

Australian Unity

**Submission to the
Australian Government
consultation on the
Objective of
Superannuation**

April 2016

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Executive Summary

Australian Unity is a mutual organisation that has been providing social infrastructure for Australians for the past 175 years. We seek to enable millions to enjoy wellbeing, in its broadest sense, across their life course. This includes the provision of financial security. A number of Australian Unity's businesses have been formed for this purpose.

Australian Unity has a keen interest in superannuation as a vital part of the financial security mix for its more than 800,000 members and customers. Accordingly, it is keen to offer its input into the federal government's consultation on the objective of superannuation.

Broadly, Australian Unity believes:

1. Enshrining the primary objective of superannuation, along with a number of secondary objectives, in legislation is a positive step as it would offer policymakers, regulators, business and the community a clear understanding of superannuation's fundamental purpose.
2. The primary objective of superannuation as proposed by the Financial System Inquiry (FSI) and accepted by the Australian Government (the Government) - "To provide income in retirement to substitute or supplement the Age Pension" - fails to reflect the full purpose of superannuation for individuals.
3. **An alternative definition of the primary objective of superannuation is "To provide older Australians with a level of income that supports independence, self-sufficiency and the capacity for aspiration in retirement."**
4. Some of the subsidiary objectives recommended by the FSI are reasonable, but others require some further thought. In particular, the notions of personal dignity in ageing and increased life expectancy aren't considered. However Australian Unity agrees with consumption smoothing outlined in the FSI's first subsidiary objective, and proposes the incentivisation of income streams as a critical part of the superannuation mix.

These points are examined in further detail below.

About Australian Unity

Australian Unity is a national healthcare, financial services and retirement living company that provides services to more than three quarters of a million Australians including some 300,000 members nationwide. Australian Unity's history as an independent mutual organisation dates back 175 years. These services are delivered on a national scale, and offer Australians holistic solutions that meet their social and financial needs.

As a provider of health insurance Australian Unity protects almost 200,000 Australians against the risks of costly and expected medical bills. Australian Unity's retirement communities assist over 3,000 older Australians to continue to live as independently as possible in communities with friends and supports. The organization also provides in-home care services to more than 50,000 clients across New South Wales after the recent purchase from the NSW government of Home Care NSW. And Australian Unity's investments and financial services divisions give Australian families the information they need to plan for a financially secure future.

Australian Unity stands ready to assist the Government in its consideration of the future of superannuation in any way it can.

1. Enshrining the objective of superannuation in legislation

Australian Unity agrees with the FSI's recommendation, supported by the Government, to enshrine in legislation the primary and secondary objectives of superannuation.

Enshrining these objectives offers certainty of purpose across the economy, and provides a framework for policymakers, business, consumers and the community to assess subsequent superannuation policy and legislation. It also offers increased transparency for the public policy debates ahead of any such change in policy or legislation.

Australian Unity further agrees that the superannuation system should be assessed against these objectives every five years as part of the Intergenerational Report.

2. The Primary Objective of Superannuation

Australian Unity agrees with the Government in its response to the FSI report that "Superannuation is the largest financial asset many Australians have after the family home. It is critical that the superannuation system is competitive, efficient and transparent and has the highest standards of governance in order to provide Australians with the confidence to invest in the system and plan for their retirement."

However, this statement reveals what Australian Unity considers is lacking in the form of words that comprises the primary objective of superannuation as outlined by the FSI and accepted by the Government – “To provide income in retirement to substitute or supplement the Age Pension”. Australian Unity believes this form of words focuses too heavily on superannuation’s capacity to fix an inadequate Age Pension system, rather than looking at the overall purpose of superannuation from the perspective of the individual.

Australian Unity believes the starting point for consideration of the primary objective of superannuation is its overriding purpose for individuals. This extends well beyond topping up the Age Pension.

As people experience longer and longer post work lives, they are looking for dignity in their older years, for certainty and sustainability. While superannuation shouldn’t be used as a means of unlimited wealth accumulation or for creating a sizeable bequest, it should be able to legitimately be used as a source of funds to maintain the standard of living a person is prepared to pay for.

More particularly, superannuation should be a means to facilitate a person’s independence, their self-sufficiency and their future aspirations. Retirement should not presage the end of aspiration for older Australians.

3. Alternative definition of the primary objective of superannuation

Australian Unity considers the primary objective of superannuation as defined by the FSI and accepted by the Government as inadequate for the purposes of enshrining in legislation. The principal reason, as outlined above, is that it doesn’t consider superannuation from the view of the individual, rather from the weaker position as addressing an inadequacy in a government pension payment.

A supplementary concern is that it doesn’t adequately address some fundamental issues regarding adequacy, including longevity and individual choice when it comes to standard of living.

Accordingly, Australian Unity offers an alternative definition of the primary objective of superannuation.

“To provide older Australians with a level of income that supports independence, self-sufficiency and the capacity for aspiration in retirement.”

The inclusion of the words “older Australians” is deliberate, as it is designed to clarify for whom superannuation is designed.

Notions of independence, self-sufficiency and the capacity for aspiration all potentially take the quantum of superannuation for an individual beyond supplementing or substituting for the Age Pension. This is, Australian Unity believes, because older Australians have every right to

live a dignified retirement with a quality of life matching their expectations, potentially for some decades.

4. Subsidiary objectives of superannuation

Australian Unity endorses the need for subsidiary objectives of superannuation to be articulated and enshrined in legislation.

Broadly, these subsidiary objectives must marry with the primary objective stated above, to provide older Australians with a level of income that supports independence, self-sufficiency and the capacity for aspiration in retirement.

And the objectives must incorporate threshold notions such as dignity over people's life course, and the increasing time frame of post-retirement life.

Australian Unity will limit its input on the subsidiary objectives to its two most pressing concerns.

a. Facilitate consumption smoothing over the course of an individual's life.

Australian Unity agrees with the need for policy to support people to "smooth" their consumption of superannuation over their increasingly long lives. One of the self-evident difficulties with superannuation consumption is the uncertainty of individual life spans.

As such, Australian Unity considers it a worthy policy consideration to incentivise the use of income streams for at least a proportion of superannuation accounts.

An income stream derived from a proportion of superannuation would still leave a residual lump sum, which provides individuals with flexibility to meet their needs and preferences. But it supports the primary objective as proposed by Australian Unity above, and creates greater certainty for the public welfare system.

b. Be simple and efficient and provide safeguards

Australian Unity agrees, as a given, with efficiency in the system, but is concerned about the rationale behind this secondary objective, in particular that "the system should achieve its objectives at the minimum cost to individuals and taxpayers."

Australian Unity would be concerned if cost becomes the overriding factor for investment eligibility, rather than an important factor to be considered alongside return on that cost.

Australian Unity suggests the wording of the rationale be amended to “the system should achieve its objectives to achieve *the best value* for individuals and taxpayers.”

Ends