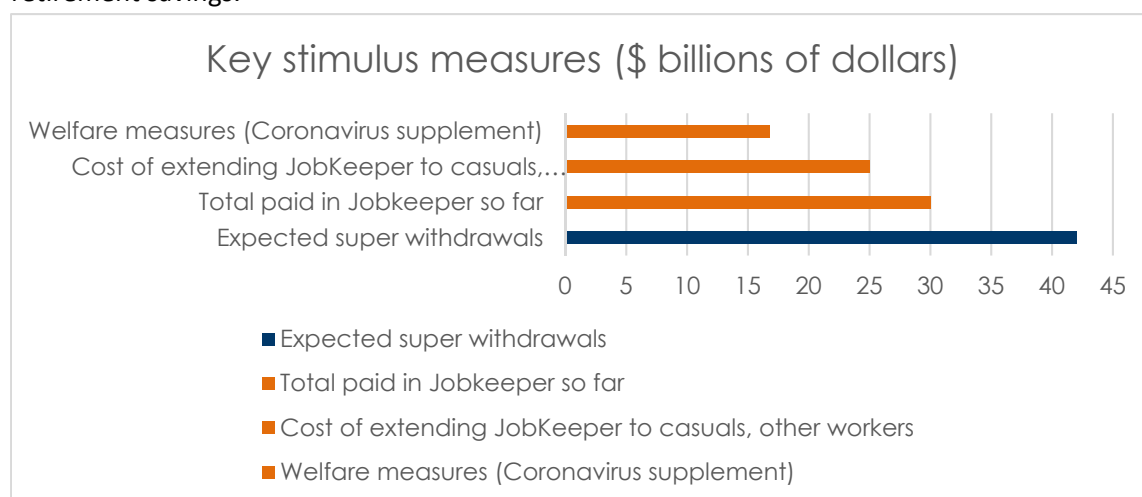


Figure 2:Source - McKell Institute³

² APRA (2020), COVID-19 Early Release Scheme – Issue 16. Available from <https://tinyurl.com/y3wq5ywd>

³ McKell Institute (2020), The Impact of COVID-19 on Women and Work in Victoria. Available from: <https://tinyurl.com/y68k4le7>

Many Australians are experiencing severe financial hardship during the crisis, and compounding this, the early access scheme will come at significant long term cost to both future Government and individuals. The early access to super scheme has forced many Australians to choose between poverty now or poverty in retirement.

These Australians have been forced to withdraw super savings due to inadequate Government support. Many individuals who accessed early release were either ineligible for Government support or not in a position to wait until it flowed through. Rather than requiring those who can least afford it to compound their financial insecurity, the Government could have borrowed at interest rates close to zero to support more Australians. Instead individuals were forced to access their super and forgo returns of at least 5-7 per cent in annual interest over the long term. This was an expensive measure for individuals.

To better understand the impact of early release of superannuation on different demographics, AIST have analysed aggregated fund data which accounted for over 750,000 early release of superannuation applications, amounting to a total of \$5.5 billion withdrawn as at 30 June 2020. At the time this equated to approximately 32% of all early release of superannuation applications.

Accounts which were closed due to early release payments were not included in the analysis and the analysis therefore likely underestimates the impact of early release on retirement savings. For this reason members aged under the age of 25 have been excluded in findings below as with lower starting balances they are more likely to have closed their account when accessing their super through early release.

Low income Australians

Comparison of the cohorts of members that made an early release application and those that didn't make an early release application shows that members that made an application were on average already falling behind in retirement savings, as reflected by estimates of their pre withdrawal balance.

This indicates that they were more likely to be working in lower paid, less secure jobs than their age group peers.

Before making a withdrawal, members that made an early release application had on average 19% less than their peers that didn't make an early release application.

Average balance of those that made early release application (prior to withdrawal) vs those that didn't make early release application, before 30 June 2020.

