WHAT WENT WRONG WITH SUPER?

FINANCIALISATION AND AUSTRALIA'S RETIREMENT INCOME SYSTEM

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In this article we examine the impact of the Australian retirement income system on retirees, the existing evidence for which remains limited and contested. Over the past few decades, Australia's system has experienced major restructuring through a shift to a more individualised and privatised form of retirement provision. This shift has been part of a global trend. Internationally, policy 'reforms' described as pension financialisation have changed the way in which the retirement incomes of older citizens are now provided. Pension financialisation can be summarised as the shift towards a retirement income provision system that is managed primarily by private financial institutions. The ILO has identified thirty countries that privatised fully or partially their public pensions between 1981 and 2014 (ILO 2018:36). Following the end of the post-war Keynesian era, pension privatisation and financialisation were driven by a coalition of global institutional actors, including in particular the World Bank, that spread the reforms 'as part of a well-organised campaign' (Orenstein 2008:71-3; Minns 1996). These efforts coincided with the rise of pressures on governments worldwide to unlock state investments for the benefit of financial capital. The shift to pension financialisation was influenced also by the global spread of neoliberal ideological principles that promoted individualism over collectivism and reliance on private markets over public management in pension provision (Orenstein 2008:14).

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The supposed benefits of the shift to pension privatisation have been questioned from the outset. Since the global financial crisis (GFC), doubts about increasing poverty, inequality and insecurity amongst older populations, especially older women, have only grown (ILO 2018; De Deken 2017; Betti *et al.* 2015; Martin and Xiang 2015; Orenstein 2008). Mass worker protests about pension privatisation have occurred in France, Spain, Russia, Chile and elsewhere. Critics have argued that the major benefits have been accumulated by a minority of wealthy individuals and private pension fund institutions rather than the majority of older citizens whose retirement incomes remain inadequate. Governments have been criticised for shifting the risks involved in retirement provision from employers and the public sector to individuals. Bryan and Rafferty argue that 'the shift from defined benefit old-age pensions to self-funded, defined contribution superannuation is one of the starkest expressions of the risk shift from states to citizens' (2017:104). The transition to private pension provision has resulted in reductions in governments' commitment to the funding of universal pension provision.

Australia's restructuring of its retirement income regime was both similar and different from elsewhere in both the form that it took and the process by which it occurred. As in other western market economies, the 'reform' process was underpinned by the increasing influence both of neoliberal ideology on policymakers and of the financialisation of the economy. However, it also was influenced by the embeddedness, or path-dependency, of Australia's male breadwinner wage-earner welfare state institutions and in particular by the key roles historically of trade unions and the Labor Party (Kelly 1997). The way in which these dual forces of embedded institutions and disruptive globalisation interacted is critical to understanding and evaluating outcomes from the retirement income regime that has emerged in Australia.

Our analysis of the impact of the retirement income system on Australian retirees is organised around three questions. Firstly, does the system, in its current form, deliver an adequate standard of living for most older Australians throughout retirement? Secondly, does the system improve or worsen income equality including between men and women? Thirdly, does the system provide income security in retirement or are retirees' livelihoods subjected to risks resulting from a dependence on financial institutions and market fluctuations. In other words, post-employment, are retirees facing a process of re-commodification through ongoing dependence on market forces for their retirement income? Initially, however, a brief discussion of the history of the emergence of the present Australian retirement income system provides an important contextual base for evaluating the impact of the Australian retirement income system in terms of its adequacy, equality and risk for retirees. Finally, the article provides a discussion of the possibility of a future shift away from privatised retirement income systems.

