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Construction & Building Industry Super

Cbus Submission to the Retirement Income Review

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Five Principles (Simplicity is the additional principle identified by Cbus)

Adequacy	Equity	Sustainability	Cohesion	Simplicity

Consultation Question	Principles that apply	Answer
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13. What should the Panel consider when assessing the equity of the retirement income system?	Equity	Addressed throughout submission
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Five Principles (Simplicity is the additional principle identified by Cbus)

Adequacy	Equity	Sustainability	Cohesion	Simplicity

Consultation Question	Principles that apply	Answer
Sustainability		
18. What should the Panel consider when assessing the sustainability of the retirement income system?	Sustainability	Sections 4, 5, 6 & 7
19. What factors should be considered in assessing how the current settings of the retirement income system (e.g. tax concessions, superannuation contribution caps, and Age Pension means testing) affect its fiscal sustainability? Which elements of the system have the greatest impact on its long-term sustainability?	Sustainability	Sections 4, 6 & 7
20. How can the overall level of public confidence be assessed? What evidence is available to demonstrate the level of confidence in the system?	Sustainability	Section 11
Cohesion		
21. What should the Panel consider in assessing whether the retirement income system is cohesive?	Cohesion	Addressed throughout submission
22. Does the retirement income system effectively incentivise saving decisions by individuals and households across their lifetimes?	Cohesion	Section 1, 2, 4 & 6
23. What evidence is available to show how interactions between the pillars of the retirement income system are influencing behaviour?	Cohesion	Sections 5, 6, 7, 9 & 10
24. What is the evidence that the outcomes the retirement income system delivers and its interactions with other areas (such as aged care) are well understood?	Cohesion	Sections 5, 9 & 11
25. What evidence is there that Australians are able to achieve their desired retirement income outcomes without seeking formal financial advice?	Cohesion	Section 9, 10 & 11
26. Is there sufficient integration between the Age Pension and the superannuation system?	Cohesion	Sections 4, 5 & 6

Executive Summary

Australia's superannuation system is young and maturing. Its early success has been underpinned by the principles of compulsion and universality. It needs to be enhanced to reach its full potential and to ensure the retirement needs of all Australian's are met.

Australia's retirement income system is ranked third in the Melbourne Mercer Global Pension Index and is the envy of the world. It was designed for people who work full time for 40 years and delivers well for this cohort.

Cbus members' experience of work, and their path to retirement, is unique. Our members typically have lower levels of education compared to the general population, start work, and form families earlier. Most Cbus members do not work full time for 40 years. Commonly our members spend time working as independent contractors, and many members also experience periods of unemployment between projects.

Non-compliance with the Superannuation Guarantee is a cascading leak in Australia's retirement system. Across the economy workers lose out on $6 billion a year in super. Unpaid super is rife in the building and construction industry and this has a significant impact on the retirement savings of Cbus members. Our members are at the coalface of this problem and expect the Government to fix this problem.

Cbus members are more likely to experience work related illness or injury than the general population, as well as illness and injury that is not directly related to work. Suicide rates amongst workers in the building and construction industry are at crisis levels.

Many members experience early, unplanned, involuntary retirement and rely on reduced income from part time work, Newstart or Disability Support Pension payments until they can access their retirement savings.

The cumulative impact of these experiences means that Cbus members retire with significantly lower retirement savings compared with the general population. Implementing the legislated increases in the Superannuation Guarantee is critical to improving retirement outcomes for Cbus members.

In assessing the system, the Review must model outcomes for the millions of Australian workers whose experience of working life does not conform to the 'norm' – analysis based solely on system averages masks the experiences of Cbus members.

1. Context

Australia's retirement income system is the envy of the world

Australia's retirement income system is consistently ranked as a top performing system globally.

In 2019 Australia was ranked third in the Melbourne Mercer Global Pension Index, which ranks 37 retirement income systems representing 63% of the world's population across 40 indicators spanning sustainability, adequacy and integrity.

The Consultation Paper notes that the cost to Government of the Age Pension for 2018-2019 was $47 billion. This represents 2.4% of GDP – lower than the OECD average.

Cbus members are proud of the fact that they were the first people in Australia to win the right to super contributions through workplace agreements, predating the introduction of the Superannuation Guarantee (SG) in 1992. 70% of Australian workers were covered by superannuation by the time the SG was introduced.

Superannuation significantly improves retirement outcomes for Cbus members. As a result of the advent of super, a typical 63 year old Cbus member has seen a 64% improvement in their retirement income.[1]

Compulsion and universality underpin the strengths and achievements of the system.

Cbus members understand the importance of compulsion and many acknowledge that if superannuation was not compulsory, they would have spent the money before retirement.

"The more you have the more you seem to spend."

Another key policy setting is that members are defaulted into high performing funds. Cbus strongly supports the current default system which ensures that our members are placed into a fund that is tailored to their needs.

In 2019, the Productivity Commission found that over the 13 years to 2017, the default segment, which consists of MySuper products and their direct predecessors, generated returns of 7.29%. This compares with the choice segment, which generated returns of 6.45% over the same period.[2]

The Productivity Commission also found that the default segment outperformed segment-tailored benchmark portfolios.

1 Assumptions: 63 years old male; the super balance of $195,000; SG based on annual salary of $75,000. By 67 when he retires, he can have an annual income of $39,891 which is the combination of Cbus Super Income Stream of $16,038 and age pension of $23,853. If super does not exist, this member would have to rely on government age pension and the full age pension is $24,268.40 at the moment.

2 Productivity Commission, Superannuation: Assessing Efficiency and Competitiveness, Final Report at 125.

1. Context

Superannuation and the economy

Superannuation also contributes to the Australian economy.[3]

By reducing reliance on the Age Pension, superannuation reduces the cost to government of the Age Pension. Treasury modelling of the legislated increase in the SG to 12% found that the cost of tax concessions associated with such an increase stabilises relatively soon, while the benefit in reduced pensions continues to grow over time. As a result, Treasury found there is a positive overall impact on the Budget flowing from an increase in the SG as the system matured given that the Age Pension expenditure savings gradually offset the cost of tax concessions. This requires a long-term perspective. A reluctance to properly fund long term policy settings to address Australia's ageing population will unfairly increase the burden on future generations and governments.

Superannuation encourages increased domestic savings. Australia has a higher average savings rate compared with other OECD countries, particularly those with similar financial systems. Treasury estimates that the superannuation system contributes 1.5-2% to the national savings rate, rising to 3% by 2050.

Increased domestic savings leads to reduced reliance on foreign capital. Superannuation funds were active participants in the recapitalisation of corporate balance sheets during the Global Financial Crisis, when access to capital was urgently required but foreign capital markets were largely frozen.

Superannuation also improves the diversity of household balance sheets, transforming household savings from consisting mainly of domestic residential real estate and cash to including a range of domestic and international equities, infrastructure and commercial property. This avoids a concentration of risk and supports investment in asset classes that drive more balanced economic growth.

Superannuation funds are significant investors in unlisted assets, including infrastructure, private equity and property. At 30 June 2019, the value of Cbus funds under management invested in these asset classes was $15 billion, representing 28.9% of funds under management.

Superannuation funds' investment in unlisted assets support the long-term sustainability and stability of the economy given most funds' strategies of owning these assets is to hold them as long-term investments that are infrequently traded. This supports long-term and stable investment in an economy's built environment, especially during times of economic recession.

The superannuation industry's investment in infrastructure provides support for critical parts of the economy that may not otherwise be available. Well targeted infrastructure investment also produces productivity increases that benefit many industries.

Unlisted assets also have many benefits for members, including:

- A long investment horizon which matches that of a superannuation fund.
- Diversification of risk – the performance of unlisted assets has historically not been highly correlated with listed equities.
- Unlisted property and infrastructure generate relatively steady, secure income streams, for example through long, fixed-term lease or concession agreements.
- Historically higher risk adjusted returns compared to many other asset classes.

3. ASFA, Superannuation and the economy (2015).

1. Context

The system is still maturing

The Australian system is not yet fully mature:

- Five years ago, the average Cbus member balance was around $43,000. In 2019, the average balance had increased to just under $69,000.
- The first cohort of Cbus members receiving the SG their entire working lives will retire in 2031.

As the system matures over coming decades, it will deliver members significantly more retirement income, and more members will retire without relying on the Age Pension. In 2000, 22% of retirees were fully self-funded.[4] In 2023, 43% of retirees will be self-funded. There is a corresponding decline in the proportion of retirees relying on the Age Pension for more than half of their retirement income.[5] It is expected that the percentage of retirees receiving the full Age Pension will decrease to 30% by 2050.[6]

Modelling by Treasury's microsimulation Model of Australian Retirement Incomes and Assets (MARIA) released in November 2019 found:

- In future Australian retirees will generally have higher balances at retirement compared to Australian retirees today as they spend more of their working life with higher levels of compulsory superannuation.[7]
- Superannuation balances are projected to increase for all Australians.[8]
- Despite an ageing population, a maturing superannuation system means Age Pension expenditure remains stable over the long term.[9]

Gaps in coverage of superannuation system

Australia's retirement income system was designed for people who work full time for 40 years and works well for this cohort.

However, this pattern of paid work is not the reality for some groups in the community, including many Cbus members. The system does not deliver economic security in retirement to these groups:

- People who are self-employed.
- Independent contractors - According to the Australian Bureau of Statistics, in 2016 there were just over 1 million people working as independent contractors in Australia. Construction is the industry with the most independent contractors (30%), and the occupation groups with the most independent contractors was technicians and trade workers (27%).[10]
- Workers engaged in casual and part time work. 17% of Cbus members are employed as casuals or part time, and more than half of this group do not work consistently across the whole year. Around a half of members working as labourers work part time in their main job.
- Gig economy workers. The size of the workforce employed in insecure work through the gig economy is growing. According to ASFA, the number of people gig workers on platforms in Australia increased from 50,000 in 2017 to 150,000 in 2018.[11] More recently, research by Queensland University of Technology, the University of Adelaide and the University of Technology, Sydney in 2019 found that 7% of people use a digital platform for work, and of that group, 40% relied on gig economy work as an essential or important part of their overall income.[12]
- Unpaid carers. According to the Australian Human Rights Commission, 5.5 million Australians between the ages of 15 and 64 years have unpaid caring responsibilities, and 72.5% of this group are women.[13]

While over 90% of Cbus members are men, most of them have female spouses and therefore they have a strong interest in improving retirement outcomes for women.

4 ASFA, Better Retirement Outcomes: a snapshot of account balances in Australia July 2019.
5 HILDA DA I3 speech
6 IGR DA I3 speech
7 Treasury, Information Note Superannuation balances at retirement 29 November 2019.
8 Treasury, Information Note: Accumulation of superannuation across a lifetime 29 November 2019.
9 Treasury, Information Note The superannuation system in aggregate 29 November 2019.
10 Australian Bureau of Statistics, Characteristics of Employment, Australia, Independent Contractors (2016): https://www.abs.gov.au/ausstats/abs@.nsf/7d12b0f6763c78caca257
11 ASFA, Pre-budget submission 2018.
12 P McDonald, P Williams, A Stewart, D Oliver, R Mayes, Digital Platform Work in Australia (QUT/University of Adelaide/UTS) 2019
13 Australian Human Rights Commission, Investing in care: Recognising and valuing those who care (2013).

