



# **After A Lifetime of Hard Work: *Retirement Should Be Simple & Meet Members' Needs***

Submission by the Australian Council of Trade Unions to the  
Treasury Consultation on a *Retirement Reporting Framework*

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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 affiliate unions, the ACTU represents over 1.7 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 over 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, administration and service.

Australia's superannuation system will soon enter a new phase as the first whole-of-career superannuants enter retirement. As such, the union movement commends the Government's work to develop and advance the regulatory and legislative settings that guide the retirement experience of members. Transparency for members, and encouragement of fund best practice, are key components of a successful retirement income system and therefore, a *Retirement Reporting Framework* that encourages both is welcome. However, any Framework must acknowledge that members' experiences and preferences are diverse and therefore, must not unintentionally establish standardised benchmarks of 'ideal' member outcomes. Instead, it must encourage funds to continually improve their ability to meet their members' unique needs. Similarly, it must prioritise simplicity for members in acknowledging that costly financial advice, and complex regulatory and legislative hurdles, are barriers to members achieving positive retirement outcomes and contrary to the design of a universal retirement income system.

## Simplicity in Retirement

### Aligning Superannuation and the Age Pension Without Costly Advice

Superannuation is a universal, industrial entitlement and the Age Pension is a means tested government guarantee. Therefore, accessing and engaging with both must be simple and straightforward for *all* members. To do so, the two must be made to integrate seamlessly for the benefit and ease of members. As such, financial advice must not be a prerequisite for accessing or navigating retirement income. A retirement income system of such complexity that it necessitates personal financial advice is contrary to the Superannuation Guarantee and Objective of Superannuation and acts as a barrier to many members achieving positive retirement outcomes.

Members must have access, through their funds, to robust and clear information and support, including advice if individually desired, but the system must not be designed so as to require personal advice. The uptake of financial advice must not be interpreted as a proxy for success. Rather, the system design should ensure a “no wrong doors” approach that enables all members to maximise their retirement outcomes.

Similarly, the regulatory and legislative divide between superannuation and the Age Pension must be overcome so that members’ experience of retirement income is cohesive and straightforward. The retirement income system should provide simple and default pathways to positive retirement outcomes regardless of members’ means to access advice, level of engagement with their fund or financial literacy. Accordingly, simplicity and ease of access of retirement income must be central components of the *Retirement Reporting Framework*.

### An Account for Life to Meet Members’ Modern Needs

The transition to retirement is challenging and complex with the disconnect between superannuation and the Age Pension but so too with the disconnect between superannuation accumulation and deaccumulation.

The current regulatory and legislative framework operates on outdated conceptions of work and retirement, incorrectly assuming that a member works until their preservation age when they resign and then live off their retirement income until they die. In reality, out of necessity or by choice, many members transition to retirement over time or retire and return to the workforce either part time, full time or sporadically. Therefore, at present, many members are required to have two accounts; one for their contributions to accumulate and one for their income to de-accumulate. This is a complex administrative burden for members and commonly requires them to pay two sets

of fees, both negatively impacting members' experience of retirement and long-term retirement outcomes.

To rectify this, funds should be supported to establish an 'Account for Life' where a member does not need to open a secondary account to draw down a partial or full income, does not need to pay additional fees and can transition to retirement, or return to the workforce after entering retirement, as they wish and need.

The consultation paper proposes the following metrics: "Take-up of retirement products ... To measure the conversion rate of eligible members from accumulation phase into retirement phase products to ensure members are optimising their superannuation savings. While moving into retirement phase will not be appropriate for all members who are eligible, the extent to which a trustee's membership is in the retirement phase provides insights into how effectively members are understanding their own retirement as well as how effective their decision-making is." (p.10) through "the proportion of members who do not have any retirement products. This could be calculated by the number of members over 65 (or have met another retirement-related condition) who only have an accumulation account, compared to the number of accounts for members over the age of 65" (p.10). Such a proposal unintentionally maintains this systemic complexity for members and perpetuates the current burden on members to take extensive action to access their own retirement income. It should not be difficult, costly or require action informed by financial advice, to access and contribute to one's own superannuation after preservation age.

## Delivering for Members in Deaccumulation

### Product Design & Member Service Standards

The union movement endorses the consultation paper's objectives to "drive continuous improvement across the super sector in the retirement phase, as well as helping retirees and those approaching retirement make informed decisions about how they manage their super" (p.2). Unions, and union-nominated member-representative trustee directors, have long agreed that "It is important that there is as much of a focus from trustees on retirement outcomes for their members as there has been on high investment returns in the accumulation phase" (p.2). Therefore, we welcome Treasury's consultations to improve retirement income outcomes for all superannuation fund members.

In addition to product design, a central way that members' needs are met during retirement is through the quality of service provided to them by their fund. Despite this, member service standards receive little to no attention in the consultation paper. Therefore, the union movement

urges the *Retirement Reporting Framework* to be aligned to the Government's announced *Minimum Member Service Standards* and the latter to be synthesised with the *Retirement Best Practice Principles*.