Age bracket	Did make early release application - Average balance (excluding early release withdrawal)	Didn't make early release application - Average balance	Difference \$	Difference %
25 to 34	\$21,706	\$24,170	-\$2,463	-10%
35 to 44	\$49,327	\$53,369	-\$4,043	-8%
45 to 49	\$69,437	\$72,764	-\$3,327	-5%
50 to 54	\$78,530	\$84,010	-\$5,479	-7%
55 to 59	\$86,870	\$110,827	-\$23,957	-22%

Figure 3: Average balances as at 30 June 2020, excluding early release withdrawal (Source – aggregated data provided by member funds). Sample size: n=759,144

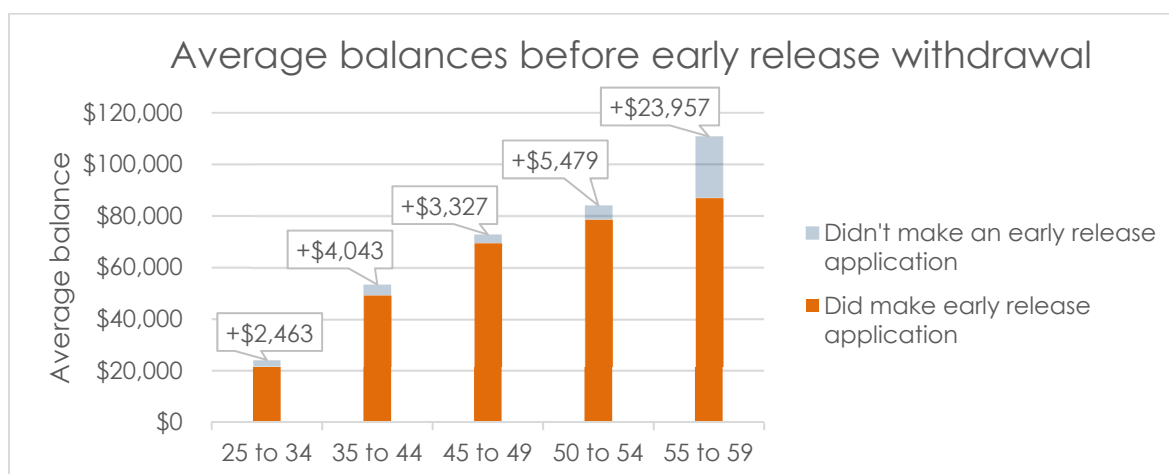


Figure 4: Source – aggregated data provided by member funds. Sample size: n=759,144

As would be expected, this difference in average balance was further exacerbated by making an early release application in the first tranche of the scheme, prior to 30 June 2020.

Average balance of those that made early release application (after withdrawal) vs those that didn't make early release application, before 30 June 2020

Age bracket	Did make early release application - Average balance (including early release withdrawal)	Didn't make early release application - Average balance	Difference \$	Difference %
25 to 34	\$14,803	\$24,170	-\$9,367	-39%
35 to 44	\$40,656	\$53,369	-\$12,714	-24%
45 to 49	\$60,443	\$72,764	-\$12,321	-17%
50 to 54	\$69,401	\$84,010	-\$14,609	-17%
55 to 59	\$77,647	\$110,827	-\$33,179	-30%

Figure 5: Average balances as at 30 June 2020 (Source – aggregated data provided by member funds). Sample size: n=759,144

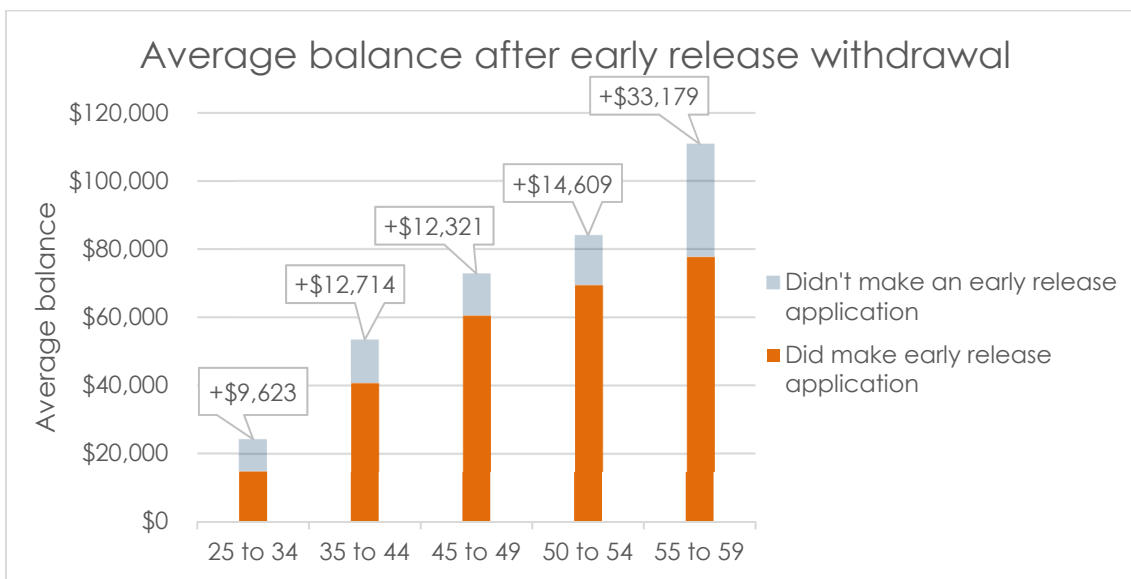


Figure 6: Source – aggregated data provided by member funds. Sample size: n=759,144

This data aligns with ABS data that shows that low-income Australians have been more impacted by job losses and reduced work hours and were therefore more likely to need to access their retirement savings.

