SMSF Owners' Alliance
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SUBMISSION TO TREASURY ON THE OBJECTIVE OF SUPERANNUATION

6 April 2016

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The SMSF Owners' Alliance Limited is a not-for-profit public company established to represent the interests of trustees and owners of Self-Managed Superannuation Funds (SMSFs). Whilst there are other organisations with similar interests and objectives, SMSF Owner's distinction is that membership is strictly limited to the trustees and owners of SMSFs.

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Introduction

The SMSF Owners' Alliance (SMSF Owners) was established as a not-for-profit organisation to represent the interests of the million members of self-managed superannuation funds in Australia, although a substantial component of our research and commentary into this subject has general application to all of the superannuation system. SMSF Owners is one of the few organisations with no commercial interest in profiting from the superannuation system and, as a policy, our views in submissions are fully supported by research and detailed computer modelling.

Our overriding interest is in the ongoing development of a sustainable, effective and fully funded superannuation system providing two of the three components of a three-pillar retirement system. We approach all issues regarding superannuation on the basis that the three-pillar approach is in the best long-term interests of Government and the nation, with the aspiration of encouraging and enabling most Australian taxpayers to retire on a fully self-funded pension with the Age Pension only acting as a safety net for the minority for whom the superannuation system not delivered financial independence in retirement.

We have structured this submission to address the three questions posed in the 9 March 2016 draft Discussion Paper:

- ***Do you agree with the objectives recommended by the FSI? Why?***
- ***If you do not agree with the FSI recommendation, what do you think should be the objective of superannuation? Why? What are the implications of this objective?***
- ***In which piece of legislation should the objective be legislated and why?***

You have also suggested some points to consider such as:

- **Retirement income or standard of living in retirement;**
- **Adequacy;**
- **Fiscal sustainability; and**
- **Increasing national savings.**

We address these in the first section of this submission and then we address the first of your two questions with respect to the primary objective in section 2 and address the same questions with respect to the FSI subsidiary objectives in section 3. Finally we comment on the third question in section 4.

Further reasoning, evidence and references are included in the Appendices.

However, we first set out on the next page, our preferred wording of an objective of the superannuation system.

The objective for the superannuation system

SMSF Owners believes the objective for superannuation proposed by the Financial System Inquiry (FSI) – that superannuation should *"substitute or supplement the Age Pension"* – is too limited and too vague a description of the important role of superannuation in the retirement income system.

Our preferred wording of an objective for the superannuation system is as follows:

The primary objective of the superannuation system is to give every working Australian the opportunity and encouragement to save enough so that they can fund an income in retirement that allows them to maintain to a reasonable degree their living standard after retirement.

To meet this objective, the following principles are to be applied:

a. Sufficient tax incentives are required in order to encourage each individual not to spend all of their income but to save some for their retirement;

b. The superannuation system is part of a three-pillar retirement income system (comprising the Age Pension safety net, mandatory and voluntary superannuation contributions) and that the cost of tax incentives beyond those necessary to encourage adequate savings and the cost of Age Pensions should have regard to the fiscal sustainability of the overall system;

c. For individuals to have confidence investing their savings in superannuation for many years, it must be stable with any changes limited, justified in terms of this objective and, in particular, not retrospective nor adversely impacting those who have made retirement decisions;

d. The adequacy of savings must take into account the risks borne by each individual with regard to longevity and also health, aged-care and other unpredictable costs during retirement;

e. The distribution of tax incentives must be equitable, meaning that they should generally be proportional to the income taxes paid by each individual. Any tax concession to an individual or group of individuals that is not proportional to the taxes that individual or group has paid represents a transfer to or from that individual/group to another, is inequitable and must be justified.

f. Any limits on tax incentives must apply to contributions rather than investment outcomes and provide flexibility to allow for uneven income over an individual's working life

g. Any limits on tax incentives should not unreasonably constrain most taxpayers from meeting this objective;

h. Savings are to be invested in the best interests of each member and must not be subject to mandatory direction;

i. The system's structure and administrative rules are kept as simple as possible and all reasonable steps are taken to maximise competitive market efficiency in its operation so that costs to savers are minimised.

