SUBMISSION TO TREASURY

From

Justin O'Connell

This is my submission to the Federal Government's Legislating the Objective of Superannuation Consultation Paper 2023.

Superannuation is very important to retirees and the Australian economy more broadly. However, the Federal Government, in seeking to legislate an objective for it, is simply spending too much time on too little an objective. The Federal Government has a lack of ambition in its objective which shouldn't need a discussion paper to assist it. This is the work that should be undertaken by the staff at Treasury and, even, the Treasurer's private or Ministerial, as opposed to Departmental, staff. There is a risk that having multiple submissions on an objective will muddy already muddied waters on the topic and purpose of superannuation and that there will be more disagreement and confusion as to the objective of superannuation. I think this unambitious exercise will be self-defeating.

REPLACEMENT OR ENHANCEMENT OF RETIREMENT INCOME

This is the burning question about superannuation that a process like this will leave unanswered. For to answer it will create unhappiness and hardship as people have their futures dashed through rumour and innuendo and, the inevitable change of government policy. At the moment the Age Pension is accessible at age 67 for people who retire from the workforce. This pension is a government payment and is means tested accounting for income and assets set at certain amounts and criteria. This makes it subject to change and gaming by both people and governments. People can draw part pensions if they still work or receive some form of income complicating things further. The rate of pension is applicable whether a person is single or married and is paid at a rate which is well below average or median income for either singles or couples. People who earn average or below average incomes or who have been in long term casual employment receive the Age Pension usually.

The Superannuation Guarantee Charge, introduced in July 1992, provides for a minimum compulsory superannuation amount and a complying account or fund that an employer has to contribute into for their employees. The compulsory and ever changing nature of it has meant that its application has been mixed and its success is dependent on employees working for long periods of employment with accompanying employer contributions. Initially at 3% it increased every year until ceased by the Howard Government in around 2002 when it remained at 9%. It stayed at this level for 20 years. There is no unanimity of agreement as to what rate of contribution is necessary to secure and fair and reasonable retirement. Some economists say 12% for a working life. Many say 15%. People born after 1964 can claim access to superannuation at age 60. Under these usually industry schemes, and for retail schemes, access is taken in the form of a lump sum or an ongoing part payment like a draw down or annuity. This situation of an annuity or a drawdown is a perverse system whereby recipients of superannuation on retirement have to estimate when they are likely to die. The earliest at which a person can receive superannuation on retirement is 55 but this is heavily taxed. At 60, for accumulation plans, the tax is zero to negligible. A person taking a drawdown has to work out when they are likely to die and how long their super will last based on that estimate, based on that uneducated guess. This is one of the disadvantages of the current superannuation system as brought in with the SGC 1992.

Recipients of the Age pension have to wait to 67 to receive it if they are eligible. A full pension for a couple at the moment is $37,232/annum. That's $716 per couple per fortnight. For singles they can get $887.60 per fortnight, around $25,000 per year. This is a level at poverty proportions. Particularly so if recipients don't own their own homes.

If a worker ceases employment, there are a number of options open to them. They can live off their super or attempt to in either lump sum or some version of draw down on a fortnightly or monthly basis. They can eschew the Age Pension but run the risk of their finances running out, forcing them on to said pension if permitted. Alternatively, a worker or couple can retire early, take their superannuation out as a lump sum and blow that on expenditure of a major kind and then apply for the Age Pension. Such people may even have a mortgage which the early gold mine of a super lump sum would assist in them paying out or down, not as retirement income but as a supplement form of income on a major purchase they were not able to do while working. That would defeat the purpose of super as a form of retirement income. This practice is common and there is no current policing of it. Human Services can only check back on lump sums of a sizeable nature for up to 1 year. Such people then go on the Age Pension which, is seen as a benefit or a rort but is, in reality, a step into poverty. It is very difficult for a couple to have a dignified retirement on $37,232 a year which is the current Age Pension amount and it is a Pension which is not fully indexed to CPI.

This is the conundrum with superannuation of any kind but particularly with lump sum, accumulation, unit priced funds. Is it there to replace the Age Pension or is it there to supplement it? The means test for the Age Pension is not very generous and the same could be said for other forms of Human Services Allowances like Jobseeker, Youth Allowance and Student Allowance. These were questions which were never properly asked or answered leading up to the introduction of the SGC in 1992. The conditions for scenarios where people were eligible for one but not the other were never explored in detail.

REASONS FOR ENACTING THE SGC AND ISSUES

To be fair, the policy of enacting the SGC was long overdue. It was enacted as a reward, some would say a sop, to workers for foregoing wage rises for years under the conditions of the various Accords between the Federal Government and the ACTU. The very low rate of 3% as compulsory employer contributions did not make the scheme an attractive one for many workers. To be sure, the Grattan Report into the Retirement Income Review in 2020, noted that in 1992, when the SGC was introduced, 70% of employees were covered by some form of superannuation. So, it is difficult to see what the urgency of the Federal Government was in enacting a scheme to ensure universal coverage in superannuation. One would suspect to fulfil a long overdue electoral commitment and a commitment with the ACTU prior to the scheduled 1993 Federal election.

