

# **Submission to Australian Government Discussion Paper**

## **Objective of Superannuation System**

# QSuper's Proposal

## Objective of Superannuation

*"To provide income that, as a substitute or supplement to the aged pension, provides an increasing number of Australians with a comfortable standard of living in retirement."*

## Supporting Principles

### A Strong and Stable System

Australia's economic interests are best served by a fully funded system subject to strong prudential oversight and consumer protection.

### Invested to Meet Retirement Objectives

The investment focus should be on meeting the retirement objectives of members, and the level of risk adopted should have regard to the individual's circumstances.

The success of any investment strategy is best judged by whether it has or hasn't met its stated objectives. Returns should be considered net of fees and taxes.

### Income is the Primary Purpose

The system should provide income to support spending needs in retirement, while providing some flexibility to meet individual needs and preferences.

### Managing Financial Risks

Superannuation plays an important role in helping people manage financial risk both during their working lives, through insurance, and in retirement.

In funding retirement spending needs, providers and consumers should consider risks such as sequencing, inflation and longevity.

### Fiscal and System Sustainability

For the Retirement Income System to be sustainable, the tax concessions and Government payments that support it should be targeted toward those who require assistance to meet "a comfortable standard of living in retirement". They are provided for the purpose of generating retirement income, not to facilitate intergenerational wealth transfers.

In making retirement income policy decisions, consideration will be given to the interactions between the three pillars of the System. The System will be considered and managed as a whole.

### Promoting Consumer Confidence

Simplicity, efficiency and comparability are essential components of a compulsory system.

The system should be subject to periodic review to evaluate performance against objectives and should be easily comparable by the end user. Ongoing changes should be minimised to support lower costs, reduce complexity and increase consumer confidence.

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## Context

On 9 March 2016, the Australian Government released the “Objective of Superannuation” Discussion Paper.


Australia has every reason to be proud of its Retirement Income System, which consistently ranks amongst the best in the developed world despite the fact it is yet to reach full maturity.

QSuper welcomes the release of the Discussion Paper. We commend the Australian Government for taking steps to implement the recommendations of the Financial System Inquiry (FSI) and in so doing providing a framework through which the fairness, adequacy and sustainability of the superannuation system can be assessed.

It is QSuper’s hope that the framework will serve as a guide to Government, trustees, industry and consumers on policy, product and governance for some time to come. This is critical as Australia has now reached a demographic “tipping point” which means there is an urgent need for clarity.

QSuper *broadly* supports the approach taken in relation to both the primary and subsidiary objectives.

However, while acknowledging the good work of the FSI in advancing this issue, superannuation was only a small component of the Inquiry. We believe that the Government should be open to modifications given that this may represent a once in a generation opportunity to provide the clarity that is required to achieve better policy and consumer outcomes. As noted in the Discussion Paper, the previous legislative guidance on this matter has stood for 25 years.



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The objective/s should serve as the much needed platform for bringing together a range of policy work currently being undertaken by the Australian Government. These include tax reform, retirement income stream reform, initiatives to improve the transparency and comparability of MySuper products and the recent referral to the Productivity Commission to examine the efficiency and effectiveness of the system.

The primary objective and the subsidiary objectives/supporting principles that follow should provide the rationale for the Australian Government’s policy work in these important areas.

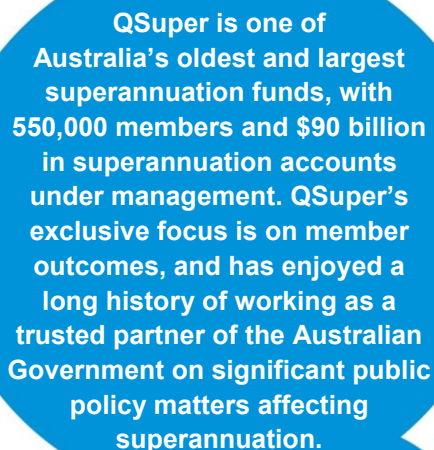
## QSuper’s Approach – The Primary Objective

QSuper respectfully proposes that the primary objective be expanded to incorporate broader policy objectives. That is, it should incorporate a “standard” which QSuper proposes takes the form of a “comfortable standard of living in retirement” and it should target “an increasing number of Australians” meeting that standard.

This policy triangulation is required so that the Government and others can use the primary objective as a framework for evaluating the impacts of policy decisions and the success of the system overall.

