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A super market? Marketisation, financialisation and private superannuation

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Introduction

Many affluent Organisation for Economic Co-operation and Development (OECD) countries have recently adopted private retirement income policies to curb the pressures purportedly placed on national budgets by fiscal austerity and future population ageing. At the forefront of this international trend, Australia established a compulsory system of private occupational superannuation in the early 1990s that requires employers to make set contributions on behalf of their workers into individualised private super accounts. This has transformed the role of private superannuation from an exclusive occupational benefit for about one-third of the workforce in the 1970s to its current role as a retirement savings vehicle for more than 90 per cent of workers (Nielson and Harris 2009). The mandating of occupational superannuation has contributed to the rapid growth of the private super market, with total fund assets climbing from $41 billion in 1987 to a massive $2.6 trillion in 2018 (APRA 2018a).

The expansion of occupational super has coincided with—and contributed to—the increasing financialisation of the private superannuation market. This trend is perhaps most evident in the shift from defined-*benefit* schemes in public sector and corporate funds that guaranteed a private pension to a defined-*contribution* scheme that mandates contributions to be paid into individual savings accounts invested in financial markets. So, as private super has become a major source of lifetime savings, particularly for younger generations, the promise of a healthy and secure retirement for members of virtually every Australian household (of working age) has become increasingly entangled with financial markets over their life course, bringing new risks from volatility and market failure, and compounding existing inequalities.

Why does the transformation of private super matter? The financialisation of private superannuation matters because after decades of rapid expansion it now forms a second tier of retirement income policy, alongside the affluence-tested age pension that forms the first and primary tier (see Spies-Butcher and Stebbing 2011). Retirement income policy is a core social policy domain that addresses the greater risk of poverty or income insecurity households face during old age. It aims to ensure older households have incomes that support a dignified life in later stages of the life course.

This chapter explains how the shifting dynamics of the private superannuation market are reconfiguring the distribution of the financial risks of old age in Australia's retirement income system. The first section explains the conceptual framework that informs my analysis of how private superannuation has been transformed in recent decades. The second section charts how private super was transformed from an occupational benefit for an exclusive minority in the early 1970s into a market for private retirement savings and a second tier of retirement income policy in the 1990s. The third section explains how financialisation and recent reforms continue to restructure how the superannuation market manages financial risks. In concluding, I briefly reflect on the implications of this analysis of the superannuation market for retirement income policy. And finally, in the Epilogue, I reflect on how the early release of superannuation scheme during the Covid-19 pandemic and other recent reforms highlight some consequences of marketisation and financialisation.

Understanding the transformation of private superannuation

The private superannuation market was neither self-forming nor self-regulating, as anticipated by neoclassical economics. As recently as the 1970s, the private superannuation sector had few of the features associated with competitive market exchanges and a weak link with retirement savings. This section establishes the conceptual framework this chapter applies to analyse how private superannuation was transformed from an occupational benefit into a market for retirement savings.

The starting point for my analysis is to understand the private superannuation market as a social institution. This accords with a growing body of research in political economy and economic sociology that theorises markets, such as that for superannuation, as social arenas of exchange that use competitive mechanisms to allocate goods, services and information (Fligstein and Dauter 2007: 107; Gingrich 2011: 8). As social institutions, markets are governed by legislation, regulation, practices and norms that constrain and enable the various actors engaged in exchanging goods and services (Vogel 2007: 26). This understanding refocuses analysis on the complex interactions between the market and the state in particular contexts, rather than assuming with neoclassical economics that state intervention simply reduces market competition (Swedberg 2006: 233). In fact, even if it is not always successful, state action has been shown as necessary to 'craft' the conditions for markets to operate and thrive (Vogel 2018: 4–5; also see Polanyi 1944).

The transformation of private superannuation into a market is often linked to broader claims about how neoliberalism has restructured the welfare states of affluent countries such as Australia over the past four decades.[1] According to Hall and Thelen (2009: 22–24), neoliberalism has become an umbrella concept that is too encompassing to usefully explain the institutional character of recent changes in a specific policy context.

1 Neoliberalism is the subject of a burgeoning literature that employs at least four distinct meanings: as the hegemonic ideology of our times, as the political project that reorders state institutions to market logic, as a form of rationality encroaching on everyday life and as the latest phase of contemporary capitalism (Brown 2015; Fox Piven 2015; Harvey 2005; Mirowski 2013; Wacquant 2012). This concept has been deployed widely to explain diverse political and economic developments in myriad contexts (Thelen 2012: 145).

Recent changes widely associated with neoliberalism have been captured with greater analytical clarity by the related concepts of marketisation and financialisation.

Marketisation refers to action by the state that reconfigures the policy architecture of the state and/or builds new institutions that imbue market logic. Market logics have two central attributes: the use of competitive mechanisms to allocate services and products, and the use of incentives to influence the behaviour of consumers and producers (Gingrich 2011: 7). Marketisation takes many forms, including state actions that support and/or constitute market actors, define the products to be exchanged, construct social arenas and the rules for market exchange, promote for-profit provision and encourage consumer choice and competition (Vogel 2018: 15).[2] The project of marketisation is neither a purely technical nor a purely (right-wing) political endeavour. Rather, it has been pursued by governments of the centre-left and centre-right to meet distinct policy goals and benefit core constituencies (Gingrich 2011).

Financialisation captures a broader shift in the political economy that integrates financial ways of thinking and acting into how state and private (for-profit and not-for-profit) institutions—and, by implication, households—operate (Bryan and Rafferty 2018: 9; van der Zwan 2014). Financial ways of thinking apply complex calculations to quantify the potential risks and returns for the available options in each situation (Bryan and Rafferty 2018: 22). These calculations convert each option into 'transactions on balance sheets of assets and liabilities, and as business-like profit and loss accounts' (Bryan and Rafferty 2018: 10). Financial ways of acting involve choosing the option that is calculated (estimated) to maximise return without unwarranted exposure to risk. In practice, financialisation includes using financial criteria such as returns and risks to assess organisational performance, managing organisations to maximise shareholder value and introducing regulatory reforms that facilitate profit-seeking (Cutler and Waine 2001: 99–100). By counterposing neoliberalism with the concepts of marketisation and financialisation, my analysis of private superannuation differentiates the impact of recent market-oriented social policy reforms and broader changes to economic activity (although there is some overlap between the two as financial markets are a form of market).

2 In the case of superannuation, marketisation is akin to what Vogel (2018) terms 'marketcraft'.

As marketisation and financialisation involve complex institutional changes, the impact of both processes on private superannuation is explained drawing on insights from historical institutionalism. Historical institutionalism comprises a loose camp of interdisciplinary approaches that claim that institutional developments over the longer term tend to be more consequential than specific policy choices at a point in time because institutions can become 'embedded' and impact subsequent developments through intended or unintended 'feedback effects' (Pierson 2004: 15). Imposing constraints or conferring resources that impede or promote certain actions, feedback effects may stem from multiple sources in different historical and political contexts—including state and market institutions, political interests and other policy actors and/or political ideas (Hacker 2004: 244). My analysis focuses on the sequence of policy developments and related feedback effects from the 1970s to the present, since this is the period over which superannuation has been transformed from an occupational benefit into a market for private retirement savings.

Policy models differ in how responsibility for managing the financial risks of poverty and income insecurity in old age is distributed between households, the state, employers and/or private (financial) markets. These responsibilities are often actively constructed by political actors in policy discourse using frames that strategically represent policy issues by linking shared norms, cultural values and/or ideological claims to a particular construction of a problem and its solution (Campbell 2004: 94; Rein and Schon 1993: 153). Retirement income policy may spell out de jure responsibilities explicitly framed in legislation, regulations and/or policy discourse that mandate households, the state, employers and/or private markets to take certain actions. Retirement income policy may also imply de facto roles for households, employers and/or private markets that either alter incentive structures or imply voluntary actions in the absence of state intervention. In the ensuing analysis, I consider to what extent, if at all, the transformation of private super in recent decades has reconfigured the distribution of de jure and de facto responsibilities for the financial risks of Australian retirement income policy.

From occupational benefit to private market? The transformation of superannuation

This section establishes the contours of the private superannuation sector in the 1970s and reflects on its role in what I call the 'traditional' model of retirement income policy. It then draws on the concepts set out above to identify the following three phases in the development of this market (see Figure 4.1):

1. localised industrial campaigns for occupational super and the development of early union super funds (mid-1970s to early 1980s)
2. national industrial campaigns for occupational super in Accords and establishment of industry super funds, as operational standards developed (early to late 1980s)
3. foundations of superannuation market established via legislation for occupational super and operational standards (early to mid-1990s).

By the end of this three-phase process, superannuation had become the second tier of the two-tier model of retirement income policy that has been gradually reshaping the de jure and de facto responsibilities for the financial risks of old age.

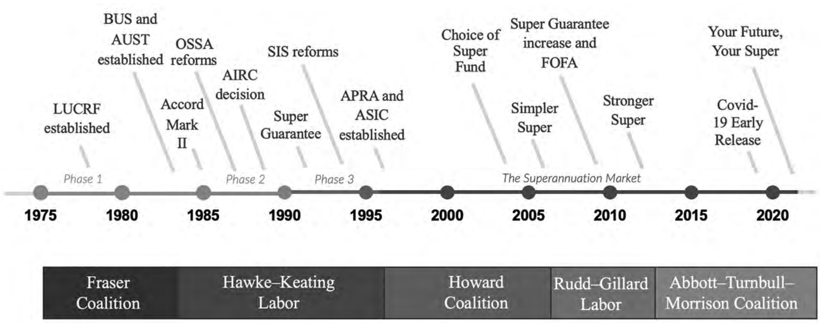

Figure 4.1 The superannuation market: A timeline of key developments

Source: Based on author's research.

