

## **LEGISLATING THE OBJECTIVE OF SUPERANNUATION**

### **HESTA Submission – March 2023**

#### **Executive Summary**

HESTA welcomes the opportunity to make a submission to Treasury's consultation on legislating the Objective of Superannuation.

As a profit-to-member industry fund whose members are predominantly low- and middle-income working women, our submission focuses on the importance of the objective ensuring our members can have dignity and equity in their retirement outcomes.

HESTA strongly supports an objective being enshrined in legislation and strongly supports the Government's proposed wording for the objective. We make some recommendations which we believe will assist in ensuring the important concepts captured in the objective are given appropriate weight and understanding, when considering future policy settings.

#### **Summary of Recommendations**

In summary, HESTA recommends that:

- 1. The explanatory materials to the legislation should provide further definitional context to the concept of a "dignified retirement", being one which promotes "financial security and wellbeing in retirement" through a standard of living that:*
  - is supported by retirement income sufficiently above the Age Pension (or other government support);*
  - supports a person's ability to economically and socially participate in the community; and*
  - is consistent with community expectations.*
- 2. The explanatory materials to the legislation in relation to "equity" should clarify the importance of promoting workforce and community participation and ensuring superannuation system settings do not entrench or create inequitable outcomes, including for women, low-income earners and Aboriginal and Torres Strait Islander peoples.*
- 3. The explanatory materials to the legislation in relation to "equity" should expressly include the objective to eliminate the gender superannuation gap, so that women fully benefit from our superannuation system.*
- 4. Robust additional accountability mechanisms are enacted, to ensure future superannuation policy changes are properly judged against their compliance with the objective, and there is a periodic review of the performance of the system against the objective of superannuation. This should include a "Gender Superannuation*

*Impact Assessment” being conducted, both when new policies are proposed and periodically, to measure progress towards eliminating the gender superannuation gap.*

## **HESTA and our members**

HESTA is a profit-to-member industry super fund investing around \$70 billion on behalf of more than 1 million members who work primarily in the health and community services sector, including in hospitals, primary healthcare, aged care, community services, disability and early childhood education and care.

At HESTA, our core responsibility is to grow and protect our members’ retirement savings. We care deeply about addressing inequities and imbalances faced by our members which impact their retirement outcomes.

Our members are predominantly low- and middle-income working women and come from every stage of working life – from those under 18 and just starting out, to retirees. Around 80% of our members are women, who work in vocationally driven and often low paid roles. They earn 16% less than their male counterparts on average<sup>1</sup>, are less likely to be able to save outside their super, and are more likely to have lower account balances when they retire compared to their male counterparts. Many of our members spend considerable time in unpaid care work, which adds enormous economic benefit to the country at the expense of their own financial security.

Our superannuation system is one of the best in the world, but gaps remain because of system settings which overwhelmingly disadvantage certain groups, including women, those on low incomes and those in casual, part-time or insecure work.

## **Response to Consultation Questions**

### **The need for an Objective of Superannuation**

*(consultation questions 1 and 3)*

HESTA strongly supports the need to enshrine, in legislation<sup>2</sup>, an objective of superannuation. Legislating the objective is a commonsense and long overdue measure.

Australia’s superannuation system is one of the best in the world. However, there is strong imperative to ensure there is a robust, enduring and widely understood objective in legislation. Legislating such an objective will provide a shared understanding for all stakeholders (members, funds, regulators and government policy-makers) as to the purpose of the superannuation system, and a clear measure against which to consider any future policy settings.

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<sup>1</sup> WGEA (2022). [WGEA Scorecard 2022: The state of gender equality in Australia](#).

<sup>2</sup> The objective should be included in the *Superannuation Industry (Supervision) Act 1993*.

HESTA supports the need for additional accountability mechanisms, to ensure that future policy proposals can be appropriately judged against their compliance, or otherwise, with the objective. Additional recommendations on this issue are found at the end of this submission. The absence of such accountability mechanisms presents a risk to the efficacy of the objective as an anchor for consideration of future superannuation policy changes.

### **The content of the Objective – the importance of dignity and equity**

*(consultation question 2)*

The Consultation Paper sets out the proposed wording of the objective as:

*"The objective of superannuation is to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way."*

HESTA strongly supports the above proposed wording<sup>3</sup>, and makes some additional recommendations to ensure the concepts described in the objective are given appropriate weight and understanding, when considering future policy settings. The proposed wording relevantly includes the concepts of preservation, 'deliver income' for retirement, a 'dignified' retirement, the role of government support, equity and sustainability.

As a profit-to-member industry fund whose members are predominantly low- and middle-income working women, our submission focuses on the importance of the objective ensuring our members can have dignity and equity in retirement. We make the following additional points before turning to the importance of dignity and equity:

- HESTA supports the inclusion of preservation in the objective, and considers that other important component parts of the objective (such as a dignified retirement and an equitable super system) can only be achieved through the preservation of benefits.<sup>4</sup>
- As a fund many of whose members rely on government support (including the Age Pension) in retirement in addition to accumulated superannuation, HESTA supports the objective making clear the role that government support plays in providing for a dignified retirement. This recognises that superannuation is only one pillar of the retirement system.

