



**Supplementary response to Tax  
Discussion Paper *Re:think*  
Retirement Incomes Review**

**24 July 2015**

**AIST Submission**

## AIST

**The Australian Institute of Superannuation Trustees** is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the \$600 billion not-for-profit superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training, consulting services and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

## Contact

Richard Webb, Policy & Regulatory Analyst

03 8677 3835

Tom Garcia, Chief Executive Officer

03 8677 3800

## Table of contents

AIST	2
Contact	2
Table of contents	3
<b>1 Executive summary</b>	<b>4</b>
<b>2 Introduction</b>	<b>6</b>
<b>3 Recommended method to establish a robust review</b>	<b>8</b>
3.1 Stage one – Setting the objectives, principles, and how costs and benefits can be measured	8
3.2 Stage two – A focussed review on technical issues associated with Retirement Incomes	9
<b>4 Specific issues to consider in the Review of Retirement Incomes</b>	<b>11</b>
4.1 Environmental aspects	11
4.2 Structural issues	11
4.3 Specific issues	16

## 1 Executive summary

### In brief:

Expanding on our initial submission to the Tax Inquiry, AIST details a process for a robust and evidence-based review of retirement arrangements, involving a summit on the objectives of retirement incomes system, and followed by a detailed and methodical technical review and legislative support. Tools such as the AIST Mercer Super Tracker will be needed to provide measures of success in relation to sustainability, adequacy and fairness – especially to improve the lot of disadvantaged Australians.

The initial response of AIST to the Tax Discussion Paper Re:Think included numerous comments on retirement incomes issues. Not all of these comments are repeated in this submission, and our previous submission should be read in conjunction with this submission.

In this submission, we outline process for a robust and evidence-based review of retirement arrangements, including taxation of superannuation.

The review should consider the principles and objectives underpinning the interrelated taxation and superannuation system, and provide the AIST Mercer Super Tracker as an example of a methodology that can be used to measure the costs and benefits of the retirement income system.

AIST proposes a two stage retirement incomes review:

**Stage 1.** AIST proposes that the Government convene a broad-based summit on the objectives of the retirement incomes system as a first step in establishing the process. This summit should respond to a discussion paper prepared by Treasury, result in a Green Paper, followed by a White Paper and legislation.

**Stage 2.** This should be followed by a technical review addressing structural issues, a legislative audit, establishing parameters for super fund-level post-retirement frameworks and an analysis of the interrelationship between the various elements impacting on retirement incomes (e.g., superannuation, age pension, social security, aged care).

Research undertaken for AIST demonstrates that different groups of superannuation members will have different post-retirement needs, and that frameworks must be able to accommodate differing needs. For example, annuity products may not be appropriate for most lower account balance members, and so should not be a mandatory feature of funds' post-retirement arrangements.

The framework will also need to support a 'whole-of-life' approach to superannuation, aimed at delivering reasonable income streams in retirement, not a set amount at a retirement date. Having a common set of

rules for accumulation and retirement products, facilitating an easy transition into the pension phase will assist this.

Our submission also identifies other tools (such as a financial literacy index) needed to measure the success of the system.

Based on the results of the AIST Mercer Super, AIST argues that that specific incentives (taxation and otherwise) will be needed to reduce the superannuation gender gap, and assist people with broken work histories and disadvantaged Australians to accumulate higher superannuation balances.

---

## 2 Introduction

---

AIST welcomes the further opportunity to respond to the *Re:Think* Tax Discussion Paper (“the paper”), and in particular appreciates the opportunity to respond on retirement incomes issues.

AIST’s vision is for a better retirement future for all Australians. The taxation of superannuation is an important component of achieving a dignified retirement for Australians in a fair, sustainable and transparent way. We therefore welcome a review of taxation measures in order to further the core principles of any sound taxation system – fairness, efficiency, simplicity, transparency, sustainability, and neutrality.

