Comments on Legislating the Objective of Superannuation – Treasury

13.03.2023

Attribution

Based on the Australian Government the Treasury Data

Comments

The following comments are provided against the primary headings as utilised in the Treasury document:

Executive summary

It is my contention that superannuation be held solely for the benefit of individuals, either in APRA-regulated funds or in self-managed superannuation funds. These funds should be managed to achieve maximised returns for the individual, in a manner determined by the individual to optimally meet his needs.

Over my lifetime, Governments of all political persuasions have repetitively demonstrated an inability to manage expenditure optimally. Governments have often been found to have incurred wasteful expenditure of funds under its control. Nothing exists within Government to indicate that Government has established protocols to avoid future wasteful Government expenditures.

Superannuation for individuals should be clearly separated from the potential for Government to require superannuation savings to be a source of funds for investment in Government sponsored initiatives. Any such Government sponsored investments should solely be sourced from governmental tax revenues as opposed to accessing funds held by superannuation funds of all types and classes, no matter how Government views such investments as being socially desirable.

To ensure such separation from superannuation funds I propose the following amendment to paragraph three of the 'Executive summary':

Australia's superannuation system provides broader benefits to the economy and financial system. Superannuation is an increasingly important source of capital in our economy and the significant scale of Australia's superannuation system contributes to the strength of our financial markets through capital deepening. There is a significant opportunity for Australia to leverage greater superannuation investment, ~~in areas where there is alignment between~~ *when in* the best financial interests of members ~~and national economic priorities~~, particularly given the long-term investment horizon of superannuation funds. For these broad benefits of superannuation to be maximised and for superannuation to best support higher living standards for Australians over time, it is critical for there to be a clear, shared understanding of the objective of superannuation. *Superannuation investments to be maintained independent of Government sponsored investment initiatives.*

Comments on Legislating the Objective of Superannuation – Treasury

Introduction

Superannuation in Australia

Whilst the broad objective of compulsory superannuation is to provide for a source of funds to be accessed in retirement for individuals, recognition is required that there are so many events, incidents that can arise unexpectedly in life, effective flexibility needs to be available for individuals to hold and to access their funds to meet their unique needs.

Currently the Treasury document recognises the possibility of such access under 'exceptional circumstances'. The risk to individuals is that 'exceptional circumstances' can be so tightly defined that in real terms access to individually held superannuation funds can be effectively proscribed by definition as determined by Government.

A transparent mechanism is required such that individuals with genuine need are not condemned to an extended period of need until such time as when, and if, they reach retirement age when funds can then be drawn down.

There also remains an associated risk that Government could legislate for an extension to the preservation age, when drawdown of funds can take place.

Recommendations on the objective of superannuation

The 2014 Financial System Inquiry (FSI)

Whilst the FSI is long gone and dusted I have had a long standing an issue with the concept of retirement being re-oriented such that the public perception of superannuation being moved away from being a vehicle for asset accumulation towards providing income to support retirement.

Based on my life experience, and the observations of others in or above my age bracket, I have issues with that concept. I offer the following comments against that concept.

Perhaps the largest unknown in retirement is the array of medical events requiring medical intervention, viz. hip replacement(s), shoulder re-construction, cardiac surgeries – the list goes on. Without a pool of assets which can be drawn on to meet associated out of pocket medical expenses, which can be substantial, resolution of many of these medical conditions results on assignment to a public surgery waiting list.

But perhaps most importantly, for those with an extended life span, the ultimate life phase will occur within a full care environment. From what I have seen the quality of such care is very much dependent on the quantum of financial assets that are available to enter such care.

Aged care costs are growing at an exponential rate and are likely to continue to do so, well above the statistical rate of inflation, for some time into the immediate future.

Comments on Legislating the Objective of Superannuation – Treasury

Preservation of the value of assets held in a superannuation fund, as a means of providing an inheritance for dependants, is not necessarily the core rationale to engaging in this action. Preservation of asset value offers the prospect of financial independence free of the strictures of dealing with Centrelink for a part pension. Dealing with Centrelink has to be experienced to be understood in all of its complexity.

The 2020 Retirement Income Review

The 2020 Retirement Income Review (the Review) broadly agreed with the findings of the FSI that an objective was required to "anchor the direction of policy settings, help ensure the purpose of the system is understood, and provide a framework for assessing the performance of the system".

The Review found that the objective "has to be agreed and endorsed by the Australian community through the Government", giving consistency and stability in the development of retirement income policy.

The Review recommended the objective of the superannuation system should be *"to deliver adequate standards of living in retirement in an equitable, sustainable and cohesive way".*

Whilst the reviews guiding principles could encompass the issues I have enumerated above the overall direction against the preservation of superannuation assets at all costs until retirement lacks necessary flexibility of individual superannuants to be able to access funds held on their account.

