asfa

the voice of super

Strengthening Australia's Superannuation System

ASFA's proposed toolkit for the Government

March 2019

Delivering better outcomes for Australia

Australia's superannuation system provides numerous, broad benefits – for the Australian government, for the Australian economy and most importantly for the broader Australian population that will only grow as the system matures.

For individuals, in general, the operation of Australia's superannuation system results in higher savings for retirement than otherwise would be the case.

Compulsory superannuation has helped build the wealth of Australian households. In general terms, superannuation is now the most significant asset after the family home for Australian households, including for low-income households.

Superannuation has also helped make Australian households among the wealthiest, on average, in the world. Further, the OECD finds that the inclusion of private pension savings (that is, superannuation) in measures of household wealth makes wealth inequality among Australian households one of the lowest in the group of advanced economies.

Superannuation also has unambiguously improved the asset diversification of Australian households – particularly low to middle-income households. This shift has improved the prospects for higher risk-adjusted, long-term returns for households.
With respect to individuals' retirement prospects, the SG regime underpins higher standards of living in retirement than otherwise would be the case.

The following statistics capture the impact of the superannuation system on the daily life of Australians, and highlights the benefits that flow to individuals.

Everyday in superannuation

$405 million is contributed to member accounts
$260 million employer contributions
$324 million is drawn down by members
$520 million is earned in investment income
46 Life Insurance claims paid totalling **$8 million**
49 TPD Insurance claims paid totalling **$6 million**
121 Income Protection claims paid totalling **$3 million**
680 Australians turn age 65

Source: APRA Annual Statistics 2017-18. The value for one day is a yearly value divided by 365.

ASFA's proposed toolkit of measures to strengthen superannuation

To ensure the Australian superannuation system continues to provide significant and material benefits, ASFA proposes seven measures for the government to consider

Stabilise tax settings for superannuation over the course of the next Parliament

ASFA considers that tinkering with policy settings ultimately undermines confidence in the superannuation system and that a period of stability is needed to ensure that recent changes to the superannuation system are properly bedded down.

Decreased confidence in the stability of policy settings means that fewer individuals will save for retirement on a discretionary basis, or will save less, leading to lower retirement savings, lower living standards in retirement and higher Age Pension expenditures for government.

Over the last few years a range of measures have made the retirement income system more equitable and sustainable. These measures include:

- much tougher contribution caps for both concessional and non-concessional contributions
- higher rates of tax on the superannuation contributions of upper income earners
- a tighter means test for the Age Pension
- the introduction of the $1.6 million transfer cap.

Age Pension expenditures are projected to be stable for decades ahead at under 3 per cent of GDP while the cost of tax concessions projected to grow to no more than 2.5 per cent of GDP. The latest MYEFO statement indicates that Age Pension expenditures and the take up rate of the Age Pension are now projected to be even lower than expected. There are no pressing affordability reasons to further tighten tax concessions for superannuation or to scale back expenditure on the Age Pension.

Government support in the Budget for stability in the treatment of superannuation, would play an important role in bolstering confidence in superannuation and in supporting increased retirement savings by individuals.

Government expenditure on the Age Pension is predicted to remain under 3 per cent of GDP for decades

2018
<3%

2060
<3%

THE GOVERNMENT SHOULD:

- Apply a moratorium on major policy changes to superannuation until at least 2025.
- Endorse tax and other major policy settings for superannuation only being reviewed every five years following 2025 after release of the latest Intergenerational Report.

Boost superannuation balances of women and to assist low income earners

More than 80 per cent of women are currently retiring with insufficient superannuation savings to fund a comfortable lifestyle. Some of the reasons include the fact that many women take time out of the workforce to have children or care for family members, and they are also more likely to be in part-time or low-paid employment. Women also are less likely on average to receive the benefit of contributions above the compulsory SG rate.

ASFA has long advocated for removing the $450-a-month earnings threshold for payment of the SG. In general terms, the existence of the threshold penalises the following groups of workers, many of whom are women: low-income earners, permanent part-time workers, and those with multiple jobs who receive little or nothing in the way of SG contributions.

