SUBMISSION

Submission to the Senate Economics References Committee — improving consumer experiences, choice and outcomes in Australia's retirement system

26 February 2024

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Via email: economics.sen@aph.gov.au

26 February 2024

Dear Sir/Madam

Inquiry into improving consumer experiences, choice & outcomes in Australia's retirement system

The Association of Superannuation Funds of Australia (ASFA) is pleased to provide this submission in response to your inquiry into *Improving consumer experiences, choice & outcomes in Australia's retirement system*.

ABOUT ASFA

ASFA, the voice of super, has been operating since 1962 and is the peak policy, research and advocacy body for Australia's superannuation industry. ASFA represents the APRA regulated superannuation industry with over 100 organisations as members from corporate, industry, retail and public sector funds, and service providers.

We develop policy positions through collaboration with our diverse membership base and use our deep technical expertise and research capabilities to assist in advancing outcomes for Australians.

ASFA's strategic objectives include to develop public policy position and advocate for:

- **Equity** between members in regard to levels of government assistance and in regard to superannuation balances and retirement incomes received
- The **dignity** of individuals in retirement, through ensuring the adequacy of retirement incomes, relative to the needs and expectations of retirees, and achieving the right balance between self-reliance and receipt of government assistance
- **Member outcomes** that are appropriate, optimised and have no unintended consequences
- **Operational effectiveness**, to deliver, at a reasonable cost, services of a type and standard that meet the needs and expectations of fund members and help them develop confidence in the system
- **Sustainability**, a super system underpinned by the principle of preservation fiscally sustainable, robust to changing demographics and to shifts in the structure of the economy and the associated funding needs of business and government

SUMMARY

ASFA, the voice of super, welcomes the Committee's focus on improving consumer experiences, choice and outcomes in Australia's retirement system, and is pleased to assist. This submission has been developed in consultation with our member organisations.

As a whole, the superannuation ecosystem is continuously seeking to achieve the same aims as the Committee. ASFA recognises some areas of member servicing could be improved, particularly around insurance claims, death benefits, and complaints. This submission outlines the work ASFA is already leading to improve member experiences and outcomes in these areas and makes recommendations for further improvements.

Our submission also highlights the increasing choices super fund members have and how further innovation can be encouraged by policy settings. This includes legislating the objective of superannuation, ensuring the preservation of benefits until retirement, and honouring/meeting the legislated increases to the rate of the Superannuation Guarantee (SG).

We have also provided detailed background on the design of the retirement system in Australia, to assist Committee members in understanding how we got to where we are – a world-leading system.

Australia's superannuation system is ranked 5th in the world in the 2023 Mercer CFA Institute Global Pensions Index, thanks to its relative low-cost, broad choice and good returns to members.[1] It benefits not only superannuation fund members but all Australians, through reducing the cost to taxpayers of supporting our increasingly aging population via the aged pension.

The foundational principles of universality and preservation have been essential to this success. Ensuring almost all workers have a right to be paid superannuation, and that accumulated money is kept for use in retirement, has seen the average superannuation balance triple for men and quadruple for women between 2005-06 to 2020-21. The percentage of Australians with superannuation has also increased over that period.

Superannuation coverage needs to increase, not decrease. Given the changes Australia faces in labour dynamics, in terms of increasing insecure work, more gig economy workers and increases in broken work patterns, it is imperative that we strive to achieve a universal system.

Universality, and the associated benefits of coverage, scale and pooling, is what makes it possible to provide as many people as possible with a dignified retirement - those Australians who do not have much in the way of superannuation discover in retirement the extent to which their lack of superannuation adversely affects their experience, security and standard of living in retirement.[2]

While changes to improve member experiences are welcome, along with improvements to ensure more equity and adequacy, as the voice of super ASFA believes it is essential that preservation and universality are maintained and enhanced. Any alteration to these principles would result in worse retirement outcomes for members and, indeed, all Australians.

Dignity in retirement is the guiding light of our superannuation system. We welcome a policy focus that galvanises member outcomes through the consideration of adequacy and equity in the system.

RECOMMENDATIONS

ASFA recommends that consideration be given to implementing various measures to address inequities and inefficiencies in the superannuation system and to promote innovation in retirement income streams.

ASFA recommends that:

1 the objective of super legislation should be passed as soon as possible

2 the SG should apply in all circumstances where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation

3 the Low Income Superannuation Tax Offset threshold should be increased to $45,000

4 the compulsory super regime should be extended to include self-employed and gig workers

[1] Mercer CFA Institute Global Pension Index 2023
[2] ASFA, *Retirement Income Review submission*, Pages 16-17

5 unpaid super entitlements should be included in the definition of unpaid 'employment entitlements' for the purposes of the Fair Entitlements Guarantee

6 Capital Gains Tax relief should be provided for mergers of superannuation products/investment options within a fund

7 to support funds in delivering better retirement income products and services

- regulatory relief should be provided for calculators and retirement projections/estimates to allow for the comparison of different types of retirement income products
- government funding should be provided for the preparation and publication of data with respect to different cohorts of members approaching retirement and retirees
- members should be able to top up an account-based income stream, as opposed to being required to close the account-based income stream and commence a new one.

8 intra-fund advice should be expanded to cover transition to retirement

9 government policy settings should support the allocation of private-sector financial capital, including from superannuation sector, to facilitate Australia's net zero transition

10 the Federal Government should commission a comprehensive, independent review of housing affordability, to establish a fact base and assess policy options

11 consideration should be given to reviewing the interaction of superannuation with the Age Pension means test, including the asset test taper rate.

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If you have any queries or comments in relation to the content of our submission, please contact Fiona Galbraith, Director Policy, on 0431 490 240 or by email fgalbraith@superannuation.asn.au.

Yours sincerely

Mary Delahunty

Chief Executive Officer

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1. The retirement system in Australia

1.1.Australia's 'Three Pillar' retirement income system

In order to address the matters considered by the Terms of Reference, a broad background about the evolution of the retirement system in Australia may be of assistance.

Australia has a three pillar retirement income system:

1 a means-tested public Age Pension

2 compulsory superannuation

3 voluntary savings, both inside and outside superannuation

which, when combined, endeavour to provide adequate retirement income to enable Australians to enjoy dignity in retirement.

Australia's three pillar retirement system is relatively low cost when compared with the cost of the public Pay As You Go, earnings related, pension systems prevalent through most of OECD countries, that transfer income directly from workers to retirees. The Age Pension currently costs the government around 2.3 per cent of GDP, compared to an OECD average of 7.9 per cent[3].

It is now recognised that Pay As You Go pension systems are vulnerable to demographic change, leading to greater distortions as contribution rates must continually be increased. The Australian approach to the provision of retirement income is consistent with international best practice, as determined by the World Bank in 1994,[4] and was recognised in the Australia's Future Tax System Review in 2009 (Henry Review) as being capable of responding to the risks Australia faces in the twenty-first century[5].

The Henry Review found that:

> *The retirement income system is facing increasing challenges as the 21st century unfolds. Some are relatively clear to us, including the ageing of the population, longer life expectancies and the fact that many more people will interact with the system. Others are less clear, arising from the diverse range of risks and uncertainties about future economic, social and environmental circumstances faced by all. These challenges will test the sustainability, adequacy, acceptability and coherence of the system, but* ***the three-pillar architecture is well suited for a balanced and flexible response****.*
>
> ***The three-pillar system has strong community support****. The five objectives of the system outlined in the Retirement income consultation paper released in December 2008 — adequacy, acceptability, robustness, simplicity and sustainability — inevitably involve tradeoffs.* ***The present three-pillar architecture broadly addresses these objectives in a reasonable, balanced way. Critically, it also provides flexibility, adaptability and sharing of risk to face the challenges ahead*** (emphasis added***).***[6]

The World Bank more recently has evolved the 'Three Pillar' model to into a 'Five Pillar' framework, incorporating additional inputs such as social insurance schemes and non-financial aspects including family support.[7] The Three Pillar framework, however, remains the most common framework in public policy and pension literature.

[3] *OECD Factbook 2015: Economic, Environmental and Social Statistics*, OECD https://www.oecd-ilibrary.org/economics/oecd-factbook-2015-2016/public-and-private-expenditure-on-pensions_factbook-2015-table170-en

[4] World Bank, 1994, *Averting the Old Age Crisis*, Oxford University Press, London https://documents.worldbank.org/en/publication/documents-reports/documentdetail/973571468174557899/averting-the-old-age-crisis-policies-to-protect-the-old-and-promote-growth

[5] Australia's Future Tax System Review 2009, *The retirement income system: Report on strategic issues* May 2009 https://treasury.gov.au/review/the-australias-future-tax-system-review/retirement-report

[6] Ibid, Page 1

[7] *The World Bank Pension Conceptual Framework* 2008 https://documents1.worldbank.org/curated/en/389011468314712045/pdf/457280BRI0Box31Concept1Sept20081pdf.pdf

1.2. The role of the Age Pension

Australia's taxpayer-funded Age Pension commenced in July 1909 and constitutes an essential component of the retirement income system [8].

1.2.1. Age Pension age

Over the past few years the Age Pension access age has been increased gradually to age 67.

1.2.2. Rate of the Age Pension

Pensions are indexed twice a year, on 20 March and 20 September, to reflect changes in pensioners' costs of living and wage increases. Base pension rates are indexed to the higher of the increase in the Consumer Price Index (CPI) and the Pensioner and Beneficiary Living Cost Index.

Following indexation to price increases, rates are compared to a wages benchmark and, if necessary, increased to meet the benchmark. The wages benchmark ensures that the couple combined rate of pension is at least 41.76% of Male Total Average Weekly Earnings, while the single rate of pension is 66.33% of the couple combined rate.[9]

1.2.3. Eligibility for the Age Pension

Age Pension eligibility is subject to means tests on both assets and income, with most superannuation balances and other financial and non-financial assets included under the assets test but with the family home excluded[10].

The combined effect of the means tests is that in 2022 – 2023 only 64% of Australians of pension age were eligible to receive an Age Pension entitlement, with nearly 70 per cent in total receiving some form of Australian Government pension or other income support payment (including Disability Support Pension, Carers Payment and Service Pension recipients over 66½ years old).[11]

1.2.4. Expenditure on the age pension

The Intergenerational Report (IGR) 2023 highlighted the crucial role played by the superannuation system in supporting the living standards of future generations of retirees while ensuring intergenerational fairness, easing the cost burden of the Age Pension on future taxpayers.

The IGR projects spending on Australian Government Age and Service Pensions is projected to fall from around 2.3 per cent of GDP in 2022–2023 to 2.0 per cent of GDP in 2062–2063 – this represents a significant contribution to the sustainability of the retirement income system.[12] Significantly, when the Intergenerational Report was first published in 2002 it projected that expenditure on the Age Pension would reach 4.6 per cent of GDP by 2041-42[13].

1.3. The role of superannuation

Superannuation contributes greatly to intergenerational equity, ensuring future generations are not exposed to higher tax burdens to finance increasing expenditure on the Age Pension.

The superannuation system in Australia is (near) universal and largely is characterised by defined contribution superannuation funds, with some defined benefit schemes as well, generally in the public sector.

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[8] *Major superannuation and retirement income changes in Australia: a chronology* (Parliamentary Library of Australia, March 2014) https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Library/pubs/rp/rp1314/SuperChron

[9] Department of Social Services, August 2023 https://www.dss.gov.au/seniors/benefits-payments/age-pension#:~:text=The%20wages%20benchmark%20ensures%20the,see%20the%20Services%20Australia%20website%20

[10] https://www.servicesaustralia.gov.au/age-pension

[11] The Treasury, *Intergenerational Report 2023,* Pages 165 and 168 https://treasury.gov.au/publication/2023-intergenerational-report

[12] Ibid, Page 170

[13] The Treasury, *Intergenerational Report 2002*, Page 44 https://treasury.gov.au/sites/default/files/2019-03/2002-IGR-report.pdf

1.3.1. Superannuation Guarantee (SG)

The foundation of Australia's private, occupational, retirement income system is the mandating of contributions by employers through the SG legislation.