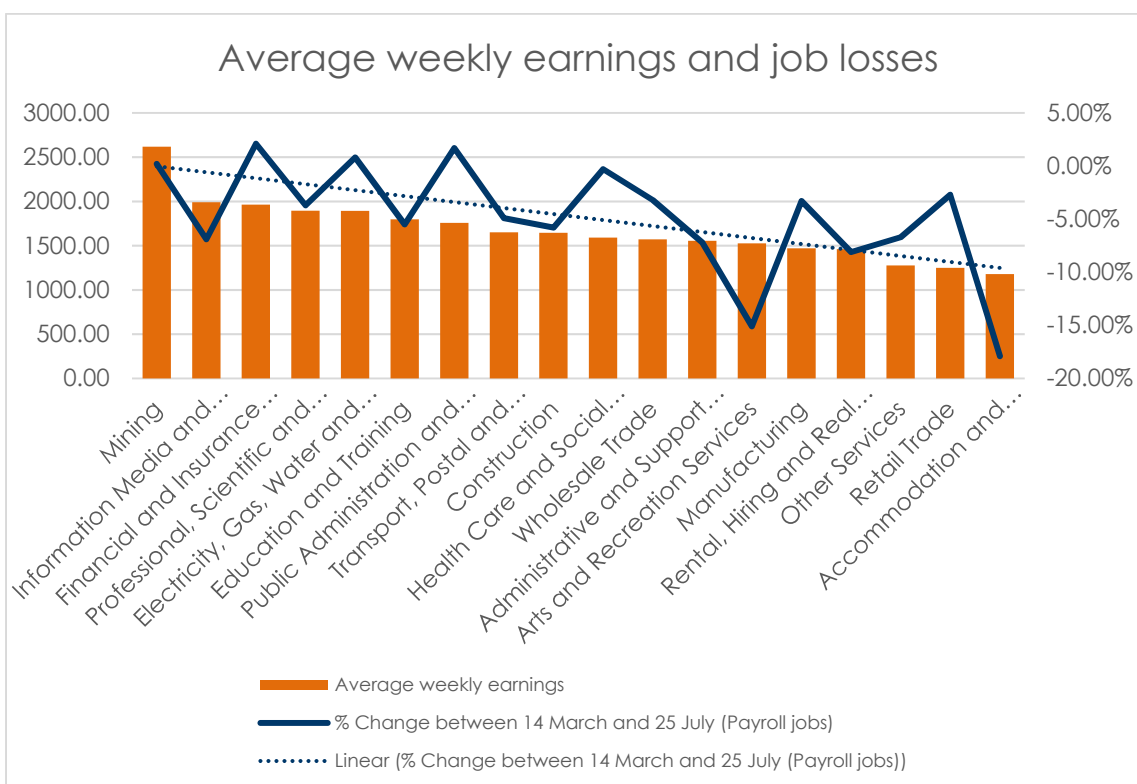


Figure 7: Source ABS Payroll and & ABS Average Weekly Earnings

The ABS estimate that there were 1.8 million people who worked less than their usual hours in April 2020 for 'economic reasons', comprising 750,000 who were stood down on zero hours and approximately 1 million people working fewer hours than usual.

While those working zero hours may be eligible for Government support such as JobKeeper, this will also have a negative impact on retirement outcomes for this cohort because superannuation guarantee payments are not required to be paid for these employees.