1. Points to consider

a. Retirement income or standard of living in retirement

The Discussion Paper suggested that:

> *While retirement will provide resources to help a person meet their costs of living in retirement, standard of living is broader as it includes the use of both income and assets.*
>
> *Both also clarify that superannuation is meant to help fund a person's retirement; it is not for unlimited wealth accumulation or bequests.*

We comment on this as follows:

We believe that everyone's objective is to attain a certain standard of living in retirement. The **income** produced by the three-pillars of a retirement system (mandatory savings, voluntary savings and state-funded age pension 'safety net") is the **means** by which a person is helped to meet the target standard of living.

So we are not quite sure why it is suggested that these two expressions are mutually exclusive. We note that the European Union agrees with our view by describing their objective for a sustainable pension (superannuation) system as being:

> *…to ensure adequate **income**…to allow people to maintain ….their **living standard.***

[Please see Appendix A for the full text of the European Union's pension system objective.]

We agree that both these terms clarify that the purpose of superannuation is to help fund a person's retirement and that it is not for unlimited wealth accumulation or bequests.

However, prudent planning for retirement needs to allow for unforeseen medical and other expenses, particularly in old age when care costs will rise. Also because individual life expectancy is unknown. Such 'self-insurance' will often leave retirement savings unspent on death which currently are taxed at 15% plus the Medicare levy, if passed on to non-dependents. The existence of such a taxable sum on death does not mean that it was accumulated for estate planning purposes.

b. Adequacy

The Discussion Paper suggested that:

> *While adequacy provides a sense of targeting superannuation and is consistent with fiscal sustainability, there is no consensus of what adequacy means. While the OECD defines it through the use of replacement rates, implying people have different levels of adequate retirement incomes according to their wages, others may conceive of a single level of income applicable to all.*

We comment on this as follows:

We believe it is important not to confuse two terms **adequacy** and **equity**. The second part of the above paragraph is in our opinion substantially addressing the issue of "equity" rather than "adequacy". We believe that the superannuation system should be equitable and that the objective, together with supporting subsidiary objectives or principles, should be more specific regarding what this means.

To be equitable, a system should encourage and allow all Australians to attain a standard of living after retirement that bears a reasonable relationship to their pre-retirement standard. This relationship, known as Replacement Rate, is widely accepted as a measure of a retirement system's success and we believe must be specifically referenced in the primary objective.

In this regard, we note that the 27 countries in the European Community agreed in 2007 to the following objective for a sustainable pension system.

"Adequate and sustainable pensions by ensuring:

a. Adequate retirement incomes for all and access to pensions which allow people to maintain to a reasonable degree, their living standard after retirement, in the spirit of solidarity and fairness between and within generations;"

(full definition in Appendix A)

Equity is a principle that should be enshrined in the objective with clear guidance as to its meaning. Some people appear to consider 'equity' as meaning 'equal' including those who believe that one target level of income for all should be an objective of superannuation. This is not the case and would result in an unfair and ineffective system.

The various systems of income distribution recognise that:

Equitable	means outcomes are related to an individual's inputs;
Equal	means that every individual has an equal share of outcome regardless of their inputs;
Need	means those in greatest need are provided with resources needed to meet those needs, those resources taken from those who already possess them regardless of their input.

(see Appendix B for reference)

Whilst we agree with redistribution of income on the basis of need through the income tax scales and social security system, we do not believe that a Government should use any other mechanisms available to it to redistribute income. The Government would appreciate that this has the impact of dampening individual enthusiasm for growth and effort. This is particularly the case in Australia at present because we have one of the most progressive income tax scales with the result that the top 25% of our taxpayers pay more than two-thirds of income tax. The top 5% pay one-third of all income taxes, meaning that they each on average pay almost 10 times as much tax as the average of everyone else for less Government services. (Source: Australian Taxation Office)

We have criticised the Assistant Treasurer for a reported comment that superannuation tax concessions are a "gift" from Government but now realise we may have misunderstood her reported comment. She is correct if she meant that tax concessions can be a "gift" from one group of individuals to another and such distribution must be justified and acceptable.

Each individual provides the Government with resources in the form of taxes. Any tax incentives provided to an individual or group of individuals that are not proportional to that person's/group's tax payments is an inequitable transfer ("gift") from one person/group to another and should be justified and acceptable. As an aspiration, the Replacement Rates concept for as many Australians as possible is closest to an 'equitable' system.

It is generally recognised that a replacement rate of 60%-70% – i.e. someone retiring on an income that is 60-70% of a person's after–tax income before retirement – is a target that a healthy retirement system should aspire to for all taxpayers.

