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Objective of Superannuation

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Australian
Chamber of Commerce
and Industry

Australian Chamber of Commerce and Industry

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1 Introduction

The Australian Chamber of Commerce and Industry (Australian Chamber) welcomes the opportunity to make this submission in response to the Government's discussion paper setting out the proposed objective of the Australian superannuation system.

On 20 October 2015 the government responded to the recommendations of the Financial System Inquiry (FSI) in its report *Improving Australia's financial system: Government response to the Financial System Inquiry* (FSI Report Response), accepting many of its recommendations including that the Government "seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term" (Recommendation 9).[1]

The final report arising out of the FSI (FSI Report) correctly drew attention to the great and growing size and importance of the superannuation system and it suggested that:

> *A clear statement of the system's objectives is necessary to target policy settings better and make them more stable. Clearly articulated objectives that have broad community support would help to align policy settings, industry initiatives and community expectations.*[2]

The Government also noted that the legislated objective:

> *will serve as a guide to policy-makers, regulators, industry and the community about superannuation's fundamental purpose. The objective will be a valuable yardstick against which to measure competing superannuation proposals, providing certainty that measures that do not accord with the objective will be held up to scrutiny. And it will provide a framework for important discussions Australia needs to have about fairness, adequacy and dignity in the superannuation system.*[3]

Consequently, the Government has acted on the FSI Report recommendation that the Government seek broad agreement on the following primary objective for the superannuation system:

> ***To provide income in retirement to substitute or supplement the age pension.***

The Australian Chamber supports the primary objective proposed in the FSI Report and as advanced by Government.

Recent work undertaken by the ABS shows some changes in anticipated sources of post-retirement income, with only 27% over 45 expecting a government pension or allowance to provide their main source of income. At present 47% of Australians who have already retired report that a government pension or allowance is their main source of income.[4]

In addition to this primary objective, the FSI recommended the following subsidiary objectives:

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[1] Australian Government, *Improving Australia's financial system: Government response to the Financial System Inquiry,* 2015, p.12.
[2] Australian Government, The Treasury, *Financial System Inquiry Final Report,* 2014, p. 90.
[3] Australian Government, *Improving Australia's financial system: Government response to the Financial System Inquiry,* 2015, p.12.
[4] ABS Catalogue 6328.0

- Facilitate consumption smoothing over the course of an individual's life;
- Help people manage financial risks in retirement;
- Be fully funded from savings;
- Be invested in the best interests of superannuation fund members;
- Be invested in the best interests of superannuation fund members;
- Be simple and efficient, and provide safeguards.[5]

The Australian Chamber provisionally supports the first two objectives pending further discussion in relation to their application and broadly supports the remaining objects.

However, it is important to remember that retirement incomes policy is broader than the superannuation system. Setting a particular goal of, for example, supplementation and/or replacement as an objective for the superannuation system does not also mean that superannuation will always be the best or only tool for achieving that goal.

2 The primary objective

While the considerations involved in determining an appropriate retirement incomes policy are complex, the Australian Chamber agrees that enshrining an objective for the Superannuation system in legislation will help to ensure that retirement incomes policies are properly developed and designed to achieve long-term objectives.

The FSI Report acknowledged that:

> *Objectives that guide policy making and frame community and industry debate would help build confidence in the system by providing a framework for considered and cohesive change. Greater clarity around objectives can help reduce complexity and costs in the system.*[6]

The FSI Report suggested that:

> *The Inquiry's single primary objective prioritises the provision of retirement incomes and precludes the pursuit of other objectives at the expense of retirement incomes. It will help reorient the community mindset around superannuation, away from account balances and towards the provision of retirement incomes.*[7]

This draft primary objective is relatively consistent with government objectives at the time that the *Superannuation Guarantee (Administration) Act 1992* (SG(A) Act) was enacted in order to establish and administer the superannuation guarantee. The bill's second reading speech envisaged the increased superannuation holdings as supplementing the age pension and allowing a higher level of benefit because fewer retirees would be reliant on the full age pension.[8] Treasurer Dawkins explained:

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[5] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 95.
[6] Ibid, p. 97.
[7] Ibid, p. 98.
[8] P 1764, Hansard, 2 April 1992.

