

Submission to the Retirement Income Review

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Executive Summary

Social Ventures Australia (SVA) welcomes the opportunity to respond to the Treasury's review into Australia's retirement income system.

A retirement incomes system that supports all people and communities in Australia to thrive

In making this submission we draw on our experience and knowledge working on a diverse range of initiatives that aim to improve outcomes for people in Australia experiencing structural disadvantage, social exclusion and poverty, most notably our program of work focused on improving housing security for older women through a coordinated set of system level interventions.

We also draw on our extensive experience working with social sector organisations, financial services organisations and government on engagements that are focused on improving financial wellbeing and on improving outcomes for Aboriginal and Torres Strait Islander peoples.

Based on our experience, there are a range of assumptions built into Australia's retirement incomes system that don't adequately account for the barriers many people face in accumulating a sufficient level of wealth and income (in both compulsory superannuation payments and voluntary savings as well as government income support through pensions and allowances) to ensure financial security in retirement. This is particularly the case for women.

While the private superannuation system works effectively to support the retirement incomes for people with consistent work histories in high-wage professions (largely men) and to a lesser extent the income support system supports people who are eligible for the Age Pension who own their own home outright; people who don't fit these categories can face significant risks to their financial security in retirement.

Older people who are not yet at an age that would allow them to access the Age Pension, but find themselves experiencing unemployment or involuntary retirement, are particularly disadvantaged as they must rely on the Newstart Allowance and similar payments. Many face significant financial pressures, including increasingly high risks, and experiences, of homelessness. SVA supports the position put by the 'Raise the Rate' campaign, the Business Council of Australia, and many others that the current rate of Newstart is manifestly inadequate and should be raised immediately.

We note that long-run increases in housing costs, including declining levels of home ownership, increasing cost of rental accommodation and the decreasing availability of social and affordable housing for people on low incomes, can undermine the effectiveness of the retirement incomes system in ensuring that people have an adequate income to meet their needs. This can also increase the pressure on and cost of supporting the retirement incomes system as people require larger and larger reserves to cover their housing costs in retirement. These factors are currently not adequately considered or accounted for, leaving many people in precarious positions as they age.

We support the positions of a number of our partners to address these issues (outlined below), including social sector organisations and institutional investors, on the reforms required to ensure that there is equity in our retirement incomes system, particularly noting reforms that aim to address the growing rates of poverty experienced by some people in retirement.

Our submission also canvasses options for generating greater public value from the funds managed by the superannuation industry, while continuing to serve their primary function of supporting Australians in retirement. We believe that by growing the social impact investing market in Australia there is significant potential to address some of the challenges and tensions present within our retirement incomes system, particularly through increasing the availability of affordable housing.

Recommendations

Our recommendations are grouped into three categories:

- Achieving equity in retirement: accounting for experiences of disadvantage, social exclusion and poverty
- Home ownership and retirement outcomes: increasing precarity in the system
- The role of social impact investing in driving better outcomes

Achieving equity in retirement: accounting for experiences of disadvantage, social exclusion and poverty

1. To achieve an equitable retirement system, it is essential that the assumptions informing the structure and nature of our retirement income system account for a broader diversity of life trajectories. This ensures that people who experience barriers to workforce participation and capital accumulation due to social exclusion, marginalisation and disadvantage are able to access an adequate standard of living in retirement.
2. To achieve an equitable retirement system, it is essential that the experiences of women are accounted for and that a gender lens is applied to policy making to identify and mitigate inequities and structural discrimination, most notably present in Australia's taxation and superannuation systems. As identified by Women In Super, a Gender Impact Statement is one mechanism for taking a gender lens to policy, providing an ongoing measure of the rates of gender discrimination experienced across all areas of social and economic policy, including any future or proposed budgetary measures.
3. To achieve an equitable retirement system for women, it is necessary to better understand the risk profiles of women who are approaching retirement to ensure that they are supported to achieve the best possible financial and housing futures as they age. We note the significant gaps in analysis and available evidence on the drivers of better outcomes for women in, and approaching, retirement and recommend that an appropriate level of data analysis is incorporated into policy decision making.
4. To achieve an equitable retirement system for women, it is necessary to better understand the nature and scale of unpaid work in Australia and for this to be recognised in both the superannuation and income support systems. We note the reintroduction of the Australian Time Use Survey by the Australian Bureau of Statistics in 2020 and recommend that an appropriate level of data analysis is incorporated into policy decision making to ensure that the structure of our retirement incomes system is informed by an adequate level of evidence and data on women's participation in both paid and unpaid work.
5. Appropriate value and consideration of the role of unpaid work (including a range of caring roles) is required to ensure that our retirement system does not discriminate against people who perform these necessary roles. We note the set of recommendations made in the 2016 Senate Inquiry into women's security in retirement and recommend that these are implemented.
6. To achieve an equitable retirement system, it is essential that the experiences of Aboriginal and Torres Strait Islander peoples are given specific consideration to ensure that experiences of inequity driven by the historical and ongoing impact of colonisation (most notably the gap in life expectancy, home ownership, capital wealth and adequate access to financial services) are not perpetuating further inequities in retirement.
7. To achieve an equitable retirement system that is fit-for-purpose into the future, it is critical that the system takes into account the macro trends that are reshaping Australia's workforce. This includes recognising that many fewer people have access to full time standard employment, and that the benefits of such employment are unevenly distributed. The retirement income system should be designed to minimise the ongoing impact of labour market inequalities.