2. Cbus members don't work in offices, they build them

Cbus is the superannuation fund for workers in the building, construction and other industries that build Australia. Around two thirds of Cbus members currently work in the building and construction industry. Over 90% of our members are men, and 70% are blue collar workers.

When it comes to working, family and all the experiences that shape their retirement needs and outcomes, our members are on a different pathway to that of the general population. This underpins the way we approach product and service design. Policy settings must also facilitate the role of trustees like Cbus in tailoring retirement income frameworks to respond to members' lives and retirement needs.

In 2019 Cbus engaged CoreData to undertake research to help us better understand our members, to inform our product and service offerings and advocate approaches to maximise retirement outcomes.

Around 18,000 Cbus members participated in a detailed research survey. CoreData compared the information collected through these surveys to Australian Bureau of Statistics (ABS) data on the general population to gauge and contextualise the unique journey of Cbus members. They key findings of this research are set out below. The full report will be provided to the panel.

Education levels

Compared to the general population of the same age, Cbus members are:

- More likely to start work at an early age, with only secondary or certificate level qualifications.
- More likely to spend several years training and working as apprentices, or undertaking manual work, for relatively low-level pay.
- Only 7% of blue-collar members aged under 25 have higher than certificate-level education. This is compared to 18% for the general population.

This impacts on our members' incomes, which in turn impacts their retirement savings.

Starting work

Typically, our members start their working lives earlier than the general population:

- Cbus has a significant cohort of younger members, with over 92,000 members (around 12% of members) aged under 25 years of age.
- 59% of this cohort work in the building and construction industry.
- 86% work in blue collar roles.
- More than half of young members are both blue collar workers and work in the building and construction industry.
- It is not uncommon for members to start full time work aged 18.

This leads to many of our members forming families earlier than the general population.

Family formation

Our members typically form families earlier than the general population. 27% of blue-collar building and construction members under 25 years have dependents. This compares to 11% of the general population.

This means our members' insurance needs are different to those of the general population. This is why Cbus advocated for the ability to continue to provide insurance to younger members in hazardous occupations under legislative changes to insurance in superannuation in 2019.

2. Cbus members don't work in offices, they build them

EBA additional super contributions

Compared with the general population, Cbus members are likely to benefit from higher wages and additional superannuation contributions above the legislated Superannuation Guarantee rate through Enterprise Bargaining Agreements negotiated by unions and employers.

In 2019, Cbus commissioned Rice Warner to conduct cameo analyses of retirement outcomes for workers in the building and construction industry covered by Enterprise Bargaining Agreements compared with those covered by industrial awards.[14]

Rice Warner found that as a result of additional superannuation contributions and the effect of compounding, an electrician working in New South Wales employed under an EBA would receive $96,000 more superannuation at retirement than an electrician employed under an industrial award, a difference of 44%.

However despite the benefits of higher wages and additional superannuation contributions for members employed under EBAs, CoreData's analysis found that Cbus members face many challenges in saving for retirement. Many Cbus members are on track early in their working lives, but due to factors such as injury and interrupted work patterns, their situation deteriorates in their 50s.

Self-employment

Our members' working lives are characterised by periods of self-employment:

- 40% of construction workers and almost a quarter of all Cbus members are sole traders and/or contractors.
- 40% of sole traders/contractors do not work consistently across the whole year.
- Self-employed members have superannuation balances around half the size of members who are employed.
- Cbus has twice as many self-employed members compared with the general population.

A business is not required to make SG contributions on behalf of independent contractors as there is no employment relationship. Self-employed members are not required to make SG contributions. At least one third of this cohort do not make voluntary contributions. Many inactive Cbus members are self-employed building and construction workers who are in between jobs and are unlikely to be working, and receiving superannuation contributions, in other industries.

Many Cbus members express regret at not making voluntary contributions. Asked what advice they would give their 16-year-old selves, many Cbus members emphasised the value of making voluntary contributions:

> *"Start contributing as soon as you start working! I was self employed for years and never contributed and that has set me back a lot I feel in my super savings."*

> *"Put more into your super even when you are working for yourself."*

> *"Think about putting super away when I started my small business."*

> *"I did salary sacrifice but too late."*

However, the ability of members running small businesses to make voluntary contributions would in many cases be constrained by financial capacity constraints as well as well recognised psychological factors that hinder rational long-term decision making.

This cohort of members is also more likely to have or be contemplating business-related financial commitments, which impacts their insurance requirements.

14 Rice Warner, EBA Rate Review, November 2019

2. Cbus members don't work in offices, they build them

Insecure, intermittent, casual, part time work

Our members' working lives are also characterised by insecure, intermittent and casual work:

- 17% of Cbus members are employed on a casual or part time basis. This is three times higher than the rate of casual or part time employment in the general population.
- 52% of members employed on a casual or part time basis do not work consistently across the whole year.
- Around a half of members working as labourers work part time in their main job, compared to only one third of the general population who work part time.
- Our members are also more likely to have multiple jobs or have switched jobs in the last 12 months than the general population.
- The nature of work in the building and construction industry means that Cbus members have lower superannuation balances than the general population across all age groups.

The prevalence of transient employment arrangements in the building and construction industry increases the risk of Cbus members experiencing irregular SG contributions, lost super, unclaimed super and unpaid super. Many inactive Cbus members are casuals who are in between jobs and are unlikely to be working, or receiving superannuation contributions, in other industries.

This contributes to the fact that Cbus members tend to have lower average superannuation balances compared to the general population:

- Cbus members aged between 25 and 49 years of age typically have 56% of the retirement savings of the general population of the same age.
- Members aged 65 and over typically have 35% of the retirement savings of the general population of the same age.

"There's so much casual work and project work. I'm sure some of my little jobs I didn't get super, it's hard to keep track."

Unpaid super

Blue collar workers in the building and construction industry are significantly more likely to experience unpaid super than white collar workers. In 2019, Industry Super Australia found that unpaid super was experienced by:[15]

- 45% of machinery operators and drivers.
- 42% of labourers.
- 41% of apprentices.
- 39% of technicians and trade workers.

The rate of unpaid super for professionals was around half these rates, at 22%. This figure is still completely unacceptable.

Cbus works hard to recover unpaid super on behalf of our members:

- In the last five years, we have recovered $330 million in unpaid super on their behalf.
- Over the past 15 years, Cbus has recovered $600 million in unpaid super for members.
- Over the last decade, Cbus, working with Industry Funds Credit Control, has recovered additional $31 million in unpaid super through insolvency legal proceedings.

Analysis by Industry Super Australia in 2019 found that members with underpaid Superannuation Guarantee contributions have significantly lower balances than members who were not underpaid, and the impact is increasing exponentially:[16]

- In 2016-17 the average balance difference was of $24,506, up from $19,709 in 2013-14.
- There was on average, a 50% difference in the super balance of a person underpaid compared to a person of similar age and income who received their correct super entitlements.
- Members aged 60-64 had an average balance difference of $41,1849 – up from $23,857 in 2013-14.
- Young workers who are building their balances are particularly impacted. For low income earners aged under 25 those not underpaid have 81% more super than those not paid their entitlements.

15 Industry Super Australia, Super Scandal, Unpaid Super Guarantee in 2016-2017, 2019.

16 Industry Super Australia, Super Scandal, Unpaid Super Guarantee in 2016-2017 (2019).

2. Cbus members don't work in offices, they build them

Asked what advice they would give their 16 year old selves, many Cbus members recommend tackling unpaid super:

> *"Make sure your employer pays your super instead of being too scared to bring it up, lest you get sacked."*

> *"I would almost certainly be saying put a little bit more away each week as well as understanding your statements and making sure contributions are being made by employers."*

> *"Make my boss pay my superannuation."*

> *"Whoever you are working for make sure you are being paid the correct amount and if you are being paid it at all."*

In addition to the impact on members, Superannuation Guarantee non-compliance adversely impacts employers that comply with their obligations – compliant employers incur the costs of making Superannuation Guarantee contributions that competitors who do not comply do not incur.

Non payment and underpayment of Superannuation Guarantee contributions require urgent policy responses:

- Payment of Superannuation Guarantee contributions should be aligned with payment of wages. This would enable non-payment and underpayment to be identified more quickly and improve member engagement with superannuation more generally.
- The Australian Taxation Office, which is responsible for recovering unpaid Superannuation Guarantee contributions and penalising non-compliance, should take a much stricter and more proactive approach to imposing penalties on employers that do not meet their Superannuation Guarantee obligations.
- Individual workers should have a legal avenue for recovery of unpaid super, as already exists for recovery of unpaid or underpaid wages. The Government should empower workers and their representatives, such as their superannuation fund, to take action against employers for the non-payment of the superannuation guarantee or superannuation contributions.

Cbus members support these changes.

> *"Why aren't they fining people if they don't pay?"*

> *"It would be more reassuring if someone policed this."*

> *"They need to tighten things up, it needs to be as important to the government as getting tax."*

> *"The Government should have a mechanism to ensure that it's going in."*

Injury, illness, mortality

Building and construction is one of the most inherently hazardous occupations to work in. Blue collar roles are physically demanding, exposing Cbus members to risk of acute and chronic workplace injury and illness, and making it challenging for members to continue to perform manual work as they get older. CoreData found:

- In 2016, 34% of workers killed at work were machinery operators and drivers, 22% were labourers and 24% were technicians and trade workers.
- Serious workers' compensation claims are twice as high for blue collar workers than for other occupations. The incidence of compensation claims per 1,000 workers is around 25 for labourers and 24 for machinery operators. This is twice as high as the rate of claims in other occupations.
- Technicians and trade workers, machinery operators and drivers and labourers comprise around 30% of the workforce, yet almost three in five WorkCover injury and illness claims.

Cbus members are also more likely to experience health problems that are not directly related to work compared to the general population.

2. Cbus members don't work in offices, they build them

Suicide

There is a significant incidence of mental health issues amongst our membership. Workers in the construction industry face a significantly higher risk of suicide than the general population.[17] Tragically, the suicide rate in the construction industry is almost 75% higher than in other industries. Suicide rates for younger members are particularly high. 14% of death claims for Cbus members under 25 have related to suicide and a further 32% are under coronial review.