> *The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the age pension alone. The increased self-provision will also enable future Commonwealth governments to improve the retirement conditions for those Australians who were unable to fund adequately their own retirement incomes.*
>
> *Lastly, self-provision will increase the flexibility in the Commonwealth's Budget in future years, especially as our population ages, and will increase our national savings overall, thus reducing our reliance on the savings of foreigners to fund our development.*[9]

The Australian Chamber notes that the last part of Treasurer Dawkins' speech reported above has been taken on occasion to suggest that funds' investment of assets which are accumulated should be mandated or in part mandated or that their deployment should be regulated to require consideration of national benefit. It is far from clear that directing investment in the national interest would helpfully support the primary goal of improving retirees' standard of living in retirement, nor even that it would assist efficient funding of our development.

Importantly, Treasurer Dawkins was introducing his bill at a time when not only was the total holdings of fund members minute in comparison to the current holding, but when, defined benefit schemes aside, superannuation was essentially an industrial benefit. Indeed, one objective of the SG(A) Act at the time was to extend entitlement to employer contributions to employees outside the award system. The origins of compulsory superannuation have left a legacy, not all beneficial and which is still felt today, and the superannuation system remains a system in transition. As the Cooper Review Panel, on which the Australian Chamber was represented, noted, not only is the compulsory superannuation system important but there are pressing reasons to have it operate more efficiently*:*

> *[…] Australia's retirement incomes system places far greater weight on the second 'pillar' (compulsory occupational superannuation) than is the case in other comparable Organisation for Economic Co-operation and Development countries. Also, Australia's system is more oriented towards defined contribution funds and offers greater choice than most other comparable systems. […]Thus, overall, individual members bear directly more of the investment and other risks inherent in financial markets in providing for their retirement than is the case overseas. The combination of these factors makes the safety and efficiency of the superannuation system of greater importance to individual members than in other countries.*
>
> *Lastly, Australia's superannuation system has grown tremendously in size and importance over the past 17 years. On most grounds, it can be regarded as having been a success. In particular, the system has demonstrated substantial resilience in one of the most severe financial market crises of the past century. Not surprisingly, many industry participants have expressed a view, that since the system 'ain't broke', there is no reason to 'fix it'. The Panel questions this view and believes that the review process is an opportunity to position the superannuation system for the challenges of the next 15 years and beyond.*[10]

[9] P 1764, Hansard, 2 April 1992.
[10] Clearer Super Choices: Matching Governance Solutions, Phase One – Preliminary Report, 14 December 2009, p. 2

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The FSI Report identified a number of deficiencies in the system when considered against the desired system objectives including:

> *the lack of focus on retirement incomes over other objectives; the lack of operational efficiency in the system, the lack of risk management in retirement, the inefficiency in converting wealth to retirement income, the ability of superannuation funds to borrow rather than be fully funded from savings, poorly targeted tax concessions, and safeguards that could be strengthened to assist members*.[11]

Many changes made since the inception of the system have been piecemeal and ad hoc. An overarching objective enshrined in legislation should help to remedy this unsatisfactory approach, an approach that should be rejected for the future.

3 The subsidiary objectives

3.1 Facilitating consumption smoothing over the course of an individual's life

The Australian Chamber provisionally supports the recommended subsidiary objective of the system to "[f]acilitate consumption smoothing over the course of an individual's life". In explaining why this objective is important, the FSI Report states:

> *Superannuation is a vehicle for individuals to fund consumption in retirement largely from working life income. The system should facilitate consumption smoothing while providing choice and flexibility to meet individual needs and preferences.*[12]

Such an object should lead to the development of policy that enhances the capacity of employees to adequately plan for their retirement which will require enhanced employee engagement with the system. There are a number of ways in which higher levels of engagement may be supported and which warrant further debate and consideration. For example, the FSI Report suggested that "superannuation funds should provide retirement income projections on member statements to improve member engagement".[13] It also suggested ways of taking employer default fund selection out of the mix.