Australia’s ageing population means that taxation arrangements that extend to retirement incomes must ensure that arrangements are able to provide the best possible outcomes for retired Australians. The growth in the post retirement space underpins the importance of getting the objectives, principles, and processes right. AIST notes that in 2013, there were 1.9 million members in the retirement phase of superannuation, accounting for approximately 30 per-cent of all superannuation assets. It is projected that by 2043, there will be 5.4 million Australians in retirement, with assets totalling \$2.2 trillion or over 40 per-cent of total superannuation assets.<sup>1</sup>

Accordingly, we propose that an all-encompassing discussion of retirement arrangements should include consideration of all aspects relating to retirement, including taxation of superannuation. However, in keeping with this theme, we consider that a full and frank conversation must take place which also includes the role of the age pension, aged care, and tax and transfer arrangements outside of super.

There are a number of extant reviews potentially affecting both the detail and framework of Australian retirement incomes, including:

- The Financial System Inquiry.
- Treasury Review of retirement income stream regulation. (AIST submitted that this Review was narrowly focussed and could not be properly addressed without the tax review having occurred first.)
- Re:Think Tax Discussion Paper.

There is also the ongoing annual Federal Budget cycle, which also brings changes to the three pillars of retirement savings.

---

<sup>1</sup> RiceWarner, *Ageing and Capital Flows – Financial System Inquiry*, 2014. Available at <http://tinyurl.com/qhupzsh> [Accessed 23 July 2015]

While it may be very tempting for AIST or other stakeholders to recommend possible policy changes to superannuation or the age pension in response to this review, AIST strongly recommends that a strong and robust framework must be developed first. Without this, the ongoing level of change will continue without structural context. One of the major complaints consumers have with the superannuation system is that there is constant change. AIST submits that this arises through superannuation (and other inter-related systems such as tax and the transfer system) being dealt with as a one-off Budget night decision. There are solutions to alleviate this.

### 3 Recommended method to establish a robust review

It is a great opportunity to overcome both the perception and reality of constant tinkering with the three pillars of retirement incomes. To achieve this, AIST recommends that the retirement incomes review be placed within the following chronological order:

#### 3.1 Stage one – Setting the objectives, principles, and how costs and benefits can be measured

As with our initial submission<sup>2</sup> in response to the Re:Think discussion paper, AIST believes that it is difficult to provide detailed considerations of the interactions between the tax system and the transfer system, including examining a framework for retirement income arrangements, without going back to ‘grass roots’ questions such as:

- ‘What are the objectives of the tax system?’
- ‘What are the objectives of the superannuation system?’
- ‘What principles should underpin the taxation of superannuation?’
- ‘How are the costs and benefits of the superannuation system to be measured?’
- ‘At what point should superannuation be taxed?’

In our initial submission, we also suggest answers to the above questions, including highlighting the AIST-Mercer Super Tracker<sup>3</sup>, a methodology to track the costs and benefits of the Australian superannuation system. More information regarding the AIST-Mercer Super Tracker may be found in a document submitted as an annexure to our initial submission.

AIST strongly applauds the recommendation of the Financial System Inquiry Final Report that broad political agreement be sought for (and enshrined in legislation) the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.

To establish such a process – and to gain broad agreement to answers to the above questions – AIST recommends the following process:

---

<sup>2</sup> AIST, *Response to Tax Discussion paper Re:think* 1 June 2015. Available at: <http://tinyurl.com/nbyovqd> [Accessed 23 July 2015]

<sup>3</sup> AIST and Mercer, (2015). *AIST Mercer Super Tracker: How the super system stacks up on fairness, adequacy, and sustainability*. March 2015. [online] AIST and Mercer. Available at: <http://tinyurl.com/nkjptll> [Accessed 23 Jul. 2015].



- The Government convene a summit on the objectives for superannuation and the broader retirement incomes system at the earliest opportunity.
- This summit should involve consumers, employers, the superannuation industry, representatives from the taxation and community services and other relevant sectors, representatives from Government, other political parties and regulators.
- In line with the model adopted in constitutional conventions, AIST recommends that the summit be chaired by a representative appointed by the Government, with the deputy chair appointed by the Opposition.
- In order to keep the discussion at a high level, and to build on the current level of bipartisan support, a brief high-level statement of principles be developed by a preliminary working group based on a discussion paper which (AIST recommends) is to be prepared by Treasury.
- Following the summit, a Green Paper be issued for consultation, then a White Paper, leading to establishing draft legislation which enshrines the objectives of superannuation and a methodology for tracking its costs and benefits.

