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## **The Council of Superannuation Custodians and the Charter of Superannuation Adequacy and Sustainability**

Dear Charter Group

The Financial Services Council (FSC) welcomes the opportunity to make a submission to the Charter Group in relation to the proposed Council of Superannuation Custodians (the Council) and the Charter of Superannuation Adequacy and Sustainability (the Charter).

The FSC represents Australia's retail and wholesale funds management businesses, superannuation funds, life insurers, financial advisory networks, private and public trustees. The FSC has over 130 members who are responsible for investing \$2 trillion on behalf of more than 11 million Australians.

The pool of funds under management is larger than Australia's GDP and the capitalisation of the Australian Securities Exchange and is the fourth largest pool of managed funds in the world. The FSC promotes best practice for the financial services industry by setting mandatory Standards for its members and providing Guidance Notes to assist in operational efficiency.

### **Summary**

The FSC supports measures to depoliticise superannuation and efforts to remove / de-couple superannuation from the Budget cycle.

The objectives of superannuation are undermined by constant tax and regulatory changes to the system. Such short-termism reduces confidence in the system and discourages people from saving for their retirement through superannuation. This only serves to push the cost of an aging population onto future generations of Australians.

### **Response to Questions**

*Question 1: What is your view of the core principles?*

The core principles as detailed in the discussion paper - certainty, adequacy, fairness and sustainability are supported by the FSC. However, how these principles are applied in practice are contingent on the consultative approach that is taken by the Council as they will undoubtedly be interpreted differently by different parties.

*Question 2: Are there any additional principles that are important in setting retirement income policy?*

The core principle that underpins the system is that the superannuation system should benefit the interests of fund members.

Superannuation also plays an important role in the structure and stability of the national economy. Reviews of the system should also recognise the distortionary impact that changes to superannuation may have on the economy and on individual savings and consumption preferences.

The Charter must recognise the compulsory nature of the system that is contingent on the reliability of concessional rates of taxation on contributions and earnings and a stable regulatory regime. These two factors are critical to individuals' willingness to contribute beyond the compulsory amount and the operational performance of superannuation funds themselves.

*Question 3: What safeguards can be placed on changes in the superannuation system to promote certainty?*

The Charter, and its application by the Council to proposed reforms to the system, should take a rigorous, evidence based approach to analysing proposed reforms to the system. Doing so would establish a high burden to reduce the number and frequency of changes.

Only those reforms where there is a clear, evidentiary case for change should be endorsed by the Council. Reforms that do not have the endorsement of the Council would clearly face significant criticism in public discourse.

In carrying out this function the Council will quantify the benefits, or negative outcomes, that will result from a proposed policy change. The impact of such an assessment would be to ensure that proposed changes are contested in an open and transparent manner. It would also reduce the 'surprise' factor arising from unexpected changes announced around the Budget, or without stakeholder consultation.

Further, the current policy settings should be the baseline for assessment of proposed policy changes. The Council and the Charter should not assume that any changes to the current settings are appropriate. All proposed changes should be judged on their merit.

*Question 4: How should the Charter reflect procedural fairness, including providing adequate notice of future changes and an open and transparent consultation process?*

The Charter should recognise the significant impact that retrospective changes to the system have on the trust that fund members have in the system. Retrospective changes are also costly to administer and have a significant impact on the costs incurred by funds, and subsequently fund members. The Charter should discourage retrospective changes except where there is a very clear case for making such changes and it can be shown that members will be no worse off as a result of the proposed change.

The Charter should require future changes to be made with adequate lead times, in the context of the reform being implemented, and allow for grandfathering of existing arrangements where it is appropriate to do so.

Consultation with stakeholders should be a necessary component of the Council's assessment of the timing of reforms. Whether meaningful consultation was conducted by the Government in the development of reform proposals should also be a factor for the Council to consider.

*Question 5: What would be appropriate benchmarks for measuring the adequacy of the superannuation system?*

The FSC is broadly comfortable with the definition of adequacy the discussion paper proposes, being 70 per cent of pre-retirement income over a 25-30 year period. It would be appropriate, however, for the Council to conduct research to confirm a definition of adequate.