Financialisation and the evolution of Australia's retirement income policy

Until the 1980s in Australia, the state-funded Age Pension was the primary form of retirement income available to the majority of retirees. Defined-benefit superannuation schemes were provided for some public service workers, although women were far less likely to benefit, and a minority of, mostly elite male, private sector employees had access to employer-funded defined-benefit superannuation schemes. This now has transitioned into a 'three-pillars' system in which the major components are based in the private sector and are closely integrated with financial capital. The Age Pension remains as a state provided benefit and is a vital component of the system but its value is as a safety net rather than itself providing anything close to an adequate retirement income (Per Capita 2016:5). The second pillar, the Superannuation Guarantee (SG), is based upon 1992 legislation that mandates that employers contribute into employees' private superannuation funds. The third pillar comprises other forms of individual private superannuation savings, including particularly Self-Managed Superannuation Funds (SMSFs), supported by generous government taxation concessions, within the private financial sector. The retirement income system therefore is highly financialised and Australia now has one of the largest privately funded superannuation industries per population in the world. In June 2020 the total assets of Australian superannuation (pension) funds were valued at $2.9 trillion (ASFA 2020). The Australian Federal Treasury has forecast that by 2040 private superannuation assets will reach $8.6 trillion or 185% of GDP (ASFA 2020). While overall, pension funds represent 53.3% of total GDP in OECD countries, they represent more than 100% of GDP in only a few countries, including Australia (OECD 2019).

The expansion of superannuation began in the 1970s when unions pushed, with some success, within the industrial relations award system for the inclusion of occupational superannuation within industrial awards. This process was accelerated with the election of a Labor government in 1983 which negotiated a Prices and Incomes Accord with the Australian Council of Trade Unions (ACTU) whereby wage restraint was agreed by unions in return for the advancement of certain social wage progressions, including superannuation. The unions had a longer-term vision for the introduction of a non-discriminatory national superannuation system – a principle that initially was incorporated in the Accord framework but which soon faded away. In 1992 a major development occurred when the Labor government introduced the Superannuation Guarantee (SG). The then Treasurer, later Prime Minister, Paul Keating argued that its introduction represented a major reform that would in future provide a more secure and comfortable retirement for all working people, beyond that which the publicly funded age pension could possibly provide.

In reality, the retirement income system that has evolved since was forged under the influence of many competing agendas and pressures and appears dramatically different from that which was envisaged by unions and embedded in the Accord (see Sharp 2009). Paul Kelly (1992:283) has argued that Hawke and Keating were reluctant to initiate a government funded universal national scheme which was perceived to be politically fraught and anathema to the dominant neoliberal principles of individual responsibility for peoples' own well-being and the positive virtues of individualism and choice generally in society. The Labor government also was forced to respond to fiscal, macroeconomic and demographic pressures that were being experienced in most countries and which were driving governments everywhere towards pension privatisation. Of course, the proposal for an expanded privatised superannuation industry, rather than a state provided universal system, was looked upon with considerable enthusiasm by many institutions in the financial sector that saw the spread of award-based superannuation as providing potentially huge opportunities for new business (Kelly 1997). Keating himself was focussed particularly on the macroeconomic benefits of the expansion of superannuation which he argued was a way of relieving perceived pressures on the fiscal sustainability of the publicly funded age pension but also provided an enormous potential source of new investment funds in the economy. In addition, although the unions initially perceived the push for superannuation as part of a wider retirement incomes strategy that might ultimately become a universal system, through a series of trade-offs superannuation came to be seen by unions more as a *de facto* wage increase.

It is frequently claimed in current policy debates that Australia has one of the most successful systems of retirement income provision in the world (Bateman *et al.* 2017; Clare 2017). The 2019 Melbourne Mercer Global Pension Index awarded Australia's retirement system third place in the world behind the Netherlands and Denmark (Knox *et al.* 2019). On the other hand, it also recently has been criticised for lacking sustainability (Dunn & Webb 2019), having ineffective management and regulation (Morris 2019) and failing individual retirees in a variety of ways (Martin and Xiang 2015). Many critics have argued that retirement income provision is far from adequate and that it is highly inequitable (Denniss 2020a; Martin and Xiang 2015), especially for women (Riach *et al.* 2018; Jericho 2018; Olsberg 2004). Others have criticised financialisation for subjecting older Australians to high levels of risk as a result of the vicissitudes and instabilities embedded in the financial markets that they are now required to engage with in order to manage their retirement incomes (Webb 2018; Fallick 2016; Borowski 2013).

The contested nature of the claims made about the Australian retirement system, as well as the sheer size of the private superannuation sector, makes it imperative that ongoing evaluations of its performance take place. In the remainder of this article we aim to contribute to this effort by reviewing the available current evidence on the adequacy, equity and security of the Australian system of retirement income provision, and by addressing questions about the impact of financialisation on the lives of older Australians

The impact of financialisation: adequacy, equity and security for retiree incomes?

