5 April 2016

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

Dear Sir/Madam

Objective of Superannuation – Discussion Paper 2016

The Friendly Societies of Australia (FSA) appreciates the opportunity to provide the Government with our views regarding the objective of the superannuation system.

The FSA agrees with the objective recommended by the Financial System Inquiry. We do not have a view about where the objective should be legislated.

The FSA is the industry association representing Australia's friendly societies regulated by the Australian Prudential Regulation Authority, the majority of which are member-owned mutual organisations.

FSA members provide financial services, healthcare, retirement living, aged and home care services to some 800,000 members. Collectively, our sector manages around $7 billion in funds, and in 2015, paid out more than $675 million in benefits. Australia's largest friendly society is Lifeplan Australia Friendly Society with funds under management of almost $2 billion and 169,000 customers. The smallest is NobleOak Life Limited with about $25 million funds under management, serving approximately 40,000 customers.

Friendly society savings products are:

- *Investment bonds* - multi-purpose vehicles that are used to prepare for a wide range of life-events, such as education, housing, health and aged-care, and estate planning. Investment bonds are similar in form to a managed fund, except they are 'tax paid', in that earnings within the fund are taxed at the rate of 30 per cent, and non-distributing, with after-tax returns reinvested into the fund. Investment bonds have a 10-year holding period.
- *Funeral bonds* - also 'tax paid' investment bonds but without specified limits on contribution amounts, other than for means testing for pensions, and a reasonable purpose limitation, with the amount of the bond paid only on death of the bond holder.
- *Scholarship plans* - a variant of an investment bond but with a specific tax treatment under the *Income Tax Assessment Act 1997*. They are specific purpose life-event savings vehicles used to fund the education expenses of children across all levels of schooling, from primary through to secondary, or adults pursuing tertiary or skills based qualifications, and carry all of the benefits of investment bonds.

The objective of the superannuation system should limit the purpose of superannuation to providing income in retirement.

Current policy settings excessively favour superannuation compared to other savings vehicles. Superannuation should be seen as one element of a larger savings policy framework that is effective in providing for the funding of multiple different life events.

Superannuation should not be a vehicle for excessive wealth accumulation beyond what should be reasonably be available for adequacy in retirement.

Australia's savings policies are currently focused on a single life-event, retirement. The focus on superannuation has led to inadequate discretionary savings among Australians and is a barrier to securing the economic and social wellbeing of individuals and communities.

A research report, *Private Saving: The Role of Life Event Products,* undertaken by the Australian Centre for Financial Studies (ACFS) showed that individuals face a number of funding challenges over their lifetime, such as education, housing, and health, in addition to retirement. A shortfall in savings for these life events will impact the range of opportunities available to an individual over their lifetime. Superannuation should not and cannot be used to fund these events due to its long term nature and age related access restrictions.

The focus on superannuation has meant there has been a lack of attention paid to how government policy can be designed to assist individuals in preparing for life-events other than retirement. Incentives given to superannuation, like concessional tax treatment, may have impeded the development and growth of other financial products well suited for non-retirement life-event preparation.

The ACFS, in its report, observed:

> "The Henry review (2009) highlighted the lack of neutrality in the tax treatment of various savings products. With the dominance of superannuation system in public policy, incentives to encourage individuals to be financially self-reliant and plan for the future through non-superannuation vehicles have gradually dissipated."

The treatment of investment bonds highlights this discrepancy. Investment bonds offer a platform for financial adequacy throughout an individual's life before retirement. Over recent decades, investment bonds issued by friendly societies and life offices have been subjected to a major competitive disadvantage relative to superannuation. Investment bonds face a far higher real effective tax rate than superannuation. This has reduced their attractiveness as a savings vehicle.

Lack of competition to superannuation and its overly concessional treatment has led to too much of the nation's private savings being channelled into superannuation. Voluntary salary sacrifice contributions, as distinct from compulsory employer contributions, make up a significant proportion of total flows into superannuation. Some of these voluntary contributions reflect wealth accumulation strategies seeking low rates of tax rather than contributions to be used as income for retirement.

Removing the competitive disadvantages from other savings products and limiting superannuation to providing income in retirement would lead to better decision making by consumers to better save for multiple life events rather than just retirement. Additionally, fairer and more moderated tax incentives will also increase government revenues.

Government regulatory and tax policies regarding superannuation should not impede the development and take-up of other financial products, which help individuals and families to prepare financially for life events other than retirement.

If you have any questions please feel free to contact Alex Thrift on (02) 8035 8447 or by email, athrift@coba.asn.au.

Yours sincerely

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