

**SOCIAL JUSTICE POLICY (PART)**  
**ACTU Congress September 1995**

**5. SUPERANNUATION**

- 5.1 One of the key gains of the social wage process, which ranks with medicare and improvements in family payments is the extension by legislation of superannuation to all employees. This followed a well targeted process of direct negotiation with employers in a range of key industrial sectors, eventually resulting in a willingness by the Industrial Commission to arbitrate on superannuation in the weaker areas of industry.
- 5.2 The initial move to extend access to superannuation was achieved by the introduction of award superannuation in the mid-1980's to large areas of the workforce previously denied superannuation, many of whom were women workers or lowly paid.
- 5.3 The legislated 9% superannuation guarantee levy, to be phased in from 1 July 1992, will ensure that most employees have access to superannuation as provided for in the following table:

	Employers' Payroll < \$1 million	Employers' Payroll > \$1 million
1 January 1993	3	5
1 July 1994	4	5
1 July 1995	5	6
1 July 1996	6	6
1 July 1997	6	6
1 July 1998	7	7
1 July 1999	7	7
1 July 2000	8	8
1 July 2001	8	8
1 July 2002	9	9

- 5.4 The Government's actions on superannuation were not only important on equity grounds but also from a revenue point of view. Australia could not have continued to support its age pension requirements through its existing taxation system due to the significant ageing of the population, longer life expectancy, growing trend to early retirement and the adequacy needs of people in retirement.
- 5.5 The ACTU recognises that superannuation can provide a complete retirement income for higher income workers and those with historical long term access to good schemes. But for most workers who earn below AWE, especially women who have had less access to schemes because of different working patterns and past discrimination in scheme membership rules, super will only provide a supplement to the age pension.

- 5.6 By prescribing minimum contribution levels, the legislation will address the position of those employees with inadequate levels of superannuation. It is not intended to generally increase the level of superannuation contributions for those already receiving in excess of the legislative minimum. In this regard the ACTU will not embark on any general campaign for improvements in superannuation beyond the legislative minimum. However, it is acknowledged that superannuation improvements may form part of a broader wage settlement in an industry or at a workplace as part of an enterprise/workplace agreement.
- 5.7 The legislation is designed to complement rather than replace the provision of award based superannuation. It is the intention of the parties that the award system will continue to determine a range of issues associated with the provision of occupational superannuation including the question of the appropriate fund for the payment of employer contributions. The parties will support increasing the level of contributions specified in awards in line with movements in the prescribed standard of superannuation guarantee.
- 5.8 In the context of jobs being the focal point of this agreement, the scheduled timing of increases in the prescribed minimum standard of superannuation will be dependent upon job growth and achieving inflation rates comparable with those of our major trading partners.

### **Superannuation Coverage**

- 5.9 All employees now have a basic superannuation entitlement. This is an historic achievement with significant economic, social and industrial implications. The June 1986 National Wage Case decision granted the ACTU claim - supported by the Commonwealth Government - for 3% award superannuation. From July 1992, the Superannuation Guarantee Charge legislation extended compulsory employer contributions to all employees. The Superannuation Guarantee Charge (SGC) provides for an employer contribution of 9% phased in by 1 July 2002.
- 5.10 The SGC means all employees have basic superannuation cover. There are limited exemptions, eg casuals earning less than \$450 per month. Penalties on employers for non-compliance are severe. They include loss of taxation concessions on contributions, penalty interest and administration charges.
- 5.11 In the decade up to the SGC, growth in the spread of superannuation was largely attributable to the inclusion in awards of the 3% superannuation contribution. In August 1983 about 40% of employees had superannuation. By August 1992, this had doubled to 82% of employees. Most of the growth in superannuation cover since 1983 occurred after 1988 when 51% of employees were covered.
- 5.12 The following table summarises the extension of superannuation cover between August 1983 and August 1992. It shows that notwithstanding the big increase in cover over the decade, certain groups, eg women and part timers and casuals, were still disadvantaged.

	<b>1983</b>	<b>1992</b>
Employees with superannuation cover	40%	82%
Females (males) with no cover	76% (50%)	23% (13%)
Private (public) sector employee with no cover	40% (64%)	21% (8%)
Part-timers & casuals (full timers) with no cover	92% (45%)	51% (8%)