### ***A dignified retirement***

HESTA strongly supports the objective clearly providing for superannuation adequacy in retirement, that is for a "dignified retirement". HESTA members are among the most low-paid Australians, who rely on the Age Pension and compulsory superannuation to provide

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<sup>3</sup> HESTA supports the primary wording proposed on page 9 of the Consultation Paper, which is preferable to the alternative sentence structures referenced at the bottom of page 9 of the Consultation Paper.

<sup>4</sup> Noting the well-established exceptional circumstances to preservation, existing within the superannuation system architecture.

for them in retirement. We know that poverty and homelessness in retirement is a stark reality for many women, after a lifetime of paid and unpaid work.<sup>5</sup>

HESTA's typical member is a woman aged 43 working in health and community services. She earns an estimated annual salary of \$54,000 (median) and has a superannuation balance of around \$31,000 (median).

HESTA has long advocated for measures to improve the retirement outcomes for low-income earners, so that all Australians (irrespective of income) can enjoy a dignified retirement. For example, HESTA has consistently advocated for an extension of, and additional payments towards, the Low Income Super Tax Offset (LISTO).<sup>6</sup> The current outdated and inequitable LISTO settings mean many low-income earners, mostly women, pay more tax on their super contributions than on their wages.

We strongly agree with the Consultation Paper's statement that, "individuals deserve a high-quality standard of living in retirement, as served by both the superannuation system and government support."<sup>7</sup> HESTA also agrees with the additional description of 'dignity' provided in the Consultation Paper being 'financial security and wellbeing in retirement'. We believe superannuation should be an enabler for a person to have the capacity to exercise choices in retirement beyond meeting day-to-day living expenses, to allow a sense of identity, purpose and connection in retirement.

We note that there are a variety of measures available and used to measure retirement adequacy. We consider that the explanatory materials<sup>8</sup> to the legislation would benefit from additional definitional context to more accurately describe the 'dignified retirement' that the superannuation system, together with government support, should deliver. This would enable all stakeholders, over time, to better measure the progress of the superannuation system in delivering such retirement outcomes.

***Recommendation 1:*** *The explanatory materials to the legislation should provide further definitional context to the concept of a "dignified retirement", being one which promotes "financial security and wellbeing in retirement" through a standard of living that:*

- *is supported by retirement income sufficiently above the Age Pension (or other government support);*

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<sup>5</sup> Older women (aged 55 and over) were the fastest growing cohort experiencing homelessness, between 2011 and 2016: Australian Human Rights Commission (2019). [Older Women's Risk of Homelessness: Background Paper](#). The 2021 census data reveals that, in the intervening 5 years, while the overall rate of homelessness decreased, it increased for women. And, of the additional numbers of people experiencing homelessness compared to 2016, women accounted for 81.7% of the increase of people: ABS (2023). [Estimating Homelessness: Census](#).

<sup>6</sup> See for example: HESTA (2023). [Tackling Gender Inequity in Superannuation: 2023-24 Pre-Budget Submission](#).

<sup>7</sup> Treasury Consultation Paper, page 11.

<sup>8</sup> We note the Consultation Paper (at page 10) indicates the "Explanatory materials to a proposed Bill would provide further guidance on the intent behind the objective."

- *supports a person's ability to economically and socially participate in the community; and*
- *is consistent with community expectations.*

### ***An equitable super system***

Although Australia has one of the best superannuation schemes in the world, it remains inequitable for many Australians. Our members in the health and community services sector bear the brunt of this inequity.

The design of the system continues to disadvantage women. Women often have broken careers, moving in and out of the workforce and often taking on significant caring responsibilities<sup>9</sup>, they continue to face wage discrimination and they live around five years longer than men. These factors, amongst others, mean there continues to be a significant superannuation gap between men and women. This gender super gap is up to 35%.<sup>10</sup> Two thirds of the \$40 billion in government tax concessions also go to men.<sup>11</sup>

HESTA has long advocated for measures to start Australia on the path to closing the gender super gap, including the payment of superannuation on the Commonwealth Parental Leave Pay Scheme and the introduction of a Superannuation "Carer Credit".<sup>12</sup> A Superannuation Carer Credit would start the process of properly recognising, valuing and compensating unpaid care work and the contribution this makes to social production.<sup>13</sup> HESTA believes there is strong need for a clear plan to eliminate the gender superannuation gap in Australia, including a clear timeframe and measurable targets.<sup>14</sup>

The superannuation system also continues to disadvantage low-income earners, with the current system rewarding those on high incomes and with high superannuation balances. The 2020 Retirement Income Review found that high income earners are the clear beneficiaries of superannuation tax concessions.<sup>15</sup> HESTA has advocated for the savings to Government from its recent decision to reduce super tax concessions for account balances over \$3 million, to be reinvested in measures to improve equity and fairness in the superannuation system.

Our superannuation system continues to also disadvantage Aboriginal and Torres Strait Islander peoples. For example, HESTA advocates for changes such as the broadening of the

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<sup>9</sup> Women suffer a motherhood penalty as their earnings reduce by an average of 55% in the first five years of parenthood: Treasury (2022). [Women's Budget Statement](#).

