Retirement Income Review submission

February 2020

Summary & Recommendations

Australia has a sophisticated retirement system; however, its design rewards those with unbroken careers. Women typically move in and out of the workforce, face wage discrimination and live around five years longer than men, leaving a stark gender gap in retirement incomes.

HESTA recommends that:

1. ***Unpaid caring roles be valued in an appropriate way that recognises the economic contribution made by this work;***
2. ***Superannuation be paid on Commonwealth Paid Parental Leave;***[1]
3. ***The $450 threshold for Superannuation Guarantee payments be removed;***
4. ***Superannuation entitlements are provided for workers who are not classified as employees and/or perform non-standard work;***
5. ***The Superannuation Guarantee rate move to 12% as soon as possible;***
6. ***The taper rate for the age pension be reviewed;***
7. ***The process for superannuation splitting in the event of relationship breakdown be improved; and***
8. ***The value of insurance in super for low income earners be recognised.***

Overall, we believe these equity mechanisms will improve the retirement outcomes for those on lower incomes and those who undertake caring roles. In addition, there needs to be consideration of limits to the support received by those at the upper end of the spectrum.

[1] This position was recommended by the Productivity Commission in its 2009 report *Paid parental leave: support for parents with newborn children* and was also a recommendation of the 2016 Senate Economics Committee Report, *A husband is not a retirement plan*.

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Introduction

HESTA welcomes the opportunity to make a submission to the Retirement Income Review. The retirement income system is part of an important social and economic framework that impacts all Australians at some stage of their life.

Our submission will focus on a typical HESTA member and how the system works for them or (in many cases) against them. We focus on our area of expertise, namely the superannuation system. However, we acknowledge the importance of the other two retirement income pillars being reviewed - the age pension and private savings. In particular, the age pension will continue to be an important support for HESTA members in retirement.

We encourage the panel to focus on the best ways to provide dignity in retirement using all three pillars and not to concentrate wholly on striving for a self-funded retirement.

We have primarily focussed on equity and other areas where we can contribute, particularly where our member's experience should be highlighted.

Australia has a sophisticated retirement system; however, it's design rewards those with unbroken careers. Women typically move in and out of the workforce, face wage discrimination and live around five years longer than men, leaving a stark gender gap in retirement incomes.

Overall, we believe there should be more equity mechanisms to improve the retirement outcomes for those on lower incomes and those who undertake caring roles. In addition, there needs to be consideration of limits to the support received by those at the upper end of the spectrum.

We look forward to further discussions about fairness and equity to strengthen our superannuation system and provide better outcomes to avoid poverty for our members in retirement. We have also attached several submissions and research papers that HESTA has previously produced. We have seen many changes to the superannuation system; however, the previous submissions remain relevant given that reform dealing directly with equity measures has not been prioritised.

The 2016 Senate Economics Committee inquiry report into retirement incomes for women[2] concluded that Australia's retirement income system does not adequately incorporate women and men's different experiences of work. The 19 recommendations to address structural causes of gender inequality in Australian retirement incomes appear to have been largely ignored.

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[2] *A Husband is not a Retirement Plan: Achieving Economic Security for Women in Retirement*, April 2016.

The 2018 Government response to the inquiry 'noted' all the key recommendations and stated that:

> "one of the most useful ways governments can address inequality in retirement incomes is to support economic growth to generate an increase in employment and incomes".[3]

Increased economic growth is not a panacea for structural inequality and we remain sceptical whether an understanding of women's lives has fully permeated perceptions about superannuation.

We understand the Panel must be guided by the terms of reference as determined by the Government; however, we note with disappointment the short timeline that has been dictated for such a complex, wide ranging and important process. Our retirement system reverberates over many decades and generations – it cannot be meaningfully reviewed in a few months.

We appreciate the engagement with stakeholders shown by the Panel members so far; however, the lack of a draft report in the timeline or scheduled public hearings raises serious concerns whether the final report can achieve the consensus and gravitas required for the Review to achieve any meaningful outcomes. Once again, we note the Panel can only work within the framework provided to them.

We would be pleased to answer any queries the Panel may have.

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[3] Australian Government response to the Senate Economics References Committee Report: '*A husband is not a retirement plan' Achieving economic security for women in retirement*, August 2018

Our members – Our purpose

HESTA has over 850,000 members, $55 billion of assets and achieved an annualised return of 8.78% p.a. since inception in 1987 in the Core Pool – the MySuper authorised investment option.

HESTA is an industry super fund with a strict profit-to-members model that was created to meet the specific needs of employees working in the health and community services sector.

Our members:

- Work primarily in caring professions within the Health and Community Services sector, a sector with significant employment growth;
- Are mostly women (80%), and are likely to take career breaks, live longer, and more likely to be dependent on the Age Pension in retirement;
- These women earn $52,400 per year on average, with our male members earning 20% more than this;
- Predominantly light blue/blue collar workers in non-desk-based roles, required to perform medium duty manual tasks as a part of their role;
- Are time poor – generally balancing work and family responsibilities;
- HESTA members are some of the most vulnerable and marginalised workers in Australia;
- Generally, work under a traditional employment structure, drawing a regular wage.

The typical HESTA member is well known to Australia. She is skilled, vocationally driven, and will spend time out of the paid workforce to care for others and is currently 43 years old. It is for her that we make this submission and suggest changes to the structural elements of the retirement system based on proven international solutions.

We have included an infographic to show the characteristics of HESTA members as a *Village of 100*.

100 HESTA members

Gender

Like the health and community services workforce in general, HESTA members are predominantly women.

80 Women

Men 20

Working and retired

Most of our members are still working. That's because the superannuation system (which only began in the early 1990s) is still maturing, and few of our members have retired yet.

96 Still Working

4 Retired and Drawing Pension

Age

HESTA members fall into all stages of work life: younger workers just starting out, mid-career workers, and older and retired workers.

Under 30: 19

In their 30s: 24

In their 40s: 21

In their 50s: 20

In their 60s: 13

Over 70: 3

Average annual salary (for working members)

The average HESTA member makes over **$53,000** per year. But our male members, on average, make about **20% more** than our female members.

Total $53,300

Women $52,400

Men $63,000

Average length of HESTA membership

Over one third of HESTA members joined our fund within the last five years; this reflects the strong growth that has occurred in health and community services. Relatively few members have been with the fund for more than 20 years – but that is changing as the fund matures, and our working members accumulate more experience.