Adequacy

The question of whether the three pillars retirement income system provides an adequate standard of living for older Australians remains contentious amongst stakeholders and researchers. One of the influential contributions to the debate about the adequacy of the retirement incomes system has been the development by the Association of Superannuation Funds of Australia (ASFA) of the ASFA Retirement Standard – a benchmark for categorising what can be regarded as both 'comfortable' and 'modest' standards of living (ASFA 2019). ASFA's definition of a comfortable retirement lifestyle is that it 'enables an older, healthy retiree to be involved in a broad range of leisure and recreational activities and to have a good standard of living through the purchase of such things as household goods, private health insurance, a reasonable car, good clothes, a range of electronic equipment, and domestic and occasionally international holiday travel'. The estimated income required by older Australians to achieve such a comfortable living standard is adjusted quarterly by ASFA but in December 2019 this was $44,146 for singles and $62,269 for couples, assuming outright homeownership in each case. ASFA also constructed a separate category of a 'modest' living standard in which older individuals and couples were marginally better off than those solely on the Age Pension but still only able to afford fairly basic daily needs, services and activities. The estimated income required to achieve such a modest living standard was $28,165 for singles and $40,560 for couples, again assuming outright homeownership in each case (ASFA 2019).

CEPAR, the ARC Centre of Excellence in Population Ageing Research, in 2018 argued that the Australian retirement income system will deliver an adequate income for future retirees. Similarly, in 2018 John Daley and other researchers from the Grattan Institute published a report that argued that the 'vast majority of retirees today and in future are likely to be financially comfortable' (Daley *et al*. 2018: 3). They also argued that the 'retirees of tomorrow are likely to be even better off due to a combination of compulsory super contributions, non-super savings, and the Age Pension' (Daley *et al*. 2018: 3). However, such optimistic predictions for the future are not reflected in CEPAR's own analysis of current incomes achieved by retirees, in particular by single retirees and those who do not own their homes. Using a variation of the ASFA Retirement Standard benchmarks, CEPAR classifies retirees into those currently achieving a comfortable, modest, or below modest, income based on household expenditure data. CEPAR doesn't provide a description of a 'below-modest' living standard, although it is clearly below the poverty line since a modest standard is only marginally above. Table 1, which summarises the results of this, reveals that only 21% of retirees overall in 2016 could afford a comfortable lifestyle. Approximately 41% could afford only a modest lifestyle and 37% received income and provided them with a below modest standard of living.

Table 1: Estimates of standards of living in retirement, CEPAR 2016

	Below modest	Modest	Comfortable
Retired couple homeowners	19%	49%	32%
Retired single homeowners	41%	43%	16%
Retired couple renters	84%	13%	3%
Retired single renters	84%	12%	4%
All retirees	37%	41%	21%

Source: CEPAR 2018: 8.

The data produced by CEPAR reveals how important homeownership is in determining the living standards of retirees. Homeowners are much more likely to enjoy a comfortable lifestyle than non-homeowners. It also shows the advantage that couple homeowners may have if they share resources and/or benefit from economies of scale. As the table shows, 32% of couples who are homeowners can enjoy a ‘comfortable’ standard while only 19% should experience a ‘below modest’ standard. Single homeowners do much less well and only 16% are ‘comfortable’, while 41% are in the ‘below modest’ category. Retirees who are non-homeowners fare far worse whether they are partnered or not, with only 3-4% being ‘comfortable’ while 84% are living at a ‘below-modest’ level. This data clearly suggests that the three pillars retirement income system is falling well short of providing a ‘comfortable’ standard of living for all older Australians as defined by ASFA’s definition of ‘comfortable’.

On the other hand, the ‘comfortable’ level, as defined by ASFA, is regarded by some, including the Grattan Institute researchers, as being set too high.

While a number of studies accepts the ASFA standards as realistic (Burnett *et al.* 2014; Actuaries Institute 2015; Committee for Sustainable Retirement Incomes 2016; Industry Super Australia 2015; CEPAR 2018), the Grattan Institute takes the view that the income level identified in ASFA's comfortable standard (around $62,000 in 2019) is 'more luxurious than the living standard of most working-age households' (Daley *et al* 2018: 34). As we have seen from the available income data for older Australians, almost 70% of retirees have incomes below this level: so, even if the Grattan Institute is correct that the ASFA standard is too high, it is evident that at least a majority of retirees are well below any modified definition of a 'comfortable' living standard.