Home ownership and retirement outcomes: increasing precarity in the system

8. Assumptions that are built into our retirement income system on home ownership need to shift to take account for the decreasing rates of home ownership and the increasing rates of housing stress for people in the rental system, especially those approaching, and at, retirement age. Sustainability of the retirement system would be strengthened through policy reform that enabled higher rates of home ownership and improved housing affordability. We note the set of policy reforms outlined by the Everybody's Home campaign and recommend that these are adopted and implemented.

The role of social impact investing in driving better outcomes

9. Policy agencies such as Treasury and regulatory bodies such as APRA should develop and communicate a common understanding of the application of the sole purpose test for superannuation funds, to provide funds and others in the market with clarity on how positive non-financial impacts can be considered. This common understanding should recognise the potential for super funds to create value for their members, investors, and the Australian public, by investing in assets that create social value while delivering appropriate risk adjusted financial returns.
10. That the Review Panel consider whether Australia should provide more explicit support for superannuation funds to generate public value through their investment portfolio.
11. That the Review Panel consult with the Social Impact Investing Taskforce to enable both bodies to consider opportunities to make investing in the Australian impact investing market more accessible and attractive for superannuation funds.
12. That the Review Panel recommend that government consider approaches to encourage investment in affordable housing for people approaching and in retirement by superannuation funds.

About Social Ventures Australia (SVA)

SVA is a not-for-profit organisation that works with partners to alleviate disadvantage – towards an Australia where all people and communities thrive. We believe that this will be achieved when all Australians are empowered, have a voice in decisions that impact them, have a sense of belonging and experience social inclusion. SVA believes that belonging for all Australians requires, and is enabled through, specific recognition and respect of Aboriginal and Torres Strait Islander peoples' knowledge and cultures. We acknowledge and support the expression of self-determination that is outlined in the Uluru Statement of the Heart.

SVA is not a traditional service delivery organisation. We work at the intersection of the government, social purpose and business sectors. We provide advice on strategy and evaluation, funding and make investments in partner organisations to significantly increase their social impact. We influence systems to deliver better social outcomes for people by learning about what works in communities, helping organisations be more effective, sharing our perspectives and advocating for change.

SVA's experience relevant to this submission

In making this submission we are drawing on a range of experience including:

- 1. Social Impact Investing:** SVA is the largest dedicated player in the Australian social impact investing market, across social impact bonds, social enterprises, and housing projects. We currently have \$120 million funds under management. Since 2013, when SVA's impact investing team was established, we have structured and successfully raised funds for a range of housing related projects across the continuum. These include:
 - Australia's first homelessness focussed Social Impact Bond, Aspire in South Australia
 - A \$20m investment into the Nightingale Village affordable housing project in Victoria
 - A \$7m investment into Horizon Housing to deliver new supply of affordable and social housing in QLD
 - A \$19 million investment into Glenview Community Services to develop an Australia-first suburban village for people living with dementia
 - A new disability housing investment fund that aims to scale to \$600 million of investment into Specialist Disability Accommodation over the next 4-5 years
- 2. Older women at risk of homelessness:** SVA has embarked on a major project to improve outcomes for older women at risk of homelessness. We understand that the root causes of this issue include the lack of social and affordable housing, increasing housing unaffordability and the impacts of gender inequality on women's financial wellbeing. Our response comprises immediate, medium and long-term solutions that target different drivers of better outcomes for older women. We are taking a multifaceted approach to drive change across systems to address the needs of older women today and ensure younger generations of women do not face the same experience. SVA is uniquely placed to convene investors, private sector, social sector organisations and government to deliver these solutions.
- 3. Over 60 consulting engagements across housing, homelessness and financial inclusion sectors:** SVA Consulting a specialist consulting practice that has completed over 1000 engagements in the past 12 years, working with a diverse range of partners across the for-purpose sector including government agencies, private funders, peak bodies and service providers to improve organisational effectiveness and to help those organisations better understand and monitor the impact of their policies and programs. Through our Consulting team, we have worked with clients across the housing ecosystem, including working with Australia's largest community housing providers to help them develop their strategies to improve their impact and better understand the changes they are making in people's lives. We have also worked with a

diverse range of clients in the financial services sector, from large financial services organisations, to not-for-profits and key government players.

4. **Employment:** Our focus in employment over 15 years has been on supporting job seekers who face complex barriers in finding work. This submission draws on expertise developed from our partnerships with a wide range of employment-related ventures and initiatives. This includes partnering with a range of external ventures focused on supporting specific cohorts into employment; the provision of specialist consulting advice and support to a range of employment providers in the job services and disability employment sectors; support for a range of employment-focussed social enterprise; and research and policy work underpinning these projects.

A system that works for all: how to account for experiences of inequity in our retirement system

The purpose of Australia's retirement system is for all people to be able to achieve an adequate standard of living in retirement. However, many people are experiencing increasing rates of hardship that are generating significant barriers to financial security in retirement.

