Retirement Income Review Consultation Paper response

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www.rest.com.au

Executive summary

Rest believes that the Australian superannuation system has worked well during its first three decades and generally continues to do so. Compulsory Superannuation Guarantee has provided a much-needed source of retirement funding. As a significant number of Australia's workforce now reaches retirement, many people have had access to close to 30 years of Superannuation Guarantee payments. This makes a significant difference to the lives of retired people.

The achievements of the compulsory superannuation system, particularly for lower-income Australians, cannot be overstated. Even for members who retire with an account balance lower than retirement adequacy standards, having access to a lump sum or superannuation pension can provide them with valuable security and an ability to plan and manage this stage of their lives. Before compulsory superannuation, these workers typically had no income in retirement beyond the Age Pension.

However, as we near the 30th anniversary of compulsory superannuation, it is clear the system must adapt to the emerging economic and demographic trends in Australia, or risk entrenching inequality.

Retirement outcomes have been – and will continue to be – impacted by a number of factors. These include the increase in part-time and casual work as the 'gig' economy grows, rising debt levels, and persistent barriers that prevent people, particularly women and those on lower incomes, from achieving economic security. These factors are exacerbating the inequality of experiences among people in the retirement income system.

The four principles identified by the Retirement Income Review to assess the system – adequacy, equity, sustainability and cohesion – are all critical criteria. However, in Rest's view, equity is the most important of these. The entire system can only provide adequate, sustainable and cohesive retirement outcomes if it is working equitably according to each member's individual circumstances.

Rest has more than **260,000** members aged 50 and older, and their average account balance is **$87,420**.

Rest member data, 31 December 2019.

Rest has more than 260,000 members aged 50 and older, and their average account balance is $87,420. This puts them in line with the most recent Association of Superannuation Funds of Australia (ASFA) Retirement Standard for a modest lifestyle, but well below the standard for a comfortable lifestyle.[1] Our focus is on helping them achieve their personal best retirement income according to their individual circumstances. While a modest account balance could provide a fair and adequate retirement for some, for many others it will do little to alleviate financial insecurity. These members will heavily rely on the Age Pension in retirement.

We have identified six areas where the superannuation and retirement experience of Rest members provides insights into the retirement income system, particularly where it can improve in the future. The issues raised are interrelated, and all share a common concern: the risk of embedding inequality in the system.

These observations have led us to identify policy areas in which change would drive improvement. In Rest's view, these improvements are crucial to ensuring the system continues to deliver equity – and therefore adequacy, sustainability and cohesion – into the future.

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[1] The savings required at retirement for an individual with a modest lifestyle are $70,000, while a comfortable lifestyle would require $540,000 for an individual. *ASFA Retirement Standard*, The Association of Superannuation Funds of Australia, 2018.

One: Women's experience of superannuation and retirement must improve

The majority of Rest members are women. They comprise around 60 per cent of our total membership, and 69 per cent of our members 50 years and older. Many work in part-time and lower-paid roles, and many have taken at least one break during their working lives.

Rest has **77,000** women members aged 50 or older. Their account balances, on average, are **30 per cent lower** than the balances of menthe same age.

Rest member data, 31 December 2019.

These factors mean that the gender retirement income gap for Rest members is profound. For example:

- for Rest members in any product aged 65 years and older, the average balance for men is 23 per cent higher than for women; and
- for Rest members aged 60 and older, who are drawing down a superannuation pension, the average balance for men is 40 per cent higher than for women.[2]

The implication of this is that many women face retirement with insufficient income to even meet a modest retirement. There is increasing evidence of growing homelessness amongst women,[3] and indications that some women feel trapped in violent or dysfunctional relationships due to financial insecurity.[4]

Two: Part-time, casual, and lower income workers are at risk of having poor retirement outcomes

Contingent, casual and part-time employees are at the heart of Australia's modern workforce, more so as flexible working arrangements increasingly become more mainstream. Women represent the majority of this workforce.[5]

In the five years to November 2019, total employment growth was 12.2 per cent[6] and, in the same period, growth in part-time work was 15.6 per cent. People who have these work patterns are typically on lower, less-secure incomes. This directly affects their ability to accumulate superannuation or other investments to support themselves in retirement.

Rest research in 2016, *The Future of Work*, also revealed that many part-time and casual workers had an alarming lack of understanding of their superannuation entitlements. This, coupled with a potentially rising number of people working multiple jobs that each provide less than the $450 monthly income threshold for the Superannuation Guarantee, may contribute to systemic disadvantage for some Australians' ability to save for their retirement.

The existing superannuation system was not designed with new ways of working, such as 'gig' arrangements, in mind. This is leaving a growing number of Australians without access to the Superannuation Guarantee and is creating a significant problem for future retirees in Australia.

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[2] Rest member data as at 31 December 2019.
[3] '2049.0 - Census of Population and Housing: Estimating homelessness, 2016', Australian Bureau of Statistics, released 14 March 2018.
[4] R Braaf and I Barrett Meyering, *Seeking Security: promoting women's economic wellbeing following domestic violence*, Australian Domestic & Family Violence Clearinghouse, March 2011.
[5] '6306.0 - Employee Earnings and Hours, Australia, May 2018', Australian Bureau of Statistics, released 22 January 2019.
[6] '6202.0 - Labour Force, Australia, Nov 2019', Australian Bureau of Statistics, released 19 December 2019.

Three: The importance of housing and debt to retirement

Housing and property are of increasing significance to the retirement income system. While increased property values have led to rising asset values for some, it has also led to higher debt levels and higher rental costs for many others. More Australians are carrying a mortgage and other debt later in life. Those who have been priced out of the property market have no option but to rent, and often at a regularly increasing cost. These realities place them at a disadvantage in retirement.

27 per cent of members surveyed who take a lump sum from superannuation at retirement are using it to pay down debt.

Rest member exit-survey data, December 2019.

The retirement income system has been designed to date under the assumption that people own their home and are largely debt free at retirement. Future design changes must recognise the realities of reduced home ownership[7] and debt later in life.

Four: The increasing value of the Age Pension and Superannuation Guarantee for Australians with lower superannuation balances

As demonstrated in sections one, two and three, for many Australians, superannuation and other savings will be insufficient to provide long-term income in retirement. The Age Pension will therefore continue to play a vital role in ensuring financial security in retirement.

Only **one-in-10** active Rest members aged 40 or older make any contributions beyond the Superannuation Guarantee.

Rest member data, 29 April 2019.

