

Justice for all in retirement

It's a fact of life that Australians are living longer. Over the past century, our life expectancy has increased by more than a decade, and that trend is continuing.

It is really only in the past century that Australians - with the exception of some groups, such as Aborigines - have regularly lived on into their eighties and nineties. Thanks to recent scientific and medical achievements, coupled with good diet and exercise, most of today's youngsters will live at least 20 years beyond their 65th birthday - spending at least 20 years in retirement.

For most of us, that's good news. We'll have longer to appreciate our children and grandchildren, longer to relax and pursue hobbies, travel and enjoyment after a life of hard work, and longer to watch the world pass by.

But for some people, a long retirement has its own stresses - most of them caused by financial insecurity. Today, one of the major challenges facing our society is to ensure all Australians have a decent income, so they can live out their lives with confidence and dignity.

Providing for retirement

When people stop paid work, they generally rely on several sources of income. More than 70 per cent of current retirees receive all or part of a state or old age pension. This pension comes with a raft of other assistance such as a health care card, rent assistance, and discounts for phone bills, council rates, transport, electricity charges.

The pension for a single person is paid at a rate of 25 per cent of average weekly male earnings - members of a couple each receive their own pension, but together it is slightly less than is paid for two single pensions.

A problem with this benefit is that, if it is the only income a retiree has, life can be difficult - particularly if the pensioner or pensioner couple don't own their own home or flat. There is also a concern that, as the working population declines and the number of retirees increase, the government might reduce the pension. One possible solution already being canvassed is the idea that people should work until they are 70 or even 75 years of age.

The second source of retirement income is personal savings or wealth accumulation. Acquiring personal savings on top of paying off a mortgage is a difficult - and for some people an impossible - task. Making sacrifices to save for the future rather than enjoying the present is easier said than done.

Compulsory superannuation: An Australian success story

The third source of retirement income is an Australian success story. This is the compulsory superannuation system where every employer is obliged to pay the equivalent of 9 per cent of each employee's wage or salary into a superannuation fund (there are a few exceptions, but more than 95 per cent of workers receive this benefit). This is a relatively new benefit with great social ramifications, so let's look at how it was achieved.

History of superannuation

Up until the 1980s, most blue-collar workers and all the lower paid workers, including casual and part-time workers (which meant most women workers and young workers), were not entitled to superannuation. Superannuation was a privilege offered by employers only to executives, supervisors, managerial and staff employees, and full-time workers in the public sector. In this last category, governments promised superannuation benefits to their permanent employees.

Consequently, only about a third of all employees were entitled to superannuation and, to make matters worse, governments offered big taxation concessions to those with this privilege - which was partly funded by those taxpayers who had no access to superannuation.

Some trade unions had been able to achieve superannuation for permanent employees in a few industries - in mining, the maritime industry, the meat industry and for storemen and packers - but no one had ever tried to extend superannuation to those industries where workers regularly move from job to job, and where many are employed as casuals.

Superannuation pitfalls

In any case, superannuation did not even benefit some of those who had access to it. Usually, in order to have access, the worker had to pay 5 per cent of his or her own wage or salary to receive the employer's matching contribution. For lower-paid workers, this seemed like a wage cut they could not afford so they did not take up the opportunity.

More importantly, such funds had rules, which meant that a worker had to stay with the employer for 10 or even 15 years before the employer contributions could be claimed by the worker. If the worker left before that time, all they received was their own compulsory contributions plus a very low rate of interest, if they were lucky. The idea that superannuation could be portable - that is, follow the worker to his or her new job - did not exist.

Defined benefits

Of course, those workers who did stay with one employer for most of their working lives received good benefits in retirement. Such benefits were called a 'defined benefit', calculated to take account of the number of years worked and the wage or salary received in the last three years of working life. This was also open to manipulation however, with many managers receiving significant pay increases as they neared retirement.

While 'defined benefit' funds did (and still do) provide a degree of certainty because it appears that the employer guarantees the benefit, this has not always been the case. If a company went into liquidation or filed for bankruptcy, the workers' future benefits could be at risk or disappear completely.