Before the super market: Superannuation and traditional retirement income policy

Private superannuation did not function as a market in the early 1970s. The private and public sectors did not supply a retirement savings product that was routinely preserved until old age or portable between different employers and super funds. Employers limited membership of superannuation funds and schemes as an occupational benefit through invitation to workers after extended service (St Anne 2012: 27). Superannuation benefits were reserved for workers who remained with the employer until the scheme matured and pensions were calculated relative to an individual's salary and years of service (St Anne 2012: 27). Without a retirement product to exchange, tight controls on fund membership and benefits decoupled from fund performance, superannuation funds did not compete with one another or seek to maximise investment returns (or market share). Rather, employers used superannuation to reward loyal employees in the competitive postwar labour market and, with no investment controls, many smaller funds supplied cheap lines of credit to be reinvested in the employer's business (Dixon and Foster 1982: 9).

Private superannuation functioned as an occupational benefit rather than a retirement product for about one-third of workers in the early 1970s. Most members received super as lump-sum benefits with severance pay when changing jobs before retirement. In the early 1980s, about 80 per cent of super payments were received as lump sums by workers aged under 55 years when leaving an employer (Aaron 1984: 356–57). Often, lump-sum benefits were equivalent to contributions made without interest or investment returns (Knox 1983: 6). The remaining 20 per cent of super payments paid as retirement benefits accounted for more than 80 per cent of total payments (Aaron 1984: 357). It follows that, at most, 9 per cent of the national workforce had defined-benefit schemes that paid private annuities in the early 1980s.[3] Evidence indicates superannuation benefits—lump sum or defined—were concentrated among older men with high incomes in managerial and professional salaried positions who had been employed by large organisations for extended periods (NSCI 1976: 8).

3 As noted below, about 44 per cent of workers had superannuation in 1982; 20 per cent of this amount is about 9 per cent of the workforce.

The weak link between superannuation and retirement income reflected the organisation of the sector into employer-level schemes, which had diverse benefit structures and no mechanism to transfer balances between funds when employees moved. The superannuation sector was bifurcated by persistent differences between public and private sector schemes. Public sector super schemes were self-administered on a not-for-profit basis and largely funded from general revenue when account-holders became eligible for benefits (Knox 1986: 43). Covering about 58 per cent of government employees, public schemes provided a defined benefit or a lump sum calculated as equivalent to super contributions that would have been funded at stipulated rates (Knox 1983: 6; NSCI 1976: 5).

Private sector super funds ranged from large corporate funds for (mostly) white-collar employees that paid defined benefits and retail funds established by life insurance offices to small employer schemes for employees of a particular business (Bateman 2003: 119; Knox 1983: 6). Evidence suggests the small employer funds with fewer than 10 members were most prevalent and made up more than 80 per cent of private sector funds in the early 1970s (NSCI 1976: 9). Most super contributions were funded and, except for a small portion of retail funds, private sector schemes operated on a not-for-profit basis. Private sector schemes covered about 21 per cent of private sector employees and mostly paid lump-sum benefits (NSCI 1976: 5, 11).

Financial institutions had limited roles in a superannuation sector dominated by not-for-profit funds. Both public and private sector super funds were instituted as trusts and managed by trustees appointed by those constituting them. Trust deeds outlined the rights and obligations of trustees (who controlled super funds), employers (where relevant) and members (Castillo 2012: 23). Government departments and agencies appointed trustees for public sector funds. Private sector employers often acted as trustees for their own super funds, generally appointing directors and senior managers (Dixon and Foster 1982). Other small super funds were often established by individual trustees to minimise tax liabilities (Castillo 2012: 23). This limited the role of financial institutions to providing financial services to private non-profit super funds; mutual life insurance offices had the largest direct role in administering—in part or in full—most private sector super funds (Knox 1986: 43).

The state also had a minimal role in the superannuation sector (apart from in public sector schemes) during the 1970s. It subsidised private super via tax concessions that applied to certain super contributions, fund investment earnings and lump-sum benefits (Nielson and Harris 2009). To access the concession for investment earnings, private super funds had to adhere to the 30/20 rule to invest 30 per cent of their assets in government bonds, of which 20 per cent had to be held in Commonwealth bonds (Holt 1961: 1155). Otherwise, superannuation was only lightly regulated and not subject to specialised legislation. The state did not impose investment controls, nor did it require funds to preserve benefits until retirement or routinely vest account holdings (that is, inform members of the estimated value of contributions and investment earnings).

Given its weak link to retirement savings, superannuation unsurprisingly had a minimal role in the traditional model of retirement income policy, in which the 'first tier', the age pension, was more or less universal. Accordingly, the traditional model largely distributed responsibility for the financial risks of old age between the state and households. The state had de jure responsibility in this model, collectively pooling the financial risks of old age by funding the affluence-tested age pension from general tax revenue.[4] Although technically funded by taxes collected today, the age pension can be understood to have an income-smoothing function in that taxes are collected at high-income stages of an individual's working life and the pension provides them with a modest income stream at retirement. In other words, taxes collected over an individual's working life can be conceived of as at least partially covering the cost of the age pension they receive in retirement. Because of the pension's modesty, the traditional model has relied on retirees having low housing costs to achieve low poverty rates (Castles 1997; Yates and Bradbury 2010). Households had a de facto role in securing low housing costs through homeownership in this model, which is often conceived as a fourth pillar of social insurance (Yates and Bradbury 2010).[5] The state encourages homeownership directly by excluding the family residence from the pension's asset test and indirectly by only providing highly residual social housing (Yates 2010).[6]

4 Low health costs to individuals from the universal health insurance scheme Medicare, established in 1985, have also become important.

5 Although predicated on high homeownership rates, the traditional model of retirement income policy relies primarily on the reduced living costs for owner-occupiers rather than the potential for retirees to access equity from housing assets through sale or financial instruments.

6 Social housing peaked at 6 per cent of housing stock (Yates 2010).

The traditional model of retirement income policy conferred few responsibilities for the financial risks of old age on to employers and financial markets. However, several large corporate and public sector employers did assume de facto responsibility for managing the financial risks of old age by paying annuities or lump-sum benefits for an exclusive minority of workers when defined-benefit schemes matured at retirement. Profit-seeking financial market institutions had even fewer responsibilities than employers in the traditional model, with most super funds operating as not-for-profit trusts, typically controlled by employers and administered by mutual life insurance offices.

Phase 1: Early pioneers of the super market — Market-savvy unionists and occupational super

Although they had a modest short-term impact, union campaigns for occupational super in the mid-1970s paved the way for later transformations of occupational superannuation by forging super into a product that had the potential to be transferred between certain funds and linking benefits to the financial performance of the fund. These campaigns started to expand coverage of the second tier of retirement income policy, making it less of an exclusive benefit for higher-income–earners. In these campaigns, market-savvy unionists established a new 'union' model of super fund that provided a precursor for later industry funds, combining a not-for-profit organisational structure with accumulation member accounts. Before a market had been established, these new super funds established a financialised model to the extent that their growth spread accumulation accounts managed by financial institutions and invested assets to maximise returns for account-holders (Stebbing 2015: 130–31). Seeking to capitalise on the growth in coverage, large life insurance offices—including National Mutual and the Australian Mutual Provident Society (AMP)—and investment banks also spread the accumulation account model by actively expanding their retail superannuation business (Morris 2018: 59–60).

Union campaigns for occupational super in the mid-1970s established the foundations of the second tier of retirement income policy as a fallback position following a failed campaign for a national public superannuation scheme. Political campaigns for national superannuation—a single state-administered super scheme for workers—gathered momentum in the early 1970s following growing concerns about the adequacy of the age

pension (Olsberg 1997: 76). Having promoted employer-funded super benefits since the 1950s, the union movement was a key proponent of national super (Morris 2018: 59). This campaign peaked with bipartisan support for national super at the 1972 election and the establishment of the National Superannuation Committee of Inquiry (NSCI, or Hancock Inquiry) in the same year by the incoming Whitlam Labor government to develop policy proposals. Bipartisan support for national super, however, was short-lived and the campaign stalled after the Fraser Coalition government took office in late 1975. Industrial campaigns for wage increases were also constrained in the mid-1970s—initially, by unions' commitment to wage restraint in return for national wage indexation from the Whitlam government and then by the anti-inflationary monetary policies of the Fraser government (Olsberg 1997: 75–76).

Against this backdrop, unions developed the 'deferred wages of workers' frame in their campaigns to justify pursuing occupational super through industrial bargaining in the arbitration system to improve worker remuneration. This frame primarily constructed occupational superannuation as an industrial issue, establishing employer super contributions as equivalent to a 'wage increase' (rather than a gift from employers). Unions also used the 'deferred wages' frame to argue that, as benefits were delayed until retirement (or when workers left their job), occupational super would not fuel short-term inflation. As well as providing the rationale for union campaigns in the mid-1970s, this frame has had an enduring influence on how unions and other key proponents have conceived of private superannuation in subsequent campaigns.

Just as significant to influencing the later composition of the industry was the establishment by market-savvy unions of a new financialised model of super fund in these campaigns. Early union funds, including the Stevedoring Employees Retirement Fund established by the Waterside Workers' Federation of Australia in 1967, expanded the scope of occupational super funds to cover employees across a sector of the economy (Morris 2018: 59). Developed by the Federated Storemen and Packers' Union of Australia (FSPU) in 1978, the Labour Union Cooperative Retirement Fund (LUCRF) established a fund model with a distinctive organisational structure, investment strategy and account structure (St Anne 2012: 72). This model had a not-for-profit organisational structure managed by a board of trustees with union and employer representatives who were responsible for maximising investment returns for fund members (St Anne 2012: 13). Financed mainly by employer

contributions, superannuation was held in accumulation accounts that operated like other individual savings accounts managed according to financial criteria (Olsberg 1997: 286).