SG coverage

Self-employed individuals, as well as those who are unemployed, are not covered under the SG legislation. Individuals in these categories are able to make voluntary contributions and to claim a tax deduction for contributions made from their after-tax earnings or other income.

Employees are also able to supplement the SG contributions made on their behalf by making voluntary contributions.

Broadly speaking, the self-employed, on average, tend to make contributions at a lower rate than employees.

Data from the Australian Tax Office (ATO) reveals that, in 2014-2015, although the self-employed account for around 10 per cent of the workforce, they accounted for only around 5 per cent of total superannuation contributions. Other ATO data suggests that less than 10 per cent of the self-employed made tax deductible contributions to their superannuation accounts in 2014-2015. Given that around 80 per cent of self-employed have at least some superannuation, the ATO data suggests that the self-employed tend to make ad hoc superannuation contributions rather than regular, ongoing contributions, as generally is the case for employees.[14]

It is crucial to strive to achieve near universal coverage in superannuation, through including the self-employed in the SG, especially given the rise in the gig economy. One of the key findings in the OECD Report *Preventing Ageing Unequally* is the need to increase pension coverage, especially for the self-employed and those with non-standard jobs, and moving towards a unified pension framework for all workers.[15]

While it has been argued that the self-employed have business assets that serve as de-facto superannuation, in fact many self-employed simply contract for their personal services. As such many do not have a business that is an ongoing concern, with goodwill, that they can sell on retirement or realisable business assets, and so may struggle to sustain a dignified standard of living in retirement.

Superannuation Guarantee (SG) rate

The current rate of SG contributions is prescribed as 11 per cent of salary/wage and will rise to 11.5 per cent on 1 July 2024 and finally 12 per cent on 1 July 2025.

SG and choice of fund

Generally members are free to choose a superannuation fund into which to have their employer make SG contributions on their behalf:

- upon commencement of employment, an employee may nominate a superannuation fund (choice fund) to which their employer must make their SG contributions
- if the employee does not exercise their right to choose a fund, the employer checks with the ATO whether the employee has an existing fund (stapled fund) into which they must make SG contributions
- if the employee does not have a stapled fund the employer will enrol the employee into the employer's 'default product', selected by the employer, which must be a MySuper product, which is required to meet certain regulatory requirements, including to have a diversified investment strategy and to provide a default level of death and disability life insurance cover on an opt-out basis.

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[14] ASFA, *Superannuation balances of the self-employed*, 2018 https://www.superannuation.asn.au/wp-content/uploads/2023/09/1803-Superannuation_balances_of_the_self-employed.pdf Page 12

[15] OECD *Preventing Ageing Unequally* 18 October 2017 https://read.oecd-ilibrary.org/employment/preventing-ageing-unequally/executive-summary_9789264279087-3-en#page4

1.3.2. Super preserved until retirement

As it is to be used to provide income in retirement, generally superannuation is preserved until age 60 and is tax free after this age.

Superannuation is the ultimate vehicle for saving for retirement. As such, preservation lies at the heart of the superannuation system.

Contributions are made over time and, importantly, are invested for the medium to longer term, generating higher returns for members and providing a source of patient capital for the economy.

Overseas experience has shown how a lack of preservation can lead to substandard outcomes in retirement. For instance, at the onset of the Covid-19 crisis, and with one of the largest and best-funded defined contribution programs in Latin America, Chile held over USD $200 billion in assets (or more than 80 per cent of GDP). Reacting to populist pressures during the pandemic, however, the Congress gave non-retired participants three separate opportunities to tap into their retirement accounts, leaving some 4.2 million participants with zero retirement savings and draining around $50 billion from the system.

In the USA 401(k) retirement accounts are subject to relatively weak preservation requirements, with early access generally available, subject to payment of a tax penalty. An October 2021 poll indicated that 51 per cent of those with the accounts said they have taken an early withdrawal, including 20 per cent who did so during the Covid-19 crisis, according to the poll of 2,225 U.S. adults.[16]

A lack of preservation leads to a substantial proportion of those covered by a pension or superannuation arrangement ending up with no, or substantially reduced, private retirement income.

1.3.3. Member investment choice

Another feature of the Australia superannuation system is that most superannuation funds offer members the opportunity to choose the investment option(s) into which their contributions and/or account balance are allocated.

1.3.4. Role of super in the retirement income system

While a growing proportion of the Australian community is self-sufficient in retirement through superannuation, the purpose of retirement income policy is to achieve adequacy of income, in a sustainable and efficient manner, and the policy challenge of ensuring adequate and broadly equitable retirement income remains. As Australia's superannuation system matures it will serve to improve income adequacy of income and dignity in retirement.

1.4. The role of voluntary savings

The third pillar of the retirement income system is voluntary savings, both inside and outside superannuation.

1.4.1. Tax incentives for voluntary contributions into superannuation

Inside superannuation there are tax incentives for voluntary contributions, over and above mandated employer contributions, including:

- wage and salary earners can ask their employer to make contributions from their pre-tax income, generally described as 'salary sacrifice' contributions – amounts under the cap are taxed in the fund at the nominal rate of 15 per cent, as opposed to being taxed as income in the hands of the individual at their marginal tax rate
- self-employed individuals and small business owners can make a contribution from their pre-tax income, up to a cap, and claim a tax-deduction

[16] Survey: *More Than Half of American Workers Feel Behind on Retirement Savings* | Bankrate

- all individuals are able to contribute from their after-tax earnings, generally known as 'after-tax' contributions, up to the relevant contribution cap. If they choose to claim a tax deduction the contributions are then treated as 'before-tax' contributions (the same as employer contributions)
- a business owner can transfer some/all of the proceeds from the sale of a business into a super fund, subject to certain conditions, without incurring a liability for Capital Gains Tax (CGT).

1.4.2. Policy measures to increase low superannuation balances

There are policy measures aimed at increasing the superannuation balances of select groups of individuals, including:

- government 'co-contribution' – if an individual on a lower income (currently under $58,445) makes an after-tax contribution they may be eligible for a matching contribution of up to $500 per annum[17]
- Low Income Superannuation Tax Offset (LISTO) – designed to compensate low income employees (incomes up to $37,000 per annum) for the tax paid on their taxable contributions (SG or contributions where a deduction has been claimed), which might otherwise exceed the tax that would have been paid on their take-home pay, through the government providing a refund of up to $500 into their super account[18]
- facilities for individuals to
    - split some contributions that have been made their own super by rolling them over to their spouse's super (contributions-splitting)
    - claim a tax offset if they have made a contribution on behalf of their spouse and their spouse's income is below $40,000 per annum (spouse contribution)[19].

2. The purpose and promise of superannuation – dignity in retirement

2.1.The social contract and the retirement system

The retirement income system represents a social contract.

It recognises that older citizens deserve a standard of living reflective of the society in which they live, more than the mere alleviation of poverty.

This social contract gives rise to a number of considerations with respect to the values and priorities that underpin the retirement system, including:

- to what extent should retiree income be funded through superannuation or from tax revenue
- should public support be pre-funded (for example the Future Fund) or Pay As You Go
- striking the right balance between incentives to save and facilitating current consumption
- equitable treatment between the different generations
- extent to which financial risks in the system should be borne by governments or individuals
- the level of retirement income the system should aim to achieve
- the extent to which individuals need advice, guidance and support to make retirement decisions
- the extent to which government/trustees should determine key retirement settings/defaults.

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[17] https://www.ato.gov.au/tax-rates-and-codes/key-superannuation-rates-and-thresholds/government-contributions

[18] Ibid

[19] https://www.ato.gov.au/individuals-and-families/super-for-individuals-and-families/super/growing-and-keeping-track-of-your-super/how-to-save-more-in-your-super/spouse-super-contributions

2.2. The objective of super

In addition to the retirement income system, superannuation also represents a form of social contract. In exchange for the mandatory segregation and investment of a percentage of their income - as opposed to receiving it as take-home pay - Australians have an expectation of a certain standard of living in retirement.

Tax is collected on take home pay (mostly) at greater rates than it is collected within the superannuation system.

By forgoing the collection of tax at individuals' marginal rates, all Australians have a stake in the superannuation system – whether they are working or not.

The core purpose of the superannuation system is to provide an adequate income to ensure that all Australians have dignity and a comfortable standard of living in retirement.

2.2.1. Importance of preservation for draw-down in retirement

Given the purpose of superannuation, the preservation of benefits until retirement age, to be drawn down in retirement, is the cornerstone of the system. As the Committee examines outcomes for members in Australia's retirement system, it is critical to note that the outcomes achieved thus far are a direct result of the system design and a paramount regard for the component of preservation.

Superannuation is for retirement. Any form of early release serves to erode the eventual outcome for members, not only through the amount withdrawn prematurely but exacerbated through the loss of compounding returns over time as well.

For instance, COVID-19 early release payments will have a lasting impact on the retirement savings of many Australians, particularly Millennials (otherwise known as Gen Y). For a person aged about 30 when they applied for COVID-19 early release, the impact on their final retirement superannuation balance could be over $43,000 in today's dollars.

2.2.2. Sustainability and equity

Given the tax concessions afforded to superannuation, it is important to ensure that it is sustainable and equitable.

Equity is central to the integrity of the retirement system. ASFA consistently has advocated for the need to ensure equity in the superannuation system, recommending measures to redress inequities for lower income earners.

2.2.3. The Superannuation (Objective) Bill 2023

ASFA welcomes introduction of the Superannuation (Objective) Bill 2023.

ASFA is strongly committed to formalising in legislation an objective for superannuation that reflects the core purpose of the system in providing an adequate income to ensure all Australians achieve a comfortable or dignified standard of living in retirement.

The draft objective places preservation, retirement income, equity, sustainability and a dignified retirement at its centre, while recognising the ongoing role of the Age Pension. This formulation can underpin much needed policy stability and help anchor future policy debates, in ensuring the age pension remains affordable, that superannuation savings are preserved to retirement, and that the system delivers in an equitable manner for low-income earners and individuals with interrupted work patterns, including women who have taken time out of the paid workforce to provide unpaid care to others.

ASFA supports the passage of the legislation as drafted.[20]

Recommendations	
1	That the objective of super legislation should be passed as soon as possible

[20] Submission to Senate Economics Legislation Committee – *Superannuation (Objective) Bill 2023*, 9 February 2024

3. Members' outcomes in superannuation

3.1. Accumulation phase

The key outcome of superannuation in the accumulation phase is the accrual of a balance, that is then drawn down during the retirement phase.

In June 2021, superannuation account balances for individuals with super (excluding persons with a nil balance) were as follows:

- for individuals over all age groups:
  - the average balance for males was around $189,890
  - the average balance for females was around $150,920
- for individuals aged 60 to 64:
  - the average balance for males was $402,838, with a median of $211,996
  - the average balance for females was $318,203, with a median of $158,806
- for individuals aged 65 to 69:
  - the average balance for males was $453,075, with a median of $213,986
  - the average balance for females was $318,203, with a median of $201,233
- for individuals aged 70 to 74:
  - the average balance for males was $509,059, with a median of $216,564
  - the average balance for females was $451,523, with a median of $212,462.[21]

3.2.Retirement phase

3.2.1. ASFA Retirement Standard

ASFA publishes a Retirement Standard based on an annual expenditure budget for various categories of Australians to fund their needs in retirement.

The Retirement Standard provides a budget for both a modest and comfortable standard of living for both singles and couples, reflecting retiree spending patterns. While no two individuals will have identical expenditure in retirement, stakeholders, including advisers, benefit from having a benchmark, to inform judgments about what is an adequate level of income in retirement.

The Modest Retirement Standard is considered to provide a better standard of living in retirement than could be attained on the Age Pension alone, however, it only allows a retiree to partake in relatively basic activities. The Comfortable Retirement Standard (which assumes home ownership) is $51,278 for singles per year and $72,148 for a couple.

