

# Legislating the objective of superannuation

## Superannuation Insurance and Governance Unit, The Treasury

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### About ACOSS

The Australian Council of Social Service (ACOSS) is a national voice in support of people affected by poverty, disadvantage and inequality and the peak body for the community services and civil society sector.

ACOSS comprises a network of organisations and people across Australia in metro, regional and remote areas.

Our vision is an end to poverty in all its forms; economies that are fair, sustainable and resilient; and communities that are just, peaceful and inclusive.

### Summary

We support the idea of an 'objective for superannuation' to guide the Parliament and the Government as it develops legislation in this important area.

Superannuation should enable as many people as possible to enjoy retirement incomes that are higher than Age Pension through an acceptable level of compulsory saving and fair and sustainable taxation support.

ACOSS supports the Government's policy goals of ensuring the equity and sustainability of the superannuation system. We are concerned, however, that the proposed objective is less clear and more subjective than previous formulations, including that proposed by the 2020 Retirement Incomes Review. We also note the challenges of defining an overarching purpose of the superannuation system, given the different purposes of compulsory saving and tax concessions.

The proposed objective could be tightened by defining "dignified" by reference to community living standards (for example, that obtained by a full-time wage earner and partner, as applicable). This would safeguard against the use of the

tax system to subsidise retirement lifestyles out of reach of most of the community and ensure an objective benchmark.

The objective of superannuation should be set in the context of the other pillars of the retirement incomes and services systems, including income support, aged care, health and housing, to ensure cohesiveness. Finally, it should be complemented by a set of principles, including in relation to the roles of compulsory contributions and tax concessions, to guide policy makers and legislators.

## **Discussion**

### **A legislative objective would support more consistent policymaking.**

We support the definition of an objective for superannuation to guide the Parliament and the Government as it develops legislation in this important area. More consensus over the purpose of superannuation would also help inform public discussion on the adequacy of retirement incomes and the role of compulsory saving and tax concessions to ensure this.

Regrettably, the goal of superannuation has become confused, with some viewing it (and associated tax subsidies) as a means to accumulate wealth or pass it on to adult children. Others view superannuation as an alternative to public funding of essential health and aged care services. We do not support these views: superannuation, along with the Age Pension, should ensure that everyone has a minimum adequate income in retirement.

### **The objective of superannuation should be set in context of the broader retirement incomes and services system.**

Treasury proposes the following objective of superannuation:

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

The proposed approach differs from that taken by the 2020 Retirement Incomes Review, which recommended the following objective:

*"to deliver adequate standards of living in retirement in an equitable, sustainable and cohesive way".*

In our submission to the 2020 Review, we outlined 5 pillars of the retirement incomes and services system and proposed objectives and benchmarks for each, as outlined below:

#### **1. Adequate social security payments to prevent poverty:**

- All income support payments, including pensions and Newstart, should be benchmarked to the costs of essentials and indexed to wage

movements as well as inflation so that people on the lowest incomes don't fall behind.

- The adequacy of all social security payments should be reviewed regularly by a statutory Social Security Commission which advises Parliament.

## **2. Universal compulsory superannuation to help people with low and middle incomes smooth their incomes through life, topping up the modest pension payments:**

- This should be benchmarked to the contributions required for a median fulltime wage-earner and their partner (if any) to attain a living standard in retirement that is within reach of – but not greater than – their average pre-retirement living standard (taking account of social security payments, housing costs and the costs of children).<sup>18</sup>
- The appropriate superannuation guarantee rate to reach this benchmark would be reviewed from time to time but would not be reduced.

## **3. Tax concessions to support compulsory and voluntary saving through superannuation to reach up to an 'average living standard' in retirement, not to support wealth accumulation for other purposes:**

- The community should not be required to subsidise a retirement living standard above that of an 'average fulltime wage-earner' and their partner (if any) during working life.
- Taxation concessions for retirement saving should not support wealth accumulation for other purposes such as bequests (apart from transfers to dependents).

**The retirement income system should be supplemented by:**

### **1. Universal, good quality, affordable health, aged care and community services:**

- These should be guaranteed for all, and predominantly funded through progressive taxation rather than user charges.
- Along with people of working age, retirees should contribute through the income tax system to the costs of these essential services according to their ability to pay, so that quality services are guaranteed and reliance on user charges is limited (Proposed reforms to taxation of older people are outlined below).

### **2. Housing that is secure and affordable for all:**

- For people with low incomes who are renting, this should be underpinned by adequate Rent Assistance, and access to social

housing (with rents tied to income) for those who cannot meet their housing needs in the private rental market.<sup>1</sup>

### **The proposed objective should be clarified by reference to community living standards and clear principles.**

ACOSS supports the Government's policy goals of ensuring the equity and sustainability of the superannuation system. We are concerned, however, that the proposed objective is less clear and more subjective than previous formulations, including that proposed by the Retirement Incomes Review. We also note the challenges of defining an overarching purpose of the superannuation system, noting the different purposes of compulsory saving and tax concessions.

The proposed objective could be tightened by defining "dignified" by reference to community living standard (for example, that obtained by a full-time wage earner and partner, as applicable, as proposed above). This would safeguard against the use of the tax system to subsidise retirement lifestyles out of reach of most of the community and ensure an objective benchmark. The objective should also be complemented by a set of principles, such as those outlined above in relation to compulsory contributions and tax concessions, to guide policy makers and legislators.

Ultimately, people who have a higher standard of living than most in the community, and whose 'dignity' is sustained through continuing high income in retirement, should not have their lifestyles subsidised by others through the taxation system. This higher level of income in retirement could be achieved through personal superannuation or other savings, taxed at the usual marginal rate.

### **Beyond the objective – the need for a national conversation to inform future reforms.**

It is not only important to set the purpose and objective of superannuation into legislation, but equally important that the community is invested in that objective. ACOSS supports the ACTU's call for the Commonwealth Government to lead a national conversation about the purpose of superannuation. That is to consult the whole community, and to develop a shared understanding of its value and what superannuation can deliver in retirement in the context of the other pillars of the retirement incomes and services system. This would provide an important framework for future reforms to ensure equity, sustainability and cohesion.

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<sup>1</sup> ACOSS Submission to Retirement Incomes Review, 2020, at <https://www.acoss.org.au/wp-content/uploads/2020/02/200202-Retirement-Incomes-Review-ACOSS-submission.pdf>.

## Recommendations

1. The objective of superannuation – whether to provide for an ‘adequate’ or ‘dignified’ standard of living in retirement – should be benchmarked to community living standards to ensure equity and sustainability.
2. To ensure the cohesiveness of the retirement incomes and services system, and clarity about the role of each pillar, the objective of superannuation should be set by reference to the five pillars (income support, compulsory saving, tax concessions, aged and health care services and housing).
3. Principles should be established to complement the objective that limit tax benefits and other supports for superannuation accumulation to a level that provides for a retirement income that is worthy of public support.
4. The Government should lead a national conversation about the purpose of superannuation in the context of the five pillars, to provide a framework for future reform.

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