



Submission on the Australian  
Government's  
'Objective of Superannuation'  
Discussion Paper

UnitingCare Australia

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*UnitingCare Australia is the national body for social services in the Uniting Church in Australia, supporting service delivery and advocacy for children, young people, families, people with disabilities, and older people*

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## About UnitingCare Australia

UnitingCare Australia is the national body for the UnitingCare Network, one of the largest providers of community services in Australia. With over 1,600 sites, the network employs 40,000 staff and is supported by the work of over 30,000 volunteers. We provide services to children, young people and families, Indigenous Australians, people with disabilities, the poor and disadvantaged, people from culturally diverse backgrounds and older Australians in urban, rural and remote communities.

UnitingCare Australia works with and on behalf of the UnitingCare Network to advocate for policies and programs that will improve people's quality of life. UnitingCare Australia is committed to speaking with and on behalf of those who are the most vulnerable and disadvantaged, for the common good.



## 1. Introduction

UnitingCare Australia shares the Australian Government's desire, expressed in its response to the Financial System Inquiry (FSI), to engage the community in a discussion about 'fairness, adequacy and dignity' in the superannuation system<sup>1</sup>. UnitingCare supports the view that a sustainable superannuation system, complemented by the safety net of social transfers, is critical to ensuring that all Australians have adequate retirement incomes.

UnitingCare maintains that everyone living in Australia should have the means and opportunity to live a decent life. The building blocks for a decent life include access to food, clothing, housing, health care, and social and community engagement. We should have adequate income to live with dignity, including when we are reliant on welfare. (This submission addresses 'adequacy' further in section 4.2 below.)

Australia's population is projected to increase to around 38 million by 2059–60, about 15.5 million more than the population at the end of 2011–12. At the same time, population ageing will accelerate, reflecting gains in life expectancy and lower fertility rates. Projections suggest that the proportion of the population aged 65 years or more will increase from around one in seven Australians in 2012 to one in four Australians by 2060, and close to 1 in 3.5 at the turn of the next century.<sup>2</sup> These projections, and associated labour force projections, raise serious questions about the shape of Australia's future economy, and particularly its capacity to deliver the public services that we currently expect.

**In a future economy where sources of economic growth are diminished, concentration of wealth and assets amongst a small section of the population will be growth-limiting.**

UnitingCare recognises the importance of a superannuation system that encourages lifetime retirement planning. The 'special treatment' of superannuation trusts, savings and retirement incomes recognises

- it is in the public interest for individuals to have access to secure superannuation that will enable them to retire with an adequate income; and
- enhancing the capacity of individuals to save over their working life is an effective way of improving living standards in retirement.

Perhaps equally important is to recognise the roles that both superannuation and retirement income support policies—alongside other fiscal measures that redistribute income and wealth—play as drivers of economic growth. Just as taxation policy should be

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<sup>1</sup> In this submission, unless indicated otherwise, we use 'the superannuation system' in the same way as the FSI, and the Government's response to the report, to refer collectively to the mandatory savings and the voluntary savings components of superannuation.

<sup>2</sup> Projections in this paragraph are from 'An Ageing Australia: Preparing for the Future', Commission Research Paper, Productivity Commission Canberra 2013.

progressive—fair and well targeted according to the capacity to contribute—superannuation and retirement income policies need to recognise that increasing economic autonomy for lower income households reduces social costs and increases individual members’ capacities to contribute to the community and the economy. This comes into play at two points.

Firstly, superannuation policies will affect household incomes and investment decisions during the working/accumulation phase. Higher income inequality at this life stage lowers growth by depriving lower-income households of resources to access health, housing and education services and impacts their capacity to accumulate physical and human capital. Across an economy, this can have a long term impact on individual investment in education and subsequently labour productivity could be lower than it would have been in a more equal world.<sup>3</sup>

Increasing concentration of incomes also reduces aggregate demand and undermines growth, because the wealthy spend a lower fraction of their incomes than middle- and lower-income groups. Superannuation and retirement income support policies are redistributive policies that need to be considered alongside other policies that seek to make taxation more efficient and progressive or to improve targeting of spending on social welfare.

