Future of Work

Superannuation and Retirement Incomes

Background Paper

ACTU CONGRESS 2003

Quick Fact:

The current SG minimum contribution of 9% is clearly inadequate. A person on average ordinary time earnings over 30 years would receive around 60% of net pre-retirement income, assuming no changes to the current pension arrangements. Almost half this income would be provided by the pension and it would be well below the generally accepted target of 70-80% of net pre-retirement income.

CONGRESS 2000

1. At Congress 2000 the union movement reiterated its support for industry superannuation funds and in particular resolved to support:

    - increasing contribution levels to 15%, without trade-offs, over an appropriate period of time;
    - the maintenance of superannuation provisions in awards including regulation of fund choice while at the same time ensuring that employers do not unduly influence an employee's choice of superannuation fund;
    - contributions being made on a monthly basis and requiring fund managers to notify members of non-compliance regarding contributions;
    - regulations to prohibit the charging of commissions on Superannuation Guarantee Charge (SG) contributions;
    - full and transparent disclosure of all fees and charges by funds so as to allow for accurate comparisons to be made; and
    - the rights of couples in same sex relationships to be treated on equal terms as other couples in the superannuation system.

DEVELOPMENTS SINCE CONGRESS 2000

Minimum Contribution Levels to be Increased to 15% Through Bargaining and/or Legislative Change

2. Some unions have included superannuation in their bargaining strategy. At least one union has negotiated the option of taking part of a wage increase in the form of superannuation.

3. The Federal Government has introduced legislation for a co-contribution of up to $1000 for employees earning less than $20,000, with this tapering off to a cut-off point of $32,000. This proposal has been criticised on the grounds that it would be attractive only to those low-paid workers with a higher-paid spouse or parent. The Australian Democrats have proposed extending the co-contribution concept to workers on average weekly earnings.

Continued Regulation of Fund Choice Through Awards and Agreements

4. The Government has not been successful in introducing choice of fund, in spite of the introduction of a new Bill with a modified scheme. Awards continue to specify superannuation funds, and have not been significantly weakened as a result of award simplification.

Monthly Payment of Contributions

5. The Government has legislated to require superannuation contributions to be paid quarterly, rather than annually, as was previously the case.

Banning Commissions on SG Contributions

6. The idea of banning commissions on SG contributions has been strengthened by the publicity given to the poor service provided by commission-driven financial planners, and is an option being considered by the ALP.

Full and Transparent Disclosure of Fees and Charges

7. A key reason for the Federal Government's failure to achieve passage of its choice legislation has been its inability to satisfy the ALP and the Australian Democrats that there would be sufficient disclosure of fees and charges.

Equal Superannuation Rights for same Sex Couples

8. The Federal Government's refusal to agree to equal treatment for same sex couples, apparently because of the cost of benefits in the

public sector as well as ideological concerns, has prevented passage of its choice legislation.

ISSUES FOR POLICY AT CONGRESS 2003

Adequacy

9. There is now a general consensus amongst stakeholders and experts, reflected in the report of the Senate Superannuation Committee on *Superannuation and standards of living in retirement*, that adequacy should be assessed in terms of post-retirement income replacement, rather than the rate of minimum contributions.

10. The Committee found that there was general agreement that a desirable target was 60-65% of gross pre-retirement income, although this should be higher for those on lower incomes.

11. The Committee also found that there were large groups of employees who would not achieve this target, particularly women and others with a broken work pattern, together with the "baby boomers" and those who entered the workforce well before the full implementation of the SG.

12. There are a number of issues to be addressed in relation to increasing superannuation savings for employees. A particular concern is that the Government seems to be focussing on measures such as increasing the preservation age and even the pension age, rather than adequacy of savings - a policy of "work until you drop".

Maintenance of the Pension

13. Even if steps are taken to increase superannuation contributions and final benefits, this will be of little utility if it is accompanied by changes to the conditions of the age pension: such as reducing access to the age pension via alterations to the eligibility age or the means testing criteria; or reducing the pension amount from the current 25% of average weekly earnings.

Contributions

14. The current SG minimum contribution of 9% is clearly inadequate. A person on average ordinary time earnings over 30 years would receive around 60% of net pre-retirement income, assuming no changes to the current pension arrangements. It should be noted that almost half this income would be provided by the pension and that it is well below the generally accepted target of 60-65% of <u>gross</u> pre-retirement income or 70-80% of net pre-retirement income.