The Cooper Report suggested that "individual choices for members should be available and respected, but members must recognise and accept the increased responsibility that comes with making those choices".[14]. The Cooper Review Panel suggested that the system needs to be able to cater for different degrees of engagement[15] and made a number of recommendations with this principle in mind. These recommendations were designed to "re-cast the architecture of the superannuation industry to a member-oriented, rather than an industry-oriented, perspective".[16]

[11] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 98.
[12] Ibid, p. 95.
[13] Ibid, p. 92.
[14] Super System Review Final Report, p. 4.
[15] Ibid, p. 9.
[16] Ibid.

Perhaps a legacy of its origins as a benefit which was won industrially, superannuation has historically been seen as something for which employers are responsible and from which employees are merely beneficiaries. This has resulted in sub-optimal levels of member engagement with the system. The system's complexity has no doubt contributed to this deficiency. Continuing the pursuit of policy to effect a shift in thinking is appropriate to facilitate employees taking ownership of their future in retirement.

3.2 Helping people manage financial risks in retirement

The Australian Chamber provisionally supports the recommended subsidiary objective of the system to "[h]elp people manage financial risks in retirement". In explaining why this objective is important, the FSI Report states:

> *Risk management is important as retirees generally have limited opportunities to replenish losses. The retirement income system should help individuals manage longevity risk, investment risk and inflation risk. Products with risk pooling would help people to manage longevity risk efficiently.*[17]

The FSI Report states:

> *Greater use of risk pooling could significantly increase retirement incomes generated from accumulated balances. This could allow individuals to allocate consumption throughout their lives better (greater dynamic efficiency) by reducing the savings required to achieve a target level of income in retirement. This could be achieved by:*
>
> - *Removing barriers to new product development.*
> - *Using behavioural biases to encourage rather than discourage the use of products that provide longevity risk protection.*
>
> …
>
> *Managing longevity risk through effective pooling in a CIPR could significantly increase private incomes for many Australians in retirement and provide retirees with the peace of mind that their income will endure throughout retirement, while still allowing them to retain some flexibility to meet unexpected expenses. An enduring income stream would give retirees the confidence to spend in retirement, which would help to sustain economic growth as the population ages and reduce the extent to which longevity risk falls on the taxpayer.*[18]

The Australian Chamber considers there to be merit in exploring policies that focus on the development of innovative products that provide income streams in retirement. Risk pooling may assist in protecting against longevity risk associated with such products; however further detailed consideration of these matters is necessary. In particular the FSI Report noted that

[17] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 95.
[18] Ibid, p. 91.

Regulatory impediments to developing retirement income products, which include tax policy settings, need to be removed. These changes should not discourage the use of CIPRs or other products that provide longevity risk protection.[19]

Obviously, the necessary changes to taxation laws and the other impediments to the development of comprehensive income products for retirement needs further study and development by Government. In the context of the proposed object, outcomes such as internal coherence between accumulation and payout phases, low cost retirement savings instruments, encouragement of annuitisation and promoting annuity product availability are consistent with OECD recommendations.[20]

3.3 Full funding from savings

The Australian Chamber supports the recommended subsidiary objective of the system to "[b]e fully funded from savings". In explaining why this objective is important, the FSI Report states:

A fully funded system, as opposed to an unfunded system, is important for sustainability and stability. The system is designed to be predominantly funded by savings from working life income and investment earnings, where superannuation fund members in general have claims on all assets in the fund.[21]

The Australian Chamber agrees that a superannuation system should aim to be predominantly funded by savings from working life income and investment earnings.