To understand how the system can work for all people, it is important to first understand the diversity of experiences faced by Australians, particularly people who experience disadvantage, social exclusion and poverty. SVA recognises that one in four Australians experience deep and persistent disadvantage in the form of poverty,¹ deprivation² and/or social exclusion, and that experiences of intergenerational and entrenched disadvantage have multiple and complex drivers.³

The Productivity Commission's recent report into inequality in Australia identified 700,000 Australians (or three per cent of the population) experiencing persistent poverty, with lone parents, people experiencing unemployment and Aboriginal and Torres Strait Islander peoples being overrepresented in this group.⁴

The most critical factor informing an individual's access to an adequate standard of living in retirement is workforce participation, as this enables the accumulation of both superannuation savings and voluntary savings (including home ownership). However for many Australians, adequate rates of workforce participation and levels of wealth accumulation, and therefore voluntary savings, are not possible for a range of different factors. These are not factors that are currently adequately considered or accounted for by the system, and leave many in precarious positions as they age.

While income support has been an effective tool in the past for some groups, primarily through the Age Pension, its impact is being eroded by the increasing number of retirees who don't own their own home and those who enter retirement before the age at which they can access the pension.

Recommendation 1: To achieve an equitable retirement system it is essential that the assumptions informing the structure and nature of our retirement income system account for a broader diversity of life trajectories. This ensures that people who experience barriers to workforce participation and capital accumulation due to social exclusion, marginalisation and disadvantage are able to access an adequate standard of living in retirement.

Experiences of women who perform unpaid work

As identified in the consultation paper, women retire on with lower average superannuation balances than men. The paper identifies that due to family responsibilities women take more time out of the workforce and also experience a gender wage gap, which are both drivers of lower levels of retirement savings.

While the system accommodates for some diversity of workforce patterns and life trajectories, there is significant policy failure in how we account for unpaid work, and both the superannuation and tax systems favour work patterns which are far more likely to be undertaken by men.

¹ Melbourne Institute: Applied Economic & Social Research, 2018, *Poverty Lines: Australia*, March Quarter.

² Saunders, P. and Wong, M., 2009, *Still doing it tough: an update on deprivation and social exclusion among welfare service clients*, Social Policy Research Centre.

³ Brotherhood of St Laurence and Melbourne Institute, 2015, *Social Exclusion Monitor*.

⁴ Productivity Commission, 2018, *Rising inequality? A stocktake of the evidence*.

Unpaid work is an essential part of our social, economic and political fabric, and is a necessary part of maintaining functioning communities. Unpaid work is most commonly considered to be care provided to children within a family environment, but it can occur in many different ways – including caring for a family member with physical illness; caring for a family member experiencing mental ill-health; caring for a family member with disability; and providing voluntary inputs into the operations of social structures such as volunteering in schools and social clubs.

Assumptions on workforce participation that inform the structure and nature of our retirement income system need to accommodate unpaid work. The data shows that women perform the majority of unpaid work,⁵ and this is clearly reflected in the gap between the superannuation balances of women and men. Women retire with 47% less super than men,⁶ and it is estimated that two thirds of all tax concessions are paid to men⁷ so that even for women who are in higher levels of paid work, they do not receive the same levels of support through the tax system which cumulatively impacts on their personal savings.

Women face informal and formal, individual and systemic barriers to equality and change is required at all levels. The 2016 Senate Inquiry into *Economic security for women in retirement* identified that:

“... women and men experience work very differently. Women are more likely to work in lower paid roles and lower paid fields, are more likely to work part-time or casually, and are more likely to take breaks from paid employment to provide unpaid care for others. Over their lifetimes, as a consequence, they will earn significantly less than men. Australia's retirement income system does not adequately accommodate this difference. It structurally favours higher income earners who work full-time, without breaks, for the entirety of their working life. The women (and men) who do not fit this pattern of work face a significant handicap when saving for their retirement.”⁸

The 2016 Senate Inquiry into *Economic security for women in retirement* outlined a set of recommendations for remedying the inequities experienced by women, examples of which have been outlined in the table below:

Policy Lever	Details and example	Fed/State responsibility	Scale of impact	Impact timeframe
Gender pay inequity	Review the Fair Work Act 2009 to determine the effectiveness of Equal Remuneration Orders in addressing gender pay equity	Federal	High	Long term
Experiences of gender discrimination in the workplace	Amend the Sex Discrimination Act 1984 and the Fair Work Act 2009 to address gender discrimination for women who are pregnant and/or have family responsibilities	Federal	Moderate	Long term
Marginal tax rates for second earners	Productivity Commission review into effective marginal tax rates for second earners	Federal	Moderate	Long term

⁵ PricewaterhouseCoopers, 2017, *Understanding the unpaid economy*.

⁶ Senate Economics References Committee, 2016, *'A husband is not a retirement plan': Achieving economic security for women in retirement*. Canberra.

⁷ ISA, (2015). *Inquiry into economic security for women in retirement*. [pdf] Melbourne: Industry Super Australia.

⁸ Senate Economics References Committee, 2016, *'A husband is not a retirement plan': Achieving economic security for women in retirement*. Canberra.