<sup>10</sup> KPMG (2021). [The Gender Superannuation Gap – addressing the options](#).

<sup>11</sup> Women in Super (2022). [2022-2023 Pre-Budget Submission](#).

<sup>12</sup> See footnote (6).

<sup>13</sup> Unlike many other pension systems existing around the world, the Australian superannuation system does not compensate for periods out of the workforce to engage in unpaid work.

<sup>14</sup> In that regard, HESTA notes the Commonwealth Government is currently consulting on the National Strategy to Achieve Gender Equality.

<sup>15</sup> [Retirement Income Review](#) (2020). These findings are also relevant to the concept of 'sustainability', which is also included in the proposed objective wording.

legislative definition of dependency to be aware of kinship structures in relation to superannuation death benefits.<sup>16</sup>

Given the inequities we have outlined (amongst others existing in the system), HESTA strongly supports including “equity” as a foundational concept in the objective.<sup>17</sup> While the Consultation Paper refers to the importance of equity as delivering “similar outcomes to people in similar circumstances”, we consider that equity requires tackling structural inequities that exist so that all Australians can enjoy the full benefits of superannuation.

Our superannuation system should not serve to further entrench structural inequity, or itself create inequitable outcomes. It should, instead, serve to promote full workforce and community participation. HESTA considers the explanatory materials to the legislation should provide this additional context when discussing the inclusion of equity in the objective.

***Recommendation 2:*** *The explanatory materials to the legislation in relation to “equity” should clarify the importance of promoting workforce and community participation and ensuring superannuation system settings do not entrench or create inequitable outcomes, including for women, low-income earners and Aboriginal and Torres Strait Islander peoples.*

Australian women overwhelmingly experience an intolerable level of economic insecurity in retirement. On that basis, HESTA considers that the discussion of the importance of “equity” in the explanatory materials to the legislation should expressly call out the elimination of the gender superannuation gap. Such an explicit inclusion in the explanatory materials would serve to continually focus all stakeholders on the importance of ensuring that women fully benefit from compulsory superannuation.

***Recommendation 3:*** *The explanatory materials to the legislation in relation to “equity” should expressly include the objective to eliminate the gender superannuation gap, so that women fully benefit from our superannuation system.*

### **The need for additional accountability mechanisms**

*(consultation question 4)*

The Consultation Paper proposes that existing policy development and parliamentary scrutiny processes are sufficient to ensure that any changes to the superannuation system are compatible with the objective.

Given the fundamental importance that our compulsory superannuation system plays in ensuring dignity in retirement, HESTA considers that an additional layer of accountability is

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<sup>16</sup> HESTA (2019). Submission - Superannuation Binding Death Benefit Nominations and Kinship Structures.

<sup>17</sup> In a recent survey of members, 88% of representative HESTA members agree that the Government should ensure equity for low-income earners in superannuation.

appropriate to ensure that future policy proposals can be appropriately judged and considered against their ability to further the objective.<sup>18</sup> And given the long-term nature of the super system (being savings to deliver an income in retirement), it would be appropriate for proposals to both be judged at the time of proposal, but also for the system to be periodically reviewed to measure its progress towards achievement of the objective.

The following additional accountability mechanisms should be deployed in that regard:

- Future policy proposals should be required to be formally assessed (including through robust modelling) against their compliance with the objective, and made available through a "Retirement Income Statement"<sup>19</sup>.
- Additionally, there should also be a regular report published on a five yearly periodic basis assessing all superannuation policy changes made in the period against the objective, and the performance of the system more generally against the objective.<sup>20</sup>

In addition to the above and given the importance of working to eliminate the gender superannuation gap, the above accountability measures should include a "Gender Superannuation Impact Assessment" being conducted. Such an Assessment should be conducted both at the time of a policy being proposed and at five yearly periodic intervals detailing progress in eliminating the gender super gap, both of the policy in question and of the system more broadly. This kind of Assessment is consistent with, and complementary to, the work of the Commonwealth Government to embed Gender Responsive Budgeting and Gender Impact Assessments as measures to advance women's economic equality.<sup>21</sup>

***Recommendation 4: Robust additional accountability mechanisms are enacted, to ensure future superannuation policy changes are properly judged against their compliance with the objective, and there is a periodic review of the performance of the system against the objective of superannuation. This should include a "Gender Superannuation Impact Assessment" being conducted, both when new policies are proposed and periodically, to measure progress towards eliminating the gender superannuation gap.***

## **Conclusion**

We thank you for the opportunity to make a submission to Treasury's consultation on legislating the Objective of Superannuation, and we would be pleased to further discuss any aspect of our submission with you.

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<sup>18</sup> This is also consistent with recommendation 9 of the [2014 Financial System Inquiry](#) to "report publicly on how policy proposals are consistent with achieving these objectives over the long term".

<sup>19</sup> Such a proposal has been made by Industry Super Australia.

<sup>20</sup> For example, as part of the Government's five-yearly Intergenerational Report.

<sup>21</sup> Department of the Prime Minister and Cabinet, Office for Women (2023). [Women's Economic Equality](#).