31/03/2023

Brian Healey
Director, Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Treasury
Langton Crescent
PARKES ACT 2600

Via email to **superannuationobjective@treasury.gov.au**

Dear Brian,

AustralianSuper submission to legislating the objective of superannuation consultation paper

AustralianSuper welcomes the opportunity to contribute to the consultation on the Objective of Superannuation. We believe this is an important reference point for the operation and evolution of Australia's world leading retirement income system.

AustralianSuper is Australia's largest superannuation fund and is run only to benefit members. Over 3 million Australians are members of AustralianSuper with over $280bn in member assets under management. We are the custodians of the retirement savings of one in 8 working Australians.

Our focus is to use our size and scale to provide the best possible retirement outcomes for members and in doing so, we always act in members' best financial interests.

Our ambition at AustralianSuper is to be the leading fund in the world's best system for members. Our vision is that all Australians live well in retirement.

Compulsory superannuation in Australia was introduced over 30 years ago and has been a success story, creating a pool of $3.4 trillion in savings that provide benefits to members, the economy and society. However, the absence of an objective for the system has been described as "*navigating the super landscape without a compass*." It has also contributed to short-term policy making, undermined long-term confidence in the system and imposed unnecessary costs on superannuation funds and their members.[1]

Superannuation is members' money. While there are significant economic benefits to the nation in the pool of capital that superannuation reflects, superannuation members must have confidence that their money will be invested appropriately to deliver them their best possible financial position in retirement.

AustralianSuper has always advocated for measures that will help members achieve their best financial position in retirement. We have always favoured an objective that is simple and focused on what super funds are designed to do – deliver better retirement outcomes for members than they could achieve on their own.

We strongly believe an objective should be settled once and for all to provide long-term stability and certainty for our superannuation system.

[1] Financial System Inquiry Final Report 2014 (page 96).

Our submission is in two parts. Firstly, we provide some general commentary on aspects of the proposed objective (see **Attachment A**). Secondly, we analyse the recent announcement of changes to the tax treatment of superannuation balances above $3 million using some of the criteria contained in the proposed objective (see **Attachment B**).

We would be pleased to provide additional information or to discuss this submission in further detail. If that would be of assistance, please do not hesitate to contact me or Nick Coates, A/g Head of Government Relations and Public Policy (**ncoates@australiansuper.com**).

Regards

C.N.Cramond

Mark Comer & Chris Cramond

Joint Acting Chief Strategy & Corporate Affairs Officer

Attachment A: Detailed comments

Attachment B: Assessment of recent announcement - $3 million threshold.

Attachment A: Detailed Comments

AustralianSuper welcomes the proposed objective and supports the important principles it embodies:

> *"To preserve savings to deliver income for a dignified retirement, alongside government support, in an equitable and sustainable way."*

We believe the draft wording articulates the important principles and foundations of our superannuation system.

Preserve savings to deliver income

We endorse the clear statement that the super system should 'preserve savings'. This is significant and underlines the fundamental nature of superannuation as a concessionally taxed, long-term savings vehicle that is for retirement.

The principle of preservation is that people must forgo current consumption and compulsorily save for their retirement. In return for forgone current consumption their super is taxed at a generous concessional rate. Preservation commits people to saving for the length of their working lives. This affords superannuation funds the benefit of stable long-term member inflows that can be deployed in a tax concessional environment and invested for the long term.

A long-term investment horizon under-pinned by preservation allows superannuation funds to allocate capital to opportunities that create long term value and to build and leverage pooled scale and investment capability to enable members to achieve their best financial position in retirement.

There remains a role for exceptions from the preservation rule, but this is related to clear financial hardship. The current settings are appropriate and allow for the early release of benefits on compassionate grounds and severe financial hardship grounds when no other support mechanisms are available.[2]

For a dignified retirement

We welcome the word dignified in describing the retirement objective. Dignified signals an important aspect of the interaction between pillar one and pillar two of Australia's retirement income system. It supports delivery of retirement income *above* the age pension and places emphasis on economic and social participation in retirement.

Alongside government support

Importantly, the proposed objective also recognises that super will always operate 'alongside government support'. This reinforces that superannuation is not designed to replace the Age Pension, but instead supplement it. This recognises that, along with compulsory superannuation and voluntary savings, a means tested age pension is one of the three pillars of Australia's retirement system.

---

[2] We note there is an extensive body of research demonstrating that widespread and systematic early access for other purposes generally leaves retirees worse off and is not economically beneficial. See Steven Hamilton, Geoffrey Liu and Tristram Sainsbury, "*Early pension withdrawal as stimulus*" (February 2023); Grattan Institute "*Housing affordability is a problem, but superannuation isn't the solution"* (April 2021); the McKell Institute "*COVID-19: 9 reasons why accessing super early is a risky idea* (March 2020) and Industry Super Australia, "*Super Bad – Why Super for a House Will Hurt First Home Buyers*" (February 2021).

Equitable

Despite the success of the superannuation system, we must acknowledge that super is not super for everyone. For example, women aged between 60 to 64 have a super balance of $246,885 compared to men who have $322,184.[3] This means women in this cohort have around 23% less super than men.

