

Submission: Legislating the objective of superannuation

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

Email: superannuationobjective@treasury.gov.au

31 March 2023

Dear Sir/Madam,

Re: Submission to ‘Legislating the objective of superannuation’

The following is our submission to the Consultation paper on ‘Legislating the objective of superannuation’ (issue date: 20 February 2023) by the Griffith Centre for Personal Finance and Superannuation (GCPFS), Griffith University, Queensland. The Centre is a source of expertise and excellence in four distinct streams: Personal finance and superannuation; Investment; Professionalisation of financial services; and, Financial education. This submission was co-authored by the following researchers:

- Dr Robert Bianchi, Professor of Finance, Griffith Business School, Griffith University.
- Dr Michael Drew, Professor of Finance, Griffith Business School, Griffith University.

The Australian Government proposes the objective of superannuation to be defined as follows:

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

For many years, we have called for the legislating of an objective for superannuation. Therefore, our remarks in this submission will focus on Question 2, that is, *‘Does the proposed objective meet your understanding of the objective of the superannuation system in Australia?’*

Goal to preserve savings:

Superannuation as a means to ‘preserve savings’ is a foundational requirement of Australia’s retirement system. The accumulation of long-term savings in superannuation is a necessity in order to build wealth for the purpose of generating retirement income. The design of the preservation of savings and the accumulation of superannuation wealth must provide a solution for the provision of retirement income (Drew and West, 2021). A recent exception to this objective was experienced during the COVID-19 pandemic in 2020. Studies on the Early Release Scheme (ERS) in superannuation in 2020 reveals poor decision making and use of funds by some individuals (Bateman, Dobrescu, Liu, Newell and Thorp, 2022). Hamilton, Liu and Sainsbury (2023) reveal the ERS resulted in suboptimal retirement saving outcomes for those individuals that exercised early access to their superannuation.

Goal to deliver income:

Whilst steady and adequate *real* retirement income is the main objective of superannuation, there may be instances in retirement when drawing lump sums are necessary. For instance, one-off lump sum payments may be essential to meet unexpected medical expenses in retirement (eg. heart surgery, knee replacement, cancer treatment, etc) and/or aged care needs (Drew, Walk and West, 2016).

Deliver income for a dignified retirement:

It is important that policymakers don't confuse retirement *income* with retirement income *adequacy*. The current data suggests that some Australian retirees (eg. women and indigenous Australians) experience relatively 'low' living standards in retirement (Basu and Drew, 2009; Bianchi, Drew, Walk and Wiafe, 2016). However, overall, the 2022 Natixis Global Retirement Index ranks Australia at Number 6 out of 25 best countries to retire in.

Longevity risk:

It is important to acknowledge the issue of longevity risk when considering financial security and wellbeing in retirement. With the advent of medical and technological advancements, life expectancy continues to elongate. Any consideration of what a 'dignified' retirement might mean, needs to address adequacy, inflation, and longevity risk. Given the defined contribution nature of Australia's retirement system, where individuals bear these risks, the ability of one's retirement nest egg to sustainably meet their retirement income needs (or otherwise), are of central concern (Drew and Walk, 2015).

Super needs to be equitable and sustainable:

The objective of superannuation needs to fully incorporate and treat imbalances and inequities across Australian communities, such as gender inequality, casualisation of the labour market, and indigenous Australians, amongst others (Basu and Drew, 2009; Bianchi, Drew, Walk and Wiafe, 2016).

References

- Basu, A. and Drew, M. 2009, The case for gender-sensitive superannuation plan design, *Australian Economic Review* 42(2), 177-189.
- Bateman, H., Dobrescu, I., Liu, J., Newell, B. and Thorp, S., 2022, Determinants of early-access to retirement savings: Lessons from the COVID-19 pandemic, 27th May, UNSW Business School Research Paper. SSRN: 4121240.
- Bianchi, R., Drew, M., Walk, A. and Wiafe, O., 2016, Retirement adequacy of indigenous Australians: A baseline study, *Economic Papers* 35(4), 359-374.
- Drew, M., 2020, COVID-19, investment risk and retirement security, *Financial Planning Research Journal* 6(1), 8-20.
- Drew, M. and Walk, A. 2015, Just how safe are 'safe withdrawal rates' in retirement?, *Financial Planning Research Journal* 1(1), 22-32.
- Drew, M., Walk, A. and West, J., 2016, Withdrawal capacity in the face of expected and unexpected health and aged-care expenses during retirement, *Journal of Retirement* 3(3), 77-94.
- Drew, M. and West, J., 2021, Retirement income sufficiency through personalised glidepaths, *Financial Analysts Journal* 77(2), 77-94.
- Hamilton, S., Liu, G. and Sainsbury, T., 2023, *Early pension withdrawal as stimulus*, Institute for International Economic Policy, Working Paper, 28th February, The George Washington University, Washington, DC., USA.
- Natixis, 2022, Natixis Global Retirement Index, Danger zone, Global retirement security challenges come home to roost in 2022, Natixis Investment Managers,

About the Authors

Professor Robert Bianchi

Dr Robert Bianchi is Professor of Finance at Griffith University and Director of the Griffith Centre for Personal Finance and Superannuation (GCPFS). Robert's research expertise is in the areas of asset allocation, superannuation/retirement and alternative investments. Robert has co-authored more than 40 peer reviewed research articles in publications including the *Journal of Banking and Finance*, *Journal of Economic Dynamics and Control*, *Journal of Portfolio Management*, *Accounting and Finance*, *Journal of Applied Corporate Finance* and the *International Review of Financial Analysis*. Robert has more than 25 years of experience in the investment management industry, including directorships at H3 Global Advisors (alternative investments manager), Venitia Pty Ltd (Member of the Sydney Futures Exchange) and he was a bond portfolio manager at Queensland Treasury Corporation (QTC). Robert holds a Bachelor of Commerce from Griffith University, Graduate Diploma in Applied Finance and Investment from the Securities Institute of Australia, Master of Business (Research) and a PhD in Financial Economics from Queensland University of Technology.

Professor Michael Drew

Michael E. Drew is a financial economist specialising in the areas of investment governance, asset allocation, and outcome-oriented investing. He has held previous academic appointments at the Australian National University and QUT, and senior industry appointments with JB Were & Son, Myer Family Company, Ord Minnett, QSuper, QIC, and Wilson HTM. Michael's research has appeared in leading practitioner journals, including the *Journal of Portfolio Management*. He has been invited to testify before numerous committees, including the *U.S. Department of Labor and Securities Exchange Commission joint hearing on Target Date Funds*, and the *Productivity Commission hearing on Superannuation: Assessing Efficiency and Competitiveness*. Michael is a regular media commentator and consultant on investment-related matters and has authored over 85 scholarly papers. Michael's work has been cited by numerous agencies (incl. *Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry*, and the *U.S. Senate Hearing before the Special Committee on Aging*). Michael's research agenda has been supported by leading granting agencies and he is a former member of the ARC College of Experts. Concurrently, Michael serves as a Trustee Director of CareSuper, a member of the Investment Advisory Board of the Petroleum Fund of Timor Leste, and a Trustee of Mary Aikenhead Ministries. Michael received his PhD in the field of economics from the University of Queensland, is an Accredited Investment Fiduciary Analyst™, a Fellow of the Australian Institute of Company Directors, and Life Member of FINSIA.

Griffith Centre for Personal Finance and Superannuation

Griffith Business School
Griffith University Nathan campus
170 Kessels Road, Nathan Q 4111

T +61 7 3735 7078
E gcpfs@griffith.edu.au
griffith.edu.au/finance-superannuation-centre

