

31 March 2023

Director
Superannuation Insurance and Governance Unit
Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury
Langton Crescent
PARKES ACT 2600

By email: superannuationobjective@treasury.gov.au

Dear Sir/Madam,

Legislating the objective of superannuation consultation paper

CPA Australia represents the diverse interests of more than 170,000 members, working in over 100 countries and regions around the world. We make this submission on behalf of our members and in the broader public interest.

CPA Australia supports the Government's proposal for the objectives of the superannuation system to be broadly agreed and enshrined in legislation.

Establishing a long-term aspirational objective for superannuation, which has broad-based political agreement, is an important step in securing the fundamentals of the system. It will provide a benchmark for performance and be a guide for future policy development, facilitating the conversation about what tools and incentives are needed to achieve the objective.

However, superannuation is only one component of the broader retirement savings system and must not be considered in isolation.

Before an objective of superannuation can be set, a long-term vision for Australia's retirement savings system must first be clearly articulated. It should provide a clear purpose and goals encompassing not only superannuation but also the Age Pension; non-superannuation income, savings and assets; care and residency arrangements in retirement; and how these goals can be achieved.

CPA Australia believes the primary objectives of Australia's retirement savings system should be threefold:

1. To aid individuals to save sufficiently and effectively in order to maintain a reasonable standard of living throughout their whole life
2. To provide adequate support to alleviate poverty in retirement, where individuals have not had the means to save sufficiently
3. To protect retirees and dependants from key risks, such as mortality, morbidity, longevity, investment, inflation and system failure.

Further, we believe an ideal retirement savings system should display five primary characteristics. It should be:

- Simple – the system should be free from complexity in design, implementation and operation. The average person has to be able to understand it if they are to accept it and engage with it.
- Sufficient – to provide an adequate level of retirement savings to maintain a reasonable standard of living in retirement and finance aged care and healthcare.

- Sustainable –to maintain government support and expenditure for future generations and to withstand external shocks, financial and otherwise.
- Stable – to provide certainty in the face of future Governmental, legislative, or regulatory change
- Fair – to maintain equity to ensure continued support and engagement with the system.

The preferred objectives stated above align with the OECD three-tiered pension system framework¹, which is:

Tier 1: A universal or targeted pension

Tier 2: A mandatory savings system, provided by either the public or private sector

Tier 3: A voluntary savings system in the private sector

These three tiers, or pillars, as we refer to them, underpin Australia's retirement savings system. This was acknowledged in the explanatory memorandum for the *Superannuation (Objective) Bill 2016*:

Together with the age pension and private savings, savings from compulsory and voluntary contributions to superannuation are important elements of the three-pillars that underpin Australia's retirement income system

The consultation paper refers to three drafting principles, the third being the question of 'the place of superannuation in the broader retirement income system'.

Unfortunately, we believe the preferred objective for superannuation proposed in the consultation paper, with a prime focus on the interaction between the superannuation system and government support, is inconsistent with this principle and the three-pillar framework, as it does not fully acknowledge the third pillar – voluntary savings.

Notwithstanding our comments above regarding the imperative to first identify the objective of the broader retirement savings system, in response to the consultation paper and the drafting principles used we believe the second alternative wording would be more appropriate:

*The objective of superannuation is to **support savings to deliver income for a dignified retirement, in an equitable and sustainable way.***

Our detailed responses to the consultation paper are included in the **Attachment**.

Better Targeted Superannuation Concessions announcement

We also take the opportunity in this submission to provide comment on the government's announcement on 28 February 2023 regarding the imposition of an additional 15 per cent tax on the earnings on that part of superannuation balances that exceeds \$3 million.

CPA Australia supports the principle that fairness and equity in government support of superannuation must be a primary characteristic of an ideal retirement savings system. We agree that the level of total government support should be subject to limits which are reasonable, but do not compromise adequacy.

However, we believe the government has acted prematurely with this announcement while it is still consulting on, and yet to define, the objective of superannuation. Policy changes should only be made once the objective of superannuation – and retirement savings – is defined by the government.

Constant and piecemeal changes undermine the community's confidence in the superannuation system and government policy, and this is a piecemeal change that should not be made in isolation. The objective of superannuation consultation paper identifies this risk in the Executive Summary:

Haphazard or inconsistent changes in superannuation system policy undermine the community's trust in the system and increase costs to trustees, regulators, and ultimately members.

