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By online submission

Senate Economics Legislation Committee Inquiry into the Superannuation (Objective) Bill 2023

About the Super Members Council

We are the collective voice for more than 10 million Australians who have over $1.45 trillion in retirement savings managed by profit-to-member superannuation funds. Our purpose is to protect and advance their interests throughout their lives, advocating on their behalf to ensure superannuation policy is stable, effective, and equitable.

1. Overview

A legislated objective of super will support better member outcomes. It is an important guide for clear and consistent superannuation policy that supports members' retirement outcomes by providing policy parameters that promote predictability and certainty.

As set out in our submission to Treasury on the exposure draft legislation (attached to this letter), the SMC strongly supports the proposed wording of the objective of super in the *Superannuation (Objective) Bill 2023* (the Bill). Therefore, we recommend this legislation be passed as a priority.

The proposed wording of the objective in the Bill is consistent with the way the superannuation system has been designed from its inception. The primary aim of the superannuation system is to 'deliver private income to enhance the living standards of retired Australians'.[1]

We also support the inclusion of an accountability mechanism in the Bill (in the form of a statement of compatibility) and suggest ways in which it can be strengthened through amendments that require:

- the statement of compatibility to set out the evidence base for the proposed policy change and relevant modelling and analysis; and
- periodic review of previous superannuation policy changes and their respective statements of compatibility.

There are several mutually reinforcing policy features of the system which underpin meeting its objective. These include 'universality', 'compulsion', 'preservation', and 'concessional taxation'. These features guarantee scale and a sufficiently long-term investment horizon, optimising investment portfolios, maximising risk-adjusted returns, and delivering members greater choice and flexibility in retirement through higher levels of savings.

The preservation rules are particularly important, enabling members to receive the full benefit of compounding returns, as well as allowing portfolio construction weighted to growth assets.

[1] Super Systems Review Panel, Super System Review (2010) pt1, 15

Having strong preservation rules also reinforces the primary purpose of superannuation to defer income to provide financial security and wellbeing in retirement – as well as the reward for deferred access in the form of concessional tax benefits. Recent consumer research shows 78 per cent of Australians agree that providing income in retirement is the purpose of super and 68 per cent consider that one of the great things about the Australian superannuation system is that it forces them to save without having to think about it.[2]

If changes are made to the superannuation system allowing more exceptions for 'early release' other than in circumstances of severe financial hardship or on compassionate grounds, we risk a fundamental shift in public perceptions of superannuation – more people are likely to look to their superannuation to fund more immediate short-term needs – which is not what super is for.

To explore one example, this submission looks in detail at the risks and costs associated with the COVID-19 Early Release of Super (ERS) scheme, to show how early release policies are inconsistent with the objective of super and can produce a negative financial outcome on retirements at the member and system level.

A snapshot of analysis highlighting the importance of preservation shows:

- Compound earnings make up about three quarters of an individual's retirement balance
- The ERS scheme is forecast to cost taxpayers an extra $80 billion in Age Pension expense
- A 30-year-old who accessed $20,000 under the ERS scheme could be $92,000 worse off at retirement and women were more likely to withdraw their entire savings.

2. Strengthening the Bill

The requirement in the Bill to prepare a statement of compatibility is a good start. It will help ensure future superannuation measures are broadly aligned with the objective, however, there is a risk that if this process becomes a 'tick-a-box' exercise it would undermine the purpose of legislating the objective of super.

We therefore recommend that the accountability mechanism be strengthened by amending the Bill to require:

A) Greater transparency around the evidence base for the policy change:

The Bill should require that the statement of compatibility include (to the extent it is relevant to the proposed policy change):

- modelling and analysis around:
    - the short-, medium- and long-term distributional impact of the proposed change on workers' retirement incomes (including by income deciles and gender), to measure the effect on equity and whether the change supports the delivery of income for a dignified retirement,
    - the long-term fiscal impact – to measure the impact on sustainability of the system, and
    - whether there is any influence on how funds invest – which may measure the impact of the change on preservation and the delivery of income for a dignified retirement,
- any other relevant data or modelling that has influenced the assessment about whether the proposed change is compatible with the objective, and
- the underlying assumptions for any analysis and modelling included in the statement.

