

Robert Oser BEc LLB FCPA

GPO Box 453
Sydney NSW 2001

Ph: 02 9405 5676
Mob: 0419 270 642
raoser@optusnet.com.au

30 March 2016

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

Dear Treasury

Objective of Superannuation

This is a response to the invitation to comment on the Discussion Paper (DP) issued on 9 March 2016.

The Government response to the Financial System Inquiry (FSI) on 20 October 2015 included the following in respect of Superannuation and Retirement Incomes:

We will enshrine the objective of the superannuation system in legislation.

It is not clear whether the members of the FSI reflected on the difference in meaning between a "Purpose" and "Objective(s)" to carry out the Purpose.

The idea that Superannuation should have the *Primary Objective* of: -

(To) provide income in retirement to substitute or supplement the Age Pension is unclear from a literal reading of the words. Does the *Objective* envisage limits to accumulations if the means-tested Age Pension is not payable? What is the position of self-funded retirees in terms of the *Objective*?

The **Age Pension** is a social welfare expenditure. One or more objectives of social spending are Government political decisions, made from time to time and not once and for all time, in the light of various complex and interlocking conditions. The idea that political judgement should be the subject of legislation is bizarre.

Superannuation is a stand-alone system comprising the compulsory Superannuation Guarantee Scheme and the voluntary contribution scheme. (The Low Income Super Contributions paid by Government should also be considered even though the scheme is due to cease after the 2016-2017 year.) Because there is no restriction on the cashing out of

accumulated benefits by taking a lump sum once the age of 60 is reached, **Superannuation is not a genuine retirement income scheme.**

The **Superannuation** system is structured as a **tax advantaged savings scheme** and does not satisfy the criteria for a genuine Retirement Income system. This characteristic seems to have been overlooked by the FSI. There is a faint argument such a scheme is warranted in its present form (putting aside the scale of tax preferences) on the ground that it encourages national savings. Since Australia has been and remains a chronic importer of foreign capital, reducing reliance on foreign capital for economic growth should be an objective of economic policy.

If Superannuation is necessary to substitute or supplement the Government provided Age Pension and this is achieved with tax incentives which reduce tax collections, this begs the question of why it is necessary to have a Government sponsored Superannuation scheme. Saving for retirement can be personal responsibility, tax neutral, with the means tested old-age safety net of retirement income paid by Federal Government.

The Henry Committee released on 4 May 2009 its *Report on Strategic Issues for the Retirement Income System* with the benefit of a Retirement Income consultation paper released in December 2008. The Report included possible objectives for a retirement income system and includes practical recommendations. This work merits adaptation.

The Age Pension and Superannuation (Compulsory and Voluntary) systems are described as the *Three-Pillar Architecture*. They are separate and different systems but related. The relationship is the big issue which has to be sorted out before Purposes and Objectives can be communicated to the community.

There is a case for integrating the three pillars into the one genuine Retirement Income System but this is not on the agenda. If this suggestion has no support then as a second best option, the compulsory Superannuation Guarantee Scheme should be integrated into the Old Age Pension arrangements.

In any case, the labels Old Age Pension and Superannuation should be replaced with the name: *Retirement Income System*.

In addition to the *Primary Objective*, the DP has identified 6 *Subsidiary Objectives*. These are sensible and can be adopted as the parameters in designing reforms.

Questions for Consultation

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

The recommendation to enshrine Objective(s) in legislation is misconceived and should be abandoned.

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?

The Government should make a decision on the Purpose of Superannuation and then set out its Objectives in achieving the Purpose. This requires practical steps in a political setting.

Sidelining issues by legislating a *Primary Objective* and *Subsidiary Objectives* is impractical. The Government should not procrastinate in fixing problems identified by the FSI. There are innumerable studies, commentaries, lobbying papers, submissions to Inquiries and Treasury statistics and briefing papers available to assist the Government.

In my opinion: --

- **Superannuation is (or, should be) a Government supported system to provide income in retirement which is adequate, fair and financially sustainable.**
- At the practical level, Superannuation should encourage the provision of retirement income products provided by the finance industry for private voluntary contributions. Tax incentives if needed should be minimal and simple. **Such features as salary packaging, transitional retirement and the CGT loophole should be terminated. Cashing-out should be limited to Non-Concessional Contributions.**
- The emphasis should be to encourage the design of retirement products which are simple to understand by future retirees and not disadvantaged by the intrusion of detrimental tax legislation. This is generally in accord with FSI Recommendation 11.
- The tax reform issues in the *Re:Think* discussion paper need resolution. This should be done before any attempt is made to pronounce on Objectives whether or not enshrined in legislation. Tax concessions are the main drivers of voluntary superannuation contributions and asset accumulations by Self-Managed Superannuation Funds (SMSF). FSI Recommendation 11 refers to the Tax White Paper process. Apparently, the Tax White Paper has been put on hold; so much for a "national conversation".

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

Adding a preamble to the *Superannuation Industry (Supervision) Act 1993* will have no practical effect. If there is stronger legislative enactment, there is an invitation for litigation on whether Government actions are legal or illegal in terms of the specific language in the legislation.

The public interest in giving Australians an adequate income in retirement, in particular, whether policy should provide more than an old-age safety net, requires political decision-making in the electoral cycle and should not be subject to legislated direction.

Yours sincerely

RA Oser