So why is it that, in spite of a mandated employer scheme providing seemingly generous superannuation contributions and an Age Pension available to all subject to a means test, there are so many retirees whose retirement savings appear to be less than adequate to provide a comfortable standard of living? A number of reasons why this is the case can be identified. The Grattan analysis has been severely criticised for basing their modelling on a number of questionable assumptions (Mercer 2019) as well as failing to acknowledge many factors that undermine its conclusion that the current system provides a comfortable living standard for most retirees (Industry Super 2018, Jericho 2018, Connoly 2018). Of most importance in our view, Daley and colleagues' modelling falsely assumes that the 'vast majority' of workers fully benefit from the SG system (Daley *et al.*: 3, 87). In reality, many older persons fail to receive an adequate income in retirement simply as a result of a failure to accumulate sufficient superannuation savings prior to retirement. First, there are large numbers of 'employed' persons who miss out on employer superannuation contributions. Prior to the 2021 Federal Budget, workers earning less than $450 per month, a large percentage of whom are women, did not receive the SG. Very large numbers of employees are regarded as individual contractors by employers and are thereby excluded. The OECD reported that only 27% of the self-employed in Australia made superannuation contributions in 2016-17 (OECD 2019). There is also evidence of widespread avoidance of payment of superannuation entitlements by employers (Industry Super 2016-17). An Australian Senate study in 2017 revealed that 34.6% of women and 26.1% of men had no superannuation at all (Hartnell 2017). Short work hours, periods of unemployment, time out of the labour force due to caring roles or ill-health, and low wages are further reasons why people can (and do) arrive at retirement with low superannuation under the Superannuation Guarantee system.

Because many older Australians arrive at retirement age without adequate superannuation savings, large numbers rely on the Age Pension. The low income provided by the Age Pension is one of the main reasons why a large percentage of retirees have inadequate incomes (Per Capita 2017). At this stage of the development of the three-pillars system, 66% of those over 65 years still receive an Age Pension, with 41% on a full pension and 25% on a part pension (Hall 2019). While the Age Pension plays a very important role in acting as a safety net for those older Australians who otherwise lack the savings to be able to generate an adequate income, the standard of living it provides remains modest. One study estimated that one third of pensioners have incomes below the Melbourne Institute of Applied Economic and Social Research's poverty line (Per Capita 2016). The OECD reports that poverty rates for older Australians, which it estimates to be 23%, are 10 percentage points above the OECD average (OECD 2019). As noted earlier, couples are generally better off than single age pensioners and those who do not own their own home are much worse off than those who do. In 2019 a couple on a full pension could receive a maximum combined payment of $33,332 (Superguide 2019). For those who own their own home the poverty line at that time was $21,728. However, for those who did not own their own home the poverty line was $31,628 – which meant that their pension payment placed them only marginally above the poverty line. Australia's expenditure on the Age Pension compares poorly with other OECD countries. In 2015 expenditure on the Age Pension was 11.4% of total Australian government expenditure compared to 18.4% for the OECD average and 4.3% of Australia's GDP compared to 8.0% for the OECD average (OECD 2019:199).

Equality

One of the major sources of inequality amongst older Australians is the occupational nature of the superannuation system itself which effectively ensures that inequalities in the wage system are reproduced or actually exacerbated in retirement. The following data (Table 3) from the Australian Taxation Office shows the size of the gap in superannuation savings between high and low-income earners for all taxpayers in 2016-17. The median superannuation savings held by those earning $180,000 or more was over fourteen times greater than those earning less than $37,000. Those whose incomes were between $80,000 and $180,000 had superannuation savings more than seven times greater than those earning less than $37,000. The average superannuation account balance of those earning more than $180,000 was more than double the median account figure, which shows that amongst this group there were some whose superannuation balances were considerably greater than the median figure of $279,587.

