Legislating the objective of superannuation

Summary of our submission

Industry Super Australia (ISA) welcomes the opportunity to respond to the consultation paper on legislating the objective of superannuation.

The superannuation guarantee was introduced over 30 years ago, and since then, changes to the system have been made without formal agreement about what the system is trying to achieve for Australian workers. At times, this has led to policies that have delivered poor retirement outcomes for workers.

This is therefore a long overdue opportunity to improve policy stability in the system going forward and safeguard the promise of a dignified retirement for future generations.

To effectively do this, the objective needs to cover four key concepts: a dignified retirement, preservation of savings, equity and sustainability. On this basis, ISA strongly supports the Government's proposed wording of the objective:

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

This is a clear statement that captures what Australian workers want in retirement and understand to be the purpose of superannuation and should be enshrined in legislation. We do not support the suggested alternatives as neither refers to preservation.

However, for the statement to achieve its purpose of improving policy stability and safeguarding the promise of a dignified retirement for future generations:

- a clear explanation of each concept should be included in the explanatory materials accompanying the legislation, and
- additional accountability measures are needed.

In particular, ISA recommends that for future superannuation changes, the Government should be required to prepare a statement explaining how the change is compatible with the objective, based on robust modelling and analysis of the distributional impact on workers' retirement incomes, fiscal impact and whether there are any effects on how funds invest.

This submission is set out in three main sections:

1. Why is an objective needed?
2. What should the objective cover?
3. Additional accountability measures are needed

Contents

About Industry Super Australia

Industry Super Australia (ISA) is a collective body for funds that carry the Industry SuperFund symbol. ISA manages research, advocacy, and collective projects on behalf of those funds and their five million members. Our aim is to maximise the retirement savings of all our members.

Industry Super Australia Pty Ltd, ABN 72 158 563 270, Corporate Authorised Representative No. 426006 of Industry Fund Services Ltd, ABN 54 007 016 195, AFSL 232514.

Authors

Anne Nguyen, Policy Adviser (anguyen@industrysuper.com)
Ella Cebon, Senior Policy Manager (ecebon@industrysuper.com)
Bruce Bastian, Principal Modeller (bbastian@industrysuper.com)

Why is an objective needed?

Without an objective of superannuation – and effective accountability measures – there is a significant risk that policies are implemented without a considered analysis of their impact on workers' retirement outcomes and their fiscal impact. This lack of analysis has led to the implementation of policies that have delivered poor outcomes for workers' retirements. ISA has identified numerous instances over the last decade where this has occurred. Two such examples are set out below.

Superannuation guarantee freeze

In 2014, the Abbott Government, seeking budget savings, froze the superannuation guarantee (SG) rate at 9.5 per cent for seven years, overturning the original timetable which would have seen the rate increase by increments of 0.5 per cent annually from 2015, and reaching 12 per cent by July 2019.

Inadequate consideration was given to the effect of freezing the SG rate on workers' retirement outcomes through smaller accumulated savings and on the long-term fiscal costs. Modelling undertaken by Rice Warner on the long-term fiscal costs of permanently freezing the SG rate at 9.5 per cent found that the initial increase in tax revenue moderates over time due to forgone earnings tax while higher Age Pension expenditure accelerates, and that freezing the SG rate has a long-term (and growing) cost to the system.[1] This finding is supported by analysis by the Parliamentary Budget Office which shows long-term budget savings (beyond 2032) of Australia's compulsory superannuation system and the Retirement Income Review which shows the long-term save of increasing the SG rate to 12 per cent.[2]

A legislated objective of superannuation along the lines of the current proposal may have guided policymakers toward considering whether freezing the SG is consistent with delivering income for a dignified retirement. ISA analysis shows that a person aged 30 in 2015 (when the freeze commenced) earning the age-based median wage would retire with around $110,000 less in superannuation savings. A person in the 20th percentile would retire with around $60,000 less in superannuation – a quarter less in accumulated savings. This makes a material difference to the quality of their retirement. The delays to the scheduled increase have already cost a 40-year-old on median wage more than $25,000 in superannuation savings at retirement.

COVID-19 Early Release Scheme

In 2020, the Morrison Government permitted Australians to access up to $20,000 in superannuation savings to assist with COVID-related financial hardship. It was argued that Australians would derive more immediate benefit from accessing their deferred wages in superannuation accounts.

This measure failed to recognise that the superannuation system's ability to deliver enhanced retirement outcomes depends on the principle of preservation. There was also inadequate consideration of the fiscal cost of the measure, i.e., that those who accessed their superannuation will be far more reliant on the Age Pension, which future generations will fund through their taxes. Our analysis of this scheme is set out under the heading *Preservation of savings*.