When coupled with the Age Pension, compulsory superannuation makes a significant difference to the lives of many vulnerable Australians in retirement. With the Age Pension, even a low balance at retirement can be used to pay down debt, provide a lump sum for necessities, or an additional income stream.

Maintaining the legislated increase to 12 per cent Superannuation Guarantee is crucial for lower-income Australians who rely on the Age Pension and small superannuation account balances for some level of financial security.

In addition, the system should be more flexibile to allow people to continue some amount of work in older age should they wish, without significant adverse effect on their Age Pension or other income. It should also allow people to manage drawdown and their assets to help fund retirement and aged care.

Five: The need for affordable, appropriate advice

Access to affordable, targeted financial advice is important to help more Australians make an informed decision about how they'd like to invest their money and grow their retirement savings with confidence. Simple intra-fund advice can and does make a real difference to those with relatively lower superannuation balances to maximise their retirement outcomes when coupled with the Age Pension.

However, the number of members who receive valuable financial advice is still relatively low. In the last financial year, Rest Advisers provided 5,600 Statements of Advice to our members.[8] This means about one-in-340 members sought out advice during the year. Better conditions on the

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[7] *Housing Affordability and Retirement Incomes*, Australian Institute of Superannuation Trustees, March 2017.

[8] Rest financial advice is provided by Rest Advisers as authorised representatives of Link Advice Pty Ltd ABN 36 105 811 836, AFSL 258145.

provision of intra-fund and simple advice would improve availability, and therefore member outcomes.

Furthermore, access to education on retirement and superannuation is limited across the community. An increased focus on education earlier in a person's employment career, as well as access to basic or potentially automated advice over time will improve outcomes generally.

Six: Improve aged care planning and funding options

The effects of Australia's ageing population on the demands on the aged care system are well known and documented in the Intergenerational Report released by Treasury.[9] An ongoing concern for Government is the cost pressure of the increasing costs of aged care. The Royal Commission into Aged Care Quality and Safety interim report and consultation papers have raised a range of issues related to aged care that relate to the connection between the retirement income system and aged-care needs, including the increased emphasis on in-home care,[10] and the extent to which older people contribute to the cost of their aged care.[11]

For these reasons, the future designs of the retirement income system must factor in the impact and increased costs of aged care. This requires the Government to ensure that aged-care costs are accurately incorporated in modelling and policy for the superannuation system, as well as considered in the ongoing discussion of the purpose of superannuation.

Recommendations

Rest asks that the Panel consider the following policy areas for superannuation that we believe will have a positive impact and in particular address matters of equity in the retirement income system:

- retain the planned increase of Superannuation Guarantee to 12 per cent;
- remove the $450 monthly income threshold for exemption from Superannuation Guarantee contributions;
- introduce measures to address the disadvantage created by periods of unpaid work, including extending the Superannuation Guarantee to those who take parental leave; and
- improve the access to affordable, targeted, simple advice and education by making it easier for superannuation funds to make it available.

In addition, in considering the retirement income system, Rest recommends that the Panel:

- reviews the impact of declining home ownership rates and rising costs of housing, including rent, on the retirement income system; and
- considers the rising costs of aged care and how this impacts the experience of retirement in Australia.

[9] *2015 Intergenerational Report*, The Commonwealth of Australia, March 2015.
[10] *Background Paper 2: Medium- and long-term pressures on the system: the changing demographics and dynamics of aged care*, Royal Commission into Aged Care Quality and Safety, 1 May 2019.
[11] *Consultation Paper 1: Program Design in Aged Care,* Royal Commission into Aged Care Quality and Safety, 6 December 2019.

Research and information to support key observations and recommendations

One: Women's experience of superannuation and retirement must improve

The majority of members of Rest are women. Around 60 per cent of our total membership, and 69 per cent of our members 50 years and older are women. Many work in part-time and lower-paid roles, and many have taken at least one break from their working lives. These factors mean that, for Rest members, the gender retirement income gap is profound. For example:

- for Rest members aged 50 and older, the average balance for men is 42 per cent higher than the average balance for women;
- for Rest members aged 65 years and older, the average balance for men is 23 per cent higher than for women; and
- for Rest members who are aged 60 and older, and drawing down a superannuation pension, the average balance for men is 40 per cent higher than for women.[12]

The reasons for this are varied but include the trend of broken work patterns more typical of women in the workforce. Rest undertook research in 2017 to examine the experiences of people who had career breaks of at least three months, and found the following:

- **Women generally take more career breaks.**[13] Women still undertake most of society's unpaid care work. This includes taking time off to care for young children, or family members with a disability, long-term illness or frailty due to old age. Rest's research found that the average working woman has 4.2 career breaks compared to 3.5 for men. Maternity leave (50 per cent) is the primary reason, followed by leave to care for children (49 per cent). Women are more than twice as likely as men to have taken a break to care for a family member or loved one (53 per cent compared to 24 per cent for men). Women are nearly six times more likely as men to reduce their work hours due to parenting duties. Mothers are 19 times more likely to decide not to go back to work, three times more likely to delay their return to work and more than twice as likely to work fewer hours.

- **Women earn less on returning to the workforce.** This may be as a result of a choice. Women returning to work after a career break tend to earn 29 per cent less than their male counterparts, an average difference of around $16,000 per year.[14] In order to return to an income equal to before their career breaks, women had to work 11.8 months, a full month longer than men (10.7 months).

- **Women bear a greater impact at retirement.** Even a short break from the workforce can have a large impact on retirement savings. Rest research revealed that women are taking a $159,590 hit to their retirement savings due to taking career breaks. With one career break each, men have a total retirement balance of $283,141 more than women, equivalent to 47 per cent of an Australian woman's retirement balance. The effect of a career break reduces working Australian women's end retirement balance to $598,616. This is a six per cent reduction ($37,564) in their super balance

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[12] Rest member data as at 31 December 2019

[13] In 2017, Rest commissioned Lonergan Research to survey the experiences of 1,030 Australians who had ever taken a career break of at least three months.

[14] Lonergan Research economically modelled amount of lost superannuation balance of working women at the retirement age of 67 between those taking no career breaks and those taking career breaks, of which they took 4.2 career breaks on average. The calculations are based on self-reported cost per career break; 9.5 per cent compulsory contribution to superannuation is assumed for the entire working life; 15 per cent contribution tax; and superannuation account balance is compounded annually at 4.95 per cent (based on average 10-year rate of return after tax and fees from APRA Annual Fund-level Superannuation Statistics 2016). No voluntary contributions are modelled. The results are in 2017 Australian dollars with no adjustment for inflation.

