



## SIX ACTIONS FOR A FAIRER AND MORE SUSTAINABLE AUSTRALIA

### Rest Super 2024-25 Pre-Budget Submission

25 January 2024

#### Executive Summary

Rest values the opportunity to provide a 2024-25 Pre-Budget Submission.

Rest is one of Australia's largest profit-to-member industry superannuation funds with two million members – or around one-in-seven working Australians – that manages assets of around \$80 billion<sup>1</sup>. We represent around one million members under the age of 30, who are decades from retirement. Many of our members work in part-time or casual jobs and tend to have lower balances by the time they reach retirement. We put our members needs at the centre of everything we do, and we are deeply committed to maximising the retirement outcomes of our members.

The achievements of the compulsory superannuation system, particularly for lower-income Australians, cannot be overstated. Even for members who retire with lower account balances, having access to super provides them with valuable security and an ability to plan and manage this stage of their lives. Before compulsory superannuation, these workers often had no income in retirement beyond the Age Pension.

However, having passed the 30th anniversary of compulsory superannuation, it is clear the system must urgently adapt to the emerging economic and demographic trends in Australia, or risk entrenching unfairness and inequity.

As a superannuation fund and a large and diversified global institutional investor, Rest's recommendations focus on the superannuation, finance and investment settings we consider are needed to improve our members' retirement outcomes and the world into which they will retire. Around 80% of our membership will retire into a post-2050 world.

In summary, Rest makes the following six priority recommendations to the Commonwealth Government to enact in the 2024-25 Budget:

- 1. Recommendation 1 (Priority Recommendation):** That the Commonwealth Government legislate, without delay, for the payment of superannuation guarantee contributions on the Commonwealth Parental Leave Pay scheme.
- 2. Recommendation 2:** That the Commonwealth Government update the Low Income Super Tax Offset (LISTO) settings so that:
  - 1) The income threshold is raised from \$37,000 to \$45,000;
  - 2) The annual cap is increased from \$500 to \$750; and
  - 3) Arrangements are put in place to align future LISTO settings to the top of the second tax bracket and future super guarantee rate increases.

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<sup>1</sup> As at 31 December 2023.

3. **Recommendation 3:** That the Commonwealth Government legislate to extend the superannuation guarantee to all under 18s including those working less than 30 hours per week, with an appropriate transition period for businesses.
4. **Recommendation 4:** That the Commonwealth Government consult with First Nations peoples and the First Nations Super Working Group with a view to reforming superannuation binding death benefit nomination arrangements (and associated taxation arrangements) to recognise kinship structures for First Nations peoples.
5. **Recommendation 5:** That the Commonwealth Government, working with State and Territory Governments, prioritise the following three actions to catalyse institutional investment in social and affordable housing:
  - 1) Improving planning and zoning systems and increasing land availability for large-scale social and affordable housing projects.
  - 2) Reviewing and standardising definitions relating to social and affordable housing, including a national definition of essential workers, which includes retail workers, eligible for affordable housing.
  - 3) Reviewing and improving the regulatory environment applying to housing investments by super funds.
6. **Recommendation 6:** That the Commonwealth Government outline a roadmap (and provide appropriate resourcing within Government) for the next phase of the sustainable finance agenda, including a focus on decent work and social and economic inequality.

## 2024-25 Budget Recommendations

We outline below further context and detail in relation to Rest's six priority recommendations.

### 1. Action on the Gender Super Gap – Super on Parental Leave

Rest proudly represents well over one million women, including around one in every five young women in Australia. Women are nearly 60% of Rest's membership. Many of our female members work in low-income part-time, casual or seasonal jobs, and take time off work to care for children or others. Our female members generally approach retirement with modest account balances that are significantly lower than their male counterparts.

The gender super gap for retirement balances for Rest members sits at around 26%<sup>2</sup>. We know that significant work is required to improve superannuation system settings to address this imbalance, including through dealing with the "motherhood penalty" suffered by those (predominantly women) who engage in unpaid caring work, such as time on parental leave.