Policy Lever	Details and example	Fed/State responsibility	Scale of impact	Impact timeframe
Limitations of paid parental leave	PPLS improved over time to allow for 26 weeks paid parental leave through the combination of government and employer funding, and payment of the superannuation guarantee on PPLS	Federal	High	Long term
Superannuation tax concessions	Re-targeting of superannuation tax concessions to ensure equitable distribution, and assistance for people with lower superannuation balances to achieve a more comfortable retirement.	Federal	Moderate	Long term
Application of a gender equity lens in policy analysis decision making	Retirement income system reforms are measured against the guiding principle of dignity in retirement, and should deliver a decent standard of living for both men and women in retirement.	Federal/State	Moderate to High	Short term and long term
Taxation of concessional superannuation contributions	Concessional superannuation contributions of lower income earners are not taxed at a higher rate than their ordinary income	Federal	Moderate	Long term
Superannuation guarantee exemptions for people on low salaries	Amend the Superannuation Guarantee (Administration) Act 1992 to remove the exemption from paying the superannuation guarantee for employees earning less than \$450 in a calendar month.	Federal	Moderate	Long term
Adequacy of Commonwealth Rent Assistance (CRA)	Tailored subsidies to support the experiences of older women	Federal	High	Short term
Aged care policy	Review aged care policy to determine how policies designed to assist older Australians to remain in their home could take better account of, and accommodate, the added difficulties for older people accessing safe and secure housing and in conducting modifications to rental dwellings, and more broadly in renting in the private rental market.	Federal/State	High	Short term

It is clear that for many women the unpaid work they have performed in their lifetime has had a significantly negative impact on their financial security as they age. The most notable example of this is that older single women are the fastest growing cohort of people experiencing homelessness in Australia. Projections based on both current housing market conditions, and the superannuation and asset base of this cohort, see the number of women affected growing considerably into the future with estimates of over 300,000 women aged 45-65 today potentially being at risk of homelessness when they retire.⁹

⁹ Homelessness Australia and Equality Rights Alliance, 2015, *Ending and Preventing Older Women's Experiences of Homelessness in Australia: Joint Submission of Homelessness Australia and Equality Rights Alliance*

SVA is embarking on a major project to improve outcomes for older women at risk of homelessness. We understand that the root causes of this issue include the lack of social and affordable housing, increasing housing unaffordability and the impacts of gender inequality on women's financial wellbeing. Women face informal and formal, individual and systemic barriers to equality and change is required at all levels. Solutions in this area will require integrated action from governments and the social sector to recognise the unique structural barriers facing older women. This includes a focus on measures that will increase the financial wellbeing of both older women and future generations. Retirement income system reforms should not only be measured against the guiding principle of dignity in retirement, but also should deliver a decent stand of living for both men and women. SVA has developed a set of drivers of better outcomes for older women to have access to affordable and appropriate housing (see Figure 1 over the page), which identifies financial wellbeing as an essential pillar to women's economic security in retirement.

To enable this there are significant gaps in evidence and data on the indicators and profiles of risk for women as they age. Currently there are significant gaps in data on levels of predicted financial and housing insecurity in retirement for women aged 35-65, including levels of household income, levels of household wealth, employment patterns, rates of specific life shocks that may trigger either increased risk of retiring into poverty, or involuntary retirement (such as relationship breakdown, ill-health, job loss or unexpected caring responsibilities).

Recommendation 2: To achieve an equitable retirement system, it is essential that the experiences of women are accounted for and that a gender lens is applied to policy making to identify and mitigate inequities and structural discrimination, most notably present in Australia's taxation and superannuation systems. As identified by Women In Super, a Gender Impact Statement is one mechanism for taking a gender lens to policy, providing an ongoing measure of the rates of gender discrimination experienced across all areas of social and economic policy, including any future or proposed budgetary measures.

Recommendation 3: To achieve an equitable retirement system for women it is necessary to better understand the risk profiles of women who are approaching retirement to ensure that they are supported to achieve the best possible financial and housing futures as they age. We note the significant gaps in available data and evidence on the financial wellbeing of women aged 35-65, including levels of household income, levels of household wealth, employment patterns, rates of specific life shocks that may trigger either increased risk of retiring into poverty, or involuntary retirement (such as relationship breakdown, ill-health, job loss or unexpected caring responsibilities).

Recommendation 4: To achieve an equitable retirement system for women it is necessary to better understand the nature and scale of unpaid work in Australia and for this to be recognised in both the superannuation and income support systems. We note the reintroduction of the Australian Time Use Survey by the Australian Bureau of Statistics in 2020 and recommend that an appropriate level of data analysis is incorporated into policy decision making to ensure that the structure of our retirement incomes system is informed by an adequate level of evidence and data on women's participation in both paid and unpaid work.

Recommendation 5: Appropriate value and consideration of the role of unpaid work (including a range of caring roles) is required to ensure that our retirement system does not discriminate against people who perform these necessary roles. We note the set of recommendations made in the 2016 Senate Inquiry into women's security in retirement and recommend that these are implemented.

