

Legislating the objective of superannuation

Submission to

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**Finance
Sector Union**

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

Consultation questions

- 1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?**
 - 2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?**
 - 3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?**
 - 4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?**
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The Finance Sector Union (FSU)

The FSU has represented workers in the finance, banking, and insurance and superannuation industry for over 100 years. This industry consists of approximately 4% of the workforce with women making up 49.8% of the total number of workers within the sector, and the majority of FSU members¹.

¹ <https://labourmarketinsights.gov.au/industries/industry-details?industryCode=K>

What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

The FSU believes there are a number of positive benefits in legislating an objective for superannuation. The superannuation system has become a political football especially in the era of the last Federal Coalition with the system of compulsory savings for retirement becoming a catch all solution for other problems such as housing and health. Up to six in every ten people who withdrew from their superannuation to support themselves during the COVID-19 pandemic were under 35². This has denied these workers decades of compounding interest and may prolong their working life.

In addition, the former Government's *Your Future, Your Super* Bill was a cynical attempt at ensuring that for-profit superannuation funds, many owned by the big 4 banks, had a systemic advantage over the better-performing, all-profit-to-members industry super funds. The original legislation gave the Treasurer reserve powers to cancel investments and expenditures that he did not like.

The FSU sees the following benefits:

1. Clarity and consistency:- having a legislated objective would provide clarity and consistency for the superannuation system, ensuring that all stakeholders understand the purpose and direction of the system.
2. Accountability - a clear objective would also make it easier to hold regulators and other stakeholders accountable for meeting the objectives of the system.
3. Long-term planning - having an objective would encourage long-term planning for retirement savings and potentially reduce short-term thinking or reactive policy changes.
4. Increased confidence - a clear objective may increase public confidence in the superannuation system, as it would demonstrate a commitment to achieving specific outcomes.

In addition, another benefit of legislating an objective for the superannuation system is that it will help to increase confidence and trust in the system among the public. By establishing a clear objective, the government is demonstrating its commitment to ensuring that the system is working in the best interests of member's, which will help to improve perceptions of the system.

The major risk is that political interference could make the superannuation system vulnerable to changes in government priorities. However, we are of the view that the positives far outweigh the risks. The objective should be subject to ongoing review and evaluation to ensure it remains relevant over time. Feedback from our members highlighted one of the side benefits of superannuation is the availability of cheap insurance (Income protection, Life, and Disability) The proposed objective could be used as a tool to potentially force Super Funds to no longer provide insurance to Members, on the grounds that paying insurance premiums will erode savings. Our members also cautioned against

² <https://www.businessthink.unsw.edu.au/articles/withdrawers-superannuation-covid>

changing hardship provisions such as financial hardship, compassionate grounds, terminal illness and permanent incapacity.

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

The objective as currently defined captures the utility of superannuation and enshrines some important concepts such as preservation, dignity, and sustainability. The sustainability of the system is the key to achieving the other components. Worker-owned capital is good for many reasons, namely providing a counter-vailing power to the banking and private equity establishment and by providing a pool of patient capital for the long term. The current system could be better for workers if it gave fewer tax breaks to high income earners and gave more support to the savings of those who have the least, often they are women and the low-paid workers. The proposed increase to tax earnings for balances above the \$3 million by 30% instead of the current 15% is a good start.

There needs to be a policy shift that underpins the objective to ensure it has the required clout to make a difference. Dignity in retirement, for example, remains elusive to many women, low-income earners and the young. The fastest growing group facing homelessness in Australia are women over the age of fifty. Too many women are retiring into an uncertain financial situation and Australia's youngest and lowest paid workers are bearing the brunt of the almost \$5 billion a year of unpaid super³.

