



CHARTERED ACCOUNTANTS  
AUSTRALIA + NEW ZEALAND

8 April 2016

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

By e-mail: [superannuationobjective@treasury.gov.au](mailto:superannuationobjective@treasury.gov.au)

Dear Sir/Madam

## Submission – Objective of Superannuation

Chartered Accountants Australia and New Zealand welcomes the invitation to make a submission on the government's discussion paper dated 9 March 2016 concerning the setting of objectives for the superannuation system.

**Please note: our submission responds solely to the issues raised in the discussion paper and does not imply our views on other aspects of the superannuation system or on any past or future policy proposals.**

	<p>Chartered Accountants ANZ does not agree with the Financial Services Inquiry's recommendation that the primary purpose of superannuation should be <i>to provide income in retirement to substitute or supplement the Age Pension</i>.</p> <p>Rather we suggest that the principal objective for Australia's superannuation system be <i>"To create a national culture of saving and self sufficiency in retirement."</i></p> <p>We believe that one of the consequences of encouraging national savings and self-sufficiency in retirement is that fewer Australians would rely on the government for the age pension or other older age expenses such as health care which would therefore lead to budgetary savings.</p> <p>The key point is that with our preferred objective for the superannuation system lower government outlays is not the primary objective but a result.</p> <p><b>We believe that the purpose of superannuation should focus on the individual and their family's needs before the Federal Government's financial situation.</b></p>
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Yours sincerely,

A handwritten signature in black ink, appearing to read 'Rob Ward', written in a cursive style.

**Rob Ward FCA AM**  
**Head of Leadership & Advocacy**

## Overview

Chartered Accountants Australia and New Zealand is supportive of the government's desire to implement the Financial System Inquiry's recommendation to establish objectives for the superannuation system.

As noted in the government's discussion paper regarding the establishment of superannuation objectives, it has been many years since an objective for the superannuation system has been articulated by the government.

On 30 June 1992 the then Treasurer John Dawkins published *Security in Retirement*. This document made the following points:

We need now to start saving more for our future retirement ... saving for retirement will have to be compulsory. It means that these savings will increasingly have to be 'preserved' for retirement purposes. Lastly, the rate of saving will have to ensure retirement incomes which are higher than that provided today through the age pension system ... by requiring those who can do so to save for their retirement, better retirement incomes can be provided for those who cannot save.

Future Australians will benefit from this requirement. Increased financial flexibility will enable future governments to increase the age pension rate to meet contemporary community expectations.

This Government sees the age pension not just as a security net for future retirees but as the key-stone of its superannuation policies. It expects that most future retirees will continue to be eligible for the age pension (for example, through a part pension) which, with self-provided and tax-assisted superannuation, will allow a higher retirement income than is now generally available.

... implementation of the SGC implies that a privately provided retirement income of about 40 per cent of final income is a level to which the community might wish to aspire for the time being.

Almost one year later (in June 1993), Vince Fitzgerald prepared a report for Treasurer Dawkins titled, *National Savings*. In that document Fitzgerald said,

**The ultimate aims of that [that is, the Superannuation Guarantee] policy should be clarified.** (Is one goal to make most Australians independent of the age pension...?)” – forward page xv

... a very long transition period lies ahead before it [that is, compulsory superannuation] is fully in place, pointing to the importance of clarifying its ultimate goals and improving the interaction between superannuation and the age pension – page 49

We agree with Fitzgerald's view even allowing for the fact that Australia and our place in the world has altered significantly over the last 23 years.

In the Financial System Inquiry's final report, published December 2014, (the Murray Inquiry) it is stated that setting objectives for the superannuation system “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.” – page 90

We agree it is time for the government to revisit this issue as we shall discuss in the remainder of this submission.

## FSI Superannuation Recommendation 9

The FSI recommendation 9 states:

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.

In our view this recommendation can be broken down into three parts:

1. Seek broad political agreement
2. Enshrine the objectives into legislation
3. Report publicly on how policy proposals are consistent with achieving these objectives over the long term

We discuss each of these in turn:

### **Seek broad political agreement**

We agree with this recommendation.

We accept that it would be difficult for all political parties to reach consensus about the objectives of the superannuation system.