Despite the huge economic value parents (generally women) provide to Australia through unpaid caring work, parental leave remains the only common form of leave which does not attract compulsory superannuation contributions.

Rest supports the payment of the superannuation guarantee on every dollar earned<sup>3</sup>, including on parental leave (both government and employer-funded). As a priority step towards closing the gender

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<sup>2</sup> For Rest members aged 60-64. As at 30 June 2023, the average balance for Rest's female members aged 60 to 64 was \$86,300, compared to \$116,200 for male members. This is a gender gap of 25.8 per cent.

<sup>3</sup> We note that, in its March 2022 report Systemic, Sustained and Shameful: Unlawful underpayment of employees' remuneration, the Senate Economics References Committee recommended that the Government consider amendments to the *Superannuation Guarantee (Administration) Act 1992* to require Superannuation Guarantee payments to be made "on every dollar earned, to achieve simplicity and ease of compliance."

super gap, Rest urges the Commonwealth Government to legislate, without delay, for the payment of super on the Commonwealth Parental Leave Pay scheme. This measure is Rest's priority recommendation for the Commonwealth Government in the 2024-25 Budget.

Modelling from the Super Members Council of Australia (SMC) shows the significant difference paying super on the Commonwealth Parental Leave Pay scheme would make. A mother of two children who received super on the Commonwealth Parental Leave Pay scheme would be \$14,500 better off in retirement (or nearly 17% better off, for a typical Rest member). A mother of one would be \$7,500<sup>4</sup> better off (or nearly 9% better off, for a typical Rest member). For low-income workers like our members, this change would make a material difference to their retirement.

Rest has long advocated for this important measure to improve women's retirement outcomes, as have many others. While we acknowledge the Commonwealth Government is supportive of paying super on the Commonwealth Parental Leave Pay scheme and has confirmed it will implement this measure when budget conditions allow, we urge the Government to implement this long-overdue and non-inflationary measure in the 2024-25 Budget.

Each year that this reform is delayed means women are missing out on vital super contributions. Now is the time for this fundamental inequity in our superannuation system to be fixed.

**Recommendation 1 (Priority Recommendation):** That the Commonwealth Government legislate, without delay, for the payment of superannuation guarantee contributions on the Commonwealth Parental Leave Pay scheme.

## 2. Reforming the LISTO to benefit low-income earners

The flat 15% concessional taxation arrangements applying to superannuation generally benefit high-income earners. The top 20% of income earners receive 51% of super tax concessions, whereas the bottom 30% of households receive just 4% of super tax concessions<sup>5</sup>.

The Low Income Super Tax Offset (LISTO) goes a small way to making super tax arrangements fairer for low-income earners like our members.

The LISTO is a hugely important measure for Rest members, with nearly half a million members receiving the benefit<sup>6</sup> each year. Around 65% of those members are women. However, between the ages of 26 and 40, 70% of Rest members receiving the LISTO are women.

The LISTO provides a refund of the 15% tax paid on super contributions, up to \$500, for those earning up to \$37,000 per year. This is in recognition that low-income earners shouldn't pay more tax on their super than on their wages. The threshold of \$37,000 was based on the top of the second tax bracket at the time the LISTO was introduced (which has since increased to \$45,000), and the capped amount of \$500 was also based on the super guarantee rate at the time, which has since increased (currently 11%).

The failure to update the LISTO settings over time means our members are missing out on vital additional superannuation, and some are paying more tax on super than on their take-home pay. This particularly impacts women, and particularly during ages where women are more likely to take time out from the workforce or reduce hours to care for children.

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<sup>4</sup> Modelling provided by Super Members Council of Australia (January 2024), of which Rest is a member fund.

<sup>5</sup> The Australia Institute (April 2021). [Rich Men and Tax Concessions](#). Page 12.

