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23rd March 2016

Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email to: superannuationobjective@treasury.gov.au

Dear Sir,

Objective of Superannuation
Submission to the government discussion paper on the objective of superannuation

The Australian Investors Association (AIA) represents and advocates for a group of self-directed investors who choose to make their own decisions about their investments. The AIA is a national not-for profit organisation. Many of our members are self-funded retirees and many members use the tax provisions of superannuation to extend the life of their retirement savings in retirement.

Attached to this letter is the AIA's submission in response to the discussion paper "Objective of Superannuation" dated 9 March 2016.

We trust that you find this a positive contribution. For any further information, please contact the undersigned using the office contact details above.

Yours faithfully,
For and on behalf of the Australian Investors Association

Jon Kalkman
Vice President

Attached:

Australian Investors Association submission to the government discussion paper on the objective of superannuation

21st March 2016

Executive Summary

The government has issued a discussion paper for consultation on the objective of the superannuation system. This consultation will help guide the final decision on the objective to be legislated. Following a recommendation from the Financial Services Inquiry (FSI) the discussion paper clearly favours the purpose of superannuation to be: ***To provide income in retirement to substitute or supplement the Age Pension.*** And further: ***The purpose of superannuation is not to allow for unlimited wealth accumulation and estate planning.***

In this submission the Australian Investors Association (AIA) submits that:

1. The bills don't stop just because someone is retired. The key to a secure retirement is a secure income. Australian retirees planning a secure income over a long retirement need to manage a range of risks which include market risk, longevity risk, inflation risk, interest rate risk and legislative risk. Most retirees around the world do not need to manage these risks because they are provided with a pension that is commensurate with their pre-retirement income. That is also true for Australian public officials.

2. Any discussion about superannuation balances that are adequate or excessive is misplaced because it fails to account for these risks. Rather than limit superannuation balances to some arbitrary level, the AIA preferred position is that the purpose of superannuation should be "T*o allow taxpayers to accumulate sufficient capital over their working life that will generate a retirement income that is <u>commensurate with pre- retirement income</u>, taking account of retirement risks:"*

3. The superannuation system and the age pension interact. There is clear evidence that superannuation is boosting people's retirement incomes and decreasing reliance on the age pension, as it was designed to do. Higher superannuation balances reduce and delay eligibility for the age pension. The government already has a mechanism to ensure superannuation money is used and usually exhausted to support retirement and is not used as an estate planning tool. Mandatory withdrawals ensure that capital is progressively removed from superannuation and thereafter is exposed to normal taxation rules.

4. Tax concessions create incentives. Superannuation tax concessions are necessary to encourage people to provide for their own retirement when, by doing nothing and claiming the age pension as an entitlement, a retired couple impose a $1 million liability on the taxpayer over their lifetime. For the couple on the age pension the taxpayer is liable not just for retirement income, but health care and age care as well. At the same time, the tax concessions around the family home create welfare dependency that encourages retirees to become asset rich but income poor. As such, the wealth stored in the family home becomes a tax-advantaged inheritance for beneficiaries. These tax concessions create considerable inequity.

5. Our public officials enjoy a risk-free retirement, paid out of the public purse, in which their income and standard of living is commensurate with their pre-retirement employment. A policy setting that assures a standard of living in retirement commensurate with the pre-retirement experience, available to everyone, would create incentives for everyone to maximize income and savings for retirement thereby further reducing their reliance on the age pension.

6. The AIA believes that the purpose of superannuation should be to give people the right to accumulate adequate private savings in a tax-advantaged area so that their retirement is commensurate with their pre-retirement income. The international standard for this is about 65 per cent of pre-retirement income. Rather than the purpose of superannuation being defined as some maximum superannuation balance applicable to everyone which depends on variable market prices, the maximum superannuation balance should be defined by an agreed multiple of a person's final salary up to some arbitrary upper level, yet to be decided.

Introduction

The government has issued a discussion paper for consultation on the objective of the superannuation system. This consultation will help guide the final decision on the objective to be legislated. Following a recommendation from the Financial Services Inquiry (FSI) the discussion paper clearly favours the purpose of superannuation to be:

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

And further:

> ***The purpose of superannuation is not to allow for unlimited wealth accumulation and estate planning.***

Clearly the key issue is the level of tax concessions available to support superannuation balances that are in excess of that required to support a reasonable retirement income. This has led to considerable speculation by commentators, most of whom are not retired, on what is a reasonable superannuation balance and what is a reasonable retirement income.