Under 5 years: **34**

5-10 years: **23**

10-15 years: **20**

15-20 years: **12**

Over 20 years: **11**

Annual salary (for working members)

The earnings of HESTA members are concentrated in the broad middle-income band: **over three-quarters of our village earn between $25,000 and $100,000**. But a significant minority of our members earn less.

Under $25,000: **16**

$25-50,000: **36**

$50-100,000: **40**

Over $100,000: **8**

Family structure of HESTA members

Like Australian society as a whole, the family arrangements of HESTA members have evolved, and become more diverse. Our members have many different ways of living.*

Couple with children: **47**

Couple without children: **17**

Single with children: **10**

Single without children: **23**

Other: **3**

Home ownership of HESTA members

Among HESTA members over 50 years of age, 80% own their own home. That's higher than the average (65%) for all Australians. But almost one in five HESTA members in that age category does not own a home. Of those over 50 that own a home, over half have paid off their mortgages.

Own home, no mortgage: **25**

Own home, with mortgage: **36**

Don't own home: **39**

Average superannuation balance

Because many HESTA members are early in their careers, their super balances are still relatively small. On the other hand, our retired members have had more time to build up larger balances.

For those still working: **$50,000**

For those retired **$208,000**

An inequitable system

Australian women overwhelmingly experience an intolerable level of economic insecurity in retirement. If the current policy settings remain then this will continue now and into the future. Our submission touches on the the significant inequality in retirement outcomes for women, and the various factors that contribute to these results.

For most women and most HESTA members the Age Pension is the main pillar for retirement income. Our analysis shows that approximately 6% of HESTA members will never even reach a balance of $6,000 despite being in the workforce for decades.

Our current system magnifies the problem of gender differences in lifetime earnings. In addition, the bulk of concessions benefit men. Unfortunately, the current design of the system rewards higher income earners, rather than focusing on those most at risk of poverty in retirement.

We note a recent discussion paper and commentary[4] drawing on MARIA analysis from Treasury found that tax concessions on super contributions for higher income earners resulted in them receiving more assistance from the government than those who qualified for the means-tested age pension.

We note and strongly agree with the statement form the Panel that:

> "The overall level of public support provided by the retirement income system should be targeted to those who need it most."[5]

Our current tax system does not deliver this and is inequitable in relation to super as it provides more public support to those in higher income brackets,[6] which is primarily men. This inequity is largely caused by income tax (and capital gains tax) systems that are progressive and a superannuation tax system that is largely flat. Consequently, the benefits of superannuation largely flow to people with high incomes and high superannuation balances.

[4] *Super funds demand Treasury modelling grunt***,** Australian Financial Review, 7 January 2020

[5] *Retirement Income Review Consultation Paper* (pg 18).

[6] ibid.

Industry Super Australia's (ISA) examination of ATO data shows:

- The top 20% of taxpayers get 49.3% of the tax concessions; and
- The bottom 50% of taxpayers get 21.5% of the tax concessions.[7]

This is clearly unfair and suggests that tax concessions for superannuation actually amplify inequality in Australia rather than help to address it.

We also agree with the sentiments expressed by Dr Richard Dennis:

> ". . while the age pension is capped at $24,268 a year for singles, there is no cap on the lifetime value of taxpayer support for superannuation. There are people with tens of millions of dollars in their superannuation funds who receive millions of dollars' worth of tax concessions each year."[8]

We believe there is a clear case for additional measures to assist those on lower incomes and those who undertake caring roles. HESTA does not have a fixed view regarding how support should be modified at the higher end of the scale. We recommend policymakers focus on rebalancing efforts. Any additional revenue from changes made at the higher end of the scale should be hypothecated for use to improve outcomes at the lower end of the scale.

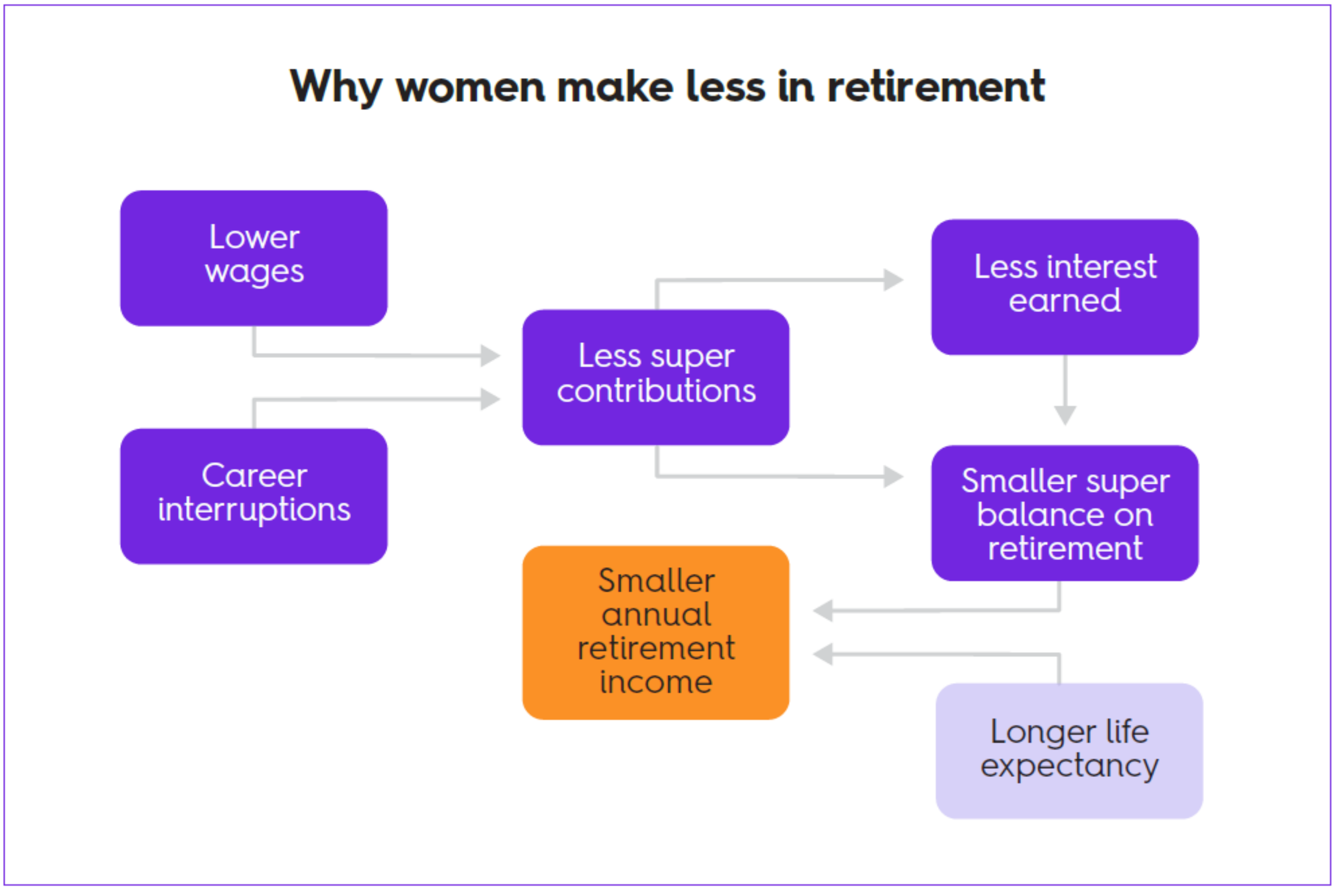
[7] ISA submission to Retirement Income Review.
[8] https://www.theguardian.com/commentisfree/2019/nov/27/how-australias-superannuation-system-steals-from-the-poor-to-give-to-the-rich