15. Bearing in mind the large proportion of the workforce who will not have received the full SG rate for their whole working life or who will not have worked full-time for 30 years, it is clear that higher contributions are required.

16. Increased contributions could come from employers or employees. Government could contribute to higher contributions through changes to the taxation arrangements which apply to superannuation or through direct contributions.

17. The exemption from the SG of employees earning less than $450 per month, together with those under 18 working fewer than 30 hours per week, is a key reason why one third of workers whose annual income is below $20,000 do not have superannuation, compared to less than 10% of all employees. With the SG at 9%, low paid employees, most of whom are casuals, will receive a significant benefit from the abolition of the threshold, even after administration costs of around $1 per week are deducted. Further, while the exemption continues, employers of casuals and young people are receiving a significant incentive to keep their hours of work and incomes low.

Taxation

18. Australia has the only superannuation system in the world which is taxed at three points: going in, on the way through, and at the final benefit stage. While logically the most equitable means of taxing superannuation is at the member's marginal rate at the time of taking the benefit, a dramatic change in this direction is unlikely, given the effect on the short and medium term budgetary position.

19. Labor is committed to reducing the contributions tax of 15% either by reducing it to 10% for employees aged over 40, or reducing it to 12.5% for all employees.

20. Even within the parameters of current revenue from superannuation tax, there are serious inequities. ACOSS has calculated that the tax subsidy per dollar of employer contributions is highest (33.5 cents) for those earning $60-85,000 and lowest (2-3.5 cents) for those earning $6-20,000. ACOSS proposes replacing the contributions tax and the surcharge with a tax based on the member's marginal rate, together with a flat dollar rebate targeted at low and middle income earners.

Fees and Charges

21. The levels of fees and charges paid by superannuation fund members can have a significant effect on their final benefits. Retail funds, in particular, charge additional commissions or fees which can have a dramatic effect on final benefits. It has been estimated that an

additional 1% annual charge over standard industry fund fees could reduce a final benefit by 25% after 40 years[1].

Superannuation Funds

22. The Federal Government is continuing its efforts to weaken industry funds in favour of the for-profit retail funds operated by the banks and the life companies, particularly through its continued advocacy of its choice legislation.

23. Although the industry funds continue to provide amongst the best returns, with the lowest fees, while leading the way in some innovative and successful investment strategies, they are rarely recommended by financial planners giving individual advice, or by the consultants advising corporate funds wishing to roll into another fund.

24. The refusal of the industry funds to pay commissions to financial planners or to offer inducements to employers is a key reason for their preference for the higher cost and lower return retail products, even though this is not in the interests of employees.

25. For this reason, protection of workers' superannuation interests through awards and agreements, as well as providing for better legislative protection for fund members as consumers of superannuation products is imperative.

26. Efforts to build a financial institution able to offer a full range of financial services responsive to the needs of workers and their families will assist the funds to better promote their low-cost model. Members' Equity, owned by around forty superannuation funds, is well-placed to become this institution.

Investment

27. More than half of all Australian superannuation assets are invested in the domestic and overseas share markets, a strategy which has seen unprecedentedly high returns over the last two decades. It is noteworthy that most workers who achieved superannuation through their award or the SG in the late 1980s did not experience a falling market or negative returns until 2001.

28. The current negative markets provide a good opportunity to reflect on fundamental investment issues in the context of the purpose of superannuation.

29. Superannuation investment is patient capital - it is for workers' retirement, and the primary focus should be on stable positive returns

[1] This assumes $100,000 initial balance and a real annual return of 3% return.

to ensure that different groups of workers are not winners or losers depending on where in the investment cycle they retire.

30. Questions for consideration and debate include:

- Should long-term gains achieved through real growth be preferred over short-term speculative returns based on market "buzz"?

- Is there a place for more co-operation with governments to provide capital at low risk and steady returns for economic and social infrastructure?

- Should funds develop more specific criteria for investment in companies, including their place in the "real" economy, their governance and their adherence to economic, social and environmental standards?

- Should funds aim for steadier returns, accepting lower returns at the high points of the investment cycle in return for higher returns at the corresponding low points?

- Should funds shift from listed equities to greater long-term investment in private companies with growth potential?