These experiences highlight that Australia's superannuation system has no mechanism to recognise periods of unpaid work. This means those who take time out of the workforce to raise or care for families have less opportunity to accumulate superannuation. As we've shown above, this overwhelmingly applies to women. Rest encourages Government to consider policy options to address this inequality, including extending the superannuation guarantee to those who take parental leave.

While a difference in superannuation balances between men and women in a stable relationship may not necessarily lead to a significant adverse financial effect, Roy Morgan research[15] of Rest members aged 50 and older shows that:

- nearly 35 per cent of females in this cohort are single, separated, divorced or widowed;
- nearly 62 per cent of females in this cohort are the primary income earner; and
- the women surveyed have only two-thirds the total savings and investments of men.

In addition, Australian Bureau of Statistics data on homelessness[16] shows that the number of homeless women aged 55 years and over increased by 31 per cent between 2011 and 2016. This demonstrates that older women, who have not been able to create financial independence, are at significant risk.

The data on female Rest members' experience of retirement and superannuation demonstrates that women are not able to fully access the benefits of the Australian three-pillar retirement system. This is a matter of inequity in the system. Any changes to the retirement income system should recognise and address this, to ensure more equitable outcomes.

Two: Part-time, casual, and lower income workers are at risk of having poor retirement outcomes

Compulsory superannuation has provided a much-needed source of retirement funding for low- and middle-income workers. Many people who are reaching retirement now have had access to close to 30 years of Superannuation Guarantee payments, which makes a significant difference to the lives of retired people.

Even for members who retire with an account balance lower than the retirement adequacy standards, having access to a lump sum or superannuation pension can provide them with valuable security and an ability to plan and manage this stage of their lives.

The nature of the workforce is changing. The retirement income system was developed with assumptions about full-time, consistent work. However, contingent, casual and part-time employees are at the heart of Australia's modern workforce, more so as flexible working arrangements increasingly become more mainstream.

Rest members tell us that superannuation makes a significant difference:

"It makes a great amount because we have the money to pay bills, because your bills don't change ... So we don't have to worry about not having the money to pay bills."

Female, age 75, NSW

Rest member survey, December 2019.

There is a trend of increasing part-time work patterns among working Australians. In the five years to November 2019, total employment growth was 12.2 per cent,[17] and in the same period growth in part-time work was 15.6 per cent. In November 2019, women represented 68 per cent

[15] Roy Morgan Single Source, 24 months to September 2019
[16] 2049.0 - Census of Population and Housing: Estimating homelessness, 2016', Australian Bureau of Statistics, released 14 March 2018.
[17] Australian Bureau of Statistics, 6202.0 - Labour Force, Australia, Nov 2019.

Rest members tell us that they want to accumulate superannuation even while working part time:

"I worked casual for a while and then I worked part time so I would have (invested in super), if they said it was compulsory then I probably would have really enjoyed it, but at the time no-one said anything about superannuation. I really would have liked to invest more when I first went back to work as part timer."

Female, age 75, Sydney

Rest member survey, December 2019.

of the part-time workforce, down from 70 per cent in 2014, but still more than double the proportion of men.[18]

Part-time work represents 32 per cent of employment in Australia, however as at 2017, 1.5 million workers held two concurrent jobs,[19] 409,000 held three, and 166,700 workers held four or more concurrent jobs. This demonstrates that while part-time work may offer flexibility and be a choice for some workers, for many others their only option is to work multiple part-time jobs.

The retail industry has one of the highest incidences of workers with multiple jobs. There are 210,000 people with a primary job in retail as well as other employment. Of those around 55,000 workers also have their second job in retail. There are an additional 135,000 workers with their primary employment in another sector, and a second job in retail.[20]

To understand the impacts of a changing workforce on both employers and their employees, Rest commissioned research in 2016, *The Future of Work*,[21] to investigate the opportunities and challenges that come with this new work landscape. Although more than three years old, elements of the research hold true today.

At the time of our research, the contingent workforce comprised workers who were most likely to be between 18 and 24 years old (30 per cent), female (70 per cent), and earning $37,000 (before tax) per annum.

Our research indicated that more than three-in-four employers (77 per cent) and seven-in-10 employees (69 per cent) surveyed expect it will become the norm for people to pick up extra work through job-related websites or apps. More recent evidence supports this expectation. Research released by the Victorian Government in 2019 suggested 13 per cent of the population have at some time engaged in 'gig' work via a digital platform, and seven per cent of the population had done so in the prior 12 months.[22]

Overall seven-in-10 contingent workers surveyed by Rest in 2016 would prefer permanent employment (either full time or part time). Three quarters of them were women.

Is the retirement system providing the support Australians need as the workforce changes?

The increasing nature of part-time and contingent work raises questions about the ability of the system to provide sufficient financial security and income in retirement. The median income in 2017 of workers in two concurrent part-time jobs was $41,386,[23] by comparison average annual

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[18] '6202.0 - Labour Force, Australia, Nov 2019', Australian Bureau of Statistics, released 19 December 2019.
[19] '6160.0 - Jobs in Australia, 2011-12 to 2016-17', Australian Bureau of Statistics, released 1 August 2019.
[20] '6160.0 - Jobs in Australia, 2011-12 to 2016-17', Australian Bureau of Statistics, released 1 August 2019.
[21] *The Future of Work, Expectations of employees and employers in a changing workforce*, research conducted by Lonergan Research between May and June 2016 of 642 employers and 1059 employees.
[22] *Digital Platform Work in Australia*, a survey of 14,013 people conducted by Queensland University of Technology, University of Adelaide and the University of Technology Sydney, and commissioned by the Victorian Government. Released 18 June 2019.
[23] '6160.0 - Jobs in Australia, 2011-12 to 2016-17', Australian Bureau of Statistics, released 1 August 2019.

earnings in the same period (extrapolated from Average Weekly Ordinary Time Earnings[24]) was $80,277. Even allowing for variations in data collection and analysis, this is a significant difference.

An individual's capacity to contribute to superannuation and accumulate other wealth outside superannuation is directly connected to their income. The lower incomes of part-time and contingent workers will therefore detrimentally affect their ability to create potential income in retirement beyond the Age Pension.

In addition, the *Superannuation Guarantee (Administration) Act 1992* provides for an exclusion for payment of the Superannuation Guarantee to employees earning less than $450 in income per month. This significantly affects people working multiple jobs, as they may be earning more than the threshold in total, but less than the threshold in each individual job.

ASFA estimates that up to 350,000 people, 220,000 of whom are women,[25] would benefit from the removal of the $450-per-month income threshold, allowing them to make much-needed contributions to their retirement savings.