---

1 Rice Warner, *Retirement Income Review Modelling – Fiscal Results* (September 2020).

2 See https://www.afr.com/policy/tax-and-super/would-taxpayers-be-better-off-if-superannuation-never-existed-20220617-p5aug7. See also Chart 2D-10 from the Retirement Income Review.

What should the objective cover?

To capture what Australians want in retirement and understand about the purpose of the superannuation system, the objective needs to cover four key concepts: a dignified retirement, preservation of savings, equity and sustainability. The objective should be enshrined in the *Superannuation Industry (Supervision) Act 1993.*

These concepts – and how they should be explained in the explanatory materials to the Bill – are discussed in further detail below.

A dignified retirement

Compulsory superannuation contributions and earnings on those contributions should aim to provide all workers with a dignified retirement.

ISA supports this measure of retirement adequacy in the objective, although we appreciate there may be some uncertainty around what exactly it means. For example, some people in the community may consider that the Age Pension is sufficient to provide a dignified retirement, while others will disagree.

To minimise this uncertainty, a 'dignified retirement' needs to be clearly explained in the explanatory materials. We recommend explaining it as financial security and wellbeing in retirement, which is a standard of living that is:

- supported by the delivery of retirement income *above* the Age Pension (and any other government support) which allows the person to participate economically and socially in their community,
- allows for precautionary savings to be set aside for:
  - health and aged care costs,
  - emergencies and contingencies, including home maintenance,
  - funeral expenses, and
  - the retirement needs of a surviving spouse in the case of a couple,
- broadly consistent with community expectations, which can be dynamic, and
- contingent upon the compulsory and universal nature of the superannuation guarantee.

The compulsory and universal nature of the superannuation guarantee have played a key role in strengthening Australia's superannuation system. Evidence from a selection of countries that have prioritised voluntarism or soft compulsion to tackle the problem of under-saving for retirement shows that this has not been as effective as the Australian approach in terms of securing near-universal coverage of employees and more adequate levels of contributions.[3] The explanatory materials should therefore expressly acknowledge the role of compulsion and universality in providing workers with a dignified retirement.

3 For further information, see ISA, *Submission to the Retirement Income Review* (February 2020), 45.

The matters we have set out above are also broadly consistent with what members understand to be the purpose of superannuation. Recent consumer research shows that 78 per cent of respondents agree that its purpose is to provide people with financial security and wellbeing in retirement, and 68 per cent of respondents consider that one of the great things about the Australian superannuation system is it forces them to save without having to think about it.[4]

Additionally, the benefit of using the term 'financial security and wellbeing' to explain a dignified retirement is that there are surveys that can help give it practical meaning when testing policies. For example, the Household, Income and Labour Dynamics in Australia (HILDA) Survey contains questions that can help draw out whether a person has financial security and wellbeing, including questions around financial hardship and material deprivation (for example, unable to heat home, pay utility bills or went without meals), a person's ability to meet unexpected emergencies, and discretionary expenditure and regular leisure activities.

It may also be helpful to look at the existing measures of retirement adequacy to give meaning to the phrase 'a dignified retirement', although these existing measures have their limitations and should only be considered as a potential reference point rather than a definitive measure.

For example, meeting a target replacement rate can be the equivalent of having a dignified retirement for some individuals. Replacement rates are broadly designed to assess whether the system achieves lifetime consumption smoothing, but it would not be appropriate to have the same target replacement rate across the income distribution and it would be necessary to include both a minimum level of income in retirement and make allowances for precautionary savings (e.g., to meet emergency expenditure).

Preservation of savings

Preservation is the cornerstone of our superannuation system. Without it, a dignified retirement would not be in reach for many Australians. And yet, previous attempts to legislate the objective of superannuation did not include preservation.

ISA therefore commends the inclusion of preservation in the proposed objective, particularly given the recent number of proposed policies that aim to undermine preservation. We do not support the suggested alternative wording in the consultation paper as neither formulation refers to preservation.

Extensive analysis shows that these policies – such as the COVID-19 Early Release Scheme and proposals to allow first home buyers to access their superannuation to buy a house – are not economically efficient, will not solve the problems they seek to address, and will leave retirees and taxpayers worse off.[5]

ISA analysis of the proposal to allow first home buyers to access their superannuation to buy a house shows that it will drive demand for housing, which will not be matched by an increase in supply. This could result in median prices in the five largest cities increasing by between 8 and 16 per cent. This

---

4 UMR research, March 2023.

5 See for example, the Grattan Institute, *Housing affordability is a problem, but superannuation isn't the solution* (April 2021); the McKell Institute, *COVID-19: 9 reasons why accessing super early is a risky idea* (March 2020); and the McKell Institute, *Mortgaging our Future* (December 2021).

proposal would also leave retirees and taxpayers worse off – without making housing any more affordable for first home buyers.[6]

