11 April 2016

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

Email: superannuationobjective@treasury.gov.au

Objective of superannuation – Consultation Paper

SuperConcepts welcome the opportunity to respond to the questions raised in the Objective of Superannuation Discussion Paper released for public consultation on 9 March 2016.

For the reasons outlined in our submission, we support a more aspirational objective than that recommended by the FSI. We suggest the objective should reflect the need to provide an income to support a dignified retirement for all Australians, including encouraging the self-provision of retirement income, while maintaining a sound welfare system which provides a full or part pension to achieve an adequate retirement income. We think this approach more explicitly enshrines the aspirational benefits of the third pillar.

While we are relatively agnostic about where the objective should be located, it will be important to ensure there is a mechanism in place which requires policy makers to refer to this objective when assessing competing superannuation proposals.

This mechanism should also require policy makers to measure and justify their decisions with regard to the objective. Without this mechanism in place, enshrining the objective of the superannuation system serves little purpose.

About SuperConcepts

SuperConcepts is the refreshed brand name for the coming together of a range of leading SMSF brands. SuperConcepts is an Australian success story with over 30 years of experience in the SMSF market. SuperConcepts has experienced the rapid growth of the SMSF sector first hand.

Wholly owned by the AMP group, SuperConcepts delivers innovative and award-winning SMSF solutions to approximately 38,000 SMSFs. Our passion for innovation has led us to disrupt the SMSF market with scalable and automated software and administration solutions.

SuperConcepts is committed to raising the standard of professional advice in the SMSF sector. In conjunction with the University of Adelaide's International Centre for Financial Services (ICFS), SuperConcepts offers a SMSF specialist course for professionals wanting to provide accredited and competent SMSF advice. Since its inception in 2011, over 1,000 advice professionals have completed this course.

We would be happy to provide further information or to discuss any questions you may have about our submission.

Yours sincerely

Natasha Fenech
Chief Executive Officer
SuperConcepts
Contact Number: Tel: (02) 9257 3207

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

Following the release of this Discussion Paper there has been much debate about the objectives of Superannuation. It is clear from media reports, and the broader community debate, that there are many different views on what the objectives of superannuation should be. This debate has been ongoing for some time. As noted by Treasury back in 2013:

"…there is a range of views on what super is for. Some see its purpose as alleviating poverty (not a widely held view) while some see super more as wealth-building and even as building intergenerational wealth. The great bulk of opinion is somewhere in the middle; that is, that super is intended to provide more dignity in retirement, giving people a standard of living above the safety net afforded by the Age Pension."[1]

With reference to the above spectrum of views it appears the primary superannuation objective recommended by the FSI is "somewhere in the middle". We agree the primary objective of superannuation should be "somewhere in the middle" however we support a more aspirational objective than that recommended by the FSI.

We believe the primary objective should be supported by the principals of 'certainty', 'fairness', 'adequacy' and 'sustainability'. We note these principals are in line with what the FSI recommended should support the primary objective (referred to in the FSI final report as 'subsidiary objectives').

The terms of 'certainty', 'fairness', 'adequacy' and 'sustainability' which underpin the primary objective are abstract terms that are very general in nature unless used in a context which gives them specific meaning. The FSI final report provides this meaning by explaining why each subsidiary objective is important. We generally agree with this approach and the comments provided by the FSI which support their reasons why each subsidiary objective is important.

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?

We believe it is possible and desirable to convey a primary objective for superannuation which more holistically enshrines Australia's three pillar approach to the provision of retirement incomes.

To ensure that retirement income policy is sustainable in the context of an ageing society, Australia has, for the last two decades, pursued a three pillar approach to the provision of retirement incomes, comprising of:

- The means tested and publicly funded Age Pension
- Compulsory private savings through the Superannuation Guarantee arrangement; and
- Voluntary private savings, supported by taxation concessions and direct government payments for low income earners.

The World Bank has broadly endorsed Australia's three-pillar approach to providing retirement incomes.[2]

While we acknowledge the FSI objective does not preclude voluntary contributions and tax incentives designed to encourage higher levels of voluntary contributions (i.e. the third pillar), we believe the objective could and should more explicitly recognise the aspirational benefits of the third pillar.

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[1] Charter of Superannuation Adequacy and Sustainability, Terms of reference for the Charter Group.
[2] Australian Treasury, Australia's demographic challenges, 2004.

Arguably, under a fully mature Superannuation Guarantee system, the FSI's objective of providing an income in retirement which substitutes or supplements the Age Pension would be achieved, for the vast majority of the working population, without the need for the third pillar.[3]

In our view, defining the primary objective of superannuation in terms of providing retirement income which substitutes or supplements the Age Pension provides limited meaning and context for the vast majority of the population who stand to realise this objective under a fully mature compulsory contribution system. It also provides little guidance to policy makers when evaluating superannuation proposals beyond proposals which directly affect the compulsory contribution system.

We think the primary objective of superannuation should portray superannuation not only as a safety net but also as a vehicle which explicitly targets financial independence throughout retirement. We therefore suggest the objective should reflect the need to provide an income to support a dignified retirement for all Australians, including encouraging the self-provision of retirement income, while maintaining a sound welfare system which provides a full or part pension to achieve an adequate retirement income. We think this approach more explicitly enshrines the aspirational benefits of the third pillar.