Union funds initiated the financialisation of superannuation by expanding the role of the financial sector in the 1970s. The financial sector remained highly segmented during the 1970s, with state regulations placing controls on the operations of banks and other financial institutions, which limited particular types of institutions to offering a specified range of products (Lewis and Wallace 1993: 4).[7] The financial institutions most involved in private superannuation were life insurance offices and finance companies involved in managed funds (Covick and Lewis 1993: 183). Like most employer funds, early union funds—notably excluding LUCRF—were administered by life insurance offices (Olsberg 1997: 286). Private super (including employer and union funds) became increasingly important to life insurance offices, with the latter holding about 43 per cent of their assets in super by 1981 (Lewis and Wallace 1993: 10). Early union funds also employed financial sector intermediaries to manage assets, including subsidiaries owned partly by state-owned savings banks. Although the outsourcing of asset management and administration functions opened a pathway for private for-profit firms to enter, the short-term impact of this trend was minimised by the limited scale of union funds and the not-for-profit structure of most super funds, life insurance offices and financial entities (some of which were state-owned) involved in the sector.

Union campaigns for occupational super stalled by 1980 but succeeded in extending coverage to 44 per cent of workers by 1982 (ABS 1982: 8). Union super funds did not supplant the prevalence of defined-benefit schemes nor the dominance of public sector, corporate and employer super funds (Covick and Lewis 1993: 177). These funds also did not alter the practice of individuals receiving super benefits as lump-sum payments before retirement. Rather, union campaigns were significant for establishing a political strategy and new institutions that later served as 'proofs of concept' for financialised superannuation products invested to maximise returns in funds co-managed by unions and employers.

7 These regulations included restricting entry to the banking sector to domestic institutions that met specified criteria, strictly demarcating the permissible activities of banks and other types of financial organisations, limiting cross-ownership of different types of financial institutions, setting official interest rates and requests on lending, and enacting statutory minimum deposits (Daugaard and Valentine 1993: 40; Lewis and Wallace 1993: 7).

Phase 2: An 'industrial revolution' — Establishing the preconditions for the super market

Building on the platform provided by earlier campaigns for occupational super, Labor governments in partnership with the Australian Council of Trade Unions (ACTU), the union movement's peak body, established the preconditions for a national superannuation market in the 1980s. This policy coalition marketised private superannuation during this phase by enlarging the potential market by extending coverage to workers, establishing and facilitating the expansion of industry super funds that were to become key market actors, transforming private super into a retirement savings product and promoting consumer choice and fund competition. As these preconditions for a market were established, private super was financialised by the spread of the accumulation account model and broader liberalisation of the financial sector.

During these years, Australian Labor Party (ALP) governments relied on eight Accords (1983–95), which were neocorporatist wage-fixing agreements between the ALP and the ACTU under which unions agreed to moderate wage demands in return for an expanded 'social wage'. Although the Accords identified national superannuation as a priority, these agreements became the vehicle through which the Hawke Labor government and the ACTU pursued further expansion of occupational super in the 1980s (Morris 2018: 73). Occupational super was not on the immediate agenda after Labor took office, though it had a critical role in securing the first Accord. The Accord—the government's signature economic policy—was put in jeopardy after the Australian Industrial Relations Commission (AIRC) in 1984 rejected the building unions' proposal to have benefits owed to workers disbursed as over-award payments (St Anne 2012: 70). Falling back on the industrial strategy developed in the 1970s, the building unions mobilised the 'deferred wages' frame when negotiating to have these over-award payments disbursed as occupational super into the first industry super fund, the Builders Unions Superannuation Fund (BUS).

Established in 1984, BUS and the Allied Unions Superannuation Trust (AUST) were the first industry super funds developed to manage the super holdings of workers paid under a particular award or set of

awards.[8] Industry super funds were an Australian innovation modelled on ACTU principles that were, in turn, informed by the experience of early union super funds in the 1970s and the industrial partnerships established between unions and businesses in the Nordic countries (St Anne 2012: 72–74). Industry funds shared with early union super funds fully vested and portable investments held in accumulation accounts (St Anne 2012: 75). As former FSPU officials Bill Kelty and Simon Crean were among the senior ACTU officials tasked with formulating union superannuation policy, LUCRF heavily informed the industry fund model (St Anne 2012: 72). Like LUCRF, early industry super funds had a not-for-profit organisational structure managed by a board of trustees with equal representation from unions and employers tasked with maximising investment returns for members. In contrast to LUCRF, early industry super funds did not outsource investment management to private financial service providers (Sword 1986: 105).

BUS and AUST provided important proofs of concept that unions were able to responsibly establish and jointly manage with employers centralised super funds for employees from thousands of businesses (St Anne 2012: 72). The design of BUS—including the composition of its board, investment strategy and use of inhouse investment managers—was intended to 'sustain legitimacy in the eyes of the employers, the government and the public' (Olsberg 1997, in Morris 2018). This design was controversial among some sectors of the union movement which recognised that accumulation accounts offered less security than defined-benefit schemes (St Anne 2012: 76). But the design also reflected practical difficulties in securing financial sector sponsors to guarantee defined benefits, considering the low level of contributions from multiple employers for a large pool of workers (Kingston et al. 1992: 141). The Hawke government and the ACTU actively promoted BUS as a union prototype, emphasising its industry-level coverage, funding through employer contributions and 'vested' investments.

Earlier industrial campaigns for occupational super and industry super funds paved the way for Labor and the ACTU to incorporate employer-financed super contributions at the national level in the Prices and Incomes Accord Mark II of 1986. In 1985, the government came to agree with business that wages should not be indexed (as previously negotiated

8 For instance, BUS administered the super of builders and AUST managed the super of workers covered by awards in the construction industry.

in the Accord) as fiscal conditions worsened due to high inflation and interest rates, a growing current account deficit and a declining currency (Stilwell 1986: 17–18). Both the ACTU and the government adopted the 'deferred wages' frame as the rationale for including 'award super'—as these employer-financed super contributions were called—set at 3 per cent of wages as part of the social wage in the Accord Mark II (Treasury 2001: 78). Award super also appealed to unions as a means of expanding industry funds, which were set as the default funds, and enabled the expansion of superannuation without requiring employers without super funds to establish them (Sharp 1992: 35). The Accord negotiation was reinforced by both close institutional ties between Labor and the ACTU and personal ties between Treasurer Paul Keating and lead union negotiator Bill Kelty (Kelly 2008: 262).[9]

Award super was established at the national level through the arbitration system, effectively building on the distinctive wage-earner institutions developed in the early twentieth century (Castles 1994: 135). In the 1986 National Wage Case, the AIRC approved award super set at 3 per cent of wages being paid into various industry super funds (Treasury 2001: 79). While the Accord Mark II proposed award super for the labour force, the AIRC decided on award-by-award negotiations due to concerns about the management of super funds and required the government to ensure operational standards were met (Treasury 2001: 79). The award super provisions had some success in increasing super coverage, which rose to 51 per cent of workers by 1988 (Australian Government 1988: 1). Award super also increased the scale of industry super funds, which held accounts for most workers in 18 sectoral awards and many workers in a further 11 awards by the late 1980s (St Anne 2012: 92).[10]

9 Award super also divided business interests. On one hand, employer interests opposed award super as it increased their expenses and decreased the role of employer super funds. On the other hand, life insurance offices and the financial services sector supported award super as it provided a major source of equity for the financial sector and decreased the role of employer super funds that competed against them as a source of cheap business loans (Sharp 2009: 200, 202).

10 Despite the transformation award super represented, the bifurcated structure of private superannuation became more pronounced in the short term, with 71 per cent of *public* super funds offering defined-benefit schemes and 86 per cent of *private* super funds managing accumulation accounts in 1991 (ISC 1994: v). Small, typically employer super funds remained the most common; more than 90 per cent of super funds held assets of less than $500,000 (ISC 1993: v). With most accumulation accounts having low balances, defined-benefit funds held 56 per cent of all assets (ISC 1994: v).

In response to the AIRC's concerns, the Hawke government introduced operating standards for superannuation products and funds in the *Occupational Superannuation Standards Act 1987* (*OSSA*). This legislative package marketised superannuation by fashioning it into a retirement product and introducing measures aimed at increasing choice and competition. It established a preservation age of 55 years, which forged the link between superannuation and retirement (Bateman 2003).[11] This legislation aimed to increase consumer choice and fund competition through vesting that decreased information asymmetries by requiring funds to provide annual valuations of super balances in preservation stage, and increasing portability to give members the choice of transferring accounts between funds.[12]

The *OSSA* also introduced measures that financialised superannuation by requiring super funds established after 1985 to embody 'financial ways of acting' that curbed potential conflicts of interest and risky behaviour. This package prevented trustees from carrying out inhouse lending to trustees or members, lending more than 10 per cent of fund assets to employers or contributors to the fund, or borrowing funds (Castillo 2012: 20). It also favoured the industry fund model by requiring larger super funds with more than 200 members to appoint account-holders or representatives to half of trustee positions (Treasury 2001: 79). To oversee these operating standards, the Hawke government established the Insurance and Superannuation Commission (ISC) (Bateman 2003: 122). But, as the commission lacked direct constitutional power to legislate for superannuation, super funds failing to meet these standards were denied access to the tax concession for super investments rather than facing legal sanctions or other penalties (Covick and Lewis 1997: 273).[13]

These operating standards contributed to the financialisation of private superannuation in the 1980s, along with the rise of industry super and the liberalisation of the financial sector. Despite their not-for-profit structure, industry super funds spread the accumulation account model, elevating

11 To hold super paid before retirement age, Approved Deposit Funds were established until account-holders reached 65 years of age (ISC 1990: 3).

