Looking forward

A blueprint for facing the new problems confronting Australian retirees

1 February 2019

AIST Pre-Budget Submission 2019

Level 23, 150 Lonsdale Street
Melbourne VIC 3000

T +61 3 8677 3800
F +61 3 8677 3801

info@aist.asn.au
www.aist.asn.au

AIST

The Australian Institute of Superannuation Trustees is a national not-for-profit organisation whose membership consists of the trustee directors and staff of industry, corporate and public-sector funds.

As the principal advocate and peak representative body for the $1.3 trillion profit-to-members superannuation sector, AIST plays a key role in policy development and is a leading provider of research.

AIST provides professional training and support for trustees and fund staff to help them meet the challenges of managing superannuation funds and advancing the interests of their fund members. Each year, AIST hosts the Conference of Major Superannuation Funds (CMSF), in addition to numerous other industry conferences and events.

Contact

Eva Scheerlinck, Chief Executive Officer	03 8677 3800
Richard Webb, Policy & Regulatory Analyst	03 8677 3835

Cover art

Executive summary

In brief:

AIST welcomes the opportunity to present our Pre-Budget Submission for 2019-20. Our submission presents a longer-term view of problems facing superannuation into the future, with recommendations designed to address these.

AIST thanks the Assistant Minister for Treasury and Finance for the opportunity to present our Pre-Budget Submission for 2019-20.

Whilst we are mindful of the many important issues which are likely to dominate policy in relation to superannuation and financial services in the short to medium term, our submission this year presents a view of the longer term, both amongst those covered by Australia's superannuation system, and those who are not. Our recommendations are about improving conditions for members into the future.

AIST believes that a strong default superannuation system must ensure that people are immediately connected with high performing funds, and ensure that members who may already be in poorly performing funds are moved into high performing funds, by ensuring that poorly performing funds are consolidated with their higher performing competitors. The legislated process to put quality filters in place focussing on investment performance at the Fair Work Commission must be implemented

We make the following recommendations:

- Further improve the fairness of tax concessions
- The $450 per month income threshold for the superannuation guarantee be abolished to improve fairness and reduce incentives to unnecessary casualisation.
- All taxpayers eligible for the LISTO to be provided with an additional contribution.
- In addition to examining levels of paid parental leave, SG to be paid on paid parental leave.
- The Government measure and publish the super gap each year, and assess the impact that any future legislative changes to super would have on women.
- Recommencement of increases to the Superannuation Guarantee (SG) rate from 1 July 2021, with a view to achieving 12% in July 2025.
- The ATO commits to a holistic programme of superannuation administration structured around reconnecting superannuation monies with members.

- Undertake a further post-implementation review into APRA's reporting and data framework.
- The *Insurance in Superannuation Voluntary Code of Practice* should be the primary focus of policy change in respect of insurance in superannuation.
- Superannuation is a benefit of employment and as such, the Superannuation Guarantee (SG) should be enshrined in the National Employment Standards.
- A commitment to universality of SG cover for all PAYG employees, independent contractors and the self-employed.
- The objective of superannuation should be legislated to hold Government and policy makers accountable for ensuring a reasonably comfortable living standard in retirement.
- A permanent superannuation council be empanelled to assess whether the superannuation system is delivering against the objective.

AIST has also recommended urgently deferring the proposed means test changes for lifetime income streams until the flaws identified in the Productivity Commission report, as well as issues relating to consumer disclosure and protections have been resolved.

Introduction

AIST acknowledges the history of Australia's superannuation system, including the introduction of compulsory superannuation in 1992 and the establishment of profit-to-member superannuation funds. Our $2.7 trillion pool of retirement savings is the biggest in the world on a per capita basis. It gives working people a higher standard of living in retirement and takes pressure off the Age Pension at one of the lowest costs (as a proportion of GDP) of OECD countries.

Our system is currently ranked fourth in the Melbourne Mercer Global Pension Index, which compares retirement income systems around the world based on their adequacy, sustainability and integrity. The AIST-Mercer Super Tracker, which gauges how well the system is delivering within Australia, scores our system at 68.8 out of 100.00.

Significant developments in recent decades necessitate further enhancements to the superannuation system. These include:

- Improved understanding of member behaviour and decision making from the field of behavioural economics.
- A shift in focus from the accumulation phase to the retirement phase.
- Changes in working patterns.
- Declining rates of home ownership.
- Tax changes that threaten the sustainability and equity of the system.