Research by Allison Milner, Humaira Maheen, Dianne Currier and Anthony D LaMontagne in 2017, *Male suicide among construction workers in Australia: a qualitative analysis of the major stressors precipitating death*[18] found evidence in coronial records of a range of stressors being proximal to suicide by building and construction workers, including work related stressors (e.g., work transition, workplace injury), stressors that could be either work or non-work related (e.g., work colleagues as witnesses, financial and legal issues, and substance abuse), and non-work related stressors (e.g. relationship dissatisfaction). Results show that these stressors frequently co-occurred and interacted in these men's lives, along with other risk factors such as mental illness.

Pain and limited mobility were linked to the loss of work, long term sickness absence and depression. The report considered Ryan, a 48-year-old painter, who injured his back in an accident many years ago and he reinjured himself in a car accident one week before he suicided. According to his friend, he complained about his sore back the last time they spoke. He had recurrent workplace injuries which were thought to have contributed to ongoing pain and depression.

Financial issues, including tax and Centrelink related debts, were also identified as factors which played a part in the suicide of construction workers.

While many workers will experience these same stressors and do not turn to suicide, the chronic mental health impacts of repeated injuries, stop/start unemployment and associated financial stresses can't be underestimated – the industry is facing a crisis.

Cbus insurance policies are designed to ensure our members are insured while working on inherently hazardous worksites and in inherently hazardous occupations, and for physical and mental health risks that are not directly related to their work. Our members would pay significantly more for this insurance outside Cbus and, in many instances, cover would not be available. Many other insurance offerings exclude suicide. Suicide accounts for a significant proportion of the death claims Cbus pays to beneficiaries of our members.

Member engagement

Compared to the general population of the same age, Cbus members typically have lower financial literacy and are less likely to make voluntary contributions:

- Around three quarters of our members report average to very poor levels of financial literacy.
- More than one third do not know their superannuation balance, and the proportion is higher for younger members.
- 26% of Cbus members aged 45 or older make voluntary superannuation contributions, compared with 39% of the general population of the same age.

Cbus works hard to improve member engagement with their retirement savings. One of the main ways we do this is through giving eligible members a Retirement Income Estimate with their annual member statement. More information about this is provided in Section 9 below.

17 National Coronial Information System, December 2014.

18 *Male suicide among construction workers in Australia: a qualitative analysis of the major stressors precipitating death* (http://micaus.bpndw46jvgfycmdxu.maxcdn-edge.com/wp-content/uploads/2015/11/Male-suiciede-among-construction-workers.pdf)

2. Cbus members don't work in offices, they build them

Trust, value and pride in Cbus

Cbus members have a high level of trust in Cbus, view the fund as theirs, are confident their superannuation fund provides good value, and are highly engaged with their fund.

This is best demonstrated by Cbus' very strong reputation amongst members. 79% of members saying they'd be likely to recommend Cbus to family, friends or colleagues. When asked what Cbus could do better for them, 64% of members had no criticism or feedback.[19]

Cbus also enjoys very high levels of trust in the community, with one fifth of Australians (not just members) ranking Cbus as a top-three superannuation fund for trustworthiness.[20]

Cbus also regularly ranks highly in comparison with other superannuation funds. Most recently, Cbus performed extremely well in recent research by CoreData comparing 26 leading industry and retail superannuation funds: ranking second overall and well above average in every subcategory.[21]

Cbus won Canstar's 2019 Most Satisfied Customers Super Fund Award.

Roy Morgan's report 'Satisfaction with Financial Performance of Superannuation in Australia', July 2019 edition, found that the best performer across all major industry and retail funds was Cbus with 73.2% of their members satisfied.

Many Cbus members strongly value the fund's products:[22]

- Over 40% of all Cbus members see the fund's returns as better than any other fund.
- One third rate Cbus fees as better than all other superannuation funds.
- One third also rate Cbus insurance as better than all others.

Similarly, many members also strongly value Cbus member services:[23]

- Around 40% of members rate the clarity and relevance of Cbus member communications as better than any other superannuation fund or financial institution.
- Cbus' platform offering, in particular the app, is popular with many members.

A major point of pride for Cbus members is the fund's direct, positive impact on the industry. Through investments, advocacy, presence, and representation, members are confident their Cbus is using their retirement savings to facilitate impactful change.

These high levels of trust, value and pride in Cbus result contribute to a strong relationship between Cbus and its members.

Cbus takes this trust seriously and advocates for regulatory settings that enable our members to maximise their retirement outcomes.

A bumpy transition into retirement

Cbus members face a range of unique challenges as they approach retirement. Around two thirds of Cbus members aged over 50 who are still working, are still in blue collar roles.

However, many older members are no longer working full time, or at all. Compared to the general population, as Cbus members get older, some are more likely to struggle with the physical demands of manual work, and some members also struggle to find work:

- Cbus members aged 45 to 49 are three times more likely to be not working than the general population, and members aged 50 and over are twice as likely to be not working.
- The average retirement age for labourers is 58 years old, with 35% of labourers retiring before they are 55 years old. The is compares with the average age of recent retirees across the general population of 63 years.[24]

Some Cbus members experience early, involuntary, unplanned retirement. Some members find that they cannot secure a job once they are in their 50s. Others can only find part time work, and some are simply unable to perform manual work any longer. Working longer, or making catch up super contributions during this phase, is not an option for these members.

19 CoreData Member Segmentation Research 2019.

20 CoreData Trust in Financial Services Benchmark Q3 2019.

21 CoreData Super Insights 2020, Market Intelligence Dashboard (16 December 2019). Also Canstar, Roy Morgan

22 CoreData Member Segmentation Research 2019.

23 CoreData Member Segmentation Research 2019.

24 ABS 6238 Retirement and retirement intentions Australia, 2017.

2. Cbus members don't work in offices, they build them

What retirement looks like for Cbus members

Not surprisingly, like working life, retirement for a typical Cbus member is different to retirement for the general population. Cbus members typically retire with lower retirement savings and more debt than the general population.

- 56% of Cbus members rely at least partly on the Age Pension.
- On average, around 40% of retirement income for Cbus members comes from the Age Pension.
- Members aged 65 and over typically have 35% of the retirement savings of the general population of the same age.
- At age 65, Cbus members are twice as likely to still have a mortgage compared to the general population.

Most Cbus members take their superannuation in the form of a lump sum. Many of these members draw down their retirement savings in the form of capital withdrawals. Many members leave some or all of their retirement savings to dependents in the form of a bequest when they die.

Those members who buy a retirement income product from Cbus tend to draw down at or near the minimum legislated draw down rates.

Against this general picture, it is worth noting that some Cbus member cohorts do have higher average wages and super balances, but this is the exception, not the norm.

Cbus members with higher average balances

As at 30 June 2019	No. of members	% of Total Cbus members	Average Account Balance	Median Account Balance	Median Age
Account balance above $500k	4,611	0.61%	$620,069	$700,637	59
Account balance above $750k	1,225	0.16%	$904,625	$1,005,575	61
Account balance above $1million	409	0.05%	$1,185,480	$1,318,764	62

The life and times of Cbus members

Early Family Formation

More than one in four blue-collar B&C members aged under 25 years have dependents compared to only one in 10 general population of the same age.

Work stability

Almost one in four members are self-employed sole traders and/or contractors. Two in five of these claim they do not work across the whole year.

Transient roles

Blue-collar workers with their current employer less than a year are more than twice as likely as other occupations to have changed their role, hours worked or employment status in the last 12 months.

Labourers and technicians/trades workers are significantly more likely to have switched jobs and have multiple employers in the last 12 months compared to the general population.

Sporadic contributions

Almost three in four members have experienced sporadic or no SG contributions in the last year. At least one in three self-employed members claim they do not make regular contributions.

Lost, unpaid and unclaimed super

Blue-collar workers and apprentices have among the highest levels of unpaid super (greater than two in five).

In the past five years Cbus has recovered around $330m in unpaid superannuation owed to members and more than $600m over the past 15 years.

Workplace Environment

Almost three in four members never work in an office, with those working on-site or in workshops tending to be younger.

Occupational Risk

Construction remains in the top three industries that imposes a risk to workers' lives (as of 2017). In 2016 one in three workers killed were employed as machinery operators and drivers, one in five were labourers, and one in seven were technicians and trades workers.

Insurance cover

Labourers and tradespeople are the least likely to have life insurance or income protecting insurance despite their greater chance of getting hurt at work.

Income protection can be between 20 and 200 per cent more expensive for a tradesperson or labourer than for a professional.

Work demands

More than two in five members expect they won't be able to physically work to retirement age.

Almost one in three working members aged over 50 feel their health/age is affecting their ability to work certain types of job roles or tie spent working.

Health Outcomes

Nearly one in 10 blue-collar building and construction industry members aged under 25 years already feeling health is affecting their ability to work certain types of job roles or time spent working.

Serious work compensation claims are over twice as high for blue collar workers than other occupations.

Suicide

The suicide rate in the construction industry is almost 75 per cent higher than in other industries. Suicide among construction workers aged 15 to 24 is more than twice as high as other young males in other industries. A construction worker is six times more likely to die from suicide than being killed in a workplace accident.

Job security

More than two in five members expect that there won't be jobs available to see them through to their preferred retirement age. Almost three in five working members aged over 50 have at least some concerns about their job security

Engaging with super

Almost three in four members self-report average to very poor levels of financial literacy.

Around half feel minimally or not involved in managing their long-term financial independence.

More than four in 10 simply don't know how much they need to retire comfortably. Cbus members are less likely to make voluntary contributions to super than the general population once they turn 45 (one in four versus two in five).

Self-employed Cbus members tend to have super balances around half the size of the balances of wage and salary earners (and Cbus has twice as many self-employed individuals as exist within the general population). This underlines the importance of TPD insurance for those forced out of employment due to injury and illness.

Financial wellbeing

Almost a quarter of members are at least reasonably often struggling to pay bills and almost one-third have carried unpaid credit card balances in the last 12 months.

Middle to low earning blue collar workers have significantly lower financial wellbeing scores than the national average (50 versus 59).

The average Cbus fund member account balance is lower than the general population across age groups - typically from 56 per cent (25 to 49 years) to 35 per cent (65years and older) of their general population counterpart's super savings.

Cbus experiences a relatively high number of financial hardship enquiries and claims every year.

Only one in three pre retired members could imagine having a comfortable retirement if they maintained their current level of savings.

Early retirement

Almost three in 10 members expect to retire early.

Almost two in 10 members in their 50s have already retired, are permanently unable to work, or are currently not working.

The average age of retirement among labourers is approximately 58 years old with 35 per cent retiring prior to 55 years old.

3. The importance of absolute benchmarks

The Panel invites submissions on whether relative or absolute measures of adequacy are appropriate.

In our view, different measures are required for different purposes. Absolute benchmarks are needed to assess adequacy. Replacement rate measures are not appropriate for assessing the adequacy of outcomes for those with no or low income as they approach retirement. This includes many women.

Similarly, in order to calibrate the level and appropriateness of government support, overall and for different cohorts, a range of absolute measures is preferable, providing both a floor and ceiling to better target government support.

In our view this will better support equity and sustainability considerations.