Drafting principles

Wording Rationale

As currently drafted 'Preserve savings' expressly mitigates against superannuation savings being available to meet other lifetime costs.

Equally, 'Deliver income' seeks to corral superannuation funds to the exclusion of asset aggregation to meet the unexpected and real costs of living in retirement. Whilst compulsory superannuation savings will form a greater proportion of superannuation funds, individuals will be able, and will make personal decisions, to invest over and above compulsory contributions with the express objectivity of increased flexibility in managing unexpected living expenditures in retirement.

My reading of the draft wordings suggests to me that it has been prepared against an expectation of a smooth transition through life without out acknowledgement of the many challenges that life can throw up.

Comments on Legislating the Objective of Superannuation – Treasury

More flexibility in wording is required, coupled with removal of overly specific constraints to the access and use of funds held in superannuation accounts.

The following amendments are proposed to current draft wording:

'Preserve savings' refers to the principle of preservation; that is, the concept that contributions to superannuation should not be accessed unless for the purpose of income in retirement, apart from exceptional circumstances. This recognises that superannuation exists first and foremost as a savings vehicle to fund retirement. ~~and not a pool of individuals' savings to meet other lifetime costs.~~

'Deliver income' captures the purpose of the superannuation system – to provide universal savings that are then drawn down in retirement to deliver income that support retirees' standards of living. ~~The focus on delivering income makes clear that the purpose of superannuation is not for minimising tax on wealth accumulation or enabling retirees to leave tax-effective bequests.~~

Surely utilisation of superannuation funds should not be overly prescriptive as to its manner and timing of use. The suggested wording is not unlike the rules of engagement being changed part way through a game where such rules have previously been well documented and have been in existence for an extended period of time.

Investment Principles for Superannuation Funds

I have previously commented that funds held in superannuation funds, in particular APRA-regulated funds, should not be made available/accessible for investment in Government sponsored investment projects, commercially available Government Bonds excluded.

I am concerned that the Legislative Objectives of Superannuation are to a degree silent on such governmental investment proposals going forward. To this end I propose that it be made clear, in the interests of maximising the accretion of the value of funds held in superannuation accounts for the express benefit of superannuants, by the addition of the following words:

'Funds invested in superannuation accounts shall be kept separate from Government sponsored investments, apart from Government Bonds, to ensure that at all times such funds shall be invested to achieve commercial returns on behalf of individual in.'

Neil H Callow, Doonan Q 4562 13.03.2023

Comments on Legislating the Objective of Superannuation – Treasury

Consultation questions

1. What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?
2. Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?
3. Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?
4. What are the practical costs and benefits of any alternative accountability mechanisms to the one proposed?

My response to the 'consultation questions' are as follows:

1. As drafted, I have found the document as a whole to be unacceptable, particularly as the draft moves in a direction not anticipated by me over many years of having been a willing participant in creating a SMSF from which I am currently accessing funds as necessary to support my retirement.

   I am concerned as to the prospects of what may follow in Government Regulation relevant to the future prescribed use of funds already accumulated within my SMSF.

   The rate of access to funds changes as I age and in itself is counter intuitive to asset accumulation.

2. The proposed objective, with its qualifications as to use of superannuation funds, does not meet my understanding of the superannuation system in Australia.

   I have suggested amendments to the draft wordings which would go somewhat of the way to moving back to my understanding of the superannuation system long established in Australia.

   Afterall, having made an array of decisions over many years as to how I invested in superannuation for there to now be changed objectives is galling to say the least.

3. To answer this question is it not appropriate to first ask the question: 'Is the current superannuation system in Australia broken?

Comments on Legislating the Objective of Superannuation – Treasury

The progressive development of the superannuation system is surely a testament to the steps which have evolved in the growth of funds held in all forms of superannuation, including the progressive increments in compulsory employer contributions to employee superannuation accounts.

4. As opposed to asking what are the practical costs and benefits of any accountability mechanisms to the one proposed I believe the most progressive course of action is available in the ongoing management of APRA – regulated funds to make such funds more efficient.

Consolidation of demonstrably less efficient APRA - regulated funds into more efficient run APRA – regulated funds has been on the table for some time. This course of action needs to be continued.

The aggregated amount of fees charged by APRA – regulated funds is surely another area requiring ongoing attention. Reduced fees garnered by APRA – regulated funds will mean more benefits accruing to superannuants invested in APRA – regulated funds.

As for SMSF's, the progressive separation of audit responsibilities from the preparation of financial statements has been a great initiative. It provides an inbuilt cross-checking system both through the separation of functions and the requirement for registration of both financial statement and audit service organisations.

Lastly, APRA – regulated superannuation funds shall be proscribed from investing in Government sponsored projects. Governments have a dismal history when it comes to investment projects, particularly when it comes to the management of costs and timely delivery of project outcomes.