Our research, *The Future of Work*, found that fewer than one-in-10 Australians are aware of the $450-per-month income threshold. In addition, 40 per cent of part-time employees and 47 per cent of contingent workers believe they are paid the superannuation guarantee from the first dollar they earn. Fewer than one-in-ten were aware that their employers are required to make Superannuation Guarantee payments to them.

This difference in treatment and lack of awareness is likely to impair working Australians' ability and preparedness to make the contributions necessary for financial security in retirement. While funds like Rest seek to educate our members about the value of contributions, the system itself requires the greater flexibility so more Australians can receive regular compulsory superannuation contributions in addition to voluntary savings.

More broadly, any changes to the retirement income system must be more flexible to recognise the changing nature of work. Retirement outcomes will become more inequitable unless the system becomes flexible enough to allow people in all forms of work to access and benefit from it.

Three: The importance of housing and debt to retirement

Housing and property are of increasing significance to the retirement income system. While increased property values have led to rising asset values for some, it has also led to higher debt levels and higher rental costs for many others. More Australians are carrying a mortgage and other debt later in life. Those who have been priced out of the property market have no option but to rent, and often at a regularly increasing cost. These realities place them at a disadvantage in retirement.

ASFA research published in December 2019 by Canstar[26] states that approximately one-in-12 people aged 65 or older lives in a private rental property, and that "whether single or in a couple, renting retirees are at a distinct financial disadvantage". A couple who privately rent need, on average, an additional $16,000 in income per year to achieve a modest retirement over those people who own their own home. To achieve a comfortable lifestyle in retirement, they will need additional income of about $20,000 per year. This represents an additional superannuation benefit at retirement of up to $500,000, or a total in excess of $1 million.

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[24] '6302.0 - Average Weekly Earnings, Australia, May 2017', Australian Bureau of Statistics, released 17 August 2017.
[25] *Pre-Budget Submission for 2018-19*, Association of Superannuation Funds of Australia, February 2018.
[26] Fahy, M, 'Renting in retirement? Here's how much super you'll need', Canstar, 16 December 2019.

The significant majority of Rest members will not achieve balances to support these expenses and a comfortable lifestyle if renting in retirement.

Rest research[27] in 2017, *The Journey Begins*, which incorporated findings from 1,048 Australians surveyed on attitudes, finances and expectations of retirement, found that many older working Australians are expecting to retire with a high level of debt. One-in-five planned to retire with a mortgage, which can cause significant financial stress in retirement. Nearly half of older workers surveyed expected to retire with debt, with their largest source of debt being credit cards (25 per cent), followed by a mortgage (21 per cent) and unpaid bills (12 per cent).

According to Roy Morgan data,[28] 40 per cent of Rest members surveyed aged 50 to 64 have a mortgage on their home. Moreover, 11 per cent of Rest members aged 65 and older still have a mortgage. The average outstanding debts (excluding credit card debt) for Rest members aged 50 to 64 year is $184,000. For those aged 65 and older, it's still $131,000.

Furthermore, while only 13 per cent of Rest's retired members surveyed have any debt (other than credit cards), it is concerning that their average debt burden of $127,000 is so high.

Roy Morgan data also showed that for Rest members surveyed aged 50 and older, 11 per cent carry forward amounts on their credit card each month, with average amounts just over $1,000. Members outside of capital cities carry a slightly higher credit-card debt, with an average of $1,379. Thirteen per cent of members surveyed do not usually pay off all credit cards each month, with men and members in capital cities less likely than other members to pay off all cards each month. While the amounts are not generally significant, it demonstrates a pattern of carrying debt forward on a consistent basis.

By comparison, the high value of some property, including the family home, especially in eastern seaboard capital cities, results in cases of high asset holdings. As the family home is not included in the assets test for the Age Pension, this can result in retired people holding significant assets but only having access to a lower income through the Age Pension.

This variety of experiences of individuals who retire with different housing status, levels of debt, and asset and income balance highlight how considerably these factors can create and exacerbate inequity in the retirement income system. It also shows that the system must mature to ensure cohesion in providing adequately from all sources: Age Pension, superannuation, the family home and other assets.

Many Rest members are using their superannuation to pay down debt:

"I took the whole lot out. I closed down my transition to retirement, took the lot and paid all my debt so that when I was fully retired, I would not have to be paying out anything."

Female, age 65, WA

Rest members often expect to need to make housing changes in retirement:

"I imagine that when I do retire, I'll be downsizing everything, probably buying the cheapest home I can live in. I'm living at … not a cheap place to live, so I expect I'll be moving somewhere where it's cheaper to buy a place or cheaper to rent a place and just live as cheaply as possible."

Male, age 54, NSW

Rest member survey, December 2019.

[27] *The Journey Begins*, Rest, May 2017, p12.
[28] Roy Morgan Single Source, 24 months to September 2019.

Four: The increasing value of the Age Pension and Superannuation Guarantee for Australians with lower superannuation balances

As demonstrated in sections one, two and three, for many Australians, superannuation and other savings will be insufficient to provide long-term income in retirement, either due to low balances, or the need to pay down debt using superannuation benefits. The Age Pension will therefore continue to play a vital role in ensuring financial security in retirement.

When coupled with the Age Pension, compulsory superannuation makes a significant difference to the lives of many vulnerable Australians in retirement. Together they can provide financial security and make a significant difference to an individual's quality of life in retirement. With the Age Pension, even a low balance at retirement can be used to pay down debt, provide a lump sum for necessities, or an additional income stream.

The interplay between these pillars should continue to be the fundamental focus of the retirement income system. However, as we've established in section two, there is a need for greater flexibility in the system to cater for the changing nature of the Australian workforce and retirement, as well as the needs and expectations of those in part-time, casual and lower-paid roles.

Work as a retirement income

Flexibility to allow people to continue some work in older age should they wish without significant adverse effect to their Age Pension or other income, is crucial. Options to 'top up' income by continuing part-time work can make a significant difference to the retirement experience, enhancing mental and physical health, a sense of worth and the peace of mind associated with supplementing other income sources.

Rest members tell us that they want the flexibility to work:

"I work 15 to 20 hours a week and over 15 hours they just cane you … It provides no incentive to get out there. My wife and I are on a part pension and we're losing up to $200 per fortnight each when I work more than 15 hours."