For individuals and their advisors, understanding the proportion of pre-retirement income that one can expect in retirement is a useful tool for encouraging the making of voluntary contributions, planning lifestyle changes, making decisions about downsizing, and helping to put the mind at ease.

4. The role of the age pension

Pillar 0.5 (Working age pensions)

Some Cbus members experience early, involuntary, unplanned retirement, struggling to secure a job once they are in their 50s. As noted in Section 2 above, Cbus members aged 45 to 49 are three times more likely to be not working than the general population, and members aged 50 and over are twice as likely to be not working. The average retirement age for labourers is 58 years old, with 35% of labourers retiring before they are 55 years old. This is 8 years earlier than the general population.

Working age pensions, including the Disability Support Pension, and Newstart, are relevant to this cohort of Cbus members, and form what we consider to be pillar 0.5 of the retirement income system – filling the gap between actual cessation of work and preservation age.

Cbus members who have experienced the process of applying for Newstart or disability benefits typically report a very difficult and dispiriting experience. Members who had to rely on Newstart for periods described the experience as involving extreme financial pressure and poverty.

> *"You spend two days a week down there doing stuff, it was ridiculous."*

> *"I had a bad accident and became homeless so I had to do it. I couldn't work because I couldn't walk very well. It was really hard. Just having to provide all this stuff and you go back again and they say 'we need this form'. Three weeks later 'we forgot to tell you we need this one as well."*

> *"You come on hard times and they make you feel like you're the baddie. They're trying to get you out of there so you don't come back."*

> *"The bureaucracy is just a brick wall in front of you, it's just obscene."*

Cbus supports evidence-based measures to support workers who involuntarily retire early. There is widespread recognition that the level of Newstart is inadequate, including for older Cbus members who experience unemployment.

Cbus is opposed to increasing preservation age beyond 60 years.

Some systems in other countries have industry-based retirement ages, reflecting the reality that blue collar workers typically retire earlier than white collar workers. For example, a number of European and Scandanavian countries permit some workers retire and access their retirement savings in their early 50s.[25] There is merit in exploring the potential application of this approach in Australia.

Pillar 1

The rate of the full Age Pension is $933.40 per fortnight ($24,268 per year) for singles and $703.80 per fortnight ($18,291 per year) each for couples.

The Age Pension is designed to act as a safety net, providing the minimum state-funded income to prevent poverty in retirement.

Many Cbus members express concerns about the quality of life for retirees forced to rely on the Age Pension.

> *"It's hard yakka."*

> *"People my dad's age who didn't have enough super, the pension's not enough."*

> *"You cut things back, you don't have this, you don't have that."*

As the Consultation Paper notes, the cost to Government of the Age Pension as a proportion of GDP is 2.4%, which is lower than comparable OECD countries. This is partly due to the fact that Age Pension eligibility is means tested. Cbus supports this approach.

The maturing superannuation system is contributing to the ongoing sustainability of Pillar 1. Over the last two decades, the proportion of retirees receiving the Age Pension has declined from over 80% to around 68%. This is largely due to a decrease in the proportion of full Age Pension recipients.

25 *A Dancer Dies Twice': The Unique, Sad Challenge of Retiring From Ballet* - https://www.theatlantic.com/entertainment/archive/2014/03/a-dancer-dies-twice-the-unique-sad-challenge-of-retiring-from-ballet/284187/

4. The role of the age pension

As the system matures over coming decades, it will deliver members significantly more retirement income, and more members will retire without relying on the Age Pension. According to analysis by ASFA:

- In 2000, 22% of retirees were fully self funded.
- In 2023, 43% of retirees will be self funded.

There is a corresponding decline in the proportion of retirees relying on the Age Pension for more than half of their retirement income. It is expected that the percentage of retirees receiving the full Age Pension will decrease to 30 per cent by 2050.

Modelling by Treasury's microsimulation Model of Australian Retirement Incomes and Assets released in November 2019 to inform this Review found that despite an ageing population, a maturing superannuation system means Age Pension expenditure remains stable over the long term.

Recent changes to the Age Pension taper rate on adequacy.

2016 changes to the taper rate substantially reduced the amount of assets which retirees can hold before they lose Age Pension entitlements.

The Government's modelling showed the changes would see a home-owning couple with $500,000 in assets would receive almost $2,000 a year less in age pension.[26]

With assets of $600,000, according to the Government's modelling the loss of pension is almost $5,800.

A single home-owning retiree with assets of $400,000 would receive $4,310 less.

Modelling by Industry Super Australia showed a couple in their late 40s on average earnings stand to lose as much as $6000 a year in retirement income because of the changes.[27]

Consideration should be given to adjusting the taper rate to ameliorate the impact of these changes.

Cbus opposes further deferral of the Age Pension eligibility age, which at 67 is already well beyond the age at which our members typically stop working.

Cbus supports the indexation of the Age Pension to wages, which goes some way to ensuring that the Age Pension is adequate, at least for retirees who own their own home and who are able to supplement their income from the Age Pension with income derived from superannuation.

The family home

For those who do not own their home, living on the Age Pension is extremely challenging and for many the situation is bleak.

In 2015, the Organisation for Economic Co operation and Development (OECD) found that 36% of Australian pensioners were living below the poverty line.[28]

In 2018, research by the Australian Council of Social Services and the University of New South Wales examined poverty rates Australia wide using both the standard definition of the poverty line – 50% of median income, and the broader definition used by economists and the OECD – 60% of median income.[29]

This research found that people 65 years and over are less likely to experience poverty than the rest of the population when the standard poverty line is used (12%) but more likely when the broader poverty line is used (28%). This difference reflects the close proximity of the Age Pension to the standard poverty line before housing costs are taken into account.

The report found that 10% of older people rent their homes. This work found that housing costs have a profound impact on poverty rates among older people. The poverty rate for people aged 65 years and over renting their homes where the standard poverty line is used was 43.5%. Where the broader poverty line is used the poverty rate for this cohort was 65%.

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In 2019, research by the Australian Housing and Urban Research Institute found that a growing number and percentage of older people are experiencing homelessness for the first time in older age.

26 Insert cite to2016 budget papers

27 https://www.smh.com.au/money/super-and-retirement/taper-rate-the-killer-in-age-pension-changes-20150514-gh1oyd.html

28 OECD, Pensions at a Glance 2015 (2016).

29 ACOSS, UNSW, Poverty in Australia (2018).

4. The role of the age pension

At the 2016 census, 18,615 people aged over 55 were homeless. Between 2011 and 2016, the proportion of older people who were homeless increased:[30]

- For people aged between 55 and 64, the increase was 26%.
- For people aged between 65 and 74, the increase was 38%.
- For those over 75, the increase was 14%.

The researchers also identified a pronounced increase in the number of women who are affected by homelessness in older age. This was attributed to relationship breakdown making women financially vulnerable later in life, lower lifetime earnings resulting in fewer assets, including superannuation and high housing costs and tenure insecurity in the private rental market.

The researchers concluded the root cause of homelessness is poverty and the Australian Government needs to lead the development of a national plan coordinating the roles of the social security, aged care, homelessness and healthcare sectors. Additional supply of affordable and secure housing is central to solving this crisis.

The parlous situation of older people who are not covered by compulsory superannuation and do not own their own home, is the most significant inequity in the retirement income system.

For the majority of retirees who do own their home, it plays an important role in retirement security. The Consultation Paper notes that the family home is an important voluntary savings vehicle for a majority of Australians as it materially reduces expenses in retirement, improving living standards. The role of the family home for Cbus members is different compared to the general population: [31]

- Only two thirds of Cbus members own their own homes outright, compared with almost three quarters of the general population.
- Retired Cbus members are twice as likely to have a mortgage - around 20 % of Cbus members aged over 65 have a mortgage compared to only 10% of the general population.
- 13% of Cbus members do not own a home at age 65 or older.

Our members understand the importance of home ownership to retirement security.

"Especially for people that don't own a home. I don't know how they'll do it if you're paying rent it's impossible, you'd have to move in with the kids."

"If you've got your house paid off, I think you'd be alright. I think it's be harder otherwise."

There is scope for some retirees to use the value of the family home to fund their retirement. Cbus supports the 2019 extension of the Pension Loan Scheme to all Australians who have reached Age Pension eligibility age, including those in receipt of a full Age Pension, from 1 July 2019.

The retail reverse mortgage market offers poor value and significant risk for retirees. With the exit of the major banks from the reverse mortgage market, there is now less competition. The lump sum nature of loans puts retirees at risk from both financial elder abuse and the remaining equity in their largest asset being eroded by interest costs. At this stage, Cbus does not offer a reverse mortgage product for our members.

Housing affordability is a significant issue in the Australian community. A significant driver of this problem is lack of supply. Government can address housing affordability by facilitating investment by superannuation funds in the housing market.

Cbus has participated in two bond issuances by the National Housing Finance and Investment Corporation (NHFIC), with the proceeds going towards increasing supply and reducing the overall cost of affordable community housing.

The repayments on the bonds are guaranteed by the Government which helps the bonds to receive a AAA credit rating, the highest possible credit rating a bond can receive. The high credit rating on the affordable housing bonds allows the NHFIC to be able to borrow money at a significantly lower interest rate than the community housing industry can typically borrow, and only slightly higher than the rate at which the Australian Government borrows money.

The Government guarantee on the bonds has the effect of providing investors a similarly low level of risk, yet a higher return than if they were instead to invest directly in Government bonds. The higher return relative to Government bonds, as well as the socially responsible aspect of the raising has meant that demand for the bonds was significantly higher than the amount on offer for both issuances.

Investors such as Cbus have shown the NHFIC that there is real demand for this type of investment that helps society, as well as provides a low risk, sustainable return for our members.

30 AHURI. An effectiveness homelessness services system for older Australians (2019).

31 CoreData

5. The role of compulsion

Compulsion differentiates the Australian superannuation system from most other jurisdictions. The top three superannuation systems worldwide are mandatory or near-mandatory, and this is no coincidence.

As evidenced in international jurisdictions, and in the self-employed segment of our economy, where saving for retirement is not mandated, most people will prioritise money in their pocket, regardless of the overwhelming evidence of long-term benefits both personal and communal of having a healthy superannuation balance on retirement.

According to ASFA, one quarter of men and one third of women have no superannuation.[32] As discussed above, this includes women who spend their lives performing unpaid caring work, as well as people who are self employed, work as independent contractors, and increasing numbers of gig economy workers.

Levels of voluntary contributions are low across the system, and declining. According to research by Roy Morgan, in 2018 only 18% of members make voluntary contributions, down from 23% a decade earlier.[33] Roy Morgan found declining voluntary contribution rates across all age groups.