Table 3: Individuals' super balances, by taxable income, 2016-17 financial year

Taxable income	Individuals (Number)	Average account balance	Median account balance
Less than $18,201	2,025,162	$122,506	$17,468
$18,201-$37,000	2,786,488	$89,241	$19,788
$37,001-$80,000	5,399,194	$114,316	$56,159
$80,001-$180,000	2,025,970	$241,342	$139,902
$180,000 or more	409,033	$582,420	$279,587
No tax return	4,028,609	$72,752	$10,237
Total	16,674,456	$128,194	$41,731

Source: ATO, Taxation statistics 2016-17.

The Australian Treasury has concluded that this gap in superannuation savings between high and low-income earners will continue to grow and widen in coming decades (Australian Treasury 2019c).

Table 4: Estimates of tax concessions related to superannuation

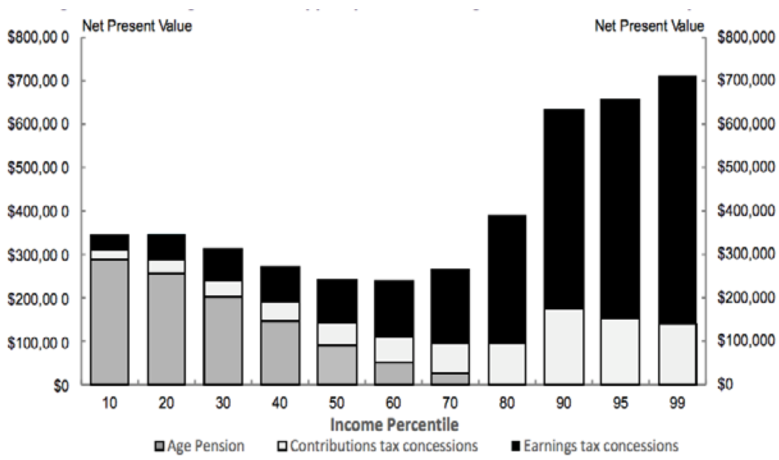
	2014-15 $ million	2018-19 $ million	2021-22 $ million
Concessional taxation of capital gains for superannuation funds	470	1700	2150
Concessional taxation of employer superannuation contributions	15,500	17,750	22,700
Concessional taxation or personal superannuation contributions	790	1450	1750
Concessional taxation of superannuation entity earnings	11,600	19,550	22,650
Concessional taxation of unfunded superannuation	540	560	630
Deductibility of life and total permanent disability insurance premiums provided inside of superannuation	1800	2540	2870
Small business capital gains retirement exemption	410	610	700
Superannuation measures for low income earners	300	200	220
Exemption for small business assets held for more than 15 years	205	490	565
Total taxation concessions related to Superannuation	**31,615**	**44,850**	**54,235**

Source: Australian Treasury (2019a).

This gap between low and high-income earners is hugely exacerbated by the range of taxation concessions that are available mostly to better-off individuals in both the accumulation and decumulation phases of retirement savings. In 2014-15 Treasury estimates of super tax concessions represented foregone revenue of $31.6 billion, rising to $44.9 billion in 2018-19 and then $54.2 billion in 2021-22 (Table 4).

The largest component of these concessions is the concession on super fund earnings, which is estimated to be valued at $19.6 billion in 2018-19 while the concession on employer superannuation contributions is worth $17.8 billion. The size of superannuation related tax concessions is growing three times faster than spending on the Age Pension. At this rate the value of super tax concession for contributions and fund earnings will soon exceed the cost of the Age Pension. In 2018-19 the Age Pension is estimated to cost $46.7 billion and is projected to cost $52.3 billion in 2021-22 by which time the cost of superannuation tax concessions will have exceeded it (Australian Government 2019-20: 5-23).

Figure 1: Lifetime government support provided through the retirement income system



Source: Reproduced from the publication: Australian Treasury (2019b) Retirement Income Review: Consultation Paper. November. p 18

As shown in Figure 1, households in the lower income deciles primarily benefit from government support through the Age Pension in their retirement years and have little access to the tax concessions available in the post retirement phase and even less access to the tax concessions available in the superannuation accumulation phase. Those in the middle-income groups, while receiving somewhat more support through tax concessions, overall receive even less government assistance as a result of having less access to the Age Pension. In stark contrast, those in the upper income deciles, while having little or no access to the Pension, receive far more government welfare in the form of extremely generous tax concessions available on superannuation contributions and even more on tax concessions on their retirement incomes.