AIST is the national peak representative body for Australia's profit to member superannuation funds which collectively hold $1.3 trillion in member retirement savings. Profit-to-member superannuation funds return profits to members only and always put members' interests first.

The past few years has been a flurry of policy development culminating in two major inquiries into the superannuation specifically and the financial services industry more broadly. AIST welcomes the increased scrutiny this brings, together with the certainty that such transparency brings with it increased consumer engagement and community involvement. However, we importantly welcome the enormous opportunity this brings to improve the wellbeing and financial security of superannuation fund members.

AIST continues to support Australia's three-pillar retirement incomes system. We believe that as deferred income, superannuation guarantee contributions must be included in the National Employment Standards, and this must include a commitment to universality of cover for all workers including those earning less than $450 per month, as well as those for whom coverage is either not available or unclear.

AIST agrees that there should be a legislated objective for the superannuation system which would hold Government and policy makers accountable for ensuring a reasonably comfortable living standard in retirement. AIST supports the establishment of a permanent superannuation council of independent experts to assess whether the superannuation system is delivering against the objective, as well as recommending and assessing proposals for policy change.

We believe that a strong default system must ensure that people are filtered into high performing funds, and ensure that members who may already be in poorly performing funds are moved into high performing funds. AIST supports efforts to consolidate to ensure that these existing members benefit from economies of scale. For members who wish to choose their own products, we see the rights of these members to the same basic consumer protections as MySuper members as essential, together with the ability to compare the long-term net returns of all superannuation products.

AIST upholds the equal representation model of governance and have reinforced our endorsement of this model with a Governance Code which promotes continuous improvement in governance practices and aims to cement profit-to-member funds as the leading superannuation sector. We support measures aimed at improving the adequacy of superannuation for low-paid workers, women and Indigenous Australians, as well as better targeting of tax concessions. We support regulation aimed at improving the retirement standards of Australians, including better retirement benchmarks, retirement income frameworks, availability of high quality and affordable financial advice and better targeted means-testing for the Age Pension.

We support group life insurance as an efficient and cost-effective form of cover and we support the Insurance in Superannuation Voluntary Code of Practice.

Our financial regulators must be strong and provided with the regulatory tools to ensure that they can better understand, benchmark, analyse and make regulatory decisions regarding superannuation entities. Such tools must include industry reporting, statistical publications and appropriate exercising of regulatory powers

The theme of this submission is about looking forward. AIST is pleased to present our submission.

Recommendations

Improve the fairness of tax concessions in superannuation

Tax concessions supporting superannuation are estimated at over $40 billion per year[1]. AIST calls for a more equitable distribution of superannuation tax concessions between cohorts based upon income earned.

AIST supports the policy platform of Women in Super to improve women's retirement outcomes. Women in Super (WIS), as part of their Make Super Fair policy, explain that:

- Women still retire with 47% less super than men;
- It is estimated that more than 40% of older single women live in poverty;
- Women are more dependent than men on the age pension;
- The fastest growing cohort of homeless people are single older women; and
- Tax concessions in superannuation are skewed towards high income earners – a more equitable redistribution of tax concessions could make a meaningful impact on the gender super gap.

WIS has developed a five-point plan to address these issues and work towards developing a fairer system that sees women and low-income earners reach greater economic security in retirement:

1. Additional annual $1,000 government contribution into super for low income earners, to better support those with inadequate retirement savings.
2. No further delay to scheduled superannuation guarantee (SG) increases.
3. Pay SG on paid parental leave.
4. Remove the $450 monthly income threshold on SG contributions.
5. Require Government to undertake and publish a gender impact statement for any changes to age pension or retirement income policy; ongoing tracking by WGEA of women's retirement gap.

AIST agrees with WIS that this is a crisis affecting women entering the workforce, who will face the same fate as women retiring, if this situation is not rectified.

However, as we have also written previously, the tax concessions themselves must ensure that all Australians are appropriately incentivised to save for retirement. We note that at the lower

---

[1] Australian Government The Treasury (2019). *Tax Benchmarks and Variations Statement 2018*. January 2019. [online] Canberra: Commonwealth of Australia. Available at: https://tinyurl.com/yb84smwo [Accessed 31 Jan. 2019].

income end of the scale, there are no tax concessions available and, in actual fact, Australians are still penalised to some degree under the tax system for saving towards retirement. By way of an example, the LISTO, is a relatively recent fix designed to fix the fact that Australians paying a lower marginal tax rate than the contributions tax rate of 15%, which credits $500 as a return of tax to Australians with adjusted taxable of income of less than $37,000. However, even this is based on out-of-date mathematics, which references a period when the Superannuation Guarantee was assessed at a rate of 9% rather than the new rate of 9.5%. Furthermore, it is limited to $500, which means that low income earners whose employers contribute more on their behalf do not obtain any additional return of tax. We have provided more discussion around the LISTO below.

