An Integrated Unemployment and Retirement Insurance System

Submission to the Treasury consultation: “Legislating the objective of superannuation”

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The Government should consider the merits of an **integrated unemployment and retirement insurance system**

- Under the proposed system, prior to retirement, workers can partially access their superannuation savings when they **involuntarily lose their jobs**

There are several benefits to the integrated system relative to the current superannuation system:

- **Higher living standards for working households** during involuntary unemployment due to temporary financial support
- **Preserve retirement saving** by discouraging early retirement due to forced redundancies
- **Higher firm productivity** by providing more support to workers and giving them more time to find better matched jobs

To address the potential costs of an integrated system:

- Access to super could be restricted to older workers with sufficient super account balances
- Workers would need to demonstrate that they have been fired or made redundant

Agenda

01 Proposal: an integrated unemployment and retirement insurance system

02 Unemployment insurance savings accounts

03 The early release of superannuation in COVID-19: a policy experiment in unemployment and retirement insurance

04 The potential benefits of an integrated system

05 The potential costs of an integrated system

An integrated unemployment and retirement insurance system could increase living standards for Australians

The objective of the Treasury consultation paper is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.

2022 Jobs and Skills Summit

The Jobs and Skills Summit indicated that we also need policies to keep unemployment low, boost firm productivity and lift household incomes.

An integrated system would **lift household incomes** by providing temporary financial support to workers hit by involuntary job loss

An integrated system could **preserve retirement saving** by discouraging early retirement through forced redundancies

An integrated system could **boost firm productivity** by giving workers more time to find better matched jobs

Unemployment insurance savings accounts

JobSeeker payment: The main form of unemployment `insurance' in Australia

- This is paid to workers at a flat rate regardless of prior earnings and irrespective of how long they have been unemployed
- Australia is unusual by OECD standards in not having a `true' unemployment insurance system in which a fraction of an unemployed worker's previous wage for a limited time and is only payable in the event of involuntary job loss

Unemployment insurance savings accounts

- **Under an integrated system, prior to retirement, workers could partially access their superannuation savings when they involuntarily lose their jobs**
  - Workers could access an unemployment insurance saving account linked to their superannuation account
  - The scheme would work like a defined contribution pension – an unemployed worker would have their payments taken out of their own savings to support their standard of living during unemployment
  - More than 500,000 Australians involuntarily lost their jobs in the year to February 2022 (about 4% of total employment)
- A two-tiered approach based on the age of the worker could be considered
  - Access to the superannuation savings could be restricted to older workers and/or those with a sufficient account balance

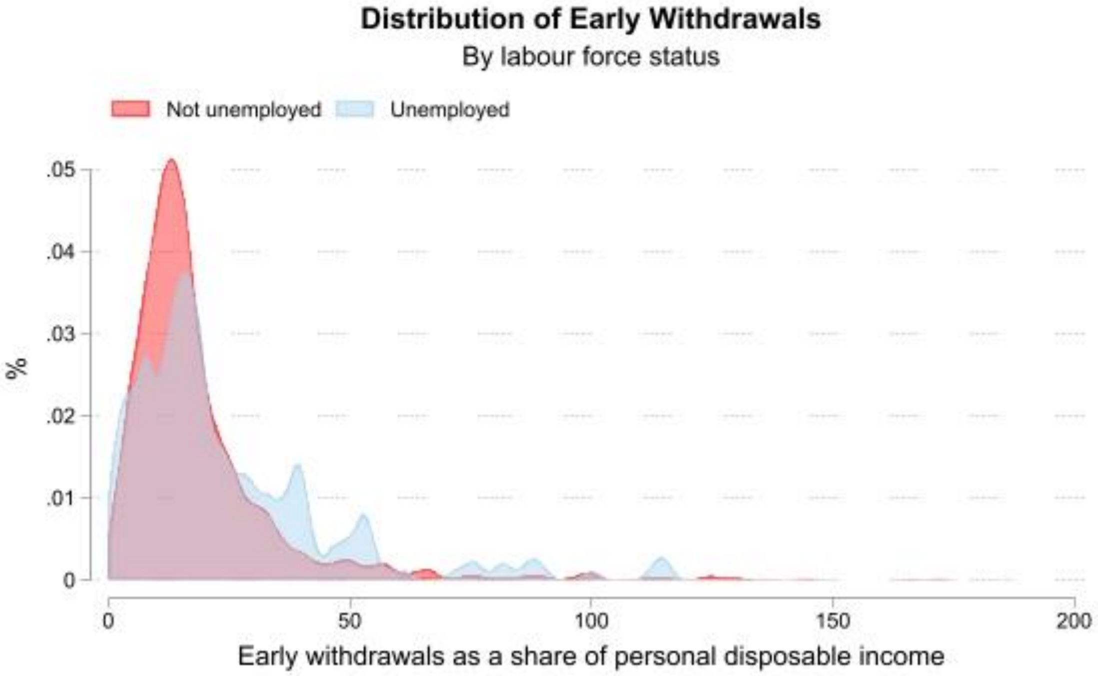
The early release of superannuation policy: a natural experiment in integrated unemployment and retirement insurance