## 3.2 Stage two – A focussed review on retirement incomes

A meaningful review of retirement incomes can occur once – and only once – the objectives, principles, and how the system may be measured have been established. In broad terms, AIST recommends that this review should include the following:

### 3.1.1 Structural issues

- The objectives for the retirement incomes policy.
- How current policies are delivering the retirement incomes policy objectives – now and into the future.
- A review on the developments and trends in retirement incomes within Australia and internationally.
- The focus of the Intergenerational Reports to determine, for example, whether any additions are needed to better understand retirement incomes adequacy, longevity and sustainability issues.
- The sustainability of taxation arrangements in retirement income streams.
- The adequacy of social security arrangements, and what is accomplished by means testing parity between non-superannuation and superannuation products.
- The issues associated with longevity risk as part of a larger basket of financial risks, which include greater exploration of investment risks, as well as mortality risk.
- An examination of taxation of superannuation and non-superannuation retirement investments.
- The interaction between retirement incomes policy and encouraging people to stay at work.
- The interaction between the three pillars of retirement savings, including the respective roles that each play in Australia's retirement incomes policy.

- AIST believes that the ability of the three pillars to reach their objectives in terms of adequacy, sustainability and longevity should be reviewed. In particular, we support the role that a holistic review of the tax and transfer system would play in this.

### 3.1.2 Specific issues – making retirement incomes work better

- The sustainability of taxation arrangements in retirement income streams and whether there is any real advantage of these products over amounts invested in competing non-superannuation investments;
- How trustees might develop a strategic post retirement framework for superannuation funds and what such a framework might contain. While AIST strongly believes that each fund should develop a framework taking into account the demographics of the membership, AIST submits that such a framework would be in line with the type of framework applied to MySuper products.
- The sustainability of superannuation restrictions and whether these form a barrier to retirement savings.
- An examination of retirement product options compared with spending patterns in retirement.

We note the increasing mindfulness paid to retirees' spending patterns in retirement, as well as disadvantages facing aging Australia. To this end, we also recommend that a review address these specific issues:

- An examination of retirement product options compared with spending patterns in retirement, including how to address the impact of major financial shocks facing retirees, such as aged care; and
- A statement of how our retirement income system is taking positive steps to address Australian retirees in disadvantaged circumstances, including:
  - Australians affected by the gender gap and broken work patterns;
  - Early or involuntary retirees;
  - Indigenous Australians; and
  - Australians who are below adequate levels of financial literacy.

---

## 4 Specific issues to consider in the Review of Retirement Incomes

---

### 4.1 Environmental aspects

AIST believes that certain aspects of Australia's retirement incomes system must be underpinned by environmental considerations which support a comprehensive approach to retirement. For example, we consider that Australians would be unwilling to support a retirement savings regime where they are not appropriately compensated for deferring consumption.

With this in mind, we present what we believe are certain inalienable tenets which must be present in a retirement savings regime:

- Superannuation must always be concessional tax to reflect that these savings have restricted access until retirement. Our recommendations in this – and subsequent submissions – are concerned with achieving an optimum level of these concessions in a sustainable way and improving fairness of the system by improved targeting of concessions. A lack of proper targeting of concessions – as is the case now – erodes public confidence and generates ad hoc measures to change the system.
- Australia's retirement income system should deliver an adequate retirement income for most Australians. In order to achieve this, we support an accelerated increase in mandated Super Guarantee contributions to 12%.
- Any assessment of the taxation of superannuation should be conducted in tandem with an assessment of costs and benefit of the age pension – i.e. that the cost of government support across the entire retirement income system is assessed as a whole. Superannuation tax concessions – in respect of superannuation contributions, investment earnings and superannuation benefits – are a form of government support. This government support, as well as the government support provided via the age pension can – and should be – assessed for fairness and sustainability alongside each other. While superannuation is different to the age pension in that it is not a government expense, the government forgoes tax revenue to give super tax-advantaged status. This impacts all taxpayers.