The Australian Investors Association

The Australian Investors Association (AIA) represents and advocates for a group of self-directed investors who choose to make their own decisions about their investments. The AIA is a national not-for profit organisation. Many of our members are self-funded retirees and many members use the tax provisions of superannuation to extend the life of their retirement savings in retirement. Among our members there is no consensus on what represents a reasonable retirement income because all our lifestyles are different. What represents luxury for one person represents poverty for another person. Just as there is a wide range of pre-retirement incomes, it is reasonable to expect a wide range of acceptable retirement incomes.

Most retirement systems depend on pensions not lump sums

While the Australian superannuation system is the envy of many countries because it relieves some of the pressure on the government pension, the retirement experience in other countries is quite different from that of Australian retirees. In most countries retirees are provided with a pension from the government or their previous employer but they are not expected to have the skills to manage the risks of generating an income stream for a long retirement from a capital lump sum. By contrast most Australian retirees arrive at the point of retirement with a lump sum with the responsibility of deciding how that money will support them for an uncertain future. Clearly, financial advice is critical here but that experience has been patchy for some retirees in recent years.

Internationally, the accepted standard of retirement income, which is typically in the form of a pension, is that it should be about 65 per cent of pre-retirement income.

The gold standard of retirement provision in Australia is also a guaranteed pension

The first observation is that the people making the rules for superannuation, politicians and public servants, do not need to live by them. The system they have designed for themselves allows them to collect their fortnightly indexed pension on retirement that is paid out of general revenue as if they were employed, until they die. Their defined benefit pension represents a liability on their employer that extends beyond their death because a proportion of that pension is then paid to their spouse until their death.

Importantly, that defined benefit pension is a proportion of their pre-retirement income, indexed to inflation, for life. Their standard of living is secure for the rest of their lives. This gold standard of retirement income for public servants and parliamentarians extends to the military and the judiciary.

As their employer is also the taxpayer it is difficult to determine if this generous provision is a condition of employment or a generous tax concession. Either way, a defined benefit pension has a number of important features:

- The retirement benefit is an annuity with guaranteed income for life commensurate with their pre-retirement income. These people do not accumulate a superannuation balance.
- The pension is indexed to inflation so their standard of living does not decline over time.
- The pension is paid until death, so the retiree does not face the longevity risk of outliving their money.
- The pension is paid regularly regardless of market fluctuations; they do not have to face market risk.

The AIA preferred position is that the purpose of superannuation should be ***"To allow taxpayers to accumulate sufficient capital over their working life that will generate a retirement income that is <u>commensurate with pre- retirement income</u>, taking account of the following retirement risks:"***

- Market risk
- Longevity risk
- Inflation risk
- Interest rate risk
- Legislative risk

Retirement risks

Everyone is familiar with market risk, particularly since the Global Financial Crisis. In addition to doing great damage to superannuation balances, the crisis highlighted the importance of sequencing risk. If a retiree starts to draw on their retirement savings when asset prices are low, such as in 2008, they will use their savings much more quickly than otherwise. So the timing of retirement is almost as important as size of the retirement nest egg.

Longevity risk is not well understood. Typically, life expectancy is seen as a proxy for the retirement planning period, but life expectancy only represents the median age of death. An individual's experience may be quite different. According to Prof. John Piggot at the UNSW, 50 per cent of males currently aged 65 will survive beyond age 84, but around 5 per cent of that group will survive beyond age 97. Similarly, 50 per cent of females currently aged 65, will survive beyond age 88, but around 5 per cent of that group will survive beyond age 100. Some individuals will survive even longer. Therefore, if retirees want to plan their retirement with a 95 per cent certainty that they will not outlive their money, they need to plan for a retirement of at least 30 years. Deferred annuities and pooled annuities, common overseas but not available in Australia, are one way to counter longevity risk.

Inflation risk should be well understood but isn't. If inflation is a constant 3 per cent (which is close to the Reserve Bank's preferred rate) prices will double in 24 years which is well within the life expectancy of many retirees. If retirees are advised to live on a fixed income from a bond, annuity or term deposit, the purchasing power of that income will halve over that time frame. That is why it is so important for retirees to have income streams that at least keep pace with inflation and why an inflation-linked income stream such as a defined benefit pension is so valuable.