Table below sets out voluntary contribution rates by age for the 12 months to October 2018:

Age	Percentage of members making voluntary contributions
14-24	4 %
25-34	9 %
35-44	14.9 %
45-54	24.4 %
55-64	35.3 %
65 +	30.7 %

Source: Roy Morgan

Members are more likely to make voluntary contributions as they get older. While it is understandable that as members approach retirement they become more engaged with their superannuation and that this prompts some members to make voluntary contributions, this timing means that the retirement savings of these members do not benefit from the impact of compounding on the returns generated from these contributions.

Around a third of voluntary contributions are made by people aged 65 and older. It is likely that many of these members are already retired.

As noted in Section 2, Cbus members are less likely to make voluntary contributions compared to the general population. This is likely to be due to financial capacity constraints. Cbus members are particularly vulnerable to poor financial wellbeing, due to socioeconomic and education levels. Compared to the general population of the same age, Cbus members are more likely to have lower average salaries, lower levels of financial literacy. This often leads to difficulties in managing bills and debt.[34]

Some Cbus members choose to invest in property outside of superannuation.

On the other hand, the superannuation tax concessions which flow to high income earners incentivise this cohort to contribute more to their retirement savings than is needed for a comfortable retirement. This issue and possible policy responses are discussed further in Section 22 below.

Some stakeholders have argued that compulsory superannuation should be abolished for people earning under $50,000 a year, or that this cohort should be able to opt out of receiving the Superannuation Guarantee.

Cbus is strongly opposed to this proposal.

32 ASFA 2019.

33 Roy Morgan, Superannuation unlikely to be adequate for most workers in retirement (2018)

34 CoreData, The Life and Times of Cbus Members (2020).

5. The role of compulsion

As noted above, the experience of cohorts of the working population who the Superannuation Guarantee does not cover demonstrates that most people will not choose to save for retirement unless they are compelled to do so.

Abolishing compulsory super for workers earning under $50,000 a year would see around half the working population lose their superannuation. According to the Australian Bureau of Statistics, the median annual income in 2016-2017 was $48,360.[35] According to the Grattan Institute, the median annual income for tax payers in Australia in 2017-2018 was $44, 527.[36]

The proposal would have a disproportionate impact on women, a majority of whom earn less than $50,000 a year.

The proposal would also have a significant adverse impact on Cbus members. We estimate that:

- 138,987 Cbus members in the accumulation phase are earning under $50,000 per annum.
- Over half (71,363) of these members are under the age of 30.
- 35,869 Cbus members in the accumulation phase earn under $25,000, largely concentrated in the 18 – 24 age group (likely to be apprentices or those starting out).
- 17,425 working members aged over 55, when blue collar workers tend to lose regular work, earn under $50,000.

Many workers' wages fluctuate when they change jobs. Linking superannuation to a wage threshold would result many people fluctuating in and out of entitlement to receive the Superannuation Guarantee. This would have a disastrous impact on the retirement outcomes of low and middle income earners, and undermine confidence in the stability of the system. It would put substantial additional pressure on the cost of the Age Pension, and undermine the development of the superannuation over the last 25 years, just as the system is on the cusp of maturity and delivering its full potential.

Abolishing compulsory superannuation for people earning under $50,000 would see a return to the inequitable situation before the introduction of the Superannuation Guarantee in 1992, where superannuation was a privilege enjoyed by white collar professionals while low and middle income earners were left to rely on the Age Pension.

Cbus members also oppose the idea of abolishing superannuation or making it opt in for some cohorts, and are concerned that people earning less than $50,000 a year are those who need it most:

"They should be paying it for everyone."

"They're the ones who really need it, I think."

35 https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6524.0.55.002Main+Features12011-12%20to%202016-17?OpenDocument

36 https://thenewdaily.com.au/finance/finance-news/2018/06/08/average-australian-wages-revealed/

6. Increasing the superannuation guarantee to 12%

The Superannuation Guarantee is scheduled to increase from 9.5% to 12% in stages, beginning on 1 July 2021.

Cbus strongly supports implementing these legislated increases, which are in the best interests of our members because they will significantly improve their retirement outcomes.

A typical 39 year old member will be $7,300 a year better off.[37]

Cbus members also support increasing the Superannuation Guarantee to 12%, seeing it as a necessary substitute for an unsustainable Age Pension.

"The way things are going for a lot of people they're going to need it."

Some commentators have suggested that freezing the Superannuation Guarantee will lead to higher wages, which will in turn improve housing affordability.

However, analysis by the McKell Institute also found that there is no empirical evidence that increasing the Superannuation Guarantee directly lowers wages.[38]

A subsequent Report by the Centre for Future Work at the Australia Institute also concluded that there is no evidence that there is an automatic trade off between super and wages.[39]

Dr Jim Stanford conducted a historical analysis on earlier superannuation increases in Australia, and found that higher Superannuation Guarantee contributions are associated with faster growing wages, not slower, and in some specifications that finding is statistically significant:

- Annual wage growth was slightly higher in years in which the Superannuation Guarantee rate was raised, at 4.2%, than in years when it was unchanged (3.9%).

- In six of 10 years when the Superannuation Guarantee was increased, wage growth exceeded its post-1992 average, while in only three years (in 1993, 1996 and 2014) was an increase in the Superannuation Guarantee accompanied by wage growth below that average.
- In 18 years when the Superannuation Guarantee was not increased, it was just as likely that wage growth fell below average as above.

37 Assumptions include an annual salary (pre-tax) of $75,000, starting super balance of $74,373, 5% return, TOC of 0.19%, annual account keeping fee of $78, and annual salary increase of 3%.

38 McKell Institute, Does higher superannuation reduce workers' wages? (2019).

39 Centre for Future Work, The relationship between superannuation contributions and wages in Australia (2019).

7. Superannuation tax concessions

Superannuation tax concessions play an important role in compensating members for deferring part of their wages to fund their retirement and improving adequacy of retirement outcomes for cohorts who need government support to achieve economic security in retirement. Tax concessions must be appropriately targeted to support adequacy, equity and sustainability considerations.

There is scope to improve the targeting of tax concessions. As the Panel's own cameo modelling in the Consultation Paper clearly demonstrates, high income earners receive more Government support than all other income deciles, in the form of generous superannuation tax concessions on contributions and earnings throughout their working lives and a nil tax rate on earnings and benefit payments during retirement.

According to modelling by Industry Super Australia, a single male in the top 1% income decile receives almost $2.8 million in superannuation tax concessions over their lifetime.[40]

A person in the top income decile typically receives over $10,000 every year in superannuation tax concessions.[41]

Providing this level of support to high income earners who are on track to achieve a comfortable retirement without tax concessions is inefficient and inconsistent with the principles of equity and sustainability the Review is using to assess the retirement income system. This inequity could be addressed in a range of ways.

Increase government support to improve retirement outcomes

Low income earners receive Government support in the form of the Low Income Super Tax Offset (LISTO). In practice, the LISTO merely refunds contributions tax paid by low income earners – unlike the rest of the population they do not receive a concession on their super contributions. The amount of the LISTO is not indexed.

The Consultation Paper specifically identifies the need to assess whether the retirement income system provides equitable outcomes for women, noting that women are more likely to take career breaks, work part-time and have lower lifetime earnings than men. Cbus welcomes this focus, which has been a glaring omission from previous reviews of the retirement income system.

Providing additional, appropriately targeted additional Government support to low income earners would improve retirement outcomes for women and others who need it to achieve economic security in retirement.

40 ISA, Inquiry into Economic Security for Women in Retitement, Submission (2015).

41 RC WIS Pres

7. Superannuation tax concessions

Women in Super advocates for an additional annual Government contribution of $1,000 for low income earners. The additional Government contribution would be carefully targeted:

- Only workers earning less than $37,000 annually would be eligible to receive the additional Government contribution.
- Only workers aged 25 and over would be eligible for the additional Government contribution. This would ensure that young people likely to become high income earners in the future (eg those at university studying to become professionals) would not benefit from this measure.
- Workers would cease to receive the additional Government contribution when their superannuation balance reached $100,000.

Women in Super advocate for the additional Government contribution to be indexed annually.

Cameo modelling by Rice Warner indicates that a worker aged 25 earning $25,000 a year would receive almost 15% more in retirement savings under this measure.

Industry Super Australia has calculated that this measure would cost around $2 billion a year.

Cbus supports this proposal.

Women in Super advocate for this measure as part of a holistic suite of policy measures to improve retirement security for low and middle income earners, most of whom are women. The other policy measures which Women in Super advocates are:

- No further delay to legislated Superannuation Guarantee increases.
- Removing the $450 monthly income threshold for the payment of Superannuation Guarantee contributions.
- Payment of Superannuation Guarantee contributions on Government paid parental leave.
- Require Government to undertake and publish a gender impact statement for any changes to age pension or retirement income policy; ongoing tracking by WGEA of women's retirement gap.

Cbus also supports these measures.

Reduce inefficient government support

Superannuation tax concessions could be adjusted to improve efficiency by reducing Government support to very high income earners.

8. Making the system simpler for members

The Panel should adopt a fifth principle to assess the retirement income system: Simplicity for members.

It is widely recognized that Australia's retirement income system is extremely complex. This causes several significant costs and risks for members. This includes the risk of making poor decisions and the costs of poor decisions to members' retirement outcomes. Many members are worse off than they need to be, simply because they find the system too complex to navigate.

System complexity allows intermediaries to flourish, leaving members at risk of poor quality, conflicted sales practices and advice. Systemic problems with conflicts of interest in the financial advice industry are well recognized and in 2018 were scrutinized by the Financial Services Royal Commission. In October 2019 the Full Federal Court upheld ASIC's appeal that a telephone-based superannuation cross-selling program by Westpac subsidiaries, recommending that members switch their superannuation to BT, breached a range of financial services laws, including the duty to act in the best interests of members. Westpac defended the legal action, arguing that staff were giving general advice and so were not even required to act in the best interests of customers.[42]

Conflicted advice is a key driver of members switching from Cbus and other high quality industry funds to the choice segment which is more expensive, underperforms and accounts for 41% of system assets and 39 % of member accounts.[43]

Cbus supports individuals having the ability to choose a fund or an investment option. However, given the underperformance of the choice segment compared with the Productivity Commission's benchmark, and compared with the default segment,[44] there is a need for stronger consumer protections for members who exercise choice.

Cbus tells members who choose their investment option how the performance of the option they have chosen compares with the performance of the Cbus default option. This information is provided in their annual member statements.

It should be mandatory for every fund to inform all members of choice products of how the performance of the option they have chosen compares with the median default fund, in their annual member statements.

Cbus and other high performing industry funds also lose members to self-managed superannuation funds. On average, these members achieve significantly lower returns across almost all balance sizes.

Cbus and other high performing industry funds also lose members to self-managed superannuation funds. On average, these members achieve significantly lower returns across almost all balance sizes.

