AIST 2021-2022 Pre-Budget Submission to the Minister for Housing and Assistant Treasurer

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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 $1.4 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

Executive summary

The Australian Institute of Superannuation Trustees (AIST) thanks the Minister for Housing and Assistant Treasurer for the opportunity to make this Pre-Budget Submission for 2021-22.

The submission reiterates policy recommendations made in recent years that remain unaddressed, and makes proposals directly related to the interaction between the superannuation system and the COVID-19-induced economic downturn. This should include ensuring that Early Release of Super under the Government's 2020 initiative is assessed, and fully audited and reviewed.

AIST's central propositions are that:

- While our retirement savings system is already amongst the best in the world,[1] improvements can be made to better safeguard Australians' financial stability in retirement and enhance the equity of the system; and
- The retirement savings of Australian taxpayers should not be viewed as a resource to balance the Budget. This notion has gained particular relevance in the wake of the recent recession.

As the country begins to emerge from the economic impacts of the pandemic, consolidating our retirement income system will be key in ensuring the long-term financial stability and comfort of Australians.

The first step to this involves following through on the Government's election commitment to meet the legislated Superannuation Guarantee (SG) rate rise from 9.5% to 12%, beginning in July 2021.

Proposals made by some commentators to circumvent or ignore the overarching purpose of the system– for instance, by framing superannuation savings as a pool of money available for the purchase of a home – must be ignored. Similarly, we oppose suggestions, such as that made by the Retirement Income Review, that instead of utilising superannuation savings accumulated over their working lives, retirees should access equity in their homes to fund their retirement.

In line with this, AIST repeats our call for the objective of the retirement income system, including the role of superannuation, to be codified in legislation.

[1] Matt Johnson, 'Australia's retirement system ranked fourth in the world in new study', *The New Daily* (21 October 2020), https://thenewdaily.com.au/finance/superannuation/2020/10/21/retirement-system-australia-super/

Other recommendations targeted at enhancing the ability of the system to generate strong retirement outcomes for Australians centre on expanding the right to SG contributions to all workers, scrapping the minimum monthly salary threshold of $450 under which at least 311,000 workers currently receive no superannuation, and ensuring that super contributions be payable on paid parental leave.

The Government should provide a one-off contribution to the superannuation balances of low-income members who accessed the 2020 temporary early release scheme, in order to ameliorate some of the measure's negative impact on long-term outcomes.

A range of measures targeting improvements to the overall equity of the system are also presented. These include calls for an urgent overhaul of tax concession settings, which continue to favour higher-income earners and represent missed opportunities for the raising of revenue by government that could be re-directed to improving retirement outcomes for less well-off Australians, and a reduction to the Age Pension taper rate.

AIST makes the following recommendations, which are outlined in greater detail in the pages that follow.

- Ensure the legislated increase to the Superannuation Guarantee (SG) rate from 1 July 2020 occurs, as part of the mandated rise to 12% in following years.
- Further improve the equity of tax concessions and support to achieve financial security in retirement for all Australians.
- Single asset-based means test for the Age Pension and Aged Care.
- Reduce the taper rate to $2 per $1,000 in assets.
- The $450 per month income threshold for the superannuation guarantee be abolished, to improve fairness and reduce incentives to casualisation.
- Removal of the rule limiting the payment of superannuation to workers under the age of 18 who work at least 30 hours a week.
- A one-off Government contribution equal to a quarter of the amount withdrawn after the 2020 COVID-19 relaxation of early release provisions, to repair depleted low-income superannuation balances.
- Improve transparency and controls around the early release of superannuation.
- Amendments to superannuation and taxation law be considered to ensure that children adopted under traditional Aboriginal law are treated as any other child of the member.
- Measure and publish the impact that any future changes to super would have on women.
- In addition to examining levels of paid parental leave, SG to be paid on paid parental leave.
- Government should keep their commitment to improve visibility of superannuation assets in family law, by progressing the delayed information sharing scheme as a priority.
- At least double the rate of Age Pension rental assistance for those who do not own their home.

- Fund the development of a consumer-friendly comparison tool covering all superannuation products (for those in both the MySuper and choice segments).
- A commitment to universality of SG cover for all PAYG employees, independent contractors, and the self-employed.
- Replacement of Community Development Program (CDP) with real jobs that include full entitlements including award wage rates, superannuation, and other Award entitlements.
- Strengthen action against Superannuation Guarantee non-compliance, to address unpaid and underpaid super.
- Legislate the objective of the retirement income system, including the roles of superannuation and aged care, to ensure superannuation is not viewed as a resource able to be used for anything other than retirement savings (except in the most exceptional of circumstances).

Recommendations

Commit to increases to the Superannuation Guarantee rate

The changes to the schedule of increases to the Superannuation Guarantee (SG) which would see it eventually increase to 12% 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. The original schedule would have seen Australians benefiting from a 12% SG rate from 1 July this year. This delay represents a major setback to ensuring all working Australians enjoy an adequate retirement income. Any further delays to the SG timetable will also create more fiscal pressure on future governments in relation to Age Pension funding.

Lifting the SG rate to 12% is fundamental to ensuring that everyone – regardless of their gender or income level - can maintain their living standards in retirement. This is particularly important for people on low incomes, those working part-time or those who have taken time out of paid work as carers.

Many of those advocating a change in the legislated timetable for increasing the Superannuation Guarantee to 12% do so from the perspective of higher paid workers, and seem to give less consideration to the position of the lower paid. Around 30% of workers – generally the lower paid - have their conditions set by award or an "award influenced" individual contract, and by law they will receive both award and Superannuation Guarantee increases. Almost an additional 40% of workers are covered by enterprise agreements that similarly prescribe their wages outcomes. Within these regulated frameworks, there can be, and are, legal protections for both wage and superannuation outcomes. Further analysis of this issue is presented in Appendix A.

Increasing the SG is also important for middle-income earners. The below cameos demonstrate how a freeze of the SG rate at 9.5% could cost workers thousands of dollars a year in their retirement incomes.

Cameo 1 –Nurse

$1,659 pa additional income per year in retirement for a single nurse & $660 pa for a nurse in a couple

	Single Nurse		Couple (per individual)	
SG rate	9.5%	12%	9.5%	12%
Income in retirement	$27,686	$29,345	$22,553	$23,213
Income as % ASFA Modest Standard	99.2%	105.1%	112.2%	115.5%
Income as % ASFA Comfortable Standard	63.2%	67.0%	66.5%	68.5%

* Income shown is in today's dollars

Assumptions
- Enters workforce age 18
- Starting income $44,598
- Periods of part time work
- Retirement age 62
- For the modelling of couples, additional assumptions made.

Cameo 2 –Plumber

$3,322 pa additional income per year in retirement

SG rate	9.5%	12%
Income in retirement	$29,899	$33,221
Income as % ASFA Modest Standard	107.1%	119.0%
Income as % ASFA Comfortable Standard	68.3%	75.9%

* Income shown is in today's dollars

Assumptions
- Enters workforce age 17
- Single
- Starting income $24,305
- Retirement age 60
- Works in a regional area

We note that although the Retirement Income Review did not comment explicitly on the SG rate, it concluded that there was more efficiency to be gained by encouraging faster drawdowns in the pension phase. This is a false connection, and a discussion about drawdown rates should not be associated with adequacy, particularly for low- and middle-income earners.

For those on low and medium incomes, the ultimate issue is not so much whether they will have the ability to spend all their balance in retirement, as simply having enough in their superannuation account to live in financial security once they leave the workforce.

AIST strongly recommends that no change is made to the legislated increase to the SG rate to 12%, beginning with the increase from 9.5% to 10% on 1 July 2021.

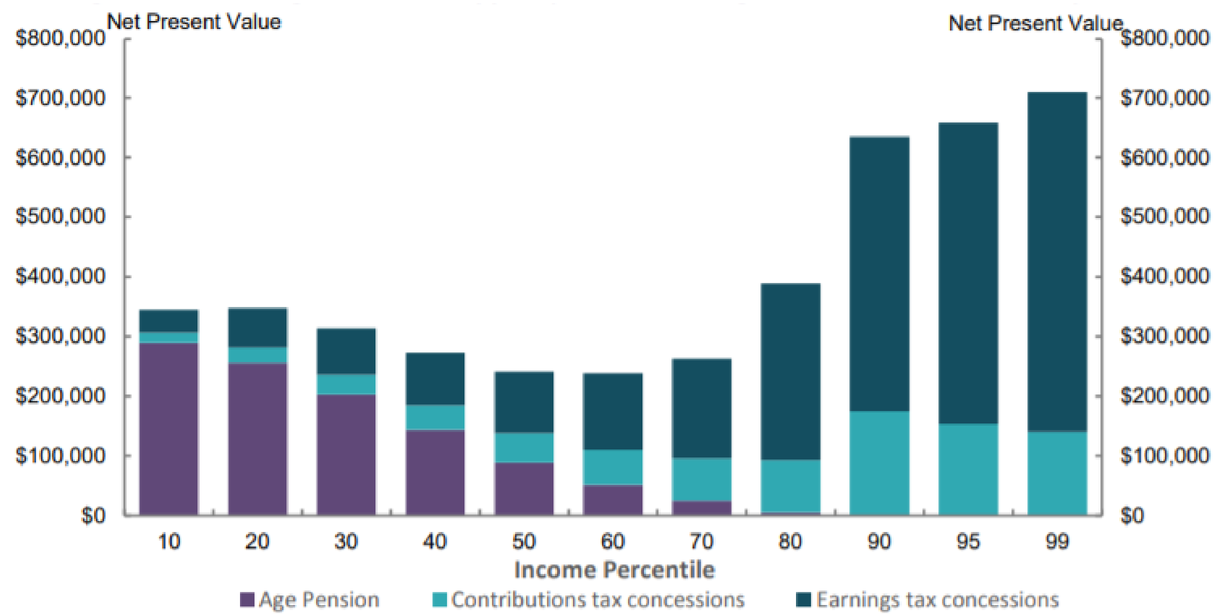
AIST Recommendation
• Ensure the legislated increase to the Superannuation Guarantee (SG) rate from 1 July 2020 occurs, as part of the mandated rise to 12% in following years.

