
Chapter Eight

Using Superannuation to Finance Retraining

Introduction

8.1 This chapter examines the possibility of using individual's accumulated superannuation savings to finance retraining. The aim of such a proposal would be to allow mature age workers to gain new skills and experience that would help them to remain in or re-enter the workforce.

8.2 The Committee examines the current restrictions on accessing superannuation savings prior to the preservation age (currently 55), and consumer understanding of the role of the superannuation system. The Committee subsequently considers arguments in favour of and against the use of superannuation to finance retraining.

Current restrictions on accessing superannuation savings

8.3 In its written submission, Treasury noted that current Government policy is that superannuation savings that have received concessional tax treatment should be used to provide income in retirement and should not be withdrawn from the superannuation system for other purposes before retirement.

8.4 Accordingly, under the *Superannuation Industry (Supervision) Act 1993* (SI(S) Act), superannuation savings must currently be maintained for the core purpose of providing retirement, retirement age and death benefits. Superannuation savings are not available for retraining purposes under the so-called sole purpose test.

8.5 However, there are provisions for the early release of superannuation savings in certain limited circumstances, such as severe financial hardship and on specific compassionate grounds. These circumstances are examined below.¹

Severe financial hardship

8.6 In its written submission, Treasury noted that there are two criteria that an applicant must satisfy in order to be eligible for an early release of superannuation benefits on severe financial hardship grounds. The applicant must be able to show that they have been in receipt of a qualifying Commonwealth income support payment for a continuous 26-week period, and must also satisfy the trustee that they are unable to meet reasonable and immediate family living expenses.

1 *Submission 46, Treasury, p. 4.*

8.7 If members satisfy both of the above tests, the fund trustee may, in any twelve-month period, release to them one lump sum payment. The payment is to be no more than a gross amount of \$10,000 and no less than \$1,000, or the balance of the member's benefit if that is less than \$1,000.²

Compassionate grounds

8.8 In its written submission, Treasury noted that benefits are released on compassionate grounds only in very limited circumstances. These circumstances are defined in regulations and cover expenses in respect of medical treatment, medical transport, modifications necessary to the family home due to disablement, palliative care, and funeral expenses. Funds may also be released on compassionate grounds to prevent foreclosure of a mortgage or exercise of a power of sale over the member's principal place of residence.³

Consumer understanding of the role of superannuation

8.9 Given the current restriction on access to superannuation savings, the Committee notes that any move to access superannuation to finance retraining would require the sole purpose test in the SI(S) Act to be revisited.

8.10 In this regard, the Committee notes the evidence from representatives of the Australian Securities and Investments Commission (ASIC) at the hearing on 8 May 2003 in relation to the use of superannuation to finance retraining. In her evidence, Ms McAlister from ASIC expressly did not state a position either supporting or opposing the use of superannuation to finance retraining. However, she noted that any proposal to change the sole purpose test to allow fund members to receive a present-day benefit from their accumulated funds (to finance retraining) raises various considerations:

- a) The introduction of new additional contribution and payment standards to allow access to superannuation funds for the purpose of retraining might pose a risk of exacerbating existing deficiencies in consumer understanding of superannuation – especially the important and basic proposition that superannuation is meant to provide income and benefits in retirement.
- b) A related risk is that changes to superannuation payment standards would further complicate retirement savings products themselves, leading to an exacerbation of deficiencies in effective disclosure. Many funds find it hard to communicate the preservation rules clearly and effectively at the moment, and the introduction of more rules may only increase the difficulties.

2 *Submission 46*, Treasury, p. 4.

3 *Submission 46*, Treasury, p. 4.

- c) Changes to superannuation payment standards may also create conduct that is aimed at illegal early release of superannuation benefits. If changes were to be put in place to allow mature age workers to access their superannuation to finance retraining, then appropriate safeguards would need to be developed to guard against abuse.⁴

8.11 Put simply, the message to consumers has always been that “Superannuation is for your retirement”. However, making exceptions to that message could undermine that fundamental and basic premise.⁵

8.12 The Committee also notes the evidence of Mr Brunner from the Australian Prudential Regulation Authority (APRA) on this matter. Mr Brunner indicated to the Committee in the hearing on 16 May 2003 that APRA follows the requirements of the SI(S) Act in relation to sole purpose and early release, but that some of the ancillary arrangements in relation to release of superannuation make it ‘very difficult ... to administer the legislation and regulations.’⁶

8.13 Given the current restrictions on the early release of superannuation funds, Treasury nominated a number of matters which would need to be considered under any arrangement to use superannuation to finance retraining. They include:

- a) A minimum length of time a person needs to be unemployed to access this option;
- b) The types of training courses that would qualify;
- c) The administration arrangements that would be required to ensure integrity; and
- d) The age of applicants.⁷

Support for using superannuation to finance retraining

8.14 The Committee notes that a number of parties to the inquiry supported the use of superannuation to finance retraining:

- The Superannuated Commonwealth Officers’ Association (SCOA) supported accessing superannuation to finance retraining, and advocated that if employees were to do so, then they should receive favourable taxation treatment for any superannuation monies used.⁸

4 *Committee Hansard*, 8 May 2003, p. 100

5 *Committee Hansard*, 8 May 2003, p. 104.

