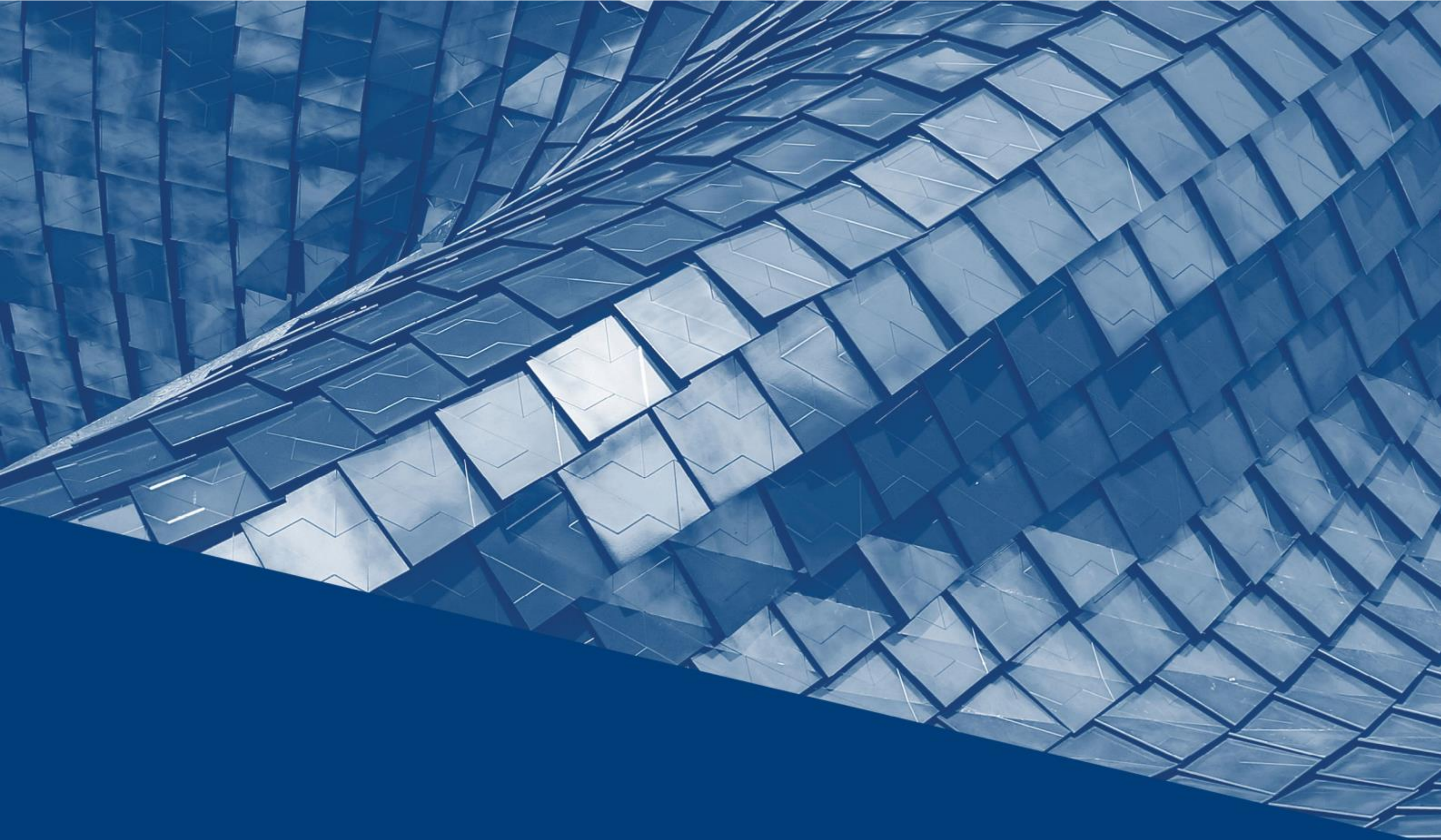

Retirement Income Covenant

Submission by the Australian Council of Trade Unions to the Treasury Consultation on the Retirement Income Covenant Position Paper

ACTU Submission, 6 August 2021
ACTU D. No 40/2021

australian council of trade unions

Since its formation in 1927, the Australian Council of Trade Unions (ACTU) has been the peak trade union body in Australia. There is no other national confederation representing unions. For more than 90 years, the ACTU has played the leading role in advocating in the Fair Work Commission, and its statutory predecessors, for the improvement of employment conditions of employees. It has consulted with governments in the development of almost every legislative measure concerning employment conditions and trade union regulation over that period.

The ACTU consists of affiliated unions and State and regional trades and labour councils. There are more than 30 ACTU affiliates. They have approximately 2 million members who are engaged across a broad spectrum of industries and occupations in the public and private sector.

The ACTU and its affiliated unions played a foundational role in winning superannuation as an industrial right for all working people, and with employers established and continue to be custodians of workers' retirement savings through industry superannuation funds. Living well after work is fundamental to the wellbeing of working people and attaining dignity and independence in retirement for all working people is a core goal of the union movement.