At the upper end of the scale, we also note the relatively recent addition of Division 293 tax, as well as lowered contribution caps and the introduction of the transfer balance cap, which has reduced tax concessions to higher income earners.

AIST supports these measures. However, we also note that there is still room for improvement. We believe that our recommended council of independent experts could be tasked with regularly reviewing the fairness of the tax concessions available to superannuation fund members and recommending improvements.

Below is more detail in relation to examples of measures that we believe improve the fairness of tax concessions. We discuss accelerating the increase in the Superannuation Guarantee later in this submission.

Provide a $1,000 low income contribution

The LISTO (currently set at a maximum of $500) represents a refund of contributions tax on superannuation, based upon the maximum of notional or actual superannuation contributions from one earning an adjusted taxable income of $37,000 per year or less. Whilst this appears to be reasonable, women and other low-income earners remain at a significant disadvantage compared to other taxpayers due to three factors.

For lower income earners, the LISTO payable will be less. The LISTO is limited to $500, however as LISTO payable is a function of the SG, this figure reduces to zero as a proportion of adjusted taxable income.

At the same time, the net tax concession for lower income earners will also be less. Taxpayers earning less than the tax-free threshold are unable to collect a concession at all, with the LISTO merely representing a return of contributions tax.

Finally, the amount being contributed into superannuation will be less due to smaller contributions. In addition, the ability of low-income earners to make additional contributions is severely curtailed by the cost of living.

The net effect of all three factors is smaller superannuation balances, a reduced quality of life in retirement and an increased reliance on the Age Pension.

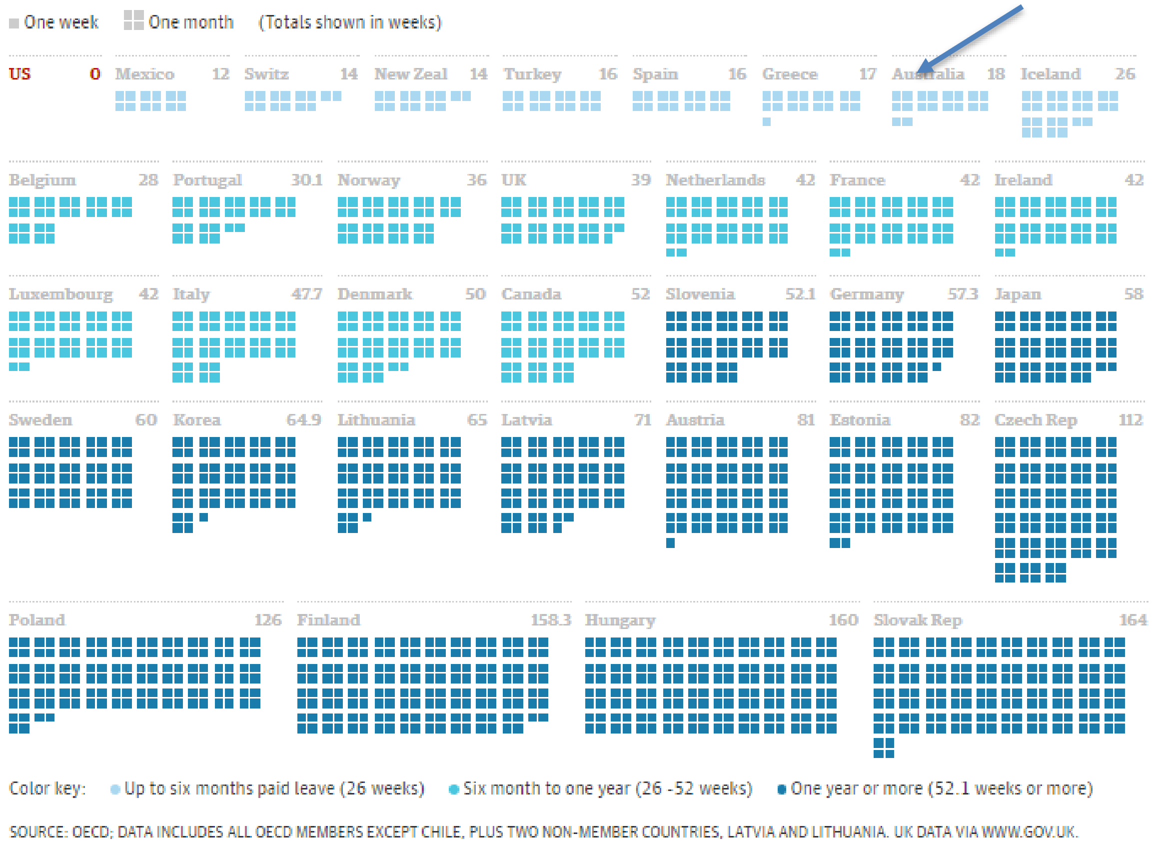
AIST recommend that all taxpayers eligible for the LISTO be provided with an additional contribution of $1,000. ATO figures show that 3 million Australians were eligible for the LISTO's predecessor scheme from 2016-17.

