

Superannuation in Retirement

Bringing more confidence to retirement.

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Master Electricians Australia (MEA) is the trade association representing electrical contractors recognised by industry, government and the community as the electrical industry's leading business partner, knowledge source and advocate. You can visit our website at www.masterelectricians.com.au

MEA are not finance professionals and do not provide financial advice, however, as the representative body of the electrical industry, it is important our current and emerging members are presented with the best opportunities to preserve and maximise their retirement fund returns. We have provided our response as general commentary in a collective voice based on the common understanding of a reasonably objective employee.

MEA commends the Government's efforts to improve Australia's superannuation scheme. Despite the overwhelming available fund options, there is very little understanding amongst the Australian population about the scheme, ultimately costing members billions in dollars annually.

MEA believes improved member interaction, greater market competition and enhanced uptake of lifelong products requires the following Government policy actions:

- Superannuation scheme syllabus in the secondary school curriculum.
- Improved minimum draw down rates.
- Standardised reporting framework reflective of IFRS characteristics.
- Education towards benefits of lifelong products.

The scheme is unfavorable towards certain working groups who have reduced opportunity to contribute towards their funds whether it be due to illness, family care obligations or nature of working contracts (for example, self-employed person, and contractors moving project-to-project with layover time between). Systems should be implemented to protect these cohorts and we advocate vocational education training in secondary school (VETSS) will likely assist in alleviating these discrepancies in STEM sectors through systemic and cultural change to the work environment.

With greater workplace participation, improved superannuation scheme education and importantly, accessible, understandable, and comparable fund reports, we would expect to see increased member participation, greater fund trustee accountability and improved market competition. Ultimately, we expect these policies to increase fund balances by retirement age and curate more confident spending throughout retirement.

Supporting Members to Navigate Retirement Income

1. Please provide comments on the issues facing members identified in this section.

Contractors

Many MEA members are self employed contractors and are commonly paid through drawings as opposed to wages and salary. This is particularly disadvantageous as there can be stints between projects/contracts with no work, therefore no income and therefore no contribution towards their superannuation fund. Additionally, force majeure events disrupt income capacity for contractors, for example, 2020 showed disparity in superannuation contributions between corporate workers (who continued working from home) and casual employees and self-employed persons who did not earn their regular income. The superannuation fund landscape is significantly more beneficial towards full-time permanent roles with salaries.

Women

Female workers are predominantly disadvantaged by the scheme “because the current superannuation system is linked to paid work, [meaning] it overwhelmingly disadvantages women who are more likely to move in and out of paid work to care for family members.”¹

2. What actions are industry or other participants in the community taking to address the issues identified in this section?

Diversity in the Workplace

The Science, Engineering, Technology and Math (STEM) industry is predominantly male dominated. MEA have been heavily involved with State and Federal Government consultations advocating that integrating and streamlining Vocational Educational Training in Secondary Schools (VETSS) with an equal weighting to Australian Tertiary Admission Ranking (ATAR) is the likely solution to diversity within STEM. We expect this to lead to greater participation of female and other non-traditional cohorts. With VETSS, we expect increased female STEM participation and in turn curate work environments which are more accommodating towards females, thereby improving flexible options to maintain an income stream which contributes towards their superannuation whilst maintaining role of primary caregiver. Similarly, we expect other non-traditional cohorts (e.g. cultural diversity, disabilities, living rurally and remotely) to excel with prosperous STEM careers resultant of the increased exposure, training, and support from a younger age. Overall, we expect VETSS to be a significant contributor towards improving superannuation inconsistencies for STEM tradespeople and enhancing income capacities which leads to higher superannuation contributions throughout accumulation phase.

3. Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should the Government consider?

MEA advocates for Government to be proactive in improving the Scheme. We believe much greater education is necessary to increase the benefits of superannuation and vastly enhance the availability of funds upon retirement. We also appreciate that expenditure during retirement can be daunting, especially for those that have had minimal disposable income throughout their working life, highlighting the need to provide greater guidance for minimum-draw down rates.