It has been estimated that women receive only one-third of the tax concessions provided through the retirement incomes system (Women and Super undated). Austen *et al* (2015) identify significant gender impacts of the tax expenditures on superannuation. The negative gender impact of the expenditures on superannuation tax concessions increases further when account is taken of individuals (more commonly women) who are not in the paid workforce and, thus, are generally not liable for income tax.

It has long been recognised that the lack of gender equity is a key shortcoming of the Australian retirement income system (Olsberg 2004: 164-70). Women's disadvantaged labour market position, lower wages, higher levels of part-time work and broken work patterns all contribute to ensuring that a high percentage accumulate a significantly lower level of retirement savings from mandated employer superannuation contributions (Austen and Mavisakalyan 2018; Riach *et al.* 2018; Sharp and Austen 2007; Preston and Austen 2001). In 2015-16 women held only 39% of total superannuation savings (Clare 2017). Similarly, a key explanation for the gender gap in lifetime earnings and superannuation is the gendered division of unpaid work associated with parenting and other care roles. Austen and Mavisakalyan (2018) found that women with a child under the age of 2 in 2001 recorded 77.5% less earnings over the subsequent 15 years compared to women with no children.

Although couples, at least those who are homeowners, are generally better off than single retirees, it does not automatically follow that women in these households do equally well as their male partners. Many older women in couple relationships also are adversely affected by the shift towards privatised superannuation. The redirection of fiscal resources away from the Age Pension and towards tax expenditures on superannuation has the effect of concentrating the money and thus power in couple households in the hands of the primary 'earner'. The vulnerability of older partnered women to their partner's decisions about superannuation and other financial assets are taken up in recent research by the Women in Social and Economic Research (WiSER) group at Curtin University (Costa *et al* 2020). This research has shown that the predominance of defined-contribution accounts in Australia's superannuation system creates particularly large risks for older women. In a recent WiSER working paper, Mavisakalyan, Austen and Himmelweit note that the issues about unequal access to decision-making on household superannuation wealth is especially consequential for women because they will typically outlive their partner and will be adversely affected if household resources are not allocated in a way that 'covers' their expected longevity. Austen, Sharp and Hodgson (2015) show that the shift in focus toward superannuation, and especially the large tax expenditures on superannuation, are key sources of heightened levels of inequality and gender inequality in particular. They identify older single women as a particularly vulnerable group under current policy settings.

In summary, the retirement income system reproduces the class and gender inequalities that exist in the general population and to some degree exaggerates those inequities, particularly through the generous taxation provisions that are available and which overwhelmingly favour the better-off amongst older males.

Risk

Bryan and Rafferty (2017: 108) have argued that pension financialisation potentially re-commodifies retirees' lives, shifting the financial risks of retirement income provisioning away from governments and employers onto employees and retirees who now have been drawn into the role of 'active (if reluctant) investors and risk takers' (see also Clark 2000; De Deken 2014; Ebbinghaus 2015; Natali 2017). A major issue of concern with Australia's privatised defined-contribution superannuation system is that it provides a high level of retirement income insecurity and risk. The shift to a privatised retirement incomes system has been presented as providing increased choice both for those saving for retirement and those in retirement. The potential for increased individual control over retirement savings certainly makes it possible to realise higher rates of return given the right circumstances, adequate resources, good information and advice and a certain amount of luck. However, with defined contribution schemes the degree of financial risk for retirees also increases as their retirement incomes become less secure and predictable. Financial and other risks are transferred primarily to the individual or household, creating vulnerability to any losses that accrue to their savings or investments depending upon market circumstances and other factors.

At the point of retirement all retirees with accumulated superannuation savings now face decisions that involve risks in choosing how to turn whatever superannuation savings they have into an income that, either by itself or in conjunction with the Age Pension, will determine the living standard for the rest of their life. The list of uncertainties and risk factors they face can be very daunting. Many of the options available contain unknowns. Are their superannuation savings going to be adequate? What annual income will they need to live comfortably? How long can they expect to live? Many retirees find themselves having to negotiate the complexities and risks of the world of financial investment markets in order to find a way of providing an adequate and sustainable income.

