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RE: Senate Economics Legislation Committee – Superannuation (Objective) Bill 2023

The retirement income system should work for all Australians.

Legislating an objective of super will help address complexity and confusion about what super is for, and how it fits into our broader retirement income system – so long as the objective is measurable, and genuinely informs future policy direction. By developing a consensus-based standard for the super system, the objective will help direct policymakers' attention towards the retirement outcomes achieved by future policy proposals. If implemented properly, it will also direct policymakers to address issues that prevent good retirement outcomes.

Our submission calls for the following:

1. The government should legislate an objective of super.
2. Unqualified statements about insurance should be removed from the proposed Bill's EM
3. The Federal Government must improve the equity of the super system if it wants to deliver on the objective.
4. Publishing modelling around the economic impacts of retirement income policy proposals is more useful than a statement of compatibility.
5. The objective of super should be accompanied by regular and member-centred reviews of the retirement income system.

1. The government should legislate an objective of super.

We support the wording of the objective, and the proposed Bill's Explanatory Materials (**EM**), because they reflect the retirement outcome the super system should achieve (a 'dignified retirement') and how superannuation policy settings are intended to deliver this outcome (preserving savings, alongside government support).

2. Unqualified statements about insurance should be removed from the proposed Bill's EM.

Section 1.20 of the proposed Bill's EM states:

“Given its broad reach, access to affordable group insurance is an important benefit of the superannuation system and its provision is generally consistent with the objective. Through group insurance, the superannuation system provides a safety net that can deliver valuable protection to the community and meets members’ needs at reasonable cost.”

Despite minor amendments we continue to have serious concerns about the wording in this section of the EM, which we raised in our October 2023 submission. This wording makes unsubstantiated, qualitative assessments about the perceived role and benefits of group insurance. This statement is at odds with an established body of evidence, which raises concerns about value for money and significant protection gaps in group insurance.^{1 2 3} We reiterate the need for the Government to act on the Productivity Commission’s recommendation for an independent review of insurance in super.

Even if the claims made in the EM hold true in the current context, this may not be the case in the future. Safety nets outside of super are constantly evolving as is group insurance itself (e.g. the rise of the activities of daily living (**ADL**) tests which make it difficult for some people to claim). As a result, the relative value of group insurance may change over time. Policy makers should not be constrained by an EM which makes universal claims about the benefits of insurance in super. Ultimately, the EM accompanying this Bill is not an appropriate place to weigh up the benefits of specific aspects of the superannuation system.

3. The Federal Government must improve the equity of the super system if it wants to deliver on the objective.

The proposed objective acknowledges that retirement outcomes must be delivered ‘in an equitable way’. To deliver on the objective the Federal Government must undertake urgent work to address barriers to the equity of the super system.

People with higher incomes disproportionately benefit from government support via superannuation tax concessions. According to the Treasury, almost \$54 billion in taxation revenue was foregone in 2022-23 from the tax concessions on super contributions and earnings.⁴ People on the top 10% of incomes benefited the most from both types of concessions, accounting for 30% of the contribution tax concessions and 40% of the earnings

¹ ASIC 2020, *ASIC report explores how to measure ‘value for money’ in default insurance in superannuation*, <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-076mr-superannuation-trustees-urged-to-improve-insurance-outcomes-for-members/>

² ASIC 2023, *Superannuation trustees urged to improve insurance outcomes for members*, <https://asic.gov.au/about-asic/news-centre/find-a-media-release/2023-releases/23-076mr-superannuation-trustees-urged-to-improve-insurance-outcomes-for-members/>

³ Productivity Commission 2018, *Superannuation: Assessing efficiency and competitiveness*, https://www.pc.gov.au/_data/assets/pdf_file/0017/232352/superannuation-assessment-insurance-supplement.pdf

⁴ Treasury (2024), [2023-24 Tax Expenditures and Insights Statement](#), pp. 13-17.

tax concessions. The Retirement Income Review (**RIR**) projected that the value of tax concessions for higher income earners would significantly exceed the value of the Age Pension for people on lower incomes.

Inversely, people on lower incomes and those facing structural barriers are offered the least support, for example:

- **Retiree renters:** Super Consumers' Retirement Savings Targets found that a single person on a low income aged 65-69 who rents in retirement will need to save 110% more than homeowners, in order to maintain a similar standard of living.⁵
- **People who retire involuntarily:** The RIR found that nearly half of people that retire at age 60-64 do so involuntarily for caring, health or job-related reasons, and that these people are at a higher risk of financial stress than voluntary retirees.⁶
- **Women:** Inequality between men and women's super balances and the structural reasons underlying this are well-documented and remain largely unaddressed.^{7 8}
- **First Nations people:** Many First Nations people experience lower superannuation balances and barriers navigating super throughout their working lives, often due to mandatory participation in a retirement income system that doesn't consider their needs.^{9 10}
- **People with disability:** Super Consumers' 2023 retiree research found that 30% of people over 65 with a disability found it difficult to get by on their current income.¹¹ Submissions to the RIR from disability advocates highlighted that working-life inequity compounds with additional disability-related expenses to create financial stress for people with disability who are retired.¹²

Referring to equity in the objective of super is just window-dressing if it is not underpinned by accompanying reforms that drastically improve the equity of the super system.

