

# Superannuation in retirement: Submission to Treasury

HESTA submission February 2024

## About HESTA

HESTA is a profit-to-member industry super fund investing more than \$79 billion on behalf of more than 1 million members who work primarily in the health and community services sector, including in hospitals, primary healthcare, aged care, community services, disability and early childhood education and care. Our members are predominantly low and middle-income working women and come from every stage of working life – from those under 18 and just starting out, to retirees. Around 80% of our members are women who work in vocationally driven and often low paid roles. They earn 16% less than their male counterparts on average<sup>1</sup>, are less likely to be able to save outside their super and are more likely to have lower account balances when they retire compared to their male counterparts. Many of our members spend considerable time in unpaid care work, which adds enormous economic benefit to the country at the expense of their own financial security.

## Summary of HESTA recommendations

### Supporting members to have a retirement income stream product

- 1 Funds be enabled to establish an automatic default with member opt out.
- 2 There are barriers to members establishing and maintaining a retirement income stream product and these barriers should be removed.
  - HESTA calls for the establishment of an industry working group to recommend solutions to address the difficulties faced by members (including First Nations members) providing proof of identity.
  - Difficulties with topping up retirement income streams require solutions.

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<sup>1</sup> WGEA (2022). WGEA Scorecard 2022: The state of gender equality in Australia.  
<https://www.wgea.gov.au/data/wgea-research/australias-gender-equality-scorecard/health-care-and-social-assistance>

## **Supporting funds to provide more meaningful help, information and nudges to members**

- 3 Quality of Advice and access to advice reforms are supported. Streams 2 and 3 of the Quality of Advice reforms need to be released.
- 4 A Federal Government Data Sharing Framework is needed to enable funds to better meet the Retirement Income Covenant objectives.
- 5 Barriers to the development of longevity products need to be removed.
- 6 A Standardised Product Framework is not supported if it requires that funds place members into specific products.
- 7 A performance test for retirement products is not supported at this time.

## **Inequities within the superannuation system must be addressed**

- 8 The adverse impact of taxation of the Australian superannuation system needs to be assessed, with a special focus on women and low- and middle-income earners.

## **INTRODUCTION**

HESTA has a core value of wanting our members to face the future with confidence. HESTA is pleased to be able to respond to Treasury's Retirement phase of superannuation discussion paper ([Treasury's Discussion Paper](#)).

The importance of the retirement phase of superannuation is widely recognised. The superannuation system has about 17 million Australians with around \$3.5 trillion in superannuation assets<sup>2</sup>. The system is also maturing with most people estimated to retire by the mid-2040s having received the Superannuation Guarantee at 9 per cent or more for the span of their working lives. Currently, around 63 per cent of those aged 65 years or more receive income support from the Government – the vast majority of whom (approximately 92 per cent) received the Age Pension<sup>3</sup>.

Our superannuation system is well-respected, with the Mercer CFA Institute Global Pension Index 2023 ([the Index](#)) ranking Australia's retirement system as number 5 out of 47 countries<sup>4</sup>. The Index examines scores for Adequacy, Sustainability and Integrity and ranks Australia's overall score for Adequacy lower than for Sustainability or Integrity.

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<sup>2</sup> Australian Government, Intergenerational Report 2023 Australia's future to 2063, <https://treasury.gov.au/sites/default/files/2023-08/p2023-435150.pdf>

<sup>3</sup> Australian Government, Australian Institute of Health and Welfare, Income support for older Australians, <https://www.aihw.gov.au/reports/australias-welfare/income-support-older-australians>

<sup>4</sup> Mercer CFA Institute Global Pension Index 2023, <https://www.mercer.com/insights/investments/market-outlook-and-trends/mercer-cfa-global-pension-index/>

HESTA also takes this opportunity to raise three key structural issues, which are a fundamental backdrop to Australia's retirement income system:

- The gender retirement gap.
- The adverse impact of the current tax benchmark used for the Australian retirement system.
- An examination of whether income replacement rates are being adequately met.

HESTA's submission provides further information below.

We will now turn to addressing issues raised within the Discussion Paper.

**Make it easier for members to have a Retirement Income Stream product**

**Recommendation 1: Funds be enabled to establish an automatic default with member opt-out**

**Introduction**

HESTA recommends that funds be enabled to have the option of establishing an automatic default for members from accumulation to a retirement income stream with the ability for members to opt out. Funds are best placed to understand their membership and the cohorts within, and an automatic opt out default may be the best solution for a fund and its members.