Inflation risk, market risk and longevity risk are all interrelated. We know there is a direct relationship between risk and investment return. Retirees who adopt conservative low-return investments because of their concerns about market volatility are likely to see the purchasing power of their savings eroded through inflation. They are, in fact, sacrificing their long-term financial security to their short-term concerns about market volatility. Therefore, retirees need to balance that market risk against the longevity risk that they will outlive their savings. Indeed, a cynical retiree may conclude that advisers have little incentive to consider longevity risk as the age pension is a universal safety net for everyone if and when they run out of money.

If retirees want to be self-funded for their lifetime <u>and</u> they are prepared to accept a conservative low return on their investment because they are concerned about market risk, they will need to begin their retirement with a very large retirement savings balance indeed.

Retirees also need to manage interest rate risk. Given that capital stability is seen as paramount for many retirees because of market risk, many choose to place large proportions of their retirement savings in bank term deposits for safety and security, even at the risk of outliving their money. A superannuation balance of $1 million in a term deposit in 2007 would have generated an annual income of $80,000. Today that same super balance would generate about $30,000 per annum. That volatility of income seems to have escaped the attention of the FSI but it has meant that retirees have been forced to accept a lower standard of living or invest in growth assets, thereby increasing their risk. As interest rates fall the income stream becomes more expensive. Annuities are seen by many in the industry as a solution to inflation, market and longevity risk but they, too, become more expensive when interest rates are low.

Lastly, self-funded retirees have to manage legislative risk. History has shown that most governments cannot leave the honey pot, called superannuation, alone. Such a lot of money in superannuation balances is just too tempting when governments experience difficulty in balancing their budget. Each change to superannuation means another adjustment to the plan for what was supposed to be a long

term investment for a long retirement, thereby decreasing confidence in the superannuation system. Governments control the tax concessions and the legislation but history has shown that prudent retirees need to be cautious about using superannuation as their primary retirement investment vehicle. Retirees then have to balance the tax concessions available in super against the risk that governments will make decisions that disadvantage them in future.

Of course retirees also have access to a risk-free, indexed pension paid until death. It is called the age pension, and should be thought of as a universal safety net for people without sufficient wealth to provide for themselves. It is, however, far less generous than that paid to politicians and public servants!

However, most retirees who studied for professional qualifications and/or worked hard during their working lives and/or accepted the risks of business and investment, want and deserve a higher standard of living than that provided by the age pension. To achieve a standard of living commensurate with their pre-retirement income, they must accumulate sufficient capital over their working life as well as accepting all the risks outlined above. And they face those risks alone as they navigate the shark-infested pool of financial “professionals”.

> **Recommendation 1:**
> **The AIA recommends that the objective of superannuation should be to provide a retirement income that is commensurate with pre-retirement income.**

Superannuation boosts retirement incomes and reduces reliance on the age pension

The age pension is tightly targeted at needy recipients. Unlike some European countries, where it is universal, the age pension received depends on the recipient’s income and assets. Superannuation and the age pension interact so that, as super balances and other assets rise, the pension falls to a point where there is no pension available and the retiree is self-funded and self-sufficient. In the context of incentives, it is important to note, however, that the family home is never counted under the assets test and it is also free of capital gains tax.

There is clear evidence that super is boosting people’s retirement incomes and decreasing reliance on the age pension. Just as clearly, increases to the tax payable in pension phase will adversely affect a superannuation fund’s capacity to pay that pension for a long retirement and force more people to depend on the age pension. If the purpose of super is to make people less reliant on the age pension, such a step would be counterproductive. The government needs to decide if it wants to pay for some of the retirement income stream of retirees through a tax concession on superannuation pensions or if it wants to pay for the entire retirement income stream for more people through the age pension.

At present the age pension for a couple who own their own home is $1,307 per fortnight or $33,982 per year. As pointed out above, the age pension can be seen as an annuity. It pays a guaranteed amount for life and it is indexed to inflation. In 2012, Michael Rice of Rice Warner Actuaries calculated the present day value of the age pension based on average life expectancy. For a single male pensioner with a life expectancy of 20 years at age 67 the value of the pension payments is $402,000. For a single woman

with a longer life expectancy the figure is higher at $461,000 while for a couple, Rice says the pension is worth $685,000 over their lifetimes. Moreover, Jeremy Cooper, from Challenger Limited, has calculated that the age pension provides similar income to an annuity purchased for approximately $1 million.