⁵ This calculation is based on spending levels in the 30th percentile and has been adjusted for inflation. Super Consumers Australia 2022, *Retirement Savings Targets Feedback Report*, p. 9, https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/62fc8e6a3ec0f0576bf633e5/1660718700307/Retirement+Targets+feedback+report_FINAL.pdf

⁶ Retirement Income Review 2020, p. 33

⁷ Retirement Income Review 2020

⁸ Centre for Future Work 2023, *The Times They Aren't A-Changin (enough)*, <https://australiainstitute.org.au/wp-content/uploads/2023/03/Centre-for-Future-Work-Gender-Pay-Gap-WEB.pdf>

⁹ Retirement Income Review 2020

¹⁰ ASIC 2023, *Indigenous Financial Services Framework*, <https://download.asic.gov.au/media/35wn0xyp/asic-indigenous-financial-services-framework-published-february-2023.pdf>

¹¹ Super Consumers 2023, *Insights from our survey about how older Australians are using their super*, <https://www.superconsumers.com.au/minimum-withdrawals-blog>

¹² Retirement Income Review 2020

4. Publishing modelling around the economic impacts of retirement income policy proposals is more useful than a statement of compatibility.

Without adequate accountability mechanisms, there is a risk that the objective of super will not have a meaningful impact on future retirement income policy proposals. The proposed Bill creates a requirement for a statement of compatibility to be prepared alongside future Bills related to superannuation policy. This is intended to be an accountability mechanism, but is likely to be a box-ticking exercise.

Accompanying the legislated objective of super should be a requirement that future policy proposals impacting the retirement income system are adequately modelled, and that this modelling is published as a part of the consultation process. Where relevant, this modelling could measure the financial impact of a proposed policy on people's retirement balances across income deciles. For example, a policy proposal targeted at minimising the gender super balance gap should include economic modelling on how the proposal will impact super balances across income deciles, to assess whether the proposal genuinely has an impact on economic equity.

5. The objective of super should be accompanied by regular and member-centred reviews of the retirement income system.

The extent to which the super system is delivering on its objective should be measured through a regular retrospective review of the whole of the super system. A regular independent super system inquiry was a key recommendation by the Productivity Commission in 2018 and is yet to be adopted.¹³

In recent years there have been numerous reviews focussing on specific parts of the super system to assess how well they are working:

- The 2022 Your Future, Your Super review assessed improvements to the accumulation system;
- The 2020 Retirement Income Review examined the adequacy of the broader retirement system, while Treasury's current consultation is looking at improvements to retirement phase products and services;
- The 2022 Quality of Advice review looked at improvements to the accessibility and affordability of financial advice.

Each of these reviews have attempted to solve broad superannuation policy problems – system complexity, unfair industry practices, member disengagement, income inadequacy – through applying a specific product or system phase lens. There can be benefits to this approach: it

¹³ Productivity Commission 2018, *Superannuation: Assessing Efficiency and Competitiveness*, Recommendation 29, p. 619, <https://www.pc.gov.au/inquiries/completed/superannuation/assessment/report/superannuation-assessment.pdf>

allows for detailed issues analysis and makes it easier for stakeholders and the public to engage. But its weakness is that it does not investigate problems or advance solutions that traverse product types and phases. This approach also tends to centre industry problems, industry solutions, and industry viewpoints rather than focussing on how members navigate and experience systems over time. It doesn't keep the whole system in check.

A failure to focus on people's experiences of the retirement system has meant that successive governments have deprioritised some of the most important issues facing Australians in retirement. An example of how narrowly focussed reviews can lose sight of consumers' needs can be seen in the Quality of Advice (QoA) review. In this review, proposed reforms to improve the affordability and accessibility of financial advice centred voices and solutions from the advice and wealth management industries – rather than the needs of those who struggle to navigate the complex retirement system. Evidence shows financial advice is preferred by a minority group of wealthier retirees,¹⁴ with the average person only willing to spend about \$300 per year on advice.¹⁵ Our representative survey showed at least a third of retired renters were finding it difficult to get by on their current income.¹⁶ And yet, proposed reforms in the QoA review would have lowered the quality of financial advice without addressing the needs of people on low incomes.¹⁷

It is the responsibility of the government to prioritise the needs of vulnerable and underserved people in the Australian community. Regular, people-centred reviews of the system will help this prioritisation.

The last holistic review of the super system was undertaken as a one-off by the Productivity Commission (**PC**) in 2018, 6 years ago. The PC review provided a much-needed evidence base to advance highly successful super policy improvements, including the superannuation performance test and measures to reduce duplicate accounts. A regular review of the super system, as recommended by the PC, could deliver on a set terms of reference to examine how the super system is working, and whether it is delivering on its objective. Given that the government of the day cannot bind future governments, establishing a regular review will build norms and accountability around the objective, and will be more impactful on retirement outcomes than 'tick-a-box' statements of compatibility.

¹⁴ Super Consumers Australia, 2021, Retirement Planning Survey, available at:

<https://www.superconsumers.com.au/retirement-income-survey>

¹⁵ ASIC 2010, *Access to financial advice in Australia*,

<https://download.asic.gov.au/media/1343546/rep224.pdf>

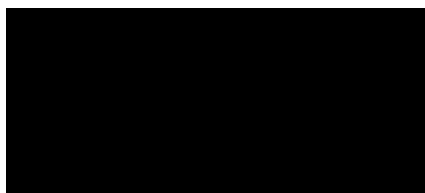
¹⁶ Super Consumers Australia, 2023, Survey: How older Australians are using their super, available at:

<https://www.superconsumers.com.au/minimum-withdrawals-blog>

¹⁷ Super Consumers Australia 2022, Quality of Advice review submission,

https://static1.squarespace.com/static/5d2828f4ce1ef00001f592bb/t/63366348f172957a434cf10c/1664508745193/Quality+of+Advice+Proposals+Paper+submission_Super+Consumers+Australia.pdf

Thank you for the opportunity to provide comments. Please contact Super Consumers Policy Manager Rebekah Sarkoezy at [REDACTED] if you wish to discuss our views further.



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