Since the inception of compulsory superannuation in 1992, the law has required employers to make minimum payments to a complying superannuation fund to help employees save for retirement. The rate is currently 9.5 per cent which is legislated to rise to 12 per cent by 1 July 2025. This will further increase the reliance on the superannuation system, which is already high. In Australia funds under management were 110% of GDP in 2014 and Australia was one of only four OECD and reported other countries with in excess of GDP under management. The OECD county weighted average was 84.4%.[22]

In its submission to the House or Representatives Economics Committee on the Superannuation Guarantee (Administration) Amendment Bill 2011, the Australian Chamber recommended that the government not proceed with the 9% to 12% levy increase until at least a workable and fair funding base is found; and workable and fair approach is developed to support the retirement incomes of small and medium business people. The Australian Chamber noted the Cooper Review into superannuation finding that retirement incomes can be increased by forcing efficiencies and lower fees on the superannuation industry and the Henry Tax Review recommendation against increasing the levy. It is recognised that employers should contribute their fair share towards Australia's superannuation needs, employer funding must be balanced by appropriate contributions from employees themselves. There is also a point where even mixed, contribution levels become

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[19] Ibid - see discussion of Recommendation 11.
[20] OECD Roadmap for the good design of defined benefit contribution pension plans, accessed at http://www.oecd.org/daf/fin/private-pensions/50582753.pdf
[21] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 95.
[22] Pension markets in Focus – 2015, OECD, Fig 3, p 9

unsustainable. Contributions are already a greater proportion of GDP than in any other OECD country.[23]

Accordingly, it is the Australian Chamber's view that the subsidiary objective should translate to policy outcomes designed to encourage individuals to save for their own retirement with confidence in the stability of the system.

In the absence of concessions, long-term savings are systematically overtaxed because taxation applies to the inflationary component of any gains and erodes the principal that can be used to generate further income. The superannuation system must prevent this from occurring. The Intergenerational Report stated that:

> *Superannuation is generally taxed more concessionally than some other forms of saving, such as bank deposits, in recognition of the fact that superannuation saving cannot be accessed until retirement.*
>
> - *Pre-tax contributions of up to $30,000 pa ($35,000 for those aged 50 or over) into superannuation funds are taxed at a flat rate of 15 per cent in the fund.*
> - *It is also possible to make post-tax contributions of up to $180,000 per annum.*
> - *Superannuation fund earnings in the accumulation phase are taxed at 15 per cent, while superannuation fund assets that support a retirement income stream are tax exempt.*
> - *Most superannuation benefits to those aged over 60 are tax exempt.*
>
> *Tax concessions for superannuation seek to encourage long-term saving for retirement.*[24]

Despite the objective of encouraging long-term savings for retirement, the FSI Report found that:

> *Tax concessions in the superannuation system are not well targeted at improving retirement incomes, which has a number of consequences. It increases the cost of the superannuation system to taxpayers; it increases distortions due to higher levels of taxation elsewhere in the economy and due to the differences in the way other savings vehicles are taxed; and it contributes to the broader problem of policy instability, which imposes unnecessary costs on superannuation funds and their members and undermines long-term confidence in the system.*[25]

Retirement savings should not be treated as a source of current revenue, but it is also important to make sure concessional arrangements are appropriately targeted. There is little point in overly generous concessions to superannuation that go beyond providing neutral tax treatment to savings and cost more to government then any avoided age pension costs.

3.4 Investing in the best interests of superannuation fund members

[23] Pension markets in Focus – 2015, OECD, Table A.4, p 31

[24] Intergenerational Report, p. 8.

[25] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 90.

The Australian Chamber supports the recommended subsidiary objective of the system to "[b]e invested in the best interests of superannuation fund members". In explaining why this objective is important, the FSI Report states:

> *Superannuation funds are managed for the sole benefit of members, which means the investment focus should be on maximising risk-adjusted returns, net of fees and taxes, over the lifetime of a member. This results in auxiliary benefits to the economy by creating a pool of savings to fund long-term investment.*[26]

In making its recommendation the FSI Report found that:

> *The superannuation system is not operationally efficient due to a lack of strong price-based competition and, as a result, the benefits of its scale are not being fully realised. Substantially higher superannuation balances and fund consolidation over the past decade have not delivered the benefits that would have been expected; these benefits have been offset by higher costs elsewhere in the system rather than being reflected in lower fees.*[27]

The Australian Chamber's policy is that the management and administration of superannuation and retirement funds must be transparent, efficient and cost effective so that the greatest benefits can be derived from retirement incomes policy. It is important that the governance and administration of funds be conducted in a manner that allows for transparency and member scrutiny; however at the same time excessive regulation of funds should be avoided. It is the Australian Chamber's position that competition is the most efficient way of achieving these objectives and maximising the efficiency and accountability of schemes.

The Australian Chamber was a member of the Cooper Review Panel which reviewed the governance, efficiency, structure and operation of the Australian superannuation system. The Committee issued its report without dissent, and the Australian Chamber has been closely involved in the subsequent implementation processes related to its recommendations which are guided by ten principles. These included:

- *Superannuation must always be for the benefit of members. The superannuation system does not exist to support intermediaries. Trustees must be relentless in seeking benefits for members.*
- *The superannuation system needs to be well-regulated to address prudential and other risks so that members can have the confidence to invest their retirement savings for their long-term financial benefit.*
- *Transparency and disclosure are essential for the effective operation of the system, but are not substitutes for well-designed products that work in members' interests. Disclosure is a necessary, but not a sufficient, condition for ensuring that member interests prevail.*
- *The superannuation system must be supported by high quality research and data, as well as by intermediaries with high professional standards.*[28]

[26] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 95.
[27] Ibid, p. 90.
[28] Super System Review Final Report, p. 4.

3.5 Alleviating fiscal pressures on Government from the retirement income system

It is the Australian Chamber's position that retirement incomes policy must have the fundamental aims of:

- limiting the level of public expenditure on retirement incomes in recognition that the ageing population places significant strains on social security; and
- raising the level of national savings.

The Australian Chamber supports the recommended subsidiary objective of the system to "[a]lleviate fiscal pressures on Government from the retirement income system". In explaining why this objective is important, the FSI Report states:

> *Government's total contribution to the retirement income system, through both the Age Pension and superannuation tax concessions, needs to be sustainable and targeted. Higher private provisioning for retirement should reduce the burden on public finances.*[29]

Public spending is currently on an unsustainable trajectory, with increases in federal spending projected to outpace economic growth for the foreseeable future. Unless public spending is brought under control, the Australian economy will gradually be severely hampered by increasing taxes and growing public debt, both of which are unsustainable. Public spending growth cannot exceed economic growth indefinitely. If spending continues to grow faster than the economy, the only way for revenue to keep pace is to continuously raise the tax burden. If Australia waits until the system breaks we will consign the next generation to painful readjustments.

The Intergenerational Report highlighted the country's shifting demographics and ageing population stating that:

> *Australians will live longer and continue to have one of the longest life expectancies in the world. In 2054-55, life expectancy at birth is projected to be 95.1 years for men and 96.6 years for women, compared with 91.5 and 93.6 years today.*[30]

The Intergenerational Report also observed that:

> *Life expectancies at birth in Australia for both males and females remain among the highest in the world. According to UN data for the period 2010-15, Australia ranks equal first with Iceland in male life expectancy. For females, Australia ranks only behind Japan, Spain, France and Italy.*[31]

We can expect life expectancy to increase as time progresses with the Intergenerational Report suggesting:

> *Medical research underway today in areas such as stem cell therapy, new medicines and other biotechnology has the potential to provide further dramatic improvements in life expectancy. It is for this reason that some experts have suggested that life expectancy may*

[29] Australian Government The Treasury, *Financial System Inquiry Final Report,* 2014, p. 95.
[30] Intergenerational Report, pp. vii-viii.
[31] Ibid, p. 6.

reach in excess of 140 years. The projections assume that the improvements from medical research continue at the same rate as the past.[32]

It is necessary to consider the impact of our ageing population on Australia's budget position in light of projections that by 2056 there will be about two to three people of working age for person aged 65 years and over. In this regard, the Intergenerational Report notes:

There will be fewer people of traditional working age compared with the very young and the elderly. This trend is already visible, with the number of people aged between 15 and 64 for every person aged 65 and over having fallen from 7.3 people in 1974-75 to an estimated 4.5 people today. By 2054-55, this is projected to nearly halve again to 2.7 people.[33]

While the number of people of 'traditional working age' may be falling, the cohort of people who may have once been considered to have been outside of 'traditional working age' is growing in scale. The Intergenerational Report found that by 2054-55, the number of people aged 65 to 84 will have increased substantially. By 2054-55 there are projected to be 7million Australians aged 65 to 84, compared with around 3.1 million in 2015. This would represent just under 18 per cent of the total population, compared with 13 per cent in 2014-15. In 1974-75, around 1.2 million persons were aged over 65, or around 9 per cent of the population.[34]

The Intergenerational Report highlights that:

Public spending per person is highest beyond age 65, with a substantial increase for people aged 80 and over. The reason for this is two-fold. People aged 65 and over tend to scale down their participation in the workforce, for example, in favour of other activities such as volunteering, spending time with family or leisure activities. At the same time, demand for government-provided services and payments such as the Age Pension and aged care, tends to increase.[35]

However as we age, it is likely that Australians will be able to work in a productive capacity for longer. In this regard the Intergenerational Report noted that "[r]ecent improvements in life expectancy have been met or exceeded by improvements in these health expectancies. That is, not only are Australians' lives getting longer, they are enjoying good health for an increasing number of those extra years".[36] The Intergenerational Report stated:

Not only will Australians live longer, but improvements in health mean they are more likely to remain active for longer. 'Active ageing' presents great opportunities for older Australians to keep participating in the workforce and community for longer, and to look forward to more active and engaged retirement years.[37]

The Intergenerational Report also made reference to the Australian Institute of Health and Welfare's (AIHW) estimated 'health expectancies' for Australians which suggested that:

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[32] Intergenerational Report, p. 7.
[33] Ibid, p. viii.
[34] Ibid, p. 13.
[35] Ibid, p. 58.
[36] Ibid, p. 8.
[37] Ibid, p. viii.

A male born in 2012 could expect to live 79.9 years (period method) and an average of 62.4 of those years without disability. A female could expect to live 84.3 years, and an average of 64.5 of those years without disability. Of the years spent living with disability, an estimated 11.8 were without severe or profound core activity limitation for men, and 12.0 for women; that is not needing help with activities of self-care, mobility or communication.[38]

The Intergenerational Report also referenced the World Health Organisation's estimates of healthy life expectancy which measure the average number of years that a person can expect to live in 'full health' by taking into account years lived in less than full health due to disease and/or injury. The measure suggested that in 2012 Australians had the equal fourth highest healthy life expectancy at birth in the world being 73 years for both sexes combined.[39]

There is little doubt that Australian governments are facing increasing fiscal pressures as the population ages with programs most affected by demographic factors being health and expenditure, age and service pensions and aged care funding.[40] However with the right policy settings in place, these pressures may be partially offset by increases in participation combined with a challenge to social norms and perceptions regarding 'retirement age', work ability and by promoting the notion of career longevity. Indeed the Intergenerational Report states:

Increasing participation rates contributed 0.2 percentage points to average growth over the past 40 years. Over the next 40 years declining participation is projected to detract 0.1 percentage points from average growth.

…over the next 40 years, ongoing improvements in Australian living standards will remain primarily contingent upon continually improving our productivity, and require us to take every opportunity to increase participation rates.[41]

The issue of retirement incomes policy (including compulsory and voluntary superannuation and the age pension) is relevant in the context of participation decisions. Enhancing the approach to retirement incomes and savings is also necessary to address concerns with public spending.

