



Strong banks – strong Australia

06 April 2016

Ms Michelle Dowdell
Manager, Retirement Income Policy Division
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600
superannuationobjective@treasury.gov.au

Dear Ms Dowdell

Objective of Superannuation – Discussion Paper

The Australian Bankers' Association (**ABA**) welcomes the opportunity to provide comments on the Treasury Discussion Paper on the *Objective of Superannuation (Discussion Paper)*.

With the active participation of 23 member banks in Australia, the ABA provides analysis, advice and advocacy for the banking industry and contributes to the development of public policy on banking and other financial services. The ABA works with government, regulators and other stakeholders to improve public awareness and understanding of the industry's contribution to the economy and to ensure Australia's banking customers continue to benefit from a stable, competitive and accessible banking industry.

Key remarks

As noted in the Discussion Paper, the Financial System Inquiry (**FSI**) recommended¹ that the primary objective of superannuation is:

To provide income in retirement to substitute or supplement the Age Pension.

We note the Government accepted this recommendation and agreed to enshrine this objective of the superannuation system in legislation.

The key question posed in the Discussion Paper is whether or not stakeholders agree with the objective recommended by the FSI.

Overall, the ABA believes that Australia's superannuation and retirement income system should:

- Maintain the 'three pillars policy' and clearly articulate the objectives of superannuation within the retirement income system
- Endorse the guiding policy principles of simplicity, flexibility, adequacy of savings, literacy, stability and certainty, and transparency
- Provide incentives for Australians to save and plan early for their retirement as well as encourage private savings.

¹ *Financial System Inquiry Final Report*, November 2014, Recommendation 9.



Strong banks – strong Australia

Objective of superannuation

In the ABA's response to the final report of the FSI, we stated it was the banking industry's view that the superannuation and retirement income system should seek to:

- Provide income in retirement to ensure an adequate standard of living; and
- Reduce reliance on Government funded pensions and contribute to the sustainability of the Federal budget.

The ABA supports the Government's intention to enshrine an objective in legislation, however, we do not agree with the proposed wording.

The objective of superannuation should not only aim to reduce the reliance on the age pension, but also to provide an adequate income in retirement. Superannuation should not be set or targeted at simply substituting or supplementing the age pension. Superannuation rules and taxation should encourage greater superannuation savings than what can be afforded by the age pension as a 'safety net'.

The ABA believes that the objective can be achieved through a retirement income system which:

- Is based on long term and sustainable public policy across superannuation, taxation and other policies, including aged and health care
- Maximises superannuation savings for members through their working life to ensure they are able to provide for themselves during their retirement, and
- Enables members to access their superannuation and private savings in ways and means that suit their retirement circumstances and needs.

Guiding policy principles for superannuation

The ABA believes that guiding policy principles must support the objective. As noted above, these guiding principles are: simplicity, flexibility, adequacy of savings, literacy, stability and certainty, and transparency.

The ABA does not support including additional objectives in legislation. Those proposed in the discussion paper, for example, are unclear and would add complexity to the objective and the obligations of the law. Furthermore, the objective should not be confused with the role of various participants in the system or diluted with seeking other system outcomes.

Alternatively, the ABA believes that the guiding policy principles should provide context to the objective.

In reality, these guiding policy principles may shift as community expectations change about the superannuation and retirement income system. For example, it is likely community attitudes will develop through time as to what constitutes *adequacy of savings* in retirement. The community's expectations about their standard of living as well as living expenses during retirement, and in particular aged and health care costs, are important factors. The taxation of superannuation and private savings, other savings incentives, and other government policies and services will also be important factors, or enablers, for retirement incomes.

Similarly, for example, changes in technology and the way in which members access their superannuation and other private savings will likely impact on how best to engage members and provide avenues for members to gain the necessary literacy, information and advice they need to support them in making informed decisions about their retirement income.



Strong banks – strong Australia

The ABA supports the guiding policy principles being contained in explanatory material to the legislation or other guidance. This approach will ensure as the system evolves and community expectations change, the objective will remain constant but the policy settings and levers can be adjusted to ensure the objective is being met.

Planning early and private savings

The ABA considers that initiatives to promote financial independence should focus on:

- Lifting compulsory and voluntary superannuation contributions
- Increasing private savings, and
- Enhancing long-term wealth accumulation as a way to deliver better financial and social outcomes for retirees.

The retirement income system should be nurtured through targeted measures that seek to encourage greater superannuation contributions and private savings as well as promote appropriate product solutions for retirees to continue to manage their income during retirement.

Promoting greater superannuation contributions and ensuring the taxation of superannuation supports *adequacy of savings* will help members to maximise their savings capacity.

Encouraging private savings will go some way to encouraging diversified pre-retirement savings and post retirement incomes and will supplement superannuation savings by enabling greater choice, financial independence, and a higher standard of living in retirement.

Improving the private savings environment will also provide flexibility for saving and consumption needs to be adjusted through various life cycles pre and post retirement as well as reduce future fiscal pressure of Australia's ageing population and address longevity risk.

Legislative structure

The ABA suggests it would be appropriate to enshrine the objective in a stand-alone *Objective of Superannuation Act* rather than the *Superannuation Industry (Supervision) Act 1993* (SIS Act). As there are numerous laws which apply to the superannuation system as a whole, enshrining the objective in the SIS Act may not be appropriate.

Concluding remarks

Thank you for the opportunity to provide input on the discussion paper. We look forward to the opportunity for further discussion on this issue.

Yours sincerely

Diane Tate
Executive Director – Retail Policy
(02) 8298 0410
dtate@bankers.asn.au