The danger of reaching broad political consensus about setting objectives for the superannuation system is that by the time consensus is reached we might only be left with platitudes that serve little or no practical purpose.

However without this consensus there is the risk that the objectives will simply become a malleable tool to be adjusted based on the ability to pass legislation.

In addition to seeking broad political agreement for the objectives we also believe it is important to obtain the support of major industry and consumer associations as well as the wider community.



Chartered Accountants supports the principle that any established objectives of the superannuation system should have broad political agreement. We also recommend obtaining the support of major industry and consumer associations as well as the wider community.

### **Enshrine the objectives into legislation**

We do not agree with this recommendation.

In our view one of the main purposes of legislation is to alter behaviour either in a positive, neutral or negative way. Legislation does this primarily by imposing penalties for non-compliance with a particular rule. For example, any superannuation fund trustee that breaches a super law risks being reprimanded or fined or worse.

However we note the government's proposal to enact legislation that sets out the objectives does not include any penalties for non-compliance. We are concerned about the usefulness of the proposal to legislate. A law without a deterrent for non-compliance is unlikely to change behaviour. If legislation is enacted there will also be less flexibility to regularly review the objectives every few years to allow for changing circumstances.

It also seems highly doubtful to us that a government would impose any penalty on itself if it passed laws or put in place regulations that were inconsistent with any legislated objectives for the superannuation system.

If the government is insistent that this objective be legislated then it should sit in a stand-alone Act of Parliament and be referred to in all other relevant Acts as required.

We believe that the superannuation objectives should be made available in a prominent and public way on relevant government websites. For example, on:

- pm.gov.au
- treasurer.gov.au
- treasury.gov.au
- ASIC.gov.au
- apra.gov.au
- ato.gov.au
- moneysmart.gov.au
- all major political party websites

It should also be made clear on these websites where any broad political agreement and support from industry and the community has been obtained for the stated objectives.

	<p>Chartered Accountants does not support legislating the objectives of superannuation. However the objectives should be made widely and publicly available.</p> <p>If the objectives must be legislated then they should sit in a stand alone Act of Parliament.</p>
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### **Report publicly on how policy proposals are consistent with achieving superannuation objectives over the long term**

We agree with this recommendation.

We believe the best way to achieve this is for the explanatory memorandum for each legislative Bill and similar documents (for example explanatory statements for regulations or legislative instruments) to contain a Statement of Compatibility with the stated superannuation objectives. In our view this would be similar to the Statement of Compatibility that details whether a Bill or legislative instrument is compatible with the rights and freedoms recognised in the seven core international human rights treaties to which Australia is a party.

We would also like to see the Government review, and publish the findings, every five years on how well the super system is tracking on meeting the agreed objectives.

	<p>Chartered Accountants agrees that all policy changes to the superannuation area should only proceed if they are consistent with the established objectives and that this must be demonstrated with each potential change. We also believe there should be reviews every five years to assess progress to date.</p>
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## FSI Objective of Superannuation

*To provide income in retirement to substitute or supplement the Age Pension.*

Chartered Accountants ANZ has some concerns about the limitations of this objective. One possible interpretation is that the total tax concessions available to each taxpayer for saving for retirement via the super system and/or the age pension payments they may be entitled to receive from the Commonwealth is limited to the present value of providing the Aged Pension.

We could not support this objective if this is the preferred interpretation, as it would imply an across the board income replacement rate for retirees of only 27% of male average weekly ordinary time earnings. We believe such a rate is too low for those willing to save for their future and not be a burden on future taxpayers, especially for those households earning more than the Australian median wage.

### **Create a national culture of saving and self sufficiency**

Chartered Accountants ANZ recommends a more expansionary and visionary principal objective for Australia's superannuation system:

*To create a national culture of saving and self sufficiency in retirement.*

In our view self-sufficiency means full replacement of family income for households earning up to male average weekly ordinary time earnings – currently just under \$83,400 per annum – and then a reduction from that point. That reduction could be 1% for each additional \$10,000 of household income earned. For example if household income was \$133,400 then self-sufficiency would be defined as up to 95% of that amount.