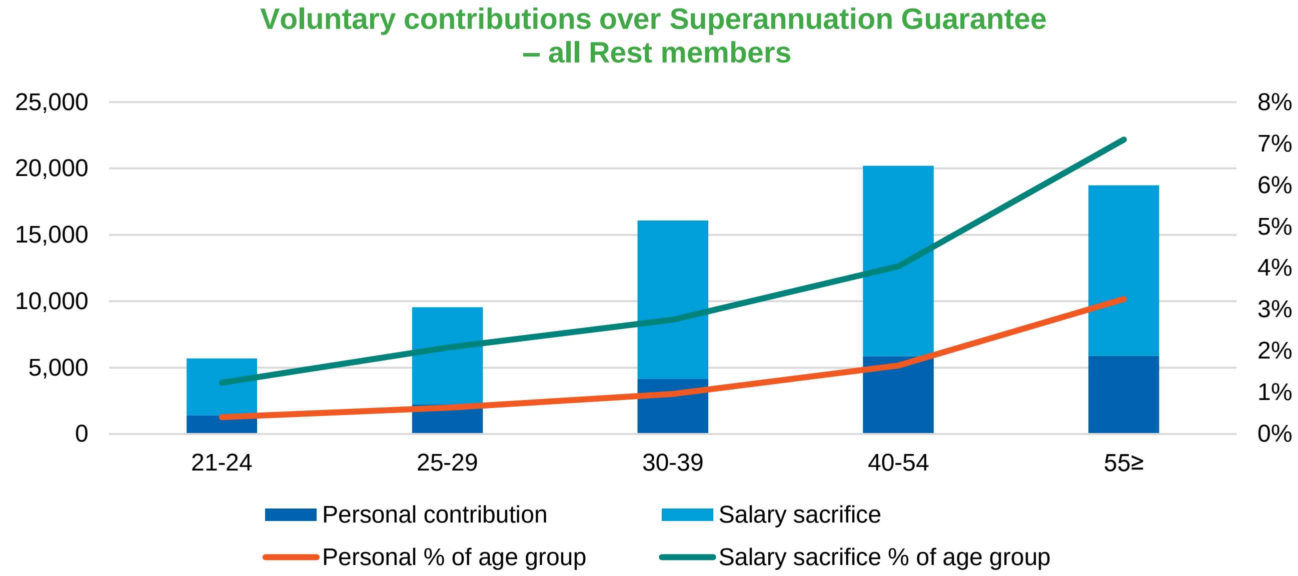
Male, age 71, Sydney

Rest member survey, December 2019.

The current Work Bonus threshold for the Age Pension does not allow sufficient flexibility for people to work part time in retirement and should be increased. In addition, employers need to extend concepts of flexibility to older working to include care of parents, partners and grandchildren.

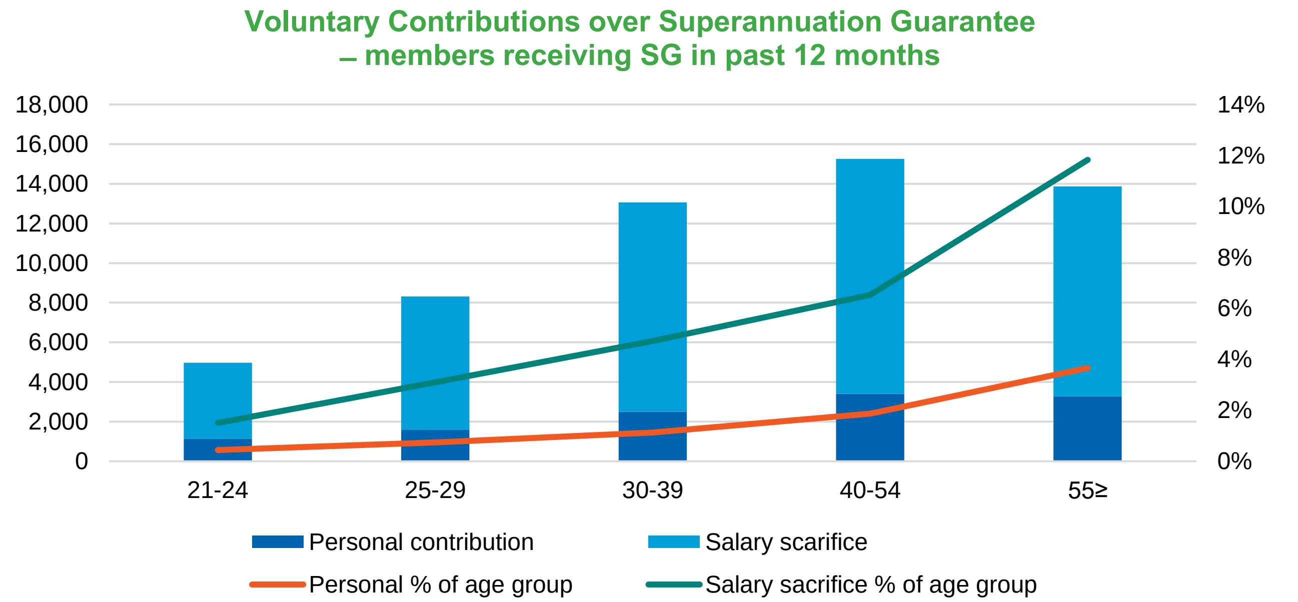
Low income earners have lower capacity to build retirement savings

The behaviours of Rest members in their working lives show a low rate of voluntary contributions to superannuation, as shown in the tables on page 12. Until members are in their late 30s, only approximately three per cent of all members are making any voluntary contributions to superannuation. This increases to about 10 per cent for members aged 55 and older.



Rest member data, contributions made in the 12 months to 29 April 2019

While the rates of voluntary contributions are higher for members who are receiving superannuation guarantee, they remain low. The rate only increases to about 12 per cent for members aged 55 and older.



Rest member data, contributions made in the 12 months to 29 April 2019

The capacity for lower-income earners, part-time workers or people with broken work patterns to build significant superannuation savings can be seen in the attributes of Rest members aged 65 or older, who are drawing down a superannuation pension.

Rest members aged 65 and older have an average superannuation balance of $121,000, which is above the ASFA Retirement Standard[29] for a modest lifestyle when combined with the Age Pension and supplements. But it is well below the standard for a comfortable lifestyle. Balances are higher for members who are drawing down a pension, as seen in the table on page 13.

