

**ANZ SUBMISSION TO THE
AUSTRALIAN GOVERNMENT
ON
AUSTRALIA'S DEMOGRAPHIC CHALLENGES
AND
*A MORE FLEXIBLE AND ADAPTABLE
RETIREMENT INCOME SYSTEM***



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A MORE FLEXIBLE AND ADAPTABLE RETIREMENT INCOME SYSTEM**

ANZ welcomes the opportunity to comment on the Government's key proposals to improve labour force participation and productivity and Australia's retirement income system.

This submission addresses the Government's two discussion papers: *Australia's Demographic Challenges* and *A more flexible and adaptable retirement income system* and focuses on:

- mature-age labour force participation,
- work-life balance,
- labour force productivity, and
- Australia's superannuation system.

Demographic challenges

ANZ sees the demographic challenges Australia faces as requiring two broad strategies:

- increase labour force participation rates, particularly of older workers who want to keep working, and
- find new ways to lift our per worker productivity performance.

Labour Force Participation

The Government's three broad strategies to improve labour force participation – improving the capacity for work, better incentives, and supporting more flexible work options – are important to address in striving for improvements to lifting the participation of mature-age people in the workforce. ANZ commends the Government on its work on this issue so far.

A successful outcome on the ageing workforce issue will require not only a bold approach by Government to lead and support change, but also changes in attitudes and personnel policies of business, to find ways to retain mature age workers.

ANZ is committed to addressing age diversity in its workplace. We have embarked on a company-wide communication program to dispel the idea of a traditional retirement age and to explore ways to improve the opportunities we provide to mature-aged workers.

Our initiatives include:

- hiring mature-aged staff at the processing centre at Mulgrave, Victoria,
- flexible work options including 'lifestyle leave' that allows employees access to an additional four weeks of unpaid leave a year; flexibility in accessing long service leave, e.g. six months long service leave at half pay; flexible hours of work and the facilitation of moves between roles, and
- the Career Extension Program which promotes retraining for older workers and diversity awareness training, particularly for managers and recruiters.

Improving mature-age workforce participation is only part of the approach needed to address population ageing and labour force participation. We need to ensure there is sufficient flexibility in the workplace to retain workers through their entire working lives. Work-life balance is important to maintaining the health, wellbeing and performance of workers and to give those with primary parenting responsibilities the flexibility they require to manage both work and parenting commitments.

ANZ has implemented a series of work-life balance policies including:

- flexible working schedules, including part-time and home-based work,
- flexible leave options, including parental leave and lifestyle leave, (mentioned above)
- volunteering - the opportunity to take up to eight hours of paid leave to volunteer for the community,
- the Employee Assistance Program which provides a service for ANZ staff to seek professional, confidential counselling on any work related or non-work related matter, and
- contracting ABC childcare to build and operate childcare services in Melbourne, Sydney, Perth and Brisbane.

These work-life balance policies benefit both employees and ANZ business, demonstrated by:

- increased rate of return from parental leave from 77 per cent to 93 per cent within 12 months, which translates into an average estimated saving of \$3 million in recruitment and re-training costs,
- decreased staff turnover – down 2 per cent over three years,
- increased number of graduate applications – up 180 per cent over three years,
- increased staff satisfaction to 78 per cent – up 16 per cent in 12 months, and

- increased overall work life balance satisfaction to 72 per cent – up 10 per cent in 12 months.

Encouraging people back into the workforce whether they are mature age workers or parents requires consideration of the way tax and social security interact. Measures announced in the 2004 Federal Budget (see comments on retirement income system) will likely alleviate the problem of very high effective marginal tax rates for lower income earners re-entering the workforce. The issue remains, however, for middle-income earners, including those who would like to move from part-time work to full-time work.

Productivity

A further and related aspect of dealing with the links between an ageing population and productivity is education and training.

A link exists between age, educational attainment and labour force participation at older ages. In particular, males with upper-secondary or tertiary education are much less likely to drop out of the workforce once they have turned 55 than those who have failed to complete Year 12.

At ANZ, employees are actively encouraged and supported to invest in their education. All manager level employees are required to hold, or to be working towards, a tertiary degree. ANZ supports ongoing training and education, covering the costs of that education where it relates directly to the employee's work at ANZ.

ANZ has entered into partnerships with selected tertiary institutions including Deakin University, which is a key provider of university programs; and The International Marketing Institute of Australia Centre for Strategic Business Studies (an Affiliate Institute of Charles Sturt University), which provides an on-line university accredited MBA program. More than 1400 training courses designed to meet the needs of both our employees and business units are offered on ANZ's online training resource, eTrain.

Retirement income system

ANZ supports the initiatives outlined in 'A more flexible and adaptable retirement income system'. The initiatives include removing the work test for superannuation contributions for adults under 65, simplifying work test rules for those aged over 65 and allowing access to a superannuation income stream before retirement. Taken together these initiatives will broaden access to the superannuation system and support a wider range of work arrangements for mature age people as the number of people wishing to transition from work into retirement grows.

These arrangements will be important to both those who want to continue working and to those who need to continue working, as their retirement savings are inadequate to support a standard of living they see as reasonable.

Considerable evidence exists to suggest that there is a gap between the standard of living many people aspire to in retirement and the actual level that will be achieved in retirement¹.

The most direct way of lifting superannuation adequacy is by lifting the rate of compulsory contribution.