Too Much Choice with Too Little Education

Understanding superannuation is as equally important as understanding tax and budgeting to which MEA advocate the answer is for Government to implement greater education policies. For many young members, superannuation is nothing more than a frustrating withdrawal of disposable income while they focus on purchasing houses, repaying debt and managing cost-of-living. Appreciation for the significance that careful consideration towards superannuation at a young age and the impact it has on their quality of life at a later stage is usually very limited. Government should implement a superannuation syllabus within the secondary school curriculum. Students will be exposed to lessons with long-term practical benefit and become more purposeful in selecting the best superannuation to maximise their retirement funds. We further expect introduction of the syllabus to institutionalise the idea that superannuation is an income upon retirement as opposed to an intangible investment.

Costly Multiple Accounts

There are currently “10 million unintended multiple accounts ... that's a third of all of them”² which is “costing members’ balances \$2.6 billion a year in unnecessary fees, from [unneeded] management and insurance policies”³. We argue secondary school education will significantly

¹ ‘The gender gap in retirement savings’, Australian Human Rights Commission [2011] < [The gender gap in retirement savings | Australian Human Rights Commission](#) >

² Collett, M, ‘The problems with superannuation – and what the Government’s been told to do about it’ ABC News [29 May 2018] < [The problems with superannuation — and what the Government’s been told to do about it - ABC News](#) >

³ (n3).

address this. Many of these unintended accounts are the result of new employment throughout ones' working life, however, with secondary school education students would enter the workforce informed about superannuation decisions which will likely result in less arbitrary shifting between funds.

Re-Developing the Minimum Drawdown Framework

MEA supports re-developing the minimum drawdown rates framework based on savings, lifestyle and expected necessities. No longer working to receive money combined with the uncertainty in how long one will live can be daunting for many retirees, especially those without family support. To assist retirees to live a better quality of life and be comfortable spending their retirement money, MEA believes tailored guidance for minimum draw-down rates would significantly enhance member confidence in spending their superannuation.

To go a step further, Government could create a pro-active tool which members can access throughout their accumulation phase to analyse what their minimum drawdown would be based on saved funds to-date. Not only do we expect this to change younger members' perception of mandatory superannuation contributions from being involuntary expenses and instead an investment into their future selves, but also assist in minimising an overly frugal mindset by the time of retirement - they will already know what they can expect to drawdown weekly (making it more comfortable to view superannuation as an income upon retirement) and encourage more savings/investing at a younger age if they believe they need more than what their superannuation is likely to provide. This is a way to encourage goals and smart investing/saving.

Supporting Funds to Deliver better Retirement Income Strategies

[Please provide comments on the need to support competition and product comparison across the services and products funds provide in retirement, or the need for greater consumer protection.](#)

Common underlying problems impeding superannuation competitiveness includes underperforming funds, high fees, unintended multiple accounts and seemingly difficult access to understandable and comparable reports. Unfortunately, many Australian superannuation members have very limited understanding of the scheme which MEA believes is a large contributor towards insufficient market competition. Limited understanding with an overwhelming selection of funds essentially reduces accountability of fund trustees and disincentivises the most competitive package options being generated for members.

Market competition is derived from competing businesses striving to gain the largest market share of customers. However, this is usually linked to the members/customers understanding the market. For example, phone service customers know to search for the cheapest deal balanced with maximum service they desire (i.e. lowest price available for unlimited data). Customers knowing what they want and phones service providers competing to meet those market demands creates successful market competition. Conversely, many members contribute to the superannuation scheme by mere fact it is compulsory; many are oblivious to and/or indifferent towards their retirement fund needs during accumulation phase creating less market demand and therefore less market competition. The solution is to educate members from a young age curating an informed generation which will lead to more market demand, greater market competition and higher trustee accountability.

Despite the "deputy chair of the prudential regulator ... dismiss[ing] competition concerns in the superannuation industry amid the rise in mergers and acquisitions, claiming consolidation is

'beneficial' for members"⁴, MEA does not agree. As more funds merge, we risk heading towards an oligopoly market creating stale market competition. It further removes the layer of third-party oversight generated through smaller superannuation funds and ultimately impedes market competition. We insist the solution is greater awareness through education.

What role should industry or other groups in the community play to support consumer protections and competitive products and services in retirement? What actions are being undertaken already?