***[Financial Services Inquiry] Recommendation 9: Seek broad political agreement for, and enshrine in legislation, the objectives of the superannuation system and report publicly on how policy proposals are consistent with achieving these objectives over the long term.***

UnitingCare thinks it is important to consider the context and objective of the FSI’s recommendation to enshrine the objectives of the superannuation system in legislation, though these are not alluded to in the discussion paper. The FSI’s report states that ‘[a]ssessing the current superannuation system against the primary and subsidiary objectives outlined in [the discussion of the recommendation] identified a number of weaknesses that have given rise to recommendations in this report. These include the lack of focus on retirement incomes over other objectives, the lack of operational efficiency in the system, the lack of risk management in retirement, the inefficiency in converting wealth to retirement income, the ability of superannuation funds to borrow rather than be fully funded from savings, poorly targeted tax concessions, and safeguards that could be strengthened to assist members.’

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<sup>3</sup> This and the following paragraph draws on the findings presented in ‘Causes and Consequences of Income Inequality: A Global Perspective’, Staff Discussion Note by Era Dabla-Norris, Kalpana Kochhar, Frantisek Ricka, Nujin Suphaphiphat, and Evridiki Tsounta, International Monetary Fund Strategy, Policy, and Review Department. The note does not necessarily represent IMF views or IMF policy.

The objectives of the recommendation were set out as:

- [to] provide a framework for evaluating the efficiency and effectiveness of the superannuation system; and
- contribute to greater long-term confidence and policy stability through agreed objectives, against which superannuation policy proposals can be assessed.

We support these objectives, and the recommendation—to the extent that it is pursued fully and backed up by a legislated requirement to report publicly on how policy proposals are consistent with achieving these objectives over the long term. The Government’s response to the FSI was silent on this element. It is critical that the Government’s legislative actions deliver in full against the objectives of recommendation 9.

Actions that increase ‘transparency around the objectives of policy proposals [and] help frame parliamentary and public debate’ and ‘periodically assess the extent to which the superannuation system is meeting its objectives’ would have a low cost of implementation but positive benefits in terms of public access to information and understanding of the superannuation system. We recommend that the government go further and consider developing a ‘financial inclusion’ policy, commencing with a financial literacy program to increase the capacity of low income Australians to manage their incomes and provide for their financial needs over time. (This point is expanded in section 4.3 below.)

Government intervention, in the form of the Superannuation Guarantee, has shaped the community’s expectations as to the objective of superannuation. UnitingCare believes, however, that the current combination of taxation and superannuation laws has distorted the system in a way that does not meet these expectations. Particularly in relation to voluntary contributions, the benefits of current settings are skewed towards those who are already financially well positioned.<sup>4</sup> We consider that in the process of articulating the objective of superannuation, it is important to reflect the basis for special treatment of superannuation as a form of saving, while ensuring that the core values of ‘fairness, adequacy and dignity’ are also acknowledged.

## **2. Proposed legislative approach**

UnitingCare Australia believes that, in order for the legislated objective to be meaningful, it needs to be complemented by explanatory material that gives the objective context, and that public reporting should be mandated. Amongst the regulators with roles in superannuation policy and compliance, the Australian Securities and Investments

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<sup>4</sup> See for example Figure 3.1: Percentage of value of superannuation concessions per income decile, ‘Super tax targeting’, Daley, J., Coates, B., Wood, D., and Parsonage, H., Grattan Institute, 2015.

Commission (ASIC) is best placed to take a public reporting role. This function would be consistent with ASIC's strategic priority 'promoting confident and informed investors and financial consumers'<sup>5</sup>.