ASFA estimates around 365,000 individuals (220,000 women and 145,000 men) would benefit from the removal of the threshold by receiving higher retirement savings. Adopting this measure would help redress the imbalance between men and women in average retirement balances.

An estimated

365,000

people would benefit from the removal of the $450 threshold

Payment of superannuation on parental leave payments also would address the issue of broken working patterns due to caring responsibilities and recognises that income replacement should incorporate super. A number of employers have already introduced superannuation payments relating to parental leave and it would be equitable for this to be extended to all employers and to parental leave payments made by government.

In its submission to the Senate Standing Committees on Economics Inquiry into Economic Security for Women in Retirement in December 2015 ASFA argued that, given its effectiveness in targeting low income earners, consideration could be given to extending the LISC / LISTO scheme to help address the issue of small superannuation balances.

The 2010-11 Budget introduced the Low Income Super Contribution (LISC), under which an individual with an adjusted taxable income (ATI) up to $37,000 receives a refund of an amount equivalent to the contributions tax paid on their concessional contributions, to an annual maximum of $500. In the 2016-17 Budget the LISC was replaced by the Low Income Superannuation Tax Offset (LISTO).

As the amount of LISTO is determined by the ATO, having regard to an individual's income, and is paid directly to the individual's superannuation account, it is a well-targeted and efficient system to administer.

ASFA strongly supports the role played by the LISTO in making superannuation fairer for those on low incomes by refunding the tax on their contributions.

ASFA proposes to utilise the existing LISTO mechanism to 'top-up' contributions of eligible individuals (those with small balances earning low- to middle-incomes), who are not in a position to make voluntary contributions themselves. This will help address the issue of:
- women, and others, experiencing broken working patterns
- members with small super balances generally.

The amount of the 'top-up' contribution would be determined by the ATO based on the parameters of the new arrangement and be paid by the ATO directly to the individual's superannuation account utilising a process similar to that used to pay the LISTO. The 'top up' amount would assist the member's account reach 'critical mass' earlier and the member would receive a benefit from compounding returns.

THE GOVERNMENT SHOULD:

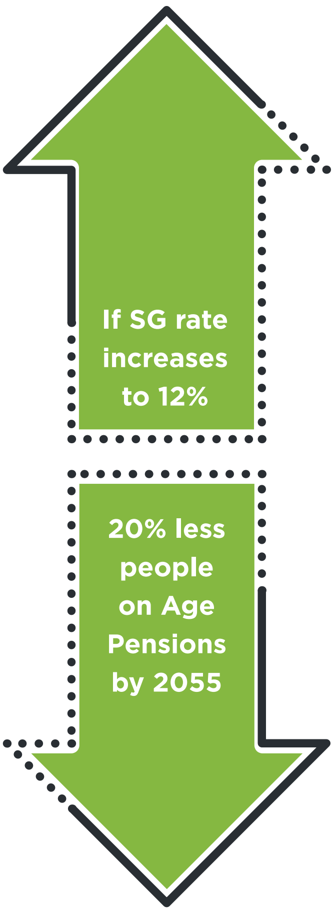
- Abolish the $450 a month threshold for the SG.
- Extend payment of the SG to paid parental leave.
- Enhance the Low Income Superannuation Tax Offset to further assist individuals on low incomes and with low balances.

Improve retirement incomes by moving the Superannuation Guarantee to 12 per cent as soon as possible

The current scheduled increases in the SG are crucial for more Australians achieving their desired standard of living in retirement, which for the great bulk of persons is at a level well above the Age Pension alone. This is true across a range of income levels and circumstances, as shown by the following table which illustrates projected retirement savings for workers from the lowest 10 per cent of the income distribution to the top 10 per cent.