## Improving Member-Outcomes

### Measuring Member-Focused Products & Services

Retirement product design and service must always be member-outcomes focused and should rightly “create the decision-making environment that supports members to make informed choices to meet their retirement income needs” (p.9). Therefore, the Framework's first stated objective to “require Registrable Superannuation Entity Licensees (trustees) to report on a series of indicators on their products, services and offerings” (p.2) is appropriate and will, if well drafted, incentivise funds to continually improve, innovate and strive for best practice in their product and service offering.

The diversity of product and service offerings, to meet diverse member experiences and preferences, should be encouraged, and reported on, through the Framework to realise the paper's acknowledgment that “A big part of this is ensuring Australian's feel equipped to use the retirement savings they have accumulated in the way that works best for them” (p.2), “over time, the Framework will measure trustees' progress to build upon their understanding of their members” (p.4) to “meet their members' unique retirement income needs” (p.5).

### Benchmarking Member-Outcomes Ignores Member Preferences & Experiences

However, the paper's proposed second objective to “require trustees to provide data to APRA based on a set of prescribed metrics and indicators that consider ... the outcomes for their members in retirement” (p.4) including to “measure the direction of progress for the selected metrics by providing benchmarks” (p.9) must be rejected as it fails to acknowledge member diversity and therefore, incorrectly suggests that there is an ‘ideal’ member outcome. It also contradicts the paper's statement that “The indicators of retirement offerings will provide insights on how trustees are implementing their understanding of their members' retirement needs and are not linked to a benchmark or measure of success” (p.5).

Members' experiences and preferences are diverse, including amongst similar demographic cohorts, however, benchmarking member outcomes incentivises funds to guide members towards the benchmarked outcomes, regardless of the members' circumstances. For example, an assumption that greater uptake of comprehensive advice is better for the member, and a reflection

as such in public benchmarks and trend data, encourages funds to recommend personalised advice to members who may not require it, or cannot comfortably afford it.

Given members' diverse experiences and needs, a Framework cannot assess the retirement outcomes of all members based on indicators which may only be appropriate for certain members. The consultation paper suggests, "In principle, measures of outcomes should consider: 1. The extent to which members are drawing down their assets over the course of retirement, 2. The extent to which a member's income is meeting their expenditure requirements and 3. The degree to which that income is stable over time" (p.9). However, the paper fails to acknowledge that these principles are not universal objectives for all members. Gradual drawdown, including through less flexible annuity products, may be appropriate for members with certain preferences, balances and expenditure requirements. However, for others, such as those with different preferences or lower balances and therefore, the expectation of significant reliance upon the Age Pension and without outright home ownership, a lump sum withdrawal to pay off the remainder of their mortgage or to meet other immediate expenses, may be entirely appropriate and help them to maximise their retirement outcomes. Members in the latter category must not be discouraged from acting in their own interests, and funds must not be discouraged from developing solutions to suit these members, because of standardised benchmarks encouraged through a *Retirement Reporting Framework*.

The consultation paper statement that "members will have varying levels of engagement and understanding about superannuation and retirement, and as such will make different decisions about their needs" (p.5) ignores that, regardless of engagement and financial literacy, members have different needs and will resultingly make different decisions to one another. A successful *Retirement Reporting Framework* must acknowledge that there is no one 'correct way' for a member to engage with, and consume, their own superannuation.

While the consultation paper notes that the intention is not to design a performance test with ramifications for the data reported (p.4), it also notes that, "metrics should also be increasing/decreasing to reflect a direction of progress for the outcome [and] track progress in the sector" (pp.4-5) and "measure the direction of progress for the selected metrics by providing benchmarks" (p.9). Despite the qualification, and without greater specificity, the latter proposal risks the creation of a benchmarked test encouraging standardised outcomes for members. Disclosures, and related trends, should be included where they reflect fund product and service offerings and, in doing so, provide greater transparency for members and incentivise best practice by funds. However, benchmarking member behaviour ignores the diversity of members' experiences and would have the perverse impact of encouraging funds to guide their members towards standardised benchmarks, not the member's best retirement outcome.