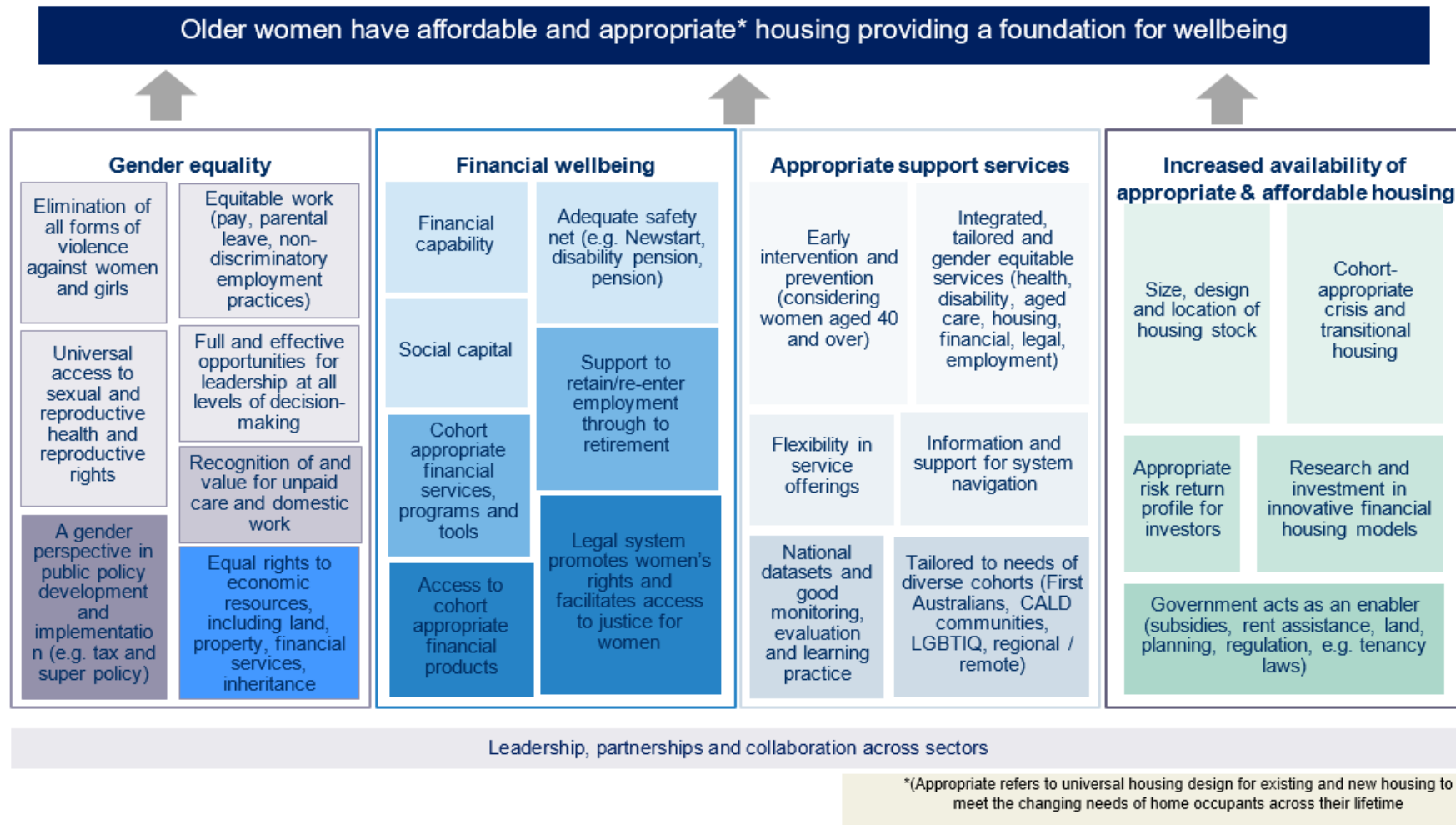


Figure 1: Drivers of better outcomes for older women to have access to affordable and appropriate housing

Experiences of Aboriginal and Torres Strait Islander peoples

For Aboriginal and Torres Strait Islander peoples there is a complex and unique set of drivers underlying experiences of intergenerational disadvantage. From our work with Aboriginal and Torres Strait Islander peoples and organisations we understand that historical and ongoing experiences of colonisation have, and continue to have, significant impacts on the social, cultural and economic wellbeing of Aboriginal and Torres Strait Islander peoples. We understand that in the context of retirement this is seen most starkly through the gap in: life expectancy; rates of home ownership; rates of capital wealth; employment in high paid industries; and rates of wealth transfer between families (inheritance).

Historical barriers to property ownership and wealth accumulation faced by Aboriginal and Torres Strait Islander peoples continue to inform inequities experienced by current generations – and those that are likely to be experienced by future generations in the absence of adequate reform.

There are also significant barriers faced by many Aboriginal and Torres Strait Islander people to access the information required to adequately and effectively navigate the financial services system, which is increasingly complicated through language barriers, geographical distance and literacy rates.

As identified by the First Nations Foundation, financial counsellors working with Aboriginal and Torres Strait Islander peoples in remote and rural areas can spend a significant portion of their time providing advice on superannuation matters. They also identified that "superannuation is often the largest asset that First Australians [Aboriginal and Torres Strait Islander peoples] hold".¹⁰

Recommendation 6: To achieve an equitable retirement system it is essential that the experiences of Aboriginal and Torres Strait Islander peoples are given specific consideration to ensure that experiences of inequity driven by the historical and ongoing impact of colonisation (most notably the gap in life expectancy, home ownership, capital wealth and adequate access to financial services) are not perpetuating further inequities in retirement.

