

31 March 2023



Shibani Iyer - Director

Member Outcomes and Governance Branch
Retirement, Advice and Investment Division
The Treasury, Langton Cres, Parkes, ACT 2600

Legislating the objective of superannuation

Dear Shibani,

Future Super Group supports the proposed objective of superannuation. The broad and high level nature of the objective is appropriate given its primary purpose is to aid the assessment of whether major policy changes to the superannuation system are appropriate.

We note, however, the proximity of legislating the objective of superannuation to the Your Future, Your Super (YFYS) Review, which is yet to be released. We believe the YFYS regime is precisely the type of major policy change that would benefit from being assessed for alignment with the proposed objective. Our most significant feedback of this consultation is that the YFYS Review should take into account whatever the final objective of superannuation is to ensure both are aligned. Only after this process occurs should the performance test element of YFYS be extended to trustee-directed 'choice' products.

About Future Super Group

Future Super Group (FSG) is a superannuation and sustainable investment firm serving over 275,000 members and \$10.6bn in funds under management, administration and advice as at the end of February 2023. Our mission is to create a prosperous future for both our members and the wider community that is free of human-induced climate change and inequality. Core to our investment philosophy is the belief that we have a responsibility to invest sustainably. This helps protect our members' future - both physically and financially. We have built expertise on how to manage climate risks and opportunities with a focus on the economic transformation required for the world to achieve a just transition to a 1.5 degrees warming scenario. This suits the long term investment horizon of our members, enables them to use the power of their money to be part of the collective divestment movement against major climate change contributors such as fossil fuel companies, as well as invest in initiatives that produce positive social and environmental outcomes, many of which overlap with national economic priorities.

Recommendation

- FSG recommends that the Your Future, Your Super Review take into account whatever the final objective of superannuation is. Only once this has occurred should the performance test element of the Your Future, Your Super regime be extended to trustee-directed 'choice' products.



Hub Customs House,
Level 3, 31 Alfred Street NSW 2000



info@futuresuper.com.au



1300 658 422



[FUTURESUPER.COM.AU](https://www.futuresuper.com.au)

Consultation questions

Consultation question 1: What do you see as the practical benefits or risks associated with legislating an objective of Australia's superannuation system?

The key benefit to legislating the proposed objective of superannuation is providing greater certainty on the direction of major policy changes. The recent policy change that enabled pre-preservation age fund members to access their retirement savings during the COVID-19 pandemic is an example of a major change that was inconsistent with delivering retirement outcomes. We expect that the proposed objective, if implemented, would prevent programs like this occurring in the future.

The key risk associated with legislating the proposed objective is that it is inconsistent with the recently implemented Your Future, Your Super (YFYS) regime. The YFYS regime represents one of the most significant changes ever made to the superannuation system. Conceptually the regime is a positive step forward towards a stronger system. However, the current calibration of the performance test does not align with the proposed objective of superannuation.

As made clear in this consultation paper, “[t]here is a significant opportunity for Australia to leverage greater superannuation investment in areas where there is alignment between the best financial interests of members and national economic priorities, particularly given the long-term investment horizon of superannuation funds”. FSG strongly endorses this sentiment. Many of the investment opportunities that meet this criteria are in the renewable energy and decarbonisation infrastructure sector. However, the YFYS performance test disincentives superannuation funds from investing in these assets.

Specifically, the Australian unlisted infrastructure asset class benchmark used in the performance test is the MSCI Australia Quarterly Private Infrastructure Fund Index. It has minimal weight to the renewable energy sector (between 3-9%) and an overweight position in one company that operates toll roads. In order to reduce the risk of failing the performance test, superannuation funds are therefore incentivised to allocate their unlisted infrastructure assets to toll roads and non-renewable energy infrastructure projects.

For context, the total super sector investment allocation to infrastructure assets is currently \$160bn¹. Assuming this asset allocation remains unchanged, it will grow to \$320bn by 2030 and to over \$500bn by 2040. This simple illustration highlights the potential capital that will not invest in national economic priorities that align to the best financial interests of superannuants if the performance test settings are not aligned to the proposed objective of superannuation.

We note that the YFYS Review has not yet been released publicly. While the performance test calibration issue and the unintended consequences this generates was raised extensively during the Review process, the industry does not know how Treasury is proposing to address this. We believe it is important that Treasury take into account the outcome of the objective of superannuation consultation process prior to releasing the findings of the YFYS Review as it further highlights some of the unintended consequences of the performance test calibration.

We recommend that the Your Future, Your Super Review take into account whatever the final objective of superannuation. Only once this has occurred should the performance test element of the YFYS regime be extended to trustee-directed ‘choice’ products.

¹ ASFA November 2022 statistics: <https://www.superannuation.asn.au/resources/superannuation-statistics>



Consultation question 2: Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?

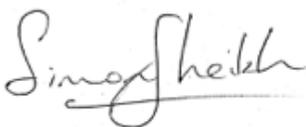
Yes, the proposed objective meets our understanding of the objective of the superannuation system in Australia. For many of FSG's members, their objective is to use their retirement savings to enable them to retire into a world worth retiring into, which means one that is free of human-induced climate change and inequality. This objective is particularly aligned to the concepts of preserving savings and delivering income that results in a dignified retirement that is produced in an equitable and sustainable way, which are the core tenets of the proposed objective.

Consultation question 3: Is the proposed approach to enshrining the objective in legislation appropriate? Are there any alternative ways the objective could be enshrined?

The objective would be most effective if it is its own legislation rather than being contained in the *Superannuation Industry (Supervision) Act 1993* (SIS Act). Such a structure would remove any confusion between the obligations contained in the SIS Act and the assessment of significant policy changes to the superannuation system. This approach would also be consistent with the structure used during the previous attempt at implementing an objective for superannuation.

Please contact Fahmi Hosain - Head of Government Relations & Regulatory Affairs - at fahmi@futuresuper.com.au or 0402 849 221 if you have any questions on our submission.

Your sincerely

A handwritten signature in black ink that reads "Simon Sheikh".

Simon Sheikh
Chief Executive Officer
Future Superannuation Group Pty Ltd

