

CORPORATE SUPERANNUATION ASSOCIATION Inc.

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4 April 2016

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

Dear Ms Wilkinson

OBJECTIVE OF SUPERANNUATION

We refer to the invitation to the Corporate Superannuation Association to provide input on the 9 March 2016 Discussion Paper on the above topic.

Background - the Corporate Superannuation Association

Established in 1997, the Association is the representative body for large corporate not-for-profit superannuation funds and their employer-sponsors.

The Association represents a total of 23 funds controlling \$64 billion in member funds, held in a total of some 613,000 individual accounts. In general, these funds are sponsored by corporate employers, with membership restricted to employees from the same holding company group, but we also include in our membership several multi-employer funds with similar employer involvement and focus. A number of our funds have defined benefit divisions.

The Association's responses to the key questions in the Paper are provided below.

Do you Agree with the Objectives Recommended by the FSI? Why?

We find the proposal to legislate objectives for the superannuation system well-motivated, but we are concerned that objectives other than very clear, brief statements will be prone to ambiguity and to manipulation for short-term purposes, thus frustrating the very object of promoting stability.

The summary recommendation of the Financial Systems Inquiry (*FSI*) was as follows:

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Recommendation 9

Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.¹

The FSI further commented:

A clear statement of the system's objectives is necessary to target policy settings better and make them more stable. Clearly articulated objectives that have broad community support would help to align policy settings, industry initiatives and community expectations.²

A further comment was:

Government intervention in the superannuation system should support a clear objective to provide income in retirement.³

From the above extracts, it appears that the FSI's concern was with the regular changes in policy settings experienced in recent years. We agree that it would be a good thing if the superannuation system were substantially freed from constant changes in direction and that a long term policy view should be adopted, with agreed targets for savings levels, concessions, and other policy matters.

However, we are concerned that the detailed primary objective set out by the FSI falls short of the existing declared purposes in regulatory legislation; and that the proposed subsidiary objectives contain detail which is commentary in form, may be misapplied for short term purposes, has no place in legislation, and could be misinterpreted if left as explanatory detail.

The Purpose of Superannuation

Superannuation exists to provide for workers and for their dependants in the event that the worker needs to cease work because of age, death or disability. The existing legislation, the *Superannuation Industry (Supervision) Act 1993 (SIS Act)*, promotes these purposes, through the definition of "superannuation fund" at section 10 and through the sole purpose (actually multiple purposes) test at section 62.

We understand that there may be a difference between the purpose of a superannuation fund (which must generally comply with the sole purpose test referred to above) and the objectives of the superannuation system (which must encompass the objectives for which funds are established and operated, and which may also incorporate some element of policy as to the context in which the funds operate).

The Objectives of the Superannuation System

The system as it has developed over the last 50 years appears to have encompassed the following aims:

- to use the system to reduce the dependency on the state for pension provision for workers and dependants in the event of the worker's retirement, death or disability;
- to expand the coverage to try to make this arrangement apply to all workers, not just a few with more enlightened or committed employers; and

¹ Final Report of the Financial System Inquiry, November 2014, page 95

² Ibid, page 90

³ Ibid, page 94

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- to make the system work for a more mobile work force.

These aims have generally been targeted through specific legislative change to tax and regulatory law, rather than by re-articulating the objective of the superannuation system.

We understand that it is envisaged that the system can be made more robust by incorporating some elements of “policy” into the legislation. However, if the policy objectives are to be stated in tablets of stone, we believe that they need to be more clearly and fully, yet succinctly, stated than as set out on page 95 of the Final Report of the FSI, and quoted in the Discussion Paper. We believe that the objectives there set out are incomplete (as to the primary objective) and incorporate too much commentary (in the subsidiary objectives).

Primary objective (To provide income in retirement to substitute or supplement the Age Pension)

We believe that the primary objective recommended by the FSI is incomplete.

1. It lacks focus on provision for workers, and their dependants, when the workers can no longer work. The existing purpose as stated at section 62 supports this; and
2. It leaves unclear what level of provision of income is aimed at.

One suggestion is that the primary objective should be to provide Australians with an adequate (to be defined) level of income in retirement, after taking any applicable Age Pension into account. Further (whether part of the primary objective or a prominent subsidiary objective) the superannuation system should protect Australians and their dependants from the consequences of early death or disablement.

Efficiency

In the Terms of Reference announced on 17 February 2016 by the Federal Treasurer for the Productivity Commission’s current Review of the Efficiency and Competitiveness of Australia’s superannuation system, the scope for the study for the development of criteria to assess the efficiency of the system requires the Commission to develop criteria for assessing:

... whether and the extent to which the superannuation system is efficient and competitive and delivers the best outcomes for members and retirees, including optimizing risk-adjusted after fee returns.

