National Tertiary Education Industry Union

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NTEU SUBMISSION ON THE RETIREMENT INCOME CONSULTATION PAPER

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The National Tertiary Education Union represents staff employed by Australia's universities, a range of private providers of tertiary education, and Technical and Further Education and Adult Education institutions in Victoria. The union represents both academic and general staff and has members who are high, middle and low income earners.

Summary of Recommendations

1 That, in light of the declining number of employer guaranteed defined benefit funds, consideration should be given to encouraging multi-employer pooled risk funds in appropriate industries, as an alternative to accumulation plans.

2 That the aggregate value of government outlays on pensions and revenue foregone due to tax concessions for superannuation be maintained, but better targeted towards lower paid employees and retirees with limited assets.

3 That there should be no increase in the current eligibility age for the government pension.

4 That there should be no increase in the current age thresholds for access to taxed superannuation before age sixty

5 That, as an alternative to increases in the respective ages for pension eligibility and access to taxed superannuation, consideration should be given to changes to the assets test, introducing disincentives for taking superannuation in the form of a lump sum, and to encouraging pension deferral by converting the pension lump sum bonus into a higher rate of pension.

6 That the Commonwealth should consider providing options for converting lump sums into pension supplements, and to introducing a Commonwealth Government purchased annuity scheme.

7 That the aim of the retirement income system over time should be a comfortable standard of living in retirement

8 That the government increase significantly the full rate of the age pension.

9 That the Superannuation Guarantee Charge (SGC) be increased to 12% over the course of the next term of government.

10 That the SGC be payable for all employees.

11 That all employees on maternity leave without pay be entitled to use paid annual and long service leave credits to cover that period.

12 That there should be no capping of employer-provided paid maternity leave.

13 That the standard for professional financial advice be the best interest of the person receiving the advice.

14 That trailing commissions be prohibited.

15 That superannuation regulators undertake a program of work to achieve greater economies of scale through fund consolidation, and that this program should also apply to self-managed funds

16 That reductions in superannuation and pension access ages are warranted in the case of Indigenous Australians, particularly the most disadvantaged and those with chronic health problems, on the basis of staged re-alignment of access ages as the life expectancy gap between Indigenous and non-Indigenous Australians is narrowed.

In its Initial Submission to the Review of Taxation the union made the following observations in respect of superannuation.

"The policy of successive governments to reduce or delay the call upon government pensions by retirees by using the Superannuation Guarantee Charge, co-payments, and tax concessions to encourage both the spread of occupational and private superannuation and greater accumulation of funds in individual accounts, has a number of practical problems. The funds established to receive contributions are accumulation funds, and therefore the employee bears the risk. Consequently there will be greater or earlier reliance on government pensions by retirees whose accounts are depleted by significant market downturns in the lead-up to retirement. While some in the workforce may be able to defer retirement and continue working until the downturn ends and positive returns compensate for the depletion of superannuation accounts, others who have reached the eligibility age thresholds for accessing superannuation on a taxed or tax free basis realistically have no such option.

Almost all defined benefit funds in existence before the introduction of the SGC are now closed to new members. Moreover Australia's multi-employer funds have not established new pooled risk plans that use a formula to calculate and pay benefits, albeit without an employer guarantee. Further, the tax concessions for occupational and private superannuation at the point of retirement are not linked to the take-up of pension-type or income stream products. The concessions are also excessively skewed in favour of the accumulation of superannuation savings by middle and higher paid workers, who already have a greater propensity to save.

The NTEU is not recommending a reduction in the value of the tax concessions for superannuation. Our proposal is rather that the concessions should be better targeted. In the absence of changes to current arrangements, there is a higher risk, having regard to longevity trends that a future Australian government raises the age for access to a government pension, if not also to superannuation benefits. A number of governments of OECD countries have already moved in this direction."

The NTEU reiterates these observations in this submission, with one variation. The union still sees merit in an examination of the pooled risk option for superannuation. There are a number of industries dominated by a limited number of large, stable companies for which a pooled risk product would be appropriate.

The union also supports retaining, on a better targeted basis, the tax concessions for superannuation. However a reduction in the cost to government of the tax concessions that was used to fund a higher increase to the rate of the age pension would be another way of achieving a better targeted outcome in terms of retirement income, and would also preserve the aggregate value of pensions and revenue foregone by way of tax concessions for Australia's retirement system.

As implied above, we do not support the raising of the age for access to the government pension, or for that matter in the relevant ages for access to superannuation on a taxed basis. The union notes that, while the Government's term of references preclude the Review from, among other things, recommending changes to the Better Super arrangement for tax free superannuation at age 60, it did not rule out either changes to current arrangements for access to superannuation between age 55 and 60 or an increase in the eligibility age for payment of the pension. The latter proposal is advocated by some in light of longevity trends.

In the event that serious consideration is given by the Review to such options, we would suggest instead that there are other ways to address the issue of the cost of the age pension, such as changes to the assets test, disincentives for accessing superannuation in the form of a lump sum rather than an annuity, and making the option of pension deferral more attractive by substituting a higher rate of pension for the lump sum currently paid as a pension bonus. The cost savings of such changes could be reallocated to fund a significant increase in the full rate of the age pension.