Experiences of people with insecure work or interrupted work patterns

The Australian labour market is undergoing a series of changes which have implications for the quality and distribution of paid work.¹¹ These include the reduced availability of entry level roles, increased automation in key sectors like manufacturing and mining, ongoing labour market deregulation, increased dominance of the care sector and shifting gender roles.

As noted above, the current retirement incomes system is premised on a linear work trajectory which is characterised by full time employment and the ability to acquire a home before retirement. However many fewer Australians experience the labour market in this way. In 2017 Centre for Future Work reported that fewer than half of workers in Australia worked in full time employment with leave entitlements.¹² Young workers have been among the hardest hit by the decline in availability of secure work. In 2015 the Foundation for Young Australians reported that, on average, young people took 4.7 years to move from full time education to full time work, compared with only one year to make that

¹⁰ Australian Institute of Superannuation Trustees, 2018, *Indigenous Super Roundtable*.

¹¹ See, for example: Social Ventures Australia, 2019, *Future Fair? Securing better quality jobs for young people in Australia*; Foundation for Young Australians (FYA), 2019, *The New Work Order: Report Series Summary*

¹² Carney and Stanford, 2018, *Insecure Work: A Factbook*. Centre for Future Work, Australia Institute.

transition in 1986.¹³ The rate of underemployment in Australia now exceeds that of unemployment, with increases in underemployment the greatest amongst the youngest and oldest in the labour market¹⁴. Over 60% of underemployed people are women. Women are more likely than men to work in casual roles, although this gap is declining as casualisation of male workers increases.¹⁵ People with disabilities, particularly women, are also much more likely to be underemployed.

Declining access to stable, full time work will have implications for the amount of retirement savings – whether in super or other assets – that many Australians are able to accumulate. Lack of access, and delayed access to stable full-time employment reduces peoples’ ability to access housing loans even if they have sufficient income to satisfy lender requirements. It is important that retirement incomes policy addresses and redresses, rather than reinforces, inequalities in the labour market.

Recommendation 7: To achieve an equitable retirement system that is fit-for-purpose into the future, it is critical that the system takes into account the macro trends that are reshaping Australia’s workforce. This includes recognising that many fewer people have access to full time standard employment, and that the benefits of such employment are unevenly distributed. The retirement income system should be designed to minimise the ongoing impact of labour market inequalities.

¹³ FYA 2015, *How are Young People Faring Report Card 2015*.

¹⁴ ABS, 2018, *Underemployment in Australia, Labour Force*, Australia, Cat 6202.0.

¹⁵ Gilfillin, 2018, *Characteristics and use of casual employees in Australia*, Parliamentary Library Research Paper, Commonwealth of Australia.

Home ownership and retirement outcomes: increasing precarity in the system

There are significant interactions between home ownership and retirement outcomes, and trends in housing affordability are increasing pressure on the retirement incomes system to provide an adequate standard of living for all Australians, particularly for people on low incomes who are renting in the private market. Changes to the cost of housing are reducing the effectiveness of the retirement system as people are spending a larger proportion of their income on their housing.

Australia has an inadequate supply of stable, appropriate and affordable accommodation, particularly for those on low incomes. This has a significant detrimental impact on the wellbeing of individuals and families, but also on government resources and the economy. Sustainability of the retirement system would be strengthened through policy reform that enabled higher rates of home ownership and improved housing affordability. While reducing the cost of housing for people on low incomes is going to help, we need to think more carefully about the cost of housing in the retirement system.

The Everybody's Home campaign outlines a set of reforms to housing and homelessness policy in Australia that would reduce the cost of housing for people on low incomes and in turn increase the sustainability of the retirement incomes system. These reforms reflect the collective expertise of over 80 community sector organisations in Australia. Changes to housing policy in line with the Everybody's Home campaign will improve sustainability in the retirement incomes system. Recommended reforms include:

1. Investment in 500,000 new social and affordable homes by 2030 – this includes 300,000 new social and Aboriginal housing properties; and a new incentive or subsidy to leverage super fund and other private sector investment in 200,000 low cost rental properties.
2. Providing immediate relief to people in housing stress by increasing Commonwealth Rent Assistance (CRA) by 30% and introducing a new way of calculating CRA to keep pace with the rising cost of rent as well as the cost of living.
3. A commitment to ending homelessness by 2030 by taking action to prevent homelessness and rapidly rehousing people who are homeless, supporting them to maintain that housing and addressing the over-representation of Aboriginal and Torres Strait Islander people in the homelessness system.
4. Developing an adequately resourced national homelessness strategy in consultation with people with lived experience, the community and private sector as well as all levels of government.

Recommendation 8: Assumptions that are built into our retirement income system on home ownership need to account for the decreasing rates of home ownership and the increasing rates of housing stress for people in the rental system, especially those approaching, and at, retirement age. Sustainability of the retirement system would be strengthened through policy reform that enabled higher rates of home ownership and improved housing affordability. We note the set of policy reforms outlined by the Everybody's Home campaign and recommend that these are adopted and implemented.