Under the COVID-19 Early Release Scheme, 2.6 million people withdrew $38 billion in superannuation. Academic research shows that on average, those who used the scheme cut their superannuation balance by 51 per cent and deprived themselves of up to $120,000 at retirement (in today's dollars). Workers on lower-incomes or living in regional and remote parts of the country were most likely to use the scheme, and in terms of identifiable expenditures – on average, those who withdrew their superannuation increased their spending on cash withdrawals from ATMs by $1,064, and gambling by $293. There was also a large increase in spending on other discretionary items such as take-away food and buying furniture.[7]

ISA analysis of the COVID-19 Early Release Scheme shows that:

- almost 725,000 Australians effectively drained their superannuation accounts under the scheme. 594,000 of those (or 82 per cent) were aged 35 and under,
- a 30-year-old who took out $20,000 under that scheme could have up to $80,000 less in retirement, and would need to draw an additional Age Pension entitlement of $50,000 in retirement,
- even those who did not access their superannuation will be impacted – because for every $1 withdrawn, taxpayers will have to pay an extra $2.50 in Age Pension costs over the years to come, and
- the cumulative cost of the scheme in forgone superannuation earnings tax and increased Age Pension payments is around $70 billion by 2085 – almost double the original quantum taken out.[8]

Some funds also reported that the scheme had an adverse impact on their returns, as they needed to increase their liquidity by carrying more cash – a lower performing asset – to meet withdrawal requests.

The inclusion of preservation in the objective therefore also supports the ability of funds to diversify portfolios and invest in a broad range of growth assets – including unlisted assets – for the long-term benefit of their members, as this is contingent on stable and reliable cash flows.

Further, in periods of economic uncertainty and market volatility, the long-term focus of funds means they can provide capital to support companies navigating short-term challenges. Enshrining preservation in the objective therefore helps to ensure funds can act as a counter-cyclical force for Australian financial markets during periods of economic difficulty and in ways that limit market volatility, which creates value for members in the long term.[9] It also avoids members locking in losses by withdrawing funds in a market downturn and missing the recovery as occurred for many members during the COVID-19 Early Release Scheme.

---

6 ISA, *Super Bad – Why Super for a House Will Hurt First Home Buyers* (February 2021).

7 Steven Hamilton, Geoffrey Liu and Tristram Sainsbury, *Early pension withdrawal as stimulus* (February 2023).

8 Joint analysis with Rice Warner using the SPROUT model. Nominal values are deflated by Government bond yields to convert into a present value.

9 For further information, see ISA, *Millions of Australians Own Big Super Report 2: How industry super investments support the Australian economy* (August 2022).

Existing hardship access provisions

Accessing superannuation early for other purposes is inconsistent with the preservation principle.

However, there may be exceptional circumstances where the benefit of giving people early access to their superannuation will exceed those of preserving balances for retirement – such as to allow people to respond to severe and immediate financial pressures, where no other reasonable alternative forms of support are available (including government support). This last point is critical because a person should not have to compromise their retirement when other forms of support – including social security or the public health system – should be available to assist with their immediate needs.

This is reflected in the current law, which allows for the early release of superannuation benefits on compassionate grounds and severe financial hardship grounds.

ISA supports these exceptions, however beyond them, the threshold for accessing superannuation early should be high and considered with caution, given the significant impact it can have on superannuation balances at retirement. Including preservation in the objective will accomplish this.

This is consistent with recent consumer research which shows there is strong community support for preservation, that is anchored in knowing that early access to superannuation is still available in dire personal situations, such as a medical emergency (i.e., the existing exceptions). In particular, 65 per cent of respondents agreed that people should only be able to access their superannuation before retirement if they are facing serious hardship.[10]

Equity

As it stands, too many people are being left behind when it comes to building their superannuation balances – especially women, First Nations Australians, and those on lower incomes.

In addition, the superannuation guarantee is not compulsory for some workers, such as part-time workers who are under 18 and gig workers. This affects their ability to achieve a dignified retirement.

ISA analysis of the most recent tax file data shows that women who are close to retirement have almost $50,000 less superannuation than men. In addition, women at all ages have about a quarter less superannuation than men.[11] This gender gap begins to increase significantly when women are aged between 30 and 45, coinciding with the time they take off to have and care for children.

Accordingly, ISA supports the inclusion of equity in the objective as it will provide guidance to policymakers around policies that may have different impacts on different cohorts and ensure any government support is targeted at those who need it most. Potential policies that will benefit from this guidance include:

- fixing unpaid superannuation by mandating the payment of superannuation with wages, given this issue disproportionately affects lower income members,
- extending the superannuation guarantee to all workers under 18 and gig workers,

---

[10] UMR research, March 2023.

[11] ISA analysis of 2019-20 ATO tax file data.

- the re-targeting of tax incentives in the superannuation system, which – even when combined with the Age Pension – are not especially well targeted, and
- paying superannuation on Commonwealth Parental Leave Pay, which remains one of the only leave entitlements on which superannuation is not required to be paid.

