



Submission to the Treasury on the Objective of Superannuation

6 April 2016

About us

The Australian Association of Gerontology (AAG) is Australia's peak national body linking professionals working across the multidisciplinary fields of ageing. Since 1964, we have connected professionals with an interest in gerontology to help them collaborate and exchange information on ageing.

AAG's goal is to expand knowledge of ageing in order to improve the experience of ageing.

With over 1,000 members across every State and Territory in Australia, our members include geriatricians, academics, researchers, nurses, policy makers, allied health professionals, social workers, consultants, financial advisers and other gerontology specialists. The multidisciplinary nature of our association is one of our key strengths.

Background information

The Organization for Economic Cooperation and Development (OECD) found that in 2012 the average income of Australians aged over 65 (compared to that of the whole population) was the second lowest within OECD countries. Consequently, the old-age poverty rate in Australia was the second highest in the OECD (33.5%), and more than twice the poverty rate for the total population (14%).¹

These findings were backed up by the *Global AgeWatch Index 2015*, which found that Australia had the lowest ranking in the Asia Pacific region for income security among people aged over 60 years, with 33.4% of them living in poverty.²

¹ OECD, [Pensions at a Glance 2015](#): OECD and G20 indicators, OECD Publishing, Paris at chapter 8. Poverty was defined as below 50% of median household disposable income. However, the poverty figures may appear inflated because superannuation is mostly taken as a lump-sum and not regarded as income.

² HelpAge International, [Global AgeWatch Index 2015](#).

Income security was measured through pension income coverage, poverty rate and relative welfare of older people. Poverty was defined as below 50% of the national median household income.



Comprehensive review of the retirement income system needed

The National Aged Care Alliance³ and the Council on the Ageing⁴ have called for an independent, comprehensive review of the retirement income system. AAG strongly endorses these calls. The review should consider the interaction between pensions, superannuation, mature-age employment, financial products (e.g. home equity release), taxation, and health and aged care costs.

AAG welcomes this discussion about the objective of superannuation. However, it should occur as part of a comprehensive review of the retirement income system. Looking at superannuation in isolation will result in piecemeal policy, which may result in unintended and inequitable outcomes.

Objective of the retirement income system

AAG believes that the overall objective of the retirement income system should be **to provide an adequate standard of living in older age**. The concept of 'standard of living' encompasses consideration of income, assets, taxation and essential expenses (such as housing, health and aged care). We acknowledge that there may not be consensus yet about what 'adequate' means but stakeholders should be consulted about this as part of a comprehensive review of retirement income.

In Australia, a greater proportion of older women live in poverty (35.7%) than men (31%).⁵ New data from the Australia Taxation Office shows that low-paid women have 42% less super than men on the same income.⁶ There is evidence that the risk of inadequate income in retirement is higher for Aboriginal and Torres Strait Islander people.⁷ Logically, the risk may also be higher for older people with special needs, such as and lesbian, gay, bisexual, transgender and intersex people.⁸ AAG suggests that the government should explicitly state that **addressing inequity** is an objective of the retirement income system. This would provide the flexibility to create rules that assist specific groups of people, such as superannuation rules that recognise women often take time out of the paid workforce to care for children and other family members.

³ NACA, [Enhancing the quality of life of older people through better support and care](#), NACA Blueprint Series, June 2015

⁴ COTA, [Submission in response to Recommendations of Financial System Inquiry](#), April 2015

⁵ OECD 2015, op. cit.

⁶ Medhora, S 2016, '[Low-paid women have 42% less super](#),' The Guardian Online, 5 April 2016.

⁷ Bianchi, RJ, Drew, ME, Walk, AN and Wiafe, OK 2016, [Retirement adequacy of Indigenous Australians](#), CSIRO-Monash Working Paper No. 2016-1, Griffith University

⁸ Nine groups of people with special needs are identified in [Section 11.3 Aged Care Act 1997](#)



Primary objective of superannuation

AAG supports the Financial System Inquiry's (FSI) recommendation that the Government should develop the objective of superannuation and enshrine it in legislation. However, we do not support the FSI's proposed wording of the objective, which was *'to provide income in retirement to substitute or supplement the Age Pension.'*

AAG considers that the primary objective of the superannuation component of the retirement income system should be **to provide income in retirement**. It is inappropriate to refer to the age pension in the superannuation objective because the pension is just one of several components that will affect the adequacy of living standards in retirement.

AAG strongly agrees that the purpose of superannuation is **not** to allow for unlimited wealth accumulation or bequests.

Subsidiary objectives of superannuation

AAG supports the FSI's recommendation that a number of other factors should be considered in supporting the primary objective of superannuation.

We support the following subsidiary objectives proposed by the FSI:

- facilitate consumption smoothing over the course of an individual's life
- help people manage financial risks in retirement
- be invested in the best interest of superannuation fund members
- be simple, efficient and provide safeguards.

We make the following comments about the other subsidiary objectives proposed by the FSI:

- AAG supports the concept that superannuation should be a fully funded system. However, the reference to being fully funded from *'savings'* is ambiguous because it could be seen as referring only to the contributions made by an individual (via personal contributions or salary sacrifice). There are also key contributions made by others (e.g. employer contributions, government contributions and co-contributions, and payments from foreign super funds). Instead, we suggest that the wording of the subsidiary objective be changed to make it clear that superannuation should **be fully funded from contributions and investment earnings**.
- AAG supports the concept that the government's overall contribution to the retirement income system should be sustainable. However, we do **not** support the subsidiary objective that superannuation should *alleviate fiscal pressures on government from the retirement income system*. Instead, we suggest the subsidiary objective be that superannuation should **interact effectively with other government policies to create a fiscally sustainable retirement income system**.



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- AAG does **not** agree that superannuation should increase the pool of national savings to fund long-term investment. While this may be a welcome auxiliary benefit to the economy, it should not be a subsidiary objective of the superannuation system.

Authorisation

This submission has been authorised by the Chief Executive Officer and the President.

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