The role of social impact investing in driving better outcomes

As noted in the discussion paper, the superannuation industry holds significant wealth on behalf of Australians, largely as a result of Australian Government mandates and incentives. We believe that the super industry could deliver more public value than it currently does, while continuing to serve its primary function of supporting Australians in retirement.

SVA encourages the Review Panel to consider this issue from three angles:

1. Government should encourage and enable superannuation funds to invest their funds in ways that generate positive social outcomes.
2. Government should actively seek to create opportunities for superannuation funds to make such investments, by fostering the impact investing market in Australia.
3. Impact investing could provide potential solutions to some of the specific challenges outlined in the consultation paper, such as housing affordability

Encourage investment to generate positive social outcomes

Awareness of the potential externalities generated by investments is growing rapidly in Australia. It is increasingly common for investors, whether superannuation funds, banks or other entities, to consider environmental and social aspects of their investments. In some cases this is the result of shareholder, customer and/or public pressure to divest from assets seen as harmful, but it is also arising from investors considering the risks to their stakeholders of these externalities. For example, APRA Executive Board Director Geoff Summerhayes has indicated that “climate risks will become an important and explicit part of our thinking” and that investors need to consider both physical and transition risks in making investment decisions.¹⁶

Some investment entities are similarly becoming increasingly aware of the social externalities of their investments, and actively seeking to generate positive social outcomes for their members and the broader Australian public. For example, both Christian Super and HESTA have an allocation within their investment portfolio for a strategy focused on social impact investment. HESTA states that:

“We have implemented a number of strategies across our listed and unlisted investments which deliver environmental and social impact as well as a financial return[...] We see our impact investment strategy as complementary to this focus on ESG and consistent with our position as a long-term responsible investor, particularly within the health and community services sectors (where the majority of our members are employed and engaged). [...] Our allocation to Impact Investments is focused on investments which have as a primary purpose the delivery of a positive social and/or environmental impact and which generate appropriate financial net return to members[...].”¹⁷

Other superannuation funds have indicated willingness to invest their funds in projects that generate positive social outcomes, but in some cases have been held back by regulatory uncertainty, including lack of clarity regarding the sole purpose test¹⁸. Trustees of superannuation funds are under a fiduciary requirement to invest for the ‘sole purpose’ of providing retirement benefits for members.¹⁸ It is clear that social impact investing must meet financial benchmarks commensurate with mainstream investments, seeking appropriate risk adjusted returns. A trustee must perform this duty, as any other duty, in the best interests of the beneficiaries. It must also exercise its powers in the best interests of beneficiaries.

¹⁶ Summerhayes, G. 2017, “Australia’s new horizon: Climate change challenges and prudential risk” Speech to the Insurance Council of Australia Annual Forum, Sydney, 17 February 2017.

¹⁷ HESTA, 2017, *Response to Australian Government Social Impact Investing Discussion Paper*.

¹⁸ *Superannuation Industry (Supervision) Act 1993* (Cth)

It is generally accepted that best interests means best financial interests. To pursue an investment opportunity with a measurable social impact and acquit their duty to act in a member's best interest, a fund must have considered and be satisfied with the appropriate risk adjusted financial return.

It is SVA's view that the current framing of the sole purpose test does not preclude fund managers from making social impact investments, where they consider the social as well as financial return on investment. Investors should be aware that there will be ancillary impacts of the trustee exercising its investment powers and performing its duty to maintain the fund in accordance with the sole purpose test. A trustee needs to exercise care, skill and diligence in ensuring the ancillary impacts of its functions do not have a negative impact on members' financial interests. Negative externalities may adversely impact the financial interests of members in retirement. So, to ensure that it performs its sole purpose duty and exercises its investment powers in the best interests of members, a trustee should exercise care, skill and diligence to ensure that its ancillary impacts, alongside financial returns, are positive rather than negative.

However, we are aware that investment managers in superannuation funds hold a range of views on the application of the sole purpose test – and in some cases this makes them reluctant to engage in impact investing.

There are mixed messages coming from government on this issue – on the one hand, the Commonwealth government has actively encouraged social impact investing in a number of ways, including the creation of the Social Impact Investing Taskforce, funding Impact Investing Ready Growth Grants, and creating a subsidy for private investment in housing for people with disabilities that is designed to attract large-scale capital. On the other hand, some funds looking into investing in projects creating a social return for their members as well as a financial return have expressed concern about how this would be viewed by regulators regarding compliance with the sole purpose test.

Recommendation 9: Policy agencies such as Treasury and regulatory bodies such as APRA should develop and communicate a common understanding of the application of the sole purpose test for superannuation funds, to provide funds and others in the market with clarity on how positive non-financial impacts can be considered. This common understanding should recognise the potential for super funds to create value for their members, investors, and the Australian public, by investing in assets that create social value while delivering appropriate risk adjusted financial returns.