Women, First Nations Australians and those on lower income (including younger workers) need further support through the superannuation system. Having equity in the objective focuses on reforms that are required to ensure the system is working for everyone in equal measure.

For example, ensuring access to the tax concessional environment particularly for lower superannuation balances needs to be an area of focus. The discussion paper states that equitable is intended to capture '*the importance of a system that targets support to those most in need'*. Two pressing reforms which could help the system better achieve this aim are:

- paying superannuation on paid parental leave;
- increasing the Low Income Superannuation Tax Offset (LISTO), which has not been adjusted to match changes to tax brackets and increases to the superannuation guarantee since its introduction (replacing the Low Income Superannuation Contribution) in 2017.

These proposals would promote gender equity in the superannuation system, and better support the superannuation savings of low-income earners. They would give both women and low-income earners a more equitable share of superannuation tax concessions, and improve their retirement outcomes.[4]

Sustainable

Including sustainability in the objective is important and relates to government support for members in the superannuation system.

The superannuation system must be delivered in a way that can be sustained for generations to come. Sustainability includes the sustainability of the long-term budgetary impact, the sustainability of the retirement income system, and the sustainability of outcomes for members. The cost of the system must be offset and weighed against the advantages of the system.

We cannot perpetuate an approach that expects the next generation of workers to be unreasonably burdened by supporting today's retirees. We have an ageing population and the latest government projections show the proportion of the population aged 65 and will increase from 16.8% (2020-21) to 23% in 2060-61.[5] Ultimately, this means fewer people of working age relative to those aged over 65.

Tax concessions within super are broadly designed to reimburse people for not being able to access their super until retirement age and encourage extra contributions to help reduce reliance on the Age Pension.

---

[3] Ages 60 – 64, Deloitte Average Balances to 30 June 2022, rounded to the nearest $100. People with zero superannuation are not included in average data.

[4] We note these policy positions are widely supported by peak bodies such as Women In Super, ISA and AIST.
See **https://www.womeninsuper.com.au/content/policy-and-advocacy-priorities/gjunrk** ,
https://www.industrysuper.com/assets/FileDownloadCTA/ISA-Policy-Priorities-June-2022.pdf
https://www.aist.asn.au/getattachment/Media-and-News/News/2022/AIST-Submission-AIST-2022-2023-Pre-Budget-Submissi/2022-01-27-AIST-submission-Pre-Budget-2022-23-Clean_final.pdf.aspx

[5] Intergenerational Report 2021; Population Statement 2023.

Application of the objective

AustralianSuper agrees that policy development and existing parliamentary process would provide checks and balances on any future changes to the super system benchmarking them to and ensuring their compatibility with the objective.

We note that a legislated objective of super would not be able to bind any future Parliament; however, it is strongly arguable that the complete absence of an objective has been detrimental to confidence and outcomes. Without clarity of purpose, superannuation and retirement policy and regulatory architecture cannot be aligned and therefore, cannot deliver the best outcomes for members.

Attachment B: Assessment of recent announcement - $3 million threshold

The recently announced changes to superannuation for individuals with total superannuation balances above $3 million to pay an additional 15% tax for earnings on balances over that threshold provides a useful case study for how the objective would work in relation to superannuation policy proposals.

Principles from proposed objective	Impact of policy announcement
Preserve savings	The concessionally-taxed status of superannuation rewards the deferral of consumption of a part of workers' income until their retirement. Concessional superannuation tax settings are therefore closely related to the aim of preserving savings. While the numbers of members initially affected are modest, the lack of indexation raises concerns in that it raises uncertainty about where the threshold will be set in the future.
Deliver income for a dignified retirement	A balance of $3 million in superannuation for a 67 year old retiring today would support an annual income of $161,000 p.a over 25 years. [6] This level of income meets the threshold of a dignified retirement.
Alongside government support	A balance of $3 million currently places an individual or couple well above the asset test thresholds to receive a pension or a part pension. On current settings, this change is unlikely to affect current levels of government support provided.
Equitable	The proposal will increase equity in rebalancing superannuation tax concessions toward low and middle income earners. At high balance levels, it becomes appropriate to compare the tax status of superannuation accounts with the tax payable by individuals who use other investment vehicles. Seen in this light, a headline tax rate of 30% is justifiable for the earnings on superannuation accounts with very high balances. However, the discussion paper notes that an equitable superannuation system '*targets support to those most in need'*. This principle would be better achieved if a portion of the budget savings from the measure were directed to superannuation measures to support equity in the system, with better targeting of tax concessions to those who need it more.
Sustainable	The proposal will reduce pressure on the federal budget, and in this regard will make the system more sustainable. However, the discussion paper notes the importance, of stability and confidence for the community. The absence of indexation of the threshold means that future parliaments will have to consider whether or not to change the threshold. This raises questions about whether the change, in the words of the discussion paper, enhances the robustness of the system to 'demographic, economic and social change'.

[6] Assumptions*: Figure expressed in today's dollars by discounting at wage inflation of 3.5% and rounded to nearest $1,000. AustralianSuper Choice Income admin fees of $52 p.a. plus 0.10% of your account balance up to a maximum of $600 p.a. Investment returns in retirement for AustralianSuper account-based pension after fees and taxes of 6.0% p.a. Member is not eligible for Age Pension due to assets.*