Caring about inequality

There are several well-known factors that combine to cause the gender savings gap in retirement and impact the poverty outcomes for women.

The drivers are:

- The gender pay gap
- Unpaid time out of the workforce caring for others
- Women's life expectancy.



Many factors explain the large, continuing pay gap between men and women. First, basic wages are significantly lower for women: ordinary time earnings for women in full time jobs are 14% less than for men. This figure is often reported as the gender wage gap, but it is not the full story.

Second, the base pay gap is amplified by payments of bonuses and overtime pay, which are concentrated in traditionally 'male' jobs (including executives, financial professionals, construction and mining). When that additional income is included, the gender pay gap swells to 17.5%.

However, biggest factor suppressing women's wages is their concentration in part time work and other irregular or precarious jobs. Those jobs not only pay lower hourly wages than full time jobs, but they also offer fewer hours. That widens the gender pay gap even more. In 2018, average weekly wages for women were 32% lower than for men.[9]

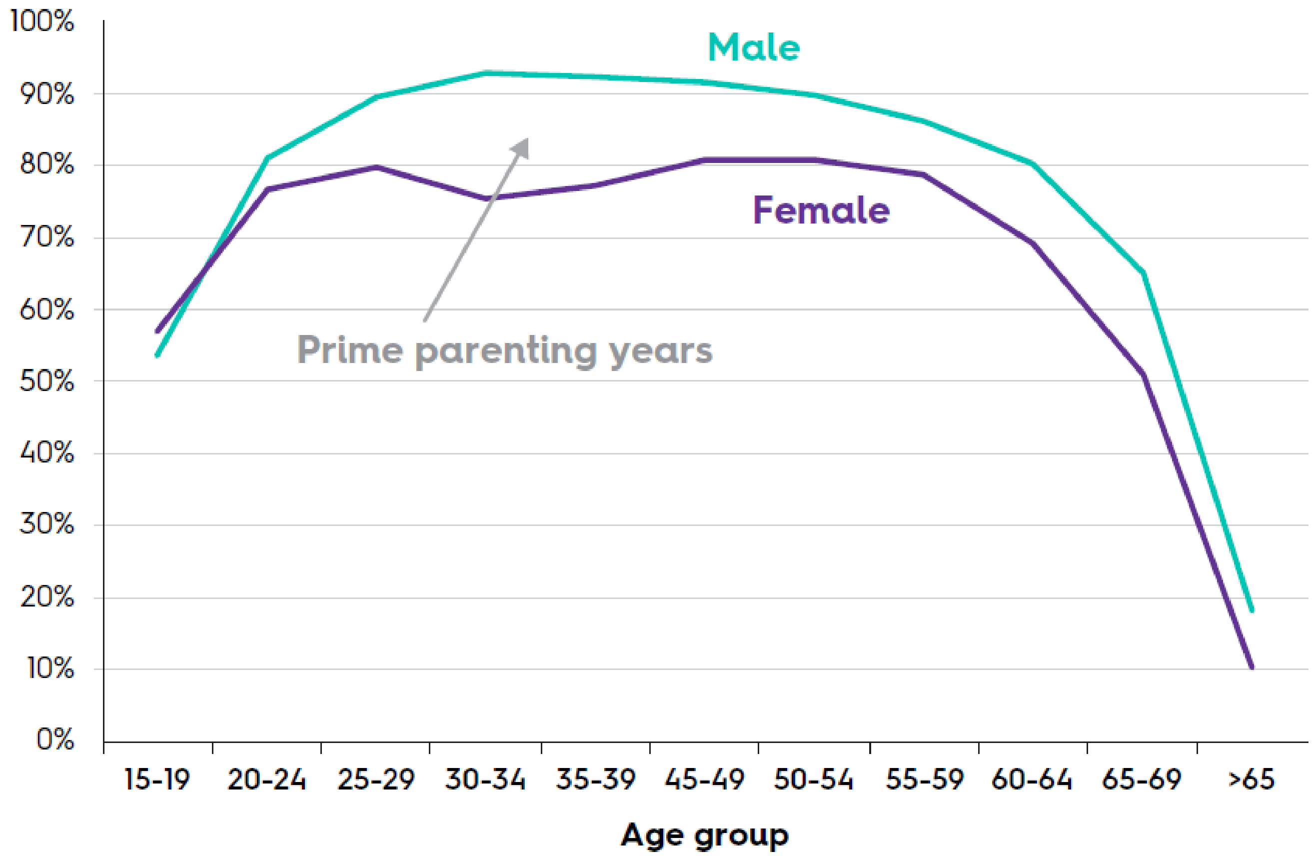
Closing the gender pay gap is important to our members and will help close the gender retirement savings gap; however, unpaid time out of the workforce to bear children and care for others is the driver that poses the greatest threat to a woman's prosperity in retirement.

Unfortunately, there is effectively a '***motherhood penalty'*** as a result of having children: equal to at least 5-10% of wages. This is amplified because women typically receive smaller wage increases and fewer promotions after returning to work, and lower superannuation contributions.

This effect is most pronounced when children are very young, when a mother may stop work for a period of time. This is also the time when contributions to their super account would have the greatest chance to take advantage of exponential growth through compounding interest.

