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**SUPERANNUATION
CONSUMERS'
Centre**

The Objective of the Superannuation System

1. Do you agree with the objectives recommended by the Financial System Inquiry?

The Primary Objective-Adequate Retirement Income

The 3 pillars of the Australian retirement incomes system developed in the early 1990's were:

- compulsory employment-based superannuation,
- the age pension, and
- voluntary savings.

Compulsory superannuation was designed to meet the perceived pressure that would be placed on the age pension by the so-called baby boomer generation as they transitioned to retirement. This was to be achieved by compulsory employer-sponsored contributions such that Australian workers would have enough retirement savings so as not to be wholly or perhaps partly reliant on the age pension.

This goal has not changed in the last 25 years and remains the focus of compulsory superannuation, albeit that there are concerns as to whether it will be achieved with the current levels of compulsory superannuation contributions.

Accordingly, we endorse the FSI recommended primary objective 'to provide income in retirement or supplement the age pension', save that we would add the word 'adequate' before 'income'.

This amendment would emphasize that superannuation was not designed as a wealth creation vehicle for high income earners to maximise their wealth through subsidized or reduced taxation but as a means for Australian retirees to have sufficient income in retirement to provide for their basic or reasonable needs, not their wants.

Other Objectives

Smoothing Consumption

Consumption smoothing over a person's life is more a consequence of superannuation, rather than an objective.

Indeed, depending on how it is defined, consumption during a person's working life does not necessarily run counter to promoting retirement income e.g. investment in a family home or investment property.

Assisting the Management of Financial Risks

This objective has not been a focus of the superannuation system to date. The focus has been on the investment strategies and risks associated with accruing and managing income during a person's working life for retirement, not in retirement.

However, if a retirement income is squandered by poor investment decision-making in retirement, the policy setting and taxpayer-funded concessions in accruing that retirement income are lost.

Accordingly, the development and implementation of post-retirement investment and risk management rules is crucial.

Fully-Funded

Unfunded defined benefits funds have run into problems in the past, particularly government-sponsored funds which require taxpayer top-ups. This can create political controversy and undermine the integrity of the fund and, potentially, the entire superannuation system.

Accordingly a fully funded superannuation system is very important.

Best Interest Test

It is a core tenant that superannuation funds must be administered for the sole benefit of members (and beneficiaries where applicable). This is a basic trust law principle and must be enshrined in the objectives of the superannuation system.

Reduce the Burden on Taxpayers

The balance between providing concessional taxation to promote retirement savings and paying the age pension is delicate and important. Self-funded retirement undoubtedly comes at a cost to the public purse and the objective of a net benefit in the provisioning for retirement is very important.

The objective is lost if the cost of providing tax incentives for savings outweighs the cost of providing the age pension.

Simplicity, Efficiency and Safeguards

The compulsory nature of employment superannuation has created a large pool of disengaged or unsophisticated investors. Although the level of member engagement has improved over time, it remains a problem and exposes fund members to risks of exploitation and poor decision-making.

Accordingly, the promotion of member engagement by reducing complexity is a must. This will in turn create efficiencies as members need less administrative attention.

Similarly, safeguards against abuses and exploitation of unsophisticated members are also very important to maintain the integrity of the superannuation system.

Smaller Product Disclosure Statements and annual member statements written in plain English and a robust, independent and well-funded external dispute resolution scheme (the Superannuation Complaints Tribunal) are key indicators of these objectives.

Other-Insurance

The objective of using diverted employment earnings of working Australians to accumulate an adequate retirement income is undermined in respect of those whose working lives are cut short by disability.

In most situations, that cohort of the working population will not be able to accrue an adequate retirement income or to provide for their dependents.

This is particularly true of those suffering chronic illnesses with an onset in adulthood and which often compromise their ability to work to normal retirement age eg many cancers, Multiple Sclerosis, some mental illnesses etc.

The provision of disability insurance benefits within superannuation to 'top up' a member's retirement income to an adequate level is both consistent with and a promotion of the objective of superannuation.

2. If you do Not Agree, what do you think should be the Objective of Superannuation?

As above

3. In which piece of Legislation should the Objective be Legislated?

Compulsory superannuation was ushered in under the Superannuation Industry (Supervision) package of legislation in 1992/1993. The flagship was the Superannuation Industry (Supervision) Act 1993 (the SIS Act). Other Acts included the Superannuation Guarantee (Administration) Act 1992 and the Superannuation (Resolution of Complaints) Act 1993 which sit alongside and support the SIS Act.

The package of legislation was comprehensive and all have subsequently been amended and updated on numerous occasions.

The obvious place for the objectives of superannuation to sit is the SIS Act, the cornerstone of regulation of the superannuation system in Australia.

The objectives could thereby act as a ready guide to policy makers when they consider further amendments and to the public's understanding of Australia's very comprehensive retirement income system.

Whilst the discussion paper states that the objectives would not affect the interpretation or application of superannuation legislation by the courts, carefully drafted objectives could serve as a useful tool in judicial (and that of the Superannuation Complaints Tribunal) interpretation of what is a complex suite of legislation

For further information in relation to this submission, please contact:

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