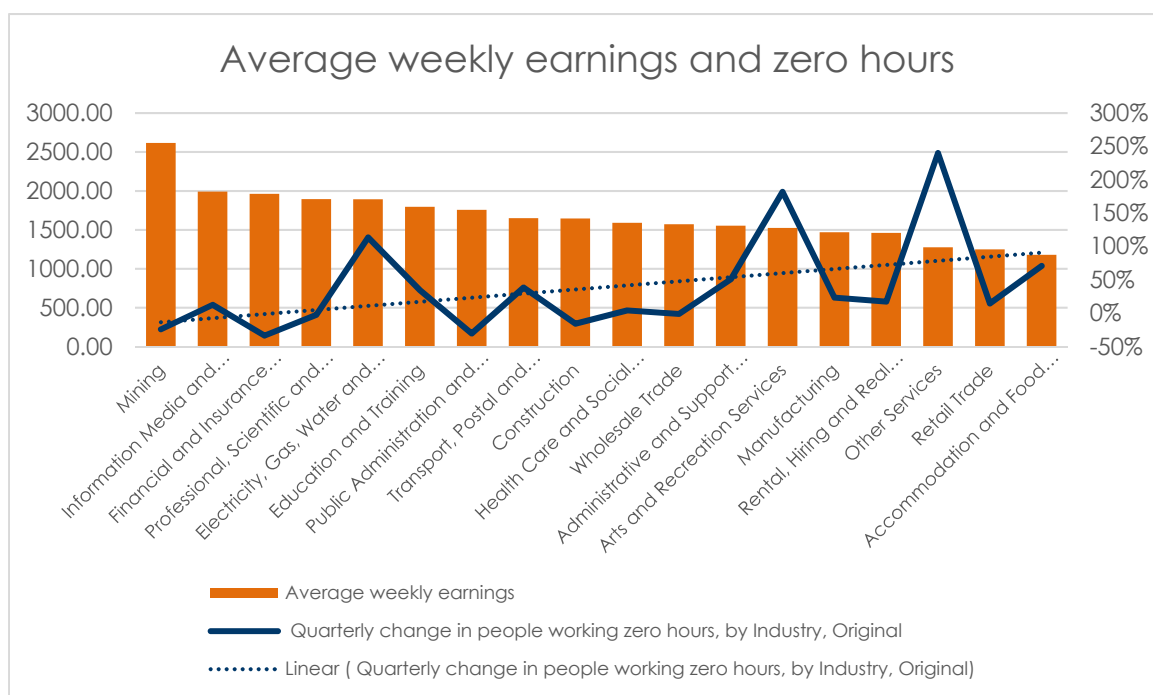
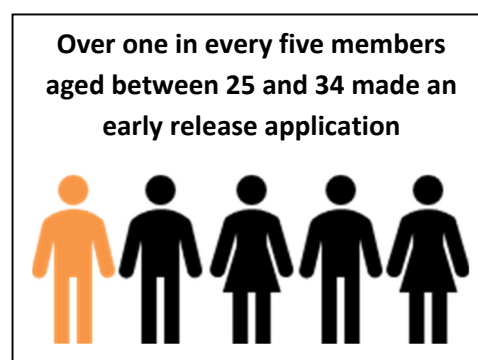


Figure 8: Source ABS Labour Force and & ABS Average Weekly Earnings

Young Australians

Young Australians are more likely to have lower savings, to be renting and to have lost their jobs as a result of COVID-19.

ATO data provided by Treasury to Questions on Notice from Senate Select Committee on COVID-19 found that as at 11th of May almost half of all early release of superannuation applications were by members aged 35 and under.



As shown in Figure 9, this is supported by AIST analysis that found that approximately one in five of all members aged between 25 to 34 have made an early release of superannuation application. This cohort withdrew an estimated 38% of the total amount withdrawn across all age groups and as shown in Figure 10 below on average withdraw approximately 32% of their entire balance in the first tranche alone. As a result, this cohort make up a significant proportion of

members that now have less than \$1,000 remaining in their superannuation account and are likely to have fully drained their account in tranche two.

Proportion of members that made an early release application before 30 June

Age	%
25 to 34	22%
35 to 44	19%
45 to 49	15%
50 to 54	12%
55 to 59	14%

Figure 9: Source – aggregated data provided by member funds. Sample size: n=759,144

As previously stated, this does not include members which have fully withdrawn from their superannuation and closes their accounts. It is estimated that this is approximately 15% of all applications and is likely to be mostly young Australians, given their lower starting balances.

Given the difference compound interest makes, a withdrawal made at a younger age will have a significant impact on retirement balances of this generation. Catching up contributions later in working life will cost significantly more than the amount withdrawn.