Pay SG on paid parental leave

AIST supports a Government-funded parental leave scheme that includes a superannuation component, linked to the payment of SG contributions required on average weekly earnings. The implementation of a paid parental leave scheme with a superannuation component, would allow parents to continue building their superannuation whilst on parental leave.

The lack of such a superannuation component – coupled with the very low level of paid parental leave – adversely contributes to the gap between women and men's retirement savings. Paid parental leave schemes (coupled with superannuation) assist with improved workforce participation rates (particularly for women of child bearing age). The following is a chart[2] representing where Australia sits comparatively in terms of paid parental leave (next page):

[2] Popovic, N. (2014). The US is still the only developed country that doesn't guarantee paid maternity leave. *The Guardian*. [online] Available at: http://tinyurl.com/mtabaum [Accessed 1 Feb. 2019].



AIST recommends that (in addition to examining levels of paid parental leave) SG be paid on paid parental leave.

Similarly to parental leave, we also recommend that the ability of paying SG for unpaid carers should also be examined.

Removal of the $450 per month superannuation guarantee (SG) threshold

AIST recommends the removal of the $450 per month income threshold on the Superannuation Guarantee as a measure to improve fairness.

There are four reasons supporting our recommendation:

- Cost to government would be minimal.
- Those on lower incomes would have a better retirement outcome.
- Australia’s superannuation coverage – while quite high – is comparatively lower than other systems with mandatory superannuation.
- Increasing numbers of people have multiple jobs. While each may be paying under $450 per month, the aggregate may be much more.

Cost to Government

While the aggregate cost of removing the $450 monthly threshold would be small, industry experience suggests it is likely to be quite concentrated, resulting in significant improvements for those individual workers who are most disadvantaged by the current exemption. ASFA recently estimated that the cost to government of removing the exemption would be minimal, at less than $5 million per year[3].

Improving retirement for part-time employees (particularly women)

AIST notes that the high concentration of females working part-time is a contributing factor to their relatively low superannuation balances. Women comprise just under 70% per cent of the part-time workforce, with more (54.3%) employed part time than full time (45.7%)[4] (over three times as many full-time workers are men as compared to part time male workers). AIST has long argued that abolishing the exemption on compulsory superannuation contributions for those earning less than $450 per month would benefit many women – as well as males – on low incomes, working on casual or part-time bases. In female-dominated industries where working for several employers is common (such as retail, hospitality and health sectors), many employees are excluded from the SG system because the $450 threshold applies only to a single employer, and not on a combined income level. Australia ranks fifth in the OECD for incidence of women in part time work at 38.5%.[5]

It should also be noted that at current SG rates, anyone earning just under the threshold would be eligible for $42.75 per month: Administration of this measure could cost more than this. The cost to Government for this measure would therefore be limited solely to the Low Income Superannuation Tax Offset (LISTO) payable and has been costed at less than $5 million per year[6].

---

[3] ASFA (2015). *Re: Inquiry into Economic Security for Women in Retirement*. [Letter] To: Senate Standing Committee on Economics. [online] Canberra: The Senate. Available at: https://tinyurl.com/y7bxf6z8 [Accessed 1 Feb. 2019].

[4] ABS (2017). *6306.0 - Employee Earnings and Hours, Australia, May 2016*. [online] Canberra: Australian Bureau of Statistics. Available at: https://tinyurl.com/yadwl6f6 [Accessed 1 Feb. 2019].