Further improve the equity of tax concessions and support to achieve a comfortable retirement

Superannuation tax concessions – in respect to superannuation contributions, investment earnings and superannuation benefits - are a form of government support. This government support, as well as the government support provided via the age pension, can – and should – be assessed for fairness and sustainability alongside each other. While superannuation is different to the age pension in that it is not a direct government expense, the government forgoes tax revenue to give super tax-advantaged status.

Unfortunately, as shown in the below graph[2] the current level of lifetime government support provided through the retirement income system is more heavily weighted towards those in higher income brackets. Given that this cohort has a greater capacity to support themselves in retirement it is not only an inequitable situation but also unsustainable as the population of Australia ages.

Lifetime government support provided through the retirement income system[3]



Source: Treasury calculations using a hypothetical cameo model

Limiting the amount that can be held tax free in the retirement phase to $1.6 million (or $1.7 million from 1 July 2021) was a good first step but more needs to be done to address super accounts in the accumulation stage which have multi-million dollar balances, all being taxed at a concessional rate.

[2] Retirement Income Review Consultation Paper (2019). Available from https://tinyurl.com/t57sbbr

A key argument made by opponents of increasing the SG rate to 12%, as legislated, is that doing so would consolidate such inequities.[4] With respect, there is a clear lack of consistency in this approach. If one is truly concerned about outcomes for low-income/low-balance members, the clear solution is to *both* increase the SG rate and reform the concessional design of the taxation system. AIST has previously called for reform to existing tax concession settings in super, highlighting the unequal level of government support provided to high-balance members, at the expense of other cohorts.

Analysis undertaken for AIST by Mercer found that the value of earnings tax concessions enjoyed by a single $10m SMSF in a year would allow for 3.1 full Age Pensions to be paid. Based on ATO statistics of the amount of assets held by all SMSFs with balances over $10m, Mercer estimated that the earnings tax concessions arising from those high-balance members would allow for over 240,000 full Age Pensions to be paid, at the end of a single tax year.

Above all, AIST refutes suggestions that the SG rate should not be raised until such tax concession settings are amended. Conflating the impact of individual policy settings by arguing, for example, that we must accept inadequacy (in account balances) because of the unsustainability of tax concessions being provided to the top income earners, is unwarranted. Each of these policy levers is under the Government's control and must be put to work individually to support both the equity and adequacy of the system, for all members.

AIST Recommendation
• Further improve the equity of tax concessions and support to achieve a comfortable retirement for all Australians.

Single asset-based means test for the Age Pension and Aged Care & reduce the taper rate to $2 per $1,000 in assets

Single asset-based means test

Another contributing factor to existing inequity in the system is the current means testing thresholds for the Age Pension. Australia is the only country with the complexity of both an assets test and an income test. In another added layer of complexity, the means tests for the Age Pension and aged care are both structured differently. Although both have an income and assets test, the thresholds and tapers differ. This complexity makes it exceptionally difficult for individuals to plan for and understand what their level of income in retirement will be.

[4] See, for instance, Grattan Institute, *Money in Retirement: More than Enough* (November 2018); and Australian Council of Social Services, 'Retirement Incomes Review highlights growing divide' (20 November 2020).

Given that some assets are assessed under both tests, while other assets are assessed only under the assets test, the current two-part means test results in people receiving different levels of government payments even though they have the same level of wealth.

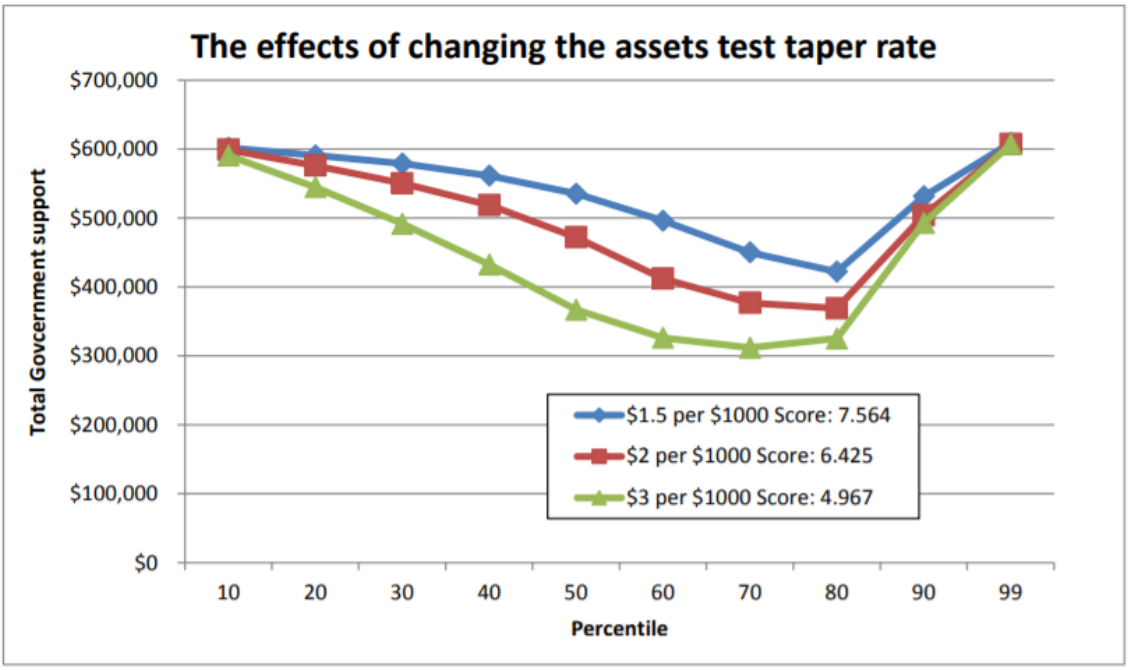
It is noted that that the Henry Review also found that inconsistencies in scope between the income and assets tests reduce system coherence and results in an unequal treatment of pensioners with similar levels of private means[5].

A single asset test would also address issues that have been raised regarding the way in which the deeming rates have not tracked changes in official interest rates.

Reducing the taper rate to $2.00 per $1,000 of assets

The changes made by the Government as part of the 2015-16 Budget to increase the taper rate from $1.50 to $3.00 (which became effective as of 1 January 2017) substantially reduced net Age Pension payments to many recipients. These changes reduced the partial age pension significantly for middle-income households.

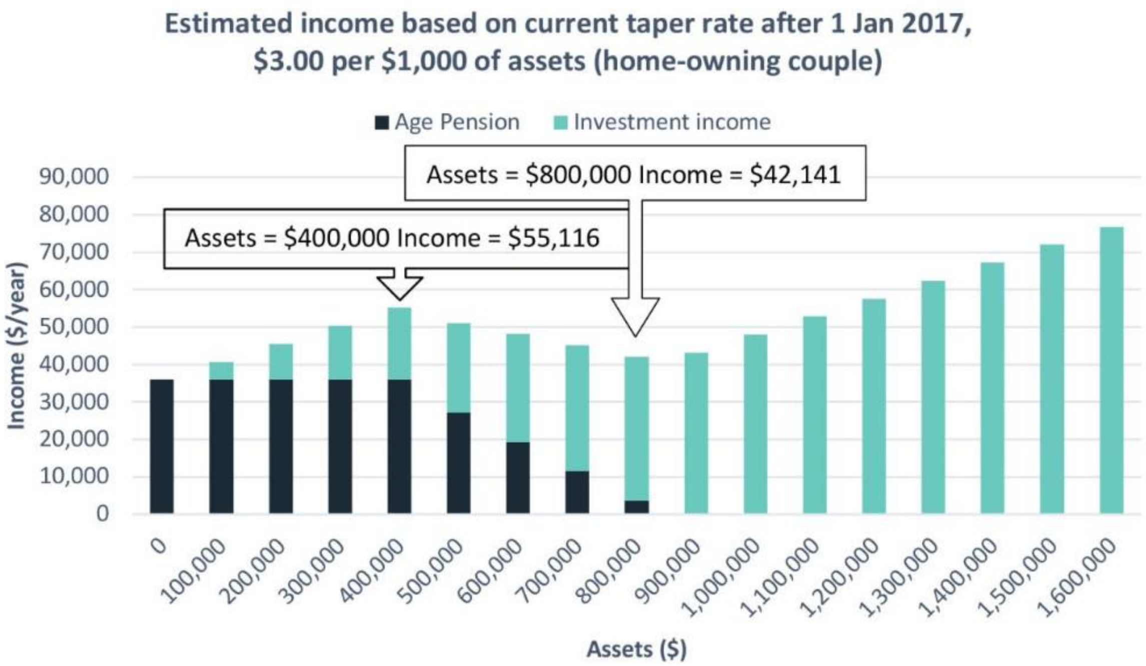
Research by AIST and Mercer at the time found that the fairness in the level of Government support was significantly impacted by this change. The modelling showed that the new taper rate would cut the level of government support for average income earners by up to 40 per cent, removing incentives for voluntary saving both in and outside of super, and threatening the integrity and sustainability of Australia's super system.



[5] Henry et al (2009), Australia's Future Tax System: The retirement income system. Available from: https://tinyurl.com/w9k6mbz

The perverse disincentive that resulted from the changes in the taper rate for individuals to save for their own retirement was explored by Asher and Ravin in 2018[6] who found that the assets test creates a trough in income between about $300,000 and $700,000 in assessable assets. The authors noted that within this range, annual income **declines** with increasing assets because the income from the marginal assets (whether returning 3% p.a. or 5% p.a.) is less than the Age Pension foregone.

These findings are also supported by National Seniors Australia and are highlighted by the chart below.



Source: National Seniors Australia[7] & based on investment income on assets of 20% bank deposit @2%, 80% LICs @5.5%.

The graph shows that under the changed taper rate, a home owning couple with $400,000 in assets would receive an income of approximately $55,000, whereas a couple with $800,000 in assets would only receive an income of approximately $42,000. This situation not only penalises individuals for saving for their retirement but encourages and rewards individuals to adapt their spending in order to increase Age Pension entitlements.