The early release of superannuation policy in the COVID-19 pandemic provides a `policy experiment' to test the merits of an integrated unemployment and retirement insurance system.

The early release of superannuation was one of the largest stimulus measures introduced by the Australian Government in response to the COVID-19 pandemic.

$38b In total, 3.5 million initial applications for super release and 1.4 million repeat applications were approved, with an average value of about $7,600 per application and a total value of over $38 billion (about 2 per cent of GDP)

$10k Individuals could withdraw lump sums from superannuation twice in a 9-month window and withdraw up to $10,000 in each lump sum. To be eligible, applicants had to have sufficient retirement balances, and self-assess that they met certain hardship qualification criteria such as being made redundant, or in receipt of unemployment benefits, or experiencing a 20% decline in hours worked



Source: e61; HILDA Survey Release 21.0

The average worker withdrew about 15% of annual disposable income from their super accounts. The average unemployed worker withdrew slightly more at around 18%.

Superannuation withdrawals and the cost of job displacement

In forthcoming e61 research we estimate how much the early release of super policy supported the living standards of displaced workers by providing additional financial support during unemployment.

- We can use this policy experiment to assess the merits of an integrated unemployment and retirement insurance system

If job displacement represents a temporary income shock and households have enough cash on hand, workers should be able to smooth their spending during job displacement. But if households do not have enough cash on hand they may reduce spending during unemployment.

We use both household surveys and bank transactions data to estimate the spending responses of displaced workers that withdrew and did not withdraw superannuation. We compare the responses to a counterfactual group of non-displaced workers.

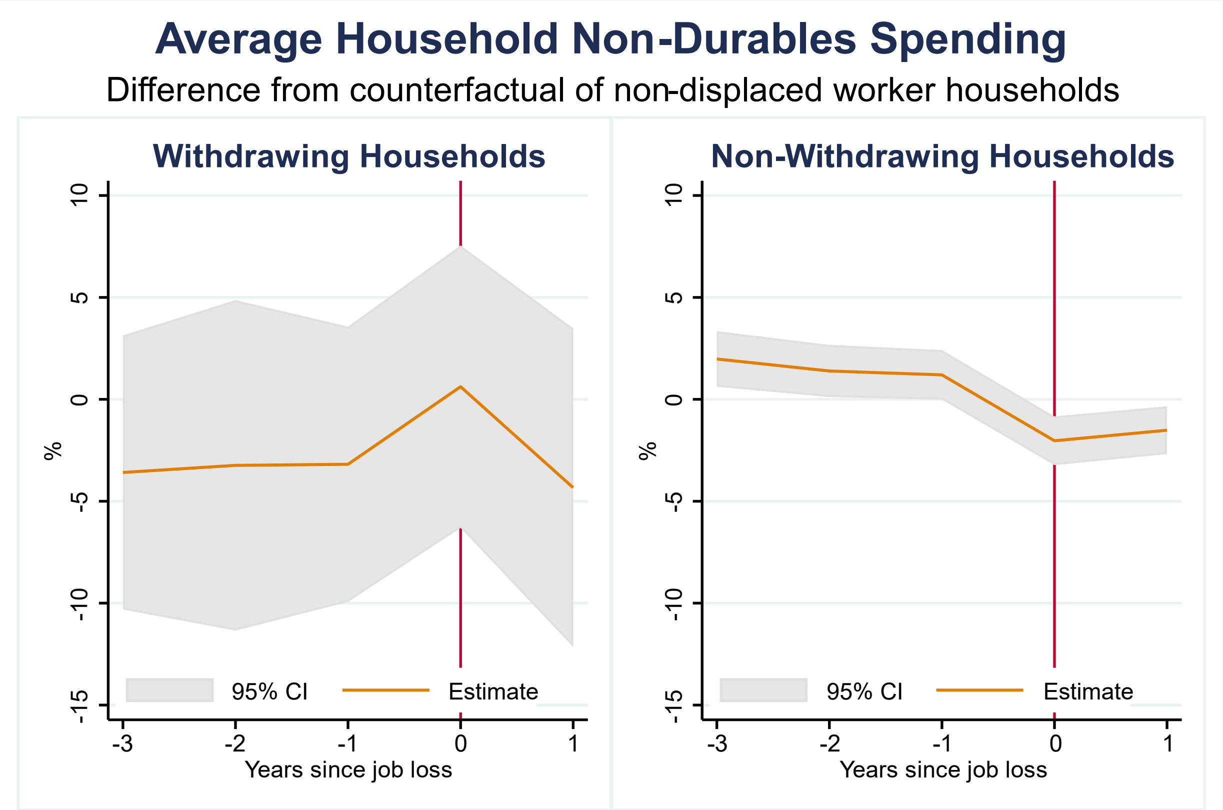
- ❑ A comparison of the spending changes of the two groups of displaced workers provides an estimate of the consumption insurance effect of the policy
- ❑ A potential concern with the research design is that the estimated consumption responses reflect systematic differences between people that withdraw and do not withdraw super, rather than the effects of the withdrawals. We discuss this issue in the associated e61 research note