[5] OECD (2014). *LMF1.6: Gender differences in employment participation*. OECD Family database www.oecd.org/social/family/database, OECD - Social Policy Division - Directorate of Employment, Labour and Social Affairs. [online] Organisation for Economic Co-Operation and Development, p.1. Available at: https://tinyurl.com/y7r7kwdt [Accessed 1 Feb. 2019].

[6] Clare, R. (2012). *Equity and superannuation – the real issues*. [online] Sydney: Association of Superannuation Funds of Australia, p.15. Available at: https://tinyurl.com/jbtjtko [Accessed 1 Feb. 2019].

Reducing incentives to the unnecessary casualisation of the workforce – the "gig economy"

We note that whilst wages have grown, so too has the increasing casualisation of the Australian workforce. As the percentage of Australians holding more than one job increases, so too does the likelihood that at least one job will pay under the $450 threshold. As this, in turn, affects the retirement savings of Australians, we believe that time is right to debate the role that this threshold plays in limiting the retirement comfort of Australians.

AIST considers that the $450 threshold provides an incentive for business to retain casual employees on low work rostering to avoid superannuation obligations and should be abolished.

Measure and publish the impact that any future changes to super would have on women

Several factors act against women reaching the best possible retirement outcomes, and the impact of tax, economic and social policy can have different consequences for women as opposed to men. As part of this submission, AIST recommends that the Government measure and publish the super gap each year, and assess the impact that any future legislative changes to super would have on women.

AIST also considers that there is a need to reinstate the Women's Budget Statement which would allow proper analysis of the impact of the budget on women, and could help in rectifying the gender super and gender pay gap.

Commit to increases to the Superannuation Guarantee

The changes to the schedule of increases to the Superannuation Guarantee (SG) which will see it eventually increase to 9.5% was formally delayed in 2014, through the repeal of the Mineral Resources Rents Tax.

Under the current timetable, the SG rate is set to increase to 12% from the earliest date of 1 July 2025, and will be fixed at 9.5% until 1 July 2021. Ironically, the original schedule would have seen Australians benefiting from a 12% SG rate from 1 July this year – the first day of the Budget period. This represents a major setback to a key long-term objective of superannuation, which is to ensure all working Australians enjoy an adequate retirement income. Delays to the SG timetable will also create more fiscal pressure on future governments in relation to Age Pension funding. The following schedule illustrates how soon this transition could occur (Table 1):

Financial year	SG charge percentage	
	Rates as per the originally proposed schedule (%)[7]	**Rates as per the current schedule (%)**
2018-19	11.5	9.5
2019-20	12.0	9.5
2020-21	12.0	9.5
2021-22	12.0	10.0
2022-23	12.0	10.5
2023-24	12.0	11.0
2024-25	12.0	11.5
2025-26	12.0	12.0

Table 1

AIST recommends that the commitment of increases to the SG rate from 1 July 2021, with a view to achieving 12% in July 2025 be committed to with no further delays.

Commit to a holistic programme of superannuation administration

The ATO presently administers a number of areas of superannuation, including the SG, SuperStream and gateway infrastructure, Single Touch Payroll, lost and unclaimed superannuation and self-managed superannuation funds.

AIST believes that the present administration of superannuation by the ATO can be further improved by increasing the priority of the various programmes around a theme of reconnecting superannuation monies back to members. We have discussed a number of initiatives that the ATO should undertake below.

[7] *Superannuation Guarantee (Administration) Amendment Act 2012* at Schedule 1, Item 2.

Implement recommendations of the Senate Economics and Cross-Agency inquiries into unpaid superannuation

AIST supported all the 32 recommendations made in the Senate Economics References Committee report, *Superbad – Wage theft and non-compliance of unpaid Superannuation Guarantee*[8], and has previously called on the Government to prioritise their implementation.

AIST also supported the nine recommendations made by the Superannuation Cross-Agency Working Group, including the decision to close legislative loopholes which allow some employers to avoid paying their full Super Guarantee (SG) entitlement for employees who utilise salary sacrifice arrangements.

Superannuation is a key component of an employee's remuneration package and these recommendations will help ensure that appropriate consumer protections are in place. AIST enthusiastically supports the legislation introduced by the Government to close the salary sacrifice loopholes and looks forward to this measure's safe passage through Parliament.