<sup>6</sup> Over 450,000 Rest members received the LISTO in the 2021-22 Financial Year.

Rest strongly recommends that this inequity is remedied and LISTO settings are updated so that the income threshold for LISTO is raised from \$37,000 to \$45,000, the annual LISTO cap is increased from \$500 to \$750, and arrangements are put in place to align future LISTO amounts to the top of the second tax bracket and future super guarantee rate increases.

Industry modelling shows that these changes would make a very significant difference. They would mean a 30-year old woman earning \$40,000 would have \$56,170 more in her superannuation account at retirement<sup>7</sup>.

**Recommendation 2:** That the Commonwealth Government update the Low Income Super Tax Offset (LISTO) settings so that:

- 1) The income threshold is raised from \$37,000 to \$45,000;
- 2) The annual cap is increased from \$500 to \$750; and
- 3) Arrangements are put in place to align future LISTO settings to the top of the second tax bracket and future super guarantee rate increases.

### 3. Making super fairer for young people – Super for under 18s

Rest proudly represents around one million members under the age of 30. We represent around one in every five young women in Australia, and nearly one in every four super fund members under 25 are members of Rest. These members are decades from retirement and will rely on our superannuation system to provide them with a dignified retirement. We are committed to advocating for measures that will make the super system fairer for our members and improve their retirement outcomes, including in relation to the treatment of workers under 18 years of age<sup>8</sup>.

Section 6 of the *Superannuation Guarantee (Administration) Act 1996* (SG Act) defines a part-time employee to be one who is employed to work not more than 30 hours per week. Section 28 of the SG Act “Salary or wages: excluded earnings of young persons” provides that salary or wages of a part-time employee who is under 18 are not to be taken into account for the purposes of the entitlement to compulsory superannuation.

The effect of these sections is to impose a discriminatory and arbitrary requirement for those who are under 18 years of age to work 30 hours per week, before being entitled to compulsory superannuation contributions. The overwhelming majority (92%) of under-18-year-old workers work less than 30 hours per week in their main job, meaning these workers are missing out on compulsory super guarantee contributions<sup>9</sup>. The overwhelming majority (73.3%) of under-18-year-olds work in the Accommodation and Food Services, and Retail Trade industries<sup>10</sup>.

Rest strongly believes that the full benefits of our superannuation system should be extended to all workers, including those under 18 and working less than 30 hours a week, noting:

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<sup>7</sup> Industry Super Australia (2020). [A super tax adjustment is needed to stop women taking further hits to their retirement savings.](#)

<sup>8</sup> A recent Rest survey found that 82% of young Rest members think super funds should find ways to support young people. Research carried out by Instinct & Reason. Data was collected over a 22-day period from 5 September 2023 to 26 September 2023 using an online survey. Total sample was 1,596, including 516 Rest members aged 18 to 34.

<sup>9</sup> HILDA Survey data, as referenced in Industry Super Australia (2023). [Super Start to Work: Extending the Super Guarantee to all Under-18-Year Olds.](#) Page 7.

<sup>10</sup> As above. Page 10.

- Industry modelling shows the significant benefits of extending the super guarantee to under 18s. Extending the full benefits of compulsory super to under 18s would mean around 375,000 workers across Australia would receive, on average, \$885 in additional super contributions in 2023-24, amounting to an extra \$330 million in super contributions in total in 2023-24<sup>11</sup>. The modelling shows that this would mean the average under-18-year-old would receive a \$2,600 increase in their super, by the time they reach 18, and an additional \$10,200 (in today's dollars) to their retirement balance by the time they reach age 67.<sup>12</sup>
- We know that, when young members engage with their superannuation, they feel more confident about their future. Earlier and more regular engagement can lead to better retirement outcomes. This hugely important change would mean young people start their working lives with a more positive and meaningful engagement journey with our superannuation system.
- The change would be consistent with, and further promote, the Government's proposed Objective of Superannuation. It would further the "equitable" component of the Objective by treating ordinary time earnings of under 18s in the same way as those of over 18s.