### 4.2 Fundamental issues

AIST submits that there are seven main fundamental issues which must underpin any review of retirement incomes:

- i) That there must be a clear set of objectives for retirement incomes against which are clearly measureable and objectively judged.

- ii) That the best interests of members must be taken into account when a fund determines its retirement income stream products and services.
- iii) Funds should develop a framework for developing post retirement products and investment defaults – similar in concept to the MySuper Framework. Funds must have flexibility to take into account the needs of their membership demographic when setting such a framework.
- iv) Members in their retirement phase should be provided with disclosure which ensures that all matters fundamental to them understanding the product are disclosed.
- v) Members must be able to easily transition into retirement.
- vi) AIST notes the impact of increasing longevity on the Australian superannuation system and draws attention to the release of a Longevity Index by The Hon Wayne Swan in 2009. AIST believes that the impact of longevity risk needs to be assessed.
- vii) There must be a methodology for assessing the degree of financial literacy in Australia.

#### 4.2.1 Need for a clear set of retirement objectives

Elsewhere in this submission, we have recommended a methodology for setting the objectives, principles, and how costs and benefits can be measured.

In the retirement income strategic issues paper of the *Australia's Future Tax System Review* ("the Henry Review"), the review found that the objectives of the three pillar retirement system should be to support adequacy, sustainability and longevity, concluding in paragraph 2 that<sup>4</sup>:

*The three-pillar architecture should be founded on the presumption that the responsibility for providing for retirement is shared between government and individuals. Governments should provide for minimum and essential needs and facilitate self-provision. Each of these goals should be pursued in an equitable and targeted way. Individuals should save or insure during their working lives to provide resources in their retirement. Inevitably under this approach, retirement outcomes will differ for different people, depending on the extent to which they can and do make self-provision.*

*The objectives of each of the three pillars should be as follows:*

- a. The means tested Age Pension should ensure that all Australians receive a safety net level of income throughout their retirement that is adequate to provide a reasonable minimum*

---

<sup>4</sup> Henry, K., Harmer, J., Piggott, J., Ridout, H. and Smith, G. (2009). *Australia's future tax system. The retirement income system: Report on strategic issues*. [pdf] Canberra: Commonwealth of Australia, p.1. Available at: <http://tinyurl.com/p2q4wdr> [Accessed 24 Jul. 2015].

*standard of living. The question of Age Pension adequacy has been addressed in the Pension Review and is not considered further in this report.*

- b. Compulsory superannuation should ensure that a reasonable minimum share of employee income is saved to contribute additional resources to retirement. Because it is a defined contributions system, rather than defined benefits system, it is not appropriate or practicable to set a target replacement income rate for the superannuation guarantee. However, the rate of the superannuation guarantee can be benchmarked by reference to moderate potential replacement rates for retirees with a full history of contribution at median to average earnings.*
- c. Voluntary superannuation should provide a tax-assisted means for all to make self-provision for retirement in accordance with their circumstances and preferences. For reasons of both acceptability and sustainability, the extent of tax assistance should be capped.*

#### **4.2.2 Best interests of members**

In this regard, AIST recommends that the concept of funds developing a strategic framework for retirement income products and services – similar to the prudential requirements for MySuper insurance and investment policies – should be adopted. This approach would assist with ensuring that funds provide products and services which meet the particular member demographics of that fund, rather than having prescription regarding which products and services are to be provided.

In our submission to the retirement incomes discussion paper, and again in our submissions to the Financial System Inquiry, we wrote about how the best interests of members should be paramount when funds were selecting the most appropriate retirement income strategy for their members.

We continue to support this approach.

#### **4.2.3 Funds to develop a post retirement framework**

In our submission to the Financial System Inquiry as well as to the retirement income review, AIST pointed out that there was no one type of retirement income product that would be appropriate for superannuation funds to offer to their members.