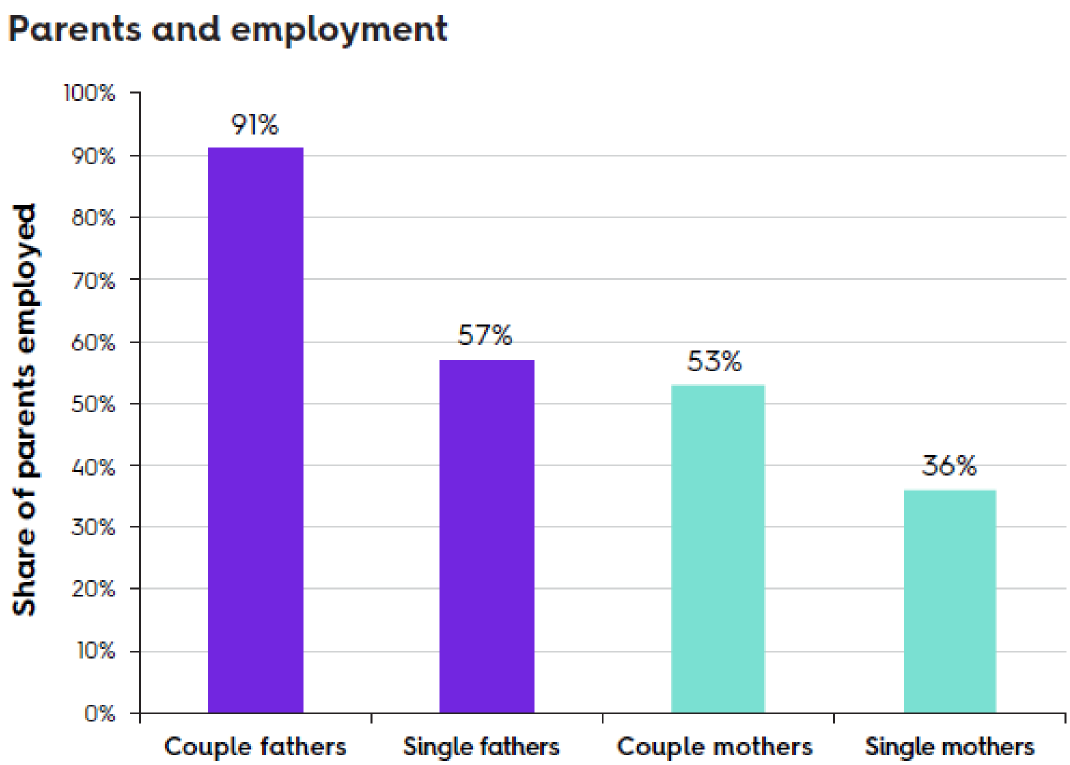
[9] ABS Catalogue 6302.0, Table 2.

Labour force participation by age and gender, 2018



Source: ABS Catalogue 6291.0.55.001, Table 1.

Almost all fathers who are in a couple work outside the home, but barely half of mothers in a couple do. In fact, single-parent fathers are more likely to be employed than mothers in a couple.



Source: HILDA Report (2018), p.12.

Almost half of mothers do not return to work for more than two years after the birth of their first baby. These long absences from the workforce result in a direct loss of income while they are not in the workplace. But they also lead to longer-term earnings reductions because of foregone wage increases and promotion opportunities.

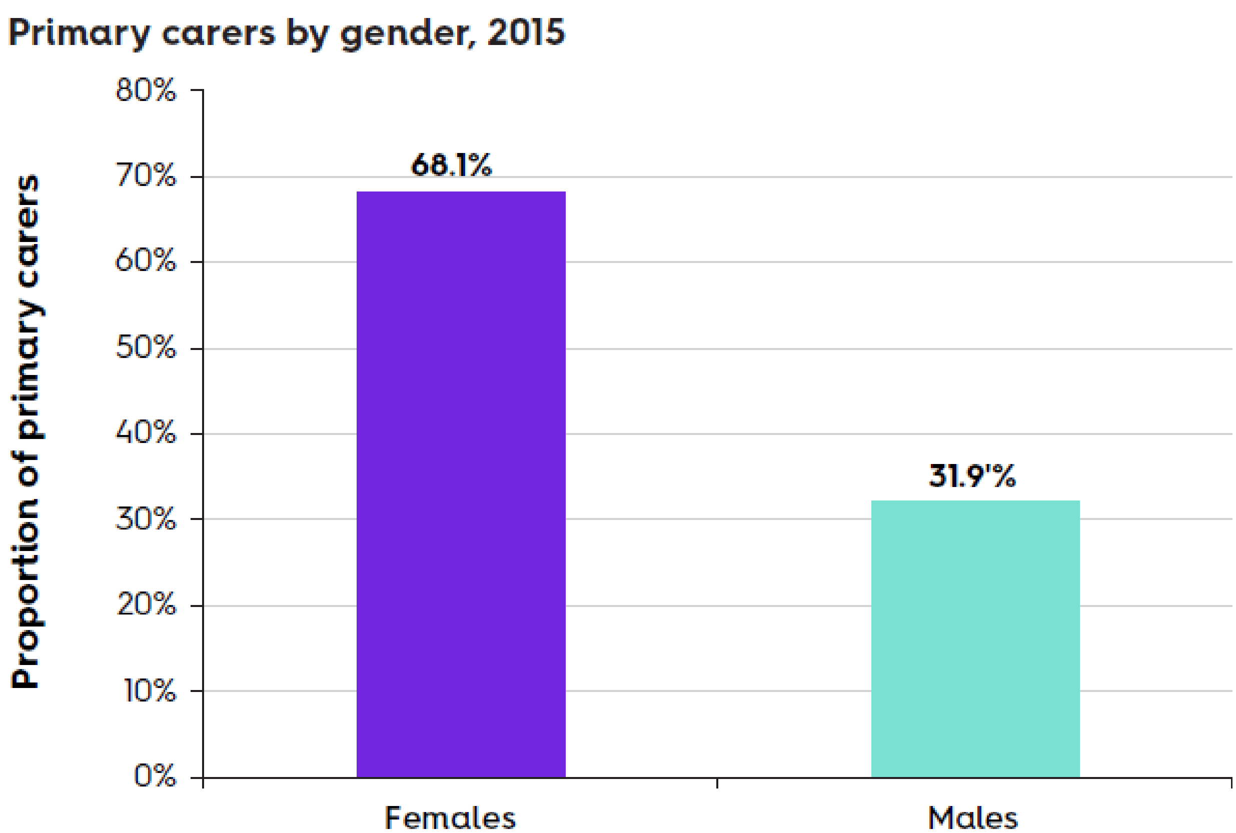
Mothers' time off work with first child

Before birth		After birth	
Under 1 month	39.3%	Under 3 months	8.2%
1-3 months	15.1%	3-6 months	8.5%
3-12 months	7.5%	6-12 months	20.9%
Over 12 months	16.3%	1-2 years	18.3%
Never worked	21.8%	Over 2 years	44.1%

