POLICY PRIORITIES:

Putting members and their financial interests first

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Industry Super Australia

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Putting members and their financial interests first

Super savings belong to the workers that have earned them. It's their money, and in a compulsory retirement savings system it should be their financial interests that matter most.

Australia's super system is one of the most successful in the world, helping workers feel more confident about their future economic security.

People generally accept they're not that good at saving for the future, and support having a compulsory, modern super system in place so they don't have to spend too much time thinking about it. They trust that the system is built in a way to protect their interests.

People also understand that super is a long-term investment, designed to withstand the economic shocks and ups and downs that can impact other types of investments.

Increasing rapidly in scale, and with long term investment horizons, super is playing a growing role in our economy, with over 10 per cent of the Australian share market effectively owned by members through their collective savings. Funds are also shaping the future of our nation, investing directly in businesses and essential infrastructure.

As with any system there is scope to improve it, especially to address inefficiencies, improve equity and resolve glitches that put a drag on member balances or leave people behind – especially those who can least afford it, like young mums and those on lower incomes.

Despite high levels of support for super amongst the community, we can expect continued debate over the next few years about the future of super. Any changes to policy must be driven by members' financial interests – nothing else.

This document sets out our views on key issues and how policy can help protect and grow members' retirement savings, giving them more choice and control over how and when they retire.

ABOUT INDUSTRY SUPERFUNDS AND INDUSTRY SUPER AUSTRALIA

There are 13 Industry SuperFunds that carry 'the symbol'. They're run only to benefit members, with low fees and no commissions paid to financial advisers. ISA administers the well-known Industry SuperFunds marketing campaign and advocates for policy that protects members' interests by maximising the retirement savings of nearly five million members.

POLICY PRIORITIES

Deliver more to members by strengthening the super system

FIX UNPAID SUPER

- Mandate employers pay their employees super with wages
- Increase the ATO's compliance activities – no more lax enforcement
- Facilitate other actors to assist in recovery and include super in the National Employment Standards
- Include recovery of super in company insolvency

IMPROVE YOUR FUTURE, YOUR SUPER

- Expand the APRA performance tests to include 10 years of historical fund performance and all fees and products
- Ban workers from being stapled to a fund that does not pass the annual performance test

TACKLE INEQUITY

- Mandate payment of super with the Commonwealth Parental Leave Pay Scheme
- Review distribution of tax concessions to ensure they help close the gender super gap
- Increase the Low-Income Superannuation Tax Offset (LISTO) to cover workers earning up to $45,000

PROTECT SUPER SYSTEM FUNDAMENTALS

- Maintain the legislated schedule for increasing the super guarantee
- Rule out relaxation of existing rules for early release, preservation and compulsion
- Legislate super's objective of generating income to provide workers with a dignified life in retirement

Fix unpaid super

> *Super is members' money, just like their wages; they should get every cent they are entitled to, when they earn it.*

Super is meant to be guaranteed, but a quarter of the workforce is missing out and it's affecting those that can least afford it – young workers, people in lower paying and insecure jobs like labourers, and the hospitality industry.

Those workers are missing out on about $1,700 a year in payments their employer is meant to be making. When you add that all up its about $5 billion across the nation. Missing out on that money can punch a huge hole in people's nest egg and make for a less secure future.

A 30-year-old worker missing out on super in their early work years could retire with up to $60,000 less in savings.

UNPAID SUPER ($5.0 BILLION 2018-19)

AVERAGE AMOUNT PER WORKER ($1700)

NUMBER OF AFFECTED WORKERS (2.9 MILLION)

POLICY COMMITMENT:

MANDATE EMPLOYERS PAY THEIR EMPLOYEES SUPER WITH WAGES

Most people assume that because super appears on their payslip the money has been paid, and don't realise that under the current law their employer only needs to pay it into their account four times a year.