The amount required at age 67 to support income during retirement at the Comfortable Retirement Standard is $690,000 for a couple. This estimate assumes access to a full or part Age Pension as the superannuation balance is drawn down, and that the account balance is exhausted at age 92.[22]

Women generally have lower account balances than men at retirement (refer to Annexure A) and, as they have a longer life expectancy than men, ideally should be retiring with higher balances.

3.2.2. Cost of living in retirement - effect of climate change on general insurance premiums

Climate change is likely to have a direct effect on general insurance premium affordability and accessibility for home and contents insurance and small business, with less of an effect on life insurance.

[21] ASFA, *An update on superannuation account balances*, November 2023
[22] ASFA Research note: *Superannuation balances needed to meet the ASFA Comfortable Retirement Standard,* November 2023

Increasing general insurance premiums will detrimentally affect members' standard of living in retirement.

The ASFA Comfortable Retirement Standard for the December 2023 quarter reflected that insurance premiums rose 16.2 per cent in the 12 months to the December 2023 quarter, which is the largest annual increase since March 2001. Higher reinsurance, natural disaster and claims costs contributed to higher premiums for house, home contents and motor vehicle insurance.[23]

In an Estimates hearing of the Economics Legislation Committee on 14 February 2024, Treasury advised:

- it is performing work on general insurance at a few levels, including working with the Assistant Treasurer and reinsurers, with respect to how the reinsurance pool is operating
- as homes become more expensive, and the risk to them becomes greater, premiums will increase, and the Hazards Insurance Partnership (HIP) and the Disaster Ready Fund (DRF), run by the National Emergency Management Authority (NEMA), are becoming increasingly important
- the Australian Consumer and Competition Commission (ACCC) monitoring report for 2022-23 contains some data about the movement in premiums
- APRA will be performing some work this year with respect to climate vulnerability assessments and what that may mean in the general insurance sector. In the home contents line general insurers have made underwriting losses over the last four years, despite premiums having gone up over that period, which gives a sense that it's being driven by the rising underlying risk
- with respect to the question as to how many people are being priced out of the market entirely - the most reliable data is from the ACCC, collected in 2020, and Treasury understands there is further work underway to provide an updated data set. They indicated they believe an element of this data collection work has been progressed under the HIP transformation and APRA and ASIC are considering ways to expand their data collections.[24]

4. How Australia's superannuation system has performed

4.1. Mercer CFA Institute Global Pension Index 2023

The 15th annual Mercer CFA Institute Global Pension Index 2023 (Index) compares 47 retirement income systems, covering 64 per cent of the world's population.

This is a comprehensive study and serves to inform where policy makers can direct their attention to make improvements to the system.

Australia's retirement income system ranks fifth among these 47 systems around the globe, up from sixth place in 2022. Only the Netherlands, Iceland, Israel and Denmark are considered to be ahead of Australia.[25]

The components of the index are

- Adequacy – this assesses benefits; system design; savings; Government support; home ownership and growth assets
- Sustainability - pension coverage; total assets; demography; public expenditure; government debt and economic growth
- Integrity – regulation; governance; protection; communication and operating costs.

[23] ASFA, Comfortable Retirement Standard, December 2023
[24] Senate Economics Committee, Estimates, 14 February 2024, Page 112
[25] Mercer CFA Institute Global Pension Index 2023
https://www.mercer.com/insights/investments/market-outlook-and-trends/mercer-cfa-global-pension-index/

Each of these high level components is comprised of a range of quantitative measures, with each given a specific weight. For instance, the integrity sub-index considers three broad areas of the pension system:

- regulation and governance
- protection and communication for members
- operating costs.

This sub-index asks a range of questions about the requirements that apply to funded pension plans that normally exist in the private sector.

According to the Index, well-operated and successful private-sector plans are critical because, without them, the government becomes the only provider, which is not a desirable or sustainable long-term outcome. Hence, such plans represent a crucial component of a well governed and trusted pension system that has the long-term confidence of the community. Better scores were achieved by retirement income systems with well developed private pension industries.

The Index found that the Australian system has a sound structure, with many good features, but has some areas for improvement. Significantly it rated Australia 78.4/100 for sustainability and 86.1/100 for integrity, however, it is important to note that it rated Australia only 70.7/100 for adequacy.

4.2.Returns

The OECD *Pensions at a Glance 2021: OECD and G20 indicators* states that the geometric average annual investment rates of return of Australian retirement savings plans were:

- Nominal 6.0% over 5 years; 7.5% over 10 years and 6.2% over 15 years
- Real 4.7% over 5 years; 5.6% over 10 years and 3.9% over 15 years.[26]

Of the 37 countries listed this ranks Australia as follows:

- Nominal 13th over 5 years; 12th over 10 years and 19th over 15 years
- Real 11th over 5 years; 9th over 10 years and 17th over 15 years.

4.3. Fees

According to Rainmaker Information's Superannuation Benchmarking Report published in November 2023, superannuation fees have fallen to 0.93 per cent per annum, the lowest total expense ratio on record.

The Report states that super fees fell by 2 per cent over the previous year. MySuper was the most competitive segment with average fees of 1.00 per cent per annum as at 30 June 2023, reduced from 1.05 per cent per annum, which is the largest fall in the MySuper benchmark fee since 2014.[27]

4.4. Life, TPD and income protection insurance

Insurance is superannuation is characterised by:

- a high admission rate of 98 per cent
- a payout ratio that ranges from 80-95 per cent
- lower distribution and administration costs, that serve to reduce the level of premiums per dollar of cover
- being tax efficient, as premiums are paid from pre-tax income.[28]

The insurance arrangements that apply in the Australian system provide equivalent cover to that typically provided by defined benefit pension schemes in other countries.

[26] OECD, *Pensions at a Glance 2021 : OECD and G20 Indicators*
[27] Rainmaker, *Super fund fees fall to record low,* 13 November 2023
https://www.rainmaker.com.au/media-release/super-fund-fees-fall-to-record-low
[28] ASFA and Deloitte Access Economics, *The future of insurance through superannuation*, 2022, Page 4

5. Outcomes for women, self-employed, employees on insolvency and product mergers

5.1. Women

Economic security for women in retirement is an important unresolved issue.

The occupational nature of superannuation means the nexus between super and employment results in a gender disparity in outcomes. This is exacerbated by persistent gender pay gaps, inequitable unpaid caring roles and policy settings that do not adequately value parental leave. Despite increasing workforce participation by women, there remains a material difference between the retirement incomes of men and women.

Furthermore, given their longer life expectancy, ideally woman should have higher account balances than men of the same age.

While the phenomenon of experiencing time out of the workforce is not confined to women, caring for children, and on occasion for parents or other family members, is most often performed by women.

Furthermore, people returning from parental leave (generally women) frequently return to the workforce on a part-time basis, especially on the birth/adoption of a second or subsequent child.

Women are much more likely than men to be working part-time - almost half of employed women work part-time (43.4 per cent), compared with 16.0 per cent of employed men. For employed women with a child aged 5 or under, 59.3 per cent work part-time, compared with 7.6 per cent of fathers of young children.[29]

ASFA has performed some work on the economic insecurity of women.[30]

5.1.1. Incidence of super and account balances

Both the incidence of having superannuation and average account balances are higher for men than for women, largely attributable to the nexus between superannuation and employment.

By way of example, in June 2021 men held around 57 per cent of total account balances compared with around 43 per cent for women, up from 41.9 per cent four years previously.[31]

Some further information with respect to the relative amounts of superannuation of men and women can be found in the Annexure.

5.1.2. Factors affecting outcomes for women

There are a number of factors which adversely affect women's security in retirement, but the two most significant are broken working patterns and the gender pay gap.

5.1.3. Broken working patterns

People spend periods out of paid employment, or work part-time/casually, for a variety of reasons:

- to care for family – especially children but can extend to other family members, such as parents
- due to illness or injury
- to study
- as a result of redundancy or an inability to find suitable employment
- to have a career break.

While the phenomenon of experiencing time out of the workforce is not confined to women, caring for children, and on occasions for parents or other family members, is most often performed by women.

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[29] ASFA, *Submission to the Retirement Income Review Secretariat — Consultation Paper*, 3 February 2020

[30] ASFA, *Women's Economic Security in Retirement,* November 2019

[31] ASFA, *An update on superannuation account balance,* November 2023, Page 4

Furthermore, people returning from parental leave (generally women) frequently return to the workforce on a part-time basis, especially on the birth/adoption of a second or subsequent child.

According to the Australian Bureau of Statistics (ABS), in 2016-17 the labour force participation rate of people aged 20-74 years was 66 per cent for women and 78 per cent for men. Women are much more likely than men to be working part-time – almost half of employed women worked part time (45 per cent), compared with 16 per cent of employed men, with this proportion rising to three in five (61 per cent) of employed women with a child 5 and under, while less than one in ten fathers of young children worked part-time (8.4 per cent).[32]

5.1.4. The gender pay gap

To the extent possible the design of the superannuation system needs to reflect the fact that, on average, women earn significantly less than men and, as result, have lower superannuation account balances.

The Workplace Gender Equality Agency (WGEA) published *Gender equality workplace statistics at a glance 2022*. According to the WGEA:

- the full-time average weekly ordinary earnings [33] for women are 13.8 per cent less than for men.[34] This has decreased by 0.4 percentage points since the last calculation in May 2021
- among non-public sector organisations with 100 or more employees, the base salary gender pay gap for all employees is 18.3 per cent, and is 22.8 per cent for total remuneration[35]
- the gender pay gap for adult average hourly ordinary time cash earnings [36] for non-managerial employees who work full-time is 8.8 per cent in favour of men and it is 11.1 per cent for all non-managerial employees [37]
- the median undergraduate starting salaries for women are 3.9 per cent less than for men. This gap widens to 14.1 per cent for postgraduate (coursework) graduates [38]
- median superannuation balances for women at retirement (aged 60-64) were 23.4 per cent lower than those for men in 2018-19[39]
- 55.2 per cent of people receiving the aged pension are women.[40]

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[32] ABS *4125.0 - Gender Indicators*, Australia, Sept 2017 https://www.oecd-ilibrary.org/sites/fe1db320-en/index.html?itemId=/content/component/fe1db320-en#indicator-d1e75979

[33] Ordinary time earnings used comprise regular wages and salaries in cash, excluding amounts salary sacrificed. For more information refer to: https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release

[34] Australian Bureau of Statistics (2022), Average Weekly Earnings, November 2021, cat. no. 6302.0, viewed 24 February 2022, https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/average-weekly-earnings-australia/latest-release

[35] Workplace Gender Equality Agency (2021), WGEA Data Explorer, Gender pay gaps (average), viewed 15 February 2022, https://data.wgea.gov.au/industries/1#pay_equity_content

[36] Cash earnings used comprise regular wages and salaries in cash, including amounts salary sacrificed. Estimates of hourly cash earnings have only been produced for employees with a link between earnings and hours. For more information, refer to https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/employee-earnings-and-hours-australia/latest-release

[37] Australian Bureau of Statistics (2022), Employee Earnings and Hours, May 2021, cat. no. 6306.0, Data cube 4, Table 1 non-managerial employees, Number of employees, Average weekly total cash earnings, Average weekly total hours paid for, Average hourly total cash earnings– Rate of pay, Employment status by Sex., viewed 22 February 2022, https://www.abs.gov.au/statistics/labour/earnings-and-work-hours/employeeearnings-and-hours-australia/may-2021'

[38] Quality Indicators for Learning and Teaching (QILT) (2021), Graduate Outcome Survey National, Table 4 Median salaries by gender and level of study, 2009-20211 ($), viewed 22 February 2022, page 8 https://www.qilt.edu.au/docs/default-source/defaultdocument-library/2021-gos-national-report.pdf?sfvrsn=290c8289_0

[39] Figure calculated using data from Australian Taxation Office (ATO) (2021), Taxation Statistics 2018-19: Snapshot Table 5: Chart 12: Median super account balance by age and sex, 2018-19 financial year, viewed 22 February 2022, https://data.gov.au/data/dataset/taxation-statistics-2018-19/resource/2a3f33da-0165-48aa-9716-f68ba4ad24ad

[40] DSS Demographics September 2021 excel file viewed 22 February 2022 (Payment extraction date was on 24 Sept-2021), https://data.gov.au/dataset/dss-payment-demographic-data

5.2. Certain cohorts of Australians are not covered by the SG regime

Only some self-employed people are covered by the SG regime and therefor rely on voluntary contributions to accumulate superannuation.