Table 1 below shows how the amount a person needs to save for retirement varies with years of work. As 'years of work' decreases, greater additional contributions are needed to achieve a standard of living after retiring similar to that which was enjoyed beforehand. To achieve 75-80 per cent disposable income replacement, even a person with 40 years of work must increase contributions by 3 per cent. Therefore, ANZ advocates that employees be required to increase their compulsory contributions by 3 per cent.

Table 1: Employer Contributions (incl. 9% SG) for person on AWE to achieve 75-80% disposable income replacement

	Years of Work		
	40	35	30
Contribution rate	12%	14%	17%

Source: ABA Submission to the Senate Select Committee on Superannuation, *Inquiry into Superannuation and Standards of living in Retirement*, May 2002, p. 13. Based on modelling presented by a group of experts, the 'Retirement Futures Forum' in March 2001.

¹ ABS, Retirement and Retirement Intentions, Catalogue 6238.0, November 1997, provides evidence that perceptions of retirement income are often optimistic; NATSEM Report (2002) shows that only in the most favourable circumstances will people relying on the 9 per cent Superannuation Guarantee enjoy a standard of living in retirement close to their standard of living while working.

Another more indirect way of lifting superannuation adequacy is by improving incentives for savings including reducing and simplifying the taxation of superannuation to provide greater incentives to save.

ANZ supports the following measures announced in the 2004 Federal Budget:

- the increase in the superannuation co-contribution from 100 per cent to 150 per cent for every dollar of savings for people on incomes of up to \$58,000 a year, and
- the reduction in the superannuation surcharge from its current level of 13.5 per cent to 7.5 per cent by 2006-07.

ANZ considers that reducing taxation of superannuation at the contribution stage will increase superannuation savings to the individual, as well as increasing the national savings effort over the long term. The Retirement Futures Forum in March 2001 observed that a decline in public savings, as a result of removing the superannuation contributions tax, would be offset by an increase in private savings through an additional contribution of 2-4 per cent of salary by middle-income earners.² In addition, an increasing workforce participation rate, in line with more flexible and longer involvement in work, would help to increase the income tax raised, thereby raising national savings.

Understanding of the Retirement Income System

Consensus exists about the need to address adequacy issues and provide further incentives for people to provide for their retirement. Incentives will be most effective where people are aware of them and are motivated and equipped with the skills to take advantage of them. For example, an increased level of financial literacy may equip people to choose more appropriate investment strategies to increase their investment returns over their working lifetime. An investment strategy that improves returns even slightly, say by 1 per cent, can have a considerable impact on the funds available for retirement and reduce the need for additional contributions.

ANZ's Survey of Adult Financial Literacy in Australia (May 2003) showed that the importance of saving for retirement is widely understood, with only 5 per cent of respondents saying that saving for retirement 'didn't really matter because the Government will make up the gap'. It is also widely understood that employers are required to make superannuation contributions on behalf of employees (97 per cent) and that individuals can make additional contributions if they wish (91 per cent).

² ABA, Submission to the Senate Select Committee on Superannuation, *Inquiry into Superannuation and Standards of living in Retirement*, May 2002, p. 17. Based on modelling presented by a group of experts, the 'Retirement Futures Forum', in March 2001.

However, beyond these basic facts, knowledge about superannuation is low and the majority of respondents appeared 'disengaged' from the issue of superannuation and saving for retirement. Of those with superannuation, 50 per cent considered it would be adequate for their retirement yet only 37 per cent claimed to have worked out how much they will need to save for their retirement. When respondents with superannuation were questioned about whether superannuation is taxed at a concessional rate, just over half were aware that it is and around one third could not answer. Twenty-one per cent of people with superannuation indicated they do not understand their superannuation statements (this compares with 10 per cent for other investments and just 3 per cent for bank accounts) and nine per cent said they did not read their statements.

This 'disengagement' likely reflects a number of factors. For many, retirement no doubt seems a distant prospect and while many employees have some limited choice within their fund, they have no real choice about who manages their money and how, for example, the type of assets in which it is invested. The superannuation statements themselves appear difficult for some people to understand. When people were tested on their ability to identify four pieces of information from an extract of an actual superannuation statement, only 40 per cent were able to identify all four correctly.

Both Governments and employers have a role to play in addressing the level of awareness and capability of employees to plan effectively for their retirement. And financial institutions have a role to play in making simpler products available and statements about those products more user-friendly.

ANZ acknowledges and supports the establishment of a Taskforce charged with developing a National Strategy to raise the financial literacy levels of Australians. ANZ has undertaken to pursue a financial literacy agenda that encompasses the following elements:

- the most 'financially fit' workforce in Australia,
- widespread community awareness of the need for financial literacy education,
- innovative programs to improve financial literacy and financial inclusion in Australia, and
- products, services and customer communication that are easy to use and understand (see attachment 'Making a difference to financial literacy').

Having a 'financially fit' workforce entails raising employee levels of financial literacy through training and encouraging staff to access information provided on a range of topics including superannuation and planning for retirement.

Conclusion

ANZ employs about 30,000 people. We are grappling with the issues of retaining mature age employees on terms that suit both the company and the employee and putting in place policies that will enable this.

We commend the Government on its proposals to increase labour force participation and improve the flexibility of Australia's retirement income system. Further effort is required on adequacy of superannuation, incentives to save and ensuring that people have the knowledge and financial capability to make sensible decisions about providing for their retirement. We look forward to participating in further discussion between government, business and community groups on this important issue.