Superannuation withdrawals and the cost of job displacement

The analysis indicates that…

…for households that DID NOT withdraw super, **spending fell by 2% in the year of job displacement** and remained low relative to non-displaced workers.

…for households that DID withdraw super, **spending did not fall in the year of job displacement** relative to non-displaced workers.



Coefficient estimates from OLS regressions with controls, year and worker fixed effects
Sources: e61; HILDA Survey Release 21.0

The ability to liquidate super significantly reduced the consumption losses associated with unemployment and raised living standards during the COVID-19 pandemic

An integrated system would lower the fiscal costs associated with unemployment insurance

Fiscal costs of unemployment insurance

The proposal would limit fiscal costs compared to other potential changes to the benefit system such as a permanent increase in the JobSeeker payment.

Individual workers would bear more of the risk of job loss with less burden on taxpayers.

For workers at low risk of job displacement, they can spread out the unemployment risk over their working lives, reducing reliance on the benefit system.

For workers at high risk of job displacement, such as young and low-income workers, they could continue to be supported by the JobSeeker program

An integrated unemployment and retirement insurance system could reduce early retirements forced by redundancies

65 More than 3 million Australians retire before the age of 65

About 1 in 10 of these `early retirees' retire because of a forced redundancy

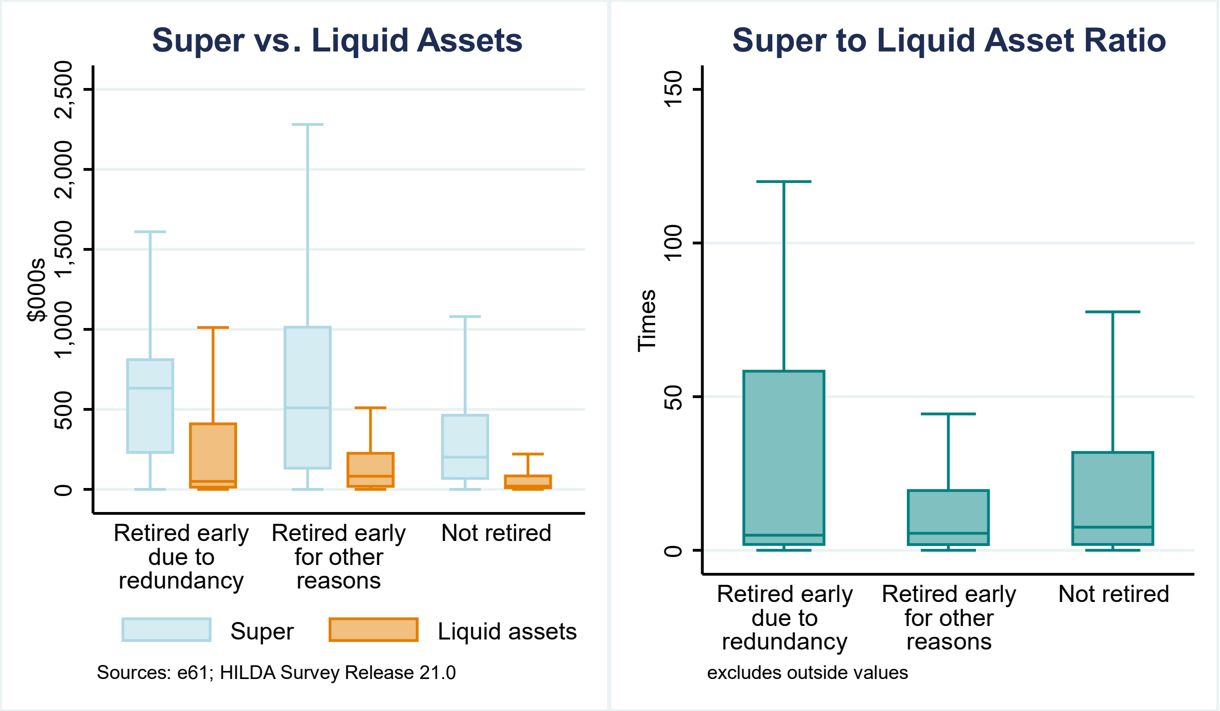
Forced early retirees typically have high levels of superannuation relative to liquid assets

45 An integrated system could allow workers aged 45+ to partially access their superannuation rather than fully access it (through forced retirement)

This could preserve retirement savings and incentivise older workers to remain in the workforce

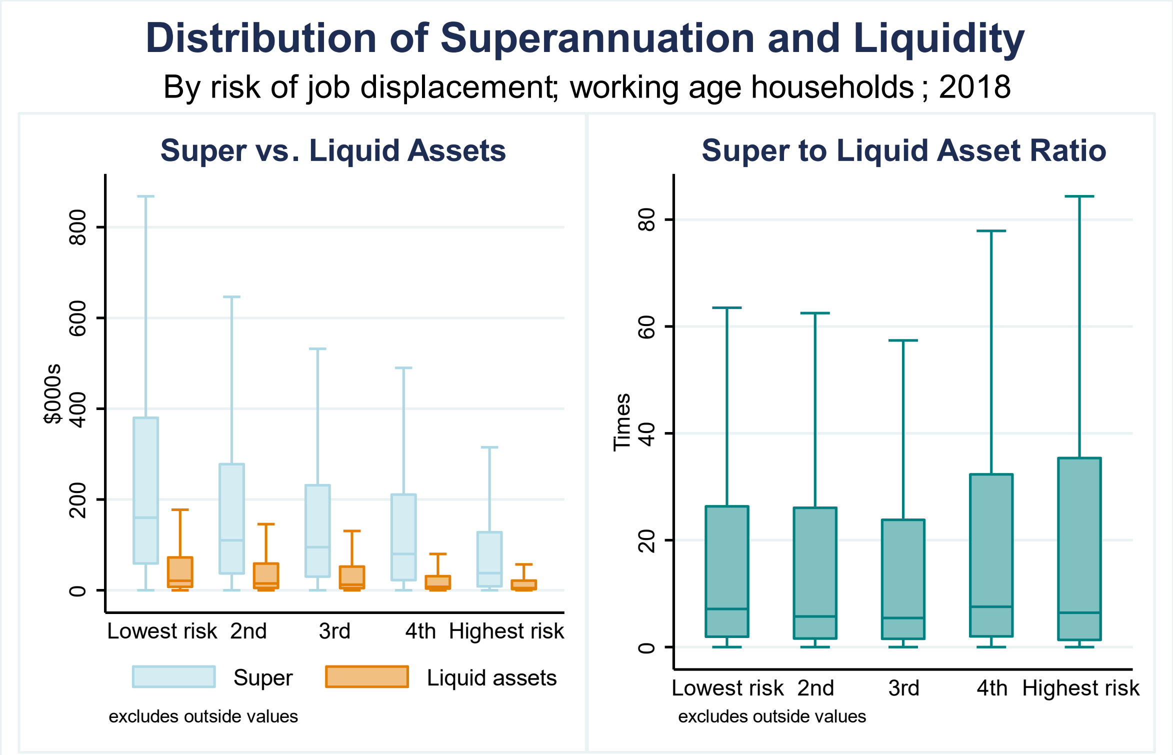
Distribution of Superannuation and Liquidity