QSuper recognises that there is debate around the appropriate standard, both qualitatively and quantitatively. In terms of the appropriate wording, descriptors for the standard such as “adequate”, “reasonable” or “comfortable” carry different connotations. QSuper is on one level agnostic as to the descriptor used.

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QSuper is one of Australia’s oldest and largest superannuation funds, with 550,000 members and \$90 billion in superannuation accounts under management. QSuper’s exclusive focus is on member outcomes, and has enjoyed a long history of working as a trusted partner of the Australian Government on significant public policy matters affecting superannuation.

The key societal expectation is that all Australians will be able to retire and age with dignity. This is something we should be proud of - our standard and benchmark should match that expectation. Given that QSuper considers the goal should be to match society's expectations of dignity for all aging Australians, QSuper supports a single "standard" rather than "replacement income". Those seeking retirement income significantly higher than the standard have options to pursue outside of the concessional tax environment of superannuation.

It may not be appropriate for the Australian Government to legislate an industry developed benchmark such as the ASFA Retirement Standard. However, it is well within the capabilities of the Commonwealth Treasury, the Australian Bureau of Statistics or the Australian Government Actuary to replicate the Standard or develop an alternative benchmark.

The key point is that the success of the system cannot be evaluated without the inclusion of a 'standard' and benchmark.



The key societal expectation is that all Australians will be able to retire and age with dignity.

It will clearly not be possible for the Australian Government to satisfy all stakeholders in the selection of the standard and benchmark. Pragmatically though, there are a number of statistics published by the ABS that, while subject to ongoing debate, have become an accepted part of Australia's economic fabric.

It should be expected that as the superannuation system matures, an increasing number of Australians should be able to achieve that standard of living in retirement with a diminished reliance on the aged pension. If the system fails to deliver that over time, it is reasonable for policy makers to ask why.

## QSuper's Approach – Subsidiary Objectives

QSuper generally supports the subsidiary objectives as being reflective of the preferred policy direction for the Retirement Income System.

However, as read, the subsidiary objectives could be interpreted differently by users and therefore may not provide the clarity and guidance being sought.

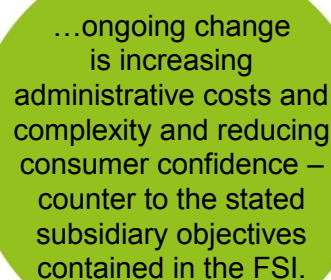
The current "subsidiary objectives" could more accurately be described as "principles" supporting the Primary Objective. The narrative contained in the Discussion Paper titled "why the objective is important" provides a useful starting point for the construction of more expansive and user friendly Supporting Principles.

QSuper's detailed proposal for the Primary Objective and Supporting Principles is contained in the Table that follows.


## Periodic Review of Performance

The System should be evaluated for its performance against the primary objective and the principles that underpin it, with modifications made where necessary.

However, it equally needs to be acknowledged that the ongoing change is increasing administrative costs and complexity and reducing consumer confidence – counter to the stated subsidiary objectives contained in the FSI.



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From a policy perspective, the System needs to be considered and managed as a whole.


For this reason, QSuper submits that a periodic review timeframe should be established with all but the most time critical changes considered within that window. This review process should recognise the interactions between the three pillars of the Retirement Income System and consolidate the policy directions of key agencies such as Commonwealth Treasury, APRA, ASIC and Centrelink into a single program. From a policy perspective, the System needs to be considered and managed as a whole.

Agreement to a new approach of this nature would represent a welcome adjunct to legislating the objectives of the system.

## Location of Objectives

On one level, it would be easy to be agnostic about the location of the objectives. While as a matter of principle QSuper supports efforts to reduce the amount of legislation, in this case QSuper believes a strong argument can be made for stand-alone legislation.

The objectives are too important to be a sub-component of the Superannuation Industry Supervision Act. They represent the framework by which the Retirement Income System as a whole should be evaluated. On this basis, QSuper supports stand-alone legislation.



QSuper supports stand-alone legislation.