**Why an automatic default member opt-out option is needed**

**Mandatory system where default continues to deliver**

Australia has a mandatory employer-based superannuation system with contributions going into privately run organisations. Unless a member opts out, superannuation guarantee contributions can only be received by a default MySuper product.

This system of MySuper default has worked well for members. Choice products (those where members or their advisors select a product) have repeatedly underperformed when compared to MySuper products. With the recent introduction of APRA reviews of Choice products:

- APRA noted that 'Choice super funds, where members actively choose investment options, have lifted their performance game overall but pockets of underperformance and high fees persist<sup>5</sup>.'
- More than 60 per cent of Choice investment options fell short of APRA's benchmarks over a seven-year period and 25 per cent had "significantly poor returns" for their members<sup>6</sup>.

### **Better assist members who are part of a mandatory system**

The OECD has noted<sup>7</sup> that members are increasingly being asked to take responsibility for their own retirement but observed behaviours demonstrate that member actions are not aligned with optimising their retirement outcomes. The OECD has commented that policies that 'improve the design of funded pension arrangements while adjusting for observed patterns of behaviours ... include default options (to) help people who are unable or unwilling to choose a contribution rate, pension provider, an investment strategy or a post-retirement product.'

### **Automatic default can provide a scalable, efficient retirement solution**

It is important that funds be enabled to direct members to a scalable, low cost and efficient retirement solution. Currently, such a framework does not exist<sup>8</sup>. The need for scalable, low-cost retirement solutions is an internationally endorsed principle<sup>9</sup>.

### **A scalable retirement solution enables transparency and comparability**

An automatic opt out retirement solution would better enable consumers to compare products, should they so wish. Comparability of products within financial services has long been seen as a fundamental protection for consumers<sup>10</sup>. While HESTA reiterates that each fund is to analyse what is in its members' best interests, HESTA also notes that a high degree of personalisation raises the issue of how members are to compare products.

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<sup>5</sup> <https://www.superguide.com.au/comparing-super-funds/choice-super-heatmap>

<sup>6</sup> <https://www.choice.com.au/money/financial-planning-and-investing/superannuation/articles/choice-funds>

<sup>7</sup> [https://www.oecd-ilibrary.org/sites/pens\\_outlook-2018-8-en/index.html?itemId=/content/component/pens\\_outlook-2018-8-en](https://www.oecd-ilibrary.org/sites/pens_outlook-2018-8-en/index.html?itemId=/content/component/pens_outlook-2018-8-en)

<sup>8</sup> <https://theconexusinstitute.org.au/wp-content/uploads/2023/09/Pathways-to-retirement-income-solutions-Draft-for-Discussion-Final-20230911.pdf>

<sup>9</sup> <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0467>

<sup>10</sup> Comparability – see e.g. <https://www.oecd.org/finance/financial-markets/46010844.pdf> and <https://www.oecd.org/daf/competition/competition-in-financial-consumer-protection.htm>

## **Members could benefit from tax differences by being defaulted into the pension phase**

Moneys within the accumulation phase of superannuation are taxed at 15 per cent while the pension phase is not taxed. It has been estimated<sup>11</sup> that approximately 1.3 million superannuation accounts totalling \$225 billion for members aged 65 years or more have not been moved to the pension phase.

The reasons for such members not moving into the pension phase are varied, and include a lack of awareness of pension products, tax implications and that tax in the accumulation phase is deducted by the super fund rather than being directly paid by members.

### **An automatic opt out default would need certain characteristics**

- **Where default has been identified as in members' best interest**

Based on a super fund's analysis, a default or defaults could be identified as being in members' best financial interests.

The basis for the default needs to be clearly identified and communicated to members, e.g. that a member has reached a certain age and/or that their superannuation guarantee contributions have ceased for a certain period of time. The parameters for the default would also need to address whether the drawdown rate and the default investment choice best meets the Retirement Income Covenant objectives.

- **Support and proactive communication is available**

Funds would need to communicate with members about the default from accumulation to a retirement income stream both prior to and after the switch.

Access to guidance (including advice) must be outlined within the communications.

- **Members have the ability to opt out**

Funds would need to communicate how members can opt out of being defaulted into a retirement income stream. The opt out process must be easy to do as well as being easy to communicate to members.

