



SUBMISSION

The Objective of Superannuation

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The Business Council of Australia is a forum for the chief executives of Australia's largest companies to promote economic and social progress in the national interest.

About this submission

This is the Business Council's submission to the Treasury's consultation on the objective of superannuation.

Superannuation is one of the three pillars of the retirement income system and decisions about superannuation settings touch on major areas of government policy, including the tax and welfare systems. Because of this, the objective of superannuation should be consistent with the objectives for the broader retirement income system.

The objective of superannuation should be enshrined in legislation

The Business Council supports the government's decision to enshrine the objective of the superannuation system in legislation as part of its response to the Financial System Inquiry (FSI).

Superannuation policy arrangements are highly complex and have been changed repeatedly, undermining confidence in the system. The history of changes to superannuation compiled by the Parliamentary Library (2014) runs to roughly 30 pages.

The Business Council agrees that enshrining the objective of the superannuation system in legislation will provide a guide to policymakers, regulators, business and the community about superannuation's fundamental purpose. It will provide a stable framework against which the current system and any future policy changes can be evaluated.

To ensure confidence in the superannuation system and long-term policy consistency, broad political and community support for the legislated objective will be essential.

The twin goals of the retirement income system

The Business Council is not proposing the precise wording for the legislated objective. However, in the Business Council's view, the objective should have a dual purpose to:

- provide for comfortable living standards during retirement
- reduce reliance on the age pension.

It follows that superannuation policies, including tax policy, should be cost effective and facilitate accumulation of superannuation balances large enough to provide for comfortable living standards during retirement.

This approach is consistent with promoting community wellbeing, not simply restricting access to benefits. It is crucial that policy decisions in this area take a long-term focus, given retirement savings are made over lengthy time lines.

Given the substantial and growing pool of superannuation, it is essential that best-practice governance arrangements are in place and the sector is efficient and well managed.

The Business Council supports the principles in the subsidiary objectives outlined by the FSI – in particular, the objective that superannuation should be invested in the best

interests of fund members and facilitate consumption smoothing over a lifetime. This additional detail to the primary objective gives beneficial guidance and clarity on how the primary objective can and should be translated into detailed policy. The issues of adequacy and fiscal sustainability should be addressed through either the primary or subsidiary objectives.

Regular reporting against the objective

Clear objectives for the superannuation system can be used to guide policy changes to the superannuation system and the broader retirement income system.

The Business Council strongly supports the FSI recommendation that the government regularly and publicly report whether the superannuation system will achieve its legislated objectives. Public reporting could occur regularly within the established process for the Intergenerational Report and also when there are major new policy proposals.

Redesign of the retirement income system

The value of a legislated objective for superannuation policy would be diminished if it is divorced from the other pillars of the retirement income system. The Productivity Commission (2015) noted ‘the three pillars that make up the retirement income system are inextricably linked — changes in each can, and often do, affect the others.’ While superannuation policy should consider the impact of policy change on the long-term reliance on the age pension, so too should policy changes to voluntary savings and age pension consider the impact on superannuation balances.

As the population ages it will become increasingly important to ensure that the retirement income system is well designed.

The government should commission a comprehensive independent review of the retirement income system by the middle of 2017. The review should consider the impacts and interactions across pension, superannuation and voluntary saving settings as a basis for any further consideration of substantive changes to the taxation of superannuation or the age pension.

Redesign of the retirement income system should focus on improving the capacity of the system to deliver those outcomes in a sustainable way within the context of an ageing population, increasing longevity, current low interest rates and a maturing superannuation system.

Redesign is not simply about achieving budget savings. Seeking to save large amounts of revenue (which inevitably will mean reducing concessions for lower to middle-income earners) would risk undermining the superannuation system and lead to larger pension outlays down the track.

Any redesign should also consider the alignment of all incentives and concessional arrangements across the three pillars and with the tax system. This includes analysis of effective marginal tax burdens and their compounding effects on savings over lifetimes and likely behavioural responses to any changes.

References

Parliamentary Library 2014, 'Major superannuation and retirement income changes in Australia: a chronology', Research paper series 2013-14, Parliamentary Library, Canberra.

Productivity Commission 2015, *Superannuation Policy for Post-Retirement*, Research Paper, Commonwealth of Australia, Melbourne.

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