12 This also effectively prevented super funds from paying benefits equal to total contributions without investment earnings.

13 The 30/20 rule the Hawke government abolished in 1983 operated in a similar way. This rule required super funds to invest 30 per cent of their assets in government bonds and 20 per cent of these in Commonwealth bonds to receive the tax concession for super investments. Funds that did not meet this requirement did not receive the tax concession.

the aim of maximising investment returns for individual members over the collective pooling of resources (Stebbing 2015). This shift to accumulation accounts reflected a broader international trend towards financialisation in other private pension markets, as nonstate pension funds aimed to maximise returns and reduce liabilities, particularly from potential shortfalls from defined-benefit schemes due to increased longevity (Stebbing 2015: 131). The rise of industry funds also created the potential for later competition by increasing the economies of scale in the private super sector from employer to award-level funds. So, as private superannuation became a less-exclusive occupational reward, it increasingly became a household asset to manage and invest to maximise returns.

The financial sector was liberalised through a suite of reforms enacted by the Hawke government, accelerating the pace of financialisation in the Australian economy and in the superannuation system. The reforms included regulations that enabled foreign and new domestic organisations to enter the sector, institutions to select the range of financial services and products offered, cross-ownership of financial institutions that offered different services and the limited privatisation of state-owned financial entities (Wallace and Lewis 1993: 4). Liberalisation acted as the catalyst for rapid consolidation across the financial sector, with for-profit banking groups—the four major banks and their subsidiaries—accounting for more than 60 per cent of total financial assets by 1990 (Wallace and Lewis 1993: 9). As for-profit banking groups have come to dominate a consolidated financial sector, financial institutions have placed greater emphasis on maximising shareholder value, including those in the retail super subsector and other superannuation activities.

By the end of the 1980s, the perceived success of 'award super' gave Labor and the ACTU a political stake in private super (Stebbing 2015: 123). This was a major factor behind the Hawke government's policy shift in the 'Better Incomes' policy statement of 1989 to replace national super with occupational super as the second arm of retirement income policy (alongside the pension) (Howe 1989: 4). Labor strategically used major government reports to justify this policy shift. Notably, both the Cass Social Security Review and the Senate Standing Committee on Community Affairs framed national super as involving excessive startup costs and recommended occupational super to replace it as the supplementary retirement income policy (Foster 1988: 190; SSCCA 1988: xliv). Occupational super was also better attuned with prevailing

policy ideas about limiting the role of the state and the long tradition of the state mandating occupational welfare (Castles 1997). After the government postponed wage rises in 1989, Labor and the ACTU included a provision to increase award super to 6 per cent of wages in the Accord Mark VI; however, the AIRC refused to ratify the Accord in 1991, pointing to employer noncompliance with award super provisions and restating concerns about super funds' operational standards (AIRC 1991: 61). This institutional obstacle ended the industrial campaign for award super. In the next phase, the ALP government pursued a legislative strategy to extend occupational superannuation.

Phase 3: Financialising wages — Establishing the institutional foundations of the super market

Circumventing the obstacle presented by the AIRC's decision, the Hawke–Keating Labor government changed strategy to pursue legislation—notably, for the Superannuation Guarantee Scheme and the Superannuation Industry Supervision (SIS) regulations—to advance the earlier campaigns for 'award super'. These reforms established the institutional foundations of the superannuation market during this phase by extending an occupational scheme to near universal coverage of the workforce, increasing mandated employer contributions from 3 to 9 per cent of wages over the following decade, limiting employer contributions to only those super funds that complied with the existing operating standards that fashioned super into a retirement product and reinforcing these operating standards to shore up financially responsible behaviour among trustees. As well as establishing these market foundations, the Superannuation Guarantee reinforced the financialisation of private super by shoring up the accumulation account model and the growth of both industry and retail super funds.

The Superannuation Guarantee Scheme represented a seismic shift in retirement income policy that established a national occupational super scheme that expanded the consumer base of the superannuation market to almost the entire workforce.[14] Announced in the 1991–92 budget,

14 The scheme did not require employers to make super contributions for workers earning less than $450 per month, working part-time and/or not aged between 18 and 65 years (Treasury 2001: 84). Initially, organisations with payrolls exceeding $500,000 per year would be required to pay the higher 5 per cent contribution rate, but mandatory super contributions were to increase gradually to (at least) 9 per cent of wages by 2002 (Borowski 2005: 52).

the Super Guarantee mandated employers to make super contributions, initially set at either 3 per cent or 5 per cent of their workers' wages, into a complying industry, employer or retail super fund stipulated in industrial agreements (Borowski 2005: 52; Kerin 1991: 4; Olsberg 1994: 287).[15] This scheme amounted to the mandatory financialisation of wages, with workers forced to relinquish a portion of their wages to private superannuation, which would incrementally increase to a contribution of 9 per cent of wages by 2002, and manage this financial investment until preservation age (Bryan and Rafferty 2018: 86). Employers were required to either make contributions into a complying super fund nominated in enterprise agreements or pay the Superannuation Guarantee Levy to finance equivalent government contributions into a fund (Kerin 1991: 4). Superannuation funds were obliged to comply with the *OSSA* to receive employer contributions for workers but did not have to guarantee a particular level of investment return or final benefit to those workers.

The Superannuation Guarantee was the subject of partisan politics. Predictably, Labor and the ACTU were the chief proponents of the scheme and were able to coordinate their campaigns, buoyed once again by close institutional and personal ties (Mann 1993: 41).[16] The Liberal and National (Coalition) parties were the chief parliamentary opponents of the Super Guarantee, framing its compulsion as stifling the choices of consumers (workers), while prompting concerns about its potential to put further pressure on unemployment (which was at 10 per cent) and inflation during the recession (Hewson 1991). The scheme split business interests in line with their self-interest, with the financial industry in support and employer organisations opposing. However, the Australian Council of Social Services, as well as organisations representing women and pensioners, also opposed the Superannuation Guarantee as it would reinforce market inequalities, providing little benefit to low-income–earners (Mann 1993).

Despite its support from powerful interests, the Superannuation Guarantee initially failed to secure support in the Senate. Without a Senate majority, Labor's main obstacle to enacting the guarantee came in securing the support of Australian Democrats senators, who held the balance of power. The Democrats supported the Super Guarantee in principle but expressed

15 The higher contribution rate was to apply to organisations with payrolls of more than $500,000.

16 Keating's elevation to the prime ministership in December 1991 arguably bolstered Labor's commitment, given his reliance on ACTU support, his previous support for occupational super and ties to pro-reform ACTU officials (Mann 1993: 49).

concerns about the inequity of the superannuation tax concessions, the regulatory integrity of super funds, the lack of Treasury modelling and the capacity of small employers to finance employee super contributions (Cleary 1992; Maley 1992). Labor secured the Democrats' support by agreeing to increase the preservation age for superannuation to 60 years and reduce the impact on employers by lowering the higher contribution rate to 4 per cent (Mann 1993: 30).[17] Notwithstanding their initial concerns, the Democrats' support increased the durability of the Super Guarantee after its enactment (particularly when compared with the AIRC decisions that ratified the Accords), as the minor party held the balance of power in the Senate until 2002.

Responding to concerns raised by the AIRC and the Democrats, the Keating government enacted the SIS legislation of 1993 and 1994 to tighten the regulatory framework for private super.[18] The SIS legislation secured the regulatory foundations of the superannuation market by requiring funds to adhere to the preservation age, portability of balances and vesting requirements established by the *OSSA* (Bateman 2003: 122). But, in contrast to the *OSSA*, under the SIS legislation, super funds were required to comply because it was enacted using the corporations, pensions and taxation powers of the Australian Constitution (Covick and Lewis 1997: 274). The SIS legislation also codified the responsibilities of trustees and financial service providers, as well as increasing the ISC's oversight of private super (Bateman 2003: 122). The SIS legislation also established incentives for trustees to be financially responsible, obliging them to establish funds for the sole purpose of retirement provision and giving the ISC responsibility for enforcing new civil and criminal penalties for breaching fiduciary duties (Bateman 2003: 122; Castillo 2012: 82). This legislation also further limited inhouse investments to 5 per cent of total fund assets and prohibited borrowing.[19]

These reforms establishing the foundations of the contemporary superannuation market contributed to the increasing financialisation of the sector. Although it did not preclude defined-benefit schemes, the

17 The threshold at which the higher rate was also increased in negotiations to employers with payrolls of $1 million or more (Mann 1993: 30).

18 The SIS reforms were legislated in the *Superannuation Industry (Supervision) Act 1993* and the *Superannuation Industry (Supervision) Regulations Act 1994* (Covick and Lewis 1997: 273).

19 The Keating government announced 'L-A-W tax cuts' in the leadup to the 1993 election, but afterwards said these would be directed into increasing the Superannuation Guarantee to 12 per cent of wages in the 2000s. However, this never eventuated, because the Howard Coalition government did not support increases to compulsory super contributions over 9 per cent.

