



# Charter of Superannuation Adequacy and Sustainability and Council of Superannuation Custodians

**June 2013**

**AISt Submission**

## AIST

The Australian Institute of Superannuation Trustees (AIST) is an independent, not-for-profit professional body whose mission is to protect the interests of Australia's \$500 billion not-for-profit superannuation sector. AIST's members are the trustee directors and staff of industry, corporate and public-sector superannuation funds, who manage the superannuation accounts of two-thirds of the Australian workforce.

AIST is a registered training organisation and has recently expanded its education program to encompass the growing and changing needs of all members of the not-for-profit superannuation sector.

AIST offers a range of services including compliance and consulting services, events - both national and international - as well as member support. AIST also advocates on behalf of its members to relevant stakeholders.

AIST's services are designed to support members in their endeavour to improve the superannuation system and build a better retirement for all Australians.

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## 1 Executive summary

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AIST welcomes the opportunity to respond to this discussion paper. Our key points in this submission are:

- AIST supports the introduction of the Council of Superannuation Custodians. The Australian superannuation system has matured to the point where there is a need for a body to take responsibility for broad, overarching superannuation policy.
- AIST recommends that to provide proper focus on key drivers of Adequacy, Sustainability and Longevity within the superannuation system, the Council should be charged with the responsibility of developing, recommending and monitoring an Adequacy Benchmark, a Sustainability Benchmark, and Longevity Index.
- Given the importance of these key drivers, AIST recommends that both the Charter for the Council of Superannuation Custodians and the development of these Benchmarks be enshrined within legislation.
- AIST recommends that the Council also play the role of testing superannuation policy changes against these Benchmarks, as well as weighing up the cost of implementing change against benefits to the Australian people.

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## 2 Consultation Issues

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### 2.1 Introduction

Fundamentally, the key driver of the Australian superannuation system has not changed since compulsory superannuation was introduced in 1992. Compulsory Superannuation Guarantee contributions remain, and this has resulted in 98% superannuation coverage of the Australian employees instead of the 58% in 1988<sup>1</sup>. Superannuation Guarantee coverage is underpinned by the Age Pension as a baseline income, as well as voluntary contributions made by members. The Australian superannuation system is highly regarded internationally, as well it might be with such improvements being evident.

AIST supports the development of a superannuation Charter and the Council of Superannuation Custodians. In so giving our support, we address the question “why is a new body required”:

1. There is need for an overarching policy approach to the superannuation system, while recognising the role of various regulatory bodies in prudential matters; and
2. Given the maturing nature of Australia’s superannuation system, we need to set benchmarks to both assess the system and drive policy change. The establishment and ongoing review of such benchmarks could be the province of the Council of Superannuation Custodians:

#### Adequacy Benchmark

While recognising that an individual’s retirement goals are varied, AIST strongly believes that a nationally accepted benchmark of what is an “adequate” retirement is needed (Adequacy Benchmark). The Adequacy Benchmark should state “adequate” retirement savings in terms of income, rather than lump sums. This benchmark could then be used as one of the primary drivers of policy:

- Baseline retirement goal for members; and
- Benchmark for superannuation contribution, taxation, longevity and Social Security retirement policies.

While there are various definitions of “adequate” superannuation in use, none drive policies such as contribution levels or lump sum tax. There is no single nationally accepted definition of what is “adequate” – some definitions use replacement income on an after tax basis (not recognising Australia’s scaled marginal tax rates) and others use lump sum outcomes.

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<sup>1</sup> Drew, M. and Stanford, J. 2003. *A review of Australia’s compulsory superannuation scheme after a decade*. Discussion paper No 322. [report] Brisbane: ME Drew & J Stanford, p. 3.

## Sustainability Benchmark

AIST recognises that the need for adequacy needs to be balanced against sustainability of the Australian superannuation system. AIST recommends that a national definition of “sustainability” be developed (Sustainability Benchmark).

The Sustainability Benchmark could be used to:

- Set a measure for whether the current superannuation system is sustainable in the long term, thereby providing greater certainty for policy making.
- Determine whether any reform is needed to improve the adequacy of superannuation benefits for Australians, while balancing those reforms against sustainability of the system.
- Examine any proposed changes to the superannuation system against the Sustainability Benchmark.
- Globally benchmark the Australian superannuation system against superannuation systems of other countries.