That means that if a retired couple wanted to accumulate sufficient capital to merely replace the age pension and become self-funded they would need to save $1 million over their working lives. In that case they would be no better off in terms of income than the couple who did nothing and just accepted the age pension as their entitlement. In fact, under the new assets test that operates from January 2017, the millionaire couple are likely to have less income than the couple on the age pension because interest rates are so low. To provide an incentive for people to save their own money for a more comfortable retirement than the age pension, the government must provide superannuation tax concessions.

Unlike the defined benefit pension received by politicians, public servants, judges and generals, the retirement income for retirees is not paid from internal revenue but out of the funds accumulated by the retirees themselves, assisted by the tax concessions. These funds are accumulated through concessional contributions, non-concessional contributions and tax-advantaged investment earnings which are subject to market risk.

Concessional contributions by definition have tax concessions attached, some of which are compulsory, come from wages (and consumption) sacrificed for future consumption and are now capped at levels that make it difficult for high income earners to exploit. As such these contributions alone cannot generate large super balances. The AIA does not believe that these need to be restricted any further. Consideration should be given to allowing these contributions to be smoothed over a period of years to allow people with interrupted work patterns, such as women providing care for their families, to catch up missed contribution opportunities.

Non-concessional contributions come from after-tax money – money on which tax has already been paid. It is mainly through after-tax contributions that people with adequate resources can make provision for an income stream in retirement that is commensurate with their pre-retirement income. The AIA sees no reason to change these caps.

In both cases these contributions, which are forfeited consumption, are locked away until retirement with severe penalties for early release. There must to be an incentive for people to act like this, particularly as the age pension is available to anyone who satisfies the age and residency requirements and cannot or will not provide for their own future.

A debate about the size of those tax concessions in the context of budget sustainability is always focused on the costs of super tax concessions and there is never any discussion on how much superannuation saves the budget on age pensions that are not paid. If those super tax concessions were absent, would there be a greater or lesser demand for the age pension? Nobody seems to know. There has been no modelling on that, only an array of opinion, usually driven by a particular agenda.

Limits on the size of the fund that can be accumulated, when there are already severe contribution caps, are not only unnecessary but likely to be counter-productive. When the defined benefit schemes above

are limited only by the pay rises that these people vote themselves, any further limits on super balances are unfair and likely to change the incentives and therefore behaviour towards retirement planning.

The total value of the age pension also means that the self-funded couple who never claim the age pension save the taxpayer that amount over their lifetimes. To do so they need to accumulate a sizeable balance in their retirement savings accepting all the risks set out above. The life-long liability that a couple on the full age-pension represents to the taxpayer is never considered in the context of the "generous" tax concessions given to super and yet we forget that the money held in super is mostly the retiree's own money.

Many commentators seem to regard the cost to government for the age pension as a given because of the community's welfare obligation to the elderly, but the cost of tax concessions for superannuation is optional because self-funded retirees are wealthy enough to save for their retirement without government assistance. Indeed, many commentators are offended by the generosity of tax concessions for superannuation pensions. They need to understand that these tax concessions serve to extend the life of the superannuation pension. When it expires, as it designed to do with the mandatory withdrawals, detailed below, most self-funded retirees have no choice but to depend on the age pension for all or part of their income.

According to the ASFA:

> *Around 32 per cent of those aged 65 in 2013 were fully self-funded in retirement, up from 22 per cent in 2000. However, at age 75, only 16 per cent of people were self-funded, not much different to the level in 2000.*

This reflects the fact that as the superannuation system matures more people will enter retirement with higher super balances derived from contributions and investment earnings over a longer working life than was the case previously. It also demonstrates that many people will exhaust their superannuation balance during their retirement but it reduces and delays their entitlement to the age pension, in some cases indefinitely, as it was designed to do.

> **Recommendation 2:**
> **The AIA recommends that the superannuation contribution caps remain unchanged.**

Tax-advantaged retirement savings as an estate planning tool

Retirees who use superannuation pensions to fund their retirement, find that, at present, the income earned in their super fund is tax free and the pension they draw out is also tax free if they over age 60. However, they are required by law to draw a mandatory pension from their fund each year, and that mandatory pension increases with age. Between the ages of 55 and 65 the annual mandatory pension is 4 per cent of the fund, rising to 7 per cent at age 80 and 14 per cent at age 95. The purpose and effect is that at some point, when the fund produces insufficient income, capital must be liquidated to satisfy the pension requirement and so capital is progressively removed from the fund. From that time going

forward that capital is subject to normal taxation rules, since there can be no more contributions to superannuation after age 65 unless the work test is satisfied.