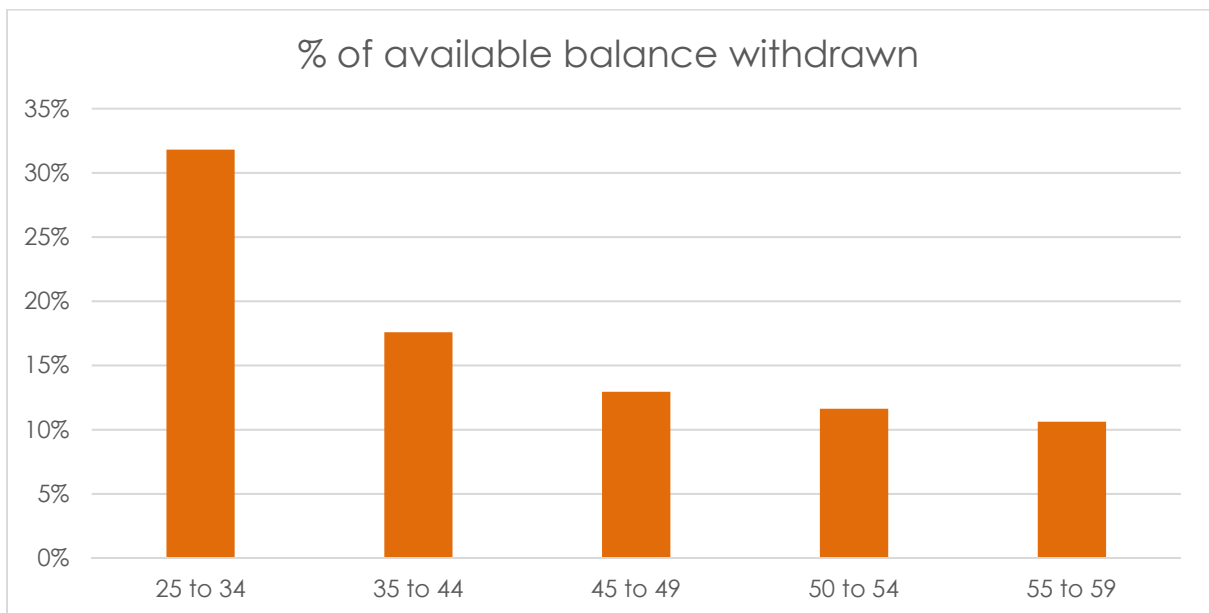


Figure 10: Source – aggregated data provided by member funds. Sample size: n=759,144

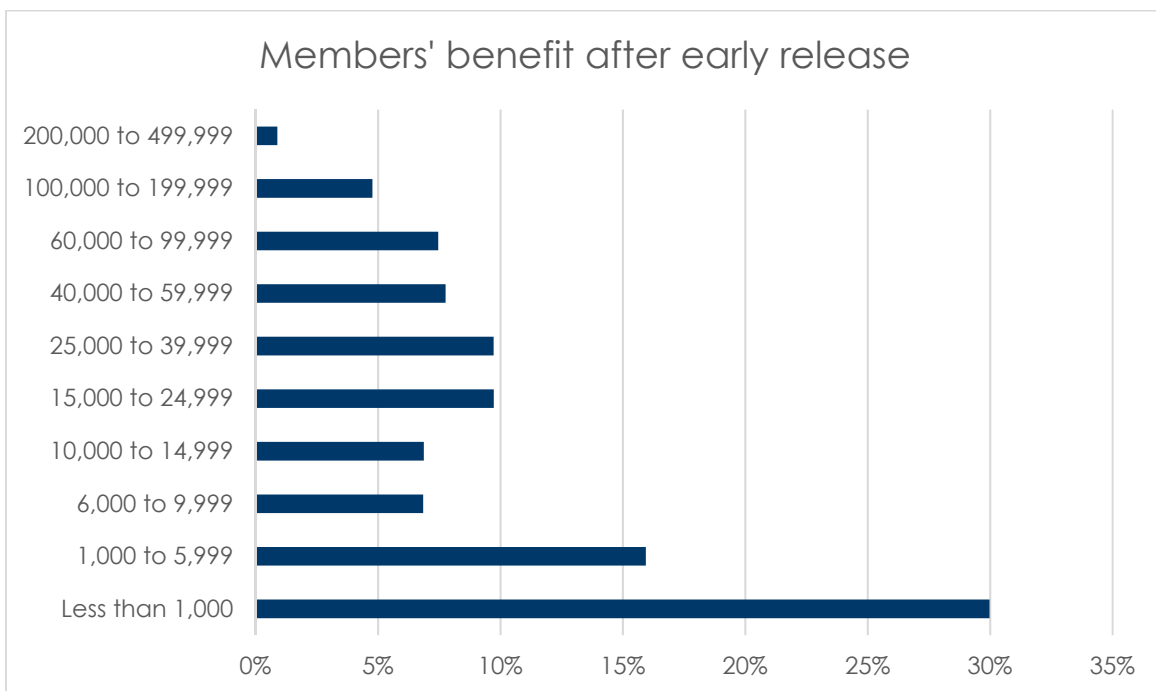


Figure 11: Source – aggregated data provided by member funds. Sample size: n=620,575