Superannuation Guarantee accelerated the shift to defined-contribution accounts that operated to financial criteria and reinforced the market distribution of income.[20] Whereas 80 per cent of super accounts had a defined-benefit structure as recently as 1980, 85 per cent were accumulation accounts by 2000.[21] The Super Guarantee underpinned the shift to accumulation accounts because it specified only the portion of wages that must be contributed to super and these contributions were not set at a level (especially initially) sufficient to fund an annuity (see Stebbing 2015). Albeit for different purposes, both industry and retail super funds that were typically nominated in enterprise agreements sought to maximise investment returns and provided members' accumulation accounts, particularly when compared with the operation of public sector and corporate super funds that had offered defined benefits.[22] The SIS legislation also reduced the appeal of corporate and small employer funds by increasing fund administration and preventing new entrants from reinvesting employee contributions inhouse.[23] Still, important differences from the free-market model that animates neoclassical economic theory persisted; not-for-profit super funds dominated the sector, consumers could not opt out and typically did not choose their fund, and competition between funds remained limited.

By the end of this phase, superannuation was established as the second tier of the two-tier model of retirement income policy that is reconfiguring how the financial risks of old age are managed and distributed. In this model, the state largely retains de jure responsibility for the affluence-tested age pension, but it formally transfers de jure responsibility to households for financing additional retirement income to supplement (or substitute for) the pension by mandating superannuation contributions over a working life. This also extends the time horizon over which households are required to manage the financial risks of old age from across working life into retirement, which holds out the promise of higher retirement incomes but carries with it prolonged exposure to new risks from volatility and market failure. Employers' expanded role in financing

20 This trend is partly attributable to the low level of contributions specified by the Superannuation Guarantee, which were unlikely to mature into substantial private annuities for most workers (even at 9 per cent of wages in 2002), and to uncertainty about the long-term contributions level.

21 This figure should be read with some caution, given the high incidence of lump-sum super benefits paid as severance pay before retirement age in the 1980s.

22 Only three of 100 industry super funds offered defined-benefit schemes in 1992 (Kingston et al. 1992: 141).

23 These reforms were 'grandfathered', so did not require existing corporate funds or small funds operated by employers to change their investment portfolios (Covick and Lewis 1997).

contributions for employees does not expose them to financial risk because 'compulsory' amounts to 'compulsory saving out of wage income' (Bryan and Rafferty 2018: 86). Private super funds and financial service providers benefit from second-tier policies, receiving de facto support through the Superannuation Guarantee and super tax concessions, but have only the de jure responsibility to maximise returns and act in their members' best interests. In sum, the rise of superannuation as the second tier of retirement income policy shifted responsibility for the financial risks of old age, at least partially, onto households.

Financialisation in the super market since the early 1990s

The financialisation of the superannuation market has continued unabated since the early 1990s as private super has become increasingly important to both retirement income policy, as coverage of the workforce has become nearly universal, and the financial sector, as the total value of super assets has rapidly expanded. Financialisation has coincided with the consolidation of institutional private super funds, with their number declining from 4,734 in 1996 to 202 in 2018 (see Figure 4.2). The focus here is on 'institutional' super funds that hold the superannuation of most workers and, by extension, a large majority of Australian households. Notably, this excludes self-managed super funds (SMSFs), which are typically favoured by a well-off majority and have become increasingly popular. Between 1996 and 2018, the number of SMSFs increased from 100,000 to 596,000 and their assets multiplied from $28 billion to $750 billion. The increasing importance of SMSFs to private superannuation and the financial sector is a parallel process of financialisation to that discussed here and requires a separate treatment that is beyond the scope of this chapter. As private super funds have consolidated their operations, superannuation has been financialised by expanding the scale and scope of profit-seeking financial entities, refocusing not-for-profit super funds on maximising short-term investment returns for individual members and replacing defined-benefit schemes that collectively pooled risks with individualised accumulation accounts. Successive governments have embraced and advanced financialisation by introducing a new regulatory framework that supports consolidation and reforms that aim to make fund trustees, financial advisors and consumers behave more like rational financial actors.

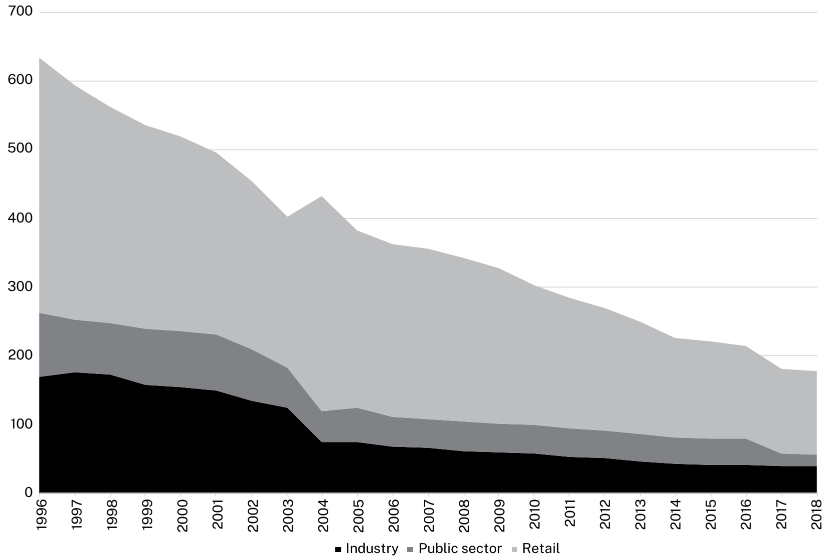

Figure 4.2a Consolidation of industry, retail and public sector super funds, 1996–2018

Sources: The data source for 1996–2003 is APRA (2007); for 2004–16, APRA (2016); and for 2017 and 2018, APRA (2018a).

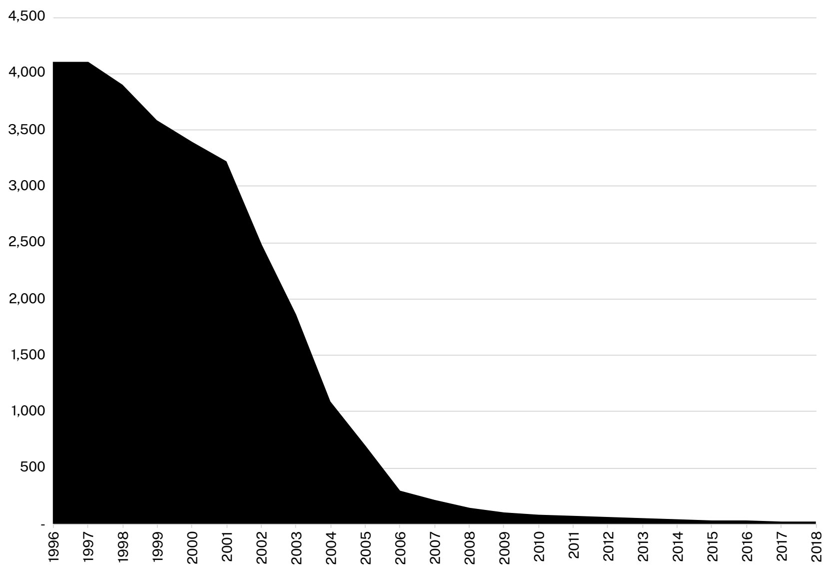

Figure 4.2b The collapse of the corporate not-for-profit super sector, 1996–2018

Sources: The data source for 1996–2003 is APRA (2007); for 2004–16, APRA (2016); and for 2017 and 2018, APRA (2018a).

Profit-seeking retail super funds and financial services have expanded and consolidated their operations since the mid-1990s. Retail super funds expanded their assets tenfold, from $60 billion in 1996 to $622 billion in 2018 (see Figure 4.3). Retail funds increased their market share from 24 to 36 per cent of assets between 1996 and 2004, before declining to 23 per cent of assets in 2018.[24] This expansion is the result of retail super funds and financial service providers actively increasing their stakes in the superannuation market as well as the twin processes of privatisation and demutualisation. Retail super funds have consolidated their operations, decreasing from 372 to 121 in number between 1996 and 2018. This consolidation reflects broader structural change in the financial sector, which has increasingly been dominated by large domestic and international profit-seeking conglomerates since the mid-1990s. Financial institutions, including those demutualised or privatised around this time, became part of larger banking groups or large financial conglomerates through mergers, acquisitions or purchases of other private enterprises (Keneley 2001: 164). Most retail super funds are owned by the four major banking groups: NAB, ANZ, Westpac and the Commonwealth Bank (Taylor et al. 2017: 261).

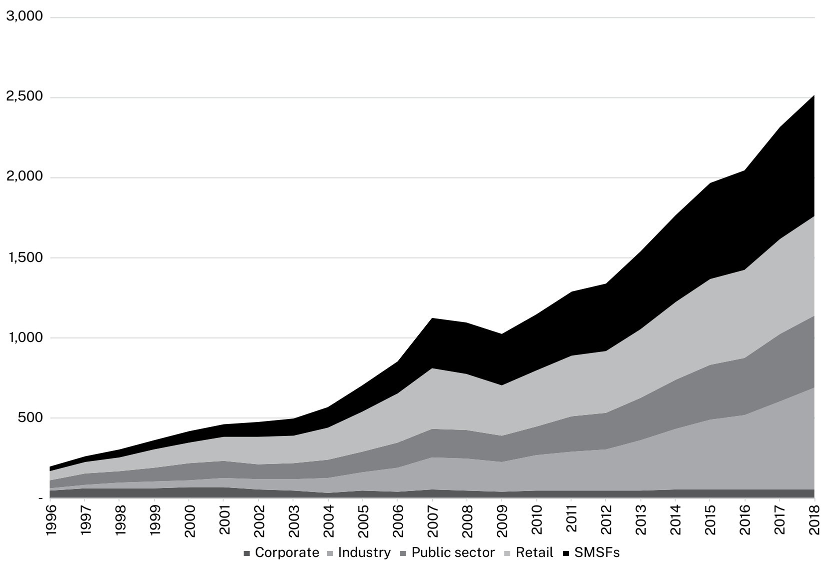

Figure 4.3 Total assets held by super fund type, 1996–2018

Note: The data for the period 1996–2003 include SMSFs, small APRA-regulated funds and approved-deposit funds.

