



Superannuation in Retirement

Submission by the Australian Council of Trade Unions to the Treasury Consultation on *Superannuation in Retirement*

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Introduction

Since its formation in 1927, the Australian Council of Trade Unions (ACTU) has been the peak trade union body in Australia. There remains no other national confederation representing Australian unions. Together with its 36 affiliate unions, the ACTU represents 1.8 million trade union members around Australia who work across a broad spectrum of industries and occupations in both the public and private sectors.

The Australian trade union movement led the campaign to establish superannuation to provide workers with dignity in retirement. Through industrial action, bargaining and advocacy at both the Australian Conciliation and Arbitration Commission and the High Court, the union movement won the introduction of superannuation for many workers. The ACTU and affiliates were instrumental to the creation of the Accord which introduced universal and compulsory superannuation through the legislation of the Superannuation Guarantee (SG) by the Keating Labor Government.

In the 30 years since the establishment of universal, compulsory, fully vested and portable superannuation, the ACTU and affiliates remain dedicated to ensuring that all workers live and retire in dignity and out of poverty. To do so, unions remain active contributors to the superannuation system. Member-representative trustee directors, nominated by the ACTU and affiliates, ensure that members' interests are the priority of superannuation funds and that these funds continually demonstrate industry-leading, best-practice governance, investment performance and administration.

Adequacy of retirement income

Superannuation is an essential vehicle for ensuring that working people maintain their standard of living into retirement. Superannuation should supplement the Age Pension in retirement to ensure that working people can live with dignity in retirement. The principal objective of Australia's retirement income system is that no one should retire into poverty. To achieve this, retirees need a higher Age Pension and adequate SG contributions while working to protect against longevity risk.

Retirement income must be understood as superannuation and the Age Pension - and for some, but not all, the addition of home ownership and private savings. Annuities cannot be used to excuse Government from its responsibility to provide an adequate Age Pension and to legislate to ensure that the Superannuation Guarantee is adequate and universal.

While consideration of the delivery of retirement income is necessary and important, and accumulated superannuation savings are growing, it must be recognised that many workers are still retiring into poverty due to inadequate retirement incomes. This is due to the Age Pension being too low and retirees having inadequate retirement savings as a result of the Superannuation Guarantee (SG) being too low, superannuation not being paid to every worker on every dollar earned, superannuation not being paid on paid parental leave and superannuation and wage theft. Women and Aboriginal and Torres Strait Islander workers retire with less than half of the superannuation, on average, of non-Aboriginal and Torres Strait Islander men. Government should take urgent action to rectify this through increasing the Age Pension, increasing the SG to 15%, requiring payment of the SG on paid parental leave and requiring payment of the SG to all workers and on every dollar earned.

There are retirees, including many women, who deplete their superannuation accounts and are forced to rely on the inadequate Age Pension while living in poverty, skipping meals due to insufficient income and moving into shared accommodation to get by. While there are some who have not depleted their superannuation account by the end of their lives, the majority of these retirees have done so as they could not predict how long they would live and, due to inadequate superannuation account balances, were worried they could not afford to withdraw more given increasing life expectancies and the rising cost of living. Therefore, in addition to considering the design of retirement income products, the Government must increase retirement incomes to ensure they are adequate to provide dignity in retirement and a life out of poverty.

Tax reform of superannuation

The Retirement Income Review found that one third of the value of superannuation will be passed on as inheritance. Much of the value of superannuation passed on as bequests are part of estates with multi-million-dollar superannuation balances, used to avoid tax rather than meaningfully save for retirement. No person with millions of dollars in their superannuation account deserves tax concessions paid for by working people.

The union movement welcomes the Government's plans to reduce tax handouts for those with multi-million-dollar superannuation accounts. This will improve the sustainability of the superannuation and tax system and deliver better outcomes for working people.

Default retirement income products and member needs

The transition to retirement is challenging and complex and currently requires a significant input of resources from members. Therefore, the ACTU recommends consideration of the creation of default pension accounts to increase ease of engagement, access to information and administration from the perspective of the member, greater integration with the Age Pension, ongoing low administration fees, appropriate risk-adjusted investment to deliver ongoing returns, appropriate ongoing financial advice and a sustainable retirement income to manage longevity risk.

However, system design must acknowledge the diverse challenges facing retirees and therefore, provide trustee flexibility to ensure that default products can be designed to suit different member demographics, including members for whom the most appropriate financial decision is a lump sum withdrawal. While annuities may be appropriate for some retirees, no worker should be blindly offered or encouraged to purchase an annuity where that may not be the most appropriate way for them use their superannuation. Some retirees may be best served through a pension account, or through taking a lump sum for significant expenses during retirement like installations in the home to improve accessibility or paying off debts, or through a combination in a bundled product. However, it must be acknowledged that bundled products and annuities may better serve members with higher account balances, and it should be clear in final legislation that taking a lump sum is an important and legitimate option for certain members.

The importance of financial advice and education in superannuation for a dignified retirement

As the Discussion Paper states “The [Retirement Income] Review found that a lack of assistance, guidance or advice, low financial literacy, and inherent complexity makes it hard for people to make well-informed choices about their retirement income” (p.8). The ACTU agrees with this statement and therefore, acknowledges the invaluable role played by financial advice and planning within superannuation in supporting members to retire with dignity.

As outlined above, different members have different retirement needs and superannuation balances, and trustees must be empowered to provide members with advice that is relevant to members’ specific circumstances when accumulating superannuation, approaching retirement and when in retirement.

Superannuation and retirement products should deliver profits to members, not shareholders

For-profit actors will likely see the introduction of a financial decision at the point of retirement as another chance to rob the retirement savings of working people. There are many accumulation products in the market and for-profit actors capitalise on this choice overload. No one should be able to profit from workers’ retirement savings and the introduction of the Retirement Income Covenant and related retirement products should not become another opportunity for the predation of workers’ life savings. Superannuation, including retirement products, should be profit-to-member.

Conclusion

Superannuation, and the Age Pension, are essential to ensuring that working people maintain their standard of living into retirement. The principal objective of Australia’s retirement income system is that everyone should be able to live with dignity in retirement. To achieve this, retirees need a higher Age Pension and adequate SG contributions while working to protect against longevity risk. While consideration of the delivery of retirement income is necessary and important, it must be recognised that many workers are still retiring into poverty due to inadequate retirement incomes. Government should rectify this through increasing the Age Pension, increasing the SG to 15%, requiring payment of the SG on paid parental leave and requiring payment of the SG to all workers and on every dollar earned.

The transition to retirement is challenging and complex and currently requires a significant input of resources from members. Therefore, the ACTU recommends consideration of the creation of default pension accounts. However, system design must acknowledge the diversity of members and therefore, provide trustee flexibility to ensure that default products can be designed to suit different member demographics, including members for whom the most appropriate financial decision is a lump sum withdrawal.

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