The Charter and the Council, however, should be empowered to consider changing measures of adequacy. In particular, the Council should be able to take into account changing community expectations around living standards, as reflected in changes to Average Weekly Ordinary Time Earnings and the Consumer Price Index, as well as changing longevity patterns. The Charter should also recognise different levels of adequacy for women, men and couples and the need for the system to accommodate different household financial arrangements.

*Question 6: What principles would support fairness in the distribution of government assistance in the retirement income system and how should they be incorporated into the Charter?*

Fairness is a question in relation to both the allocation of tax concessions to individuals contributing to the system and the treatment of individual's savings that are already within the system.

The allocation of future tax concessions should recognise the primary purpose of the superannuation system was to improve the retirement incomes of Australian employees. It was also intended that the system would reduce reliance on the age pension over time and boost national savings to improve the Commonwealth's fiscal position and improve macroeconomic stability. Tax concessions should continue to support these different expectations, which can be broadly achieved by supporting the retirement savings of middle income Australians.

The FSC believes the system is currently fair in relation to the allocation of tax concessions. Any redistribution of the tax concessions to promote 'fairness' would necessarily penalise individuals who have made contributions taking on faith the Government's commitment to the current arrangements.

Fairness also needs to encompass social security benefits and Government assistance outside the superannuation system. It is impossible to consider the effectiveness of the system without also taking into account the broader retirement and social security framework in which it exists.

*Question 7: What limits could be placed on government assistance and how should this be measured?*

The concessional and non-concessional contributions caps are very effective at controlling the extent to which individuals can benefit from the superannuation system. The current, excessively low \$25 000 concessional contributions cap, which will soon include a \$35 000 cap for over 60 year olds, ensures that individuals cannot make excessive contributions in the future to extract excessive benefits from the system.

Whether or not changes should be made to the level of Government assistance is a matter that would appropriately be left to the Council. The FSC envisages the quantitative research that the

Council would conduct would inform future debates on this matter and would be available publically for relevant assumptions to be assessed.

*Question 8: How should the costs and benefits of the superannuation system be measured?*

The primary purpose of the superannuation system was to improve the retirement incomes of Australian employees. It was also intended that the system would reduce reliance on the age pension over time and boost national savings to improve the Commonwealth's fiscal position and improve macroeconomic stability.

The costs and benefits of the superannuation system should be measured against the satisfaction of these objectives.

*Question 9: How should the Charter take into account the goal of administrative simplicity and balance this against other objectives such as fairness and sustainability?*

Australia's retirement savings system, with its three pillar foundation and relationship with the social security and taxation systems, is necessarily complicated.

The Charter should encourage simplification of the system to reduce costs and improve consumer engagement. A high threshold should also be established for reforms that would potentially complicate the system further.

*Question 10: What weight should be given in the Charter to the considerations below?*

- *Recognising the inherent trade-offs involved in retirement income policy.*
- *Considering the interactions between the superannuation system and other elements of support such as the Age Pension*
- *Recognising the intergenerational costs and benefits of superannuation savings and tax concessions.*

The Charter should place the superannuation system in the context of the Intergenerational Report. A clear understanding of the future cost of our aging population allows an appropriate assessment of the utility of the superannuation system in ameliorating those costs and improving the living standards of Australian retirees.

Importantly, the cost of the superannuation tax concessions should be compared to the future cost of the aging population, rather than the current approach of reporting the concessions in a vacuum and without consideration of the downstream impact of tax policy changes.

The Government's current method of measuring the size of the concessions through the annual Tax Expenditures Statement is flawed and misleads public debate. It is important that the Charter recognises the concessions afforded superannuation produce age pension and aged health care savings over the long-term and that without superannuation Australians would not otherwise save for their own retirement.

*Question 11: How would the Charter reflect the impact of superannuation changes on the broader economic environment?*

The superannuation system is currently \$1.5 trillion, and will increase significantly in the future. The superannuation system supports national savings and provides a patient pool of capital for listed and private companies. The system cannot be considered in isolation from its broader economic role.