Modelling completed for industry super fund HESTA reveals that Australian mothers have missed out on more than \$2.8 billion in super savings at retirement from taking time out of the workforce to have children and will continue to forgo thousands of dollars more in retirement savings. Delaying paying super on paid parental leave would also significantly impact the future retirement savings of new mothers.⁴

New research released by the Centre for Future Work reveals that based on median income data, Australian women earn \$1.01m less over their working lives than men. This data shows that women earn \$136,000 less in superannuation over their working lives than men. Women earning the median wage will accumulate approximately \$393,676 in super, \$151,000 below what is considered a 'comfortable retirement'. The average super balance in Australia in 2023 is \$150,000. In addition, despite the gender pay gap narrowing slowly, based on data from the past decade it will only be eradicated by the year 2053 when more than 60% of the current workforce will be retired.⁵

³ <https://www.industrysuper.com/media/super-scandalous-how-to-fix-the-5-billion-scourge-of-unpaid-super/>

⁴ HESTA Media release, Working mums missing out on billions in super, new research reveals ahead of International Women's Day, March 7 2023

⁵ The Times They Aren't A-Changin (enough) It is past time to value women's work equally, Eliza Littleton and Greg Jericho
The Centre for Future Work at the Australia Institute
March 2023

To sustain the system Government could consider implementing a state-backed annuities program in the retirement phase that is mandatory. An individual would be required to turn at least a minimum proportion of their savings into an annuity (this is not dissimilar with the current minimum drawdown provisions). This could be used to redistribute income in the retirement phase – and not leave the elderly and others with small account balances to the vagaries of the share market. In addition, we should have compulsory super and increase the Age Pension which the Rudd government did.

The current system of subsidies is regressive. Most of the benefits of the tax concessions go to people who don't need them. The *Henry Tax Review* recommended a flat taxpayer subsidy to address this problem. Superannuation has become a savings vehicle for minimising and avoiding tax rather than a system of savings for retirement. We should redirect the super tax concessions to increasing the Age Pension and making it universal. The role of the state is to ensure that every Australian has a dignified old age, and a universal, decent state pension alongside superannuation achieves that.

The passive and/or equity-heavy investment mix of many default super funds essentially provides cheap capital to big, listed companies – many lazy oligopolies among them – who don't really need it and could suffer in a downturn. Investment in unlisted assets, including nation-building infrastructure, should be encouraged. The fact so much of the super pool is recycled into ASX 200 companies reduces the cost of capital for our lazy oligopolistic banks, miners, supermarkets, and retail super funds. It is encouraging to see that industry funds are getting better at allocating money to different asset classes like infrastructure.

Australia is going to need these savings to end the link between growth and climate emissions once and for all. Again, the Government has floated some ideas on nation building investments and the not-for-profit, low-fee, long-term investing model of industry super is the gold standard of compulsory superannuation.

Critics of the superannuation system seem to treat the real World as a policy seminar, they fail to see the political economy in the situation. This makes them blind to the broader economic benefits to Australian workers of the Country being a net exporter of capital rather than a net importer of capital. Especially at a time when we need to undertake a huge transformation of the economy from dirty to clean energy, and invest tens of billions of dollars in infrastructure, transport, housing, and so on. The creators of the superannuation system such as Paul Keating and Bill Kelty understood this, but there is a cohort of critics that are blind to it. These critics see an attention-grabbing opportunity in pushing the anti-compulsory superannuation barrow in the hope it burnishes their "moderate" credentials in order to come across as radical on other issues, so they don't upset their business backers.

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

Enshrining the objective of Australia's superannuation system in legislation is appropriate, as it can provide greater clarity and certainty around the purpose and goals of the system. However, there are alternative ways to enshrine the objective that could also be considered.

One alternative approach is to enshrine the objective in the superannuation industry's code of conduct or best practice guidelines. This approach would provide guidance to superannuation funds and the industry without the need for legislative intervention. The code of conduct or best practice guidelines should be developed by industry bodies in consultation with government and other stakeholders and be regularly reviewed and updated to ensure its ongoing relevance and effectiveness.

Another approach is to establish an independent body responsible for overseeing and enforcing the objective of the superannuation system. This body could be the Reserve Bank of Australia, or the Australian Prudential Regulation Authority (APRA) and it could have their powers updated in order to regulate and enforce compliance with the objective.

Enshrining the objective in superannuation remains the preferred outcome.

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

As we have previously stated at the top of our submission the major risk, we see is political interference and also political indifference. We are not sure that handing over more powers to the current set of regulators would be of any use given the strain they are already under and with ASIC under review.