Having accepted that the replacement rate target is an appropriate way of having an equitable superannuation system, the second issue is at what level the replacement rate should be set. We do not believe that a specific target range should be set in the objective although some indication of an aspirational target such as the 60% - 70% above could be referred to in notes to the legislation.

Equity should not just be across people paying different levels of taxes, it should be across generations. We address this in the next 1c below.

c. Fiscal sustainability

The Discussion Paper suggested that:

> *"The superannuation system should also be fiscally sustainable – through reducing reliance on the Age Pension and providing tax concessions that are targeted.*
>
> *While the objective of the system is to improve retirement incomes, balancing the need for fiscal sustainability may mean there is a limit to the support that can be given."*

We agree that the superannuation system should be fiscally sustainable and that there are competing demands on Government funds and tax concessions.

However, we would argue that for the long-term health of the nation and society, the taxation of savings necessary for a fully privately-funded superannuation system **should** be lower than the income tax scale. There is wide agreement that the income tax system provides a bias against savings and that it is in the best interests of Government to provide a framework of lower taxation to encourage adequate savings to enable people to be self-reliant in meeting the above objective.

The rationale for encouraging retirement savings with tax incentives was well expressed in Dr. Henry's 'Australia's Future Tax System' review:

> *"The essential reason for treating lifetime, long term savings more favourably is that income taxation creates a bias against savings, particularly long-term savings. Taxes on savings income, including the taxation of inflationary gains, can discriminate against taxpayers who choose to defer consumption and save. The longer the person saves and reinvests, the greater the implicit tax on future consumption….These individuals pay a higher lifetime tax bill than people with similar earnings who choose to save less."*

So it could be considered misleading to call the lower tax rates on superannuation 'tax concessions', as they are a necessary component of an appropriate tax system for a modern society.

The issue of fiscal sustainability is also an issue of intergenerational equity and this is particularly difficult to manage whilst the system is changing and maturing. The objective of superannuation should focus on the long-term and be an aspirational objective for when the system is mature.

In particular it should be recognised that the Government pays 100% of the cost of an Age Pension but that the cost of providing tax incentives to encourage individuals to forego consumption and save their own funds for retirement is considerably less. Our analysis indicates that the cost of such tax incentives comprises less than 10% of the full cost of a self-funded pension.

Any reference to fiscal sustainability raises the issue of defining the "cost" of tax incentives.

There has been an on-going debate regarding the benchmark used to measure 'tax expenditures' in the annual Tax Expenditures Statement. Serious economists now agree that the benchmark used by Treasury is not appropriate – and senior Treasury officials have acknowledged that the reported figures (about $32 billion) should not be considered to be the tax that could be saved if the super system was scrapped.

It is therefore important to ensure that any reference to "fiscal sustainability" is clear that cash costs of Age Pensions cannot be compared to the "cost" of tax incentives. If not then there will remain the risk that future Governments will interpret the "cost" of tax incentives to suit their political purpose.

We agree that to maximise sustainability, tax concessions should be targeted and just enough to meet the objective. Tax efficiency is also a factor in minimising the 'cost' of tax incentives. The taxing point for superannuation savings and earnings thereon has a bearing on its efficiency i.e. the cost of incentives to achieve the same outcome.

We address this issue and the measurement of tax incentive costs in Appendix C as a side but important issue.

We agree that the system of tax incentives should have limits. We also agree that the current system of limiting tax-concessional contributions is preferable to taxing or otherwise limiting the results of savings. The latter would be economically inefficient.

To be equitable, the limits should be set so that the vast majority of working Australians have the incentive and opportunity to save enough to meet the appropriate replacement rate. However, we are concerned that the use of the word "targeted" in above extract from the Discussion Paper is intended to imply limiting incentives/concessions for the purpose of reducing the cost of the Age Pension rather than "targeting" meaning the **equitable** application of tax concessions and limits at the right level to just achieve the objective.

In our modelling of a mature superannuation system, we have assume a target replacement rate of 70% for those on low income with the rate falling with rising incomes. We have also assumed that the impact of caps on contribution caps only begins to restrict savings for those on three time the average weekly earnings.

d. Increasing national savings.

The Discussion Paper suggested that:

> *While this was an important motivation for establishment of the superannuation system, as perceptions and the economy have evolved the need for prominence in the objective may have reduced.*

We would go further. We do not believe that increasing national savings should be an objective of the superannuation system. It is a consequential benefit.