### **Take a holistic view of all aspects that may impact on wealth and retirement savings**

It is also important to take a holistic view of all aspects that may impact on an individual's wealth and retirement savings, such as sources of financial assets other than superannuation, property assets and debt as well as the costs of funding retirement.

We believe that the principal objective should be expanded to include provision for likely outlays for old age health and aged care needs. All Intergenerational Reports published to date show that in the near future these costs will have a significant impact on all Australian governments unless pre-emptive action is taken.

Consideration should also be given to the implications of other current and proposed government policies in relevant areas such as tax reform, financial services and social services.



Chartered Accountants ANZ recommends that the principal objective for Australia's superannuation system be "*To create a national culture of saving and self sufficiency in retirement.*"

We recommend taking a holistic view of all aspects that may impact on wealth and retirement savings, particularly the funding of health and aged care needs for older Australians.

We also believe it is important to consider the implications of other current and proposed government policies in relevant areas such as tax reform, financial services and social services.

## FSI Subsidiary Objectives of Superannuation

We would like to see several amendments to the FSI's recommended secondary objectives. In our view the secondary objectives should be as follows:

## **1. Facilitate consumption over the course of an individual or a family's lifetime**

At present superannuation is treated very much at an individual level. This is the case if we look at super funds or the tax treatment of contributions or benefits paid from those funds.

However around 59% of Australians aged over 15, based on the 2011 Census, were married or in a defacto relationship.

Individual taxpayers are required to nominate their spouse on their annual tax returns and eligibility for the Age Pension is mostly assessed on combined partner income and assets tests.

Eligibility for Family Tax Benefit is assessed on family Adjusted Taxable Income. For most families the majority of this income will come from the combined effort of parents or guardians.

The objective of superannuation should not cut across how most Australians choose to live.

(As an aside – if the super system permitted spouses to have joint accounts then we would expect, over time, for the number of accounts in the super system to reduce thereby saving investors fees.)

In addition individuals should be free to choose when they wish to save for retirement and there should be no penalties for wanting to make additional contributions later in life. Whilst it might be ideal that individuals will save at a constant rate throughout their working lives, many people find much of their early working life is used to fund the purchase of a home, raise and educate children and build an economic base for their family.

## **2. Be fully funded from savings**

We agree with the FSI's views in relation to this secondary objective.

## **3. Be fit for purpose**

That is, allow individuals to save for their self-sufficiency in retirement (income, health, aged care and other needs) which will as a result appreciably alleviate fiscal pressures on government retirement outlays caused by the age pension as well as old age health and aged care needs.

## **4. Be simple, co-operative, efficient and cost effective**

The superannuation system must be easily understandable to the average consumer and it must also be co-operative, efficient and cost effective.

The participants in the super industry must use their best endeavours to engage constructively with individuals.

Much of the heavy lifting to achieve efficiency and cost efficiencies will arise if the regulatory environment is not overly complex or convoluted. This is not the case at present.

Ideally the tax and regulatory environment should provide incentives for industry participants to innovate and make use of technological advancements.

We also believe that consistency and brevity is important, especially in the area of regulation.

## **5. Be competitive, fair and provide appropriate safeguards**

Participants in the super industry must be permitted to compete fairly and ethically in an open market, and the regulatory environment must not be a barrier to industry competition.

There must also be appropriate safeguards for super fund members so that the potential for fraud and other crimes is minimised to the greatest extent possible.

Fines for breaching disclosure obligations and other offences must be fit for purpose. In short there must be no financial advantage for breaching any rules.

## 6. Be regularly reviewed

All political parties should agree to a regular, bipartisan review of the super system every five years to confirm that it is meeting its objectives. The primary purpose of the review will be to assess the strengths, weaknesses, opportunities and threats in the super system.

	<p>Chartered Accountants supports the concept of secondary objectives for the superannuation system and believes the following are a good starting point:</p> <ol style="list-style-type: none"><li>1. Facilitate consumption over the course of an individual or a family's lifetime</li><li>2. Be fully funded from savings</li><li>3. Be fit for purpose</li><li>4. Be simple, co-operative, efficient and cost effective</li><li>5. Be competitive, fair and provide appropriate safeguards</li><li>6. Be regularly reviewed</li></ol>
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