B) Periodic post-implementation reviews:

The Government should periodically review all superannuation changes that have been implemented over the last five years and test whether the impacts set out in the respective statements of compatibility have been realised or are on track to be realised.

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[2] UMR research, March 2023

Together, these changes will ensure there is greater transparency and accountability around whether the Government's proposed policy change – and the assessment about whether the change is compatible with the objective – is based on robust data and modelling. In turn, this will help inform parliamentary and public debate on the change.

We understand there is already capability within the Treasury and other government agencies to produce this kind of analysis and review, so accordingly would not add costs or be overly burdensome for Government.

3. The importance of preservation

Since the inception of our modern superannuation system, more Australians are experiencing the transformational benefits of super – working-life savings are providing higher incomes to Australians in retirement. The proportion of workers receiving super has increased from about 30 per cent in the mid-1970s to 90 per cent today, while the median balance of Australians nearing retirement is now about $200,000. This is expected to grow in the years ahead.

Over time, the accumulation of private savings has reduced reliance on the welfare system.[3] The total value of Australians' annual super retirement benefits including lump sums and income streams currently sits at about 1.5 to 2 times the total annual cost of our Age Pension system.

And Australia is one of very few OECD nations whose Age Pension expenditure is forecast to decline as a proportion of GDP in the decades ahead.[4]

The success of our system is underpinned by preservation.

Preservation is paramount for three reasons. First, it supports retirement planning for those who are disengaged from the system – combined with compulsion it directly fosters financial outcomes that better reflect a persons' pre-retirement income post-retirement with minimal intervention.[5]

Second, it supports long-term investment strategies that optimise portfolio construction – meaning better risk adjusted returns for members and higher incomes in retirement.

Third, compound investment returns on contributions together with tax concessions provide additional incentives for long-term private savings. This significantly reduces pressure on the welfare system saving taxpayers money and improving the government's fiscal position.

To illustrate these impacts at an individual level, Chart 1 shows that for a median earner, **compound earnings account for between two-thirds and three-quarters of a super nest egg at retirement**, subject to the length of a person's working career. The effect is even more pronounced if the analysis were extended through retirement.

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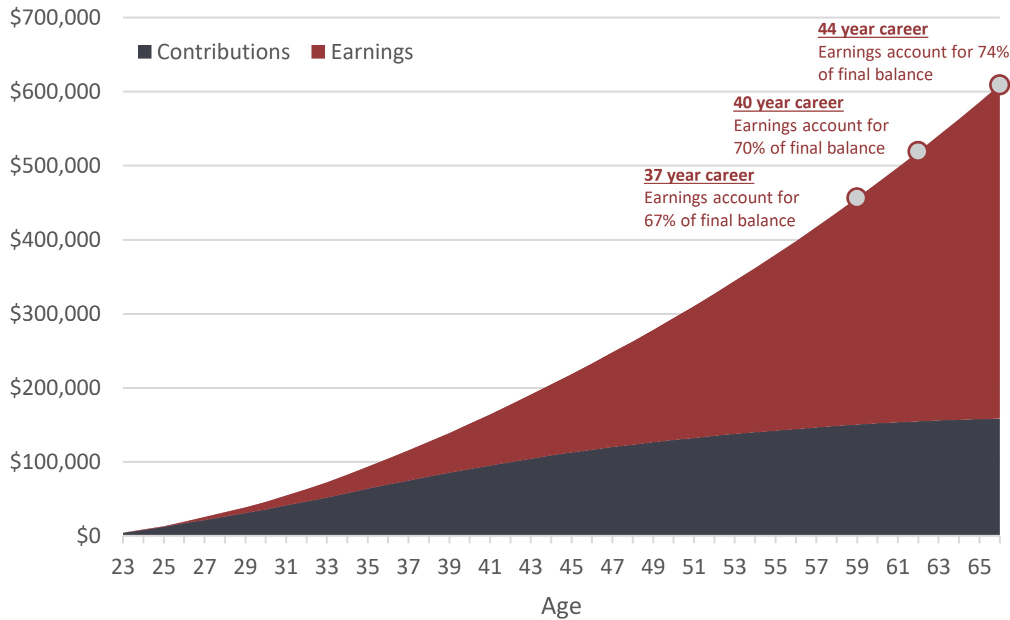
[3] Historically the Age Pension has been the main source of income for most retirees in Australia. The Australian Bureau of Statistics (ABS) research titled 'Spotlight - superannuation and investments as main source of household income' in 2019 indicates that in 2019-20 around 580,000 households, encompassing over 1 million Australians, were mainly dependent on payments from superannuation. This is nearly double the number of households mainly dependent on superannuation in 2009-10. By 2017-18, employees who retired aged 65 would have been eligible for SG contributions for almost 25 years, whereas those retiring in 2007-08 would have only received it for around 15 years. The ABS research concludes that as the time from the introduction of compulsory super increases, it is reasonable to expect that the number of households with superannuation as their main source of income would also increase.