Greater priority for programmes connecting members with unpaid superannuation

The underlying problem with unpaid superannuation, is that an entity is breaching its covenant with its employees and with the greater community by not paying its superannuation obligations. AIST believes that the onus of responsibility on members to make a complaint (often long after the event) is inappropriate, and that the ATO should continue to assume increasing responsibility in this process. By acting on up to date and consolidated information reported in close to real time, such as the payment of wages and superannuation, by employers and superannuation funds, the ATO would have the tools to act on breaches long before members were even aware that there was a problem.

Progressive reduction in the small lost member account threshold to $2,000

AIST notes and welcomes initiatives taken at the ATO to reduce red tape for small business and to increase the efficiency of the superannuation system. Major technological improvements such as SuperStream have revolutionised superannuation, reduced errors, improved non-payment problems and reduced the time out of the market previously suffered by superannuation members as their contributions waited to be connected with their accounts.

---

[8] Senate Economics References Committee (2017). *Superbad – Wage theft and non-compliance of the Superannuation Guarantee*. [online] Canberra: The Senate. Available at: https://tinyurl.com/ybeymust [Accessed 1 Feb. 2019].

Further initiatives, such as Single Touch Payroll will see members better connected with their superannuation. Together, these improvements mean that lost superannuation will become less of an issue.

AIST takes this opportunity to point out that the policy need for such high thresholds for "small" lost member accounts will be increasingly less relevant due to these initiatives. We recommend that the threshold balance, recently increased to $6,000, is progressively reduced to $4,000 on 1 January 2020, then to $2,000 in 2021.

We further believe that the rules regarding lost and unclaimed superannuation are unnecessarily complicated and we would welcome measures to streamline these rules. We additionally believe that the ATO will be able to direct more resourcing to matching lost super with members as the benefits of Single Touch Reporting and the MAAS and MATS projects are fully implemented.

More regular reporting of contributions and individual access through MyGov

The almost concluded MAAS and MATS projects at the ATO will lead to better reporting through the MyGov superannuation dashboard, and AIST and other stakeholders are involved in consultations about them. AIST recognises and supports the ability of MyGov to carry and display more up to date information to taxpayers as a result of the projects.

AIST argues that with the increased level of data available to the ATO, the ability to provide better experience for individuals as well as the community benefits associated with better enforcement will be immediately apparent. To provide more detail, this would:

- Enable better, immediate, informed decision-making for super fund members through the visibility of complete and accurate data, allowing balances to be monitored and non-payment or under-payment issues able to be taken up directly with the member's employer;
- Support employers 'doing the right thing' and early intervention on non-compliance;
- Reduce insolvent trading and create a level playing field for employers; and
- Provide universal transparency for consumers.

To this we also add that recent changes such as the legislation of the First Home Super Saver Scheme, now adds to the imperative of providing meaningful, up to date and comprehensive data relating to superannuation to members through MyGov.

Unpaid non-SG contributions

AIST notes that the SG is only one of a number of different payment types that can be arranged between employers and employees into superannuation. However, the SG is the only one of these that has an enforcement regime, where the ATO can police non- or underpayment.

There presently exists little information available to employees as to what they can do if an employer is failing to make salary sacrifice, member-voluntary or employer-voluntary contributions that have been agreed with employees over and above SG amounts. AIST points out that assistance from websites of the ATO, Fair Work Ombudsman or ASIC's MoneySmart is limited to SG amounts leaving the prospect of expensive legal action, which would be highly cost-ineffective compared to the amount of the contributions themselves. Clearly this is unacceptable.

AIST recommends that where these payments are agreed between employers and employees, an enforcement regime should be created that is for all intents and purposes identical to that which exists for SG amounts. AIST also recommends that the ATO be tasked with enforcement of these payments.

Other measures

As outlined elsewhere in this submission, AIST believes that opportunities exist to improve Australia's superannuation coverage. We believe that the ATO has a role to play in administration of a number of these, including:

1. Working with the Fair Work Ombudsman to reduce instances of sham contracting and the avoidance of superannuation contribution as a result.
2. Reaching out to the self-employed, in conjunction with ASIC, to better communicate the benefits of superannuation contributions.