Sources: Data source for 1996–2003, APRA (2007); for 2004–16, APRA (2016); and for 2017–18, APRA (2018a).

24 The decline in the market share of retail funds is largely attributable to the growth of SMSFs.

Privatisation and demutualisation were different sides of the same coin. Privatisation converted state-owned institutions into profit-maximising entities during the 1990s, including the Commonwealth Bank, four state banks and many other financial service providers. While the Commonwealth Bank was privatised via a public float, most of the state banks and other financial service providers were purchased by private enterprises (RBA 1997: 14–16). Demutualisation has transformed the not-for-profit super funds and financial service providers that dominated the pre-market private super sector into profit-maximising entities (Stebbing 2015: 127). Initiated by senior managers, demutualisation was typically framed as necessary to access capital, expand business and compete with industry super funds (Keneley 2001: 162; Morris 2018: 83). Large not-for-profit life insurance offices—including major players in retail super as well as financial services providers for corporate and industry super funds such as AMP and National Mutual—demutualised between 1991 and 1998 (Morris 2018: 83; Stebbing 2015: 127). As a result, the share of total financial assets held by not-for-profit life insurance offices shrank from 58 per cent to 1 per cent between 1985 and 1998 (Morris 2018: 83).

Industry super funds have, to some extent, emulated the for-profit sector by consolidating their operations as their role in the superannuation market has rapidly expanded since the mid-1990s. Industry super funds have expanded their assets to become larger than retail funds, increasing their assets more than thirtyfold, from $20 billion in 1996 to $631 billion in 2018 (see Figure 4.3). This has increased their market share from 8 per cent to 23 per cent of total super assets over the same period (APRA 2018a). Although retaining their not-for-profit structure, industry funds represent a financialised form of not-for-profit organisation as they aim to maximise investment returns for individual members rather than collectively pool risk (Stebbing 2015: 127). Industry funds consolidated their operations through mergers and collaborative ventures (Clare and Cranston 2017: 17). The number of industry super funds declined from 169 in 1996 to 39 in 2018 (APRA 2007: 20; 2018a). Spearheaded by the ACTU, industry super funds collaborated—often with what were mutual funds at the time—in ventures by pooling resources to lower costs and increase control over investments (Brown and Davis 2009: 11). Consolidation among industry funds has served a similar purpose to that of for-profit funds in seeking to maximise short-term returns, but for the benefit of members rather than shareholders.

The collaborative ventures of industry funds were instituted to pool the costs of diversifying their investment portfolios without attracting the high fees charged by profit-seeking financial service providers.[25] These ventures have included the Development Australia Fund with AMP in 1990 to invest in public infrastructure projects, Industry Fund Services (IFS) with Colonial Mutual to offer financial services for super funds and members in 1994 and the Super Members Home Loan Program by National Mutual with support from the ACTU in 1994 (Brown and Davis 2009: 13). The last was expanded into Members Equity Bank, which obtained its banking licence in 2002 and is a venture half-owned by IFS and AXA (which purchased National Mutual) that increases the capacity of industry funds to manage large investments (Morris 2018: 86). Industry super funds became the sole owners of Members Equity Bank by purchasing AXA's stake in 2006 (Brown and Davis 2009: 13). And, in 2007, Industry Super Holdings was established, with IFS, Industry Funds Management, Members Equity Bank and Members Equity Portfolio Management as subsidiaries (Brown and Davis 2009: 10). Although these collaborative ventures have continued to expand, industry funds still source various services from profit-seeking financial service providers.

Consolidation among larger super funds is a major factor behind the increasing dominance of the accumulation account model in the superannuation market. Of those held with larger super funds, 95 per cent were accumulation accounts by 2018 (APRA 2018b: 18). On the one hand, this trend is explained by the rising market shares of retail and industry super funds that favoured the accumulation account model. Between 1996 and 2018, the market share of industry and retail super funds climbed from 37 to 64 per cent of the total assets held by larger super funds (APRA 2007, 2018a). On the other hand, this also reflects the decline of defined-benefit schemes among single-employer super funds. The market share of public sector schemes declined slightly, from 20 to 17 per cent of total fund assets between 1996 and 2018, as superannuation rapidly expanded. But public sector funds limited their future liabilities by closing defined-benefit schemes to new entrants and replacing these with accumulation accounts in the early 2000s. During the same period, the corporate super subsector collapsed, declining from 4,100 to 24 funds, and from holding 19 to 2 per cent of total assets, between 1996 and 2018

25 These collaborative ventures were at least partly instituted as separate financial entities because super funds were unable to carry out non-retirement savings operations due to the sole-purpose test established by the SIS legislation in the early 1990s.

(see Figures 4.2 and 4.3). These funds were closed, outsourced to retail funds or, in the case of smaller businesses, converted into SMSFs (Castillo 2012: 22; Morris 2018: 71).

Intentionally or otherwise, regulatory changes enacted by governments of both major political parties have advanced the financialisation of the superannuation market. Shortly after taking office in 1996, the Howard Coalition government established the Wallis Inquiry into the regulatory structure of the financial system. The government used the Wallis Inquiry to legitimise restructuring the regulatory framework of the financial system, including private super, along lines favoured by the Treasury, from an institutional base that treats the same kind of financial institutions similarly to a function-based approach that treats services with identical functions the same (Bakir 2003: 527, 531). The function-based approach has advanced financialisation by streamlining the regulations for large conglomerates that have come to dominate the financial sector and blurring former institution-based boundaries. This underpinned the government's replacement of the ISC with the two regulatory agencies currently responsible for institutional superannuation: the Australian Prudential Regulation Authority (APRA) and the Australian Securities and Investments Commission (ASIC), which is responsible for consumer and investor protections (Bateman 2003: 122). These new regulators supported consolidation in the superannuation market by streamlining the rules and procedures for financial conglomerates (Gizycki and Lowe 2000: 203).

The Howard government also used the Wallis Inquiry and other reports, such as that by the National Commission of Audit, to reframe and realign policy debates on superannuation with its economic policy and provide the rationale for further reform (Spies-Butcher and Stebbing 2019: 1419).[26] Notably, the Wallis Inquiry framed private super as principally about reducing the future fiscal pressure that population ageing will place on the state from increasing age pension costs (Wallis 1997: 127). The inquiry recast the role of superannuation in retirement income policy as a substitute for the age pension, rather than a supplement to it, as Labor and the union movement had argued in the 1980s. Consistent with the Treasury's submission, the inquiry framed the lack of competition between super funds as a policy problem and constructed greater consumer choice,

26 As Bakir (2003: 531) notes, the shift towards the government's agenda is unsurprising as the inquiry 'was independent neither of government nor [of] business'.

particularly in regards to employees' choice of fund for compulsory employer contributions, as the solution (Treasury 1997: 4; Wallis 1997). The Howard government and retail super funds subsequently mobilised the 'competition and choice' and 'pension substitute' frames to build the rationale for reform both groups supported. These frames highlight how the politics of marketisation and financialisation overlap. Consumer choice and provider competition are staples of market organisation, and the choice and competition frame has been repeatedly deployed to argue for the greater access of profit-seeking financial entities to compulsory occupational super.

The Howard government mobilised the Wallis Inquiry to frame a series of proposals as increasing consumer choice. In 1996, the government announced the Choice of Super Fund Reforms that aimed to expand the choice individuals had in selecting a super fund for compulsory contributions to be paid into (Morris 2018: 70). The major banking groups and retail super funds advocated for the reforms, which they perceived as an opportunity to increase their share of compulsory employer contributions (Davis 1998). The Labor Party, industry and corporate super funds opposed the government's legislation, which was viewed as increasing complexity and targeted at weakening industry super because it was a powerbase for unions and, by extension, Labor (Davis 1998). The reforms were contentious in the Senate, where the government lacked a majority, and did not pass Parliament until the support of the Democrats was secured in the third attempt in 2004 (Morris 2018: 70). In 1998, the government expanded choice to non-superannuation products by introducing bank-operated retirement savings accounts that attracted the same concessional tax treatment as super funds (Morris 2018: 70). But, with lower returns than super funds, these accounts proved unpopular (St Anne 2012: 205–6).

For the remainder of its term, the Howard government framed its reforms as encouraging financially responsible behaviour among trustees and consumers. In 2004, the government framed Registrable Superannuation Entity (RSE) licences for trustees as encouraging financially responsible behaviour (Morris 2018: 70). RSE licences conferred on trustees additional obligations around disclosure and financial advice as well as the duty 'to act in the best interests of superannuation fund members' (APRA 2018b: 1).[27] By making trusteeship more onerous, RSE licences

27 Trustees were required to substantiate these obligations with supporting evidence to APRA or ASIC when requested (Clare and Cranston 2017: 9).

were a disincentive (in addition to those identified earlier) for employers to administer their own super fund and were a factor in their rapid decline in the early 2000s (see Figure 4.2b). In 2006, the government framed its 'Simplified Super' reforms as encouraging self-provision in retirement by removing tax on super benefits in the retirement phase and providing tax incentives for consumers to make extra super contributions. These reforms also conferred the political advantage of benefiting the core Coalition constituency of high-income earners in the leadup to the 2007 federal election.