Across the entire age distribution self-employed people typically have lower superannuation balances than employees. Around 20 per cent of the self-employed have no superannuation, compared with only 8 per cent of employees.

The disparities between the self-employed and employees have not diminished appreciably over the past decade. ASFA has performed some detailed research on superannuation balances of the self-employed.[41]

The rise of the gig economy is leading to an increase in the proportion of self-employed persons – in particular independent contractors.

Economic activity through web-based platforms represents only a relatively small proportion of the broader economy, however, gig economy platforms are expanding to encompass a wider variety of professions and industries. The volume of work done, and the number of workers engaged, in the gig economy is growing rapidly.

These trends suggest that in the decades ahead there will be a lower proportion of jobs for which workers will be covered by the SG regime, which for affected workers will mean lower superannuation savings and for the government will mean increased pressure on budgets from higher Age Pension payments. ASFA has performed some detailed research on superannuation and the changing nature of work.[42]

5.3. Super contributions owed by insolvent employers

In cases where an individual's employment ends in circumstances connected with the insolvency or bankruptcy of their employer and the individual cannot obtain payment of their entitlements from other sources, the Fair Entitlements Guarantee (FEG) provides for the Commonwealth to pay an 'advance' on certain unpaid 'employment entitlements'.

The 'employee entitlements' covered by the FEG are limited and it does not include unpaid superannuation contributions. There have been a number of high profile cases, including restaurant groups, where businesses have become insolvent and superannuation contributions have not been paid.

From the perspective of employees, unpaid superannuation contributions form part of their remuneration and are equivalent to unpaid salary or wages. Without government assistance with respect to unpaid superannuation contributions, many employees will have a substantial shortfall in their superannuation savings and standard of living in retirement.

While proposed changes to payment and reporting requirements for employers (Payday Super) will give the ATO greater visibility of unpaid superannuation contributions, and increased attention is being given to contributions in arrears, it is likely that, even after the implementation of Payday Super, when businesses become insolvent there will continue to be cases of unpaid contributions. In ASFA's view, there is merit in reviewing the treatment of entitlements to unpaid contributions, in cases of insolvency/bankruptcy, with the objective of achieving the maximum possible recovery on behalf of affected employees.

ASFA recommends that, for the purposes of the FEG, unpaid superannuation should be treated the same way as unpaid salary/wages. If subsequently the ATO is able to raise an SG charge against an employer this could be offset any SG related payments made though the FEG.[43]

ASFA estimates including unpaid superannuation in the FEG would cost around $150 million per year, while around 55,000 employees a year would benefit.

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[41] ASFA, *Superannuation balances of the self-employed*, March 2018

[42] ASFA *Superannuation and the Changing Nature of Work: Discussion paper,* September 2017

[43] ASFA, *Pre-Budget Submission*, 25 January 2024

5.4. Consolidation – need for CGT relief at product level

Over recent years consolidation within the superannuation industry has become a key focus for policy makers and regulators.

Since the start of the Your Future, Your Super regime on 1 July 2021, the number of APRA regulated funds has fallen from 140 to just below 100. Fund consolidation can have a positive effect on the super system, through increased scale and improved efficiencies, which enhances member outcomes.

There has been less regulatory focus on consolidation of products within superannuation funds, in particular to reduce the stock of legacy products/investment options - those that are no longer open to new members but need to be maintained for an ever decreasing number of existing members. In many cases legacy products have been caused by changes to regulatory or tax settings that have meant that the product no longer represents an optimal choice for new members.

ASFA estimates that, as of June 2023, legacy products account for around $130 billion of superannuation assets, and around 1 million member accounts. Furthermore, legacy products account for a disproportionate number of under-performing products in the superannuation system – more than 50 per cent of choice products that under-performed in the most recent APRA performance test were legacy products.

The lack of CGT rollover relief at the product/option level is a significant barrier to members transferring to a newer product. In the absence of CGT relief, members would be detrimentally affected as their account balance would be reduced by the imposition of CGT tax on capital gains arising from the sale of assets in the legacy product/option.

These tax consequences on members can be significant. Given this, notwithstanding the fact that a product/option may no longer represent an optimal choice for members, it can prove difficult for a trustee to determine it would be in the best financial interests of members to transfer them to another product/option in the fund.

ASFA recommends extending CGT rollover relief – as already applies for fund mergers – to mergers at a product/option level.[44]

While Budget processes may account for this measure as a cost to revenue, the reality is that the majority of this notional CGT tax would never be collected. In the absence of CGT rollover relief members are likely to remain in the product, there would not be a CGT event, and as such the actual effect on the Budget would be expected to be small.

Extending CGT rollover relief to mergers of products/options not only would result in the reduction in the number of under-performing products/options but would increase scale, reduce costs and increase efficiencies in the remaining products, thereby improving member outcomes. To the extent these products/options achieved higher investment earnings this would generate additional fund taxation.

5.5.Potential measures to address inequities

ASFA recommends that consideration be given to implementing the following measures to address the inequities in the superannuation system.

5.5.1. Payment of super on all paid leave, in particular paid parental leave

Given broken working patterns and the gender pay gap, ASFA has long advocated that the SG should apply in circumstances where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation payments.[45]

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[44] ASFA, *Pre-Budget Submission*, 25 January 2024
[45] ASFA, *The future of Australia's super: a new framework for a better system,* November 2014, Page 27
ASFA, *Submission to the Retirement Income Review Secretariat — Consultation Paper*, 3 February 2020

5.5.2. Concessional tax treatment of super and the LISTO

Concessional contributions to superannuation (generally those made by employers before tax is deducted) are taxed at a flat rate of 15%.

Historically, given that:

- for a member earning up to the tax-free threshold ($18,200) – the rate of income tax is zero
- for a member earning $37,000 – the average rate of income tax they paid was 9.65 per cent

the taxation of concessional contributions at the nominal/headline rate of 15 per cent meant that, for those members, superannuation was not concessionally taxed – it was in fact taxed punitively.

As part of the 2010-11 Budget the Low Income Super Contribution (LISC) was announced, under which an individual with an adjusted taxable income up to $37,000 (the then beginning of the third income tax bracket - increased to $45,000 in 2020-21) would receive a refund of an amount equivalent to the contributions tax paid on their concessional contributions, up to an annual maximum of $500.

In the 2016-17 Budget the government abolished the LISC and replaced it with the LISTO. Approximately 2.46 million people benefited from receiving the LISTO in 2020-21.[46]

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

Any changes to taxation arrangements should be reflected in the design and operation of the LISTO to ensure individuals never pay more tax at a higher rate on their superannuation than they do on their take home pay. Members on the lowest tax bands should receive concessional tax treatment on their superannuation commensurate with that given to higher income earners.

With the increase in the second tax threshold to $45,000 it is appropriate to increase the LISTO threshold to $45,000 as well, to provide members earning between $37,000 and $45,000 with concessional tax treatment in line with what they received prior to the change. Without this change, the tax concessions received by members within that income range is equivalent to only 6 per cent of contributions, lower than for any other income band.

The Government is proposing that from 1 July 2024 the 19 per cent rate be reduced to 16 per cent. Such a change reinforces the need to adjust the LISTO upper threshold as without this the tax concession for superannuation in this income band would be negligible, and significantly below that received by member in higher income bands.

As the amount of any LISTO is determined by the ATO and paid directly into the superannuation accounts of those who have low incomes, the LISTO is an especially well targeted, effective measure that is efficient to administer. The LISTO would be an ideal mechanism to be extended to provide targeted 'top-up' payments to the superannuation of low income individuals with small account balances, who are not in a position to make additional contributions themselves, to enable their super account to establish a material balance, and benefit from compounding returns, from an earlier point in time.

Given this, we have advocated that the LISTO should be extended through some form of additional 'top up' payment to low income individuals with small account balances.[47]

5.5.3. Expansion of the SG regime to include the self-employed and gig workers

Only some self-employed people are covered by the SG regime and therefor rely on voluntary contributions to accumulate superannuation.

In the decades ahead there will be a lower proportion of jobs for which workers will be covered by the SG regime, which for affected workers will mean lower superannuation savings and for the government will mean increased pressure on budgets from higher Age Pension payments.

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[46] ASFA, *An update on superannuation account balances,* November 2023, Page 12

[47] ASFA, Submission to the Senate Standing Committees on Economics, inquiry into *Economic Security for Women in Retirement,* 17 December 2015, Page 6

Given this, ASFA has advocated that the compulsory superannuation regime should be extended to include the self-employed and gig workers.[48]

Recommendations	
2	That the superannuation Guarantee should apply in all circumstances where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation
3	That the Low Income Superannuation Tax Offset threshold should be increased to $45,000
4	That the compulsory super regime should be extended to include self-employed and gig workers
5	That unpaid super entitlements be included in the definition of unpaid 'employment entitlements' for the purposes of the Fair Entitlements Guarantee
6	That Capital Gains Tax relief be provided for mergers of superannuation products/investment options within a fund

6. Choice in the superannuation system

One of the biggest changes over the last few years has been the rise in individuals making decisions about their superannuation, both in the accumulation and retirement phase.

6.1. Choice during the accumulation phase

During the accumulation phase choices have included:

- what structure to invest through - a pooled fund or a Self Managed Superannuation Fund (SMSF)
- which superannuation provider to use
- which superannuation product to acquire
- how to invest – be it apportioning their account balance and allocating contributions across investment options or, if in an SMSF, their asset allocation and individual investments
- the type and level of any life insurance cover.

Significantly, with the transition from defined benefits to accumulation interests, the majority of Australians bear the investment risk on their superannuation. This places great importance on the appropriateness and performance of investment options developed and offered by trustees.

6.2. Choice during the drawdown phase

On retirement accumulation members choose whether to take an income stream and, if so, in what form.

There is a variety of income streams available, including:

- account-based income streams – members choose the size and frequency of income payments (subject to a legislative minimum) and how they want their super invested; they have the option to commute in part or in full at any time and receive a lump sum; and in the event of their death the remaining balance is paid as a death benefit
- transition to retirement income streams – these are account-based income streams that can commence from preservation age, even when the member is still working
- lifetime pensions – these are payable for life; after a cooling off period the member can no longer commute their income stream and, in the event of the member's death after a specified minimum payment period there is no death benefit payable
- innovative retirement income products which provide some or substantial protection against the financial consequences of longevity.

[48] ASFA, *Submission to the Retirement Income Review Secretariat — Consultation Paper*, 3 February 2020

7. Key benefit/value of superannuation

The key benefits of the Australian superannuation system for all Australians, as listed below, are the intentional results of the design of the system.

The benefits are derived from the critical components of that design – preservation and universality. Without these components, the benefits would be lost or severely compromised.

The design principles add significantly to individual fund members through meaningful savings, to the nation through a lower social security burden and allow for investment decisions to be made over the medium to long term, representing the provision of patient capital to benefit the nation.

7.1. Key benefit/value for members – access to investment opportunities

One of the key benefits of superannuation for members is that it provides access to what is effectively a wholesale investment market, utilising the expertise of investment managers and assemble an asset portfolio that maximizes expected return for a given level of risk.

Superannuation allows members to be exposed to a wide diversification of assets, including those only available to wholesale investors, and manages and rebalances that exposures in response to market conditions and other factors.

7.2. Key benefit/value for members – access to group insurance for members

7.2.1. Importance of the role of group life insurance

Group life insurance plays an important role in the superannuation system.

The provision of insured benefits means that those whose working life is adversely affected by disablement, or the beneficiaries of those who die before retirement age, can be placed back closer to the approximate financial position they would have been in had the disablement or death not occurred.