If 70% of Australian employees had superannuation of some kind as part of their employment conditions, then the 78% of all Australians that the Treasury statement and report refers to does not make the SGC Act 1992 a successful one. Employees on low or irregular incomes find it hard to save in any circumstance and the current belated 10% of their salary compulsorily contributed, if it does happen at all, won't help them live a dignified retirement. The Age Pension is set at a very low rate and those people who do not own a home will find their retirement troubled to say the least. This cohort of people is growing. The Federal Government does not seem to be able to do anything about it. Wordsmithing a policy or a concept such as being attempted here will not achieve the desired outcome to provide people with a dignified retirement. The proposed objective has multiple meanings and connotations within it. Some of these are irreconcilable and contradictory. The references to broader benefits to the economy and financial system, source of capital, strength of financial markets and capital deepening are all very good but serve to provide room to use or misuse superannuation account balances of working Australians for government objectives which are at variance with the needs of provision of retirement income.

The report asserts the government is providing for or hopes to provide for a dignified retirement. Yet this is contradicted by the very fact that the Age Pension is set at a rate below the Poverty Line and many super account balances upon retirement, particularly for women, are low. Due to the increased casualization of the workforce and the rising cost of housing whether rental or owner occupied, the cohort of poorer and vulnerable Australians is going to grow. The purpose of superannuation doesn't need a process like this to inform the government. Other forms of capital also form the basis for our economic strength and financial capability. For example, our reserves of gold, the deposits of Australian savers and the share and bond markets. There should be no need to include broad, macro-economic features and objectives in an analysis of the superannuation system. What is needed is a major effort by the government to tackle more important economic, social and environmental issues. This process serves as a distraction and the government is seeking to maximise it to use as a political weapon against its opponents.

CONCLUSIONS

1) The Federal Government needs to raise all pensions and allowances at levels which exceed the revised benchmark Henderson Poverty Line.
2) The Federal Government needs to ease restrictions on income testing for those in receipt of the Age Pension and look at doing the same for Jobseeker.
3) The Retirement Age for eligibility for the Age Pension, now at 67, is too high by OECD standards and should be lowered to 65.
4) Superannuation as it currently stands is inadequate for a dignified retirement for many people of working age, similar to the Age Pension.
5) Personal circumstances are never taken into account by governments and departments administering government schemes like the Age Pension and Superannuation rules and governance. Not everyone is in constant receipt of full-time employment and the super contributions which flow from that and consideration should be given to this growing cohort of casual and gig economy workers in a similar way that consideration is given in government policy to women who take maternity or parental leave and other forms of leave to look after children and take time out of the workforce for these purposes. To not consider casual or gig economy workers is to treat them as 2nd class citizens and leave an important measure of purported government policy, the opportunity for universal superannuation and a dignified retirement, vacant.
6) Governments are very good at looking after people with high incomes and multiple assets. The projected $3 million price cap for superannuation tax concessional arrangements are not scheduled to come into force until 2025 and then only after a successful win at that year's Federal election by the ALP. This also politicises superannuation and leaves it open to attack. I would like to see governments do more to assist people with little to no superannuation through either the superannuation system itself or through the social security system so that people have a chance at a decent retirement.
7) The current system of Industry and Retail accumulation plans with market based interest rate settings and unit pricing mechanisms for investment strategies is unsatisfactory. Particularly for employees. Clients of such schemes lack the knowledge to select such an appropriate investment strategy be it, conservative, balanced, high growth and therefore high risk. Even economists and financial advisers can't assess such strategies accurately. How are workers who are in industries and occupations which don't have this sort of economic and financial knowledge as their basis expected to make such decisions?
8) I propose that all accumulation super schemes be put on a defined benefit basis. Having a guaranteed CPI indexed opportunity for a super pension for life is the best way to afford equality of opportunity in the superannuation system and in providing people with a dignified retirement.
9) Retirement income as the basis of superannuation should take precedence over other aims and objectives inherent in, but not integral to, superannuation like capital deepening, nation building, accumulation of foreign reserves, economic strengthening or diversification of investment.
10) Defined Benefit schemes to be overseen by governments and guaranteed by government even if operated privately by funds or trustees or corporations. Such schemes operate in the US, the UK and Europe. They should be reintroduced to Australia. The current accumulation plans are fee based and many clients of them have much money and many fees paid into them. This is even truer of retail, i.e., non-Industry, funds and schemes.

11) Where an employee is unable to be provided with an Industry based defined benefit scheme, the government is to have and operate a similar default scheme.
12) The broad range of views on superannuation serve to confuse and obfuscate its original intent, which is retirement income. Government policy should serve to advance this objective first and foremost. The proposal is on solid ground here but this can be seen as merely stating the obvious.
13) The terms of reference of this proposal and submissions into it are too narrow and unambitious. This can be classed as tinkering around the edges within tinkering around at the edges. Further, this proposal for public submissions will not silence dissenting views on superannuation or fully answer questions about it. It may inflame further debate.
14) Lastly, the rate at which superannuation is set by way of tax and contributions and earnings, impacts the rate at which the Age Pension is similarly treated. Neither should be seen as unattractive options which are contradictory or mutually exclusive. The Federal Government is trying to let words do the actions when policy and funding are necessary to bring about the proposal's objective which shouldn't need a process like this to advance and legislate it.