The Retirement Income Review – although modelling a reduction in the taper rate to $2.25, rather than the $2 AIST recommends – indeed found that long-term projected benefits in total Age Pension entitlements would extend down to those in almost all income cohorts (excepting only those in the lowest income decile).[8]

[6] Asher and Ravin (2018), The Age Pension means tests: contorting Australian retirement. Available from: https://tinyurl.com/unaaanc
[7] National Seniors Australia (2019), Reduce the asset test taper rate. Available from: https://tinyurl.com/t5uyhkg
[8] Retirement Income Review final report, p.466.

AIST Recommendations
• Introduce a single asset-based means test for the Age Pension and Aged Care. • Reduce the taper rate to $2 per $1,000 in assets.

Removal of the $450 per month superannuation guarantee (SG) threshold, and scrapping the rule withholding superannuation entitlements from employees under 18 who work less than 30 hours a week

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

There are five main reasons supporting our recommendation:

- Cost to government would be minimal.
- Women and those on lower incomes would have a better retirement outcome.
- Increasing numbers of people have multiple jobs.
- Reduces incentives to the unnecessary casualisation of the workforce.
- Implementation of SuperStream and Single Touch Payroll have simplified administration of superannuation for employers.

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.

Improving retirement for lower income & part-time employees (particularly women)

AIST notes that the high concentration of women 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 (54.6%) employed part time than full time (45.38%).[9]

Number of employees earning under $450 pm in July 2019[10]

[9] ABS (2019). *6306.0 - Employee Earnings and Hours, Australia, May 2018*. Canberra: Australian Bureau of Statistics. Available from: https://tinyurl.com/ta7cwvt
[10] Table reproduced from Retirement Income Review, p.301.

	Received the SG	Did not receive the SG
Female	82,000	**197,000**
Male	52,000	**114,000**
Total	134,000	**311,000**
Proportion of total employees (per cent)	1.3	**3.0**

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 men – on low incomes, working on a casual or part-time basis. 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 to each individual employer, and not on a combined income level.

Case study of two employees		
Employee monthly income in single job	$449	$450
Annual income	$5,388	$5,400
Superannuation Guarantee p.a.	$0	$513
Estimated balance at retirement*	$0	$24,869

***Assumptions based on using ASIC Moneysmart Retirement planner**

Case study of a multiple-job holder	
Employee income first job	$30,000
Employee income second job	$4,800
Total income	$34,800
Total superannuation	$2,850 (8%)

This aligns with findings from the Retirement Income Review, which noted that women are more represented among the cohort of employees who would benefit from the threshold being scrapped.[11] The RIR panel also acknowledged that the initial policy justification for the threshold – the administrative burden of making SG contributions for those on low wages – has since been negated due to technological advances such as Single Touch Payroll.[12]

It should also be noted that at current SG rates, anyone earning just under the threshold would be eligible for $42.75 per month in superannuation. 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.[13]

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[11] Retirement Income Review Final Report, p.300.

[12] *Ibid*, p.299.

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

Given that superannuation guarantee payments are payable on the entire income for employees earning over $450, the current threshold creates a stark contrast of outcomes for employees that may be earning only slightly different income. This contrast is amplified where the individual may be working two or more jobs each earning under $450 per month.

Increasing numbers of multiple job holders

We highlight that in 2016-2017 approximately 2.1 million people (15.6%) of those who worked held more than one job at a time and that a higher number of these multiple job holders were female (53.7%). This has increased by 17% from approximately 1.8 million people (14.4%) in 2011-2012.

The $450 minimum threshold creates a perverse situation for multiple job-holders that may not receive superannuation guarantee contributions for their entire salary and wages for the year. For the 2.1 million multiple job holders, the median employee income in 2016-2017 in a first job is $27,479 and in a second job it was $4,802 which equates to approximately $400 per month.[14]

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 remove the role that this threshold plays in limiting the retirement comfort of Australians.

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. 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.

Workers under 18 should be entitled to receive superannuation contributions

Consideration should be given to removing the rule that employees under the age of 18 only receive superannuation contributions if they work at least 30 hours per week. The long-term benefit of receiving superannuation during these first years of employment would be significant, yet cost employers relatively little.

Working 12 hours a week for 40 weeks each year between the ages of 15 and 18, an employee earning $12 an hour would cost their employer $1,642 in superannuation contributions over the

[14] ABS (2019). *6160.0 – Jobs in Australia, 2011-2012 to 2016-2017*. Canberra: Australian Bureau of Statistics. Available at: https://tinyurl.com/u47j7lu.

three-year period. Based on ASIC's MoneySmart compound interest calculator, this could equate, after 50 years, to $20,000 in additional superannuation for the worker.

While previously an argument might have been made that the impact of fees may have cancelled out the benefits of receiving relatively low amounts of superannuation, recent reforms made by the Government pertaining to low-balance accounts, including the capping of fees and protections against inactivity, have allayed such concerns.

There is a strong argument too that providing access to superannuation earlier in life may enhance levels of member engagement.

AIST recommends government further consider and model this proposal.

AIST Recommendations
• The $450 per month income threshold for the superannuation guarantee be abolished, to improve fairness and reduce incentives to unnecessary casualisation. • Remove the rule limiting the payment of superannuation to workers under the age of 18 who work at least 30 hours a week.

Address the impact of COVID-19 on low-balance superannuation members

While Australia continues to assess the long-term impact of COVID-19 on our broader social and economic lives, it is clear from the data regarding the early release of super scheme that the gap has widened on an already unevenly distributed retirement savings gap. While the full impacts of the COVID-19 early release of super on retirement savings will only be fully apparent over time, evidence shows that the financial burden of lost retirement savings will most heavily impact those least able to afford it – those already experiencing disadvantage and the many Australians who were already facing a retirement savings shortfall.

Analysis by AIST of the cohorts of more than 2.4 million members that made an early release application from the inception of the scheme to 30 September 2020 shows that these lost retirement savings are not distributed evenly across the population. The burden of the COVID-19 super gap will be disproportionately borne by women, low paid workers, and those in already insecure employment – those who can least afford it:

- Members that made an application for early release were already falling behind in retirement savings against those in the same age cohort who didn't make an application.
- Members that made an early release application disproportionately represented members aged under 35, meaning increased loss of compound earnings.

- Younger members were twice as likely to close their accounts because of an early release withdrawal compared to members over the age of 35.
- Extrapolating from the data of members under the age of 35 from the AIST member fund data to the all applications made across the scheme, indicates that over 900,000 either closed their account or had less than $1,000 in it after the early release scheme.
- In both tranches those aged under 35 were more than twice as likely to have their accounts closed after withdrawing money than those aged 35 to 44, and more than three times as likely than those aged 45 to 64.
- In both tranches women were more likely to have their account closed as a result of early release payments, compared to men in the same age cohort.
- More than 6 in ten people aged 25 to 34 who had their accounts closed lost the insurance associated with that account in the first tranche to 30 June, with this pattern repeating in the second tranche.
- Close to three in ten of all applicants either had their account closed or had less than $1,000 in it after their early release payment(s)[15].

The loss of retirement savings for these Australians will be further compounded by the fact that those making early release applications have lost income and in many cases their jobs, and the superannuation guarantee payments they would have been receiving had they remained employed.

As a result, the early access scheme, while providing some breathing space for government, has caused a devastating compounding of factors resulting in a COVID-19 super gap for the lowest-paid and most vulnerable working Australians – one that they are unlikely to ever recover from without targeted policy intervention.

Closing the COVID-19 retirement savings gap will require a commitment from government, employers, and individuals. It is crucial that the response ensures the long-term consequences of the virus are minimised, and the responsibility for closing the gap is not borne by those who can least afford it.

Australians value equity, and as a nation we should not tolerate the sharp increase in inequity that working Australia's COVID-19 super gap represents. Australians believe that all retirees in Australia deserve to have a meaningful life of dignity which allows them to fully participate in Australian society.

AIST has previously commissioned survey research of workers and retirees to understand community views on superannuation and financial security in retirement. This research found that

[15] https://www.apra.gov.au/superannuation-early-release-scheme-insights-from-apra’s-pandemic-data-collection, Member profiles

the vast majority of Australians expect we should have, at minimum, a financially secure, dignified retirement - a "decent life" "free of financial stress" that allows them to enjoy life and do the things they love, not just to subsist. Our supplementary submission includes insights from this survey research and AIST analysis of early release of superannuation data.

Addressing the COVID-19 super gap will not only ensure Australians aren't penalised in retirement for an economic downturn driven by a health crisis that they had no control over, it will also reduce the extent to which they are required to rely on the taxpayer-funded age pension in retirement.

In speaking with working Australians, 8 in 10 of those surveyed believe that if we did not have superannuation, older Australians would have reduced financial security on the Age Pension.

'IF I HAD TO LIVE ON THAT [AGE PENSION ALONE] I'D FREEZE IN WINTER AND BOIL IN SUMMER! I KNOW PEOPLE WHO CAN'T AFFORD ANYTHING BUT BELOW BASIC NEEDS, THAT'S NO WAY TO LIVE!'– RETIRED AUSTRALIAN

To address the COVID-19 super gap, AIST recommends:

- A one-off Government contribution to the super accounts of low-income earners (those earning less than $39,837) who accessed their super early and were eligible.
- Increasing the Government superannuation co-contribution rate and threshold.
- The removal of the $450 minimum SG threshold and super on paid parental leave.

In addition to these measures progressing the superannuation guarantee increase according to the legislated timetable will be important to addressing the COVID-19 super gap, particularly for the hardest hit younger cohorts.

Early access to superannuation

APRA data as at 20 December 2020 shows that over $35.9 billion of early release super has so far been paid to approximately 3.4 million members (plus 1.4 million repeat applications)[16]. This is substantially higher than original Treasury estimates.

Consequently, early access to superannuation is now estimated to be the one of the most significant stimulus measures introduced by the Government. Unfairly, those most unable to afford it are doing the heaviest lifting in supporting the economy. The early access to super scheme forced many Australians to choose between poverty now or poverty in retirement.