6 *Committee Hansard*, 16 May 2003, p. 305.

7 *Submission 46*, Treasury, p. 5.

8 *Submission 12*, SCOA, pp. 3,4.

- The Association of Independent Retirees – Whyalla and Districts Branch supported giving individuals access to their superannuation to finance retraining if they so desire, but would not support requiring mature age workers to use their superannuation in this way.⁹
- The Financial Planning Association (FPA) indicated its support for allowing older Australians aged over 55 to access part of their voluntary contributions to superannuation to fund retraining, especially for those older Australians who are retrenched and receive no government and/or corporate financial assistance for upskilling or retraining.¹⁰
- Mr Kemp in a private submission supported this initiative, provided that a Government retirement pension scheme exists as a guarantee of future financial security.¹¹

8.15 In its written submission, the ICA also indicated that it would welcome measures that see superannuation savings being available to provide education and re-skilling. However, it argued that such education and re-skilling should be focused on keeping people in work, and should not replace existing government programs aimed at assisting the unemployed to return to work.¹² This position was reiterated by Mr Negline from the ICA in the hearing on 5 May 2003:

Purity is fine in heaven. Unfortunately we live in a real world where people need to be retrained and re-skilled on a continual basis—whether it be learning the latest word processing package, learning to use a new machine or learning for a new career. Some research that came out of the United States some years ago said that people entering the work force now would face 14 different careers during their working lives. The need to be retrained is obvious.¹³

8.16 Mr Negline continued that superannuation should really be about life fulfillment as opposed to purely providing an income in retirement. Retraining using superannuation savings may give individuals the ability to remain in the work force for a greater period of time as well as making their retiring years much more meaningful.¹⁴

Opposition to using superannuation to finance retraining

8.17 The Committee notes that although some parties to the inquiry supported using superannuation to finance retraining, the majority of parties to the inquiry

9 *Submission 20*, The Association of Independent Retirees – Whyalla and Districts Branch, p. 5.

10 *Submission 32*, FPA, p. 14.

11 *Submission 10*, Mr Kemp, p. 1.

12 *Submission 36*, ICA, p. 3.

13 *Committee Hansard*, 5 May 2003, p. 89.

14 *Committee Hansard*, 5 May 2003, p. 89.

opposed using superannuation savings to finance retraining. Three basic arguments were made:

- a) Superannuation savings are needed to finance retirement;
- b) Jobs may not be available at the end of any retraining; and
- c) Responsibility for financing retraining rests with the government and employers.

8.18 These arguments are summarised below.

Superannuation savings are needed to finance retirement

8.19 The argument that superannuation savings are needed to finance retirement was made by a large number of parties to the inquiry:

- The COTA National Seniors Partnership suggested that using superannuation to finance retraining runs counter to the idea that people are saving to provide for themselves in later life. The Partnership suggested that reducing superannuation savings to pay for retraining may dramatically reduce an individual's end benefit.¹⁵
- ACCI argued that superannuation has the stated goal of providing income through the retirement years and as such should be preserved until retirement age. Accordingly, ACCI argued that it is essential that superannuation funds are not 'frittered away' in less productive uses.¹⁶

8.20 Similar arguments were made by the Association of Independent Retirees (AIR), the Corporate Super Association (CSA), ASFA, the WA Department of Community Development and the IAA.

Jobs may not be available at the end of retraining

8.21 In its written submission, DEWR noted that currently, the incidence of mature age job seekers being re-employed is low. As a result, it argued that mature age workers who accessed their superannuation to finance retraining may still be unable to find employment at the end of the training period. This position was reiterated by Mr Matheson from DEWR in the hearing on 15 May 2003.¹⁷

8.22 Similarly, the WA Department of Community Development also noted that there is no guarantee that a mature age worker will get a job after paying for

15 *Submission 31*, COTA National Seniors Partnership, p. 25.

16 *Submission 45*, ACCI, p. 8.

17 *Committee Hansard*, 15 May 2003, pp. 279-280.

retraining, leaving less money to retire on and creating greater dependency on pensions and allowances.¹⁸

8.23 Finally, ARPA(SA) also argued that the use of superannuation entitlements to finance retraining on the ‘off chance’ of securing a job is not an option likely to appeal to many mature age workers. ARPA(SA) also raised the possibility that under such a system, ‘jobs more suitable to older people’ could quickly become trivial and demeaning.¹⁹

Responsibility for financing retraining rests with the government and employers

8.24 In their written submissions, the COTA National Seniors Partnership and the IAA suggested that responsibility for retraining of mature age workers rests with the government, and that the government should ensure that suitable labour market programs are in place to assist unemployed people to re-enter the workforce by providing training vouchers, suitable courses, advice and advocacy services.²⁰

8.25 In this regard, ASFA noted in its written submission that the Commonwealth offers a range of training and retraining assistance through the Job Network. As indicated earlier, the Australians Working Together initiative gives extra resources to Job Network members to use for mature age unemployed people. This includes a training account of up to \$800 that is available to spend in addition to the other resources available through the intensive support mechanisms of the Job Network member services. These training accounts are able to be used to purchase vocational related training that might assist mature age workers get into employment.