Limiting tax concessions for wealthy individuals may appear ideologically sound, however, there are many questions still to be answered regarding implementation and unintended consequences.

There is a real risk that average Australian families and small business owners will be adversely impacted, particularly due to the lack of indexation of the \$3 million threshold and the taxation of unrealised capital gains.

¹ [OECD Pensions at a Glance, 2021](#)

² https://parlinfo.aph.gov.au/parlInfo/download/legislation/ems/r5762_ems_3e13dbab-f4b3-41a3-95c8-204b79c1ed92/upload_pdf/16172_173_174EM.pdf;fileType=application%2Fpdf

As the \$3 million threshold is not indexed, more people will be captured and impacted over time. A \$3 million superannuation balance may not be considered excessive in the following contexts:

- An increasing number of Australians are carrying housing debt into retirement and using their superannuation to pay off the debt, leaving little remaining from \$3 million.
- The continuing decline in home ownership means that more people will be renting in retirement requiring larger superannuation balances to continue paying housing costs, as well as maintaining their standard of living, in retirement.
- The gender superannuation gap continues to exist. One partner of a couple commonly has less superannuation than their partner due to taking on caring commitments throughout their working life and then relying on their partner's superannuation in retirement. \$3 million may seem an excessive superannuation balance for an individual but it is not necessarily so for a couple.

Further, small business owners including farmers, are encouraged to hold their business property within their SMSF due to the business real property exemption provided from the in-house asset rules. As these assets are often larger and illiquid, these individuals may be unduly disadvantaged and taxed excessively, particularly if the value of the business asset varies due to economic factors outside of their control which results in their superannuation balances fluctuating above and below the \$3 million threshold from one financial year to the next.

Superannuation tax concessions are designed to encourage and compensate for forced long-term saving and preservation of benefits to retirement age. People contribute to superannuation in good faith expecting that their superannuation will be treated consistently based on the rules of the day. Constant changes undermine confidence in the superannuation system.

Recommendations

Superannuation is a complex policy area that must be navigated carefully. CPA Australia's recommendations in response to the consultation paper and recent policy announcements are:

1. An objective for the broader retirement savings system must first be set before an objective for superannuation is set
2. Subsidiary objectives must be agreed to support the objective and to clarify its boundaries
3. The compliance of future superannuation reforms with the legislated objective must be periodically assessed and reported on as part of the Intergenerational Report
4. The government does not proceed with implementing the Better Targeted Superannuation Concessions measure until after an objective of superannuation is defined and legislated
5. Any changes to superannuation thresholds must not proceed in isolation. These changes must be considered as part of a broader discussion regarding superannuation tax, concessions provided, and the complexities created by the myriad of caps, thresholds and limits currently in place. Any discussions regarding superannuation reform must also consider the interaction with the tax and transfer system.

If you have any queries regarding this submission, please contact Michael Davison, Senior Manager, Advocacy and Retirement Policy on 0422 939 957 or michael.davison@cpaaustralia.com.au.

Yours sincerely,



Dr Gary Pflugrath
Executive General Manager
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CPA Australia's response to the consultation paper.

CPA Australia supports the Government's proposal for the objective of the superannuation system to be broadly agreed and enshrined in legislation.

However, superannuation is only one component of the broader retirement savings system and must not be considered in isolation.

Before an objective of superannuation can be set, a long-term vision for Australia's retirement savings system must first be clearly articulated. It should provide a clear purpose and goals encompassing not only superannuation but also the Age Pension; non-superannuation income, savings and assets; care and residency arrangements in retirement; and how these goals can be achieved.

Our specific comments on each of the components of the consultation paper are as follows.

Drafting Principles

1. The purpose of superannuation

Superannuation is the chosen vehicle to encourage and support people to save for their retirement. One of the tools is to use preservation to support people to 'lock away' their savings until retirement. In turn, this is supported by various incentives, i.e., tax concessions, to not only encourage people to save but to also compensate them for foregoing income and consumption during their working life to adequately save for their retirement.

However, preserving savings is not the only purpose.