### **National Savings**

- 5.13 The Fitzgerald Report released in July 1992 reviews Australia's savings performance. Fitzgerald shows national savings has fallen to 16% of GDP - the lowest level this century apart from the two world wars and the Great Depression. Consequently, Australia has an excessive reliance on overseas debt, a big constraint on investment, jobs and economic growth and will be unable to pay for its aging population's retirement. Fitzgerald argues the savings short fall is substantially structural as Australia's savings rate has been 5% below the OECD average for the past three decades.
- 5.14 Fitzgerald proposes a national savings goal of 22% - 23% of GDP and identifies superannuation as the key element of private savings for attainment of this goal. He says for superannuation to provide retirement income with no age pension, a contribution of 18% of earnings is required. Typically this will fund a retirement income equivalent to 60% of income at retirement. As an interim, Fitzgerald argues for 12% superannuation contributions, ie topping up SGC by 3% compulsory employee contribution.
- 5.15 In the context of a satisfactory agreement being reached between the Federal Government and the ACTU the union movement could support compulsory employee superannuation contributions of up to 3% of salary phased in over a reasonable time period provided that appropriate arrangements are in place to minimise the impact on workers' take home pay.
- 5.16 In the development of superannuation the ACTU and affiliates support the need for:
- C action to protect superannuation account balances from erosion by fees and charges. We support Government calls for funds to protect small account balances, with the availability of the Australian Taxation Office (ATO) collection mechanism where this is not possible;
  - C funds to consider a diversified investment strategy which assists in Australia's economic development and growth consistent with the retirement income objectives of members, for example, development capital, infrastructure and the capital needs of small companies;
  - C innovative options for accessing superannuation savings to assist workers with home ownership, such as discounted home loans through the ACTU - National Mutual Superannuation Members Home Loan scheme; and
  - C the Superannuation (Industry) Supervision legislation, in particular the prudential requirements on Funds, treatment of surplus, protection of members and dispute resolution process.

### **Industry Superannuation Funds**

- 5.17 Industry superannuation funds have about \$6 billion of the total superannuation assets of about \$160 billion. About 3 million Australians are members of the 100 or so industry funds. Industry funds are multi-employer funds and typically were established by unions and employer associations in the last 6 years for the 3% award superannuation. The typical account balance is less than \$2,000 - \$3,000.
- 5.18 Industry funds have transformed and improved the superannuation industry in five key ways:

- (i) By providing universality of cover to all employees. They made superannuation portable and assisted labour market mobility;
- (ii) By providing full vesting. This pressured Government and other superannuation providers to improve vesting standards generally;
- (iii) By strengthening the role of employees in the stewardship of superannuation. Industry funds have always been jointly controlled by employers and employees (though their unions);
- (iv) They have been low cost, especially in administration. The average cost of an active member's account for seven of the largest industry - accounting for well over half of industry fund members - funds is 72 cents per week. The Senate Select Committee on Superannuation Charges (August 1992) said "The simple nature of these funds and the economies of scale that obtain are reflected in their low cost structures", and
- (v) They have achieved competitive, and in many cases superior investment performance than comparable investments. For example, the average return net of CPI of seven of the largest industry funds over the 4 years to 30 June 1992 has been 8.4% per annum, compared to 4.8% per annum for balanced pooled funds and 5.2% for self invested funds.

- 5.19 It is estimated that by the end of the decade superannuation fund assets will grow over \$400 billion thereby creating the basis for a massive increase in savings. Nearly all of this growth will come from the SGC. Competition for the superannuation dollar will intensify. Banks are offering superannuation pass book accounts. Life offices, insurance companies and insurance agents have master trusts, increasingly with investment choice for the member. Although the traditional industry funds have a cost advantage, their competitors are working hard on getting their costs down too. They are being more innovative than many industry funds in providing additional services.
- 5.20 Industrial relations legislation in certain states, eg Victoria and NSW, and a recent High Court decision have limited the role of industrial tribunals in making awards specifying which funds superannuation contributions are to be paid into.
- 5.21 The High Court decision in the Finance Sector Union case in July 1993 means, in the absence of special circumstances, the Australian Industrial Relations Commission is precluded from making awards specifying the fund into which non-union members award superannuation contributions are paid. In the private sector, non-unionists outnumber union members by over two to one.
- 5.22 The freedom of choice issue is two edged. Diminution of the role of industrial tribunals means an important safeguard for employees is weakened. The Senate Select Committee on Superannuation Charges said: "The paucity of information available to consumers on fees and commissions, coupled with cases of excessive charges and unethical sales agent conduct have aroused consumer concern about the practices of the superannuation and life insurance industry and led to calls for reform in this area."
- 5.23 Preliminary research on attitudes to superannuation and in particular to industry superannuation funds shows most workers, whilst favourably disposed to increasing their savings through superannuation and using these savings in retirement do not know about industry superannuation funds.

## **22. RETIREMENT**

- 22.1 On going improvement in the adequacy of the age pension, the objective being 35% of total average male weekly earnings.
- 22.2 Where the Government is not able to deliver an across the board increase in the age pension, priority for targeted assistance should be given to those fully dependent on the age pension and those in receipt of rental assistance.