The government already has a mechanism to ensure superannuation money is used and often exhausted to support retirement and is not used as an estate planning tool.

Retirees who leave their super in accumulation, pay tax on investment earnings. In both cases on death, any super balance remaining must be cashed out and thereafter that money is subject to normal tax rules. In addition, adult children also pay tax on the concessional and insurance portions of that death benefit. Even if super money is withdrawn tax-free after age 60 but before death, and gifted to beneficiaries, it is thereafter subject to normal tax rules.

Superannuation funds with large balances are a legacy from the time, before the 2007 changes to super, when there was no limit on the amount of non-concessional contributions that could be contributed to a super fund. The problem is only temporary, however, because these members are going to die and, when they do, their super balance will need to be cashed out. That money is, thereafter, subject to normal tax rules. To penalise those people now is to punish them for obeying the rules that applied at that time.

> **Recommendation 3:**
> **The progressive nature of super pension withdrawals should be retained as they are achieving the purpose of ensuring that superannuation is used to support retirement and not used as a tax-advantaged gift to beneficiaries.**

Tax concessions create incentives - The family home can also be an estate planning tool

Recent changes to the assets test will mean many people who were previously receiving a part pension will not receive a pension from 1 January 2017 because they hold too many assets including super. Under the new assets test a couple who own their own home will lose $3 of pension per fortnight for every $1000 over the new threshold of $375,000. For every $1000 they lose $78 in pension per year or 7.8 per cent. It is unlikely that that additional $1000 in assets will earn 7.8 per cent so there will be incentive to reduce assets to increase the pension. Under the gifting rules no more than $30,000 can be given away over a 5 year period but there is no restriction on how much retirees can spend on themselves or on their family home. The new assets test introduces an unintended incentive to increase reliance on the age pension and reduce self-reliance in the pursuit of income thereby exposing retirees to greater risks when the medical and care costs of aging become apparent.

Non concessional contributions to superannuation are voluntary. That money does not need to go into super. It could go into upgrading the family home which is never counted in the assets test or for capital gains tax purposes even when left as an inheritance. As such, it makes an ideal estate planning tool for beneficiaries.

The family home is a sacred cow in Australian politics. The family home has been considered sacrosanct for so long that many retirees still believe the age pension is a return of some of the taxes they paid over

the years, rather than paying for government services during their working lives. Many believe the age pension is their right and the taxpayer can pay for their retirement income, their health care and their aged care but the family home is something they worked hard for and it belongs to the children on their death. In essence the family home is a taxpayer-assisted inheritance for the children.

Until the store of wealth locked up in the family home is utilised in some way to help pay for a long and expensive retirement, these perverse incentives will encourage retirees to offload financial responsibility for their aging on to the government and therefore the taxpayer. Sadly, the unintended consequence of this tax incentive is to distort retirement planning by encouraging a welfare dependency as many retirees become asset rich but income poor. Yet, as we have seen with defined benefit pensions, the key to a secure retirement is a secure income, not the size of the asset you bequeath to your children.

This concession causes great inequality between age pensioners who are home owners and age pensioners who are renters. It also causes considerable inequality between age pensioners who accumulate wealth in their family home compared with other retirees who choose to accumulate their wealth in assets which produce an income but also reduce the age pension through the assets test.

The store of wealth in the family home is now being tapped when it comes to aged care. Since July 2014 the family home is included in the assets test for entry to a nursing home but turning that housing capital into income to pay for regular retirement costs through reverse mortgages is a legal minefield and has not proved popular.

That behaviour would change dramatically if the age pension was seen as loan, just like a higher education loan, that would be recovered from the estate, which includes the family home, on death.

> **Recommendation 4:**
> **Governments must find a way to tap the wealth stored in the family home so that, for people with adequate means, the burden of aging does not fall disproportionately on the taxpayer.**

Funding a long retirement

Mandatory pensions clearly demonstrate that if withdrawals exceed earnings, capital is quickly depleted. In response to falling asset prices in the GFC, the Labor government reduced the mandatory withdrawals. Retirees who could manage on smaller pensions were able to preserve their capital a little longer. Others found that maintaining their pension meant selling more assets into depressed markets thereby truncating the life of their pension. The performance of markets since the GFC has not been stellar. In response to this and the growing recognition of longevity risk, the Coalition in its pledge for the 2013 election said:

> *The Coalition will conduct a review of the minimum payment levels to assess their adequacy and appropriateness in light of current financial market conditions, and so provide self-funded retirees with confidence that their funds will not run out because of inappropriate forced withdrawals from their pension products.*

So far, there has been no evidence of that review. In fact, the trajectory of government initiatives to date has been in the other direction. Rather than extend the life of superannuation for a long retirement, the discussion has been about limiting contributions, increasing the tax on superannuation earnings in pension phase and limiting the concessions available to funds with “excessive” super balances.