Some unscrupulous employers are exploiting this lack of awareness and the outdated laws by ripping their workers off. It's sometimes months or years until the worker realises.

Paying super on pay day makes it fairer for all employers and their employees. It is the single most effective change that can be made to deal with unpaid super.

It addresses the three main causes of unpaid super – poor business practices and insolvency, poor visibility of super contributions by employees, and ineffective deterrence.

POLICY COMMITMENT:

INCREASE THE ATO'S COMPLIANCE ACTIVITIES – NO MORE LAX ENFORCEMENT

More also needs to be done on the compliance front to fix unpaid super.

While some progress has been made by the ATO in recent years to recover unpaid super through its compliance activities, the ATO has, on average, only recovered 12 per cent of unpaid super between 2013-2014 and 2017-2018.

POLICY COMMITMENT:

FACILITATE OTHER ACTORS TO ASSIST IN RECOVERY AND INCLUDE SUPER IN THE NATIONAL EMPLOYMENT STANDARDS

Many Australians don't know where to go when they realise they are not being paid their super. Recovery processes can be long and complicated. Third parties such as unions and funds should be given greater scope to work with the ATO, to make it easier and quicker to recover unpaid super.

Including the right to be paid the superannuation guarantee as part of the National Employment Standards will also help, as it will make it enforceable as an industrial entitlement for all workers. It would also allow the Fair Work Ombudsman to sue for unpaid super.

POLICY COMMITMENT:

INCLUDE RECOVERY OF SUPER IN COMPANY INSOLVENCY

Company insolvency is a leading cause of unpaid super and the data shows total amounts of unpaid super due to insolvencies can be significantly higher than unpaid wages.

That's why the Fair Entitlements Guarantee should also be extended to cover super contributions. This is an important legislative safety net for the recovery of unpaid entitlements such as wages and annual leave when an employer becomes insolvent. Super is worker's money, just like their wages, and it should be treated that way.

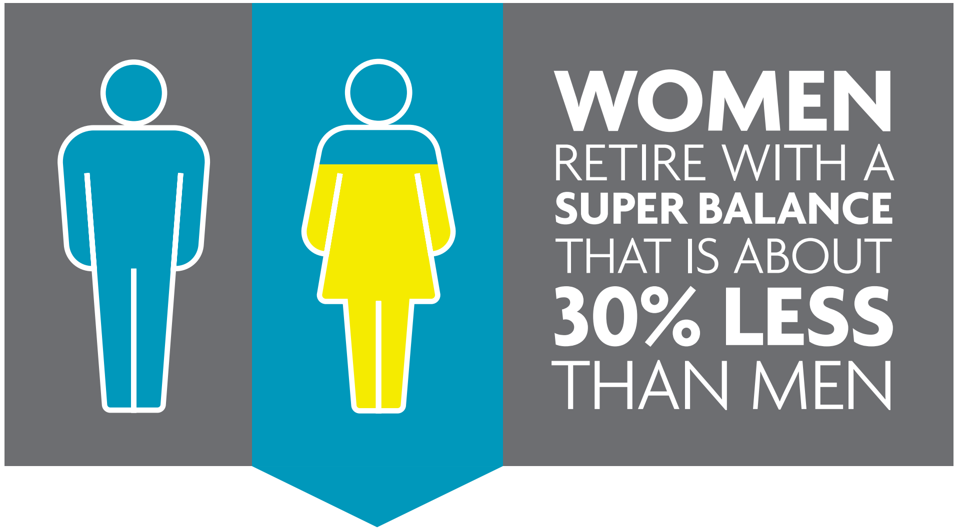
Tackle inequity

Women are retiring with 30% less super than men – more needs to be done to ensure women, especially mums, don't continue to fall behind.

Women spend more time out of the workforce than men and earn less than men while they are working. This has caused a gap in super balances at retirement, where women retire with a super balance that is about 30 per cent less than men. On average, women retire with about $67,000 less than men.