The purpose of superannuation is to also contribute to smoothing income and consumption, and therefore standards of living between working life and retirement. This has been identified by the OECD³ in relation to the second pillar – a mandatory savings system – as well as the Financial System Inquiry when it recommended the subsidiary objective relating to consumption smoothing.

Further, the role played by superannuation in increasing self-provision for retirement was recognised by the Keating government when introducing the compulsory Superannuation Guarantee (SG) legislation in 1992. Then-Treasurer John Dawkins said when he introduced the *Superannuation Guarantee (Administration) Bill 1992*⁴:

The increased self-provision for retirement will permit a higher standard of living in retirement than if we continued to rely on the age pension alone. The increased self-provision will also enable future Commonwealth Governments to improve the retirement conditions for those Australians who were unable to fund adequately their own retirement incomes. ...Lastly, self-provision will increase the flexibility in the Commonwealth's budget in future years, especially as our population ages and will increase our national savings overall.

Providing clarity on the role of superannuation is important for the reasons given in the consultation paper. A purpose is already prescribed in the Sole Purpose Test.

The Sole Purpose Test (section 62 of the *Superannuation Industry (Supervision) Act 1993* (SIS Act))⁵ can be broadly summarised as providing retirement benefits after retirement, paying death benefits to dependents, or paying benefits on early retirement due to physical or mental health. That is, essentially superannuation is there to support members and their dependents in retirement, death or if one is no longer capable of working.

The Sole Purpose Test provides a good anchor for the development of the objective of superannuation.

2. How superannuation delivers on its purpose

CPA Australia supports the premise that the superannuation system should operate in an equitable and sustainable way to provide stability and confidence in the system.

³ [OECD Pensions at a Glance, 2021](#)

⁴ [Superannuation Guarantee \(Administration\) Bill 1992, Second Reading](#)

⁵ [Superannuation Industry \(Supervision\) Act 1993](#)

3. The place of superannuation in the broader retirement income system

This principle recognises the interaction of superannuation with the pillars of Australia's retirement savings system. However, the preferred objective of superannuation proposed in the consultation paper, with a prime focus on the interaction between the superannuation system and government support, is inconsistent with this principle and the three-pillar framework as it does not acknowledge the third pillar – voluntary savings.

Wording Rationale

While we agree with some of the components, on the whole CPA Australia does not support the structure of the proposed objective:

*The objective of superannuation is to **preserve savings** to **deliver income** for a **dignified** retirement, alongside **government support**, in an **equitable and sustainable** way.*

Our reasons are provided below.

Preserve savings

We agree that superannuation should be preserved for retirement, which aligns with the Sole Purpose Test, and should not be used for other purposes, such as early release to fund housing or for medical procedures, except in exceptional circumstances.

However, 'preserve savings' could be interpreted as only preserving the savings from compulsory superannuation, particularly when considering that only government support (but not the third pillar of the retirement savings system) is mentioned.

Encouraging or incentivising people to contribute voluntarily to superannuation above the minimum of the compulsory Superannuation Guarantee is not present in the text. Further, there is no encouragement in the proposed objective to build self-provision in retirement as envisaged by Treasurer Dawkins.

There is also no acknowledgement of the economic and social benefits derived from compensating people for foregoing their employment income and locking it away for the many years until their retirement. Superannuation has been historically framed as a social contract between the government and the community to give up access to wages and income for increased savings in retirement. However, it is not visible from the proposed objective that this is the case.

Most Australians aspire to, and expect to be able to maintain, a reasonable standard of living in retirement above what can be provided by the Age Pension. However, there is no suggestion in 'preserve savings' that this aspiration is supported.

Deliver income

CPA Australia supports the notion of the superannuation system 'delivering income'. However, returning to our previous comments regarding preservation, there is no recognition of the role of superannuation in accumulating savings during an individual's working life. Superannuation is not just about delivering income. It is about smoothing income and consumption through an individual's working life and in retirement to maintain their standard of living in retirement.

We strongly support encouraging income streams in retirement. However, it must be recognised that consumption will vary throughout retirement and retirees will continue to need access to lump sum benefits to pay for one-off expenses ranging from holidays to necessary home renovations, or replacing the family car, and as they age, increased health and age care costs. 'Delivering income' should primarily require the payment of income in retirement. However, it should not prohibit access to lump sums altogether.