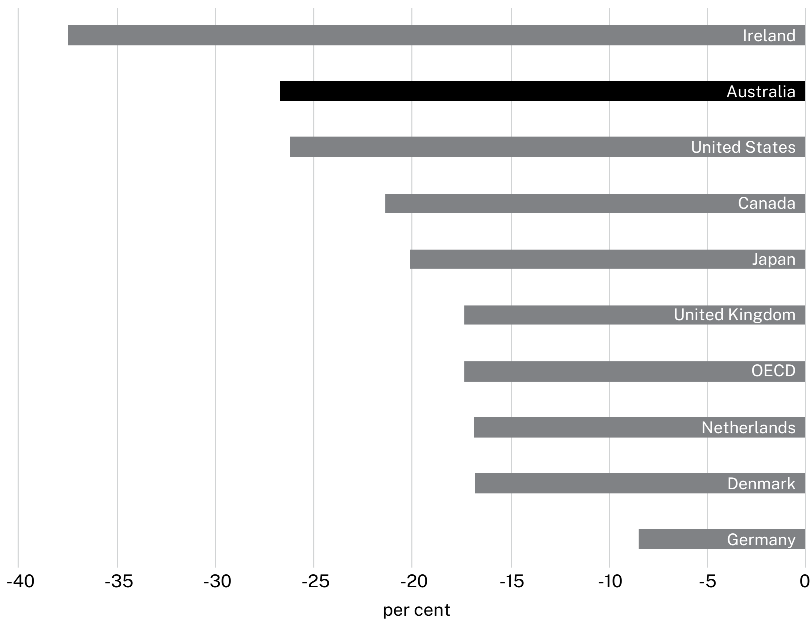

Figure 4.4 Private pension funds' real investment returns in 2008
Source: OECD (2009).

Shortly after the Rudd Labor government took office, the superannuation market was hit hard by the Global Financial Crisis (GFC). The OECD estimated superannuation funds had experienced real investment losses of 27 per cent in Australia at the height of the crisis in 2008 (Figure 4.4; OECD 2009: 1). Considerably higher than the OECD average of 17 per cent, Australia had the second-largest investment losses for private pensions among the organisation's 30 member countries (OECD 2009: 1). Notwithstanding these high losses, private super funds avoided financial collapse during the GFC and its immediate aftermath as the investment risks (and losses) were borne mostly by the holders of accumulation

accounts. The Rudd–Gillard Labor governments (2007–13) used three reviews—the Rippoll Inquiry (2009), the Henry Tax Review (2010) and the Cooper Super System Review (2010)—to prosecute the case for further regulatory reforms consistent with the 'competition and choice' frame constructed by the Coalition parties and retail super funds, but focused more on protecting consumers than on enriching shareholders.

The Rudd–Gillard governments used the Rippoll Inquiry (in 2009) into corporate collapses during the GFC to build the case for the 'Future of Financial Advice' (FOFA) reforms that targeted the behaviour of financial advisors. The Rippoll Inquiry found that existing product disclosure protocols were insufficient and financial advisors faced many potential conflicts of interest, particularly from fee structures and rolling commissions (Morris 2018: 166). The Gillard government responded with the FOFA reforms to establish a 'best interest duty' that compelled financial advisors to act in the best interests of their clients, a ban on 'conflicted remuneration structures' such as commissions and a requirement that consumers opt in to ongoing financial advice at least every two years (ASIC 2018). Industry super funds welcomed these reforms, for which they had advocated in their submission to the inquiry and subsequent media campaigns (Whiteley 2010). Despite Labor justifying the reforms as stimulating 'choice and competition' by requiring consumers to make active choices, the Coalition parties and financial planning industry opposed the reforms, arguing the package limited consumer choice (Kahler et al. 2010).[28] Although not focused on super, these reforms were aimed at reducing risks for households and reducing predatory market behaviour by financial market operatives.

The Rudd government used both the Henry Tax Review and the Cooper Super System Review to justify policies directed at aligning the behaviour of super account-holders with the calculative rationality expected of active consumers in neoclassical economics. The Henry Tax Review (Henry 2010) purported to be the most extensive root-and-branch review of the taxation system since 1975. In its reply to the Henry Review, the Rudd government announced further financialisation by gradually increasing the Superannuation Guarantee to 12 per cent of wages (see Stebbing 2015). Despite bipartisan support for this increase, the Gillard and Abbott governments froze the Superannuation Guarantee at 9.5 per cent of wages until fiscal conditions improved, and it remains frozen.

28 A later Coalition government wound back some of these protections.

The Cooper Super System Review (Cooper 2010) reframed the policy problem of private super as the failure of consumers to actively select super products based on their performance and thus stimulate competition between private super funds. The Cooper Review claimed many account-holders were disengaged, lacking interest in what was perceived as a compulsory investment and/or perceiving themselves to have insufficient financial literacy to assess and compare super fund performance (Cooper 2010: 6). The review's solution to this rendering of the policy problem was to recommend new regulations to simulate market conditions and curb predatory behaviours, including a default super option and streamlined super fund administrative systems (Cooper 2010). Although sharing with the Coalition's 'competition and choice' frame an understanding of the policy problem as a lack of competition between super funds, the 'consumer protection' frame was employed to justify regulations that simulate rational consumer behaviour among disengaged account-holders and limit the discretion of private super funds.

The Gillard government used the Cooper Review to justify the 'StrongerSuper' package, including the 'MySuper' and 'SuperStream' proposals, between 2011 and 2015. Designed to be cost-effective and easy to compare, MySuper products became the default super option from July 2013, with a standardised fee structure and one diversified investment strategy aimed at achieving identified levels of return and risk (Australian Government 2011: 5). Private super funds were limited to providing one MySuper option and, although not compulsory, had to offer such a product to be nominated in an industrial award (Australian Government 2011: 3). Private super funds also had to transfer existing default members to this new product by July 2017 (Australian Government 2011: 3). The SuperStream reforms aimed to increase efficiency by introducing standardised protocols for managing larger super funds and automating fund administration (Australian Government 2011: 9). These reforms represented attempts to address the 'deficient consumer' frame; while MySuper products sought to direct disengaged fund members to act as rational consumers and shield households from predatory market behaviour, SuperStream was aimed at increasing efficiency to make funds act more competitively.

The segmented super market and the two-tier model of retirement income policy

The financialisation of the superannuation market has coincided with the growing importance of the two-tier model of retirement income policy. But the impact of private superannuation on retirement income policy is tempered by two factors. First, the retention of the age pension moderates the extent to which superannuation alters the distribution of financial risk. Second, compulsory superannuation is not set to mature until the mid-twenty-first century, at which time it is anticipated individuals will retire after having made super contributions set to at least 9 per cent of their wages over their entire working lives. Until then, the impact of second-tier super policies on the distribution of risk, and in particular, those risks managed by the state, will be limited—but gradually increase—as successive generational cohorts enter retirement after having made compulsory super contributions for larger fractions of their working life.

The superannuation market has expanded the role of employers without increasing—and, in some cases, by diminishing—their exposure to financial risk. Public sector employers retain some de facto responsibility for the financial risks their employees face in old age by managing inhouse super funds, but this is limited by the replacement of defined-benefit schemes with accumulation accounts for employees commencing after 2005. In contrast, most private sector employers have withdrawn from taking de facto responsibility for their employees' financial risks by closing those corporate and small funds that had offered defined-benefit schemes (even if few of these matured). Further, not all employers meet their legal obligations to make super contributions and, as compulsory super is a component of wage income, thereby commit a form of wage theft (Bryan and Rafferty 2018: 86–87). Wage theft is a pervasive risk to retirement income borne by a significant minority of households, reducing their super contributions and investment earnings in the longer term. Evidence suggests employers failed to pay $5.6 billion of compulsory super contributions, with 2.7 million employees losing $2,000 on average in 2013–14 alone (Senate Economics References Committee 2017: ix).

The main beneficiaries of the two-tier model of retirement incomes are private super funds and financial service providers. Private super funds benefit from the state's de facto role in reducing their exposure to financial risk through second-tier policies subsidising their operations; while

compulsory employer contributions directed $66 billion into private super funds, the tax subsidies for super amounted to about $38 billion of revenue forgone in 2016–17 (PC 2018: 320; Treasury 2018: 19).[29] Private super funds charged account-holders a further $9 billion in fees in 2017 (APRA 2018b). According to Taylor (2011: 267), compulsory super is a financial windfall for the superannuation market and the financial sector more generally that guarantees their growth and insulates them from the consequences of poor performance.

A further aspect of the favourable legislative and regulatory conditions that superannuation market actors enjoy is that their de jure responsibilities are limited to a duty to maximise returns for members and act in their best interests. Alarmingly, state regulators appear to have little capacity to enforce this duty, with Morris (2018: 47) arguing the current regulatory framework of the financial services sector is too complex and not focused on super fund fees or investment performance. There is also no obligation for super funds either to achieve a minimal rate of investment return or to deliver a minimum benefit for retirees. Taylor et al. (2017: 258) argue the limits to the regulatory system stem from regulatory capture, with governments under pressure from the intense lobbying of the banking and financial services sector to protect the interests of private financial institutions over those of super fund members.

Instead, the financial risks of superannuation largely fall on households, although they are borne unevenly. The MySuper reforms have had only mixed success at reducing investment risk for inactive members because the performance of these default options has varied widely and individuals can change super funds but have no non-financialised alternative (PC 2018: 91; Taylor 2011: 267). When super funds incur investment losses, both active and inactive account-holders still pay fees. This was highlighted by the experience of the GFC, particularly among the losses incurred by super account-holders who belonged to age cohorts at or close to retirement age. It remains up to the discretion of individuals to select less-risky investment portfolios to reduce their exposure to market volatility in the leadup to retirement.

29 These figures include estimates for larger super funds and SMSFs. Most tax benefits for superannuation are paid out to individuals when they withdraw super benefits.