Commonwealth Proposal	QSuper Proposal	Rationale
<b>Primary Objective</b>	<b>Primary Objective</b>	
<b>To provide income in retirement to substitute or supplement the Age Pension.</b>	To provide income that, as a substitute or supplement to the aged pension, provides an increasing number of Australians with a comfortable standard of living in retirement.	<p>The specific identification of “income” is supported as being consistent with Retirement Income Stream Reform.</p> <p>Higher order policy goals in the form of setting a “standard” and seeking to increase the number of Australians meeting that standard are required so decision makers can evaluate the impact of policy decisions and measure the success of the system.</p> <p>QSuper is agnostic as to whether the standard is defined as comfortable, adequate, reasonable etc.</p> <p>The key is to match the system objective with the expectation of Australian society that all Australians will be able to retire and age with dignity.</p> <p>For these reasons, QSuper supports a single standard, as opposed to a “replacement income” concept.</p>
<b>Subsidiary Objectives</b>	<b>Supporting Principles</b>	
<b>Be fully funded and provide safeguards</b>	<p><b>A Strong and Stable System</b></p> <p>Australia’s economic interests are best served by a fully funded system with strong prudential oversight and consumer protection.</p>	<p>Acknowledges that Australia’s system is continuing to mature in terms of its funding status.</p> <p>Aides in interpretation in terms of defining “safeguards”. Consumer protection is a vital component to guard against actions that undermine confidence.</p> <p>By linking “Australia’s economic interests” with a “fully funded system”, the national savings argument is also addressed.</p>

Commonwealth Proposal	QSuper Proposal	Rationale
Subsidiary Objectives	Supporting Principles	
<p><b>Be invested in the best interests of superannuation fund members</b></p>	<p><b>Invested to Meet Retirement Objectives</b></p> <p>The investment focus should be on meeting the retirement objectives of members, and the level of risk adopted should have regard to the individual’s circumstances.</p> <p>The success of any investment strategy is best judged by whether it has or hasn’t met its stated objectives.</p> <p>Returns should be considered net of fees and taxes.</p>	<p>An exclusive focus on maximising risk-adjusted returns can produce poor retirement outcomes as it exposes members to short-termism and sequencing risk.</p> <p>There are times when maximising risk-adjusted returns is appropriate, and times when it is appropriate to take risk off entirely. Recognising this life-cycle dimension will provide more system stability and greater predictability of retirement incomes.</p>
<p><b>Help people manage financial risks in retirement</b></p>	<p><b>Managing Financial Risks</b></p> <p>Superannuation plays an important role in helping people manage financial risk both during their working lives, through insurance, and in retirement.</p> <p>In funding retirement spending needs, providers and consumers should consider risks such as sequencing, inflation and longevity.</p>	<p>The majority of Australians now use their superannuation fund as the provider of income protection, death and disability insurance. Given its significance, this role needs to be recognised.</p> <p>Reframed as a supporting principle using the justification contained in the discussion paper to facilitate understanding and ease of interpretation.</p>
<p><b>Alleviate fiscal pressures on Government from the retirement income system</b></p>	<p><b>Fiscal and System Sustainability</b></p> <p>For the Retirement Income System to be sustainable, the tax concessions and Government payments that support it should be targeted toward those who require assistance to meet “the standard”. They are provided to generate retirement income, not to facilitate intergenerational wealth transfers.</p> <p>In making policy decisions, consideration will be given to the interactions between the three pillars of the Retirement Income System. The System will be considered and managed as a whole.</p>	<p>Acknowledges that targeting of concessions and other government support is necessary. The specific identification of “wealth transfers” may provide support to future Retirement Income Stream Reforms.</p> <p>In terms of fiscal sustainability, all three pillars of the Retirement Income system are relevant. Unless this is explicitly recognised, decisions may be made which bring unintended consequences and undermine the Government’s policy intent. From a policy perspective, the System needs to be considered and managed as a whole.</p>

Commonwealth Proposal	QSuper Proposal	Rationale
<b>Be simple and efficient and provide safeguards</b>	<b>Promoting Consumer Confidence</b>  Simplicity, efficiency and comparability are essential components of a compulsory system.  The System should be subject to periodic review to evaluate performance against objectives, with modifications made where necessary. However, ongoing changes should be minimised to support lower costs, reduce complexity and increase consumer confidence.	Comparability (transparency) is a vital inclusion and is consistent with the Government's MySuper and Product Dashboard initiatives.  Simplicity and efficiency are important, but is difficult to deliver when the system is subject to ongoing change.  Need to recognise the impact of ongoing change in undermining system confidence and on administration costs. For these reasons, periodic review windows are proposed.

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