Undertake a further post-implementation review into APRA's reporting and data framework

The biggest question underpinning the reporting and data collection framework is whether the collection and analysis of data and actions subsequently taken has delivered good value to government, regulators, industry and consumers. For example, the current reporting framework has not delivered benchmarking of system and fund performance, enabled the identification of the impact of conflicts of interest, or whether members could have received better value. Our recent submission to APRA[9] accordingly advocates that the reporting framework has not met its objectives. AIST considers that the issues identified during the Royal Commission could have been identified earlier, had APRA gathered and analysed relevant data.

---

[9] AIST (2019). *Post-Implementation Review of the Prudential Framework for Superannuation: Data and Reporting Framework*. 25 January 2019, AIST Submission to APRA. [online] Melbourne: Australian Institute of Superannuation Trustees. Available at: https://tinyurl.com/ycfrxtht [Accessed 1 Feb. 2019].

We raised five major issues in our submission to APRA:

- **Objectives** - the reporting standards do not meet the objectives.
- **Implementation** – system performance benchmarking and assessment has not been enabled and a data reporting framework is needed.
- **Implementation** - data quality is poor given that the data gathered does not enable the standards to meet their objectives. Consistent terminologies and uniform methodologies across funds are needed. A fundamental component of the standards not meeting its objectives is that neither disclosure or data reporting is on a level playing field across the system.
- **Royal Commission** - identification of concerns identified by the Royal Commission could have been identified sooner had APRA gathered and analysed appropriate data.
- **Timing of this post implementation review** – we repeat our earlier recommendations that there be a further post implementation review following the final report of the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry ('Royal Commission') and Productivity Commission, and one which also considers other recent APRA reviews and initial industry feedback.

Regarding these five key areas, our chief concerns are:

1. **Objectives are not being met**

The scope of the review being undertaken by APRA is too narrow to address this, with a variety of stakeholders, fields, forms and reporting standards reflecting issues not strictly limited to the prudential framework.

The review itself should go further and embed the best interests of members in a revised measure of APRA's success. Currently, APRA's measurement of 'loss' relates to immediate failure or financial loss of regulated entities and does not include loss to member value arising from entities not acting in members' best interests. The Productivity Commission's final report[10] makes similar recommendations.

AIST strongly believes that government, industry, superannuation fund members need to understand whether appropriate value is being delivered to members, given the complexity and cost associated with data reporting.

---

[10] Productivity Commission (2019). *Superannuation: Assessing Efficiency and Competitiveness,* Report no. 91. [online] Canberra: Productivity Commission. Available at: https://tinyurl.com/y9ylxoll [Accessed 16 Jan. 2019].

Had the reporting framework been meeting its objectives, the issues raised by the Royal Commission could have been identified sooner.

2. Implementation

A fundamental starting point is a well-conceived data and reporting framework. This is not in place. Information needed to benchmark system performance should be specified. Benchmarking cannot be done. AIST has raised this on many occasions, and the Productivity Commission's final report also raises this concern. Without this key information, AIST believes that other regulatory requirements such as the member outcomes test cannot be implemented meaningfully.

Consistency of terminology and uniform methodologies need to be developed within a data and reporting framework. Funds are experiencing uncertainty regarding APRA's understanding of superannuation data and uncertainty regarding data fields.

The data and reporting framework must rest on a level playing field disclosure and reporting regime. This is currently not the case, and our submission contained further information regarding the unevenness of the playing field in relation to this.

3. Timing

The review needs to consider the imminent findings of the Royal Commission and reports which APRA has undertaken.

AIST makes the following recommendations as part of this submission:

1. A further post implementation review should take place following the final reports of both the Productivity Commission and the Royal Commission.
2. The further review should have a broader scope.
3. APRA should gather choice sector data.
4. An independent agency such as the Australian Bureau of Statistics (if resourced) should analyse and benchmark both MySuper and choice sector data and report to APRA.
5. A data reporting framework needs to be developed.
6. What data is needed to benchmark fees and performance needs to be specified.

Defer the introduction of means test changes for lifetime retirement income streams

Schedule 1 to the *Social Services and Other Legislation Amendment (Supporting Retirement Incomes) Bill 2018* ("the Bill"), presently in front of Parliament, implements changes to Age Pension means testing to allow for new innovative income streams.

AIST has recommended to the Senate Economics Legislation Committee, presently reviewing the Bill, that Schedule 1 be deferred due to the lack of a unified retirement income strategy at a policy level, the identification of major flaws in the Government's retirement income framework as identified by the Productivity Commission, and the outstanding gaps in consumer superannuation disclosure and protections which are yet to be resolved.

