

Submission: Legislating the objective of superannuation

28 September 2023

Overview

The Responsible Investment Association Australasia (RIAA) thanks Treasury for the opportunity to comment on the Exposure Draft of the Superannuation (Objective) Bill 2023.

Australia's superannuation sector plays a critical role in the way Australians plan for and live during their retirement. RIAA broadly agrees to the Exposure Draft to legislate the objective of superannuation to bring clarity and stability to the superannuation sector. It can also complement existing obligations for superannuation funds to deliver the best outcomes for members.

RIAA is broadly supportive of the objective of superannuation as captured under section 5(1) and defined in the Exposure Draft Explanatory Materials:

'to preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way.'


As per our March 2023 submission, we are strongly supportive of the inclusion of the term 'sustainable' in this definition, however see areas for potential strengthening for a more fulsome definition of this term in a manner that reflects not merely financial sustainability, but equally reflect the consideration of those external sustainability challenges – such as climate change – that risk having outsized impacts on the quality of retirement for Australians.

We therefore recommend that the definition of 'sustainable' within the legislation and supporting explanatory memorandum is broadened to include the consideration of those external social and environmental sustainability challenges that have the potential to have a great impact on the nature of the retirement of Australians.

Anticipated changes in our society, environment and economy over coming decades are critical considerations in ensuring the superannuation system is sustainable. This is why responsible investment approaches – which focus on long-term returns and mitigating environmental, social and economy-wide risks – are central to a sustainable superannuation system.

The risks and opportunities of mitigating global warming, and adapting to the impacts of climate change, are systems-wide and global. The direct impacts of climate change, as well as mitigation and adaptation efforts, will increasingly affect investee companies and subsequently the lives of superannuation fund members. Given this, the definition of 'sustainable' should be clarified to support responsible investment approaches that focus strongly on the long-term time horizons and consider such externalities.

Furthermore, we continue to emphasise that under this proposed legislative objective for superannuation, it will be important that any other policy measures that may conflict with this definition are rectified. In particular, we point out that the current Your Future Your Super performance test for superannuation products has the potential to directly inhibit the way superannuation funds can contribute to preserving savings. As per our engagement on that subject, we see that as currently structured, the YFYS performance test provides a disincentive to align super fund portfolios with a net zero transition, due to the risk of adverse tracking error against current benchmarks. Such alignment across policy areas will be essential for this objective of super to be fully implemented.



Government and Treasury ought to also consider current regulatory settings, and the implications the legislation may have for other areas.

About RIAA and our members

The Responsible Investment Association Australasia (RIAA) champions responsible investing and a sustainable financial system in Australia and New Zealand. RIAA is dedicated to ensuring capital is aligned with achieving a healthy society, environment and economy. With over 500 members representing US\$29 trillion in assets under management, RIAA is the largest and most active network of people and organisations engaged in responsible, ethical and impact investing across Australia and New Zealand. Our membership includes super funds, KiwiSaver providers, fund managers, banks, consultants, researchers, brokers, impact investors, property managers, trusts, foundations, faith-based groups, financial advisers and individuals.

RIAA achieves its mission through:

- Providing a strong voice for responsible investors in the region, including influencing policy and regulation to support long-term responsible investment and sustainable capital markets;
- Delivering tools for investors and consumers to better understand and navigate towards responsible investment products and advice, including running the world's first and longest running fund Certification Program, and the online consumer tool Responsible Returns;
- Supporting continuous improvement in responsible investment practice among members and the broader industry through education, benchmarking and promotion of best practice and innovation;
- Acting as a hub for our members, the broader industry and stakeholders to build capacity, knowledge and collective impact; and
- Being a trusted source of information about responsible investment.