

9 June 2020

Mr Stephen Boyd
Secretary
House of Representatives Standing Committee on Economics
Parliament House
Canberra ACT 2600

BY EMAIL ONLY

Dear Mr Boyd

Industry Super Australia's response to questions taken on notice from the House of Representatives Economics Committee hearing of 14 May 2020 and other questions.

1. I write in response to the questions taken on notice arising from Industry Super Australia's (ISA) appearance before the House of Representatives Economics Committee (the Committee) on 14 May 2020 and other questions.
2. While we consider several of the Committee's recent questions to fall outside its terms of reference, in the spirit of cooperation it is our intention to assist the Committee as far as possible. Notwithstanding this, we do reserve our right to seek clarification from the Committee on how questions fall within the terms of reference in the future if required.
3. We thank the committee for the opportunity to appear before it on 14 May 2020. Regarding **ISA22QW** and **ISA17QW** we have nothing further to add to the comprehensive responses ISA provided in that hearing.

Insurance threshold (ISA25QON)

4. ISA does not have access to the data needed to provide an accurate figure. As we canvassed in the hearing, there have been reports of more than 100,000 members' accounts being drained which in many cases would have adverse insurance implications. However, to determine how many members have reduced their accounts below the \$6,000 threshold the most accurate information will be contained in the APRA fund level superannuation data set, released annually (data to end June).

Superannuation Guarantee (ISA23QON)

5. Consistent with evidence ISA gave in the hearing of 14 May 2020, the relationship between the superannuation guarantee (SG) and wages is widely contested.
6. Domestically and internationally, the evidence is mixed on the economic incidence of social contributions and payroll taxes. Also important to the debate are interactions with the tax and transfer system.

7. ISA's internal modelling team is led by Mr Phil Gallagher, PSM. That team presented a range of scenarios and trade off positions to inform the public debate on these matters, it should not be assumed that ISA accepts those wage trade-off positions. Largely that work has concluded there is no basis to support a direct one-to-one trade off with wages.
8. As ISA outlined, historic trends show wages growth fluctuating at different rates while the SG has remained flat. There was robust real wage growth during the period where the SG was initially phased in with productivity improvements a key funding source. Undeniably there are many factors that impact on wages.
9. Research from the Centre for Future Work (commissioned by ISA) demonstrated significant flaws in the assertion that SG increases would be fully borne by employees, citing historical evidence and logical inconsistencies with labour supply and demand models.
10. It was acknowledged in the committee hearing that the Reserve Bank of Australia, Treasury and other institutions have also examined this issue and hold a range of differing views. The Fair Work Commission has specifically rejected the proposition that SG increases should be fully incident on employee wages. The nuanced and inconclusive language often used reflects the complexity of the relationship between SG and wages. The position of the Grattan Institute continues to be challenged publicly.
11. On 26 February 2020, the *Australian Financial Review* published an opinion piece by Mr Gallagher PSM which examined these issues. That opinion piece can be viewed here: <https://www.afr.com/policy/tax-and-super/why-more-super-later-doesn-t-mean-less-to-spend-now-20200225-p5446v>
12. Scenario modelling used in this piece assumes a partial offset of 70 per cent, a similar rate ISA has used in other public forums as recently as December 2019. Even taking that conservative approach with a 70 per cent trade-off, a couple each earning \$50,000 could either have an extra \$111 to spend a year while they are working if the super rate doesn't increase, or \$4,350 a year extra in today's dollars to spend for 25 years in retirement if it does.
13. The objective of assuming an offset scenario is not to recognise that rate as correct but rather to show that even with the highest wage offset assumptions there remains an undeniable case for increasing the SG, as workers of all income levels are better off overall.
14. A gradual and manageable increase in the SG has been locked into law for a long time. It has already faced delays and while the detrimental impact on workers' retirement savings due to that has been considerable, it has provided businesses with a longer lead time to adjust and factor the law into their operations.
15. Deepening the importance of this legislated gradual rise is the need to rebuild member balances particularly those reduced by accessing their super early under the government's temporary measures.
16. Significantly in the current context there is evidence that following the 1991 recession the rebound in economic growth and employment coincided with an incremental but steady increase in the SG.

