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BY EMAIL AND ELECTRONICALLY

6 April 2016

To whom it may concern

The objective of superannuation

PwC welcomes the opportunity to comment on the Government's discussion paper, which considers the objective of superannuation in Australia.

PwC supports the Government's intention to introduce legislation that will enshrine the objective of the superannuation system. Clarity on the objective and purpose of superannuation will help the government and broader community navigate current and future proposals that aim to modify Australia's superannuation system.

As one of Australia's leading professional services firms, we believe we are well placed to share our views on the important issue of superannuation. Australia's superannuation system is relevant to all entities and individuals across the country. PwC has deep and broad experience in the superannuation sector and also across Australia's capital market.

We appreciate the opportunity to provide feedback on the Government's discussion paper and have collaborated with a number of individuals in Australia to test and inform our views. We would like to thank those individuals who have informally engaged with us. Our high level feedback on the specific consultation questions the Government has posed for consideration is overleaf.

Our firm takes its role in the community seriously. We are committed to positively contributing to the Australian community and supporting and enabling initiatives that will strengthen the future prosperity of our country.

We would welcome the opportunity to discuss our views further. Please contact me on (03) 8603 3841 or via david.coogan@pwc.com.

Kind regards

A handwritten signature in black ink, appearing to read 'D Coogan', with a long horizontal flourish extending to the right.

David Coogan
Partner

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High level response to the Government's consultation questions

Do you agree with the objectives recommended by the Financial Systems Inquiry? Why / why not?

The primary objective of the superannuation system, as stated in the Financial Systems Inquiry, is to provide an income in retirement to substitute or supplement the Age Pension. The recommendation of a superannuation system objective to provide for retirement income is designed to repair the current lack of an agreed policy framework, which contributes to short-term ad hoc policy making and undermines confidence in the system.

The Government's focus in this area, and the work of the Productivity Commission, will help guide the superannuation system now and in the future, to ensure it has the capacity to meet future users' needs.

PwC agrees with the need to create objectives for the retirement income system more broadly.

At a high level we agree that:

- The retirement income system should be designed so that the combination of superannuation and Age Pension delivers an adequate retirement income to all Australians. It will be important for the Government to define the term 'adequate' with respect to the outcomes for the individual and the total cost to the system
- The definition of "adequate retirement income" should be determined as a dollar level of income in retirement, rather than as a percentage of previous earnings. Further work will be required to determine the appropriate adequate retirement income but it should at least be sufficient for the vast majority of income earners who earn less than \$80,000 per annum.
- The total cost of the retirement income system for superannuation tax concessions and Age Pension outlays should be fiscally sustainable and consistent with what is determined to be an adequate retirement income
- The retirement income system and its guiding objectives should be simple, flexible and efficient so that:
 - members can prepare for their retirement through all stages (accumulation; transition; retirement) and meet the varying demands for income and capital during their retirement in the most effective and efficient manner
 - superannuation providers have the capacity to continue to invest in newer and more efficient systems and technologies in order to meet the changing needs of members during these stages.

Note. The retirement income system should neither be a wealth accumulation tool or an estate planning tool.

We also believe that the objectives should be measurable and that progress towards meeting these objectives should be assessed and independently reported on a regular and transparent basis, such as every five years via the Government's Intergenerational Report. A regulatory gatekeeper role would also be important as this would protect the superannuation system from any regulatory or policy changes that aren't supported by robust evidence or that would detract from the overarching objectives of the system.

In which piece of legislation should the objective be legislated and why?

The most appropriate place for the objective of superannuation to be enshrined in legislation is in the Superannuation Industry (Supervision) Act 1993. This Act details the provision for the prudent management of certain superannuation funds, approved deposit funds and pooled superannuation trusts, and for the supervision of the industry by APRA, ASIC and the Commissioner of Taxation.

Therefore, it makes sense for the overarching objective or guiding purpose of superannuation to be housed in the same place.