[4] OECD Pensions at a Glance 2023, page 215. Australia's public expenditure on pensions as a percentage of GDP is projected to decrease from 2.3 per cent in 2023 to 2 per cent by 2055.

[5] The Treasury, Retirement Income Review – Final Report, November 2020, page 18

Chart 1 – Decomposition of accumulated super balance into contributions and earnings by working life (median income earner)



Source: SMC cameo modelling

4. COVID-19 Early Release of Super scheme

During the COVID-19 pandemic, the then Federal government announced an early withdrawal of super scheme relaxing preservation settings and permitting eligible Australians to withdraw up to $20,000 from their superannuation. Over three million people withdrew a combined $38 billion.

Post implementation analyses of the policy reveals poor member and fiscal outcomes and significant long-term taxpayer liabilities. From a public policy perspective, the scheme was inconsistent with super's purpose.

Financial impact of the of the ERS scheme at an individual level

SMC modelling estimates the financial consequences for those early withdrawals:

- An individual aged 30 (the median age of withdrawers) who withdrew the full $20,000 (as around half of people did), could be expected to retire with around $92,000 less in superannuation if historical MySuper fund returns continued into the future (see table 1).
- Approximately 724,700 Australians effectively depleted their superannuation accounts.[6]
- Of these, 45 per cent were aged 25 and under, and 70 per cent were aged 30 and under.\

[6] Super Members Council modelling

Table 1 – retirement impact of withdrawing $20,000 on persons of different age groups

Age	Withdraw $10,000 Returns after fees and taxes				Withdraw $20,000 Returns after fees and taxes			
	6.5%	7.0%	7.5%	8.0%	6.5%	7.0%	7.5%	8.0%
25	-34,090	-40,788	-48,762	**-58,247**	-66,185	-79,190	-94,671	**-113,086**
30	-30,270	-35,379	-41,321	**-48,225**	-58,769	-68,689	-80,224	**-93,629**
35	-26,878	-30,688	-35,015	**-39,928**	-52,184	-59,580	-67,981	**-77,520**
40	-23,865	-26,616	-29,669	**-33,055**	-46,334	-51,675	-57,602	**-64,176**
45	-21,191	-23,086	-25,141	**-27,368**	-41,143	-44,822	-48,811	**-53,134**
50	-18,817	-20,025	-21,304	**-22,659**	-36,533	-38,878	-41,362	**-43,992**

Notes: Figures are presented in present value terms, deflated by wages assumed to grow at 4 per cent per annum. Withdrawals are assumed to have been paid on 27 April 2020 and 6 June 2020, the modal payment dates. The analysis uses daily fund crediting rates for the balanced option of major industry funds to 17 January 2024, and then stated crediting rates thereafter (top MySuper funds have returned around 8 per cent per annum after fees and taxes over the past 10 years). Individuals are assumed to retire at 67 years of age.

Source: SMC analysis.

Financially vulnerable most likely to access the scheme

A key finding from academic researchers was that the ERS scheme was primarily accessed by individuals with low financial health.[7] Withdrawers tended to be younger, had lower wages, lower rates of savings both immediately prior and in the years prior to the pandemic, higher debt repayments relative to spending, and were more likely to have been overdrawn or have experienced arrears.[8]

In addition to this, the study also looked at how money was being spent. The biggest spending categories, including gambling, suggest the public policy intent of the scheme was compromised by the way in which money intended for retirement and saved under concessional tax settings had been used.