42 ASIC MR 19-293 ASIC wins appeal against Westpac subsidiaries.
43 Productivity Commission Final Report at 124.
44 XR to Section 1

8. Making the system simpler for members

SMSF average ROA by fund size, 2012-13 to 2016-17 vs Super Ratings SR50 Balanced option median and Cbus' Growth Option (Accum) [45]

	SMSF	SR50 Balanced Median	Cbus	SMSF	SR50 Balanced Median	Cbus
	2012/13			2013/14		
$1 - $50k	**-17.29%**	**14.73%**	**16.15%**	**-12.57%**	**12.66%**	**13.90%**
>$50k - $100k	-5.22%			-2.86%		
>$100k - $200k	0.82%			1.50%		
>$200k - $500k	6.34%			5.88%		
>$500k - $1m	9.29%			8.32%		
>$1m - $2m	10.64%			9.58%		
>$2m	11.61%			11.30%		

	SMSF	SR50 Balanced	Cbus	SMSF	SR50 Balanced	Cbus	SMSF	SR50 Balanced	Cbus
	2014/15			2015/16			2016/17		
$1 - $50k	**-17.43%**	**9.60%**	**10.05%**	**-17.27%**	**2.81%**	**5.47%**	**-14.67%**	**10.53%**	**11.85%**
>$50k - $100k	-6.78%			-7.27%			-5.39%		
>$100k - $200k	-1.05%			-3.41%			-0.48%		
>$200k - $500k	2.42%			0.04%			4.65%		
>$500k - $1m	4.59%			1.50%			7.01%		
>$1m - $2m	5.70%			2.33%			8.37%		
>$2m	7.54%			4.66%			12.89%		

Source: *ATO's Self-managed super funds: a statistical overview 2016–171*, Table 23

It should be mandatory for members of self-managed superannuation funds to receive information about how their fund has performed compared to the median MySuper option annually.

Another consequence of the complexity of the retirement income system is that well resourced members can access advice in order to optimize their outcomes, compared to members who cannot afford to access advice to help them navigate the system. This exacerbates problems with inequity and sustainability.

Much of the system complexity is attributable to complex policy settings and the flow on effects of this on members attempting to navigate the system.

45 Note, the SR50 and Cbus return **excludes** impact of admin fee paid from member accounts – which would detract from the return, for example, for Cbus returns would be reduced by: On 50k account 0.16%; 100k account 0.08%; 200k account 0.04%; 500k account 0.02%.

8. Making the system simpler for members

In its 2019 Report on the efficiency and competitiveness of the Australian superannuation system, the Productivity Commission observed:

> *The Australian Government is the sole architect of Australia's complex retirement income system (covering the design and regulation of superannuation, its various tax concessions, the Age Pension, Pension Loans Scheme, among other features), and for this reason alone, there is a strong case for Government to assist retirees navigate a system it has designed.*

The Claim for Age Pension and Pension Bonus form (SA002), for example, is a 25-page form, and is accompanied by a 20-page Income and Assets form, plus a requirement for a host of supporting documents – all to be assessed for the Age Pension.[46] This demand is made of those in their late 60s, and getting support on Centrelink's phone lines is notoriously challenging. The Department of Human Services indicates that the median wait time for assessment is 49 days. A MyGov account is also required, demanding computer literacy.

The growing prevalence of expensive 'pension consultants' is indicative of an overcomplicated and intimidating process.

Many Cbus members report feeling completely bewildered by the process of applying for the Age Pension.

Data is a significant pain point for members, and especially for those with low financial literacy. Government agencies including Centrelink and the ATO collect and hold a significant amount of information directly relevant to members' employment, income and retirement. Government already collects all the information required to identify under and non-payment of super. Government should, where members consent, share relevant information directly with a member's superannuation fund. This would enable funds to give members better advice, chase unpaid super, pre-populate forms for members, and support members to achieve a better understanding of their financial position before and in retirement.

"You've got to get advice, you can't do it yourself."

"You know how to do your job, you don't know how to do pensions, you've got to get people who are professionals. This is one lever over which the government has complete control and simplifying this process should be a priority."

46 https://www.humanservices.gov.au/individuals/services/centrelink/age-pension/how-claim

9. Cbus retirement income estimates

One of the main ways we educate members about their super is through use of a Retirement Income Estimate in their annual statements, in line with *ASIC Class Order [CO11/1227], Relief for providers of retirement estimates* (Class Order). Since 2016, for many at Cbus, this has been communicated in a personalised video as well as on paper.

Independent research has found that Cbus Retirement Income Estimates are very effective in engaging members and encouraging them to take action to maximise their retirement outcomes, including making voluntary contributions.

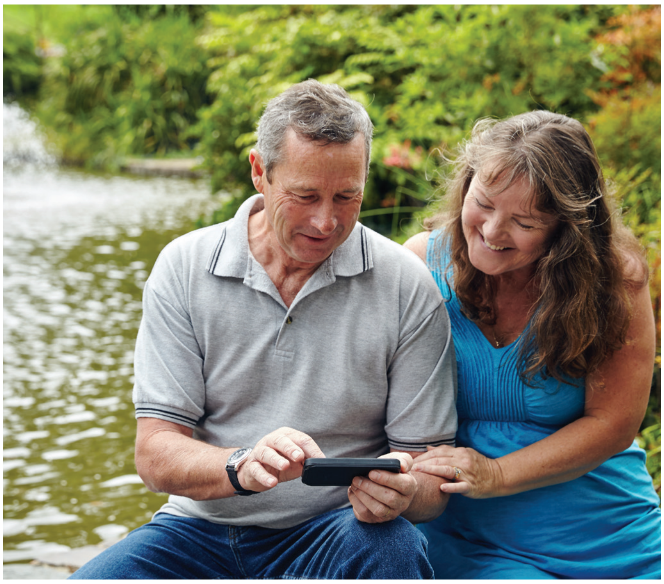
The ARC Centre of Excellence in Population Ageing Research (CEPAR) Industry Report 2019/1: *The impact of projections on superannuation contributions, investment choices and engagement* considered the impact of Cbus' 2013 Retirement Income Estimates (RIE) trial, which for the first time provided a group of 20,000 members with a glimpse into the future – an estimated view of the implications of their current superannuation savings pattern for their financial wellbeing in retirement.

The report found that "the impact of this new message on members' contributions, engagement, and investment choices was remarkable". Comparing the behaviour of members to end-June 2014, after receiving the RIE for the first time in September 2013:

- Members who received an estimate demonstrated 46% higher engagement with Cbus, including reaching out to the fund for advice, and administrative or process related interactions.
- The proportion of members making salary sacrifice contributions was 33% higher among those who received the RIE, and those who received the RIE made significantly bigger salary sacrifices and voluntary contributions than those who didn't.
- While few members engaged with the fund to change their investment strategies, members who received the RIE ended the period with significantly lower defensive allocations and higher aggressive allocations than those who didn't.

> *"Results confirm that, for many members, the RIE is "new" information about savings adequacy that motivates adjustments that can substantially change retirement outcomes."*

Every year, we work to improve the way we communicate RIEs to help members better engage with the results and understand the steps they can take to improve their outcome. These enhancements are developed based on best practice and the results of regular research and surveys into members' views and opinions about their statements.



Personalised videos enhance RIE impact

We know that many members find it difficult to engage with written content in annual member statements. Studies show that we retain 95% of a message delivered via video, compared to 10% via text. So, while our statements are one of the most widely read communications, they are unlikely to be as effective as video.

Cbus has been sending animated video snapshots to members alongside annual super statements since 2016. In under a minute, these personalised videos show members how their super is tracking and the key actions someone like them can take to improve their future.

Our videos take key pieces of disclosure-driven content from statements (including the important RIE) and turn it into a member-friendly conversation that is simple, informative, and importantly relevant for someone like them. They're also designed to be fun – tackling a serious topic in an entertaining way – and use a member voice to simulate a discussion between mates.

9. Cbus retirement income estimates

We recognise that many Cbus members have low financial literacy, and English is not always their first language. Simple and relatable visuals make a big difference to levels of understanding, informing our use of construction themed imagery and analogy. Rather than asking the member to read content on a page or screen, our videos talk to them using uncomplicated and straightforward language that suits our membership.

In 2019, Cbus sent personalised video snapshots to around 386,000 members alongside their statements. In under a minute, these personalised videos show members how their super is tracking and the key actions which could be taken by a member like them to improve their position in retirement.

Member feedback about these videos has been strong, with results from our 2019 program survey overwhelmingly positive about the video received. Three out of four members said the video helped them understand the actions they needed to take with their super. A further one out of three members said they preferred watching the video to reading their annual statement.

We tracked members who received these personalised videos for approximately four months following the program and found that members who received a video alongside their annual statement showed much higher levels of engagement and outperformed those who didn't receive a video for every metric. For example, logins to online accounts were 9% higher among those who received a video (despite members not needing to login to view their videos), and salary sacrifice contributions were up 2%.

Measures to further enhance RIE impact

The Government could significantly enhance the value of RIEs for members. We recommend the following changes be made to CO11/1227:

- Use of a 25-year average Age Pension in RIE
- Use of tailored retirement age assumptions
- Extending income estimates beyond retirement
- Use of tailored investment return assumptions
- Use of Retirement Income Estimate separate from Periodic Statements

A detailed proposal is at Appendix A.

Below are links to three sample retirement income estimate videos which have been personalised with the names of the panellists:

Deborah is represented by a female worker in the video, who is on track to meet comfortable income in retirement.

See: **https://youtu.be/4-IXONmvUeE**

Mike is represented by a male worker in the video and is almost on track to meet comfortable income in retirement. He will see a personalised $18 voluntary contribution call to action which would help someone like him achieve the comfortable target.

See: **https://youtu.be/NEuR_JDVvNI**

Carolyn is represented by a female worker in the video and needs to take action to get closer to comfortable income in retirement. She will see a generic contribution call to action to make voluntary contributions of $20 to improve her income in retirement.

See: **https://youtu.be/9gBwWj12Stk**

10. The role of retirement advice

Ensuring members have the information, products and services they need to maximise their retirement outcomes requires a multi-faceted approach including improving access to affordable, high quality formal financial advice and removing regulatory obstacles to superannuation funds giving their members help and guidance.

While members should be able to access good quality, affordable advice and guidance, this should not be required for members to maximise their retirement incomes. Participating in the retirement income system is compulsory, and it delivers important social policy. There is also a role for defaults and nudges to ensure that members who do not get advice achieve optimal outcomes.

Formal financial advice

Systemic problems with poor quality financial advice, driven by conflicts of interest, are well understood and was extensively examined by the Financial Services Royal Commission. In his Final Report Commissioner Hayne recommended a suite of policy changes to address conflicts and improve the quality of advice.[47]

The Commissioner also recommended banning the payment of advice fees (other than for intra fund advice) from MySuper accounts.[48] The rationale for this recommendation was:

> *The simpler the arrangements about MySuper, the better. It is difficult to imagine circumstances in which a member would require financial advice about their MySuper account.*[49]

Cbus does not support this recommendation. Some members want and would benefit from retirement advice that cannot be delivered as intra-fund advice. In 2019, ASIC commissioned research on what consumers think about advice.[50] The research found:

- 27% of Australians had received financial advice in the past, and 12 % had received advice in the past 12 months.
- 41% of Australians intend to get financial advice in the future, and 25 % intend to get advice in the next 12 months.
- 68% of people wanted advice about growing superannuation and retirement income planning – by far the most popular topic.
- 35% of people cited the cost of financial advice as the main reason they had not obtained financial advice.