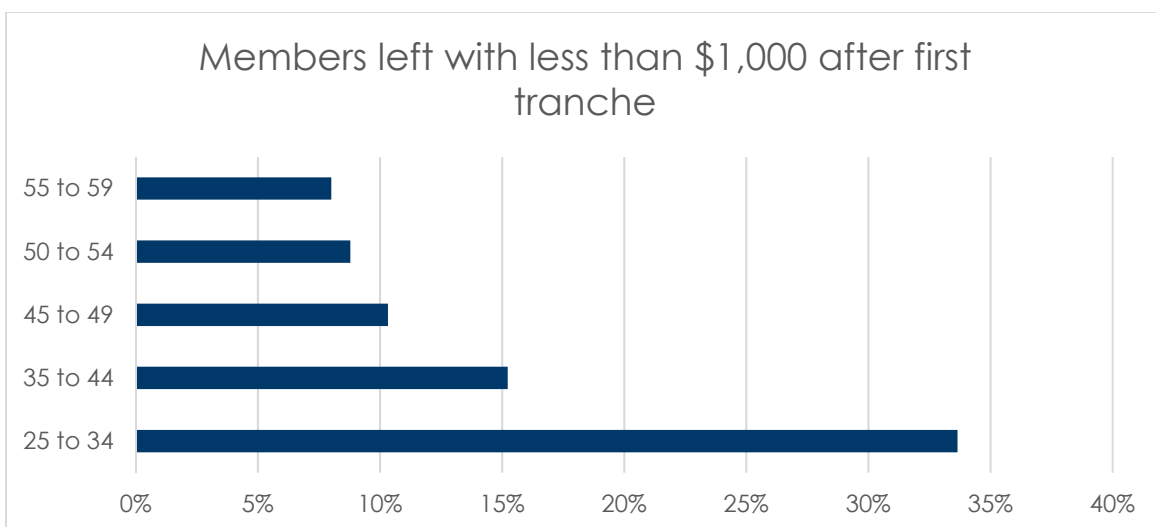


Figure 12: Source – aggregated data provided by member funds. Sample size: n=620,575

More than one in three members aged 25 to 34, who had an open account after accessing their super under early release, had less than \$1,000 left in their account.

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 it is the same younger cohort of members drawing down superannuation that are also

much less likely to own their own home than in the past. For those aged 25-34 the rate of ownership has fallen from 51 percent in 2001 to 37 per cent in 2018⁴. This is supported by consumer research which found that renters have applied for early access to superannuation (11%) at almost twice the rate of the general population⁵. This is likely to further exacerbate the issue of inadequate retirement savings for this at risk group.

Impact on women

Several factors act against women reaching the best possible retirement outcomes, and the impact of tax, economic and social policy can have different consequences for women compared to men. AIST recommends that the Government measure and publish the super gap each year and assess the impact that COVID-19 and changes to early access to super have had on women.

The 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%)⁶.
- Women are six times more likely to reduce their work hours due to parenting duties compared to men⁷.
- Women working full-time earn 14% less than men⁸.
- The average working woman has more than 4 career breaks over a lifetime (mostly taken at age 33 and lasting 17.6 months). Career breaks cost women's retirement balance on average \$159,590. Top reasons for career breaks among women are maternity leave (50%) and caring for a child (49%)².

'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

Evidence shows that gender super gap starts to become more evident from the age range of 30, because this tends to be when women have their first child. Given that this cohort is also much more likely to make an early release of superannuation application, early release of superannuation will further exacerbate the super gender gap for these members.

