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6 April 2016

Ms Jenny Wilkinson
Division Head
Retirement Income Policy Division
The Treasury
Langton Crescent
PARKES ACT 2600

Email: superannuationobjective@treasury.gov.au

Dear Ms Wilkinson

Objective of Superannuation - Discussion Paper

We refer to the above discussion paper which was released on 9 March 2016 for comment.

The Local Authorities Superannuation Fund (known as Vision Super) has been operating since 1947 and was originally a public sector superannuation fund. As at 30 June 2015, we had \$7.6 billion under management and over 102,000 member accounts. Our fund is a hybrid fund with both accumulation and defined benefit members and we provide both lump sum and pension benefits (including life-time pensions).

As a fund that has been operating for nearly 70 years and entrusted with safeguarding and maximising the superannuation savings of our members, Vision Super believes that it is essential that the superannuation industry is competitive, efficient and transparent and has the highest standards of governance. Australians must have confidence to invest in this system and plan for their retirement. The superannuation system encourages greater self-reliance by providing retirement incomes for millions of individuals.

For Australians to have the confidence to invest in the superannuation system, we agree that clear objectives should be set for the superannuation system. However, we believe that this objective should be set for the superannuation system as a whole and not a limited sub-set of the superannuation system.

It is extremely disappointing that the Government has only focussed on enshrining the objectives of the superannuation guarantee (SG) regime. We are extremely concerned that the Government has taken a very limited view of what is meant by the "superannuation system".

The SG legislation only commenced in 1992 while the superannuation system as a whole (including voluntary employer and member contributions) commenced well before this. For example, Vision Super commenced in 1947 nearly 70 years ago and the earliest funds commenced in the late 1800s.

If only the objective(s) of the SG regime is enshrined, the already complex Australian superannuation system will become even more complex if future legislators begin to treat the sub-sets of the superannuation system differently. For example, future legislators may be tempted to tax voluntary employer contributions in a manner that is different to compulsory employer contributions which may/may not be SG contributions or some other form of compulsory contributions. If this occurs, further complications will arise where an employee salary sacrifices into superannuation (which implies that the contributions are voluntary employer contributions) but in many instances, the employer counts salary sacrifice contributions towards their SG contributions.

We believe that it is important that clear objectives are set for the superannuation system as a whole and not just a sub-set of the superannuation system. These objectives should also enshrine how superannuation fits into the Australian retirement savings system.

It has long been accepted that Australia's retirement savings system is built on a three pillar system being:

1. The Government age pension
2. Superannuation savings (which includes both voluntary and compulsory employer contributions and member contributions (which may also be compulsory depending upon the superannuation arrangement they are in)), and
3. Voluntary savings (private savings of the individual).

Unfortunately over recent years, the second pillar has been high-jacked and turned into a 'compulsory savings' pillar which ignores that many employers were making voluntary contributions (and may still be providing such voluntary contributions) prior to the introduction of the SG system. In addition, many members may also be making compulsory contributions based on the requirements of their superannuation arrangements (eg. some defined benefit fund arrangements require the member to make compulsory contributions as part of their defined benefit entitlement).

We believe that the Government should enshrine the objectives of an overarching retirement system that successfully balances the three traditional pillars that Australia's retirement savings system is built on. These should be long term objectives that also include how age, nursing and health care fits into the retirement savings system and address issues relating to such risks as retirement savings system (including the role that the superannuation system plays in relation to these issues).

Importantly, the objectives of Australia's retirement savings system should result in a system that is simple, sufficient and sustainable. Each of these '3 Ss' are critical to the success of Australia's retirement savings system (including the superannuation system) as each aspect of Australia's retirement savings system:

1. Should be free from complexity in design, implementation and operation.

The average person should be able to understand it so that they can make appropriate decisions throughout their lifetime in relation to their retirement savings and expected retirement income

2. Should provide an adequate level of retirement savings.

An individual should have a reasonable standard of living in retirement and the funding of age, nursing and health care should be considered as part of that standard of living, and

3. Should be able to be maintained with minimal legislative change (including tinkering around the edges).

There should be minimal government interference in the operation of the system. The impost on future generations to support the system should also be minimised. The system should also be robust enough to withstand external shocks such as the 2008/09 Global Financial Crisis (GFC).

In relation to the specific questions raised in the discussion paper, our comments are as follows:

1. **Do you agree with the objectives recommended by the FSI? Why?**

We believe that the objectives recommended by the FSI erroneously focus on a small sub-set of the Australian superannuation system.

Any objectives that are enshrined in legislation should relate to the superannuation system in its entirety. Otherwise, there could be significant long term consequences if the treatment of the different sub-sets of the Australian superannuation system diverge over time.

2. 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?

We believe that the primary purpose of the Australian superannuation system in its entirety should be to provide adequate income in retirement (including age, nursing and health care).

The focus of the objectives should be on maximising retirement income. We do not believe the objectives should prescribe the use of annuity/deferred annuity products or any particular form of post retirement product because of the experience of the mis-selling scandals associated with annuity products that have arisen in the international context in UK/Europe/US. Rather, we believe the objectives of the system should foster member choice of simple, low cost income producing products delivered in the 'best interest' of the members concerned.

Importantly, we believe that the enshrined objectives should not create an expectation gap between any aspirational objectives of the system and what can realistically be provided by the Government and the superannuation industry. Any expectation gaps will undermine the future credibility of the superannuation system and the stability and sustainability of the system going-forward.

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

We believe that the objectives of the superannuation system should be enshrined in the Superannuation Industry (Supervision) (SIS) legislation as this is the legislation governing to overall operations of the superannuation industry.

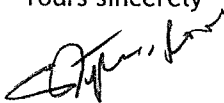
It is critical that these objectives take into account the sole purpose test which has been the long standing accepted purpose of superannuation funds (refer section 62 of the SIS Act).

Because of the breadth of the Australian superannuation system, we believe that it would be inappropriate for any objectives to be included in the SG legislation.

Any additional objectives relating to the overall retirement savings system would need to legislated in a separate piece of legislation.

If you have any queries in relation to the above, please call Noelle Kelleher on (03) 9911 3141 or me on (03) 9911 3236.

Yours sincerely

A handwritten signature in black ink, appearing to read "Stephen Rowe".

Stephen Rowe
Chief Executive Officer