



A RESPONSE TO THE DECEMBER 2023 AUSTRALIAN GOVERNMENT  
TREASURY'S DISCUSSION PAPER  
**Retirement phase of superannuation**

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## About the SDA



The Shop, Distributive and Allied Employees' Association (the SDA) is one of Australia's largest trade unions with over 200,000 members. Our members work in retail, warehousing, fast food, hairdressing, beauty, pharmacy, online retailing, and modelling.

The majority of SDA members are women (60%, approximately 131,000), under 35 years (57%, approximately 120,000 workers), and low-income. Retail and food services are two of the three lowest industries for median weekly earnings.

The SDA has a long history of advocating on behalf of members. We do this through enterprise bargaining; making submissions regarding Awards and the NES to provide a relevant safety net; and through numerous submissions made to parliamentary and government inquiries and other important reviews.

The SDA has 10 policy principles that guide our engagement in these reviews. For a list of these, see Appendix A.



# Response to the December 2023 Australian Government Treasury's discussion paper: Retirement phase of superannuation

## The problem: Too focused on products

The December 2023 Treasury discussion paper, *Retirement phase of superannuation*, is more striking for what it does not say than for what it does. It talks annuities, but not income and asset thresholds.

Studious drafting permeates the paper, but the best example is “products” that are “standardised” (p. 24). The paper neither mentions “default annuities” nor “comparable annuities”. Why? Because investment in annuities has been resoundingly rejected. Public office holders have ceased to pursue them<sup>1</sup>, superannuation trustees are not offering them<sup>2</sup>, and the Australian public are not buying them<sup>3</sup>.

This rejection is deeply pragmatic – there is a cost of implementation to members who are not likely to benefit, any lack of adoption would drive fees up for those who do, and ‘nudging’ and ‘soft defaulting’ create risks of breaches to insurance laws. Yet, those who manage wealth or purchase annuities for their clients know such products would be cheaper if more people were channelled into them.

Policy wrangling over the ‘annuity puzzle’<sup>4</sup> is misplaced in the context of the Aged Pension in this country. And few in the system look at it from the outside. So, the product-orientated narrative persists.

## The first step: Discuss income

In the 1880s, Australian unionists noticed that annuity products were great for some and decided to pursue them for their workmates who were aging (superannuation) or injured (workers compensation). By the 1980s, workers realised annuities weren’t that great after all. So, unions decided to argue for something like an annuity but better suited universal application – including bringing low paid and casual workers into the system. The superannuation system shifted from being focused on the public sector, multinationals and managers to being focused on working Australians. In the 1990s, the system also started to shift from being dominated by defined benefits schemes (annuities) to being dominated by defined contribution schemes (accumulation).

This meant that, at retirement, you would have a nest egg and you could choose what you want to do with it – create an income, pay off your house, fund a trip to see your family in your other home country, or hold on to it as a safety net and leave what’s left to your kids. You were likely to die younger, so aged care accessibility and costs were different. You probably owned your home, so the cost of living was lower.

Retirees of today and of the future need similar vision from policy makers grappling with the retirement phase of superannuation. The platform from which to develop that vision is being set. Super needs to “preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way” – that is the drafted objective for super.

A first step to meeting the objective may be defining retirement income. And that is wider than something

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<sup>1</sup> Not all annuities, but certainly comprehensive income stream products for retirement (CIPRs)

<sup>2</sup> As many of them as some would think should be the case.

<sup>3</sup> At the rate the sellers of these products would like.

<sup>4</sup> “The lack of annuitisation by retirees globally, despite the commonness of the concern about outliving one’s savings, is known as the ‘annuity puzzle’”.p.22, *Retirement phase of superannuation*

that comes from an annuity – retirement income comes from work, super, the pension, and lower housing costs. If you're lucky, it also comes from private savings. Modelling these kinds of issues should be the priority for setting up the public discussions of the retirement phase of superannuation.

## The second step: Model how policy settings for retirement impact products

The risk of the retirement discussion in the 2020s is not just the risk outlined in the paper. It's not just that products don't get taken up or people choose products that some believe "might not adequately meet their needs"<sup>5</sup>. The risk is a missed opportunity to change the way Australians are making decisions at retirement and achieve agency over their financial security.

Currently the retirement phase of super could be characterised as:

"At some point I need to talk to someone about something complicated associated with super so that I can retire but I don't know that that means for the age pension".

or – if you're especially engaged – perhaps it's more like this:

"I spoke with someone at my Fund. I went for a simple answer. I'll leave some in, take some out and use the part I leave to pay me an income and for some life insurance."

The opportunity is that the conversation could be

"When I turn 60<sup>6</sup>, I will be given an account-based pension unless I tell my fund otherwise; and I can earn up to \$18,200<sup>7</sup> without it impacting my pensions.

I have options:

- to take it all out,
- to keep some in,
- to use it for an income by
  - drawing down on it and its interest or
  - by buying a lifetime income or doing a mix of these."

This example is not to propose that such a default be created or that these be set as the age and thresholds, but rather to illustrate a contrast to mindsets of thinking and opportunity created if there were clearer and streamlined policy settings.