As recently recommended by the House of Representatives Standing Committee, Treasury should be required to model the long run interactions between superannuation and the age pension, develop present value estimates of the future costs and benefits of superannuation and its tax concessions and publish the results.[4]

We think this approach, if adopted by Treasury, would enable a more holistic and integrated approach to the measurement of the costs of the superannuation tax concessions and the social security policy settings. This will provide useful information and insights when reviewing and monitoring progress against the stated objective.

There are many economic and community benefits associated with higher levels of superannuation contributions and national savings which are implicit in Australia's three pillar retirement income system. Similarly, there are many economic and community benefits associated with positioning superannuation as the community's preferred retirement savings vehicle. These benefits warrant a higher level of tax concessions and incentives then would otherwise be required to fund an Age Pension level of retirement income. This in-turn underpins a superannuation objective that can and should be aspirational.

National savings

The FSI final report postulated that the evolution of the economy meant that superannuation, as a means of increasing national savings, was no longer a prominent objective of superannuation. We agree with the FSI's observation that higher levels of national savings and economic activity are a consequence of a well-designed long-term savings vehicle that invests in the interests of its members.[5] However, we don't agree that increasing national savings is no longer a prominent objective of superannuation.

We believe this objective of superannuation should not be discarded on the basis that it has, or will be achieved, through the compulsory contribution system. Voluntary superannuation contributions are an important component of national savings and increasing national savings by creating a pool of patient

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[3] Assumes Adult Average Weekly Ordinary Times Earnings at a 12% SG rate for 40 years.

[4] House of Representatives Standing Committee on Tax and Revenue's report on the Tax Expenditure Statement (TES) measurement of the superannuation tax concessions. Recommendation no. 4. 2015.

[5] FSI Final Report, Objectives of the superannuation system.

capital to be invested as decided by fiduciary trustees, should remain an objective of superannuation. As noted by the SMSF Association:

"Continuing to maintain a large pool of domestic savings through superannuation will benefit Australia by providing an important capital buffer to international economic crises, reducing the cost of capital for domestic investment, enabling capital formation and providing ongoing funding for Australian investment (such as funding infrastructure and innovation).[6]

Preferred retirement savings vehicle

As a compulsory system, there is a very high onus on both policy makers and industry participants to ensure superannuation savings are invested prudentially and safeguarded against unscrupulous behaviors. The Australian superannuation system is heavily regulated with trustees required to comply with stringent legislative requirements, including the requirement to have in place a properly formulated investment strategy.[7] Arguably other common tax favored forms of saving for retirement are not subject to the same level of regulatory oversight.[8]

The regulatory safeguards associated with superannuation don't just apply to compulsory superannuation contributions but also extend to voluntary contributions. In this regard the superannuation system provides a safe environment in which to save for retirement. We think the regulatory oversight and legislative controls which apply to superannuation investments, compared to other methods of saving for retirement, should be an important consideration when assessing the merits and the value of the tax concessions and incentives afforded to voluntary superannuation contributions.

These tax concessions need to be sustainable and targeted to avoid situations where members who have the means to accumulate excessive superannuation don't receive equally excessive amounts of tax concessions. We think capping the monetary value of concessional contributions which are entitled to tax concessions is an appropriate mechanism by which to limit the tax concessions afforded to superannuation. The caps which apply to concessional contributions should be consistent with the primary objective of superannuation as stated earlier.

A measure of adequacy

There is much debate surrounding how to define adequacy. The replacement rate concept is a widely used benchmark of adequacy which compares a person's spending power before and after retirement. Clearly no single retirement income target is appropriate for all groups and it should not be the role of superannuation or the retirement income system more broadly, to guarantee that everyone's retirement income expectations will be met.

As people do have different levels of adequate retirement income needs depending on where they live, their lifestyles and the wealth they have accumulated over their working life, we suggest that a target of replacement rates, such as those used by the OECD and industry bodies, should be the preferred approach.

As part of the process of formulating an investment strategy we believe there is merit in requiring trustees to plan towards a targeted level of retirement income and a target lump sum to deliver that level of income. It is also entirely consistent with an objective for the superannuation system which is aspirational and targets financial independence in retirement. The investment covenant in section 52(2)

[6] SMSF Association statement on setting the objectives of superannuation, 2016.
[7] Trustees of APRA regulated superannuation funds are also subject to Prudential Supervision.
[8] For example, investing in a negatively geared investment property.

of the *Superannuation Industry (Supervision) Act 1993* (SIS Act) could be amended to require trustee to consider a target level of retirement income when formulating an investment strategy for the fund.

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

We note the statement in the Discussion Paper that notwithstanding where the objective is legislated, the purpose of stating the objectives of the superannuation system in legislation is only to guide the policy-making process. It will not affect the interpretation or application of superannuation legislation by the courts.

With this in mind, and although we are relatively agnostic about where the objective should be located, we have a preference for the objective to be located in the preamble of the SIS Act. As the main piece of legislation governing superannuation funds, we think locating the objective in the preamble of the SIS Act is a logical solution.

Regardless of where the objective is located, it is important to ensure there is a mechanism in place which requires policy makers to refer to this objective when assessing competing superannuation proposals. This mechanism should also require policy makers to measure and justify their decisions with regard to the objective. Without this mechanism in place, enshrining the objective of the superannuation system serves little purpose.