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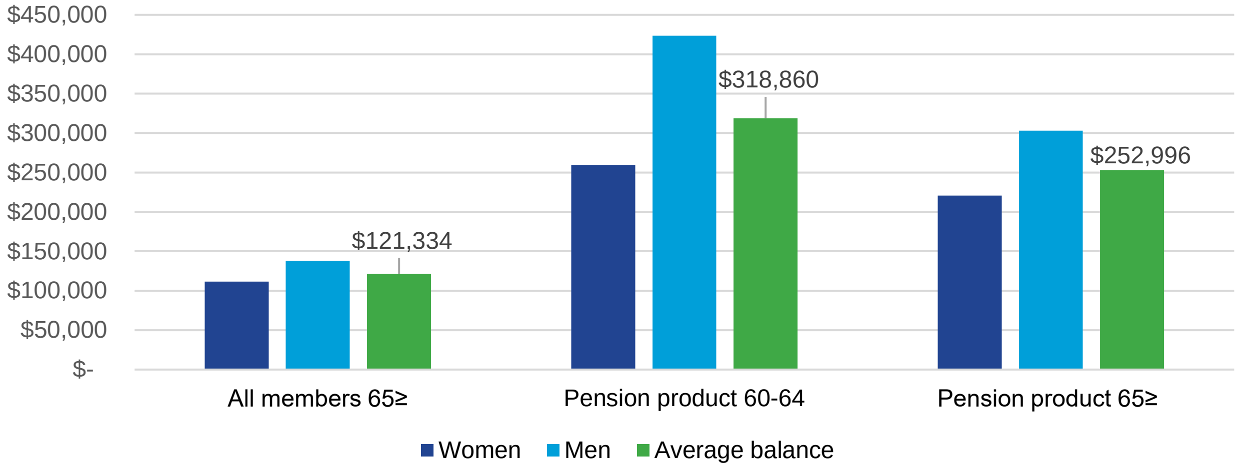
[29] The savings required at retirement for an individual with a modest lifestyle are $70,000, while a comfortable lifestyle would require $540,000 for an individual. *ASFA Retirement Standard*, The Association of Superannuation Funds of Australia, 2018.

Rest member balances at retirement



Rest member data as at 31 December 2019

Many members, therefore, will retain a high level of reliance on the Age Pension and their compulsory superannuation contributions in their retirement, given the lower balances of typical members in Rest, as detailed in Appendix one, and low rates of voluntary contribution.

Roy Morgan[30] data on Rest members shows that 55 per cent of members surveyed aged 60 to 64 are receiving only Superannuation Guarantee contributions, and only 17 per cent are making any additional contribution to their superannuation. Notably, 41 per cent of female Rest members aged 50 and older are not receiving any superannuation contributions.

In 2010, due to an ageing population and an increasing reliance on the Age Pension, the Government announced its intention to raise the Superannuation Guarantee from nine to 12 per cent. At the time, the Government estimated that the change would provide a 30-year-old worker an extra $108,000 in super at retirement.[31] In the 2014-15 Federal Budget, however, the Treasurer announced the Government's intention to delay the proposed increase to the Superannuation Guarantee. The rate will now remain at 9.5 per cent until 30 June 2021 and then increase by 0.5 percentage points each year until it reaches 12 per cent.

The Superannuation Guarantee makes a significant difference to those on lower incomes:

"We've never been big income earners. I don't know what we would have done differently but at least the super is like a savings towards that, that we might be able to … enjoy retirement more than having to worry about where every penny is going to come from; at least you got a little bit of something to fall back on."

Female, age 60, regional NSW, account balance of $100,000.

Rest member survey, December 2019.

Given that the capacity of low-income earners, part-time workers, and those with broken work patterns to generate savings outside of superannuation or to make additional voluntary contributions to superannuation, is limited, the ongoing role of Superannuation Guarantee to provide an additional income or a lump sum at retirement is significant.

For these reasons, coupled with the increase of debt levels and the decreasing rates of home ownership in retirement (as detailed in section three), it is vital that the increase to 12 per cent Superannuation Guarantee is upheld to maintain equity in the system.

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30 Roy Morgan Single Source 24 months to September 2019
31 Dillon, J, 'Super Wayne does it his way', *The Daily Telegraph*, 2 May 2010.

This is particularly critical for those on lower incomes, who may not have other opportunity to build savings for retirement through other means and will rely on a combination of the Age Pension and compulsory superannuation in retirement.

Five: The need for affordable, appropriate advice

Access to affordable, targeted financial advice is important to help more Australians make an informed decision about how they'd like to invest their money and grow their retirement savings with confidence. Simple intra-fund advice can and does make a real difference to those with relatively lower superannuation balances to maximise their retirement outcomes when coupled with the Age Pension.

However, the number of members who receive valuable financial advice is still relatively low. In the last financial year, Rest Advisers provided 5,600 Statements of Advice to our members.[32] This means about one-in-340 members sought out advice during the year. This is an underused resource that could provide a significant benefit to members as they approach retirement. Our experience shows that easy and affordable access to financial advice provides people with enhanced opportunities to achieve their lifestyle goals in retirement.

Rest represents many low- and middle-income earners, and most of our members will benefit from simple financial advice. For many Rest members, intra-fund advice provides them with very real benefits and without the requirement for more detailed, and more expensive options promoted elsewhere.

Cases like the one on page 15 show that, in planning for retirement, reasonably small changes in arrangements can make a significant difference to retirement outcomes. However, many people are not seeking out this advice.

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[32] Rest financial advice is provided by Rest Advisers as authorised representatives of Link Advice Pty Ltd ABN 36 105 811 836, AFSL 258145.

Case study

Helen is a 67-year-old single divorcee looking to retire. She owns her own home and, like an increasing number of older Australians, has a mortgage of $100,000 at an interest rate of 3.8 per cent. Her current superannuation balance with Rest is $300,000, thanks in part to a contribution from her ex-husband's superannuation. She has $5,000 in cash, a car valued at $5,000 and home contents with a Centrelink value of $5,000.

Helen spoke with a member of the Rest Advice team about her options as she prepared to stop work. After assessing her circumstances, a member of the Rest Advice team recommended that she:

1. pay off the home loan of $100,000 by withdrawing money from her superannuation;
2. commence an Account Based Pension using her remaining Rest superannuation balance and drawing the minimum $354 per fortnight ($9,203 per annum); and
3. apply for the Centrelink Age Pension to obtain a fortnightly pension of $922 ($23,973 per annum).

Helen now receives a retirement income of $1,276 per fortnight ($33,177 per annum). She saves $3,758 on interest as a result of clearing her debt. She also increased her Age Pension by $3,741 as a result of paying off her debt and reducing her super balance.