TABLE 1: BALANCES AT RETIREMENT FOR INCOME COHORTS (IN TODAY'S DOLLARS)

	Men		Women	
Income cohort	SG rate remains at 9.5%	SG rate increases to 12%	SG rate remains at 9.5%	SG rate increases to 12%
1	265,000	310,000	265,000	310,000
2	330,000	395,000	295,000	350,000
3	385,000	455,000	325,000	385,000
4	430,000	515,000	355,000	425,000
5	485,000	580,000	390,000	465,000
6	535,000	640,000	430,000	510,000
7	585,000	705,000	475,000	565,000
8	650,000	785,000	530,000	635,000
9	735,000	885,000	590,000	710,000
10	870,000	1,045,000	690,000	825,000



Currently, on the basis that the scheduled increases in the SG to an eventual rate of 12 per cent will occur, the proportion of the population aged over 65 receiving a full or part Age Pension will fall from the current 70 per cent to 60 per cent by 2055, with 60 per cent of those receiving the Age Pension or the full Age Pension falling to 40 per cent over the same time period. Not going to 12 per cent would mean that the reduction in the proportion on the Age Pension would be not be as great, perhaps only to 65 per cent or so. As well, the proportion on the full Age Pension would be higher than 40 per cent in 2055.

THE GOVERNMENT SHOULD:

- Confirm the current legislated timetable for the increase in the SG to 12 per cent of earnings.
- Accelerate the move to 12 per cent if economic and budget circumstances permit.

Lift the bar for MySuper in order to deliver the best possible outcomes for fund members

ASFA supports actions to target underperformance in the superannuation system. ASFA is concerned about the impact of underperforming funds and products on affected individuals' ultimate retirement incomes and their standard of living in retirement.

In this context, ASFA supports actions to raise the standard for all MySuper products.

ASFA considers that the threshold for MySuper authorisation should be elevated. This would encourage funds that are not performing sufficiently well to close down or merge.

Funds which are performing well and delivering good outcomes for their members would be able to concentrate on remaining competitive, being innovative and implementing incremental improvements over the medium to long term.

It would also allow a diverse and healthy market of funds to be maintained.
ASFA considers that 'underperformance' needs to be carefully defined to avoid unintended consequences.

THE GOVERNMENT SHOULD:

Develop an appropriate process for APRA to:

- identify funds that are not performing well
- determine what the trustee needs to put in place/resolve/achieve
- set a deadline for trustee action
- revoke MySuper authorisation where a trustee does not meet requirements under its rectification plan in a material way or the product is not capable of being rectified.

Ensure appropriate insurance in superannuation default arrangements are in place for Australians

A matter of ongoing public debate has been the balance between providing appropriate default insurance coverage for fund members and the accrual of retirement savings.

Insurance cover is a valuable component of the benefits of being a superannuation fund member. It generally is a cost effective form of cover and for many individuals it is the only insurance that they have covering the financial consequences of death and permanent or temporary incapacity to work. On the other hand, the deduction of premiums leads to a lower retirement balance for those who never make a claim on their insurance. What is important is setting an appropriate balance between the two goals.

Despite the recent passage of the Protecting Your Super legislation there are still proposals to come out of certain groups from default insurance cover.

ASFA considers that if there were to be an age based restriction on providing default insurance in superannuation on an opt-out basis, then age 21 is most appropriate. This would minimise any unintended consequence of such changes. It also reflects that 21 is the age by which many Australian's have commenced full-time employment. According to ABS statistics, 40 per cent of employees under 25 are working on a full time basis – approximately 585,000 individuals.

of full-time employees are under 25 years of age. This is approximately 585,000 individuals

In 2015-16 there were nearly 300,000 households in Australia containing around 450,000 employed persons with the household head less than 25 years of age. There were nearly 60,000 dependent children in such households and in around 100,000 homes; the household head had a spouse.

ASFA considers that if restrictions on the ability of funds to offer default insurance cover are introduced, exemptions should also be put in place to allow those employed in higher risk occupations to retain access to the current opt-out framework. To facilitate this, trustees could seek individual approval from APRA to provide such benefits to "special categories" of members.