[16] APRA (2020), COVID-19 Early Release Scheme – Issue 35. Available from https://www.apra.gov.au/covid-19-early-release-scheme-issue-35

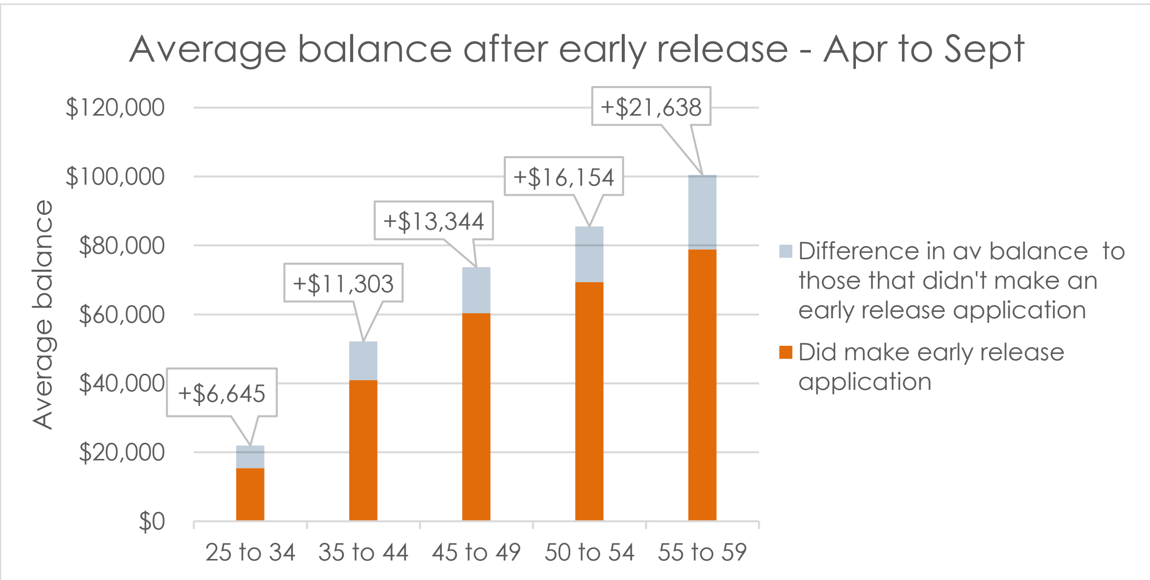
These Australians have been forced to withdraw super savings due to inadequate Government support. Many individuals who accessed early release were either ineligible for Government support or not in a position to wait until it flowed through. Rather than requiring those who can least afford it to compound their financial insecurity, the Government could have borrowed at interest rates close to zero to support more Australians. Instead individuals were forced to access their super and forgo returns of at least 5-7 per cent per annum in earnings over the long term. This was an expensive measure for individuals.

To better understand the impact of early release of superannuation on different demographics, AIST have analysed aggregated fund data which accounted for over 2.4 million early release of superannuation payments, amounting to a total of $18.6 billion withdrawn as at 30 September. For this period this equates to approximately 54% of all early release of superannuation applications.

Low income Australians

Comparison of the cohorts of members that made an early release application from inception to 30 September 2020 and those that didn't make an early release application shows that members that made an application were left with substantially lower balances on average than those who did not access their super.

The fact that they accessed their super indicates that they were more likely to be working in lower paid, less secure jobs than their age group peers, with these jobs often not eligible for government assistance.



Source: Aggregated data provided by member funds. Sample size: n=2.4 million

Average balance of those that made early release application (after withdrawal) vs those that didn't make early release application, at 30 September 2020

Age bracket	Did make early release application	Didn’t make early release application	Difference $	Difference %
25 to 34	$15,337	$21,982	-$6,645	-30%
35 to 44	$40,890	$52,193	-$11,303	-22%
45 to 49	$60,350	$73,694	-$13,344	-18%
50 to 54	$69,364	$85,519	-$16,154	-19%
55 to 59	$78,850	$100,488	-$21,638	-22%

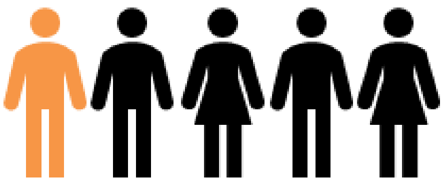
Average balances as at 30 Sept (Source – aggregated data provided by member funds). Sample size: n= 2.4 million

Young Australians

Young Australians are more likely to have lower savings, to be renting and to have lost their jobs as a result of COVID-19.

APRA analysis of the ERS scheme payments from inception to 15 November 2020, shows that nearly one in two applications were from members under the age of 35 (Source: APRA Pandemic Data Collection)

Nearly one in five members aged between 25 and 34 made an early release application



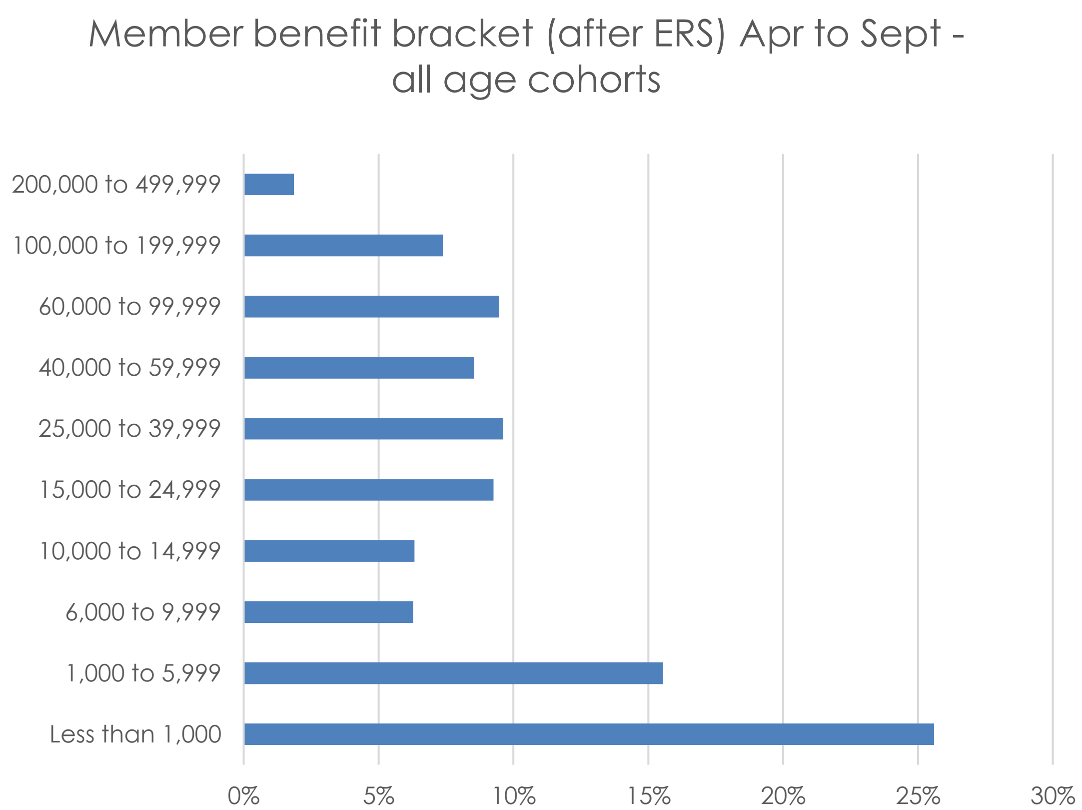
This is supported by AIST analysis that found that approximately one in five of all members aged between 25 to 34 have made an early release of superannuation application between April and September with some applying in both tranches. This cohort withdrew an estimated 34% of the total amount withdrawn across all age groups. This cohort make up a significant proportion of members that now have less than $1,000 remaining in their superannuation account including those that closed their account as a result of the withdrawal under the scheme.

Proportion of all members that made an early release application

	Apr to June	July to Sept
Age	% of all ERS payments	% of all ERS payments
25 to 34	40%	33%
35 to 44	25%	29%
45 to 49	9%	11%
50 to 54	7%	9%
55 to 59	4%	6%

Source – aggregated data provided by member funds. Sample size: n=2.4 million

Given the difference compound interest makes, a withdrawal made at a younger age will have a significant impact on retirement balances of this generation. Catching up contributions later in working life will cost significantly more than the amount withdrawn.

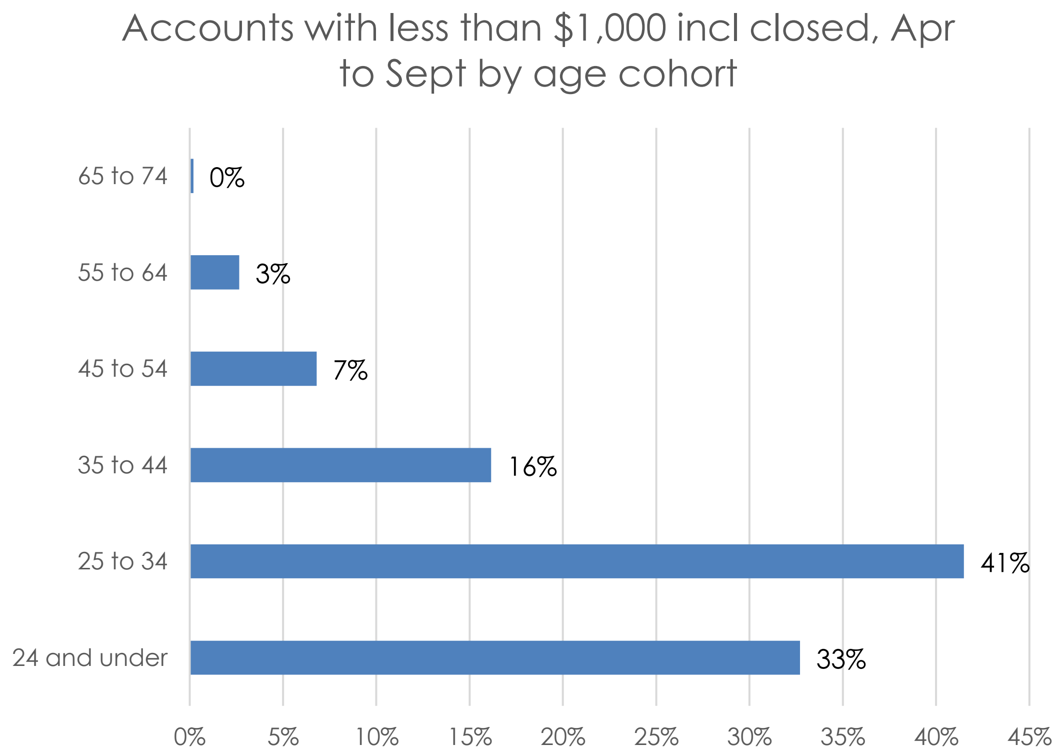


Source – aggregated data provided by member funds. Sample size: n=2.4 million

After early release, more than 25% of all the accounts that had less than $1,000 in them (including closed). Of these, 74% were held by members aged under 35. APRA data found that more than

1.24 million accounts had remaining balances of less than $1,000 or were closed, which represents nearly 1 in 3 applicants.