In many other countries the dominant form of private pension system is defined benefit. Such funds provide benefits in the case of death or disability which are similar to those provided by group insurance in Australia.

7.2.2. Major benefits of life insurance in super – distribution and group insurance pooling/rates

It is an old adage that 'insurance is sold, not bought'.

One of the major benefits of life insurance in superannuation is the provision of a level of default group life insurance cover for death and Total and Permanent Disablement (TPD) without individual underwriting. This ensures that members have a base level of cover that a proportion of members, arguably the majority, otherwise would not have had in place.

Members generally are able to increase or decrease the level of cover **–** depending on the benefit design and the terms of the policy in some circumstances this may require an element of individual underwriting.

The other significant benefit of life insurance is group insurance pooling, which tends to result in lower premium rates.

With default group life insurance there is a significantly reduced rate of the insurer being selected against, where an individual receives an adverse medical diagnosis and then applies for life insurance. Given this, insurers can afford not to individually underwrite each member, which significantly reduces its operational expenses, and allows pooling of a large number of lives/sums insured, which can lead to lower premiums.

Individual life insurance through superannuation can benefit from the ability to pay the premiums from a member's superannuation account.

7.2.3. History – defined benefit funds

Historically, defined benefits funds generally incorporated a benefit design whereby, if a member were to die or become TPD, the member's benefit would include a 'future service' component that would approximate the benefit the member would have received at retirement age.

Given the nature of defined benefit funds, this 'future service' component generally was 'self-insured' within the fund. With the increase in accumulation style benefits, death and TPD life insurance cover is achieved through an insurance policy with a life insurance company.

Total and Temporary Disablement (TTD), by way of contrast, does not involve a notional 'future service component' but instead is a form of 'salary continuance' or 'income protection' insurance that is provided through an insurance policy with a life or general insurance company.

7.2.4. Life insurance in super is efficient

When compared to life insurance outside superannuation, life insurance inside superannuation is relatively efficient.

Life insurance is superannuation is characterised by:

- a high admission rate of 98%
- a payout ratio that ranges from 80-95%
- lower distribution and administration costs, that reduces the level of premiums per dollar of cover
- being tax efficient, as premiums are paid from pre-tax income.[49]

7.2.5. Effect of Putting Members' Interests First (PMIF) / Protecting Your Super (PYS) changes

In July 2019 ASFA surveyed its member funds on the effect of the PYS changes on the provision of insurance cover through superannuation.

Respondents to the survey accounted for over a half of the total superannuation accounts in the system affected by the changes. Based on the responses from the survey:

- approximately three million accounts potentially were liable to lose life insurance cover as a result of the changes
- there was an average opt-in rate for life insurance cover of just over 16 per cent of those affected
- the opt-in rate varied significantly between funds, varying from around seven per cent of those members affected to 40 per cent
- what appeared to influence the opt-in rates was the demographics of the funds' members, together with the engagement of members with their fund
- in particular, some public sector and corporate funds achieved particularly high opt-in rates.[50]

The paper also looks at the potential effect of the PMIF changes.

The paper estimates that these changes initially may affect around 1.5 million accounts and up to an additional 100,000 or so accounts a year on an ongoing basis.[51]

Recent APRA data indicates that the reduction in accounts with insurance that has occurred is in line with the 2019 ASFA expectations and the number of members with insurance cover through superannuation has declined substantially.[52]

After the PYS and PMIF measures came into force there was a substantial reduction in the number of lives insured through superannuation for death cover, as indicated by the table below.

Between June 2018 and June 2023 there was a 36 per cent decrease in the number of lives insured and a 21 per cent decreased in associated total premiums. The average premium increased, but the average sum insured also increased by 34 per cent over this period.

[49] Ibid
[50] ASFA, *Implementing the Protecting Your Super changes and Putting Members' Interests First*, October 2019
[51] Ibid
[52] ASFA, *Developments in insurance provided through superannuation*, 28 February 2024

The decrease in the number of lives insured occurred over a period when there was a 12.2 per cent increase in the number of employed persons in the Australian economy, from 12.5 million people to 14.1 million.

Table 1: Death benefit insurance

June 2023	Lives insured	8,513,891
	Annual premium	$1,982 million
	Sum insured	$1,877,135 million
	Average sum insured	$141,140
	Average premium per life	$233
	New business rate	1.7%
	Lapse rate	2.8%
June 2018		
	Lives insured	13,353,936
	Annual premium	$2,514 million
	Sum insured	$2,652,539 million
	Average sum insured	$105,510
	Average premium per life	$188
	Lapse rate	14%
	New business rate	10.8%

Source for this and following tables: [Life insurance claims and disputes statistics | APRA]

There was a similar decrease (by 38 per cent) in the number of lives covered by TPD insurance, albeit off a slightly lower base, as indicated by Table 2. Some funds only offer death cover on a default basis, and generally TPD insurance ceases at age 65, rather than age 70, which is the case for death cover.

Despite a fall in the number insured, aggregate premiums increased, leading to an increase in the average premium charged. There was also a modest increase in the average sum insured, however, there was an even larger increase in aggregate claim payments, placing pressure on the profitability and sustainability of group TPD insurance through superannuation.

Table 2: Total and Permanent Disability insurance

2023	Lives insured	7,597,083
	Annual premium	$2,346 million
	Sum insured	$1,416,510 million
	Average sum insured	$186,450
	Average premium per life	$308
	Lapse rate	3.5%
	New business rate	1.5%
2018	Lives insured	12,170,717
	Annual premium	$2,243 million
	Sum insured	$2,086,645 million
	Average sum insured	$171,450
	Average premium per life	$184
	Lapse rate	7.2
	New business rate	8.1

Between 2018 and 2023 there was a sharp decline in the number of death benefit claims associated with insurance through superannuation, from 15,367 in the year to June 2018 to 10,178 finalised admitted claims in 2023.

This suggests that, due to the PYS and PMIF changes, around 5,000 individuals died without life insurance cover, in line with the decline in the number of lives insured, meaning there were some 5,000 lots of beneficiaries who missed out on payments of some $665 million in aggregate.

Average payouts were in line with the average sum insured. The average death payment in 2022-23 was $133,000, while for TPD the average was $141,000.

7.2.6. Levels of life insurance through superannuation

Almost 10 million Australians have at least one form of life insurance cover (Death, TPD or Income Protection (IP)) provided through superannuation.

In 2021 almost 50,000 new claims were admitted through superannuation Death, TPD and IP insurance policies, totalling $6.6 billion in claims paid. These members, who otherwise may not have had cover, had an average sum insured for Life and TPD of around $136,000 and $4000 per month for IP.[53]

7.2.7. Opportunities for improvement in life insurance in superannuation

There are opportunities to refine the provision of life insurance in super to strengthen outcomes.

Enhancements to policy and access to data potentially could result in a reallocation of up to $1.2 trillion (34 per cent) of current default cover to better align with the life insurance needs of members.

A re-framing of TPD to place a focus on wellness and the potential for a member to return to work, at least part time, could assist almost 83,000 members to return to work - over 40 years this would boost GDP by around $1.9 billion. Early intervention support and broader access to treatment potentially could also reduce social welfare and unemployment costs by $224 million a year by 2062.[54]

Potentially this could extend even further, including focussing on preventative measures such as providing education about measures that can be taken to improve and maintain mental health.

7.3. Key benefit/value for members – income in retirement

The provision of income in retirement is the purpose and key benefit of superannuation.

7.3.1. Importance of preservation until retirement

Given that the purpose of superannuation is to provide income in retirement, the preservation of superannuation until retirement is a critical component of the superannuation system.

7.3.2. Accumulation interest versus defined benefit interests

The vast majority of Australians have an accumulation, or defined contribution, account.

As at June 2023 there were

- 777,000 defined benefit interests
- 229,000 combined defined benefit and defined contribution interests
- over 22 million defined contribution interests.[55]

With an accumulation interest it is the level of contribution that is defined (for example the current rate of SG which is 11 per cent of ordinary time earnings). The contributions are allocated to an account in the name of the member and invested, with the value of the benefit at any point in time being a function of the amount of investment earnings added to the account and the amount of fees deducted.

[53] ASFA and Deloitte Access Economics, *The future of insurance through superannuation*, 2022, Page 4
[54] ASFA and Deloitte Access Economics, *The future of insurance through superannuation*, 2022, Page 4
[55] APRA, *Annual superannuation bulletin - superannuation entities*, issued 31 January 2024

With a defined benefit interest, it is the value of the benefit that is defined – generally it is a function of the number of years of service/fund membership, the member's final average salary (however defined - often an average over the last 3 years) and an accrual rate. The level of contributions is determined by an actuary, having regard to the value of the accruing benefits, and are 'pooled' together and invested, and only drawn up to fund members' benefits upon retirement.

In a defined contribution fund, during the accumulation phase members control their super, including bearing the investment risk. This control includes determining which superannuation fund or product, investment option(s) and the type and level of life insurance cover.

By way of contrast, in a defined benefit fund the investment risk is borne by the fund and the employers funding the benefit, not by the member. Similarly, the nature of a defined benefit is such that the 'future service component' of a defined benefit, in the event a member is TPD or dies, effectively is 'self-insured' from the pool.

7.3.3. Members at retirement

For a significant proportion of accumulation members the amount of superannuation they have accrued at retirement can represent the largest sum of money they have ever owned and controlled, especially if they are not a home owner.

During the forty years in accumulation phase fund members repeatedly are advised that it is 'their superannuation' to engage with and control. Further, as part of periodic reporting, members are provided with their account balance on at least an annual basis, which serves to reinforce a lump sum mentality.

On retirement accumulation members retain control over their superannuation, including determining whether to take an income stream and, if so, in what form.

If an account-based income stream or a transition to retirement income stream, the member controls the investment option(s), the frequency of payments and the percentage amount to be paid, at or above the legislative minimum. Unless in a lifetime pension/annuity, members can also decide from time to time to take one or more lump sums from their superannuation, be it from an accumulation account or a partial or total commutation of an account-based income stream.

For defined benefit members at retirement they generally only have a decision as to when to commence an income stream and, if commutation is available to them, whether to take a lump sum.

7.3.4. Expectations about the uptake of annuities – behavioural impediments to uptake

The nature of defined benefit funds is such that risks, including investment risk and the risk of a member dying or becoming TPD, are pooled.

During the accumulation phase the 'future service component' of a death or TPD benefit is funded out of the pool in a form of 'self-insurance'. When it comes to the retirement phase, however, in the event of a member's death, or that of a reversionary beneficiary, prior to their life expectancy or other date assumed by the actuary, will give rise to what is known as a notional 'mortality credit', that go towards funding the benefits of other members/reversionary beneficiaries who live longer than expected.

Annuities achieve a similar outcome through the pooling of members' benefits.

In providing an annuity with a guaranteed level of income a life insurance company assumes both the investment and mortality risk (members living longer than expected) through pooling members' benefits used to purchase the annuity.

In acquiring an annuity, in exchange for a guaranteed level of income, a member loses access to lump sums, over the long term may not receive the same value of investment earnings on their notional benefit (given the need for the retention of capital/reserving) and, if they die after any minimum guarantee period, but prior to their life expectancy, any 'notional' amount attributable to their benefit will remain in the pool for the benefit of other members, rather than being available to be paid to the member's dependants.

7.3.5. Role of trustees in retirement

The role of the trustee is to provide their members with guidance and support in making informed choices about their retirement.

One element of this is trustees being able to give personalised, targeted advice to members with respect to their options and choices in retirement. If a fund does not have an Australian Financial Services Licence (AFSL) to provide personal financial advice, or is not in a position to perform a full 'fact find' on the member and document the facts and advice in a Statement of Advice.

Given this, the Government's response to the Quality of Advice review will be instrumental in facilitating trustees' ability to assist their member in transitioning to retirement.

Intra-fund advice is less costly to deliver and can prove effective in enhancing members' outcomes.

ASFA recommends that intra-fund advice should be expanded to cover transition to retirement, including the fund's retirement income products and age pension entitlements.