Rest therefore recommends that the Government legislate to extend the superannuation guarantee to all under 18s, including those working less than 30 hours per week.

Rest acknowledges the impact that such a reform would have on business, particularly small and medium-sized businesses. Accordingly, in advance of legislating this reform, Rest recommends that the Government engage in detailed consultation, including regarding a multi-year staged and phased transition and implementation of the change.

**Recommendation 3:** That the Commonwealth Government legislate to extend the superannuation guarantee to all under 18s including those working less than 30 hours per week, with an appropriate transition period for businesses.

#### 4. Action on First Nations disadvantage in superannuation

Rest recognises the role we can play in helping to achieve reconciliation and addressing inequalities that exist for our First Nations members. Rest estimates that we have as many as 75,000 members who identify as Aboriginal or Torres Strait Islander<sup>13</sup>, located in urban, regional and remote parts of Australia. We recognise the unique challenges facing our First Nations members that can affect their access to and experience of the superannuation system.

Rest launched our Reflect Reconciliation Action Plan in 2023, which sets out our plan to contribute to reconciliation and the creation of a more fair and equitable super system. We are focused on understanding the needs and experiences of our First Nations members so we can better design our products and services to help all our members achieve their personal best retirement outcomes.

We also believe there are opportunities at a system-wide level for improving outcomes for First Nations members. In doing so, at all times, we must understand and listen to First Nations voices and stories.

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<sup>11</sup> As above. Page 4.

<sup>12</sup> As above.

<sup>13</sup> Rest research commissioned in 2022.

While acknowledging there is so much more work to do, one area where we believe there is opportunity to improve super for First Nations peoples concerns binding death benefit nomination arrangements.

Under current arrangements, binding and non-binding superannuation death benefit nominations can only be made to a legal personal representative or a dependant. A dependant is a spouse, child or 'any person with whom the person has an interdependency relationship.'<sup>14</sup> There are a number of tests for an interdependency relationship<sup>15</sup>. However the tests don't directly address or guarantee the inclusion of First Nations kinship structures, which include broader notions of relationships to others and land. These collective structures are hugely important to First Nations cultural identity<sup>16</sup>.

Following a recommendation to Government in the Final Report of the Financial Services Royal Commission<sup>17</sup>, in March 2019 Treasury released a discussion paper *Superannuation binding death benefit nominations and kinship structures*<sup>18</sup> seeking views on what, if any, changes are needed to address how First Nations kinship structures are treated by laws relating to superannuation death benefits. The discussion paper provided some illustrative examples of how the current laws could impact First Nations peoples. For example, a young adult who nominates their brother to receive their superannuation death benefits, consistent with expectations of community kinship structures, has the nomination deemed invalid by the super trustee as the brother does not fall under the legislative definition of 'dependant'.

To date, the outcomes from the Treasury consultation from 2019 have not been released.

The Australian Institute of Superannuation Trustees made a number of submissions calling for consultation to occur with First Nations communities and supporting a broadening of the definition of dependency to recognise First Nations kinship structures<sup>19</sup>.

Rest strongly supports the Commonwealth Government consulting with First Nations peoples and the First Nations Super Working Group with a view to reforming superannuation binding death benefit nomination arrangements (and associated taxation arrangements) to recognise kinship structures for First Nations peoples.

As a result of these consultations, we would also encourage the development of a framework and appropriate guidance material for trustees to use when providing benefit payments to First Nations family members.

This is one small step that should be taken, while acknowledging that we have a lot more work to do to ensure that the superannuation is fair and inclusive for First Nations members.

**Recommendation 4:** That the Commonwealth Government consult with First Nations peoples and the First Nations Super Working Group with a view to reforming superannuation binding death benefit nomination arrangements (and associated taxation arrangements) to recognise kinship structures for First Nations peoples.