Accessing superannuation early has a more significant effect on balances for younger age groups due to the loss of compound returns. Although five out of six applicants withdrew the most funds they could under the scheme, it is unclear whether doing so reflected a person's actual financial circumstances or the decision was simply maximising the available withdrawal limit.[9] These findings raise concerns that the scheme will further entrench disadvantage among individuals who were already financially vulnerable, leading to greater retirement inequities.

Impact on women's retirement savings

The ERS scheme disproportionately impacted women, particularly younger women, those on low incomes, and/or those with insecure employment. The gendered impact of the scheme was exacerbated by the fact that women were more highly represented in occupations that suffered the most during the pandemic, such as the health and social sectors. An early analysis of ERS withdrawals shows the scheme had a deeper impact on the retirement savings of women. Key findings were: [10]

- Women withdrew 21 per cent of their starting super balances, while men withdrew 17 per cent.
- Additionally, 14 per cent of women accessed their entire super balance, compared to 12 per cent of men.
- As a result, men have, on average, 29 per cent higher super balances than women following the withdrawals, increasing from 25 per cent.

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[7] Wang-Ly, N., and Newell, B.R., 2022. Allowing early access to retirement savings: Lessons from Australia. Economic Analysis and Policy 75, 716-733 and see Hamilton et al (2023)
[8] Ibid.
[9] Wang and Newell (2022)
[10] AMP, Early super release providing critical support to women, but widening gender super gap, 29 May 2020

Furthermore, a report by super fund HESTA showed that a high proportion of younger women effectively drained their super, decreasing their balances by between 60-78 per cent.[11]

Separately, the scheme also raised issues around family violence. It was estimated 70,000 of the 2 million women who accessed the scheme had done so due to a partner's coercion.[12]

Making up for early withdrawal is difficult

Perceptions that any withdrawn super can be easily returned may be misguided. The magic mix of compound returns, and time makes it deceptively difficult to regain lost earnings from early withdrawal. For example, withdrawing $10,000 at age 30 would require additional contributions of nearly ten times as much ($97,207 in nominal terms[13]) if left to the last five years before retirement.

Fiscal impact increases taxpayers long-term Age Pension liabilities

Longitudinal analysis by SMC using the SPROUT model forecasts the aggregate fiscal cost of the ERS scheme. It shows:

- Additional government expenditure of between $75 billion to $85 billion by 2085 (in today's dollars).
- Most of this cost is due to higher Age Pension outlays, which is estimated to peak at $2.2 billion per year (in today's dollars) in the mid-2060s.

Similarly, other modelling expresses the fiscal impact another way: that for every $1 withdrawn, taxpayers will have to pay up to an extra $2.50 in Age Pension costs.[14]

As per the Senate Select Committee on COVID-19 final report, 'while financial support was much needed by those who made withdrawals, the government's scheme was poorly designed, poorly administered and compounded the adverse financial impacts of the COVID-19 pandemic for many Australians.'[15]

Other early withdrawal proposals would also be inconsistent with the objective of super

Proposals that promote the early withdrawal of super for myriad purposes other than retirement incomes would similarly result in poor public policy outcomes and have a detrimental member, system, and fiscal impact.

Recently, these proposals have included using super for a house deposit; to meet every-day cost of living expenses; purchasing household electric appliances; to quarantine for health and aged care costs; to pay off HECS and other debts.

5. Conclusion

Finally, SMC recommends this legislation be passed as a priority. A legislated objective of super is in the best interests of super members because if implemented effectively it will guide policy decisions that improve their retirement outcomes, while avoiding detrimental policies that undermine retirement incomes and increase reliance on the taxpayer-funded support payments. Including stronger analysis and modelling requirements and periodic reviews into the bill would further advance and strengthen these objectives.

Yours sincerely

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[11] The Mirage, 'Early release super scheme sees younger women drain super, 19 June 2020
[12] (AIST (2022). AIST: Pre-budget Submission 2022)
[13] SMC cameo modelling
[14] Industry Super Australia, 'Study shows early release of super causes economic Long Covid, 16 March 2023
[15] The Senate Select Committee on COVID-19, Final report, April 2022 paragraph 4.14.