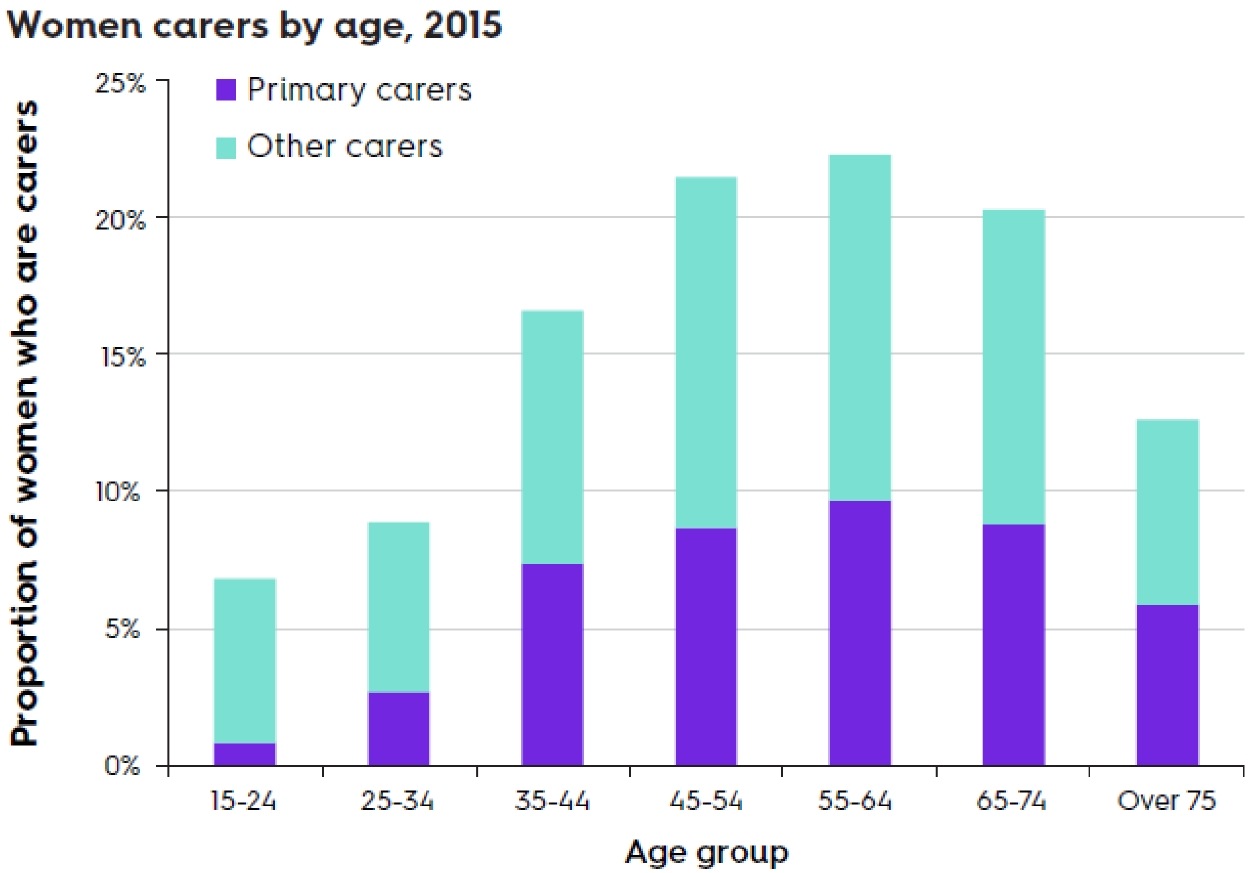
Source: HILDA Report (2017), Table 4.2.

Time out of the workforce is obviously not confined to women; however, caring for children and other relatives, is disproportionately performed by women. In addition, for those who receive paid parental leave, the SG does not apply to replacement income. This is the only form of leave that does not attract superannuation entitlements.

Looking after their children is not the only caring responsibility which falls disproportionately on women. Women also make up over two-thirds of all primary carers for elderly persons or persons with disability. And they provide a majority of non-primary caring as well. Over one-fifth of women between 45 and 75 serve as a carer for someone else. This unpaid labour imposes significant emotional, physical and financial burdens on women.



Source: ABS Catalogue 4430.0, Summary of Findings.



Source: ABS Catalogue 4430.0, Table 32.3.

Almost all Australians can expect to be involved in an unpaid caring role in some capacity during their working life.

The rates and type of unpaid care provided by different genders in Australia has been well documented. The gendered nature of the obligation to provide care may be evident in the types of care relationships that men and women engage in. Women are more likely to care for children with disabilities and parents while men are more likely to care for their partner. The unpaid caring time out of the workforce will be more intense for women at the early stage of their career than for men. This has different impacts on workforce participation and therefore different impacts on retirement savings.

Unpaid caring roles make an important economic contribution to wider society but are generally not recognised or rewarded at an individual level. Ongoing economic activity and tax revenue requires people to participate in the economy. It may seem like a simplistic analogy but raising children provides the ongoing supply of people/workers/taxpayers to achieve this; however, the labour undertaken to provide this 'supply' is not rewarded in an economic sense – in fact it is largely punished.

Why is it that a mother caring for her children produces no 'measured' economic value, but the same mother hiring others to look after her children does? The answer stems from our narrow measurements of 'economic activity', which currently only captures activities for which people are paid.

If the economy is not delivering equitable outcomes for large portions of the population then we shouldn't be afraid to change it. We should have an economy that serves society; not the other way around. Unpaid caring roles are obviously valued in an emotional and 'human' way, but there is no reason why they can't be valued in an economic way as well. Essentially our narrow definition of 'economic activity' needs to change.

PWC has previously estimated that the replacement cost of informal childcare alone would be $409.5 billion in 2016[10] - this is a massive contribution to society. If a small fraction of this amount was paid as superannuation this would make a substantial impact to retirement outcomes and send a strong signal that unpaid care is valued.