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<sup>11</sup> Australian Financial Review 29.8.2024 , 1.3 million Australians may be paying tax they don't have to, <https://www.afr.com/companies/financial-services/1-3m-australians-may-be-paying-tax-they-don-t-have-to-20230825-p5dzco>

## **Recommendation 2: There are barriers to members establishing and maintaining a retirement income stream product and these barriers should be removed**

### **Proof of identity and bank account details need industry focus**

#### **General issues**

Whether a super fund establishes an automatic opt out default or a member chooses to establish a retirement income stream account, there are several practical difficulties arising within Australia's mandatory superannuation system. Many superannuation accounts are initially established through an employer remitting superannuation guarantee contributions to a superannuation fund. While members might use the choice of fund form, the details they provide might vary from other names they use.

With HESTA's membership comprising of over 80 per cent female membership, many women in health and community services occupations use their maiden name in a working environment because:

- Their qualifications might have been gained before they married.
- Continuing to use their maiden name once married provides a layer or privacy and safety for members in frontline jobs which have a high exposure to occupational violence, drug and mental health-driven aggressive behaviour.

When members come to establishing a retirement income account, frequently the name on their accumulation account varies from the name used on their bank account. Also, there might be variations in whether a second name was included in the accumulation account or the bank account.

A person's name might be recorded differently by various Government agencies. As a person's name is matched to the names recorded by Government agencies (as is other forms of identity), a person's identity check will fail in the majority of cases.

#### **Case study**

The following uses a fictitious name but reflects an actual situation.

Name on HESTA account:	Sue Leanne Smith
Medicare	Sue L Smith
Driver's Licence	Sue L Smith
Passport	Sue Leanne Smith

In this case, electronic identification of the member will fail as the identification is not recognising the middle name as an initial 'L'. The member cannot edit the green identification process online to match the valid identity.

### **First Nations issues**

HESTA has actively worked to assist First Nations members, especially in relation to identity verification, literacy and different cultural practices.

HESTA launched an Aboriginal and Torres Strait Islander phone line option in 2019. This is resourced by trained staff who understand the needs of First Australian members, particularly regarding identity verification.

HESTA has been a member of the Indigenous Superannuation Working Group (ISWG) that brings together stakeholders from across the industry since its inception in 2013. The ISWG was convened by the Australian Institute of Superannuation Trustees (which has recently been merged into the Superannuation Members Council of Australia). The working group was focused on how to improve superannuation outcomes for First Nations people across the industry. This includes striving to remove some of the barriers our first Australians face when engaging with super on issues ranging from identification, remoteness, financial literacy and insurance claims.

### **Immigrants to Australia**

Immigrants to Australia might face different issues when seeking to prove their identity. A recent article<sup>12</sup> outlines the example of a Sri Lankan with four names that do not fit the standard format of given, middle and surnames. Additionally, at times the names might be so long that the boxes provided when registering for identification do not allow for the individual's full name to be entered.

### **Recommendation**

HESTA recommends that an industry working group be established to review and recommend solutions to these practical difficulties in establishing a retirement income account. The industry working group should also include a focus on the needs of First Nations people.

### **Remove difficulties in establishing and topping up retirement income streams**

HESTA members and those with member-facing roles such as those in contact centres, relationship management teams and financial planners have commented on the difficulties of establishing and maintaining a retirement income stream.

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<sup>12</sup> The Guardian 2 October 2023, [My full name is my identity – immigrants shouldn't have to change theirs to fit into Australia's systems](#) | Minoli Wijetunga | The Guardian

Currently, as identified in the 2016 Retirement Incomes Review<sup>13</sup> (2016 Review), additional moneys cannot be added to a retirement income stream once it has been established. The 2016 Review noted that this barrier was designed to protect the integrity of drawdown requirements as well as calculating the taxable and non-taxable components of an income stream.

Given the ever increasing need to make establishing a retirement account easier, HESTA believes that a greater focus is needed to helping remove these barriers, while taking into account tax and administrative issues.

### **Use of retirement income stream minimum drawdowns**

HESTA notes concerns within the Treasury Discussion paper that members are using the minimum drawdown rate to adjust income to meet their needs. HESTA members do move from minimum drawdown when their needs change:

- Most of HESTA members in a retirement income stream are withdrawing more than their minimum drawdown rate.
- 71% of HESTA members in a retirement income stream in 2022-23 drew more than their minimum drawdown rate.
- Only 39% of HESTA members drew down from their retirement income stream at the minimum drawdown rate pre Covid (2018-2019).
- The increase in HESTA members drawing above the minimum drawdown rate might be due to rising costs of living.