One in three women retire with no super at all. This has significant consequences for women's financial security in retirement, while taxpayers also bear the impact with women over-represented in pension payments.

Unless action is taken, the gender super gap is estimated to exist out to 2061 and beyond.



POLICY COMMITMENT:

MANDATE PAYMENT OF SUPER WITH THE COMMONWEALTH PARENTAL LEAVE PAY SCHEME

One of the key drivers of the gender super gap is the time women take out of the paid workforce to raise children.

Governments around the world now recognise the significant social and economic benefits of paid parental leave, however in Australia, it is one of the few forms of paid leave where there is no requirement to pay super.

This includes the Commonwealth Parental Leave Pay (CPLP) scheme.

This means millions of Australian women and their retirement savings are being penalised for having children. Paying super on the CPLP is a concrete step that will help reduce the gender super gap and ensure women don't keep falling further behind.

Paying superannuation on CPLP would leave a mother of two $14,000 better off at retirement. Women have missed out on $1.6 billion since the CPLP began, because super is not part of the policy.

POLICY COMMITMENT:

REVIEW DISTRIBUTION OF TAX CONCESSIONS TO ENSURE THEY HELP CLOSE THE GENDER SUPER GAP

Super tax concessions are poorly targeted and further entrench the gender super gap in Australia as they disproportionately benefit those with higher incomes and super balances – most of whom are men.

Analysis shows the top 20 per cent of income earners get over half of the super tax concessions, while the bottom 20 per cent of income earners get just 1 per cent of concessions.

To help narrow the gender super gap, the super tax concessions framework must be reviewed to ensure it benefits those who need it most.

Women receive an average super tax concession of $2,240 compared to $3,250 for men.

POLICY COMMITMENT:

INCREASE THE LOW-INCOME SUPERANNUATION TAX OFFSET (LISTO) TO COVER WORKERS EARNING UP TO $45,000

To further help women and low-income earners and make the system fairer, the government should also adjust the Low-Income Superannuation Tax Offset (LISTO) to better align with the income tax brackets.

While the LISTO used to be aligned with the tax-free threshold and the first tax bracket and matched super guarantee contributions, tax cuts have moved those brackets up the scale, leaving hundreds of thousands of women behind.

More than 1.2 million Australians would see a boost in their super savings by increasing the LISTO to cover workers earning up to $45,000.

Improve Your Future, Your Super

It is in members' financial interests to be connected to a good performing fund and protected from ending up stuck in a dud.

The Your Future, Your Super reforms have the potential to play a critical role in protecting and growing members' super.

Yet at the moment, the performance test doesn't go far enough meaning too many members are unknowingly languishing in underperforming funds, while the stapling laws mean millions of Australians could end up stuck in a dud fund for life.

Others in dangerous jobs are at risk of being lumped with inappropriate insurance, putting them and their families at risk.

POLICY COMMITMENT:

EXPAND THE APRA PERFORMANCE TESTS TO INCLUDE 10 YEARS OF HISTORICAL FUND PERFORMANCE AND ALL FEES AND PRODUCTS

The performance test will only truly protect members from the harm that comes with being in an underperforming fund if we get the settings right.

It must be even-handed and reflect the long-term investment horizon for superannuation.

Currently, APRA's test doesn't cover many poor-performing retail super products which workers are sold into by financial advisers who often charge high fees. The test only measures eight years of fund performance which is inconsistent with the government's usual approach to assessing performance over the long-term.

All super products should be covered by APRA's test, and it should measure the net-benefit to members over the last 10 years, after all fees and charges have been accounted for.

POLICY COMMITMENT:

BAN WORKERS FROM BEING STAPLED TO A FUND THAT DOES NOT PASS THE ANNUAL PERFORMANCE TEST

Getting performance tests right is critical, but under current policy settings members are being stapled to funds which fail the test, putting them at risk of significant financial harm.

