



**SUBMISSION ON DISCUSSION PAPER: CHARTER OF
SUPERANNUATION ADEQUACY AND SUSTAINABILITY AND COUNCIL
OF SUPERANNUATION CUSTODIANS**

**Prepared by
COTA National Policy Office**

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COTA AUSTRALIA

COTA Australia is the national policy organisation of the eight State and Territory Councils on the Ageing (COTA) in NSW, Queensland, Tasmania, South Australia, Victoria, Western Australia, ACT and the Northern Territory.

COTA Australia has a focus on national policy issues from the perspective of older people as citizens and consumers and seeks to promote, improve and protect the circumstances and wellbeing of older people in Australia.

It has become clear to us that there is a lack of confidence in the superannuation system's capacity to deliver a reasonable income stream throughout retirement. We get representations all the time from members and the broader community expressing concern about the frequent changes to the rules governing superannuation contributions and withdrawals and the adverse impact these can have on people's retirement incomes and plans.

COTA welcomed the announcement by the Government to establish a Charter of Superannuation Adequacy and Sustainability (the Charter) and the independent Council of Superannuation Custodians (the Council) to ensure that any future changes to superannuation would be consistent with that Charter. We believe that these two mechanisms should deliver greater certainty for individuals and for the superannuation industry.

ISSUES

Core principles

COTA believes that there should be an overarching principle that states clearly that the purpose of superannuation is to provide an income in retirement. There may also be benefit in stating what superannuation is not i.e. the sole vehicle for wealth accumulation and estate planning. There may be merit in moving away from the term superannuation and using a term which more clearly identifies this purpose, for example private pension or something similar.

COTA endorses the four principles identified in and believes that the definitions of all four should be broad to ensure best possible coverage.

The tone of the discussion paper suggests that people (superannuants/members) know more about the superannuation system than they actually do. If certainty and cultural change are to occur, it would seem prudent to have a principle related to, at the very least, **transparency**, and potentially something around a requirement for the Council to ensure that **members receive ongoing education**.

Certainty

It is important that the Charter makes it clear that this principle is about certainty of process and regulation, not certainty of outcome in terms of guaranteeing superannuation benefits.

One of the key ways to promote certainty is for the Charter to stipulate the lead times for any changes that Government wants to make to superannuation arrangements. We support the notion that nothing is urgent for superannuation. We believe the minimum should be one financial year e.g. if a change is announced in the 2013 Federal Budget it should not come into effect until 1 July 2014 at the earliest. The Charter should also ensure there are no retrospective changes.

The Charter should also include a requirement to consult with consumers/advocates on a routine/regular basis. For example, the Council could seek feedback via forums annually or establish a consumer/advisory committee. The role of the committee would be to engage with members and industry and report back to the Council on a regular basis. The entire concept should be underpinned by a requirement to ensure that the public is more educated about superannuation matters

Adequacy

Any measure of adequacy needs to reflect both an individual's pre- retirement income and some measure of what the community deems to be a reasonable income in retirement.

We agree that superannuation should provide a higher level than the income from the Age Pension; it is a supplement to the Age Pension rather than a substitute for it for many people. There are a number of benchmarks for "comfortable" retirement incomes, for example the one produced by ASFA, and the Council would need to get advice on the benchmarks which could be generally agreed.

This principle also needs to make a clear statement about the risk of longevity and that superannuation is supposed to provide an income stream over a 25-30 year period for most contributors.

Fairness

COTA believes that the system currently favours those on higher incomes and with higher asset levels in retirement by giving them greater tax concessions. This needs to be addressed through the Charter with the principle being that the system needs to be fair to all Australians, supporting and bolstering low income earners whilst not unfairly disadvantaging higher income earners.

In looking at fairness it is important that the total value of tax concessions should be taken into account on both contributions and withdrawals. In assessing any policy changes, the impact in terms of who gains most in dollar terms rather than as proportion of income

needs to be examined and the measures that deliver more to higher income levels would probably not pass the fairness test.

Sustainability

It is in everyone's interest that the system is sustainable. Clearly the current cost to revenue of tax concessions on contributions and withdrawals is not sustainable and the reforms announced on 5 April outline some ways in which these tax expenditures can start to be reduced.

One of the most commonly cited benefits is the reduction in the demand for the Age Pension through more people moving to be part-pensioners and more people moving off the pension completely. Provided that this reduction in outlays is greater than the tax concessions paid, then there is an overall net benefit. The Charter needs to make this explicit and use it as one of the key indicators to establish that a change in arrangements is beneficial.

To try to address the fairness issue could lead to more complex arrangements with differential tax rates on contributions and withdrawals. The added complexity needs to be explicitly taken into account and assessed as to whether it really does deliver better outcomes. There would also be a need for better information and education for superannuation contributors to address the rationale for why the system is more complex.

Superannuation and retirement incomes

The Charter needs to give equal weight to the three considerations identified in the Discussion Paper. The Charter needs to explicitly address the three pillar approach and any changes to superannuation need to be measured against their possible impact on all three areas.

Australia's economy

As the Discussion Paper identifies, superannuation funds are a rapidly growing pool of cash and investments. The Charter needs to provide some guidance on appropriate investments keeping in mind the primary intention is for superannuation to provide an income for its contributors into the future.

Implementation

COTA supports the suggestion that the Charter and the Council structure should be enshrined in legislation.

Council of Superannuation Custodians

COTA believes all the functions outlined in the role and power section of the Discussion Paper are the minimum requirement for the Council if it is to do its job of ensuring the Charter is upheld.

However COTA believes the Council should also be able to instigate its own reviews and inquiries. This would take it out of merely responding to Government propositions and allow it to participate more fully in the ongoing policy debate. It should definitely have the capacity to make policy recommendations.

Structure

The Council should comprise independent appointments rather than representatives of the various interest groups. The membership needs to include people from the community, superannuation, legal, academic, business and union sectors but they have to be able to look at the sector as a whole and not see themselves as simply safeguarding sectional interests. Their capacity to do that would be enhanced by adequate resourcing of the Council so it can get independent advice to assist its deliberations.

COTA does not have a firm position on whether the Council should be an advisory panel or a statutory authority. The key issue is that it is independent from Government and both structures can allow for that.

It is important that the Council does not duplicate the work of existing bodies and that there is a clear delineation of its responsibilities and mandate. There is a plethora of other bodies overseeing various parts of the Superannuation system and we do not see the Council replacing any of those-at least in the short to medium term.

We understand from the consultation forums that the Charter Group has been looking at putting the Council into the Productivity Commission in some way. In principle we would have no problem with that but it would require a change to the Commission especially if the Council were allowed to instigate its own inquiries rather than waiting for a reference from Government.

CONCLUSION

Individuals are forced, through the compulsory component of superannuation, to put money into the superannuation system and so they need to have confidence that the system is working fairly and that it will deliver an income for them when they retire. COTA believes that the Charter and Council could make a difference and help to ensure that policy around superannuation is driven by the long term needs of superannuation contributors rather than short-term fiscal or budgetary needs.