We pointed out<sup>5</sup> that the most appropriate entities to make decisions about what is in the best interests of their members are trustees:

---

<sup>5</sup> AIST, (2014). *Response to Financial System Inquiry Interim Report*. [pdf] Melbourne: Australian Institute of Superannuation Trustees, pp.39-43. Available at: <http://tinyurl.com/n4ozc4l> [Accessed 2 Sep. 2014].

*AIST recommends that superannuation funds be required to develop a strategic framework that examines how they address retirement incomes for their members. Such a framework would consider:*

- *Rules, fund features, retirement income strategies, reversionary arrangements and tax;*
- *Whether a default transition from accumulation to drawdown phase is appropriate to members of a superannuation fund; and*
- *Trustees opting to provide alternative retirement income strategies (including additional investment options) upon request for members who do not prefer default arrangements.*

AIST believes that members would benefit best from a strategic retirement incomes framework developed by trustees that considered what was best for a fund's members.

While AIST strongly believes that each fund should develop a framework taking into account the demographics of the membership, AIST submits that such a framework would be in line with the type of framework applied to MySuper products.

Appendix B contains details of what we believe should be addressed. This report demonstrates that while a Comprehensive Income for Retirement Product (as recommended by the Financial System Inquiry) is a good idea, it is difficult to implement and guidance is needed.

#### **4.2.4 Appropriate disclosure**

At a high level, AIST refers to (and obviously supports) the OECD's *G20 High Level Principles on Financial Consumer Protection*<sup>6</sup>. As far as disclosure is concerned, these principles may be summarised as follows:

- Standardisation, comparability, and consumer testing are desirable.
- A level playing field across financial services is to be encouraged.
- Furthering responsible business conduct is important, e.g. ensuring that remuneration practices and conflicts are not detracting from proper disclosure.
- Remuneration and conflicts of interests should be disclosed where conflicts cannot be avoided.
- Disclosure should help consumers distinguish between what is essential and what's less important.

---

<sup>6</sup> OECD, (2011), *G20 High-Level Principles on Financial Consumer Protection*, Geneva: Organisation for Economic Co-operation and Development. (Endorsed by G20 Finance Ministers & Central Bank Governors 14-15 Oct 2011) Available at: <http://www.oecd.org/daf/fin/financial-markets/48892010.pdf>

Retirement income arrangements have long had special taxation arrangements designed to protect Australians against the problems associated with inadequate retirement incomes. It would be regrettable if these arrangements were not appropriately disclosed to Australian retirees.

#### **4.2.5 An easy transition into pension phase is needed**

Members in the accumulation phase need to easily transition into the retirement phase. AIST supports the ability for funds to develop a default pension option – or default transition - where this is in the interests of a fund's membership base. We have defined the term 'default transition' to mean a situation where, in the absence of other instructions to the trustee, a member's account transitions from the accumulation phase to the drawdown phase.

We accept that for some funds, an appropriate default transition strategy may not be possible, or desirable. We consider that inclusion of a default transition in a fund's post-retirement strategic framework will depend on whether trustees establish that this is in their particular members' best interests.

How a fund might structure its default transition is subject to one main consideration: When is it in members' best interests for assets to transition in consideration of the taxation differential between accumulation and drawdown phases. This reinforces how critical tax policy is when designing or re-designing Australia's retirement income system.

#### **4.2.6 Measuring the impact of longevity risk - Longevity index**

AIST recommends that the AIPAR Longevity Index be reviewed and promoted to assist members. The index, developed by Michael Sherris and John Evans of the Australian Institute for Population Ageing Research (AIPAR) at the University of New South Wales was developed to assist those seeking to understand the changing costs of funding retirement. These costs include the effects of changing interest rates, inflation and longevity.

AIST has long recognised that longevity is a growing problem for Australian retirees.

#### **4.2.7 Need for a measurement of financial literacy**

The Productivity Commission<sup>7</sup> recently noted that there is no commonly agreed-upon definition of financial literacy, or a methodology for measuring it. AIST believes that development of a model (such as a Rasch model) for measuring understanding of financial (including superannuation) concepts (both simple and more complex) would assist with analysing consumer behaviours.