In addition, there is both merit and likely efficiency gains in the Commonwealth providing options for converting lump sums into supplements to age pension entitlements, or introducing its own purchased annuity scheme.

In our view the issue of the cost and rate of the pension should also be considered from the standpoint of the retirement income objective. Two standards of living are usually cited in this context, 'modest but adequate' and 'comfortable'. The latter is often coupled with the word 'affluent' but the two words have a different meaning and affluent should be seen as a third standard. The comfortable standard should be the aim of the retirement income system over time. In the short term, the recent political campaigns by pensioners and admissions by politicians that they could not live on the age pension highlight the urgency of a significant increase in the age pension.

In addition the superannuation benefits of working Australians could be increased in a number of ways. The option of an increase in the Superannuation Guarantee Charge has not been ruled out by the terms of reference but many assume it is off the table because of commitments to employers given by Government Ministers. However these commitments pertain to the first term of office of the current government. The union urges the panel to recommend an increase in the SGC to at least 12% over the course of the next term of government.

While there may be concerns about such a move in the current economic circumstances, these can be addressed by a phase-in period, offsetting concessions to business arising out of the broader Review undertaken by the panel, and by the resulting increase in savings for private sector purposes and for investment in productive public infrastructure.

The case for the government to increase the SGC is paradoxically strengthened by the economic crisis. The well publicised reduction in the superannuation account balances of Australians due to the crisis means that fewer fund members will make voluntary additional contributions to top-up the SGC during the crisis, and probably for some time beyond its end. The same applies to additional salary sacrifice contributions, which will also be affected by the inclusion of salary sacrifice in the new definition of assessable income for social security purposes and the Medicare levy. During and for some time beyond the crisis it will also be harder politically for employers to introduce soft compulsion measures in order to augment the 9% with employee contributions.

The NTEU recommends a second change to the SGC. While the fact that the $450 per month threshold is not indexed means that over time more casuals will be entitled to receive the payment, it would be more equitable to require payment of the SCG to all workers, thereby covering those casuals who have very limited hours of work, or have their hours spread across more than one employer. For example, in higher education there are casual employees in cities with more than one university who work at two or three institutions and do not qualify for the SGC at any of them, while others get the SGC at one university but not at the others.

The proposed change would also remove incentives for employers generally to adopt a pattern of casual work in order to avoid the SGC liability.

A third change that the union would recommend is that employees with unused annual and long service leave should be entitled to use these leave credits to cover periods of maternity leave for which no paid maternity leave is available. Currently the provision of this option depends upon the terms of an collective agreement if one applies, or on employer policy should no agreement exist or the relevant agreement is silent on the matter.

This submission was written in the absence of the final version of the Productivity Commission's Report on maternity leave. The draft report from the Commission contains a recommendation that the NTEU strongly opposes, namely that the paid leave entitlements under employer provided schemes should be capped. In our view such entitlements should be no less than an employee's normal rate of salary, as is the case with paid long service, annual and sick leave. This is important for two reasons. First, to minimise the earnings difference that arises between comparably paid female and male employees due to taking of maternity leave. Second, to ensure that superannuation contributions made during paid maternity leave continue to be calculated on the employee's normal salary.

The value of superannuation to fund members at the time of their retirement can be influenced by not only the type of benefit plan and the rate of return on investment during their period of membership but also by the fees charged, transparently or otherwise, for membership, and likely as not the advice members receive. The NTEU agrees with the call from the industry superannuation movement for raising the standard for advice from appropriate advice to advice in the best interest of the member. However such a move should be accompanied by a prohibition on trailing commissions.

In addition, the efficiency of superannuation is also a function of the scale of the funds, whether they are not for profit or for profit funds. The current system has too many funds with inadequate economies of scale and this affects both the cost of administration and their bargaining power with external service providers over fees. The most efficient superannuation model is probably that of a National Provident Fund. While the Australian system of multiple funds and competition between industry and for profit funds is unlikely to evolve in this direction, there is still a good case to promote better economies of scale, as measured by indicators such as the number of members and funds under management. This could be achieved by measures such as regulators publicising scale indicators and ranking existing funds accordingly, encouraging and facilitating amalgamations, requiring funds that do not meet the scale objectives, including self-managed superannuation funds, to present a case for retaining their license etc.

It would be grossly inconsistent to exempt self-managed funds from a consolidation program. The issue of the standard of advice may also relevant in this context. Even if fees are upfront rather than opaque, it is possible that part of the growth in self-managed funds reflects suggestions from advisors whom also end up providing ongoing advice to the self-managed entity.

Earlier in this submission the union has argued against increases in the age thresholds for access to taxed superannuation and to the age pension, and suggested alternative ways to address concerns about the cost of the system. The union advocates, however, measures that would increase the cost to government of benefit provision for a specific group of Australians, namely Indigenous Australians. The Australian Bureau of Statistics estimated in 2006 a 17 year life expectancy gap between Indigenous and non-Indigenous Australians. While there are issues of data quality and about the robustness of estimates of the gap, there is no dispute that the gap is significant. Consequently there is a case for earlier access to Indigenous Australians, particularly the most disadvantaged and those with chronic health conditions, for both superannuation benefits and the government pension, with the respective access ages increasing as the life expectancy gap narrows.