Thank you for the opportunity to submit feedback regarding the proposal to legislate the objective of superannuation.

My name is Michael Baragwanath; I am the head of Wealth at Team Invest Private Group Limited (TIP Group, TIP.ASX), an ASX-listed wealth and private equity company.
The noble purpose of our company is to transfer knowledge and wealth between generations.
We offer wholesale and retail investment funds and investor education. Through our collection of wholly owned subsidiaries, we employ nearly 480 staff in industries such as manufacturing, construction, material supply and transport services.
I am also the responsible manager for Enva Australia, a financial planning licensee. I have previously worked as a financial adviser and a distribution manager for a bank insurance product and fund manager.

Please see below my answers to the questions posed:

1. **What are the practical benefits or risks associated with legislating an objective of Australia's superannuation system?**

a) I see no practical benefits. As advised in the consultation paper, the proposed objective would not change trustee obligations and would be separate from the trustee's fiduciary duties (page 12, paragraph 3).
I see numerous risks; these are as follows:
   i) Confusion among administrators and trustees of the system: The statement directly conflicts with both core and ancillary definitions of the sole purpose test.
   ii) Encourage further legislation is not in members' interests and harms citizens.
   iii) Less confidence in the superannuation system and lower participation by self-employed persons.

2. **Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?**

a) No.

3. **Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the aim could be enshrined?**

a) No.
The second question assumes that the objective should be enshrined, and as described, it should not be.

4. **What are the practical costs and benefits of alternative accountability mechanisms to the one proposed?**

a) Assuming that the alternative is for Treasury, as the Governments lead economic adviser; to source information from the ATO and DHS to produce an annual report on
   a. The percentage of payments made for reasons other than a person's retirement to consider the first point – Preserve Savings.
   b. The percentage of members who receive a lump sum payment to consider the second point – Deliver Income.
   c. The percentage of retirees who, through the receipt of either; the aged pension and a superannuation pension OR as a self-funded retiree, earn an annual amount equal

to or higher than a “modest lifestyle” as published by AFSA (Association of Superannuation Funds of Australia) to consider the third point – Dignified.

d. Statistical data on government support as a percentage of total retirement income for persons not working after aged pension entitlement age to consider the fourth point – Government Support.
e. The last point is so vague that it is difficult to recommend a specific data point.

I would estimate the annual cost for such a report would be less than $10,000 since most of these data points are published regularly.

<u>Further commentary:</u>

Explanation regarding the answer to question 1.

<u>Confusion</u> – the sole purpose test 62(1)(a)(iv) & (v) & (b)(ii) & (iii) describes the purpose of super as being to provide for the payment of savings in the event of retirement, death and disability. Regardless of intent, a legislated objective creates confusion about how a trustee should operate.

<u>Encourage legislation harmful to members</u> - a legislated statement could communicate a view or objective, not in the members’ interests. As an example – the second point is “deliver income”. One would assume that this statement aims to move legislation that prohibits the lump sum withdrawal from superannuation with the intent that a member’s savings will last longer. This will reduce a member’s choices and make them financially worse off.

Example: A couple aged 67 has a home needing maintenance, an old car worth $2,000, a small mortgage of $40,000, a credit card debt of $3,000 and a combined superannuation balance of $130,000. They have no other assets.

Assume that legislation, guided by the proposed objective for superannuation, has passed, which prohibits access to superannuation before retirement (with retirement defined as aged pension entitlement age) and prevents any lumpsum withdrawal.

The husband, in this case, ceased work at 65 due to the physical nature of his career but, lacking a permanent disability or sufficient impairment, was not entitled to a disability support pension. The wife continues to work, earning $40,000 annually, and retires at age 67.
They have five years left on their mortgage, and with interest rates, at 6.5% (with no discounting due to the small loan size), their repayments are $795 per month or $9,540 per year. Their credit card repayments are $92 per month or $1,104 per year with an interest rate of 14%.

They receive the maximum pension entitlement as a couple of $40,237.60 per year. To live a “modest retirement”, as calculated by AFSA needs to draw an additional $14,441 as a pension to cover the loan repayments.

Assuming no interest further interest rate increases, they pay $8,974 in interest over five years and at 72, they have no debt; their pension is now worth $84,768, and they draw the minimum from here on ($4,238 per annum) allowing for a modest retirement and a balance that lasts beyond their life expectancy.

Because they are forced to take a pension from their superannuation rather than draw a lump sum, they cannot afford any maintenance on their home or find ways to reduce their homes operating homes and drive a fuel-inefficient old car with no driving aids. They are exposed to interest rate movements for five years and have no other choice because their choices were removed through legislation.

As an alternative, no legislation changes, and the couple can:

1) Draw $43,000 at age 65 to pay off all debt when the husband stops work.
2) Pay $4,000 to put solar panels on their home.
3) Complete essential home maintenance and replace appliances with more efficient new items for $10,000.
4) Purchase a new car with a 5-year warranty for $24,000.

They invest the balance of $49,000 into a pension and $3,797 per year combined with the wife's work until retirement, and the combined aged pension from 67 allows for a "modest retirement" ($40,237 per year of aged pension entitlement plus $3,797) of $44,034. This lasts until age 81. Alternatively, they do not buy a new car and receive a pension until 95, well past life expectancy.
In this case, they have a maintained home with modern appliances, a newer, safer car, reduced electricity bills and no exposure to increased interest rates. They have a significantly better quality of life as a result.
In many examples like the above, hundreds of thousands of homes around Australia will be forced to sell their homes to repay a small mortgage and move into an aged care facility earlier than they might have planned. This creates other significant issues of capacity planning, costs to the government and quality of life.

<u>Less confidence in the superannuation system:</u> Generally speaking, people view superannuation with suspicion, self-employed persons even more so. A confusing statement regarding superannuation purposes that does not match the law reduces a person's confidence in using the framework as a vehicle to save money. Even though very few people have very high balances (over $ 2 million), many savers aspire to build wealth. Limits or targeted tax activity undermines these aspirations and cause investors to wonder when they will be the target.

Explanation regarding the answer to question 2.

The superannuation system is, as I understand it, a vehicle to

- Require citizens to invest and reduce reliance on social services such as the aged pension.
- Offer a tax-advantaged environment to encourage investment and long-term planning further.
- Hold life insurance and permanent disability cover in a tax-advantaged way to increase the take up of this cover and reduce reliance on social services.
- Coordinate orderly payments (lump sum or income stream) to retired, ill or deceased recipients.

These observations are based on my reading of the Superannuation Industry Supervision Act, 1993. Specifically, Section 62 – Sole Purpose Test.

As I understand it, the Superannuation System is not:

- A honey pot for the government.
- A platform to weaponise savings pools for social activism by influencing ASX-listed companies to undertake activities that are not in the interest of their shareholders.
- A capital pool to divert into underperforming assets to cover government policy failures in social housing and planning.

Explanation regarding the answer to question 3.

As noted above, if the current framework does not meet the government's goals, the government must submit legislation to change the SIS act or other related legislation.
Superannuation is simply a tax and governance framework for unit trusts. Any legislated objective can be changed by the next government or removed entirely.

The government of the day may have a particular ideological focus or desire. If so, they can draft legislation that fits their objective, present it to the public, pass it through Parliament and observe the implementation. Misleading and contradictory motherhood statements are better left to social media.

Explanation regarding the answer to question 4.

No further comment.

Thank you for taking the time to receive and review my submission and thank you for all your hard work and service to the public.

Kindest regards

Michael Baragwanath
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