---

<sup>7</sup> Productivity Commission, *Superannuation Policy for Post-Retirement Research Paper July 2015*. Available at <http://tinyurl.com/osqjkft> [Accessed 23 July 2015]

## 4.3 Technical issues

AIST has outlined above seven main fundamental issues which we believe must underpin any review of retirement incomes. In addition, there is a series of more specific technical issues which are also important to the delivery of an adequate and sustainable retirement incomes system. We outline these below.

### 4.3.1 Superannuation restrictions and barriers to retirement savings

The recent Productivity Commission report<sup>8</sup> indicated that commonly used strategies such as Transition to Retirement were problematic, in that it was difficult to ascertain the reasons for their use. The report noted that these arrangements came about as a way to use funds from one's preservation age in order to utilise available tax concessions.

In addition, the report noted discouragement to voluntary superannuation contributions, as well as longevity risk contributing to ineffective use of the superannuation system,.

A full review of retirement incomes should examine the impacts of changes made to the superannuation and taxation systems in the accumulation phase as well as measures like Transition to Retirement, in order to better gauge the effect of changes on the retirement income phase.

### 4.3.2 Social security means testing

Following the announcements contained in this years' Federal Budget, AIST modelled the proposed Budget changes to age pension means testing through the AIST-Mercer Super Tracker to provide a more complete picture of the impact across our retirement income system. These results show that fairness of the superannuation system would deteriorate further if the proposals are implemented. Additionally, the results show the need to review the taxation of superannuation alongside the age pension.

In our initial response to the tax discussion paper, we noted again that 'fairness' already has the lowest score of the 10 metrics in the Super Tracker. Once the assets test changes are implemented, the fairness score drops from a low 3.32 out of 10 to just 0.34 out of 10. The Super Tracker provides the following results regarding the equity/fairness measure of government support, with 'base' being the current situation:

---

<sup>8</sup> Productivity Commission, (2015). *Superannuation Policy for Post-Retirement Volume 1: Chapters*. Productivity Commission Research Paper. [online] Canberra: Commonwealth of Australia, p.39. Available at: <http://tinyurl.com/nbwaql6> [Accessed 24 Jul. 2015].



Table 1 – Tracker analysis of impact of proposed asset test on fairness of government support: Lifetime cost of Government support (tax concessions on superannuation guarantee plus age pension) in today's dollars for different percentiles in the income range (Source: AIST-Mercer Super Tracker)

Description	10	30	50	70	90	99	Score
Base	\$404,000	\$352,000	\$306,000	\$288,000	\$489,000	\$641,000	3.32/10
↓ Base with new assets test	\$371,000	\$239,000	\$214,000	\$257,000	\$489,000	\$641,000	0.34/10

Although government support in the form of the age pension has been greatly affected, we noted that government support in the form of taxation concessions would be unchanged. AIST once again points to the changes as further examples of how a full review that examined all forms of government support would better support all Australian retirees.

### 4.3.3 Longevity risk and other investment risks

AIST supports measures that enable retirees to better manage risk in the retirement phase, investment-related and otherwise. Coupled with this is the 'balancing act' of how these consumer risks are weighted against public interest risks arising from the retirement system (impact on age pension, encouragement to stay at work longer, etc.).

Although not necessarily a subset of investment risk, longevity risk is considered to be important. In addition, investment risk refers to a variety of different risks which behave in different ways. However, paragraph 6 of the retirement incomes review discussion paper conflated these, concluding erroneously that<sup>9</sup>:

*...a defining feature of account-based products is that the holder bears the full extent of the risks—in particular, investment and longevity risks—associated with the product...*

This is a conclusion upon which most of the discussion in that paper rested. The conclusion that an investor in an account-based retirement income stream bears the full extent of risks is erroneous. In our response to that discussion paper, AIST explained that a comprehensive review of retirement incomes must consider

<sup>9</sup> Treasury, The. (2014). *Review of retirement income stream regulation*. [discussion paper] Canberra: The Treasury, para.6. Available at: <http://tinyurl.com/kf8u3eg> [Accessed 5 Sep. 2014].

the full range of investment risks, as well as other risks, including mortality risk. In addition, we pointed out that this would be an excellent opportunity to address the many disadvantages that affect Australians who invest in these products, including consumer-friendliness.