Government could develop preservation and retirement settings for income and age that are based on a living wage, a living standard replacement rate (LSSR) or an income replacement rate. That would allow a proposed universal comparable product to be developed. A retirement version of MySuper could be compared in disclosures and could create a product platform from which customisation could be developed. Those pursuing annuities could have easier access to products they seek from funds whose members seek them without distracting those funds focussed on simplicity for low-income members.

## The third step: Cross check against externalities

*Retirement phase of superannuation* is also silent on the topics of home ownership and rental costs,

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<sup>5</sup> p.8, *Retirement phase of superannuation*

<sup>6</sup> 60 is the current preservation age for most Australians. 67 is the public pension age.

<sup>7</sup> \$18,200 is the Australian Tax Free Threshold at time of drafting. The pension income limit depends on relationship status, asset assessment, and a current policy change increasing it for 2023.

pension asset tests, and life insurance. Remarkably, given it seeks to deal with retirement “income”, it also avoids the issue of income not being just from superannuation in retirement. Income is, increasingly, also from work. For a great many Australians, their retirement income is the aged pension plus a lump sum from their super of less than \$50,000, plus casual or part time work. These are the Australians for whom the retirement phase requires focus, so it would be sensible to consider what would allow them to increase their incomes without creating a necessity to work after retirement. For example, these retirees gain from a higher superannuation guarantee, super being paid on the payday, as well as age and income thresholds being tactically set.

### **A challenge: Focus on retirement and simplicity, not annuities.**

This submission calls on the Treasury to model options for universal application in retirement, but to do so acknowledging the role that policy takes in grappling with issues the commentariat does not approach.

Treasury should build ideas that would meet the needs of those on very low incomes with low balances. Treasury should investigate what those who want to stay in work need in terms of tax-free or pension thresholds. Treasury should focus on what would allow those who would be on a part-pension to have more confidence to make decisions about working and being in the world during retirement. Treasury should make sure that those on higher incomes get the benefit of the safety net, without over doing the benefits at a cost to others.

With income inequality rising, the discussion about retirement should not ignore the role of superannuation in the complex web of safety nets in Australia. The focus should not be on whether people should be nudged into annuities. Rather, the focus should be on how can government make it easier for workers to know how much we can earn, own or draw down with certainty so they can plan for a dignified retirement.

This submission sets out a challenge to the Treasury to come up with options to make life easier for working Australians as they plan, enter and live in retirement.

#### **Recommendation:**

- **That the Treasury prioritize modelling settings that help planning for, entering and living during retirement, such as income and age thresholds across the tax, super and pension systems, rather than continuing to pursue comprehensive income stream products for retirement.**
- **That the Treasury consider options for simple standardized products with options for attributes including for annuities, rather than perusing annuities sought by wealth managers and those that sell products.**

## Appendix A: Principles underpinning SDA policy positions

SDA policy is driven by providing value to our members whose work is regulated by a system that has been failing them for decades.

Australians need to be supported by an economic system that has working people at its centre. Our predecessors built an industrial system which provided the foundations for shared prosperity. It is now our responsibility to modernise the industrial framework for the current and future generations. Decades of concerted attacks on our industrial relations system has seen inequality grow, and economic and political power has further concentrated in the hands of a few.

The world of work has changed and will keep changing. There is an unprecedented intersection between work and care. Income and gender inequality have combined to increase disadvantage. Predictable, secure hours of work that provide a living wage are at the centre of decent work. But, there has been growth in insecure work, digitalisation is now a matter of course, and safety concerns have persisted.

We believe that fundamental not incremental change is needed. In contributing to policy, we seek to drive a new system that acknowledges the change that has occurred and will be fit for purpose in the emerging world of work.

The SDA engages in topics that help drive this agenda and we are guided by ten principles that we believe will create value for our members. Those principles are:

1. Address Inequality & Enshrine Fairness  
Minimum expectations must be set and adhered to.
2. Equity & Empowerment  
All workers must be supported to progress so that no-one is left behind.
3. Mobility & Security  
A socially successful economy must provide opportunity for all, regardless of their background. Systems must be built in a way that support success and adaptation in a rapidly changing world of work.
4. Delivering Prosperity & Growth For All  
A foundation for prosperity and economic growth must be achieved.
5. Protection in Work & Beyond  
Workplaces and the community must be healthy and safe for all workers and their families during and beyond their working lives.
6. Workers Capital & Superannuation  
Workers capital and superannuation must be an industrial right for all workers and treated as deferred earnings designed for dignity and justice in retirement.
7. A Strong Independent Umpire  
A strong, independent, cost effective and accessible industrial umpire and regulator must be central to the future system of work in Australia.
8. Protection & Support for Our Future  
Protecting and supporting our future requires a strong and vibrant retail industry and supply chain providing jobs with fair and just remuneration and contributing to the economy including through skilled workers.
9. Work & Community  
Work is a fundamental human activity that provides for personal, social and economic development. Work as it operates in community must build and protect a balance between life at work and life so that workers can contribute to society through the wider community.
10. Institutional Support for Collective Agents  
Institutional support must provide for collective agents (registered organisations) so that they are recognised, enshrined and explicitly supported as central to the effective functioning of the system.

Details of specific policy positions can be discussed by contacting the SDA National Office.