Superannuation is an essential vehicle for ensuring that working people maintain their standard of living during their working life into retirement. Superannuation should supplement the Age Pension in retirement to ensure working people have a high quality of life. The principal objective of Australia's retirement income system is that no one should retire into poverty. In order to achieve this, working people need a higher Age Pension, adequate superannuation savings, and their own home or affordable rents if they do not own a home. While consideration of the delivery of retirement incomes is sound, it should be recognised that many workers are still retiring into poverty due to inadequate retirement savings as a result of the Superannuation Guarantee (SG) being too low to ensure a dignified retirement, gaps in the system, or unfair exclusion from the right to earn superannuation on top of their wage. The superannuation system is still maturing. Most workers retiring now accumulated superannuation at a far lower rate than the 10 per cent prescribed today, and many won't reach the 15 per cent essential for an adequate retirement.

The central objective of the Government should be to take every step to improve the adequacy of retirement incomes. Women and Aboriginal and Torres Strait Islander workers retire with less than half of the superannuation, on average, of men. Government should be taking urgent action to rectify this including confirming the legislated increase of the SG to 12 per cent and establishing a pathway to 15 per cent immediately abolishing the $450 per month minimum threshold for SG, paying superannuation on parental leave, taking real action on superannuation theft by ensuring it is every worker's right to recover unpaid superannuation, and ensuring that every worker, no matter how they're engaged, earn superannuation on every dollar.

The position taken by the Government is that far too many workers do not efficiently use their superannuation and that this is borne out by too many retirees not using all their superannuation by the time they pass. This, however, is a luxury many workers do not have. The vast majority of workers deplete the entirety of their superannuation before they die and are forced to rely on the inadequate Age Pension for the remainder of their lives. The Retirement Income Review's assumption that superannuation savings is more than adequate for retirees comes from their view that retirees should take out reverse mortgages should they be lucky enough to own a home.

The Retirement Income Review found that one third of the value of superannuation will be passed on as inheritance, however this overstates the problem facing retirees. Much of the value of superannuation passed on as bequests are part of estates with multi-million-dollar superannuation balances, used to avoid tax rather than meaningfully save for retirement. The Retirement Income Covenant will not reduce the number of bequests made by families with tens or even hundreds of millions of dollars in superannuation. Those families have made plans and are executing them. There must be action to reduce the tax concessions enjoyed by the very richest Australians within superannuation. No person needs half a billion dollars in their self-managed super fund and rorts like these must be stopped.

The concerns of the trade union movement when making comment on the Government's original proposal for a Retirement Income Covenant in 2018 centred around the imposition of a complex financial decision with no option for the trustee to offer a soft-default product to members, considering their diverse needs. The union movement welcomes the Government's indications it will create a framework which allows the trustee to develop products and retirement options which incorporate the diversity of retirement outcomes. No worker should be blindly offered or encouraged to purchase an annuity or a suite of them, where that may not be the most appropriate way for a worker to use their superannuation.

The position paper, in outlining the ability for trustees to create cohort specific strategies for members to maximise their retirement income, while considering flexible access to savings, acknowledges the diverse challenges facing retirees. As the system matures, many retirees will be best served by retirement income strategies which effectively draw down the principal over time, ensure it is invested appropriately, and account for increasing longevity.

Until then, however, many retirees will be best served by retaining a lump sum to account for significant expenses which occur during retirement like installations in the home to improve accessibility, significant medical expenses, or to simply enjoy the fruits of their life's labour. Workers who retire with comparatively less superannuation may not be best served by an annuity, which for low balances could result in tens of dollars extra per week rather than having access to a more flexible lump sum.

It should be clear in final legislation that taking a lump sum as retirement savings in retirement is an important and legitimate option in retirement. Legislation is not available yet, however the union movement is encouraged by the centrality of the trustee to product design to ensure that these cohorts can be accounted for.

There are likely to be implementation issues for trustees seeking to achieve the objectives outlined in the Bill. Superannuation funds have little information beyond a members' account balance in their fund. Funds do not typically know a member's marital status, their assets outside the fund, home-ownership status, or their pension eligibility. Funds are not allowed to provide advice to members, under infra-fund advice laws, if it relates to transition to retirement and members must procure that separately. This limits access to affordable advice for members approaching retirement. Funds are not permitted to hawk products under recent anti-hawking laws introduced, which may need review if the fund is required to advertise or encourage a member to join a product under the Retirement Income Covenant. Funds with non-homogenous membership may find complying with the design and distribution obligation difficult, as sections of their membership which are atypical may not be offered an appropriate product if the trustee is unable to demonstrate demand for it.

For-profit actors may see the introduction of a financial decision at the point of retirement as another chance to rort the retirement savings of working people. There are more than 60,000 accumulation products in the market and for-profit actors capitalise on this choice overload. There is no consideration of the creation of a compulsory market for retirement income products and how this may impact workers should there be a similar proliferation of products in the position paper. No one should be able to profit from workers' retirement savings, and the introduction of the Retirement Income Covenant should not become another opportunity for the predation of workers' life savings.

While the positions taken in the paper are encouraging, the ACTU will reserve its position until exposure draft legislation outlines the obligations on trustees and opportunities for members.

address

ACTU

Level 4 / 365 Queen Street

Melbourne VIC 3000

phone

1300 486 466

web

actu.org.au

australianunions.org.au

Australian Unions