Some retirees opt for a strategy that minimises their direct interaction with financial markets. For example, many choose to leave their retirement savings in their existing superannuation fund or transfer their accumulated superannuation savings into another retail or industry fund to be managed on their behalf. This strategy involves making some critical choices about how to convert their accumulated funds into a long-term retirement income. One possible choice involves purchasing an annuity, effectively a pension available usually from retail funds, that provides a guaranteed income for a fixed length of time and effectively transfers the risks of funding the pension to the institutional fund. However, this path involves making a judgement about how long they think they are going to live. Annuities are also relatively expensive and this market is currently poorly developed (see Davidoff *et al.* 2005). More commonly, those who choose to leave their savings in a retail or industry fund opt for an allocated pension which involves drawing a regular payment from their superannuation account. This strategy involves a degree of risk firstly because it involves making a judgement about how much to draw down while still ensuring that the balance will serve to provide an income for the longer-term. Secondly, allocated pensions do not provide a guaranteed income and share market fluctuations can negatively affect the balance of the superannuation account. In each case the risk remains entirely with the retiree. The uncertainties associated with these decisions become particularly acute for women whose life expectancy is generally longer than for men.

Many retirees adopt a strategy that involves a potentially higher degree of risk by choosing to more directly interact with the financial world through various forms of self-management, usually with the assistance of a financial advisor or company. One high-risk form occurs when retirees take their superannuation as a lump sum and invest it in a self-managed superannuation fund (SMSF). SMSFs have grown enormously in numbers in recent years as they provide particularly attractive opportunities for individuals and small businesspeople to take advantage of available tax benefits. Self-managed funds amount to a very substantial $742 billion of investments or approximately 30% of all superannuation funds (ASFA 2019). Most of the 596,000 SMSFs have relatively modest levels of assets but a minority hold extremely high assets. These funds also appeal because of the perceived opportunity they provide for individuals to control their own investment strategies – something that sometimes results in spectacular success but they also provide the highest level of risk for less wealthy retirees and sometimes result in disastrous outcomes. Other self-management strategies involve using individual financial advisors or institutions to establish portfolios of superannuation investments. Each of these private financial forms of retirement savings are subject to government regulation, although critics have argued that they are under-regulated (Morris 2018; Bolza 2016).

The retirement income system contains a variety of other inbuilt risks both for the economic system and for current and future individual retirees. These include ‘malfeasance and incompetence in the management of superannuation funds’ (Borowski 2013: 74). The extent of malfeasance was confirmed by evidence presented to the 2018-19 Royal Commission into Misconduct in the Banking, Superannuation and Services Industry, especially regarding the roles of the banks and other ‘for-profit’ financial institutions operating in the superannuation industry (Australian Government 2019). The Royal Commission had been established after numerous revelations emerged in the media of a ‘culture of greed’ in the industry as well as a failure of regulation by the relevant government authorities. The Royal Commission report concluded that amongst the avalanche of examples of misbehaviour and corruption identified:

> In almost every case, the conduct in issue was driven not only by the relevant entity's pursuit of profit but also by individuals' pursuit of gain, whether in the form of remuneration for the individual or profit for the individual's business. Providing a service to customers was relegated to second place (Australian Government 2019, Vol. 1: 1-2).

In particular, the Royal Commission provided a litany of examples of gross misbehaviour by financial advisors – especially those operating within large financial institutions.

One of the sources of insecurity most commonly expressed by retirees is what Borowski refers to as political risk, which he defines as policy changes that can subvert retirees' efforts to successfully achieve the living standard that they anticipated (Borowski 2013: 752-4). Often these changes have advantaged some retirees, but policy changes have also disadvantaged certain other groups of retirees. For example, the decision of successive governments to progressively increase the age at which both men and women are able to access the Age Pension potentially impacts negatively on those retirees for whom the pension will be a significant part of their retirement income. Other studies have shown that the Coalition Government's extension of the cashless card payment system for the NewStart unemployment system raised fears amongst some who receive the Age Pension that this eventually would apply to their payments as well (Shetler 2019; Della Bosca 2019). Furthermore, the potential risks that older Australians are likely to face in the future are becoming increasingly uncertain as the costs of aged care escalate dramatically.

Of most significance amongst the many risks facing retirees with superannuation savings, their future income now depends on the unpredictable fluctuations that are endemic to the share market. Whereas in the accumulation stage short-term fluctuations in the share market tend to even out over time, for those in retirement even short-term losses can be worrying, let alone the ever present risk of a major share market collapse such as was experienced at the time of the global financial crisis in 2008-09 and again in the sharemarket collapse in 2020 when the global coronavirus pandemic sent world share markets into freefall.