Given the size of the AIST member fund data it can be extrapolated that 74% of all applicants with balances less than $1,000 (including closed) were members aged under 35, equating to over 900,000 accounts. The likelihood of a dignified retirement for close to a million young members has been severely diminished as a direct result of this scheme.



Source – aggregated data provided by member funds. Sample size: n=2.4 million

Closed accounts

In addition, those aged under 35 were more than twice as likely to have closed their account after withdrawing money in the first tranche, than those aged 35 to 44, five times more likely than those aged 45-44, and four and half times more likely than those aged 55 to 64. This trend continued in the second tranche to 30 September where those aged under 35 remained twice as likely to close their account as those aged 35 to 44, three and half times more likely than those aged 45 to 54, and nearly three times as likely as those aged 55 to 64.

Loss of insurance

For every ten people aged between 25 to 34 who closed their accounts, six of them lost the insurance associated with that account in the first tranche to 30 June and this pattern was repeated in the second tranche. The loss of insurance for this cohort who are entering the years where additional financial responsibility is taken on (starting a family, buying a home) is particularly worrying, as it is very unlikely they will hold sufficient insurance elsewhere to cover them in the case of death or permanent disability.

Overall, across all age groups, for those who closed their accounts 45% lost insurance associated with that account. Extrapolating this to the APRA data of 163,000 closed accounts this equates to 73,500 Australians losing insurance coverage, at least half of whom were aged 25-34.

Impact 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 compared to men. AIST recommends that the Government measure and publish the super gap each year and assess the impact that COVID-19 and changes to early access to super have had on women.

The key factors that contribute to the super gender gap are:

- Women comprise just under 70% of the part-time workforce, with more (54.6%) employed part time than full time (45.38%)[17].
- Women are six times more likely to reduce their work hours due to parenting duties compared to men[18].
- Women working full-time earn 14% less than men[19].
- The average working woman has more than 4 career breaks over a lifetime (mostly taken at age 33 and lasting 17.6 months). Career breaks cost women's retirement balance on average $159,590. Top reasons for career breaks among women are maternity leave (50%) and caring for a child (49%).

'SUPER CONTRIBUTIONS ARE NOT MEETING THE NEEDS OF LOW PAID WORKERS AND IN PARTICULAR WOMEN WHO TAKE TIME AWAY FROM THE WORKFORCE TO RAISE A FAMILY...' – RETIRED AUSTRALIAN

Evidence shows that this gender super gap starts to become more evident from age 30, because this tends to be when women have their first child. Given that this cohort is also much more likely to make an early release of superannuation application, early release of superannuation will further exacerbate the super gender gap for these members.

[17] ABS (2019). *6306.0 - Employee Earnings and Hours, Australia, May 2018*. Canberra: Australian Bureau of Statistics. Available from: https://tinyurl.com/ta7cwvt
[18] Rest Super (2017), 'Making a break' A snapshot. Available from https://tinyurl.com/t8l4kxs
[19] Workplace Gender Equality Agency (2019), Australia's Gender Pay Gap Statistics. Available from https://tinyurl.com/y5a4gdm3

Gender super gap - whole population

	Median account balance $		Gender Gap
Age	Male	Female	
18-24	3,837	3,527	8%
25-29	17,330	16,555	4%
30-34	37,744	31,821	16%
35-39	61,461	46,971	24%
40-44	86,123	60,491	30%
45-49	109,046	72,683	33%
50-54	126,974	83,870	34%
55-59	148,424	100,711	32%
60-64	163,985	128,507	22%
65-69	178,326	171,679	4%
70-74	185,237	177,449	4%
75 or more	133,969	131,205	2%

Source - ATO 2017-2018 taxation statistics

While more men than women made an early release application, women withdrew more than men on average, accounting for a higher portion of their already lower balance. In fact, women aged 25-34 withdrew 34% of the average balance, while men in the same age bracket withdrew 31% of the average balance. In all age brackets, women on average withdrew a greater proportion of their account balance when compared to men in the same age cohort.

Proportion of average balance withdrawn

Age	Male	Female
25 to 34	31%	34%
35 to 44	16%	21%
45 to 49	12%	16%
50 to 54	11%	14%
55 to 59	10%	13%

Source – aggregated data provided by member funds. Sample size: n=2.4 million

Fraudulent payments

Given that no upfront eligibility checks were undertaken by the ATO in relation to the scheme and a range of fraudulent payments have been identified since the scheme commenced, AIST suggests that the impact of any fraudulent payments be assessed in light of forward Budget estimates.

Given it is likely to take some time, perhaps years, for all fraudulent releases to be identified this should be an ongoing analysis by the Government.

Recommendations to address the COVID-19 super gap

Closing the COVID-19 super gap will require a commitment from Government, employers and individuals, a commitment crucial to minimising the long-term consequences of the virus – particularly for those who can least afford it.

To address the COVID-19 super gap, AIST recommends:

- A one-off Government contribution to the super accounts of low-income earners (those earning less than $39,837) who accessed their super early and were eligible to do so. This would be the most effective way to close the COVID-19 super gap for these Australians. This contribution would be set at a quarter of the value of the super the member accessed and be capped at a maximum of $5,000 for those who accessed the full $20,000.
- Increasing the Government superannuation co-contribution rate and threshold. While making extra contributions to super won't be possible for most low- and middle-income Australians who needed to access their super early, those who can afford to should be incentivised to contribute extra into their super to recover their COVID-19 super gap.

Increasing the value of the current Government co-contribution scheme will provide an incentive for some to make extra payments as they are able to.

Currently, the amount of Government co-contribution received depends on income and how much the individual contributes. The current maximum is $500 and Government matching rate for contributions is set at 50%. To be eligible an applicant must have a super balance below $1.6 million

Year	Maximum entitlement	Lower income threshold	Higher income threshold
2020-21	$500	$39,837	$54,837

Before 2012, the scheme was more generous, with 100% or 150% matching and higher income thresholds of around $60,000. In addition, the Howard Government doubled the co-contribution for the 2005-06 FY.

A similar temporary approach to increasing the co-contribution rate to $1.50 for each dollar for the 2021-22 and 2022-23 financial years would assist some Australians to recover their COVID-19 super gap. The higher income threshold should be raised to around $62,000 as it was in 2012. The increased contributions should only be available to those with super balances of less than $1 million.

In addition, the legislated increase in the superannuation guarantee to 12% will provide some relief for those who can return to work.

AIST research shows Australians want the Superannuation Guarantee (SG) increased to 12%. Evidence demonstrates that this will increase overall retirement outcomes.

AIST Recommendations
• A one-off Government contribution to repair depleted low-income superannuation balances after the 2020 COVID-19 relaxation of early release provisions, of a quarter of the amount withdrawn. • The fiscal impact of fraudulent access to early release during the 2020 scheme be investigated.

Enhance transparency around access to early release of superannuation

Address ineligible repeat applications on grounds of severe financial hardship

Provisions in the *Superannuation Industry (Supervision) Act 1993* allowing for early release of superannuation on the grounds of severe financial hardship (separate from the recently closed temporary COVID-19 expanded scheme which occurred under compassionate grounds legislation) are well-intentioned and necessary. A withdrawal under hardship is only permitted once every 12 months. However, AIST is concerned about recent reports highlighting possible manipulation of the measure – part of a broader trend, highlighted with concern by the International Organization of Securities Commissions, of fraudulent activity arising out of financial markets' responses to the COVID-19 pandemic.[20] Member funds have noted to us they have become aware, for example, of members withdrawing money on financial hardship grounds from one fund, and then switching into another fund and making another application within 12 months.

Given each repeat application may result in up to $10,000 of savings being withdrawn, the potential impact on a member's final balance at the point of retirement is significant. In turn, such depleted balances impose a fiscal impact on government, by way of increased Age Pension expenditure. Within the current system architecture, superannuation funds are unable to know whether a member has applied for, or been granted, an early withdrawal on severe financial hardship grounds at another fund in the last 12 months.

[20] International Organization of Securities Commissions, 'Retail Market Conduct Task Force Report: Initial Findings and Observations About the Impact of COVID-19 on Retail Market Conduct', 13 December 2020, FR13/2020 Initial Findings and Observations About the Impact of COVID-19 on Retail Market Conduct (iosco.org)

To facilitate greater transparency in the processing of severe financial hardship early release applications, AIST recommends that either:

1. The ATO be provided with additional funding to undertake real-time reviews of members' eligibility for the release of benefits prior to preservation age on the grounds of severe financial hardship (including a check on whether the member has accessed savings within a previous 12-month period at another fund under similar circumstances); or
2. Government develop a tool providing super funds look-through visibility to their members' past engagement with the superannuation system, focusing on applications made (and processed) for the early release of benefits.