## Indicators to Meet Diverse Member Needs

The *Retirement Reporting Framework* should require funds to report on their product and service offerings designed to meet their members' diverse needs. The 'simple indicators' provided within the consultation paper are a good start towards this objective, namely whether the fund does, or does not, provide the following:

- Alternate drawdown rates: "Provide options for drawdowns other than minimum drawdown rates (MDR) for account-based pensions (ABP)" (p.5) noting "factors such as lifestyle needs and preferences are also relevant to working out the most appropriate drawdown strategy to maximise income in a sustainable way. As such, trustees would be able to help members make informed choices about their drawdown options by providing them with access to information and guidance on alternative drawdown rates" (p.5).
- Longevity products offerings (p.6).
- Intra-fund advice offering (p.7).
- Comprehensive advice offering (pp.7-8). The consultation paper rightly acknowledges that "It may not be appropriate for trustees to offer comprehensive advice across their membership" (p.8). However, this is in contradiction to the consultation paper's suggestion that "progress" be reported on against benchmarks (p.9) and that "a more sophisticated metric would measure the take-up rate of comprehensive advice" (p.8). If it is understood that comprehensive advice is not appropriate for all members, it's uptake cannot be measured as a trend against a benchmark.
- Member engagement with the fund leading up to retirement (p.8). It would be appropriate to encourage, including through mandatory reporting, funds to proactively engage with their members to ensure that they are supported to achieve their objectives however, such an indicator must not measure members' engagement activity, and benchmark such behaviour, thereby, suggesting that this is ideal or necessary to realise positive retirement outcomes. As outlined above, the retirement income system must be designed in such a way that one is not penalised for low financial literacy, interest, capacity to engage or the ability to afford personal financial advice.

In addition, funds should be supported to provide an Account for Life and be required to disclose against this offering. Similarly, a fund's retirement service offering, aligned with the *Minimum Member Service Standards*, should be disclosed to provide transparency and incentive best practice.

In determining the *Retirement Reporting Framework* indices, it should be acknowledgment that member outcomes are not inherently positive or negative as they are dependent upon members'

diverse preferences and circumstances. As such, and in answer to the consultation question, “*How should policy makers and industry consider measures of success in fund offerings?*” (p.9), the Framework must recognise that diverse and easily accessible products and services are a key measure of success in a universal retirement income system.

## Cohorting

Cohorting can be of utility where it is used as a guide to inform funds on how to meet their varying members’ needs. However, cohorting cannot be encouraged at the expense of understanding, and serving, individual member preferences and experiences. A blind reliance on cohorting, including aligning cohorts with benchmarked member outcomes, assumes that the fund knows what is best for a member based on their demographic profile, or that members’ preferences and needs are the same based on demographic similarities. Member needs are diverse, including within cohorts, and therefore, the Framework must not, including inadvertently, encourage funds to rely on cohorts instead of understanding and serving individual members. Therefore, in response to the consultation question, “*Should the cohorting practices measures be information-gathering indicators or metrics measuring progress?*” (p.15), cohorting practices should strictly be encouraged as information-gathering indicators not metrics to measure progress.

## Adequacy of Retirement Income

### Product Design & Advice Cannot Close Systemic Gaps

While the design of retirement products and services, and the regulatory and legislative framework guiding retirement income administration, are critical to member retirement outcomes, so too is the balance of each member at retirement. 30 years on from the introduction of the Superannuation Guarantee, too many workers have inadequate superannuation for a positive retirement outcome.

The underlying causes of retirement poverty are well known and must be addressed as a matter of urgency. Systemic gaps in superannuation coverage persist and must be rectified by:

- The payment of superannuation on every dollar earned, to every worker including those on supported wages, under 18 years of age, on workers’ compensation and on Employer Paid Parental Leave,
- Superannuation theft must be eradicated to provide workers with the retirement income they have earned,
- Superannuation must be paid on unpaid Parental Leave,

- The taxation of superannuation must be reformed through expansion of the Low-Income Superannuation Tax Offset (LISTO) and the closure of excessively generous concessions for the wealthiest Australians.

Women and Aboriginal and Torres Strait Islander workers continue to retire with significantly less superannuation. The above inequities are compounded by insufficiently valued work, insecure work, breaks in employment for caring and family responsibilities and the persistent gender pay gap. Without addressing these systemic gaps, these workers will continue to experience disproportionately worse outcomes in retirement.

## Profit-to-Members

### Prevention of Profiteering off Retirees

For-profit actors will likely see greater attention on retirement products and services as another opportunity to profit off the hard-earned retirement savings of working people. There are many accumulation products in the market and for-profit actors capitalise on this choice overload and the universal nature of the system.

No one should be able to profit off workers' retirement savings. The introduction of the *Retirement Reporting Framework*, and related retirement products and services, must not become another opportunity for the predation of workers' life savings. Superannuation, at all stages, should return the profits generated to members.

## Conclusion

To realise the objective of Australia's retirement incomes system, superannuation funds must be encouraged to prioritise members' experiences in retirement through providing products and services which meet the diverse needs of their members in a way that is accessible and straightforward. As such, the *Retirement Reporting Framework* obligation to disclose retirement product and service offerings is welcome however, a Framework will not succeed in delivering for members if it fails to recognise members' diversity and instead encourages disclosures against standardised benchmarks of 'ideal' member outcomes.

Critical measures of success of a universal retirement income system are that it is accessible, straightforward and meets members' needs. Therefore, these should be the guiding principles of a *Retirement Reporting Framework*, and all other government work on the future of retirement, if it is to deliver enhanced retirement outcomes for working people.

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