UnitingCare therefore recommends:

1. amendment of the *Australian Securities and Investments Commission Act 2001* to insert a statement of the objective, and to create a monitoring and reporting function relating to the objective; and
2. that ASIC undertake a stocktake of regulatory/administrative decisions to which the objective is relevant.

### 3. Proposed objectives of superannuation

UnitingCare Australia believes that it is important to assert the expectation that all Australian citizens should have, at a minimum, an adequate standard of living in retirement and therefore that this language should be entrenched within the objective of superannuation. We acknowledge that any expectation that superannuation alone will provide such an income level is aspirational, given projections that a high proportion of retired Australians will continue to be reliant on the aged pension regardless of the 'maturity' of the compulsory superannuation system.<sup>6</sup> We also believe that the statement of objectives should explicitly refer to dependents.

In order to be meaningful, the legislated objective/s of the superannuation system must serve to provide policy makers with endorsed 'first principles' that provide a minimum benchmark when considering measures that affect Australia's system of interacting income and social transfer systems. As such, we think a legislative statement must

- be simple and should not attempt to address all related issues (such as national savings or income inequality);
- as far as possible be neutral as to the current policy settings (for example by not referring to the current system of compulsory contributions);
- reflect the common understanding of superannuation as a secure, accessible vehicle for saving for retirement.

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<sup>5</sup> <http://www.asic.gov.au/regulatory-resources/superannuation-funds/asics-role-in-super/>

<sup>6</sup> 'An Ageing Australia: Preparing for the Future' (FN2) projects that government expenditure on the aged pension will stabilise at between 3.5 and 4 per cent of GDP as the superannuation system 'matures' between 2030 and 2040.

UnitingCare recommends the following primary objective:

*To provide income in retirement to sustain an adequate standard of living for individuals and their dependents.*

We support the intent to increase the capacity for retired Australians, where possible and reasonable, to be financially independent (or to reduce reliance on social transfers), however we consider this a subsidiary purpose of superannuation. The relationship between the Age Pension and private superannuation is a related policy issue as is the fairness of taxation treatments during superannuation accumulation and draw down phases. While neither are the focus of this submission, the role of superannuation policy in transitioning the Australian population to a greater degree of financial security in retirement could be incorporated into explanatory materials.

UnitingCare Australia's responses to the subsidiary objectives set out in the discussion paper are set out in the tables below.

<b>Table 1 Responses to Financial Services Inquiry recommendations regarding subsidiary objectives.</b>	
<b>Subsidiary objectives</b>	<b>Why the objective should not be included in the proposed legislation</b>
Facilitate consumption smoothing over the course of an individual's life	<p>We consider that this concept is more simply addressed by reference to savings or providing security of income to maintain an adequate standard of living. The term 'consumption smoothing' suggests to us that saving for superannuation is intended to moderate lifestyle choices during the accumulation phase.</p> <p>For many people, in particular those on low incomes or who for a range of other reasons do not achieve adequate superannuation through compulsory superannuation, saving is not a possibility. Savings capacity will also be severely limited at some life stages, for example for families with young children. Encouraging good financial management, including saving according to capacity, has considerable merit. The more significant risk that the system should alleviate is a lack of preparation for financial risks during retirement (as set out in the report's next point).</p>
Help people manage financial risks in retirement	<p>We agree that risk management is important, however see this as a function of the superannuation product rather than the member per sé. Prudential requirements of superannuation funds (including for SMSFs) should protect against the risk of loss of the capital base. The retirement income system as a whole should manage longevity risk, investment risk and inflation risk in order to meet the overall objective of supporting an adequate retirement income.</p> <p>We consider this point can also be covered in a single, simplified point as proposed in Table 2.</p>