Given variations in both fund and member experience, funds should be able to take into account their member experiences in, for example, providing 'nudges' and engaging members regularly about drawdown rates or in setting drawdown rates for specific cohorts. Proactive engagement undertaken by super funds will help members better manage their retirement income streams.

### **Enable funds to provide more meaningful help, information and nudges to members**

### **Recommendation 3: Quality of Advice Reforms are supported. Streams 2 and 3 of the Quality of Advice reforms need to be released**

HESTA continues to support the Quality of Advice Reforms and awaits the release of Stage Two and Three of those reforms. When our members seek financial help, it is rarely on complex issues. Most members are simply looking for help to allow them to better understand their situation, deal with administrative issues around

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<sup>13</sup> See Retirement Income Streams Review 2016 <https://treasury.gov.au/sites/default/files/2019-03/Review-of-Retirement-Income-Streams.pdf> for an explanation of the pension standards.



transitioning to retirement and other matters and build confidence by taking modest steps to maximise their financial security.

Super funds need to be enabled to:

- (i) Provide “nudges” to members to examine products and services without this being categorised as ‘personal advice’.
- (ii) Give scaled general advice which takes into account, for example, a member’s access to Centrelink benefits.
- (iii) Simplify Statements of Advice so that they do not need to include ‘redislosure’ of items that can be found elsewhere, including online.

Changes need to be made to the regulatory requirements governing retirement calculators and retirement projections to better enable funds to provide a meaningful experience for members. Examples include:

- Within member login areas, funds be able to auto-fill calculators with member information.
- Funds be able to include ‘calls to action’ next to calculators (e.g., make additional contributions) without this being seen as ‘personal advice’.
- Members should be given the option of being able to select the fund’s member investment choice options rather than a generic choice option to gauge the impact on their retirement calculations without this being seen as ‘personal advice’.
- Funds be enabled to use information from a member’s use of calculators to provide nudges to the member.

#### **Recommendation 4: Develop a Federal Government data sharing framework to enable funds to better meet the Retirement Income Covenant objectives**

Our members want – and indeed turn to – HESTA to take into account their super, the age pension, and any other assets.

For funds to better meet the Retirement Income Covenant objectives, funds need more efficient access to Government data. This would help deliver a better understanding of member savings and spending profiles, enabling funds to better develop products, investment strategies, and member communications and tools. Also, this could enable funds to deliver a more seamless process for members, saving members both time and stress.

The need to use external data to better meet the RIC is highlighted within the APRA / ASIC review of the RIC implementation<sup>14</sup>:

HESTA recommends that the government fund government agencies to establish a data sharing framework. The output would be a single access point of data from various agencies such as APRA, ASIC, ATO and the Department of Social Services. Such a data sharing framework using a single point of access would provide a single and efficient query point, rather than funds seeking data from multiple sources.

### **Recommendation 5: Remove barriers to the development of longevity products**

HESTA agrees with the Treasury Discussion Paper that there are barriers to the ongoing development of longevity products, mainly connected with the pricing of such products. The cost to develop and provide any longevity solution for members would come at a considerable cost, arising from factors such as:

- Development and implementation (administrator and custody integration).
- Higher ongoing administration fees to members or lower returns generated by passive/low-risk strategies focused on immunising the pool.
- The pricing of mortality risk.
- The complexity and counterparty risk introduced by partnering with an external product manufacturer for a longevity solution is high.

HESTA would appreciate the opportunity to work with Government to shape removal of such barriers as well as to discuss the possible introduction of Government guaranteed products and specific standards for these. The confidence boost from Government-guaranteed products could be a game-changer for member confidence.

### **Recommendation 6: A Standardised Product Framework is not supported if it requires that funds place members into specific products**

Given both the objectives of the Retirement Income Covenant as well as the issues raised throughout our submission, HESTA strongly believes that funds must be enabled to analyse, identify and implement the best product and services for their membership. Given this, HESTA does not support the development of a Standardised Product Framework if such a Framework would require that funds place members into specific products or a mix of products.

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<sup>14</sup> APRA and ASIC, Information report: Implementation of the retirement income covenant: Findings from the APRA and ASIC thematic review July 2023 [https://download.asic.gov.au/media/z3shktv1/rep766\\_published-18-july-2023.pdf](https://download.asic.gov.au/media/z3shktv1/rep766_published-18-july-2023.pdf) (Accessed 8 January 2024).

