ACTU Congress2012 Factsheet

Secure Jobs. Better Future.

Retirement Incomes and Workers' Capital

Developments since Congress 2009

The period since Congress 2009 has seen some of the most significant reforms to superannuation in Australia since the introduction of compulsory super in 1992. Key developments have included:

a) The Review into the Governance, Efficiency, Structure & Operation of Australia's Superannuation System, led by Jeremy Cooper, reported to government in June 2010. The review made a large number of recommendations in relation to the governance, administration and design of the super system and some of the products it offers. Of particular significance was its recommendation for a new default product, called MySuper, which would provide greater protections for disengaged workers by banning most commission fees and prohibiting the movement of members into higher cost products without their permission.

b) In response to the Cooper review the government initiated its Stronger Super reform programme. This will take forward many of the recommendations made by Cooper. In particular, the government is in the process of legislating for a modified version of the MySuper product suggested by Cooper. In addition, the government will legislate to require employers to provide information on payslips that will enable workers to check that their contributions have actually been paid to the appropriate super fund.

c) In response to campaigning by unions and others, a staged increase in the superannuation guarantee rate from 9 per cent to 12 per cent will take place between 2013 and 2020. When the first increase of 0.25 per cent takes place next year this will be the first time since 2002 that the superannuation guarantee rate has increased.

d) The government has also introduced a range of measures that will increase retirement income adequacy. These include: the super contributions tax rebate for low-income earners; an increase in the upper-age limit for compulsory contributions to 75 years; the Future of Financial Advice reforms.

Key issues for the future

Among the key issues for workers and unions remains that of adequacy.

Rice Warner actuaries have estimated the 'retirement savings gap' (which they define as the difference between the amount saved in the superannuation system and the amount required at retirement to provide 62.5 per cent of pre-retirement earnings) to stand at $836 billion in June 2011. This takes into account the expected increases in the SG rate between 2013 and 2020.

Government reforms have successfully reduced the gap from an average of $87,900 in June 2009 to $79,200 in June 2011.

Problems of adequacy in retirement are particularly acute for many women workers. Our super system is a function of paid work and therefore it tends to disadvantage women because they are more likely to move in and out of paid work to care for family members. Furthermore, women on average earn less than men and are more likely to be employed in causal and part-time work.

- Women have significantly less money saved for their retirement – half of all women aged 45 to 59 have $8,000 or less in their superannuation funds, compared to $31,000 for men.

- Currently, the average superannuation payout for women is a third of the payout for men - $37,000 compared with $110,000.

- In Australia, women working full-time today earn 16 per cent less than men.

Enhancing adequacy could also be addressed by removing the lower age limit of 18 yrs for SG contributions. Nearly half a million people aged between 15 and 19 are engaged in part-time work. Many of these are under 18 yrs old. Despite performing work identical or similar to that performed by older colleagues they are not entitled to SG.

Another key area of concern for unions is the governance of funds.

It is vitally important that an appropriate quantity and quality of information is available to existing and prospective members to allow them to judge if funds are making decisions that are in their interests – or in the interests of companies that own the funds and provide services to them.

The most glaring conflict of interest in the super industry is in the for-profit retail sector: between the interests of members of such funds and the interests of the for-profit companies that own them.

An APRA paper highlighted this conflict when it stated:

> ‘Whilst company boards and trustee boards of retail pension funds are distinct entities, their historical origins and their typical compositions with significant numbers of overlapping executive directors make the distinction more theoretical than real, particularly in many cases where the shareholders are related entities or a parent company. In practice, the conflicts are ‘resolved’ by the retail trustees treating fund members like clients or consumers in a pension product, thus possibly diluting the notion of trusteeship in favour of the notion of product manager.

> Unlike non-retail trustees who negotiate the best possible terms for investment management services for their funds, retail trustees who often have investment managers as executive directors on their boards have impaired incentive to negotiate best terms for investment management services.'[1]

This is why in this policy unions are calling for greater transparency. It is often very difficult for retail fund members to find out who the directors of their fund are, what they are paid, and the nature of the relationship between the fund and the companies that provide advice and other services.

[1] Wilson, Sy (2008) *Superannuation Fund Governance: an interpretation*, APRA, Sydney, p. 12.