<b>Table 1 continued</b>	
<b>Subsidiary objectives</b>	<b>Why the objective should not be included in the proposed legislation</b>
Be fully funded from savings	<p>We consider that a fully funded system, as opposed to an unfunded system, is desirable from the perspectives of sustainability and stability. We do not consider this a purpose, however, but a model.</p> <p>We agree that most systems in the future will be designed to be predominantly funded by savings from working life income and investment earnings. This is not currently the case, however and we would not like to rule out other possibilities, for example if models were to emerge for workers whose incomes during their working life are too low to support 'savings'.</p>
Be invested in the best interests of superannuation fund members	We agree with the point that superannuation funds are to be managed for the sole benefit of members. (We do not support including any reference to the auxiliary benefits to the economy, as per the rationale in the discussion paper, as this may suggest a secondary consideration for policy makers which we do not consider is valid.)
Alleviate fiscal pressures on Government from the retirement income system	We support the current government's commitment to ensure that the retirement income system is sustainable and targeted. The statement that '[h]igher private provisioning for retirement should reduce the burden on public finances' is, however, simplistic. It apparently assumes that the current (economy-wide) costs of a measure to increase superannuation contributions will always be offset by future reductions in demand for social transfers. <sup>7</sup> This assumption needs to be more thoroughly examined.
Be simple and efficient, and provide safeguards	<p>We propose that this content be included as suggested in Table 2 below. We have not included a reference to the compulsory nature of superannuation contributions, as the governance principles noted should apply irrespective of whether contributions are made under a compulsory scheme such as the one currently in place, or have been made voluntarily.</p> <p>We agree that the regulatory system should take account of the fact that there will be a proportion of 'disengaged' fund members, and that even well informed members are not actively involved in trust investment decisions. Superannuation product 'providers' should be responsible for ensuring that investors have access to information and capability development opportunities that enable them to understand their choices. We recommend that the Australian Government take a more active role in improving financial literacy in the community, to complement this responsibility.</p>

<sup>7</sup> Section 5.3 of 'An Ageing Australia: Preparing for the Future', (FN2) lists a range of factors that will interact to determine the balance between superannuation and aged pension expenditure into the future; while demand for the pension would be higher in the absence of increased superannuation coverage, the PC paper highlights the risk of underestimating future demand for the aged pension, giving the difficulty of systematically predicting individuals' behaviour in a hypothetical policy context.

**Table 2 Proposed alternative subsidiary objective**

Subsidiary objective	Why the objective is important
<p>Help people manage savings over their lifetime to provide a stable and sustainable lifestyle when they are retired.</p>	<p>Superannuation is a vehicle for individuals to save during their working life so that they have sufficient capital assets to generate an income (ideally a lifetime annuity) that will support an adequate standard of living for themselves and their dependents when they are no longer working.</p> <p>Superannuation products should be simple and providers must ensure that investors understand their investment choices. With the exception of SMSFs, it is a financial product that is distinct from other investments in that it is expected to cater for 'passive' or disengaged fund members possessing minimal financial acumen. The system should achieve its objectives at the minimum cost to individuals and taxpayers.</p> <p>Superannuation income should also be secure—regardless of an individual's longevity and economic conditions. 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. As such, it should be subject to strict prudential oversight and minimise risks of poor outcomes in either the accumulation or retirement phases.</p>

We further recommend that the 'subsidiary objective' and text proposed in Table 2 be considered as a model for explanatory material supporting the primary objective.

#### **4. Additional discussion points**

##### **4.1. Retirement income or standard of living in retirement**

UnitingCare thinks it is important that the statement of superannuation objectives refers to both retirement income and standard of living. The objective we propose: 'To provide income in retirement to sustain an adequate standard of living for individuals and their dependents' retains the FSI's reference to retirement income. As stated above, UnitingCare considers that it is also important to include a reference to an adequate standard of living, in order to reflect community expectations that an investment in superannuation will assist them to maintain an adequate standard of living in retirement.

We consider this language is consistent with the idea that the 'special' treatment accorded to superannuation investments and incomes are not intended to extend without limit to any investment that generates returns during retirement.