### **Priorities For Action**

- 22.3 The SGC means unions have won on superannuation - Australia now has universal superannuation guaranteeing basic coverage for all employees. The fundamental issues for unions and their members in the 1990s are:
- (i) Should the basic cover be increased? If so how should this be done in an economically, socially and industrially responsible way?
  - (ii) How do the industry funds maintain their role in providing low cost superannuation independent of the traditional financial institutions?
  - (iii) As the level of personal savings increases through superannuation, the demand for additional services will increase. How do industry funds meet this demand?
- 22.4 With these issues in mind, Congress confirms the union movement's ongoing commitment to the spread, reform and development of superannuation and specifically:
- (i) Calls on affiliates to ensure that superannuation is adequately provided for in all awards and agreements;
  - (ii) Calls on the Federal Government to ensure that adequate resources are devoted to the enforcement of employer obligations regarding superannuation;
  - (iii) Determines to pursue further reform of scheme design where appropriate, together with encouraging voluntary employee contributions and enhanced employer contributions at a time and in a manner consistent with our wages and other strategies;
  - (iv) Calls on ACTU affiliates to support the Government's superannuation contribution charge by ensuring that at least the minimum prescribed level of superannuation contributions are incorporated into all agreements and awards;
  - (v) Calls on affiliates to ensure joint representation of employers and award workers on all superannuation fund Boards, in particular company funds;
  - (vi) Calls on affiliates to promote trustee membership of the Australian Institute of Superannuation Trustees a major source of trustee education and information;
  - (vii) Calls on affiliates to consider a diversified investment strategy consistent with the investment mandate and objectives of each fund; and
  - (viii) Calls on affiliates to support rationalising the number of funds in order to maximise economies of scale and benefits/services available to members.

- 22.5 Congress welcomes the Federal Government's decision to establish in its Superannuation Industry Supervision legislation standards for the operation of defined benefit funds in the control of surpluses or deficits maintained within those funds and for the repatriation of surpluses.
- 22.6 Congress acknowledges the Superannuation Industry Supervision legislation will go a long way in establishing fair and reasonable standards for defined benefit funds. Congress reaffirms its view:
- (i) That funds should regularly disclose details to fund members of the financial standing of the fund (including any actuarial surplus or deficiency);
  - (ii) At the time of winding up, or other appropriate times, defined benefit funds should be required to repatriate all accrued funds, including surpluses, to the members of the fund on an equitable basis;
  - (iii) Congress calls upon the Federal Government to co-ordinate the establishment of processes under State Corporate law whereby outstanding superannuation contributions are ranked equally with wages at times of receivership, bankruptcy or winding-up;
  - (iv) Congress calls on the Federal Government to ensure the penalties on non-complying funds under the Superannuation Guarantee Charge and Superannuation Industry Supervision legislation are enforced. Congress believes that it is inappropriate in cases where the trustee or employer has failed to comply with ISC regulations for fund members to be penalised; and
  - (v) Congress believes it is important that superannuation fund members are protected. Accordingly, Congress welcomes the Government's decision to legislate as part of its Superannuation Industry Supervision legislation a dispute process whereby fund members can challenge the decisions of trustees in an effective and facilitative manner.

### **Equity**

- 22.7 Congress recognises that many workers spend significant periods of their working lives outside paid employment due to ill-health, unemployment and other factors. In particular, many women spend periods in unpaid employment because of their family responsibilities, including the care of infants, children, sick family members and aged parents.
- 22.8 Congress declares that such workers whose accumulation of occupational superannuation has been limited, should not be prejudiced in their financial security in retirement.
- 22.9 Accordingly, Congress calls on the Federal Government to examine means of providing increased current funding to ensure the future financial security in retirement of all Australians.
- 22.10 Further, Congress calls on all Governments to fund presently accruing liabilities in their own employees' superannuation schemes, and to develop measures to fund existing unfunded liabilities.
- 22.11 The regulatory and tax concessionary arrangements associated with superannuation, in particular RBL's, must be constantly reviewed to provide greater equity in their application.

### **Prudential Supervision**

- 22.12 Congress acknowledges the need to protect the retirement savings of workers and to maintain public confidence in superannuation as an appropriate vehicle for ensuring a higher standard of retirement income than would be possible by reliance on the age pension alone.
- 22.13 Congress calls for an increased emphasis on the accountability, financial stability and efficiency of the superannuation industry.
- 22.14 Congress welcomes the initiatives of the Government through its Superannuation Industry Supervision legislation in seeking to ensure that there is an adequate prudential framework to improve the security of funds invested in superannuation. In particular Congress supports measures directed at:
- (i) Ensuring adequate information is provided to members and potential members including information on a fund's investment strategy, relative financial performance administrative arrangements and the treatment of fund surpluses;
  - (ii) Ensuring that fund trustees and managers discharge their functions effectively and are accountable to members for their actions;
  - (iii) Minimising the risk of imprudent or unfair practices and the consequences of unscrupulous operators;
  - (iv) Improving through education, industry understanding of issues such as the rights and duties of trustees, appropriate investment strategies and performance measurements; and
  - (v) Developing an appropriate low cost mechanism to resolve disputes between fund members and trustees.

**Investment**

- 22.15 Congress calls on the Federal Government to facilitate the provision of funds for socially and economically desirable infrastructure expenditure or investment including through the following initiatives:
- (i) Specific allocation of a significant proportion of Government revenue generated by concessionally taxing superannuation fund contributions and earnings, and
  - (ii) Providing additional tax concessions to funds invested by superannuation funds in socially and economically desirable investment.