⁴ Actuaries Institute (2020), Mind the Gap – The Australian Actuaries Intergenerational Equity Index. Available from: <https://tinyurl.com/y34keh6g>

⁵ Consumer Policy Research Centre (2020), Covid-19 and Consumers: From crisis to recovery. Available from: <https://tinyurl.com/y3ggt9xq>

⁶ ABS (2019). 6306.0 - Employee Earnings and Hours, Australia, May 2018. Canberra: Australian Bureau of Statistics. Available from: <https://tinyurl.com/ta7cwt>

⁷ Rest Super (2017), 'Making a break' A snapshot. Available from <https://tinyurl.com/t8l4kxs>

⁸ Workplace Gender Equality Agency (2019), Australia's Gender Pay Gap Statistics. Available from <https://tinyurl.com/y5a4gdm3>

Gender super gap - whole population

Age	Median account balance \$		Gender Gap
	Male	Female	
18-24	3,837	3,527	8%
25-29	17,330	16,555	4%
30-34	37,744	31,821	16%
35-39	61,461	46,971	24%
40-44	86,123	60,491	30%
45-49	109,046	72,683	33%
50-54	126,974	83,870	34%
55-59	148,424	100,711	32%
60-64	163,985	128,507	22%
65-69	178,326	171,679	4%
70-74	185,237	177,449	4%
75 or more	133,969	131,205	2%

Figure 13: Source - ATO 2017-2018 taxation statistics

While more men than women made an early release application, women withdrew more than men on average, accounting for a higher portion of their already lower balance. In fact, women aged 25-34 withdrew on average 35% of their balance, while men in the same age bracket withdrew 29% of their balance. In all age brackets, women withdrew a greater proportion of their account balance when compared to men in the same age cohort.

Proportion of balance withdrawn

Age	Male	Female
25 to 34	29%	35%
35 to 44	15%	21%
45 to 49	11%	16%
50 to 54	10%	14%
55 to 59	9%	13%

Figure 14: Source – aggregated data provided by member funds. Sample size: n=759,144

Second tranche of early release

The data analysed above does not take into account the second tranche of early release of super applications from 1 July 2020. Whilst ATO data shows a marked drop off in the number of young applicants for the second tranche of the scheme. This is more likely an indication that younger members have drained their accounts in the first tranche than their financial situation improving substantially and not needing to make a second withdrawal.

For those that do have a balance remaining it is likely that they have further depleted their superannuation to survive, with, on average, over 90% of members applying in the first round, making an application in the second tranche.

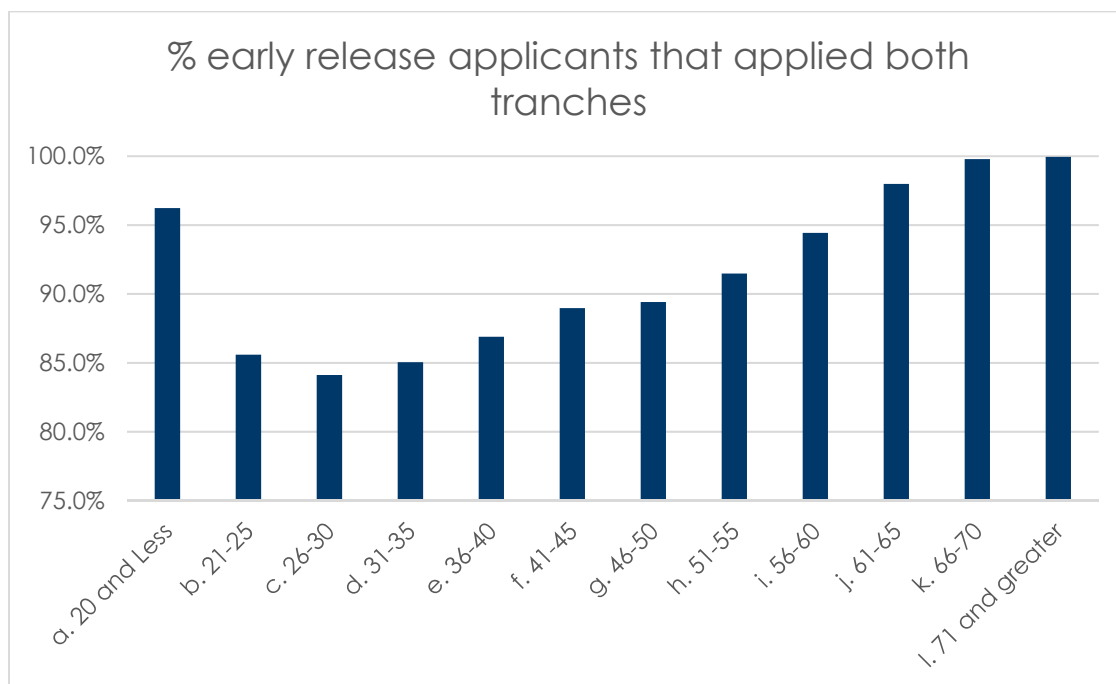


Figure 15: Source ATO – data provided by Treasury to Questions on Notice from Senate Select Committee on COVID-19

Recommendations to address the Covid super gap

Closing the Covid super gap will require a commitment from Government, employers and individuals, a commitment crucial to minimising the long-term consequences of the virus – particularly for those who can least afford it.