Because the bills don’t stop when you retire, the essence of retirement planning is a secure income. The size of the capital stock is less important than the income it produces. The age pension provides a minimum income and the pensions of politicians and public servants provide guaranteed income. We never consider the capital balance the taxpayer needs to generate those income streams for age pensioners or public servants. To focus on superannuation balances as reasonable or excessive is to miss the point because, as we have seen, the income produced by that capital balance is highly variable and dependent on so many factors beyond the retiree’s control. In the face of all those risks the only logical response for retirees must be that more capital is always better than less, just to be on the safe side.

The AIA position is that the purpose of superannuation should be to provide a retirement income that is commensurate with pre-retirement income, not to define or limit the size of the superannuation balance. Capital balances depend on variable market prices and the incomes they produce are also highly variable.

If the government is looking for some reasonable benefit limit on superannuation balances, beyond which no more tax concessions apply, it would need to take account of the worst-case scenario for each of the risks outlined above. It would need to assume a retirement of 30 years, with consistent poor market returns, highly variable inflation and interest rates as well as frequent changes to superannuation legislation. In that scenario, what would be an appropriate level of superannuation balance that would ensure the retiree would <u>always</u> have an adequate retirement income until death?

It is an impossible question but it highlights the superficiality of what has passed for debate thus far.

It also highlights that the debate thus far about superannuation balances is misguided when the conversation should be about retirement incomes.

In any case, people who have had high income during their working life do not want an “adequate” income; they want an income and a standard of living that is commensurate with their previous experience and reflective of the hard work and savings they have made during their working lives. Rather than introduce a cap for a super balance which is the same for everyone and which will destroy the incentive to work hard and save, the reasonable benefit limit should be set at some multiple of the pre-retirement income for all retirees, taking into account the various risk factors outlined above.

Naturally, people on higher incomes will be able to accumulate higher balances but if their retirement incomes are to be commensurate with pre-retirement incomes, the retirement incomes produced by these balances should also be correspondingly higher.

The American experience is that the “safe” withdrawal rate of income from an endowment fund to safeguard its longevity is only 4 per cent per year. If the capital has to produce income for 30 years it is imperative that none of the capital is consumed, at least in the early years. If the investment return is

lower or the inflation rate is higher, the capital will be consumed much earlier than that. If the withdrawal rate is 4 per cent it means that the starting capital base needs to be twenty five times the annual required retirement income. According to the international standard, that retirement income should be about 65 per cent of the pre-retirement income.

> **Recommendation 5:**
> **The AIA recommends that the Coalition government honours its election pledge to review the mandatory withdrawals from superannuation in recognition of both increased market volatility risk and increased longevity risk.**

Secure Retirement

The wisdom of having a secure income to ensure a secure retirement is well founded across different demographic groups, different geographical areas and across time. Clearly, the focus of retirement planning and advice should be the level of income retirees can expect in retirement, not a lump sum.

The AIA believes that the aim of superannuation should be to promote sufficient private savings during a person's working life to ensure a standard of living in retirement commensurate with their pre-retirement income.

Once we accept the objective that superannuation should be to produce a retirement income that is commensurate with pre-retirement income, we can debate the size of that multiple of annual pre-retirement income. We can also debate whether there should be some upper limit based on some arbitrary figure such as the average weekly wage or the salary of a parliamentarian.

This objective is extremely important because it enshrines in legislation, a right to a certain standard of living in retirement that is commensurate with pre-retirement living standards.

This principle is the cornerstone of a defined benefit pension. If this principle is fair enough for our politicians, public servants, judges and military personnel, it should be fair enough for all the other taxpayers who actually pay for these generous pensions.

> **Recommendation 6:**
> **The AIA recommends that the government use the discussion about the objective of superannuation as an opportunity to provide all retirees with the same certainty of a standard of living in retirement as that enjoyed by public officials.**

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