Building unions establish their own scheme

At the end of 1983, a handful of trade union leaders developed a plan to establish a superannuation scheme for workers in the building and construction

industries. Within a few months, the plan became a reality with the birth of the first industry fund. It was initially called a 'not-for-profit' fund to signify that no profits were being used to pay dividends to shareholders - as is the case with the superannuation products being offered by banks, life office companies and other retailers.

These days, industry funds are referred to as 'all-profits-to-members funds', which better describes the work of the funds in achieving good profits which all belong to the members.

On 1 July 1984, the Building Unions Superannuation Scheme (BUSS) enrolled its first members.

The birth of BUSS led to the creation of many other industry funds by various trade unions, all of which had the same feature of all profits going to the members.

These developments were the beginning of a great social change in Australia. Within a few years, superannuation ceased to be a privilege and became the right of all working Australians.

BUSS greatly expanded the rights and benefits of the fund members when compared with the limited benefits of the retail and other schemes which over time, were forced to expand their benefits in an effort to stay competitive with the industry funds.

Cbus broadens union superannuation coverage

In 1994, BUSS merged with Allied Unions Superannuation Trust (Aust) and became Cbus. Two decades later, there were dozens of industry funds representing workers in hospitality, health, manufacturing and every other Australian industry - all with as much to celebrate as Cbus. Together, they deliver benefits to more than half of Australia's workforce. They out-perform retail funds in terms of their investment earnings (on average industry funds have earned on average more than 10 per cent for their members since their existence) and their administration and management charges are lower than those charged by retail funds.

As for Cbus, it has grown from fewer than 50,000 members in 1984 to more than 400,000 in 2004, and the accumulated assets of members are worth more than \$6.1 billion (not including the many benefits paid out to former members or their families over the past 20 years). As of February 2005, the fund had paid out \$1.5 billion in superannuation and \$300 million in insurance to workers.

Facing opposition

Looking back, the creation of Cbus was opposed strongly by a powerful section of employers. The fund was seen as a threat - particularly by those financial institutions which until then had dominated a highly profitable industry.

While the trade union movement had to overcome these powerful forces to win superannuation, it also had powerful forces on its side. Some employers in the

building industry opposed superannuation strongly while others, after some initial opposition, supported BUSS and played a positive role in its development.

The most powerful force consisted of the building workers who, on building sites around Australia, campaigned - and, when necessary, engaged in strike action - to win their right to superannuation in the fund of their choice.

There are many reasons why Cbus and other industry funds have succeeded against the odds and proved the doomsday predictors wrong. Many of the answers to this can be found in the history of Cbus itself.

Creating Cbus

In 1984, building workers and their unions not only had the support of the Australian Council of Trade Unions (ACTU), the governing body of the trade union movement, but they also had a powerful ally in the Hawke and Keating governments, which ruled Australia from 1983 until 1996.

The campaign for superannuation in the building industry was triggered by a decision of the Industrial Relations Commission (IRC) to partly reject a wages agreement that had been negotiated by the unions with the employers in the industry. This rejection provided the catalyst for the unions to insist that the unpaid part of the wages agreement be paid as superannuation into superannuation funds which the unions decided to establish.

Gains for workers with union superannuation coverage

The building unions did not want to replicate the existing retail schemes. They wanted to ensure that any contribution paid by an employer into the fund went directly to the employee for whom it was paid, and that the benefits would be fully portable – meaning that, while a member worked in the construction and building industries, there would be no need to join another fund and no risk of losing benefits.

In the Cbus model, only the employer contributions were (and still are) compulsory. Workers can choose to make additional contributions or not, according to their individual circumstances.

The union model also democratized superannuation when Cbus made provisions in its trust deed so that half the trustees would be appointed or elected by the unions to represent the members and the other half would be employer-nominated representatives.

Industry funds also rewrote the life insurance approach to insured benefits. Instead of each member having to pass a medical or be refused insurance cover because of the perceived risks inherent in some industries, everyone who joined received a level of insurance cover for death and disability so long as they were at work on the day they joined.

This brought a new level of benefit to every building worker and that worker's family. Twenty years on, this feature remains, but there is also opportunity for

members to opt for greater insurance cover, at additional cost, and for a range of additional insurance products.

1984 was the perfect year to launch Cbus because by that time computer technology was sufficiently advanced to make it possible to manage and administer a national scheme in a large but scattered and highly mobile industry. It was a challenge, however, and Cbus initially sought a partnership with Colonial Mutual to ensure this administration came into being.