To address the Covid super gap, AIST recommends:

- A one-off Government contribution to the super accounts of low-income earners (those earning less than \$39,837) who were eligible and accessed their super early. This would be the most effective way to close the Covid super gap for these Australians. This contribution would be set at a quarter of the value of the super the member accessed and be capped at a maximum \$5,000 contribution for those who accessed the full \$20,000.
- Increasing the Government superannuation co contribution rate and threshold. While making extra contributions to super won't be possible for most low and middle income Australians who needed to access their super early, those who can afford to should be incentivised to contribute extra into their super to repay their Covid super gap.

Increasing the value of the current Government co-contribution scheme will provide an incentive for some to make extra payments as they are able to.

Currently, the amount of Government co-contribution received depends on income and how much the individual contributes. The current maximum is \$500 and Government matching rate for contributions is set at 50%. The be eligible an applicant must have a super balance below \$1.6million

Year	Maximum entitlement	Lower income threshold	Higher income threshold
2020-21	\$500	\$39,837	\$54,837

Before 2012, the scheme was more generous, with 100% or 150% matching and higher income thresholds of around \$60,000. In addition, the Howard Government doubled the co-contribution for the 2005-06 FY.

A similar temporary approach to increasing the co-contribution rate to \$1.50 for each dollar for the 2021-22 and 2022-23 financial years would assist some Australians to repay their Covid super debt. The higher income threshold should be raised to around \$62,000 as it was in 2012. The increased contributions should only be available to those with super balances of less than \$1 million.

In addition, the legislated increase in the superannuation guarantee to 12% will provide some relief for those who can return to work.

AIST research shows Australians want the Superannuation Guarantee (SG) increased to 12%. Evidence demonstrates that this will increase overall retirement outcomes.

Tax concessions

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.

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 direct government expense, the government forgoes tax revenue to give super tax-advantaged status.

To support the measures recommended, tax concessions for high net worth individuals should be reviewed, with an emphasis on existing superannuation accounts exceeding \$10 million.

As noted in the [Retirement Income Review 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.

AIST analysis of ATO statistics⁹ 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).

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 concessional tax at a flat 15%.

Based on ATO statistics of the amount of assets held by SMSFs with a balance over \$10m, AIST estimates that the earnings tax concessions on all SMSFs with a balance over \$10m could exceed \$585 million per year¹⁰. 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%.

'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

Other existing challenges and impact of COVID-19

\$450 threshold

AIST continues to advocate for the removal of the \$450 per month income threshold on the Superannuation Guarantee as a measure to improve fairness. The \$450 minimum monthly threshold was originally introduced because of the administrative burden to employers responsible for administering 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.

Those impacted by this threshold are more likely to be women, those on lower incomes, those working part-time and multiple-job holders.

⁹ ATO (2019), Self-Managed-Super-Fund Quarterly Statistical report September 2019. Available from: <https://tinyurl.com/utcyv7w>

¹⁰ Assumes a net fund earnings rate of 5% pa and unrealised gains of 1.5%.

Given that COVID-19 has forced many Australians to work less hours, it is widely expected that more Australians will fall under this threshold and consequently miss out on superannuation contributions that they would otherwise have been entitled to.

'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

Late payment of wages

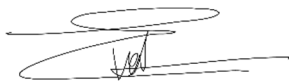
Where an employer identifies that they have underpaid salary or wages for former employees, salary, wages and other entitlements can be remediated via the Fair Work Ombudsman but any Superannuation Guarantee (SG) that would have been payable on those entitlements cannot.

Currently, the Super Guarantee Charge (SGC) applies only where the salary or wage was paid on-time but the corresponding super owed was not. AIST firmly believes that the SGC should be extended to underpaid salary and wages with the corresponding additional interest charges backdated to when the salary or wages were legally due.

As we are increasingly seeing examples of serious extended underpayment of wages, the government should extend the SGC to such payments. This would help to address historical underpayment and is consistent with the policy intent of the current SG amnesty to correct unpaid super for their workers.

For further information in relation to our submission, please contact Zach Tung, Policy & Regulatory Analyst on 03 8677 3851 or at ztung@aist.asn.au.

Yours sincerely,



Eva Scheerlinck

Chief Executive Officer

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and excellence, AIST supports profit-to-member funds to achieve member-first outcomes and fairness across the retirement system.

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.