By retirement status; households aged 45-64; 2018



Liquid assets include cash, deposits, equities and bonds
Sources: e61; HILDA Survey Release 21.0

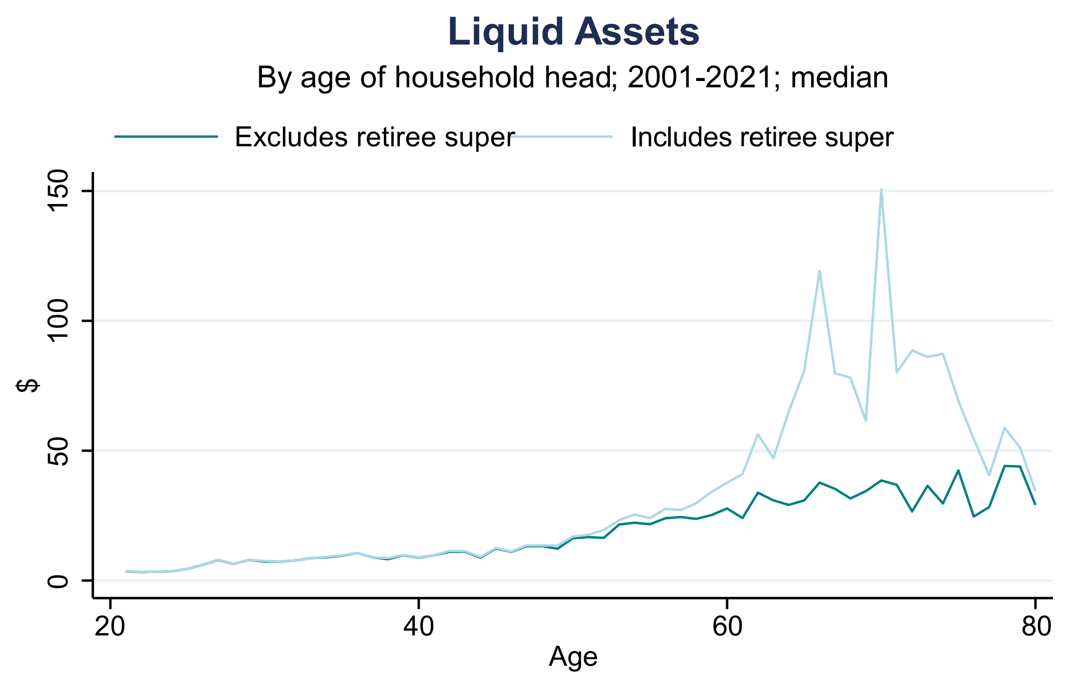
Partial access to superannuation during job displacement would significantly increase financial support for workers at risk