	Existing	Recommended
Financial year	2020	2020
Age	66.5	66.5
Centrelink Age Pension	$20,232	$23,973
Income from pensions	$13,796	$9,203
Total yearly inflows	$34,028	$33,177
Living expenses	$33,000	$33,000
Home loan repayment	$6,202	$0
Tax liability	$0	$0
Total yearly outflows	$39,202	$33,000
Surplus	-$5,174	$177

Rest financial advice is provided by Rest Advisers as authorised representatives of Link Advice Pty Ltd ABN 36 105 811 836, AFSL 258145.

In addition, the restrictions on the scope of intra-fund advice mean that the full value of access to knowledge and information may not be realised. Options to include, for example, the considerations of a spouse's superannuation, fund consolidation, downsizing contributions into superannuation, as part of low-cost intra-fund advice, could have a considerable benefit to fund members.

Having advice can help individuals achieve their best-possible retirement outcome according to their circumstances. Therefore, making advice more accessible and encouraging people to seek it, is an important measure to ensure the system continues to provide equity to Australians.

Six: Improve aged care planning and funding options

The effects of Australia's ageing population on the demands on the aged-care system are well known and documented in the Intergenerational Report released by Treasury.[33] An ongoing concern for Government is the cost pressure of the increasing costs of aged care. The Royal Commission into Aged Care Quality and Safety interim report and consultation papers have raised a range of issues related to aged care that relate to the connection between the retirement income system and aged-care needs, including the increased emphasis on in-home care,[34] and the extent to which older people contribute to the cost of their aged care.[35]

Increasing costs as well as an increased emphasis on in-home care require the impact of aged care to be part of the retirement income system design. This requires a holistic approach to the capacity of the three pillars of the retirement income system to ensure that adequate funding is available to meet people's needs as they commence dependency on aged-care services, whether in home or residential.

In order to meet these increasing needs, the Government needs to ensure that aged-care costs are accurately incorporated in modelling and policy for the superannuation system. For example, if a higher emphasis is to be placed on in-home care, the effect of this on ongoing housing costs into later life, especially for renters, must be well understood.

In addition, options to access home equity and superannuation benefits to fund aged care will be vital. Retirement income products, including those that may leverage home equity, will need to be designed to ensure that superannuation benefits can be effectively used to support aged-care services.

Furthermore, aged-care costs are currently not considered to directly meet the sole purpose test for superannuation[36]. As aged-care costs are related to the costs incurred in retirement, this should be reconsidered to ensure that superannuation can efficiently and effectively be accessed for the purposes of providing for aged care in later life.

Aged-care requirements are another individual circumstance that must be considered in determining equitable retirement outcomes. Two individuals with similar lifestyles and account balances at retirement could have vastly different experiences depending on their aged-care needs. Addressing this emerging issue is key to ensuring the system continues to provide equity to an ageing population.

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[33] The Commonwealth of Australia, *2015 Intergenerational Report*, March 2015

[34] *Background Paper 2: Medium- and long-term pressures on the system: the changing demographics and dynamics of aged care*, Royal Commission into Aged Care Quality and Safety, 1 May 2019.

[35] *Consultation Paper 1: Program Design in Aged Care,* Royal Commission into Aged Care Quality and Safety, 6 December 2019.

[36] *Superannuation Industry (Supervision) Act 1993*, Section 62

Appendix one: About Rest and our members approaching retirement

About Rest

The Retail Employees Superannuation Trust (Rest) is one of Australia's largest industry superannuation funds by membership, with around 1.7 million members across Australia – or about one-in-eight working Australians – and around $60 billion in funds under management as at 31 December 2019. Rest has looked after superannuation and insurance for workers in the retail industry since 1988 and has been open to all Australians since 1998.

Rest is passionate about helping members achieve their personal best retirement outcomes

Rest members approaching retirement

There were more than 265,000 Rest members aged 50 or older as at 31 December 2019, or around 15 per cent of Rest's total membership base.

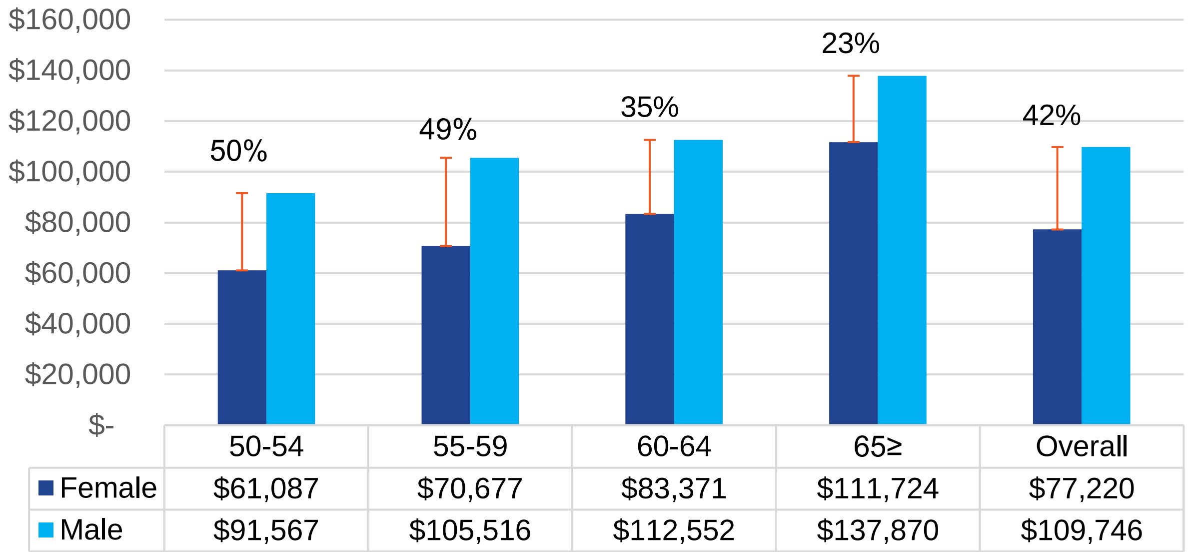
The typical balance for members in this age group is $87,420. Rest members aged 65 and older have an average super balance of $121,334.

Age band	Number of members	Number of female members	Number of male members	% of total members 50≥	Average balance
50-54	85,593	59,761	25,832	32%	$70,286
55-59	76,799	54,466	22,333	28.7%	$80,808
60-64	55,209	37,825	17,384	20.6%	$92,560
65+	49,848	31,526	18,322	18.6%	$121,334
Total	**267,449**	**183,578**	**83,871**	**100%**	**$87,420**

Rest member data, 31 December 2019.

Women make up 69 per cent of our total members aged 50 and older and have an average balance of $77,220. This means the $109,746 average account balance for male Rest members aged 50 and older is 42 per cent higher. The gender gap in account balances is most profound in the 50-54 age band, in which men have 50 per cent more than women.

