



Innes Willox
Chief Executive
The Australian Industry Group
Level 2, 441 St Kilda Road, Melbourne VIC 3004
PO Box 7622, Melbourne VIC 3004
Australia
ABN 76 369 958 788

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

E-mail: superannuationobjective@treasury.gov.au

Objective of Superannuation

Dear Sir/Madam,

The Australian Industry Group welcomes the opportunity to make this submission in relation to the *Objective of Superannuation* Discussion Paper.

Ai Group is a leading national industry association with a broad membership across a wide range of sectors and including employers of all sizes. Ai Group is also a shareholder trustee in AustralianSuper, an industry superannuation fund.

Explicit Objectives

We support the development of an explicit statement about the objectives of superannuation and welcome the start made by the Discussion Paper.

To ensure its durability and effectiveness, a statement of objectives should have broad support.

While the process of developing legislation and debating it both within and beyond the Parliament may be useful in building broad agreement for the objectives, of itself the passage of legislation will not ensure lasting support and may even hinder the development of the broad support that is desirable. Moreover, in the absence of broad support, codifying the objectives in legislation will not secure their durability.

We suggest that the Government's primary emphasis should be on developing an explicit statement of objectives and building broad support for them. The passage of legislation may be a symbolic way for the process to culminate rather than being an end in itself.

The Purpose of the Objectives

Ai Group supports the purpose of developing agreed objectives as set out in the Discussion Paper:

The objective will provide a way in which competing superannuation proposals can be measured and a framework for evaluating the fairness, adequacy and sustainability of the superannuation system.

Primary and Subsidiary Objectives

The Government's preferred primary objective picks up on that proposed by the Financial Services Inquiry, namely, *to provide income in retirement to substitute or supplement the Age Pension.*

This proposed primary objective has the advantage of simplicity and its link to the provision of income in retirement is clearly important.

Ai Group supports the proposal to clarify that the purpose of superannuation relates to the provision of retirement income. This could assist in curtailing the use of superannuation arrangements as a tax planning vehicle for people still in the workforce and to limit the extent to which superannuation arrangements are used to confer tax advantages for funds intended to be intergenerational transfers.

At the same time the proposed primary definition has a number of shortcomings.

Firstly, it is silent about the role of private saving outside of superannuation which is the third pillar of Australia's retirement savings system. Two important dimensions of this are that:

- The role played by superannuation in the adequacy of retirement incomes is clearly dependent on the extent of individuals' or households' non-superannuation savings as well as their superannuation savings (and any age pension for which they qualify); and,
- There are important interactions between the taxation arrangements that apply to non-superannuation saving and those that apply to superannuation. For example, under current settings, Australia's superannuation arrangements play a role in correcting, albeit imperfectly, for the anti-saving bias inherent in the application of our standard income tax arrangements to forms of individual saving (i.e. the "double taxation" of saving).

Secondly, it is not clear how well the proposed primary objective would serve in achieving the stated purpose set out in the Discussion Paper. As it stands, the primary objective appears too general to be useful in the assessment of many alternative superannuation proposals or for evaluating the fairness, adequacy and sustainability of the superannuation system. The first, the last, and indeed every dollar of retirement income either supplements or substitutes for the age pension.

While fiscal sustainability gets addressed by the proposed subsidiary objective of *alleviating fiscal pressures on Government from the retirement income system*, neither fairness nor adequacy get addressed in the subsidiary objectives.

Indeed, there is a clear tension in the Discussion Paper's positions in relation to adequacy. On the one hand, the purpose of having an objective is explicitly related to the advantage of providing a framework to evaluate the adequacy of the superannuation system. On the other hand, the Discussion Paper appears to question the usefulness of the concept of adequacy by emphasising the differences that can be attached to its meaning.

Ai Group agrees that one of the purposes of having objectives should be to assist in the assessment of the fairness, adequacy and sustainability of the superannuation system. As such, the objectives need to deal with these concepts head on and the process of building support for a statement of objectives will need to accommodate the fact that there is a variety of views that can be taken in relation to these concepts – particularly in relation to fairness and adequacy.

National Saving as a Subsidiary Objective

Ai Group recommends that the important role of the superannuation system in adding to the stock of national savings be recognised as a subsidiary objective.

As the Discussion Paper points out, lifting national savings was one of the objectives set out in 1992. The emphasis in 1992 was on lifting national savings to reduce reliance on foreign savings. In today's more globalised environment and with growing international diversification of superannuation fund investments, the dichotomy between national and foreign savings appears somewhat dated. Nevertheless, Australia's largely funded superannuation system makes an important contribution to national savings and to our net capital flows.

Summary

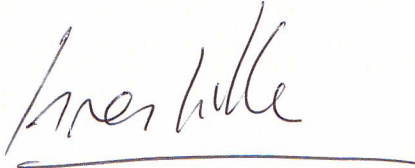
In short Ai Group would like to emphasise the following points:

- Support for the development of a statement objectives that serves the purpose of providing a way in which competing superannuation proposals can be measured and a framework for evaluating the fairness, adequacy and sustainability of the superannuation system.
- The importance of building broad support for the statement.
- Support for the proposal that the objectives are linked explicitly to the provision of retirement income.
- The desirability of recognising the interrelationships between the three pillars of Australia's retirement income: the age pension; superannuation; and private non-superannuation savings.

- The desirability of continuing to acknowledge, in the form of a subsidiary objective, the objective of superannuation's contribution to national savings

Once again, thank you for the opportunity to provide our comments. Please do not hesitate to contact me if you would like further information.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Innes Willox", written over a horizontal line.

Innes Willox
Chief Executive