8.26 ASFA also cited the training and retraining assistance available from the NSW Government under the Mature Workers Program. ASFA noted that this program offers the following retraining assistance to people over 40:

- a) advice on what training requirements are needed to improve, upgrade or learn new skills;
- b) help with getting into appropriate training or retraining courses;
- c) practical assistance in writing a resume and covering letters to potential employers;
- d) help with improving interview skills; and
- e) work experience placements.

8.27 ASFA further noted that such government provided programs have the advantage of offering training where there is objective evidence of possible

18 *Submission 22*, WA Department of Community Development, pp. 2-3.

19 *Submission 13*, ARPA(SA), pp. 2-3.

20 *Submission 31*, COTA National Seniors Partnership, p. 25. See also *Submission 47*, IAA, p. 14.

advantages to the individual of undertaking such training. By contrast, ASFA suggested that self-selected training can run a greater risk of not adding to the employability of an individual.²¹

8.28 The WA Department of Community Development also argued that any necessary retraining is the responsibility of the employer (if the worker is still in employment) or the government, as part of its responsibility to provide equal employment opportunities for citizens.²²

8.29 In this regard, the WA Department of Education and Training indicated that it has developed a number of strategies to promote training:

- The Department's *Profit from Experience* program is designed to help support mature age people to re-enter the workforce and enable employers to profit from the skills, knowledge and experience of mature aged people. The *Profit from Experience* program provides:
 - a network of support officers providing personal assistance and advice;
 - assistance to equip mature age people to return to work;
 - assistance to identify and explore suitable work options;
 - formal recognition of current skills; and
 - grants to eligible individuals to gain specific skills.
- The Department's *Competitively Allocated Training* program aims to increase opportunities for people under represented in vocational education and training and improve pathways into further training and/or employment.
- The *First Click* computer literacy fund was established to provide learning materials and grants to community groups to run computer training sessions, targeting particular groups in the community, such as the mature aged.
- The Department offers a number of support services through its *Building Diversity in Vocational and Education Training and Employment Framework*. The framework provides funding for specifically designed programs and services, removing systemic barriers which may impact on participation in vocational education and training and employment.
- The *Skills Recognition Policy* formally recognises the skills and experience people have gained through work/life experience and informal training in the workplace.
- Mature aged people historically undertake a higher proportion of *Adult Community Education* courses than younger Australians. *Adult Community*

21 *Submission 33*, ASFA, pp. 17-18.

22 *Submission 22*, WA Department of Community Development, pp. 2-3.

Education courses assist mature aged people develop skills/knowledge and the confidence to adapt to changing values and technology.²³

8.30 Finally, the Committee also notes that the issue of retraining was raised by Ms Fogg from the NSW Committee on Ageing during the hearing on 5 May 2003:

I think the evidence is that mature workers themselves often need a lot of encouragement to undertake training. They may not recognise their own skills deficit because they have not been in that situation before. They do not really know the labour market or they only know their own small bit of it. They may need quite a lot of guidance as to what form of training would suit them best, would build on their existing skills and would enable them to either stay in work or get new work. I think that there is a lot that employers can do—and there are certainly programs around the world that do this—in the way of encouraging mature workers to undertake training of various sorts. So a change in attitude is required by both employers and mature age workers themselves.²⁴

8.31 Given such arguments for government to encourage employers to provide additional training and re-skilling of mature age workers, the Committee notes recommendations 13, 14 and 15 of the NSW Committee on Ageing in its report *Too Young to Go – A Review of Good Practice in the Employment of Mature Workers*:

- a) Recommendation 13: NSW should encourage the Commonwealth, through the Australian National Training Authority, to take action to increase the level of employer provided or funded training, either through mandating a certain amount of expenditure per employee for training or through a compulsory levy on employers.
- b) Recommendation 14: NSW should request that the Commonwealth amend the relevant provisions of the social security system to amalgamate Austudy and Newstart and create a single payment with sufficiently flexible activity testing arrangements to allow mature age unemployed people to undertake long-term training without suffering a drop in payment level.
- c) Recommendation 15: NSW should encourage the Commonwealth and other States to pass legislation requiring industrial awards and workplace agreements to make provision for unpaid study leave for employees seeking to upgrade their skills.

23 *Submission 37*, WA Department of Education and Training, pp. 2-3.

24 *Committee Hansard*, 5 May 2003, pp. 80-81.