We note that lump sums may constitute all or part of a superannuation 'payout', with associated issues for the retirement system as a whole (these were explored by the FSI).

We agree with the FSI that the superannuation system should preference investment vehicles that create retirement income streams. We also consider that the system should enforce boundaries around the lump sum component, but that these are not matters to be resolved through the current process.

The language is important in light of the fact that individuals appear to place too high a value on owning assets, particularly the family home, at the expense of a future superannuation income stream<sup>8</sup>. Australia has a strong culture of home ownership in older generations, coupled with a strong expectation of the intergenerational transfer of housing assets to younger generations. This culture is problematic from the perspectives of both equity and the sustainability of Australia's retirement income and aged care systems.

A structurally ageing population coupled with a very significant structural deficit means Australia cannot continue to pour new resources into the aged care system. At every other point of an Australian's life course, we expect people to contribute to their living costs as they can afford. We believe that retirement should be no different. The intergenerational transmission of housing assets and the concurrent deepening of intergenerational disadvantage is a policy challenge that presents an opportunity to address equity issues for young Australians. If people were required to draw on their family home asset to contribute to their retirement, including aged care, the overall burden on Australia's tax receipts would lessen.

In this context we note that, although the issue of including the value of the family home in income tests is politically challenging, UnitingCare Australia strongly supports consideration of the need to do so, in a timely manner. Policies that effectively preference intergenerational investment in the family home over consideration of that asset value in respect of retirement costs have a bearing across the spectrum of social issues and need to be resolved in the context of broader consideration of income and wealth distribution in Australia. Rather than advantaging young Australians with home-owning older relatives only, this approach delivers advantage equitably across the community.

## **4.2. Adequacy**

While we note that the discussion paper suggests, 'adequacy' means different things to each individual, UnitingCare Australia believes this term should be applied not to annual income, but to standard of living. Thus, someone who does not own a home will need a

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<sup>8</sup> See for example Jun Feng, Paul Gerrans, and Gordon Clark 'Understanding superannuation contribution decisions: Theory and evidence', CSIRO-Monash Superannuation Research Cluster, Working Paper, [http://www.superresearchcluster.com/\\_data/assets/pdf\\_file/0003/106491/cp3wp1-understanding-superannuation-contribution-decisions-theory-and-evidence.pdf](http://www.superresearchcluster.com/_data/assets/pdf_file/0003/106491/cp3wp1-understanding-superannuation-contribution-decisions-theory-and-evidence.pdf)

higher income in retirement to experience an adequate standard of living than someone who does own a home. The relative position of these two individuals will be even more extreme when a need for aged care arises. While a common practice is for retirees to use their home as an asset to fund aged care, in the absence of home ownership aged care must be funded from another source.<sup>9</sup>

The objective of superannuation should reflect the social commitment to an 'adequate' standard of living for all retirees, with income from superannuation contributing to meeting this commitment where an individual has the capacity over her or his lifetime to save towards this goal. UnitingCare does not consider it is necessary to place a quantum on the concept of adequacy: we believe that an adequate standard of living includes access to food, clothing, housing, infrastructure, services including health and dental care, meaningful occupation and recreation. There are a range of issues impacting on older Australians' capacities to experience an adequate standard of living. Income security and access to assets are important factors mitigating against, for example, homelessness and social isolation.<sup>10</sup>

### **4.3. Financial inclusion and financial literacy**

It is evident from public discussions around, for example, access to superannuation to fund house ownership, that the community generally understands that superannuation is a specific type of savings vehicle with particular aims. Nevertheless, research indicates a low average level of financial literacy in Australia and a wide dispersion in financial literacy which compares poorly internationally. Superannuation specific knowledge is limited, which impacts individuals' willingness/ability in developing retirement saving plans.<sup>11</sup>

Retirement saving decisions are complex. The long term outcomes of alternative investment options—for example pay down mortgage more quickly or invest in more superannuation—are subject to debate even amongst (apparently) financially literate members of the