Review incidence of, and address, financial coercion as a driver of early release

AIST is concerned that the COVID-19 early release scheme has been exploited by those using financial coercion as a way of perpetuating domestic abuse. The apparent lack of compliance checks made during the scheme (almost 98% of applications having been successful) left open the possibility of perpetrators manipulating partners or other family members to release part (or in some cases, possibly all) of their superannuation balances.

According to the Australian Institute of Health and Welfare's analysis of the Australian Bureau of Statistics' Personal Safety Survey results in its 2016 intake, some 1.7% of women experienced violence at the hands of a partner in the preceding 12 months.[21] Given the overlaps between physical, emotional and economic abuse, it is therefore possible that around 32,000 (1.7% of the 1.9 million) women who accessed early release under the 2020 scheme may have done so under the manipulative influence of a partner.

AIST notes that in its testimony to the Senate Economics Legislation Committee in October 2020, Treasury acknowledged it had not considered the potential of such a scenario occurring.[22] This is especially concerning given that consumer groups had, in a 2018 inquiry into potential changes to early release provisions, raised these concerns.[23]

As part of a thorough review of the efficacy of the COVID-19 early release scheme, AIST recommends government examine the incidence of such exploitation of the scheme. Given the potentially severe financial impact on victims of such financial abuse (by way of significantly reduced, if not entirely drained, superannuation accounts), government is encouraged to examine the effect on forward estimates – for instance, of the increased Age Pension expenditure.

[21] Australian Institute of Health and Welfare, 'Family, domestic and sexual violence in Australia: Continuing the national story' (2019), p.10.

[22] Senate Economics Legislation Committee (26 October 2020), pp.119-121.

[23] *Ibid*.

AIST Recommendations
• Tighten transparency around access to early release of superannuation, by reducing incidence of ineligible repeat applications. • Investigate the role of financial coercion as a driver of early release applications, including as part of the 2020 COVID-19 Early Release Scheme.

Government to further consider kinship issues with respect to Aboriginal and Torres Strait Islander adoptions practices, and their interaction with superannuation binding death benefit nomination settings

The Financial Services Royal Commission suggested that the Government explore, in consultation with relevant Aboriginal and Torres Strait Islander peoples, difficulties they face making binding death benefit nominations. In response, in March 2019 Treasury released the discussion paper "Superannuation binding death benefit nominations and kinship structures", inviting feedback on possible law changes to address how kinship structures of Aboriginal and Torres Strait Islander people are treated by laws applying to superannuation death benefits, but no advancement has been made on these issues since then.

In relation to the distribution of death benefits, current superannuation laws recognise people in an interdependency relationship but does not recognise all 'dependants' – e.g. where a person is a child under traditional law but is not in an interdependency relationship with the traditional parent at the time of death.

AIST recognises that this policy change will also require consideration of a mechanism to legally recognise children adopted under traditional law, and urges the Government to continue discussions with stakeholders, including Aboriginal and Torres Strait Islander people, to progress these issues.

AIST Recommendation
• Amendments to superannuation and taxation law be considered to ensure that children adopted under traditional Aboriginal law are treated as any other child of the member.

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. Consideration should be given to requiring the Government to provide an impact statement in any future legislation, noting its potential impact on women.

AIST Recommendation
• Measure and publish the impact that any future changes to super would have on women.

Pay SG on paid parental leave

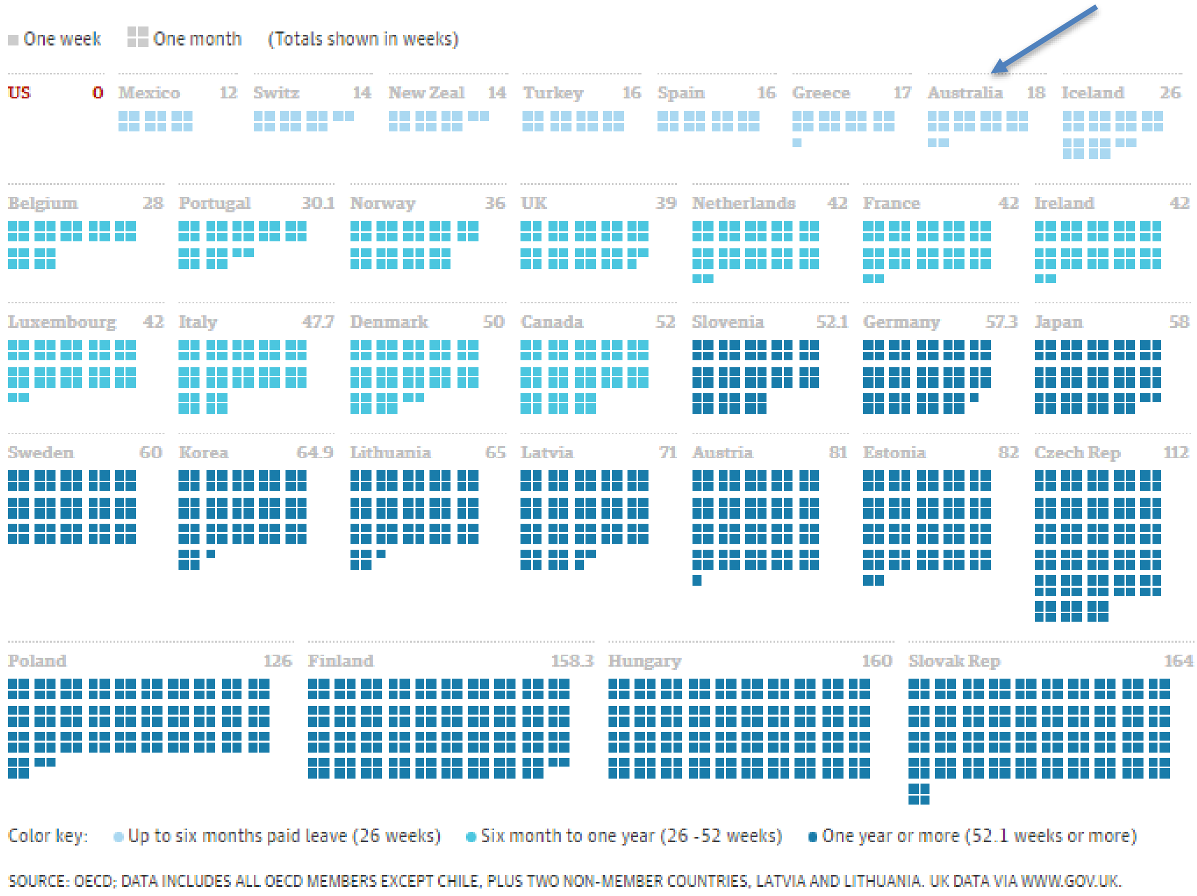
AIST supports a Government-funded parental leave scheme that includes a superannuation component, linked to the payment of SG contributions required on average weekly earnings. Paid parental leave is the only paid leave that does not have superannuation paid. This particularly disadvantages women who are the overwhelming majority on parental leave, and further exacerbates the gender super gap.[24]

Latest statistics show that women still account for 93.5% of all the primary carer paid parental leave taken. 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's and men's retirement savings. Paid parental leave schemes (coupled with superannuation) assist with improved workforce

[24] Workplace Gender Equality Agency (WGEA), Parental leave and support for caring (2019). Available from: https://tinyurl.com/umtvv6y

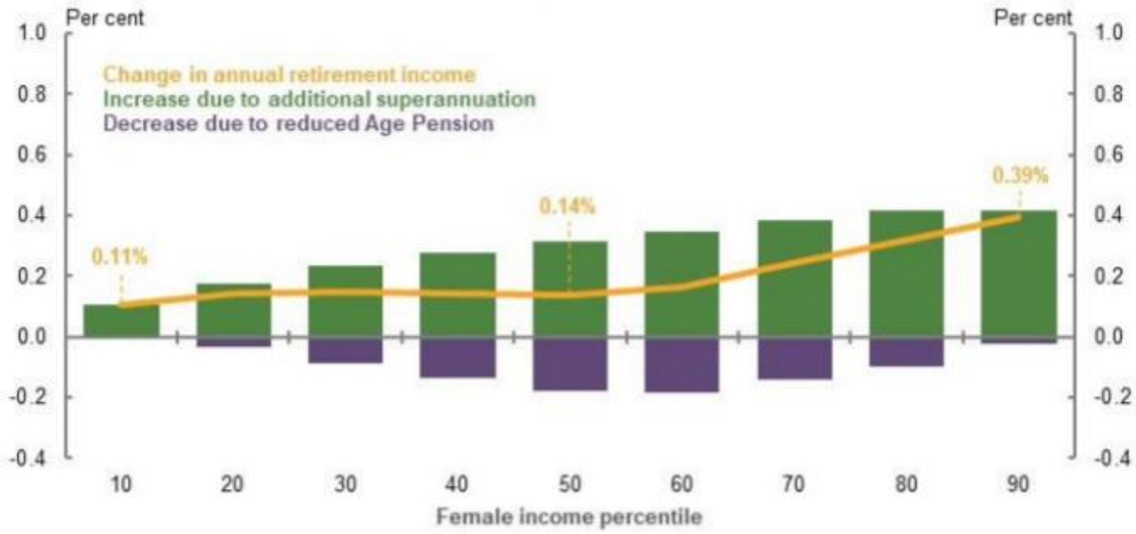
participation rates (particularly for women of child-bearing age). The following chart[25] highlights where Australia sits internationally in terms of paid parental leave:



AIST recommends that (in addition to examining levels of paid parental leave) SG be paid on parental leave. The benefits of making this change were evidenced by the Retirement Income Review, as presented in the following chart, reproduced from its final report.[26]

[25] Popovic, N. (2014). The US is still the only developed country that doesn't guarantee paid maternity leave. *The Guardian*. [online] Available from: http://tinyurl.com/mtabaum.
[26] Retirement Income Review final report, p.270.

Projected impact on women's retirement incomes of receiving superannuation for one term of employer paid parental leave



AIST Recommendation
• In addition to examining levels of paid parental leave, SG to be paid on parental leave.