The risk of referring to it as an objective – even a subsidiary one – is that future Governments may use this as a reason to take more control of the savings pool and implement mandatory direction of investments. This would not be in the long-term benefit of the savings pool and must be avoided.

2. Primary Objective

The FSI recommended the following primary objective:

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

Whilst it may be appealing for the Government to proceed with such a definition given that it has already been recommended by an independent body and may have some bi-partisan support, we urge the Government not to be swayed by such considerations.

We urge the Minister to avoid any push by media, commercial interests and political parties to compromise the wording of such an important objective but instead to drive for a statement of objective that is equitable, robust, will stand the test of time and minimises the risk of future Governments making short-term changes to the detriment of equity and savings. Whilst we recognise that this is an election year, we strongly believe that history will reward those who push for the **best** statement of objective rather than an easy compromise.

We commend the FSI in proposing that the superannuation objectives be enshrined in legislation and that any proposed changes to the system are consistent with the objective but we do not agree with its statement of the primary objective.

The primary objective should be a balance between simplicity and brevity on the one hand while being clear and meaningful on the other. In this context, we think that the FSI's primary objective is too limited and too vague to be a meaningful guide to the evolution of the superannuation system for the long-term benefit of all Australians. If the primary objective is not clear and meaningful, there will continue to be a risk of unsettling changes to superannuation that will cause uncertainty and reduce confidence in the system.

Our particular problems with this definition can be summarised as follows:

a. The primary objective must be clear enough to minimise the risk of subsequent Governments 're-interpreting' superannuation to meet political objectives that may not be consistent with self-reliance and a strong savings culture nor the original objective of superannuation;

b. We believe that the superannuation system is a vehicle for long-term savings to support self-funded retirement income; however there is no reference to savings in the FSI definition which is a serious omission given that everyone agrees that some tax incentives are required to encourage savings;

c. It implies that the Age Pension should be our primary pension system with the role of superannuation to just replace or 'supplement' it, which is contrary to the concept of the three-pillars architecture. Under this architecture, the superannuation system should, by providing two of the three planks, be the one most people rely upon, with the Age Pension only acting as a safety net for a small minority. Whether or not this is now the case is irrelevant; it should be the aspiration.

d. The linkage to the Age Pension also implies a 'levelling' of aspirations whereas it is generally recognised that in a developed society, everyone should aspire to and be provided with the means and encouragement to save enough to allow them to retire on a pension that bears a reasonable relationship to their income before retirement.

e. It makes no reference to any benchmark for success or adequacy of the system nor to principles of equity.

We explain these concerns further below.

The process that this Government has now started presents it with the opportunity to enshrine an objective that is equitable and robust and also withstands the test of time. In particular, it is recognised that the constant Government adjustments, and threats of adjustments, to the superannuation system over the past few years has increased uncertainty to the detriment of an effective system.

It is therefore important that the formulated objective is clear enough to minimise changes by subsequent Governments that hinder the effective development or operation of the superannuation system. In particular, we have heard commentary from some political parties, media and so-called 'think-tanks' that suggest they see that the Government's primary role is to support the Age Pension system and that it would be acceptable for every Australian to retire on the Age Pension – or a self-funded pension of similar size. Indeed we have the impression that there are some powerful influencers who would prefer there to be no superannuation system and for most Australians to be dependent upon the Government-funded Age Pension. (Refer Grattan Institute policies)

Such an approach represents an incorrect view of the reasons the superannuation system was established, is contrary to the internationally-accepted objective of a sound retirement system and would not be in the best national interests. (Appendix D)

Tax concessions for retirement savings have been around for as long as the income tax system (since 1915) and are an established part of our tax system. The first references to the system "supplementing" the age pension was when the Hawke Government was selling the idea of **compulsory** superannuation for everyone. So the idea of superannuation just providing enough to fund a bit more than the Age Pension may more legitimately apply to the level of superannuation guarantee levy rather than limits on voluntary contributions.

Such a 'levelling' of aspirations is also inconsistent with a political system that should encourage and reward individual self-help, hard work, savings and innovation in order to maximise the growth potential of the nation.

We do not believe that the FSI objective is clear enough to provide adequate protection against subsequent Governments making changes that have an adverse impact on the effectiveness of the superannuation system. It also makes no reference to the mechanism by which the system will provide retirement income, that is the development of adequate private savings.