The Charter should support this feature of the system and recognise that, even though the superannuation system is primarily to reflect the interests of members, policy changes that impact the system will necessarily have a broader impact on the Australian economy. Changes that have a sudden, or distortionary, impact on the broader economy should be avoided unless there is a necessary policy objective.

*Question 12: Should the Charter be a policy document, or be enshrined in legislation?*

The FSC supports the Charter and the Council being formed through legislation to give them sufficient gravity and protection from political interference.

*Question 13: Should the Council also be able to examine and report on issues on its own initiative?*

The FSC supports the Council being strictly independent from Government in the same manner as the Productivity Commission. In this context, it would not be appropriate for the Council to examine the system on its own initiative. Like the Productivity Commission, however, the Council would have the capacity to consider any issues it considers appropriate in the course of its reviews of the system and when conducting reviews at the direction of the Minister.

The FSC is concerned that the superannuation system interacts with a broad array of policy areas, such as taxation law and social security, which will likely be beyond the jurisdiction of the Council. It would therefore be prudent to not allow the Council to instigate reviews that may unduly impact these fields without at least ensuring that the Council has access to appropriate expertise and resources on a review by review basis.

*Question 14: What powers should the Council be given in order to effectively carry out its role?*

The discussion paper envisages the Council conducting annual reviews of the superannuation system. The FSC does not oppose this approach, but questions the need for annual reviews considering that, if this proposal were to be implemented, it is expected that the rate of reform to the system would significantly slow. There would therefore likely be little change to the system between reviews, allowing reviews to be held less regularly. The results of these reviews would appropriately be directly tabled in parliament by the Council.

The FSC also supports the Council conducting analysis of policy proposals at the direction of the Minister against the principles outlined in the Charter. These reviews could be conducted on an ad hoc basis, and the Council could report its finding to the Minister, with a requirement the report is tabled in parliament after thirty sitting days.

In carrying out these functions the Council could commission research, hold hearings and seek submissions from stakeholders.

*Question 15: Should the Council have the capacity to recommend policy changes?*

The FSC is of the view that the Council would have the capacity to recommend policy changes where it has identified issues arising from proposed Government reforms to the system, or issues likely to arise from emerging trends in the system.

Any recommendations should be made only after stakeholder consultation on possible options, and the Council's report should identify the benefits and flaws in the recommendations.

In the context of not undertaking reviews on its own initiative, however, the Council should not see it as its responsibility to reform and improve the system over time, but exist as a guardian

against negative changes to the existing system. Proactive reform is the role of the Government and regulators and duplication of this activity would undermine the stability of the system.

*Question 16: How should the Council be assembled to adequately reflect the wide range of community views on superannuation?*

The individuals appointed to the Council should, collectively, exhibit a prescribed list of attributes and experience that ensures the Council remains independent, technically proficient and understanding of the interests of fund members.

The Council should not be comprised of representatives from particular backgrounds, such as industry, unions or consumer representatives, as this would restrict the representatives to fulfilling that function alone.

*Question 17: How would the work of the Council relate to the activities of existing bodies?*

It is envisaged that the Council would not play the role of another peak body, but work with the different bodies that currently exist within the system. The Council would

Currently the Government funds a number of bodies whose activities overlap with the proposed Council, and it may be appropriate to consolidate those bodies.

*Question 18: Will the establishment of the Council require changes to the role or structure of existing superannuation oversight bodies?*

The FSC does not envisage the Council taking over any of the jurisdictions of the Treasury, APRA, ATO or ASIC. It may be necessary, however, for the resources of these organisations to be made available to Council to assist it in its research and reviews.

*Question 19: What structure and supporting legislation is necessary to ensure the Council operates at arms length from Government?*

The Charter and structure of the Council should be prescribed in legislation, along with necessary funding to support a secretariat.

Please feel free to contact me on 02 8235 2566 if you have any further questions or comments in relation to this submission.

Yours sincerely



**BLAKE BRIGGS**  
SENIOR POLICY MANAGER