Government should keep their commitment to improve visibility of superannuation assets in family law

Women missing out on super entitlements

Another factor adding to the gender superannuation gap is the difficulty in splitting superannuation assets in the family law system during property settlement.

The process is costly and complicated, with one of the main issues being difficulty in identifying which super fund or funds superannuation assets are held in. Currently women must apply to each suspected super fund separately to determine whether their former spouse has assets in the fund.

As a result, there is a tendency for women, particularly women from low income households, not to access superannuation entitlements after separation. This is particularly the case where family violence is an issue.[27] Women's Legal Service Victoria have stated:

> Many of our clients have been in abusive relationships and their partners are hiding their superannuation assets and getting away with it because family

[27] Women's Legal Service Victoria, *Small Claims Large Battles: Achieving economic equality in the family law system*

> law judgements can only be made on visible assets. This is a real issue because superannuation is often the biggest – or only – asset of these relationships.[28]

2018 Government announcement should be implemented without further delay

As part of the 2018 Women's Economic Security Statement, the Government announced a commitment to improve the visibility of superannuation assets by authorising the Australian Taxation Office to provide superannuation information directly to the courts. This would speed up the time it takes to resolve family law disputes and make it easier for women to have visibility of super assets. The initiative, which was welcomed by women's legal advocates, was supported by an announcement of $3.3 million in Government funding for the ATO to develop the information-sharing system, which was due to start operating on 1 July 2020.

However, the information-sharing system is yet to commence. It is not clear why the Government has not prioritised the implementation of the scheme. Treasury provided the following response to a question on notice about the delay put to them at Senate Budget Estimates on 26 October 2020:

> Prioritisation of the broader legislative program is affected by a range of factors, including the COVID-19 pandemic. The Assistant Minister for Superannuation, Financial Services and Financial Technology stated on 26 October 2020, that legislative amendments to the Tax Administration Act 1953 for this measure 'should be introduced in Parliament mid next year [2021]'.[29]

Given the increase in relationship conflict, divorce, and family violence because of the COVID-19 lockdown[30] it is difficult to see why this change was deprioritised at this time. The Government must ensure the measure is progressed as a matter of priority with no further delays. It is an important part of mitigating the gendered impacts of the COVID-19 pandemic.

AIST Recommendation
• Government should keep their commitment to improve visibility of superannuation assets in family law.

[28] Media release, 23 July 2020: 'Family violence victims left waiting as promised family law superannuation reforms stall

[29] Question No: BET044

[30] More couples seeking relationship help after COVID-19 lockdowns, COVID impact to send divorce rate soaring as Google searches reach peak, A New Covid-19 Crisis: Domestic Abuse Rises Worldwide

Increase Age Pension rental assistance for non-homeowners

Our current retirement income system does not sufficiently meet the needs of non-homeowners as it is has implicitly taken for granted that retirees will own their own homes by retirement. The 2016 Census however indicates that about 12% of people of aged 65+ were renting and according to CEPAR the likelihood of renting in retirement is higher among the less educated, single, poor, disabled and those living in rural areas.[31] Declining rates of home ownership are only likely to exacerbate this issue into the future.

It is generally understood that a household is experiencing 'housing stress' if it is paying more than 30% of its income in housing costs. However, in 2016, about 44% of renters aged 65-74 spent more than 30% of their income on rent, the highest rate of all age groups and the highest level over time.

Commonwealth Rent Assistance (CRA) is meant to help those that are renting but current levels are significantly lower than the amount being paid in rent because the payment has not kept pace with rental prices. This has resulted in increasing levels of poverty among older renters. The current maximum amounts are inadequately low and are shown below (for people without dependent children):

If you're	The maximum fortnightly payment is
Single	$138.00
Couple, combined	$130.00

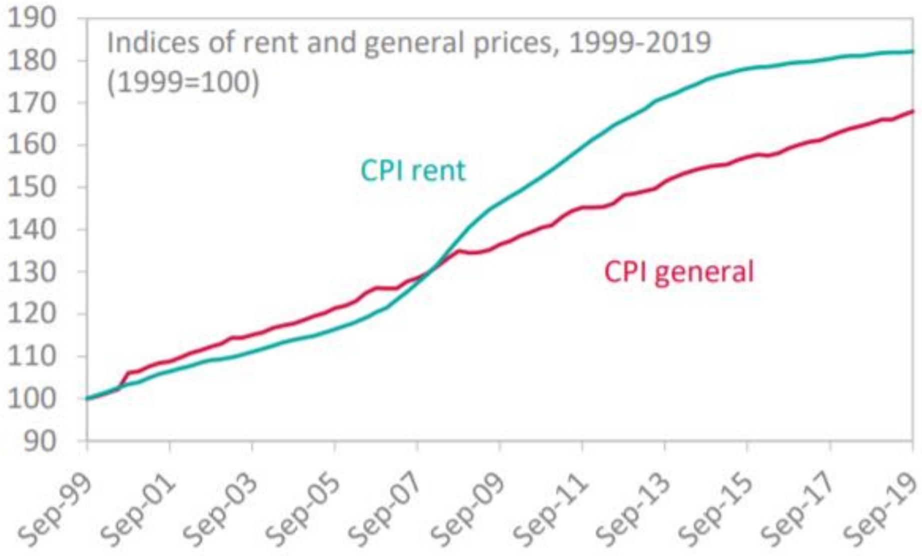
The actual amounts received as at June 2019 for those on the Age Pension are shown below:

Income units		Fortnightly rent paid	Fortnightly CRA
Number	Per cent	Median	Median
286,708	22.3	$381.90	$129.20

Data sourced from DSS[32]

A key reason for the difference in rent being paid and the rental assistance being received is because CRA is linked to increases in the CPI whereas rents have generally been rising at a faster rate – as illustrated in the below chart. Lack of access to affordable rental properties is supported by Anglicare research which estimates that less than one percent of properties across the country were suitable and affordable for a single person on the Age Pension.[33]

[31] CEPAR, Housing in an ageing Australia: Nest and nest egg? (2019). Available from: https://tinyurl.com/rvkpqba
[32] DSS, Payment Demographic Date (2019). Available from: https://tinyurl.com/v9bdpch
[33] Anglicare Australia, Rental Affordability Snapshot (2019). Available from: https://tinyurl.com/y4gufhal



Source: CEPAR

The Retirement Income Review highlighted the urgent need for reform in this space. Noting the Panel's observation that raising rental assistance for those on the Age Pension by 40% would only reduce the housing expenditure gap between renters and homeowners by around 8%,[34] AIST suggests consideration should be had to at least doubling the amount of such support.

AIST Recommendation
• At least double the rate of Age Pension rental assistance for those who do not own their home.

Fund the development of a consumer-friendly comparison tool covering all superannuation products

AIST submits that the Government extend the YourSuper comparison tool announced in the 2020 Budget to cover *all* APRA-regulated superannuation products, and fund the ATO and APRA to develop and implement the tool during the 2021-2022 financial year. This will enable members of products not currently included in scope for the YourSuper comparison tool to compare the performance of their fund in a simple, accessible, comprehensive, and consistent manner. A version of the tool should also be developed for look-up by employers.

The 2020 Federal Budget included funding for YourSuper as a tool to help members compare and select a superannuation product. The ATO is now developing systems to enable new employees to select a superannuation product from a table of MySuper products in a YourSuper portal. The tool

[34] Retirement Income Review, p.

will list MySuper products ranked by fees and investment returns, and show a member's current super accounts, with a prompt to consolidate accounts if they have more than one.

Including all products in the YourSuper comparison tool is in line with the Productivity Commission's view that all products should have simple and comparable dashboards and meet performance requirements.

The expanded tool should encompass all APRA-regulated superannuation products in both the accumulation and retirement phases, regardless of size, eligibility and whether or not the product is open to new members. This should include pre-mixed options, single-class options and options delivered through a member-directed investment 'platform'.

In addition to the YourSuper development work being undertaken by ATO and APRA, other initiatives being implemented by these same regulators are removing impediments to the inclusion of all superannuation products and near real-time information about a member's super accounts. Collectively, these initiatives can and should be marshalled to support a comprehensive tool covering all APRA-regulated superannuation products.

These projects include:

- The ATO's Member Account Transaction Service (MATS) is a reporting solution that allows for more frequent, event-based reporting of member data to the ATO. MATS, together with the Member Account Attribute Service (MAAS), have provided comprehensive reporting of member superannuation information since 2018.
- APRA's multi-year Superannuation Data Transformation project is enhancing the comparability and consistency of reported data on APRA-regulated superannuation funds. The current phase of the project is addressing the highest priority gaps in APRA's data collection, that is, to cover choice products and investment options. This reporting covers all the products offered by APRA-regulated super funds.
- ATO offer a range of services allowing digital service providers the option of building functionality into their software products to allow employers to offer online commencement forms for new employees. The ATO also provides online access to these forms through myGov; with these forms being partially completed with the relevant default fund of the individual's employer and details of the individual's current super accounts.

Funding for a tool covering superannuation products should include extensive industry, employer and consumer consultation, and consumer testing to ensure both comprehension and effective use.

The current proposal for the YourSuper comparison tool is only about "some of your super": the AIST proposal is for an AllYourSuper comparison tool that would provide a demonstrable benefit for almost all Australians.

AIST Recommendation
• Fund the development of a consumer-friendly comparison tool covering all superannuation products (for those in both the MySuper and choice segments).

A commitment to universality of SG cover for all PAYG employees, independent contractors, the self-employed, and replacement of CDP with real jobs

According to the OECD, pension systems should be designed to mitigate disparities between standard and non-standard workers in terms of coverage, contributions and entitlements so as to protect against old-age poverty, smooth the living standards upon retirement, ensure fair treatment, pool risks as broadly as possible and facilitate labour mobility across job types.

This however is not currently the case as independent contractors, the self-employed and workers receiving CDP are not covered by the superannuation guarantee.