Secondary Schools

MEA believes implementing a limited superannuation scheme syllabus into the secondary school curriculum will generate systemic and cultural change. Educating our younger generation on not only the impact superannuation funds have during retirement but also how to analyse the market throughout their accumulation phase will likely lead to better informed and more meaningful fund selection throughout employment. Greater understanding generates more demand leading to greater market competition. We expect this to create greater fund trustee accountability as members become increasingly educated towards understanding fund options, performance results and costs.

Employers

As part of the onboarding paperwork package new employees are provided, access to a centralised forum of fund reports should be provided along with payroll paperwork. It should be a requirement to ensure employees have had an opportunity to assess the reports and make an informed decision about which superannuation scheme they wish to select.

Of the approaches identified, what should be prioritised and what risks should be considered as policy is developed? What other approaches, if any, should Government consider?

Standardised Product Disclosure Framework

"Members get excessive choice at the expense of less comparability and even highly engaged and financially literate members struggle. Many would like more relevant and simpler information to help them find and compare products."⁵

MEA supports standardised framework to improve member understandability and improve market competition. Stock markets are a comparable example where majority of investors rely on IFRS compliant financial statements which provide standardised financial information to produce a true and fair representation of entities' financial performance and position. The reports are easily accessible, comparable and understandable to support an informed decision maker. It is astonishing such standardised reporting requirements do not exist for superannuation funds given they are also an investment for ones' future.

It is therefore logical for the superannuation scheme reporting framework to reflect the IFRS characteristics of timeliness, verifiability, understandability, accessibility and relevancy. This will better incentivise fund trustees to maximise member benefits as standardised reports create a greater level of transparency and accountability.

Educating society at a young age in secondary school regarding not only the importance of superannuation funds but also how to understand the system along with continued access to standardised reports (reflective of IFRS characteristics) should address concerns raised in the consultation paper regarding reporting throughout the accumulation phase. Superannuation funds will then likely become increasingly prevalent in members' decision making throughout

⁴ Kadib, C. 'Competition far from a concern in super industry: APRA' InvestorDaily [2023] <<https://www.investordaily.com.au/superannuation/53445-competition-far-from-a-concern-in-super-industry-apra>>

⁵ (n5), 18.

accumulation phase with greater consideration given towards maximising their balances. Tax is a topic many employees, especially those on wages, give a high level of importance to understanding given its impact on disposable income; we believe education and standardised reporting will curate the same level of concern towards superannuation.

The framework should at the very least include:

- Underlying assets in the fund
- Asset return of interest/fund performance
- Standard risk measurement
- Scorecard approach towards the funds' three objectives.

Making Lifetime Income Products More Accessible

Please provide any comment on the barriers in the supply and demand for lifetime income products.

Disincentivising Factors

The following list identifies some barriers preventing successful uptake of lifelong products:⁶

- **Behavioural Economics:** Despite the low likelihood of early death during retirement, members remain risk-averse with their superannuation investments and avoid lifelong products in fear of missing out on a significant number of payments due to early death. The problem is exacerbated with the inability to withdraw from the lump sum as desired/needed.
- **Ineffective Investment:** Members can be unaware/incompetent towards the option of splitting their investment strategy (i.e. account based and lifelong products simultaneously). They invest into only one strategy and therefore chose the option which is (a) more familiar and (b) provides access to withdrawal of principal investment (i.e. account-based pension).
- **Fear of Insufficient Capital to Fulfil Lifelong Promise:** Members fear the guarantee of lifelong income will not be realised due to insufficient fund capital which would leave them without any retirement funds. However, we note capital levels are monitored by the Australian Prudential Regulation Authority (APRA) to which educating members about would be a solution.
- **Prohibited from Withdrawing from Principal Investment:** Retirees fear they will need more money which they cannot access if investing through a lifelong product.⁷ Furthermore, members have saved their entire lives thus the idea of yet again being prohibited from spending their superannuation savings is unattractive.

What actions are industry or other participants in the community taking to assist retirees to better manage the risks for retirement income?