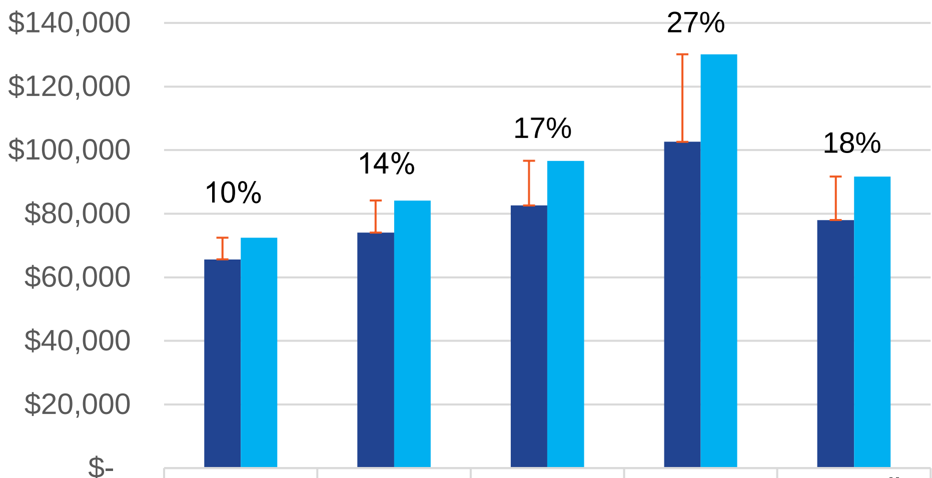
Average account balance by age band and gender



Rest member data, 31 December 2019.

Rest members aged 50 and older who live outside of the capital cities have an average balance of $78,020, while those in metropolitan areas have 18 per cent more. Rest's capital city-based members aged 65 and older have 27 per cent more on average in their accounts than their counterparts in regional Australia.

Average account balance by age band and location



	50-54	55-59	60-64	65≥	Overall
Regional members	$65,657	$74,066	$82,600	$102,604	$78,020
Captial city members	$72,458	$84,161	$96,648	$130,141	$91,691

Rest member data, 31 December 2019.

Rest Pension members

Rest has more than 13,000 members drawing down a superannuation pension, with an average balance of nearly $260,000. Rest's female members in pension phase have an average balance of $225,000 – nearly $90,000 or 40 per cent less than the male average balance of $314,000.

Age band	Number of members	Number of female members	Number of male members	Female average balance	Male average balance	Overall average balance
60-64	1,380	881	499	$259,503	$423,656	$318,860
65+	12,894	7,219	4,660	$220,798	$302,875	$252,996
Total	**13,259**	**8,100**	**5,159**	**$225,007**	**$314,558**	**$259,851**

Rest member data, 31 December 2019. Excludes members in a Transition to Retirement product.

Rest members 50 or older receiving a Statement of Advice

Only around four per cent of our members aged 50 or older have previously received a Statement of Advice from Rest Advice. For those who have, their average account balance is $166,000. This is nearly double the overall average balance for members in this age cohort.

Received advice	Female average balance	Male average balance	Overall average balance
Yes	$140,636	$219,028	$166,221
No	$77,088	$110,293	$87,363

Rest member data, 31 December 2019.

Appendix two: Rest’s 2017 research into the attitudes and experience of retirement[37]

In January 2017, Rest commissioned research into the attitudes and expectations of Australians facing retirement. This research was a survey of 1,048 Australians, including 243 younger Australians aged 35 to 49; 405 aged 50 years and older and still working; and 400 retired people.

The research compared the finances, attitudes and expectations of older workers against those who have already retired and those aged 35 and older who are more than 17 years away from being eligible for the Age Pension.

Planning for a longer retirement

Respondents to Rest’s survey, on average, expected to retire at 67, and one-in-five felt they would retire later than they would like.

Rest’s research found respondents aged between 35 and 49 were more likely to plan for a longer retirement than their older counterparts, because they expected to live longer than their forebears.

Older workers who expected to retire later than they’d like cited financial considerations as the reason. These included insufficient superannuation (64 per cent), lack of financial support from the government (46 per cent), too much debt (29 per cent) and the need to support their families (16 per cent).

Attitudes to financial stability

Only 60 per cent of respondents to the survey said they felt financially stable, while those in regional and rural areas felt especially vulnerable (only 49 per cent felt financially stable). Retired respondents generally felt financially stable, however this meant that 22 per cent of those surveyed do not.

Women felt relatively less confident about managing their finances with 77 per cent feeling confident, compared to 85 per cent for men.

The reality of retirement

The research found that, across all the age groups surveyed, the expected costs of retirement were significantly less than what retired respondents actually experienced.

This highlighted a discrepancy between the expectations and reality of retirement spending, as those who were still working expected to spend substantially more those who were retired.

This suggested that those who were still working were overestimating the amount of savings they’d actually need in retirement. Younger Australians and those aged 50 and older, on average, anticipating they’d require additional $33,000 per year than they’d actually need during their retirement.

The older workers surveyed expected to need an average of $51,896 each year in retirement, which was almost twice the average amount estimated they actually spent each year: $30,281.

[37] This text is an edited excerpt from Rest’s response to the consultation paper issued by the on development of the framework for Comprehensive Income Products for Retirement (CIPR), submitted on 7 July 2017.

This data aligned closely with ASFA's Retirement Standard available at the time of the research, which said that couples should expect to spend $34,687 per year for a modest lifestyle in retirement.

Older Australians expect to rely less on the pension

There appeared to be a shift in attitude towards the Age Pension. The research showed a significant decrease in the reliance on government support.

Fifty-eight per cent of people accessed the Age Pension or other Centrelink benefits, whereas only 33 per cent of the older workers surveyed and 22 per cent of younger Australians expected to need government assistance.

Attitudes towards retirement spending

Older workers who were frugal or on a strict budget were likely to fund more of their retirement through the Age Pension and superannuation benefits (59 per cent) compared with those who could spend freely (47 per cent).

This was also true for those already retired, whose attitude towards spending directly correlated with a dependency on the Age Pension and Centrelink benefits. People who relied heavily on these income sources were very frugal.

The research also showed that, as dependency on the Age Pension and Centrelink benefits reduced, spending increased. Those who spent more generously tended to fund their retirement primarily through superannuation (32 per cent) or other investments (40 per cent). This difference indicated older workers were perhaps over-vigilant with their spending.

The findings supported a view that many retired Australians were underspending and not enjoying the standard of living they could afford.