However, to do this effectively, the explanation of 'equitable' in the explanatory materials needs to expressly recognise that the superannuation system should aim to mitigate – or at the very least, not contribute to – existing structural inequities, including intergenerational inequity.

There should also be specific reference in the explanatory materials to improving outcomes for women, First Nations Australians, and those on lower incomes.

Sustainability

The cost of the superannuation system must be balanced against the benefits of the system. For example, Government support in the form of tax concessions has long been a key feature of the superannuation system. They are broadly designed to compensate people for not being able to access their superannuation savings until retirement and to encourage voluntary contributions to further reduce reliance on the Age Pension.

However, this support needs to be sustainable, so the next generation of workers are not unreasonably burdened supporting today's retirees. There has been significant commentary about this issue – particularly given Australia's ageing population and the recently released 2022-23 Tax Expenditures and Insights Statement shows that revenue forgone from these concessions amounts to about $50 billion a year (although these estimates are not strictly additive).

In this context, sustainability is also about ensuring policy changes meet community needs and expectations. Policy changes that do not do so risk diminishing confidence and support in the system, which is unsustainable in the long term. This should be expressly stated in the explanatory materials.

Including sustainability in the objective will therefore provide important guidance around policies relating to the level of government support provided to members in the system and will help ensure policy changes engender broad community support and confidence in the system.

Additional accountability mechanisms are needed

While there are some safeguards in the existing policy and parliamentary accountability processes, these are insufficient to ensure that future changes to the superannuation system are compatible with the objective.

The onus should be on the Government to explain in a proactive and transparent manner whether a proposed policy change is compatible with the objective, based on robust modelling and analysis. This is critical to help frame parliamentary and public debate and improve policy stability in the system going forward.

Retirement income statements

ISA therefore recommends that alongside legislating the objective, there should be a new requirement that the Government publish a statement ("a **Retirement Income Statement**") setting out how a proposed superannuation policy change is compatible with the objective, based on modelling and analysis around:

- the short-, medium- and long-term distributional impact of the proposed change on workers' retirement incomes (i.e., by income and balance quantiles and by gender) – to measure the impact on equity and whether the change supports the delivery of income for a dignified retirement,
- the long-term fiscal impact[12] – to measure the impact on sustainability of the system, and
- whether there is any impact on how funds invest – which can measure whether the change has an impact on preservation and the delivery of income for a dignified retirement.

The assumptions that are relied upon should be reasonable, defensible and account for the diversity and heterogeneity of individual outcomes, noting this has not always been the case. For example, the Retirement Income Review's findings were based on overestimated accumulated balances by assuming 'typical' accumulations that are incorrect, including:

- assuming all ages and income cohorts salary sacrifice additional superannuation contributions, when the RIR itself concedes "few middle- to lower-income earners make voluntary contributions to their superannuation"; and
- assuming a continuous 40 year working life as an employee with superannuation guarantee receipt that 60 per cent of males and 75 per cent of females will not achieve.[13]

Accordingly, the statement should also clearly set out the assumptions that are relied on for the modelling and analysis.

This statement should be made publicly available before the policy change is finalised and introduced into Parliament – for example, as part of a consultation paper on the proposed change or alongside

[12] This should not be based on revenue forgone estimates of superannuation tax expenditures, but rather should model behavioural impacts including shifting superannuation into other tax-effective forms of savings and owner-occupied housing.

[13] For further information, see ISA, *Assessing the Retirement Income Review (RIR) modelling* (March 2021).

exposure draft legislation. This will give parliament and the public an opportunity to consider the Government's position – including the modelling and analysis – and respond accordingly.

These statements would not be required for proposed policy changes that are minor and technical in nature, or clearly have no impact on retirement incomes, the Federal Budget or funds' investment strategies.

In our view, preparing these statements would not be an onerous exercise for the Government (or Treasury). The consultation paper indicates that interactions between policy proposals and the objective would form part of policy advice to Government – our proposal merely builds on this by ensuring that the policy advice is sound (that is, based on robust modelling) and made publicly available.

Post-implementation reviews

In addition, the Government should consider introducing a requirement to publish a report every five years that examines:

- all the superannuation changes that have been implemented in that period, and
- whether the impacts set out in the Retirement Income Statement relating to those changes have been realised or are on track to be realised.

This would effectively be a post implementation review that is intended to test the veracity of the Retirement Income Statements. This could be done as part of the Intergenerational Report, which already needs to be prepared every five years and has some overlap with what we are proposing.

These proposed accountability measures should operate in addition to the existing policy and parliamentary accountability processes. For example, where there is stakeholder concern about the veracity of a particular Retirement Income Statement, it would likely be appropriate for the relevant draft legislation to be referred to the Senate Economics Legislation Committee once it is introduced into Parliament.