We also believe that the linking in the objective of the superannuation system with the Age Pension implies that the Age Pension provides the primary retirement funding with the superannuation system merely "supplementing" this. Whereas, we believe, consistent with the three-pillar architecture, the superannuation system should be the one most people rely upon with the Age Pension as a safety net for a small minority.

We note that Dr Henry's report entitled Australia Future Taxation System gave some prominence to the principle of 'acceptability' that recognises 'equity' as including the need to balance pre-retirement and post-retirement income requirements. We have referred to this in our discussion of "adequacy" and "equity" in section 1b above.

Our considered view of the primary objective is therefore much closer to the adopted by the European Union than the FSI proposal:

The primary objective of the superannuation system is to give every working Australian the opportunity and encouragement to save enough so that they can fund an income in retirement that allows them to maintain to a reasonable degree their living standard after retirement;

We believe that the implication of our proposal vs the FSI recommendation are that it states more explicitly and as a more **aspirational** objective:

- **what** the super system does - save funds;
- **why** it does it - to fund income in retirement;
- **how** to achieve it - by providing opportunity and encouragement and
- **what** principles of **adequacy** & **equity** should be applied

  -it should be for **every** Australian taxpayer

  -it should smooth consumption so that for **most** people, their standard of living is maintained to a reasonable degree in retirement.

3. Subsidiary Objectives

The FSI listed a number of subsidiary objectives as follows:

a. *Facilitate consumption smoothing over the course of an individual's life;*
b. *Help people manage financial risks in retirement;*
c. *Be fully funded from savings;*
d. *Be invested in the best interests of superannuation fund members;*
e. *Alleviate fiscal pressures on Government from the retirement income system;*
f. *Be simple and efficient and provide safeguards.*

After consideration we think that setting down some principles regarding the application of the "primary objective" statement may be the best approach rather than listing "subsidiary objectives". In this way there is only ONE objective which we believe should be more complete than is proposed by the FSI and should be **aspirational** in the sense of giving all Australians the opportunity to save for a secure retirement, The principles should then add clarification in the interpretation of this primary objective.

Having said that, we do not particularly disagree with the above list whether they are called ‘subsidiary objectives’ or ‘principles’ but have the following comments on them – in order:

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

FSI said:

> *“Superannuation is a vehicle for individuals to fund consumption in retirement largely from working life income. The system should facilitate consumption smoothing while providing choice and flexibility to meet individual needs and preferences.”*

We agree with this principle/objective if it means the income of each Australian is smoothed so that in retirement it bears a reasonable relationship to that person’s income before retirement; however, given the failure of many people to grasp this issue and disagreement on the meaning of ‘adequate’ we strongly recommend that some words reflecting this principle be embodied in the primary objective;

b. Help people manage financial risks in retirement

FSI said:

> *“Risk management is important as retirees generally have limited opportunities to replenish losses. The retirement income system should help individuals manage longevity risk, investment risk and inflation risk. Products with risk pooling would help people to manage longevity risk efficiently.”*

Whilst it is difficult to contradict such an admirable objective and we would support the development of competitively-priced risk management products, we would be concerned that the less-than precise wording of such a subsidiary objective could be interpreted by future Governments as implying that each person MUST allow their financial risk to be managed by the Government;

c. Be fully funded from savings

FSI said:

> *“A fully-funded system, as opposed to an unfunded system, is important for sustainability and stability. The system is designed to be predominantly funded by savings from working life income and investment earnings, where superannuation fund members in general have claims on all assets in the fund.”*

We agree with this but as per a) believe that encouragement to save to fully-fund a pension is the primary objective of superannuation.

d. Be invested in the best interests of superannuation fund members

FSI said:

> *“Superannuation funds are managed for the sole benefit of members, which means the investment focus should be on maximising risk-adjusted returns, net of fees and taxes, over the lifetime of a member. This results in auxiliary benefits to the economy by creating a pool of savings to fund long-term investment.”*

Again, we are not quite sure why this should be listed here. The self-managed super system is the basic system as it was before the SIS Act. This requirement for funds to be managed for the sole benefit of members (rather than objective) is surely only relevant when an individual decides to allow someone else to manage their savings. It should therefore be enshrined in the relevant regulations relating to third-party management of superannuation savings and be a much stronger binding obligation than these superannuation objectives which are intended to only be 'guiding' principles.