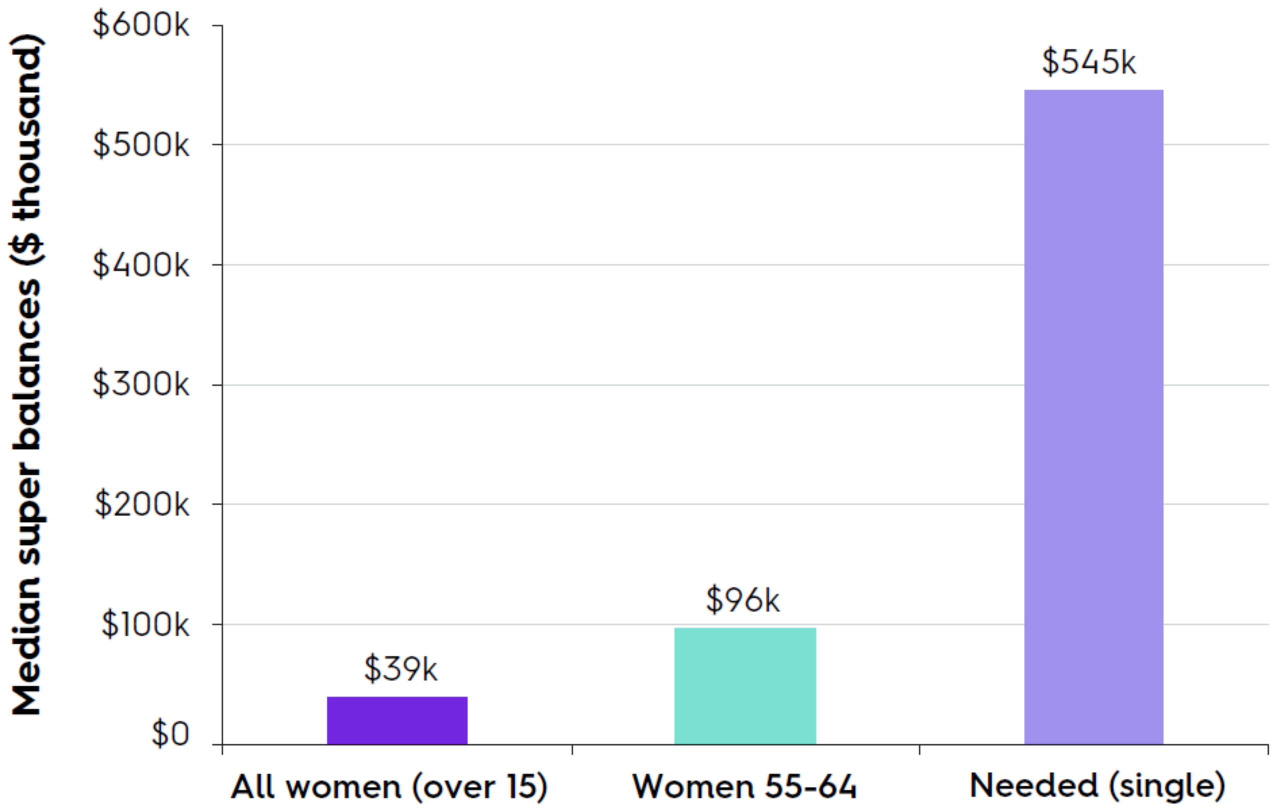
Women's unequal experience in the workplace carries over into greater financial challenges in retirement. Women are less likely to participate in the labour market – especially in prime child-bearing years. Women who are employed make almost one third less than their male counterparts: partly due to their concentration in lower-paying jobs, and partly due to shorter hours of work. They lose more income to career interruptions. The resulting loss of superannuation contributions (and subsequent investment income) imposes a major additional financial penalty.

When they reach age 65, most women can anticipate to live longer than men: by close to three more years, on average. But women's super balances on retirement are more than a third smaller, on average, than men. Elderly women are thus left more dependent on the Age Pension, support from families, and other sources of income – and too many, unfortunately, experience poverty.

For women who are currently working there is no change to the superannuation system that will be enough to arrest these figures completely. A well-funded social security system is crucial for the financial wellbeing of Australian women. The median superannuation balance held by women is only $39,000 and shockingly, one-third of women over age 15 have no superannuation at all.

[10] *Understanding the unpaid economy*, PwC Economics and Policy, March 2017.

Median superannuation balances, 2015-16



Source: ABS catalogue 4125.0, Table 2.7; Clare for Association of Superannuation Funds of Australia (2017).

When universal superannuation was established, it was determined that a threshold should be set for monthly wages under which superannuation payments need not be made. At the time it was argued that the administrative burden would be too great if the employee was earning under $450 per month with them.

Consider a nurse, with unpaid caring responsibilities who has irregular shifts across three health providers. She earns the following in one month:

- $360 from a pathology lab where she works drawing blood samples
- $420 from a hospital filling in a night duty shift
- $445 from a GP clinic where she taught first aid.

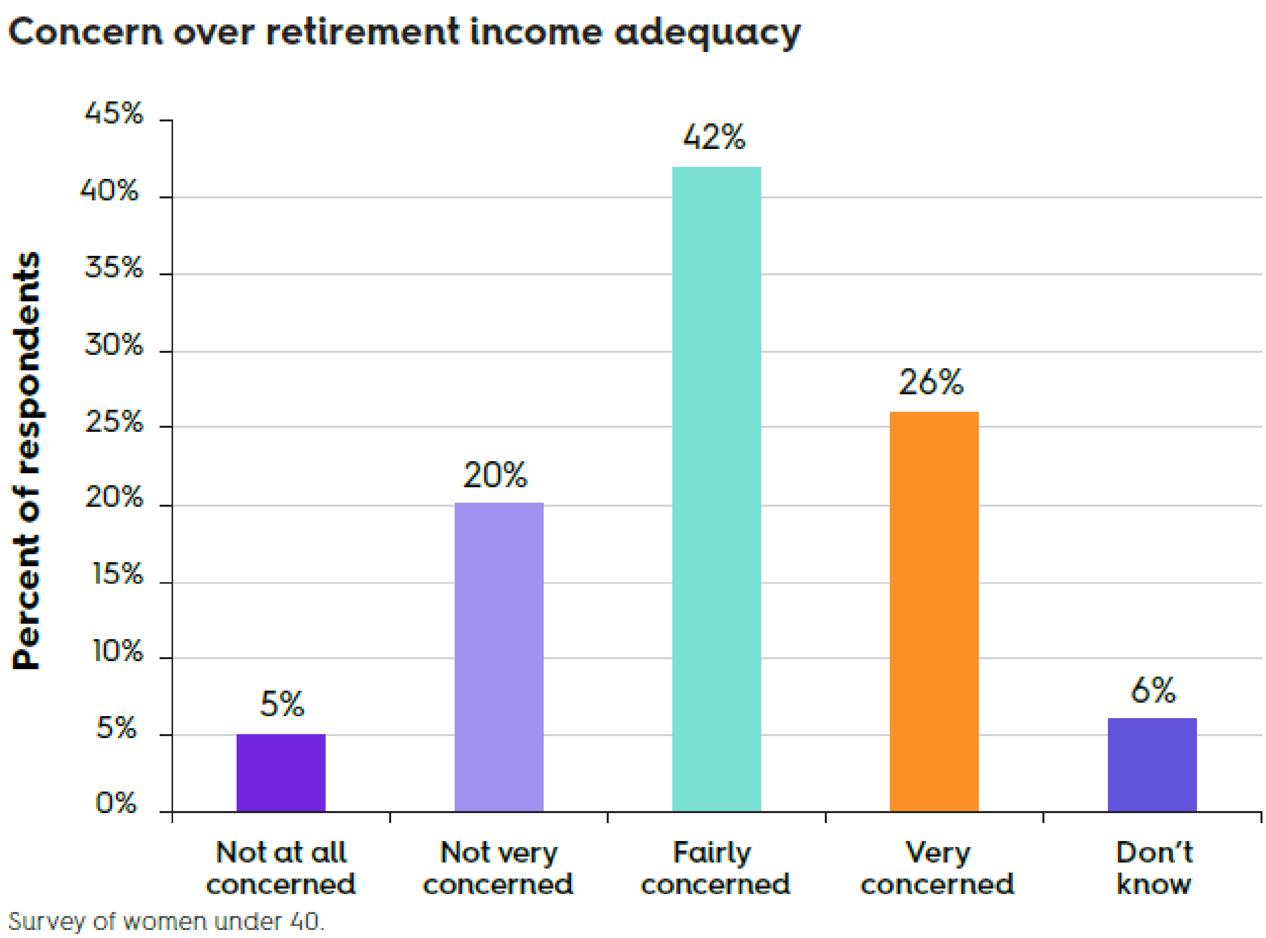
Her total gross monthly pay is $1,225 but total superannuation contribution for that month is $0.

