



**Submission to the Australian Government
The Treasury**

The Objective of Superannuation

**Prepared by
COTA Australia**

4 April 2016

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COTA Australia

COTA Australia is the national policy organisation of the State and Territory COTAs (Councils on the Ageing) in each of the eight States and Territories of Australia that make up the COTA Federation.

The COTA Federation is the national consumer peak body for older Australians and its more than 1,000 seniors' organisation members represent over 500,000 older Australians, in addition to over 30,000 individual members.

COTA Australia's focus is on national policy issues from the perspective of older people as citizens and consumers and we seek to promote, improve and protect the circumstances and wellbeing of older people in Australia. Information about and the views of our constituents and members are gathered through a wide variety of consultative and engagement mechanisms and processes.

Introduction

COTA Australia welcomes the government's consultation on the establishment of a legislative purpose for superannuation. We welcomed the recommendation from the Financial Systems Inquiry (the Murray Inquiry) to legislate an agreed purpose for superannuation and are pleased to see the government implementing the recommendation. Like many stakeholders and observers COTA has been deeply concerned by the 'mission creep' in the super system, with it becoming a lucrative, tax-effective savings and estate management scheme for people with substantial income and assets, in addition to a retirement savings scheme. This was not part of the original intention of the superannuation system and has been able to occur in the absence of a clear statement of purpose guiding the design and operation of the system.

However, we state at the outset that a targeted statement of purpose for the superannuation system would be easier to achieve in the context of an integrated review of the retirement incomes system. The establishment of an overarching objective for the entire retirement incomes system and rationale for government's involvement in this area would provide the foundation for specifying the respective roles and objectives of the different components of the whole – the Age Pension, compulsory superannuation and private savings.

COTA continues to argue against piecemeal changes to various parts of the retirement incomes system in isolation from the bigger picture and without understanding or recognition of the impacts of changes in one policy area on other aspects of the system.

Therefore, drawing on and adapting wording from our colleagues at the Committee for Sustainable Retirements, COTA Australia uses the following as an overarching, working objective for the Australian Retirement Income System:

The retirement incomes system will deliver adequate income though all the years of retirement for all Australians on a fair and fiscally sustainable basis.

We recognise that terms such as 'adequate' and 'retirement' need further definition but this gives us a good starting point. We also note that adequacy may be achieved through income derived from more than one component of the government-supported system.

Understanding our goals across the entire retirement incomes system enables clearer targeting

of the specific objectives in each of the components.

Primary objective of superannuation

In the context of a broader commitment to an adequate income for all in retirement, we believe that compulsory, preferentially taxed superannuation should have the single purpose of creating improvements in retirement income for most people, over a working lifetime. It does not however replace a means-tested age pension, rather it complements the role of the Age Pension within the retirement incomes system. It should also not discourage or distort private savings for retirement.

We do not support the FSI proposed wording for the primary objective for superannuation because its reference point is too narrow. The objective should not be described with reference to the Age Pension but with reference to the purposes of retirement incomes policy, of which superannuation and the Age Pension both form essential and complementary components. Historically the Age Pension has indeed been the bedrock of retirement incomes in Australia, by conscious public policy decisions over the long term. The introduction of a complementary compulsory superannuation system built on that bedrock, but does not replace it. Nor does the existence of compulsory superannuation remove the need, for example, of ensuring that the Age Pension meets adequacy benchmarks.

COTA Australia proposes that the primary objective for superannuation be:

To optimise income in retirement for as many people as possible through a system of compulsory, fair* and fiscally sustainable government supported savings.

****Or 'equitable'***

COTA believes the inclusion of a reference to 'fair' (which ACOSS has also proposed) or 'equitable' is important in avoiding some of the imbalance of incentives in the current system and addressing issues such as the system generating over time unequal outcomes.

Principles underpinning the Primary Objective

The primary objective for superannuation ought to be underpinned by a set of principles (rather than 'Subsidiary Objectives' as recommended by the FSI). Principles are essential to guide system design, regulation, implementation and evaluation. Each and every principle should directly support and be aligned with the primary objective. COTA believes:

- the FSI 'subsidiary objectives' are best understood as principles and we support the adoption of them with the categorisation change to 'principles', with one exception;
- the FSI 'subsidiary objective', "Alleviate fiscal pressures on Government from the retirement income system", is too narrow and does not align directly with our proposed objective for superannuation. Instead, we recommend that it be replaced as a principle by:

Interact effectively with other components of the government-supported retirement income system as part of an overall fiscally sustainable, fair and efficient system.

Additional considerations

In its Issues Paper associated with this consultation process on superannuation purpose, Treasury raises a number of related questions regarding: retirement income or standard of the living in retirement; adequacy; fiscal sustainability; and national savings. In brief, COTA's

response is as follows.

1. Retirement income or standard of the living in retirement

As noted above, we view the purpose of the overall retirement incomes system is to provide an adequate standard of retirement living for all Australians. In regard to the superannuation system we consider that the term 'retirement income' is appropriate, (incorporating a range of products, including super-related insurance payments) that are aimed at providing an income to those in retirement.

2. Adequacy

With regard to the question of whether 'adequacy' is measured in terms of a single level of income, or in terms of pre-retirement income replacement rates, COTA's view is that while individuals may have a view about adequacy related to prior income COTA does not believe that mandated replacement levels are a policy objective. COTA does believe that 'adequacy' needs to be defined in terms of a minimum level of income below which retirement income is inadequate, and clearly the Age Pension should be designed for that purpose. Beyond that the availability of concessional taxation arrangements for superannuation contributions additional to the compulsory levy creates an incentive for individuals to make their own decisions about what level of replacement income they will seek to achieve.

3. Fiscal sustainability

As noted above in the discussion on principles, COTA views fiscal sustainability as best judged in the context of the overall retirement incomes system, not necessarily in the component parts. We agree that efficiency and affordability are crucial at every level of the system, and we recognise that fiscal decisions in any component of the system can have implications broader than retirement incomes sustainability (for example, the impact of the tax treatment of superannuation on government revenues and subsequent ability to fund expenditure across a range of policy areas). However, when discussing the sustainability of retirement incomes, a whole-of-system analysis of spending and savings (costs and benefits) is required.

4. National savings

COTA does not support the inclusion of objectives or principles stipulating the superannuation system as a national savings scheme. We recognise that accumulated super savings play a crucial role in national investments, and we are highly supportive of this, but we do not agree that this should be an objective of the system. Our concern is to maintain the integrity of the system for its primary purpose of retirement incomes. Expanding objectives or principles to include the achievement of a materially different set of outcomes runs the risk of diverting investment decisions or system design and regulation away from maximising primary purpose outcomes.

Location of Primary Objective and Principles

COTA Australia does not hold a strong view about the legislative instrument for enshrining a primary objective for superannuation. We lean mildly towards the establishment of new legislation for the purpose as, potentially, it signals the importance of the change and increases the chance that the primary objective is recognised across all pieces of superannuation-related legislation and regulation.

End.