## Longevity Index

AIST notes the impact of increasing longevity on the Australian superannuation system and recognises the release of a Longevity Index by The Hon Wayne Swan in 2009. The Longevity Index assists with understanding the changing costs for those who wish to fund their retirements and, in particular, examines changing interest rates, inflation and longevity risks and assists with building markets to help manage longevity risks.

The ongoing review of the Longevity Index could also form part of the role of the Council of Superannuation Custodians.

AIST strongly believes that the development and ongoing review of such major Benchmarks would provide certainty and clarity to policy development, and could be a major focus of the Council. Without such clarity, superannuation debate will continue to be at a more detailed, piecemeal level (e.g. caps on contributions, tax on end benefits, concepts such as surcharge). Also, this focus would underpin a clear and unambiguous purpose for the Council of Superannuation Custodians.

The objectives, constitution, and deliverables of the Council need to underpin its potential role as the overarching superannuation structural policy group. Accordingly, AIST believes the Charter itself should be broadly based in style, rather than being prescriptive in nature.

AIST now turns to the specific consultation issues raised within the *Discussion Paper: Charter of Superannuation Adequacy and Sustainability and Council of Superannuation Custodians*.

## 2.2 Core Principles Underpinning the Charter

*“What is your view of the core principles outlined above?”*

**(Discussion paper question 1)**

AIST supports the stated core principles of certainty, adequacy, fairness and sustainability.

AIST notes that in relation to the context that the Age Pension provides a basic level of income support, community sentiment on this issue varies between viewing the Age Pension as an entitlement or as a base line income. How this issue is viewed does drive different outcomes, and should be examined by the Council of Superannuation Custodians.

*“Are there any additional principles that are important in setting retirement incomes policy?”*

**(Discussion paper question 2)**

AIST considers the following principles to be important in setting retirement incomes policy:

- **Three Pillars:** AIST strongly supports the philosophy behind the Three Pillars of the Australian Superannuation System and recommends that this support be stated within the core principles.
- **Fourth Pillar:** With the growing ageing population, AIST supports comments from the World Bank<sup>2</sup> that there is a Fourth Pillar required for the ongoing success of superannuation systems, namely aged care, health care, and active community participation. Issues associated with retirement are not purely financial. Issues other than financial aspects of the superannuation system all add to ensuring an individual’s dignified and more enriched retirement. These also facilitate a more productive ageing population. AIST recommends that recognition for the Fourth Pillar be included within the core principles.
- **Supporting Australians working longer if they so wish:** AIST supports superannuation policies which enable Australians to work longer, if they so wish. This broad statement assists with reducing longevity risk and also supports a more productive ageing workforce.
- **Test proposed changes against key superannuation Benchmarks with sufficient lead time:** AIST believes that embedding the concept of key superannuation Benchmarks (Adequacy, Sustainability, Longevity) into the core principles of the Charter would assist with depoliticising the superannuation system.

AIST considered whether a principle such as *Community understanding of superannuation policy* should be included, and acknowledges that this could be a role of the Council of Superannuation Custodians. However, on balance, AIST recommends that this principle is not one for the Charter. AIST recommends that the role of the Council take into account the best outcome for the people of Australia, but that its focus is about broad structural superannuation issues (similar to the RBA’s role in a monetary policy sense).

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<sup>2</sup> Robert Holzmann, *Global Pension Systems and their Reforms: World Wide Drivers, Trends and Challenges*, Discussion Paper for the World Bank, May 2012.

## 2.4 Certainty

***“What safeguards can be placed on changes in the superannuation system to promote certainty?”***

**(Discussion paper question 3)**

AIST reiterates the need for the development of an Adequacy Benchmark and a Sustainability Benchmark, and the review of the Longevity Index, with these structural indices assisting the development and testing of any superannuation policy reform. These can provide greater certainty around how changes are assessed.

AIST also recommends that the principles contained in the Australian Government’s *Cost Recovery Guidelines July 2005* (CRG), namely consistency, transparency, and accountability, and the promotion of the efficient allocation of resource should also be taken into account when changes are proposed to the superannuation system. Ultimately, where Government policy means that cost recovery is sought from superannuation providers, members pay the cost through fees. The implementation cost needs to be taken into account when examining the potential policy outcomes.