It makes little sense to have a quality filter if it isn't going to be used to protect members.

Most people don't spend a lot of time thinking about super and deserve to be protected from ending up stuck in a dud fund.

Being stapled to an underperforming fund could leave a 20-year-old $230,000 worse off at retirement compared to what they would have received if with a good performing fund.

Protect super system fundamentals

60 per cent of Australians say they are sick of governments tinkering with super. No more chopping and changing – bed down the critical foundations to boost members' savings and strengthen Australia's economy.

Policy certainty is fundamental to boosting members' savings, delivering critical investment to businesses and strengthening our economy.

Changes to the system must work in members' best financial interests and be even-handed in their design and implementation.

Bedding down the fundamentals of super will not only give working families more confidence about their future, it will also enable government to harness the broader economic benefits of super that come with policy stability.

Australia's national savings pool helps to strengthen our economy, driving local investment, creating jobs and generating good returns for members over the long-term. It also provides stability during market shocks and economic downturns like the GFC and recent COVID-19 pandemic.

All of this could be at risk if future governments make changes that undermine the fundamentals of super.

$12 BILLION ECONOMIC BOOST

10,000 JOBS

WAGES GROWTH

Source: https://www.industrysuper.com/media/acil-allen-report-economic-impact-of-increasing-the-super-guarantee-rate/

POLICY COMMITMENT:

MAINTAIN THE LEGISLATED SCHEDULE FOR INCREASING THE SUPER GUARANTEE

Under existing law, the super guarantee is scheduled to increase in small, affordable increments to 12 per cent by 2025, acknowledging that anything less is not going to provide millions of workers, many on low incomes, with an adequate income in retirement.

Having more super means workers will be less reliant on the age pension, providing savings for government and reducing the burden on taxpayers.

Freezing the super guarantee would leave a 30-year-old couple retiring with $170,000 less, forcing taxpayers to pick up the tab with $33 billion in increased age pension costs.

Because of super, Australia's expenditure on the age pension as a portion of GDP is lower than other developed nations and is forecast to decline in the decades ahead, under current policy settings.

Sticking to the super guarantee schedule will inject $12 billion extra into our economy, through investments that will create 10,000 jobs and lift wage growth by 40 basis points.

POLICY COMMITMENT:

RULE OUT RELAXATION OF EXISTING RULES FOR EARLY RELEASE, PRESERVATION AND COMPULSION

A dignified life in retirement for members relies on stable policy settings. It is in members' best interests if we maintain the existing rules about early release, preservation and having every worker included.

The recent decision to ask Australians to support themselves during the COVID-19 pandemic by accessing their super early will have long-lasting consequences for workers and the economy.

More than 3 million Australians accessed their super, leaving them tens of thousands of dollars worse off at retirement and leaving future Australians with a bigger pension bill.

Undermining the fundamentals of super like this drags down returns to members, as funds are forced to carry more cash – a lower performing asset – to make the payouts. This not only impacts members but the broader economy, potentially limiting the role funds play in creating jobs and economic growth.

A 30-year-old who accessed super early could end up with $90,000 less in super, with taxpayers picking up the tab for increased pension payments. For every $1 taken out early from super, the taxpayer contributes up to $2.50 extra via the age pension.

POLICY COMMITMENT:

LEGISLATE SUPER'S OBJECTIVE OF GENERATING INCOME TO PROVIDE WORKERS WITH A DIGNIFIED LIFE IN RETIREMENT

While most people readily identify super as 'my money for later', there is no objective for super written into the law. This allows some politicians to claim super should be used to solve problems other than what it is intended for, like helping people into their first home or taking the money now to supplement stagnant wages.

Research shows that unpicking the fundamentals of super would not solve every problem that government faces and would leave millions of members worse off financially.

Enshrining the objective of superannuation in law would provide a framework for future regulatory and systemic change. It would guide not just policymakers, but regulators, industry and the community.

Industry Super Australia