#### 4.3.4 Addressing the impact of aged care and other major financial shocks

The impact of aged care has long been recognised as a realistic risk in retirement, most recently by the Productivity Commission who noted that<sup>10</sup>:

*Age Pension payments only represent a portion of overall government expenditure on older Australians, with health and aged care costs also contributing substantially. In 2011-12, health and aged care expenditure was almost twice that of age-related pension expenditure, and while health is spread across all ages, spending per person rises significantly with age (chapter 1).*

We would similarly expect that these costs increase. However, we would also note that other major financial shocks could affect retirees, such as accidents, theft, house modifications for wheelchairs etc.

For these reasons, AIST recommends that the impact of aged care, health care and other major financial shocks should form a specific focus of this review.

#### 4.3.5 Disadvantaged Australians

AIST has long supported the role that industry should have in improving access and support to Australians who in disadvantaged circumstances. We have recommended as part of this submission that a broader retirement incomes review must consider these.

There exists a significant difference between the average superannuation benefit received by males and females. The major reasons for this difference are:

- Female participation rate in the labour market is about 82% of the male rate.
- A much higher percentage of females (45%) work part-time compared to males (16%).

Average earnings for females are lower than for males. For those in the full-time labour force, female earnings are 78.6% of male earnings. Recent developments suggest that some of these differences may be reducing but these changes will take many years to have any significant effect on the average benefits

---

<sup>10</sup> Productivity Commission, (2015). *Superannuation Policy for Post-Retirement Volume 2: Supplementary papers*. Productivity Commission Research Paper. [online] Canberra: Commonwealth of Australia, p.162. Available at: <http://tinyurl.com/on68cny> [Accessed 24 Jul. 2015].

provided to female retirees. The maximum score is achieved if there is no gender gap in respect of superannuation benefits; that is, the average female benefit is 100% of the average male benefit.

We also noted similar issues where Australians are affected by broken work patterns, for example, parents who take time out of work to raise children, carers who look after family members and the seasonally employed.

Related to this, is problems faced by more and more Australians who may find themselves involuntarily unemployed. In research conducted jointly by AIST with the Australian Centre for Financial Studies<sup>11</sup>, we concluded that the rises in the age pension age had the effect of forcing older Australians who were unable to find work into drawing on their superannuation sooner.

This finding has implications across the superannuation industry, with members who find themselves in this situation needing to withdraw funds sooner. In addition, funds may need to take this into account when constructing their post-retirement offerings to their members.

AIST has worked closely with others in the industry to establish the Indigenous Super Working Group. Indigenous Australians are subject to significant disadvantages, including a greatly diminished life expectancy. AIST expects that changes made to retirement incomes to accommodate longevity changes may therefore not be as appropriate to Aboriginal or Torres Strait Islander Australians.

We note recent findings from a survey conducted by the Working Group with responses from 27 super funds. The survey results confirmed the Working Group's hypothesis that awareness of issues specific to Indigenous consumers is limited and that widespread attention is not being dedicated to improving access to and engagement with superannuation for this group of consumers.

Finally, we note the issue of financial literacy, as we noted also noted earlier on in this submission. The Productivity Commission<sup>12</sup> recently noted the problems associated with financial literacy, and recommended measurement and noted that the need for financial literacy in superannuation is increasing.

---

<sup>11</sup> AIST, and ACFS, (2015). *Involuntary retirement characteristics and implications*. [pdf] Melbourne: Australian Institute of Superannuation Trustees and Australian Centre for Financial Studies. Available at: <http://tinyurl.com/otvay4u> [Accessed 24 Jul. 2015].

<sup>12</sup> Productivity Commission, *Superannuation Policy for Post-Retirement Research Paper July 2015*. Available at <http://tinyurl.com/osqjkft> [Accessed 23 July 2015]

AIST believes that these issues must also be appropriately addressed as part of a broader retirement incomes review.