For example, given (at this time) HESTA's membership base of lower account balances, it would be inappropriate to mandate that a standardised retirement product include a longevity component.

A Standardised Product Framework could be developed in a further consultation, but would need to take into account the following characteristics:

- Funds would not be required to place members into specific products or a mix of products.
- The Framework would need to recognise that funds are already complying with a range of obligations, including design and distribution requirements, the Retirement Income Covenant objectives, and member outcome assessments.

### **Recommendation 7: A performance test for retirement products is not appropriate at this time**

HESTA notes that the OECD's High-Level Principles on Financial Consumer Protection<sup>15</sup> include 'Consumers should be able to search, compare, share data and, where appropriate, switch between products and providers easily and at reasonable and disclosed costs, for instance by leveraging interoperable systems.' A number of ways enabling consumers to do this within the accumulation component of the Australian superannuation system have been established by both public and private organisations, including the Australian Taxation Office's YourSuper comparison tool. APRA publishes heatmaps to increase the transparency and performance of superannuation offerings, which provides a way for regulator scrutiny of the various superannuation products.

As the Treasury Discussion Paper notes, applying performance testing to retirement products would require careful analysis. HESTA agrees with this concern, especially given that:

- Funds have only recently implemented the Retirement Income Covenant.
- A review of the performance test for the accumulation phase has not yet been undertaken.

Given these issues, HESTA believes that a performance test for retirement products is not appropriate at this time.

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<sup>15</sup> OECD, Recommendation of the Council on High-Level Principles on Financial Consumer Protection (Adopted on 17.7.2012 and amended on 12.12.2022), <https://legalinstruments.oecd.org/en/instruments/OECD-LEGAL-0394>

**Inequities within the superannuation system must be addressed**

**Recommendation 8: The adverse impact of taxation design of the Australian superannuation system needs to be assessed, with a special focus on women, and low and middle-income earners within a Statement of Compatibility accompanying any material policy change**

HESTA also takes this opportunity to raise two key structural issues, which are fundamental to Australia's retirement income system design:

- The gender retirement gap.
- The adverse impact of the current tax benchmark used for the Australian retirement system.

### **Gender retirement gap and superannuation taxation**

HESTA recognises that the gender retirement gap is primarily caused through compounding work-related factors, including gender pay gaps, women's disproportionate experience of part time and/or precarious work patterns, and high levels of occupational job segregation within Australia. However, the gender retirement gap is detrimentally affected by the taxation inequities within the superannuation system. Women retire with one-third less superannuation than men<sup>16</sup>.

An International Monetary Fund report<sup>17</sup> found that women are more responsive to tax incentives than men. This finding could be applied to various areas of the Australian superannuation gender gap, including tax for secondary earners<sup>18</sup>, incentives to return to work, as well as within the superannuation system itself.

The current superannuation tax benchmark disproportionately affects women as well as male part time and lower income earners. Australia uses a 'tE approach'<sup>19</sup>, which means tax is paid on money going into super, tax is paid while money is within super, but there is zero tax on benefits paid to those who are 60 or more. Many OECD and European Union countries apply a variant of EET<sup>20</sup> (contributions

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<sup>16</sup> KPMG (2021). The Gender Superannuation Gap – addressing the options.

<sup>17</sup> International Monetary Fund, (2013). *IMF Staff Discussion Note: Women, Work, and the Economy: Macroeconomic Gains From Gender Equity*. [online] International Monetary Fund. Available at: <http://tinyurl.com/qfdzbt>

<sup>18</sup> Canada, for example, has decreased the secondary earner's tax.

<sup>19</sup> OECD, Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries, 2015, <https://www.oecd.org/finance/Stocktaking-Tax-Treatment-Pensions-OECD-EU.pdf>

<sup>20</sup> OECD, Stocktaking of the tax treatment of funded private pension plans in OECD and EU countries, 2015, <https://www.oecd.org/finance/Stocktaking-Tax-Treatment-Pensions-OECD-EU.pdf>

and returns on investment are exempt from taxation and benefits are treated as taxable income upon withdrawal).

While HESTA is highly supportive of ways to mitigate the adverse impact of using the ttE approach – such as the Low-Income Superannuation Tax Offset ('LISTO') - more needs to be done to address the tax inequity caused.

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