Government could seek to further leverage the significant support it provides to superannuation funds by actively encouraging funds to create positive social externalities via their investment decisions. There are a number of international examples where governments have actively enabled retirement savings funds to invest in social outcomes. These include:

- The UK government has a stated aspiration for pension schemes to be able to allocate a minimum percentage of their portfolio to social impact investment, and to consider member views in investment decisions. Government is also working to remove actual and perceived regulatory barriers for pension funds seeking to create social and environmental value through their investment decisions.¹⁹

¹⁹ HM Government UK, 2018, *Government Response to Advisory Group Report on 'Growing a Culture of Social Impact Investing in the UK'*

- The French Government requires that employees of companies with more than 50 staff be given the option of investing in retirement funds that allocate 5-10 per cent of their capital to social enterprises and similar entities.²⁰

SVA is not advocating that either of these approaches be adopted wholesale by Australia. Our retirement savings arrangements are significantly different to these countries, and any changes would need to be designed to suit our system. Nevertheless, they provide thought-provoking examples of how government-subsidised private investment can be leveraged to create public value.

Recommendation 10: That the Review Panel consider whether Australia should provide more explicit support for superannuation funds to generate public value through their investment portfolio.

Growing Australia's social impact investing market

As the Commonwealth Government has acknowledged in the Social Impact Investing Taskforce Terms of Reference:

“Catalysing the [social impact investing] market and building on the substantial commitments the Australian Government has made to date has the potential to provide a comprehensive federal-wide mechanism to address complex social issues, from welfare dependence to social housing.”²¹

While we understand it is beyond the scope of this Review to fully consider all aspects of social impact investing, we believe that a robust social impact investing market would enable the money held by superannuation funds to be leveraged to generate significant positive social outcomes for Australians.

While some super funds, such as HESTA and Christian Super, are actively engaged in social impact investing, others have been more reticent. We have identified a number of barriers to superannuation funds seeking to access the impact investing market. These include:

- A lack of investment opportunities at a scale to be worthwhile for large super funds to engage. The impact investing market in Australia is nascent, and while there is potentially willing capital available many of the existing investment options are not at scale – for example, small social enterprises and social impact bonds.
- Where there is potential scale, for example in housing investments, a lack of clarity and consistency of government subsidies and regulation. Providing long-term investment certainty is critical, including bipartisan support for policy directions, given the timeframes relevant to retirement income savings.
- A lack of comprehensive and consistent tools and benchmarks for measuring social impact. This makes it difficult for fund managers to assess potential investments for their social as well as financial returns. As noted above, being able to demonstrate social as well as financial returns is critical for trustees to fulfil their legal duties.

In cases where these issues are resolved, SVA is seeing significant interest in social impact investing from institutional investors such as super funds. For example, we have recently launched Synergis Fund – one of the first wholesale disability housing funds in Australia.²² We are currently in the advanced stage of initial fundraising, targeting an initial raise of \$50 million to be completed by the end of February 2020 from a mix of large institutional investors and impact investors. The overall ambition

²⁰ European Venture Philanthropy Association, *The 19/10 Solidarity Funds*, EVPA National Policy Nexus

²¹ Department of the Prime Minister and Cabinet, 2019, *Social Impact Investing Taskforce Terms of Reference*

²² See: <https://www.synergisfund.com.au/>

of the Fund is to target \$600 million of investment over the next five years, with the longer-term goal of scaling the Fund to more than \$1 billion.

Synergis Fund will have a dual focus on creating positive and measurable impact in the lives of people who are living with disability, while generating attractive long-term risk-adjusted financial returns supported by Commonwealth Government payments under the Specialist Disability Accommodation subsidy. The subsidy has been designed by government to attract significant amounts of private capital into delivering much-needed new housing supply for people with disability. Because it is structured to provide long-term certainty of financial returns, with regulatory and political risk minimised and/or appropriately priced, we anticipate it will attract strong interest from institutional investors including superannuation funds. The SDA model provides an example of how government can create the conditions to bring institutional investment into the mix for solving social problems.

Government could further support super funds investing to create public value by supporting the development of rigorous measurement and benchmarking tools by the super sector. This would align with government's broader interest in measuring social outcomes, and provide investment managers with the information needed to make effective investment decisions.

Recommendation 11: That the Review Panel consult with the Social Impact Investing Taskforce to enable both bodies to consider opportunities to make investing in the Australian impact investing market more accessible and attractive for superannuation funds.

Impact investments to support better retirement outcomes

As the consultation paper notes, current settings in Australia's retirement income system does not work well for everyone. Housing affordability is a particular challenge for people who reach retirement age without owning their own home. While there are a range of potential solutions to ensuring people have financial security in retirement, there is currently insufficient stock of housing that can reasonably be afforded on a modest retirement income. Solving the housing issue will require a significant increase in the availability of affordable housing.

Impact investing provides one avenue for government to address the housing supply shortfall. As we are currently seeing in the Specialist Disability Accommodation market, the creation of appropriately structured subsidies has the potential to attract significant private investment into the creation of housing for cohorts in need. A similar approach could be considered for the cohort of people approaching and in retirement without adequate financial security.

Such investments could be particularly attractive to super funds, as they provide a stable long-term financial return, while also supporting better outcomes in retirement for their fund members.

Recommendation 12: That the Review Panel recommend that government consider approaches to encourage investment in affordable housing for people approaching and in retirement by superannuation funds.