Conclusion

The Australian retirement income system is generally regarded as being one of the more generous systems internationally and has substantially improved the retirement incomes of many older Australians who in the past would have been reliant on the state-provided Age Pension. However, the Australian three pillars system has serious shortcomings deriving from its financialised structure and possesses similar inadequacies, inequities and risks for retirees as other financialised retirement incomes systems globally. Although the state continues to play a positive role in the Australian system through the ongoing provision of the Age Pension and the state-mandated employer funded Superannuation Guarantee, the outcome for large numbers of retirees is problematic. A major flaw is that it is largely dependent on individuals' capacity to accumulate sufficient superannuation savings while in employment and then to successfully manage the risks involved in sustaining an adequate retirement living standard. The occupational nature of the Superannuation Guarantee results in the reproduction and also the exacerbation of existing labour market inequalities into retirement. Large numbers of Australians are not able to generate an adequate retirement income from their superannuation savings alone. Women are particularly disadvantaged.

These inadequacies are reflected in the fact that over 50% of current retirees still obtain all of their income from the Age Pension which only provides a living standard close to the poverty line. Even those fortunate enough to acquire an adequate level of retirement savings are required to individually bear full responsibility for the risks provided by the, often extreme, volatilities in financial markets and the other challenges and uncertainties associated with managing retirement and the ageing process itself. We can expect that the financial impact of the global pandemic that began in 2020 will cause further re-evaluations of the capacity of the existing pension policies to function effectively in a privatised framework.

Since we have argued that many of the problems that have been identified with Australia's retirement income system are linked to the financialised nature of the system, it might be argued that these problems can most effectively be addressed by initiating a fundamental shift in responsibility for retirement incomes from the private to the public sphere. A major constraint in doing this, however, is the extent to which financialisation has determined the likely future path for the evolution of the Australian retirement income system. A plethora of vested interests have been created through financialisation, ranging from the massive investments held by the private superannuation industry, the financial adviser industry and associated lobby organisations and those, particularly better-off, retirees themselves who perceive themselves benefitting from the generous taxation advantages attached to the system. These well-resourced interests can be expected to resist any large-scale winding back of the current, financialised aspects of the system.

While the structural embeddedness of financialisation in the retirement income system remains a constraint on radical change, nevertheless there certainly exists the possibility for new ideas to reform the way retirement incomes are provided for in Australia. The potential areas of focus for further research and policy development are numerous. These might include policies to ensure the benefits of the existing Superannuation Guarantee are made more generous, fairer and available to all. They might also include strategies to redirect the excessive tax concessions currently available for superannuation for the wealthy towards more socially responsibly and equitable programs for all older Australians. An obvious area of benefit for the majority of retirees would be to substantially increase the Age Pension in order to provide a genuinely adequate living standard (Della Bosca 2020; Grudnoff 2020). These savings could even fund a universal living wage (Stanford 2019b; Quiggin 2019). New policy ideas are needed for ways to ensure women are able to accumulate entitlements to retirement income equally with men no matter whether their work is paid or unpaid. Ways also need to be identified to enable policymakers to apply much stricter management, regulation and transparency requirements on the private institutions that currently dominate the superannuation industry (see Morris 2018). Greater regulation can not only provide less risk for retirees exposed to the fluctuations of volatile financial markets but also, as has been noted by the Australia Institute, can promote more sustainable economic and social development (Denniss 2020b).

Finally, it may not be totally unrealistic to believe that a fundamental shift away from financialisation might still be achievable. Here, Australian researchers and policymakers might look to emerging trends in Europe and elsewhere where some countries have actually rethought, and substantially reversed, the pension privatisations that were implemented at the end of the Twentieth century' (Natali 2017: 269). Similarly, the Nordic countries and the Netherlands offer models of more collective, defined-benefit approaches to retirement income provision (Anderson 2019; De Deken 2017). While, globally, pension schemes are changing in a variety of ways (Hassel *et al* 2019; Natali ed 2017), lessons from these trends may help to address the serious problems associated with financialisation that we have identified in Australia's retirement income system.

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