THE GOVERNMENT SHOULD:

- Recognise the crucial role played by default insurance for super fund members.
- Ensure that if any restrictions on trustee discretion in regard to default insurance cover are introduced, they should only apply to those aged under 21.
- Recognise the importance of insurance cover for individuals in higher risk occupations regardless of their age.

Facilitate investment in affordable housing by superannuation funds

There have been a number of barriers to superannuation funds investing in residential real estate. In particular, the historical return profile of the sector has made it largely unviable for superannuation funds who seek the best possible risk-adjusted returns for their members. This is particularly relevant in regard to providing affordable private rental accommodation at rates below the general market rate. There has also been a lack of scale of opportunities to provide a viable asset class for wholesale investment that justify due diligence costs and achieve meaningful deployment and sufficient diversification.

However, with the right policy settings superannuation funds could support long-term housing affordability improvements through institutional investment more typical in overseas jurisdictions. Market development could improve return profiles and create scalable opportunities for funds to invest in the development of "Build to Rent" (BTR) multi-family properties.

In return for concessions or subsidies provided by government (potentially at both State and Australian government level), superannuation funds could be required to offer leasing stability and inflation-linked rental adjustments for residential housing, improving tenure and affordability for the growing number of Australian renters. Leases might also contain options to purchase, enabling ownership where sought.

Superannuation funds could support long-term housing affordability improvements

THE GOVERNMENT SHOULD:

- Develop a comprehensive framework to facilitate private sector investment in affordable rental accommodation.
- Negotiate with the State and Territory governments in regard to providing exemptions from land tax for property on which affordable rental accommodation is built.
- Offer other concessions such as planning and zoning approvals for affordable residential accommodation.
- Make public sector land available for purchase at a discount where this supports affordable housing.
- Provide subsidies which support the provision of affordable accommodation.

Ensure gig economy workers are covered by the Superannuation Guarantee (SG)

The number of gig economy workers in Australia is increasing rapidly. It is likely that most new gig economy workers will not be considered employees for the purposes of the SG under current settings, and so will not be covered by the SG regime.

All Australian workers should look forward to a dignified standard of living in retirement. While the SG regime helps workers (who are covered by the regime) to improve their future retirement outcomes, the regime needs to be adjusted to account for the changing nature of work where coverage of the regime may diminish.

Coverage of the SG regime should be extended to formally include self-employed people. For many years, ASFA has highlighted the low balances of self-employed people. Although tax concessions have led to some self-employed people saving for retirement through superannuation, average balances and coverage generally have remained low relative to employees.

The SG regime should be reviewed to ensure clarity around who is an employee, and who is not, for the purposes of the SG. The rise of the gig economy is leading to an increase in the proportion of workers who can be described as 'dependent contractors' – that is, workers who are engaged under a commercial contract for services, but who have work arrangements that (in some way) resemble those of an employee.

For affected workers, lower or no SG contributions will mean lower superannuation balances at retirement. For the federal government, this will increase the burden on Australia's Age Pension system.

For such workers, the threshold issue is whether they could reasonably be considered employees under the SG regime. The law should be clarified to ensure that they do receive the benefit from SG.

Further to this, the 'sham contracting' protections in the Fair Work Act 2009 should be strengthened. This will help to prevent instances where employers mis-classify workers as independent contractors, where their status should be one of an employee.

100,000

number of gig economy workers

2.7 million

number of Australians involved in paid work other than as an employee

THE GOVERNMENT SHOULD:

- Amend the SG legislation to cover the self-employed including, in particular, dependent contractors.
- Strengthen the 'sham contracting' protections in the Fair Work Act 2009.

The Association of Superannuation Funds of Australia Limited (ASFA)
PO Box 1485, Sydney NSW 2001
T +61 2 9264 9300 or 1800 812 798 (outside Sydney)
F 1300 926 484

ABN 29 002 786 290
ACN 002 786 290

March 2019 Version 01