Three different employers, all under the $450 threshold for the month; consequently, none of these contributed to her superannuation. This is unfair and unnecessary.

The 'administrative burden' rationale for the $450 threshold may have made sense decades ago but in 2020 there is simply no justification for it to remain. The introduction of *SuperStream* by the Government has made everyday superannuation transactions easier, cheaper and faster. It allows employers to pay a super contribution for all their employees regardless of their base salary and removes the administrative barrier associated with transferring contributions for those earning less than $450 a month.

The $450 threshold can be removed and should be removed.[11] Estimates from ASFA suggest that approximately 220,000 women and 145,000 men would benefit from such a change.

Not surprisingly most women under 40 are concerned that their retirement incomes will not be adequate under the current system (as shown below).



Source: Baird, Marion, Rae Cooper, Elizabeth Hill, Elspeth Probyn and Ariadne Vromen (2018). *Women and the Future of Work* (Sydney: University of Sydney Business School).

[11] There have been numerous stakeholders that have recommended the removal of the $450 threshold including the Australian Institute of Superannuation Trustees, Women in Super, Industry Superannuation Australia, Association of Superannuation Funds of Australia.

HESTA recommends that:

- ***Unpaid caring roles be valued in an appropriate way that recognises the contribution made by this work;***
- ***Superannuation be paid on Commonwealth Paid Parental Leave;***[12]
- ***The $450 threshold for SG be removed.***[13]

[12] This position was recommended by the Productivity Commission in its 2009 report *Paid parental leave: support for parents with newborn children* and was also a recommendation of the 2016 Senate Committee Report, *A husband is not a retirement plan*.
[13] This recommendation was also made by the Select Committee on the *Future of Work and Workers* – September 2018 and *A husband is not a retirement plan,* 2016.

Non-standard ways of working

Since universal superannuation was introduced for all employees in 1992 there have been massive shifts in the nature of work and employment arrangements; however, superannuation has not evolved at a similar rate. Unfortunately, many of these changes have resulted in an increasing number of workers missing out on superannuation, thereby undermining the universality of the system.

The gig economy and other 'non-traditional ways of working' are changing the employment landscape and technology has made it easier to segment work into smaller parcels, often falling outside of the current scope of superannuation. Research by NMG consulting[14] in 2018 estimated that 2.3 million Australian workers partially or entirely fall outside of superannuation coverage which equates to almost $10 billion in missed superannuation payments each year.

Over 1 million of these workers are in some sort of contracting arrangement which, unfortunately, can be deliberately used or imposed to avoid entitlements such as superannuation. There has been a rapid expansion of these new contractor models where most aspects of work are controlled by the platform owner. These types of arrangements are increasingly common in the Health and Community Services sector with casualisation and gig platforms defining workers as independent contractors.

Women are especially penalised by this trend, being more likely to participate in part-time or casual work, which increasingly comes in the form of a contractor rather than employee relationship.

Superannuation should be an entitlement of all forms of work – regardless of how it's performed. The current SG legislation is too narrow to adequately deal with these new types of working arrangements.

HESTA recommends that:

- ***superannuation entitlements are provided for workers who are not classified as employees and/or perform non-standard work.***[15]

[14] *Super and the changing nature of work*, NMG consulting 2018.
[15] This recommendation was also made by the *Select Committee on the Future of Work and Workers – September 2018.*

The path to 12%

There has been no shortage of research, debate, modelling, assertions and assurances regarding the legislated increases for SG to reach 12% in 2025.[16]

A uniform rise to 12% SG under the current policy settings would increase all super balances. This would undoubtedly assist those on lower incomes or with broken work patterns to achieve an adequate retirement.

HESTA supports the current legislated path to 12% - especially given the benefit it will deliver for the typical HESTA member. From an equity perspective 12% SG will provide far more value for those on lower incomes compared to those on higher salaries. As previously mentioned we believe there should be some form of 'phase out' of support or concessions for higher income brackets.

HESTA recommends that:

- ***The Superannuation Guarantee rate move to 12% as soon as possible.***

The taper rate

HESTA believes the Age Pension taper rate should be reviewed with a view to improving fairness for low and middle-income earners. The 2017 changes mean that for each $1,000 worth of assets above the full pension threshold, the age pension is cut by $3. Previously, the taper rate was $1.50 per $1,000.