As the second tier of retirement income policy, superannuation is gradually extending patterns of income and wealth inequality from working life into retirement. This is partly because compulsory super contributions are determined by the level of labour market income and partly because investment returns tend to relate to the value of super assets held. Households with higher incomes and savings rates over their working life are best placed to supplement compulsory super with voluntary contributions and maximise the tax advantages. In contrast, households with lower incomes over their working life are least likely to receive large super benefits and could satisfy more immediate needs with that portion of income quarantined into superannuation such as saving for a home deposit or paying off other debt (Bryan and Rafferty 2018: 87). This is exacerbating broader social inequalities—including those pertaining to family and working life—since low-income households (of working age) are more likely to have members who are single parents, full-time informal carers, live alone, have a disability, privately rent housing, rely on income support, work part-time, receive a lower income due to the gender pay gap and/or are unemployed or underemployed (ACOSS 2018).[30]

Conclusions

Private superannuation has been transformed since the mid-1970s from a bifurcated occupational benefit for exclusive minorities in the public and private sectors into a tradable retirement product in a segmented market with almost universal workforce coverage. In the mid-1970s, superannuation was typically offered by employers in inhouse super funds. Despite the prevalence of defined-benefit schemes, super had a weak link with retirement because it was paid out when employees changed employer and there was no preservation age or portability. Superannuation was fashioned into a marketable retirement product through two decades of campaigns and reform, resulting in the current dominance of the accumulation model and regulations for portability,

30 While the top fifth of households receiving the highest incomes hold more than 45 per cent of super assets, the bottom 40 per cent of households earning the lowest incomes hold only 15 per cent (ACOSS 2018: 56). Households of retirement age were least likely to be receiving the highest incomes (ACOSS 2018: 39). While accounting for 15 per cent of households overall, only 6 per cent of households in the fifth income quintile (the 20 per cent of households with the highest incomes) had at least one member aged 65 years and over (ACOSS 2018: 39). In contrast, 29 per cent of households in the first income quintile and 19 per cent of those in the second income quintile were aged 65 years and over (ACOSS 2018: 3).

preservation and vesting that have transformed it into a retirement savings vehicle. Since the mid-1990s, financialisation has been restructuring superannuation into a segmented market, with one segment comprising larger institutional super funds and another segment consisting of SMSFs.

The superannuation market was established by a policy coalition of the union movement and Labor governments through three phases of mobilisation from the mid-1970s to the 1990s. In the first phase, the union movement developed the 'deferred wages' frame and instituted early prototypical union funds that combined a not-for-profit organisational structure with accumulation accounts for members. The union movement used these as political resources in the second phase; the 'deferred wages' framed was employed to prosecute the case for award super in the Accords and industry super funds were modelled on the prototypical union funds of the 1970s. Committed to the Accords as a signature policy, Labor governments pressed the case for award super to the AIRC and, after the latter's concerns constrained the ambitions of award super, enacted super fund operating standards. When the AIRC halted the industrial campaign for award super in 1990, Labor (with union support) circumvented this institutional hurdle in the third phase by legislating compulsory employer super contributions and regulatory operating standards in the early 1990s. According to Taylor et al. (2017: 267), the resulting superannuation market is 'extremely complex, publicly mandated, but privately controlled'.

After the institutional foundations were established, the superannuation market has been increasingly financialised by state and market restructuring since the mid-1990s. Larger super funds have consolidated their operations, following broader trends in the financial sector after the liberalisation of the 1980s and 1990s, increasing the scale of super assets held by profit-seeking financial conglomerates and industry super funds. As the experience of the GFC highlights, however, individuals ultimately bear the financial risks for private super held in accumulation accounts and the risks borne by financial actors are moderated by the future investments guaranteed from compulsory employer super contributions and fees for services routinely rendered. Subsequent reforms of both Labor and Coalition governments have sought not to change this, but to realign the behaviour of super funds, financial advisors and account-holders with that anticipated in competitive markets.

The apparent bipartisanship over compulsory private superannuation since the mid-1990s conceals the ongoing importance of partisan ideas and interests. On one hand, when in government, the Coalition and the retail super funds (with support from banking groups) developed the 'competition and choice' frame to construct insufficient competition between super funds as the policy problem and increasing consumer choice as the solution. This policy coalition used this frame to pursue reforms aimed at granting profit-seeking actors greater access to compulsory employer contributions, introducing new financial vehicles such as SMSFs that increased the role of financial service providers, and opposed Labor's legislation that sought to protect consumers (the FOFA reforms). On the other hand, Labor governments and industry super funds (with union support) have constructed a 'consumer protection' frame to justify reforms aimed at curtailing excessive rent-seeking among financial service providers (FOFA) and encouraging account-holders to act as consumers. These partisan differences demonstrate both the interest-based politics of superannuation policy and the risks, as Taylor et al. (2017) note, of regulatory capture.

The financialisation of private superannuation has coincided with its rapid expansion to become the secondary tier of retirement income policy. It follows that the expansion of superannuation has financialised retirement income policy, requiring members of virtually every Australian household (of working age) to invest in financial assets managed by private super accounts over their working life to shore up security in old age. The financialisation of retirement income policy is, nevertheless, partial because the age pension still collectively pools protection from the financial risks of old age and acts as the risk manager of last resort if superannuation investments fail. Still, the rising importance of superannuation to retirement income policy has transferred the risks to households without increasing those borne by employers or the financial sector. This transfer accentuates intragenerational inequalities, as households must stretch labour market incomes to cover both the purchase of the family home, which is increasingly unaffordable (especially in major cities), and the accumulation of private retirement income in the context of rising financial market volatility.

Epilogue: Self-funded stimulus during a global pandemic (and more)

Further consequences of both financialisation and marketisation for retirement policy have become evident since this chapter was written, particularly from the scheme for temporary early release of superannuation and reforms to superannuation in 2020. Among its early fiscal stimulus measures in response to the economic consequences of the Covid-19 pandemic, the Morrison Coalition government temporarily loosened the restrictions on the early release of superannuation. This allowed eligible individuals under retirement age experiencing financial hardship early in the pandemic to access up to $20,000 of super savings, from April to December 2020 (Treasury 2020). Super benefits accessed via this temporary scheme were exempt from tax. This scheme had a high take-up rate, with 4.8 million individuals (98 per cent of applicants) withdrawing $36.4 billion by January 2021 (APRA 2021). Evidence suggests most individuals accessing superannuation through this scheme spent it on rent, mortgage repayments or other household bills (ABS 2021).

Although surpassed in dollar terms by other stimulus measures, the temporary early release of super scheme is noteworthy in highlighting how financialised social policy can compound the role that households have in managing risks over the life course. The early release of super scheme amounted to a privatised stimulus measure that gave eligible households access to their private savings otherwise preserved for their retirement invested with private funds. This scheme amounted to individualised income-smoothing that did not require public spending (except for tax expenditures on super benefits), in which participating households had to self-manage the relative risks of withdrawing super early during the pandemic or preserving their investments until retirement for their financial security over the life course. Most applicants to the early release of super scheme belonged to groups who could afford it least and were unlikely to benefit from the tax concessions, being aged less than 40 years and having incomes of less than $90,000 (ATO 2021). For at least some of these households, the early release of super scheme was the main additional option available to respond to the financial insecurity presented by the pandemic as it pre-dated both JobKeeper and JobSeeker—the government's payments to employers and unemployed people, respectively, which were its eventual fiscal responses to the pandemic during 2020 and early 2021 (Elmas 2021). In granting access to private assets and individualising risk,

the early access to superannuation scheme contrasts markedly with the collective risk-pooling typical of government stimulus measures funded by public debt or that of European social insurance schemes. It is also difficult to imagine European governments raiding social insurance schemes to pay for fiscal stimulus during an economic crisis.

Beyond the early release of superannuation scheme, the Morrison government introduced the 'Your Future, Your Super' reform package in late 2020. The government argued this package would reduce consumer fees and increase consumer choice. The reforms aimed to reduce fees by 'stapling' employees to their existing super accounts when they changed jobs, introducing caps on the fees for low-balance super accounts and banning exit fees (Frydenberg 2020). The government also claimed the package would increase choice by improving the transparency and accountability of super funds, with measures that require funds to invest to maximise financial returns, establish a new online comparison tool and introduce new reporting requirements to inform account-holders of underperformance. At first glance, these reforms may seem consistent with the 'consumer protection' frame outlined above in aiming to reduce rent-seeking and enable consumers (Karp 2021). But, the Your Future, Your Super reforms signalled the continuation of interest-based politics rather than heralding a new bipartisanship. Both Labor and the industry super funds opposed the government's reforms, arguing that 'stapling' would primarily benefit underperforming retail funds and the new investment rules sought to curb the activities of industry super funds (Karp 2021). Partisan contestation over superannuation policy should not be overstated, however, given the Coalition government recently increased the Superannuation Guarantee to 10 per cent of wages with Labor's support.

So, where to from here for retirement policy? With both major parties and powerful financial interests mostly supporting the status quo of the age pension and mandatory occupational super, incremental reforms to retirement policy seem much more likely than radical revisions over the next few years. Incremental reforms can, nevertheless, have far-reaching impacts in a $2.6 trillion super market. In closing, I briefly mention three potential reforms that could help to address (but clearly not solve) unresolved issues highlighted earlier in this chapter. First, as the financial impact of investment losses is far greater for those approaching (or at) retirement age, the government could require individuals to select 'safer' investment options once they reach a certain age to mitigate the risk.

Second, as recent reforms intended to encourage consumer choice and fund competition have had limited success, the government could set limits on annual fund fees. And third, as reduced super balances from extended absences from paid employment can reinforce intragenerational inequities, the Superannuation Guarantee should apply to paid parental leave and government benefits for working-aged individuals.

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