7.3.6. Innovation and uptake of income stream products – regulatory and tax impediments

The current regulatory regime with respect to the provision of personal financial advice acts as a material impediment to the uptake of retirement income stream products.

Trustees' ability to provide guidance to members, including a personalised or targeted 'nudge', has been constrained by regulatory prohibitions and requirements with respect to the provision of financial advice.

Reforms to the regulation of the provision of financial advice, in response to the Quality of Advice Review, should see improvements in the ability of trustees to provide advice about, and to recommend, income stream products.

The pension standards in the *Superannuation Industry (Supervision) Regulations 1994* can act as an impediment to income stream product innovation. Further, the regulatory standards for the retention of capital/reserving required for some income streams with a longevity or market risk component can also act as an impediment.

ASIC's regulatory relief is needed for superannuation calculators and retirement estimates provided to those already in retirement and with respect to specific, as opposed to generic, products.

7.3.7. Retirement Income Covenant

The APRA and ASIC thematic review critiqued the preparedness of funds with respect to the Retirement Income Covenant.

In this context it is important to note that:

- the review was conducted during the first year of operation of Retirement Income Covenant
- a prerequisite to trustees being able to provide personalised, targeted guidance and support to members is the reform of the regulatory regime with respect to the provision of advice
- the relatively low take up rates of retirement income products, other than account-based income streams, generally reflects a reluctance to lose access to lump sums, especially with uncertainties about the need for access to capital for residential aged care, and an understandable and reasonable desire to leave a death benefit to their dependents in the event of their (early) death
- claims of retirees underspending their superannuation in retirement are likely to be overstated, including being affected by a strong survivorship bias, with those who have exhausted their superannuation not being represented in most data sets
- it is difficult to determine practices that would represent an improvement – internationally a number of countries look to Australia with respect to the provision of retirement income.

7.3.8. Level of provision of superannuation income streams in retirement

Through the provision of regular income streams, superannuation is significantly improving income in retirement for nearly 2 million Australians.[56]

Data from the ABS indicates that in 2019-20 around 580,000 households, encompassing over 1 million Australians, were dependent mainly on payments from superannuation. This represents a near doubling of the number of households that are dependent mainly on superannuation in 2009-10.

For those households dependent on superannuation income, around 75 per cent receive less than 20 per cent of their income from a government pension.

Further to this, many more retirees have benefitted from taking one or more lump sum benefits at or during retirement.

In 2021-22 a total of $59 billion was made in superannuation retirement income payments, which exceeded expenditure on the Age Pension that year, which was approximately $51 billion.[57]

7.3.9. Making it easier for fund members to take up retirement income streams

There are a number of steps that could be taken to assist funds to deliver retirement income options to fund members.

Firstly, there are limitations of ASIC's legislative relief for superannuation calculators and retirement estimates.

Legislative relief from requirements with respect to the provision of financial advice does not apply to:

- estimates and calculator results provided to those members who are already in retirement
- estimates and calculator results with respect to specific, as opposed to generic, products.

The ASIC relief also requires that calculators and estimates assume that the Age Pension will increase substantially over the course of retirement, which has the effect of downplaying the need for protection against the financial effects of longevity. Recasting the current legislative relief to apply to retirement income products would support the offering of such products by funds and assist fund members in determining whether a retirement income product is suitable.

Further, the preparation and publication by Treasury of relatively recent data on specific cohorts of members, including those approaching retirement and retirees, would inform policy debate and assist funds in meeting their obligations under the Retirement Income Covenant through the offering of suitable retirement income products. Centralised publication of such data would be more cost effective, efficient and consistent than each fund having to obtain and prepare its own data with respect to retiree cohorts.

Such data could be drawn from:

- HILDA surveys
- ABS surveys with respect to retirement, and household wealth and income generally
- ATO data on income and sources of wealth
- Centrelink data on Age Pension recipients.

Finally, individuals who are eligible to commence an account-based income stream often need to maintain an accumulation account as well in order for contributions to be made for or by them.

Currently there are nearly 700,000 Australians aged 65 and over who have an accumulation superannuation account with employer and/or personal contributions being made into their account.

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[56] ASFA Submission to Treasury: *Superannuation in retirement discussion paper*, 9 February 2024
[57] Ibid

The complexity and cost of superannuation arrangements would be reduced by allowing contributions to be made to an account-based income stream. Such a change would be administratively simple for funds to implement, especially when compared to the current requirement for a member to close an account-based income stream and then start a new one, and would allow the member to retain a single account.[58]

Recommendations
7 That: 1. regulatory relief be provided for calculators and retirement projections/estimates to allow for the comparison of different types of retirement income products 2. government funding be provided for the preparation and publication of data with respect to different cohorts of members approaching retirement and retirees 3. members should be able to top up an account-based income stream, as opposed to being required to close the account-based income stream and commence a new one.

7.4. Key benefit/value for members – guidance and advice

One of the key benefits for superannuation fund members is the provision of information, guidance and advice, both about superannuation generally and specifically about their benefit entitlements.

This can take many forms, ranging from information on the website and in member booklets, to guidance provided through such means as member seminars, to the provision of personal financial advice.

Intra-fund advice is less costly to deliver and can prove effective in enhancing members' outcomes.

ASFA recommends that intra-fund advice should be expanded to cover transition to retirement, including the fund's retirement income products and age pension entitlements.

Recommendation
8 That intra-fund advice should be expanded to cover transition to retirement.

7.5. Key benefit/value for the economy – the role of super in the economy

7.5.1. Fiduciary duty to act in the best interests of members

Under the common law trustees of superannuation funds are subject to an overarching fiduciary duty to act in best interests of their members, which is reflected in a separate legislative covenant to act in the best financial interests of members.

This duty extends to the making of investments. Trustees also need to have regards to other regulatory obligations and requirements, such as the Sole Purpose Test and specific legislative provisions with respect to investments.

7.5.2. Environmental, Social and Governance (ESG) factors

Given that trustees are under a fiduciary duty to act in the best interests of members, this would include taking into consideration ESG factors. Investors are expected to act consistently with APRA's Prudential Practice Guide CPG 229[59].

It is noted that "While APRA considers that climate risks can and should be managed within an institution's broader risk management framework, the financial risks associated with climate change have a number of elements that distinguish them from other financial risks, and necessitate a strategic approach to their management."

[58] ASFA, *Pre-Budget Submission*, 25 January 2024
59 https://www.apra.gov.au/sites/default/files/2021-11/Final%20Prudential%20Practice%20Guide%20CPG%20229%20Climate%20Change%20Financial%20Risks.pdf

Large institutional investors, also referred to as universal owners, who hold diversified portfolios across the global economy, strategically incorporate ESG factors into their decision-making processes to manage risk and seek sustainable returns over the long term. Their unique position enables them to influence market standards and practices significantly to build value for their members.

Investors will consider ESG factors in a number of ways, including:

- integration of ESG Factors into investment analysis: Universal owners integrate ESG criteria into their investment analysis and decision-making processes. They assess potential investments for their environmental impact, social responsibility, and governance practices alongside traditional financial metrics. The rationale is that companies with strong ESG practices are likely to be more resilient and sustainable over the long term, potentially offering better risk-adjusted returns. Some investors may choose to exclude companies from their portfolio on the basis of this analysis or product differentiation- this can be done at a company level or at a sector level.
- Engagement and active ownership: Rather than avoiding companies with poor ESG practices, universal owners often engage with them to encourage improvement. This engagement can take various forms, including direct dialogue with management, voting at shareholder meetings, and collaborating with other investors to manage costs and common outcomes. The goal is to drive positive change within companies and industries, which can, in turn, enhance shareholder value and contribute to a more sustainable global market.
- Use of ESG data and ratings: To inform their decisions, universal owners rely on a range of ESG data and ratings provided by third-party firms. These resources help investors assess the ESG performance of potential and current investments. Some investors will also use proprietary research.
- Incorporating ESG into portfolio construction: When constructing portfolios, universal owners consider the ESG performance of investments as part of their asset allocation strategy. This may involve setting specific ESG criteria for portfolio inclusion or exclusion and balancing the portfolio to achieve desired ESG exposure while managing risk and pursuing financial returns.
- Adherence to global standards and principles: Many universal owners commit to global ESG-related standards and principles, such as the United Nations Principles for Responsible Investment (UN PRI). Adherence to such frameworks demonstrates an investor's commitment to responsible investment and can guide their ESG decision-making processes.
- Monitoring and reporting: Universal owners monitor the ESG performance of their investments and report on their own ESG practices and outcomes.

7.5.3. Effect of climate change on the value of assets

Climate change impacts asset valuations in Australia and internationally, affecting various sectors including real estate, agriculture, and infrastructure. The physical and transitional risks associated with climate change are reshaping the value of assets across the country.

Physical risks, such as increased frequency and severity of extreme weather events—bushfires, floods, and droughts—can directly impact the valuation of physical assets. For instance, real estate properties in areas prone to bushfires or flooding are experiencing depreciation in value due to higher insurance premiums and the increasing costs of climate resilience measures. The Australian Property Institute has highlighted the importance of incorporating climate risk into property valuation processes, suggesting that properties in high-risk areas could see a decline in demand and, consequently, in value.[60]

60 https://www.api.org.au/wp-content/uploads/2023/06/Valuation-at-Risk-Final.pdf

The agricultural sector, a cornerstone of the Australian economy, is also facing significant valuation challenges due to climate change depending on the location and nature of the assets. Droughts and unpredictable weather patterns disrupt production, leading to volatility in agricultural asset values. A study by the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) indicates that climate variability has already affected the profitability and, by extension, the valuation of agricultural lands across Australia.[61]

Transitional risks associated with the shift towards a low-carbon economy are affecting the valuation of assets in the energy sector. As Australia moves towards renewable energy sources, fossil fuel assets are at risk of becoming stranded assets, losing their value prematurely. A report by the Climate Council of Australia in 2016 warns of the potential devaluation of coal, oil, and gas assets due to regulatory changes and shifts in market preferences.[62]

Infrastructure assets are not immune to the effects of climate change. Investments in infrastructure must now consider future climate scenarios to ensure resilience, potentially increasing upfront costs but preventing greater losses in the long term. The Reserve Bank of Australia, in their Bulletin dated June 2023, acknowledged the need for financial institutions to integrate climate risk assessments into their valuation models to safeguard against future devaluations.[63]

Climate change is impacting asset valuations in Australia through both physical and transitional risks. The need for adaptive strategies and the integration of climate risk into valuation processes is becoming increasingly apparent across all sectors. While some assets and sub sections of industries will face devaluation, assets that serve to mitigate the effects of climate change are likely to see their valuations vary depending on the success of public policy measures in this space.

7.5.4. The role of superannuation in Australia's net zero transition

APRA-regulated superannuation funds will play an important role in the shared challenge to transition the Australian economy to net zero emissions.

Australia’s transition to net zero will require a fundamental shift in the structure of the Australian economy. For the Australian economy (as is the case globally), decarbonisation will require not only a sustained rise in the level of new fixed capital investment, but a fundamental shift in the composition of that higher investment spending towards physical assets whose deployment is consistent with the economy-wide transition to net zero.

Required new fixed capital investment will entail spending on new low-emissions assets – that is, physical assets that contribute negligible emissions to the production process in which they are embedded – but also upgrades to, and repurposing of, existing high-emission assets to transition these to low-emission assets.

APRA-regulated superannuation funds will be a key source of funding for new fixed capital investment in the real economy that will support and help progress Australia’s decarbonisation. Superannuation is part of the broader financial sector that intermediates the savings of households with the funding needs of the real economy for fixed capital investment. While the superannuation sector holds assets across the globe, its relatively high exposure to, and holdings of, Australian assets means that – as a sector – superannuation will have a far greater role in the Australian economy’s transition to net zero compared with other economies.