This change was unfair to many retirees and does not provide enough benefit for saving more. We note the widespread support for changes to address the current arrangements.[17]

HESTA recommends that:

- ***The taper rate for the age pension be reviewed.***

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[16] https://grattan.edu.au/superannuation/
https://www.theguardian.com/australia-news/2019/jul/22/liberals-at-odds-over-superannuation-increase-as-rebel-mps-demand-freeze
https://theconversation.com/the-uncomfortable-truth-about-super-theres-no-one-size-fits-all-contribution-130193
https://www.futurework.org.au/abandoning_super_increases_won_t_boost_wages
https://www.smh.com.au/politics/federal/liberal-committee-chair-backs-10-percent-compulsory-superannuation-freeze-20191010-p52zf7.html
https://www.smh.com.au/politics/federal/retirement-income-review-a-stalking-horse-labor-vows-to-hold-on-to-12-percent-super-20191002-p52wzp.html
https://www.theguardian.com/australia-news/2019/nov/24/the-great-superannuation-debate-raise-it-freeze-it-or-do-away-with-it-altogether

[17] The AIST, ISA, Actuaries Institute, Rice Warner, Mercer, the Grattan Institute, National Seniors, *AustralianSuper* and the Alliance for a Fairer Retirement System have all called for the taper rate to be reviewed.

Relationship breakdown

Relationship breakdown can have a significant impact on an individual's retirement outcomes. For low income households, superannuation can make up the greatest share of the property pool but the financial outcomes for disadvantaged women are currently poor.

The landmark report, *Small Claims Large Battles,*[18] by Women's Legal Service Victoria looked at the barriers to fair financial outcomes for disadvantaged women in the family law system. Superannuation splitting was identified as an area that needed urgent reform, especially for vulnerable women who had experienced family violence or economic abuse.

The research highlighted superannuation as a significant asset in smaller property disputes, especially if there were no other assets. Vulnerable women face significant difficulty in accessing a superannuation split under the current framework where super can effectively be 'hidden' if parties fail to make full and frank disclosure. In addition, the legal and administrative complexities involved in obtaining orders over superannuation often inhibit women's access following relationship breakdown.

Given that superannuation continues to grow in coverage and size of accounts it is an increasingly important source of wealth in many Australian households. For low-income families it can be the greatest share of the property pool because of compulsory contributions and preservation.

One of the issues identified by the report is the difficulty in identifying a former partners superannuation. Voluntary disclosure is the primary method for locating superannuation and it is often impossible to know if all accounts in a party's name have been disclosed.

The phenomenon of multiple superannuation accounts complicates any attempt to form an accurate picture of someone's superannuation. According to the ATO in June 2018 approximately 35% of people with superannuation accounts had more than one account and 13% had three or more accounts.[19] In addition, men are more likely than women to hold more than one super account and of those people who hold six or more accounts 60% are men.

Even if there is no superannuation split in the final property settlement, knowing the size of each party's superannuation interest is important to ensure it can be calculated and offset against other assets.

[18] https://womenslegal.org.au/creating-change/small-claims%2C-large-battles.html
[19] https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Multiple-super-accounts-data/#MultiplesuperaccountsheldbyAustralians

The WLSV Report recommended an administrative mechanism for the release of information about the identity of a former partner's superannuation fund and its value. Pleasingly this recommendation was adopted by the Federal Government in the Women's Economic Security Statement[20] released in November 2018; however, this is still to be legislated and implemented. There is no apparent reason or explanation for the delay. Consequently, the amount of super that is 'invisible' during relationship breakdown remains unknown.

The WLSV Report also recommended a simplified form for superannuation splitting be developed. This recommendation was echoed by the ALRC Report into Family Law that was released in March 2019. HESTA has been working with WLSV, Women in Super and other superannuation stakeholders to advance this issue.[21]

HESTA recommends that:

- ***The process for superannuation splitting in the event of relationship breakdown be improved.***

[20] https://www.pmc.gov.au/sites/default/files/publications/womens-economic-security-statement-2018.pdf
[21] https://www.hesta.com.au/about-us/media-centre/HESTA-pushes-for-simpler-super-splitting.html

Indigenous super

HESTA is working to increase confidence and choice in retirement for all members including Aboriginal and Torres Strait Islander peoples. Superannuation is complex for everyone and issues faced by First Australians regarding superannuation can be even more complicated.

HESTA was the first industry superannuation fund to implement a Reconciliation Action Plan (RAP), using the Reflect model to help us chart the best path to stronger partnerships with Aboriginal and Torres Strait Islander communities and now, we're building on the work we've done with our Innovate RAP.[22]

In addition, HESTA is part of the Indigenous Superannuation Working Group[23] and continues to support and participate in activities such as the Indigenous Super Summit and the Big Super Day Out.[24]

HESTA has supported broadening the legislative definition of dependency to be aware of First Australian kinship structures in relation to superannuation death benefits[25] and has implemented the AUSTRAC identification guidelines for Aboriginal and Torres Strait Islander customers.[26]

The value of insurance in super

We note the Panel has not addressed the issue of insurance within super in the consultation paper. There have obviously been significant legislative changes in this area recently[27] that are still being implemented; however, we believe the Panel should still incorporate the 'value' group insurance can provide to vulnerable cohorts into their analysis:

By way of illustration a 20-year-old HESTA member would previously receive:

- IP cover that provides $950 per month until age 67 if they are unable to work; and
- Death cover to the value of $50,000.

This cover was provided for 76 cents per week or $39.52 per year. HESTA receives a tax rebate for the cost of providing this insurance, which we passed on to

[22] https://www.hesta.com.au/about-us/what-we-stand-for/reconciliation-action-plan.html
[23] http://www.aist.asn.au/about/aist-in-the-community/indigenous-super.aspx
[24] http://www.fnf.org.au/super-outreach.html
[25] https://treasury.gov.au/consultation/c2019-t371937
[26] https://www.austrac.gov.au/business/how-comply-and-report-guidance-and-resources/customer-identification-and-verification/identifying-customers-who-dont-have-conventional-forms-id
[27] Protecting Your Super & Putting Members' Interests First

members, meaning the cost of cover is effectively ***65 cents per week or $33.80 net per year***.

HESTA members are some of the most vulnerable and marginalised workers in Australia. With our member base in mind we designed an insurance structure that is affordable and appropriate for their age and occupation. Most of our members do not have personal insurance cover outside of super which makes the provision of affordable and tailored insurance even more valuable.

There are currently 177,742 HESTA members with a balance under $6,000 – approximately 75% of these members are women and their average age is 36, meaning the average value of their lost benefit from the recent changes is potentially over $500,000 in combined default death and long-term income protection.

Due to the nature of our membership, around 6% of our members will probably never reach a balance above $6000. For these members, the insurance component of their super is far more valuable than the additional retirement benefit that would have accrued if they didn't pay the insurance premiums.

HESTA recommends that:

- ***The value of insurance in super for low income earners be recognised.***