However, to the extent that this objective minimises the risk of subsequent Governments attempting to direct investments mandatorily then there should perhaps be reference but we would prefer it to be more explicit that there should be no mandatory direction of investments.

e. Alleviate fiscal pressures on Government from the retirement income system

FSI said:

> *"Government's total contribution to the retirement income system, through both the Age Pension and superannuation tax concessions, needs to be sustainable and targeted. Higher private provisioning for retirement should reduce the burden on public finances."*

Whilst the reduction in the cost of Age Pensions is a very significant consequential benefit of a successful superannuation system, it is dangerous to specify it as an objective. This may imply to a future Governments that the objective is **solely** to reduce Age Pension costs leading to a much restricted superannuation system that would be inequitable to most Australians.

f. Be simple and efficient and provide safeguards.

FSI said:

> *"The system should achieve its objectives at the minimum cost to individuals and taxpayers. Complexity is less appropriate for a compulsory system, as it tends to add to costs and to favour sophisticated and well-informed investors. Given the compulsory nature of SG contributions, the system needs prudential oversight and should provide good outcomes in both the accumulation and retirement phases for disengaged fund members."*

We strongly agree with the simplicity objective and have proposed in our submission to the Tax White Paper Task Force a number of ways in which the system could be simplified. (see Appendix A in our Submission to the TAX WHITE PAPER TASK FORCE)

"provide safeguards" is one of those phrases that is difficult to disagree with but does not mean much without specifying what risks the system is intended to safeguard a person from. We believe that a Government should minimise its involvement in a person's life and focus on providing the best environment in which every person has the opportunity to grow, flourish, save and contribute to society. The *"prudential oversight"* that FSI suggested in its explanation of this objective is important with respect to the third-party management of other people's savings and is covered in regulations administered by APRA but we do not quite see its place in this list of objectives.

What is **missing** from this list is:

i. any reference to 'equity', what this means and how and why there should be constraints on an equitable distribution of tax incentives;

ii. any reference to stability and the importance of maintaining confidence by minimising the impact and frequency of changes to the system;

iii. any reference to the system being structured and administered to so as to maximise competitive market efficiency in its operation so that costs to savers are minimised.

We therefore propose the following principles that should be applied in meeting our primary objective.

a. Sufficient tax incentives are required in order to encourage each individual not to spend all of their income but to save some for their retirement;

b. The superannuation system is part of a three-pillar retirement income system (comprising the Age Pension safety net, mandatory and voluntary superannuation contributions) and that the cost of tax incentives beyond those necessary to encourage adequate savings and the cost of Age Pensions should have regard to the fiscal sustainability of the overall system;

c. For individuals to have confidence investing their savings in superannuation for many years, it must be stable with any changes limited, justified in terms of this objective and, in particular, not retrospective nor adversely impacting those who have made retirement decisions;

d. The adequacy of savings must take into account the risks borne by each individual with regard to longevity and also health, aged-care and other unpredictable costs during retirement;

e. The distribution of tax incentives must be equitable, meaning that they should generally be proportional to the income taxes paid by each individual. Any tax concession to an individual or group of individuals that is not proportional to the taxes that individual or group has paid represents a transfer to or from that individual/group to another, is inequitable and must be justified.

f. Any limits on tax incentives must apply to contributions rather than investment outcomes and provide flexibility to allow for uneven income over an individual's working life

g. Any limits on tax incentives should not unreasonably constrain most taxpayers from meeting this objective;

h. Savings are to be invested in the best interests of each member and must not be subject to mandatory direction;

i. The system's structure and administrative rules are kept as simple as possible and all reasonable steps are taken to maximise competitive market efficiency in its operation so that costs to savers are minimised.

4. How should objective be legislated?

We do not have a set view on which legislation should contain the Objective and the guiding or interpretative principles. Our concern is that these should be entrenched or protected in a manner which makes them binding until they are amended and difficult to amend. We feel that this will engender confidence in the superannuation system which should encourage individuals to make the long-term savings in superannuation which is the essence of a successful system.

Appendix A

European Union's 2007 adequate and sustainable pensions work programme objectives

In 2007 the European Union, then comprising 27 countries with combined populations of nearly half a billion, adopted the following statement of objectives for an adequate and sustainable pension (Australia and New Zealand appear to be only countries that call it "superannuation") system.