The Commission, in its opening Issues Paper of March 2016, stated that its initial focus would be to assume the objective of the superannuation system as ***delivering the best outcomes for members and retirees.***

From the economic viewpoint of the Commission, and its required focus on efficiency and competitiveness, this objective is highly relevant.

Adequacy

This issue is extremely important, in that it should inform the primary objective.

Government resources are limited, and it is seen that there must be a limit to the extent to which these are used for Age or Disability Pension provision and in providing tax concessions for retirement savings. A balance must be struck between:

- modest to generous replacement percentage of pre-retirement income; and
- cost to Government.

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It is suggested that after appropriate modeling, lower limits, or some indication of these, should be stated in the objective. Some mention should also be made of the place of lump sum benefits in the system.

The issue of upper limits is a vexed one. We note the concerns stated by the FSI and in the current Discussion Paper regarding the inappropriateness of the use of the superannuation system to support unlimited wealth accumulation or bequests. The FSI expressed these concerns in the context of superannuation borrowing, which remains a concern.⁴ Other large accumulations have mainly arisen through measures that are no longer in place, permitting unlimited, and then (on a last minute temporary basis, which attracted much attention and frenzied action), substantial contributions of non-concessional contributions.

We believe that if superannuation is to continue to be compulsory for all employed Australians, that contributions tax should be appropriately scaled to recognise both high and low income earners (however defined) and the contribution limits should be set at a level that enables employed and self employed persons to contribute towards providing for a comfortable retirement, while minimizing the risk of the system being used for moving wealth between generations. To the extent that earlier concessions are considered to have allowed this to occur, the problem should be met with targeted taxes on individuals rather than changes to the existing system that will affect only a small number of people, but will be likely to involve considerable expense.

Subsidiary objectives

We are troubled by the inclusion of these subsidiary objectives, which appear to encompass a number of related agendas and to refer, in some cases, to difficulties with and misuse of the system; or to general economic opportunities.

The place for discussion of these, and for the fixing of fiscal problems, lies other than in legislation stating the objectives of the system as a whole.

Further, the subsidiary objectives omit various key elements of the system that have evolved, as indicated above: universality, flexibility and portability.

Specific Issues Noted

1. Paragraphs describing in each case “why the objective is important”

“Be invested in the best interests of superannuation members ...”.

We certainly support this sentiment, but do not see why it must be a subsidiary objective: this has a place in rules for prudential management, which are already present in the SIS Act and standards.

We are also concerned by the second sentence under “Why this objective is important.” The observation that “This results in auxiliary benefits to the economy by creating a pool of savings to fund long-term investment” is generally valid.

However, we do not believe it should appear in the restricted context, as it carries an implication that the investment process for trustees has a sub-subsidiary objective of creating a source of finance for long-term investment, which we would understand to mean investment in Australian infrastructure and other local projects and entities. We

⁴ Final Report of the Financial System Inquiry, November 2014, page 88

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believe that this could run contrary to the best interests of members, whose funds might generate higher returns if invested elsewhere and more diversely, overseas and in other projects and entities.

We believe that the objectivity of trustees in setting investment objectives could be compromised if it were suggested that they should, as part of the process, consider the benefits to the Australian economy.

2. Under “Points to consider for discussion”

On fiscal sustainability, we agree that concessions may have to be limited. We urge that a balance should be struck in providing concessions that are targeted to provide incentives to self-provide for retirement to a reasonable level.

Our views on the reduced threat of large accumulations are indicated above under “adequacy.” Attempts were made in the past to provide reasonable benefit limits, which were related to final salary. Whilst this system ended in a quagmire of complexity, the approach that adopts a limit related to a person’s lifetime, rather than an annual limit, may provide a fairer and more flexible way to provide for retirement for some whose employment is broken or whose income earning capacity fluctuates.

We acknowledge that there may be a need to reconsider the complete exemption of pension income of individuals, in light of demographic change and generational weighting. However, the impact of a change to the current position on the public’s confidence in the System should not be underestimated.

There is constant significant risk that superannuation savings, as a dominant source of funds in the economy, run the risk of being targeted as a source of revenue when fiscal pressures arise. We urge that once a taxation scheme has been arrived at for the superannuation system, the parameters be set so as to enable stable funding and planning for retirement.

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

There is an argument for keeping a statement of the objects of the system, if this is required, within the regulatory legislation, still primarily the SIS Act.

We trust that the above information provides some assistance in your efforts.

Yours sincerely



Mark N Cerché
Chairman
Corporate Superannuation Association