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<sup>14</sup> Section 10(1), *Superannuation Industry (Supervision) Act 1993*.

<sup>15</sup> Section 10A, *Superannuation Industry (Supervision) Act 1993*.

<sup>16</sup> Australian Institute of Superannuation Trustees (AIST) (2023). 2023-24 Pre-Budget Submission to the Assistant Treasurer and Minister for Financial Services. Page 8.

<sup>17</sup> Financial Services Royal Commission (2019). *Final Report*. Vol 1, page 254.

<sup>18</sup> Treasury (2019). *Superannuation binding death benefit nominations and kinship structures*.

<sup>19</sup> For example, see above at (16). See also: Australian Institute of Superannuation Trustees (AIST) (2021). *Submission to House Standing Committee on Indigenous Affairs re: How the corporate sector establishes models of best practice to foster better engagement with Aboriginal and Torres Strait Islander consumers*. Page 4.

## 5. Catalysing further institutional investment in Social and Affordable Housing

Access to affordable, safe and secure housing is an issue of huge importance to Rest. The COVID-19 pandemic demonstrated the importance of essential frontline workers, including retail workers, to society and the economy. Yet our members, particularly retail workers, are disproportionately impacted by the lack of affordable housing, specifically due to the prevalence of part-time, casual and seasonal work patterns in the retail sector. These arrangements can lead to variable income, making it harder to accumulate a deposit, rental bond or to have certainty of employment and income.

Rest members over the age of 50 are more likely than the general population to be single, renting or still paying a mortgage, and on average have less wealth outside superannuation. The availability and affordability of housing is undoubtedly a significant contributor to the retirement outcomes of our members, a factor acknowledged in the final report of the [Retirement Income Review](#) in 2020.

Rest has been a significant investor in residential housing overseas (particularly the United States) since 2014. Rest has also invested significantly in purpose build student accommodation in Australia and overseas, and holds NHFIC bonds as part of our debt asset class. These investments have all provided attractive risk and return benefits for our members, while contributing to increasing housing stock.

However, existing barriers to entry for institutional investors like Rest have made investment, at scale, in social and affordable housing in Australia challenging.

Rest is a signatory to, and strong supporter of, the Commonwealth Government's Housing Accord. We take seriously our commitments under the Accord to work constructively with government to optimise policy settings to facilitate institutional investment in affordable housing, and to increase our investment in affordable housing where it is in the best financial interests of our members to do so.

There is a significant opportunity for the Government to work to decrease the risk profile of housing-related investments, thereby making them more attractive to institutional investors, particularly when compared to alternative investment options. We acknowledge the work underway by the Commonwealth, State and Territory Governments in this regard.

Rest recommends that the Commonwealth Government, working with State and Territory Governments, prioritise the following three actions<sup>20</sup>:

1. Improving planning and zoning systems for large-scale housing projects (including quicker decisions and higher certainty of planning outcomes) and increasing land availability for social and affordable housing projects, while maintaining an important focus on ensuring housing projects are sustainable and energy efficient.
2. Reviewing and standardising definitions relating to social and affordable housing, to provide a comparable and level-playing field for investors across jurisdictions. This should include a national definition of essential workers, which includes retail workers, eligible for affordable housing.<sup>21</sup>
3. Reviewing and improving the regulatory environment applying to housing investments by super funds, including improvements to the Performance Test and ASIC Regulatory Guide 97 (Disclosure of Fees and Costs). In that regard, we note and welcome the Government's recently announced consultation on reforms to the Performance Test and look forward to

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<sup>20</sup> Some of these actions were also proposed by the Interim National Housing Supply and Affordability Council's July 2023 Report to Government, [Barriers to Institutional Investment, Finance and Innovation in Housing](#).