Allowing members who do not have the means to pay for retirement advice to deduct the cost of the advice from their MySuper account improves access to advice for members not otherwise able to afford it.

Another significant problem with his recommendation is that Commissioner Hayne did not recommend banning the deduction of advice fees from choice accounts. Banning the deduction of advice fees from MySuper products but permitting the deduction of advice fees from choice accounts would incentivise financial advisers to switch members into choice products to enable the adviser to deduct advice fees from the member's account. This would create a significant risk of consumer detriment because, as noted in Section 1, on average, the choice segment significantly underperforms the default segment of the superannuation system.

To protect members the same rules for paying for advice must apply to both MySuper and choice products.

How Cbus helps our members

Cbus gives members general financial advice and intra fund personal financial advice, and refers members who would benefit from comprehensive financial advice to an external financial planner.

47 Financial Services Royal Commission, Final Report, Recommendations 2.1-2.10.
48 Financial Services Commission, Final Report, Recommendation 3.2.
49 Financial Services Royal Commission, Final Report at
50 ASIC, Report 627, Financial Advice: What consumers really think (2019).
51 ASIC REP 614, Financial advice: Mind the gap (2019).

10. The role of retirement advice

In 2019 ASIC commissioned research on consumer awareness and understanding of general and personal advice.[51] The research identified substantial gaps in consumer comprehension. Only around half of consumers could correctly identify general advice, and 40% of consumers who received a general advice warning did not understand it. ASIC flagged that it would undertake additional research to identify a more appropriate label for general advice.

The value of general advice depends on the motivation of the institution. Cbus uses general advice to help our members. The ability to give members general advice significantly helps our members understand the retirement income system and maximise their retirement outcomes. Many members benefit from gaining a better understanding of the system and their options so that they can then make informed decisions. Outside of the superannuation fund, there are very limited options for members to obtain the sort of simple information needed, in a cost effective manner.

On the other hand, institutions that use general advice models to sell superannuation products and meet sales targets will always find ways to circumvent consumer protections, creating significant risk of consumer detriment. General advice to switch superannuation funds should be banned.

Cbus also gives members intra fund advice.

In 2019, Cbus' advice team had 36,253 interactions through the intra fund advice model.

The table below sets out the most common topics on which Cbus gave members intra fund advice in 2019:

Top 10 Interaction Topics in 2019

Interaction Topics	Count
Contributions	7,011
SIS Pension	4,574
Investment	3,899
Withdrawal	3,884
Insurance	3,596
Fund	2,384
TTR	2,172
Centrelink	2,104
Consolidation	2,054
Retirement Options	1,871

Two areas of retirement advice that cannot be delivered as intra fund advice are:

- Advice about how a member can maximise their Centrelink entitlements.
- Retirement advice for a member's spouse.

Cbus members tend to think of their financial situation in terms of their and their spouse's assets.

Within the current legal framework, members who need help completing the Age Pension application form, or advice relating to maximising their pension (including contribution splitting), have two options – they can attend a Centrelink office and speak to a Financial Service Officer or they can get Comprehensive Financial Advice, at a cost of approximately $3500 for a relatively simple plan. Trust and cost are the two factors which stand in the way of members getting the help and advice they need, which can have a significant impact on their financial wellbeing in retirement.

The definition of intra fund advice should be expanded to enable superannuation funds to give intra fund advice on these topics. This would improve system cohesion, and members' retirement outcomes.

Members who want formal financial advice from an adviser or help or guidance from their fund to maximise their retirement incomes should be able to access it. However, in a compulsory system, members should also be able to optimise their outcomes without advice.

According to Roy Morgan, the number of people intending to retire in the next 12 months is estimated at 439,000 people.[52]

It would not be possible for superannuation funds or the retail financial advice industry to give holistic, face to face, retirement advice to over four hundred thousand members each year.

The UK government provides free information and advice about State Pensions or company, personal, stakeholder or occupational pensions via The Pensions Advisory Service (TPAS), taking the role of advising out of the hands of those who may offer conflicted advice with a profit motive.

Government and funds should also use defaults and nudges to help members maximise their retirement incomes without advice.

52 Roy Morgan, More Australians intend to retire despite inadequate savings levels (2019).

11. Public confidence

There is a correlation between adequacy and public confidence – community support for the retirement income system is contingent on it delivering adequate retirement incomes.

There is also a correlation between equity and public confidence – public support for the system depends on public confidence that the system is fair.

Constant tinkering undermines public confidence

The Consultation Paper notes that over time, successive governments have made changes to the retirement income system. This undermines public confidence in the longevity of features of the system. Suspicion that goalposts will shift undermines confidence in retirement planning. It also contributes to member disengagement.

Cbus members share this view.

"It's made me a bit more wary to say to my boys 'start your super, put a bit extra in to it."

"Maybe in 10 years the Government will bring in a tax where you can only claim so much, if you've got so much over this amount...you don't know if you're doing the right thing by putting more money in to it"

"There's too many variables."

"Every 3-4 years we change government and each time the goal posts change, it affects how super works. More or less tax etc. It's just really annoying."

In 2013 the then Government proposed establishing a Council of Superannuation Custodians. The role of the Council would be to oversee a charter of superannuation adequacy and sustainability. However, this policy had not been implemented at the time of the change of Government in September 2013.

Cbus supports the establishment of a council of custodians of the retirement income system. The council could be given responsibility for:

- Setting retirement incomes policy.
- Assessing whether policy proposals were consistent with the objective of the superannuation system.
- Undertaking regular assessment of the performance of the system.

This would eliminate constant short term, ad hoc changes to the policy and regulatory settings that underpin the system each year as part of the Budget process in favour of a longer term approach to policy change based on assessment of the performance of the system and consistent with its objective.

Misconduct and underperformance by funds undermine public confidence

Public confidence in the retirement system is also adversely impacted when superannuation funds do not act in the best interests of their members.

The Financial Services Royal Commission examined significant misconduct by a number of retail superannuation funds and referred several funds to the Australian Securities and Investments Commission and the Australian Prudential Regulation Authority for investigation. Failure to manage conflicts of interest and failure to act in the best interests of members was at the heart of much of the misconduct identified by the Royal Commission.

Public confidence depends on regulators identifying misconduct by superannuation funds and taking action against funds that do not act in the best interests of members.

Public confidence also depends on the strong performance of superannuation funds. As noted in Section 1 of this submission, in 2019 the Productivity Commission found that over the 13 years to 2017, the default segment, which consists of MySuper products and their direct predecessors, generated returns of 7.29% and outperformed segment-tailored benchmark portfolios.

11. Public confidence

The Productivity Commission found evidence of a tail of underperforming super funds:

> *The underperforming funds comprise 9 retail funds (of 11 in the sample), 14 industry funds (of 38), 3 corporate funds (of 13) and 3 public sector funds (of 6). But this does not quite capture the overrepresentation of retail funds in the tail of underperformers relative to other types of funds. 82 per cent of retail funds (in this sample) underperformed, compared with 37 per cent of industry funds, 23 per cent of corporate funds and 50 per cent of public sector funds. Underperforming retail funds also account for a larger share of accounts (77 per cent) and assets (72 per cent) than other types of funds* [53]

APRA recently published heatmaps of analysis of returns, fees and sustainability of MySuper products. This enables underperforming MySuper products to be identified which is an important step in improving their performance or removing these funds from the retirement income system.

APRA must also take action to remove underperforming MySuper products from the retirement income system.

As noted in Section 1, in 2019 the Productivity Commission found that the choice segment underperformed the default segment of the retirement income system. APRA must also publish heatmaps for choice products and take action to remove underperforming choice products from the system.

Ensuring members are defaulted into appropriate defaults

According to the Australian Taxation Office, at 30 June 2018, over 10 million Australians have one super account, with approximately six million people holding two or more super accounts.[54]

Table below sets out the number of individuals by number of accounts:

Number of accounts	Total individuals
1 account	64 %
2 accounts	23 %
3 accounts	8 %
4 accounts	3 %
5 accounts	1 %
6 or more accounts	1 %

Source: ATO

In his Final Report Commissioner Hayne recommended:

> *A person should have only one default superannuation account. To that end, machinery should be developed for 'stapling' a person to a single default account.*[55]

In 2019, the Protecting Your Super Package was passed by the Parliament. This legislation introduced a new requirement for funds to transfer account balances under $6,000 which have been inactive for 16 months to the ATO for consolidation. The first consolidation process occurred in November 2019. The second process will occur in April 2020. Cbus supported the introduction of auto-consolidation which will significantly reduce the number of multiple superannuation accounts.

Auto consolidation of existing multiple accounts will not prevent new multiple accounts being created when members change jobs. In 2019, Industry Super Australia engaged KPMG to model the savings to members of different stapling mechanisms.

KPMG concluded that automatically rolling over member account balances to their new fund when they change jobs would increase total investment returns by $416 billion in real terms over 25 years.[56]

This policy not only deals with future multiple accounts, and increases balances but also ensures that people are in an appropriate default for their workplace which is critically important for our members.

A copy of the report is attached at Appendix B.

53 Productivity Commission, Final Report at 136.

54 ATO Super Data: Multiple accounts, lost and unclaimed super https://www.ato.gov.au/About-ATO/Research-and-statistics/In-detail/Super-statistics/Super-accounts-data/Multiple-super-accounts-data/

55 Recommendation3.5.

56 KPMG, Stapling of Superannuation accounts (2019).

11. Public confidence

As a member first organisation, Cbus works actively to prevent the incidence of multiple accounts both through online screening of new applications and by merging existing duplicate accounts.

Cbus supports the introduction of a mechanism to automatically roll over a member's retirement savings when they change jobs.

Unpaid super undermines public confidence

This systemic non-compliance with Superannuation Guarantee obligations by some employers adversely impacts public confidence in the retirement income system. This issue and policy responses to address it are discussed in Section 2 above.

Confidence to spend

The need to move from a superannuation system that is focused on accumulating retirement savings, to a retirement income system that is focused on delivering retirement income, is well recognised. Despite this, many of the policy settings that underpin the system continue to focus on members' balances. For example, the limit on the total amount of superannuation that can be transferred into the retirement phase is based on the member's account balance.

Across the system, many households in retirement are net savers superannuation balances are forming an increasing part of bequests,[57] and many retired members draw down their savings at or near minimum legislated rates.[58]

This is also true for most Cbus members who do not convert their retirement savings into a retirement income product, do not spend all of their savings and in some cases leave part or all of their retirement savings to dependents, in the form of a bequest.

