

# **LEGISLATING THE OBJECTIVE OF SUPERANNUATION**

## **SUBMISSION FROM ACTU RETIRED UNIONISTS' NETWORK (RUN)**

**March 2023**

### **History of Superannuation:**

As ground breaking as it was, the introduction of the Superannuation Guarantee legislation in 1992 did not mark the beginning of superannuation in Australia. Federal government workers have had superannuation since 1922 and most State government workers shortly thereafter. By the 1950s and 1960s, even some (large) private employers offered some form of superannuation.

A key feature of these early superannuation schemes was that they were based on a **partnership model** - the employer would contribute x% of the worker's gross wages and, at the same time, the worker would contribute y% of his/her gross wages. Examples of such schemes include TELSTRA - employer contributes 15% while employee contributes 6% - and the tertiary education industry - employer contributes 17% while employee contributes 7%. Such partnerships ensure significant overall contributions to the worker's retirement income.

### **SG Quantum:**

Treasurer Dawkins, while recognising the need for a gradual phasing in period, always envisaged an ultimate employer contribution of 15% of gross wages. Against that, the current plan of an SG rate of 12% by 1 July 2025 is grossly inadequate and RUN members would urge the government to return to the target of 15% of gross wages, via some staged approach.

Alongside that, we would urge the return of the partnership model of superannuation, with workers contributing 4-6% of gross wages, alongside their employers. This would produce payday contributions of **around 20% of gross wages** and would do much to 'deliver income for a dignified retirement'.

### **Retirement Circumstances:**

Retirees will find themselves in a variety of circumstances in their retirement:

- Some will have superannuation balances which can produce an adequate income for a dignified retirement;
- Some - especially women workers - will have superannuation balances which cannot produce an adequate income and will need to be supplemented by a full or part Age Pension;

- Some - women workers and others - will have negligible superannuation balances and will need to rely almost entirely on the Age Pension;
- Some may own their own homes by this stage but others may still have a mortgage or may be renting their homes - this impacts on their cost structures in retirement.

Any consideration of superannuation - or its purpose - must ensure that it includes each of these retirement circumstances.

### **The Purpose of Superannuation:**

RUN certainly endorses the concept of “**preserving savings**” - that primarily superannuation exists as a savings vehicle to fund retirement and not to meet other lifetime costs. In normal circumstances therefore, superannuation withdrawals should be available only after retirement. The only exception we can think of is that perhaps a limited withdrawal should be available to fund recognised treatment of a life-threatening medical condition.

RUN also endorses the concept of “**delivering income**” - that primarily superannuation exists to provide a retirement income and not to provide a vehicle for tax-effective wealth accumulation nor to provide tax-effective bequests. Therefore, we would certainly support any action to reduce or withdraw tax benefits for those with high superannuation balances (over \$1M). Having said that, the current *Binding Death Nomination* required by most superannuation funds is unnecessarily cumbersome and bureaucratic - the law should be changed so that any modest balance remaining on the death of a retiree automatically flows through to his/her estate.

### **The Consultation Questions:**

Against that background, RUN offers the following responses to the four questions posed.

- 1. What do you see as the practical benefits or risks associated with legislating an objective of Australia’s superannuation system?**

RUN supports legislating the objective of Australia’s superannuation system. The benefit is that such action will make clear to both sides of the House that the \$3.3T pool of superannuation funds is available only for the legislated purpose and is unavailable for any other purpose. RUN sees no risks associated with this approach.

**2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?**

RUN supports that the proposed objective of superannuation is to **preserve savings to deliver income for a dignified retirement**, alongside **government support**, in an **equitable and sustainable way**. That has always been our understanding of how superannuation is meant to work.

**3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?**

RUN believes that the proposed approach of enshrining the objective in legislation is appropriate. We are unable to think of any alternative ways in which the objective could be enshrined.

**4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?**

The accountability mechanism proposed is fundamentally the use of the existing parliamentary scrutiny processes (applied to all legislation), supplemented where necessary by referral to existing standing or select committees of the Parliament for enquiry and report back. RUN supports such an approach, which involves no additional scrutiny cost.

Currently, when a Bill is tabled in Parliament, an *Explanatory Memorandum* is also tabled. At the end of such *Explanatory Memoranda* is a **Statement of Compatibility with Human Rights** (certifying that the Bill has no impact on human rights). The government could consider requiring in all *Explanatory Memoranda* a **Statement of Compatibility with the Objective of Superannuation**. Such an approach would provide an extra safeguard at minimal cost.



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