"Adequate and sustainable pensions by ensuring:

a. Adequate retirement incomes for all and access to pensions which allow people to maintain to a reasonable degree, their living standard after retirement, in the spirit of solidarity and fairness between and within generations;

b. The financial sustainability of public and private pension schemes, bearing in mind pressures on public finances and the ageing populations, and in the context of the three-pronged strategy for tackling the budgetary implications of ageing, notably by: supporting longer working lives and active ageing; by balancing contributions and benefits in an appropriate and socially fair manner; and by promoting the affordability and the security of funded and private schemes;

c. That pension systems are transparent, well adapted to the needs and aspirations of women and men and the requirements of modern societies, demographic ageing and structural change; that people receive the information they need to plan their retirement and that reforms are conducted on the basis of the broadest possible consensus."

Appendix B

Types of distributive norms

Distributive justice concerns the nature of a socially just allocation of goods in society.

Five types of distributive norm are defined by Forsyth(1):

1. **Equity**: Members' outcomes should be based upon their inputs. Therefore, an individual who has invested a large amount of input (e.g. time, money, energy) should receive more from the group than someone who has contributed very little.
2. **Equality**: Regardless of their inputs, all group members should be given an equal share of the rewards/costs. Equality supports that someone who contributes 20% of the group's resources should receive as much as someone who contributes 60%.
3. **Power**: Those with more authority, status, or control over the group should receive more than those in lower level positions.
4. **Need**: Those in greatest need should be provided with resources needed to meet those needs. These individuals should be given more resources than those who already possess them, regardless of their input.
5. **Responsibility**: Group members who have the most should share their resources with those who have less.

(1) Forsyth, D. R. (2006).

Appendix C

Superannuation Adequacy

The issue of adequacy (rather than equity) should address whether the tax incentives provided by Government are too high or too low to achieve the necessary savings.

There has been an on-going debate regarding the benchmark used to measure 'tax expenditures' in the annual Tax Expenditures Statement. Serious economists now agree that the benchmark used by Treasury is not appropriate – and senior Treasury officials have acknowledged that the reported figures (about $32billion) should not be considered to be the tax that could be saved if the super system was scrapped.

It is also generally agreed by economists that our earlier system or EET (i.e. contributions Exempt; earnings Exempt and pensions Taxed at progressive rates) is the appropriate international 'standard'. We now agree that it is impossible to revert to this system.
However, we can compare taxes paid under various proposals with the taxes paid under the EET system to decide which one is 'fair'. On this basis, our analysis indicates that the current system is slightly more generous than the EET standard for those Australians on 2 to 3 times AWOTE but that changing to the progressive contribution's tax system we have proposed is less generous that the EET standard.

Furthermore, we can consider better targeting tax concessions as meaning that the efficiency of taxes should be maximised. This means that taxes should be applied so as to maximise the present value of superannuation tax receipts to achieve the same objective.

Appendix D

Original objectives of superannuation

Whilst there was not a specific objective for the superannuation system enshrined in legislation there is considerable evidence regarding the intentions of the politicians who introduced such measures.

Many commentators mention superannuation as commencing in 1992. However, this was the year that universal compulsory superannuation was introduced. The other 'pillar' – voluntary contributions to superannuation savings encouraged by lower tax rates has been around as long as the income tax system - since 1915.

From the introduction of income tax, contributions into a superannuation savings fund were deductible and earnings on the fund were tax-free.

It was only the third pillar of the three-pillar system – compulsory contributions – that was first included in some industrial awards. This was then extended to all employees in 1992.

In the late 1980's compulsory superannuation was sold as a way for workers to secure a higher income in retirement than provided by the Age Pension. Prime Minister Hawke said that *"workers could look forward to a better standard of living in retirement by supplementing the pension from their own savings."*

Mr Howe who was a Minister in the Hawke Government says that: *"the age pension is primarily designed as social security, whereas compulsory superannuation is about encouraging savings over and above the pension system".*

In 1991 prior to the introduction of universal compulsory superannuation, Mr Keating as Treasurer said that:

"Such a scheme would maintain the age and service pensions as the foundation of equity and adequacy in retirement income arrangements, but be complemented by the income of private superannuation with the dual systems integrated through tax and social security systems."

It is clear that the idea of a basic "adequacy" level of retirement income was always intended to be covered by the age pension. It is equally clear that the Labor Government when introducing compulsory superannuation intended that it provide a higher standard of living than this "adequate" level.