<sup>21</sup> Further detail on this, and other related proposals, can be found in the John Curtin Research Centre's April 2023 Policy Report, [Super Solutions: Tackling Australia's Housing Affordability and Supply Crisis](#).

participating. In relation to RG 97, we note stamp duty is included as a reportable transaction cost which can impact the attractiveness of housing investments relative to other asset classes.

We consider that these three actions will go a significant way to removing barriers which have stood in the way of institutional capital being deployed, at scale, to help solve our nation's housing challenges.

**Recommendation 5:** That the Commonwealth Government, working with State and Territory Governments, prioritise the following three actions to catalyse institutional investment in social and affordable housing:

- 1) Improving planning and zoning systems and increasing land availability for large-scale social and affordable housing projects.
- 2) Reviewing and standardising definitions relating to social and affordable housing, including a national definition of essential workers, which includes retail workers, eligible for affordable housing.
- 3) Reviewing and improving the regulatory environment applying to housing investments by super funds.

## 6. Continuing and prioritising the next phase of the Sustainable Finance Agenda

Rest strongly supports the Commonwealth Government's sustainable finance agenda, including the work on the Sustainable Finance Strategy<sup>22</sup>, Sustainable Finance Taxonomy, the proposed Climate-related financial disclosures framework<sup>23</sup> and the Sovereign Green Bonds program. These workstreams are hugely important for mobilising private sector investment in support of Australia's emissions reductions targets and transition to a low-carbon economy.

Around 80% of Rest's membership will retire into a post-2050 world, and we understand how important it is that we manage the financial risks posed by climate change to our members' retirement savings, while harnessing opportunities as the world transitions to a low-carbon future.

The role of Government in setting appropriate policies and frameworks to support these objectives is crucial, and we acknowledge the significant progress on these initiatives. We also acknowledge the resourcing required within Government to progress this important work.

Rest strongly supports the 'climate first' approach (which includes considerations relating to biodiversity and the social and economic impacts of climate change on affected workforces and communities) to sustainable finance reforms, given the need for urgent action. Treasury's consultation paper on the Sustainable Finance Strategy also acknowledged that markets are increasingly focussed on sustainability issues that extend beyond climate change<sup>24</sup>.

While maintaining the priority on climate-related sustainable finance reforms, Rest would encourage the Government to outline a roadmap (and provide appropriate resourcing within Government) for additional environmental and social focus areas for consideration as part of the next phases of the sustainable finance agenda.

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<sup>22</sup> Rest's November 2023 submission to Treasury regarding the Sustainable Finance Strategy can be found [here](#).

<sup>23</sup> Rest's February and July 2023 submissions to Treasury regarding Climate-related Financial Disclosure can be found [here](#) and [here](#).

<sup>24</sup> Treasury (2023). [Sustainable Finance Strategy Consultation Paper](#).



As a profit-to-member industry superannuation fund representing many young workers, women, low-income earners and workers engaged in part-time or casual jobs, Rest would also welcome a focus on matters relating to decent work and social and economic inequality<sup>25</sup> as part of that roadmap.

**Recommendation 6:** That the Commonwealth Government outline a roadmap (and provide appropriate resourcing within Government) for the next phase of the sustainable finance agenda, including a focus on decent work and social and economic inequality.

## Conclusion

Rest values the opportunity to provide a 2024-25 Pre-Budget Submission. We would welcome the opportunity to further discuss any matters outlined in this submission. For that purpose, please contact Enrico Burgio, Rest's Head of Public Policy, on [enrico.burgio@rest.com.au](mailto:enrico.burgio@rest.com.au).

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Rest submissions are current as at the date of publication. Information may not be current and up-to-date after the date of publication. Please note the date of issue and check Rest's website for other information on the same or related matters.

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<sup>25</sup> Including areas dealt with by Sustainable Development Goals 5 (Gender Equality), 8 (Decent Work and Economic Growth) and 10 (Reduced Inequalities).