Context

The objective of Superannuation is to deliver safe and stable income to provide for a dignified retirement. Superannuation achieves this by working in conjunction with the other two pillars of the retirement income system (adequate government support and private savings, including the family home).

Compulsory superannuation was introduced in 1992. The Superannuation Guarantee sets a percentage of employee income that must be paid into a superannuation account. This will be at 12% by July 2025. Individuals can also voluntarily contribute additional funds above this employer contribution. Funds deposited into a Superannuation account enjoy considerable tax concessions over other types of savings.

There is no standard 'retirement' age in Australia. People retire at different ages based on a range of factors. In 2022 on average, men expected to retire at 66.2 years and women at 64.8 years.[1] There are a number of reasons influencing when someone retires including access to:

- an age pension after age 67, if eligible based on their income and asset (from July 2023).
- their superannuation if they meet one of three 'conditions of release':
  - at preservation age (from July 2024 this is usually 60 years old), and retired;
  - at preservation age and choose to begin a 'transition to retirement' income stream while you are still working; or
  - are 65 years old (even if you have not retired).

The reason for the difference in ages between the superannuation preservation age and the age pension age is due to the difference in the purpose and design of these two retirement income systems:

- The superannuation system is designed to provide individuals with a source of income in retirement that supplements or replaces the age pension; the age pension, on the other hand, is designed to provide a safety net for individuals. It is set at a higher age than the superannuation preservation age to encourage individuals to save for their retirement rather than relying solely on the age pension. Older people whose superannuation balances fall below the age pension asset threshold later in retirement become re-eligible for the age pension.

In June 2021[2] there is,

- $3.3 trillion held in superannuation.
- $900 billion are in the pension phase.
- SMSFs[1] had an additional $403 Billion in the pension phase (June 2020 figures)
- 1.4 million pension accounts are held in superannuation funds
- There were 2.6 million accounts where the member was over 65 (so they had met at least one condition of release) but only 1.4 million of these were pension accounts.
- There were an additional 1.5 million accounts where the member was between 60 and 64

[1] Self Managed Superannuation Funds

Endorsed:11 September 2023
Review date: 11 September 2024

and could have met a retirement condition of release; and 250,000 of these were in a pension account.

The Retirement Income Covenant requires all APRA regulated super funds to identify the retirement income needs of fund members, document these needs, and develop a plan to service those needs. This commenced from 1 July 2022 including a requirement for those plans to be publicly available.

Older Persons' Experience

Tax concessions are available to everyone to encourage saving for retirement. As the superannuation system has matured these concessions have become costly ($48.6Bn per year – made up of $25.3bn on contributions and $22.85bn on earnings)[3] almost equal to what is spent on the Age Pension ($55.3Billion per year)[4]. However, most of these tax breaks, about two-thirds of them, only really benefit the top 20% of people who earn the most money.[5].

The Australian taxation system is progressive (i.e. a tax rate that increases as taxable income increases). This means that people with lower incomes pay less tax (19 cents for each $1 between $18,200 and $45,000), while those with higher income pay more (45 cents for each $1 over $180,000). When it comes to retirement savings (superannuation) the taxes are the same for everyone - 15% on the money that goes in and what it earns.

This means that the difference in taxes (the incentive) between regular income and superannuation is smaller for people who are on lower incomes and larger for people on higher incomes. This ends up encouraging people on higher incomes to save more. Right now, most tax breaks are used by the top 20% of earners who have the most superannuation savings which means that disproportionately wealthier people are benefiting.

There is current $2.9 billion of unpaid super owed to workers, in part because the Superannuation Guarantee payments only require super to be paid once every three months. This reduces retirement income amounts (due to foregone compounded interest). The ATO only collects around 15% of unpaid super. Superannuation is not part of the safety net of last resort for employee entitlements when businesses become insolvent.

Paid parental leave is the only form of leave paid by employers, including Government, that does not include superannuation. Along with periods of unpaid leave for caring or parenting responsibilities, this disproportionately affects women, and contributes to the gender gap in super balances. Women currently retire with balances a third less than that of men on average.

Similarly, some types of employment such as sole traders are not required to pay into their superannuation in the same way they would if they were an employee.

Superannuation members have minimal information about their projected retirement incomes. The Government regulates the minimum drawdown people should take from their superannuation. There is no independent Government advice about the recommended amount of funds that a person should spend from their superannuation each year. This means that the Government's minimum draw down regulation becomes a de facto rate at which people believe they should withdraw from their superannuation in retirement. This often results in larger superannuation balances being transferred via inheritance rather than being spent in retirement. This is contrary to the purpose of superannuation being for the person to have a dignified retirement.