Self-employed

Concerningly, 20% of those self-employed have no super whatsoever and if they do have super will tend to have significantly lower balances. The average superannuation account balance for self-employed men in the 60 to 64 age cohort is around $143,000, compared with around $283,000 for male wage and salary earners. For women, the average balance for self-employed women aged 60 to 64 is around $83,000, compared with around $175,000 for female wage and salary earners.[35] Additionally, only 27% of the self-employed made contributions in 2016-17.[36]

This evidence suggests that the self-employed may forgo superannuation in order to invest more into their businesses. Although this is admirable, investment experts have long promoted the benefits of diversification. The self-employed could similarly benefit from avoiding putting all eggs in one basket.

As a result, if they are unable to sell or gain a return on their business when they retire the self-employed will more likely to be solely reliant on the age pension, giving them a lower income and consequently lower quality of retirement.

[35] Craston, Andrew (2018). *Superannuation balances of the self-employed*. Association of Superannuation Funds of Australia. Available from: https://tinyurl.com/qlhnvjd.
[36] OECD (2019). Pensions at a Glance 2019: How does Australia compare? Available from: https://tinyurl.com/wfwtqwg

Independent contractors

According to ABS labour statistics, of the 12.6 million people who were employed in August 2018, approximately 8% were classified as Independent Contractors and of these 37% did not have sole authority over their work. However, it is important to note that a contractor is only considered an employee for superannuation purposes – and therefore entitled to super guarantee contributions – if they are paid 'wholly or principally for labour'.

The difference in benefits between employees and independent contractors has led to an increase in what is known as sham contracting, where an employer may deliberately disguise an employment relationship as an independent contracting arrangement, instead of hiring the worker as an employee of the business or company to avoid superannuation obligations. For example, Cbus estimated that in 2013 alone $261m was lost in contributions due to sham contracting.[37]

Community Development Program participants

The Community Development Program (CDP) commenced operation on 1 July 2015. The stated purpose of the program is to provide work and support to job seekers located in remote Australia. As at 1 January 2016, approximately 35,000 people were participating in the programme of which 80% identify as Aboriginal or Torres Strait Islander. CDP participants with activity requirements are expected to complete up to 20 hours per week of work-like activities and in regions that have high unemployment rates – up to 51% when averaged across states and can be higher at a local level.[38]

AIST is concerned that under the program workers have no right to access workers compensation arrangements or holiday pay and they are not paid superannuation.

We believe that CDP programs should be replaced with real jobs, paying award rates and associated workplace entitlement including superannuation, paid leave, and workers' compensation. These are universal workplace entitlements and should be paid to all workers, particularly when you consider that many CDP participants are First Australians and suffer disadvantage. CDP workers are no different to any other Australian worker and should be afforded the same rights and protections as other Australians in the workforce.

AIST Recommendations
• A commitment to universality of SG cover for all PAYG employees, independent contractors, and the self-employed. • Replacement of Community Development Program (CDP) with real jobs that include full entitlements including award wage rates, superannuation, and leave.

[37] Cbus (2015). *Superannuation Guarantee non-compliance.* Available from: https://tinyurl.com/hgtpoog
[38] The Australia Institute (2018). The Community Development Program, remote Australia's Work for the Dole scheme. Available from: https://tinyurl.com/vqv8pl8

Reducing the incidence of unpaid and underpaid super

AIST has long called for greater action on SG non-compliance, noting both:

- the financial impact on affected members (who are effectively robbed of their rightful retirement savings entitlements, and fail to take advantage of compounding earnings through no fault of their own); and
- the fiscal impact on government (through higher Age Pension expenditure and lower receipts of tax on superannuation contributions and earnings).

Although the recent expansion of the Single Touch Payroll (STP) infrastructure to employers of all sizes may organically reduce the incidence of non-intentional SG underpayment, the risk remains that rogue employers may seek to circumvent their obligations. STP requires employers to send the ATO a range of payroll information, including their employees' SG entitlements reported via super fund reporting.

On paper, existing penalties for such egregious non-compliance are strong, with Part 7 of the *Superannuation Guarantee (Administration) Act 1992* ('SGAA') allowing for fines of up to 200% of the relevant Superannuation Guarantee Charge (an amount comprised of the underpaid SG contributions, 10% tax, and an administration fee charged per quarter of non-compliance). However, despite numerous high-profile cases of unpaid super over several years,[39] the ATO had, by October 2019, applied the maximum penalty on only one occasion.[40]

AIST acknowledges that 2020 was a unique year, bringing with it a redirection in the focus of different regulators. However, as the economy rebuilds – alongside employment rates – it is important that enforcement efforts accordingly sharpen again. In particular, AIST recommends that:

- The ATO strengthen its monitoring of the relationship between data generated by the Member Account Transaction Services (through which super funds report to the regulator the contributions made to them from employers on members' behalf) and STP infrastructures. Consideration could also be given to increasing the frequency with which MATS reporting be required to be undertaken.

Additional possible policy responses to address SG non-compliance include:

- Amending the SGAA to require employers to make their SG contribution payments at the same time as employees' regular salary payments (which would reduce the ability for

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[39] See, for instance,

[40] Senate Economics Legislation Committee, *Treasury Laws Amendment (Recovering Unpaid Superannuation) Bill 2019* public hearings, 30 October 2019, p.31.

unscrupulous employers to avoid their obligations). This approach has been endorsed by ATO Commissioner Chris Jordan;[41]

- Amending legislation to ensure that when wages are paid late (sometimes by many years) interest is paid on associated SG contributions, aligning it with the late SG penalties. Currently when an employer pays back late wages, there is no recognition of lost earnings on associated missed SG payments; and
- Adding the entitlement to superannuation to the National Employment Standards framework. Doing so would make the payment of SG contributions enforceable as an industrial right, broadening the scope of actors able to pursue non-compliance by giving the Fair Work Commission standing to sue liable employers.

AIST Recommendation
• Strengthen action against Superannuation Guarantee non-compliance, to address unpaid and underpaid super.

A legislated objective for the retirement income system, including superannuation and aged care

It is important that the issues and recommendations raised throughout this submission are considered against a legislated retirement income system objective. Lack of a co-ordinated approach in meeting a retirement system objective can result in ad hoc and inefficient policy.

We note, in this context, that the Retirement Income Review made a similar finding: that the objective of the retirement income system be formalised and help inform any changes in associated policy areas. AIST builds on the Panel's recommendation, calling for a specific subsidiary objective of the superannuation system to be legislated, following Government consultation with members, superannuation funds, industry groups, and other stakeholders.

We recommend that the objective of superannuation should be:

'To provide an adequate income to ensure all Australians achieve a comfortable standard of living in retirement, supplementing or substituting the Age Pension.'

A legislated objective should be accompanied by measures to report against the objective along with secondary objectives and principles. We recommend the following guiding principles:

a) **Adequacy:** Adequacy should consider superannuation, public pensions, as well as other sources of income through, for example, means-testing.

[41] Senate Economics Legislation Committee, 30 May 2017, p.29.

b) **Fairness:** Delivery of fairer outcomes within the retirement incomes system through proper targeting of public pensions and superannuation concessions.
c) **Intergenerational fairness:** ensuring the retirement incomes system takes generations (between and within) into account.
d) **Superannuation is a savings and not a wealth creation vehicle:** ensuring the retirement incomes system does not unreasonably create intergenerational wealth transfer.
e) **Sustainability:** ensuring adequacy and sustainability are suitably balanced considering current and future generations.
f) **Gender lens:** Application of a gender lens to the retirement incomes system with a view to closing the gender gap.
g) **Employment lens:** Application of a retirement incomes lens to employment policy development.
h) **Structural change:** Demographic ageing and structural changes are considered.
i) **Sole purpose of superannuation:** implementation of the primary objective of the retirement incomes system should be designed so as not to interfere with the operation of the sole purpose test, including the provision of insurance as part of superannuation benefits.
j) **Transparency and accountability:** policy development should not be ad hoc, but should be developed within a transparent and accountable retirement incomes framework. The community needs to know how proposed policies will affect the adequacy, sustainability and fairness of the retirement incomes system prior to policies being tabled within Parliament. Statements of Compatibility should be used and include an assessment of how any proposed policies may impact quantifiable goals which have been set.
k) **Role of superannuation in national savings:** Recognition of role of the superannuation system in national saving and funding economic activity, especially infrastructure.

AIST Recommendation
• Legislate the objective of the retirement income system, including the roles of superannuation and aged care, to ensure superannuation is not viewed as a resource able to be used for anything other than retirement savings (except in the most exceptional of circumstances).

AIST appreciates the opportunity to present our Pre-Budget Submission for 2021-22 and would be more than happy to discuss the issues raised further.

APPENDIX A

Wage/ superannuation setting method	% of all workers	Income status	Industries/ occupations (predominant)	SG arrangement	Trade-off process between SG and wages	Impact of SG increase
Award (and award influenced individual contract)	Award (21%) Award reliant individual contract (9%) Total 30%	Low to middle income earners (Av hourly earnings: $29)	Health and community services, hospitality, labourers – around 50% are casual, higher proportion of women than men	Minimum legislated SG only, strictly limited ability to bargain for additional SG (requires Award variation)	No bargaining process. Legislated minimum wages and conditions only. Wage setting Fair Work Commission may decide to take SG changes into consideration, but repeals of legislated SG increases have not improved wage outcomes in the past.	Whole SG increase will apply
Enterprise Agreement	38%	Higher paid non managerial staff (Av hourly earnings: $42)	Government employees, employees of large private sector employers	Many paid above SG but most SG reliant - varies by industry/workplace	Trade off process. Workers choose to take additional bargained entitlements as pay, additional super above SG or non-monetary improvements.	Depends on clause - SG increase will not apply where super is already paid at a higher rate*

Individual contract	28%	Varied (Av hourly earnings: $41)	Managers, clerical/admin, smaller employers	Quite varied - some likely to be SG reliant while managers have a negotiated package that may pay super above SG	Varied: Limited trade-off where contract is determined by employer, but managers may be able to negotiate a trade-off for above SG super entitlements	Depends on clause - SG increase will not apply where super is already paid at a higher rate*
Business owner-managers	4%	Varied	N/A	No requirement to pay super to themselves	N/A	N/A