The Charter should focus on these key issues.

***“How should the Charter reflect procedural fairness, including providing adequate notice of future changes and an open and transparent consultation process?”***

**(Discussion paper question 4)**

When formulating policy recommendations, the Council should also be required to examine reasonable lead times. This should take into account issues such as:

- Issues raised during public hearings.
- Cost impact of proposed changes.
- Estimated implementation times.

## 2.6 Adequacy

***“What would be appropriate benchmarks for measuring the adequacy of the superannuation system?”***

**(Discussion paper question 5)**

AIST strongly supports the development of an Adequacy Benchmark. The Adequacy Benchmark could be used to drive superannuation policy issues such as taxation of super (e.g. if a person has more than what is “adequate” then taxation of the benefit could be different; if a person does not have an “adequate” benefit, they can contribute more into a concessional taxed superannuation system; amounts over what is “adequate” need to be taken as an income stream, etc).

Current debate centres on either fixed dollar retirement targets or income replacement rates using pre-tax earnings. A single replacement rate (e.g. 60% of pre-tax, pre-retirement earnings) doesn’t reflect the actual circumstances of the people being examined. AIST recommends that after tax replacement rate

should be reflected in an Adequacy Benchmark. A “bottom up” approach would identify specific cohorts whose income tax impacts could be examined. A population result is then obtained by weighting these results.

In those circumstances where groups (e.g. women who have had breaks) are unable to meet the Adequacy Benchmark, then policy direction to address the gap is needed.

## 2.7 Fairness

***“What principles would support fairness in the distribution of government assistance in the retirement income system and how should they be incorporated into this Charter?”***

**(Discussion paper question 6)**

As previously noted, the principle of what is Adequate should drive government assistance within the superannuation system.

Within the Age Pension context, AIST supports a review of the means testing of the Age Pension. Key drivers in such a review should include the sustainability of the Age Pension, equity to members, simplicity, and – as a primary driver – adequacy of a member’s retirement benefit. The review should consider whether the value of non-superannuation assets should be monetised and therefore be assumed to be contributing to replacement income.

***“What limits could be placed on government assistance and how should this be measured?”***

**(Discussion paper question 7)**

Limits should be placed within the context of examining both the Adequacy Benchmark and the Sustainability Benchmark. Government should:

- Be encouraging people contribute to superannuation in a concessional tax environment where their savings are not “Adequate”;
- Not be providing additional concessions to those whose benefit is “Adequate”; and
- Examine the level of concessions where the superannuation system is not “Sustainable”.

## 2.8 Sustainability

***“How should the costs and benefits of the superannuation system be measured?”***

**(Discussion paper question 8)**

As previously noted, AIST supports the development of a Sustainability Benchmark. The Benchmark needs to take into account issues such as:

- Adequacy (benefits, savings, tax support, benefit design);
- Sustainability (population coverage, total assets, contributions, demographics, Government debt, labour force participation rates); and
- Integrity (regulation, governance, protection, communication, costs).



*“How should the Charter take into account the goal of administrative simplicity and balance this against other objectives such as fairness and sustainability?”*  
(Discussion paper question 9)

The Sustainability Benchmark should take into account implementation costs weighed against potential policy outcomes.

## 2.9 Superannuation and Retirement Incomes

*“What weight should be given in the Charter to the considerations below:*

- *Recognising the inherent trade-offs involved in retirement incomes policy.*
- *Considering the interactions between the superannuation system and other elements of Australia’s retirement income system, for example, other savings vehicles and government support such as the Age Pension.*
- *Recognising the intergenerational costs and benefits of superannuation savings and tax concessions.”*

(Discussion paper question 10)

AIST believes that the Charter should recognise the close interaction between the superannuation system and other elements of Australia’s retirement income system.

AIST also recommends that the Charter recognises the need to have both horizontal equity (people in the same positions are treated equally) as well as vertical equity (people pay tax/ receive benefits based on their ability to pay within a concessionally taxed superannuation system).

## 2.10 Australia’s economy

*“How would the Charter reflect the impact of superannuation changes on the broader economic environment?”*  
(Discussion paper question 11)

AIST recommends that the Sustainability Benchmark needs to take into account the impact on the broader economic environment.