Regulatory matters (ISA2QON, ISA16QW, ISA3QON).

17. ISA and its member funds operate in a highly regulated environment that is subject to frequent policy change. We have robust systems in place to make sure that in putting members interests first we are fully conversant with relevant laws, regulations and prudential guidance, and communicate any changes with funds. Legal advice ISA receives is subject to legal professional privilege and is confidential. ISA's expenditure for 2018/19 is on its website, years prior to that are not publicly disclosed. Research expenditure is commercially confidential information for sound reason, however we can advise the Committee that matters relating to advertising, among many others, were examined extensively by the Hayne Royal Commission and resulted in no adverse findings.

Political Donations (ISA26QON, ISA20QW)

18. ISA does not make political donations.
19. Like hundreds of other organisations, businesses and institutions, ISA attends the government's budget night function and opposition budget reply function, tickets cost \$800 per person and two ISA employees attended both events in 2018/19.
20. The Labor Party has a lower reporting threshold for receipts to the AEC than the Liberal Party which explains why the AEC reported this expenditure on its website for the opposition (Labor) event but not the government (Liberal) event.
21. Tickets to Budget and Budget reply functions are purchased and reported in the manner required by the event organisers and the Australian Electoral Commission (AEC). Both events enable ISA to develop an informed view about budget policy and strategy and discuss initiatives with ministers, shadow ministers and senior staff.

Online calculator assumptions (ISA19QW)

22. Assumptions used for the following ISA online calculators and modelling, in a consistent form with the revised assumption set (which can be found at ISA15QW) are as follows:
Projection Calculators (pre-harmonisation) – Net return (accumulation) 5.7 per cent; % Based fee/ICR 1.1 per cent; Crediting Rate (Accumulation) 4.4 per cent; Admin fee \$50; Real wages 1 per cent; CPI 2 per cent; Deflator 2 per cent; Contribution Tax 15 per cent. **Early Release Impact** (pre-harmonisation) – Crediting Rate (accumulation) 7 per cent; Admin fee \$50; Real wages 1 per cent; CPI 2.5 per cent; Deflator 2.5 per cent; Contribution Tax 15 per cent.
23. With respect to b. – f. I refer the Committee to ISA15QW. There is insufficient information provided in the question to be able to give an adequate response to g.

ISA Staff (ISA24QON, ISA18QW, ISA21QW)

24. Under ISA's enterprise agreements, if an employee fails to exercise choice, ISA's default fund is AustralianSuper. Information about ISA employees can be found under the 'Our Staff' tab on the ISA website. ISA's staff remuneration framework and levels are outlined in

ISA's enterprise agreement which is approved by the Fair Work Commission and publicly available.

ISA presentations (ISA4QW)

25. The following papers and presentations were delivered by ISA staff from 1 June to 30 December 2019:

Table 1.

Australian Conference of Economists: . MATILDA - A dynamic flow-of-funds model for Australia . Lessons from 1974 Credit Squeeze	<i>Included in attachment</i>
Jana Capital Markets Group . Is this time different? BMY Group ALLFin Investment Summit . Australian Economic Outlook	<i>Included in attachment</i>
Australian Retirement Income Adequacy – A Distributional Approach to Cameo Modelling	<i>Included in attachment</i>
Australian Retirement Income Adequacy – A Distributional Approach to Lifecycle Impacts on the Superannuation Guarantee' https://www.cepar.edu.au/news-events/events/27th-colloquium-pensions-and-retirement-research/ http://cepar.edu.au/sites/default/files/2B-2-Gallagher.pdf	
The superannuation guarantee and wage effects: A work in progress	<i>Included in attachment</i>

Your sincerely,



Bernie Dean
Chief Executive
Industry Super Australia