

# Retirement Income Covenant Exposure Draft

Submission by the Australian Council of Trade Unions to the  
Treasury consultation on the exposure draft for the Retirement  
Income Covenant

ACTU Submission, 15 October 2021  
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Since its formation in 1927, the Australian Council of Trade Unions (ACTU) has been the peak trade union body in Australia. There is no other national confederation representing unions. For more than 90 years, the ACTU has played the leading role in advocating in the Fair Work Commission, and its statutory predecessors, for the improvement of employment conditions of employees. It has consulted with governments in the development of almost every legislative measure concerning employment conditions and trade union regulation over that period.

The ACTU consists of affiliated unions and State and regional trades and labour councils. There are more than 30 ACTU affiliates. They have approximately 2 million members who are engaged across a broad spectrum of industries and occupations in the public and private sector.

The ACTU and its affiliated unions played a foundational role in winning superannuation as an industrial right for all working people, and with employers established and continue to be custodians of workers' retirement savings through industry superannuation funds. Living well after work is fundamental to the wellbeing of working people and attaining dignity and independence in retirement for all working people is a core goal of the union movement.

This submission builds upon the submission the ACTU made to the Treasury Consultation on the Retirement Income Covenant consultation paper, which is attached.

As stated in that submission, superannuation is an essential vehicle for workers to maintain their standard of living from their working life into retirement. Superannuation should supplement the Age Pension in retirement, and the Age Pension should be at a level which affords dignity to every worker.

The objective of Australia's retirement system is to ensure no one retires into poverty. Despite this, due to unaffordable housing, an inadequate age pension, and a superannuation guarantee which is too low, the system fails this objective. In legislating for the Retirement Income Covenant, the Government is not solving the challenge for workers who retire with too little, with inequality, or without affordable housing or rents. Rather it is putting forward a solution to retirement incomes for those who have adequate savings and are unsure how to best utilise them. This is a luxury that swathes of our population do not have.

To ensure that every worker retires with dignity the Government should scrap its campaigns against the legislated increase to the Superannuation Guarantee, reverse its cuts to the pension through the Age Pension Assets Test, and reform tax concessions in superannuation to ensure they are better targeted. The Government should immediately legislate for its budget promise of abolishing

the \$450 per month minimum threshold for SG eligibility, and ensure every worker has the right to take action to recover their unpaid super. Women retire with less than half the superannuation of men, on average, and Aboriginal and Torres Strait Islander Workers with even less. Urgent restorative action to achieve equality and adequacy for these workers is needed.

The Government has continually failed to legislate an objective for superannuation. Legislating a Retirement Income Covenant without an objective for the retirement income system, and without an objective for superannuation, is premature. The Government should ignore the agitation and campaigns from within its own ranks and legislate for the objective of superannuation to maximise retirement incomes through compulsion, preservation, and universality.

As outlined in the ACTU Submission to the consultation paper, the union movement supports the objective of the Retirement Income Covenant which has the flexibility to design and offer solutions to retirement incomes which maximise retirement incomes and access to savings dependent upon the circumstances of the member.

It is necessary for any covenant to provide retirement income solutions which consider the benefit of lump sums at retirement while not precluding the benefits that some workers will have in taking partial or whole income streams. Trustees, with access to information about the member, including the type of work they engaged in, their pool of savings, and other financial data can design and recommend a product which meets the needs of members.

The exposure draft improves upon the Government's previous iterations which was far too restrictive in the ability for trustees to distinguish between the common needs of cohorts of members. The exposure draft also improves upon previous versions by not compelling trustees to offer swathes of products, mitigating a risk the union movement raised of predatory advisers capitalising on retirees seeking to maximise their retirement incomes.

There are significant limitations, however, in implementing this. The information superannuation trustees have access to about members is generally limited to the superannuation balance held by the member in the fund. Improving the information trustees have available to them will improve the ability for trustees to design retirement income solutions for their members. Home ownership, pension eligibility, and other superannuation accounts are critical in offering something relevant to members in retirement. Unless these limitations are lifted the efficacy of the Covenant will be low.

There are regulations, though, which may hamper the ability of funds to implement the Covenant. The anti-hawking measures, design and distribution obligations, and rules around financial advice will each impede the ability for funds to offer a soft-default option for members of a fund-identified class. The Government should better clarify the interaction of the covenant with funds' other obligations.

The framework nature of the Covenant necessitates prudential standards and guidance from regulators, and the substance of these will significantly shape the execution of the Retirement Income Covenant. The Government should ensure that the drafting of enabling regulations by regulators is consistent with the objectives it has set.

While improvements and clarifications are necessary the ACTU broadly supports the retirement income covenant exposure draft.

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