61 https://www.agriculture.gov.au/abares/products/insights/climate-change-impacts-and-adaptation#recent-changes-in-seasonal-conditions-have-affected-the-profitability-of-australian-farms
62 https://www.climatecouncil.org.au/resources/carmichael-coal-report/
63 https://www.rba.gov.au/publications/bulletin/2023/jun/climate-change-and-financial-risk.html#:~:text=Physical%20risks%20from%20increased%20variability,the%20value%20of%20financial%20investments.

In the context of Australia's net zero transition, government policy settings will determine – to a great degree – the scale, distribution and timing of fixed capital investment. From the perspective of the superannuation system – as a key source of funding for that investment – policy requires combination of reforms and initiatives that, in broad terms, will help private-sector financial capital flow to where it will be required.

This includes, for example, policy that promotes good-quality disclosure of climate-related risks faced by entities across the Australian economy. This implies market pricing that better reflects those risks, and would facilitate a more efficient and sustainable allocation of superannuation capital. Ultimately, this would help support Australia's net-zero transition that avoids the worst impacts of climate change while limiting disorderly economic or financial adjustments – and thus support the wellbeing of Australians.

Recommendation	
9	That government policy settings support the allocation of private-sector financial capital, including from superannuation sector, to facilitate Australia's net zero transition.

7.5.5. Contribution to national saving

Through its investments, superannuation plays a critical role in the nation's economy.

Superannuation makes a significant contribution to the economy and driving economic development, including supporting the capitalisation and financing of listed companies. As superannuation investments are professionally managed and diversified, superannuation funds invest in the most productive assets in the Australian economy.

The extent to which superannuation adds to national saving depends on the extent to which money contributed to superannuation is offset by reductions in other forms of saving.

In 2012 Treasury estimated the boost to private (national) saving was about 1.5 per cent of GDP and, as the SG rises gradually from 9 to 12 per cent over the next decade, projected that would rise significantly to 2.5 to 3 per cent.[64]

7.5.6. Supporting long-term fiscal sustainability

As per above, the Inter Generational Report projects spending on Australian Government Age and Service Pensions is projected to fall from around 2.3 per cent of GDP in 2022–2023 to 2.0 per cent of GDP in 2062-2063.[65]

This reflects that superannuation has made a significant contribution to supporting long-term fiscal sustainability.

7.5.7. Providing finance to the economy and helping stabilise financial markets

According to the Reserve Bank, the Australian superannuation sector appears to have supported the stability of the financial system by adding depth to financial markets, and providing a stable source of finance for other sectors.

In particular, since the global financial crisis Australian superannuation funds have provided an alternative source of finance to Australian firms and banks, allowing them to raise equity in the domestic share market, or private credit and alleviating some of the funding pressures associated with the increase in global risk aversion and the pull-back from domestic and global debt markets. Around half of net equity financing for banks and private non-financial corporations since the financial crisis has been sourced from superannuation funds.[66]

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[64] Treasury *Compulsory superannuation and national saving,* 30 March 2012

[65] The Treasury*, Intergenerational Report 2002*, Page 44
https://treasury.gov.au/sites/default/files/2019-03/2002-IGR-report.pdf

[66] Reserve Bank of Australia, *Submission to the Financial System Inquiry*, March 2014
https://www.rba.gov.au/publications/submissions/financial-sector/financial-system-inquiry-2014-03/superannuation.html

7.5.8. Participation in equity markets

According to the Rainmaker Information Institutional Roundup Report in December 2021, the exposure of Australian superannuation funds to the Australian share market is falling.

The Report indicated that

- in the four years up to 30 June 2021, the share of the Australian Stock Exchange (ASX) market capitalisation owned by Australia's superannuation funds fell from 39 per cent to 36 per cent
- funds, especially all-profit-to-member funds, have been shifting towards global assets, property, and alternatives
- as of June 2021 superannuation funds, on average, held only 27 per cent of their assets in the ASX.[67]

This demonstrates that funds, through their focus on member returns, are increasingly seeking broader markets, international exposure and alternative asset classes to deliver for their members.

Australian institutional investors are significant providers of capital in international markets.

7.5.9. Housing

The main cause of inflated house prices is the lack of supply for the level of demand.

Given the constraints on supply, any measures to increase the amount available to purchasers will only serve to increase demand and push up prices further.

Superannuation funds are exploring the possibility of investing in social and affordable housing, however, at this stage this is a relatively under-developed asset class.

Over the last decade or so there have been several comprehensive reviews that have rigorously assessed the superannuation system. Not one of these reviews has recommended the early release of superannuation for housing deposits, while several have made recommendations to the contrary.

The effect on the housing market of the early release of super for housing deposits would be to increase house prices. With the take-up of the measure, additional purchasing power being made available to a broad group of first-home buyers would be competitively bid into higher house prices, exacerbating the current upswing in the house price-credit cycle.

Further to this, the measure would risk reducing access to, and the affordability of, home ownership for those who have relatively low superannuation balances, generally low income earners, and thus less funds available for a housing deposit. Even with access to additional funds, these members risk being priced out of the first home market.

The resulting higher house prices will necessitate bigger deposits and increased mortgages, so the prospect of home ownership could become even more out-of-reach for low income earners.

Superannuation funds increasingly are investing in residential property, especially in the relatively new build-to-rent sector, and through investment in Government backed bonds issued by the National Housing Finance and Investment Corporation (NHFIC) is a key source of funding for social and affordable housing. Such investment has the capacity to increase housing supply and improve tenure and affordability in the rental market.

The problem of unaffordable housing and declining levels of home ownership cannot be solved through the early release of superannuation policy and in fact is likely to exacerbate it.

[67] Rainmaker Information *Institutional Roundup Report,* 10 December 2021
https://www.rainmaker.com.au/media-release/super-fund-influence-over-the-asx-is-falling

Improving housing affordability must be tackled more holistically, however, there is a lack of consensus, co-ordination, and cohesiveness across Federal, State and Local Government in addressing the underlying issues. What is needed is a national approach to improving the affordability of housing, and so we welcome the Department of Social Security Issues Paper on *Developing the National Housing and Homelessness Plan* – Issues Paper[68] and continuing conversations with government on the mechanisms of the Housing Australia Future Fund (HAFF).[69]

Given the need for a national approach, ASFA has recommended that the Federal Government commission a comprehensive, independent review of housing affordability, to establish a fact base and assess policy options.[70]

Recommendation	
10	That the Federal Government commission a comprehensive, independent review of housing affordability, to establish a fact base and assess policy options.

8. Members' experience of super – death benefits and insurance

8.1. Claims experience – death benefits & determining beneficiaries

Death benefits in superannuation are different to other financial products.

As superannuation is held on trust for the members, the terms of the trust deed, applied in conjunction with the *Superannuation Industry (Supervision) Act 1993* and regulations, determine how a death benefit can be distributed.

In the majority of superannuation products the trustee retains a discretion to determine how to distribute the benefit between the eligible beneficiaries, generally dependants of the member, and the estate and in which proportions. In addition , the fund's governing rules may permit the trustee to be bound by a binding nomination made by the member.

Where the trustee retains a discretion as to the distribution of the death benefit, they will have regard to various factors to determine how to pay the benefit. These include whether the member had nominated one or more preferred beneficiaries, whether the beneficiaries are eligible to receive the benefit, the extent to which beneficiaries were dependant on the member, and how the member's estate will be distributed.

Once the trustee has made an initial decision as to who to pay, they write to all the known potential beneficiaries to advise them of their decision as to who will receive payment and how it will be divided. Once this information has been received, the potential beneficiaries have 28 days to respond and confirm they are satisfied with the decision or to request in writing that the trustee review the decision.

If requested the trustee must review the decision and may request that the potential beneficiaries provide more information to assist with their review. The trustee will then communicate the results of their review to all potential beneficiaries.

Potential beneficiaries have 28 days from the date they receive a final notice about the trustee's decisions to lodge a complaint with the Australian Financial Complaints Authority (AFCA) about the decision.

If the member has made a binding death benefit nomination, akin to a testamentary disposition, the trustee will need to determine whether the nomination is valid.

[68] Department of Social Security Issues Paper on *Developing the National Housing and Homelessness Plan* – Issues Paper https://engage.dss.gov.au/developing-the-national-housing-and-homelessness-plan/developing-the-national-housing-and-homelessness-plan-issues-paper/
[69] Department of Finance, *Housing Australia Future Fund* https://www.finance.gov.au/government/australian-government-investment-funds/housing-australia-future-fund
[70] ASFA, Housing Affordability and Superannuation: ASFA Policy & Research Paper, March 2021

Given the risk of 'double jeopardy', where the trustee may need to pay a second death benefit if AFCA were to determine that a different beneficiary is entitled to some or all of the benefit, generally no portion of the death payment will be paid until after all issues have been resolved.

8.2. Claims experience – TPD and medical evidence

In order to determine whether a member is TPD the trustee and insurer will need to determine whether the member is unable ever again to work in any occupation for which they are reasonably suited.

A member generally will be considered totally and permanently disabled if:

- they have ceased work, for a specified waiting period, solely as a result of an illness or injury; and
- their injury or illness means that they are incapable of ever being gainfully employed in any occupation for which they are reasonably suited, based on their education, training or experience, or any occupation for which they reasonably may become suited with further education, training or experience.

This necessitates the provision, analysis and assessment of complex medical and occupational evidence. The process of obtaining such evidence from the member's medical practitioners and occupational therapists can be iterative in nature and take some time to collect and assess.

Analysis of medical and occupational evidence can prove challenging, especially when there has been a significant period between when the member ceased work and the application is made for the TPD benefit, given the need to determine the severity of the illness or injury at the time of ceasing work and whether it was the sole cause of the member's inability to work. The significant rise in mental illness over the past few years has also contributed to the complexity of determining whether a member is TPD.

8.3. Lifting of service levels - development of key guidance principles

ASFA has commenced work with our members to develop measures to improve outcomes for members.

Potential activity in this space includes examining the possibility of:

- improving outcomes with respect to death benefit payments through enhancing disclosure about death benefits on periodic member statement, with a view to increasing member engagement
- permitting the acceptance of binding death benefit nominations electronically
- developing principles/industry guidance to endeavour to ensure that 'straightforward'[71] death benefit claims are finalised within 90 days; and
- mapping the end to end lifecycle of death benefit payment and insured claim processes, with a view to identifying key issues and gaps, determining the root cause of blockages contributing to complaints, identifying any opportunities for improvement and benchmarking against industry best practice.

9. Interconnectedness with social security and aged care

The two main areas of social public policy that interact with superannuation, and affect outcomes for members, are social security and aged care.

9.1. Interconnectedness with Social Security

The main interaction between superannuation and the social security system lies in the income and asset tests for the Age Pension.

The Age Pension has income and asset free areas and limits – once a member is over the free area, they receive a lower pension until they reach the limit or cut off point.

[71] AFCA has referred to the concept of a 'straightforward case' in the context of the payment of a death benefit, however, it has not been defined AFCA tells funds to review death benefit payout processes – Professional Planner

9.1.1. Income test

Once a member has reached Age Pension age, assessable income for the income test can include deemed income from any balances in superannuation, irrespective of whether the balance is in the accumulation phase or is being drawn down through an account-based pension.

9.1.2. Asset test

If the member is over Age Pension age, or is receiving payment from their super, their superannuation can be assessable under the asset test.

How it is assessed in draw-down phase depends on the type of income stream being paid, from fully assessable to exempt.