## 2.11 Implementation of the Charter

*“Should the Charter be a policy document, or be enshrined in legislation?”*  
(Discussion paper question 12)

AIST suggests that the answer to this question is closely tied to whether the Council of Superannuation Custodians is an entity which is there to:

1. *Initiate, develop, assess and monitor and recommend*

This type of role for the Council of Superannuation Custodians is similar to other Government bodies which are enshrined in legislation and have separate governing bodies. The principles contained in the *Governance Arrangements for Australian Government Bodies*, August 2005 recommend that if a

governing body is essential, then such a body could be legally and financially separate from the Commonwealth (i.e. Manage their own money whilst having Government funding).

AIST suggests that this option is preferable, given its support for the development, maintenance and review of various Benchmarks and Indices. This type of role suggests that there is a need for the Charter to be enshrined in legislation – to give the Adequacy Benchmark, the Sustainability Benchmark and the Longevity Index a recognised role within the superannuation system.

This high level focus would also mean that the constituency of the Council of Superannuation Custodians, while needing to take into account the best interests of Australians, would take a form more likely to involve industry experts rather than including a consumer focus.

## 2. *Assess and recommend*

This type of role would mean that the Council of Superannuation Custodians would be more of a committee structure, rather than a governing body. There would not appear to be a need for its Charter to be enshrined in legislation.

## 2.12 Council of Superannuation Custodians

*“Should the Council also be able to examine and report on issues on its own initiative?”*

**(Discussion paper question 13)**

Given our comments above, AIST supports the Council being able to initiate and report on issues within its Charter. For example, based on demographic trends highlighted within the Sustainability Benchmark, the Council may see the need for further research to assist a review of the Benchmark.

## 2.13 Powers of the Council

*“What powers should the Council be given in order to effectively carry out its role?”*

**(Discussion paper question 14)**

AIST supports that the Council of Superannuation Custodians be able to initiate, assess, monitor and report on broad superannuation policy issues. In order to be able to undertake this role, AIST believes that the Council would need the following powers and issues addressed:

- Conduct public hearings on matters within its Charter;
- Expend money on developing, reviewing and applying the Benchmarks/Indices within its Charter;
- Employ staff; and
- Where there is a difference of opinion within the Council, the matter would be referred to the Treasurer.

***“Should the Council have the capacity to recommend policy changes?”***  
**(Discussion paper question 15)**

AIST believes that the Council should have the capacity to recommend policy changes. If the role of the Council includes development of suitable Benchmarks or Indices against which policy changes can be tested, then the Council would need the power to recommend policy changes.

## **2.14 Structure of the Council**

***“How should the Council be assembled to adequately reflect the wide range of community views on superannuation?”***  
**(Discussion paper question 16)**

Given AIST’s view that the Council’s role is to focus on overarching broad superannuation issues, AIST believes that the Council should comprise relevant experts (e.g. superannuation, actuarial, policy). The Council, in forming recommendations to the Minister regarding superannuation policies, can hold public hearings to gain access to consumer sentiment.

## **2.15 Relationship with Other Bodies**

***“How would the work of the Council relate to the activities of existing bodies?”***  
**(Discussion paper question 17)**

Depending on the policy issue at hand, when formulating broad superannuation policy recommendations, the Council of Superannuation Guardians would need to consult with the regulators.

***“Will the establishment of the Council require changes to the role or structure of existing superannuation oversight bodies?”***  
**(Discussion paper question 18)**

AIST does not believe any change would be required to existing superannuation oversight bodies given our comments on the focus of the Council.

## **2.16 Establishing the Council of Superannuation Custodians**

***“What structure and supporting legislation is needed to ensure the Council operates at arm’s length from Government?”***  
**(Discussion paper question 18)**

AIST believes that the following is needed to provide the Council with a tight focus and the power to initiate, assess, monitor and recommend:

- Legislation to enshrine the concept of an Adequacy Benchmark, a Sustainability Benchmark, and Longevity Index;
- Legislation to establish the Charter for a governing body (rather than an advisory committee) to initiate, assess, monitor and make recommendations; and
- Separate funding for the Council to ensure it has access to the resources it needs to fulfil its Charter.