Australian retirement incomes policy is based on three pillars: the age pension, compulsory superannuation savings and voluntary superannuation savings.[42] The relationship between the pillars is important as are the economic motivators embedded in the rules. The budgetary cost of the three-pillar architecture is affected by a range of factors including: the level of the age pension and its means testing rules; the age at which people are able to access superannuation and the age pension; the rate of the superannuation guarantee; the taxation, concessions and caps applied to earnings, contributions and withdrawals and the caps on concessions.[43]

As such, the Australian Chamber supports both the primary objective proposed and the subsidiary objective to alleviate fiscal pressures on Government. Unless methods to promote lower reliance

[38] Intergenerational Report, p. 8, sourced from Australian Institute of Health and Welfare Bulletin 126, Healthy Life Expectancy in Australia: Patterns and Trends 1998 to 2012.
[39] Ibid, p. 8, sourced from World Health Organisation, Healthy Life Expectancy at Birth.
[40] Ibid, p. xvi.
[41] Ibid, p. xii.
[42] The third pillar – voluntary savings – is sometimes defined more broadly than voluntary savings in superannuation, and this blurring can be expected to increase during the course of the current debate. This is because of the relative tax treatment of different savings which might provide an income stream and also because age pension means testing is asset as well as income based.
[43] *Who Will Fund our Health?* , Actuaries Institute Australia Green Paper, December 2014

on the age pension are developed, the taxation system will be faced with an increased burden that is likely to prove unsustainable over the longer term. Policy settings must better support self-funding of retirement to achieve a decline in the level of public expenditure and an increase in the level of national savings.

3.6 Simple, efficient and with safeguards

The Australian Chamber supports the recommended subsidiary objective of the system to "[b]e simple and efficient, and provide safeguards". In explaining why this objective is important, the FSI Report states:

> *The system should achieve its objectives at the minimum cost to individuals and taxpayers. Complexity is less appropriate for a compulsory system, as it tends to add to costs and to favour sophisticated and well-informed investors. Given the compulsory nature of SG contributions, the system needs prudential oversight and should provide good outcomes in both the accumulation and retirement phases for disengaged fund members.*[44]

Employers have a direct interest in making the superannuation system both simpler and more transparent and efficient. However reducing the administrative burden of superannuation not only reduces the cost and regulatory obligation for employers, but benefits fund members (their employees) as well, by enabling greater proportion of contributions to be paid into, and not withdrawn from, their accounts. As noted by the Cooper Review Panel:

> *Fees and costs matter; they detract from members' retirement savings and need to be managed as diligently as the generation of investment returns. Technological improvements, and innovation generally, should be encouraged to help lower costs and benefit member.*[45]

4 About the Australian Chamber

4.1 Who We are

The Australian Chamber of Commerce and Industry speaks on behalf of Australian business at home and abroad.

We represent more than 300,000 businesses of all sizes, across all industries and all parts of the country, making us Australia's most representative business organisation.

We speak on behalf of the business sector to government and the community, fostering a culture of enterprise and supporting policies that keep Australia competitive.

We also represent Australian business in international forums.

Our membership comprises all state and territory chambers of commerce and dozens of national industry associations. Individual businesses also get involved through our Business Leaders Council

[44] Australian Government, The Treasury, *Financial System Inquiry Final Report,* 2014, p. 95.
[45] Super System Review Final Report, p. 4.

Australian Chamber of Commerce and Industry

4.2 What We Do

The Australian Chamber strives to make Australia a great place to do business in order to improve everyone's standard of living. We seek to create an environment in which businesspeople, employees and independent contractors can achieve their potential as part of a dynamic private sector. We encourage entrepreneurship and innovation to achieve prosperity, economic growth and jobs.

We focus on issues that impact on business, including economics, trade, workplace relations, work health and safety and employment, education and training.

We advocate for Australian business in public debate and to policy decision-makers, including ministers, shadow ministers, other members of parliament, ministerial policy advisors, public servants, regulators and other national agencies.

We represent the broad interests of the private sector rather than individual clients or a narrow sectional interest.

Australian Chamber of Commerce and Industry

Australian Chamber Members

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