Industry and Government

The 'death benefit', introduced by Challenger in 2010, was so successful, that Government implemented it into the retirement product regulations. Its purpose is to provide members with a sense of security that their initial investment has not been wasted in the event of an early death:

⁶ Minney, A., 'Five things you didn't know about annuities' Challenger [2023] <https://www.challenger.com.au/about-us/media-centre/retirement-income-research/five-things-you-didnt-know-about-annuities>

⁷ 'Annuities' MoneySmart <<https://moneysmart.gov.au/retirement-income/annuities#:~:text=Age%20Pension%20entitlement.,The%20difference%20between%20an%20annuity%20and%20an%20account%20based%20pension,includin%20shares%2C%20property%20and%20bonds.>>>

"[death benefit] ... which provided a potential full refund of the initial premium in case of early death. The low risk, but disproportionate customer concern, means that providing a death benefit can provide insurance against the risk of early death and dramatically improve the overall appeal of the lifetime annuity to retirees."

Educating members about the 'death benefit' and APRA will likely go a long way in promoting lifelong products.

What policy approaches should be taken to support use of lifetime income products to address the risks to retirement income? What risks should be considered?

Risk Pooling within Retirement Products

A potential barrier to successful uptake of lifelong products is widespread misunderstanding of how annuities work, and the pooling mechanism designed to ensure successful lifelong income. "Insuring longevity risk and pooling investments, retirees can avoid running out of money and have an income for life"⁸. Government should commit resources towards educating members how annuities operate to gain member confidence. Utilising how insurance operates as a comparable example will likely make annuities an easily comprehensible concept. As mortality increases, it is important our retirees live a comfortable retirement and be confident they are making a safe investment.

However, the inability to withdraw the principal investment is a significant disincentive. Especially given the typical mindset that superannuation money is 'untouchable' until retirement makes this an undesirable option as it's a lumpsum that members yet again cannot touch. MEA believes the optimal mix to promote spread investment across superfunds, account-based pensions, and lifelong options. Not only does it give a sense of reduced risk, but also allows greater access to principal fund and greater returns as account based is dependent on the equity market.

Government Bail Out

We do not support Government Bail Out as a prime policy response as this creates the risk of a 'too-big too-fail' mentality which we saw in the lead up to the 2008 Global Financial Crisis. Such mentality incentivises riskier strategies by trustees and reduced engagement by members with comfort in knowing Government will provide security mechanisms. It reduces accountability from both members and fund trustees; an outcome which should be avoided.

⁸ Ordord, D., & Rowe, P., 'SHARING THE RISKS', Optimum Pensions [2020] <https://www.superannuation.asn.au/sharing-the-risks/>

Conclusion

MEA believe insufficient education and understanding towards Australia's superannuation scheme is a significant contributor towards:

- Insufficient market competition
- Multiple superannuation accounts
- High fund fees
- Limited product spread.

MEA argues implementing a basic superannuation scheme syllabus into the secondary school curriculum will likely create a generational change in both attitude and understanding towards superannuation. Currently, majority of younger members during the accumulation phase view superannuation as a mandatory deduction of income as opposed to recognising its significance for future quality of life and therefore underappreciate the impact their 'decision today' has on their fund balance at retirement. Exposing students to superannuation will better position them to analyse funds upon entering the workforce and have better knowledge to create more market demand. In turn we can expect this to not only increase market competition, but also enhance trustee accountability regarding strategies, performances, options and costs as members become more knowledgeable. We believe this will also assist with engraining the mindset once retirement is reached, superannuation is a source of income and no longer an intangible investment.

We also believe that measures need to be taken to ensure the self-employed and the casually employed are incentivised to make contributions during their productive working years.

In concert with secondary school education, a standardised reporting framework, akin to the IFRS reporting characterises should be implemented. With better educated members (through secondary school) easy access to understandable, reliable and comparable reports will provide better informed scheme decisions throughout accumulation and retirement phase. This inherently increases transparency and therefore accountability of fund management and performance whilst increasing market competition as consumers begin to analyse reports and react accordingly. Superannuation schemes are every bit as much of an investment as shares and is therefore important that members are provided with opportunity to make informed decisions.

We argue that consolidation stifles market competition as less choices are available, risking an oligopoly market. We encourage consolidation policy to be avoided, but if mergers become more of a prevalent issue, standardised reporting needs to be available to maintain transparency and accountability.

Finally, the minimum draw-down framework should be re-developed. Spending money without a regular stream of cash inflow to top up the savings can be frightening, and the current guidelines appear to be somewhat misleading. It is classic behavioural economics that spending will naturally increase as reflective guidelines are provided on what can be sustainably withdrawn.

MEA looks forward to the future of Australia's superannuation scheme and are available for any further discussions.