Funds held in superannuation when a person dies are paid by the fund trustees to the beneficiaries in accordance with superannuation laws which may include paying taxes on the benefit. When funds held in superannuation are transferred into a person's bank account prior to their death, it forms part of their estate and are governed by succession laws where inheritance from estates are not subject to taxes.

Action Required

Older people should be able to achieve a fair, secure, and dignified standard of living in retirement. Superannuation should support that and not be drawn down for purchases before retirement (except in exceptional circumstances such terminal medical condition, permanent or temporary incapacity, severe financial hardship). Superannuation should not be used as a reduced tax environment for the purpose of inheritance.

While in the pre-retirement period of their working life, people should have easy and affordable access to quality, independent information, and advice about their likely income in retirement (from both superannuation and government supports) and what they can do to maximise it.

There are a range of things that can be done by both Government and the superannuation industry to ensure this:

<u>Pre-retirement Government policies (Pre-age pension / superannuation preservation age)</u>

- Employers should be required to pay the Superannuation Guarantee on the same cycle as an employees' pay. Funds must report missed payments to the ATO as part of single touch payroll.
- Superannuation guarantee payments should be included in the definition of "wage theft" under any State, Territory or Australian law. The ATO must proactively track and pursue non-payment of superannuation by employers.
- Government should conduct a comprehensive review of superannuation taxation policies to realign tax concessions with a more progressive tax approach with greater share towards people with lower balances.
- Government should introduce measures to reduce the gender gap in superannuation balances including paying superannuation on paid parental leave.
- Superannuation should be paid on every dollar of work-related earnings, including:
    - Government reviewing current rules around the superannuation guarantee to consider the ongoing appropriateness of sole traders or partnerships not being required to make superannuation guarantee contributions for themselves.
    - The SCG should be paid on all income support payments received by people under the age pension eligibility age, such as Carers payments, JobSeeker payment and the Disability Support Pension.
    - Government should pay the SCG as part of the Government's paid parental leave scheme and employers required to pay superannuation on paid parental leave.
    - Government should review the appropriateness of including superannuation payments

as part of worker compensation payments.

Retirement Government policies (Post age pension/ Superannuation preservation age)

- Government should publish a "recommended drawdown rate" each year, in addition to the existing "minimum drawdown rate". The recommended drawdown rate should be modelled on what a person should spend to reduce the balance the bulk of their superannuation over their projected average life expectancy to zero.
- Government's review of tax concessions in superannuation should include the correct level of taxation on earnings during the retirement phase.
- Rules around how superannuation fees can be used to provide guidance and information to members should be altered so that consideration of age pension and family relationships can be included in calculations. Such spending should maintain adequate consumer protections and ensure information/advice is independent and quality.
- Assess the implementation of the Retirement Income Covenant and consider further policies to mature the retirement phase of superannuation. This may include developing a performance test for retirement phase products, development of default products and improving independent, quality information to inform retirement planning.

Actions the superannuation industry should take

- Develop products that provide older people the choice to purchase a pension-like product that guarantees a certain level of income for their life and/or insurance products to cover them if they live longer than their projected life expectancy.
- Superannuation funds annual statements should include a standardised projected income in retirement based on their current and projected balances.
- Every 5 years, from age 45, all members should receive more detailed information about what actions they can take to maximise their likely income at retirement. An example of this is the UK's "wake up packs".

Related Policies

Government Support
Retirement Incomes

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[1] https://kpmg.com/au/en/home/media/press-releases/2023/02/when-will-i-retire-educated-aussies-choosing-work-longer-23-february-2023.html

[2] https://www.challenger.com.au/institutional/insights/retirement-phase-grows-at-pace, accessed 18 Apr 2022

[3] Australian Treasury, Tax Expenditure and insights statement, February 2023, citing 2022-23 estimates, Available at: https://treasury.gov.au/publication/p2023-370286

[4] "Self-funded or State-funded Retirees?: The cost of super tax concessions". The Australia Institute, Feb 2023. https://australiainstitute.org.au/wp-content/uploads/2023/02/P1368-Superannuation-tax-concessions-2023-Web1.pdf

[5] Coates, B. and Moloney, J. Super savings: Practical policies for fairer superannuation and a stronger budget, The Grattan Institute, April 2023. https://grattan.edu.au/report/super-savings-practical-policies-for-fairer-superannuation-and-a-stronger-budget/