9.1.3. Effect of the asset test taper rate – the 'asset test trough'

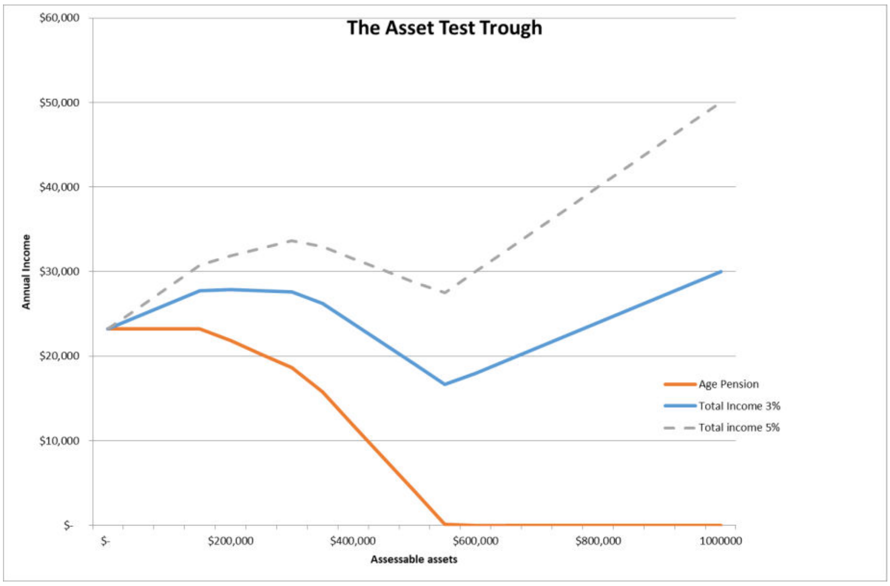
In 2017 the age pension assets taper rate, then $1.50 less income per fortnight for every $1,000 extra in assets, was increased to $3.00.

A number of groups have commented on the harshness of the asset test withdrawal rate and that consideration should be given to reviewing it.

The first recommendation made by the Mercer Index, to increase the overall index value for the Australian system, was to moderate the assets test on the means-tested age pension to increase the net replacement rate for average income earners.[72]

A 2018 paper by Anthony Asher & John De Ravin analysed the integration between the superannuation and means testing systems, including assessing age pension entitlements foregone as a result of owning assets.[73]

The paper concluded that there is an 'asset test trough' – in other words, within a particular range of assets, the loss of some age pension through having more assets can results in less total income. Where the assets test produces a lower Age Pension entitlement than the income test, a member's annual income declines with increasing assets because under their modelling the income from the assets is less than the Age Pension foregone.



Note: Based on a single home owning pensioner

[72] Mercer CFA Institute Global Pension Index 2023, Page 43
[73] Asher, Anthony & De Ravin, John *The Age Pension means tests: contorting Australian retirement*, 2018 https://www.actuaries.asn.au/Library/Events/FSF/2018/TheAgePensionMeansTestsPaper.pdf?utm_medium=email&utm_campaign=FSF%20NEWSLETTER%20-%20Number%201%20-%20SPECIAL%20MAJOR%20EVENT%20EMAIL&utm_content=FSF%20NEWSLETTER%20-%20Number%201%20-%20SPECIAL%20MAJOR%20EVENT%20EMAIL+Preview+CID_598e314d0ccd589a172d4309468e15c9&utm_source=Campaign%20Monitor&utm_term=The%20Age%20Pension%20means%20tests%20contorting%20Australian%20retirement

National Seniors has produced a Fact Sheet on the Age Pension asset test taper rate and why the current taper rate is a disincentive to save. According to National Seniors, calculations show there is a dip in the total income at the current taper rate compared to other scenarios.[74]

The National Seniors Fact Sheet identifies that, in addition to Asher and De Ravin, Jack Hammond and Terrence O'Brien calculated the effect of the changes in 2017 and showed a similar issue, concluding that the Age Pension changes were unfair to retirees with savings between $400,000 and $1 million.[75]

We note that spending levels in retirement are a function of both income and the drawing down of capital, so having more in superannuation can still be to a member's advantage.

APRA recommends that consideration should be given to reviewing the interaction of superannuation with the Age Pension means test, including the asset test taper rate.

Recommendation
11 That consideration should be given to reviewing the interaction of superannuation with the Age Pension means test, including the asset test taper rate.

9.2. Interconnectedness with Aged Care

The key to getting the model of aged care funding right, especially with respect to residential aged care, is to ensure that the right balance is struck between government funding and 'user pays'.

To the extent there is an element of user pays, it is imperative that members are able to accrue as much super as is (reasonably) possible, to provide them with financial security in retirement and afford them with the ability to make optimal choices for their circumstances.

9.2.1. Members – Refundable Accommodation Deposits

Currently, charging arrangements for residential aged care are complex, involving multiple components, means testing and capped fees. Among other things, participants have a choice between paying a Refundable Accommodation Deposit (RAD) or paying a higher daily fee.

The prospect of having to provide a RAD is a key influence on members wanting to retain access to lump sums in retirement, in particular members who do not own their own home, and therefore do not have equity they can access.

ASFA has pointed out that, despite recent commentary on the level of superannuation balances when members pass away, it is worth acknowledging that RADs are actually a much greater source of inheritances than are superannuation balances, by a factor of three to one.[76]

9.2.2. Superannuation funds – possible investment in residential aged care property

There are possibilities for superannuation funds to assist with the provision of residential aged care through holding interests in the property assets used to provide aged care accommodation services, either directly or indirectly.

9.2.3. Reduction in cost of Age Pension due to super can be directed towards Aged Care

The 2023 IGR highlighted pressures on future government expenditure on aged care.

The IGR states that Australian Government spending on aged care is projected to increase as a proportion of GDP from 1.1 per cent in 2022–23 to around 2.5 per cent in 2062–63. This is caused mainly by projected increases in spending on residential care, in line with the growth in the number of people aged 80 and over.

[74] National Seniors, *Fact Sheet: Age Pension asset test taper rate* https://nationalseniors.com.au/uploads/Taper-Rate-Fact-Sheet-for-Media-release-002-.pdf
[75] Hammond and O'Brien, *Age Pension taper rate creates a potential trap for retirees,* updated by Janine Mace 10 June 2022 https://www.superguide.com.au/retirement-planning/super-danger-caught-retirement-trap
[76] ASFA, *Submission to Aged Care Taskforce – Consultation on Aged Care Funding*, 31 August 2023

The bulk of the growth in costs as a proportion of GDP and per person occurs in the latter part of the projection period, where the population ageing is most pronounced.[77]

When the IGR was first published in 2002 it projected that expenditure on the Age Pension would reach 4.6 per cent of GDP by 2041-42.

Significantly, the 2023 IGR projects spending on Australian Government Age and Service Pensions is projected to fall from around 2.3 per cent of GDP in 2022–2023 to 2.0 per cent of GDP in 2062–2063. This represents a significant contribution by superannuation to the cost of the Ager Pension, that can be directed towards the cost of Aged Care.

9.3. Interoperability with the Social Security, Aged Care and Taxation systems

There is increasing interaction between the superannuation system and the social security, aged care and taxation systems.

Given this, it will be critical to ensure the interoperability of the various systems used to store and report data, including consistency in the use of terminology, taxonomies and definitions, the format of data storage and transmission, and security protocols.

10. The effect of changes in technology

Over the past decade or so technology has moved at a rapid pace, especially with respect to the use of artificial intelligence and machine learning.

10.1. Mobile technology

The development and uptake of mobile technology, such as mobile ’phones, tablets and laptops, has improved significantly the ability for members to engage with their superannuation. Given this, superannuation fund trustees now offer interactive, personalised, online experience to their members, including applications for mobile ‘phones and tables and online member access/portals on their websites.

10.2. Superannuation transactions

For superannuation funds, key stakeholders include:

- those making contributions for, or on behalf of, members (generally employers)
- superannuation fund members themselves
- clearing houses
- approved deposit institutions
- custodians
- investment managers
- insurers
- the ATO
- other superannuation funds.

The increases in computational speed and the availability of data means that previously resource intensive processes that once were not feasible now are readily accomplished. Superannuation funds increasingly utilise clearing houses services and have implemented in-house technology solutions for receiving and allocating contributions to member accounts and reporting data to the ATO.

[77] Australian Government, *Intergenerational Report 2023 Australia’s future to 2063*, Page 160

10.3. SuperStream

The development of the SuperStream gateway transaction network, including the Gateway Network Governance Body, is an industry-wide technology solution to make and allocate contributions, effect roll-overs between funds and report data to the ATO. SuperStream links payment transactions in the banking system with the data associated with the transaction and has increased efficiencies significantly.

10.4. The risk of cyber crime and fraud through identity theft and scams

The increasing move to electronic transactions, in particularly to the remote initiation of transactions, is not without its risks – especially the risk of cyber crime and fraud.

The SuperStream gateway transaction network requires that connections between originating parties and the gateway network, and the gateway network and end points, be through login codes and password protected, together with the encryption of data between gateways, to mitigate the risk of interception and alteration of the data. Where transactions are passed through a chain of intermediaries, however, any security measures only are as strong as the weakest link in the chain.

Due to the increasing size of member balances, exacerbated by the fact that superannuation is not accessed frequently like a transaction account, the risk of identity theft and scams is a growing concern in the superannuation industry. The ATO's SuperTick service validates a new member's details against the ATO's records of taxpayers, to mitigate the risk of a fake superannuation account being set up, however, the risk of identity theft, where a fraudster impersonates a member to access their account, or of a member being 'scammed' and convinced to roll-over their superannuation or take a lump sum, remains.

ASFA-ASP Services facilitates a fraud forum to collaborate on mitigating emerging cyber and fraud crime risks. Through this collaborative forum, ASFA-ASP Services facilitates sharing threat data and information between members to prevent, detect and respond to ever increasing fraud risk.

11. Opportunities for improvement in the super system

ASFA makes the following recommendations to improve the equity of the superannuation system:

1 that the objective of super legislation should be passed as soon as possible

2 that the SG should apply in all circumstances where income is replaced as a result of a workplace or legislative entitlement to receive a salary or wage, such as paid parental leave, salary continuance payments or worker's compensation

3 that the LISTO threshold should be increased to $45,000

4 that the compulsory super regime should be extended to include self-employed and gig workers

5 that unpaid super entitlements be included in the definition of unpaid 'employment entitlements' for the purposes of the Fair Entitlements Guarantee

6 that CGT relief be provided for mergers of super products/investment options within a fund

7 that:

- regulatory relief be provided for calculators and retirement projections/estimates to allow for the comparison of different types of retirement income products
- government funding be provided for the preparation and publication of data with respect to different cohorts of members approaching retirement and retirees
- members should be able to top up an account-based income stream, as opposed to being required to close the account-based income stream and commence a new one

8 that intra-fund advice should be expanded to cover transition to retirement

9 that government policy settings support the allocation of private-sector financial capital, including from superannuation sector, to facilitate Australia's net zero transition

10 that the Federal Government commission a comprehensive, independent review of housing affordability, to establish a fact base and assess policy options

11 that consideration should be given to reviewing the interaction of superannuation with the Age Pension means test, including the asset test taper rate.

ANNEXURE - Economic security for women in retirement

Extent of issue

Economic security for women in retirement is an important issue.

Despite increasing workforce participation by women, there still remains a disparity between the retirement incomes of men and women.

Average superannuation balances – across all ages

For people across all age groups with superannuation (excluding those with a nil balance) the average balances achieved in June 2021 were approximately $189,890 for men and $150,920 for women.[78]

Average and median superannuation balances – around retirement (ages 60 to 64)

Average superannuation balances around the time of retirement (ages 60 to 64) in June 2021 were $402,838 for men and $318,203 for women.

Median superannuation balances were significantly lower, at $211,996 for men and $158,806 for women, which reflects the substantial proportion of people who have nil, or very little, superannuation.[79]

In this age group around 23 per cent of women have no superannuation, compared to 13 per cent of men.[80]

Median superannuation balances – on or after retirement (from age 65 onwards)

The median superannuation balances from age 65 in June 2021 were as follows:

Age 65 to 69	Men	$213,986	Women	$201,233
Age 70 to 74	Men	$216,564	Women	$212, 462
Age 75 or more	Men	$174,179	Women	$168,973[81]

Share of superannuation assets

Males held around 57.0 per cent of total superannuation assets, with females 43.0 per cent, up from 41.9 per cent four years previously.[82]

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[78] ASFA, *An update on superannuation account balances,* November 2023, Page 4
[79] Ibid, Page 4
[80] Ibid, Page 21
[81] Ibid, Page 8
[82] Ibid, Page 4