Dignified

As identified in the consultation paper, 'dignified' is a very subjective measure. The paper states, '*dignified* recognises that individuals deserve a high-quality standard of living in retirement'. However, does this equate to maintaining their standard of living in retirement, or a standard of living higher than what could be obtained from the Age Pension alone? Could this accommodate the perverse outcome of having a higher standard of living in retirement than what they had during their working life?

How would this be compatible with community expectations or individual's aspirations to maintaining their standard of living in retirement?

Our view is that 'dignified' should be about maintaining a reasonable standard of living in retirement, which requires a comparison between pre- and post-retirement replacement rates. Importantly, what is an adequate level of retirement savings needs to be considered, which should then be benchmarked back to the identified objective of the retirement savings system.

Finally, a high-quality standard of living in retirement is linked in the consultation paper to the interaction between the superannuation system and government support. However, from an individual's perspective, maintaining their standard of living in retirement will be dependent on all their savings and assets, not just their superannuation and the Age Pension.

Government support

The consultation paper suggests that government support supplements an individual's superannuation savings. However, this is contradicted by Australia's three pillars model, which identifies the Age Pension, i.e., government support, as a safety net to provide a minimum level of income in retirement. Further, previous government policy, as demonstrated by Treasurer Dawkins's speech quoted above, was for superannuation to deliver higher levels of retirement income than what could be delivered by the Age Pension alone. This was also recognised by the Financial System Inquiry, which recommended superannuation should 'provide income in retirement to substitute or supplement the Age Pension'.

As the SG system matures, reliance on the Age Pension will reduce as self-provision in retirement improves. Therefore, it is reasonable to conclude that over time superannuation will substitute, or at least supplement, the Age Pension, consistent with the view reached by the Financial System Inquiry.

Furthermore, the consultation paper talks about 'recognising the cohesive interaction with superannuation savings'. However, as mentioned above, the interaction between superannuation savings with other non-superannuation savings and assets is at least equally important, or more so, for individuals aspiring to be self-funded in retirement.

Equitable and sustainable

We agree with the premise that the superannuation system should operate in an equitable and sustainable way to provide stability and confidence in the system.

Beyond a certain level of superannuation savings or income in retirement, government support through tax concessions is not necessary or appropriate. However, the level of total government support must be considered over both an individual's working life and in retirement, subject to limits which are reasonable but which do not compromise adequacy.

Alternative wording

Notwithstanding our opening comments regarding the need to first identify the objective of the broader retirement savings system, in response to the consultation paper and the drafting principles used, we believe the second alternative wording would be more appropriate.

*The objective of superannuation is to **support savings to deliver income** for a **dignified** retirement, in an **equitable and sustainable** way.*

However, to address many of the issues we have identified we would strongly support the inclusion of a set of subsidiary objectives, particularly around recognising the importance of consumption smoothing and managing risk in retirement.

Practical application

We believe the objective of superannuation should be enshrined in the preamble to the SIS Act. This would support ease of locating it without having to find another piece of legislation. It would also reinforce the strong link between the objective and the Sole Purpose Test in section 62 of the Act.

Accountability

For the objective of superannuation to be effective there must be a commitment from governments to recognise the objective and develop policy or make legislative change that is consistent with the objective.

To this end, we suggest a 'Statement of Compatibility' to be included in all superannuation and related legislation. This could operate in a manner consistent with the Statement of Compatibility with human rights, which is required to be included in all relevant legislative bills and instruments.

However, it is important to note that there is no mechanism to hold governments to account if future legislative changes are not compatible with the objective, or to prevent future governments from amending or removing the objective altogether.

To facilitate independent monitoring and review, we would support the compliance of future superannuation reforms with the legislated objective be periodically assessed and reported on as part of the Intergenerational Report. This was recommended by the Senate Economics Legislation Committee review of the *Superannuation (Objective) Bill 2016*⁶ and would occur every five years.

Finally, the Australian National Audit Office could also be tasked to review the government's compliance with the legislated objective and the statements of compatibility.

⁶ [Senate Economics Legislation Committee report: Superannuation \(Objective\) Bill 2016 \[Provisions\], 2017](#)