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<sup>9</sup> Refer to previous UnitingCare submission to the Treasury consultation on the Better regulation and governance, enhanced transparency and improved competition in superannuation, [http://www.unitingcare.org.au/images/stories/submissions/2014/140213\\_sub\\_Treasury\\_Consultation\\_on\\_the\\_Better\\_Regulation\\_and\\_governance\\_enhanced\\_transparency\\_and\\_improved\\_competition\\_in\\_superannuation\\_discussion\\_paper.pdf](http://www.unitingcare.org.au/images/stories/submissions/2014/140213_sub_Treasury_Consultation_on_the_Better_Regulation_and_governance_enhanced_transparency_and_improved_competition_in_superannuation_discussion_paper.pdf).

<sup>10</sup> See for example Petersen M., Parsell, C., Phillips, R. and White, G. (2014) Preventing first time homelessness amongst older Australians, AHURI Final Report No.222. Melbourne: Australian Housing and Urban Research Institute.

<sup>11</sup> Highlighted by the FSI and research including 'Understanding superannuation contribution decisions: Theory and evidence' (FN8).

public<sup>12</sup>. Low financial literacy among particular groups including young, low-educated women will reduce the likelihood of retirement planning.

UnitingCare believes that this is an area that the Australian Government should invest in and recommends that the Australian Government follow the lead of New Zealand in developing a national strategy for financial capability<sup>13</sup>, backed up with informing the public as to the purpose of, and choices involved in, superannuation investment.

## 5. Recommendations

The principal purpose of the proposed legislative process is to provide a measure against which to assess policy and legislative settings that impact on an individuals' superannuation investments, either during the accumulation or retirement phase.

UnitingCare makes the following recommendations:

1. amendment of the *Australian Securities and Investments Commission Act 2001* to insert a statement of the objective of superannuation, and to create a monitoring and reporting function relating to the objective;
2. that ASIC undertake a stocktake of regulatory/administrative decisions to which the objective is relevant;
3. that the amendment reflects that the primary objective of superannuation is 'to provide income in retirement to sustain an adequate standard of living for individuals and their dependents';
4. that if the government wishes to include a 'subsidiary objective' supporting the primary objective, that the text proposed in Table 2 above be considered as a model;
5. that ASIC's role include education to improve the financial literacy of Australians around the purpose of, and choices involved in, superannuation; and
6. that the Australian Government consider developing a 'financial inclusion' policy, commencing with a financial literacy program to increase the capacity of low income Australians to manage their incomes and provide for their financial needs over time.

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<sup>12</sup> For example, consider the comments on this article by Greg Jericho:

<http://www.theguardian.com/business/grogonomics/2015/mar/12/allowing-first-home-buyers-to-access-their-superannuation-is-another-harebrained-hockey-idea>

<sup>13</sup> The National Strategy for Financial Capability is a strategy to improve New Zealanders' financial capability, developed within their Commission for Financial Capability, see <http://www.cffc.org.nz/financial-capability/national-strategy/>. In 2012 Finance Ministers of the APEC economies (including Australia), recognised financial literacy to be an essential skill for everyone in the 21st century and an important component of any economy's efforts that will effectively support economic and financial stability, inclusive development and individual and families wellbeing. See APEC ministers, Policy Statement, APEC Ministers of Finance, Financial Literacy and Education

[http://mddb.apec.org/pages/search.aspx?setting=BrowseMinisterialStatement&DocType=%22Ministerial%20Statement%20-%20Sectoral%22&APEGGroup=%22Finance%20Ministerial%20Meetings%20\(FMM\)%22](http://mddb.apec.org/pages/search.aspx?setting=BrowseMinisterialStatement&DocType=%22Ministerial%20Statement%20-%20Sectoral%22&APEGGroup=%22Finance%20Ministerial%20Meetings%20(FMM)%22)