A considerable amount of work has been undertaken in order to better allow for the introduction of Comprehensive Income Products for Retirement (CIPRs), however AIST has serious concerns that this project has become something of a cargo cult, to the extent that Treasury has prioritised these products as a panacea to all problems facing all retirees. This approach is fraught with danger, and the present position occupied by Government would see trustees required to mandate CIPRs for their members including in situations where the trustee suspects that this will not be in the members' best interests. Proposals forming part of the Government's position in relation to fixing this issue revolve around the creation of a "safe harbour" which, whilst protecting trustees from breaches of either the trustees' or advisers' best interest duties prescribed in law, would also protect unscrupulous issuers of poorly designed products.

AIST supports the need for superannuation funds to have a retirement incomes framework in place for their members. AIST believes that trustees must address the real question of what happens to members when they reach retirement and how they may address members' needs at this point, for which their fund has been managing their savings. However, in its current form, this requirement must be reassessed. The recent report by the Productivity Commission inquiry into assessing efficiency and competitiveness of superannuation addressed quite specifically (pp. 233-236) the "central aspect… the way in which [a CIPR] is to be presented to members as a *first offering…*", (the Commission's emphasis) and led to the finding (Finding 4.4) that the proposed covenant would result in members enrolling in products for which they are not suited. Recommendation 10 of their report goes further, recommending that the covenant itself needs to be reassessed and the Commission suggests abandoning the requirement to offer a preferred product, "if the flaws cannot be sufficiently remediated (by the now deferred date of 1 July 2022)."

The Commission's report and in particular, Finding 4.4, make the case that schedule 1 of the Bill, which is intended to provide incentives for retirement income products that may be difficult to exit, needs to be deferred until the flaws outlined in Recommendation 10 of the report are fully addressed.

AIST from the outset pointed out that the scope of work being undertaken by Treasury and others had been unnecessarily limited to the regulatory framework for retirement income streams (specifically tax and prudential requirements), as well as the means testing framework. We recommended in our initial submission to Treasury that there be an inquiry with a broader scope, which was able to also consider the role of tax as it related to all competing non-super investments, the sustainability of superannuation restrictions, the adequacy of social security arrangements and other matters relevant to retirement which, at that time, had not been considered, such as aged care and healthcare.

This broader inquiry was never undertaken.

Compounding this, as Treasury indicated in their Retirement Income Disclosure Consultation Paper, there are remaining parts to the proposed Retirement Income Framework that remain before "consumers are supported to make informed decisions about the income, risk and flexibility associated with different retirement income products", including retirement income projections and changes to the regulatory framework. In addition to this, a combination of regulatory carve-outs and delayed transition as it relates to other measures means that disclosure in relation to products, which are intended to be substantially more complex than ordinary account-based income streams, requires urgent remediation. These carve-outs and transitional measures include choice product dashboards which have been deferred until 1 July 2019; and fee and cost disclosure (RG 97), which is presently the subject of an ASIC consultation.

In the absence of these consumer protections which, at the very least, must include sufficient consumer disclosure to enable fund members to have informed consent when selecting these products, the Productivity Commission's recommendations and the lack of an overall direction in relation to retirement income policy, we recommend that this measure be deferred.

We note that as the cost of this measure is presently estimated to save $20.2 million over forward estimates, this would represent cost savings to Government.

Re-affirm the role of insurance in superannuation

The objective of insurance in superannuation is to provide financial support to members and their families if the member is prevented from working to retirement age by death or ill-health.

AIST supports group life insurance as is an efficient and cost-effective form of cover. For most people, the insurance held through superannuation is also the only insurance they hold. However, there is a need to balance this against the impact of insurance premiums which erode member retirement savings.

AIST supports the Insurance in Superannuation Voluntary Code of Practice and is committed to ongoing improvement of insurance in superannuation through its role as a code owner. The Code was developed in 2017 to improve the insurance provided in superannuation. The Code provides:

- A framework for capping insurance premiums for default cover.

- Simpler and clearer processes for members to opt out of automatic life insurance.
- Simplified disclosure and communications about insurance.
- Requirements to reduce multiple insurance policies by cancellation of some insurance cover, in cases where member accounts are inactive.
- Better and more timely assistance to members during claims.

The Code must be independently reviewed at least every three years.

AIST recommends that the Code be the primary focus of policy change in respect of insurance in superannuation. AIST supports guidance from regulators and agrees that a taskforce be established into insurance in superannuation.