As the Consultation Paper notes, there are different reasons for this. Some members are concerned that they will outlive their savings. Policy change is needed to give these members confidence to convert their retirement savings into an income stream.

In other cases, high net worth members use the superannuation system as a tax advantaged vehicle for wealth accumulation and estate planning.

These uses are inconsistent with the objective of the system and policy change is needed to eliminate the misuse of the system for these purposes.

The objective Pillar 2 is not yet defined in legislation, but the common view across the industry is that superannuation should deliver financial security and dignity in retirement to all Australians by providing regular income that is, when combined with any public pension and other sources of income, sufficient to secure a comfortable standard of living by reasonable community standards. Legislating this objective would support evolving the retirement income system more broadly into a pension system focused on provision of retirement income.

Cbus supports the SIS covenant and policy settings to support development and take up of retirement income products. Cbus does not, however, support Treasury's proposal to mandate CIPRS. Our analysis has found that CIPRS would not be in the interests of many Cbus members. Each fund should be required to develop retirement incomes products that optimise outcomes for its membership.

Some Cbus members do not understand that they have the option of taking their retirement savings in the form of an income stream.

Cbus members share this view.

> *"I've got a much better idea of how it all works now but there's so many twists and turns unless you do it for a living. I had no idea the income stream was as beneficial as it is, I've got a lot of idea now."*

> *"Do you get it as a lump sum? Do you have choices?"*

Cbus offers members who start a Cbus fully retired income stream a tax refund paid directly into their account.

Cbus Retirement Income Estimates are presented as fortnightly income to reinforce the fact that income is the outcome of retirement savings. As explained above, the ability to provide projections to retired members would encourage many members to understand the income they have available and develop the confidence to spend it.

57 CEPAR (ARC Centre of Excellence in Population Ageing Research) Retirement income in Australia: Part 1 – Overview (2018);

58 Balnozan, I 2018, Slow and Steady: Drawdown Behaviours in Phased Withdrawal Retirement Income Products, UNSW Business School, Sydney.

Appendix A:
Regulatory change needed to enhance value of RIEs

Regulatory change needed to enhance value of RIEs

We want to ensure we're providing the most appropriate representation of a member's estimated future outcome, and while the RIEs have proven to be incredibly valuable in their current form, Cbus recognises that the calculation and assumptions basis stipulated within the Class Order, alongside the intended target audience, do present limitations and could be improved upon. This includes opportunities relating to the Age Pension calculation basis, investment return and retirement age assumptions used, and extending estimates to the decumulation phase.

Use of a 25-year average Age Pension in RIE

CO 11/1227 implies that, if an estimate includes the age pension, this will be calculated at the time the annual income stream amount is calculated (Clause 6A(d) of CO 11/1227). In accordance with this, Cbus calculates the Age Pension amount of the RIE for each member for the first year only, and this first year Age Pension amount (Year One Pension Amount) is used throughout the 25 years of the projected retirement period of age 67 to 92.

As a result of Asset and Income test implications, many Cbus members are likely to be eligible for material Age Pension payments throughout their retirement, which will currently not be reflected in the calculation.

Following comprehensive analysis of our member data, we've found that use of the Year One Pension Amount can significantly reduce the RIE shown for over 100,000 Cbus members and could discourage these members from saving adequately for their future or taking other important actions that could affect their outcome in retirement. (Source: Willis Towers Watson analysis of Cbus member data as at 30 June 3018.)

For example, in 2017, two Cbus members (a husband and wife) contacted Cbus Advice Services confused about the estimates they'd received. While the husband had a significantly higher account balance, his wife was projected to receive a significantly higher annual income in retirement as shown in the table below:

	Husband	Wife
Balance at age 67	$397,000	$175,000
Income from super (p.a.)	$22,500	$9,910
Age pension (p.a.)	$1,100	$16,790
Total income (p.a.)	**$23,600**	**$26,700**

The above comparison shows the impact these anomalies can have on each member's experience and understanding of what their future holds. Why would a member in the above scenario consider saving more, when this approach looks like it delivers a lower annual income?

Our analysis shows that anomalies such as those above are particularly prevalent for those with a projected account balance at retirement of greater than $250,000.

The use of a more relevant Age Pension amount has particular significance for Cbus members – previous projections completed by Willis Towers Watson on our behalf forecast 98% of Cbus members receive some form of the age pension with almost 50% of members having 80% of their retirement income come from the age pension.

One way to address the existing limitations in the Age Pension calculation would be to input the following data:

1. The member draws down a constant (real) income from their account over the retirement period, consistent with the existing Class Order (i.e. 5.66% of the retirement account balance).
2. The Age Pension is determined in each future year of retirement, based on the projected account balance and income drawn in each year and the means testing rules.

This would enable member statements to show:

a) Fund income: the constant (real) Fund Drawdown and

b) Age Pension: the average of the age pension amounts payable over the full 25-year retirement period.

The table below shows how this 25-year average Age Pension approach would compare for the same real Cbus couple (modelling completed in 2018).

	Current Class Order		Constant drawdown – 25-year average	
	Partner 1	Partner 2	Partner 1	Partner 2
Balance at age 67	$425,000	$186,000	$425,000	$186,000
Income from super (p.a.)	$24,048	$10,524	$24,048	$10,524
Age pension (p.a.)	$0	$17,059	$11,246	$17,652
Total income (p.a.)	**$24,048**	**$27,583**	**$35,294**	**$28,177**

Source: *Willis Towers Watson analysis of alternative approaches to retirement income estimates (October 2018)*

Tailored retirement age assumptions

The Class Order currently assumes that each member will retire at age 67, and require their savings to last for another 25 years (until age 92). However, in practice this does not represent the experience of many workers, particularly those working in the building and construction industry.

Cbus members are more likely to retire significantly earlier than the average Australian worker, often forced into early retirement. As evidenced earlier in this submission, the average retirement age for labourers is 58 years old, and 35 per cent of labourers retire before they turn 55. This means that for Cbus, presenting a projection that starts some 10 years in the future offers limited guidance and likely overestimates the member's position at retirement due to earnings expected right up to age 67.

Flexibility is needed within the Class Order to allow a member to select their own retirement age for the annual projections based on their personal experiences and expectations. Allowing a member to submit their expected retirement age (e.g. through a field within their online account) and subsequently using this age within their RIE projection would allow a member to work towards a retirement that better represents their needs.

Extending income estimates beyond retirement

While Cbus can provide RIEs setting out a member's estimated income in retirement in accordance with ASIC CO 11/1227: *Relief for providers of retirement estimates*, this relief can only be relied upon where the member is aged under 67 years and remains in the accumulation stage. This relief therefore does not apply to retired members or those who may be nearing retirement.

Cbus considers there is both benefit for, as well as demand from, members to provide details on their statement which helps them understand:

- how long their retirement savings could last based on current spending habits, and
- how changing their fortnightly spending behaviour (up or down) could impact the longevity of their income stream.

In 2019, Cbus surveyed income stream members about their annual statement program and were told:

- One out of two (54.2%) income stream members want their statement to give them more guidance around how long their savings last.
- Just under half of members (46.8%) would like their statement to give them more guidance around how much income they should withdraw each year from their Cbus income stream.

To help bridge the current gap, Cbus refers retired members to its online Retirement spending planner, available at **www.cbussuper.com.au/calculators**. This calculator allows members to enter their account balance and other details, alongside their various spending goals in retirement, for both regular and one-off spending, and is provided consistent with ASIC's relief for generic calculators - ASIC Corporations (Generic Calculators) Instrument 2016/207. This calculator helps the member see how changes in their spending can impact how long their savings may last.

We see a spike of members accessing this calculator following statement lodgement, however not all retirees are willing and able to access tools like these, so we would expect to achieve much greater understanding and action if this information was presented simply and clearly on annual statements.

The aim of providing this projection on statements is to encourage members to make more informed financial decisions about their annual and longer-term spending. This could be decisions to:

- increase regular spending to a level that will allow them to achieve a more comfortable standard of living
- decrease regular spending to a level that will support them for longer through retirement
- maintain their current regular spending plans, but allow for one-off expenses without fear, or the need to seek funds from alternative sources.

Whatever the member's actual spending needs are, this change would equip them with the guidance and support needed to better prepare for both today and tomorrow.

We also believe that the provision of a projection may be the trigger needed for a member to seek advice from either Cbus or a financial planner that could help them take the right steps to maximise their financial situation in retirement.

Tailored investment return assumptions

Use of a standardised three per cent investment return (after inflation) is mandated for all RIEs. While this rate of return helps to ensure that ups and downs in performance from year to year don't impact the final projection, this one-size-fits all approach can significantly understate (or in some cases overstate) the estimate for members at retirement.

This difference is particularly apparent where a member has many years to retirement and can lead to a particularly distorted view of a member's future income.

Use of a tailored return based on the long-term expected return assumptions of the member's actual investment choices would ensure a more accurate and meaningful projection. Such a tailored calculation could also help a member better understand the impact investment choice could have on their future.

Long-term performance history should underpin return assumptions, addressing concerns that such a mechanism could be exploited for commercial gain after a short period of exceptional returns.

The table below shows how this approach would compare for a younger and older Cbus member based on the following long-term return assumptions:

- 5.75% for Growth (accum)
- 3.75% for Conservative (accum)
- 5.25% for Conservative Growth (pension, used to calculate income from super in retirement). For the class order examples a 3% return was also assumed for pension phase.

Younger member

Age: 25
Starting balance: $10,000
Income: $50,000 p.a. (before tax)
SG contributions: 9.5%
Investment option:
Default Growth (Cbus MySuper option

Older member

Age: 50
Starting balance: $150,000
Income: $90,000 p.a. (before tax)
SG contributions: 9.5%
Investment option:
Conservative

	Younger member: Current Class Order	Younger member: Fund long-term return assumption	Older member: Current Class Order	Older member: Fund long-term return assumption
Return assumption	3%	**5.75%**	3%	**3.75%**
Balance at age 67	197,404	363,472	283,180	310,837
Income from super (p.a.)	7,912	$17,059	$11,246	$17,652
Age pension (p.a.)	23,763	19,847	23,265	22,530
Total income (p.a.)	**31,675**	**38,079**	**34,709**	**38,274**

Source: Cbus Retirement income estimate calculator, https://www.cbussuper.com.au/tools-resources/calculators/retirement-income-estimate-calculator/intro

Use of Retirement Income Estimate separate from Periodic Statements

Under the current regime, the RIE projection can only be provided to members annually as part of member statements, significantly impacting their usability for members. Allowing funds to use RIEs to prime the calculation for members more regularly, as desired by a member, is likely to result in enhanced use and ultimately, improved retirement outcomes.

Cbus would like to make this tool available to members through our new online portal secure area, allowing members to see the impact of additional contributions, premium costs, investment choices etc.

Appendix B:
KPMG Report