The creation of Cbus was one thing, but its ability to grow and succeed over the long term was something different. The original scheme provided for employers to pay \$ 11 per week, of which \$9 went to each members' superannuation account, \$1 was paid for basic insurance cover, and \$1 was paid for administration. Saving \$9 per week - even with good investment returns - was not going to provide a reasonable retirement benefit even after a long working life. The contributions had to grow.

As other industries developed their industry funds, these were challenged in the courts by some employers. In 1985, the ACTU and the Labor Government reached an agreement which was subsequently endorsed by the Industrial Relations Commission. This made superannuation a legal award right of employees, and required employers to pay 3 per cent of gross wages as superannuation, in addition to normal wages. In the construction industry, this led to the employer payments increasing to \$24. A few years later, unions campaigned successfully for the payment to increase to \$40.

The superannuation guarantee levy

By the early 1990s about 75 per cent of all Australian workers received superannuation under their relevant Award. In 1992, the Federal Labor government legislated for a superannuation guarantee levy, which required employers to make superannuation payments for all workers. The levy was phased in over the next decade until each worker received 9 per cent of the gross salary paid to them by their employer in a superannuation fund named in their award, in addition to normal wages.

Success of industry funds

The success of industry funds is widely recognised. Contrary to the opponents of the compulsory system, trustees do not manage investments badly but with the proper caution of those who know that they are responsible for helping workers to achieve a good retirement income. A recent study conducted by Industry Fund Services Financial Planners and reviewed by Price Waterhouse Coopers showed that: 'Projected over a 3-year time frame, the average employee retiring in 2038 would have access to around \$1.2 million from an industry fund and \$771,000 from a retail master trust.'

It is little wonder that retail and personal schemes offered by banks and other financial institutions are coming under increased scrutiny and criticism because of their relatively poor performance and high profit margins. The Sydney Morning Herald (12/07/04), under the headline 'Super Trap', noted that half a million Australians are trapped in personal income schemes (schemes that people sometimes joined in the past when they had no access to employer superannuation contributions). The report claimed that AMP had

charged exit penalties as high as 50 per cent of the value of the benefit if a person sought to take their benefit to a better performing scheme, and gave the example of another provider, Tower, whose investment performance held averaged less than the inflation rate for the past decade, but which had billed one client \$120,000 to transfer his savings to a competitor fund.

The Age correspondent Alan Kohler expressed his view on the ability of industry superannuation funds to provide for their members in this way on 8 July 2004: 'Anyone who isn't saving in an industry fund is either stupid or has a boss who hates unions.'

There are lots of changes ahead. July 2005, government legislation will come into being so that every employee can choose the fund they want to receive their employer contributions. Some employers may be persuaded by one or another financial institution to make the choice on behalf of their employees (although that is not the intention of the legislation), while some employees may be persuaded to go into high-cost funds on a promise of- greater rewards. This happened in England some years ago, and the promise of greater rewards turned out to be spectacular losses.

The future

A challenge being taken up by the ACTU is to campaign for the compulsory 9 per cent to increase over time to 15 per cent – an amount which it is estimated would, over a working life, provide a retirement income equivalent to about two-thirds of a person's wage or salary. At the same time, more needs to be done to ensure that part-time and casual workers who leave paid work for lengthy periods have the opportunity to build up their superannuation entitlements.

Building a nation through superannuation

There is one other aspect of compulsory superannuation that deserves a mention. Australia has always had to import capital because we have a small population but a large country to service with roads, hospitals, schools and much more. Compulsory superannuation provides a large pool of funds for investment and superannuation funds need to invest some of their assets over a long period of time.

Already, superannuation funds are seeking investment opportunities, which could be the answer to some of Australia's nation-building needs. It may well be that, while providing retirement benefits for members, these funds could become partners with governments and industry in providing some of- the capital to invest in and find solutions to such challenges as the management of our scarce water resources and developing new sources of energy.

By: Mavis Robertson A. M.

C.K.O. and later Chairperson of CBUS

Previous to that. was Secretary of AUST Building Workers Industrial Union

and BUSS who merged to form CBUS

Tom McDonald A.M.

Founding Trustee of BUSS/CBUS

Former National Secretary of CFMEU and Vice-President ACTU