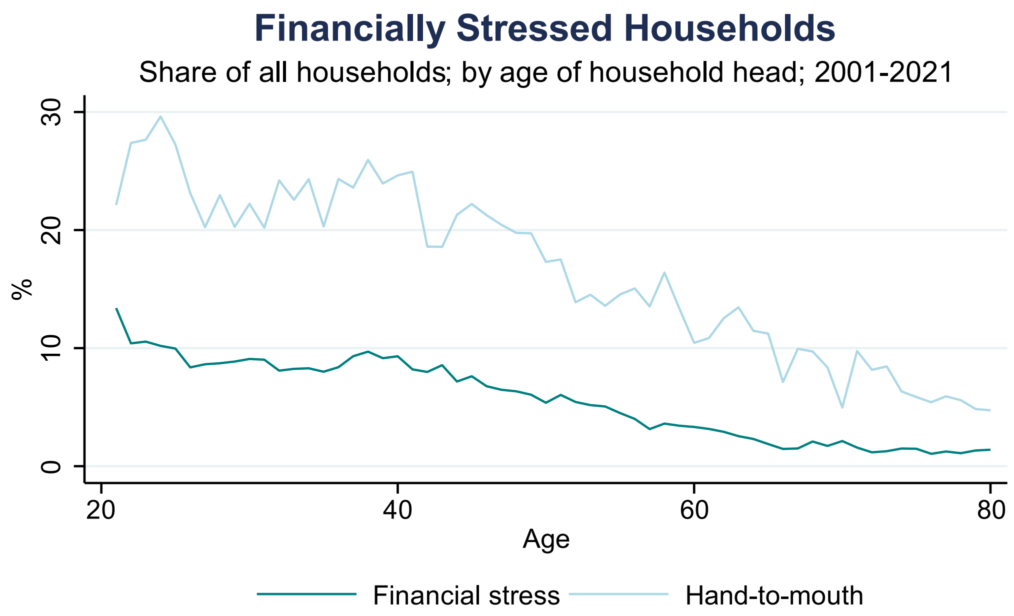
Liquid assets include cash, deposits, equities and bonds
Job displacement risk based on predictions of being fired from a logistic regression with various controls
Sources: e61; HILDA Survey Release 21.0

Low liquid wealth	Workers at high risk of job displacement (`high-risk' workers) have much lower levels of liquid assets than everyone else
<$100 saved in liquid assets	About 1 in 10 high-risk workers have less than $100 saved in liquid assets
Relatively high illiquid wealth	High-risk workers have high levels of superannuation *relative to* liquid assets
$10 dollars of superannuation	The median high-risk worker has $10 of superannuation for every $1 of liquid assets

Partial access to superannuation during job displacement would significantly reduce financial stress for working households



Liquid assets include cash, deposits, bonds and equities
Liquid assets measured in 2011 dollars
Sources: e61; HILDA Survey Release 21.0



Stressed households are those reporting at least 2 financial stress indicators such as being unable to pay bills or going without meals
Hand-to-mouth households are those with liquid assets less than fortnightly income
Sources: e61; HILDA Survey Release 21.0

- **Household wealth becomes very liquid after retirement** as retirees can convert super to cash
- Low liquid assets leave **working households vulnerable to financial stress**

- **Financial stress declines with age and is especially low for retired households** because they can convert superannuation to cash

Workers do not need to save more than they already do

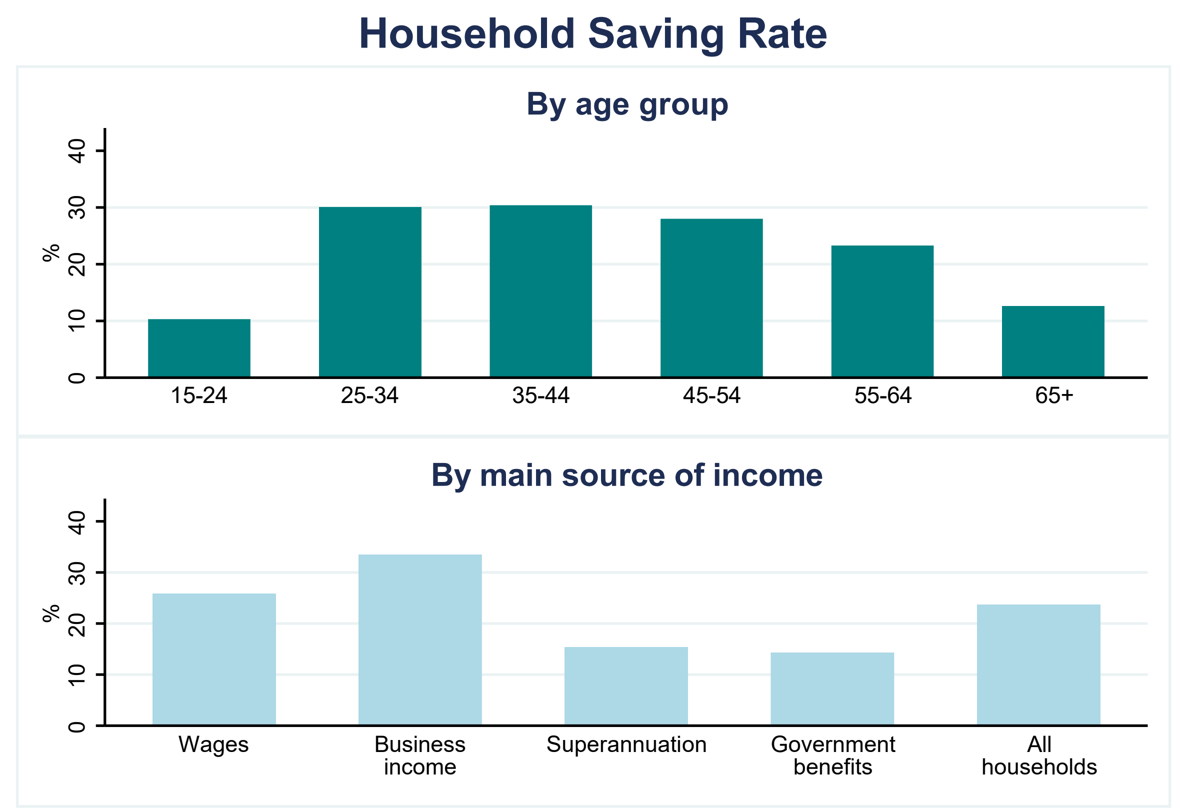
Australians may be `over-saving' for retirement through superannuation

