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By e-mail: superannuationobjective@treasury.gov.au

Dear Ms Wilkinson

Discussion paper – Objectives of Superannuation

CPA Australia represents the diverse interests of more than 155,000 members in 118 countries. Our vision is to make CPA Australia the global accountancy designation for strategic business leaders. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the Government's response to the Financial System Inquiry's recommendation for the objectives of the superannuation system to be broadly agreed and enshrined in legislation.

Establishing a long-term aspirational objective for superannuation which has broad-based political agreement is an important step in securing the fundamentals of the system. It will provide a benchmark for performance and a guide for future policy development, facilitating the conversation about what tools and incentives are needed to achieve the objectives.

We note that superannuation is only one aspect of Australia's retirement savings system, which also includes the Aged Pension and non-superannuation investments such as the family home.

Questions for consultation

Do you agree with the objectives recommended by the FSI? Why?

Yes. The FSI recommended that the primary objective for the superannuation system be:

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

We agree with the focus on providing income in retirement. It is important to move the focus of superannuation away from lump sums, unlimited wealth accumulation and intergenerational wealth transfer to the generation of retirement income.

However, we believe self-sufficiency in retirement should be encouraged where possible. In the short-term as the compulsory Superannuation Guarantee (SG) system matures, it is a reasonable expectation that superannuation will have to supplement the Age Pension for many retirees.

However, when the SG system has fully matured it is a more appropriate objective that superannuation should be a substitute for the Age Pension for the majority of retirees, and the Age Pension is only provided as a genuine safety net for those in genuine need.

We note that achieving this objective will depend on many factors such as future macroeconomic and microeconomic circumstances, both domestically and globally.

CPA Australia supports all of the subsidiary objectives recommended by the FSI.

If you do not agree with the FSI recommendation, what do you think should be the objective of superannuation? Why? What are the implications of this objective?

As stated above, we support the FSI's recommended objective. The focus on providing income in retirement, and progressively increasing self-sufficiency, is appropriate.

In which piece of legislation should the objective be legislated and why?

We agree with the recommendation that the broadly agreed objective be enshrined in the preamble to the Superannuation Industry (Supervision) Act 1993.

Importantly, for an objective for superannuation to be effective there must be a commitment from governments to recognise the objective and develop policy or make legislative change that is consistent with the objective.

One option worth further consideration is that of a 'Statement of Compatibility' to be included in all superannuation and related legislation. This could operate in a manner consistent with the Statement of Compatibility with human rights which is required to be included in all relevant legislative bills and instruments.

General comments – superannuation and the broader retirement savings system

Superannuation is only one part of Australia's broader retirement savings system. While the superannuation system is well established in Australia, the compulsory Superannuation Guarantee (SG) system, introduced in 1992, is relatively young and will not reach full maturity for many years.

Retirees today and in the near future have not had the benefit of the full SG rate their entire working lives and will have to rely the Age Pension and other savings, in addition to their superannuation, to provide income in retirement.

Given this continued dependency on the Age Pension and other non-superannuation investments, we believe it is difficult to develop objectives for the superannuation system in isolation.

We believe when the opportunity arises, consideration should be given to the concurrent development of long-term objectives for our retirement savings system as a whole. This would encompass superannuation, the Age Pension, non-superannuation investments, including the family home, and aged care.

An ideal retirement savings system should display three primary characteristics. It should be:

- Simple – the system should be free from complexity in design, implementation and operation.
- Sufficient – to provide an adequate level of retirement savings to maintain a reasonable standard of living in retirement and finance age, nursing and health care.
- Sustainable – not only in the sense of being able to maintain government support and expenditure for future generations but to withstand external economic shocks.

The primary objectives of this broader examination of the retirement savings system would be as follows:

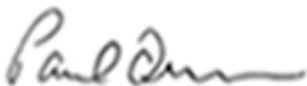
1. To provide assistance and incentives for individuals to save sufficiently and effectively in order to maintain a reasonable standard of living throughout their whole life cycle,
2. Where individuals have not had the means to save sufficiently, the system should provide adequate support to alleviate poverty, and
3. To protect retirees and dependants from certain risks, such as mortality, morbidity, longevity, investment, inflation and system failure.

There are also a number of principles that must be considered when setting the objectives for the retirement savings system. In summary, these are:

- The three pillars structure must be maintained
- The Age Pension should be restored as the 'safety net for those individuals who have not had the means to save sufficiently for themselves
- The use of tax concessions is an appropriate policy lever to encourage retirement savings and as compensation for locking money away in the superannuation system
- Non-superannuation savings, particularly the family home, should be considered part of the retirement savings equation
- It is imperative that superannuation and retirement savings policy are removed from the political cycle.

We can elaborate more on these points at a more appropriate time. Should you have additional questions regarding this submission, please do not hesitate to contact Michael Davison, Senior Policy Adviser - Superannuation on (02) 6267 8552 or michael.davison@cpaaustralia.com.au.

Yours faithfully



Paul Drum

Head of Policy