- Retired households save a large fraction of income (>10%) instead of running down their savings
- They also hold liquid assets that are 6 times the value of their total spending

`Excess saving' through super could be redirected to unemployment insurance

Workers would not necessarily need to increase their rate of saving to insure against job displacement

- They just need to be able to convert their wealth from illiquid to liquid assets

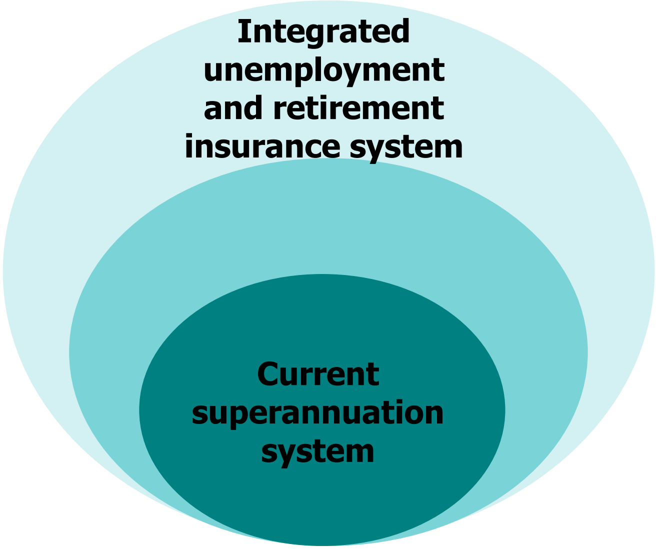


Sources: ABS; e61

An integrated unemployment and retirement insurance system would be a natural extension to the current system

The superannuation system already offers insurance for serious illness, disability, and death.

- A fraction of superannuation contributions goes towards paying insurance premiums rather than increasing retirement savings
- More than half of all accumulation accounts have such insurance, with the average account paying about $400 per annum in life insurance, disability insurance and/or income protection



The superannuation system allows access to savings prior to retirement in the event of severe financial hardship, an inability to work or on compassionate grounds.

- Between June 2021 and 2022, more than 70,000 super lump-sum payouts were for severe financial hardship (5% of total payouts)
- The definition of `financial hardship' could be extended to include involuntary job displacement

The costs of an integrated unemployment and retirement insurance system

Job displacement risk is concentrated among young and/or low-income workers who under-save for retirement

- Access to super could be restricted to older workers with sufficient super account balances
- Jobseeker recipients have superannuation balances that are high relative to liquid assets, income and consumption
- The scheme could set a time limit on access to superannuation

Integrated unemployment and retirement insurance system

Workers would need to demonstrate that they have been fired or made redundant

- `Involuntary job loss' events could be restricted to mass layoffs (i.e. dismissals of 15+ employees for economic, technological or structural reasons)
- Employers involved in such collective dismissals must already notify Centrelink and consult a registered employee association so should be verifiable

Thank you!

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